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STUDY OF BUSINESS AS A PHASE OF THE  
PREPARATION OF PHARMACISTS

A DISSERTATION  
SUBMITTED TO THE GRADUATE FACULTY  
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DOCTOR OF EDUCATION

BY  
DALE BERNARD HANSON  
Norman, Oklahoma  
1963

STUDY OF BUSINESS AS A PHASE OF THE  
PREPARATION OF PHARMACISTS

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STUDY OF BUSINESS AS A PHASE OF THE  
PREPARATION OF PHARMACISTS

CHAPTER I

THE PROBLEM

Introduction

The professional practice of pharmacy today is conducted primarily in retail drug stores. These drug stores, as distinguished from prescription or apothecary shops are, in general, typical "corner drug stores," and have long been considered community health centers where personal service and professional help are made available to the public. The community drug store not only serves as a community health center, but also it frequently serves as a focal point of various community activities.

Today, retail pharmacy practice is predominantly an independent store operation, regardless of whether the pharmacy is located in either a small town or in a busy section of a metropolitan area. Whether it is an up-to-date prescription shop or a departmentalized retail drug store, the pharmacy operation offers many services and a wide variety of merchandise. It generally strives to offer a type of

personalized service which combines some of the professional aspects of the practice of pharmacy with the practical business realities encountered by any business enterprise attempting to operate at a profit. Furthermore, it is quite evident that even in the occasional chain drug store or in the giant departmentalized retailing operation, the pharmacist in the prescription department is faced with certain managerial responsibilities.

The manager of a retail drug outlet is confronted with the responsibility of making a variety of business decisions ranging from very simple to complex in increasingly competitive retailing situations. In 1960, according to the Census of Pharmacy,<sup>1</sup> there were 1,591 registered pharmacists in Oklahoma with 1,421, or 89.3 per cent engaged in the practice of retail pharmacy. Of the 1,421 retail pharmacists 764 were store owners and 657 were employees. Accordingly, 53.8 per cent were individual owners or partner-owners of retail establishments with direct responsibilities in the making of business decisions. It may be assumed that a significant proportion of those who were employees also fulfilled certain responsibilities that either directly or indirectly related to business matters.

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<sup>1</sup>National Association of Boards of Pharmacy, Licensure Statistics and Census of Pharmacy (Chicago: National Association of Boards of Pharmacy, 1962), p. 7.

The Census of Pharmacy further indicated that Oklahoma had 810 retail pharmacies and 20 hospital pharmacies in 1960. Three hundred ninety-eight of the 810 retail outlets employed only one pharmacist, 268 were serviced by two pharmacists, 97 were serviced by three, 39 were serviced by four, and 8 were serviced by five or more.

The 1958 Census of Business lists 882 drug stores in Oklahoma, 554 with soda fountains and 328 without fountains, having total sales of \$88,356,000.<sup>1</sup> Of the 848 drug stores in Oklahoma that operated throughout the year 1958, 2 had sales of \$1,000,000 or more; 25 had sales of \$300,000 to \$999,999; 281 had sales from \$100,000 to \$299,999; 251 had sales from \$50,000 to \$99,999; 130 had sales of \$30,000 to \$49,999; and 159 had sales of less than \$20,000.<sup>2</sup>

It would appear that the success or failure of pharmacists is dependent upon their business abilities as well as their pharmaceutical competencies. With the entry of large-scale merchandising units into the retail drug business, it may become increasingly important that pharmacists possess adequate business knowledge to enable them to function effectively. If control of drug dispensing is to remain principally in the hands of professional pharmacists, they must be

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<sup>1</sup>U. S. Bureau of the Census, Census of Business: 1958 Retail Trade--Area Statistics, II. Pt. 2, 36-7. (This is the latest published business census presently available.)

<sup>2</sup>U. S. Bureau of the Census, Census of Business: 1958 Retail Trade--Summary Statistics, I, 2-119.

able to compete successfully in the highly organized business world. Many of them must be prepared to assume management direction in these large-scale outlets. Today, an adequate knowledge of the principles of buying and selling, inventory control, recordkeeping, finance, management, and public relations is invaluable to the pharmacist.

Only in recent years has increasing emphasis been given to the inclusion of some of the business disciplines in the pharmacy curricula. With the adoption of the five-year program, interest in instruction which might be helpful to the pharmacist after he has begun practicing the profession has been intensified. Recently, much has been written about the extent to which business principles and practices should be included in pharmacy education.

In connection with the revolution in drug retailing in which the pharmacist is now enveloped, two more or less divergent viewpoints have developed among leaders in the pharmacy profession. There is the viewpoint held by professional pharmacists that pharmacy educators should not concern themselves greatly with the teaching of merchandising or other business administration practices or procedures to pharmacy students. In other words, these people feel that the educational institution should concentrate its efforts toward the development of scientifically-trained pharmacists, fully qualified to assume the professional role of consultant

both to the layman and to the medical and allied health professions in all matters concerning drugs.

On the other hand, many drug store operators and wholesale distributors of drugs believe that the retail pharmacist is involved in a competitive struggle with other types of retailers. They believe that the pharmacist must be broadly trained and become expert in merchandising if the pharmacy profession is to maintain major control of the dispensing of drugs. Otherwise, they believe that this merchandising function will be taken over by other people who will dominate the pharmacist, and the pharmacist may become merely an employee.

In a conversation with a drug wholesaler, a question was asked regarding whether a pharmacy school should teach pharmacists to be drug store managers. The wholesaler's answer was prompt and directly to the point. He replied, "If you don't teach pharmacists to become managers, they will most certainly become mere employees."<sup>1</sup>

Should the pharmacy curriculum exclude merchandising principles and techniques, as well as all other business training, and dedicate all endeavor to developing general education and the scientific disciplines? Should the pharmacy curriculum include preparation to enable graduates to

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<sup>1</sup> Personal interview with M. L. Jones, Divisional Manager, Oklahoma City Divisor, McKesson & Robbins Drug Company, June 28, 1962.

fulfill management roles in retail drug outlets? Those who answer "yes" to the first question hope that through rigorous educational and licensing requirements, supported by strong professional associations and public opinion, the professional approach will prove superior and the pharmacist will be adequately rewarded.

Conversely, it is a basic assumption here that proper control of the distribution of drugs by pharmacists will best be attained by preparing pharmacists equipped to serve the public with a combination of professional service and competent business management. The dual role of the retail pharmacist as both a professional man and a distributor of drug products will then be recognized. The pharmacist will possess the necessary business knowledge to compete in the market place with other types of retailers distributing drug products to the public. The control of drug distribution by pharmacists will be achieved through competent and efficient distribution along with emphasis on professional service.

#### Statement of Problem

The problem of this study was to develop a comprehensive outline of the content essential to education about business and business operations which should be included in the preparation of pharmacists. This study deals directly with such factors of business as the nature of the store operation,

merchandising, accounting, personnel, finance, and public relations in the total pattern of pharmacy administration.

#### Delimitation

The conclusions presented in this study were formalized with specific reference only to the preparation of pharmacists at Southwestern State College in Weatherford, Oklahoma. While the recommendations may have equally appropriate application to programs in other collegiate institutions, no attempt was made to relate them.

Evaluation of instruction or facilities now available in institutions offering pharmacy education is in no way related to this research study.

#### Sources of Data

The data for this study were obtained from: (1) published and unpublished materials relative to the general preparation of pharmacists and especially materials dealing with the business phase of such preparation (i.e., professional journals, drug company bulletins, pharmacy textbooks, research reports); (2) personal interviews with 50 graduates of Southwestern State College who are practicing the profession of pharmacy and have assumed management responsibilities in drug outlets located in Oklahoma and Texas; (3) related information gathered from interviews with different groups of people associated with retail pharmacy, including manufacturers'

representatives, wholesalers, representatives of pharmaceutical organizations, and others.

### Procedure

The first step taken in this study was to conduct an extensive analysis of literature relative to the preparation of pharmacists in order to gain necessary background knowledge for this study, and to make intensive analyses of varied materials pertaining to the business phase of the preparation of pharmacists.

The second step involved the establishment of the broad areas of business competence that are needed in the operation of retail drug outlets. These areas of business competence were determined by extensive exploratory interviews with drug store business managers and owners. These broad areas were then formulated into an interview guide which was used to record information gained from personal discussions with graduates of the Southwestern State College School of Pharmacy.

The third step was to conduct personal interviews with representative pharmacy graduates in positions of management responsibility to determine the nature and extent to which these graduates need and/or utilize backgrounds of education about business. Information was assembled in case studies detailing the business activities of pharmacists in

their work environment, including their present practices and their expressed needs relative to pharmacy business education.

The fourth step involved the development of generalizations which are pertinent to the management aspects of most drug store operations, including basic principles of operation. In addition, a basic outline of essential elements of business administration and operation of retail drug outlets has been prepared, combining under broad categories, the business competencies as derived from the interviews with practicing drug store managers.

## CHAPTER II

### BACKGROUND INFORMATION

Three facets of significance in the development of the retail pharmacy are discussed here to provide background information. The three facets are: (1) the history and development of pharmacy as a profession, (2) the retailing of drugs and associated products in the United States, and (3) the preparation of drug store managers and owners.

#### History and Development of Pharmacy as a Profession

"Records of the practice of pharmacy date back as many as forty centuries before the birth of Christ."<sup>1</sup> They indicate that priests and other representatives of different forms of religion were the first practitioners. The separation of the healing arts from religious observance began in Greek and Roman days. Hippocrates, who lived in the fifth century before Christ, is credited with pioneering the rationalization of medical practice. The pharmaceutical processes mentioned in the Hippocrates Corpus, a collection of writings representing Greek knowledge of medicine, includes information

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<sup>1</sup>Paul C. Olsen, Marketing of Drug Products (New Brunswick: Rutgers University Press, 1955), p. 10.

relative to the preparation of 195 drugs and methods involved in their administration.

During the seventh and eighth centuries the Arabs overran most of the ancient civilized world, and it was in Bagdad that the first public pharmacy was established in the eighth century.<sup>1</sup> With the transmission of Arabian medicine and pharmacy to Europe, the conditions which in the East had caused the creation of public pharmacies likewise caused the establishment of similar institutions in the European countries. The separation of pharmaceutical practice from medical practice was promoted to a significant extent by the German Emperor Frederick II when he issued an edict which was to become the Magna Charta of the profession of pharmacy.<sup>2</sup> In essence, this edict included three essential regulations: (1) separation of the pharmaceutical and medical professions, (2) official supervision of pharmaceutical operations for the protection of the public, and (3) compulsory use of a prescribed formulary according to which medicaments could be prepared.

Although significant developments occurred in many countries, it was Italy that became the cradle of European professional pharmacy. It was here that the "guild" system

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<sup>1</sup> Edward Kremers and George Urdang, History of Pharmacy (Philadelphia: J. B. Lippincott Company, 1949), pp. 17-18.

<sup>2</sup> Ibid., p. 35.

developed which has dominated the European practice of pharmacy. In the Renaissance of the fifteenth century and later, pharmacy, as well as chemistry, was enriched. Because of the extensive search for elixirs of life and methods by which gold and other substances could be artificially prepared, this was called the "Age of Alchemy."<sup>1</sup>

Unlike the pharmacy practice in Italy and France, pharmacy in Germany has been rigidly regulated by the government. Chemistry developed along with pharmacy in German apothecary shops, and both the chemical and the pharmaceutical industries emerged from the meager circumstances in those shops. In Germany, the sale of sugar, spices, liquors, wines, tobacco, coffee, and chocolate were restricted to the apothecary. The prime reason was the securing of a livelihood for the apothecary. Later on, the monopoly rights became restricted largely to medicaments. The development of pharmacy in England came later than in Italy, France, or Germany. The English apothecaries had difficulty in separating themselves from the Grocers' Guild, which had exclusive control over imports. The separation was accomplished only after the pharmacists acquired separate guild status by royal decree.

In pharmacy the guild restraints have continued in continental Europe right down to the present day. They are to be found in the restrictions on the number of drugstores and in the price-fixing agreements on the goods and services they supply.<sup>2</sup>

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<sup>1</sup>Olsen, op. cit., p. 13.

<sup>2</sup>Ibid., p. 15.

In reviewing European pharmacy it is significant to note that unrestricted licensing of drug stores is practiced in Belgium, England, France, Holland, Portugal, Switzerland, and Spain, while the remaining countries in Europe grant certain concessions to drug store operators and restrict the number of stores that are licensed.<sup>1</sup>

The early development of pharmacy in the United States followed the English pattern, with a close association with medical practice. Colonial pharmacies, whether owned by a physician, a pharmacist, or a "druggist," sold many products in addition to drugs. Apothecary shops were established in colonial Boston, Philadelphia, and New York, and were manned for the most part by pharmacists who had been educated in Europe. Generally, the pharmacists were wholesalers as well as retailers, and it was through their efforts that the first pharmaceutical associations and schools were created. These pharmacists provided country doctors with drugs and often compounded medicines in their own laboratories. Benjamin Franklin, who was deeply interested in pharmacy and medicine, prescribed patent medicines and drugs in his shop in Philadelphia in 1729.<sup>2</sup> Until after the Civil War, the number of educated pharmacists was comparatively small.

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<sup>1</sup> Kremers and Urdang, op. cit., p. 121.

<sup>2</sup> Eric W. Martin and E. Fullerton Cook (ed.), Remington's Practice of Pharmacy. (Easton: The Mack Publishing Company, 1961) p. 10.

The general store with drugs as a sideline, and the physician who kept an open store, left little opportunity for the pharmacist proper to develop.

After the Civil War the drug store business in dye-stuffs and similar goods diminished with the rise of the American textile industry. Similarly, the growth of the building industry took away the drug store's paint and oil business.

With these changes pharmacy had its great opportunity to develop its professional character; however, a powerful pharmaceutical industry, favored by alcohol tax regulations which made it all but impossible for druggists to use this indispensable substance profitably, took over the manufacturing previously carried on to a large extent in drug store laboratories.<sup>1</sup>

Thus the development of the pharmaceutical industry and the increase in "proprietary" and patent medicines had an important effect on the development of the pharmacist and the American drug store.

The heyday of the medicine show came during the last two decades of the 19th century.<sup>2</sup> Patent medicine promoters went to the public with minstrel shows, magic, burlesque, and other types of entertainment, along with extensive advertising of their wares. The activities of the Women's Christian Temperance Union and the Anti-Saloon League in some localities

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<sup>1</sup>Kremers and Urdan, op. cit., p. 296.

<sup>2</sup>James Harvey Young, The Toadstool Millionaires (Princeton: University Press, 1961), p. 190.

left one legal and almost respectable recourse open, namely the steady pursuit of health through highproof bitters.<sup>1</sup>

Since most American physicians dispensed their own medicines, the early American druggists did not enjoy a large amount of prescription business. Thus, the retail drug stores tended to sell a variety of merchandise, with the amount of pharmaceutical service remaining limited and dispensed by only a small number of educated pharmacists.

In Europe the pattern was much different. Pharmaceutical practice was controlled generally by relatively high educational requirements and the number of drug stores was restricted to the actual requirements for handling the demand for pharmaceutical service. The scientific training and economic security of the pharmacists in Europe enabled them to concentrate profitably on their function as responsible distributors of medicinal goods.<sup>2</sup>

The proprietary drug business, involving patent medicines and brand-name products as opposed to prescription drugs, was of great importance to the development of the retail drug store in this country. The increasing tendency of physicians to prescribe proprietaries instead of writing prescriptions which required compounding favored the development of the retail drug store rather than the professional

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<sup>1</sup> Ibid., p. 133.

<sup>2</sup> Kremers and Urdang, op. cit., p. 297.

pharmacy outlet.<sup>1</sup> Concurrent with this development the pharmaceutical industry has come of age, with the slow evolution of the centuries now being transformed into rapid revolution. With the recent development through research of the so-called miracle drugs including the sulfa drugs, antibiotics, anti-histamines, hormones, tranquilizers and sedatives, the outlets distributing these drugs have enjoyed a tremendous increase in business.

Figures alone reveal the scope of the industry's remarkable expansion. Drug sales at the manufacturer's level in 1939 barely exceeded \$300 million. Eighteen years later the figure was climbing well above \$2 billion. Proprietary drugs during this time increased less than three times.<sup>2</sup> Prescription drugs, meanwhile, increased 11½ times.<sup>2</sup>

The drug industry has moved from a discreet and inconspicuous position to a spotlighted place in the profit-minded, brawling business community.<sup>3</sup>

In the United States the regulation of pharmacy has resided primarily in the individual states. Other influences, however, have had much to do with the development of the profession of pharmacy. It was in 1852, that the American

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<sup>1</sup> Ibid.

<sup>2</sup> Herbert S. Wilkinson, "History and Evolution of the Pharmaceutical Industry," The Workings and Philosophies of the Pharmaceutical Industry (New York 20, N. Y.: National Pharmaceutical Council, Inc., 1959), p. 14. (Address delivered at the National Pharmaceutical Council Pharmacy Education-Industry Forum held at Princeton, New Jersey, August 23-27, 1959).

<sup>3</sup> "Filling Prescriptions Under Fire," Business Week, December 10, 1960, p. 140-154.

Pharmaceutical Association was founded to encourage self-control and regulation. The activities of this national association encouraged the formation of many state and national organizations. Almost without exception, the organization of a college of pharmacy in a particular state was preceded by the organization of a state association and the passage of laws pertaining to pharmacy within that state.

In 1900 the American Conference of Pharmaceutical Faculties was formed. It is now known as the American Association of Colleges of Pharmacy. This association meets annually and gives consideration to the problems of curricula, teaching methods, teaching staffs, and other items pertinent to the training of future pharmacists.

In the interest of public health, every state now has laws restricting in some manner the sale of drugs, medicines, and poisons. State boards of pharmacy function for the purpose of enforcing these laws. They also examine and license pharmacists, as well as inspect pharmacies and other places where drugs are sold. Federal laws also regulate the practice of pharmacy. In a later section of this chapter there is discussion of the preparation of drug store owners and managers. This demonstrates the extent to which professionalism of pharmacy has been accomplished through education. The professional status of pharmacy is today recognized as the privilege to practice pharmacy that is granted to registered pharmacists. It should be noted however that in some drug stores

in the United States individuals who are not registered pharmacists are still actually dispensing drugs in violation of the laws.<sup>1</sup> State boards of pharmacy, pharmacy associations, and collegiate preparation are aiming in the direction of full law enforcement and regulation to the degree required for bringing complete professional status to the field of pharmacy.

Retailing of Drugs and Associated Products  
in the United States

The most common unit in drug store management involves an independent dealer in a drug store located in separate premises from any other kind of business activity. This is true today even with the current trend toward large scale operations in the retail drug field. Too, the management of the prescription shop within a discount house or other large scale merchandising outlet generally consists of a relatively independent operation within the confines of a larger retail business unit.

Classification of Retail Drug Outlets

The terminal distribution of drugs in the United States is accomplished through retail drug outlets which may be broadly classified as follows:

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<sup>1</sup>Ralph W. Clark, Orientation in Pharmacy (Philadelphia: Lea and Febiger, 1961), p. 76.

1. the independent general-type store (including a local combination of two or three stores) operating with or without a voluntary agency agreement,
2. the chain drug store,
3. the relatively small prescription pharmacy or clinic prescription pharmacy, and
4. the drug unit in a discount house, grocery store, variety store, or other large scale merchandising outlet.

Within these broad categories, retail drug outlets may also be classified in terms of location, volume of business, and extent of prescription business. However, in this section material pertaining to the retail drug business is presented in terms of each of the four broad classifications.

#### Independent Retail Drug Stores

The independent retail drug store may be located in either a rural or a metropolitan area. This kind of store may vary from the traditional small drug store, which has changed little in the last fifty years, to the modernistic, multiple department drug store exemplifying the trend toward large scale retailing.

Small town drug store. --The drug store located in the center of a small town remains as the most numerous type of drug store in this country. With 30 per cent of the people in 1960 living on farms and in communities having less than 2,500 population,<sup>1</sup> it is to be expected that the largest

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<sup>1</sup>Richard M. Scammon (Director of Census Bureau), "A Look at the America of the Future," U. S. News & World Report, October 16, 1961, p. 70.

single group of drug stores in this country consists of drug outlets serving the many small communities.

To a large extent this small town type of drug outlet has been relatively unaffected by changes in the retailing practices in metropolitan areas. The typical small town retail drug store is in the same location that it has occupied for many years. In many instances such stores continue to be operated by the original owner's family--ownership having passed from father to son.

The small town drug stores vary extensively in the degree of modernization. In general, they have considerable prescription business, sell non-prescription drugs, maintain a fountain service, and handle cosmetics and sundries. These stores engage in little price competition. The profit return is good, except in instances where rural communities have suffered substantial decreases in population. Local grocery stores and variety stores are their chief competitors, although current mobility of people results in some competition from retail outlets in other communities.

Operating expenses, including rent and salaries, are generally low. Thus, the small town retail drug store provides a relatively stable and comfortable living for the pharmacist owner. The owner-manager is usually a community leader. His relationships with his customers are usually close, personal, and pleasant.

Downtown drug store.--Many drug stores are found in the downtown areas of cities where pedestrian traffic is heavy. These stores are faced with competition from other independently owned stores and occasionally from chain-operated drug stores. Because of the heavy traffic of business people and shoppers, these stores usually feature meals and refreshments at soda fountains. The prescription department in this kind of store normally accounts for a substantial part of the total sales. With high operating costs, the downtown drug store must emphasize sales volume and the rapid turnover of merchandise and drugs.

This type of drug store in a heavily populated area is affected by changes in the retailing practices of the area it serves. With the growth of cities, the customers tend to live far from the downtown area. Increasingly, suburban shopping center outlets have expanded their sales at the expense of the downtown stores. Too, the increases in the number of prescription shops and clinic dispensaries have made further encroachments on sales. With the increasing competition from other drug outlets, the owner-manager of the downtown drug store is faced with competitive prices, both on prescriptions and front-end merchandise. He must exhibit a high level of merchandising skill if he is to continue to make a profit.

Shopping center and neighborhood drug stores.--With the growth of metropolitan areas and the movement of people

into suburban areas, the increase in the number of shopping centers and neighborhood drug stores has been extensive. According to a recent survey, 57 per cent of all new stores are opened in shopping areas while 19.2 per cent are opened in suburban neighborhoods.<sup>1</sup> These retail drug outlets now account for approximately one out of every four dollars in business done by the entire retail drug industry.<sup>2</sup>

A shopping center usually consists of a group of stores which provide off the street parking for customers' cars. The center is operated under integrated management, but each store is separately owned. Typically, the shopping center drug store is a departmentalized store selling prescriptions and non-prescription drugs along with cosmetics, tobaccos, gift items, and various sundries. It frequently utilizes self-service and emphasizes "cash and carry" buying.

The neighborhood drug store is very similar to the shopping center store except that it does not operate under integrated management. It is generally located in a small business district with grocery and variety outlets nearby. It may provide soda fountain service, and, in an area with limited population, it may resemble the small town drug store.

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<sup>1</sup>"14.1% of New Pharmacies Are Located Inside Other Types of Retail Stores," American Druggist, February 5, 1962, p. 5.

<sup>2</sup>"Shopping Center Druggists Take 23% of Drug Trade \$," American Druggist, September 18, 1961, p. 5.

### National Chain Drug Stores

Chain stores generally operate on the principle of volume sales of standardized merchandise, emphasizing low prices. Because of this, the possible number of stores which can be operated successfully in one locality is limited, thus leading to the widespread dispersion of units in a national chain over a wide area of territory.

Advantages in buying power sometimes permit chains to obtain larger profits than individually owned competitors. Loss leaders on nationally advertised brand merchandise are a frequent means to create and hold customer traffic. Also, the chain may be able to utilize advantages of specialization of labor in areas of purchasing, fountain management, advertising, display, and sales promotion. Better management is often secured in chain stores than in independent operations because of the compulsion under which chain store managers work, rather than any inherent advantage they may have.

Factors in the recent increase in sales of chain drug stores are believed to be the building of larger stores in desirable shopping centers, the fullest use of self-service, and the increased emphasis on prescription business. In 1961, the chain drug stores had a 14 per cent increase over 1960 in sales, whereas the independent store operators gained only

0.5 per cent.<sup>1</sup> Chain stores increased from 4,544 in 1956 to 5,052 in 1962. There has been no corresponding increase in the number of independents.<sup>2</sup>

It is apparent that recent court decisions which have generally invalidated the effectiveness of "fair trade" agreements have again led to large-scale group merchandising practices with emphasis on price competition and limited service in which the chains have long excelled. The use of self-service techniques in drug stores is pointed up by Olsen:

The widespread acceptance and popularity of self-service with check-out for customers in grocery, variety, and hardware stores has led to its adoption in drug stores.<sup>3</sup>

Practically every chain drug store built today is a self-service unit.<sup>4</sup>

### Prescription Pharmacies and Clinic

#### Prescription Pharmacies

Accompanying the trend to larger shopping center departmental drug stores is the companion growth of the

<sup>1</sup>"If Food Chains Purchase of Drug Chain Perils Independent Rx Men, NARD Will Ask Ban," American Druggist, January 23, 1961, p. 5.

<sup>2</sup>Paul C. Olsen, "Drug Store Sales During 1961 Reach Zenith of \$7.9 Billion," Drug Topics, January 1, 1962.

<sup>3</sup>Paul C. Olsen, Marketing Drug Products (New Brunswick: Rutgers University Press, 1955), p.157.

<sup>4</sup>"Chain Share of Drug Trade \$ Hits 24% Sharply Above the Long-Term Pattern," American Druggist, January 9, 1961, p. 5.

relatively small prescription pharmacy or clinic prescription pharmacy, manned generally by one to three pharmacists, with 75 to 95 per cent of total sales in the prescription department. These pharmacies supplement their prescription sales with related sales of "over-the-counter" drugs,<sup>1</sup> proprietary drugs, related drug products, and convenience items.

The prescription pharmacy or clinic pharmacy may be located in a separate building or in a medical arts building. The prescription pharmacy located in a separate building is usually quite different in management responsibilities from a clinic prescription pharmacy located in a medical arts building. In the latter shop, prescription business is relatively assured.

The pharmacist in the prescription pharmacy or the clinic seeks professional recognition as a medical consultant. He is in close contact with the medical profession and frequently serves as an advisor on drugs. He generally feels he is rendering a professional service which is superior to that of the typical retail pharmacist, who frequently has little contact with physicians and is concerned with the sale of a wide variety of merchandise other than pharmaceuticals.

Prescription pharmacy operators may be recommended for membership in a professional association known as the

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<sup>1</sup> Drugs which may be dispensed without the necessity of a doctor's prescription, including those ordinarily not advertised to the public but sold through professional recommendation of the pharmacist.

American College of Apothecaries which requires high standards in the dispensing of drugs. Membership in this association involves various restrictions on the sale of non-related merchandise, including cigarettes, beverages, and convenience goods. Apparently many pharmacy operators have not chosen to sacrifice the "traffic" value possessed by certain of these non-related items of merchandise, and this is probably one of the factors resulting in a relatively small membership in this organization.

The independent prescription pharmacy located on separate premises usually has extensive parking facilities and a "drive-in" window. It often contains a comfortable lounge room for professional consultation and relaxation. Because of the independent nature of this operation, the owner-manager must be alert to satisfy the desires of both physicians and customers. The clinic prescription pharmacy differs from the independent prescription pharmacy principally by its location in a medical arts building and the existence of some degree of control over the pharmacy by the physicians practicing on the premises. The flow of customers is usually assured from the adjacent physicians' offices, and usually little "merchandising" effort is necessary, other than maintaining the good will of the customers and the physicians.

A paradox frequently exists in the close professional relationships existing between physicians and pharmacists in

these pharmacies. The sole dependence of the pharmacist on prescriptions for his livelihood may place him in a position of dependence on the medical profession, which, in turn, tends to lead to "unethical" relationships.

A recent survey showed that there was a 15 per cent increase in the number of doctor-owned clinic pharmacies in 1961, in the face of the fact that the American Medical Association, the American Pharmaceutical Association, and a Congressional Committee all took close looks at the practice.<sup>1</sup> Apparently many medical clinics also look upon their prescription pharmacy as a means of paying their building costs. The possible dangers resulting from over-prescribing and over-charging for prescriptions from such situations points up the desirability of complete separation of control of the pharmacy from that of the medical profession.

One of the most effective promotional devices which characterize these operations is the usual direct telephone line to each physician's office, which placed the physician in instant contact with the pharmacist. Most prescriptions are called to the prescription shop, and the close communications encourage the consultation between the physician and the pharmacist. Delivery service is often demanded by the patrons of this type of outlet, along with the extension of credit.

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<sup>1</sup>Number of MD-Owned Clinic Pharmacies Up 15%", American Druggist, December 11, 1961, pp. 5-6.

The professional nature of the prescription pharmacy with emphasis on personal service results in a large degree of freedom from price competition. Because of decreased overhead expenses, these shops can be very profitable to their operators on limited sales volume. The professional prescription pharmacist generally considers himself to be the "pharmacist of the future," dedicated to the full-time dispensing of drugs and related products.

#### Drug Unit in a Large-Scale Merchandising Outlet

According to a recent survey, 14.1 per cent of new pharmacies were located inside other types of retail outlets, including 9.1 per cent in discount houses, 2.0 per cent in department stores, 1.5 per cent in supermarkets, and 1.5 per cent in variety stores.<sup>1</sup> These large-scale merchandising outlets are apparently attracted to drug dispensing because of various factors, including attractive profit margins, the desire to add prestige to their operations, an attempt to diversify their operations, and the use of the drug departments to establish traffic and maintain "one-stop" shopping for their customers.

Thrusting itself upon a retail drug distribution system previously dominated by the independent drug store is the recent advent of the "discount house." This enterprise, like grocery supermarkets, constitutes a new trend towards

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<sup>1</sup>"14.15 of New Pharmacies . . . ," op. cit., p. 5.

one-stop shopping, and illustrates the use of organizational techniques. The emphasis on volume sales with low unit margins of profit has extended to prescription sales and has constituted the biggest single factor in reducing prescription and drug prices in metropolitan areas.

These operations have undoubtedly already caused the failure of many independent drug stores in metropolitan areas, and their probable expansion constitutes a prospective element of change in the customary retailing methods of the past. This is a subject of constant conversation and concern among independent retail pharmacists throughout the country. The best available data indicates there are about 700 discount store prescription departments in existence today.<sup>1</sup>

Because of the sales volume of these prescription departments, their effect on competition is far greater than the number of outlets would indicate. The American Druggist estimates that 90.6 per cent of U. S. drug stores are now confronted with "discount competition." As a result, according to their survey, 44.2 per cent of these drug stores have suffered sales declines averaging 11.1 per cent.<sup>2</sup> If the discount outlet does not feature a prescription drug department, it will usually offer a wide line of drug, health, and beauty aids at reduced prices. Often the prescription

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<sup>1</sup>"Discount Competition," American Druggist, July 23, 1962, p. 5.

<sup>2</sup>Ibid.

department is operated under a lease arrangement with a drug chain operator, or an independent pharmacist.

The introduction of only one large discount operation in a metropolitan area leads to price-cutting which permeates the entire area. As yet, only the metropolitan areas have been seriously affected, but the recent introduction of prescription departments in increasing numbers by grocery supermarkets, variety stores, and other large-scale operators has indicated a possible change in control of drug distribution.

These operations may represent the breaking of the customary price structure on prescription and drug products, and introduce elements of concern for the professional pharmacist. As pointed out previously, the professional pharmacist views the dispensing of drugs as a personal relationship between himself and his customers. He feels that the relationship should be controlled in a professional atmosphere, rather than one in which merchandising considerations are predominant. He generally believes that discount operations represent predatory price-cutting practices which may destroy pharmacy as a profession by lowering profit incentives.

Discount houses may be over-rated as a source of competition for the independent druggist, according to Dan Rennick, Editor of the American Druggist. He reports that the average discount house with a prescription department is currently doing about \$45,000 in prescription business per year, as compared with \$68,000 in prescription business currently

being handled by the average shopping center store.<sup>1</sup> The chief characteristic of the discount house appears to be low prices, whereas the chief characteristic of the shopping center store appears to be a big parking lot which emphasizes convenience. Rennick concludes that convenience will always be a more pertinent factor in regard to drug sales than price competition. He supports his contention by citing various surveys which show that housewives shop predominantly on the basis of convenience, rather than price.

The food retailing chains have recently shown an increased interest in establishing beachheads in the retail drug trade.

The basic incentive for the growing crop of mergers in the retail field, it has been evident from the beginning, is the appeal to food chains of the relatively high margins on typical drug products, plus efforts to strengthen competitive positions via diversification of product lines.<sup>2</sup>

Food chains have long operated departments featuring toilet articles and proprietary medicines. Paul C. Olsen, a leading drug marketing authority, has commented as follows:

Supermarkets and other food stores have found that if they continue to retail drug products, their costs for handling and selling these articles become about the same as those of drug stores, department stores, variety stores, and other retailers dealing in these lines.<sup>3</sup>

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<sup>1</sup> Dan Rennick, "Straight Talk," American Druggist, October 1, 1962, p. 17.

<sup>2</sup> "If Food Chains Purchase . . . , op. cit., p. 5.

<sup>3</sup> Olsen, Marketing Drug Products, op. cit., p. 204.

He further stated that in instances when they have succeeded, they have done so because ". . . they are doing as good a job as their competitors or better."<sup>1</sup>

Department and variety stores also have featured staple toilet articles and preparations for many years. In a few cases, extensive lines of proprietary medicines are also sold, and occasionally a prescription department is featured.

According to the American Druggist, 187 department stores in the United States include prescription departments, with one out of every three of these departments established in the past 10 years. As state pharmacy boards have recently shown a disposition to "get tough" about restricting the sales of non-prescription drugs to establishments supervised by registered pharmacists, more and more department stores have decided to employ pharmacists, so they can continue to sell "restricted" drugs.<sup>2</sup>

The movement of department stores to establish prescription shops was recently dramatized by the opening of the first Sears, Roebuck and Company drug store in Ft. Worth, Texas.<sup>3</sup> Some variety chains also have expanded recently into

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<sup>1</sup>Ibid.

<sup>2</sup>"33% of All Dept. Store Rx Sections Were Launched in the Past Ten Years," American Druggist, January 22, 1962.

<sup>3</sup>"The First Sears Pharmacy," Drug Topics, July 2, 1962, p. 1.

the "discount" type of operation and are establishing prescription drug departments.

#### Retail Drug Price Competition

Price competition has played an important part in the development of our present retailing structure. In the early part of this century, the mass production of proprietaries and patent medicines resulted in price-cutting. Defenses against this led to the unification of as many stores as possible into one organization, either as chain stores or as voluntary agency stores under a contract to handle certain lines of merchandise.

Certain drug firms operated their own chain outlets and also maintained "agency" contracts with independent financial units who agreed to purchase minimum amounts of merchandise (often including private brands manufactured by the supplier), in exchange for special discounts, local and national advertising, and a distinctive store sign.

In the 1930's the introduction of "fair trade" laws exerted a profound influence on the nature of our present retailing system. These laws made it possible for the manufacturer to use contracts binding on all parties in enforcing his prices. The trend toward the chain store and integrated retailing practices was apparently checked by these laws, which served to protect the price structure for the small independent drug store retailer. Accompanying the "fair trade"

laws and anti-chain store legislation of the 1930's was a resurgence of the desire of the public for personalized service, which also played a part in stopping the trend toward combination retailing of drugs.

Recent court decisions have invalidated "fair trade" laws in many states. In metropolitan areas there is extreme pressure on the price structure of drug products as well as other merchandise with resulting emphasis on quantity and group buying and distribution policies as a means of securing a price advantage.<sup>1</sup> This is resulting in an increase in chain store operation, multiple store operation, and associated buying groups. With the emphasis on reduced prices, the independent drug store operator again is seeking means to purchase more advantageously through cooperative buying practices.

The partial invalidation of fair trade laws has thus played a major role in bringing about an unregulated price structure on drug products. As a professional man the pharmacist generally believes that the price of his product should include a professional fee.<sup>2</sup> Because of the dual nature of the distribution of drug products, in which the price of the prescription represents both the price of the medicine and the cost or fee of dispensing, the pricing of prescriptions

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<sup>1</sup> "McKesson Tests Voluntary Ad 'Chains'," American Druggist, May 14, 1962, p. 9.

<sup>2</sup> Clark, op. cit., p. 111.

presents a serious problem to the pharmacist. Sales of merchandise are traditionally based on competitive pricing in this country, yet professionalism represents the antithesis of price cutting--thus the professional pharmacist, in attempting to establish uniform rate schedules for the pricing of drugs, is confronted with possible violation of governmental price-fixing restrictions.

In addition, the recent expansion of the drug industry has brought about increased competition in the pricing of drug products. In recent years, the American Pharmaceutical Association in its publications has recommended the use of a professional fee system of pricing prescriptions, in which a fee would be added to the cost of the drug, but wide acceptance has not yet been achieved.

Accompanying this trend toward emphasis on price in drug distribution is the opposing trend leading toward the professional prescription shop, in which professional service generally takes precedence over price considerations. These apothecary shops may be located on separate premises or located in a medical arts building. Generally, a large segment of the public appears to be patronizing outlets in which quality and professionalized personal service devoted entirely to the distribution of drugs and related items is stressed.

At the same time, the drug store statistics indicate that the number of prescription shops located within other

retail outlets, such as grocery stores, variety stores, and discount houses is increasing. While the location of the prescription shop within another retail outlet generally results in the full-time dispensing of drug products by registered pharmacists, this is generally accompanied by volume sales based on a price emphasis without the close professional relations and professional control usually associated with the prescription apothecary.

#### The Preparation of Drug Store Managers and Owners

Drug retailing is presently undergoing rapid changes and there appears to be a very real danger that drug dispensing may become an operation lacking in professional character. If the drug store is to be the "professional health center of the community," the pharmacist should possess a knowledge of business that will enable him to function effectively in his dual capacity as professional pharmacist and business man.

Today the curriculum for preparing pharmacists who will become prospective drug store owners and managers is divided into four distinct phases designed to emphasize the development of:

1. General knowledge.
2. Technical pharmaceutical competence.
3. Business administration ability.
4. Background of practical experience.

This educational pattern is an outgrowth of a number of significant stages in the development of the pharmacy curriculum.

## General Knowledge

The inclusion of general education courses in the preparation of pharmacists has been based on the realization that professional specialized education must be supplemented by basic knowledges of the complex world in which we live.

Under the American system, professional men largely set the fundamental pattern of national life. The character of that pattern depends not alone on their technical ability . . . it also depends . . . upon their attitudes. The ends toward which abilities are used are just as important in determining the outcome in national life and individual life as the abilities themselves. . . .<sup>1</sup>

That a broad education in the ideas and ideals of civilization and in the organization and management of a democratic social order is a major concern in all higher and professional education has been recognized by the Pharmaceutical Curriculum (a comprehensive published report prepared for the Committee on Curriculum of the American Association of Colleges of Pharmacy).<sup>2</sup> It is generally appreciated that the question of general education cannot be evaluated in terms of the immediate material value of such education to the student. Instead, it must be viewed from the standpoint of the ultimate

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<sup>1</sup> Robert E. Doherty, The Development of Professional Education. (Pittsburg, Pa.: Carnegie Press, Carnegie Institute of Technology, (1950), pp. 32-33.

<sup>2</sup> American Council on Education, Pharmaceutical Curriculum, Committee on Curriculum, American Council on Pharmaceutical Education, Lloyd E. Blauch and George T. Webster, (Washington, 1952), p. 64.

value of the student's education to himself, to his profession, and to society as a whole.<sup>1</sup>

During the early development of pharmacy curricula, only passing interest was given to the establishment of a general education background as a basis upon which to build professional and scientific training. As late as 1948, the majority of the colleges of pharmacy included in their curricula fewer than 15 semester hours in the humanities and social sciences.<sup>2</sup>

Furthermore, it was observed that the programs of courses then in existence included few, if any, courses which aimed at the application of imagination and intelligence in the consideration of social problems and in the administration of public affairs.<sup>3</sup> The Pharmaceutical Curriculum published in 1952 recommended that general education should be stressed to a greater extent.

With the adoption of the five-year pharmacy curriculum by all accredited schools of pharmacy, the general education programs as presently conceived are included principally

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<sup>1</sup>George E. Crosses, "Education vs. Training in Pharmacy," American Journal of Pharmaceutical Education, XI (1947), p. 257.

<sup>2</sup>American Council on Education, Pharmaceutical Curriculum, op. cit., p. 74.

<sup>3</sup>Ibid., p. 75.

in the first two years, under the popular two-three plan.<sup>1</sup>  
 It is contended by many that rather than concentrate the general education courses in the pre-professional program, these courses should be interspersed throughout the five-year program.

Many problems remain in implementing an effective general education program in pharmacy schools. Lloyd Parks, Dean of Pharmacy at Ohio State University, asks for greater emphasis on general education as follows:

For years there has been a difference of opinion as to the value of the so-called general education courses in the curriculum, and this extends to even the five-year program. . . . We are frequently criticized for lack of "practical" courses in the curriculum. . . . What could be more "practical" for the pharmacist . . . than a better ability to use his native language . . . a better knowledge of psychology . . . economics . . . sociology and political science to understand better his position in the changing environment . . . to which health professions are being subjected? It may well be that the future of pharmacy will depend as much on these things as upon the professional competence of the pharmacist.<sup>2</sup>

Because of local requirements, in some universities rigid programs of general education in pre-professional areas are not subject to modification by the different professional schools. Consequently, great variation exists in current general education programs as administered in pharmacy

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<sup>1</sup>This plan includes two years of pre-professional (or general education) training and three years of professional training.

<sup>2</sup>Lloyd D. Parks, "What Price Professionalism," American Journal of Pharmaceutical Education, XXV, (1961), p. 533.

schools. The problem of the integration of general education electives within the professional curriculum is one which remains unsolved by all professional schools, not just those offering the pharmacy degree.<sup>1</sup>

#### Technical Pharmaceutical Competence

The founding of the American Pharmaceutical Association in Philadelphia in 1852, marked the beginning of a national organization to improve the technical competence of pharmacists in this country. Its founders admitted that many were engaged in the practice of pharmacy who were not properly qualified.<sup>2</sup>

Further impetus was given to the development of technical competence in 1904, when the New York legislature adopted a law that made graduation from a school of pharmacy a prerequisite for examination and registration by the State Board of Pharmacy. In 1915, Pennsylvania followed suit and at present practically all the states have adopted similar legislation.

In 1900, a college association was founded under the name of The Conference of Pharmaceutical Faculties (changed

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<sup>1</sup> Edward S. Brady, "The Six-Year Program the First Decade," American Journal of Pharmaceutical Education, XXIII, (1959), p. 76.

<sup>2</sup> American Council on Education, The General Report of the Pharmaceutical Survey, 1946-1949. Committee on the Pharmaceutical Survey, Edward C. Elliott, Director (Washington, 1950), p. 3.

to American Association of Colleges of Pharmacy in 1925). Since its establishment, the length of the course in the recognized pharmacy schools was first increased from one to two years, and then in 1925, to three years. In 1932, the three-year course was replaced in the accredited schools of pharmacy by a full academic course of four years, placing pharmacy on the same footing with other branches of science taught in institutions of higher learning. In April 1960, the five-year minimum course was made mandatory for all accredited pharmacy schools.

Pharmaceutical Curriculum.--Specific concern for the technical and other phases of the pharmacy curriculum was first evidenced in 1910 when the Pharmaceutical Syllabus was first compiled by the New York State Board of Pharmacy. It was originally prepared by a Syllabus Committee composed of members of the Boards of Pharmacy and representatives of the American Conference of Pharmaceutical Faculties. The Syllabus was revised five times and represented a significant effort extending over a 36-year period to determine what should be included in a pharmaceutical curriculum.

The Syllabus consisted of a general outline of courses of study by subjects and hours of instruction, with a series of detailed outlines of subjects to indicate the

general scope and character of the instruction to be given by the teacher and the work to be done by the student.<sup>1</sup>

The purpose of the national syllabus was to give all state boards of pharmacy a uniform outline of the ground to be covered by their examinations and give the colleges and examinees definite knowledge of the preparations expected by the boards. The Pharmaceutical Syllabus, as developed in 1910 and utilized with revision until 1946, gave increasing emphasis to required amounts of technical preparation. For example, the specific clock-hour requirement in physical sciences and mathematics in 1910 was 400 hours. The requirement was increased through the years to 960 clock-hours in 1945.

In 1932, the American Council on Pharmaceutical Education was organized to serve as an accrediting agency for schools of pharmacy. It is composed of three members each from the American Association of Colleges of Pharmacy, the American Pharmaceutical Association, and the National Association of Boards of Pharmacy, along with one representative from the American Council on Education.<sup>2</sup> The Council, beginning in 1937, required the colleges to use the Pharmaceutical Syllabus as a curriculum guide. Because of later objections

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<sup>1</sup>American Council on Education, The Pharmaceutical Curriculum, op. cit., p. 20.

<sup>2</sup>H. G. Hewitt, "Pharmaceutical Education in the United States," American Journal of Pharmaceutical Education, XXII, (1958), p. 159.

to the rigidity of the Syllabus, the Council, in 1946, abandoned its use as a basis for accreditation. This led to the establishment of a Committee on Curriculum of the American Association of Colleges of Pharmacy, which published the Pharmacy Curriculum in 1952 to serve as a guide to colleges in establishing their respective curricula.

The Pharmaceutical Survey<sup>1</sup> was the basis upon which the Pharmaceutical Curriculum of 1952 was formulated. This comprehensive survey was directed by the American Council on Education and was financed by the American Foundation for Pharmaceutical Education. This is an organization established in 1942 and supported by the leading drug manufacturers, the various drug outlets, and the pharmaceutical press. The Pharmaceutical Survey assembled, to the extent possible, the critical facts relating to the pharmaceutical education, practices, services, and trade. This survey has constituted a tremendous benefit in the development of pharmaceutical education.

The Pharmaceutical Curriculum of 1952, still followed quite closely by the colleges, contains recommended courses to be offered and suggested course outlines, accompanied by general recommendations as to educational philosophy and objectives. A total of 29 technical subjects carrying 145 semester hours of credit are recommended, apart from those

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<sup>1</sup>American Council on Education, The General Report of the Pharmaceutical Survey, op. cit.

subjects which deal with the humanities, social studies, and English in the general education of a pharmacist.<sup>1</sup> Pharmacy administration is recognized as an essential phase of the total pharmacy preparation program, with an additional fifteen credit hours of recommended course work. It is self-evident that the Pharmacy Curriculum is intended for use both as a guide for the five-year program and a goal to be achieved in a six-year program.

#### Business Administration

Interest in pharmacy administration courses and the offering of them has developed slowly. Perhaps the best evidence of this is that in the 1945 Edition of the Pharmaceutical Syllabus only 144 clock hours (the equivalent of 9 semester credit hours) of pharmacy administration study was recommended.<sup>2</sup>

The development of the Pharmaceutical Curriculum in 1952 served as a guide in expanding somewhat the offering of pharmacy administration courses. There is today remaining much confusion and indecision relative to the need for development of business administration ability among pharmacists. The study area has, however, been defined as follows:

Pharmacy administration . . . is the study of the acquisition, management, and operation of a

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<sup>1</sup>American Council on Education, Pharmaceutical Curriculum, op. cit., p. 190.

<sup>2</sup>Ibid., p. 172.

retail pharmacy. Broadly conceived, it deals with facts and principles that are appropriately covered under economics, accounting, drug marketing, pharmacy management, and pharmaceutical law.<sup>1</sup>

The Pharmaceutical Curriculum in 1952 recommended 15 credit hours in pharmacy administration, distributed among five 3 semester hour courses as follows: principles of economics, as a foundation course; drug marketing; pharmacy accounting; pharmacy management; and pharmaceutical law (business law as an additional elective.) Courses in pharmacy administration offered in the colleges in 1952 averaged nine semester hours. Thus the recommendation involved an extension of the offering amounting to six additional semester hours.

