

JOURNAL OF THE
MODERN MERCHANDIZING.*

BY LOUIS K. LIGGETT.

In introducing his subject on Modern Merchandizing before the New York Branch of the American Pharmaceutical Association Mr. Liggett traced the history of Modern Merchandizing to John Wanamaker when he established the one-price system. He gave an account of the counter-action of druggists in Detroit to compete with a grocery firm that had added a drug department and established cut prices of patent medicines, by selecting a drug firm to compete with the latter; how the venture proved a fortunate one for the firm selected, Gray and Worcester, and the stimulus to larger sales in many drug stores. Fifteen years ago Mr. Liggett, said, there were not more than ten retail druggists who did a business of over \$100,000 annually and the adoption of modern merchandizing methods has been instrumental in the development. This brought the speaker to the consideration of service in modern merchandizing and the remainder of the address is given as reported.—EDITOR.

“Service to-day is a greater factor in getting volume than price. It is particularly so now and will be so for a considerable time to come, although I do not doubt but that when this unfortunate war is over and the natural depression comes in two or three or five years hence, price will probably then be a factor.

“At the present time Modern Merchandizing consists primarily of *service*. Service is not only in giving proper attention to customers and good salesmanship, but in addition may be defined by having merchandise in stock when your customer calls for it, plus your ability to see that you are not overstocking and that you are turning your stock as often as is expedient with keeping good merchandise in stock. That, to my mind, is the first principle of developing volume. You must back up service with advertisements, either window displays or newspaper advertising; you must back it with merchandizing ideas—advertising something that does not materially affect the drug store but brings people into your store. You can back it with any number of conceivable schemes for getting people into your store, some of which you will find can be overdone if you don't watch them closely, for almost all schemes for getting business simply mean that you are appealing in a novel way to the minds of the people, and you may over-play your hand before you get through. Nevertheless, all of these schemes do boom business.

“There is one other factor in getting volume, namely, location. You could put the most complete drug store, with the finest and best assortment of stock, over on Park Avenue, in back of the Grand Central Station a block or two, and you would starve to death in a few months, but if you put the same store on the corner of Broadway and 42nd St. you will prosper. To get volume you must go where the people are.

“Having started on the road to volume, your next point is to watch and see how much it costs to get that volume. If you are getting it by advertising ideas that are expensive, or by over-clerking your stores so as to render that so-called ‘clerk service,’ whether you are paying too high a price for the volume you are

* Parts of an address before New York Branch A. Ph. A.

getting, are all things that you have to think of, when the volume starts to come to you. I mention these because they all have an effect on gross profit and hence affect your net profit. Special drives also have an effect on gross profit. Gross profit, after all, is the difference between what you pay for an article and what you sell it for less the depreciation on the articles that you have on hand. You never know exactly what your gross profit is until you have inventoried your business so completely and so fairly in your own mind that there can be no question but that you have made the proper charge-off for your over-stock and your valueless stocks of merchandise.

"I might say right here that in our business of running retail drug stores the most valuable thing we have is the inventory system. We have volume, but it would mean nothing to us if it were not for the check we have on our merchandise. Five years ago not only the Riker business but the Liggett business was receiving in their banks each day from the stores only 95 cents on every dollar's worth of merchandise sold to customers. The other 5 cents was lost in one of three or four ways, either through theft, unreported breakage of merchandise, unreported transfers of merchandise or depreciated merchandise, merchandise that was valueless and was never found to be valueless until a careful analysis of the inventory of each store was taken. To-day operating under very close supervision our shortage average for the first nine months of this year was less than 6.7 of one percent. It means a difference to us in profits of considerably over a million and a quarter dollars at the present volume of business. So you will see there is something to the gross profit column besides establishing a selling price and considering what you patch on your bill.

"Your expenses and what they apply against are also a snare and delusion to the man who has not an accurate accounting system. Expenses to-day with the modern druggist are what I could liken to an instance fifteen years ago where a retail druggist in this city, who had a very large business and who was operating in connection with it a manufacturing plant and making his own goods. When asked by me what his goods cost him, how he arrived at his selling price said, that he takes every bill that comes in and figures the cost of an individual package, plus the cost of the bottle and the cork, etc., thus arriving at the selling price. I said, what do you do with your overhead expense? He replied that he didn't have any, that he charged all labor that is directly confined to the manufacturing against the cost; that he used his clerks to help out, to bring down stock and sometimes, if he had a wholesale order, he used the clerks in the retail stores, etc., etc.

