

DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

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CAUSES OF LOST DRUG STORE PROFITS.

BY PAUL C. OLSEN.

The following is a tabulation of some of the principal causes of lost profits in drug stores. Such a list usually proves of greatest interest to the most successful druggists. The reason is that the druggists who are the most successful are the ones who are keenest and most desirous to improve their success. This very attitude of mind doubtless explains their prosperity. To any druggist who really wants to check over his own practices to make sure he is avoiding to the greatest degree possible the most important of the causes of lost profits in a drug store, this tabulation should be of some interest.

1. *Spoilage of Stock Purchased.*—Spoilage is most evident in perishable merchandise and, therefore, can be avoided there to the greatest extent. This, however, is not the only place in which spoilage occurs. Anyone who has bought a long established drug store has had the experience of going through the prescription room stock, if it has not been carefully maintained, and throwing away dozens of items therapeutically useless for which at one time good money had been paid. Shopworn goods also are in this class; the merchandise is all right but its appearance is not. On the other hand, some druggists hesitate to discard stale merchandise of a perishable nature, preferring to obtain the immediate profit, although such profits when obtained are at the risk of great future losses of prestige and patronage.

2. *Loss of Merchandise.*—These losses may be actual thefts. More frequently they result from failure to carefully check purchases when received; careful checking prevents the throwing away of small items with empty cartons and brings to light actual shortages in the order as delivered. Most frequent of all losses of merchandise, undoubtedly, are the losses which result from merchandise being pushed further and further aside, especially in dark corners of the cellar until finally its existence is forgotten altogether.

3. *Waste of Merchandise.*—Waste is most frequent when bulk merchandise is sold. This waste results not only from down-weight, but also from inevitable shrinkage from the handling incident to sales in bulk. This is one reason, for instance, that progressive druggists who sell ice cream to be taken out of the

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store sell it only in packages and never in bulk. Greeting cards are another class of merchandise in which losses of this kind are likely to occur.

4. *Cash Leaks.*—Cash leaks occur in drug stores largely because druggists do not use the facilities which they have for keeping track of cash. In many stores in which expensive and elaborate cash registers are installed it is often the practice not to verify the register totals every day. Carelessness on the part of the management inevitably encourages carelessness on the part of sales people in handling cash. For those employees who yield to temptation or who are downright dishonest, the evident existence of carelessness in handling cash is just the encouragement needed to cause them to begin their speculations.

There is just one way to control cash effectively in a drug store and that is to verify the register totals immediately after the store closes for the night. This verification should be made, of course, by some responsible person. Any discrepancies are thus brought immediately to light and unintentional mistakes and errors can be corrected while they are still fresh in the minds of the sales people making them. In stores which have a large C. O. D. delivery business, careful watch of each and every delivery is important because such cash is usually received through the back door and not in the customary manner. Furthermore, it is a common practice, of course, to send change with the package, which further complicates the handling of the cash, unless great care is taken.

5. *Failure to Record Charge Sales.*—Even in drug stores which do an important amount of charge business, the methods used for recording these sales are not as formal and elaborate as they are, for instance, in a department store. Indeed, they cannot be, because the small amount of most purchases in a drug store does not justify such records. None the less, it is plain that a failure to record even a single dollar's charge sale means that ten dollars of additional sales must be made to overcome the loss in profits from this one error. In fact ten dollars is probably a liberal estimate, because not every drug store to-day is fortunate enough to make a net profit of 10 per cent of sales.

The remedy for the lost profits resulting from a failure to record charge sales is to make the recording of such sales as easy as possible. This usually means putting charge slips not in just one place in the store but in every place at which such sales are likely to be made. If sales people will record on these slips at the time sales are made some memorandum of what has been sold, the details can be filled in later. It often happens in a busy store that when several people are waiting to be served, all a sales person has time to jot down is a brief memo. This usually is enough for the time being; the details can be filled in later, but if no memorandum at all is made under such circumstances, it is easy to see how some transactions and some items may be forgotten in the rush of business.

