are the implications wrapped up in the picture of your possible future as pharmacists.

CAPITAL—ITS RELATION TO BUSINESS.*

BY H. S. NOEL.

The amateur writer usually prefaces his composition with a dictum. The wide use of the world "capital," assigned to me as a subject, caused me to seek the dictionary, not in an effort to define the word but to determine, if I could, what liberties might be taken in covering a topic so broad in scope and character.

I find that capital refers to the amount of property owned at a specified time or used for business purposes. It is commonly referred to as an aggregation of economic goods used to promote the productivity of other goods. It is, therefore, at once patent that in such brief time as I have at my disposal only certain phases can be touched upon. The subject is a fascinating one; before starting a study of its ramifications one wonders what he will say, and after he becomes well launched he wonders where to leave off.

Capital in its relation to pharmacy is in no respect greatly different from its relation to any other business. Advertising is capital, good will is capital, a good clerk is capital, the appearance of the store is capital, service is capital, personality is capital, a good window display is capital. Only a few days ago I learned of a doctor named Fuller who passed to the great beyond and had placed on his tombstone a very fitting epitaph: "Here lies Fuller's earth." The doctor was capitalizing his death.

Most of us look upon capital as closely related to money, and yet character is more closely related to capital by far.

It is generally conceded that credit is the keystone of the arch—success. Credit is capital. Good business men know this and pride themselves on the maintenance of commercial integrity. The man who plays fair with the public and bears a reputation for integrity has an investment beyond price. The unsuccessful, the unprogressive have a hard time when credit is needed unless they can show evidence of character, ability or money. But character comes first. Given two men of equal financial resources, and other things being equal, the man of the strong character will always survive the conflict of competition and financial stress. Why? Because those men who are in a position to be of help to him understand the value of such assets as fixed principles and business integrity.

George Eliot says: "Our deeds determine us as much as we determine our deeds."

Page, in *Trade Morals*, says: "Business men require character as the chief criterion of credit."

The retailer's banking relations have greatly changed. In fact deposit banking is comparatively a modern institution. The earlier exchange of commodities was accomplished without money consideration. One class of merchandise was merely exchanged for another. Retailing has changed in other ways. Time was when long credits were in vogue. Of this was born the cash discount. Our own

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government at one time allowed four years' credit for land sales and from a year to a year and a half for custom duties.

Before the Civil War retailers made periodical trips to market. Long credits took the place of the advantages which retailers now look for in quick turnover. Bad debts were frequent, but profit margins, of course, were large. Inability to collect accounts was frequently the cause of bankruptcy.

Then came the traveling man, who made little pretense of selling goods. His visits were for the purpose of investigating credits, to make collections, etc. Manufacturers found such representatives expensive. Later came the mercantile agency, at that time unwelcome and hailed as an imposition. It was many years before the mercantile agency found favor in the eyes of merchants.

There is further evidence that we cannot refer to capital as money alone. Merchandise is capital. From the exchange of merchandise was born the money transaction—as a convenience. It is interesting to note the evolution of commercial affairs because of the relation it bears to present day methods of buying and selling. It was during the uncertain period after the Civil War that extended credit became a gamble, and the producers, anxious to secure business, yet fearful of heavy losses, began the practice of cash discounts for prompt settlements. This condition of affairs ramified into discounts for payment in ten days, thirty days and often more, and then inducements to buy in quantities through offering free goods. It would seem that the producers, anxious to maintain output and profits, were eager to dispose of the goods to the retailer regardless of the latter's ability to dispose of them. And the resulting effect on the dealer was to load his shelves, tie up his capital and involve his credit and profits.

Many manufacturers realized this and established the one-price to all plan regardless of the quantity.

There is no gainsaying the advantages of the quantity deal to the buyer who can readily turn his capital invested into cash. Unfortunately, one of the great factors that retards the progress of retailers is the lack of buying judgment that causes them to yield to the temptation of free goods and extra discounts at the cost of good credit relations with their banks, due to inability to meet current obligations, due in turn to capital tied up in stocks that not only are without profit but in time cost money to maintain.

Stocks represent capital, but are not always readily convertible. With a limited amount of cash on hand it may become necessary to borrow money in order to maintain stocks or to meet current obligations. Immediately the interest charges become a burden against stock on hand in the form of extra costs. It takes but a short time to do away with buying advantages that looked profitable when legal rates of interest are accruing against the merchandise. The returns from capital depend largely upon the use to which capital is put.