"Many merchants are doing the same thing to-day—carrying a burden of expense that they are not charging to any department of their business.

"The other day a manufacturer of automobile bodies sent me a bill for \$28.00 for making a little leather cushion for my chauffeur's back. I asked him why he charged \$28.00 for it when I could buy the same thing for five or six dollars in any department store. (The manufacturer figured up the material and labor cost which came to about \$10.00, and the balance he explained was for overhead.) That fellow isn't very far off at all. He is doing an individual business and has a large overhead. He must have a lot of waste time in his plant. He undoubtedly is careless about his lights, etc. He apparently has had at sometime one of those 'efficiency men' checking up expenses of doing business.

"I brought this out to illustrate the fact that there are too many retailers and manufacturers in business who are going along figuring their expenses upon what they see set down. The true expense is the total of all items necessary in conducting a retail drug store—labor, rent, light, heat, clerk service, janitor service, window trim, the purchase of signs, or the newspaper advertising done, paper, twine, glassware at soda fountain, and so on, through the numerous things which total the expense. There is not one druggist in a hundred in this country who gets a total together yearly and looks it squarely in the face to see just what his position is, and he ought to do it monthly.

THE INVENTORY.

"I am president of a Fire Insurance Company and it is almost a daily, and I know it is a weekly occurrence, to have a fire in a customer's store, where we find that no inventory had been taken since the man started in business, or else he did inventory on the 31st of last December to the 10th of January, all the time doing business, which means that they didn't get an exact inventory. This is an almost daily occurrence. It is a different thing, as I have found from experience, to have your own store managers and clerks take inventory and have it right. We never got a correct inventory until we established inventory crews and actually shut down business while the inventory is being taken and then adjust the inventory to the amount of merchandise sent into that particular department. Until we did this we did not get at the 5 percent.

"Now these are just a few of the rudiments that have brought about modern merchandising. With these have come the development of the chain stores. The one-price system started by Wanamaker brought the one-price system to the Atlantic and Pacific Tea Company, with its tremendous developments. It extended to the 5 and 10 cent stores and from that it went to the cigar stores, then it went to the numerous grocery stores and now into the drug stores. These, of course, are the larger chains.

"The chain store system has been said to be a fallacy. A student of merchandising told me that the chain stores were doomed to fail; that they could not possibly succeed because they would break of their own weight. Now my personal experience is quite the contrary. The more weight you have, the more you have to work with. The stronger the organization, the more men you have to gather around you from whom you can select those who are to carry out your plans. Their development is only limited by the ability to secure the men to see the proposition through.

"Therein again modern merchandising is doing a world of good. It isn't always the man who is the most ethical or has the most complete knowledge of the drug store that makes the best success in operating a retail drug store. It is the man who is most capable of handling and getting from those working with him all the good in them. I do not mean all the hours of work, but all the ability. One who can shift his help around until he has a smooth working organization.

(Mr. Liggett then told of a visit to a western city to see why a certain store was falling down. Upon entering the store he found that the manager was out, and the assistant, when he found who his visitor was, greeted him in a loose, careless fashion, which explained the loss of business, namely, lack of back-bone in the store.)

"So you see that modern merchandising has got to take into consideration the human element.

PERSONALITY IN BUSINESS.

In answer to a question as to whether personality played an important part in competition, Mt. Liggett said:

"It is contended that the chain stores are such severe competition that the retailers are driven out of business. Four and two-tenths percent of the failures have been found to be due to competitive methods and 34 percent due to lack of business management on the part of the retailer. In the largest development of chain stores personality is worth a great deal in the drug business. It goes back to the question of service, the question of training the retailer gives his clerks, his standing in the community, etc., and attention to his trade. It doesn't always imply, as some people think, that they cannot be too friendly with their customers because they will ask to be trusted, but simply means a fixed principle of doing business, and that establishes personality as much or more than any one thing. There is no doubt about the fact that where personality dominates in a community that the chain store has the hardest kind of competition to overcome."