It is apparent that the administrative aspects of pharmacy have long been recognized as essential to instruction in colleges of pharmacy. Instruction in the field of pharmacy administration is offered by all colleges of pharmacy, but in varying amounts. For example, one college may offer a single course in pharmaceutical law; in contrast, another college may include courses totaling as many as 18 hours of credit, including the subject areas of economics, accounting, drug store management and jurisprudence.

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<sup>1</sup>Ibid., p. 169.

An article by Nelson<sup>1</sup> in 1959 indicates that some pharmacy administration courses are much more widely taught than others. Pharmaceutical law ranks first, with 71, or 97.3 per cent of the colleges of pharmacy offering a course under that title. Pharmacy management ranks next in popularity; a total of 95.9 per cent of the reporting colleges indicated that this subject is given. Pharmacy accounting is listed by 93.2 per cent of the reporting colleges. Drug marketing is taught in 68.5 per cent of the colleges and principles of economics in 89 per cent.<sup>2</sup>

Nelson reported also that business law is offered as a separate course in thirty-seven, or 50.7 per cent, of the colleges. Seven colleges combine business law with their course in pharmacy law, while two colleges make business law a part of pharmacy management course. Four colleges combine drug marketing with pharmacy management; also, one college combines drug marketing with two courses in its curriculum; namely, pharmacy management and new and official preparations. It will be noted that the customary hours of credit offered in the majority of subjects is 3 semester hours. Pharmacy management has the greatest range, consisting of one to eight semester hours of credit. Pharmacy law ranks second with the

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<sup>1</sup>Harold Nelson, "Pharmacy Administration Courses in Our Colleges of Pharmacy," American Journal of Pharmaceutical Education, XXIII, (1959), pp. 439-455.

<sup>2</sup>Ibid., p. 446.

greatest range of semester hours of credit; namely, two-thirds to six semester hours.<sup>1</sup>

Several of the colleges surveyed by Nelson indicated that through offering more specific courses dealing with aspects of pharmacy administration, they are better fulfilling the purposes of education for pharmacy administration. The following courses are some they are offering: principles of economics, business law, business correspondence, public speaking, typewriting, advertising, salesmanship, marketing, and statistics.<sup>2</sup>

Nelson recommended that the titles of all pharmacy administration courses be made uniform and narrowed down to the six basic subjects as set forth in the Pharmaceutical Curriculum.<sup>3</sup>

In a study of the implementation of the five-year professional program in three typical schools of pharmacy, it was found that the number of credit hours for required courses of the business type (economics, accounting, administration, etc.) ranges from 9 to 18 hours.<sup>4</sup>

In composing a list of the assets and liabilities of the pharmacy administration curriculum, Kern lists four items

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<sup>1</sup> Ibid., pp. 446-447.

<sup>2</sup> Ibid., p. 453.

<sup>3</sup> Ibid., p. 455.

<sup>4</sup> Gunnar Gjerstad, "The Implementation of the Five-Year Program," American Journal of Pharmaceutical Education, XXV (1961), pp. 295-297.

of major concern: (1) personnel; (2) equipment; (3) curriculum; (4) enrollment.<sup>1</sup> It appears that the lack of capable teachers has been a retarding factor in the growth of courses in this area. Also, the frequent lack of a retail pharmacy laboratory with fixtures, equipment, and merchandise creates an instructional problem. Kern predicts that the currently recommended 15 to 18 hours of instruction in pharmacy administration in the five-year program may possibly be increased to 25 hours with the probable adoption of a six-year pharmacy program by 1975.<sup>2</sup>

#### Practical Experience

Before formal college education was established as the basis of licensing pharmacists, those who wished to learn pharmacy served apprenticeships with pharmacists. The purpose of colleges of pharmacy was originally intended to supplement, rather than replace, this practical apprenticeship. As a result, college training was looked upon as a substitute for practical experience.

Later, with the adoption of the four-year curriculum, the apprenticeship period generally became one year. At present, practical experience in a licensed pharmacy is a prerequisite for licensure in practically all the states, but

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<sup>1</sup>Joseph H. Kern, "Pharmacy Administration, Its Assets and Liabilities," Journal of Pharmaceutical Education, XXIII, (1959), p. 591.

<sup>2</sup>Ibid., pp. 591-593.

there is a wide variance in the requirements as to the manner in which this experience must be obtained. The evidence reported in the Pharmaceutical Survey raised serious doubt as to the value of the practical experience for professional purposes.<sup>1</sup>

The judgment of the committee which prepared the Survey was that pharmaceutical education was treading on precarious ground in depending upon a practical experience requirement which frequently was loosely administered. The conclusion was reached that the full benefits of the practical experience requirement as an educational procedure was not likely to be realized until it could be carefully controlled and directed by the colleges of pharmacy.<sup>2</sup>

This points up the difficulties in bringing the generalities and the practicalities of pharmacy administration together during a student's residence in college. It has been recognized that colleges of pharmacy tend to hold to an idealistic view of pharmacy, and that their programs emphasize the scientific and professional aspects.<sup>3</sup> This has led to severe criticism by the more commercially-minded operators of drug stores.

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<sup>1</sup> American Council on Education, The General Report of the Pharmaceutical Survey, op. cit., p. 130.

<sup>2</sup> Ibid., pp. 130-131.

<sup>3</sup> American Council on Education, The Pharmaceutical Curriculum, op. cit., p. 188.

The educational aspect of retail pharmacy consists of two phases--the pharmacy administration courses and the practical experience requirement for licensure. The dual nature of the problem was described by Dr. Rex Call as follows:

The only way to become a better merchandiser is to learn "on the job," or to accelerate this training period via academic experience. College training . . . will greatly shorten the time necessary for the pharmacists to acquire proficiency in such areas as buying, display, store location and layout, advertising, training of personnel, inventory control and pricing.<sup>1</sup>

The problem of implementing an effective internship program for pharmacists, similar to that used in medicine, has been vigorously debated for many years.

The importance of practical experience cannot be overemphasized as a prerequisite to licensure if it is properly supervised and administered. Yet we find that as the formal educational requirements have increased, the practical experience requirements have decreased and have become the most neglected educational qualification in pharmacy.<sup>2</sup>

Brown recommends that before adding another year of formal training to the college curriculum, the year of apprenticeship should be made a year of worthwhile professional training, uniform in all states. She suggests that the National Association of Boards of Pharmacy is the central organization to accomplish this.<sup>3</sup>

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<sup>1</sup> Rex V. Call, Drug Topics, (January 7, 1959), p. 16.

<sup>2</sup> V. Jean Brown, "The Year of Apprenticeship Its Use and Misuse," American Journal of Pharmaceutical Education, XXVI, (1962), p. 48.

<sup>3</sup> Ibid., p. 50.

It appears that there is a trend toward having the internship controlled largely by the college faculties in collaboration with practicing registered pharmacists who are approved by the college. Thus the druggist would undergo periodic training by the college, and the internship would constitute a credit course in the college.

Some of the knowledges and abilities which the student should acquire from pharmacy administration courses and the practical experience requirement, as suggested by the Curriculum Committee of the American Association of Colleges of Pharmacy are as follows:

1. ability to establish and maintain proper customer-pharmacist relationship, interprofessional relationship;
2. confidence, efficiency and dispatch in prescription practice;
3. familiarity with brand names and package types of drugs, proprietaries, and microbiological and biological specialties;
4. familiarity with drug sundries, and health and sickroom supplies;
5. acquaintance with the mechanics of ordering and keeping inventories of narcotic drugs;
6. a method and knowledge of the importance of establishing an efficient routine for handling the essential details for store housekeeping;
7. information about the seasonal recurrence of demands in medication and merchandise and the importance of buying merchandise in proportion to sales volume of the store so the inventory is kept in balance; and
8. ability to make decisions regarding purchasing, store arrangement, and financing.<sup>1</sup>

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<sup>1</sup>American Council on Education, The Pharmacy Curriculum, op. cit., p. 195.

### Summary

Pharmacy has developed as a separate profession which has been largely practiced in the general type drug store in this country. The emphasis of the pharmaceutical industry on pre-compounded brand name products and packaged medication has favored the establishment of this type of outlet.

The regulation of the distribution of drugs has been centered in state boards of pharmacy, which function to enforce state laws regulating the distribution and sale of drug products. State laws generally require the handling of drugs by registered pharmacists who must undergo collegiate preparation for licensure.

With the rapid growth of the pharmaceutical industry and the increase in drug distribution, the retailing of drugs is undergoing rapid change. The influence of large scale retailing practices is making itself felt, and traditional controls and practices in the distribution of drugs and related products are being challenged. The invalidation of fair trade laws in many states has led to increased emphasis on price competition in which the typical independent retailer is seeking means to compete effectively with large scale retailing practices.

Accompanying the trend toward the retailing of drugs in large-scale outlets is the divergent development of the relatively small professional prescription pharmacy or clinic pharmacy. A sizable segment of the public apparently prefers

a professional type of outlet which restricts its activities to the selling of drugs and related drug products.

Today, collegiate preparation for the practice of retail pharmacy must include (1) general knowledge; (2) technical pharmaceutical competence; (3) business administration ability; (4) and a background of practical experience. The Pharmaceutical Curriculum recommends a 160 semester hour program of technical and business preparation including 145 hours of technical pharmaceutical courses, and 15 semester hours of pharmacy administration courses. In addition, emphasis is placed upon the importance of general education courses and the necessity for supervised practical experience. With the recent adoption of the five-year program, steps have been taken to implement the total curricula.

The pharmacist must possess the necessary knowledge to assume his responsibilities as a competent professional man, business man, and responsible citizen. He must be professionally competent. He must have a knowledge of the business world in which he will practice, including techniques of buying, selling, accounting, finance, management, and public relations. The professional and administrative aspects of the retail practice of pharmacy should be integrated into areas of practical application by means of an internship or practical experience requirement, preferably under supervised conditions.

It appears that if the control and direction of retail outlets distributing drugs and related drug products is to continue to be professional in character and sound in its business practices, pharmacists must be prepared to compete effectively and provide the public with both the professional and business service it requires.

## CHAPTER III

### PROCEDURE IN DEVELOPING THE CASE STUDY INFORMATION

This chapter constitutes a description of the procedure utilized in this study for collecting, analyzing, and summarizing the primary data accumulated by means of the case study technique. In this investigation, a "case" consists of a relatively detailed report of the operations of one retail drug outlet. Each of the 40 cases involved includes a comprehensive description of operations, analysis of related information, and summarization of the significant elements of management in the maintenance of the particular drug store.

#### General Circumstances

Help from the Dean and faculty members of the School of Pharmacy, Southwestern State College, was utilized in the selection of each of the 40 drug store outlets. From a list of recommended outlets, individual stores were selected because: (1) they were representative of the four distinct types of drug retailing, (2) SWSC graduates owned or managed them, (3) the stores were located in parts of Oklahoma and Texas where most SWSC graduates practice pharmacy, (4) the persons involved were willing to freely impart the required

data, and (5) interview conferences could be arranged within circumstances reasonable to both the interviewee and the interviewer. The data accumulated in the last 10 of the 40 interviews added no new material of value in formulating the philosophy and guide to instruction which are presented as the outcomes of this investigation. The data in those cases, however, was extremely useful as it provided reinforcement of the findings in the first 30 interviews.

The drug units selected for this investigation include stores that are representative of the four distinct types of outlets which characterize drug retailing. The four types of retail outlets are: (1) independent retail drug stores, (2) national chain drug stores, (3) prescription and clinic pharmacies, and (4) drug units located in large-scale merchandising outlets.

In each of the 40 drug stores involved a graduate of the School of Pharmacy of Southwestern State College functioned as an owner and/or manager. Thus, it was possible to acquire information from individuals who had obtained their pharmacy preparation under substantially similar conditions. This made possible the formulation of certain required basic assumptions and facilitated accurate interpretation of findings.

Most of the pharmacy graduates of Southwestern State College are located in the central and western parts of Oklahoma and in the northwest part of Texas. Of 476 pharmacists

who graduated from 1941 to 1962 inclusive, approximately 218 are located in Oklahoma and 158 in Texas. The graduates are engaged in the practice of pharmacy in small, medium, and relatively large communities. Therefore, the 40 drug stores studied in this investigation were chosen relative to location as follows: 7 in towns having less than 5,000 inhabitants, 7 in towns having from 5,000 to 20,000 inhabitants, 11 in cities having 20,000 to 100,000 inhabitants, and 15 in metropolitan areas with more than 100,000 inhabitants. The variations in population and geographical location typify the communities in which most future pharmacy graduates of Southwestern State College will enter the practice of retail pharmacy and assume positions involving management responsibility.

The collection of the case study information involved personal interviews conducted with owners and/or managers. The interviews were conducted between June 14, 1962, and November 27, 1962. Each interview was preceded by an introductory letter from the Dean of the School of Pharmacy of Southwestern State College to the person to be interviewed. In addition, each prospective interviewee was contacted by letter for the purpose of setting up the interview.

The interviews were conducted in the work environments of the drug stores. Thus, during each interview the store layout and display, along with various store records and related data were available for examination. The time spent in the interviews ranged from one to three hours, depending upon

the interruptions encountered and the extent of the interest and cooperation displayed by the interviewee. Generally, the drug store owners and managers were interested in discussing their management problems and were appreciative of the interest shown by the interviewer.

In each case the interviewer guided the discussion through the use of a brief outline of the interview topics. With the exception of data regarding the nature of the business operation which were entered during the interview, the interview was conducted with a minimum of note taking. Because of the informality of this procedure, the owners and managers responded in an unrestricted manner and exhibited their individual concerns in discussing elements of management essential to this study. Immediately upon the completion of each interview, all portions of the interview guide used for ensuring uniformity in the gathering of case information were filled in with care.

#### The Interview Guide

One of the steps in the procedure for this investigation involved the preparation of a tentative interview guide and its utilization in a number of trial interviews. This step made possible determination of the availability of information, the adequacy of the questioning procedure, and the most appropriate methods for conducting the interviews and recording data. From the information obtained in each of the

trial interviews and recorded in the interview guide, a case study report was written relative to the individual drug store unit. Based on the experience gained in the trial interviews, certain changes were made in the interview guide and in the methods of procedure. Using the revised interview guide, owners and/or managers in 40 retail drug outlets were then interviewed to gain the information with which this investigation is concerned.

A completed interview guide is presented here to illustrate how information obtained in an interview was recorded for development later into a case study report.

Date August 8, 1962  
 Code Number 16

### INTERVIEW GUIDE

#### I. Nature of Business Operation

##### A. Data concerning business operation

Annual sales \$ 375,000  
 Merchandise inventory \$ 65,000  
 Merchandise turnover 4  
 Amount of prescription business as a per cent of  
 total sales 35 per cent  
 Amount of charge sales as a per cent of total  
 sales 50 per cent of prescription sales  
 Accounts receivable outstanding \$ 10,000  
 Length of time in operation 2 years  
 Fountain (yes or no) Yes  
 Operation (independent, agency, chain, or branch)  
independent  
 Approximate population of city or town 128,000  
 Number of employees 8 on regular duty staff --  
3 fountain; 3 front end; 1 pharmacist; 1 assistant  
 Approximate size of store 6,000 sq. ft. (60 x 100)  
 Location in trade area:  
 In shopping center, near a supermarket -- adjacent to a  
 variety store. Store occupies end position nearest street  
 intersection -- easily seen in all directions -- spacious  
 parking.

##### B. Distinctive characteristics of operation:

Includes sale of cosmetics, photographic supplies, gifts, and  
 complete fountain service. Four listed telephones. Store  
 hours from 7:30 a.m. to 10:00 p.m. daily -- 8:00 a.m. to  
 8:00 p.m. Sundays. Free delivery service. Publicized by the  
 Southwestern Drug Company in the American Druggist magazine  
 as a model store layout, using their fixtures. Designed for  
 convenience and efficiency. Extremely modern. Store is an

outgrowth of another shopping store operation taken over six years ago by two former graduates who own two-thirds interest.

C. General objectives of manager:

To serve the customer. To learn something every day to improve the business operation.

D. Business philosophy of manager:

Manager believes corner drug store represents pharmacy at its best. Accessibility to the public permits pharmacist to meet and serve more people than any other type of drug outlet. He believes that store location and personnel relations are the principal factors in his store's success. Store's motto is "Service".

II. Merchandising of Products and Services

A. Buying practices and principles

1. Sources

a. Independent:

Concentration of most purchases with one wholesaler. Partners believe this insures special services. With two stores, they buy more than any other account in the area.

b. Cooperative

None. Not a member of any wholesaler's or cooperative volume and advertising plan as yet. Manager does not like the present type of advertising being used in this area -- believes it to be unprofessional.

c. Direct buying

Usual amount of direct purchases from manufacturers. Consolidation of direct purchases with that of original store operation.

d. Other

Store features own private brands, purchased direct. "We purchase these unnamed brands from a special source and practically all of our customers will

take our professional advice and buy these brands if we explain that our own brands contain the same ingredients as name brand drugs." Adds to store prestige. Includes over-the-counter drugs, such as vitamins and cold preparations.

2. Principles: Discount and Merchandise turnover policies

Average turnover. Management takes all discounts.

B. Pricing policies and practices

1. General

Competitive on front-end merchandise. Recommended prices generally followed in the prescription department.

2. Competitive and/or non-competitive

Competitive. Loss leaders featured -- considered a must. Customer traffic must be encouraged, even if customers are allowed to "steal" some of the merchandise. Manager believes fair trade does not work the way most think -- fair trade prices are minimums, generally preventing higher prices on some products. Specials often featured on fountain items. Operate somewhat on philosophy of "buy for the poor and walk in riches -- buy for the rich and end up in rags."

3. Marking

No comment.

C. Nature of competition

1. Sources

Discount houses, but none with prescription departments. Some from chain grocery store with prescription department -- not too severe yet, though it is cutting prices. Grocery stores may be hiring pharmacists to be licensed to sell certain drug products which do not require a prescription.

2. Unethical competition

Do not exchange prescriptions with the grocery store -- one physician has objected. "X" Clinic Pharmacy appears to be rebating 25 per cent to physicians for prescriptions -- this clinic also refused to exchange prescription copies, instead encouraging physicians to write repeat prescriptions to increase its business. This clinic was approved by the American College of Apothecaries over protests of most pharmacists in the area. Manager insists the best recommendation of a pharmacist is that of his competitors.

3. Ways of meeting competition

Service. Advertising. Personal attention to customers.

D. Advertising

1. Advertising effort

Manager believes advertising important but not critical -- personal service more important. Area of store trade has been mapped by registration devices evolved from advertising promotions.

2. Policies in regard to promotional sales

Generally weekend specials, utilizing handbills.

3. Profitable types of advertising

Handbills best. Limited newspaper advertising. Radio used some.

E. Selling practices

1. Personal selling, self-selection, and self-service

"We attempt to know all our customers by their first names -- there's nothing sweeter to the customer."  
Ladies prefer self-service. Trial-and-error method of training clerks. Occasional store meetings between the two stores.

## 2. Layout and display

Store fixtures and layout by Southwestern Drug Company. Expensive, but worth it. Designed for maximum efficiency. Rounded corner in cosmetics department which has wrapping counter. Prominent prescription department — 28 x 20 and raised — low ceiling front for emphasis. Check-out cash register adjacent to two entrances. Original design unsatisfactory — new entrance installed adjacent to street traffic now popular entrance.

### F. Nature of inventory and purchase control

No systematized control. Biannual statements and individual supervision.

### G. Traffic promotion and special services

#### 1. Devices and methods to increase traffic

Motto is "Customer Service". Soda fountain best traffic device. Extensive gift lines. Emphasis on after-hours service. Thread display. Free coffee and coke tickets for prescription customers.

#### 2. Special services to promote the business operation

Free delivery. Alphabetic prescription file.

### H. Credit practices in relation to customers

Emphasis on credit — no restriction other than credit application and approval. Less than one per cent bad debt losses. Utilize forms for processing bad checks with county attorney — also forms for small claims — work through the justice of peace. Maintain a file of bad check risks, at both cash registers.

### I. Legal problems

#### 1. Lease

Manager stressed that lease agreement must be carefully drawn — qualified attorney important. One sentence left out, cost \$5,000 in additional air-conditioning costs. This was brought out when lease was challenged by a discount operation. Lease held.

## 2. Other

Partnership agreement carefully drawn -- important that it be in writing.

III. Accounting

## A. Nature of financial statements and how they are prepared

Biannual statements by outside accountant who is closely associated with both store operations.

## B. Nature of analysis and interpretation of financial statements (comparisons and summaries)

No comment.

## C. Methods of accumulating accounting information

Daily summary envelopes maintained. Modern cash register. Cash control is emphasized.

## D. Accounts receivable processing

Processed by an accounts receivable processing firm. Firm furnishes microfilmed copies of accounts receivable. Projected in the store in seconds -- copying device utilized. Tickets prepared in triplicate; one copy for store, one for customer, and one for accounts receivable firm. Billing taken care of by same firm. Appears to be working very satisfactorily.

## E. Preparation of payroll and tax reports

Processed by outside accountant.

## F. Types of prescription records (other than required by law)

"Locato" alphabetic prescription files used.

## G. Departmentalization (types and purposes)

Large multi-drawer type cash register; cost, \$4,500. Sales departmentalized because of cash register capacity. One key used for both federal and state taxes. Purchased as a result of \$2,000 to \$3,000 cash shortage which could not be accounted for. After closing, manager totals cash registers and controls tapes to which employees do not have access. Accurate operation of cash registers required. Multi-drawer feature gives control. Shopping service also utilized.

- H. Procedures for paying bills and expenses  
Processed by outside accountant.

#### IV. Personnel

A. Nature of personnel

(See data concerning business operation.) Two registered pharmacists. Only trained personnel used -- too expensive to train them. Would like to train own fountain help if time would permit. Every pharmacist here has management responsibilities. When on duty each is in charge of store with authority over personnel. Manager believes pharmacy jackets should be worn to promote professional atmosphere -- other two partners have decided on white shirts and ties.

B. Selection and training

Trial-and-error supervision on the job. Very important that store personnel be friendly and pleasing in appearance. No place for "sad sacks" in store. Cannot listen to "hard luck" stories in selecting personnel. Selection of employees must be based solely on business judgment. Employees require almost constant supervision.

C. Evaluation, compensation, incentives

Fringe benefits include an airplane with free private flying lessons for pharmacist employees. Also, an outboard boat is available for use of store personnel. Both are carefully scheduled.

D. Personnel problems, internal control, etc.

Shopping service utilized to check honesty and merchandising efficiency.

#### V. Finance

A. Capital finance (sources, problems, pitfalls)

Financed principally by two partners in original store. That first store was bought almost entirely from store profits. Managing partner contributed \$15,000 for 25 per cent interest -- shares equally in management control. New store partially stocked from original store which greatly reduced expenses. Currently meeting a \$2,500 monthly obligation. Manager stressed importance of legal assistance in partnership agreement.

B. Insurance

Extensive insurance carried, which is expensive though considered absolutely necessary.

VI. Public Relations

A. Methods of promoting public relations

1. Physicians and dentists

Generally close relations with physicians.

2. Customers

Chief emphasis is placed here.

3. Employees

No comment.

B. Professional advancement of pharmacy

1. Nature of membership and participation in professional associations

One must have an effective organization if pharmacy is a profession. Local organization meets once a month -- has a grievance committee -- erring druggists are "called out" and must defend themselves. Stores are "shopped".

2. Nature of membership and participation in community activities

Some participation.

3. Attitudes towards current problems in pharmacy

Manager believes pharmacy sold by manner in which the customer is treated. Believes a dinner-club speech is not enough to sell pharmacy. Severely critical of grocery store prescription pharmacy and pharmacists who work for them. Former friend is receiving \$1,000 per month in such an operation. "He knows and we all know that when they can get a man for \$500 they'll release him or reduce his salary. He is, in my opinion, 'selling out' his profession." Manager dislikes criticism by professional clinic pharmacists. "I disagree with the professional prescription ships which claim they are more 'ethical' than retail drug stores.

They are open perhaps from 9:00 a.m. to 5:00 p.m. and many times they will not open for an emergency or leave emergency phone numbers with doctors. People don't get sick on schedule. If we are professionals, we must furnish 24-hour service. Actually, we get new business this way from the prescription shops. We will accommodate patients or doctors after hours — and they often transfer their business to us. We make it a practice to leave our phone number with doctors and notify them where we can be reached on holidays."

4. Attitudes towards educational preparation of pharmacists for business management

a. Desirable general education

No comment.

b. Types of management training desirable for pharmacy graduates

Front-end operation of a drug store deserves more attention. Emphasis on meeting the public and developing public relations and contacts. Embarrassing to hire a graduate pharmacist whose certificate says he is experienced who does not know how to run a cash register or make change. A pharmacist needs to know fountain service.

c. Communications training needed by pharmacists (speech, business letter writing, typewriting)

Speech training of some value, but personal relationships are more important.

### Report of a Typical Case

The 40 case study reports on which this dissertation is based are presented in the Appendix. One case is presented here, however, to facilitate continuity in reading and to reveal exactly how each case was written from the interview guide associated with it. Each of the case studies is presented in the present tense, indicating conditions and practices existing at the time the interview was held. Subsequent events may have brought about certain changes in management, personnel, and practices. It must be assumed, though, that these cases generally reflect continuing elements of business competencies utilized in ownership and/or management of retail drug outlets.

The completed interview guide for CASE 16, as presented in the preceding pages of this chapter, was utilized in the preparation of the report relative to the drug store which constituted "CASE 16". The complete case study report for that particular store is presented here.

#### CASE 16

##### Nature of the Store Operation

This is a new shopping center drug store located in a city of over 128,000 inhabitants. The store has been in operation for about two years and its sales amount to about \$375,000 annually on a merchandise inventory valued at \$65,000 at cost. The prescription department accounts for

about 35 per cent of the total sales, one-half of which are on credit. The store is operated in conjunction with an older shopping center store in another part of the city, which maintains a similar volume of sales. This new store represents an expansion achieved by the success of the original store. Accounts receivable for the two operations are combined with approximately \$10,000 representing the outstanding accounts.

The store features full drug and prescription departments as well as cosmetics, photographic supplies, gifts, and a complete fountain service. It occupies an area of 100 by 60 feet, and was designed by the shopping center architects. The store has been publicized in a national drug magazine as having a model store layout, utilizing new fixtures installed by a prominent wholesale establishment in this area. It is arranged to enable employees to locate merchandise and displays with maximum speed and efficiency.

This shopping center drug store is located in close proximity to a giant food chain store and a chain variety store. An important factor in the success of the store appears to be its position in the shopping center where it can be seen by street traffic from two directions. It is situated in the end position closest to the street. The store is open weekdays from 7:30 A. M. to 10:00 P. M. and on Sundays from 8:00 A. M. to 8:00 P. M.

The store manager graduated from the pharmacy school about six years ago. He purchased a 25 per cent interest in the store from the two controlling partners who own and manage the original store. He is an aggressive, alert individual and keenly interested in the success of this operation. He believes that the typical general type drug store represents pharmacy at its best, presenting the greatest opportunity for the pharmacist to serve the most people.

#### Merchandising

Buying.--The partner-manager reported that this store, in conjunction with the original store, buys principally from one particular full-service wholesaler in the area. The combined operation buys more from this outlet than any other outlet in the city. The partner believes it is better to concentrate all purchases with one supplier than to distribute them to several, thereby securing special attention and service. As yet, this store is not participating in the volume buying and advertising plan sponsored by another full-service wholesaler for independent druggists. The partner believes that the advertising methods used by this group, which include using pharmacists' pictures in advertisements, do not promote professionalism. This is a type of advertising used by merchants in other types of business. He pointed out, however, that the cooperative buying and advertising plan does have merit and indicated that, at a later date, he and

his partners may consider entering the program if they will have some control of the type of advertising to be used.

This store is experimenting with a new type of drug selling which seems to be gaining favor across the country. The store and other similar operations are buying over-the-counter drug products such as cold preparations, throat sprays, and vitamins from manufacturers who put the name of the store on the items of drug merchandise and allow the store to select the brand name. He explained:

We purchase these unnamed brands from a special source and practically all of our customers will take our professional advice and buy these brands if we explain that our own brands contain the same ingredients as name brand drugs.

He reported that the use of these private brands enables the store to make a much higher margin of profit than would be possible by selling conventional brand name drugs.

The store is supplied by the conventional sources, including substantial direct buying from manufacturers. Gift items are purchased at special gift shows promoted in a nearby national marketing center. This store operates independently.

Pricing.--The partner reported that prices are very competitive in this area, particularly on front-end merchandise. He commented that, to some extent, he and his partners use the following philosophy in buying: "Buy for the poor and walk in riches--buy for the rich and end up in rags."

Generally, recommended pricing policies are followed in the prescription department.

The store features "loss leaders" and special low prices to give a low-price image to the public. These leaders are almost a necessity, the partner commented, in order to remain competitive. It is necessary to attract customers into the store at any cost, he said, in order to build store traffic. He explained that fair trade laws do not always operate in the manner most people think they do. He indicated that the fair trade prices set by manufacturers are minimums, and that by not having fair trade, stores such as this may be able to set higher margins on certain types of merchandise. It is customary for the minimum fair trade prices to become the generally accepted sale prices. The partner would like to see a good fair trade law passed, but believes that a poor fair trade law is worse than none at all.

The informant reported that special prices are frequently featured on fountain items in order to stimulate store traffic.

Competition.--This city has one grocery chain store which features a prescription department. The grocery chain discounts prescription drugs but does not appear to be doing a great volume of business. Prices are cut from those recommended by a pricing schedule utilized by some stores in this area. The partner interviewed believes that frequently this outlet, when presented copies of prescriptions for filling,

will charge below the recommended prices at least on the first prescription, in order to create a low price image. The partner expressed some concern about this trend in drug retailing. Prescription departments are being installed in food stores, he said, in order that many drug items may be sold which do not require a prescription but can be sold only in drug outlets which are properly licensed.

Pharmacists in the area do not furnish copies of prescriptions when the prescription department of this grocery chain requests them. These pharmacists in the area feel that this type of food store outlet is a threat to the professional practice of pharmacy. One of the doctors in the city has objected violently to this prescription policy but most of the doctors have not complained.

The manager also reported what he apparently believes to be an extremely unethical clinic pharmacy operation. He believes that this clinic pharmacy regularly returns a 25 per cent rebate to physicians who send their patients to this pharmacy. The pharmacy refuses to furnish copies of prescriptions, encouraging the physicians to write repeat prescriptions. This serves to increase the number of new prescriptions filled. The manager was critical of the American College of Apothecaries for recently admitting this clinic pharmacy as a new member, which seemed to indicate that this national organization was not aware of the opinion of most of the practicing pharmacists in the area. The informant

believes that one of the best recommendations a pharmacist can have is that of his competitors.

No discount houses in this area operate prescription departments yet, although much front-end merchandise, including proprietary drugs and toilet articles, is discounted.

Advertising.--The manager considers personal service as the most important element in a drug store operation and the best advertising a firm can have. He pointed out that his operation does not engage in extensive newspaper advertising; instead, handbills are used extensively to feature price leaders. A trade area map of prospective customers has been prepared by using a registration device in connection with a special promotion to indicate in what areas the store's customers reside. This has been analyzed in order to establish distribution areas in which to utilize handbills effectively.

The store uses radio advertising in addition to limited newspaper advertising. Most advertising copy is prepared by an employee in the original store operation who acts as "art man" in this joint operation. An advertising service is not used.

Personal selling.--The manager stressed that this operation emphasizes an attempt to recognize the maximum number of customers by their first names, as they operate with the belief that nothing establishes closer relations with customers than calling them by name. Personalized selling is

emphasized by means of managerial supervision, and consists of personal supervision by the manager of employees on the job. Store meetings are occasionally held to emphasize the selling function, and generally employees of both stores attend.

Although limited mass displays are utilized, the manager believes that the importance of such displays can be over-emphasized. Apparently he has had success in selling merchandise by simply arranging it on available gondolas in a simple manner. The rather expensive new store fixtures and installations designed by a major full-service wholesaler provide adequate browsing space around each gondola and lead to satisfactory sales. The cosmetics department curves around the corner of the store, preventing the patrons from getting the crowded feeling usually associated with corner departments. This department also has its own wrapping counter. The prescription department has a low ceiling which extends outward in order to emphasize the department. The prescription department measures 28 by 20 feet and is raised in order to emphasize the department and to provide easy visibility throughout the store. The prescription area features counter displays of packaged medicines and prescription accessories. A check-out cash register is located in a check-out island adjacent to both a side entrance and a front entrance to the store.

The manager commented that the store was originally laid out by the shopping center designers in an unsatisfactory manner and that the partners have since corrected this situation by installing a new door adjacent to the prescription department, thus providing a side entrance. It appears that this new entrance is servicing more traffic than the ones originally planned. He said that if the store were to be rebuilt, it would be re-arranged in a manner which he believes would be more effective. The manager emphasized that he is aware of another similar operation in the city in which a failure to recognize traffic patterns is apparently seriously endangering its success.

Inventory control.--Inventory control consists of individual supervision of merchandise purchases rather than the employment of any systemized control. The manager indicated that the use of biannual financial statements provides a certain amount of control.

Services.--According to the manager, the motto of this store is "service for the customer." He believes that the most effective service device in the store is the soda fountain. The rather extensive gift lines are a very good attraction, he said, and bring many customers into the store. Apparently the store provides services which the customer cannot obtain elsewhere in the evening hours because other outlets have closed. The manager stated, as an illustration,

that he is stocking thread because he has had several calls from women wishing to sew late in the evening.

The store provides free coffee and coke tickets for prescription customers, to be exchanged at the soda fountain while the customers are waiting for the prescriptions. The manager believes that this is a very important service.

Credit practices.--The store emphasizes extensive credit sales. Credit applications are required of customers who apply for credit. Apparently the store manager thinks it is not practical to restrict credit sales to any minimum amount, but prefers to offer credit privileges to all approved customers. This operation experiences less than one per cent bad debt losses.

It was indicated that collection procedures are a very important part of the credit operation. The partner has available the proper forms for filing bad check claims with the county attorney. In the small claims procedure, the store manager prepares the complaints and files them with the justice of the peace who then mails them by registered mail to the persons with delinquent accounts. If no reply is received within 10 days, the drug store then automatically secures judgments against the individuals. The store also maintains a rotary file of bad check risks at the front-end register and at the fountain register.

Legal problems.--The manager stressed that a lease agreement must be carefully drawn, and that it is important

to have it drawn by a qualified attorney. Although this management employs one of the better lawyers in the city, one sentence which was omitted from the lease has cost the owners \$5,000. Apparently a drug store discount chain desired this shopping center location and attempted to challenge the lease agreement which the owners had with the shopping center promoters. The manager indicated that although the lease held, an oversight was found in regard to the air conditioning cost provisions, which resulted in this additional expense.

### Accounting

Accounting statements are prepared biannually and are carefully compared with national averages in evaluating the effectiveness of this operation. Daily business summaries are prepared and turned over to the accountant. All bills are forwarded to the accountant for payment.

The accounts receivable are processed by an outside accounting firm. This firm utilizes a special process in which microfilmed copies of all accounts receivable are kept in a microfilm projector located in the prescription department, and in a matter of seconds the customers' accounts can be projected for examination. The projector also includes a device whereby copies of the accounts can be made immediately by a copying process and then given to the customers. This system appears to be working satisfactorily, with the principal weakness appearing to be the time lag involved.

The store makes copies of all charge sales and credits in triplicate. One copy is given to the customer, one copy is retained by the store, and the third copy is forwarded to the accounting service after being totaled for accounting control. This firm then posts the charges and credits to the individual accounts and furnishes the previously mentioned microfilmed copy monthly to the store. It also takes care of monthly customers' billing. It appears that this may be a new method of accounts receivable bookkeeping which may indicate a change in accounts receivable processing that may be widely adopted in the future by firms which conduct a considerable amount of credit business.

The prescription department maintains, in addition to legally required records, an additional alphabetical locator system whereby individual customer prescription records can be easily located.

The store uses a multi-drawer type cash register which permits separate handling of cash by each employee. The cash register enables the manager to know who is making mistakes. It also permits departmentalization to a high degree because of its capacity to accumulate several totals. One key is utilized to record both the federal and state tax, and another key to record non-taxable sales.

The manager related that this type of cash register was purchased after a shortage of cash of between \$2,000 and \$3,000 had been discovered in their joint operations, for

which they could not account. Although this cash register costs approximately \$4,500, the manager believes it is well worth the money. The services of a firm which specializes in checking on employee integrity and merchandising efficiency is also employed. This is known as a "checker" service. There are several devices that a competent manager can employ, he said, to check the honesty of his employees.

The manager pointed out that the person in charge of the store totals each cash register every evening and takes the tapes to a place where they are not available for the inspection of the employees handling the cash. The cash is then totaled by the employees and the totals must agree with the cash register tapes. The manager indicated that he insists on an accurate operation of the cash registers. If someone is suspected, this fact is either referred to the internal "checker" service, or some device is used to check the employee. The store manager emphasized that accounting and financial control are extremely important in this type of large operation.

### Personnel

The store is serviced by two registered pharmacists and eight employees who constitute the average working force. Only trained personnel are hired, as the firm considers it too expensive to train employees. However, the manager said he would like to train his own fountain help if he had time,

as he considers this a particularly important function in the store operation.

Employee supervision consists chiefly of correcting the mistakes of the employees. The manager believes that store meetings are beneficial, but finds that it is difficult to schedule them.

The appearance of employees is a most important factor, according to the manager, in presenting a good store image to the public. He was forceful in emphasizing that there is no place for persons of unpleasant personality in a position where they come into contact with customers. He cautioned against letting "hard luck" stories and emotions interfere with good business judgment in the matter of selecting employees.

The manager said that supervision of personnel is the outstanding problem in managing the drug store, indicating that a manager has to be constantly on the alert to make sure that the employees provide the proper service for customers.

According to the manager, any pharmacist who accepts employment with this firm will have detailed management responsibilities. If the store manager is absent from the store, the pharmacist on duty is automatically in charge. Therefore, he has the authority to discharge personnel or carry out other management responsibilities.

The manager believes that pharmacists present a better image to the public when pharmacy jackets are worn on

duty. However, his partners disagree, and the present dress is a white shirt and tie.

This joint operation maintains an airplane and provides private flying lessons for pharmacist employees who may wish to learn to fly. The firm owns an outboard motor boat which is available for the use of store personnel. The manager believes that these fringe benefits improve employee morale. All pharmacists are granted equal privileges. If the manager takes a weekend off duty, the other pharmacist in the operation is also entitled to the same privilege.

#### Finance

Capital finance.--The store is financed principally by the two original partners, both of whom are recent pharmacy school graduates at Southwestern State College and who established the original store operation in another shopping center about six years ago. They bought the original store from an older man who allowed them to pay for it almost entirely from current earnings. By initiative and hard work, that operation proved successful.

The partner interviewed contributed an original \$15,000 share and has a 25 per cent interest in the store. He shares equally in management control with the other two partners. The new store was partially stocked from the older store, which reduced expenses considerably. The partners are currently meeting a \$2,500 monthly obligation in retiring the

indebtedness on the new outlet. Although it appears that this is a difficult obligation to meet, the manager reported that they appear to be meeting it successfully.

The partner-manager emphasized that he considers it very important that partnership agreements be in writing. He had participated previously in another operation as a partner under an oral agreement. Misunderstandings arose, including disagreements on store accounting procedures, which led him to terminate the relationship. He now emphasizes the importance of a partnership contract drawn up by a competent lawyer to prevent misunderstandings.

Insurance.--The manager said that an extensive amount of insurance is carried. Although the cost is high, he considers this a very necessary expense.

#### Public Relations

Professional, customer, and employee.--Close relationships are maintained with the physicians in the community. Special effort is made to contact physicians personally and work closely with them. Apparently this effort has been very successful.

Advancement of pharmacy.--The manager considers an effective and active local pharmacy organization a necessity if pharmacy is to be a profession. He mentioned that a trade meeting is held once a month with other pharmacists in the area. Druggists are notified of reported infractions and

they are examined before the group to make sure that all pharmacists in the area maintain professional standards which are mutually satisfactory. He informed the interviewer that this is done through a "grievance" committee which presents specific charges against individual members and takes the floor in debates over these particular problems. Stores in the area are "shopped" to determine sales policies.

The manager is severely critical of pharmacists who practice in non-drug outlets. He stated that he knows a pharmacist who receives \$1,000 a month for working in a grocery chain prescription outlet. He believes that this pharmacist's salary will eventually be reduced. He said:

He knows and we all know that when they can get a man for \$500 they'll release him or reduce his salary. He is, in my opinion, 'selling out' his profession.

The partner-manager is sensitive to criticism which retail departmental drug stores often receive from professional prescription shops. He commented:

I disagree with the professional prescription shop managers who claim they are more 'ethical' than retail drugstore managers. They're open perhaps from 9:00 A. M. to 5:00 P. M., and they many times will not open for an emergency or leave their emergency telephone numbers with physicians. People don't get sick on schedule. If we are professionals, we must furnish twenty-four hour service. Actually, we get new business this way from the prescription shops. We'll accommodate patients or physicians after hours--and they often transfer their business to us. We make it a practice to leave our telephone number with physicians and notify them where we can be reached on holidays.

Education.--The partner-manager indicated that it is generally necessary for new pharmacists to learn the front-end operation of a retail drug store. He indicated that he could teach the pharmacists to operate the prescription department in a couple of weeks but it is also important for them to know how to handle cash registers, to locate merchandise, and to deal with the customers. He commented that pharmacists must be able to meet the public and to develop public relations in the front of the store as well as to operate the prescription department. In his drug store, he desires the pharmacists to develop personal contacts with customers. He said that it is embarrassing to employ a pharmacist whose certificate verifies that he has had practical experience, but who cannot operate a cash register and cannot even make change.

The partner-manager observed that, even though a speech course might be helpful, the pharmacists' relationships with customers are developed principally by repeated day-to-day contacts. He thinks that speeches before dinner clubs are not sufficient to "sell" pharmacy to the public and believes that pharmacy is sold by the manner in which professional pharmacists treat the customers.

Although he recommends that pharmacists have a good general education and academic training, the partner-manager believes it is particularly important for pharmacists to develop the ability to meet the public. He recommended that

the pharmacy school provide the necessary managerial background subjects upon which to build specific knowledge which he believes can be effectively learned only through practical experience.

## CHAPTER IV

### IMPLICATIONS REVEALED IN THE CASE STUDIES

From the various cases, information was accumulated and analyzed which reflects the thinking and ideas expressed by drug store owners and managers. In each of the case studies, there were certain specifics and often detailed material which should be of interest to the instructor of a class in pharmacy administration and to students in such classes. However, the somewhat narrow and often controversial aspects of some of the ideas are inappropriate for inclusion in the guide to instruction, but they can be studied directly by reading the cases themselves. Many of these ideas appear to be excellent for illustrative purposes in pharmacy administration classes.

While certain specific information relative to sales, inventory, organization, and other elements was obtained in the case studies, this information was for identifying the case situation and not for purposes of tabulation or presentation. Because of the different types of drug store operations represented and the relatively small number of cases in each grouping, the statistical data, while indicative of these

types of operations, are not sufficient for significant statistical analyses.

Analyses of the statements made by the drug store operators reveals certain broad implications for the preparation of pharmacists. In the sections of this chapter which follow are presented those ideas which could be developed into generalizations based on prevalent ideas in the case study information. These generalized implications in the case studies are presented here as they relate to the general, technical, and administration phases of the education of pharmacists.

It should be noted that, even though in some instances diverse and conflicting opinions are held by former students of the School of Pharmacy of Southwestern State College, certain patterns are revealed in their comments relative to a meaningful curriculum for the preparation of pharmacists.

#### General Education

There is a common belief that the graduating pharmacist should have a broad background of general education upon which to base the development of more specialized pharmaceutical and business knowledges. Drug store owners and/or managers generally consider the ability of the pharmacist to work with people as one of the outstanding elements in the success of the individual pharmacist. Pharmacy is practiced in a social situation, and an understanding of the social

environment in which the retail pharmacist works is an invaluable aid to him. There is general agreement that as a professional man, the pharmacist should be qualified to function effectively in a complex world and assume leadership in developing civic and moral responsibility.

It was generally emphasized that communication skills, including the ability to typewrite efficiently, are particularly valuable. Also, the development of social poise and adaptability were repeatedly stressed, and frequent references were made to the importance of a knowledge of applied psychology in promoting competence in human relations.

There was no consensus as to the content of general educational preparation which does not immediately concern the development of individual abilities but deals with the area of broad understandings of our complex society. Some of the drug store operators believed that their training had been too specialized. They expressed a vague desire for a broader liberal arts preparation in such areas as social science and the humanities. A few respondents expressed the belief that there is little opportunity to broaden the general education program due to the number of technical courses that are included in the program.

#### Technical Pharmaceutical Education

Most retail owners and/or managers expressed satisfaction with the technical educational background which they had

received in their pharmacy training programs. There appeared to be some failure, particularly on the part of the older graduates, to relate the applicability of certain technical scientific courses to the retail practice of pharmacy as they experience it in their everyday situations. Generally, the more recent graduates from the pharmacy school view their professional responsibilities in a much broader perspective than those with more limited training who have been removed from contact with professional educators for some time.

The role of the pharmacist as a professional consultant to the physician in matters relating to medication has not yet assumed major importance in most pharmacist-physician relationships. It appears that in the future the development of this role will depend to a great degree upon the competence of the individual pharmacist and his desire to keep abreast of new developments. Much remains to be done in the area of pharmacist-physician relationships if pharmacists as a group are to assume expanding responsibilities as members of health teams. Retail pharmacists continue to reflect widely divergent views concerning the scope of pharmacy and pharmaceutical education. The expanding role of the pharmacist will depend upon an educational program designed to improve the status and function of the pharmacist, as well as the minimum requirements of professional practice as they now exist.

### Pharmacy Administration Education

Almost all owners and/or managers of drug stores agree that increased emphasis needs to be placed upon pharmacy administration in the preparation of pharmacists. Most of them believe that schools of pharmacy can provide a broad background of knowledge in the area of business management, including merchandising, marketing, accounting, personnel relations, finance, public relations, business law, and business ethics. Further, they believe that such a foundation should provide the basis upon which to develop the more practical knowledge gained from experience in a drug store situation.

Most owners and/or managers agree that pharmacy administration education should begin with a sound foundation of economic knowledge and understanding. There is, however, often a tendency for the pharmacist-business man to emphasize specific abilities rather than broad understandings. It may be this failure to view his functions in broad terms of economic satisfactions which accounts in part for his frequent failure to adjust to modern merchandising procedures.

Since pharmacy administration is the area of concentration of this study, more space is devoted to its educational implications than that of general education and technical pharmaceutical education. In the remainder of this chapter, an attempt is made to present generalizations established from the case studies in the areas of pharmacy

administration, including the nature of the store operation, merchandising, accounting and financial control, public relations and business ethics, and internship experience.

Nature of the Store Operation.--Drug store owners and/or managers predominantly regard the drug store as an independent operation. The general type drug store and the clinic prescription pharmacy operator each individually feel that they are offering a type of service that the public desires. They are almost unanimously opposed to the discount pharmacy operation in which they believe the control of pharmacy is passing to groups who are not concerned with the ethical development of the profession.

The typical manager bases his operation upon the service appeal, including credit, delivery, 24-hour prescription service, and a personalized approach to his customers. Because of the service nature of the professional approach, there appears to be much less concern with efficient merchandising practices which might lower the cost of the product to the consumer. The success of the prescription department varies from almost complete dependence upon close physician relationships to the opposite extreme in which contact with physicians is slight, and the store appeal is based almost entirely on customer appeal. In the general type drug store, the soda fountain appears to be retaining its appeal as a device to bring customers into the store. The location of the drug store appears to be an especially critical factor in

the store's success, the importance of which it is difficult to overestimate. Because of the apparent present difficulty of the independent drug store outlet in competing on a price basis generally, the factors of convenience and service to the customer assume major importance.

There is an increasing interest in the corporate form of business organization, particularly since the opportunity now exists for incorporating under small business incorporation laws. The generally apparent advantages of a corporate organization over that of a partnership is one with which future drug store owners and managers should be acquainted. This study includes cases involving an almost equal number of corporations, partnerships, and proprietorships. It would seem that considerable emphasis needs to be exerted in understanding the implications of corporate organization for the small business, as well as that of individual proprietorships and partnerships.