It is only in recent years that merchants have come to realize the great value of turnovers as a source of profit. Merchandising evolved through a period of poor transportation, faulty distribution, extended credits, cash discounts, free goods, etc. We are now entering into the period of a better realization of the profit-making possibilities of quick turnover. Merchants are coming to see the opportunities in range of stock rather than quantities. As distribution improves and replenishment of stocks makes it more practical, success is being measured on

the basis of how much it is possible to make one dollar earn all by itself in a given period of time. Turnover is the method by which the question is solved. Actual profits come only when goods are disposed of.

Service to the public, profit to the enterprise, may be said to be the two chief ends of business. No special skill is required at certain times to conduct business at a profit, if conditions are right. It is very probable, however, that at no time in the history of the drug business was greater care ever required than at present.

The National Association of Credit Men advises its members to study turnover. Economists everywhere, men of national reputation, strongly advise hastening the turnover as a source of profits. Druggists have told me that they believed in it, but in buying in comparatively small quantities they so frequently found themselves short of stocks. If that be true, there is something wrong with the system; such stores lack efficiency, and the condition should be remedied. As well say that one knew the windows sold goods, but it was such a bother to trim them.

Manufacturers are studying efficiency, how to make departments produce to capacity. Many of them find that turnover, the art of keeping capital working to the utmost, is their only salvation. In other words, efficiency is but a means to an end that will enable them to produce products that will produce capital, that will produce profits quickly and repeatedly. It is up to the retailer to do the same and make stocks produce the exchange medium, cash, which will, in turn, produce profits as often as possible. He may succeed fairly well without working his capital hard, but what business man is not in business to get all that he can out of it legitimately?

A wholesale salesman with an eye to the profits in the drug business recently remarked that any investment in business should not exceed its quarterly receipts. It is a good thought to retain but a modest statement because it only represents three turnovers a year, not at all what might be called a fine showing, but probably near the average. It is well to remember that the only right way to figure turnover is to divide sales *at cost*, not at selling price, by the average amount of stock on hand for a given period of time.

This salesman had listed for sale a store with receipts exceeding $36,000. The price asked for the store was $6,000. We can easily determine therefore a turnover of almost four, granting that sales at cost were 65 percent of the total volume and the average inventory $6,000.

By contrast this same wholesale salesman visits a retailer who boasts the largest stock in that part of the country—over $25,000. Annual sales will not exceed $60,000. This retailer buys extravagantly. He does not find it necessary to watch stock very carefully. He throws out his chest, talks big and buys big, makes a showing. Quite recently, according to this wholesale salesman, this retailer purchased five gross of a certain product, which it was rumored would be hard to secure later on. He saved 15 percent on the deal. He enjoys a turnover of less than two while the other druggist takes a profit on his capital invested almost four times a year. The first makes 60 percent on his money invested, the second makes 24 percent. A Rhode Island druggist said to me one time, "Yes, but at ten percent the man with the big store made a net profit of $6,000 on his sales while the other only made a net profit of $3,600." I said, "But look at the

difference in the capital invested." "Yes, I know," he replied, "But just the same the big fellow made more."

Somehow it reminded me of the newsboy who was told by a millionaire in a haughty manner to get out of the way and not to make so much noise. The street urchin replied in this way:

"You big stiff," he said, "you needn't be so ugly about it. There ain't so much difference between you and me. You're making your second million and I'm starting my first, that's all."

This observing wholesale salesman tells of a retail druggist in his territory who was for a long time the director of a bank. This druggist was a large buyer. Four years ago he was elected president of the bank. Two years ago he asked this salesman if he could manage to call once a week. He said he had learned that it paid big returns to buy oftener and not so much at a time. At present this druggist's orders are very small in size and yet the wholesaler's books show that the yearly volume increased materially. Why did he do it? Short of capital? No: He confesses that his experience in banking has taught him how to make money with money. This banker druggist learned that his bank had a thirty, sixty, ninety day turnover, and he saw a chance to try the same principle out in the store and he did.

A new store often starts with a limited amount of capital. Business prospects may seem good. The ambitious proprietor makes a big effort to capitalize every opportunity to increase business. At the end of the first year he will have a time to take inventory and to study the results of his efforts. The first twelve months roll around. His credit at the bank is sound. He has had occasion now and then to try it out. He has borrowed money to discount bills. His training as a clerk in a well-managed store serves him well. But the inventory does not appear as flattering as he had hoped it would. The young proprietor begins to realize that he has not been doing a capacity business. That is he could have handled so many more thousands during the year without proportionately increasing overhead expense. Nystrom in "Economics of Retailing" refers to this in a discussion of three phases of storekeeping. The first is that of increasing returns in proportion to outlay, the second is the stage of constant returns and the third that of diminishing returns. There is little satisfaction to be derived in making sales that cost more to produce than the gross profits amount to.

