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 will also 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.

ADVERTISING AND SELLING PROBLEMS OF DRUG STORES.

Deciding How Much and What Stock to Carry.

BY PAUL C. OLSEN.

One of the most profitable drug stores in the United States has a merchandise stock constantly on hand which is valued at $35,000 to $40,000. This valuation of the merchandise stock is at the cost price. No one need have any doubt about the profitableness of this store when they know that, year after year, for the past ten years, sales from this investment of $35,000 to $40,000 in merchandise have produced net profits of upward of $35,000 a year.

On the other hand, one of the most unprofitable drug stores in the United States had an investment in its merchandise stock of less then $4000.

Stated in the simplest terms, the problem of deciding how much and what stock to carry in a drug store is as follows: The ideal situation is to have on hand in the store only those items of merchandise which customers will buy or can be persuaded to buy and to have these items on hand in just such quantities as will meet customers' demands for them.

It is an easy matter, as the sentence above shows, to set down just what the ideal stock of a drug store should be. But no experienced druggist needs to be told how difficult it is to keep close to that ideal day in and day out in the operation of a drug store.

The purpose of this article is to point out the tried and true plans which can be employed readily in the operation of a drug store to maintain its stocks at a level corresponding as closely as possible to the ideals set down above. This ideal is of the greatest practical importance. No profits possibly can be earned from the operation of a drug store unless merchandise is sold. Naturally no sales will be made unless they are of merchandise which customers want to buy or can be persuaded to buy.

Furthermore, the more quickly these customers buy this merchandise, the more quickly the opportunity for profits is presented. It doesn't follow necessarily that all sales of merchandise in a drug store can be made at a profit, but it certainly is true that no profits are made until sales are made. Similarly, the more quickly these sales are made, the more quickly profits are earned.

This is a simple statement of the general principle that a rapid turnover of the merchandise stock in a drug store is to be desired. Profit opportunities are lost,

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

however, from too rapid a turnover of merchandise stock, just as they are not present when the rate of turnover of the merchandise stock is excessively slow.

When individual items in a merchandise stock are selling at so rapid a rate that they have to be reordered every day or two, it is obvious that in such a drug store there is danger of not having on hand at all times a sufficient quantity of such merchandise to meet demands which exist or can be created for that merchandise.

Such a failure is fatal to the success of a drug store. Customers reason that if the store does not have on hand this popular merchandise, its stock is decidedly incomplete; therefore the next time they need drug store merchandise they are apt to go to another drug store at which they are sure they can buy what they want to buy.

The loss of profits from a failure to have on hand merchandise which customers want to buy is not confined, as this makes plain, to that merchandise alone. Opportunities to profit from the sale of many dozens of other items to the same customer also may be lost. A drug store depends for its sales and consequent profit opportunities not upon one time sales to an ever-changing clientele, but rather to a long continued series of sales to a relatively small and definitely limited number of people.

From these facts the general conclusion arises that the minimum quantities in which staple, non-perishable merchandise should be bought are a month's anticipated sales of that merchandise, and the maximum, two months' anticipated sales.

Perishable and seasonable merchandise are obvious exceptions. In the case of perishable merchandise, the maximum quantity bought should not exceed anticipated sales for the period in which the merchandise can remain in the store in first-class condition. Similarly, merchandise which sells only at certain times of the year, should not be bought in quantities in excess of sales anticipated in its selling season.

In the preceding article in this series, it was shown that the usual amount spent by people in drug stores every day averages upward of ten cents per family. Thus the only drug store in a community of 500 families can anticipate daily sales of upward of $50. Similarly, two drug stores across the street from each other in a city neighborhood location which have 900 families more accessible to them than to any other drug stores can each anticipate daily sales of upward of $45.

These facts also can be used to make a definite estimate of the amount of money which profitably can be invested in merchandise in a drug store. Merchandise which is sold for ten cents should not cost more than 6.5 cents. Furthermore, it should be the aim in a capably managed drug store to sell all merchandise purchased within a maximum of two to four months from the date of its purchase.

Thus of an average family's purchases of $36.50 upward in a year, the amount actually invested in merchandise at any one time to make possible these sales to them in a year will be but one-third to one-sixth of the cost of this merchandise sold them in a year. (Ten cent daily purchases per family equal annual purchases per family of $36.50.)

As stated, the cost of the merchandise sold in a drug store should be not more than 65 per cent of its selling price. Sixty-five per cent of $36.50 is $23.72. The actual amount invested in merchandise at any one time is, as stated, one-third to one-sixth of that amount of $3.95 to $7.91—roughly $4.00 to $8.00 per family.

It is now possible to determine easily the minimum and maximum profitable limits of the total amount of a drug store's merchandise stock.