Merchandising.--The typical drug store depends principally on the full-service wholesaler for its source of supply. Because of the nature of the inventory requirements of the prescription department in which a great number of different kinds of drugs must be carried which may or may not be prescribed with any degree of frequency, the wholesaler is an indispensable source of supply. For merchandise which is purchased in volume, direct sales from manufacturers are utilized to a greater or lesser degree. Manufacturers'

representatives, generally known as "detail" men, furnish a valuable service in providing information as to new drugs and drug effects.

Because of price competition, the typical druggist is giving some consideration to associated buying groups or franchise contracts which furnish the independent druggist a measure of buying and advertising power. The independent nature of the average druggist appears often to retard his adoption of sound business practices which would enable him to compete more effectively. In his dual role as both a professional man and a business man, the pharmacist owner and/or manager may, in a few cases, fail to separate his recognition of the necessity for professional pricing of prescription drugs from the legitimate place of competition in the distribution of other types of merchandise.

While the average druggist takes advantage of his cash discounts for prompt payment of merchandise, he appears to lack knowledge in regard to the advisability of purchasing for volume discounts. Although this involves many factors regarding costs in relation to advantageous use of capital, the lack of information upon which this type of decision is usually based is one of the more obvious shortcomings frequently apparent in drug store management. The multitude of special "deals" which are offered to the drug store manager constitute an extremely complex and challenging problem. A better knowledge of discounts in relation to purchasing

problems is an area in which more instruction in pharmacy schools appears needed.

The usual drug store operation is unique compared to other types of retail operations because of the multitude of suppliers and the great number of individual items with which the manager must deal. Because of this, merchandise control is lacking in most stores, due to the difficulty of maintaining detailed information on the movement of particular types of merchandise. This at present is generally based almost entirely on the personal observation of the manager rather than any objective methods of inventory control. As long as this situation continues, the drug store will be operating at a disadvantage with respect to the more centrally controlled retail operations with which it competes. There is a need for centralizing sources of supply which would permit more adequate control and decreased shipping and processing costs if improved purchasing policies and practices are to be achieved.

A pharmacist is personally concerned with presenting drug merchandise to the customer in a manner that makes his sales ability more necessary than possibly that of any other employee in the store. Although it is apparent that much of the merchandise in a drug store is adaptable to the self-service principle of distribution, it is necessary that many drug products involving health applications be sold by the pharmacist himself. This emphasizes the necessity for

personal sales training as a fundamental attribute of the successful pharmacist.

The agreement by most managers on the superiority of a type of self-service over exclusive clerk-service in increasing sales demonstrates the advisability of emphasis on principles of merchandise display. The advantages of self-service or a degree of self-selection in decreasing selling expenses is self-evident. It appears that clerk-service will remain more important in the rural areas where wages are generally low and in which a certain degree of freedom from price competition is experienced.

Until recently, most products sold in drug stores have been sold through a protected price structure, either through manufacturers' pricing policies or by means of fair trade legislation. The advent of widespread competitive prices brought about by mass retailing practices and the demise of fair trade has confronted the retail druggist with a type of competition which it is difficult for him to meet. Unless new legislation is forthcoming, the druggist in the future must be prepared to utilize modern pricing practices, including the use of "leader" pricing which apparently has been very successful in creating the low-price image necessary in most operations. A knowledge of pricing psychology is an integral part of the selling function. Also, the principle of volume sales achieved by relatively low margins of profit must be implemented by drug store managers. It is

apparent that high profit margins on drug products have been the basis for the driving force behind non-drug outlets becoming interested in drug distribution. Pharmacists must learn the principle of operation whereby profits are viewed in terms of return on invested capital as well as price margins on unit sales.

Managers are faced with the necessity of creating sales demand for their products through a knowledge of sales promotion devices. In a greater or lesser degree, depending upon the type of operation, a knowledge of advertising principles is an important element of business competence which can be learned in the pharmacy school. Many drug store managers stressed the importance of attracting the customer into the store through the use of buying incentives, including special prices, fountain service, and various auxiliary services. This merits attention in the area of instruction if successful store operation is to be achieved.

With the exception of three stores, all the stores in the study were involved with the extension of credit to customers. The almost universal demand of drug store customers for credit indicates the importance of credit and collection procedures in drug store management.

The inclusion of credit and delivery service may add materially to the cost of store operation. Customers may expect this type of service on small-item purchases on which the cost of the credit and/or delivery frequently exceeds the

margin of profit. As the drug store is in direct price competition with cash and carry outlets specializing in the sale of this type of merchandise, it may be necessary to establish a definite store policy either limiting these services or providing for a small charge. Recognition of this problem may be too often ignored.

Accounting and financial control.--The importance of adequate store records and accounting and financial control is self-evident. Because of the technical nature of accounting practice, most larger operations utilize, at least partially, the services of an outside accountant. However, an equal number of the smaller drug store owners perform all accounting functions, with the exception of the annual income tax returns which almost universally are delegated to outside accountants. A knowledge of financial statements, accounts receivable processing, payroll processing, and related accounting knowledge is basic to the ownership and/or management of a business enterprise, whether this data is assembled by the pharmacist manager or other persons.

While it appears that an adequate amount of capital is necessary for successful store operation, the case studies reveal that many drug stores have been successfully established on a very small amount of owned capital. If various other factors are favorable to store success, the frequency with which operations have been successfully established "on a shoestring" indicates that traditional rules of finance

have often been violated successfully. On the other hand, well-financed operations with other handicaps have not proved successful. A knowledge and understanding of the basic requirements of store finance, including budgeting and a knowledge of discounts, is of obvious importance. Often, an association by a pharmacist with someone with wide business experience assists in remedying individual shortcomings in this area.

Personnel management.--Inasmuch as the case studies reveal that the management of store personnel in a large store operation is probably most often a determining factor in achieving store success, a basic knowledge of the principles of selection, training, compensation, and control of employees merits consideration in the training of drug store managers. The almost universal absence of store meetings is understandable in view of the long working hours of most store employees. However, in those few stores in which the practice is followed, it was strongly felt that this is an extremely important area of training and is valuable in the training of future store managers.

The widespread emphasis upon the development of close personal relationships between employees and customers is evidence of the importance of personality development as an element of managerial competence. The importance of activities in the pharmacy school which give students an opportunity to develop social poise were repeatedly stressed in the case

interviews. A knowledge of the principles of the psychology of human relations, therefore, appears highly desirable.

The widespread use of manufacturers' premiums to sales personnel for moving certain types of merchandise, frequently in preference to other types, may be a questionable practice. It appeared to the author that frequently the most successful stores were those in which sales personnel put the interest of the customers ahead of personal financial considerations.

In addition to maintaining an enthusiastic and well-trained employee force, factors relating to internal control appear also to merit consideration. The frequency and prevalence of employee dishonesty seems to be one of the most generally ignored factors. Familiarity with principles of cash and merchandise control, and devices for insuring this control, are important elements of competency in store management which should be given consideration.

Public relations and business ethics.--An appreciation of the ethical principles involved in the practice of pharmacy and a program to acquaint the public with the benefits and services provided by the retail pharmacist are integral parts of the instructional program in business administration. The pharmacist owner and manager operates in a dual capacity as a business man and a professional man, and the public judges his integrity on both of these roles. Ethical implications are an integral part of buying, pricing,

advertising, and competition. They are involved in all customer, employee, and physician relationships. The continued development of the pharmacy profession depends in a large part upon the degree to which individual pharmacists understand both the privileges and responsibilities of their profession and operate on the basis of sound ethical and business relationships.

The case studies reveal that the development of ethical principles in the practice of pharmacy must be based upon a sound foundation of legislative and business law. The development of a business climate favorable to a small business enterprise must be based upon state and national laws and the administration of these laws in a manner in which the small business man is not the victim of predatory or unfair competition.

The case studies demonstrate that one type of drug distribution is not necessarily more "ethical" than another, but that each serves a vital function in our economic system. The type of retail outlet of the future will be determined by the relative success of each of these types of outlets in meeting the needs of the public.

The pharmacist who is professionally educated, and who provides a professional service, is entitled to professional compensation for his services. The promotion of this objective is a responsibility of every pharmacist and can ultimately be achieved only by pharmacists who respect their

professional responsibilities and earn the respect of the general public. This also involves greater participation by pharmacists in their professional organizations to promote the development of various aspects involved in the professional practice of pharmacy.

In a small but significant number of cases unethical relationships exist between physicians and pharmacists. This often is the result of pressure from the medical profession with which the pharmacist finds it difficult to cope. The desire of some physicians to secure excessive profit from the writing of prescriptions, accompanied by the exertion of pressure on the pharmacist, creates a situation which must eventually be corrected by the professions themselves; otherwise more drastic action may be taken by an aroused public.

The somewhat prevalent pharmacist-physician approach, consisting of gifts, "professional" discounts on merchandise, and other means, also indicates the need for the development of pharmaceutical ethics in the instructional program which will permit pharmacy to operate as a more independent profession.

The practice of medicine has progressed a long way since the "witch-doctor," and it remains the continued responsibility of the pharmacy school to inculcate principles of service to the public, wherein immediate profits on the sale of medicines of questionable worth are not placed before professional responsibility.

An appreciation of carefully drawn legal agreements and the various legal and ethical implications involved in operating a business are important aspects of drug store operation. While the services of a competent lawyer are indispensable at times, the all-inclusive nature of the legal implications of drug store operation makes instruction in elements of business law, including contracts, employer-employee relations, negotiable instruments, liability and tort law, and insurance most advisable.

The importance of public relations and the advisability of training in this field was particularly stressed throughout the study. The dependence of the pharmacist on the physician was self-evident to some degree in most operations, except in metropolitan drug stores and large-scale retail outlets in which price factors assumed primary importance. It seemed that the importance of public relations to the individual store was generally inversely proportional to the size of the community--the public relations aspects of the practice of pharmacy being extremely important in the small community while in the large city this aspect was of much less importance. While public relations is apparently principally developed in everyday relationships with customers, the necessity of a planned program to prepare the pharmacist to assume responsibility for leadership in selling pharmacy as a profession was frequently emphasized.

Internship experience.--Drug store owners and managers generally believe that a supervised practical experience requirement, similar to that of the internship program of the medical profession, would be desirable for pharmacy graduates. At present, the practical experience requirement, usually consisting of one year's experience in a drug store, is loosely administered by state boards of pharmacy which are charged with the responsibility of enforcing the state regulations. It is obvious that this is the most neglected qualification for licensure as a pharmacist and it is apparent that both centralization of control and participation of the schools of pharmacy in administering the program are needed before this requirement can be made more effective.

As almost all drug store owners and managers were in agreement on the importance of the practical experience requirement, it appears that attention should be directed toward improving this part of the total program.

Summary.--While many individual drug store owners and/or managers are achieving remarkable success through competent drug store management practices, it appears that there is a failure on the part of many to appreciate changes which are taking place in retailing practices today. The management concepts of yesterday cannot meet the challenge of new concepts in retailing, and the pharmacist untrained in business principles cannot expect to compete successfully. Increasing competition, extension of trade areas, and rapid

changes in the nature of retailing make the management task of today more difficult. The pharmacist-manager who does not satisfy the needs and wants of his customers will find his business going elsewhere. The day is past when anyone can "keep store." The pharmacist must appreciate that his success is determined in the long run by the value of his services to the public. This can be accomplished only by competent business management and professional service.

## CHAPTER V

### SUMMARY

From the background information presented in Chapter II and from the data accumulated by means of the case studies, it is apparent that the ownership and/or management of a retail pharmacy is at present predominantly a small business type of activity. In this case, the term "small" is relative as demonstrated by the fact that in Oklahoma, drug stores gross from approximately \$40,000 to \$500,000 in annual sales. The drug store, functioning as a small business kind of enterprise, requires in its owners and/or managers the possession of knowledge, ability, and specific types of skill relating to buying, selling, accounting, finance, personnel supervision, and public relations.

Colleges of pharmacy have traditionally placed more emphasis on preparing students in the professional elements of pharmacy and considerable less emphasis on pharmacy administration. This is true even though the pharmacists engaged in drug store operation appear to be convinced that the most essential factor in the continuation of professional control of pharmacy retail outlets is the development of business competence on the part of pharmacist-managers of drug outlets.

The evidence collected by the author indicates that there is little merit in an argument concerning the relative importance of the professional pharmacy and pharmacy administration elements in the preparation of future pharmacist.

Rather, since colleges of pharmacy now attach some significance to pharmacy administration, and drug store men attach much significance to it, there should be a direct effort made to include appropriate instruction in pharmacy administration in all programs of preparation of pharmacists. On the basis of this seemingly accurate assumption, this chapter is devoted to the presentation of a pattern for such instruction.

#### Restatement of Problem

The problem of this study has been to develop a comprehensive outline of the content essential to education about business and business operations which should be included in the preparation of pharmacists.

This study consisted of three major phases: (1) a comprehensive study and analysis of literature relative to the history and development of pharmacy as a profession, the retailing of drugs and associated products in the United States, and the preparation of drug store managers and owners; (2) the accumulation of case study data by means of personal interviews with representative pharmacy graduates of the School of Pharmacy, Southwestern State College, in positions of management responsibility to determine the nature and

extent to which these graduates need or utilize backgrounds of education concerning business; and (3) a presentation of the implications revealed in the case studies in regard to general education, technical pharmaceutical education, and pharmacy administration, including the development of a philosophy of drug store operation and a basic outline of essential elements of business administration pertinent to the management aspects of most drug store operations.

This study deals directly with such factors of business as the nature of the store operation, merchandising, accounting and financial control, public relations, and business ethics. With reference to these areas, the views of the drug store owners and managers contacted in this study were varied and often divergent. Yet, through each of the case studies there runs a thread or pattern of thought indicating certain essentials on which drug store operation should be based. In effect, these essentials constitute a philosophy of pharmacy administration. Drawing information from each of the case studies and developing a composite picture of the ideas presented by the 40 individuals involved, a philosophical statement was prepared relative to drug store ownership. The statement should help to gain the proper perspective for analysis of the guide to instructional content herein presented.

### Philosophy of Pharmacy Administration

The establishment of an independent drug store to provide useful merchandise, drugs, and professional service to the public at a price covering operating expenses and returning a profit to the owner is an integral part of a pattern which provides an improved standard of health service to an ever-increasing number of people.

The proper function of competition in drug store retailing is to stimulate the efficient distribution of drug products and services, and provide for increased health care for the community. Each owner-manager seeks to emphasize the particular facet of the drug store outlet which he wishes to have recognized as his own particular trademark. This might be superior professional service, superior products, unique merchandise, or special customer attention. Competition, unfortunately, sometimes stimulates sharp practices which may crowd out the small operator and lead to a reduction in the availability of personalized pharmaceutical service.

The pharmacist owner-manager who provides a professional health service and who seeks consistently to please customers and build repeat business is entitled to a fair profit for doing so. A drug store is an integral part of the community or area which it serves. Each molds the other, and the influence of one is indelibly imprinted on the other. Just as the drug store serves the interests, health, and economic growth and welfare of a community, so the community

serves the interests, economic growth, and welfare of the drug distributing enterprise.

It is often said that a pharmacist should be neither a slave to his work, nor should he be married to it. This is a paradox, for the pharmacist-manager finds that he cannot possibly divorce his personality from his drug business. The management of a business providing unique products and personal service to the citizens of a community is not a responsibility to be undertaken lightly. Professional competence, business practicality, organizational ability, skill in systematization, and a high degree of perseverance are necessary ingredients for success.

Every phase of drug store ownership involves human relationships--relationships with manufacturers, suppliers, wholesalers, employees, customers, and competitors. The employee relationships and public relations are of great importance. Each prescription or drug sale and every business transaction reflect the pharmacist's integrity.

In the typically small drug enterprise, one should seek to employ only people who enjoy doing the type of work which the drug store has to offer. For both the manager and employees, the satisfactions of a job well done outweigh those of monetary financial return. Management must consider each employee as a person whose help is needed and whose attitudes, actual or potential, must be respected. Each employee should be enabled to develop and use his abilities, as

human ingenuity is inexhaustible. No job should be a dead end for any person, and employees should never be exploited. Recognition of a job well done and of mutually accomplished tasks constitutes an important factor in employee compensation.

Mass production of pharmaceuticals, large pharmaceutical companies, and extensive research laboratories have been given credit for America's pre-eminence in the production of health drugs. But the pharmacist-manager remains the unsung hero, operating essentially as a small business man. He is professionally educated, yet he must operate in the arena of business competition. Armed with his life's savings and the ideal of professional health service, the pharmacist owner holds forth in communities throughout the land, providing them with individualized health service in an uncertain market of fluctuating wants and trends.

#### Content of Pharmacy Administration

Each of the 40 interviews on which the case studies were based was conducted in the work environment of the drug store. The store layout and display, along with various store records and related data were studied. The owners and managers in the 40 stores responded freely and candidly in reporting their major and minor problems. Because only one relatively limited kind of business operation was involved, the responses tended to fall into patterns of consensus or

clear-cut disagreement. Thus, the similar responses could readily be assembled to illustrate patterns of knowledge and experience that should be included in the business administration phase of pharmacy education. These are the patterns of instructional content which make up the guide to instruction resulting from this research study.

The guide to instructional content in pharmacy administration, as a major phase of the preparation of pharmacists, is presented in nine sections. In each section, there is first presented a brief guide statement designed to establish in a general way the purport of that particular portion of the total outline. Following the guide statement for each section, there is presented a relatively concise outline of the significant elements pertinent to the section topic. The total outline pattern emphasizes the matters with which the prospective owner or manager of a drug store should be concerned. It does not reveal all that he should know about business in general and pharmacy administration in particular. However, with this guide, a curriculum pattern for pharmacy administration can be developed and many of the specific content elements established in scope and sequence.

The major sections of the guide, which include brief but specific consideration of the elements of business competencies, are entitled:

- I. Nature of the drug store operation.
- II. Buying of products and services for resale.
- III. Selling of products and services.
- IV. Recordkeeping and accounting.
- V. Financing of the drug store.
- VI. Maintenance of personnel relations.
- VII. Advancement of public relations.
- VIII. Legal aspects of drug store operations.
- IX. Ethical business and professional relationships.

## GUIDE TO INSTRUCTION IN PHARMACY ADMINISTRATION

### Section I -- Nature of the Drug Store Operation

#### Guide Statement

The prescription department is the focal point around which the operation of a drug store is developed. The prescription department is usually the chief source of profit for the business. Auxiliary departments involving the distribution of sundry items enable the drug store to provide the public with additional products, thus supplementing the basic service of convenient and professional health care. Of fundamental import to the nature of the particular drug store operation is its basic function, its location, and the kinds of products and services it distributes.

#### A. Types of retail drug outlets by function.

1. Traditional independent drug store engaged in the distribution of professional service, drugs, and numerous sundry items.
2. Chain drug store engaged in volume sales of drugs and sundry items in specialized and standardized circumstances involving local or national chain affiliations.
3. Prescription or clinic shop in which 75 per cent, or more, of all sales are prescription drugs.

4. Prescription dispensing unit within a broader retail outlet such as a discount house, department store, variety store, or a grocery store. The unit may also distribute sundry items such as toiletries, candies, and cosmetics.

B. Types of retail drug outlets by location.

1. Small town, relatively non-competitive, store located in a community or small city surrounded by a predominantly agricultural area.
2. City downtown store located in a metropolitan area with heavy and relatively intense competition.
3. Shopping center or suburban store located in an integrated shopping center or newer business district, operating with a relatively large volume of sales.
4. Neighborhood store located in a residential area and emphasizing the providing of convenient neighborhood service.
5. Island store located apart from other business establishments--on a heavily traveled street or highway, near a hospital or medical clinic, or actually in a hospital or clinic.
6. Drug store unit located with an over-all retail outlet distributing a great variety of products.

C. Classification of items distributed through retail drug outlets.

1. Prescription drugs.
2. Over-the-counter ethical drugs.
3. Proprietary drugs (advertised remedies).
4. Prescription accessories and health supports.
5. Cosmetics and toiletries.
6. Veterinary supplies.
7. Smoking supplies.
8. Fountain items and service.
9. Photographic supplies.

10. Sundries such as:

- a. Candy.
- b. Toys.
- c. Glassware.
- d. Magazines and books.
- e. School supplies.
- f. Appliances.

D. Significant business elements relating to the nature of the drug store operation.

1. Establishment of adequate financing arrangements.
2. Selection and training of competent employees.
3. Delegation of responsibility and efficient use of managerial time.
4. Establishment of pricing policies and procedures.
5. Development of satisfactory relationships with physicians.
6. Presentation of health service image to customers and the community in general.
7. Development and maintenance of attractive and inviting store surroundings.

Section II -- Buying of Products and

Services for Resale

Guide Statement

Drug store purchasing ranges from dealing with small wholesalers to large manufacturers and includes the determination of the goods to be bought and the formulation of buying policies. Along with the product he provides, the supplier may also offer many auxiliary services and certain credit and price arrangements. Thus, there is a need for careful consideration by the manager of all elements relating to the products desired, including prices paid and services received

for these items. Buying, therefore, takes on significance as a determinant factor in the success of the total store operation.

A. Sources of products for resale.

1. Independent buying from full-service wholesalers.
  - a. Ensures obtaining products which, because of manufacturers' policies, may be available only from a full-service wholesaler.
  - b. Facilitates maintenance of complete lines of merchandise with minimum inventory because of rapid filling of order and sales representative contacts.
  - c. Consolidates a variety of product sources, simplifying purchasing, accounting, and inventory control.
  - d. Makes volume discounts available.
2. Independent buying from limited-line wholesalers.
  - a. Provides principal source of products such as tobaccos, confections, magazines, paperback books, and fountain items.
  - b. Ensures individual and regular service and often opportunities for buying with return privileges.
3. Independent buying from manufacturers.
  - a. Transfers the wholesaler's discount on volume purchases to the retail unit.
  - b. Provides special buying services by sales representatives concerned only with the products of one manufacturer.
  - c. Provides control over the distribution of highly advertised national-brand merchandise.
4. Cooperative buying by means of retailer-owned wholesale companies, associations of independent retailers, and pooled-buying practices by informal groups.
  - a. Secures the advantages of group buying in volume quantities for favorable discounts.
  - b. May provide low-cost merchandise by the elimination of various normal wholesaler services.

- c. May provide a distinctive store sign and/or slogan, accompanied by a group advertising and promotional program utilizing advertising allowances which cannot be taken individually.
- 5. Agency-buying contracts and franchises or exclusive agency agreements by which an independent owner may agree to purchase minimum commitments of merchandise from a wholesaler and/or manufacturer for special benefits.
  - a. Provides advantages of coordinated group buying, merchandising, and promotional techniques.
  - b. Provides the retailer with promotional specials and distinctive private-brand or national-brand merchandise.
  - c. Insures complete stocks of specialty items such as cosmetics, toiletries, or packaged medicines.
- 6. Special buying agreements, including consignment buying and memorandum buying from manufacturers and/or wholesalers.
  - a. Permits the retailer to stock infrequently prescribed drug items, and unusual and distinctive merchandise with certain privileges in regard to financing, risk bearing, and return privileges.
  - b. May ensure price and product control by the supplier.
- B. Auxiliary services obtained through the buying arrangements of drug stores.
  - 1. Information relative to market trends and practices, qualities of products, and consumer health needs.
  - 2. Selling aids such as those associated with setting up of displays, local advertising, and so forth.
  - 3. Benefits from national advertising of certain products.
  - 4. Extension of credit in relation to purchases.
  - 5. Advice with regard to store development and operation.
  - 6. General drug literature, house organs, and related materials.

C. Maintenance of adequate inventory and merchandise control.

1. Purposes of merchandise control.

- a. Meeting medical and consumer demands by ensuring stocking of desired merchandise.
- b. Improving profits by maintaining balanced stocks.
- c. Minimizing investment in inventory by achieving a satisfactory stock turnover through adequate controls over purchasing.
- d. Providing protection against merchandise shortages caused by theft and improper handling.
- e. Providing efficient receiving, checking, marking, and moving of goods from storeroom to selling floor.

2. Methods of inventory control.

- a. Utilization of "want books."
- b. Use of periodic physical inventories or visual checks of stock by supplier representatives in cooperation with store personnel.
- c. Use of basic or minimum stock lists.
- d. Use of different methods of merchandise marking systems or placement of stocks, including dating, price coding, identifying supplier, retail pricing, and other significant information, either by machine or by hand.
- e. Utilization of dollar or perpetual inventory control systems based on estimated or actual sales.
- f. Use of stockroom requisitions and inventory data to determine merchandise movement and control.
- g. Maintenance of sales data at cash register, including special items or comprehensive sales data.

3. Problems involved in maintenance of merchandise control.

- a. General merchandise consisting of an unusually large number of different relatively low-cost items from many suppliers, thereby making adequate control a unique problem not experienced by most other types of retail operations.

- b. Prescription merchandise control achieved through use of supplier representatives, purchase records and stock cards, want lists, and by utilization of return privileges.
  - c. Necessity and completeness of control measured against factors of time, expense, and practicality.
- D. Essential elements associated with buying of drug and sundry products for resale.
- 1. Need for analysis of factors such as the price policies of suppliers and manufacturers, credit costs, delivery services, personal contacts with sales representatives, emergency service, and extent of auxiliary aid provided.
  - 2. Need for determination of adequacy of essential information relative to medicinal qualities and safety.

### Section III -- Selling of Products and Services

#### Guide Statement

A drug store offers a combination of professional services with the sale of merchandise which is of vital importance to the customers' health and well-being. Therefore, most successful pharmacies are built around a store "personality" or image which indicates the integrity and desire with which store personnel serve the customers. Management must determine effective store promotional and selling policies consistent with the type of store, its location, and the particular services it has to offer. This involves the creation of demand and the effective presentation of professional services. A professional drug store should have a unique advantage over a competing retail outlet that sells drug items as a sideline.

- A. Pricing of merchandise and professional service for maximum profits.
- 1. Elements determining pricing policies.
    - a. Fundamental policy decisions with respect to the ability of the drug store to utilize certain aspects of pricing for volume or limited sales, or both.
      - (1) Pricing for satisfactory profit margins on limited sales.

(2) Pricing for volume sales, achieved by low profit margins, stressing profit return on investment of capital rather than profit per unit.

- b. Analysis of factors which may limit necessity of price competition, including location, quality appeal, and availability of private brand and manufacturers' price protected merchandise.
  - c. Consideration of ethical standards in promoting professional aspects of pharmaceutical dispensing.
  - d. Creation of store image by means of selective pricing policies in regard to merchandise leaders.
  - e. Dependence of minimum prescription pricing policies on prescription volume, associated services, purchasing costs, and competition.
  - f. Existence of a degree of freedom in some prescription drug pricing because of the customer's frequent lack of familiarity with the price of the product prescribed.
  - g. Peculiar dependence of front-end sales on price structure because of the relatively indistinctive nature of various drug products for which price may be a determining factor.
  - h. Contrast between public preference for purchasing from professional drug outlets as opposed to purchasing from outlets which place low-price considerations above professional service.
  - i. Desirability of professional drug outlet selling low-priced private brand merchandise through customer reliance upon pharmacist's integrity.
2. Elements determining pricing practices.
- a. Utilization of manufacturers' suggested or fair-trade prices in preventing predatory pricing through excessive competition.
  - b. Achievement of a pre-determined margin of profit from different store departments, based on cost of merchandise.
  - c. Meeting of competition.

- d. Incentive pricing, using one of the following combinations of low-price policies to increase sales volume.
    - (1) Store-wide low prices.
    - (2) Use of special items or leaders to create a low-price image.
    - (3) Low prescription drug prices, over-all, or on traffic and maintenance prescription items.
  - e. Conformance to agency pricing policies.
  - f. Selective pricing, in accordance with store promotional appeal to attract customers of a particular income group.
  - g. Opportunistic pricing in accordance with "what the traffic will bear."
  - h. Professional pricing in accordance with professional fee systems.
  - i. Customary pricing in accordance with local price structure.
3. Marking of merchandise prices and other data.
    - a. Secures customer good will, aids in self-service, and provides inventory data and information.
    - b. Involves a variety of marking methods, including hand marking, rubber-stamp marking, use of price tickets, and pricing codes.
- B. Advertising of products and services.
1. Determination of policies in regard to promotion of products and services.
    - a. Owner and/or manager directed promotional advertising.
      - (1) Appeals to seasonal wants and special events.
      - (2) Weekend "specials" to build traffic and attract new customers.
      - (3) Professional and informational advertising to build stable customer relationships.

- (4) Clearance sales on overstocks, slow-moving goods, and buying mistakes.
  - (5) Prestige advertising of quality products.
  - (6) Cooperative advertising of nationally advertised products.
  - (7) Introduction of new lines and strengthening of weak departments.
  - (8) Sales featuring gift items, novelty goods, or products appealing to particular consumer groups.
2. Selection of advertising media in relation to prospective customers, cost, trading area, size of store, and sales message.
    - a. Newspapers generally effective for chain, agency, and associated stores, as well as volume stores which can effectively profit from wide coverage.
    - b. Handbills or area newspapers effective for shopping center and neighborhood community areas.
    - c. Outdoor media, including billboards, posters, and store signs effective for promotion of store identification.
    - d. Radio and television advertising effective for large scale retailers and the building of prestige.
    - e. Novelty items and gifts, used principally by professional prescription or clinic pharmacies.
    - f. Auxiliary advertising and sales promotion devices, including direct mail, to be used in various types of outlets.
  3. Sources utilized in planning and coordinating an effective advertising program.
    - a. Private promotional services.
    - b. Agency or associated cooperative advertising aids provided by manufacturers, wholesalers, or associated retailers.
    - c. Representatives of different media.

d. Store personnel with experience and/or training in advertising.

4. Problems of drug store advertising.

a. Determination of promotional effort as related to type and location of store.

b. Planning, timing, and selection of proper merchandise to be promoted.

c. Selection of media for the specific type of retail outlet in relation to effective trade area and media selectivity.

d. Determination of promotional or direct action advertisements as opposed to professional or indirect advertisements.

e. Determination of the advantages and disadvantages associated with special sales promotions from the aspect of over-all store operation.

C. Merchandise layout and display.

1. Factors determining effectiveness of drug store layout and display.

a. Adaptability of store to some combination of self-service or self-selection for convenience items, with adequate provision for clerk and professional service in drug, cosmetics, and specialty departments.

(1) Utilization of open displays for customer handling of merchandise, including shelf displays, counter-top displays, bin displays, islands, and mass displays.

(2) Utilization of closed displays for protection of merchandise, including showcases, wall shelving, and wall pegboards.

(3) Utilization of dealer racks and displays to secure effective presentation of wholesalers' and/or manufacturers' specialty goods.

b. Provision for functional utility of store layout, with adequate stockroom and/or selling floor storage, shelving, office space, and service areas.

- c. Provision for adequate protection of merchandise.
    - (1) Good over-all store visibility.
    - (2) Location, position, and display of high priced specialty goods in a manner insuring maximum protection.
    - (3) Location of cash registers for maximum control.
  - d. Attractive store front, easy entrance, attractive fixtures and displays, including open or semi-open prescription department, and possibly a drive-in window.
  - e. Arrangement of traffic patterns by departmental areas to utilize maximum benefits from fountain, prescription, and convenience departments.
  - f. Coordination of store displays with over-all sales promotional program by coordinated use of store signs, counter signs, price cards, banners, and other devices.
  - f. Utilization of merchandise groupings according to use groups for easy customer access.
2. Sources of aid in achieving adequate store layout and display.
- a. Supplier representatives, including wholesalers and manufacturers of merchandise, equipment and fixture representatives, store architects, and others.
  - b. Visitations to other drug stores, grocery stores, and variety stores.
  - c. Utilization of sales services prepared by commercial firms, agencies, and supplier representatives.
- D. Personal selling.
- 1. Understanding the customer and utilizing this knowledge in establishing a close personal relationship through conversation, social relationships, and sincere interest in the customer's welfare.
  - 2. Knowledge of selling features of merchandise.
    - a. Competent professional selling of drug products and related accessories.

- b. Competent selling of front-end merchandise, including specialized knowledge in regard to the sale of cosmetics, baby supplies, photographic supplies, and other sundries.
- 3. Utilization of personal selling techniques.
    - a. Ability to perform essential selling techniques, including greeting the customer, determining customer's needs, presenting the merchandise effectively, meeting objections, and closing the sale.
    - b. Ability to suggest related items, including increasing the unit of sale and upgrading the quality of merchandise sold.
  - 4. Maintenance of sales enthusiasm, product knowledge, and effective selling techniques.
    - a. Improvement of sales techniques by utilizing the help of trained employees, store sales meetings, training schools, supplier representatives, trade journals, sales pamphlets, and training aids.
    - b. Provision of adequate rewards for effective selling performance.
- E. Special techniques, practices, and problems in drug store selling.
- 1. Customer services.
    - a. Soda fountain to provide food service to store shoppers.
    - b. Credit sales as a device to stimulate customer loyalty and regularity.
    - c. Delivery service as a customer convenience.
    - d. Telephone placed so that it is convenient for receipt of customer and physician calls.
    - e. Wrapping service to stimulate purchases of gift items.
    - f. Supplying of medical information to members of the health professions and customers.

2. Traffic promotion devices.
  - a. Soda fountain, with limited or complete service.
  - b. Trading-stamp plans.
  - c. Unrelated store services.
    - (1) Postal.
    - (2) Telephone.
    - (3) Money order.
    - (4) Licenses, such as automobile, hunting and fishing.
3. Competition confronting the traditional drug store.
  - a. Outside competition.
    - (1) Retail outlets including grocery stores, variety stores, service stations, and others without prescription departments selling drugs, toiletries, cosmetics, and health products.
    - (2) Retail outlets selling sundries, traditionally identified with drug store sales, including tobacco products, confections, magazines and books, camera supplies, rubber goods, and school supplies.
    - (3) Physicians who either dispense their own drugs, operate their own pharmacies, or possess interests in pharmacy operations whereby, directly or indirectly, profits are derived from prescription drugs.
    - (4) Types of drug outlets with certain specialties.
      - (a) Chain drug stores.
      - (b) Discount houses, grocery, department, and variety stores.
      - (c) Voluntary agency stores with coordinated purchasing and promotional advantages.
      - (d) Volume drug outlets, featuring loss leaders and special promotions.

(e) Stores featuring some type of special service.

b. Internal competition.

- (1) Problems of allotment of space to various departments.
- (2) Problems in determining merchandise lines and brands to stock, including emphasis on certain national or private brands.

Section IV -- Recordkeeping and Accounting

Guide Statement

Accounting records should provide the pharmacist with a dependable measure of the success of his buying, selling, and operating methods. The pharmacist who maintains a control over his financial activities is in a position to make intelligent decisions in regard to the operation of his business. Because of the specialized nature of modern accounting procedures and tax laws, it is becoming increasingly necessary for outside accountants to be employed to aid in this process, particularly in larger retail outlets. Nevertheless, the benefits to be derived from accounting data are peculiarly the responsibility of management in applying the results of this data to achieve a more efficient store operation.

A. Apparent need for accounting records.

1. Maximizing of profits by providing data relative to the financial status of the business operation.
  - a. Provision of information upon which past results may be analyzed, future operations planned and controlled, and comparisons made with similar operations.
  - b. Aid in determination of basic financial policy decisions.
2. Furnishing of data upon which to base governmental reports, such as income tax, social security, and reports of sales and excise taxes.

**B. Recordkeeping and accounting practices.****1. Types of bookkeeping systems generally utilized.**

- a. Relatively simple commercially-prepared drug or retail store bookkeeping systems, providing summaries of income and expense, payroll data, operating statements, and related data.
- b. Employment of a public accountant to supervise the accumulation of accounting data by store personnel and prepare financial statements, tax reports (including annual income tax returns), and other related services.
- c. Employment of a store accountant.

**2. Minimum accounting procedures required in maintaining accounting control.**

- a. By the store.
  - (1) Daily report summary or journal, including a summary of cash and credit transactions.
  - (2) Monthly check stub or check register data for all checks written during the month.
  - (3) Periodic complete inventory.
- b. By the store or outside accountant.
  - (1) Periodic financial statements, with appropriate financial analyses.
  - (2) Reconciliation of monthly bank statement.
  - (3) Preparation of all tax returns.
  - (4) Preparation of payroll data.
  - (5) Processing of accounts receivable and accounts payable.

**C. Control through financial and comparative analyses.****1. Operating statement analysis.**

- a. Comparison of gross sales data with percentage relationships between sales and cost of goods sold, gross profit, expenses, net profit, and others.

- b. Analysis of data for departmental summaries and control.
- 2. Balance sheet analysis.
    - a. Comparison of assets, liabilities, and net worth.
      - (1) Calculation of annual rate of turnover.
      - (2) Calculation of working capital.
      - (3) Calculation of return on investment.
  - 3. Additional control data.
    - a. Number of new and refilled prescriptions.
    - b. Average prescription price.
    - c. Net profit on investment in merchandise inventory.
    - d. Accounts receivable controls.
    - e. Other control data.
- D. Maintenance of auxiliary information.
- 1. Alphabetical filing system of prescription customers.
    - a. Facilitates availability of information needed for insurance claims and income tax returns.
    - b. Makes possible quick and efficient location of customer prescription information.
  - 2. Maintenance of tax information for tax reports.
    - a. Excise tax.
    - b. Sales tax data, including non-taxable sales.

## Section V -- Financing of the Drug Store

### Guide Statement

Whether commencing a new business, purchasing an established concern, or expanding a going concern, distinct financial problems are encountered which demand adequate solutions. Every activity in a pharmacy is related in some measure to the financial success of the business. The

pharmacist-manager must have adequate sources for the types of capital needed, based on various factors relative to the financial determinants of the individual enterprise. Adequate financing through financial analysis and control is an integral part of the ownership and management of a retail drug outlet. Many financial risks and excessive costs can be reduced by an adequate insurance program and the utilization of competent legal advice.

A. Sources of capital.

1. Previously acquired personal capital.
  - a. Funds acquired through saving.
  - b. Funds acquired by gifts.
2. Funds borrowed from bankers, finance companies, relatives, and others.
3. Funds from sale of equity in business through corporate or partnership interest.

B. Types of capital needed.

1. Working funds to meet needs of current operations, including financing of current cash requirements, accounts receivable, merchandise inventories, and current expenses.
2. Fixed capital in the form of fixtures and equipment, and sometimes including land and building.

C. Determinant factors governing relative expense requirements.

1. Budgetary control as related to working capital requirements through increased efficiency in utilization of available capital.
2. Investment in prescription and drug inventory as related to the type of pharmacy and the closeness with which relationships are maintained with prescribing physicians.
3. Accounts receivable which the firm is required to finance in order to secure a maximum amount of profitable sales volume.

4. Merchandise investment required as related to the speed with which the inventory can be liquidated in the normal course of business.
  5. Nearness to the source of supply as related to the size of the inventory.
  6. Classification of trade area in terms of incomes of store clientele as they relate to the quality of fixtures, merchandise, and service features.
  7. Competition as related to the amount of working capital which must be allocated to advertising and service expense.
  8. Working capital required to take advantage of cash and volume discounts, and special deals.
  9. Lease or rental agreement.
  10. Desirability of a conservative management and expansion policy, as related to financial resources.
- D. Factors governing policies on cash and quantity discounts.
1. Utilization of ten-day and end-of-month cash discounts.
  2. Utilization of quantity discounts on volume purchases, dependent upon complex factors of capital utilization, store overhead costs, and merchandise turnover.
    - a. Advisability of quantity buying resulting in sizable discounts determined in terms of estimated days required to sell the merchandise, and related costs of storing and servicing the goods during this period.
    - b. Availability of necessary working capital.
  3. Quantity-buying decisions generally dependent upon the sales volume of the department concerned and availability and most efficient utilization of working capital.
  4. Quantity discounts generally profitable on items which are turned over every 30 to 60 days.
- E. Adequate legal protection through the services of a competent lawyer.
1. Protection of title to property through an adequate purchase or lease agreement.

2. Provision against the unexpected death or disablement of members of the firm.
- F. Patterns of expansion of the financial operation followed by owners and/or managers.
1. Expansion of operation by investment and/or ownership of additional drug outlets.
  2. Investment in unrelated lines, including securities, farm, or cattle operations, or real estate or housing developments.

## Section VI -- Maintenance of Personnel Relations

### Guide Statement

A factor which significantly affects the degree of success of the typical drug store is the customer impression gained through contact with the firm's customers, employees, suppliers, and management. The efficiency with which management utilizes personnel has a direct bearing on store profits, since the payment for these services constitutes the principal operating expense of the drug store. The ability to maintain enthusiastic, competent store personnel is directly related to the maintenance of communication between employer and employee, and a recognition of mutual problems and opportunities. Fundamentally, good employee relations are getting along with the other fellow, and regarding him as an individual. The selection, training, supervision, and compensation of employees relate directly to the success of the store and frequently constitute the manager's most challenging problems.

- A. Significance of personnel management policies.
1. Personnel management as a principal element of business success and the major expense factor.
  2. Written or understood personnel policies necessary to build good will and cooperation of employees.
  3. Efficiency in the organization and delegation of non-selling duties which are as important as the selling functions, in many instances.
  4. Personnel management more significant as the size of the business increases.

**B. Types and functions of personnel.**

1. Registered pharmacist, in charge of prescription department, drugs, and related drug accessories, including sickroom supplies, and generally in charge of total store operation in the absence of the owner and/or manager.
2. Cosmetic specialist.
3. Fountain manager.
4. Drug clerks and fountain help.
5. Specialists in selling and servicing such items as cameras, jewelry, and gift items.
6. Clerical and recordkeeping help.

**C. Selection and retention of store personnel.**

1. Personal traits desired.
  - a. Friendliness, attractiveness, and neatness.
  - b. Ability to meet people and develop worthwhile personal relationships with customers and professional people.
  - c. Ability and liking for selling.
  - d. Poise, even temperament, and the ability to work with fellow employees.
  - e. Ability to assume responsibility for necessary details of store operation.
  - f. Loyalty and honesty.
  - g. Character and reputation in the community.
2. Traits particularly desired in a registered pharmacist.
  - a. Ability to meet and work satisfactorily with the public, members of the health professions, and store personnel.
  - b. Professional competency.
  - c. Ability to typewrite efficiently.

**D. Training of employees.****1. Sources and types.**

- a. Product information and selling data or training services furnished by suppliers, pharmaceutical organizations, and others.
- b. Manager-directed training on store premises, including individual guidance and/or store meetings.
  - (1) Instruction on store policies concerning personnel policies, selling, adjustments, services, and buying practices.
  - (2) Instruction concerning store operation, including receiving stock, pricing, maintenance of inventory, cash register operations, and credit policies.

**E. Evaluation and compensation of employees.****1. Evaluation.**

- a. Use of managerial observation, shopping service reports, average sales data, and number of errors and complaints.
- b. Effect on store personnel of evaluation policies.

**2. Compensation.**

- a. Fixed-wage payment plans.
- b. Incentive-payment plans or a combination of fixed and incentive pay.
  - (1) Premiums paid sales personnel on the sale of selected merchandise.
  - (2) Bonus payments to sales personnel for exceeding store quotas on the sale of selected items.
  - (3) Intra-store contests for bonus compensation.
  - (4) End-of-year bonuses dependent upon profitability of store or specified departments, including the prescription department.
  - (5) Commission compensation.

- c. Fringe benefits, including health protection, retirement, and auxiliary benefits.

F. Supervision and internal control.

1. Employment of shopping service to verify the loyalty, honesty, and merchandising efficiency of store personnel.
2. Use of observation points, speaker systems, and allied methods of supervision of employees.

Section VII -- Advancement of Public Relations

Guide Statement

The public image of a drug store is determined largely by the manner in which the individual pharmacist serves his customers and assumes his responsibility as a member of the health team. Public relations deals with people's opinions and the relationship of the drug store with the people with which it comes in contact. These may be customers, employees, suppliers, physicians, or the drug consuming public. The integrity, knowledge, ability, and desire of the pharmacist to provide a vital service to the physician and to the general public is the basis of the public's respect for the profession. The competent pharmacist can enhance this image by engaging in professional and community activities which acquaint the public with the services and benefits which pharmacy has to offer.

A. Relations with members of related health professions.

1. Professional services.

- a. Provision of competent, current information on drugs.
- b. Maintenance of complete medical services and supplies.
- c. Sale or rental of therapeutic devices and medical equipment.
- d. Maintenance of a professional library, filing cabinets, and desk facilities for the convenience of members of the health professions.
- e. Provision of night and emergency pharmaceutical service.

- f. Maintenance of a directory of professional medical practitioners.
  - g. Arrangements with medical practitioners for reduced prices on drugs for "hardship" cases.
2. Auxiliary services.
- a. Maintenance and promotion of professional medical displays featuring all members of the community health team.
  - b. Provision of prescription blanks, magazines, and other conveniences.
  - c. Provision of professional discounts on drugs and merchandise to medical practitioners.
  - d. Supplying of emergency delivery service.
  - e. Sending of gifts on birthdays, anniversaries and other occasions.
  - f. Promotion of mutually helpful relationships through membership and participation in civic clubs, country clubs, and informal social activities.
- B. Relations with other pharmacists and the profession.
- 1. Membership and participation in professional associations.
  - 2. Extension of professional courtesies.
  - 3. Promotion of orderly marketing processes through the utilization of pricing policies designed to gain the respect of the public.
- C. Relations with the public.
- 1. Attractiveness of the store, including the display of pharmacy symbols, use of professional jackets, and other professional practices.
  - 2. Maintenance of complete supplies of medical necessities.
  - 3. Availability of professional services, including emergency prescription service and auxiliary services.
  - 4. Distribution of professional materials, including utilization of publicity emphasizing health care.

5. Cooperation with medical and public authorities on the dissemination of information on disease prevention.
6. Participation in civic, service, and social clubs.

## Section VIII -- Legal Aspects of Drug

### Store Management

#### Guide Statement

The business aspects of operating a pharmacy involve legal relationships pertaining to business organization and management, including various areas of contract and tort law. Although the technical nature of some elements of drug store operation requires competent legal advice, a knowledge of the many facets of business law, including the need for carefully drawn legal agreements, is an invaluable asset to the store manager. Most business transactions are made without the services of a lawyer. Thus, an understanding of business law is helpful, in addition to the specialized knowledge of pharmaceutical law, which necessarily deals with the professional phase of drug dispensing.

#### A. Elements requiring carefully drawn legal agreements.

##### 1. Organizational structures.

- a. Partnership organization, with adequate provisions for operation and termination of the relationship.
- b. Corporate organization, either under the small business incorporation law or the general incorporation law.

##### 2. Lease, rental, or real estate contracts.

#### B. Elements requiring knowledge of business law.

##### 1. Contracts.

##### 2. Negotiable instruments and the rights and liabilities of the various parties to the instrument, including handling of bad checks.

##### 3. Employer-employee relationships, including responsibilities of the employer for torts and unauthorized acts of the employee.

4. Liability relating to dangerous premises, product liability, and legal relationships with customers and suppliers.
5. Secured transactions, involving conditional sales and mortgages.
6. Insurance.

## Section IX -- Ethical Business and

### Professional Relationships

#### Guide Statement

The pharmacist in retail practice occupies a unique position in his dual role of professional and business man. It is apparent that the operation of a pharmacy in which business and professional activities are inseparable in the minds of the customers requires a code of business ethics paralleling those of a professional nature. As a member of the health profession, the pharmacist is granted a license by the government which restricts the dispensing of drugs to those who have demonstrated the required background and capabilities essential to the protection of the public interest. To aid the pharmacist in fulfilling that responsibility, he has a code of pharmaceutical ethics which represents the collective thinking of the pharmacy profession. It appears that, in a small but significant number of instances, the pharmacist is subjected to pressures which result in serious breaches of ethical conduct. The success with which these ethical problems involving business relationships are solved by the profession itself may determine to a large extent the nature of the future practice of pharmacy.

