THE PROFITS IN TURNOVER.*

BY H. S. NOEL.

I am in no way responsible for the saying that honest opinions, like homely women in street cars, stand the longest, but I will go on record before this audience as one who has honest opinions about the conduct of the retail drug business. Whether or not these opinions of mine are fit to stand, you are to be the judges.

I am certain that my intentions are of the best and that what I have to say will appeal to you in a different manner than the preachings of a young colored minister who was long on war talk but slow to enlist. He proclaimed loudly his intentions of helping to win the war and wound up his prayer one Sunday morning in this manner: "Use me, Lord, use me—in mah advisory capacity."

A great many men who have been in business for a number of years show a tendency—an unfortunate tendency I think—to crystallize. They resent innovations; they are satisfied to let well enough alone and refuse to meet the demand of changing business conditions. I will not go so far as to say that they are always failures or doomed to failure eventually, but I do say that their chances for independence and money making are materially lessened. Some men and some stores are money-makers despite crude business methods, a lack of accounting methods, inventory or semblance of system of any kind. They remind me of the farmer in Arkansas, whose house was built on posts. He put a picket fence around the house and kept hogs underneath his home. When a traveler asked him if he thought the practice a good one and in keeping with modern ideas of sanitation, he remarked that he had been keeping hogs that way for fourteen years and was yet to lose a hog.

Up in New England, in the town where I was born, there is still in existence a small drug store run by a man who in my youth was considered an excellent pharmacist. In his store will be found the same fixtures and show cases and a part of the goods that were there forty years ago.

Time was when this druggist made a good living. He is respected by all and is a member of the local board of health. He has no business these days, however. Half the time the store is closed because there are no customers. If stock grew in value with age he would now be independent. Changes in business may come and go, but this druggist goes on doing business just as he did forty years ago. The methods by which men became successful then are not those of to-day, however, and he has been left behind in the march of progress.

The time was when inventory once a year was considered often enough and by many too often.

In the brief time at my disposal I cannot hope to say much about the value of the inventory, departmentizing business, selection of side-lines, the value of advertising, etc. The time allotted is all too brief to treat of one single phase of merchandising which I have selected to talk upon. It is the importance of turnover and the part it plays in the success or failure of the retail drug business.

In debating it is customary, in order that the judges may have firmly fixed in their minds the exact meaning of expression used, to devote a part of the de-

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bate to a definition of terms. Talking, as I am, to an audience that is quite familiar with the expressions I shall use, there is but one term that we must think alike upon if I am to be understood by all.

What do we mean by turnover?

It is an expression that is commonly used with reference to the number of times in a given period of time that the investment in stock in the store is turned into cash. Perhaps we should say that turnover is the annual business of a store, and the stock turns the number of times stock is turned into cash. For our purpose, however, let us assume that by turnover we mean stock turns, and by stock turns—turnover.

There are three ways in common practice of determining the rate of turnover; but only one real way from the auditor's standpoint.

1. Divide the total sales by average inventory at cost.

This method has little to commend it as a part of the sales represents gross profit margins.

2. Divide sales at selling price by inventory at selling price.

3. Divide sales at cost by average stock on hand at cost.

The third method is to be preferred by far.

Let us assume that a druggist does a business of $18,000 a year. Let us further assume that his gross profit is 35 percent and therefore that the cost of the goods is 65 percent, or $11,700. It is a very easy matter then for us to determine that with an average investment in stock of $5,000 this druggist has turned stock a little better than twice.

It is very apparent that the greater the sales and the smaller the investment required to make those sales, the greater will be the profit. Anything that tends to increase sales without increasing investment hastens the turnover.

As long as the maximum sales can be made on a minimum investment without increasing the cost of producing the business materially, we may safely conclude that the problem of turnover has been solved.

While it is claimed by some that increasing the turnover increases the overhead expense, there are numerous and specific examples to the contrary.

In Albany, New York, there is a drug store that has a very meager stock in point of quantity. Most of the needs of this store were supplied by a nearby wholesaler from whom the store received goods twice daily by delivery and from one to five times daily by messenger. The annual business of this store was around $12,800 a year. Figuring the gross expense at 35, the cost of goods was approximately $8,300, or 65 percent. The average inventory was never above $1,500, which gave this store then a turnover of better than five.

In a small town in Indiana, a druggist died leaving only a small life insurance and a drug store with a stock valued at $2,300. The store was a problem to the widow. She went to a wholesaler for advice and he said: "If you take the money you get out of selling the store you will get $138 a year." He advised that she keep the store and get a man to run it.