One example was cited earlier in this article of a drug store which obtained a business of upward of $50 a day in a community of 500 families in which it was the only drug store. Multiplying 500 by $4.00 and by $8.00 it is seen that such a drug store can expect to meet the needs of its community with a merchandise stock valued at the cost price of $2000 to $4000.

Stated simply, the formula: 4 to 8 times the number of families from which a drug store expects to obtain its business gives in dollars the amount of the investment which such a drug store should make in its merchandise stock.

If it is preferred to make a calculation of the amount necessary to invest in merchandise on the basis of anticipated sales, rather than on the number of families to be served, the formula is equally simple. Suppose anticipated sales are $30,000. Merchandise costs should not be more than 65 per cent of that amount, or $19,500. A third to a sixth of $19,500 is $3250 to $6500.

Many druggists with long years of successful experience in the operation of retail drug stores may question the calculations above as being entirely too low. They will cite instance after instance of drug stores in which the average investment in merchandise stock per family served is not $4.00 to $8.00 but two and even three times that amount. That is to say, in the case of drug stores with annual sales of $18,000, they will point to instance after instance of such stores having merchandise stocks not of $2000 to $4000, as the formula would indicate, but of $6000 to $8000.

There is only one explanation. Many thousands of druggists in all parts of the United States have been queried. With a unanimity which is startling, they have said that two-thirds to three-quarters of the merchandise they had on hand is so difficult or impossible to sell that no more of it will be ordered if ever present stocks can be gotten rid of.

Similarly, tabulations of sales of individual items of merchandise in other drug stores have been made and the same facts revealed. That is, facts show that a third to a quarter only of the merchandise stock in most drug stores is producing all or practically all of whatever profits are being earned.

Everyone knows that it is an impossibility to prevent some mistakes in buying; no one can anticipate all customers' demands perfectly. The only thing that can be done is to be on guard constantly to keep such mistakes at a minimum.

It is easy to see, for instance, that more sales and more profitable sales could be made in drug stores in the United States if two-thirds to three-quarters of the merchandise stock were composed of salable merchandise and the remaining third or quarter of unsalable merchandise. Now the situation is in so many instances, that two-thirds to three-quarters of the merchandise stock in many drug stores is composed of unsalable merchandise and the remaining third or quarter is all that can be sold readily or at all.

It is easy to see, that a correction of this condition would greatly reduce the total investment in merchandise stock, as well as increase the profits that could be earned. Then, too, the total investment in merchandise stock would be brought down to an amount which is more nearly in accordance with the formula above.

The reason why so large a proportion of the merchandise stock in many drug stores is composed of dead and extremely slow selling items arises from the falacious belief that large gross margins insure large net profits.

It is always of the greatest importance constantly to remember that no matter how large the gross margin that is obtained on a purchase of merchandise for resale, no net profits possibly can be realized unless the merchandise is sold.

Merchandise of unproved salability, no matter how great the gross margin offered, should be bought, if at all, only in minimum quantities, until it has proved its salability.

The question the buyer always should ask himself in considering the purchase of merchandise to sell to his customers is just this.

How much of this merchandise can I sell and how long will it take me to sell it?

If staple merchandise of proved salability should be bought in quantities not to exceed one to two months' anticipated sales, how important it is to purchase merchandise of unproved salability in more than minimum quantities until customers have shown their willingness to buy it.

The importance of turnover and volume in determining net profits earned from the sale of merchandise in a drug store will be considered in the next article of this series. Also in that article, will be a consideration of what can be done about cut prices and other drug store price problems.

RADIO MERCHANDISING.*

BY ROBERT WILLIAM RODMAN.[1]

Radio to-day offers the enterprising retailer one of the most exceptional opportunities in recent years to sell more merchandise.

The value of radio entertainment and advertising to the manufacturer who pays the bill is judged by whether or not such advertising sells more merchandise for him. The success of this new and unique advertising medium has been well established during the past few years and its popularity is shown in the ever-increasing number of manufacturers who are "on the air" regularly.

The question which should interest all druggists and particularly this section on commercial interests is "Who is getting this new business which is being stimulated by the radio programs of manufacturers of products sold through retail drug stores?"

We believe that the druggist should receive his share and have set out to show him not only that he can if he will tie-up with radio advertising, but also to show him just how to do it.

The most important method of radio tie-up is unquestionably by window and counter display. These should feature the fact that the products displayed are the ones which the customer or passerby heard about on the radio the evening before. While the interest of the public in a product has been aroused by the manufacturer's broadcasts, while they are "sold" on it by the sales message of the radio announcer, a display of the merchandise in the store window will crystalize their thoughts and "clinch" the sale. It is the final link in the chain. The druggist's lack of initiative in capitalizing on this factor will unquestionably furnish the department store or some other agency with profitable sales which otherwise might well have been his.

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* Section on Commercial Interests, A. PH. A., Miami meeting, 1931.

[1] Associate Editor—*The Druggists Circular.*