A. Practices conducive to providing a basis for sound pharmaceutical ethics.

1. Obligation of the pharmacist to the public.
  - a. Rendition of service in the safeguarding of the handling, sale, compounding, and dispensing of medicine.
  - b. Participation in activities promoting the public welfare.
  - c. Compliance with legal requirements in the dispensing of drugs.

- d. Promotion of adequate store and employee policies to ensure the provision of safe and adequate pharmaceutical service.
  - e. Observance of pricing policies which promote the long-range interests of both the profession and the public.
  - f. Provision to customers of competent and professional health service.
  - g. Promotion of the value of pharmacy to the public by emphasis on its professional character.
2. Obligation of the pharmacist to physicians.
- a. Personal acquaintanceship and cooperation with physicians in regard to mutual problems relating to the dispensing of medicines.
  - b. Referral of patrons seeking medical aid to physicians when the giving of information on drugs might be construed as trespassing into the field of practicing medicine.
  - c. Observance of physician's directions in the matter of compounding, refilling, labelling, or giving a copy of the prescription to the patient.
  - d. Provision of competent professional service to physicians and allied professionals.
3. Obligation to other pharmacists and the pharmacy profession.
- a. Perfection and enlargement of professional knowledge through continued dedication to improvement in the practice of pharmacy.
  - b. Association and participation in pharmaceutical organizations dedicated to the advancement of pharmacy and the public interest.
  - c. Exposure to the appropriate authorities of corrupt, illegal, dishonest, or unlawful practices by any pharmacist to the detriment of the public interest and the profession.

- d. Cooperation with other pharmacists in regard to professional advice, exchange of merchandise and/or copies of prescriptions, and mutual activities not detrimental to the public interest.
4. Establishment of proper business relationships with manufacturers, suppliers, and other business outlets.
  5. Upholding of professional standards concerned with practices which involve advertising, pricing, and sale of products and services.
  6. Maintenance and promotion of pharmacy by competent professional practices and services.
- B. Practices which should be avoided in the operation of a drug outlet.
1. Practices concerned with the sale of products.
    - a. False or misleading advertising.
    - b. Pricing policies involving predatory prices, illegal price fixing, or restrictive price agreements.
    - c. Non-conformity with accepted regulations and practices in the dispensing of drugs.
    - d. Failure to provide emergency service to customers or physicians.
  2. Practices concerned with professional relations.
    - a. Relationships with medical practitioners which restrict the free choice of the patient to select his own pharmacist.
      - (1) Medical clinic relationships between medical practitioners and pharmacists involving cooperative agreements by which physicians directly or indirectly profit by the prescriptions they control or influence, including lease rentals based on a percentage of prescription sales, reimbursement arrangements, and fixed rental agreements unrelated to the physical value of the property.
      - (2) Physician-dominated pharmacies.
    - b. Promotion and sale of objectionable nostrums.

- c. Unwarranted criticism of fellow pharmacists or allied professions which might reflect upon members of the health professions.
  - d. "Counter-prescribing" which tends to trespass into the field of practicing medicine.
- C. Practices involving ethical considerations which are controversial.
- 1. Issuance of trading stamps on prescription drug sales.
  - 2. Utilization of "loss leaders" which require the store to take a loss on certain merchandise items in order to establish traffic patterns conducive to increased sales.
  - 3. Utilization of self-service on drugs.
  - 4. Reduction of prices made possible by the elimination of delivery, credit, or other services.
  - 5. Use of direct lines, pneumatic tubes, and other means which might invade the patient's privilege of selecting his pharmacist.

Recommended Applications for the Guide  
to Pharmacy Administration

The applications of the guide to instruction may be as varied as are the circumstances which surround the instruction of pharmacy students in educational programs involving business. Since there are numerous ways in which the guide may be used, the examples indicated here are merely illustrative.

Effective use of the guide may be made by an instructor in pharmacy administration courses as a supplement to textbooks or lecture materials. The guide is compiled in such a manner that specific areas of instruction may be developed by its utilization as lecture or blackboard notes,

for projection on slides, or for use in overhead projectors. Individual items in the guide may serve as topics to be developed through classroom discussion and interpretation by the instructor.

The guide may be used in courses in management, marketing, accounting, finance, business law, and business ethics, as well as related courses. It can be especially valuable in pharmacy orientation courses, which serve to acquaint students with the many aspects of drug store ownership and/or management. In addition, the case studies themselves constitute valuable source materials which can be used either for classroom presentation or supplementary reading. The case studies should be especially valuable in orientating the students to the philosophy of operation of different types of retail pharmacy outlets, and the different principles and practices peculiar to them. They should enable prospective students of pharmacy, particularly those with no previous drug store experience, to gain a knowledge of various aspects of the practice of retail pharmacy and the operation of a drug store. Some aspects of both the case studies and the guide to pharmacy administration could serve as supplementary or discussion materials in pharmacy seminars held for students and/or practicing pharmacists to acquaint them with differing practices in drug store operation.

The guide may also be used by pharmacy instructors, administrators, and accrediting agencies to evaluate current

pharmacy administration instructional programs in terms of current practices and beliefs as expressed by practicing drug store owners and/or managers.

Whatever the purpose of its use may be, the basic intent of the guide to pharmacy instruction is to present an instrument which assembles a unique type of information obtained principally from practicing drug store owners and/or managers.

### Generalizations

The major desired objective of this study from the beginning was to prepare a guide to instruction in pharmacy administration. Thus, it was obvious that detailed and numerous findings would not be developed as the basis for specific kinds of conclusions. The objective of this study, however, has been accomplished. A guide to instruction was developed and it is presented in this summary chapter.

On the basis of years of experience gained as a teacher of business subjects relating to business management in general, and several years of teaching accounting to pharmacy students, the author's comprehension of pharmacy administration with its many ramifications has been greatly broadened. Upon completion of the extensive background study required and the work done in developing and interpreting the case study reports, the author was able to synthesize them to

the extent of arriving at a few broad generalizations. The generalizations reached are:

1. The knowledges, understandings, and skills associated with the management of a retail drug outlet constitute significant aspects of the preparation of pharmacists, and continuous careful evaluation and constant reorganization of subject matter content is required to ensure that the needs of future pharmacists are adequately met.

2. Some of the fundamental elements of management may be appropriately dealt with by means of integration into the general and technical instructional phases of the pharmacy curriculum. However, there remains a substantial body of knowledge which probably can be satisfactorily handled only in courses appropriate to what should be designated as the "pharmacy administration" phase of the curriculum.

3. The philosophical statement and the guide to instruction presented in this study are indicative of the nature of pharmacy administration and should be utilized in the future as guidelines for the extension and improvement of this important phase of the preparation of pharmacists.

It is the sincere hope of the author that pharmacy educators will make use of the guide to instruction to bring about improvement in the management of drug outlets regardless of the levels at which their programs of instruction now function.

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**APPENDIX**

APPENDIX

40 Case Study Reports

<u>Case Numbers</u>	<u>Type of Drug Store</u>	<u>Page</u>
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## CASE 1

### Nature of Store Operation

This is a small town drug store with annual sales of approximately \$160,000. About 50 per cent of its sales are in the form of prescription drugs, and the remainder is distributed among sundries, over-the-counter drugs, fountain sales, tobacco products, and other items normally carried in this type of operation. The current inventory cost is approximately \$21,000, and the merchandise is turned over between five and six times each year. Forty per cent of the total sales are on credit, and accounts receivable outstanding average approximately \$7,500. Since organization, the store has operated under contract as an agency store of a large national drug concern.

The drug store is located in the center of a town of 4,500 population. Its position, on a corner facing a trans-continental highway, is highly desirable. Parking spaces are located on the side street, with parallel parking in front of the store. The store is open from 8:00 A. M. to 8:30 P. M. each weekday and Sunday. The owner-manager also owns the only other drug store in town, which is operated under a different name, different management, and different agency agreement. This additional store was acquired three years ago.

Recently, the owner-manager has also opened a clinic pharmacy in a medical arts building which is leased by two

physicians and two dentists. Apparently the medical clinic management insisted on establishing a clinic pharmacy, and the owner-manager was faced with either operating this pharmacy or letting someone else do so. To prevent competition, he chose to operate it himself.

The owner-manager has operated this store since his graduation from the School of Pharmacy, Southwestern State College, twenty-two years ago. He is a leader in state pharmaceutical activities and appears to be a capable and respected retail druggist. His professed objective is to maintain a profitable store which provides good service at reasonable prices. A major portion of his time is devoted to civic enterprises and public relations activities. He expressed the belief that the retail drug store will continue to occupy an important place in smaller communities, although he sees a trend towards either small prescription shops or large type department drug stores in larger populated areas.

### Merchandising

Buying.--This store is supplied by two full-service wholesalers, a large national drug house under an agency contract, and a retailer-owned wholesale house which is also a subsidiary organization of the national drug concern. It is also supplied by direct purchases from manufacturers. The agency supplies a line of merchandise featuring private brands which are not subject to price-cutting, and also

provides aggressive merchandising aid. The retailer-owned wholesale company, completely owned through stock purchases by independent agency druggists, engages in mass distribution of a full line of brand-named merchandise and drugs. Normally, purchases from this company provide at least a 10 per cent reduction in price as compared with other wholesalers, but as it is located in a distant city, the service is slow and freight is expensive. Direct purchases from manufacturers constitute about 25 per cent of the owner-manager's purchases with 15 to 18 per cent discounts for quantity purchases. Purchasing from direct accounts is consolidated between the two drug stores in the community.

Emphasis is placed on buying in limited quantities in order to maintain a high rate of merchandise turnover, although the owner-manager now buys "deals" which in earlier years he would have had to refuse because of his weak cash position. Quantity purchasing is practiced only in lines of merchandise which have previously proved themselves.

Pricing.--The owner-manager generally follows the suggested list or fair-trade pricing. Sundries are priced to return a one-third margin on the selling price; drugs are priced at a 40 per cent margin. "Loss leaders" are not used, although occasionally goods are marked to meet competition. Cost prices are marked by code on a few expensive items; otherwise, all front-end merchandise is marked at retail when

it is put on the counters. Drugs are marked at cost in the prescription department.

Competition.--Although he is fortunate because of the absence of competition from other drug outlets in the community, the owner-manager reported some competition from metropolitan large-scale distributors and discount houses, as well as local grocery stores and variety stores. He explained that he has shifted his type of merchandise away from items which are featured in discount houses and large-scale retail chains, and now features more gift merchandise and drug items which are less competitive. Cameras and electric razors were given as examples of items which are sold in the metropolitan area at retail prices less than the wholesale price available to the owner-manager. By stressing convenience and service, along with competitive merchandise bearing the national drug house label, the owner-manager believes that he is meeting competition satisfactorily.

Advertising.--Advertising and sales promotion are determined primarily by the national drug house agreement which provides for about six major sales a year, with accompanying advertising aids. The owner-manager occasionally puts on a special sale sponsored by one of the full-service wholesalers. He participates in community advertising campaigns which are promoted by handbills. He expressed the viewpoint that his best advertising comes from sources in which he does not participate, including metropolitan newspaper advertising

and television advertising of products sold in his store. The observation was made that advertising in the local paper is not particularly effective. The store subscribes to the national drug house promotion service which costs \$5 per month, and the owner-manager believes that this advertising program is very good.

Less than 2 per cent of the sales is allocated to advertising expenses. The owner-manager indicated that possibly his sales and profits could be improved by his sponsoring a more aggressive promotional program, but that the program is not so necessary to his operation as it might have been in the earlier and more critical years.

Selling.--The owner-manager estimated that self-selection constitutes about 30 per cent of the front-end sales. He expressed the opinion that more sales training on the part of his personnel would improve his sales. He periodically sends his full-time women employees to cosmetic schools. In the past, he has held after-store-hours meetings with his employees. He has used the services of occasional specialty salesmen in an effort to promote a particular line of products, but does it only rarely now. Training given to employees consists mostly of individual guidance and assistance by the owner-manager. It appears that sales personnel may be tending to "wait" on people rather than "sell" them; high pressure selling techniques are not a part of this operation. It is evident that the owner-manager believes in

self-service to only a limited degree. He refused to remodel the front of his store on a self-service basis as suggested by the company which furnished his store fixtures. He observed that people in a small community prefer at least a limited amount of clerk service, and he emphasized the danger of exposing expensive cosmetics and other items to possible theft in a community with a large amount of school and transient traffic. He expressed skepticism of the need for observation points, mirrors, and other control devices to deter pilferage.

Inventory control.--At the present time, the owner-manager reported, he does not utilize objective methods of inventory control. He stated that in the early years of the operation he watched his cash position very carefully, but it is now his opinion that his experience and financial status make it no longer necessary to exert a high degree of control. He indicated that he has invariably erred in having too little merchandise rather than having too much. He reported that he utilizes the services of detail men and wholesalers in aiding in inventory control but does not depend on them entirely. Drug merchandise is dated as well as priced when it is received; this provides useful information on the movement of drug merchandise.

Services.--No intensive effort appears to have been made to increase traffic, other than by operating his fountain

as a service to customers, encouraging charge accounts, and providing film and postal service.

### Accounting

Financial statements.--A certified public accountant furnishes the owner-manager a monthly operating statement and balance sheet and prepares his payroll, tax reports, and income tax returns. The owner-manager intimated that these monthly statements give him a degree of control over his operations and provide a feeling of financial security. Daily summary sheets are prepared from cash register data, paid-out slips, received-on-account slips, and deposits. Monthly, the accountant utilizes a tape coding machine, into which this information is punched, along with check register data and recurring entries, and forwarded to a data processing center which returns the completed statements.

The owner-manager stated that he watches closely for significant variances on comparative statements. He explained that in earlier years he carefully compared his statements with national comparative data for drug stores in his category of sales and geographical area. Today, he experiences less concern because of better understanding of his operation.

Accounts receivable.--The operation does not utilize charge tickets, but the account to be charged is written on the cash register ticket which is filed with the daily cash register tapes. These charges are posted to the daily summary

and also to the accounts receivable ledger. Customer credits likewise are not recorded on tickets but are written on cash register slips and processed in the same way as charge slips. While this operation is extremely simple, it appears that it might lead to inefficient record keeping because of the difficulty in tracing errors. Customers normally may be expected to appreciate receiving duplicate charge tickets with their monthly statements, and received-on-account receipts when they make payments. Under this system it appears to be advisable that customers pay the drug store by check to show proof that their accounts are paid. The accountant furnishes a monthly control figure for accounts receivable, but this figure is seldom checked against the accounts receivable register.

Auxiliary records and reports.--No special prescription records are kept by alphabetical order for customer convenience or customer income tax purposes. Tax records for firm taxes are maintained by the accountant. No accounts payable ledger is kept, as bills are regularly paid on the tenth day of the month following receipt of statements.

### Personnel

Nature of personnel.--The normal work force at one time consists of two fountain girls, a drug and cosmetics clerk, and a pharmacist. The total average number of employees is eight, including one full-time pharmacist and one

half-time pharmacist, in addition to the owner-manager. Competent help is readily available when needed.

Drug clerk and fountain help is selected, according to the owner-manager, on the basis of personality, appearance, and character. Some individual training is done by the owner-manager.

Evaluation, compensation, and incentives.--The owner-manager explained that he evaluates and compensates his employees on the basis of his observation of their performance. They are paid the prevailing wage-rates for the community, which are fairly low. Other than utilizing the promotional incentives provided by a few manufacturers for selling their products, no performance incentives are used to reward sales performance.

Personnel problems.--The manager appears to achieve satisfactory employee relations with few personnel problems. According to the owner-manager, every effort is made to cooperate with employee requests if they are reasonable. In particular, a higher degree of performance is expected when he is out of the store than when he is present. He expressed the opinion that employees respond to considerate treatment and responsibility and that quiet encouragement, rather than autocratic dictation, results in better performance.

## Finance

Capital finance.--Lack of adequate capital, while a problem in the early years of the store's operation, has never seriously endangered the operation, according to information from the owner-manager. All purchase discounts are promptly taken. Conservative management and expansion policies have kept the business from financial pitfalls.

Insurance.--Insurance for the operation has been provided through a local insurance man. No particular problems have been encountered.

## Public Relations

Professional, customer, and employee.--The owner-manager cultivates close relationships with doctors and dentists through the promotion of dinner engagements, luncheons, and other social relationships. Prescription blanks and magazine covers for periodicals are provided by the owner-manager for physicians' offices. Customers are treated with friendly, courteous service. No gifts are given to favored customers because it is the owner-manager's conviction that this often creates dissension. Employees are given dinner parties twice a year, with husbands and wives invited. An effort is made to provide employees with time off from work when they request it, and regular vacations are given full-time employees.

Advancement of pharmacy.--The owner-manager is a leader in state and local pharmacy circles and has received various awards for his achievements in pharmaceutical activities. He is active in civic affairs and is a prominent member of local civic organizations. He indicated that he spends about 30 per cent of his time in public relations activities.

He expressed some concern over the continued trend towards decreased profit margins, but indicated the belief that some city druggists have encouraged the formation of discount pharmacies by over-charging for prescription drugs. He expressed confidence that pharmacists can generally hold the loyalty of the public by conscientious service and fair prices.

Education.--The owner-manager expressed a desire for more emphasis on general education in the pharmacy educational program, with a broad background of business subjects. He believes he would have derived benefit from more training in advertising, accounting, and management courses. Particularly, he regrets that he did not have training in public speaking.

## CASE 2

### Nature of the Store Operation

This is a small drug store located in an isolated rural community of 700 inhabitants. Its annual store sales are approximately \$87,000 based on a merchandise inventory valued at a cost of \$16,000. The merchandise turnover is approximately four times annually. In addition to annual store sales of \$87,000, other business is secured from the local hospital and clinic, to which additional sales are made at cost plus a 10 per cent margin of profit. About 40 per cent of the total sales is from the prescription department. Credit charges amount to approximately \$3,500 monthly, and the outstanding accounts receivable vary between \$3,000 and \$5,000. The owner-manager has operated this business for three years. The fountain sales approximate \$35 per day. The veterinary sales are between \$4,000 and \$5,000 annually.

This business is located about one-half block from a principal interstate highway. The owner-manager reported that three years ago he learned through a drug salesman that this community was vigorously seeking someone to continue the drug store in operation. He decided to purchase the store and said that with a small down payment and the cooperation of the local banker and business people, he had been able to start this operation on a "shoestring" and had never regretted

it. His closest competition is 29 miles away, and this gives him a certain freedom which he values greatly.

The owner-manager related that an operation such as this does not have the heavy expenses for advertising and delivery service which existed in the populated city in which he was located previously. He specializes in personal service and does not hesitate to fill prescriptions at night. He commented that he has relative freedom of pricing. He emphasized that he has an important public relations job in a small community such as this, and the principal objective which he seeks is the continued good will and patronage of the community and the medical profession.

#### Merchandising

Buying.--The owner-manager reported that he operates independently and is supplied principally by a full-service wholesaler. He does the usual amount of direct buying. Although this store does not operate under an agency agreement, he recognizes the advantages of doing so. He has considered affiliating as an agency of two national drug suppliers. He believes that one agency supplier furnishes more drugs, better cosmetics, and better advertising and merchandising service. The other agency supplier, he believes, is preferred for sundry items.

Pricing policies.--The owner commented that generally he prices his goods at fair trade prices. He attempts to keep

his prices reasonable, and is not faced with any direct competition, except the local grocery store.

He indicated that he codes all his merchandise at cost in the drug department and in the front end of the store. This practice gives him a double-check on changes in prices and furnishes him other types of control.

Competition.--The owner-manager knows of no unethical competition. People trade with him for service and convenience.

Advertising.--The owner takes a full-page advertisement in the weekly newspaper six times a year to "push" such special events as "back-to-school" days, the store anniversary, Mother's Day, Father's Day, Valentine's Day, and Christmas. He indicated that in addition to newspaper advertising he is very proud of the two highway billboards which he maintains. One of the signs originally retailed at \$550, but he obtained it at a considerable discount.

He puts a spot advertisement in the weekly newspaper and also carries a fountain advertisement. He said that the principal purpose of his advertising is to develop good will, and that he is quick to donate to school papers, football score boards, and any other community solicitation which will develop good will for his firm.

Selling.--The owner-manager pointed out that his store includes both self-service and clerk service. He

believes that one of the indispensable attributes that a drug store must always have is the personal service with which the proprietor serves the public. He stated that when he assumed ownership of this store about three years ago, he had to undertake a complete redecoration of the store. A full-service wholesaler from whom he bought the fixtures gave him valuable advice in arranging the layout and display pattern of the drug store. This wholesaler required 23 per cent down on the fixtures which were purchased.

Inventory control.--The owner-proprietor maintains control of purchases by putting 60 per cent of his sales money into new purchases. (Sixty per cent of the cost is approximately equivalent to 100 per cent of the sales price because 40 per cent of the selling price is the gross profit.) He said he does not obtain this type of profit on front-end goods but that the prescription drugs raise the over-all profit.

Traffic.--The principal traffic builders in this store are its fountain and personal service. The owner reported that he maintains a 24-hour prescription service and has an extension phone installed in his bedroom. His credit losses are very small and constitute less than 0.3 per cent of the total sales. He said that occasionally he contacts the county attorney concerning bad checks and the county attorney takes care of the matter. He has no formal lease

and is renting by the month. He believes that if the banker becomes dissatisfied with his operation, he will have saved enough money to give him relative freedom in moving to another location. He does not, however, seriously contemplate this possibility.

### Accounting

The accounting is done by the owner-manager with the exception of the income tax return which is prepared at the end of the year by an accountant. The owner-manager takes care of his own payroll, clerks' salaries, and social security reports, as well as related tax reports.

The owner-manager stated that he utilizes a single-entry bookkeeping system sponsored by a national ethical drug manufacturer and that he also uses its figures in analyzing his operating statement at the end of the year. He does not utilize its free analysis service. In comparing his figures with the national averages, he finds that both his salary and his rental payments are below the average. He reported that he processes his own accounts receivable. When a credit sale is made, he prepares the charge tickets in triplicate, gives one to the customer, and keeps two. He mails another copy to the customer when he is billed and retains one for his records. He does not departmentalize his accounts.

### Personnel

The owner-manager is the only registered pharmacist in the store, but there is a retired pharmacist in the community who substitutes for him and to whom he paid \$1,000 last year for relief work. He reported that the remainder of his staff consists of two ladies who are full-time employees aided by a boy and girl whom he employs after school and an additional girl whom he employs in the summer.

The owner-manager takes advantage of sales training advertisements which are furnished by full-service wholesalers and regularly distributes their literature to his salespeople; he also sends his lady personnel to cosmetic schools.

He has practically no turnover in his personnel and therefore he has almost no personnel problems. He employs a "checker" service to check the merchandising efficiency and honesty of his employees.

### Finance

The owner-manager sold his house three years ago and brought \$1100 into this operation, borrowing \$19,000 from a local bank. He indicated that this was a rather unusual situation but that the town desperately needed a pharmacy, and he had been able to talk them into this arrangement by using a great deal of personal salesmanship. He reported that in the three years he has been operating the store he has been able to cancel the \$19,000 mortgage. He is very proud that he was

the first person of his graduating class of 1957 to own a drug store.

The owner-manager reported that he carries a combination over-all drug protection insurance policy on his store.

### Public Relations

This community has a combination clinic and hospital. The clinic has three doctors with whom he has the best of relationships, each treating the other with professional respect. He indicated that in an operation in a small community like this, one needs to know his customers and their needs to appreciate their problems. He said that such things as buying and merchandising are relatively unimportant factors in his over-all operation. The important thing is that the customers return to the store and trade with him.

The owner-manager belongs to the state pharmaceutical association. There is no local pharmacy association in this area. He indicated that in regard to furthering community activities he is particularly conscientious in cooperating in all worthwhile activities; however, he makes it a policy not to be a leader in these activities but to be a loyal follower. He believes that frequently community leaders alienate certain factions in the community. He thinks this is not good for the development of over-all customer loyalty which is considered necessary for the operation of a successful store in a rural community.

The owner-manager asks for a comprehensive management program in the pharmacy school, which would consist of three different curricula for pharmacy students: (1) a retailing curriculum, (2) professional hospital and clinic curriculum, and (3) a professional prescription shop curriculum. He thinks the management program should include more display, more composition of newspaper advertising, a course in fountain management, and a seminar in public relations. He further commented that the practical experience requirement to become a registered pharmacist should be coordinated with the cooperation of the school of pharmacy and administered by a druggist.

The owner-manager is wholeheartedly in favor of the five-year college program. He commented that the older pharmacists, many of whom secured their registration without the benefit of a college education, are the principal drawbacks to the pharmacy profession. He indicated that the pharmacy profession must look for leadership to the recent graduate who believes in a professional approach to the practice of pharmacy. He said that a pharmacist should be able to aid the doctor in advising the drug medication and that he does this in his operation. He is critical of those who lower the professional standards of pharmacy. He also is critical of the druggist who sells sundries between drug sales and indicated that he would like some day to own a prescription shop without the front-end merchandise.

He cautioned that, in his opinion, pharmacists should not work for chain or discount outlets. He believes these outlets may be capable of destroying the professional nature of the practice of pharmacy. Almost all the problems of the pharmacy profession, he indicated, arise from non-pharmacist owned stores.

### CASE 3

#### Nature of the Store Operation

This is a rural drug store with annual sales of approximately \$70,000. The store has been in operation for more than 40 years and is managed by the original owner and his son, as partners. Both of them are registered pharmacists. Approximately 45 per cent of its sales are prescription drugs; 40 per cent, proprietary medicines and sundries; and 15 per cent, fountain sales. The current inventory at cost is valued at \$9,000, and the stock is turned over more than seven times annually. Sales on credit are extensive.

The store is located on the corner of a block facing the town square in a community of 3,500 people and within a few miles of a large government base. The store is distinguished by a large wall mirror of antique design positioned behind the fountain and by other evidence of original design. Otherwise, the merchandise is neatly displayed on modern fixtures. The owners are in the process of establishing a drive-in window at the rear of the store in the alley adjacent to the side street.

In addition to a full line of drugs and merchandise typically found in a drug store, the store features a large display of model airplanes, craft toys, and sundry merchandise. The senior partner, who is an elderly experienced pharmacist and business man, was one of the first pharmacy

graduates from the University of Oklahoma, the first pharmacy school located in the state. His son graduated from the School of Pharmacy, Southwestern State College, about five years ago, after first pursuing a career in youth work. The junior partner commented on the many changes in pharmacy during his father's years of practice and took the interviewer into the back of the building where he showed old fixtures containing crude drugs, only four or five of which are presently used. He commented on the decline of the fountain business which used to include an important ice cream business. His father is one of the few pharmacists left in the state who pours many bulk liquids from stock bottles--the younger pharmacists like himself preferring to purchase prepared preparations although the profit return is much less.

The junior partner commented that his father was apparently somewhat resistant to some of the changes which he wished to incorporate into the business. However, the son grudgingly admitted that quite often the "old man" proved to be right. The father has wholeheartedly supported the "drive-in" project.

The junior partner has a college degree in personnel work and for some time was employed as a professional youth worker before returning to the local pharmacy college where he completed his pharmacy work.

Merchandising

Buying.--This store is associated as an agency store operating under a contract with a national drug concern. The drug concern supplies the store with private brand drugs and merchandise, and features special sales in which the store participates throughout the year.

The partnership owns stock in a retailer-owned wholesale company sponsored by this same drug company. This stock enables the store to purchase national brand merchandise at sizable discounts. The lower operating unit cost is achieved by eliminating sales representatives and also by specifying that all purchases must be made for cash. In addition, the store is supplied by two full-service wholesale houses. The junior partner commented that he and his father are not joining the new volume buying plan being set up by one of these wholesalers, featuring special discounts on fast moving items purchased in quantity. It appears that their low volume will produce only limited discounts which would inadequately compensate them for the inconvenience of doing their own ordering and sending in orders themselves--a cost-saving feature of the new plan. Another feature of this plan which the partners do not like is that it necessitates their selling the vitamin products distributed by the wholesale firm.

Pricing.--The junior partner indicated that pricing does not constitute a major problem, as their policy is to

sell drugs and merchandise generally at suggested or fair trade prices. Their agency association provides them with a line of private brand merchandise with price appeal. The junior partner complained of the decreasing profit margins which are being allowed by most manufacturing concerns, describing this trend as one of the most serious problems confronting the small drug store retailer. He marks the date, month, year of receipt, and the cost price in code on all drugs and most of the merchandise which is stocked in the store. This enables him to see how fast the merchandise is moving and also serves as an aid in inventorying merchandise or pricing it when exchanges are made with other drug stores as a matter of convenience.

As an agency store, merchandise is regularly featured at reduced prices in the one-cent sales which this national drug concern promotes twice a year.

Competition.--The junior partner said their competition consists chiefly of two other retail drug stores located in the downtown area, and a dispensing doctor who practices medicine in the community. He indicated that while competition is not severe, it nevertheless is a factor with which they are constantly faced. They were forced to install an air-conditioning unit because a neighboring drug store had previously installed one.

He said that their recent action in installing a drive-in window at the back of the store in the alley has

apparently caused consternation among his competitors who apparently had enough political influence to endanger the project. He related that the mayor had threatened to have the city council make the alley a one-way street, but that now the council seemed prepared to accept the situation.

He expressed distaste for grocery store competition in the drug business. "I am trying to organize a 'stamp plan' among druggists to give away 'food'," he said. He commented that a local chain departmental variety and auto appliance firm which engages in discounting drug products and associated toiletries has created a difficult situation. However, he expressed the belief, based on conversation with the local manager who is a personal friend, that this organization will eventually drop this type of merchandising.

Advertising.--The junior partner described advertising as a serious problem. They compose their own advertisements, using those prepared by the metropolitan newspapers as guides. Their advertising consists of handbills prepared by the national drug concern, newspaper advertising, and personal advertising. He commented that they had not distributed handbills on their last semi-annual "one-cent" sale and had experienced more business than ever before; therefore, he is dubious about their effectiveness. They plan to continue to experiment with advertising methods.

Selling.--The junior partner believes selling is human relations--a subject about which one can never learn

too much. He also commented on the national success in merchandising achieved by a former local resident. In his opinion, the principal asset possessed by the former townsman was the ability to sell effectively.

The junior partner said his father considers himself an expert in layout and display of merchandise because of his long experience in selling. One-cent sales have disturbed the effectiveness of his present store layout because of the high volume generated by these sales. At one time they kept all drugs arranged alphabetically for easy location, but he admitted that he is not proud of the present arrangement.

Inventory control.--The junior partner expressed pride in their ability to control their stock purchases and pointed out that they regularly turn their merchandise stock seven to eight times annually, which is a very high turnover.

Services.--The fountain service, credit privileges, and personal attention to customers' needs constitute the principal services offered by the store. The junior partner reported that the business has lost over \$2,000 in bad debts in the past year because of unreliable credit accounts with construction workers and transients who work at the nearby government base. The partners expect their new "drive-in" window to be an excellent addition, particularly in cold or disagreeable weather.

### Accounting

The senior partner keeps a single entry set of books, using an accounting system provided by a cash register company. All payroll and tax accounting reports are processed by him, including the necessary payments. An outside accountant handles the income tax return for the firm. Accounts receivable are entered in a journal at the time of the sale and later posted to the customers' accounts. A daily summary sheet, designed by a cash register company, is used to collect daily data and "prove" the cash register.

The partners also use an alphabetical register of prescriptions filled.

### Personnel

The two partners, father and son, are registered pharmacists and apparently are able to service the prescription department satisfactorily and also have time for occasional vacations. The junior partner said they have no difficulty in securing adequate help in the drug store.

### Finance

The partners apparently have extensive farm and city investments which indicate that this relatively modest drug store has been very successful through the years. They carry the usual types of insurance with the exception of burglary insurance, which they consider too expensive.

Public Relations

Professional, customer, and employee.--The junior partner reported that there are two doctors in the community, one of whom does his own dispensing. "When he comes into the store I joke with him by commenting on the number of "patients' I have had," he said. "He responds by recalling that perhaps he has also 'sold a few pills.'" The junior partner seriously commented that he considers doctor dispensing unethical. He believes that this doctor makes about as much on drug sales in his medical practice as the junior partner does in his store.

He disclosed that the other doctor in the community is one of his best friends but that his patients are not influenced in their choice of a pharmacy. The junior partner indicated that in the past his father had helped some of the doctors get established in the community only to find that their appreciation appeared to be short-lived. He also commented that what had formerly been a large veterinary business has largely vanished because of the present custom of local veterinarians purchasing their supplies direct.

Both partners are obviously well-liked in the community in which they have spent their lives. The junior partner is an adept public speaker and youth worker.

Advancement of pharmacy.--The junior partner was extremely blunt in his criticism of the new five-year pharmacy program. He said:

I hope it 'back-fires.' These large-scale operators will 'jam it down our throats,' and it can eliminate the small druggist. We are a combination of a business and a profession, and we might as well recognize it.

He concurred with his father in stating that for the first six months a typical graduate pharmacy student should "pay for the privilege of working until he learns the business."

The junior partner commented on the value of training in speech and public relations, and said that his degree in personnel relations has been one of the best types of preparation possible for working in a drug store.

He believes that one course in marketing and one in management is sufficient generally, as it is difficult to specialize further with justification because of the varied nature of the different types of drug stores. He requests that more advertising be taught in the pharmacy curriculum, and he spoke also of the value of training in bookkeeping, including payroll accounting.

It was apparent from the comments of the junior partner that he and his father do not regard the function of a retail pharmacist as requiring extensive scientific training.

## CASE 4

### Nature of the Store Operation

This is a small rural drug store with annual sales of about \$40,000 and a merchandise inventory of slightly over \$10,000. The prescription drug business totals 25 per cent of all sales. Charge accounts are encouraged. The present manager has taken over this business from a relative who was recently deceased, and is commencing a renovation and modernization of the entire operation. The store is associated with a national drug agency but has not participated actively in supporting its products. The store does considerable fountain business which constitutes about 10 per cent of the total sales.

This drug store is located in mid-block in the downtown area in a rural community of approximately 1,300 inhabitants. The only other drug store in town is located on the corner across the street. The store opens at 7:30 A. M. daily and closes at 6:00 P. M. six days a week, but on Saturdays it stays open until 7:30 P. M.

This store is a typical, but slightly deteriorated country drug store. It has a fair volume of gift item sales and sells some veterinary supplies, tobaccos, magazines, and cosmetics. It is owned by the owner-manager's family. The owner-manager has had extensive retail experience, having spent the last three years in a professional prescription

department in another state. Previous to that he acted for three years as a store manager of a retail unit in a large chain store system in a neighboring state.

A relative of the owner-manager owns and operates the neighboring corner drug store. The manager believes that personal service is the heart of the pharmacy business. He reported that he likes the small-town store with the close customer relationships and he wants only a reasonable profit. He intends to take steps immediately to modernize the store.

The owner-manager is the only pharmacist in this operation.

#### Merchandising

Buying.--The owner-manager buys from two full-service wholesalers and also obtains considerable merchandise from his agency supplier. He is not particularly enthusiastic about having an agency store, but since his father had the agency he will continue it for some time at least. He believes that, as an agency of a national drug supplier, he could be put in a position in which he might be told how to run his business. However, he reported that the supplier knows how he feels and does not now bother him.

Pricing.--The owner-manager reported that prescription drug prices are much lower in this area than they are in the neighboring state of Texas, where he has recently worked. He said that the recommended national retail drug price

schedules are generally followed in Texas and are somewhat higher than the current prices which he charges for prescription drugs. Nevertheless, there is cooperation on prescription drug prices with the other drug store, and "cut-pricing" is not a function of this store.

The owner-manager code prices at cost almost all drug products and front-end merchandise, in addition to pricing them at retail.

Competition.--The owner-manager reported that where he had previously worked, while the store makes a profit on prescriptions, it has generally lost its price structure "up-front." Here in Oklahoma it is almost the other way around, he reported. Generally, the owner-manager has attempted a 50 per cent mark-up on the selling price in the prescription shop. He commented that the pharmacy business is different from any other. He said:

You're selling what they don't want to buy. You can't run this business like a dry-goods business. The third party in this relationship, the doctor, is the controlling factor in the prescription department.

He also commented that he competes with the variety store down the street on the same products by specializing in large sizes, indicating he would rather make one \$1.25 sale than to make five 25-cent sales.

Advertising.--Very little advertising is necessary in a small rural town, according to the owner-manager. He participates very little in the advertising promotion plans which

are provided through his agency agreement. He said he did not like one-cent sales as customers buy only every six months, and this ruins his market. One-cent sales do, however, give the retailer the opportunity to restock his private-brand merchandise at much reduced prices, he commented. Occasionally he may hold his own sale in preference to an agency-promoted sale.

He emphasized that he participates in advertising by featuring weekly newspaper advertisements and is a generous contributor to school advertising, including the sponsoring of football leaflets and other community-sponsored endeavors. He believes that in a small town it is very important to maintain the best of community relations.

Selling.--There must be a balance between self-service and personal selling, the owner-manager commented. He said:

The customer wants to see the product he has read about, but he also wants a pharmacist to be handy to answer questions and give advice. Bringing the customer shopping basket used in the supermarket into the drug store tends to destroy the professional image of pharmacy.

He reported that he is engaged in re-doing the layout and display in this drugstore. A national chain wholesaler is providing modifications for the fountain and furnishing valuable advice. After renovating the fountain, he intends to lower the ceiling, install a new front in the store building, and also install new heating and refrigeration. He believes it is better not to do this all at one time, because

he has seen stores ruined by closing down completely in communities like this. Therefore, his remodeling plan extends over the next five years. Also, he indicated that he is intending to replace the wiring and plumbing because of its deteriorated condition.

The owner-manager commented that inventory and purchase control are very important.

Services.--The owner-manager reported that this store has a service station for a "through" bus system that utilizes the federal highway that passes through the community. The store also maintains a public telephone which increases store traffic.

#### Accounting

The owner-manager expressed a desire for a better system of bookkeeping than now exists in this store. He reported that it is customary for the annual operating statement to be drawn up by the family lawyer-accountant. He would like to change to a single entry accounting system which is sponsored by a national drug manufacturer. He was not aware of information to the effect that this drug manufacturing company means to eliminate this system of furnishing store accounting books as a service to druggists--probably because of increased company overhead costs and recent increased competition among manufacturers in drug distribution. This appears to be one of the eliminations of valuable

services to independent druggists which is resulting from increased competition and higher overhead costs on the manufacturer's level.

The owner-manager reported that all charge sales are entered into a large chronological journal when the customer is "waited on." These entries are later posted to individual accounts. He does not record the charge sale on the cash register until the customer pays him, when, for bookkeeping purposes, it is treated as a cash sale. He reported that he prepares his own pay-roll and tax reports. The only accounting departmentalization which he has or expects to have in the near future is a separation of the fountain income and expense from the rest of the store, enabling him to control his fountain expenses.

### Personnel

The owner-manager reported that this store has only one employee with the exception of himself, which results in very low over-head costs. This additional employee is a woman who supervises the fountain and clerks up front. When the owner-manager must be out of the store, he locks the door and sends his customers across the street to his relative's drug store. He commented that he has an excellent retail background experience which fits him to be a store manager. His experience for three years as a chain store manager in a large city and his additional experience in managing a

prescription pharmacy in Texas has acquainted him, he believes, with many facets of the drug and retailing business. He likes the small-town operation and resulting close association with people and he likes to fill prescriptions. In commenting on his experiences as a chain store manager, he said:

This is a wonderful experience except the chain stores 'work you to death' and then get someone else to do your job after you are discouraged. They teach you smart merchandising and efficient store operation, but they have no place for a man with ambition.

He commented that he received from this chain-store experience an excellent appreciation of the importance of overhead costs and internal control which every store manager should know:

He said that when he was working in the prescription shop he was paid, in addition to a basic salary, a 3 per cent commission on prescription drug sales, and that this is an excellent incentive arrangement for compensation for pharmacist-employees. He does not agree with the conclusion which some other store managers have reached, that this leads to over-charging for prescription items in the store.

### Finance

The owner-manager commented that he is financing his store operation through help provided by his relatives and that therefore this operation does not represent a typical case with relation to store finance. His rent is exceptionally cheap, and he operates under a lease that includes the

building insurance. He carries product liability insurance and personal liability insurance in addition to insurance on his merchandise.

### Public Relations

The owner-manager does not "push" with physicians, even though some pharmacists do. He said:

Many pharmacists take physicians out to lunch, play golf with them, and studiously cultivate them in order that the physicians will cooperate with them and prescribe the drugs which they wish them to, and, in general, lead the pharmacists to a very successful and lucrative business. Personally, I don't like this type of operation and believe it to be unethical. In this community I have an excellent relationship with the only physician, and therefore most of my effort is put into cultivating customers.

Advancement of pharmacy.--The owner-manager intends to join the Oklahoma Pharmaceutical Association. In this remote area, local pharmaceutical meetings are not held. He emphasized that in a small town, the community relationships are the most important success factor, and he is going to be particularly careful to cooperate with the schools and the churches. He commented that personal service is a part of pharmacy.

The owner-manager explained that he believes the general trend in pharmacy retailing is toward the prescription shop or a large-scale variety store. He expressed the viewpoint that whereas the large variety store may in many instances be controlled by large chains, the prescription

store will remain the independent voice of pharmacy because of its service nature.

Education.--He commented that he believes that economics is a basic course which he sloughed off in school, but he is extremely sorry today that he did so. He expressed the opinion that accounting and bookkeeping courses are most appropriate training in the development of store managers. He reported that speech training is valuable but is probably more necessary for work in larger communities than in small ones because of the informal relationships which exist here. In organizing this store, he is amazed at the mass of paper work, including licenses, the employer-employee taxes, state sales taxes, and federal and state social security numbers which are necessary in order to operate. He regrets that he is spending so much time doing this type of work instead of engaging in activities to increase the sales of the store. The owner-manager, a relatively young man, appears to be looking forward to a progressive and enjoyable life in a relaxed atmosphere of a small-town community where service will predominate.

## CASE 5

### Nature of the Store Operation

This is a drug store in a rural community with about 40 per cent of its sales in the form of prescription drugs, 20 per cent in veterinary supplies, and the balance in proprietary drugs, sundries, and fountain sales. The store has been under the present ownership and management for seven years, during which time sales have increased to about \$60,000 per year more than the first year. The merchandise inventory at cost is valued at \$36,000 with \$19,000 in the prescription department. Total sales last year were \$150,000, and the merchandise stock is turned over approximately three times annually. The store operates independently. Sales on credit are encouraged, and charge sales constitute 50 per cent of all sales, with accounts receivable outstanding amounting to approximately \$5,000. The store is open weekdays and every other Sunday from 8:00 A. M. until 7:00 P. M.

This store is one of two drug outlets located in the downtown area of a rural community of approximately 2,000 inhabitants. It is positioned within the block, with stores on both sides. Its competitor is located across the street and in the next block. Although located in an old building, its stock is neatly assembled and well displayed. The store possesses a heavy volume of sales in veterinary drugs and supplies. In addition, it features a gift-wrapping service

which the owner-manager believes is the major factor in securing what he believes to be at least 50 per cent of the gift business in the community.

The owner-manager attributes his success principally to his cordial relationships with his customers. He explained that everyone who enters his store is treated with friendly courtesy, and that a special effort is made to treat children with kindness. He is an experienced retail drug store operator who also carries on a profitable cattle business. He expects to sell his drug store business in three or four years and devote full time to his cattle operation, which he enjoys more than the drug business.

#### Merchandising

Buying.--The owner-manager buys principally from two full-service wholesalers. He has joined the volume-buying plan recently sponsored by one of these wholesalers and indicated that he is achieving savings up to \$150 per month because of the special discounts offered. He is not associated under contract with any national drug supplier. Because of his high volume in prescription drugs, he is able to buy many of his drugs direct from manufacturers.

Pricing.--The owner-manager reported that his competitor had resorted to cutting prices on prescription items in an effort to win back some of the business which he was losing. Reduced prescription drug prices of the competitor may

have been partially a result of price cutting in a nearby metropolitan area. The owner-manager said he had met the prices of his competitor and that generally a one-third margin on the selling price of prescription drugs is the "going rate" for this community. He explained that otherwise his prices are not particularly low and that he does not find it necessary to make a price appeal on his merchandise. All goods are marked at cost in code.

Competition.--With the exception of the competition on prescription drug pricing, the owner-manager reported decreasing competition from the only other drug store in the community, which is a fairly large store operating under an agency contract with a national drug supplier. He believes the owner of the competing store discourages personal contacts, both with his customers and suppliers. It is apparent that the owner-manager is not worried about competition, either from the competing drug store or other outlets.

Advertising.--The owner-manager does little advertising. He commented that in experiments with local weekly newspaper advertising in which the customer could secure a sizable discount by clipping a coupon in the newspaper, only about one out of ten customers had utilized the discount privilege. Therefore, he is skeptical of the value of local newspaper advertising for his store. He presents the parents of each baby born at the local hospital with an engraved baby spoon.

The owner-manager does not have promotional sales. He attributes his outstanding sales increase to satisfied customers rather than customers attracted by any particular promotional device.

Selling.--This store is arranged in such a manner that almost all merchandise is available for customer inspection and self-service. The owner-manager assured the interviewer that he does not have to teach his personnel to sell-- instead, he selects the type of employees who learn to sell by themselves. He said, "My girls just know how to sell-- they're good."

For the most part the selling fixtures in this store were constructed locally and appear to be very satisfactory. Much use is made of peg boards in displaying gift merchandise. The merchandise is not crowded or jammed, but is well-displayed and neat. The owner-manager arranged the floor plan of the store himself and personally supervises the store displays.

Services.--The store has a soda fountain which appears to be satisfactory, although the owner-manager said that he is thinking of reducing the fountain area and maintaining only a coffee service, a small soft drinks dispenser, and possibly an ice cream machine, while retaining his customer booths. It is his opinion that this will further reduce his overhead and not detract materially from his customer traffic. As previously mentioned, he believes his free

wrapping service for gifts is a service which distinguishes his store throughout the community. He stressed that he is available for 24-hour prescription service, and indicated that he will gladly open his store to sell a 23-cent bottle of baby aspirin in the middle of the night if it will please a customer. The owner's interest in the cattle business has undoubtedly led to a large volume of sales in veterinary supplies, and his ample experience in this field has made him as he commented, a "second veterinarian" in the community.

#### Accounting

The owner-manager keeps a neat and simple single entry set of books, prepared in a bound ledger with appropriate columnar headings. He records daily a summary of the sales and cash received, and an itemized record of all cash payments.

Credit sales are not recorded upon the cash register until paid, which results in an abnormally large amount of sales at the first of each month when accounts are paid. When a credit sale is made, a single sales ticket is made out and signed by the customer. It is then filed in a folder with the customer's name, and the customer's sales slips are totaled at the end of the month when monthly statements are rendered. When the customer's account is paid, a credit is entered in a daily journal kept at the cash register, and the sales slips are returned to the customer.

Monthly summaries are kept of income and expenses on a special sheet. No attempt is made to reconcile the bank account with store receipts since cash is taken from the business to pay personal and farm obligations, and all store receipts are not deposited. While the system obviously lacks internal control, the records kept are neat and systematic. No departmentalization of sales was reported with the exception of tobacco sales, hospital sales, welfare sales, and resale sales, which are recorded on the cash register as an aid in determining sales which are taxable. Excise taxes collected are recorded in a separate journal. All payrolls and tax reports are prepared by the owner-manager. The monthly summary of income and expenses for the twelve months are totaled and taken to a certified public accountant in another city who prepares the annual income tax return.

The owner-manager expressed complete satisfaction with his bookkeeping system and lack of departmentalization. He believes that because of his ability to observe closely the entire operation, he will not suffer because of lack of internal or accounting control.

### Personnel

This store operates with one registered pharmacist, who is the owner-manager, and four employees. The owner-manager hires an upper-class student from the School of Pharmacy, Southwestern State College, to work summers and

Saturdays and Sundays during the winter months to assist in the prescription department. He said he usually has his current student employee recommend a replacement when he graduates. A requirement for this job, he stipulated, is a good knowledge of veterinary medicine. He reported that during the winter months he pays this student \$20 per day and that students apparently regard this job as being extremely desirable. He has a very low personnel turnover and is well satisfied with employee performance. He reported that he pays his employees a wage which is well above the average for other retail stores in the community.