6. *Failure to Buy Salable Merchandise in Sufficient Quantities.*—It is a fact that upon many items of popular merchandise retail druggists buy in such small quantities that this merchandise has to be reordered as frequently even as two or three times a week. Furthermore, the fact is that such reorders when given are for exceedingly small quantities. The result is that on such merchandise of proved salability, druggists frequently do not have in stock the very merchandise which by this rapid turnover has proved itself to be exceedingly easy to sell.

This is serious not only on account of the immediate loss of such sales but also

because it gives customers the impression that the store does not have the merchandise they want to buy. One or two such experiences like this are likely to lead a person to transfer his business to some other store. Drug stores depend for their success not upon single sales to a constantly changing group of people, but rather upon a long series of sales to a relatively small and unchanging group of people.

7. *Failure to Display Salable Merchandise.*—As a direct result of the practice that many druggists have of buying merchandise of proved salability in such small quantities that stocks are exhausted and have to be reordered every few days, it is plain to see that a druggist never has on hand a sufficient quantity of such merchandise to make a worthwhile display.

No one denies the selling power of effective displays inside of a drug store and in its windows. A druggist cannot display all the ten thousand or fifteen thousand items in his stock. He must choose for special selling effort some from this extensive stock. He cannot choose the comparatively small number of items of proved salability for such display unless he buys a sufficient stock of them at a time to make possible a display.

8. *Merchandise Stock Not Sufficiently Varied.*—In these days of simplification and stock control, the statement that druggists do not have sufficient stock on hand seems to strike a false note. As a matter of fact an examination of the stock of drug stores which are conspicuously and notoriously over-stocked usually reveals not that they have too many different kinds of merchandise on hand, but rather that they have too much of some merchandise of doubtful salability. A study of the stocks of drug stores offered at auctions will verify this statement.

On the other hand, it is well known that the druggists who are freest from competition are the ones which have the reputation for stocking many more different kinds of merchandise than their competitors. People go to them again and again with a certain assurance that if anybody has the merchandise they want, drug stores of this kind will have it.

9. *Purchase of Excessive Quantities of Merchandise of Unproved Salability.*—Profits in a drug store are determined by the gross margins obtained, the volume of business and the rate of turnover. In choosing a particular item of merchandise a druggist is apt to overemphasize the importance of gross margin as a determinant of profits because it is much more obvious in its influence than are volume and turnover. It is well to remember, however, that gross margins are obtained only when sales are made, and therefore that volume and turnover absolutely control.

10. *Poor Service.*—Poor service may range all the way from a slovenly and ill-kept store to disagreeable and poorly informed sales people, slow delivery service, and all such similar factors which in a store's relations with its customers help or hinder its growth. Good will is vital to a drug store because it is or hopes to be a permanent feature of the community life. The losses from poor service therefore are multiplied by the number of possible sales that might be made to customers unfavorably influenced by poor service.

11. *Failure to Advertise.*—Store displays sell merchandise only to the people who come into the store. Window displays help to sell merchandise only to the people who pass the store. To the larger group who neither come in nor pass the

store some productive means of attracting these possible customers to the store is desirable, and a failure to make use of advertising for this purpose means lost profit opportunities.

12. *Failure to Use Salesmanship Effectively.*—The most profitable place in which to use salesmanship in a drug store is on those occasions when customers enter who are undecided what to buy. They may know what they want; for instance, a camera, but a failure on the part of the sales person in the drug store to understand both his customer and the merchandise may result in the customer making an unfortunate choice and the store losing an opportunity for service and profits. For instance, a customer best suited with a twenty-dollar folding camera may be sold a two-dollar box camera, simply because the only reason the sales person can offer for the difference in price is the lame and halting remark, "One must be of better quality than the other."