Through the efforts of the friendly wholesaler she secured the services of an honest conscientious clerk. He came on a profit-sharing basis—this was before the war—the woman and the clerk each drew out $75.00 a month. By agreement the net earnings were to be divided between the proprietress and the clerk.

For two years the total income has been \$2,400, or \$1,200 apiece. A striking fact is that at no time has the stock inventoried more than \$50.00 above the original investment and at one time was \$27.00 less.

This profit from both the stores I have just mentioned was made possible through quick turnover of stocks which in turn was made possible through buying as needed of a nearby wholesaler.

There are several ways in which druggists can meet the problems that confront all merchants in war times. One important method is the curtailment of stock in an effort to hold the investment as near as possible to normal in order to avoid tying up too much capital without extending profits, and the other is to endeavor at all times and in all lines to make use of the turnover by converting capital into cash and making a dollar earn profits as many times as possible during the year.

Thus we determine that frequent converting of merchandise into cash, made possible by buying often and as needed, is one big factor in promoting turnover. We may well consider several other important factors that contribute to the desired end and have an important bearing on turnover: nearness to a wholesaler or other source of supply, carrying advertised lines for which a demand has already been created and which, therefore, require less selling energy, and retail drug store advertising.

The great difficulty with most druggists, in my opinion, is not an unwillingness to systematize business, but a lack of knowledge of the best means to obtain the desired facts. There are far too many druggists who guess at what the net profit will be and at the cost of doing business. Upon inquiry I find that many retailers base profits on net costs at the time of purchase and on total sales at the end of the year. These druggists then wonder why it is that the bank balance does not jibe with the profits shown on paper. I find upon investigation that druggists who pretend to have a semblance of system very frequently do not figure correctly. They omit the addition of a fixed sum for themselves in overhead and almost always figure overhead too low through omission of certain expense items, that properly belong to overhead classification. The result is, of course, a high percentage of profit on paper and a small credit balance on the check book. The money is gone but unaccounted for.

My first job in a drug store included, among other humble tasks, the care of a steam-heating plant for a three-story business block. I'm qualified with a license as a pharmacist and qualified without a license as a fireman.

I visited the cellar five to ten times daily in cold weather and was reminded when the other tenants had cold feet by code signals on the steam pipes. It seemed to me that I hadn't a friend in the block. Someone was continually knocking. I learned after a time to keep my eye on the gauge more than on the coal shovel and the result was that an indication of five pounds of steam on the gauge caused me to consign all the tenants to warmer climates without visiting the coal pile. An accounting system is to the druggist what the steam gauge is to the boiler. Both are quick, sure indications, and labor savers necessary to the successful operation, respectively, of a steam engine or the drug business.

Imagine trying to run a railroad engine without gauges. It would be a matter of guesswork you will agree. And so it is with the drug business or any other business and particularly so in such trying times when the universal cry is full-speed ahead. It is a hazardous undertaking to attempt to man the throttle without a competent engineer and a guide for him to work by.

Hugh Chalmers once made the remark that what one man can do others can do. This might lead us to believe that what is possible for a big store is also possible for a small store. It might delude us into thinking that one man was always endowed by Nature with as much gray matter as every other man. We know that literally this statement is not true, but, on the other hand, we do know that both men and business conditions are capable of change and improvement.

William H. Ingersoll, who was chairman of the cost accounting systems and retail service committee of the Associated Advertising Clubs of the World, is authority for the statement that the large store has become large because it could take advantage of the possibilities, while the small store needs help and must be raised to an accurate basis of knowledge of its own business.

Let us not make the error of thinking that all the advantages are with the big store. True it has the advantage of capital but in system and accounting methods the small store has only to reach out to equal the large store's efforts. The big purchasing power is not so great an advantage as many would have us believe. Quantity "buys" to secure better prices necessitate ware-houses and storage quarters and quick turnover. On the surface of things it appears that the chain stores and big buyers have all the best of it. They go around the wholesaler and take his profits and are thereby in a position to sell cheaper and still make greater profits. This idea is largely fallacious.

In the first place the quantity purchases seldom bring better than 10 or 15 percent cash discount. In order to make buying such quantities advantageous several stores usually share in the deals. This means drayage, repacking and frequently storing, and the overhead of a wholesaler is practically tacked on to the cost of the goods before they are sold. The great advantage that the chain store has in selling the merchandise at a profit is one that is open to any retailer and that is turning stock frequently. The chain stores that can purchase in quantity with a frequent turnover have an advantage. There is no denying it. The message I bring to smaller retailers is the fallacy of attempting to imitate the chain stores in buying as a means of meeting their competition.