Authorities agree that the turnover is the source of the biggest profits. Strange as it may seem, however, comparatively few retail druggists are alive to the profitableness of the turnover. True, many retailers buy in small quantities, so also do retailers carry dead lines. The small orders are not always due to skilful merchandising ability by any means, but to lack of demand for the goods; that is, the druggist knows up to a certain point that it will be foolhardy to buy more because the product will get stale or old or soiled or totally unsalable. Let the smooth salesman come along with a novelty and promise of free advertising and a 10 and 5 percent discount looks like a small gold mine. The thought I would convey is that while there may be a vague idea of the value of capitalizing turnover, quantity discount appeals immediately, is a great temptation and the smaller the dealer the greater the temptation. The quantity discount road always looks

inviting; the quick turnover path requires effort and buying judgment; it takes time to demonstrate its practicality.

Some one recently related to me the story of a country merchant who hibernated in the winter and enjoyed himself. In the summer the vacationists kept him fairly busy. His town became quite a summer place in time and someone persuaded him to do a little decorating. Among his art purchases was a Japanese lantern which he hung in the middle of the store.

A woman customer saw the lantern, admired it and asked the price. The dealer said he hadn't bought it to sell, but he guessed he could get another. The woman took the lantern; he bought another. A customer purchased the second lantern. The third was disposed of, and the fourth, and then the merchant lost all patience. He stocked no more. A visitor inquired for one of the pretty lanterns. The dealer said: "Yes, I had 'em, but I ain't going to get any more of 'em. Th're too durned hard to keep in stock." That attitude seems true of many retailers. Ordering six months' supply saves the work of reordering, repricing, etc. I used to wonder when I first started in the drug business why we did not purchase everything in gross quantities. It would have saved me a whole lot of work.

I know that many clerks feel that way about it, and not a few proprietors give little thought to how long it is going to take to dispose of a quantity that they were induced to buy to effect the tremendous saving of a dozen free with a gross order. I talked with a druggist recently who had taken advantage of a soap deal. He had enough to last a solid year and he boasted that he had been able to get a good price. He never for a moment gave the matter of turnover a thought. I talked with still another druggist who was loaded up on stationery under very similar conditions. From questions I put to each one of these retailers I know full well that each of them felt that he had acted the part of the shrewd buyer, that he would be able to make a window display and have sales and make bigger profits and be spared the bother of ordering and reordering from the wholesaler.

Occasionally one meets a small retailer who is extremely shrewd in such matters, who buys the quantity, gets liberal discounts and, fully aware of his profits from turnover, gets rid of the lot in a store in which one would never think it could be done. But these druggists are exceptions, as investigations plainly show.

The thought that is uppermost in the eyes of the chain and the cut price stores is this same idea of turnover of stock. They find it possible to narrow the profits down almost to a vanishing point, yet because of rapidity of turnover they are able to make good profits. And not only do they derive them from the turnovers, but they have the advantage of all of the concessions of quantity purchases. And to be able to buy in quantities is a fine idea—provided, always provided the turnover can be maintained. Ask the successful buyer, the big business man and the auditor. They all agree as to its advantages. The question is an individual one; and every retailer should ask himself whether or not it is a good thing for him—before he buys.

Failures in the drug business are generally thought of as bankruptcy cases. As a matter of fact, this is not true. Any man who embarks in business and is unable to make a salary commensurate with his ability, plus a fair rate of interest

on the capital invested is literally a failure. Numerous as they are, they are not listed as such.

When a druggist defrays his overhead expenses out of his capital he is headed in the wrong direction and it is only a question of time before he will come to grief. Many unsuccessful merchants realize this and get out from under before the crash. Since they do not, as a rule, own the ground or building upon which the store is located, getting out is a comparatively easy matter, made more so by reason of the fact that they have very little invested in the first place.

It so happens quite frequently that failures of this kind not only involve a loss of all that a dealer has invested but a part of the whole of capital loaned him and represented by stocks and fixtures.

Mercantile agencies show only the failures in which creditors are losers. Comparatively few retailers reach that stage of failure. They either sell out or are taken over by a wholesaler, who probably has nursed the account along with an eye to the final outcome. The part that wholesalers play in keeping some stores going is a heroic one, and it frequently happens that what apparently is a failure turns out to be a success due to change of management. A prominent wholesale druggist recently remarked that in the past it was not an unusual occurrence for a wholesaler to supply financial backing anywhere from one-third to three-quarters of the amount involved. Due far more frequently to the human element involved than to the store location it often happens that the store will change hands two or three times before being put on a self-sustaining basis. It has been clearly demonstrated that the judgment of the wholesaler in so far as location is concerned is seldom wrong; but to find proper management, good buying judgment and druggists with a fundamental knowledge of business system, is not an easy matter.

