DEPARTMENT OF BUSINESS MANAGEMENT

Conducted by Paul C. Olsen.*

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THE MOST PROFITABLE WAY TO INCREASE TURNOVER OF DRUG STORE MERCHANDISE.

BY PAUL C. OLSEN.

Profits in a drug store, as indeed they are in any retail store, are determined by margin, volume and turnover.

By margin is meant the difference between the price paid for merchandise and the price at which it is sold. By volume is meant the amount of sales which are made. By turnover is meant the rapidity with which sales are made; that is, the time which elapses between the proprietor's purchase of merchandise and its subsequent sale.

Of these three factors margin receives the greatest emphasis, not because it deserves it, but because it is the most apparent and easiest to see. In a drug store this extra emphasis upon margin is illustrated by the following conversation.

"Here's some merchandise on which you can double your money—a tooth paste that costs you $3 a dozen. You can sell it for 50 cents a tube because there is no price competition. What's more, we'll give you the exclusive agency for it in this locality. Why shouldn't you spend your time and effort in pushing this merchandise instead of merchandise on which you get a margin of only $33^1/_3$ or, with cut prices, even less than that."

What the guileful salesman has overlooked in the above sales talk is the fact that the alleged doubling of the money from the sale of this unknown tooth paste can come only when sales are made. If the merchandise isn't sold, the druggist makes and can make no profit, no matter what the theoretical gross margin is.

Furthermore, the longer such merchandise stays in the store the more it costs him to keep it there, just as the longer a person stays in a hotel the larger his bill will be. Furthermore, if a person has to wait a year to get a net profit from the investment of merchandise, it is obvious that four times as much net profit must be earned per dollar of sales as would be the case if the same investment produced those profits successively four times in a year.

Turnover is important, therefore, as a determinant of profits, because it is a measure of the rapidity with which merchandise is sold and, if the merchandise is sold at a profit, it becomes, also, a determinant of the rapidity with which profits are earned.

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