The owner-manager said that his wife works regularly in the store and exercises supervisory control. He commented that he is able to select outstanding employees because of the apparent desire of many people to work in his store. Each employee has specific duties and responsibilities, and each appears to take pride in his work. They require very little supervision. He does not believe in selling bonuses or contests as he thinks these lead to neglect of housekeeping duties and other duties which he believes are as important as the selling function. Apparently the store manager is unusually successful in maintaining a store atmosphere in which clerks are constantly attending to re-arrangement of the merchandise stock, and in keeping the store meticulously clean.

Finance

The owner-manager reported that he came to this community after being released from military service in the Korean conflict. He bought his business from a former owner who allowed him to make monthly payments on the principal from his earnings. He now has extensive cattle interests, and apparently has no financial problems.

Public Relations

Professional, customer, and employee.--The owner-manager reiterated that simply being courteous to people and considerate of their problems has paid handsome dividends in increased business. He said that he furnishes all doctors their medicine at cost and gives Christmas presents to both doctors and their wives. He and his family are given free medical care by the doctors. A community hospital in the town is supplied with medicine at cost price plus 10 per cent, and the hospital drug business is alternated month by month with the other drug store. He reported that before this alternation plan was proposed by the other drug store he was getting practically all of the hospital business.

He emphasized repeatedly that it is the store policy to be particularly nice to children that come into the store. He believes that parents often trade in business establishments in which their children receive courteous treatment. "The other drug store in the community," he said, "has lost

much business to me through policies which have antagonized many customers."

Advancement of pharmacy.--The owner-manager appears to be completely satisfied with his situation. He had no critical comments regarding unethical practices or conditions in the practice of retail pharmacy. He indicated that people will trade with him because of the service he offers, rather than on a price basis generally, although it is apparent that he has reduced his prescription drug prices to match those of his competitor. He belongs to civic organizations and participates in community functions which he thinks are important.

Education.--The owner-manager stressed two factors which he believes should be given attention by the pharmacy school: (1) more veterinary medicine should be taught in the pharmacy school because probably 80 per cent of the pharmacy graduates, in his opinion, will be going to rural communities in which this is important; and (2) the pharmacy graduate should be taught that filling prescriptions is only a part of his total job and that it is just as important for the pharmacist to learn to operate the total store and meet customer needs as it is to be helpful in the prescription department.

It was apparent that the owner-manager believes that human relations are the predominant element in managing a drug store.

## CASE 6

### Nature of the Store Operation

This is a drug store located in a rural community of approximately 1,100 people. It has annual sales of about \$98,000 maintained on a merchandise inventory valued at a cost of \$21,000. It has a stock turnover of approximately four times annually. The prescription business constitutes 65 to 70 per cent of the total sales. Considerable credit business is maintained. This drug store is operating as an agency store under contract with a national drug concern.

This drug store is unique in that it is the only one in the community and therefore operates with relative freedom from drug store competition. The community has two doctors who are well-known, active, and respected. The store is extremely neat and well-arranged. It carries a full line of merchandising items, including an extensive gift department. The walls of the store are neatly and tastefully decorated with gift display items attached to pegboards. The store includes an extensive chinaware and glassware department as well as a complete line of cosmetics, cameras, and other drug store items.

The store is owned and managed principally by an elderly man who has spent most of his life in this establishment. The assistant manager is a pharmacy school graduate of Southwestern State College who reported that he entertains a

desire some day to own this store. Apparently the owner is an individual who strongly supports his church but does not participate vigorously in other civic affairs. The assistant manager, when he was interviewed, said that when he was first employed in this establishment he undertook a public relations program which did not appear to be appreciated. Consequently, he does not pursue it as vigorously as he did in the past. He expressed the opinion that sales could be increased by a more aggressive public relations policy.

The assistant manager observed that this is an ideal location for a drug store. He commented that the job is not too demanding and permits him to have a considerable amount of free time. He said that he has not been completely satisfied with his situation because he had hoped to have a financial interest in the store.

It was apparent to the interviewer that, while this store occupies a rather large area and is neatly and appropriately decorated, it does not achieve the volume of sales which it apparently could. Possibly this may be because of prescription pricing policies in previous years which may have been unusually high. It appears that many people in this community drive to a neighboring town where they believe the prices are more reasonable.

Merchandising

This retail drug store is associated as an agency store of a national drug firm and carries out its merchandising policies, including one-cent sales. Purchases are also made from another national drug wholesaler, but the store does not participate in volume buying and advertising plan which this firm sponsors.

Pricing.--The assistant manager said that he and the manager operate with relative price freedom because of the absence of competition. He believes their prescription prices are fair and reasonable. When questioned about high prescription drug prices by the interviewer, he commented that at one time the store may have been a little high, but he believes that at the present time they are very reasonable. He criticized prescription pricing policies in a neighboring town, indicating the prices were being cut in that community. He indicated that all the drug items are code marked at cost.

Advertising.--This operation engages in limited advertising, the assistant manager noted. Most of their advertising effort, he observed, is directed toward the use of handbills.

Selling.--The informant indicated that he makes no particular effort to exert "high pressure" on customers. He believes he is able to sell drugs and related products because of the service that he gives individual customers. The layout and display of this store is exceptionally neat and

presents an over-all satisfying appearance. The informant indicated that inventory control consists principally of visual control.

Services.--Considerable business is encouraged by the extensive gift and chinaware displays in this store in addition to fountain service. Credit accounts are encouraged.

### Accounting

The assistant manager informed the interviewer that the accounting data is accumulated on a prepared set of single entry merchandising books supplied by an office-supply house in a neighboring state. Statements are drawn up annually, and the operating statement is compared with the national figures. The daily operational information is entered in these accounting books.

Accounts receivable are not processed through the cash register until the accounts are paid in cash. Charge accounts are entered in a chronological journal in longhand and credit slips are not prepared. Later these journal entries are entered in an alphabetical ledger. Credits are handled in the same manner. The assistant manager indicated that a problem is created occasionally when a customer pays his account and a store employee forgets to mark the account paid in the journal.

The owner of this establishment prepares the payroll and tax reports. The assistant manager indicated there is no

departmentalization of accounts and relatively little control. All bills are paid promptly in order to take advantage of cash discounts.

### Personnel

The assistant manager commented that there is no particular personnel problem in this community--that clerical help is plentiful and that it is not difficult to obtain good employees. He is being paid on a straight salary, but he would prefer some incentive method of payment whereby he could increase his interest in the store operation.

### Finance

Apparently this store has been well financed and has made considerable money in the past. The assistant manager reported that he is saving his money and hopes to obtain approximately \$22,000 in cash which he believes will enable him to buy a controlling interest in this operation.

### Public Relations

The assistant manager said that he and the owner-manager get along well with the two doctors in the community. He strongly believes in professional associations as a means of advancing the pharmacy profession. He stressed that pharmacy should be developed as a profession in which the doctor and the pharmacist work as colleagues. He believes that there should be more participation in community activities by

members of this store and regrets that the public relations activities which he has undertaken in the past have not appeared to be appreciated by the owner-manager of the business.

According to the assistant manager there are very few problems in operating the only drug store in a community such as this. He indicated that he does not believe in the cut-price policies which are pursued in the metropolitan area. He spoke strongly in favor of such courses as economics as a general background on which to build business knowledge. He recommended increasing management training in the pharmacy curriculum and indicated that he believes some advertising should be taught as well as techniques of buying and selling merchandise. He believes that the fundamentals of merchandising can be taught in a pharmacy school as a foundation upon which the pharmacy graduate may later build his practical experience.

## CASE 7 .

### Nature of the Store Operation

This is a rural downtown drug store with annual sales of approximately \$130,000, maintained on an average merchandise inventory valued at a cost of \$28,000. The prescription department accounts for about 50 per cent of the total sales. Approximately 20 per cent of all sales are on credit; accounts receivable outstanding usually vary between \$3,500 and \$5,000. This store has been in operation under the present management for 15 years. It contains a fountain which does approximately 10 per cent of the total business. The operation is associated under an agency contract with a national drug concern.

The store is located on the main street in the downtown area of a town of about 1500 inhabitants. There is one other drug store in town located across the street. It is not so modern in appearance as this store. This store is exceptionally neat with colorful and well-arranged merchandise. It is clean and well-stocked, and includes a large supply of veterinary goods. The manager has removed the fountain booths and utilizes only fountain stools to increase the customer turnover in this department.

The objective of the manager is to maintain a professional type of drug store. He believes that adequate finance is the principal problem that confronts most owners in running a drug store.

Merchandising

Buying.--This owner-manager is experimenting with a new volume buying and advertising plan sponsored by a national drug wholesaler. He also purchases cooperatively from a retailer-owned wholesale outlet from which he receives a 10 per cent discount advantage. He indicated that, while he likes to buy from this retailer-owned concern, the time involved in shipping goods from a neighboring state reduces his merchandise turnover which decreases his profit. He also buys some merchandise direct from the manufacturer.

It is not possible to do cooperative buying in the drug trade as it is in the grocery trade, he believes, because these two operations are entirely different. He emphasized that in the drug business one can not anticipate the turnover on most drug merchandise because sales depend in a large part upon the type of prescriptions which the doctor writes which are determined by the varying types of medical problems within a community.

He thinks it is most important that the merchandise turnover be increased as much as possible. Also, he indicated that at various times he has been in financial difficulty and has not been able to take advantage of all his cash discounts on merchandise purchased. As an example of the importance of the merchandise turnover, he emphasized that he makes a very good profit in the tobacco department in which his margin of profit is the lowest in the store. The fact that this

merchandise is turned over many times during the year more than makes up for the low margin of profit.

Pricing.--The owner-manager makes a practice of carrying some specials and mark-downs; yet in general his goods are sold at fair-trade or manufacturers' recommended prices.

He indicated that he has good relations with the druggist across the street, and there is no cutting of prices on prescription drugs. He marks his goods at the retail price in the front end and at cost in the prescription department. When he takes his annual inventory, his accountant adjusts the marked retail price on front-end merchandise to an estimated cost valuation.

Competition.--The grocery and variety stores are his chief competition, according to the owner-manager. Very little unethical competition exists in this area. He believes the most effective way to meet competition is through good service to customers.

Advertising.--The owner-manager carries out the promotional program of the national retail supplier with whom he is associated under an agency contract. This program includes one-cent sales and other promotions. He advertises some in the weekly newspaper. In addition, he uses "throw" bills to some extent, but apparently these handbills have very little effect in increasing business.

Selling.--The owner-manager indicated that this is a clerk service store. He was very emphatic in stating that

clerk service instead of self service is what distinguishes the drug store from the supermarket. He believes that the druggist violates his professional responsibility when he goes after self-service business.

The layout and display is largely taken care of by the owner-manager with the help of a wholesale supplier. He indicated that he does his utmost to make the store attractive. He uses streamers and other promotional aids which are furnished him by suppliers. He reported that he may move his general cash register to the front of the store and have it operated by a combination cashier and clerk as had been recommended by a wholesale distributor with whom he deals.

Inventory control.--The owner-manager indicated that in the past he has had a great deal of trouble in controlling his inventory. He said he is a poor buyer--indicating that he is a person who thinks that almost everything will sell and tends to buy excessively. He further emphasized that he sees little possibility of using inventory records effectively as a check on buying practices. He advises every young man entering the drug business not to buy excessively. He indicated that in this business a young person should control his ambition and not expand his supply of merchandise too rapidly. He suggested that buying is a factor which must be watched carefully.

Services.--The fountain and credit services provide the chief devices to increase traffic in this store. There

is a trend back to increased popularity of the soda fountain, he believes. He also provides his customers with complete accounting records of their credit transactions. He indicated that he does not encourage credit because he is financially unable to do so.

### Accounting

Annual statements are prepared for the owner-manager by a certified public accountant. He reported that this accountant has organized the accounting system by which the books are kept. His wife helps in "filling out" the books and reports in the manner recommended by the certified public accountant.

A daily summary form is specially printed for this store and includes a summary of sales, accounts receivable, charge sales, received on account and paid-out items, and a segregation of accounts between the store and the fountain.

His accounts receivable processing system appears quite complete. It consists of a carbon-control system in which the sales invoice is prepared, one copy is given to the customer, and two are retained. One of the retained copies is a part of a consecutive series of invoices and the other copy, which is separated, is filed in the customer's folder. Each day the owner-manager takes the sales slips which are attached consecutively and double-checks his filing of the accounts receivable. He indicated that this gives him

adequate control of accounts receivable, and he is sure that all accounts receivable have been properly filed because of this check.

The owner-manager is thinking of adopting a more modern ledger system in which the cash register receipts would be posted directly to the accounts receivable ledger cards as the sale or credit is made in the store. He indicated that this machine would also furnish daily totals of the "received on account" items and charge sales, and that this would help to maintain a more efficient control. Furthermore, he would like to use a "thermofax" reproduction of his ledger cards for financial statements at the end of the month. He commented that the regular bookkeeping of the store is simple--but that the accounts receivable bookkeeping is more difficult.

The payroll and tax reports are prepared by the owner-manager and the income tax is prepared by a certified public accountant once a year. He keeps alphabetical files of prescription records for easy reference.

His cash registers are modern, and he departmentalizes all sales in the following manner: (1) general drugs, (2) prescriptions, (3) veterinary supplies, (4) sundries, (5) cosmetics, (6) state tax, (7) federal excise tax, (8) magazines, (9) cigarettes and tobacco, and (10) fountain sales. He stated that he would like to be able to limit the size of his

accounts payable. They are entered in a special accounts payable ledger.

### Personnel

The owner-manager employs six people, including an additional pharmacist who is the assistant manager. This assistant manager is also a recent graduate from the local pharmacy school. The owner-manager indicated that in the past he has sent his girls who sell cosmetics to cosmetic schools, but he reported that as there had been a great deal of personal selling of cosmetics in this community his cosmetic sales have been hurt severely. He indicated that he has few personnel problems in his store.

### Finance

Capital finance.--The owner-manager repeatedly emphasized that finance is the principal problem faced by this store. He commented that it costs \$15,000 in original investment to finance \$100,000 in sales. He suggested that the cost could be reduced by buying "short", using the telephone for emergency purchases, and by not expanding too rapidly.

It appeared that this store might be very successful in an area with more physicians. The comments of the owner-manager to the effect that he is overly ambitious seem to have validity. He adopts the latest and most modern equipment and methods of operation--and it appears that his volume of business does not support this additional expense.

The owner-manager indicated that a full-service wholesaler supplier had saved him from going out of business. He pointed out that this wholesaler finances him at the present time to a great extent. He commented that he was indebted \$15,000 on commencing business and that he had now reduced this to around \$11,000. He said that in the drug business one lends money to customers and borrows from suppliers. He emphasized that if one could once get "paid up" in the drug store business, it would be fairly easy to remain in a satisfactory financial position. He believes that paying 10 per cent to the bank on a sizable amount of borrowed capital makes a real problem for a drug store in trying to turn a profit.

#### Public Relations

Professional.--The owner-manager complained that there is now only one doctor in the community, and although his relationships with this doctor are very good, it is very difficult for a drug store to maintain adequate prescription volume without more prescription business. He also emphasized that his customers are his chief support. He attempts to furnish them with a great deal of service--in fact, he indicated that probably his extensive services were costing him money.

Advancement of Pharmacy

The owner-manager participates actively in professional pharmaceutical associations. He emphasized that any druggist in a small town of this type is a part of the community and must participate in community activities.

It is most important, he believes, that druggists "stick together" to fight other types of outlets rather than fighting among themselves. He emphasized that in this drug business one earns everything he gets. He believes that many people mistakenly think that this business will make one rich.

Education.--The owner-manager indicated that economics is a good basic business course. He said that the best possible management training for a graduate pharmacist is to get experience for about two years, both in a small retail drug store and in a chain store. He suggested that it takes some time for a young pharmacist to learn the drug business and that the type of experience which he receives when he first graduates from a pharmacy school is more important than the amount of money he receives. He also emphasized that students do not realize that their certificates only entitle them to work, and they have much to learn after graduation.

The trend, he believes, is toward a more professional pharmacy practice, although he stressed that there is a long way yet to go. He reiterated that a drug store may be either (1) a supermarket utilizing self service or (2) an old-time drug store in which the pharmacist is a medical advisor for

the community. This operation, he emphasized, is based upon personal service. Efforts are made to render a professional service to the community.

Pharmacy graduates need general theoretical courses upon which to build their practical knowledge, which comes from experience, according to the owner-manager. This includes an adequate background provided by such courses as economics. He pointed out that pharmacists need to learn more about business in the new five-year curriculum. In his opinion, the amount of scientific education needed by a pharmacist is limited in the retail field unless the pharmacist wishes to be a research man, and he implied that more practical education is needed.

The preceptor program of internship should be carried out after graduation, he indicated. This would entail one year of experience after graduation from a pharmacy school in the field of the primary interest of the pharmacy graduate. If this field of interest is retailing, he should have one year's practical experience in retailing. If this field of interest should be in hospital pharmacy or a prescription shop, then his practical training should be in the field of his choice. He believes this internship program will be a very valuable adjunct to the pharmacy curriculum in the future.

## CASE 8

### Nature of the Store Operation

This is a typical downtown drug store with 33 per cent of its sales being prescription drugs; 25 per cent, other drugs; 17 per cent, cosmetics and toiletries; 11 per cent, fountain sales; and the remainder, veterinary supplies and miscellaneous merchandise. The store has been in operation for twenty-five years. Present annual sales are approximately \$120,000, with an average merchandise inventory of \$30,000 valued at cost. The merchandise stock is turned over from three to four times a year. Credit sales are encouraged and total almost one-third of all sales. Accounts receivable vary between \$3,000 and \$4,000. Recently, the store was incorporated under the small business incorporation act. The store is not associated with any agency or buying group and operates as an independent retail outlet.

This store is located in the middle of the block in a downtown area of a community of approximately 5,100 inhabitants which enjoys the distinction of being the chief trading center for many miles. Two other retail drug stores are located in the vicinity, with a prescription shop also located in the downtown area and two other prescription shops located some distance from the downtown area near a large hospital. The store is unique in appearance because of its dimensions, which create a long, narrow effect--its width being only

twenty feet. It is approximately ninety feet long. The store is slightly aged in appearance because of its original woodwork and shelving, but it is adequately stocked and well-kept.

The corporation stock is owned jointly by two stockholders. A previous stockholder who has since retired sold his stock to his former partner who is now licensed as an assistant pharmacist. The assistant pharmacist has sold 50 per cent of his stock to a recent Southwestern State College pharmacy graduate and is permitting him to pay for the stock from his current earnings. The assistant pharmacist has wide experience in the retail drug business, including previous experience as a sales representative of a wholesale drug firm. The recently graduated registered pharmacist has been with the store for three years and has been able to learn much from his more experienced senior co-owner. Both stockholders participate in the active management of the firm and the wife of the junior owner acts as secretary of the corporation. The firm was incorporated upon the advice of an accountant who prepares the income tax return for the firm. It appeared that the incorporation device offered advantages in the easy transfer of ownership and also included a limited liability factor which the previous owners thought desirable.

The general objective of the owners is to maintain a service type of retail drug store with strong customer loyalty. The junior owner remarked that this type of drug store might

not be in existence within ten years because of the difficulty of remaining competitive with large scale retail outlets. He mentioned that a camera he sold the day previously could be bought for several dollars less down the street at another outlet. He indicated that he likes the independence and relatively easy schedule of his present position and that he will make adjustments if and when they are necessary. Sunday closing is rotated among three downtown stores, with one store staying open each Sunday.

### Merchandising

Buying.--The junior owner expressed disapproval of an agency association, based on the previous experience of the senior-owner with a national drug concern which, he believes, was unscrupulous in "loading up" retailers with unwanted and unsalable merchandise. Therefore, the buying is done independently from three full-service wholesalers and by direct purchases from manufacturers. Purchase invoices are carefully entered in a ledger under the name of the seller after the merchandise is checked into the store, and entries are promptly made with a notation of all discounts when the bills are paid. Unpaid invoices are filed alphabetically by the company name until paid and then are transferred to a paid file in the same manner. Careful attention is given to the taking of all discounts. Files of paid invoices are kept for a five-year period. The owners stressed that purchasing for quantity

discounts is closely analyzed on the basis of profit and that most frequently quantity purchases do not prove profitable for their small retail drug store.

Pricing.--The junior owner described their pricing policy as conforming to the customary pricing practices found in retail drug stores in areas not faced with intense competition. When special offers are promoted by suppliers, these are advertised and promoted by the store. Cost prices are indicated in code on all drug merchandise as an aid in making an inventory, exchanging goods with other drug stores, and pricing.

Competition.--The junior owner indicated that there is little competition from discount houses and cut-rate drug stores because of the absence of this type of outlet in this area of the state. He indicated that one drug outlet occasionally presents a problem by cutting prices, but that the combined pressure of the other drug outlets working together has been successful in correcting the problem.

Advertising.--The junior owner reported that the store does not hold promotional sales, with the exception of "specials" on cosmetics and similar merchandise which are generally nationally advertised or promoted by suppliers. He commented that their best advertising is probably done by a radio program highlighting the hospital news, called "The Stork" program, in which the store is featured for presenting a particular gift to the parents of all new babies. The

store maintains a large billboard on both highway approaches to the community. A limited amount of advertising is done in the local newspaper.

Selling.--The store emphasizes personal selling. While most of the merchandise is visible to the customers, the predominance of wall shelving makes a great amount of self-service unpractical, in the opinion of the junior owner. Much of the merchandise, such as cosmetics and jewelry, is contained in glass display cases. The store contains effective displays for items such as vitamins supplied by a nationally known wholesaler.

Inventory control.--Purchases from all suppliers are posted from invoices to account ledgers, and all invoices, paid and unpaid, are filed alphabetically and kept available for checking and control. Both owners reported that they believe their experience in the retail drug store business gives them an adequate knowledge of stock which enables them personally to control the merchandise effectively by observation and periodic checks when accompanied by supplier representatives.

Services.--This business operation offers extensive personal service, including credit privileges. Credit accounts are expected to be paid within 30 days, unless there are extenuating circumstances, and if not paid, the credit privilege is terminated.

Legal problems.--The store operates under a lease which has been satisfactory. The owners reported that their business has never encountered a serious legal problem.

Accounting

Financial statements.--Financial statements are prepared once a year by the senior owner-manager. A single-entry bookkeeping system prepared by the senior owner constitutes the basis of their system. It consists of a bound ledger of a standard bookkeeping system which has been adapted to this particular drug store. The owners apparently are satisfied with their bookkeeping system and see no need of a double-entry system for an operation this small. It appeared that the senior owner is doing a very competent job with the system he is using.

Accounts receivable.--All charge sales are entered in a bound ledger consisting of two credit tickets to a page, divided by perforations. A carbon and a blank yellow sheet of paper are inserted under each credit slip, which is removed and given to the customer. The carbon copy remains and is inserted in an alphabetized folder under the name of the customer. Credits are entered on the carbon copy as payments are made by the customer.

Auxiliary records and reports.--Payroll and tax reports are made by the senior owner. Sales are departmentalized through the use of two cash registers. The fountain

cash register records fountain, tobacco, and candy sales. The general register records sales of prescription drugs, patent medicines, cosmetics, veterinary supplies, and miscellaneous items.

### Personnel

Two pharmacists are servicing this operation--the senior owner-manager, who is licensed as an assistant pharmacist, and the junior owner-manager, who is a registered pharmacist. Four additional employees are utilized in operating the business, two of whom are regularly engaged in servicing the fountain. Employees are paid slightly more than the local pay scale, and employee turnover has been very low. Frequent contests are held in which the employees compete with one another for prizes. The owners believe this to be very effective in stimulating sales and selling effectiveness on the part of the employees. The junior owner expressed the opinion that supervision of the sales personnel is the most important managerial function in the store.

### Finance

The junior owner is being permitted to pay the senior owner for a half interest in the business out of current earnings. It is apparent that the business operation is adequately financed. The junior owner reported that invoices are paid promptly in order to take advantage of all cash discounts.

Public Relations

Professional, customer, and employee.--The junior owner reported no particular problems in regard to professional relations with doctors. He emphasized that it is necessary to inform their customers regularly that it is the customer's privilege to have his prescription filled at the pharmacy of his choice. He indicated that the campaign had been fairly successful and that each drug store tends to have its own preferred customers who are loyal to "their" drug store. The doctors are presented with a gift for themselves and their wives each year at Christmas time. The main effort made by the personnel of the store is in developing customer loyalty and securing prescription and other business through satisfied customers.

Advancement of pharmacy.--The junior owner reported that both he and the senior owner participate in all local, district, and state pharmaceutical associations. He stated that good public relations are aided by their participation in local civic clubs and community activities, and that these activities are expected by the public.

Education.--Both owners agreed there is no substitute for retail drug experience in learning the drug store business. The junior owner said he is just beginning to learn the business after three years of experience and that it has taken this long to learn the merchandise and how to deal effectively with the customers. He stressed that accounting

knowledge is not so important as learning merchandising. He also emphasized the need of a broad background of general business courses as well as training in psychology and human relations in the pharmacy curriculum.

## CASE 9

### Nature of the Store Operation

This is a downtown drug store with annual sales of approximately \$150,000. It is an agency store with a complete line of drug store merchandise and sundries, including cosmetics, tobacco products, and confections. The current inventory at cost is approximately \$30,000, and the stock is turned three to four times annually. The prescription department drug sales constitute about 25 per cent of the total sales. Sales on credit are encouraged and account for approximately 30 per cent of all sales.

This drug store is located in a community of 9,600 inhabitants. It is in the center of the block, in a heavy traffic area on the main street. It is the second largest drug store in town, the largest being across the street. A distinctive feature of the prescription department is the presence of several direct-line phones to doctors' offices, upon which is received about 80 per cent of the total prescription business of the store.

The store is owned by two partners, both of whom are registered pharmacists. The partner interviewed has assumed major responsibility for the management of the front end of the store, and the other partner has assumed major responsibility for the prescription and drug department. The partner interviewed has only recently secured his license to practice

pharmacy, although the two partners have been in business for several years and both are familiar with all aspects of the store.

The business philosophy of the partner interviewed is expressed in his statement: "I believe I have something to offer the public and am entitled to charge a professional price for it." He stated that he and his partner are interested in maintaining a "professional image" of their drug store as a place where quality merchandise and service are available. He emphasized that each has his personal group of friends and customers, which serves to broaden the patronage that the drug store enjoys.

#### Merchandising

Buying.--This store is supplied principally by two full-service wholesalers, a national chain drug distributing concern under an agency contract, and by direct purchases from manufacturers. The partner interviewed reported some "club" purchasing with other drug stores in the area--purchasing direct from manufacturers, enabling the stores participating to take advantage of quantity discounts of 15 per cent or more of the purchase price charged by the typical wholesale outlet. He attends gift showings annually promoted by the two full-service wholesalers in the city where they are located, and also an annual gift showing in a major marketing center some distance away.

Pricing.--Pricing policies followed in the store are predominantly non-competitive. By operating as an agency store of a national chain drug concern which features a private brand merchandise at relatively low prices, the firm is able to provide the customer with merchandise that has a considerable degree of price appeal. National brand merchandise is generally sold at suggested list or fair-trade prices. The store averages a 40 per cent margin on the selling price on cosmetics, a 33 per cent margin on pipes, and a 33 per cent margin on drugs.

Competition.--It was indicated that some competition is experienced from discount houses in the metropolitan area. Such competition from other drug outlets in the community is normal, with the exception of a departmental auto supply and appliance chain operation located in the same block which has recently stocked a line of drug products and toiletries. This chain is obviously discounting prices to extremely low levels, and using the new drug department to encourage traffic for the other departments of the store. The partner indicated that they are continuing their present policy of emphasizing service and quality merchandise, along with private brand promotions. He mentioned that one doctor in the community dispenses his own drugs.

Advertising.--The partner described the sales promotional policy as consisting of regular sales sponsored by their national agency drug concern and an occasional

promotion sponsored by full-service wholesalers. He subscribes to a promotional service provided by the national drug concern and describes it as very beneficial. Very little advertising is done in the local daily newspaper, and what is done consists essentially of specialized advertising and promotion of special sales and events.

Selling.--The store is principally a clerk-service store, with some self-service display tables or "islands" encouraging a degree of self-service. The partner interviewed indicated that he considers personal selling a vital function of the operation. He is contemplating a remodeling of his wall shelving to obtain more selling space and reserve storage space.

Inventory control.--The inventory or stock control problem was described as one of the two most vital problems confronting management in operating this business; the other major problem is supervision of personnel. The partner indicated that he controls the stock almost entirely through personal observation and judgment, based upon his many years of experience.

Services.--The promotion of a fountain and luncheon booth service materially adds to the store traffic, according to this partner. Charge accounts for customers also increase sales; about 30 per cent of all sales are on credit. Direct telephones to doctors is a feature of this and other drug stores in the community. This service was requested by the

doctors in the community, and the partner divulged that they were installed reluctantly because of the high cost involved.

Legal.--The partner interviewed stated that the store operates under a lease rental agreement costing \$200 per month, and he expressed satisfaction with this arrangement.

### Accounting

Financial statements.--All bookkeeping and accounting records are maintained by the partner interviewed. He stated that he makes annual operating statements from records which he maintains personally in ledgers and account books. His system of bookkeeping is obviously a single-entry bookkeeping system. He keeps a separate record of charge sales which he checks daily against cash received on account. Charge sales are entered in a ledger and not processed through the cash register until they are paid. No credit sales slips are written. It would appear that records are kept at a minimum. He expressed the belief that his accounting records are sufficient because both he and his partner exert close control and supervision of the store operation which might not be possible in another type of business. Operating statements are checked carefully with the national averages compiled by two leading drug services.

Auxiliary records and reports.--The partner-owners of this store maintain an alphabetical prescription record file by customers' names of all prescriptions filled. This record

includes the prescription number, price, and date, and is utilized to locate quickly prescription numbers when the customer has lost or mislaid the original prescription record. No separate departmental sales records are kept, primarily because the store utilizes two very old cash registers which do not process this data. Tobacco sales, which are exempt from the retail sales tax, are determined by an examination of purchase invoices. All payrolls and tax reports are prepared by the partner interviewed. Generally, all invoices are paid ten days after the end of the month in accordance with customary billing practices.

### Personnel

Nature of personnel.--This operation is serviced professionally by the partners, who are both registered pharmacists. A middle-aged woman who works primarily in the cosmetics and toiletries department has been with the store for several years and is invaluable to the operation, according to the partner. Two young girls regularly service the fountain department.

The informant stressed that selection and training of personnel is one of the foremost problems in managing a drug store. He related that personnel are selected only after considerable study, and are selected on the basis of personality and sales ability and on the basis of family background

and character. He emphasized the importance of creating a "store image" which appeals to his regular customers.

The partner interviewed related in detail the stimulating effects of occasional contests between his "girls" in promoting a particular item, for which he provides worthwhile awards. He utilizes P. M.'s (premium money) by which the manufacturer reimburses employees for moving his line of merchandise. Occasional pep talks with his employees are very valuable, he said, in creating sales enthusiasm and efficiency. He stressed the value of close observation of employees and personal guidance in increasing their effectiveness, and the fact that time is the factor that governs most management decisions. He believes most policies must be carefully evaluated in terms of the time required to administer them.

Capital finance.--As this operation has continued for many years with obvious success, no critical financial problems were apparent or reported.

Insurance.--The partner interviewed described an elastic coverage clause in his insurance policy which includes any increase in his merchandise stocked in the fall and pre-Christmas season. He stated that the value of a competent insurance consultant was difficult to overestimate.

#### Public Relations

Professional, customer, and employee.--No particular effort is made to cultivate professional relations with

doctors and dentists in the community other than endeavoring to give them every service for which they ask, including direct telephone lines to doctors' offices. The partner stated that doctors as a group are extremely demanding and difficult, and that at times this is an irritating but nevertheless necessary burden upon the practicing pharmacist. He described public relations as consisting essentially of good customer relations which he believes can be best maintained by friendliness, courtesy, and professional service. No specific means of creating better relations with employees were mentioned.

Advancement of pharmacy.--The partner interviewed said he belongs to the local, district, and state pharmaceutical associations. He expressed himself as follows with regard to participation in community activities: "I belong to the local civic group, church, and service club, and never lost a penny in serving any one of them."

He expressed a strong desire for national legislation controlling the resale price of national-brand items, indicating that while originally he was opposed to this type of legislation believing his margins might be cut, he now thinks that such legislation would be extremely desirable. He also reported that good ethics in business is a necessity for the successful pharmacist.

Education.--The informant indicated that a general education background is of some importance, but he was

dubious about the value of training in economics which he has received recently. He expressed the belief that the management curriculum should include business law, particularly including aspects of liability law. Having recently completed a course in accounting, he expressed skepticism for the need of double-entry bookkeeping of the type that is being taught, maintaining the belief that the time necessary to make this system function probably does not justify the benefits to a small operation.

He expressed a need for more public relations courses for pharmacists, emphasizing the importance of public relations in building up the profession of pharmacy. He believes that speech courses and letter-writing courses should be included in the training of a pharmacy graduate, including typewriting if the student is not a proficient typist.

## CASE 10

### Nature of the Store Operation

This is a well-established independent drug store with last year's annual sales totaling about \$250,000, of which over 75 per cent are prescription drugs. Sales have increased steadily during the many years the store has been in operation. The current merchandise inventory at cost is \$40,000 with a stock turnover of between four and five times annually. The store operates a fountain and carries a full line of merchandise, including cosmetics, sundries, tobacco, and candies. Sales on credit are encouraged.

This store specializes in the prescription department, which averages between 100 and 140 prescriptions daily. It is located on a corner in the central traffic area of the town, with adequate parking space being available both in front and along the side of the store. The community of approximately 5,100 inhabitants is located in the center of a rural trade area. The town is considered a rural medical center with a large community hospital and six doctors, two of whom are specialists.

The store is no larger than many in the area, but has a comparatively high volume of sales. A side entrance providing access to the prescription department from adequate and convenient side street parking greatly increases the store traffic.

This business operates as a partnership. The senior partner is a long time resident in the community, and he has taken into the business two junior partners. All three partners are registered pharmacists. It is apparent that each of the partners in the firm possesses a gregarious personality, and together they constitute a selling "team." In the opinion of the interviewer, the obvious success of this operation can be attributed largely to the aggressive, enthusiastic, and courteous manner in which each of the three pharmacists treats customers coming into the store. The partner interviewed attributed some of the success of this operation to the excellent location, which he thinks extremely important to a drug store operation. The most important factor, he believes, is friendly service.

The partner-informant reported that their most serious competition is a prescription shop located across the street from the hospital in a neighborhood area. The partnership has purchased a similar location as "insurance," and if necessary they will also establish a prescription shop in this location.

The area has been leased to a small grocery chain and is very rapidly proving to be a profitable investment because of a percentage-of-sales lease agreement. The partner-informant commented that a neighborhood location near the hospital presents both an advantage and a disadvantage as a drug outlet. More new prescriptions should be filled at such

a location, he believes, but the prescription refill business may be more inconvenient.

The partner-informant reported that the senior controlling partner is gradually retiring from the business, leaving it to his junior partners. The senior partner has developed other interests which are occupying an increased amount of his time.

Cut-rate pricing policies of other druggists in fairly close metropolitan areas have left metropolitan drug store operators with little opportunity for profitable operation, the informant believes. He reported that this store does not reduce front-end merchandise prices and that the merchandise is available to their customers at the regular price. It is their privilege to buy it or not, as they desire. In spite of ever-increasing competition from other outlets, their business is constantly increasing.

Buying.--This store operates independently and purchases principally from full-service wholesalers and direct from manufacturers. It was indicated that this store is not going to participate in the volume purchasing plan sponsored by a full-service national wholesaler because of the desire to purchase independently and not to be tied to any particular supplier.

Pricing.--The informant indicated that drugs and merchandise are generally sold at suggested list prices. He stated that he looks with disfavor on pricing conditions in a

nearby city in which druggists will sell an electric razor costing \$14 for a selling price of \$15 and extend credit on the sale. He commented that one bad credit sale would require over \$100 in additional sales to compensate for the loss.

He acknowledged that their firm has pursued a policy of "reasonable" prices on prescription drugs and that consequently they draw considerable business from neighboring towns where prices charged are what he regards as "unreasonable."

Competition.--This outlet faces competition from two other large retail drug outlets in the downtown area, as well as a professional pharmacy located next to the community hospital. In addition, a departmental auto supply and appliance chain store nearby has recently installed a health, drug, and toilet supply department with extremely low prices on the merchandise. Also, some loss of sales to a metropolitan area a few miles away was reported where there is extreme competition in pricing practices.

The informant revealed that he and the other junior partner have purchased a 60 per cent interest in another small retail drug store in the community. He said:

It is a one-man operation, but this, too, is insurance. The 'X' chain drug store company and another large operator were both considering this location. The local druggists should thank us.

Advertising.--The partner interviewed reported the most effective advertising done by the store consists of a daily radio weather forecast sponsored by the store. This forecast at 5:15 P. M. is received by many of their rural patrons to whom a weather forecast is very important. The partner indicated that much of their newspaper advertising has probably been wasted. Since only rarely does this drug store feature a sale, advertising efforts are not extensive.

Selling.--The partner interviewed commented that each partner is considered a good salesman. In fact, he considers one of the partners as possibly too effective, indicating that he believes that over a period of years customers appreciate being served by a store in which they are helped but not "high-pressured." The partner also indicated that each man has a wide circle of friends in the community which helps greatly in increasing sales throughout the community.

Inventory control.--Merchandise control does not appear to be a particular problem, as the partners are all familiar with the stock. The partner reported that the use of "want" books and visual control of stock is sufficient. He explained that they keep a close check on sales, and that their purchases are generally based on a percentage of current sales. The front-end merchandise as well as most of the bookkeeping is largely controlled by the senior partner.

Services.--The partner interviewed explained that service is their stock-in-trade. The fountain builds traffic

within the store. Credit sales are also appreciated by their customers, according to him.

He commented:

We run a 'loose' business, even though our controlling partner has a reputation of being 'close' with his money. We furnish a lot of free coffee which over the year amounts to a sizable sum of money. Also, we make generous adjustments, even when it costs us money. Too many druggists make a grudging adjustment and often lose money and also the customer.

### Accounting

The senior partner keeps a single entry set of books of which he is apparently very proud. Daily summaries of income are kept on the left-hand ledger sheet. Daily expenses are itemized into a very few expense categories on the right-hand sheet. At the end of the month the two ledger sheets are totaled and monthly summaries are entered in similar fashion near the back of the ledger. Also included on the daily summary sheets are monthly totals of non-taxable sales, excise taxes, and other pertinent information. By totaling the monthly summaries, the senior partner annually prepares an operating statement, after recording depreciation, taxes, bad debts, expense adjustments, and inventory adjustments. The senior partner studies the totals of the monthly summaries and is able to exert considerable control over the operation of the business. All payrolls and tax reports are prepared by the senior partner.

The partner interviewed commented that others had often encouraged them to set up a double-entry set of books. It appears to be the belief of the partners that such records would take more time than they would be worth. All invoices are paid promptly in order to take advantage of cash discounts. Accounts receivable are recorded as cash sales when the accounts are collected. The state sales tax laws have been satisfied by making minor adjustments.

### Personnel

The prescription department is serviced by the partners, all three of whom are registered pharmacists. The partner interviewed reported that this situation gives each pharmacist ample free time and makes it possible for one of them to be away from the firm for a few days whenever necessary. He explained that the clerical help in the store learned from the partners and that training was principally a matter of emulation. "They pick up our habits," he commented. He believes that personnel management is not a major problem with this firm.

This partner described the method of compensation of the partners in the firm as follows: Each junior partner receives \$700 in salary per month, and the senior partner receives only \$400 at his request, because of decreased duties.

Public Relations

Professional, customers, and employee.--The partner interviewed reported they generally have had excellent relations with the doctors in the community, with the possible exception of one. He indicated that their relations with physicians, customers, and employees are based on mutual respect and service. He emphasized the importance of public relations, saying that his current leadership in a local civic club, as well as country club and social relationships, is important. He reported that the other junior partner belongs to sportsman clubs with allied relationships and that the senior partner has many relationships with another age group--all serving to increase the store's business.

Advancement of pharmacy.--Each partner is an enthusiastic member of local, district, and state pharmaceutical associations. The partner interviewed commented that he is concerned with the deterioration of the price structure in the metropolitan areas and is thankful that this operation is not faced with this type of competition. He is somewhat critical of the situation in which a newly graduated pharmacist can immediately command a salary of \$700 to \$800 per month while, in many instances, the graduate knows very little about the business. It is his belief that too many young pharmacists want to start their own businesses too soon and frequently open up or take over a business in a poor location with very little chance for success. He advises young

graduates to get experience and select situations in which they can learn the business.

The informant expressed criticism of physicians becoming financially interested in pharmacy clinics. He indicated, however, that druggists work together very well in this community. He believes that many misunderstandings among pharmacists in the community are avoided by a local practice in which they have agreed not to exchange prescriptions with one another. Exchange of prescriptions and prices often, in his experience, leads to mistrust between druggists and causes hard feelings.

Education.--The partner interviewed was complimentary of pharmacy graduates who are willing to do the necessary little jobs about a drug store which do not concern the prescription department. He indicated that business management training, including a course in public relations, is a much-needed element in the preparation of pharmacists.

## CASE 11

### Nature of the Store Operation

This is a downtown drug store with annual sales of approximately \$70,000. The store has been in existence for many years, but has operated for only four years under the present ownership and management. Previously, this store operated as a drug-sundry store without the prescription department, which has been added by the present management. The current inventory at cost is \$18,000, and the stock is turned over approximately 3.5 times annually. Prescription drugs constitute 20 per cent of all sales. This store does not operate under an agency agreement.

This is a typical drug store with heavy fountain sales (20 per cent of all sales), in a relatively heavy downtown traffic area in an expanding city of more than 21,000 inhabitants. It has a corner location adjacent to an area which is showing some signs of deterioration. It is organized as a partnership, the owner-manager being the active partner, with another drug store owner in the community participating as a silent partner. The partner-manager functions as the sole registered pharmacist, working from 8:00 A. M. to 8:00 P. M. daily except Sundays and short periods when he is out of the store. He reported that not previously having a prescription department has made building such a department difficult. Apparently customers have, through the years, not

associated a prescription department with this store. The partner-manager, a recent Southwestern State College pharmacy graduate, believes the location of the store is poor because of the lack of parking space and the changing practice of locating retail drug outlets wherein they now are predominantly in shopping centers and away from downtown areas. He remarked that only a very few years ago, most of the physicians in the community were located in this downtown area. Now they generally have moved to shopping center locations.

The principal objective of the partner-manager is to build up the prescription department. He is also concerned about the fountain service. His accountant has informed him that he is losing up to \$100 per month in the operation of the fountain department. He revealed that he is concerned about this loss, but is not yet willing to terminate a department that grosses 20 per cent of the total store sales. The relatively young partner-manager is obviously aggressive and capable, and determined to build up store volume in the face of considerable outside competition. He is attempting to do this through service and personal contacts, rather than cut-price merchandising. He apparently believes in a professional type of operation, rather than one that emphasizes merchandising.

Merchandising

Buying.--The partner-manager reported that he is principally supplied by three full-service wholesalers. He does not participate in any group buying activities, and is critical of a recent volume selling and advertising plan of one full-service wholesaler who seeks to dominate the distribution of fast-selling items through sizable discounts. He described the other wholesalers as his friends whom he does not wish to penalize, even though the new plan might constitute "hard-headed" business economy. He said that an agency drug store across the street could purchase certain items from a cooperative wholesale house for 80 cents that cost him \$1, but that he does not wish to be tied up with the agency contract which would be required if he were to receive the same price advantages. His previous experience in working in agency stores has apparently convinced him that agency sources "load up" independent retailers with unwanted merchandise.

Pricing.--The partner-manager reported that he does not participate in cutting prices. Recommended manufacturers' prices are generally followed in this store. An attempt is made to follow a widely used pricing schedule in the prescription department. Keen interest was expressed in the need for a federal fair trade law. The partner-manager has written several letters to legislators, encouraging their support for such a law. Most of his merchandise is carefully marked with

the cost price in code to give him knowledge of the purchase price as an aid in inventorying and marking merchandise.

Competition.--This store is operating in a small city with a rapidly expanding suburban area, including two new shopping centers. Several heavy volume drug outlets are located in this area and competition is relatively keen. No extreme or unethical price cutting practices were reported, with the exception of a departmental auto supply and appliance chain which is cutting prices on health and beauty items, as well as non-prescription drugs. This outlet is located nearby and is providing sizable competition. Also, this drug store is located across the street from an established merchandising type of drug store (operated by his silent partner) which presents serious price competition. Customers apparently are free to choose whether they wish to patronize this drug store, which represents the professional, independent, but somewhat higher priced operation, or the other store representing the merchandising approach with mass sales created by heavy advertising, price leaders, and selling psychology.

Advertising.--Very little advertising is done. A stamp plan is generally used throughout the city, and the partner-manager is participating against his will. He considers trading stamps as being undesirable because they cut into the profit margin and constitute a nuisance. He reported that he would be in favor of legislation to outlaw them. Newspaper advertisements are occasionally featured during the

month, usually appearing on the weekends, which promote cosmetics, hair sprays, and baby supplies. He does not subscribe to any advertising or promotional service, preferring to work with established wholesalers in utilizing their promotional materials.

Selling.--The informant expressed the belief that the store has incorporated a blend of a satisfactory amount of self-service and personal selling. The merchandise is well-displayed for customer inspection, but the cash register is not located so as to encourage self-service. The store was planned and remodeled by a full-service wholesaler.

Inventory control.--The partner-manager reported adequate control of merchandise through visual control, aided by "want" books and supplier representatives. He reported an early experience with a former manager who impressed upon him the importance of the "want" book by saying that "If the building is on fire, first enter the item in the 'want' book and then call the fire department."

Services.--Because of the absence of special promotions and sales, the fountain constitutes the principal customer service which the store offers. Credit sales are encouraged and do not constitute a major problem. Prescription customers are given a card which entitles them to free fountain service (coffee or a coke) while they wait. Free delivery of prescriptions through a commercial service is provided.

Legal problems.--The partner-manager reported that he was confronted with exceedingly technical legal decisions involving buying the store, obtaining the title, satisfying the bulk sales law, completing the partnership agreement, and other problems when the store was purchased. He indicated that because of the technical nature of these problems he sees little that a pharmacy training program could offer in the way of instruction in these areas.

### Accounting

Financial statements.--Financial statements are provided four times a year by a public accountant for a fee of \$40 per month. Estimates of merchandise inventories for these statements are based upon sales data which are adjusted to provide the cost of goods sold. The partner-manager indicated that he analyzes these statements carefully. Each day's business is recorded on pre-printed envelopes furnished by the public accountant. Cash register tapes and cash "paid-outs" invoices are kept in the daily envelope record. The summary envelopes, along with the bank statements and the check register, constitute the records from which the accountant prepares his financial statements. A separate cash register is kept for the fountain and cash "paid-outs" for the fountain are segregated--thus keeping the fountain operation separate from the other parts of the store.

Accounts receivable.--The partner-manager keeps his accounts receivable in an alphabetical ledger. In the front of this ledger, he keeps a daily running total of accounts receivable, including amounts received on account and daily charge sales. Duplicate charge tickets are prepared for credit customers, the customer receives the original copy at the time of the sale, and the owner-manager posts the duplicate ticket to the accounts receivable ledger. At the end of the month, charge tickets are mailed to the customer. A minor problem reported by the owner-manager is the practice of certain customers requesting that the charge tickets be held for payment rather than recorded as accounts receivable. When the ticket is paid, the entire transaction is treated as an original cash transaction.

Auxiliary records and reports.--Payroll and tax reports are prepared by the public accountant. The partner-manager also keeps an alphabetical prescription record (prepared by a national company) for the convenience of customers in determining prescription numbers and other records of prescription drug purchases. Sales are departmentalized only to the extent of separating fountain sales from those of the other parts of the store. A recent check on fountain sales and expenses revealed that, according to the accountant's estimate, the fountain department was running a deficit of approximately \$100 per month. The public accountant pays all bills and expenses except cash which is paid out in the store

and purchases of merchandise on credit. These are processed by the partner-manager, who keeps files of paid and unpaid invoices and utilizes a reminder file to determine the latest date upon which payment can be made in order to secure cash discounts.