APPLICATION OF RESEARCH TO PROBLEMS OF DRUG STORE MERCHANDISING.*

The drug industry, or rather the group of industries which are dependent upon the drug store as an outlet for merchandise, have been considering, through their accredited representatives, a comprehensive program of research. So far this discussion has been largely in terms of a merchandising survey of retail drug stores similar to the intensive survey of retail grocery stores made in Louisville, Kentucky, during the first half of 1929.

As a member of the staff of the Department of Commerce who was engaged on that survey, I have been requested to make this talk to your ASSOCIATION, suggesting what benefits this industry might derive from such a survey.

It seems to me that the task which must be set for such a survey is that of forecasting the destiny of the drug store. We are interested in this destiny from two viewpoints: that of the manufacturers and consumers who must use the drug store as a medium for dealing with each other, and that of the proprietors of such retail establishments. What the public and the manufacturer are most directly interested in is the fate of the drug store as a merchandise outlet. The central point of interest for the retail druggist is the fate of the drug store as a profit-making enterprise.

Let us survey briefly the knowledge we already have on these points and suggest what additions may be made to our stock of information by the proposed investigation.

The most authentic information which we now have concerning the drug store as a merchandise outlet is probably that which may be drawn from the census of distribution for 11 cities conducted in 1926. At that time we found that drug stores made up between 4 and 5 per cent of all retail outlets. They were exceeded in number by the following classes: Groceries and delicatessen; ice-cream and soft drink parlors and restaurants. In other words, the drug store was the most

* Address by Wroe Alderson¹ before the Section on Commercial Interests, of the AMERICAN PHARMACEUTICAL ASSOCIATION, Baltimore—May 8, 1930.

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numerous outlet next to these three types dealing directly and exclusively with foods.

Figures over a period of years from agencies which collect statistics on number of outlets, indicate an increasing percentage of drug stores among all retail outlets. In particular, it appears that the coming of the chain drug store has, in most cases, represented a net addition to the total number of drug store outlets. In 1926, for the 11 cities studied, independent drug stores still constituted over 88 per cent of this type of outlet. This fact was greeted with some surprise by observers who had been impressed by the really widespread and fast growing development of the drug chains.

The chain outlets average somewhat greater in size, and yet 70 per cent of all sales through drug stores were made through independent outlets. In the cities studied, drug stores accounted for a considerable portion of all retail sales ranging from less than 2½ per cent to nearly 5½ per cent, and being about 3 per cent here in Baltimore.

Perhaps the most important factor in the sales through drug stores is the broad range of commodities covered by such sales. The modern drug store is still selling medicines, both the prescription and the proprietary variety; but in addition, a great food business has developed in the drug store, including candy, ice-cream and soft drinks, and in many cases, meals and lunches. The drug store is an outstanding distribution channel, particularly for ice-cream and candy. It has very rapidly become one of the leading outlets for tobacco products of all kinds and for tobacco accessories. In addition a wide range of products is found under the headings of electrical goods and rubber goods. Beyond these classes various drug store specialties are found in practically every conceivable department of merchandise.

In the experimental census of distribution, drug stores reported sales for 60 of the 73 separate commodity departments which were set up for the survey. The departments in which drug stores reported no sales can be very briefly enumerated, giving, perhaps, the best indication of the nearly universal character of drug store merchandise. These departments in which the drug store reported no sales were automobiles, caskets, coal and wood, fish, fur, harness and saddles, hay and grain, ice, iron and steel, livestock, lumber, meat and plumbing and heating fixtures. It may be that when the reports are available from the national census of distribution which is now being taken that drug stores will be found to be handling these commodities also. This would be scarcely less surprising than some of the departments in which the drug store already makes sales, such as agricultural implements, arms and ammunition, calculating machines and typewriters.

