

RECORDS—A KEY TO BUSINESS SUCCESS.*

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When the Harvard Bureau of Business Research began a scientific study of business and started with the shoe business because it was one of the least complex in the retail line, they discovered almost at once that the varied methods of accounting, or often the entire absence of accounting, made their study impossible until they had devised a uniform system of accounts and induced some hundreds, of dealers to adopt and use it.

The subsequent result of this analysis has been that in the retail shoe business the essential factors have been standardized so that a dealer may know instantly, by consulting his records, whether he is running an average business which insures legitimate profit, or whether he is in need of adjusting expenses, or turnovers, or sales to bring about more ideal results. An effort was made to secure a similar analysis by the Harvard Bureau of Business Research for the drug business, but they are not yet ready to undertake this very complex problem. In the meanwhile, however, many forces in pharmacy have been combining to improve business conditions in the drug store. The large buying organization and chain-store groups, the efforts of writers in pharmaceutical journals, addresses by experts at conventions and many other forces are beginning to make an impression which is already showing results. The small drug store of twenty years ago is almost a curiosity. The trend of the present day is toward well-organized stores, better advertising, more efficient buying and better selling methods, and the druggist knows the meaning of "turnovers," "discount," "first cost," "overheads," and other modern business terms. Many, however, yet think it impossible to secure adequate records and an educational effort must be continued until the significance of these are more fully understood and the druggist recognizes that a proper accounting system is as important to his business as a stock of drugs or merchandise for sale. These records have a bearing on many sides of the business.

Of course, if credit customers are involved, this is one phase of accounting and is the most likely to be properly handled, because bills must be sent out and collections must be made if a store is to remain in business with many credit accounts. It is to figures related to sales, purchases, expenses, and profits, however, that special reference is made here.

RECORDS INFLUENCE CREDIT.

The annual, or more frequent, financial statement, giving a comparison of these key facts, is of first importance in any credit relation which the pharmacist may have with his bank, wholesale houses, or with an individual. If he cannot produce a proper financial statement covering his sales for a stated period, showing expenses during the same time, his inventory, and gross and net profits, he can hope for little consideration when the need for a loan arises. It is true that many retail druggists continue business for years without any such contingency, but the best practice of many business men has proved that a temporary loan from the bank, permitting the purchase of goods at discount, or taking advantage of some

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special opportunity to buy, is but one of the legitimate business methods of which advantage should be taken.

RECORDS—A BUSINESS INDICATOR.

But independent of the credit relationship to the bank or elsewhere, the records of account, if properly kept, are of incalculable value in the management of the business. These records become a business indicator by showing the ups and downs of finance. If an established average relationship between these factors is being maintained, this is shown and will be gratifying. If unusual profits are indicated, increased incentive will result for all the parties concerned. If, on the other hand (and even more important), losses are discovered or if profits are being wiped out through some unsuspected cause, the manager's immediate attention may be centered upon the weakness and a remedy applied.

RECORDS—BASIS OF SELLING PRICE.

But proper accounting does even more. It furnishes the retailer with a basis for a selling price and insures profit on every sale or at least gives the necessary knowledge which shows whether a sale represents profit or loss. This is determined by knowing the relationship which must exist between the cost of goods and the selling price, if expenses are to be paid and a profit assured, and in then applying the formula to fix the proper price.

Sales.—Now, how can these results be secured? First, an exact record of sales must be kept. These preferably will be by departments: prescriptions, general drug business, "soda" sales, and as many other departments as is found practicable, such as candy, cigars, victrolas, etc. The simplest method for keeping a record of sales is through the cash register, and if departments are to be separated, there should be a machine for each department. Of course, sales books can be used, but these require time and a subsequent analysis and are not practicable for the average drug store.

Purchases.—The second item of great importance is the purchases. The policy adopted by some men has been to maintain purchases within a figure representing a percentage of sales, corresponding to the average "first cost." To illustrate, the cost of merchandise during a preceding period has represented sixty-five percent of the sales—the sales for the month are \$3000, the purchases should therefore not exceed \$1950, *i. e.*, sixty-five percent of the sales. This plan prevents overbuying and also shows that salable goods are being handled. Such a calculation should be made at least each month, so that the proprietor will know that he is not overstocking and that his purchases are of a salable character. The frequent analysis of these purchase figures will prevent many serious complications. Of course, it is understood that the buying price bears a vital relation to profit, and where, how, and the price paid, must be handled properly.

Expenses.—The next class of records is expenses. These must be absolutely complete. Heat, light, salaries, insurance and other common expenses are well understood, but failure to include other expenses often results in a false statement. It is now universally acknowledged that a salary for the owner of the business must be added to the expenses if he is giving his time, and the amount should equal that for which he could be replaced. This should be decided upon and drawn regu-

larly. The evidence that this policy is right forces itself upon one when it is realized that should the proprietor become sick and his services be replaced by a new manager, the new salary would immediately overload the expense column, if it had not previously been included. Another item which is not always considered is a proper rental charge when the building is owned by the proprietor. This must become a part of expense, or a false profit is being indicated. Depreciation in stock and fixtures must each year be charged to expense. This is usually estimated at 10 percent of their "first cost" and is justified because of the rapid deterioration in equipment and the necessity within a few years of replacing it. This policy amounts practically to the creation of a sinking fund for refitting the store. Breakage must also be considered as an expense and should be carefully checked up, and debts which are uncollectable must also be deducted from the gross profit. Donations and subscriptions must likewise be recognized as expenses and are usually included under advertising.

Inventory.—Another frequent source of error in a statement is the absence of inventory. This is one of the serious problems in a small drug store, but cannot be ignored in properly estimating profits. If an actual inventory has been taken within a reasonable time, the new inventory may satisfactorily be calculated for several years. This is made possible by adding the purchases for the period, to the last actual inventory, then calculating from the sales and the "first cost" percentage, the estimated value of goods sold during the same year, and subtracting this from the previous total. This will give the approximate inventory at the end of the period. Where an individual is in business, this may prove satisfactory for a short time and give figures that are reasonably accurate, but this should be checked about every two or three years by an actual physical inventory.

Profit.—Of course, the most important figure for the man in business is the net profit. When the purchases have been deducted from the sales and then the total expenses withdrawn, that which remains represents net profit and this amount, added to the salary which the proprietor has drawn, represents his clear profit from the business and the figure that must be reported in the income tax return. Whether net profit is large or small is often dependent upon the management of the records, and after all, net profit is the goal toward which every business man is striving. By having adequate records and using them, the profit can usually be maintained at a satisfactory average and oftentimes greatly increased through good judgment, based upon facts. The sales figure cannot always be advanced, particularly on advertised goods, but the price for which merchandise is bought and the reduction of expenses to the minimum, are within the control of the management, and these rather than selling price determine the real profit and the financial success of the business. A word, then, about keeping records. The excuse usually offered is "lack of time." The pharmacist who realizes the importance of records will soon either find the time for proper bookkeeping, or will employ a bookkeeper, who will keep records for him. The ideal condition would seem to be a statement of the relation between sales, purchases, and expenses, placed upon the desk of the proprietor every day by an employee and from these figures a plan of action decided upon by the manager for that day and the future, and the carrying out of the plan will require all of the available time of the manager and be more within his line of duty than the actual physical work of keeping records.