

DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

COMMENTS, QUESTIONS AND SUGGESTIONS ARE INVITED AND WELCOME.

Readers are invited to submit comments, criticisms and suggestions regarding the material which appears in this department. The Editor also will undertake to answer questions regarding general problems of business management. Letters of general interest will be published, but the writer's name will not be revealed without his permission.

ARE YOU WONDERING WHERE YOUR PROFITS GO?

BY PAUL C. OLSEN.

Martin Daniels had one of those twentieth century curiosities. He had a business which showed month after month a small increase in sales and which, from all accounts, looked as if it certainly should be profitable.

Yet, when Martin Daniels looked in his check book there was another story to be told. His bank balance was never more than \$100 or so and most of the time, especially after some extraordinary demand, it was considerably less than that.

It wasn't that Martin Daniels spent his money as fast or faster than he made it. No indeed. He still lived in a little house on Willow Street to which he had moved with his bride many years before. He drew from his business a regular and quite modest salary. That was all. Theoretically, at least he should have had quite a tidy amount of profits accumulating in his bank account.

"That's what puzzles me," said Daniels. "Year after year I go on making a profit according to my books but year after year I am no better off than when I started in business ten years ago. What I would like to know is what happens to the profits. Why don't I get them?"

"Now, look here," went on Daniels, pointing to one of his assistants, "he's just sold that woman a \$1.50 fever thermometer. Mighty good value, too. Retail for \$1.50; costs me \$10.80 a dozen in dozen lots or 90 cents each. My total operating expenses average twenty-five per cent of sales which, on a \$1.50 sale, is 37½ cents.

"That certainly should leave me a clear profit of 22½ cents for the transaction. Yet, I'd be willing to bet my bottom dollar—and I haven't very many of them in the bank—that I'll no more see that 22½ cents profit than I'll see somebody walk in here this afternoon and buy a dozen pounds of bay leaves."

Unfortunately, Martin Daniels is right and in the purchase of those fever thermometers it is easy to prove just why he is right. According to the way Daniels is figuring, he made a 22½ cent profit every time he sold one of those fever thermometers. That's theory for you.

The facts in the matter are quite different. When Daniels placed the order for those fever thermometers he bought a dozen. The merchandise had come in that very morning and the transaction which Daniels happened to see was the first of the dozen to be sold.

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