OVERHEAD EXPENSES.

Regarding overhead charges and the percentage cost of doing business, he said:

"These varied with the condition of the business. We have stores in New England that make 31-32 percent gross profit. We have stores in New York City that will make 37 percent gross profit. We also have stores in Toronto, Ontario, that make 22-23 percent gross profit. Expense accounts run in the neighborhood of 20 to 30 percent. In New England States, where gross profit is low, we have a very large volume of cigar business which is handled on a very low margin of profit. Drug stores have had control and still have control of the retail cigar business in New England. Larger cigar stores do not exist in New England like in New York. We average in cigar business somewhere in the neighborhood of 9 percent, but sometimes it runs 20 and 25 percent of the volume and with so large a volume on a small profit it pulls down the total gross profit. Why is it higher in New York? Because we have less cigar business, and more soda business, which has a larger profit. In the final net profit of a store it does not matter if we have a low margin in New England or a high margin in New York because where we have a high gross profit it costs us 16 percent to clerk a soda fountain and it cost us 4 percent to 5 percent to clerk a cigar counter in New England. Therefore you can see where you find a larger margin of gross profit you invariably find an increase in expense. If you take an average in the entire United States you will find the gross profit of the retail druggists in the neighborhood of 35 percent, and let me say right here, it is going down, down, right along. A recent analysis of the Pharmaceutical Department of the United Drug Company proves this. We found, after investigation, that a druggist in Atlanta was getting 60 cents for a 4-oz. prescription as an average price. After going over a period of five years we found that he now filled the same prescription at an average of 50 cents. Notwithstanding the fact that the cost of the ingredients has advanced, they are getting less for the prescription.

"The expenses of the retail druggists in this country will show between 26 and 27 percent of their sales and this does not include the question of investment and interest charges which we take into consideration in the chain stores. It does not include depreciation. One percent per month of the investment should be charged to depreciation and unless this is done the merchant is fooling himself. The retail merchant should speed up turnovers as fast as volume goes up. One of our drug stores turns its investment fifty-two times a year. Everyone should have a schedule of turn-overs for each department in the store.

"In the question of buying, more men go broke when over-buying than those who under-buy. It does not pay any man to buy any more than is necessary to operate his store. Four times a year is the least number of turn-overs you should consider.

"It pays you to take care of windows well and never put in a window display without the price on every article of merchandise."

Mr. Liggett explained that the chain stores did a great deal in bringing back the sundry and toilet goods business to the drug store, which had been gradually slipping away from them.

Mr. Liggett said, "that the one-cent-sale idea was started in 1914 during a period of business depression, and was the result of efforts to hold volume; that there is nothing in the world that will add to the inventory like a one-cent-sale and at the same time it is one of the biggest business boosters he had ever come in contact with, and productive of good returns if run occasionally."

MODERN DRUG STORE ADVERTISING.

BY H. P. HYNSON.

The following address was delivered before North Carolina Pharmaceutical Association several years ago. It is just as applicable to-day as then and presents the subject of Modern Drug Store Advertising from a pharmacist's viewpoint and valuation. While it has been the intention to print the address before now, the opportunity did not present itself as it does for this issue of the JOURNAL, wherein an article on a related subject appears.—EDITOR.

"The shortest comprehensive definition of the word 'advertise' is: 'To divert or direct the attention.' The calling and holding of favorable attention is good advertising. The calling and holding of unfavorable attention is bad advertising; many of us are doing both unconsciously.

"Let me assure you that the very best advertising, especially in the retail drug business, is done without a trace of color or a drop of printer's ink. I believe that great harm may be done and much money wasted by the injudicious use of illustration and printing. Practicing cleanliness, order, system, true aesthetics, consideration, truth and honesty is the kind of advertising in the drug business that brings best results at the smallest cost. I could better tell you what I mean, I believe, by quoting freely from a recent address on this subject by Mr. J. Thomas Lyons, Advertising Manager of the *Baltimore News*, one of the leading dailies of this country. I was greatly encouraged to find that Mr. Lyons set forth my exact views upon this subject, as can be shown by the agreement of