

WHAT'S THE MATTER WITH THE DRUG BUSINESS AND WHAT'S TO BE DONE ABOUT IT?*

BY CHARLES J. CLAYTON.¹

That there *is* something the matter with the drug business will not be disputed, but opinions differ as to just what is wrong. Some say it is overdone—there are too many stores, which is probably true. And yet, statistics tell us that there is but one drug store to more than 2000 people throughout the United States, and it would seem that we ought to be able to get by on that. Others call attention to the fact that department stores have taken from us a large part of the patent medicine and toilet goods business, which we used to call our own; that beauty parlors have captured another large part of the toilet goods business; and that the olive oil and spices and flavoring extracts, on the sale of which we formerly had almost a monopoly, have gone into the hands of the grocers, who, in turn, charge us with having unfairly entered into competition with them through the sale of articles formerly handled by them exclusively.

Still others, including the larger number, will say without hesitation that the chain stores are the cause of all our troubles. With their tremendous buying power, they are in position to demand concessions from manufacturers, which are not available to the great majority of independent retailers. Thus, the chains are able to retail many articles at prices even lower than prevailing wholesale rates, and still have a little margin to help meet the expenses of operation. While this is possible in some instances, yet it is common knowledge that the chains do not advertise patent medicines and toilet articles at or near cost with the primary object of selling those articles, but for the purpose of getting the people into their stores and then selling them other articles on which a real profit is realized.

Not that they *refuse* to sell the advertised articles, or even, except in rare instances, endeavor to switch the customer to something else, the sale of which is more desirable, a practice which once was prevalent, but has been practically abandoned by the better known chains. The more modern system is to display profitable merchandise in such an enticing manner that the customer's attention will be attracted, a desire created and *additional* sales made. Just as the smaller, independent retailer handles postage stamps, not for any profit they may yield him nor even, primarily, because he wants to sell them, but in the hope that some who come for stamps may purchase other things.

The independent druggists, especially those doing only a small business, cannot easily meet this kind of competition, for they do not have the large stocks of controlled lines, and such articles as they might be glad to sell and which would yield a satisfactory profit are unknown to the average customer and, because of the scanty stock, are not so likely to make a favorable impression. The result is that, if the small dealer attempts to meet the chain store competition, he turns over his merchandise without either direct or indirect profit; if he refuses to meet it, he is called a hold-up, and his customers go elsewhere, leaving him between the devil and the deep sea.

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No wonder then that there is much dissatisfaction and unrest, which has led to efforts to secure legislation which will make it possible for manufacturers to dictate to their distributors, both wholesale and retail, the conditions under which their products may be resold. As is well known, such efforts have been exerted in Congress for a considerable number of years and are embodied in what is known as the Capper-Kelly Bill, which, it is believed, has a fair chance of being enacted into law at the next regular session, which will convene in December.

The argument for the passage of this bill is based upon the conviction in the minds of its proponents that the present prevailing condition is an unfair trade practice, in that it injures the manufacturer and destroys his good-will value by creating sales resistance among the general run of his distributors; that it creates a condition which can only be met by exceptionally few retailers and is therefore uneconomical; that it injures wholesalers by rendering the credit of their retail customers precarious; and finally, but most important of all, from the standpoint of legislators, it would be in the interest of consumers to be assured of a wide distribution of meritorious goods, instead of having their sale concentrated in a few large stores and perhaps, discontinued entirely after their advertising value has ceased.

This bill received but scant consideration at first, but year after year has gained more friends, until, as previously stated, it is believed to have a fair chance of passing this winter. Whether it will solve the problem or not, if it does pass, is a moot question. Some, no doubt sincere, have expressed their belief that it would not help matters. Others have expressed the same opinion for the express purpose of discouraging its friends and advocates, both classes citing the fact that no manufacturer would be *compelled* to enter into contracts with his distributors, the provisions of the bill being merely permissive and not mandatory.

However, there is this to be said in its favor—some manufacturers now tell us that they are powerless to do anything to ensure their distributors a fair profit, which in some degree is undoubtedly true, while in some instances it is probably mere camouflage. But with the passage of the Capper-Kelly Bill, this condition would be changed—manufacturers *would* have power to ensure both retailers and wholesalers a fair compensation for their respective services in placing their products in the hands of consumers, and we have enough confidence in the common sense of druggists to believe that their efforts would *not* be devoted to the sale of merchandise lacking the price protective feature.

We could then know who among the manufacturers were friends and who were not, and govern ourselves accordingly. It is the opinion of the writer that the passage of the Capper-Kelly Bill will go far toward alleviating the present unsatisfactory conditions in the drug business, though it would be too much to expect it to act as a complete panacea.