The best method of accomplishing that end is to disregard their buying power and stick to the attempt to convert small quantities of merchandise into cash as frequently as possible during the year. If you can turn your stock often enough you can meet their prices without loss and with as great a profit as they enjoy.

When the chain store buys a $500 order of ten-cent articles and disposes of the entire lot at a profit of a penny or two on the item and reinvests the money in the same or other merchandise within thirty days' time, they are traveling at the rate of twelve profits a year and making good profits. You cannot hope to beat that kind of competition. They are not doing this as often, however, as you think they are.

The overhead expense is heavier in proportion in the chain store than in the small store. And, of course, the volume of business is greater. But the retailer who avoids the tempting discounts and sticks to the "buy-as-you-need" plan will do more to stimulate healthy turnovers and secure handsome profits than he can possibly secure through contracts and deals.

There is just this much in favor of the quantity deal. If you can save five or ten or better discount on a quantity that you can conservatively estimate will turn into cash within sixty days, well and good. Beyond that point quantity deals at any reasonable discount are expensive bargains. Druggists are slow in realizing these things apparently because there is evidence on all sides that the practice is much in vogue.

My attention was recently called to the store of a druggist in Texas, who, six or seven years ago, was apparently doing a successful business. Along came a crop failure two seasons in succession. Cash business shrunk; collections were poor. He had always been a so-called big buyer with an eagerness to secure a better discount and a quantity price above every other consideration.

An extra five, long terms, easy payments, trade discounts, all appealed to him. His shelves were loaded with goods that moved slowly or not at all, goods that were least in demand he always had in stock. He had very few of the more popular products because he had reached a point where the wholesaler demanded cash for all purchases. The manufacturer who gave him five and two and patted him on the back in big-buyer terms had the inside track.

Investigation showed that he had exhausted his resources. He had money tied up in stock; people owed him; creditors demanded cash—the one thing he did not have. He owed the wholesaler $2,500 and his banker over $2,000, all of which was past due. He asked the advice of a traveling man who told him there was a slim chance for him if he would take it. The retailer was advised to ask the banker and wholesaler to keep creditors off while he confined his purchases to quantities as needed and deposited daily sales and collections with the banker.

The plan worked. He bought in small quantities almost exclusively through the wholesaler. It took two years of hustling to get out of the hole and be a free man again. Yet, do you know that even to-day one of the hardest tasks for this druggist is to resist a salesman with an extra discount offer or a five-gallon price where a quarter pound would mean a thirty-day stock? That man holds a dime up close to his eye and hides the dollar profit within reach of his other hand.

When such men as J. Ogden Armour, doing a business of over 500 million a year, William H. Ingersoll of dollar watch fame, and John A. Bush, president of the Brown Shoe Company, St. Louis, warn merchants of the danger of overstock and the profits to be made from quick tuning stocks, it would seem that no better authority could be found.

Armour, writing in *System Magazine*, makes it very clear that the basis of profitable business is active money kept constantly turning; that it is rolling capital that earns the profits.

The way to increase the profits on a rising market without putting the retail selling price so high that people will not buy is to make more sales, or make small profit so many times during the year that the very fact of itsmultiplying will increase the profits, says Mr. Armour in substance.

Armour believes in quick turnover, even to a point where the margin on a dollar is in fractions of a cent. The turnover is maintained by intensive sales methods, quick distribution and sound credit.

William H. Ingersoll, of Robert H. Ingersoll & Bros., says that the small store needs a training school that it may occupy in its more circumscribed influence a position equivalent to that of the bigger enterprise in its bigger sphere.

John H. Bush tells of a Texas merchant who started in the retail business with a capital of $750. He made a connection with one shoe house, one dry goods house and one hat house as his source of supply. In five years he was doing $300,000 a year gross. His first shoe purchase was for $350. In 1916 his Fall order was for $12,000.

Another merchant in another town scattered his orders. He divided his shoe business among ten firms. He carried a $10,000 stock and developed a "specialty habit." He had annual sales of $12,000 and made no money. A few years later he changed his methods. He installed a stock of $2,800 from one house. He did a gross business of $16,000, enjoying six turnovers and an excellent profit, of course. His orders are small, forwarded every two weeks.