It is probably true that the drug store in no case carries a full range or assortment in these various unusual articles. In lines of this sort it is most likely that only merchandise of a distinctly convenience nature is carried. Of course, there has been some tendency for all sorts of establishments to move back toward the general store. Retail paint stores are selling goldfish and tire stores are selling radios. The drug store, however, because of the great numbers in which it is found and because of the rapidly growing consumer belief that any convenience article is to be found in a drug store is likely to take the lead in this trend.

There has been some tendency at the same time for the grocery distribution to become somewhat more concentrated into larger outlets and for a full line of

foodstuffs to be handled in a single market. For this reason it is barely conceivable that the drug store may presently become more distinctly a universal outlet for merchandise than the grocery store, and be found even in the smallest neighborhoods.

As the drug store becomes a more complicated and widespread type of outlet, the problem of contact with the drug store on the part of distributors and manufacturers likewise becomes more difficult. It begins to be necessary for the various distributors selling through the retail drug store to look upon themselves as an invisible partner of the druggist who must confer from time to time with regard to the future of this outlet. This development has already occurred in the grocery industry where the wholesale grocer, once almost the exclusive supplier of the retail store, now supplies only 30 to 35 per cent of the merchandise distributed by the retail grocer.

The interests of sound drug store merchandising undoubtedly demand a close working relationship between the various types of distributors to whom the retailer turns as sources of supply. A survey such as that proposed for the industry provides the essential basis for this coordination of effort. The druggist himself, as already stated, is most directly interested in the question whether the drug store will continue to be a sound profit-making enterprise. All factors who distribute through the drug store must, in turn, be interested in this question since the success of their own activities is dependent upon sound and successful retail outlets.

One of the main things to be determined with regard to this question is whether the principles of good management which mean profits in other lines of activity, can be made to apply to the drug store. If these principles require modifications to suit the conditions peculiar to this trade, the nature of those modifications must also be determined.

In the Louisville Grocery Survey we had a very clear indication of the close relation between profits and management. The successful stores were getting more sales per dollar of sales wages, more business per square foot of floor space and greater sales volume per dollar invested in merchandise. Managers of successful establishments were carrying a limited but well-selected list of items for sale, selling with a rapid turnover and with a fairly large volume per sales unit. Even though there was a decided difference in the profit-possibility presented by various classes of commodities, the poor store managers were failing to realize the possibilities of even the best commodity groups, while the good managers were showing a profit on commodities where the opportunity was much smaller, or at least making them pay their way.

It was found after the Louisville Grocery Survey, to be possible to definitely formulate the principles of good management for a retail grocery store. Many stores are being modified along the lines then indicated and are using methods of fact-finding and control which will enable them to keep their establishment up-to-date continuously.

A factor of secondary importance in determining the future of the retail drug store is its sources of supply. While the drug survey as presently conceived seems to call for an investigation chiefly of retail stores, a measure of attention will need to be given to the wholesale drug houses as a source of supply for the retailer. Retailers in the Louisville Grocery Survey were drawing their merchandise from

many types of wholesale establishments. Some were dealing with the regular old line wholesalers, while others were members of coöperative buying associations and still others belonged to voluntary chains. While no attempt was made to point out one type of supplier as the ideal grocery wholesaler, studies were made of 7 wholesale food dealers in Louisville and figures were presented showing the results obtained by these various types. Already it is possible to draw some interesting comparisons between these types of wholesalers. We can tell in a measure how successful the retailer has been in performing for himself services usually left to the wholesaler and which of these services seem to be really essential to the health of the trade.

We find, for example, one wholesaler who is able to provide wholesale groceries at a gross margin of 8 per cent. We are able to point out in what way this wholesale outlet differs from other wholesalers in the market still requiring a much larger margin, and to find out just how he has succeeded in reducing the overhead which his services require. The retailer would be justified in demanding that a study directed to improving retail management should at the same time give some attention to the efficiency of those who supply the retailer in order that he may be assured that he will be given an opportunity for continued earnings if he discharges his own function efficiently.