Referring again to the possibility of its passage, it should be stated that a recent inquiry, conducted by the Federal Trade Commission, developed the not unexpected fact that a great majority of consumers are opposed to any such legislation; feeling, very naturally, that anything that would be likely to bring about an increase in retail prices is undesirable. And since members of Congress look to consumers for votes at the elections, they are likely to be influenced by consumer's opinions. Hence, it behooves those of us who want this kind of legislation, to do all in our

power, not only to convince our Senators and Congressmen of its justice, but also to convince the consumers of its desirability.

In the meantime, while hoping for legislation that will help us, we need not sit with folded hands, but may well emulate the old farmer, who said "We farmers have been trying to get help from Congress but we've come to the conclusion that we'll have to use some fertilizer." And whether we get the desired legislation or not, unless we exercise the fertility of our minds and the labor of our hands, our troubles will continue. Probably they will, to some extent, anyway, for "Man is born to trouble," but they may be somewhat minimized by devoting intelligent thought to the problems by which we are confronted and then pitching in to remedy whatever wrongful conditions we may discover. And sometimes, it is surprising how easily this is accomplished. Many a time we hesitate to tackle a formidable looking job but, when driven to it, find it is not nearly the task we anticipated it would be.

First of all, in an effort to diagnose the trouble, it would seem advisable to learn all we can about our own business; and this cannot be learned without comparison with the experience of others engaged in the same line. If it were possible for a man to dissect his own body and examine it carefully, he could not by so doing learn all he should know about himself, for abnormal conditions would not be recognizable without comparison with other bodies; just so in business. The proper percentage of margin and the various items of expense can only be ascertained by study of the experience of others as well as of one's self. Fortunately, many druggists have been willing to go to the trouble of compiling figures, which have been averaged and tabulated and are available for the use of any one who wants to know how his business compares with that of others in its various details, and in what respect it may fall short of what others are accomplishing.

Such figures have been compiled by the Harvard Bureau of Business Research; the druggists of Minnesota, Iowa and the Dakotas; the Bureau of Business Research of the University of Colorado, in coöperation with the Colorado Pharmacal Association; and by drug-trade organizations in several cities; and these figures can be obtained by any who desire them. By comparison of your own figures with these averages you may readily see wherein you may be lagging behind, and having discovered your shortcoming, you may then take steps to overcome it. If for example, it is found that the percentage of sales paid for rent is materially greater than the average of other druggists, since it is not likely that the rent can be reduced, the most obvious solution is to increase the sales, thus reducing the *percentage* of rent expense.

Then, of course, comes the question—"How can the sales *be* increased?" Well we must admit the possibility of an occasional instance in which it can't be done, but it is probable that in 90 per cent or more of instances, it is possible to better the existing record. A little more attention to the window and counter displays will work wonders sometimes. Cultivation of the habit of suggesting the larger sizes or better quality, with a selling talk that will convince the customer that it will be to his advantage—such procedure may often turn a profitless transaction into one that is highly satisfactory. Running-mate sales too, are productive of real profit, and while not possible on every occasion, are possible sufficiently often to make the efforts expended well worth while. Perhaps the store might be made more attractive by a "cleaning up" process or by the judicious application of a little paint. Pos-

sibly the salesmen or even the proprietor himself may have developed a grouchy temperament, which is not conducive to sales, or they may be lacking in personal neatness. If so, these conditions should be corrected. The stock may not be kept up as it should be, or it may be advisable to add new items not now being carried, or, judicious expenditure for advertising purposes may turn the tide from hard picking to prosperity. There are but few stores in which one or more of these suggestions could not be used to advantage.

Possibly a comparison of your figures with those of other druggists may show that your gross margin is only 30 per cent instead of $33\frac{1}{3}$ per cent to 35 per cent. What then? Why, much the same procedure as outlined in the preceding paragraph may be applied, but with special emphasis on the more profitable lines of merchandise. Instead of displaying, and thus inviting the people to buy, cut-priced and therefore profitless tooth paste, concentrate your selling efforts on some brand that brings you full price. You can make far more money on a 25-cent sale of an article costing \$2.00 per dozen than on a 39-cent sale of one costing \$4.50 per dozen. We do not advocate refusing to sell the cut rate articles. Often they are so advertised that the customer is sold before he enters your store, and to tell him that you do not handle an article which practically every other drug stores *does* handle would create an impression that yours is a poorly run store, and would be almost suicidal. But why *invite* people to buy that kind of merchandise? Let the manufacturer do his own selling—*all* of it—and hand out his products only when demanded.