These are not theories, they are facts from real life and experience. If other businesses are capable of being handled in such ways why not the drug business?

There are in the United States approximately 47,000 retail druggists. Of these over 25,000 are rated from $3,000 to $10,000 and approximately 14,000 from $10,000 up. The remainder fall below the $3,000 class. The majority then are of comparatively small capitalization. It is, therefore, all the more important, considering the wide range of stock carried by the average druggist that the merchandise be kept turning. The longer goods remain on the shelves the more expensive they become. Ten items that move slowly retard the turnover of the whole stock at the end of the year. It is only by the exercise of watchful care in buying that the retailer can hope to present a satisfactory turnover figure on his inventory sheet.

I have made a careful investigation of business magazines and books by well-recognized authorities in a great many lines of business, and everywhere, as never before, the retailer is being advised along one single line of thought and that is to systematize business, watch the inventory and buy carefully, with the dominant idea in mind that the rate of turnover on proposed purchases is more to be considered than quantity discounts. If proper records are kept it is an easy matter to determine the rate of turnover. Without the right accounting methods, doing business resolves itself into a matter of guesswork. The way to take your business out of the single cylinder class and put it into the twin six class is to know where you are at all of the time. This can be accomplished only by proper accounting.

Too many of us worry in generalities. We know there is something wrong but we are not specifically introspective. It seems to me that if I were a merchant and wanted to improve my business I would endeavor to analyze it from an outsider's standpoint. If a merchant will go away somewhere once a week or once a month and concentrate his mental energies on specific causes of the symptoms of illness in his business, he will soon find out what his troubles are. Once you can determine the cause of the difficulty the battle is half won.

DISCUSSION.

HARRY B. MASON: I don't want to be understood as saying a word against the very vital principle of having as frequent turnovers as possible, but I might point out that it is possible to carry the turnover idea to a point where you lose money instead of making. To make this practical and to bring it down to a focal point, let me imagine a gross of any article which is offered at the gross price of $50.00. Say that you could get the same article gross in dozen lots at the price of $55.00, which I venture to say is a very fair average. Now, it is also a very fair assumption that a gross would last you a year. Would it be wise to buy it and have it in stock? We assume a hypothetical case where you buy a gross of something for $50.00 and save $5.00, and that gross will last you one year. Against that you have a method of buying a dozen at a time every two weeks, say, as advocated by Mr. Noel. Now, have you saved the money or have you lost money by tying up your capital for the twelve months? That is the question. If you tie up $50.00 for a year, what have you lost? If the stock would last you a year, you have lost half of six percent, namely, 3 percent for a year. And if you had sold half during the first six months you would have got your money back so that you average 3 percent loss on this $50.00 investment for twelve months, therefore that has cost you $1.50; but if you have bought at the $55.00 price you have lost $3.50, which you could have made had you bought the gross. That emphasizes the point that I started out with, that with live items of stock it is decidedly profitable to buy the larger quantities and get the better price and discount.

C. W. Holzhauer: As to the matter of buying in small quantities, the theory is very good; but there is one objection which we have found. You have sale for an article right along and you buy one-sixth of a dozen, say, and you sell it out. Somebody forgets to put it in the order book and the next customer comes in and you are out of that article and you lose a sale and you stand a chance of losing the further business of the customer. It might possibly be better, from a business point of view, to buy a couple of dozen of an article, and have it in stock when the customer calls for it rather than run the chance of being out of it right along.

Here is another matter I would like to ask about. What does Mr. Noel refer to by a stock-book? I don't quite understand what he means by keeping a stock-book.

H. S. Noel: I was in LaFayette, Indiana about four weeks ago and I went into a large drug store there. A very enterprising clerk showed me a loose-leaf stock-book in which he had listed the stock of the store. The business of the store permitted the employment of a stock clerk. In this book the purchases and sales were listed and the items so arranged that the book also served as a directory of the store, whereby items might be found by any one knowing the key. The arrangement made it possible to know the quantity of an article sold in a given period of time and also the amount on hand at any time.

Answering Mr. Mason, I had very carefully considered the matter of those druggists who invest in gross quantities, and at the end of three months are able to take a quarter of that capital and re-invest it in something else. That may apply to a few lines but the large number of items in the average retail drug store must be considered and the unfortunate tendency of the smaller druggists who try to imitate the larger stores in purchasing quantities with the idea that enough can be saved on discount to sell at cut rates and make as much money as the larger store. That is the idea that I am trying to bring to your attention. Those druggists who are above the $10,000.00 figure possibly can invest in stock and turn it over in thirty days, or sixty or ninety or one hundred and twenty days, and re-invest part of that money according to their good judgment. That is a splendid idea, but I caution the smaller retailer against trying to imitate the big fellows who can buy in such large quantities and effect rapid turnovers.

