

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.

WHAT IS NEW IN THE PRICE SITUATION?

BY PAUL C. OLSEN.

Reports are being published in the drug journals and even in the daily newspapers of the efforts of drug chains and others to raise the prices of many items of popular merchandise from the levels to which keen price competition in many localities has lowered them. At the same time reports come from Washington of the progress of the Capper-Kelly Fair Trade Bill; as everyone knows, it is now in a more advanced position in Congress than at any time in its long and tempestuous history.

With these two facts, now so prominently before them, some people in the drug trade may conclude that an era of peace and tranquillity, in so far as price competition is concerned, is about to dawn in the drug trade. Unfortunately, however, this can hardly be expected, in my honest opinion at least. If anybody disagrees with me, I should be very glad indeed to have them correct me and set me right.

Consider, first, one of the possible effects of the Capper-Kelly Fair Trade Bill,¹ an effect which for some reason hasn't been given much publicity. A nation-wide investigation of the Druggists' Research Bureau showed that the usual number of brands of tooth pastes stocked in drug stores ranged from 12 to 31, according to the

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¹ *This very important fact should be taken into consideration*—that the enactment of the Capper-Kelly Fair Trade Bill will legalize the making of price maintenance agreements between manufacturers and their wholesale and retail distributors as well as between wholesalers and retailers. By this enactment, it will virtually compel every manufacturer and distributor of merchandise sold by the drug trade to take a *positive and definite stand for or against price maintenance agreements*. As things are now, a manufacturer or a distributor can plead that he gladly would enter into price maintenance agreements if it were possible legally for him to do so, although secretly believing and encouraging just the opposite viewpoint.

Congressman Clyde Kelly, who has consistently given time and effort to the measure referred to, some time ago closed a masterful and timely address in which he pointed out the dangers of uncontrolled price cutting by saying: "*I am willing to rest my case on the principle that public policy requires that independent business men of full age and competent understanding shall have the right to contract to uphold a uniform price policy on standard goods, and that such contracts, entered into freely and voluntarily, shall be held good and shall be enforced in courts of justice.*" It is hoped that the Capper-Kelly Bill will become a law and prove to be a means for correcting the greater evils of price cutting.

type of store. These numerous manufacturers of tooth paste are in keen competition with each other. If you think all the competitive troubles in the drug trade are confined to the retail business just ask a few of these tooth paste manufacturers about competition as they face it.

Suppose with the enactment of the Capper-Kelly Fair Trade Bill, eleven tooth paste manufacturers enter into agreements individually with their retail distributors to sell tooth paste only at the traditional 50-cent price. But along comes manufacturer number twelve with a tooth paste which, incidentally, is not, in efficacy, materially below or above that of the other manufacturers. Moreover, careful and wide-spread advertising has created for this twelfth tooth paste a consumer acceptance which is comparable to that existing for the other popular brands.

Competition is keen. The twelfth manufacturer, perhaps late in the field, must have volume to make profitable the manufacturing and selling facilities that he has created. Isn't he likely to see an opportunity to obtain this volume by permitting his retail distributors to sell his tooth paste at any price they choose?

Put yourself in the customer's place. She sees twelve well-known tooth pastes, all of which have characteristics which certainly are somewhat similar and all of which are equally well known to her. Eleven are and must be offered at 50 cents, on account of agreements between their manufacturers and retailers. The twelfth tooth paste is offered at 33 cents or 37 cents or some similar price. Which tooth paste is this shopper most likely to buy? What is going to be the effect upon the sales of other 50-cent tooth pastes? How long are manufacturers going to maintain agreements of this kind, if it results in their losing volume to manufacturers who do not have such agreements as will be permitted under the Capper-Kelly Fair Trade Bill?

Bear in mind, please, I am not making any statement now for or against the ethics of the question. Nor am I attempting any defense or criticism of the well-known loss leader principle.¹ *My purpose simply is to set down the facts as they appear to exist.* I have chosen tooth paste, not as a haphazard example, but because this class of merchandise is one of the most important in sales volume in drug stores to-day. One-third to one-half of drug stores' sales of toilet goods are in dental preparations and the bulk of these sales in tooth pastes.

The present widely heralded price-raising efforts of retail distributors of drug merchandise, who in the past have used reduced prices in popular merchandise in an effort to attract business, are not likely to go as far as some hopeful people anticipate. In the first place, as every druggist knows, it is far more difficult to raise a price on a standard identified item, particularly on one which is popular, than it is to lower such a price. Thus, if any success at all is to be had in this movement, it is going to be a slow and a long drawn-out effort.

On the other hand, don't forget that even in the drug trade the price appeal is the quickest means to build a large volume of business. I say "even in drug trade,"

¹ The ethics of price cutting and loss leaders have been discussed frequently and competently by persons far better qualified than I am. Justice Brandeis, while still a member of the bar said: "*Americans should be under no illusions as to the value and effect of price cutting. It has been the most potent weapon of monopoly and means of killing the small rivals to which the trusts have resorted most frequently.*"

because the small value of the individual sales made in drug stores necessitate a store which is to do a large volume of business locating itself in a center, which is accessible to large numbers of people. Everyone knows, of course, that there have been out-standing and exceedingly profitable prescription stores with large volumes of sales developed in the United States, but the growth has been the result of years of patient, intelligent and tactful effort.

The druggist who has \$30,000 a year rent to pay can't wait long for a business sufficient to justify the payment of that rent. Since few people have all the money they want to spend, and those who do are usually the most careful with it, the price appeal is a quick means of attracting a large volume of business. At least, so the theory goes. But when a dozen or hundred competitors all do the same thing for this same purpose, there is bound to result a price war, which is unprofitable for all. Hence, the present efforts to raise the prices of popular merchandise to more profitable levels. But once prices are raised, then what? Some one of these distributors, under greater pressure of volume than others, perhaps, starts cutting prices once more and the vicious circle begins all over again.

If price competition could be confined to stores which choose this method of attracting business, other druggists would not resent it so much. Window displays which are passed by thousands of people daily are bound to bring to the attention of people the low prices at which standard merchandise is being offered and thus create demands on other druggists to do the same thing.

The development of chain drug stores with several stores in the same cities has made it possible and profitable for them to use extensive and frequent newspaper advertising. In contrast to the thousands who are likely to see a window display, 100,000 or 1,000,000 may see at the same time the salient features of that display reproduced in a newspaper advertisement. The frequent use of two full pages of newspaper advertising by a single chain of drug stores is now not at all unusual. The effect and the intended effect is to bring the competition of these stores to every point to which the newspaper circulates. In further extension of this idea, mail order service is offered sometimes as an additional inducement.

Popular merchandise sold at the so-called full prices produces exceedingly attractive profits. That is the real reason there is a cut-price problem to-day in the sale of popular identified drug merchandise. Druggists who have been anxious to or who have been forced to obtain a large volume of business quickly have naturally been willing, therefore, to sacrifice some of these profits by reducing prices on such merchandise. As long as this condition exists, it is logical to expect keen and widespread price competition on popular merchandise.

1. We strive to safeguard public health by cooperating with all departments created and operated for that purpose.

2. We advocate the raising of entrance requirements in the colleges of pharmacy, the selection of more mature students and the requirement of more practical experience in the retail field before graduation.

3. We urge a closer study and application of the Pharmacy Law in order to realize the original intent of the law and to confine the sale of drugs and medicines to legally-operated drug stores.—From the Code of Ethics of the Retail Druggists' Association of Greater Kansas City.