

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.

SOME COMPLEXITIES IN QUANTITY DISCOUNT AND FREE GOODS OFFERS.

BY PAUL C. OLSEN.

The desirability or salability of merchandise is determined by the druggist's answer to just one question. That question is, "If you were rid of this merchandise, would you order any more of it?"

If the answer is, "No," it is obvious that the present stock is considered unsalable or undesirable to that extent.

The serious aspect of a large part of a druggist's merchandise stock being in unsalable or undesirable merchandise is that the smaller part of his stock must produce all or practically all of the net profits. Is it any wonder, then, that in many drug stores these net profits are decidedly unattractive? This is inevitable when a small share of the stock must produce a large share of the profits.

One of the reasons that the bulk of the stock in so many stores is composed of unsalable or undesirable merchandise is the prevalence of quantity discounts and free goods offers. Profits are determined in a drug store by three factors: the gross margin obtainable on the merchandise, its rate of turnover and the volume of sales possible in that item.

Of these three the only one that can be determined at all definitely in advance is gross margin. It is natural, therefore, that it should receive the largest share of the attention of a druggist trying to increase the profits of his store.

Unfortunately, this one determinable element affecting net profits is only one of three of these elements. Furthermore, experience indicates that for many items it is the least important of the three.

Also, it is well to remember that, of these three elements of profit, gross margins are the most easily recognized and understood. The effect of turnover and volume is harder to understand and, as suggested above, more difficult to measure.

The numerous and complex quantity discount and free goods offers available to druggists to-day make one wonder that it is possible for a druggist to keep even as much as 25 to 35 per cent of his merchandise stock in salable merchandise. The free goods offers which are currently available occupy page after page in wholesalers' listings. An examination of the advertising in drug-trade journals presents further

* Lecturer on Business, Columbia University and Philadelphia College of Pharmacy and Science.