The partner-manager also codes his prescription prices, which are recorded on a "locator" file furnished by a drug supplier. He commented that he does not wish to have drug salesmen and detail men know his prescription prices and pass them along to competitors. As he is located in an area in which prescription "price-cutting" is prevalent, this technique of his has some significance.

Personnel.--This store is serviced by two fountain employees and one drug clerk, with two additional part-time employees. The owner-manager services the prescription department. The partner-manager reported he has had no particular personnel problems. He expressed the belief that "managers are born and not made," indicating that the individual personality of the manager is the controlling factor in the management of a drug store. Because of the long hours which he is in the store, much of the selling is done by him. He said that the supervision of the fountain constitutes his major difficulty.

Finance

Capital finance.--The partner-manager indicated that his interest in the partnership was financed by a local bank at 6 per cent interest, upon which he is making payments at the present time. His silent partner owns other drugstore interests in the city and is apparently well-financed.

Insurance.--The partner-manager stated that he has had no insurance problems, and that he feels he is carrying an adequate amount and coverage of insurance.

Public Relations

Professional, customer, and employee.--The partner-manager disclosed that he gives prescription blanks to physicians and dentists to encourage good will. He revealed that as yet he has not put his name on the prescription blanks as he has always considered this unethical. Because of the lack of increase in prescription business, however, he indicated that he intends to do so in the future. He stated that another prominent pharmacy has been doing this with apparent success. Magazines are also provided for doctors' offices in a few cases.

Gift certificates for mothers of new babies are left at the community hospital. These certificates entitle the mothers to come to the drug store and receive a gift for each baby--usually a baby brush and comb which costs about \$1.00. On the back of the gift certificate is a list entitled "baby

needs" which lists baby needs supplied by this drug store. When the mother picks up the gift, she frequently purchases additional baby supplies at this store. The owner-manager believes this plan works very successfully in gaining new customers. He also promotes the good will of customers by providing efficient and friendly service.

Advancement of pharmacy.--The partner-manager said he belongs to the usual local, district, and state pharmacy associations, and to the local civic clubs, as he feels it is his duty to "pay rent" to his community. However, from a business standpoint, he indicated that customers generally do not trade on the basis of civic associations.

The partner-manager expressed a strong belief that discount houses and cut rate outlets are ruining the retail business. He indicated that he feels national legislation is needed to protect the interests of the independent drug store operator. He also expressed concern over the increase in physician-owned pharmacies as a threat to the security of the retail drug business. He believes that a code of ethics to be subscribed to by pharmacy students would help to impress upon them their responsibilities to the profession.

Education.--The partner-manager expressed a wish that he could have taken more accounting and possibly saved himself \$40 per month by handling his own books. However, he indicated that it would be extremely difficult for him to find the time to do this at present. He described his need

for a business correspondence course, particularly to influence legislators. He thought that advertising might be helpful. He expressed the belief that business law is probably too technical a subject to be taught effectively to the average layman and indicated that he thinks this area could be better handled by his lawyer.

The partner-manager expressed strong criticism of the pharmacy curriculum, stating that when he was a leader in school, he and others were asked what would constitute an effective program--and that the school authorities proceeded to adopt a program exactly counter to their recommendations. Particularly, he is critical of physics and trigonometry courses for pharmacists. Generally, the partner-manager asks for more practical and less theoretical courses. He believes more business courses should be required but does not see any value in a general economics principles course for pharmacists.

The partner-manager reported that his most serious mistake has been the selection of this location to begin business and he suggested that the importance of location could not be stressed too strongly in the pharmacy management curriculum.

This drug store appears to be slowly proving successful through determination and industry devoted to it by a thoroughly competent manager.

## CASE 12

### Nature of the Store Operation

This is a modern downtown drug store which is located in a city of over 61,000 inhabitants. Annual sales are over \$400,000 and the current merchandise inventory at cost is estimated to be \$65,000. The stock is turned over almost five times annually. This store averages 130 prescriptions filled daily which constitutes approximately 35 per cent of the total sales. The floor area is nearly 2,800 square feet which gives this store a high average sales per square foot of over \$150.

Credit sales are encouraged and monthly charge accounts total \$12,000 to \$15,000. This store has been in operation for seventeen years under the present management. Recently, the store experienced a fire, and since then has been rebuilt and redecorated. It features the sale of gifts, greeting cards, tobacco products, sundries, and exclusive cosmetics.

The store is located in the downtown area in a corner location adjacent to the central area of the city. It has adequate parking in front and along the length of the store with a side entrance to the fountain and prescription area from the side street.

This store has a hot lunch and soda fountain area which is located alongside and facing the prescription

department. The owner believes that many new prescription customers are obtained simply because of the proximity of the fountain to the prescription department, creating a flow of customers between the two areas. The assistant manager interviewed reported that the fountain area averages a \$500 per month profit. By locating the fountain area opposite the prescription department, the owner-manager is able to keep a close eye on the food service while at the prescription counter. His aim is to make sure that the fountain personnel prepare and serve orders rapidly and efficiently. Many people who come into the store only to eat lunch, bring their prescriptions on future visits. The fountain ~~area~~ maintains its own cash register.

This is an independent drug store, associated with a volume purchasing and advertising plan for independent stores sponsored by a national wholesaler. The store is owned by the father of a pharmacy school graduate from Southwestern State College of five years ago who "grew up" in the business. The son is the assistant manager and generally reflects the views of his father, who is obviously the controlling force in the management of the drug store. The father is an experienced druggist with chain store experience and an apparent consuming interest in the drug store business.

The assistant manager reported that business has increased every year for the past seventeen years. The store presents an extremely neat appearance with an extensive glass

frontage which gives a full view of the interior of the store. It is well arranged and extremely neat and modern in appearance. The store is open for seven days a week from 7:30 A. M. to 10:00 P. M. and operates on a double shift. This is primarily a service type of store with personal service emphasized. It is not an advertising and "merchandising" store which features special prices extensively.

This store supplies a nearby 100-bed private hospital with most of its prescription drugs. This hospital maintains a small pharmacy but does not employ a registered pharmacist. Because of its limited supply of drugs, the hospital staff utilizes this store to a great extent. Also, many physicians are provided storage services on vaccines and antibiotics and keep their excess stocks in this store.

#### Merchandising

Buying.--The assistant manager reported that as an independent operation they purchase from the usual suppliers. The store has recently become associated with a volume purchasing and advertising plan sponsored by a national wholesaler, and the assistant manager reported that they find the plan works extremely well with the volume which this store has. He commented, "You can't be lazy and make this plan work. It requires time and effort." He estimated their savings would amount to as much as \$600 per three-months' period under the new plan. He said that their success has been

partially because of the acceptance by the public of nationally branded merchandise which they handle. He also commented that a knowledge of quantity discounts and analysis of comparative costs are his father's "specialty." The store is principally supplied in the prescription department by direct purchases from manufacturers. Most front-end merchandise is supplied by the national full service wholesaler previously mentioned.

Pricing.--This store maintains fairly competitive prices but does not generally indulge in "loss leaders." Under the new cooperative buying and advertising plan, the manager is, however, participating in the offering of a few price leaders which are featured by this group. The assistant manager emphasized that this town is competitive on prescription drug prices, and that this store advertises that it has the lowest prescription prices in the city. He said that he and his father feel that the public is entitled to reasonable prices which still enable the store to make an adequate profit.

Generally, a 50 per cent margin of profit on selling price is maintained on prescription sales. Apparently, most pricing schedules used in this area carry a higher margin of profit or include a professional fee. The lowest prescription item price quoted customers is 75 cents. Prices on prescription drugs are frequently adjusted to take care of hardship cases. Most other pricing is done by utilizing nationally supplied drug and merchandise pricing manuals.

Competition.--There is a new discount house with a prescription department at the extreme outskirts of town. A supplier of the discount house has reported to the assistant manager that this discount house is not yet doing any large volume of business. "Who is going to drive three miles to save a few cents on a prescription?" the assistant manager commented. "People are creatures of habit; if they like you, it is pretty difficult for a new outlet to take your customers."

Advertising.--The assistant manager reported that the advertising sponsored under the associated independent dealer group plan has been very successful because it has saved for the small retailer the advertising discounts offered to large volume operations but previously lost by the small independent. He commented that the local advertising company in the community which is in charge of the advertising plan--chiefly consisting of newspaper and television advertising--is doing a fine job. Newspaper advertisements are usually run weekly and list the associated independent drug stores which are cooperating.

The assistant manager reported that newspapers are their best type of advertising. They advertise in the newspaper only with distinctive advertisements, usually representing special events. These advertisements generally emphasize a professional appeal, accompanied by an offer of personal service. He commented that television advertising is too

expensive for this operation, even though the city has its own television station.

Advertising effort is also expended by utilizing radio broadcasts. Often the news and weather broadcasts are sponsored. Also, book matches are used, featuring the store's name. These are consistently provided for the nearby hospital, for which this store provides most of the prescriptions. Store calendars are also provided customers and are supplied by a drug company.

Selling.--"Friendly service is one of the 'keys' to our operation," said the assistant manager. He reported that they use both self-service and clerk service in their store, with emphasis on clerk service. He pointed out that they specialize in selling cosmetics. He believes that layout and display are extremely important in the operation, along with friendly service. It was noticeable that customers were invariably greeted at the door.

Inventory control.--No specific methods of inventory control are used, according to the assistant manager. He said this is principally a matter of personal observation and control. Volume buying for quantity discounts is stressed in this store. However, because of the high volume of sales, merchandise turnover is also relatively good with over five stock turns annually. The assistant manager believes that quantity buying is much more practical in a large store than

in a small one, because of the necessity of having an adequate supply of merchandise on hand at all times.

Services.--The fountain and luncheon service constitutes the chief traffic builder in the store, and the assistant manager believes it is the principal "drawing card" in the success of this operation. The store policy encourages the establishment of charge accounts. "We encourage customers to charge in order that we may furnish them with a list of prescription income tax deductions at the end of the year," commented the assistant manager. He emphasized that charge customers are regular customers.

The store operates a very large delivery service which delivers 30 to 40 prescription items daily. A delivery truck which is brightly painted with store advertising is manned by an employee who also does other jobs about the store. Deliveries are not made at any set times, and there are no minimum sales below which this service is not offered.

The store makes a point of maintaining a sufficient volume of cash on hand to cash payroll checks, chiefly of military employees. Money orders are also serviced as a convenience to customers.

The store provides free cokes and coffee to prescription customers who prefer to wait while their prescriptions are filled.

Accounting

The assistant manager reported that the accounting is done by a public accountant for \$65 per month and that this includes tax service at the end of the year. It is the job of the store personnel to complete the daily summary from the cash registers and to take care of the processing and posting of the accounts receivable.

He explained that the fountain operation is kept separate from the balance of the store, with income and expenses from this area segregated from the balance of the store. His father writes all checks from information which is furnished by the public accountant. The father also processes all accounts payable and carefully checks statements of account against invoices and checks on all discounts.

The assistant manager commented that accounts receivable statements are mailed to their customers on the 25th of the month. He reported much better collection because of this, saying that the customers will pay their bills at the first of the month while they still have their monthly checks.

Prescription records are maintained by dates on columnar sheets, giving the prescription number, doctor's name, patient's name, and price. Prescription refills are entered as filled, and at the end of the day all new prescriptions are recorded before prescription blanks are filed. Sales are departmentalized into several categories. No departmental profit analyses are made, other than the soda fountain.

Personnel

The assistant manager explained that the store operation requires three registered pharmacists, including his father and himself, and one employee pharmacist. An assistant pharmacist is also employed part time. Careful selection and training of personnel is considered to be very important, he said.

The assistant manager was very emphatic in expressing his views on incentive pay as follows:

We pay a flat rate to pharmacists. I've had some experience with incentive pay. Paying the pharmacist a percentage of prescription drug sales leads to loading up on the prices. This will lose customers in the long run. The same is true of the sales personnel. To utilize the P. M.'s (premiums for sales people, provided by manufacturers), they'll sell that item no matter what brand the customer wants. This will ruin a store quicker than anything I know. I pay my help a good wage--a flat rate. If a manufacturer salesman wants to pay my clerks direct, perhaps I will let him occasionally. Yes--I occasionally give my clerks a bonus to move certain items, but that is different.

This store operates on two principal shifts. One shift of employees is on duty from 9:00 A. M. to 6:00 P. M., while the other is on duty from 1:00 P. M. to 10:00 P. M. Thus, from 1:00 P. M. to 6:00 P. M. the store has double shifts on duty. It frequently appears that ill-feeling develops between employees who are competing for special premiums in competition with one another.

No store meetings are held with employees, and it appears that better employee and employer relations might be maintained by more emphasis in this area.

## Public Relations

The assistant manager reported that this store operation gives the accepted discounts to physicians in the area (cost plus 10 per cent).

We haven't gone to a physician for business since we were organized; this is too risky. Many pharmacists 'play ball' with doctors on prescriptions. One mistake may mean that the doctor or his nurse will terminate the relationship which is always extremely precarious. We work for customers, not the physicians. We teach our customers that it is their right to have their prescriptions filled where they wish. We see to it that our customers do not let a physician tell them where to have them filled.

My father and I belong to professional pharmacy associations. We also participate in community activities, but we do not consider this of too much importance. Our customers shop with us because of the service we give them, rather than where we spend our time off the job.

The assistant manager commented that perhaps the most disturbing problem in the area at the present time is a discount house which he predicts will go out of business in a year or two.

The assistant manager expressed definite opinions in regard to the type of training desirable for a pharmacy graduate:

We need more business training. The five-year program is much too long with a year's experience requirement which makes the total program add up to six years. We ought to have a four-year program with a year's internship after graduation. You can over-rate a pharmacist's duties. After all, pharmacists had better carry out the doctor's orders.

He commented that graduates from the pharmacy school at Southwestern State College are usually good, although they

generally do not know anything about selling. He expressed the opinion that a graduate in pharmacy needs to be able to understand people and work with them, which he believes is an art. "We want pharmacists who like people," he explained, "as their job is essentially dealing with people." He said that a recently hired pharmacy graduate from Southwestern State College is going to be the best pharmacist employee they have yet had. This graduate was a prominent leader in the pharmacy fraternity when in school.

The assistant manager also commented that a knowledge of discounts is imperative for a pharmacist. He emphasized that buying is largely a matter of discounts, and that one can not know too much about it. His father had worked for years as a chain store manager for a large drug concern and considers this the best experience that he has ever had--long hours, low pay, and often selling merchandise at prices lower than cost to build store traffic. He quoted his father as saying that younger fellows need a little of this type of discipline.

The assistant manager commented on accounting instruction as follows:

We are not much concerned with this area and leave it up to our public accountant. Payroll accounting, income tax accounting, and depreciation are factors which we believe are better left to an expert. In some areas of drug store operation, accounting procedures are extremely important. In our operation, one needs to know how to read an operating statement and analyze costs.

## CASE 13

### Nature of the Store Operation

This is a large departmentalized drug store in a new shopping center in a large city. The first year's sales are expected to approach \$200,000 on a merchandise inventory valued at a cost of \$25,000. Credit sales are encouraged. As yet, prescription drugs do not constitute a large percentage of the sales, although a marked increase is expected. The store covers an area of approximately 4,000 square feet. It is a part of a large integrated shopping center which contains a nearby large chain grocery store and several other shopping center units. The store features the filling of prescriptions, other drugs, cosmetics, 24-hour film service, photographic supplies, and a complete fountain service.

The shopping center is located in the outskirts of a city of over 138,000 inhabitants. This newly opened store is the third unit of a local store operation in which two other stores with a similar volume of sales are located in different shopping centers, each serving a different area.

The store is organized as a partnership with five partners. The partners include the owner of the original store who is not a registered pharmacist, his partner in the No. 2 store, and three recent pharmacy graduates, one of whom is the son of the original owner. All partners except the original owner are pharmacy school graduates from Southwestern

State College, Each one owns a 20 per cent interest in the new store operation. The manager of this newly opened store is the son of the original owner.

The partner-manager ascribes the success of these drug store operations to the fact that each store has specialized in personal service and low prices and is favorably located.

### Merchandising

Buying.--The partner-manager reported that each store manager does his own buying except for a few combined direct purchases from manufacturers and exchanges of merchandise which occasionally take place between the three stores. Much of the merchandise is furnished by the two full service wholesale houses which are located in this city. Also, considerable merchandise is furnished through an agency agreement with a national drug supplier with which this store is associated. This drug supplier also operates a retailer-owned wholesale operation, but the partner-manager indicated that because they can purchase as advantageously locally, they do not buy from this firm.

The one-cent sales which the agency supplier promotes twice a year permit this store to stock certain specialties of this supplier, such as rubbing alcohol, vitamins, and aspirin at very low prices. Purchasing is done at this time

to cover both sale needs and semi-annual needs for these items.

Pricing.--The partner-manager indicated that prices are becoming very competitive in this city. This competition is largely brought about by the existence of a large discount chain drug operations with an outlet which is located downtown, and also in a new discount center covering 20,000 square feet, located in another part of the city. The partner-manager believes that his operation can compete in price successfully with any drug outlet in the city, with the exception of the discount house. He is thankful that the new discount operations are located in opposite parts of the city.

This store pursues a competitive price policy, featuring price leaders and low prices. The partner-manager commented that because of competition, recommended prices are not generally followed. The objective is to obtain a fair profit and maintain an adequate volume of sales.

Competition.--Competition is met by large-scale advertising, low prices, and the stressing of personal service. In addition to the two associated discount operations, the partner-manager reported that a grocery chain has recently installed a prescription department, but that it is temporarily closed because of failure of efforts to employ a registered pharmacist to operate it. Nevertheless, a line of related drug items is carried which is very competitive. He commented that the discount operations do not provide the

services which this store features, including credit and delivery service, and because of this he believes this store competes very successfully, particularly because of the distant location of the other outlets. Another discount operation is being built also in another part of the city, and it is reported that it will cover a vast area of 70,000 square feet and contain a prescription department. It will be operated by a well-known variety chain store.

Advertising.--This unit combines its advertising policies with the other two stores. Advertising consists of some use of the daily newspaper, and extensive use of handbills, which are distributed over the respective community areas of the three stores. A sale is featured each weekend in each store. The partner-manager commented that newspaper advertising is not particularly effective for the suburban area, but that it is very effective for the downtown stores. Because of this, the chief advertising effort of this store is centered on the distribution of multilithed circulars which are prepared by the partners. In addition to weekly sales, the stores stress one-cent sales and feature savings on special sales, such as "back-to-school," Easter, and Mother's Day.

Personal selling.--The partner-manager stated that this store is selling personalized service in the prescription department. Personal selling is also important in the selling of vitamins, cosmetics, and related items. The store

is operated on a self-service basis similar to a grocery supermarket, wherein the customer may use a basket if he wishes, with adequate clerk assistance available. The check-out area is at the front of the store. Prescription items are marked with a double tag. One-half is retained by the prescription department, and the other half is given to the customer to be left at the check-out registers. At the end of the day, the tags are inventoried to make sure that all customers have paid at the cash register.

The store is serviced by a rather high type of gondola, with self-service merchandise available along the side, and with selling displays and larger merchandise items stacked on top. One disadvantage appears to be the lack of visibility throughout the store because of the merchandise displays. A limited number of mass selling displays are utilized.

Inventory control.--The partner-manager reported that this operation exercises very little dollar control in the purchasing of merchandise because of the variance in the quantity of stock which is carried from season to season. The partners depend principally on "want books," wholesale supplier representatives, and direct drug detailers, in addition to close personal observation, to maintain merchandise control.

Services.--The partner-manager commented that the complete fountain service constitutes the chief factor in developing traffic in the store. The store seats 52 customers

in booths and on bar-type stools. He reported that he has seen two stores in the city fail because the fountains had been removed.

This store features a trading stamp program which is not effective for credit customers unless the accounts are paid by the 10th of the month following the date of the credit purchases. This is a feature of credit control with which this store is presently experimenting. Other devices to develop store traffic include the collecting of electric utility bills in the community area, a money-order service, and special attention to personal services.

The partner-manager described the very extensive opening ceremonies, which were carried out the previous week, to celebrate the opening of this new unit. He mentioned the hiring of a parachute-jump troop, which was the highlight. Opening day prizes included two \$50 items, a hair-dryer, popsicles for all the children, free cigars, and related items. Also, the fountain featured hot dogs for 25 cents, ice cream sodas for 9 cents, and banana splits for 19 cents. He observed that the store was crowded with customers all day, and that this rather elaborate opening had been very successful.

He reported that one of the most successful traffic items has been what he described as a "dump table" in which merchandise which is overstocked is loaded into a special type table and specially priced. He emphasized that he and

his partner encourage credit and value the credit customer because they know he is a regular customer. Increased business more than offsets any bad debt losses and has led to loyal customers, particularly in the latter half of the month when sales ordinarily decrease.

Legal problems.--The new shopping center store has been leased at a flat rate. The partner-manager expressed confidence in the firm's lawyer who was responsible for drawing up the very detailed partnership agreement which apparently provides adequately for continuation of the business if one of the partners should die.

#### Accounting

Accounting information is prepared daily from cash register transactions and deposit information on an envelope-type summary sheet (containing cash register tapes, deposit tickets, and cash paid-outs) and later turned over to their public accountant who uses them to prepare financial statements issued biannually. Each store manager makes out his own payroll, prepares his own tax reports, and also personally enters the accounts receivable in the store ledger. It would appear that this is rather a detailed task for a store manager. However, it was observed by the partner-manager that one of their principles of operation is that the performance of all possible tasks is carried on by the managers themselves, hiring as little outside assistance as possible.

The main cash register is departmentalized for sales in each of several departments, including a key for non-taxable sales and one upon which are registered both federal and state taxes.

### Personnel

This unit is serviced by two registered pharmacists, including the manager, with six girls generally employed to service the fountain and four clerks for clerk-service on the selling floor. The pharmacist employee is a recent pharmacy school graduate from Southwestern State College. The partner-manager commented that for himself, the 20 per cent interest which he is being allowed to buy from store earnings constitutes a tremendous incentive to work for the success of this operation. Generally, no store meetings are held, and store training consists of clerk supervision by the partner-manager during working hours. No contests are normally held between sales clerks, as it is believed that they are not conducive to good store personnel relations. Clerks are compensated by the use of certain premiums furnished by their agency-supplier.

The store employs a shopping service agency which regularly shops for merchandise and gives both a merchandising and honesty report on the personnel in the operation.

### Finance

For many years the original owner, who is a non-registered pharmacist, has operated a retail drug store in

another shopping center, located in a suburban area on the outskirts of this expanding city. This successful operation led the owner-manager to form a partnership with another pharmacist, who invested \$15,000 in a second new shopping center store commenced about two years ago. The second store initially used quantities of merchandise from the original store, including an original \$15,000 inventory. The store described in this case is the third unit, and it has been largely financed and supplied by the two earlier operations. Three additional pharmacists have joined the partnership, thus insuring the minimum number of registered pharmacists required.

The reasoning used to justify the 20 per cent interest of each partner, though little capital was contributed, was that these younger pharmacists might not be satisfied working for someone else for a long time. Therefore, by making them partners in the new store, all three stores would benefit by being serviced by capable pharmacists who have a financial interest in the success of the operation.

The partners have a plan by which each contributes \$100 a month out of his paycheck into a "kitty" in which money is accumulated for any future ventures which may be planned. At present, the "kitty" has been used to help finance this store. Also, merchandise from the other two stores is being used to help establish this new operation. The partner-owner reported that apparently the bankers, from

whom considerable financing has been received, have great faith in the probable success of this new venture.

### Public Relations

Professional relations.--According to the partner-manager, physicians are furnished their medicine at cost. Also, prescription pads are furnished, with the name of the store on the pad being optional. Apparently, about 50 per cent of the doctors permit this store to place its name on the prescription blanks and about 25 per cent do not. He reported that contacts with physicians are very limited, and indicated that the principal effort of the store is to establish good relations with the store customers.

Advancement of pharmacy.--The partner-manager pointed out that participation in professional pharmaceutical organizations is very desirable. The county pharmaceutical meetings held weekly frequently result in disagreements among drug store owners, he said. Apparently many pharmacists are not willing to go along with a unified plan.

The partner-manager stated that he believes pharmacists must do everything possible to discourage fellow members from working in discount houses. He is also critical of the growing practice of grocery stores in entering into the retailing of drugs, and he believes this is a definite threat to the profession of pharmacy. He suggested that pharmacists should cooperate and work together in order to solve mutual problems.

One of the outstanding problems, the partner-manager believes, is the tendency of the public today to shop for cheap filling of prescriptions. The fact that the prices vary among different drug stores and even among different pharmacists in the same store presents a poor image to the public, he commented. This causes them to question the professional nature of the pharmacy profession, he believes. Originally, it had been possible in many instances to double the money on goods sold from the prescription department, but he reported that this is no longer possible.

The partner-manager commented that he does not believe in fair trade laws because they represent a form of government control and he is in favor of keeping the government out of business.

Education.--A marketing course and a management course are very desirable in the pharmacy training program, the partner-manager believes. He said that, in his opinion, it is not necessary to specialize to the extent of establishing a retail pharmacy merchandising curriculum and a separate one for other branches of pharmacy. He believes this can be handled satisfactorily through the elective system. He emphasized that a pharmacist never knows for sure where he wishes to practice when he gets out of school. He suggested that a store manager greatly needs the ability to organize sign cards and have an appreciation for colors and arrangements which attract customers.

Public speaking is a necessary ability, the manager believes, because the pharmacist frequently is called upon to promote civic enterprises, including such things as cancer drives, heart-fund donations, and similar public benefit programs. He emphatically stated the necessity for more courses to increase the pharmacists' ability to sell. He said that advertising knowledge is very important, but he doubts the possibility of teaching this effectively for pharmacists who may enter any type of outlet. He commented that with the recent store opening he had lost a valuable opportunity to establish business and good will for the store because he was nervous about speaking in public and had assigned this duty to an assistant.

## CASE 14

### Nature of the Store Operation

This is a departmentalized drug store in a shopping center in a large city. Annual sales approximate \$240,000 and are maintained on a merchandise inventory valued at a cost price of \$25,000. The store features the sale of prescription drugs, proprietary drugs, cosmetics, photographic supplies, complete fountain service, and an extensive sundry department. Credit sales are actively encouraged. Approximately 80 prescriptions are filled daily, which constitutes 40-45 per cent of the total sales.

The store is located on the outskirts of a rapidly expanding city of approximately 138,000 inhabitants. It has been in operation for approximately two years. The store is modernistically designed and arranged, and covers an area of approximately 4,000 square feet. This unit operates as an agency store under a contract agreement with a national drug supplier. It is the second unit of a group of three stores. It operates with two partners. One of the partners owned the original store; the other partner assisted in the financing of this store. A third store, which has been opened this year, is also organized as a partnership with five partners, two of whom are associated with this store.

The assistant manager of this store was the person interviewed. He is a young and enthusiastic pharmacist who

graduated from the pharmacy school at Southwestern State College a year ago. He stressed that this store is selling service, which includes special attention to each customer. He emphasized that he attempts diligently to know his prescription customers personally by name.

### Merchandising

Buying.--This store buys individually, except for a few direct purchases which are grouped for the three stores. Most direct purchases are made by each store individually, as generally each store has sufficient volume to get the maximum discount offered by the manufacturers. Merchandise may be exchanged between stores when one store runs short; otherwise, there is very little exchange of merchandise. Merchandise from this store is now being transferred to the new operation to cut down on the expense and make maximum use of all merchandise on hand. The store is serviced by local full-service wholesalers whose ability to fill orders within fifteen minutes if necessary makes it unnecessary to carry large drug inventories.

Merchandise orders are made principally during the first of the month or at the last two or three days of the month, depending upon the supplier billing practices. As the usual drug suppliers give a 2 per cent discount if the invoice is paid within ten days after the end of the month, this enables the store to operate on the supplier's money to a

maximum extent and still take advantage of all cash discounts.

Direct purchases are usually for a 30 to 60 day supply, depending upon the frequency of the visits by the company representative. Direct buying is maximized to take advantage of the special direct discounts.

Pricing.--Store prices are competitive, both in the prescription department and in the front end. Expensive prescription drugs carry a 40 per cent margin on the selling price; less expensive prescription drugs are marked up 50 per cent, with a minimum \$1.00 prescription item price. A recommended pricing system is obviously not followed because of the long-time presence of a downtown discount outlet which has broken down the price structure in the area. Although traditionally a shopping center location permits a degree of pricing freedom because of its convenience in the area, the partners nevertheless feel that a very competitive pricing policy is good business.

Competition.--The assistant manager believes that by stressing both low prices and personalized service, this store will continue to operate successfully. He commented on the fact that at least two pharmacies had been established in discount operations in this area and are now no longer operating--one in a grocery store and one in a discount outlet. A downtown chain drug store, in association with a new discount unit operated by the same firm, has opened an outlet with a

floor space of 20,000 square feet, including prescription department. It is a serious concern of the partners, but the location of these outlets and the absence of credit and delivery service keep these two outlets from providing severe competition.

The assistant manager commented that because of competition on prescription drugs, the over-all profit margin achieved is about one-half that of a typical small town drug store with relative pricing freedom.

The store features specials and price leaders on a few items of merchandise to achieve a low price image. The partners daily read the newspaper carefully to check on competitors' prices and take appropriate action.

Advertising.--The advertising for this store is generally coordinated with the two other stores. Handbills are used extensively, with approximately 13,000 distributed each week-end by the three stores. The store's advertising is based on the principle that each store appeals to a certain community area, and handbills enable this territory to be covered most advantageously.

Advertising layouts are composed by the two partners. They are generally run in the daily newspapers on Fridays and Saturdays. A weekly area newspaper is also utilized extensively for advertising purposes. Radio and television advertising are not used.

Personal selling.--This store utilizes a self-service arrangement in which the customers can use baskets if they wish. Merchandise is arranged on rather high gondolas, with displays and specialty items often placed on top of the gondolas. One apparent disadvantage appears to be the lack of visibility throughout the store because of the quantities of merchandise. Clerk assistance is also available. The store features bargain tables in the front of the store, which are used as a device to move older merchandise. These specials are marked down from the original price.

Service is concentrated in the drug department. The store pharmacists make a diligent effort to know all their prescription customers by name, and they frequently walk out in front of the prescription department to talk personally with customers. They also make an effort to talk with each customer when the prescription is delivered.

A check system is used at the check-out cash register to insure that payment is received for all prescription drugs dispensed. A double tag is used, one-half of which is retained in the prescription department, and the other half of which is retained at the check-out register. These are compared for control at the end of each day.

Services.--This store offers credit service, delivery service, and complete fountain service. Also, money orders are provided, and electricity bills are serviced. Prescription customers are given free fountain tickets which entitle

them to coffee or cokes while they wait for their prescriptions to be filled. The store owns and operates its own delivery vehicle, which is a small foreign car identified with appropriate advertising.

### Accounting

A daily summary is maintained on a large envelope, which contains the day's cash register tapes, deposit tickets, cash paid-outs, and related accounting data. This is then turned over to the public accountant.

The public accountant prepares biannual statements. Inventory is taken once a year and consists of a very brief adding machine tape type of inventory without individual identification of merchandise items. Accounts receivable are processed by the store manager, who personally posts the credit tickets to a bound ledger in which the accounts are maintained. This posting is generally done in the morning after the store first opens when business is slack.

### Personnel

The prescription department is serviced by the manager and assistant manager. During emergencies, pharmacists may help from the other two stores.

This store is staffed with twelve employees, which consist of the two pharmacist managers in the prescription department, six girls who service only the fountain area, and

four clerks who sell, clean merchandise, run errands, deliver prescription drugs, and perform other duties.

It is the responsibility of the pharmacists to check in merchandise orders, set up merchandise displays, sell on the floor during rush periods, and order merchandise.

### Finance

The original store in this operation has been operated for many years by an individual who is not a registered pharmacist. He and the manager of this store established a partnership to form this unit. The new partner, who graduated from pharmacy school about six years ago, invested \$15,000 in this store, and the owner of the original unit contributed about the same amount in merchandise. With the aid of borrowed capital from the local bank, this business was established. The store first operated on a shoestring, ordering every day to stock the prescription department and buying most of the front-end goods on delayed payment.

The assistant manager related that very recently a third store has been opened. This store is owned by five partners, including the two partners in this store and three recent pharmacy school graduates from Southwestern State College. The assistant manager reported that the original store owner considered this a means to secure permanent help in the prescription department and insure the retention of capable

pharmacists who might otherwise eventually seek to own their own stores.

The new store's capital is being furnished principally by means of borrowed capital and merchandise bought on delayed payment. A note has been signed by the partners in this store to secure the loan. Also, all five partners in the new store operation have, for the past two years, contributed \$100 per month each from their pay checks to help establish the capital which has been used in the new store operation. This has amounted to \$500 per month, or \$6,000 per year.

The assistant manager was extremely enthusiastic about the new plan, in which he is being allowed to purchase a 20 per cent interest in the new store operation after only being out of pharmacy school for a little over two years. He remarked that he thought this was pretty good financial progress as his total capital two years ago was \$700. (It appears that at present the five-partner arrangement is working very satisfactorily. It remains to be seen whether or not this large a partnership will prove successful over a period of years.)

This store operation always takes advantage of all cash discounts, even if it involves borrowing the money from the local bank. Purchases are planned to take maximum advantage of credit terms and still be eligible for the cash discounts.

Public Relations

Professional, customer, and employee.--The physicians for whom this store fills prescriptions are furnished their medicine at cost. They are also supplied with prescription pads, either with the store's name or without, as the physician desires. Twenty per cent discounts are given nurses and all others in allied medical services. New doctors are interviewed and acquainted with the store's services.

Customers are entitled to return any merchandise and get credit, according to the store policy. Diligent attempts are made to keep the customers' good will.

Advancement of pharmacy.--The assistant-manager is concerned about the recent establishment of a new discount outlet and the probable opening of an even larger one in the near future. He believes that pharmacists should take active steps to prevent other pharmacists from working in these types of outlets, as he believes they are endangering the pharmacy profession. He is also concerned about the trend toward establishing prescription departments in grocery stores. Although a recently established grocery prescription department is currently without a pharmacist, and although a discount house has recently closed its prescription department, it nevertheless appears that this type of outlet may soon be a threat to the price structure in this area.

All pharmacists in the combined operation belong to the county pharmaceutical association.

The assistant manager reported that prescription customers are furnished copies of prescriptions as are other ethical drug outlets. He indicated that they do not reciprocate with the discount outlets as they do not respect the professional pharmacy code and do not charge the original price on a prescription refill. Instead, they attempt to discredit other outlets by their pricing policies. While they do not reciprocate with these outlets, a customer is free to personally secure a copy of a prescription and take it where he wishes.

The assistant manager criticizes the "lazy" pharmacist who doesn't want to leave the prescription department to greet the customers. He believes that a successful drug store cannot be built by a pharmacist who only sees the customer through a prescription window. Community participation and over-all civic relationships play a very minor role in this type of store operation.

There are a few doctor-owned prescription clinics or dispensing doctors. A studied effort is made to inform the patient of any drug effects which might result from the customer's use of a drug. Detailed explanations are made to customers, explaining to them that certain drugs have peculiar side effects. A distinct effort is made to supply the prescription customer with full information about the drug dispensed and thus provide a personal service to the customer.

Education.--The assistant pharmacist believes that pharmacy management courses do not require a separate curriculum for hospital and prescription shop operators as distinguished from retail pharmacists. He believes this can be handled satisfactorily by allowing elective courses in the pharmacy curriculum. He believes that selling should be stressed. Also, because of the demands on the pharmacists to aid in community health projects, he believes that public speaking training is most desirable. He commented that his algebra course in college has helped him some in figuring proportions necessary in filling prescriptions.

The assistant manager particularly stressed the need for more business management and accounting courses. He indicated that he needs to know more about how to buy merchandise and make decisions in regard to the advisability of buying for discounts or for fast turnover of merchandise stock. Particularly, he emphasized the necessity for an adequate knowledge of discounts. He values the economics course which he recently had in college. While he believes that personnel management must be largely learned on the job, he nevertheless thinks that much basic knowledge in this regard can be learned in college.

The assistant manager expressed particular appreciation and admiration for the guidance and insight furnished to him by a Southwestern State College pharmacy professor who has previously been a retail store owner. He believes that

this type of background is invaluable for a pharmacy professor.

## CASE 15

### Nature of the Store Operation

This is a general type drug store in a shopping center with annual sales of approximately \$400,000. The merchandise inventory is valued at a cost of approximately \$45,000, with a stock turnover of over six times a year. Approximately 50 per cent of the total sales are in the prescription department. Credit sales approximate 50 per cent of all sales, and accounts receivable outstanding are extensive. The store occupies an area of 3,000 square feet. This achieves a sales figure of \$133 per square foot of floor space, which is an extremely high figure. The store features the sale of prescriptions, cosmetics, photographic supplies, and gifts and has a complete fountain service.

The store is located in one of the older shopping centers of a city of over 128,000 inhabitants. The customers in this area of the city are in the lower to middle income group. Its location in the end position of the shopping center makes it readily accessible to the street. The store is crowded with merchandise and presents a slightly cluttered appearance. It maintains four general service telephones to the prescription department.

The store operates as a corporation, with two former partners each owning 49 per cent of the stock and the company accountant, the remaining two per cent. It was bought by the

present two partners about six years ago, soon after their graduation from the School of Pharmacy, Southwestern State College, and through their intensive effort has been very successful. Two years ago these two partners opened up a new and larger drug store in another shopping center in this city, which has a higher income clientele. The two principal stockholders in the store own a two-thirds partnership interest in the new operation. Store policy between the two stores is closely coordinated. A pharmacy school graduate from Southwestern State College who graduated about four years ago acts as assistant manager and was the person interviewed.

#### Merchandising

Buying.--This store buys from one full-service wholesaler with incidental buying from two others. Considerable direct buying is also done. This store is not associated with any cooperative buying plan. It features private brand drug items which are bought because of the higher margin of profit which exists on these items.

Pricing.--Prescription drugs are priced in accordance with general pricing policies in the area, with the exception of one grocery prescription outlet. Prices in this store are competitive on front-end merchandise. "Loss leaders" and price specials are used to create a low price image to the public. This store utilizes a special table in the front of the store upon which old and slow moving merchandise is

marked down in price. This table display has been very successful in moving unwanted merchandise.

Special prices are featured on soda fountain items to increase store traffic. For example, a free milk shake is offered for each \$3.00 purchase of school books during "Back-to-School Week."

Competition.--Because of its somewhat isolated location in the city, this store experiences little direct competition in the immediate area. A chain store grocery outlet is presently the only prescription items outlet which attempts to discount prescription drugs, and pharmacists in the area are using pressure to discourage this operation because of the pricing implications which are involved. No copies of prescriptions are exchanged with this outlet. It appears to the assistant manager interviewed that this store is using a policy of pricing the filling of the first prescription to a customer at a very low price to obtain business and thereafter increasing the price. The informant reported that some physicians in the area are also discouraging this outlet by refusing to permit refills on prescriptions to customers who insist on patronizing this store.

It also appears to the assistant manager that a pharmacy clinic in the area may have special arrangements with physicians whose customers have their prescriptions filled at this clinic.

Advertising.--Advertising consists principally of handbills which are fairly regularly distributed in the general area of both this store and its companion store. Most advertising copy is prepared in the store by a very capable employee. Very little newspaper advertising is done.

Selling.--Because of the crowded condition of the store, most selling is done through clerk service. Customers are cultivated extensively by a calculated policy, particularly by the pharmacists in the operation, to remember first names and also to establish a topic of conversation with each customer which represents some personal interest to which the customer responds. The informant reported instances of customers driving long distances to patronize this store because of the friendly greeting with which they are received. The informant cautioned that the ability of the customer to buy quantities of merchandise cannot always be determined by external appearances, relating that often the "weather-beaten cowboy" turns out to be a very wealthy rancher.

Inventory control.--The informant commented that drugs are arranged alphabetically in the drug department for easy location, with the exception of dangerous drugs, which are segregated. Inventory control is maintained by visual observation, aid from drug suppliers, and the use of "want books."

Excess merchandise stock are often donated to a medical clinic, and toys are donated to a local orphanage. The fair market value of these items can be used as an income tax

deduction, which serves three purposes: (1) it disposes of excess stock, (2) it may be financially profitable, and (3) it serves an extremely worthwhile purpose.

Services.--A popular service for customers is the furnishing of free cokes and coffee to prescription customers while they wait for their prescriptions to be filled. The informant reported that this usually costs only \$2.00 to \$3.00 per day, which is a very slight cost in relation to the good-will which is established.

Legal problems.--The informant reported that because of his rather extensive knowledge of drugs he is often consulted by the sheriff and others who ask him to testify in court proceedings. In these cases expert knowledge of drug effects is important. He also reported that this store was recently involved in a liability claim in which a porter claimed that he suffered physical injuries from an accident occurring on the store premises.

The informant also commented on the fact that drug stores are often checked by Food and Drug Law enforcement officers who attempt to purchase prescription drugs without a prescription in order to enforce federal regulations against this practice. He indicated that a pharmacist must constantly be on his guard against committing some small violation by which he might get into trouble. He stated that pharmacists often cooperate in spreading mutually helpful information in regard to the presence of inspectors in the area. Often, he

continued, the pharmacist can work closely with doctors on this problem, who generally will give the pharmacist a measure of assistance.

### Accounting

Daily cash register data are forwarded to the store accountant, who supervises the processing of accounting data. All invoices which require payment are also forwarded to this accountant, who makes all payments. Accounts receivable are processed by a commercial firm, to whom accounts receivable data are forwarded. This firm supplies a microfilmed copy of the customers' ledger accounts to the store once a month, where, with the aid of a projector, this information is relayed to the customer. This projector also contains a copying device whereby the customer is furnished a copy of his account. All payroll and tax matters are handled by the public accountant.

### Personnel

The prescription department is normally serviced by three pharmacists. Four fountain girls are regularly employed, along with five clerks. These individuals operate in shifts, which are regulated for maximum efficiency.

All pharmacists in this operation are furnished with memberships in a private club as a matter of store policy. Also, an airplane is owned by the corporation and is available

for the use of registered pharmacists who work for either store. An outboard motor boat is available for store employees. The use of the airplane and boat is carefully scheduled, and no individual is given precedence over another.

### Finance

The present two controlling stockholders in this store, which was originally a partnership, were classmates in the pharmacy school at Southwestern State College about seven years ago. Soon after both of them left school, they investigated the purchase of this drug store from an older man. Although neither pharmacist had financial resources, they entered into an agreement to buy the store for approximately \$84,000. The seller also operated another drug store in the city. According to the agreement, one of the classmates agreed to work for the seller in his store for a full shift of one year, in return for having his full salary applied as a down payment on the purchase of this store. In addition, a \$2,000 down payment was made by the partners on the purchase contract.

For the next year, this partner worked a full shift for the seller in his store as part of the down payment, in addition to working another full shift in the store which was being purchased. The other partner worked in another store, and also filled one shift in the store being purchased. Thus for a period of eight months, each partner worked two full

shifts, and the two partners lived on the salary earned by the one partner working for wages. No money was taken from the store. After a period of eight months, business improved to such an extent that the partner working for wages was able to terminate his employment, and the partners began taking living expenses only from the store. The store was successful from the beginning.

The informant related that it is the present belief of the original partners that the seller expected them to be unable to continue to make payments on the note and fully expected to regain control of the store. He indicated that the original partners, who are the principal stockholders, now feel that the store was over-priced about \$18,000. Nevertheless, the participants are grateful that this rather unusual financial arrangement permitted them to get into business. They are apparently convinced that it is much easier to purchase an established store which possesses a considerable amount of good will than it is to open a store in a new area, such as their present new unit, and slowly build up the good will themselves.

About three years ago a very large discount type of drug store failed in this city, and the partners purchased the entire prescription stock, including the prescription files. Fixtures were also purchased at very advantageous prices. The stockholders believe that this very profitable purchase has given a considerable impetus to the success of

their entire operation. Upon purchase of the prescription files, the owners of this store advertised that copies of prescriptions were available to other druggists, and the prescription business, as well as the good will of this store, was considerably increased.

#### Public Relations

Good will is built in the community by an arrangement in which a free medical clinic is operated by doctors, pharmacists, and volunteer workers in the community. A wife of one of the store's stockholders works regularly one day in ten in this clinic; also, the store furnishes a pharmacist about once a month to assist doctors in the clinic. The store donates medicines and drugs, which consist partly of dated stocks which are approaching expiration date but which are still effective. Manufacturers' representatives, who may give credit on the return of this dated merchandise, are encouraged to donate these medicines to the clinic. Often toys which are not moving are also donated. It is possible to take an income tax deduction on the fair market value of the merchandise donated.

This store maintains vaccine stocks as a service to doctors in the area who do not wish to stock this type of item. The informant reported that this creates a considerable amount of good will among doctors.

Advancement of pharmacy.--The pharmacists in this operation take an active interest in the community. In a city this large, the personal activities of the pharmacist are not nearly as comprehensive as they may be in a smaller community.

The owners are particularly interested in maintaining an effective county pharmaceutical association, without which they believe that the profession of pharmacy as it is now practiced could not exist. They are fearful of the effects of discount operations in the area, though they believe that personalized service is much more effective in promoting customer relations than price appeal. A new discount operation is reported to be planned in the area.

The informant reported that management training is very important in the pharmacy curriculum in a college. He would like to see more of it taught. A knowledge of human relations and a pleasing personality are invaluable in the successful operation of a retail drug store such as this, the informant commented.

## CASE 16

### Nature of the Store Operation

This is a new shopping center drug store located in a city of over 128,000 inhabitants. The store has been in operation for about two years, and its sales amount to about \$375,000 annually on a merchandise inventory valued at a cost of \$65,000. The prescription department accounts for about 35 per cent of the total sales, one-half of which are on credit. The store is operated in conjunction with an older shopping center store in another part of the city, which maintains a similar volume of sales. This new store represents an expansion achieved by the success of the original store. Accounts receivable for the two operations are combined, with approximately \$10,000 representing the outstanding accounts.

The store features full drug and prescription departments, as well as cosmetics, photographic supplies, gifts, and a complete fountain service. It occupies an area of 100 by 60 feet, and was designed by the shopping center architects. The store has been publicized in a national drug magazine as having a model store layout, utilizing new fixtures installed by a prominent wholesale establishment in this area. It is arranged to enable employees to locate merchandise and displays with maximum speed and efficiency.

This shopping center drug store is located in close proximity to a giant food chain store and a chain variety

store. An important factor in the success of the store appears to be its position in the shopping center where it can be seen by street traffic from two directions. It is situated in the end position closest to the street. The store is open weekdays from 7:30 A. M. to 10:00 P. M. and on Sundays from 8:00 A. M. to 8:00 P. M.

The store manager graduated from the pharmacy school at Southwestern State College about six years ago. He purchased a 25 per cent interest in the store from the two controlling partners who own and manage the original store. He is an aggressive, alert individual and keenly interested in the success of this operation. He believes that the typical general type drug store represents pharmacy at its best, presenting the greatest opportunity for the pharmacist to serve the most people.

#### Merchandising

Buying.--The partner-manager reported that this store, in conjunction with the original store, buys principally from one particular full-service wholesaler in the area. The combined operation buys more from this source than any other outlet in the city. The partner believes it is better to concentrate all purchases with one supplier than to distribute them to several, thereby securing special attention and service. As yet, this store is not participating in the volume buying and advertising plan sponsored by another

full-service wholesaler for independent druggists. The partner believes that the advertising methods used by this group, which include using pharmacists' pictures in advertisements, do not promote professionalism. This is a type of advertising used by merchants in other types of business. He pointed out, however, that the cooperative buying and advertising plan does have merit and indicated that at a later date he and his partners may consider entering the program if they will have some control of the type of advertising to be used.