There has been a very sharp question among retail druggists in some parts of the country as to what proportion of the gross earnings of a business might be established as a proper share of the landlord in the success of the enterprise. In the City of St. Louis, where a great deal has already been done in investigating the problems of the retail druggist, a progressive step has already been taken in this matter of the cost of rent for a retail drug establishment. I have been told that on the basis of an average or standard rent figure determined through a survey, adjustments have been made in a number of individual cases which enabled the retail druggist to continue in business. Standards of cost for the various functions involved in the retail drug store might be established in a broader way on the basis of such a survey as that under discussion.

I will try to outline in the most general way what type of investigation would be necessary in order to get the results suggested. It seems to me that your committee has been on very solid ground in making the retail drug store and its operations the central point in this study. Before suggesting any policies or principles for retail druggists to follow, it is necessary to know in a much more detailed way than anyone knows at the present time just what occurs in a retail drug store. It is necessary to know what functions are performed by various employees, what portions of the day call most heavily on their efforts; how the typical customer behaves while in the store; and whether the various departments and pieces of equipment are so arranged to produce the maximum result from the behavior of customers and efforts of employees. We must know what volume of merchandise is being sold by the various departments of the store and what gross margin is being obtained on these commodity groups. If there are any special leaks or sources of waste in the drug store they must be discovered and measured. Each commodity group must be studied, not only as a group but in a detailed way for outstanding commodity items within each group. All the characteristics of these commodities which affect the problems of marketing them must be determined. The rate at which it sells,

the average size of sale, its perishability, attractiveness to the eye, must all be ticketed and measured as merchandising factors. The merchant must be led to abandon the point of view that he is running a drug store as too simple for present-day conditions. He must think of himself as being in the tobacco business, the candy business, the electrical goods business and other lines according to the range of commodities which he is handling. It should be possible to deduce from this detailed study of departments what are sound rules of merchandising to be applied to each commodity group. Each commodity group has its own peculiarities which may require some difference in treatment by the management.

In addition to studying all these things inside the store, a means must be devised for studying the community which surrounds it. In this community will be found explanations for many things which might at first seem surprising which are observed within the store itself. As a matter of fact, it would be impossible to say conclusively whether a druggist was doing a good job or not until it was known what kind of a community he was serving and what sort of merchandising it required.

Furthermore, it would not be possible to extend the findings of a drug store survey to other parts of the country unless it were possible to set forth specifically the market conditions prevailing in the city under survey, and as already described, it would be found essential to the complete picture to know many things about the wholesale distributors who were supplying merchandise to the dealer. Many specific problems will have to be determined as to the scope and character of a survey when the industry is ready to launch upon it definitely.

I have attempted to outline in only the broadest fashion what would seem to us to be the most fruitful approach as based on our experience with the Louisville Grocery Survey. Such a survey could scarcely fail to produce the same sort of practical benefits which are now being reported from Louisville and the food trade throughout the country with regard to the grocery investigation.

EDITOR'S NOTE: See Resolution No. 33, JOUR. A. PH. A., for May, page 526. Also brief reference to the Survey in this issue, and Minutes of the Section on Commercial Interests.

THE DRUGGIST? WELL, WHAT ABOUT HIM?*

BY ROBERT J. RUTH.

"The druggist is a poor business man." "He does not keep abreast of the times." "He lacks the progressive traits of men engaged in other callings." "He hasn't the push and ambition necessary to accomplish big things." How often we have all heard the above remarks. They are uttered by men, themselves druggists, who repeat them upon every possible occasion, otherwise we would not hear them so often. These men constitute a very small minority of retail druggists and the remarks that they make are perhaps applicable to only themselves, if at all. They could benefit by reading and following the advice given by Charles Dawes as published in the JOURNAL OF THE AMERICAN PHARMACEUTICAL ASSOCIATION and reprinted under the heading: "Charles Dawes' Creed—a Paraphrase," in

* Section on Commercial Interests, A. PH. A., Baltimore meeting, 1930.