In these days the concessions made by wholesalers are not as extensive as they formerly were. The wholesalers' field, however, is still one of advisory service, and many a young druggist owes a big debt to some wholesaler who has nursed him along through trials and business difficulties until he was able to do for himself. One of the chief requisites that the wholesalers ask of customers to whom they grant favors is sound character and business integrity. It, therefore, comes home to us again that character is capital.

A banker confirmed the wholesaler's remarks in speaking of the willingness of bankers to do everything possible to assist merchants in their struggle for success. The banker cited instances of service rendered customers who needed help, and for the most part it will be found that the banker will be eager to help the business man who can prove his integrity and right to the concessions that sound character warrants.

Bankers regret to see a business man fail. To wholesalers bankruptcy is a source of disappointment. They would much prefer to extend credit than to close a store. There is always hope for a store that keeps going. Once it closes it ceases to have potential possibilities.

Both wholesalers and bankers whom I have interviewed on this subject lay stress upon two great principles that are helpful in successful merchandizing: The first is the value of sterling character and business integrity and the second

the importance of a knowledge of business system and with it a definite comprehension of the possibilities of turnover.

Buying is an art; the man who can not resist the wiles of smooth salesmen, who finds it impossible to say "No" either because of innate inability or because of a desire to effect what he believes to be economies, is not a good merchandising man. There is no greater source of profits than those that have their source in capital wisely expended. There is no more rapid road to failure than the one traveled by the unwise buyer. With profit margins diminishing, quick turns are the only solutions to the problems of cut-price competition and rising markets.

Sammons, in his book "Keeping up with Rising Costs," says that in hundreds of successful stores investigated, records of turnover, sales and purchases are recorded. Every one of these stores knows its limits, beyond which it is unsafe to buy. They capitalize past experience, not by guess work but by actual records. The outlays are held down to the most profitable figures; the stocks are restricted to a prescribed number of turns.

I am told by bankers that it is this lack of specific information that handicaps the small retailer so badly. The place for profits is in the cash drawer. Time and effort are worth while in perfecting one's self on a subject that will teach how to foster the growth of profits and to stabilize stocks to a point consistent with quick turns.

There is such a thing as overdoing this question of turnover. We can afford, however, to pass it with a mention because it is not the fault of the average retail druggist.

It is not an easy thing in a discussion of this kind to clarify certain points, due to the fact that they are so closely related to other phases of storekeeping, which lack of time does not permit us to take up. It must be taken for granted that certain other conditions obtain; it must be conceded that the druggist is aware of certain other fundamentals necessary to success.

If it seems to you that I have developed my subject along a single line, it is solely because I much prefer to deal with a few basic ideas specifically, than to indulge in generalities and leave with you only a vague notion of what it is all about.

There is seldom anything new to be said on a subject of this kind. There is always food for thought, however, that may bring to the fore the necessity of changing methods or the need of greater vigilance in safeguarding certain business assets.

It is given to a very few men to cash in on themselves to the full extent of their latent abilities. The greatest liability that any merchant ever assumed is that of complacency. The men who have achieved the greatest successes are those who always looked ahead to the possibilities of greater things even after success, apparently, was theirs.

I have never ceased to admire the skill that caused a pile of bricks, sand, lime, steel and glass to become a beautiful building. The designer is the man who deserves most of the credit. And it seems to me that the creative force necessary to build a big business where there was only a small business, or none at all, is equally admirable. Only in building a business it is not the merchandise I see in the store front, nor the fixtures—it is the man back of it all.

A man's store only reflects the man.

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TO MAKE ALCOHOLIC PREPARATIONS UNFIT TO DRINK.

The Bureau of Internal Revenue has announced that beginning December 1, and during the week following, a series of conferences will be held between bureau officials and the manufacturers of certain alcoholic preparations to devise means to make unfit for beverage purposes such of them as cannot be legally manufactured if found suitable for drinking. The inquiry will be directed particularly to include barbers' supplies and perfumes, liquid medicinal compounds and flavoring extracts.

The enforcement of the provisions of the wartime prohibition act was restrained by a temporary injunction issued by U. S. Judge Arthur L. Brown, Rhode Island, November 12.

L. A. Seltzer, Detroit.

F. W. Nitardy, Brooklyn.

C. H. Packard, East Boston, Mass.

The Three Presidential Nominees of American Pharmaceutical Association for 1920–21.