This store is experimenting with a new type of drug selling which seems to be gaining favor across the country. The store and other similar operations are buying over-the-counter drug products such as cold preparations, throat sprays, and vitamins from manufacturers who put the name of the store on the items of drug merchandise and allow the store to select the brand name. He explained:

We purchase these unnamed brands from a special source, and practically all of our customers will take our professional advice and buy these brands if we explain that our own brands contain the same ingredients as name brand drugs.

He reported that the use of these private brands enables the store to make a much higher margin of profit than would be possible by selling conventional brand name drugs.

The store is supplied by the conventional sources, including substantial direct buying from manufacturers. Gift items are purchased at special gift shows promoted in a

nearby national marketing center. This store operates independently.

Pricing.--The partner reported that prices are very competitive in this area, particularly on front-end merchandise. He commented that to some extent, he and his partner use the following philosophy in buying: "Buy for the poor and walk in riches--buy for the rich and end up in rags." Generally, recommended pricing policies are followed in the prescription department.

The store features "loss leaders" and special low prices to give a low price image to the public. These leaders are almost a necessity, the partner commented, in order to remain competitive. It is necessary to attract customers into the store at any cost, he said, in order to build store traffic. He explained that fair trade laws do not always operate in the manner most people think they do. He indicated that the fair trade prices set by manufacturers are minimums, and that by not having fair trade, stores such as this may be able to set higher margins on certain types of merchandise. It is customary for the minimum fair trade prices to become the generally accepted sale prices. The partner would like to see a good fair trade law passed, but believes that a poor fair trade law is worse than none at all.

The informant reported that special prices are frequently featured on fountain items in order to stimulate store traffic.

Competition.--This city has one grocery chain store which features a prescription department. The grocery chain discounts prescription drugs, but does not appear to be doing a large volume of business. Prices are cut from those recommended by a pricing schedule utilized by some stores in this area. The partner interviewed believes that frequently this outlet, when presented copies of prescriptions for filling, will charge below the recommended prices, at least on the first prescription, in order to create a low price image. The partner expressed some concern about this trend in drug retailing. Prescription departments are being installed in food stores, he said, in order that many drug items may be sold only in drug outlets which are properly licensed.

Pharmacists in the area do not furnish copies of prescriptions when the prescription department of this grocery chain requests them. These pharmacists feel that this type of food store outlet is a threat to the professional practice of pharmacy. One of the physicians in the city has objected violently to this prescription policy, but most of the physicians have not complained.

The manager also reported what he apparently believes to be an extremely unethical clinic pharmacy operation. He believes that this clinic pharmacy regularly returns a 25 per cent rebate to physicians who send their patients to this pharmacy. The pharmacy refuses to request copies of prescriptions from other drug outlets, encouraging the physicians to

write repeat prescriptions. This serves to increase the number of new prescriptions filled. The manager was critical of the American College of Apothecaries for recently admitting this clinic pharmacy as a new member, which seemed to indicate that this national organization was not aware of the opinion of most of the practicing pharmacists in the area. The informant believes that one of the best recommendations a pharmacist can have is that of his competitors.

No discount houses in this area operate prescription departments yet, although much front-end merchandise, including proprietary drugs and toilet articles, is discounted.

Advertising.--The manager considers personal service as the most important element in a drug store operation and the best advertising a firm can have. He pointed out that his operation does not engage in extensive newspaper advertising; instead, handbills are used extensively to feature price leaders. A trade area map of prospective customers has been prepared by using a registration device in connection with a special promotion to indicate in what areas the store's customers reside. This has been analyzed in order to establish distribution areas in which to utilize handbills effectively.

The store uses radio advertising in addition to limited newspaper advertising. Most advertising copy is prepared by an employee in the original store operation who acts

as "art man" in this joint operation. An advertising service is not used.

Personal selling.--The manager stressed that this operation emphasizes an attempt to recognize the maximum number of customers by their first names, as they operate with the belief that nothing establishes closer relations with customers than calling them by name. Personalized selling is emphasized by means of managerial supervision, and consists of personal supervision by the manager of employees on the job. Store meetings are occasionally held to emphasize the selling function, and generally employees of both stores attend.

Although limited mass displays are utilized, the manager believes that the importance of such displays can be over-emphasized. Apparently he has had success in selling merchandise by simply arranging it on available gondolas in a simple manner. The rather expensive new store fixtures and installations designed by a major full-service wholesaler provide adequate browsing space around each gondola and lead to satisfactory sales. The cosmetics department curves around the corner of the store, preventing the patrons from getting the crowded feeling usually associated with corner departments. This department also has its own wrapping counter. The prescription department has a low ceiling which extends outward in order to emphasize the department. The prescription department measures 28 by 20 feet and is raised in

order to emphasize the department and to provide easy visibility throughout the store. The prescription area features counter displays of packaged medicines and prescription accessories. A check-out cash register is located in a check-out island adjacent to both a side entrance and a front entrance to the store.

The manager commented that the store was originally laid out by the shopping center designers in an unsatisfactory manner, and that the partners have since corrected this situation by installing a new door adjacent to the prescription department, thus providing a side entrance. It appears that this new entrance is servicing more traffic than the ones originally planned. He said that if the store were to be rebuilt, it would be re-arranged in a manner which he believes would be more effective. The manager emphasized that he is aware of another similar operation in the city in which a failure to recognize traffic patterns is apparently seriously endangering its success.

Inventory control.--Inventory control consists of individual supervision of merchandise purchases rather than the employment of any systematized control. The manager indicated that the use of biannual financial statements provide a certain amount of control.

Services.--According to the manager, the motto of this store is "service for the customer." He believes that the most effective service device in the store is the soda

fountain. The rather extensive gift lines are a very good attraction, he said, bringing many customers into the store. Apparently the store provides services which the customer cannot obtain elsewhere in the evening hours because other outlets have closed. The manager stated, as an illustration, that he is stocking thread because he has had several calls from women wishing to sew late in the evening.

The store provides free coffee and coke tickets for prescription customers, to be exchanged at the soda fountain while the customers are waiting for the prescriptions. The manager believes that this is a very important service.

Credit practices.--The store emphasizes extensive credit sales. Credit applications are required of customers who apply for credit. Apparently the store manager thinks it is not practical to restrict credit sales to any minimum amount, but prefers to offer credit privileges to all approved customers. This operation experiences less than one per cent bad debt losses.

It was indicated that collection procedures are a very important part of the credit operation. The partner has available the proper forms for filing bad check claims with the county attorney. In the small claims procedure, the store manager prepares the complaints and files them with the justice of the peace, who then mails them by registered mail to the persons with delinquent accounts. If no reply is received within 10 days, the drug store then automatically

secures judgments against the individuals. The store also maintains a rotary file of bad check risks at the front-end register and at the fountain register.

Legal problems.--The manager stressed that a lease agreement must be carefully drawn, and that it is important to have it drawn by a qualified attorney. Although this management employs one of the better lawyers in the city, one sentence which was omitted from the lease has cost the owners \$5,000. Apparently a drug store discount chain desired this shopping center location and attempted to challenge the lease agreement which the owners had with the shopping center promoters. The manager indicated that although the lease held, an oversight was found in regard to the air conditioning cost provisions, which resulted in this additional expense.

#### Accounting

Accounting statements are prepared biannually and are carefully compared with national averages in evaluating the effectiveness of this operation. Daily business summaries are prepared and turned over to the accountants. All bills are forwarded to the accountant for payment.

The accounts receivable are processed by an outside accounting firm. This firm utilizes a special process in which microfilmed copies of all accounts receivable are kept in a microfilm projector located in the prescription department, and in a matter of seconds the customers' accounts can

be projected for examination. The projector also includes a device whereby copies of the accounts can be made immediately by a copying process and then given to the customers. This system appears to be working satisfactorily, with the principal weakness appearing to be the time lag involved.

The store makes copies of all charge sales and credits in triplicate. One copy is given to the customer, one copy is retained by the store, and the third copy is forwarded to the accounting service after being totaled for accounting control. This firm then posts the charges and credits to the individual accounts and furnishes the previously mentioned microfilmed copy monthly to the store. It also takes care of monthly customers' billing. It appears that this may be a new method of accounts receivable bookkeeping, which may indicate a change in accounts receivable processing that may be widely adopted in the future by firms which conduct a considerable amount of credit business.

The prescription department maintains, in addition to legally required records, an additional alphabetical locator system whereby individual customer prescription records can be easily located.

The store uses a multi-drawer type cash register which permits separate handling of cash by each employee. The cash register enables the manager to know who is making mistakes. It also permits departmentalization to a high degree because of its capacity to accumulate several totals.

One key is utilized to record both the federal and state tax, and another key to record non-taxable sales.

The manager related that this type of cash register was purchased after a shortage of cash of between \$2,000 and \$3,000 had been discovered in their joint operations, for which they could not account. Although the cash register cost approximately \$4,500, the manager believes it is well worth the money. The services of a firm which specializes in checking on employee integrity and merchandising efficiency is also employed. This is known as a "checker" service. There are several devices that a competent manager can employ, he said, to check the honesty of his employees.

The manager pointed out that the person in charge of the store totals each cash register every evening and takes the tapes to a place where they are not available for the inspection of the employees handling the cash. The cash is then totaled by the employees and the totals must agree with the cash register tapes. The manager indicated that he insists on an accurate operation of the cash registers. If someone is suspected, this fact is either referred to the internal "checker" service, or some device is used to check the employee. The store manager emphasized that accounting and financial control are extremely important in this type of large operation.

Personnel

The store is serviced by two registered pharmacists and eight employees who constitute the average working force. Only trained personnel are hired, as the firm considers it too expensive to train employees. However, the manager said he would like to train his own fountain help if he had time, as he considers this a particularly important function in the store operation.

Employee supervision consists chiefly of correcting the mistakes of the employees. The manager believes that store meetings are beneficial, but finds that it is difficult to schedule them.

The appearance of employees is a most important factor, according to the manager, in presenting a good store image to the public. He was forceful in emphasizing that there is no place for persons of unpleasant personality in a position where they come into contact with customers. He cautioned against letting "hard luck" stories and emotions interfere with good business judgment in the matter of selecting employees.

The manager said that supervision of personnel is the outstanding problem in managing the drug store, indicating that a manager has to be constantly on the alert to make sure that the employees provide the proper service for the customers.

According to the manager, any pharmacist who accepts employment with this firm will have detailed management responsibilities. If the store manager is absent from the store, the pharmacist on duty is automatically in charge. Therefore, he has the authority to discharge personnel or carry out other management responsibilities.

The manager believes that pharmacists present a better image to the public when pharmacy jackets are worn on duty. However, his partners disagree, and the present dress is a white shirt and tie.

This joint operation maintains an airplane and provides private flying lessons for pharmacist employees who may wish to learn to fly. The firm owns an outboard motor boat which is available for the use of store personnel. The manager believes that these fringe benefits improve employee morale. All pharmacists are granted equal privileges. If the manager takes a week-end off duty, the other pharmacist in the operation is also entitled to the same privilege.

### Finance

Capital finance.--The store is financed principally by the two original partners, both of whom are recent pharmacy school graduates at Southwestern State College who established the original store operation in another shopping center about six years ago. They bought the original store from an older man who allowed them to pay for it almost

entirely from current earnings. By initiative and hard work, that operation proved successful.

The partner interviewed contributed an original \$15,000 share and has a 25 per cent interest in the store. He shares equally in management control with the other two partners. The new store was partially stocked from the older store, which reduced expenses considerably. The partners are currently meeting a \$2,500 monthly obligation in retiring the indebtedness on the new outlet. Although it appears that this is a difficult obligation to meet, the manager reported that they appear to be meeting it successfully.

The partner-manager emphasized that he considers it very important that partnership agreements be in writing. He had participated previously in another operation as a partner under an oral agreement. Misunderstandings arose, including disagreements on store accounting procedures, which led him to terminate the relationship. He now emphasizes the importance of a partnership contract drawn up by a competent lawyer to prevent misunderstandings.

Insurance.--The manager said that an extensive amount of insurance is carried. Although the cost is high, he considers this a very necessary expense.

#### Public Relations

Professional, customer, and employee.--Close relationships are maintained with the physicians in the community.

Special effort is made to contact physicians personally and work closely with them. Apparently this effort has been very successful.

Advancement of pharmacy.--The manager considers an effective and active local pharmacy organization a necessity if pharmacy is to be a profession. He mentioned that a trade meeting is held once a month with other pharmacists in the area. Druggists are notified of reported infractions, and they are examined before the group to make sure that all pharmacists in the area maintain professional standards which are mutually satisfactory. He informed the interviewer that this is done through a "grievance" committee which presents specific charges against individual members and takes the floor in debates over these particular problems. Stores in the area are "shopped" to determine sales policies.

The manager is severely critical of pharmacists who practice in non-drug outlets. He stated that he knows a pharmacist who receives \$1,000 a month for working in a grocery chain prescription outlet. He believes that this pharmacist's salary will eventually be reduced. He said:

He knows and we all know that when they can get a man for \$500 they'll release him or reduce his salary. He is, in my opinion, 'selling out' his profession.

The partner-manager is sensitive to criticism which retail departmental drug stores often receive from professional prescription shops. He commented:

I disagree with the professional prescription shop managers who claim they are more 'ethical' than retail drug store managers. They're open perhaps from 9:00 A. M. to 5:00 P. M. and they many times will not open for an emergency or leave their emergency telephone numbers with the physicians. People don't get sick on schedule. If we are professionals, we must furnish twenty-four hour service. Actually, we get new business this way from the prescription shops. We'll accommodate patients or physicians after hours--and they often transfer their business to us. We make it a practice to leave our telephone number with physicians and notify them where we can be reached on holidays.

Education.--The partner-manager indicated that it is generally necessary for new pharmacists to learn the front-end operation of a retail drug store. He indicated that he could teach the pharmacists to operate the prescription department in a couple of weeks, but it is also important for them to know how to handle cash registers, to locate merchandise, and to deal with the customers. He commented that pharmacists must be able to meet the public and to develop public relations in the front of the store as well as to operate the prescription department. In his drug store he desires the pharmacists to develop personal contacts with customers. He said that it is embarrassing to employ a pharmacist whose certificate verifies that he has had practical experience, but who cannot operate a cash register and cannot even make change.

The partner-manager observed that, even though a speech course might be helpful, the pharmacists' relationships with customers are developed principally by repeated

day-to-day contacts. He thinks that speeches before dinner clubs are not sufficient to "sell" pharmacy to the public. He believes that pharmacy is sold by the manner in which professional pharmacists treat the customers.

Although he recommends that pharmacists have a good general education and academic training, the partner-manager believes it is particularly important for pharmacists to develop the ability to meet the public. He recommended that the pharmacy school provide the necessary managerial background subjects upon which to build specific knowledge which he believes can be effectively learned only through practical experience.

## CASE 17

### Nature of the Store Operation

This is a modernistic and relatively new drug store with sales of over \$300,000 annually. The prescription department accounts for approximately 25 per cent of the total sales. Charge accounts are encouraged, and the store does an extensive credit business.

This store is located in a relatively new shopping center on the outskirts of an expanding town of 21,000 inhabitants in close proximity to a military base. The store is located at one end of the shopping center in a favorable position because of access both from the front of the store and from side street. Parking is available both in the front and along the side of the store. This shopping center includes an adjacent beauty shop, a national chain variety store, grocery store, and other units. The drug store is located within a few blocks of a hospital and a medical clinic which contains a professional pharmacy.

The store contains a fountain and booth area along one side. It is carefully arranged to include a complete stock of drug store merchandise, as well as a gift department which features quality products which are not in competition with those carried by the variety store. The gift department features gift wrapping.

This store is operated in conjunction with a downtown pharmacy that is located in the center of a medical clinic. It is part of a corporation which is controlled by a local pharmacist in association with a group of doctors. The manager is an experienced pharmacist who possesses other financial interests. He owns a 20 per cent interest in the corporation. The corporation very recently purchased a small drug store in a neighboring town for the apparent purpose of qualifying for certain multi-unit discounts.

The manager is an experienced and outgoing personality to whom merchandising is a challenge. His wife is a physician, and it is apparent that he and his wife maintain a close social relationship with military base personnel and prominent leaders in the community, including those of the medical profession. He believes in modern merchandising methods in a competitive and growing community. While the prices in the store are generally competitive, its clientele consists of predominantly upper-income families and military base personnel located in this area of the city. He indicated that a pharmacist who does not like selling is out of place in this type of store.

#### Merchandising

Buying.--Full-service wholesalers supply most of the merchandise and drugs in this store which is largely independent of the downtown unit. This store is not associated with

any buying group, but the store manager acknowledged that he believes certain buying arrangements have certain advantages. There is a considerable amount of direct buying because of the combined purchasing power possessed by both units with combined sales of between \$600,000 and \$700,000.

The store manager purchases his gift merchandise direct from a gift showing in a national merchandising center in a neighboring state. He remarked that this is the preferable way to buy this distinctive type of merchandise, since merchandise distributed by the full-service wholesalers is available to any drug store.

Pricing.--The manager said the firm consistently attempts to maintain competitive prices. One merchandising technique that he finds very effective is the mark-on price technique, in which the original suggested price is marked on the container, marked out, and the effective selling price placed underneath. He finds it effective to sell a few items at cost to create a low-price image for the total store.

The manager commented:

Personally, I hate cut prices. I never look at the price of any drug item which I purchase, but it's different with women. My wife's friends, at a typical bridge party, will comment on another drug store selling a certain cosmetics item for a very low price. Immediately we're on the spot. Some people have to shop for prices--let's face it--because they are in a low income bracket, but it has become a game or a national pastime to look for cut prices. It's something we have to live with in the merchandising game.

Generally, all drugs in the prescription department are code marked at the cost price. Retail prices only are generally marked on merchandise in the front of the store.

Competition.--The manager is particularly concerned with the cut-price policy of an auto-appliance chain department store located in the downtown area, where drugs are being sold at prices lower than they can be obtained by this drug store even with its large purchasing power. He reported that his chief competition for the filling of prescriptions in this area of the city is a prescription pharmacy in a medical clinic near a hospital in the area. Additional competition is furnished by a downtown "merchandising" agency drug store and a shopping center agency store, both controlled by the same owner. Druggists in this area are not yet faced with any discount houses with the exception of an auto-appliance department store. The manager is generally fearful that one may be established. This city is generally known as a competitive city in regard to prescription prices, and this may have discouraged this type of outlet.

The store manager reports very little irregular competition. Competition is met by extensive advertising of a few special items distributed throughout the store. He believes that this policy creates the impression of uniform low prices for the entire store. He remarked that in his opinion a "bargain table" is not a good selling technique because it

may give the impression that the standard prices are high on the balance of the merchandise in the store.

Advertising.--This store sponsors a three-fourths of a page of newspaper advertisement each Wednesday, in conjunction with the downtown pharmacy. This ad features special prices on widely-distributed types of merchandise. Also, the shopping center in which this store is located runs a weekly Sunday full-page advertisement in the newspaper which features three specials from each store in the shopping center. The purpose of this advertisement is to keep traffic in the shopping center on Sundays and Mondays, and it appears that this cooperative advertising venture has been extremely successful. The store has no store-wide price promotions, but depends on "specials" to create low-price appeal. The manager commented that radio advertising is very good and that the store sponsors the broadcasting of school athletic events.

Selling.--The store manager commented that personal selling is probably the weakest part of his store operation. He emphasized that more effective personal selling is needed and employees have too little supervision. Layout and display are considered the most important factor in modern merchandising, according to the manager. He said:

I am not satisfied with the training and merchandising helps which are furnished by our wholesalers. They are interested only in selling the merchandise which they sponsor. We need expert advice on the entire store operation in regard to layout and display. I personally make many trips throughout the country and I have been looking for a school to attend which

will teach me more about effective layout and display methods. As yet, I have not found one which would fit into my schedule. I think we druggists have a lot to learn from the national food chains, for instance.

The store manager commented that a certain food chain in this city has an excellent display and layout for its merchandise. He believes that the drug business is not doing enough with merchandising in regard to layout and display, as compared to these food chains. He believes that druggists do not generally know the answers to merchandising problems to the same extent that competing food chains do. He indicated that druggists go to a few sales meetings and receive sales pep talks which provide some improvement on the sales message, but that independent retailers need more than that--they need to know how to display merchandise.

The manager reported that personally he likes window display. He said:

All my marketing friends tell me I'm wrong, but I don't think there is anything that attracts customers more than a good window display. What do we do? We have clear glass fronts in our stores. We show the public the backs of our displays.

The store manager commented favorably on an elective course which he had taken in the art department of the local college. It was entitled "Window Dressing," and he believes it contained very beneficial elements, including how to arrange merchandise, colors, and mass effects.

Merchandising is a challenging business, he believes. He reported that one can place an item in one place in the

store and it won't sell; whereas if it is moved, it may be impossible to keep the same item in stock.

Services.--Customers in this store are offered the usual services including fountain service, delivery service, and charge accounts. He stated that he does not like to use streamers, which clutter the store, in an effort to create traffic.

#### Accounting

The store manager reported that he is not concerned with the accounting phase of the store operation. The store's books are kept by a certified public accountant in a downtown office, and all accounting data from the store are sent to his office where the books are kept. Even the accounts receivable are kept in the downtown office, the store forwarding the information as to charges and credits to the various accounts. The fountain is separated from the balance of the store for accounting purposes. Other than this, there is no departmentalization. All bills and invoices are paid by the central accounting office.

#### Personnel

The prescription department of this store is serviced by the store manager and two registered pharmacists. All are graduates of the School of Pharmacy, Southwestern State College. The fountain area is in charge of a woman who does all the purchasing for this department.

Public Relations

The store manager commented that in this community, drug stores furnish all merchandise to physicians at cost, both from the front end of the store and from the drug department. He believes this is not right and said he would never start this practice again in a new store. He raised the question of why a doctor who is amply able to buy front-end merchandise should be able to purchase expensive items at cost when lower-income groups have to pay the retail price.

"When dealing with physicians, one needs to remember that they don't like to be 'promoted,'" he said. He advised pharmacy students not to "push" their relationships with physicians. He believes it is extremely important that a pharmacist should not bother a doctor when he is busy. Doctors are extremely independent people, he said. This store carries out the regular custom of gifts to doctors.

The store manager indicated that customer relations were developed through pricing and service policies. He believes that participation in social activities at the military base and in other social circles throughout the community constitutes an effective place in a public relations program for the store. Also, he commented that an occasional cup of coffee for a customer is an extremely effective method of building good will. He wants his pharmacists to get out front in the store and establish personal relationships with the customers.

The store manager belongs to the usual professional associations and participates in community activities, believing this constitutes an important part of an effective public relations program.

The store manager generally believes that pharmacists get a good general education in college. Much of the training of pharmacists, he remarked, must be learned on the job. He thinks they need more selling and more knowledge of store layout and display, including a merchandising background.

Advertising may not be necessary in the pharmacy curriculum because it is generally learned on the job, the store manager commented. He repeatedly stressed that he wants pharmacists who can effectively meet the public and do more than just fill prescriptions. He believes that a speech course constitutes effective training for sales work. He concluded that, in his opinion, the pharmacy program is inadequate because it does not contain effective training in business knowledge and in public relations.

## CASE 18

### Nature of the Store Operation

This is a large merchandising drug store located in a shopping center in a suburban area of a city of over 21,000 population. The annual sales of this store will approach \$300,000, maintained on an inventory valued at a cost of \$60,000. Merchandise stock is turned over annually approximately 3.3 times. This store covers a large floor area and is probably one of the largest drug stores in the state. The manager encourages credit accounts. Approximately 15 to 20 per cent of the sales are in the form of prescription drugs. The store is open daily from 8:00 A. M. to 9:00 P. M. It specializes in the sale of prescription drugs, baby needs, belts and trusses, cosmetics, cameras and equipment, sundries, and appliances. It contains a separate snack bar and a fountain which is leased.

This large merchandising store is located in a rapidly expanding community, located near a large government base. It has been in operation approximately 10 months and appears to be very successful. It is arranged in a manner to utilize self-service almost exclusively, except for the prescription and drug department and the cosmetic department. It is organized as a partnership with a controlling interest held by a "downtown" druggist. The partner interviewed has direct management responsibilities. This new store is

representative of a shopping-center type of operation which appears to be a merchandising trend towards large scale operations in suburban centers. Both the manager and a pharmacist-employee are pharmacy school graduates of Southwestern State College, the manager having graduated about 10 years ago and the employee-pharmacist having graduated last year.

This is an agency store, operating under contract with a national drug concern. The objective of the manager is to run a business-like and profitable store which will be able to compete with any merchandising establishment in the community. The manager is a young man with extensive drug merchandising experience, including chain store management experience. The manager revealed that he likes to sell in the front end of the store, and he believes the secret of controlling a large operation such as this is "drive" and merchandising ability.

### Merchandising

Buying practices.--This store is principally supplied by the national wholesale supplier who underwrote the lease, although it is associated as an agency of another national drug concern. Besides being an agency store, it is also supplied by a cooperative wholesale house in which participants can purchase stock and thereby secure sizable discounts on their merchandise. This store has also recently become associated with a new volume buying and advertising plan sponsored

by the wholesaler who underwrote the lease of this store. The manager does considerable direct buying and pools some of the buying with a downtown store which is operated by the controlling partner under the same agency agreement.

Pricing.--This community is known as an area in which prices are very competitive. The agency agreement provides this store with a considerable amount of private brand merchandise which is relatively free from price competition. The establishment engages in constant pricing advertising and uses "loss leaders" and "close-outs." Most of the merchandise is marked at cost in code, and the manager intends to code almost all the merchandise in the store in the future to insure adequate control of pricing.

Competition.--The competition comes principally from large scale drug operations located downtown and from a similar retail drug store located in another shopping center. An auto supply and departmental appliance store downtown is discounting some drug items and toiletries which provides rather severe price competition. Adjacent to this shopping center a new shopping center is being established which may provide severe competition in the future. Up to the present time no drug store operator has wanted to assume the responsibility of operating a drug store in the new center under construction, but it appears that the shopping center management will eventually put in one. This store will be well established

by the time the new store commences operation, the manager believes.

The manager indicated little discounting on prescriptions is done in this community although the area generally has a recognized reputation for cutting prices. He indicated that he meets competition by providing personalized service, extensive merchandise displays, and fast delivery service on prescriptions.

Advertising.--This store advertises extensively in the newspapers and also by handbills which are prepared by the store manager himself. He indicated that the store is associated with the independent merchants advertising plan sponsored by the national wholesaler mentioned above.

The manager reported that the store's advertising consists principally of newspaper advertisements prepared either by the advertising manager of the newspaper, or himself. He remarked that ordinarily advertising managers of local newspapers do not understand drug advertising. As an example, he cited the fact that they do not feature the brand name enough. On the day of the interview, the store had a three-fourths page advertisement in the daily paper. Generally, the store utilizes a three-fourths page advertisement in the daily paper on Thursday, Friday, and Saturday of each week, with a much smaller advertisement being inserted on Sundays.

The manager remarked that this area is not suitable for extensive television advertising, but that if it were he

would participate, as he is a very strong believer in the effectiveness of this type of advertising. The advertising copy drawn up by the manager is prepared from an advertising service which sends newspaper mats and formats which can be adapted by the local pharmacy and run in the local newspaper.

Selling.--The manager stated that sales meetings are a "must." He also believes that self-service is generally what people want today. The principal cash register is located at the front of the store. With the exception of an auxiliary cash register which is placed near the prescription and cosmetic department at the rear of the store, there are no other cash registers other than the fountain cash register. The layout and fixtures of the store were designed and supervised by a national wholesale drug firm.

Inventory control.--No particular purchase controls were indicated by the partner-manager with the exception of the "want book" and visual control. Cigars and tobacco, newspapers, and magazines are sold on a consignment basis and constitute no problem.

Special services.--The manager was well-pleased with the leasing of the fountain to an outside operator. While the fountain is not under the control of the drug store operation, it nevertheless constitutes an important traffic builder for the store. The store utilizes "green stamps," extensive newspaper advertisements, and considerable merchandising of goods of all types in order to attract store traffic. The

merchandise includes appliances, cosmetics, cameras, and packaged ice cream. A special delivery truck owned by the fountain department manager also advertises the drug department along with the catering service which is a special promotion of the fountain department. The manager indicated the partners desire credit customers and that credit collections have not constituted a problem for them.

He reported that he is operating under a very reasonable lease agreement which requires a rental payment of 3 per cent of sales.

#### Accounting

The manager related that monthly statements, prepared by an outside public accountant, aid in furnishing adequate financial control for this operation. These statements are studied closely. The accounting information is accumulated on daily summaries printed on envelopes which contain the daily cash register tapes, deposit ticket, and "paid-out" data which are accumulated at the cash register.

Credit sales are prepared in triplicate with the customer receiving one copy, a second being placed in the accounts receivable file, and a third being retained in chronological order for control purposes. Accounts receivable ledger cards are maintained in a visible file in a perpendicular manner. Payroll and tax reports are prepared by the public accountant, assisted by the store bookkeeper. Sales are

categorized by departments, but purchases are not. The store manager suggested that it would be quite difficult to have the drug store purchases analyzed by departments because of the billing practices of drug suppliers.

### Personnel

This store is serviced by two registered pharmacists and an assistant pharmacist. Both pharmacists are graduates of Southwestern State College. The volume of sales in the prescription department has been slowly improving.

The store manager stated that he needs to hold more store meetings and plans to do so in the future. He indicated that his training program for clerks consists mainly of advising them as they operate during store hours, and helping them with selling tips as well as distributing different types of sales literature to them from time to time.

The manager informed the interviewer that premiums (P. M.'s) furnished by manufacturers and wholesalers are paid to clerks for selling specified items. Contests are regularly held between employees to "push" sales. The manager believes that this type of competition furnishes the kind of stimulation which keeps store employees alert. He puts in long hours in this store, approximately 70 hours being his average work week. The assisting pharmacist works about 60 hours a week and has alternate Sundays off.

### Finance

A large national drug wholesale firm has underwritten the lease, and the financing was predominantly secured from a national credit finance company. The wholesale house has apparently underwritten the lease as a part of a broad policy whereby wholesale druggists encourage the establishment of independent drug stores in shopping centers which otherwise would go by default to chains or large scale stores because of the credit demanded by the shopping-center operation.

### Public Relations

Public relations are important but not critical in this operation, according to the partner-manager. Little contact exists between the doctors and pharmacists in this store, but the manager is encouraging this type of cooperation by having the pharmacists visit the doctors whenever it is appropriate. The chief emphasis of the store is in satisfying the needs of the customers.

Advancement of pharmacy.--The manager belongs to the local pharmaceutical association. He is not particularly active in community projects as he does not believe that this is too important in maintaining good public relations in a large scale operation such as this. The manager is not very much concerned with the various problems that face pharmacy today. He believes he and his partner are prepared to compete with any type of store which may be established in this community.

Education.--The manager thinks that a good general education background is an indispensable part of the training of pharmacists. He particularly emphasized that he was deficient in advertising knowledge and now is faced with the responsibility of regularly drawing up newspaper advertisements and handbills. He believes that general business courses such as business law are valuable to a pharmacy graduate.

He requested that the school of pharmacy include more general business courses in the pharmacy curriculum. He emphasized that the practical experience requirement in the pharmacy training program is a very important factor in management training. He said that a letter-writing course or a speech course would be very appropriate for a student in pharmacy school.

## CASE 19

### Nature of the Store Operation

This is a neighborhood drug store located in a city of over 61,000 inhabitants. The drug store has annual sales of approximately \$125,000, maintained on an inventory valued at a cost of \$17,000. Sixty-five per cent of all sales are prescription drugs. Credit sales are encouraged and constitute 30 per cent of the total sales; accounts receivable outstanding approximate \$3,000. The merchandise stock is turned over five to six times annually. This is an independent operation. The store has a fountain and snack bar.

This drug store is located adjacent to a grocery store and around the corner from a small college, in a neighborhood area. It has been in operation for two years and is modernistic in appearance. The store emphasizes prescription drugs and related drug products and does not promote extensively any merchandise lines which are not traditional drug store items. The modernistically designed fountain and snack bar are very popular, although there are no booths. The store is open from 8:00 A. M. to 9:00 P. M. on weekdays. A skeleton force keeps it open on Sundays from 12 A. M. to 9 P. M. A unique stock room runs the length of the store and is separated from the store proper by a partition. This long narrow area with shelving on one side provides a narrow but extensive stock and storage room which is easily accessible.

The store is organized as a partnership, with the controlling partner operating this retail store in conjunction with a clinic pharmacy which he owns. He graduated from pharmacy school at Southwestern State College about nine years ago. His new partner, who is purchasing a 25 per cent interest in this store, is also a Southwestern State College graduate and has been out of pharmacy school for approximately six years. He was the partner interviewed.

The controlling partner considers this operation as "insurance." He has complete controlling interest in this drug store, whereas his control of the clinic pharmacy is limited by his lease agreement with the medical clinic. The junior partner who is acting manager in the absence of the controlling partner stated that he had previous pharmacy experience in another large community in the state and also in a similar community in another state. He has now returned to his home town to operate this store and he commented as follows:

It's always nice to come home until you have graduated from a pharmacy school and go into business--then your old pharmacy friends give you the 'freeze-out.' You are a competitor, and it is now a business proposition with them.

The junior partner indicated that this drug store is emphasizing professional service and convenience.

Merchandising

Buying.--This operation buys from two full-service wholesalers. It is also associated in a new cooperative buying and advertising plan recently created by one of these full-service drug wholesalers. The junior partner reported that he personally preferred to deal with the other full-service wholesaler, who is competing fairly effectively with the volume buying plan by offering 10 per cent discounts on different lines of drug products at various times. Considerable direct buying is done in conjunction with the clinic operation. The spacious stock room provides adequate storage for a considerable amount of merchandise.

Pricing.--The informant indicated that the management is now regularly advertising weekend price leaders in the local newspaper. However, he said that it is impractical to attempt to compete on an over-all price basis with other competitive drug outlets in the city, including a discount house and other large merchandising drug store operations there. Most merchandise is marked at suggested list prices.

Competition.--The informant commented that his previous experience was in areas in which the filling of prescriptions was severely discounted, and he considers the situation in this area good by comparison. The county retail druggists association appears to be fairly successful in keeping druggists from fighting among themselves over prescription drug prices. Apparently, the large amount of prescription business

which goes to the military base is a serious problem, with the informant reporting that the pharmacy on the base can undersell city druggists on many items. He is appreciative of recent information which indicates that soon prescriptions issued by civilian doctors for military personnel may no longer be filled at military base pharmacies.

He further commented that the base drug stores have no federal tax on tobacco and therefore can undersell civilian stores on this item. It appears that many of the inhabitants in this town are military personnel who have PX privileges, which reduces the amount of business which might be expected in civilian stores.

The junior partner expressed concern over the recent establishment of a prescription pharmacy located within a discount house financed by a grocery chain. He explained that this store was attempting to discredit local pharmacists by its pricing policies. As an illustration, he mentioned that a pill that usually retails for 12 cents and costs 8 cents was currently being sold at 6 cents by the discount pharmacy, creating the public impression that most pharmacies were overcharging.

The informant indicated that he attempts to overcome competition by establishing close personal relations with his customers.

Advertising.--This operation utilizes advertisements, featuring "specials" in the daily newspaper which are carried

in the week-end editions. The prescription department is advertised through a weekly "spot" on a very popular television program. A brightly-painted delivery vehicle also constitutes an effective advertising medium. Handbills are used extensively for special wholesaler and supplier promotions. A large and distinctively lighted billboard sign, erected in a prominent position in front of the store, appears to be very effective as an advertising medium. The circular fountain and snack bar is considered by the partners as a form of advertising. The informant commented that he and his partner consider it worth \$1.00 to get a new customer into the store. He said that they would be willing to lose up to \$3,000 annually on the fountain operation if it would bring them 3,000 new customers for other departments in the store.

Selling.--The junior partner pointed out that personal selling is an important function of this store. Apparently, store meetings are seldom held. However, occasionally a wholesale house or supplier sponsors a store meeting for employees.

The gondola type of display table is utilized generally. The tables were locally made but appear to be very satisfactory. The store fixtures were bought about three years previous to the opening of this store by the controlling partner from a drug store in the community that went out of business. They were bought at a very low price and were stored until needed.

The junior partner commented that the services of a full-service wholesaler were very helpful in implementing the store layout and display.

Inventory control.--The informant said they are using a purchase control system which utilizes dollar control. It is a part of the bookkeeping system used in this store and in the clinic pharmacy. Other than this, most of their control is visual, aided by "want books."

Services.--As previously mentioned, the fountain and snack bar are viewed as important services provided by this store. Delivery service, extensive credit, and personalized service are promoted.

#### Accounting

The accounting system consists of a single entry bookkeeping system which is provided free of charge by a national drug manufacturer. This manufacturer has indicated that this service will be terminated the coming year and the controlling partner then intends to devise a similar system.

Accounts receivable are prepared in triplicate. Payroll and tax reports are prepared by the controlling partner. Sales are departmentalized by prescription drugs, other drugs, sundries, tobacco, and fountain sales.

#### Personnel

The prescription department of this drug store is serviced regularly by the junior partner who works here full

time and the controlling partner who divides his time between the clinic pharmacy and this store. Additional registered pharmacists are occasionally employed from the nearby military base. The store employs a staff of eight employees.

The junior partner indicated that they pay their employees in excess of the "going rate," believing that this creates employee loyalty and secures better-than-average employees. He indicated satisfaction with his present status in which he has a financial interest in the firm for which he is working.

#### Finance

The junior partner is buying a 25 per cent interest in this store. He indicated that by saving his money he has been able to make a sizable original investment, and that he is continuing to pay for his interest from current earnings.

#### Public Relations

Professional, customer, and employee.--The junior partner said they have excellent relations with a doctor whose office is located nearby. The controlling partner has close social relationships with many of the doctors in the community. Particular attention is given to the development of close personal relationships with customers. Employee relations are apparently good.

Advancement of pharmacy.--Both partners participate in the local pharmacy association, which appears to be an

effective agency in providing a cooperative approach to mutual pharmacy problems in the area. The junior partner indicated some concern in regard to the new discount pharmacy, since he feels that there is a possibility that this outlet might disrupt the pricing structure in the community.

Education.--The junior partner suggested more training in the areas of advertising, management, and speech in the pharmacy curriculum. He apparently believes that his training in economics has provided him with a good foundation upon which to build an understanding of business practice.

## CASE 20

### Nature of the Store Operation

This is an independent neighborhood drug store with annual sales of \$140,000. Approximately one-third of its sales are for the filling of prescriptions, with an average of approximately 70 prescriptions daily. The store has been in operation for many years, although the present controlling partner has only recently taken over the management since the death of his father-in-law. The merchandise inventory is valued at \$21,000. It was turned over between five and six times last year. Charge sales are encouraged. Forty per cent of the total sales are on credit, and outstanding accounts receivable are approximately \$4,600. The store contains a combination fountain and hot lunch department.

This store is on a corner location, situated in a neighborhood-business area, on a heavily traveled street, some distance from the main business district. The corner location provides adequate parking facilities and makes possible a front entrance to the store and a side entrance to the prescription department. This store is located in a rapidly expanding community of over 21,000 people which is adjacent to a national military base.

This store's trade is secured principally from the lower and middle income people. No other drug stores are located on this side of the city, which is generally

considered the older section. Population expansion has taken place in the opposite direction.

The store was recently organized as a new partnership after the death of the former owner. It was originally established by the father-in-law of the partner interviewed. The son-in-law has assumed the controlling interest in the new partnership, which includes another registered pharmacist who is also a Southwestern State College graduate, and the mother of the controlling partner. The controlling partner is slightly over 35 years of age, although he only recently received his degree from pharmacy school. He is an out-going, friendly individual who obviously possesses the "common touch." In the pharmacy school, he was a school leader and public speaker. Although only recently graduated, he had worked in the store for several years prior to entering the pharmacy school. His active junior partner has been with the firm approximately six years.

The store is rather old in appearance but has an unusually high volume of trade brought about apparently by the respect and wide acquaintance this family has enjoyed in the community through the years. It has a high volume of trade in veterinary supplies. It also handles considerable luncheon trade with its combination fountain and grill. The fountain area is not large and has limited luncheon booth space in the front of the store. Sandwiches, pies, and light lunches are served.

This store might appear externally to be one in financial difficulties. The relatively high sales volume and the optimistic outlook of the partner interviewed indicated that appearances can be deceptive. The store has "coasted somewhat" while the controlling partner completed his pharmacy degree, and he indicated that through his renewed efforts, business was again "picking up."

#### Merchandising

This store operates independently. The manager buys from three full-service wholesalers in addition to the usual direct purchases from manufacturers. The informant reported that he does some "club buying" with other druggists for quantity discounts. He buys essentially for turnover, at which he has obviously been very successful.

Pricing.--Price leaders are not used extensively, and this store does not generally engage in price emphasis.

Competition.--The partner-manager appeared to be confident of the future success of this drug store. He indicated some concern over the possibility that a discount house might enter the area--otherwise he accepted his competition as inevitable and normal. Although he would like to establish a better price structure in the community, he is apparently confident of his ability to hold his own with the large-scale drug outlets located in the community. He observed that the fact that this community was known as an area in which

prescriptions are discounted has apparently played a large part in bringing about a situation in which discount houses have not yet been tempted to enter.

Several drug stores, including two downtown retail outlets, two extensive shopping-center drug stores, and a clinic pharmacy comprise his chief competition. Also, there is an auto supply and appliance departmental store downtown which is discounting drug products as a traffic builder in its operation.

The partner-manager does not consider his competition, although it is severe, as unethical. He commented that relations are generally good between druggists in this town.

He caters particularly to the lower and middle income groups which are predominantly located in his section of the city.

Advertising.--The partner-manager does not promote sales. He does advertise specials occasionally by small want ads in the daily newspaper which do not include prices. Occasionally he distributes handbills. He does not participate in the local trading-stamp program because he does not like the "headaches" that are associated with it. However, he is alert to any sales device that will capture the public's attention and has high hopes for a sales plan which he has just begun.

The plan features dinnerware which is displayed in the rear of the store. With a cash purchase of \$10.00, the

customer receives free a four-place setting of dinnerware. With each additional \$10.00 purchase, the customer may buy any additional setting of dinnerware at greatly reduced prices (dealer's cost). Special pieces may be purchased at retail.

The partner-manager reported that he uses an independent advertising service from the East, commenting that the service furnishes streamers on national brand merchandise which can be displayed over the store. Also, various advertising displays distributed by wholesale houses are utilized.

Selling.--The partner-manager expressed more than average interest in the importance of the selling function in his store.

The layout in this store is average. It consists of shelf displays furnished chiefly by jobbers. The informant also uses streamers across his store extensively.

Inventory control.--The owner-manager estimates his sales and, by keeping a running record of purchases, is very careful not to over-purchase. He also has a lady "clerk-manager" who supervises control of front-end goods.

Services.--This store offers credit and fountain service and has advertising schemes to increase traffic. The veterinary service brings the trade of many farmers. The store provides a free delivery service.

### Accounting

The partner-manager keeps his own single-entry records and has a public accountant make out his income tax forms annually. The operating statement is studied closely. Charge sales are not recorded as sales until the accounts are paid. The informant indicated that he is going to hire his accounting done because it takes too much of his time. The payroll and the tax report are prepared by him. There is no departmentalization in the store, except that the fountain receipts are kept separate. All cash discounts are taken.

### Personnel

The two active partners are registered pharmacists. A girl is utilized to prepare and serve the lunches and another girl takes care of the front-end merchandise. Employees are selected on the basis of their appearance and capabilities.

The owner-manager reported that he occasionally holds store meetings, and they consist of "get-togethers" to talk over store problems. Also, sales literature and suggested selling methods are discussed. The owner-manager considers this activity very important.

### Finance

This store was originally owned by the father-in-law, and upon his death the son-in-law took over. Apparently no particular financing problems exist.

Public Relations

Professional, customer, and employee.--Merchandise is sold to doctors at cost. With one exception they all pay their bills. If they don't, the informant indicated, nothing can be done about it. He commented that doctors usually drop into his store and visit. He believes that he has good relations with them. He reported that his most extensive efforts are expended in working for good customer relations.

Advancement of pharmacy.--The owner-manager belongs to the usual pharmacy associations and tries to cooperate with them. He believes that participation in community activities is very important. He indicated that he has received a certain amount of recognition for community work. He participates in the various civic organizations and was one of the original organizers of the junior chamber of commerce in the community.

The owner-manager believes that discount houses are becoming a problem in some areas. In this area, he believes the problem will not become intensified, due to the reasonable prices charged for prescriptions. He commented further that he does not think an independent drug store needs much help if it has a good manager.

Education.--The informant believes that a good basic general education is desirable, and particularly would stress the development of an ability to meet the public.

He thinks that the pharmacy curriculum should contain a good background in management training. "Teach them discounts," he said. "The business mathematics course is also very good because pharmacy graduates need to know how to figure mark-ups and margins." Economics was recommended as a good background course because pharmacists should know more about business. Any type of course that helps with public relations, including speech, is helpful, he suggested. He also recommended typing training as being very necessary.

## CASE 21

### Nature of the Store Operation

This is a neighborhood retail drug store with annual sales of approximately \$75,000, located in a city of 61,000 inhabitants. About 25 per cent of its sales are prescription drugs. The store has been in operation in this location for two years. For six years the owner-manager operated a retail drug store in another part of the city. The current inventory at cost is \$15,000, and the merchandise turned over three times last year. Sales on credit are encouraged and about 25 to 30 per cent of the total sales are on credit with about \$1,500 to \$2,000 outstanding in accounts receivable.

This independent retail drug store is located in a neighborhood area on a much-traveled thoroughfare to the outskirts of the city where a military base is located. The location is one of the best traffic areas in town with convenient and adequate parking. The building which houses the store is rather old and slightly shabby in appearance. The store specializes in hot lunches and soda fountain business. It is apparent that this is a popular lunch and "coffee" meeting place for many professional people who are located in various professional buildings in outlying areas of the community.

The store is furnished predominantly with older fixtures which are glass enclosed and which almost preclude

self-service. The store is open from 8 A. M. to 10 P. M. on weekdays and from 9 A. M. to 5 P. M. on Sundays.

In the two years since this business has been located here, it appears to have been fairly profitable. The owner related that in his previous operation located across the street from a chain food store, he would have become bankrupt except for the financing services of three drug wholesalers--one of whom he credits with "pulling him through" his financial difficulties. When he was in the old location, the street was widened, and it became very difficult for the traffic to stop in front of his store. This factor, he believes, profoundly influenced his operation. He has recently entered into a partnership with another pharmacy school graduate from Southwestern State College with about five years of retail experience. The new partner owns 49 per cent of the partnership, and 51 per cent is controlled by the partner interviewed.

The partner-manager emphasized that finance has been his principal problem from the time he entered the retail drug store business. He indicated that most of the time he has been working for creditors, and it has been a difficult task for him to expand his operation with a big debt on the store.

The owner-manager reported that he does not like "loss leaders" and that he would like to stock products which are "protected" lines, but that in order to sell these

products, a large investment is required which he cannot sustain at the present time. Particularly, he is interested in putting in a good cosmetics line.

### Merchandising

Buying.--This drug store is independent and not associated with any buying group. The manager reported that he has been thinking of doing some "club" buying with other independent retailers in the area, and may soon join with three or four of them for this purpose. He believes that it will put him in a better competitive position. He emphasized that he is a firm believer in achieving a high merchandise turnover, even at the cost of greater discounts.

Pricing.--The manager stated that he does not cut prices on prescription drugs, but that he is forced to cut prices on front-end merchandise occasionally.

Competition.--The manager's competition consists of large retail drug stores distributed throughout the city, including a discount house located in the outskirts. There is also a quality professional pharmacy across the street which appeals to a higher-income clientele. He is critical of a medical clinic down the street which was built by a pharmacist, and he believes there is a "tie-in" in the operation which is not ethical. He is also critical of the discount house pricing policies.

Advertising.--The informant reported that very little advertising seems practical in his situation. He believes that only a small advertisement in the yellow pages of the telephone book is necessary for his store. He said good advertising consists of creating good will among customers through a friendly atmosphere in the store. He pointed out that radio and television advertising were too expensive for him to consider.