J. H. Rehfuss: I agree with Mr. Noel in regard to the matter of buying in small quantities. On the other hand the matter of buying in large quantities is sometimes desirable, but it requires careful handling. Mr. Mason says that the difference is only about 10 percent on pharmaceuticals. I have found, at times, that the difference is as high as fifty percent. Fluid-extracts in five-gallon lots can be obtained at about half the price when compared with buying in quarter-pound lots. And it pays a man to take a chance and buy five gallons when there is assurance that it will be sold within a reasonable time and the goods will not spoil while waiting for sale.

With reference to the matter of stock-book, I am sorry that Mr. Noel did not go into that more fully. I hoped he would say more about the stock-book also indicating the location of an item. I know some druggists have such a stock-book and have found it exceedingly useful. I have tried to compile a stock-book of that sort and have put a man on that work for about two weeks. He almost gave up the job and at the end of two weeks said it was too big a task.

I expect to complete it some day, but I would like to know if any one present has ever undertaken to do that. It has been done and is a great convenience. A new clerk does not know where an item is, which has been called for by a customer, and the sale is lost, the customer goes elsewhere and very often never returns to the store. A stock-book, properly kept, would remedy that condition. We started out with the idea of classifying the different departments in the store. For example, group the package medicines in one part, the fluid extracts, the perfumes, all under different headings. I believe that some system can be devised whereby each druggist could have a stock-book, showing the location of the stock, the cost and the selling price, and the quantity purchased at different times of the year, and this would be of much assistance in the conduct of business.

C. W. HOLZHAUER: Instead of keeping a stock-book, we find that a card system is preferable. The book is not flexible enough. You may have 300 items under "F" or "G" and you purchase a new item. You might not have room to put it in your book and maintain the alphabetical arrangement. We use a card system. At the top of the card is the name of the article and there is the problem how to list the articles. On the card we have a space provided for the location in the store and the selling price. The plan is such that any item can be located in the section of the shelf where it is placed. Under that we have a column for the amount purchased, from whom purchased, the price we paid and the amount we bought. It has been a very interesting study for me to see the different prices which have been paid for the same article from different houses. I bought one standard proprietary article from a jobber in New York and I paid that man four different prices for the same article, in the same quantity, within six months. The amount of money involved was very small but I had the record. You will find it very helpful to have all this matter on the card. Every item on the bill is put on the card. If Mr. Jones comes in and wants to sell a gross of something we go to the card and see how much was purchased last year, and if we can use this quantity at a discount, well and good we take it; and, if not, we turn it down immediately.

H. S. NÖEL: May I ask if the card system is at once both a purchase-book and a stock-book?

C. W. HOLZHAUER: It was so started, but there should be two books. The information on the price is available to everybody in the store, and that is one objection. But we have not progressed far enough to arrange that as yet. It is principally a purchase and a location record.

H. S. NOEL: The book that I was telling you about was one of the neatest records I ever saw. It gave the exact location of all the items. The stock clerk can take certain leaves out of the book, it might be section "J," shelves 1, 2, 3 and 4. He takes these and goes to section "J," shelves 1, 2, 3 and 4 and finds the items listed as they are arranged on the shelf. The book at once gives him the stock record and location and a green clerk can find any item from the stock-book record. That firm carries a stock of between $30,000.00 and $40,000.00 and it is no small task to inventory and keep a stock-book in a store of that size.

THE NATIONAL PHARMACEUTICAL SERVICE ASSOCIATION.

ITS PAST WORK AND FUTURE AIMS.

BY GEORGE M. BERINGER.

At the request of the Executive Committee of the National Pharmaceutical Service Association, the following statement, reviewing briefly the activities of this organization, has been prepared for dissemination. It is very appropriate that at this time, the officers should present to the members and friends a résumé of the work in which this Association has been engaged and the reasons for continuing, even more strenuously, our efforts. It may be considered as a report by the executive officers of the management and discharge of the duties assigned to them.

The National Pharmaceutical Service Association grew out of a meeting of medical practitioners held at the Philadelphia College of Physicians and Surgeons on Wednesday evening, June