Another means of increasing the gross margin is to take advantage of such quantity deals as are suited to your conditions. If you pay \$2.00 per dozen for a 25-cent article and your expense of operation is 28 per cent, you must sell 75 packages before you have one dollar of net profit, but if you can get 13 to the dozen, you will need to sell only 38 packages in order to achieve the same desirable end. In other words, your net profit is practically doubled. Fourteen to the dozen reduces the selling effort to 27 packages for each dollar of net profit, while the same result is achieved by the sale of only 21 packages, if you buy on the basis of fifteen to the dozen. Care must be exercised, however, not to overbuy, the concensus of opinion being that not more than a four-months' supply should be purchased at a time.

Taking advantage of cash discounts is also a potent means of increasing the gross margin and net profit. On the basis mentioned (\$2.00 per dozen for a 25-cent article and an overhead of 28 per cent) the net profit is $5\frac{1}{3}$ per cent, and if a 2 per cent cash discount be added, the net profit becomes $6\frac{2}{3}$ per cent, an increase of more than 25 per cent. It is worthy of note, too, that, 2 per cent for cash in ten days, thirty days net, is equal to interest at the rate of $36\frac{1}{2}$ per cent per annum, which is better than *some* oil stocks pay.

Still another possibility for increased business and greater profits, I believe, lies in making our stores more distinctive than they now are. With the old fashioned show globes gone from the windows and relegation of the glass labeled shelf bottles to the rear or to the basement, or their complete disuse, there is little left to mark the distinction between many present-day drug stores and the candy shops or cigar stores. We accuse our competitors of trying to make their places look like drug stores, and no doubt they have done so, but have we not been guilty, too, of deliberately surrendering the distinctive features which formerly marked our places

of business as something different and superior, and would it not be worth while to restore them to their honored places?

Somewhat akin to this is the matter of the packaged drugs we sell—such items as Epsom and Rochelle salt, sulphur, cream of tartar, glycerin, castor oil, etc. Time was when, even though the grocer and the department store handled some of these things, the public felt that what they got in the drug store was of superior quality. But with no thought of reflection upon the quality of the numerous package lines now so universally handled, the products of any given manufacturer are the same, whether found in the drug store, the barber shop or the garage, and the public *knows* they are the same. Now, why not advertise yourself instead of some manufacturer, by putting up your own package goods? Some will say that they can buy them for less than it costs to put them up. This is not true, unless the time required is figured in at a very liberal value. And since, with rare exceptions, a very large part of the time of both employer and clerks is spent in occupations no more profitable than talking about the baseball scores or the fluctuations of the stock market, why not devote a portion of it to the useful and profitable occupation suggested? By so doing, you cannot only increase your profits on these articles, but also advertise to your patrons that you are more than a merchant.

Both volume and profit may be increased by taking full advantage of such occasions as Pharmacy Week and First Aid Week. Not only is there an immediate benefit, but prestige may thus be created, which will be reflected in additional business in the future.

The drug journals are full of money-making hints and suggestions, and often contain completely detailed plans for building business and increasing profits. One can scarcely look through a copy of any of them without discovering something which, if acted on, will bring far more than enough profit to pay a year's subscription. The Druggists' Research Bureau too, is doing a wonderful work for those who will but utilize its services. You will probably remember that in its inception, the Bureau was underwritten by a few enthusiasts, but it was announced that after its usefulness was demonstrated, it would be expected that its beneficiaries would contribute a nominal sum toward its maintenance. You are now asked to "chip in" two dollars per year, a sum that scarcely pays for the printing of the bulletins and the postage thereon. I sincerely hope that every druggist among you will do his part to keep this fine work going. Your contributions may be handed to any drug jobbers' salesman or sent directly to any wholesale house or to any drug journal published or directly to the Druggists' Research Bureau, 51 Maiden Lane, New York City.

I might go on for a long time, pointing out ways and means for improving conditions, but no speaker can solve your problems for you. All that I can hope to do is to make you think about them in a constructive way, and hope that you may be led to *apply* some of the suggestions that have been made. There is no substitute for your own efforts.

Before closing, I do want to add a note of cheer by citing a few figures that have recently come to my attention. As has previously been mentioned, the Bureau of Business Research of the University of Colorado has, for a number of years, been carrying on an annual research into the cost of operating retail drug stores in Colorado. The Bureau has been performing a like service for other merchandising

lines as well, and recently published a compilation of figures in which comparisons were made between these different lines, the salient points of which are as follows:

The percentage of net profit on volume of business done in the various lines was for general merchandise, 2%; groceries and meats, 2.4%; men's clothing and furnishings, 2.7%; drugs, 5.7%; lumber and building material 7.5%. After deducting interest on investment, the net profit resulting from operation of the business was for men's clothing, 0.4%; groceries and meats, 1.3%; lumber and building materials, 2.4%; drugs 3.7%; while general merchandise showed a net loss of 0.6%.

Now the thought will occur to you that although these other lines show a smaller *percentage* of profit than does the drug business, the greater volume done by them will result in a larger *dollar* profit. However, to my surprise, and I believe it will surprise you as well, the lumber and building material industry is the only one that leads us, either in dollars of net profit or in total income (salary plus net profit) to the operators of the various lines. Not only was I surprised at this, but equally so at the total figures, which are as follows; groceries, \$3845; men's clothing, \$4002; drugs, \$4412; lumber, \$5329. No figures were given for general merchandise.

This does not mean, of course, that every retail druggist draws down the sum named. Some did better and some not so well. But, being an average, it is a mark at which to shoot and possible of attainment. Possibly we should not find comfort in the thought that others are in worse plight than ourselves, but, for some reason, most of us do. Neither should we cease to strive for better conditions, just because we are better off than are those engaged in other lines of business. There is still much room for improvement and we should not be satisfied with any record that falls short of the very best that can be accomplished.

Finally, reverting back to the title of this paper, "What's the Matter with the Drug Business and What's to Be Done about It?," I feel like stating that there is nothing more the matter with the drug business than there is with other merchandising businesses. Conditions are changing and we must accommodate ourselves to them. We can't continue successfully along the old lines, but must keep up with the times, matching our wits against those of our competitors, whom we are prone to envy but who, if we but knew the facts, are just as uneasy as we are. Even the chains are wondering what the outcome of their ventures will be.

It is an old saying that "the grass always looks greener on the other side of the fence," and if we sometimes are a little envious, it is more than likely that many of them are equally envious of us. As far back as I can remember, I have heard it said that 90%, or more, of all who engage in any mercantile enterprise, ultimately fail, and I do not believe that conditions are growing worse in that respect; they are only changing.

Read Shakespeare's description of the apothecary in *Romeo and Juliet* or Dickens' graphic delineations of the druggists and drug stores of his day, or look up other examples in literature relative to the drug business of former days, and how many of us would want to go back to those conditions? "Not many," I'll venture to say.

I suggest, then, that instead of bewailing the decadence of the times and abandoning ourselves, even to a slight degree, to despair, we get together on some such

slogan as "The Drug Business Is Not So Bad—But, Let's Make It Better." I sincerely believe that by an optimistic attitude, coupled with all the knowledge we can get, not only of our own personal enterprises, but of the drug business in general, and backed by a firm determination to make the most of our opportunities, we can overcome most of whatever it is that is the matter with the drug business.

TAKING THE PRESCRIPTION DEPARTMENT OUT OF THE RED.*

Advertising may be said to have had its greatest impetus when the Government decided that it was a deductible item in making out an income tax report. Certain it is that advertising has grown by leaps and bounds and we are now in the midst of an advertising age. It is a poor cause that does not have its due share of publicity and propaganda. We mold public opinion with advertising; we try to keep within striking distance of mass production; we are doing our best to educate the dear public to consume more than it needs and to believe that luxuries are necessities. We are well on our way to the two-car-per-family stage.

I began my career in the drug business at about the time when a well-known preparation for soothing rheumatic pains to the tune of six bottles for five dollars had a large sale, and Sarsaparilla was a flourishing item. Bustles, hoop skirts, and copper-toed shoes were going out, but mustache-cups and cigar store Indians were still in vogue and going strong. National advertising was practically unknown.

In those days we never heard of women smoking cigarettes. To suggest reaching for a cigarette instead of a piece of candy would have been an insult to any young woman. Halitosis and B. O. were with us but were not referred to in polite society.

The present handmaiden of advertising, the assistant "premiere classe," is now installment selling, a thing that was frowned upon by our immediate ancestors. More recently there has entered the picture a new character representing style change.

Strangely enough, there is more money spent in advertising drug store commodities than is spent to give publicity to the entire automotive industry. Is it any wonder, therefore, that our modest prescription departments, the "submerged tenth," so to speak, receive so little attention in the way of advertising? Besides, we are surrounded by a code of ethics in the professions. Medicine cannot be advertised, even though it is a fact that we seldom find a surgeon frowning upon the publicity that comes to him because of his presence at the bedside of a king, or his signature on the two o'clock bulletin; and the truth of that statement is borne out right down the line. Locally, it is an operation on the president of the Rotary Club or a prominent church worker.

The copy writer for the professional man, however, must possess the subtle touch. He must be resourceful. He will do well to place all his superlatives in a well-concealed hiding place.

* An address by H. S. Noel before the Section on Commercial Interests, Rapid City, South Dakota.