Selling.--Although most of his store fixtures are old and encased, he is moving as rapidly as his finances will permit toward self-selection because he believes people like to handle the merchandise which they buy. The display is further limited because of the glass cases which predominate and the shelving along the wall which removes the goods from the customers' inspection. He credits his fountain and hot lunch counter and his luncheon booths with creating heavy traffic for the store. This is also achieved partly because of its central location. He utilizes a delivery service for his drugs. Because of his inadequate finances, he strives to limit the credit extended to customers and permits only 30-day charge accounts.

Legal problems.--He indicated that the recent small-claims procedure instituted by justice of the peace courts has materially aided in the collection of small claims. Under this procedure, the notice may be mailed rather than "process served" which reduces the cost of the action. Also, instead

of requiring a bill of complaint which generally requires a lawyer's services, the procedure now calls only for an affidavit to be filed by the manager with the justice of peace.

### Accounting

The manager reported that his statements are prepared by an outside accountant for \$25 per month. The accountant does all of his bookkeeping except for his accounts receivable, which he does himself. Credit sales are prepared in triplicate, one copy being given to the customer and two carbons retained by the drug store. At the end of the month, the manager mails one carbon copy to the customer and retains the other for control. He does not record credit sales until the account is paid. He reported that his lawyer-accountant prepares his payroll and tax reports. His store is not departmentalized for accounting purposes.

### Personnel

The prescription department is serviced by the two partners who are registered pharmacists. The manager's wife also works in the store. One of his most difficult problems is to supervise the lunch counter. He related that he had recently experienced a very difficult personnel problem when he had fired one of his clerks because of laziness and inefficiency. Her husband came into the store and threatened him with physical violence because of the action. The manager

appeared very disturbed over this incident. He commented that he controls his personnel through personal supervision.

#### Finance

He reiterated that capital finance has been his principal problem, and advises young pharmacy graduates to secure as much long-term finance as possible from individuals who will not require prompt payment. He indicated that some of the wholesale houses have been an invaluable help in enabling him to continue in operation. Adequate liability insurance, as well as fire insurance, is carried.

#### Public Relations

The owner-manager commented that he has practically no social relationships with doctors and dentists except for one doctor who is a personal friend. He considers that doctors in the community are "needle-happy" and do not write prescriptions in the volume which he feels is customary. His principal public relations effort is to cultivate the favor of the customers and create a friendly atmosphere. He is an active participant in the county pharmaceutical association. According to him, this organization has been very valuable in working out joint problems which pharmacists in this area face.

He believes that participation in community activities and public affairs is very important to a pharmacist, and he said that active church membership is a business help. He

considers a duplication of drug products one of the biggest problems in pharmacy, because stocking so many different drug items requires a large monetary investment. He said that his courses in economics were a very good background for business management. He believes that a pharmacist needs a knowledge of people and human relations, that psychology courses would be helpful, and that a course in business law would also help him now. "A big problem," he said, "is knowing how to refuse a customer and make him like it."

## CASE 22

### Nature of the Store Operation

This store is located in a suburban shopping center of a city of approximately 150,000 inhabitants. The store features a complete drug service, including a soda fountain, cosmetics, costume jewelry, gifts, greeting cards, and school supplies. Annual sales total approximately \$250,000, and the inventory is valued at a cost of approximately \$44,000. The store has a merchandise turnover of four and one-half times annually. Credit business is encouraged and constitutes approximately one-third of all sales. The store is approximately 50 by 100 feet and operates a rather extensive fountain area which is leased. It operates independently, except for a recent association with an organization of independent drug stores which are operating with a national drug wholesaler according to a plan stressing volume buying discounts and associated group advertising.

The store is located some distance from the center of the city on a corner across the street from a chain grocery store. It is in a heavy traffic area on a four-way intersection, including a state highway which passes the store. The store features expensive gifts which are displayed throughout the store on the walls, attached to peg boards. It also stocks extensive lines of cosmetics, as well as high quality costume jewelry and associated products. The leased fountain

area which is located at the rear of the store, will seat a total of 40 people, 16 on fountain stools and 24 in six booths. The store is modern and possesses an extensive glass frontage.

The store was recently organized as a corporation after experiencing financial difficulties. A bank is now financially involved, and a bank official aids the store manager in supervising the entire operation. The bank official engages in some supervision of the purchasing of the front-end merchandise, particularly in the gift department.

The assistant manager graduated from pharmacy school a little over a year ago and has already assumed many of the practical aspects and responsibilities of managing the operation. The objective of the management is to maintain a friendly store, including a 24-hour prescription service. The store is open from 7:30 A. M. to 9:30 P. M. daily except on Sundays when store hours are from 8:00 A. M. to 9:00 P. M.

The assistant manager reported that employees in this store are required to establish close personal relationships with the customers. He observed:

I've learned that I need to read the newspaper carefully each day in order to learn when one of my customers has distinguished himself and should be complimented. Also, reading the news keeps me informed and able to converse intelligently with my customers.

The belief was expressed by the informant that too many independent pharmacists seem to be lazy and do not operate their

places of business efficiently. It is chiefly because of this inefficiency, he feels, that many independents are having difficulty in competing effectively with discount outlets.

### Merchandising

Buying.--The store management buys from the usual sources, including local wholesalers and direct purchases from manufacturers. As previously mentioned, the store has recently become associated with other independents in a cooperative buying and advertising plan sponsored by a national drug wholesaler. Various products are also purchased from manufacturers who attach the brand name of the drug store to the merchandise. This promotes store prestige. Items included in this plan of distribution include perfumes, specialty gifts, and a few drug and vitamin products. The informant indicated that the store manager often tends to overbuy, resulting in frequent accumulations of excessive stocks of merchandise.

Pricing.--Prices throughout the store are generally based on recommended prices. A few items are featured as specials to create a low price image. All drugs and proprietaries follow recommended prices obtained from a drug manual. Gifts are priced to yield a margin of 40 per cent of the selling price. Prescription drugs are generally priced to give a 33 per cent margin on the selling price plus a professional fee. For special customers who have large drug bills, a

special reduced pricing system is used on drugs, resulting in approximately a 20 per cent margin of profit. All merchandise is code-priced at cost for inventory purposes, merchandise returns, and for information as to pricing changes.

Competition.--The chief competition of this store is a giant chain drug discount operation located within one mile of this store. Other shopping center drug stores are located in opposite directions, each about one mile's distance.

The assistant manager reported that this store meets competition by offering personal services and engaging in extensive advertising.

Advertising.--The store utilizes one-minute spot television advertisements on a popular evening television show three times a week. Radio advertising and a weekly community newspaper are also used. Television guides are printed especially for the customers. These guides, along with appropriate advertising materials, are distributed to customers in their store packages. A weekly magazine bulletin with local editorial comment on local situations is sponsored by the store cooperatively with three or four other major advertisers. The magazine is distributed free of charge in the store.

Probably the chief advertising effort is the distribution of multilithed handbills prepared chiefly by the assistant manager and distributed to the neighborhood customers and also to those who come into the store. Usually, these handbills feature price specials and thus create a low-price

image. The informant said that one of his most difficult duties is to prepare handbills in the most effective manner.

Selling.--The store specializes in semi-self service and customer assistance. The cash register is surrounded by an island of merchandise in the front half of the store. The store utilizes many self-service gondolas which feature all types of merchandise, including special selling displays. A national wholesale distributor supervised the layout of the store. This wholesaler occasionally conducts a school for the training of the store employees after working hours.

Inventory control.--The availability of two full-service wholesalers within the city permits the ordering of merchandise any time before three o'clock in the afternoon, which enables the store to carry a relatively low inventory and achieve a high stock turnover. The informant indicated that specific inventory controls are lacking, which frequently results in excess stocks. Occasionally, "grab bags" are utilized to dispose of this merchandise. The merchandise is assembled in plastic bags, specially priced, and placed on a display table near the front of the store.

Services.--Traffic is attracted to the store by fountain service, extensive gift displays, and quality cosmetics and jewelry displays. A trading stamp plan is not used. Free delivery service is provided, and the store operates its own delivery vehicle. Customer credit is encouraged.

### Accounting

The store utilizes a single-entry bookkeeping system provided by a national drug manufacturer. Annually, this information is processed by a local certified public accountant who prepares the operating statements for the year. A bookkeeper in the store processes the accounts payable and receivable and prepares the payroll and tax reports. As the fountain is leased and operates its own cash register, the main register constitutes the principal device for accumulating accounting information. The cash register provides for a departmentalization of sales. The store uses an auxiliary alphabetical customer file to maintain quick servicing of customers' prescriptions when prescription numbers are not available.

### Personnel

The store is operated by two registered pharmacists and ten other employees. The manager's wife is a registered pharmacist and is available as emergency help. The informant's work week approximates 50 hours. He said that, when training a new employee, he has found it more important to teach the location of merchandise than even the operation of the cash register. The store utilizes P. M.'s (premiums) which are furnished by drug suppliers to encourage the sale of certain types of merchandise.

The informant reported a sizable turnover of employees, and indicated that it is difficult to find and retain good experienced employees. His principal problem seems to be the achievement of good employee relations with the customers.

The store manager appears to be a friendly person who gets along well with employees, customers, and physicians.

### Finance

About five years ago, the present manager purchased his partner's share of the business and assumed complete ownership. Financial problems were experienced, apparently because of over-buying and inadequate management control. This has resulted in a recent incorporation by which new capital was brought into the firm. The present stockholders include the former owner and his father, a physician, and a prominent bank official.

### Public Relations

Professional and community relationships.--The assistant manager reported that public relations activities are chiefly concentrated on the development of good relations with store customers. The manager is a good golfer and sportsman, which has aided in establishing close relationships with many physicians and professional people. Pre-printed prescription pads are furnished to physicians which generally feature the store's name. Also, medicine is furnished to physicians at cost.

Relations are good with other pharmacists in the area, and prescriptions are frequently exchanged. The store makes a practice of sponsoring a junior league baseball team, a bowling team, and other community activities.

#### Advancement of Pharmacy

The assistant manager belongs to the county and state pharmaceutical associations. He believes the county association has been rather ineffective in holding the line against discount houses. He reported that he is an associate member of a large executive association existing in the city, and that this brings him more contacts than any other organization with which he is affiliated. He pointed out that since he is younger than most of his customers, it is somewhat difficult to meet the customers socially. One of the most discouraging problems in pharmacy, he believes, is the cut-rate policy of the giant discount houses. He thinks that the pharmacists should not work for this type of operation since discount houses, in his opinion, represent a major threat to the continued professional practice of pharmacy.

Education.--The assistant manager reported he believes that the study of economics should be required as a part of the general education program for businessmen. He indicated that one of his present problems is a lack of training in creating effective selling advertisements. A knowledge of lettering work and a study of contrasts between large

and small print would be very helpful, he believes. Training in public speaking would also be a great asset in selling the professional image of pharmacy to the public, he commented.

Nature of the Store Operation

This is a rapidly growing neighborhood drug store, completing its third year of operation. This year's sales are expected to reach \$300,000 with approximately 25 to 30 per cent of its business in the prescription department. Merchandise inventory averages \$50,000 cost value with an annual merchandise turnover of 3.5 to 4 times. Outstanding accounts receivable vary between \$7,000 and \$8,000. The soda fountain accounts for about 5 per cent of total sales. The store occupies 4,200 square feet, for an annual sales of approximately \$67 per square foot.

This is an aggressive merchandising operation. Located at a five-way traffic intersection in the outskirts of a rapidly growing city of about 150,000 population in a semi-business district, the store draws trade both from the city and from the rural area. It has a convenient drive-in window which accounts for a little less than 10 per cent of the total prescription volume, and also serves as a convenience for occasional drive-in customers who wish to purchase other items without leaving their cars. A wide and complete stock of merchandise characterizes this operation. Hardware, paint, and fertilizer are important merchandising items.

The owner-manager has purchased this store and also a prescription pharmacy, both within a three-year period, and

within five years of the time of graduation from pharmacy school. The prescription shop is located in a medical clinic. To secure this shop, the owner-manager was required to bid for the location. He pays a flat rate of \$12,000 per year to the medical clinic for the lease. The clinic has definitely increased the prescription business in the retail store and has given it greater "prestige." The prescription shop is open only limited hours. It is, therefore, very convenient for the retail store, which offers a 24-hour service, to handle the "after hours" prescription business for the clinic. The first year in the prescription shop was difficult because of dissension between doctors in the clinic, but the situation is now rapidly improving.

This total operation has been achieved on an original investment of \$2,000 and an association in a partnership which has recently terminated, except for purchasing and advertising cooperation which is steadily decreasing.

The owner-manager believes that the retail drug store provides greater security for the pharmacist than the professional prescription shop. He credits his previous experience as an employee in the grocery business with providing the necessary knowledge for successful merchandising. He foresees that extreme competition is developing from prescription departments in grocery chains and discount houses, which leads him to think that these types of outlets will continue to lower margins and provide increasing competition, particularly

for the professional prescription shop. He, therefore, considers the merchandising of sundries as one of the best types of insurance against possible decrease in prescription profits for the pharmacist-owner.

The person interviewed was employed as an assistant manager in this store after graduation from the School of Pharmacy, Southwestern State College, last year.

### Merchandising

Buying.--This store is not aligned with any agency or buying group and operates independently, except for some purchasing done in conjunction with his former partner and his clinic pharmacy. These three units operate under a common name and advertise together, although his former partner's operation is now separately owned. This enables the units to operate as a chain unit and secure additional discounts and buying privileges from manufacturers.

Two full-service drug wholesalers provide daily service. The manager has not joined a new volume purchasing plan of a full-service wholesaler as he is fearful of aligning his store with any cooperative buying group, although he sees definite advantages in such an arrangement. He apparently values the independence with which he now operates more than he does the purchasing advantages of buying associations. His direct purchases total only about 25 per cent of the total; however, this would average much higher in the

prescription department. A high merchandise turnover is stressed, particularly in the drug department, but because of the size of the retail merchandise department and the lower turnover associated with this type of merchandise, this operation does not maintain more than a normal turnover.

Pricing.--The pricing policies of this store are competitive in certain lines which are locally competitive. However, suggested list prices are generally maintained. "Loss leaders" are featured to stimulate traffic. A marking device is used which stamps the store's name, date, and cost price of merchandise, and indicates the source of supply. Although the cost price can be discerned by the buyer on close inspection, the manager expects his customers to know he is making a fair profit. This marking device has many times paid for itself because of the ease of marking multiple packages. Also, the marking tag can be removed from the package, and in the case of drug merchandise, this prevents the incurring of a loss if the marked container is returned to the store.

Competition.--Competition stems chiefly from another general type drug store in the immediate area which has a prescription department. Also, competition from physician-owned prescription pharmacies is increasing. There is also a chain grocery store in the area which has a prescription department that offers cut-rate prices.

Competition is met by the stressing of service, including a 24-hour prescription service, delivery, drive-in

window, charge accounts, loss leaders, gifts, and advertising. When the manager takes a trip, he makes an effort to visit drug stores along the route to study their operation with a view of improving his own store.

Advertising.--The principal advertising consists of lithographed handbills which are distributed throughout the neighborhood at carefully planned intervals. These are composed and planned by the owner-manager. Some advertising is done in the newspapers for special-event days, but this type of advertising is not emphasized. The delivery vehicle features a car sign. Calendars, coffee, and various gifts are freely given to customers.

Recently, the manager has been experimenting with television and radio advertising with some success. For a flat fee of \$100 for eighteen weeks, a local television station provides the store with two 30-second spot advertisements featuring the store and store pharmacists on a late evening show, with additional spots occasionally at other times. A radio news program at the noon hour also features a daily store advertisement.

Selling.--This operation is self-service, with one principal cash register. However, at all times assistance is available to the customer. The layout is unique because the prescription department is close to the front of the store, with newspapers and magazines in the rear.

Inventory.--Inventory control is maintained by means of dollar control, the manager purchasing approximately 60 per cent of a combination of the previous year's and the current year's sales, although sometimes this varies during special seasons. The dating and pricing of merchandise also provide some information, enabling a degree of control over the merchandise, yet the informant stressed that more adequate knowledge and control of fast-moving items are needed.

### Accounting

Financial statements.--Daily summary report sheets are compiled with monthly totals and forwarded, along with the bank statement and check register, to an outside accountant. He furnishes the owner-manager with an operating statement and balance sheet once a year, in addition to calculating his income tax. Doubt was expressed as to whether the yearly operating statement and balance sheet provide adequate accounting control of the operation, yet the owner-manager doubts that monthly statements would be worth the cost. He makes his own analysis of accounting ratios and percentage figures and studies them closely.

Accounts receivable.--The informant expressed dissatisfaction with the manner in which accounts receivable are processed, and it is evident from his remarks that the store does not maintain sufficient control of outstanding accounts receivable. Short-time charges by customers, who do not wish

to be put on the store's accounts receivable, present an aggravating problem. These transactions are not entered in the day's business but are entered as cash transactions when the charge accounts are paid. The informant indicated that the owner-manager is considering an "aging process" to control bad debts, but is apprehensive of the work involved. At present, he sometimes uses a collection agency to collect overdue accounts.

Records.--The payroll is completed by a store clerk, and all tax reports are processed by the outside accountant. No special prescription records are kept because the informant believes that any inconvenience involved in finding the requested prescriptions is no greater than the work involved in making an alphabetical system daily. With the exception of a very small cash register for processing newspaper and magazine sales, all of the store's transactions are kept on a single cash register and classified as prescriptions, tobaccos, baby foods, sundries, and excise taxes. No departmental gross or net profit figures are calculated. Invoices and expenses are paid in such a manner as to take advantage of almost all discounts. These bills are filed with respect to the date and are taken care of promptly.

#### Personnel

Nature of personnel.--The normal store force on a shift consists of five people, including a registered

pharmacist. This requires an average total force of eight full-time employees. The firm has an extremely low personnel turnover, probably because of salaries slightly in excess of the usual rate.

Selection and training.--The employees are carefully trained by the owner-manager. The informant believes the success of any store lies in the personal selling efficiency of its employees and their ability to please the customers. The owner-manager has recently commenced having store meetings with the employees, with about two meetings a month. At these meetings he and the employees discuss store problems and emphasize means of increasing sales. Occasionally, films are shown or talks are given by store suppliers, who emphasize better merchandising procedures. These meetings appear to be very beneficial and helpful.

Evaluation, compensation, incentives.--Evaluation and compensation of employees are determined by observation and not by any objective procedures. Incentive selling devices are used only rarely and consist of an occasional use of "P. M." items (premiums furnished by the manufacturer). The owner-manager prefers that his employees have previous merchandising experience, preferably in grocery stores.

The owner-manager recently contacted an internal control and merchandising service which checks retail establishments for honesty and efficiency. A long-time trusted employee was discovered to have been taking cash from the firm

and confessed to having taken \$2,500 over a period of three years. It is believed that it was actually much larger than this amount. It appears that this employee, who opened the store daily, was "under-ringing" customers' sales. He also had frequent opportunities to remove cash from the day's receipts, thus bringing the daily cash receipts into approximate balance with cash register totals. One thousand dollars of the loss was recovered from the general insurance policy carried by the store. The employee, who was subsequently discharged, has mortgaged his home to the insurance company, and has agreed to make regular payments to the owner-manager of \$1,500 for his net admitted loss. Thereafter, payments will be made to the insurance company to repay it for the \$1,000 payment made to the owner-manager.

### Finance

Capital finance.--This operation began with the purchase of a small drug store by the present operator with a relatively small cash investment, a sizable bank note, and an equally large second-mortgage note to be paid by an allocation of 40 per cent of the net profit of the store above the salary of the owner-manager. The second mortgage was paid in the first year of operation. The store was moved into temporary quarters across the street while the lessor built new quarters, a building of 4,200 square feet with dimensions of 60 by 70 feet. The business has since been very profitable in the new building.

The owner-manager's principal problem appears to be the allocating of 30 per cent of income for tax purposes, 30 per cent for expansion, and the remainder for personal living expenses. Because of the large amount of financing involved, he must be extremely careful in controlling his purchases and other finances.

Insurance.--In the three years of operation, the store has experienced two burglaries, an armed robbery, and two delivery truck accidents. In one of the accidents, the vehicle was a total loss. The owner-manager is appreciative of the state law requiring workmen's compensation because of the recovery by one of the employees hurt in the accident of sizable payments as the result of injuries.

#### Public Relations

Professional, customer, and employee.--The informant stressed the value of visiting physicians and dentists as often as possible, and giving them home telephone numbers for emergency calls. He emphasized that the most important part of professional pharmacy is to help it survive as such. He believes that each pharmacist has a duty to inform the public of what pharmacy is and how the medical team can assist the community. Good relations with customers are developed by keeping employees informed as to "product knowledge," and by providing customers with additional personal services, including free delivery.

Advancement of pharmacy.--The current problems of pharmacy (price-cutting, socialized medicine, etc.) can be overcome, in the opinion of the informant, by pharmacists joining the pharmacy associations and taking part in them. One of the most valuable benefits received in this area for practical use in this store is from participation in pharmacy seminars sponsored by a large pharmacy school extension service. These seminars are held just before football games at a university and are well attended.

Education.--The informant believes that accounting, management, sales training, and advertising and display courses are helpful to store managers.

(Note: Since this interview the informant has terminated his employment because of a difference in philosophy with the store owner in regard to drug store operation. He stated that he does not agree with the merchandising philosophy practiced in this store, in which the sale of paint and hardware is emphasized. He believes this is degrading in a drug store and takes up room that could be devoted to some line of products that belongs in a drug store. He criticized the selling of cheap products stacked in aisles covering up the good merchandise available to customers. He said that service, product knowledge, and quality merchandise should be stressed. Then, he believes, drug stores need not worry

about discount houses and grocery stores because these outlets cannot offer this type of service.)

## CASE 24

### Nature of the Store Operation

This drug store is the original unit in a local chain of five units. Its annual sales were \$135,000 in 1961, with 40 per cent of them being prescription drugs; 50 per cent, merchandise; and 10 per cent, tobacco sales. An average of about 40 prescriptions are filled per day in the summer and 50 to 60 in the winter. The store has been in operation for many years. The present store manager has been managing this store part-time since the first of the year and recently assumed complete control. The current inventory at cost is approximately \$40,000, and the stock was turned over slightly less than three times last year. Credit sales are encouraged and constitute 40 per cent of the total sales. The store is open for business seven days a week from 7:30 A. M. to 9:00 P. M. The drug chain operates independently. A distinctive feature of this store is the separation of the management of the fountain from that of the remainder of the store through a leasing arrangement.

The store is located across the street from a large general hospital on the corner of a neighborhood area of an expanding city of 38,000 inhabitants. The store was formerly one of the outstanding drug outlets in the city. It is now severely handicapped by the lack of adequate parking space, as the limited parking both in front of the store and on the

side street is frequently occupied by hospital visitors. The presence of parking meters also discourages possible customers. The original building in which the store is located is now rather aged in appearance. Another unit of the chain is located two blocks away in a new medical clinic and siphons off much of the prescription business. The store operates in a community in which competitive pricing both on prescriptions and general merchandise is especially prevalent.

Other disadvantages of this location include the fact that it is located in an older area of the community in which elderly people reside. Apparently, they purchase in small quantities, and it is difficult to sell to them more than their minimum needs. The hospital also permits mobile vendors to sell confections in the hospital, which takes away much of the store business. A considerable amount of sales includes those to medical personnel who are permitted to purchase at a discount which tends to reduce store profit.

Other local stores in addition to the clinic pharmacy are as follows: (1) a downtown store and warehouse on a heavy traffic corner; (2) a suburban store located in a small shopping center on a busy highway at the outskirts of the city; and (3) a suburban store located off a busy highway in a large shopping center near a military base.

The store manager graduated from the School of Pharmacy, Southwestern State College, a year ago, and is very happy with his association with the chain store manager whom

he respects. He stressed the belief that the key to successful store operation is in greeting every customer in such a manner that he feels pleased he has selected this store as a place to trade.

### Merchandising

Buying.--In many respects, part of the buying is similar to that of an independent store. Because of the individual nature of the unit, much of the merchandise purchased is appropriate to this store only. Many drug items are purchased from full-service wholesalers. Those items which can be purchased direct from manufacturers with quantity discounts are purchased by a central purchasing office for the chain and distributed to the individual units. The store is participating in the new volume buying plan on certain fast moving items, sponsored by a national drug wholesaler, which entitles each store to special discounts. Sundry items which do not sell readily in one unit of the chain may be shifted to another unit which can sell this merchandise. Except for small payments which are made for merchandise out of a petty cash fund, all purchases are processed through the central office.

This store, along with the other units in the chain, buys a considerable amount of a certain line of private brand drug merchandise, which permits a high profit margin and is aggressively merchandised. Also, this chain purchases some

merchandise from a private drug manufacturer which is labeled with the local chain name.

Pricing.--The manager reported that pricing is extremely competitive. He indicated that if a customer complains that a competitor is selling a certain item at a low price, he will usually meet that price. Prices are generally determined by the central office. The manager indicated that often competitors engage in featuring "price-leaders" which are retailed at less than cost. He described a situation in which it is almost impossible to appeal to customers on price alone, because of the variety of competition from different types of stores.

Prescription drugs usually carry a margin of 50 per cent of the selling price, while non-prescription drug sales have a margin of about 40 per cent. The manager indicated that it is difficult to maintain a margin of 33 per cent on other goods. Private brand drugs generally have a margin up to 50 per cent. Manufacturers' recommended prices are generally maintained on national brand merchandise.

The manager indicated that the policy on the price of prescription drugs is not adhered to rigidly. He said that the chain store manager and the older pharmacists dispense many prescription items for less than \$1.00. The more recently graduated pharmacists tend to charge higher prices, and the manager related that his minimum selling price is \$1.00. He expressed the belief that the drug store chain

owner could have been better off financially if he had followed different price policies on prescription drugs.

Competition.--The manager gave an account of competition from many sources, including a new discount house, which does not have a prescription department, but features many drug products. He related that various non-drug outlets in the city feature items such as watches, cameras, appliances, and drug products at lower prices than he can obtain these items. Particularly, he objected to the discounting of prescription drug prices, which often returns a lower margin of profit than sundry merchandise. It is apparent that much of the price-cutting stems from an aggressive cut-rate drug store which, for many years, has been very successful in advertising cut-rate prices. A merchandising policy of this cut-rate store includes using as "loss leaders" the products of other types of outlets. He commented that much of the prescription business of this drug store is now going to the nearby clinic pharmacy operated by this chain.

The manager reported that the pharmacy located in the medical clinic operates under a lease agreement which requires a rental payment of 20 per cent of the gross sales; nevertheless, this clinic pharmacy does not increase its prices on the filling of prescriptions. It is apparent that the clinic pharmacy is operated only to prevent more restrictive policies which might be followed if it were under the management of a competitor.

This clinic pharmacy furnishes copies of its prescriptions to this store which can then be distributed to other units of the chain. In this way, prescriptions from this clinic may be refilled by customers at any of the chain outlets, and this procedure materially increases business in the other stores.

Advertising.--Advertising consists chiefly of full page advertisements in the latter part of the week in the daily newspaper featuring specials which are carried in all units of the chain. These ads are prepared by an advertising specialist in the downtown store in cooperation with the chain manager. A requisition sheet is sent weekly to all units of the chain to indicate the merchandise needed.

Small store signs are profusely distributed about the town, advertising the chain name. They are attached to the reverse side of street markers. An agreement with the city permits the chain to furnish the cost of the street markers in return for advertising privileges.

The manager commented that often merchandise is advertised in an issue of the newspaper at a slightly higher price than that of competing stores. He commented that this is embarrassing and should be avoided as much as possible.

Selling.--The manager stressed the importance of personally greeting customers and developing personal relationships between store personnel and customers. He noted the presence of "area selling" in the community in which each

store develops its own clientele. He strives to satisfy the customers in his part of the city.

The manager suggested that other types of retail stores are charging for credit privileges, indicating that he himself is paying a sizable credit charge on a recent purchase. He believes that this may soon become a common practice in drug stores.

The layout of the store appears to be satisfactory, although not outstanding. The manager commented that the chain might utilize a marketing expert effectively to travel from store to store to set up selling displays.

Inventory control.--No control methods are utilized except observation and the use of "want" books by the store manager. Frequently, oversupplies of certain types of merchandise are shifted to other stores in the chain. The manager commented that inventory control is principally a responsibility of the store manager, and that some managers in the chain are more sensitive to the value of inventory control than others.

Services.--Credit is extensively advertised. The manager commented on this aspect of drug store operation, indicating that because of the small amounts often charged, credit constitutes a considerable expense for the average drug store. He indicated that the gross margin of profit in a drug store must usually be higher than that of a grocery or variety store in which "cash and carry" policies predominate.

Therefore, he stressed that drug stores must emphasize convenience and service on many items because of the higher costs involved.

A trading-stamp program recently adopted by this chain has led to greatly increased business in all units of the chain except this store. The manager cannot understand why this store's business is not improved. He related that people in the community are "stamp crazy." He cited an instance of an excess supply of water bottles which cost 49 cents and retail for 98 cents. The price of each was reduced to 50 cents, and still the merchandise would not move. Then the manager decided to give away \$10 in trading stamps with the sale of the water bottles at the original price of 98 cents (ten dollars in stamps cost the store 25 cents). The rush to buy these bottles was so great that the store sold the excess supply and had to order more.

Another effective selling device frequently practiced is the inclusion of a "get well" card in each prescription drug delivered which invites the customer to come into the store and pick up a designated item of merchandise costing about 25 cents. The manager reported this to be an extremely effective device to build up traffic and create good will.

The manager commented that the fountain, which is leased, is not under the direct control of the store manager. He observed that, while this eliminates a major problem in drug stores, dissatisfaction with fountain services and

lunches may create a feeling of ill will which can extend to other departments of the store.

### Accounting

The accounting for the store is done in the local office of the chain. Daily summary sheets of the day's business are prepared by the accounting office from store cash register tapes, credit tickets, and daily cash collections. These summary sheets are sent to the store in duplicate the next day. They contain the departmentalized cash and credit sales, money received on accounts, cash register readings, deposits, and similar data. Accounts receivable are processed in the accounting office. A petty cash fund is provided from which the store makes all cash disbursements.

### Personnel

The manager reported that the employees generally consist of two registered pharmacists and four other employees. The store operates in shift with one running from 7:30 A. M. to 3:00 P. M. and the other from 3:00 P. M. to 9:00 P. M. A shift includes a registered pharmacist, a cosmetician, and a combination cashier and clerk. In addition, the chain maintains a delivery man for all the stores. The manager said his training program consisted almost entirely of his personal suggestions given to store personnel. No store-wide meetings are held for training purposes.

The manager stated that personnel management is the most critical problem in the operation of a drug store. The chain store manager, who was present during part of the interview, disagreed sharply and declared that the principal problem in running a drug store today is in securing and retaining registered pharmacists. The chain manager is obviously disturbed over the fact that he must pay a pharmacist a salary of \$600 a month or more, regardless of his capabilities.

The manager stated that he faces the problem of creating enthusiasm and interest in his employees who are older and more experienced because of mistreatment by the former manager.

He indicated that in frequent store contests in which a 5 per cent bonus is given by the local owner to match a manufacturer's 5 per cent bonus, the girls frequently respond in a lackadaisical manner. He believes that his most critical challenge lies in asserting the proper leadership to regain an atmosphere of pride and respect in store employees. He pointed out that, by having entirely separate employee shifts, he is not faced with internal jealousies which are prevalent in another larger store unit in which the employees compete with each other.

The store manager explained that he did not operate under a contract because of his recent assumption of full management. He reported, however, that a store manager in whom the chain manager has confidence is usually paid a salary of

about \$600 per month, plus 25 per cent of the store's net profit. He said that he believes this is a very fair arrangement. However, he did comment that, because of differences in desirability of store location and resulting profit, he would prefer to be paid a bonus on gross sales rather than net profit.

### Finance

The manager reported that, because of the competitive nature of merchandising practices in this city and other factors, including previous management, his store was making a net profit of less than one per cent of the sales.

### Public Relations

The store provides candy at Christmas time to all departments of the neighborhood hospital, and physicians are presented special gifts. Nurses receive a 10 per cent discount, and doctors receive a 20 per cent discount on front-end merchandise. The manager commented that, since physicians' wives often visit the store more often than their husbands, a special effort is made to recognize them. Doctors are given free cigars and are extended other courtesies. Aside from this, there is little contact with physicians.

At Christmas time, employees are given a \$10 gift. The manager stressed that almost his entire public relations effort is directed towards customers who come into the store.

Advancement of pharmacy.--The manager expressed concern over the cutting of prices on prescription drugs. He believes that, after spending four years in a pharmacy school in training for a profession, he should receive a higher margin of profit on his investment.

The manager reported that copies of prescriptions are not exchanged with two drug stores in the community which cut prices. He related an incident which makes him believe that discount stores sell at reduced prices occasionally only to impress customers, but have no fixed discount policy.

The manager is critical of the recent action of the board of pharmacy in licensing "assistant pharmacists" with no formal training, while at the same time the pharmacy curriculum has been increased to five years. He said that pharmacy laws are not always strictly enforced, but acknowledged that he occasionally is compelled to leave his drug store without a registered pharmacist in charge because of circumstances over which he has very little control. He believes that if pharmacy is to continue to develop as a profession, it is necessary for the retail store to be located in a separate building, the premises of which are controlled by the pharmacist without interference by the medical profession. This is necessary, he explained, to insure the status of the pharmacist as an independent professional man.

Education.--The manager expressed the belief that the practical aspect of drug store management must be learned on

the job under competent supervision. He believes the most important element in store operation to be the acquisition of the necessary poise and personality necessary in working effectively with people. He commented that it is very important for pharmacy students to learn the fundamentals of business through comprehensive management courses. He believes an understanding of the basic theory of management is very essential in giving the students a sound background of basic knowledge. He stressed the importance of management accounting with an appreciation of percentage ratios necessary to successfully operate a business. Also, he emphasized the necessity of an understanding of percentage discounts in arriving at intelligent decisions in regard to quantity purchases.

## CASE 25

### Nature of the Store Operation

This is a chain drug store located in a suburban shopping center in a city of over 40,000 people. Annual sales are over \$200,000, maintained on a merchandise inventory valued at a cost of \$48,000. The merchandise stock has a turnover of about three times annually. The prescription business averages approximately one-third of the total sales with about 40 prescriptions filled daily. Approximately one-third of all sales are charged. The store has been in this location for about four years. Its fountain area is leased to another operator who is in full charge of fountain sales. The fountain area seats approximately 35 people. The store manager graduated from pharmacy school about four years ago.

The store is located in a shopping center adjacent to a well-traveled highway. Each year, sales in this store have increased about \$100 a day. They now approximate \$570 a day, which is 20 per cent better than at the same time last year. The manager reported that this is a favorable location because of the relatively high income of the inhabitants of this section of the city. He indicated that the people who come into the store usually come to buy, which he believes is not true of other stores located downtown or in more populous areas. He reported that most of the customers shop regularly in the store, indicating that he knows more than 75 per cent

of them and can call each one by name. He emphasized that friendliness causes them to return for more purchases. Only one physician is located in the shopping center, and the store is somewhat removed from a medical center; however, the prescription business is relatively good. Because of the high level of income of the people in this area, it is not unusual for a customer to come in and buy \$30 or \$40 worth of merchandise.

The store operates as part of a local chain, including four other retail units and a clinic pharmacy. Buying, selling, and advertising practices of this local chain are centralized and fairly uniform.

#### Merchandising

Buying.--Merchandise for all units of the chain is stored in a basement warehouse of the downtown store. The downtown store is also the center for the accounting control of the chain operation. Merchandise in the basement warehouse is arranged in a somewhat haphazard manner. The drug supplies for this operation are located at the rear of the downtown store, adjoining the prescription shop. Most direct purchases are stocked in the warehouse, including a large quantity of private brand drug products which the chain emphasizes. These private brands include one featured line of products upon which the chain makes a very good margin of profit. Also, the chain stocks certain drug items upon which

the manufacturer prints the name of the local chain. These drug items also carry a higher than average per cent margin of profit.

Merchandise supplied to this store from the downtown warehouse is checked out and charged on an inventory sheet. If this store needs only an occasional item or two of merchandise, it may be purchased from the downtown store and charged on regular sales slips like the customers with credit sales.

No particular inventory is used at this store or at the warehouse. The principal control of the entire operation is a close check kept on the accounts payable to determine how much money is being spent at any given time, and on the annual inventory. Also, visual checks are made in the warehouse. As the store operation is not too closely supervised by the central office management, a great deal of initiative and responsibility is left to the store manager.

The store is supplied by two full-service wholesalers. It participates in a volume buying plan sponsored by one of the wholesalers. The store has joined in the cooperative retailer advertising program sponsored by this wholesaler. The store manager indicated that one of his typical problems concerns a certain cosmetics line which is carried. He said that very often the company introduces some new products which broaden the line, requiring a heavier inventory to be carried by the store. He also said that shipments of merchandise which are not ordered are often received on this line of

goods. He said that it is almost mandatory to carry the line because of customer demand, but much of the merchandise is stacked in the back of the store awaiting a return to the cosmetics company. Full credit is given for returns, but he emphasized that, in his opinion, this is not a businesslike arrangement. He believes the principal task in selling is to determine customer needs and to secure the type of merchandise they desire.

Pricing policies.--The store is located in a competitive pricing area, particularly on front-end merchandise. A long-time cut-rate drug store is located some distance away in the downtown section of the city and, largely because of this outlet, there has been some cutting of prescription drug prices as well as on front-end merchandise. The store operation, however, generally experiences a 50 per cent margin of profit on prescription drugs, and 40 per cent on most other drugs and cosmetics; however, the store manager finds it difficult to maintain a one-third margin on front-end merchandise. He reported that he sets a \$1.00 minimum price on prescription items, but that the drug chain owner and older pharmacists in the chain often dispense 55 and 65 cent prescription items because of a long time practice, which they apparently find hard to change. Recommended prices are generally maintained on standard name-brand drug items.

Competition.--This shopping center chain store enjoys a degree of pricing freedom because of its location away from

any other drug store. There are several low-price stores in the community that sell many product lines which are also sold in this drug store. For this reason, the manager emphasized that it is very difficult to make a price appeal on these lines; therefore, he stressed that he meets competition by emphasizing service and close customer relationships.

Advertising.--This chain carries a full-page advertisement every week which runs from Wednesday evening through Saturday. The selling of private brand goods and front-end specials is emphasized. The full-page advertisement features the offering of specials throughout the four stores. This chain also advertises by means of large billboards, located along principal highways leading into the community, and by maintaining a multitude of street markers throughout the city.

Personal selling.--The head of this chain store operation sets up selling quotas for each store in the chain for special types of merchandise which carry manufacturers' premiums for the employees as selling incentives. These quotas are reasonable and, if reached by the individual store, will reimburse the employees in the store with an extra 5 per cent premium in addition to the 5 per cent furnished by the manufacturer of the goods. This is a team effort on the part of each individual store and results in group participation which stimulates the sales force.

The store is laid out in a neat, efficient manner and carries a large stock of merchandise. The layout is based on

a semi-self-selection principle, with the cash register located near the front of the store and surrounded by an island of merchandise.

Very little inventory control is maintained except that exercised by the individual manager.

Traffic promotion.--This chain has recently adopted a trading stamp program which is proving very satisfactory. Sales have increased markedly since the program began. It appears that many people will be stimulated to buy merchandise if they are given trading stamps. The store manager also believes in providing all possible service to customers in order to increase the store's business. He indicated that small favors, including free cups of coffee and occasional gifts, do much to improve customer relations. He said that, when candy items are outdated, he frequently distributes them to his customers in order to develop good will. This practice costs the store only one-half of the original cash because the company will take the merchandise back at one-half the cost. He also related that at times gift certificates are placed in prescription drug packages when they are delivered, which entitle the customers to come into the store and receive low-priced items free of charge. He reported that this is a very effective merchandising device.

Legal problems.--The owner of the chain has had severe financial problems as a result of the death of his former partner and co-owner. No life insurance and no

continuance of business agreement was made between the two partners. Consequently, upon the death of the former partner, the present owner-manager was compelled to buy his former partner's interest to prevent liquidation of the operation by the widow. This required heavy financing; the operation is just now recovering from the effects.

Also, the owner-manager has underwritten a very large obligation of one of his pharmacists to a full-service wholesaler. Apparently, the purpose was to insure the services of the registered pharmacist, who, in his previous position, had been unsuccessful. Payments on this debt are being made regularly by deductions from this pharmacist's salary. However, it appears that this pharmacist, who is a manager in a unit of the chain, is apparently having difficulty in making his store operation profitable.

#### Accounting

All accounting for the store is centralized in the head office of the chain, located in the downtown store where a full-time accountant is employed. Each day the store manager places the store's money in a sack, along with cash register receipts, credit tickets, and other data relating to the day's business, and forwards it to the chain office. The chain store accountant then tabulates and rechecks this information and prepares a daily record summary and forwards a carbon copy to this store the next day. This constitutes the

principal bookkeeping with which the store manager is involved.

The store accountant makes yearly statements. If emergency data on the store's operation are needed, the accountant is able to furnish this information within a very short time. He also provides a report to all store managers every ten days, comparing the store's performance with the same 10 days of the preceding year. Thus, it is made obvious to the store manager how the store's operation is progressing. If the sales are down, it is marked in red ink; if the sales are up, it is marked in black ink. The store manager reported that this is very effective in encouraging improvement in the store's performance. Accounts receivable credit tickets are prepared in triplicate; one copy is given to the customer, one is retained, and the third is forwarded to the central accounting office where it is posted to the customer's account. Statements are mailed to customers from this office on the 28th of each month when the books are closed. All payroll and tax reports originate in the central accounting office.

Each prescription drug dispensed is recorded in a prescription file. No other prescription records are kept.

The store operates four principal departments; a fountain, tobacco, merchandise, and a prescription department. A camera department is a feature only of the downtown store. The fountain is leased for 10 per cent of the gross sales,

with the chain management furnishing the necessary utilities. All other expenses are taken care of by the fountain operator. Fountain receipts are included in the store's receipts, which are processed in the central accounting office and then returned in one daily payment to the fountain department after 10 per cent is deducted.

### Personnel

The store is operated in two shifts. One shift runs from 8:00 A. M. to 3:00 P. M. and the other from 3:00 P. M. to 9:00 P. M. The store is serviced by one registered pharmacist (in addition to the manager). A delivery man serves all units of the chain. Also, the store manager employs delivery boys whom he pays 30 cents per hour to deliver prescription packages in the immediate area.

The store manager indicated that employees must be friendly and neat to be successful. He believes that an efficient clerk must also know the store merchandise in order to be able to sell. He emphasized that there are a great many products in a drug store and efficient selling requires both ability and interest in learning about the merchandise. He reported that it is generally a problem to stimulate employees to take a real interest in their work.

The manager related that he is paid a salary of \$600 per month, plus 25 per cent of the store net profit. He also said that he has a private five-year agreement with the chain

store owner, whereby he is being allowed to have an option to buy the store. According to the agreement, 80 per cent of his 25 per cent interest in the store profits is deposited in a trust fund to be used if he wishes to exercise the option to buy the store. If the chain manager should, for any reason, decide to sell this store, along with the other stores, he has made an agreement to reimburse the manager with twice the amount of money which exists in the trust fund at the time of the sale. The store manager seemed pleased over this arrangement. It is going to be possible for him to own a large modern store within ten years after his graduation from a pharmacy school.

The store manager repeated that, on certain types of merchandise, clerks are paid manufacturers' "P. M.'s" (generally a 5 per cent reimbursement of the selling price) in addition to local store "P. M.'s," which are set up to reward the employees whose selling quotas are met. According to the P. M. plan, if a P. M. is furnished by a manufacturing company, the chain manager will set up quotas for each particular store to meet. If these quotas are met, he will match the manufacturers' 5 per cent incentive with an additional 5 per cent of his own to spur the employees to better salesmanship. He reported that generally this plan works very well. When two women in the cosmetics department are on the floor competing for P. M.'s at the same time, friction sometimes may develop between them. This is a disadvantage of incentive

selling. The store manager indicated that personnel management is the principal concern of a drug store owner.

### Public Relations

The store manager reported that only one physician maintains his office in this center, but that considerable business is received from physicians' wives who live in the area. He treats them with the greatest of courtesy. He mentioned that doctors and their families receive a 20 per cent discount on merchandise. This firm also allows employees to purchase merchandise in the store at the cost price.

Advancement of pharmacy.--The manager of the store participates in the usual professional organizations. He is the present leader in his district of the state pharmaceutical association. The owner-manager of the chain has been president of the association. Also, he is an active leader in civic groups and in his church. Because of the civic activities of the chain owner, this phase of community work is not a major activity of the store manager. All managers in the chain, with the exception of the one in the clinic pharmacy, are members of the national drug retailers association. He believes the principal concern of the retail pharmacist is to serve his customers effectively.

The store manager believes that it is desirable to participate in community activities. However, time spent in the store, he believes, is much more valuable to the store's

success than community work. He believes that, in a community of this size, community activities play a very small part in the success of the store operation.

The manager indicated that service and friendliness determine success or failure in the drug business. He indicated concern that pricing policies followed by a cut-rate discount house in the city appear to give the impression of low prices when its over-all prices are actually much higher than they seem to be. He cited a case in which a doctor telephoned him a prescription which was filled and sent to the individual concerned. The individual would not accept the prescription and notified his physician that he would buy only at the cut-rate store. Thereupon, the doctor telephoned the prescription to that store. When the customer went to get the prescription drug, he found that it was priced only a few cents below the price at which this pharmacy had priced it. The customer then refused to take the prescription from the cut-rate store and came to the store where the original prescription had been filled. The manager believes this illustrates the faulty conception that people have of discount house pricing policies.

The manager looks with favor upon the new five-year pharmacy curriculum and believes that it will advance the professional standing of pharmacy. He also emphasized that it would have been very useful to have learned more about management in a pharmacy school and believes that management

subjects should be included in the pharmacy curriculum. He said that the main element of success in retail pharmacy is the ability to get along with people and understand human relations.

The store manager pointed out the economic necessity of the pharmacist to assume management responsibilities in operations of this kind. He indicated that, with comparatively high pharmacists' salaries, it would be an impossibility in a small store to pay both a professional business manager and a pharmacist. Because of this fact, he believes there will always be good opportunities in store management for pharmacists, and consequently that management training is necessary.

## CASE 26

### Nature of Store Operation

This is a chain drug store with over \$270,000 in annual sales, located in a metropolitan city of over 324,000 people. The store is a unit of a former local chain which consisted of 16 stores. Recently, the chain was sold to a larger chain drug and manufacturing company which presently operates over 80 retail units. This large chain has also purchased another chain of three drug stores in this city which was formerly a part of a national cut-rate operation. One of these three units is in a particularly large shopping center in a suburban area, and another is a long-time downtown volume store.

This store has been in operation for many years under the former chain management. The new ownership has been in control only about six months.

Merchandise inventory and turnover data were not reported by the store manager. Prescription drug sales constitute 20 per cent of the total store receipts, averaging about 40 prescription items a day. Some credit business is done with charge sales representing 10 per cent of the total sales. The outstanding accounts receivable are between \$4,000 and \$5,000. The fountain department represents 20 per cent of the total sales.

The store is located near the center of the business district in a mid-town medical center surrounded by several very large hospitals and a number of medical clinics and prescription shops. In former years, this part of the city was more prominent than it is today because much of the downtown business has migrated to shopping centers.

The store is a unit of what was at one time a prosperous local chain operation which has been well-known throughout the metropolitan area. Upon the death of the former owner, his son attempted to continue the operation. The son, who is not a registered pharmacist, apparently experienced difficulties in running this large chain. It was reported by the present manager that, upon assuming control of the chain, the son is said to have discharged much of the former personnel which his father had employed. This action apparently worsened the situation. This year, for financial reasons, the entire chain of 16 stores was purchased by the present owners, who have established a new store policy. Included under a common store policy are the three units of the cut-rate national chain which have been integrated into this group which now consists of 19 stores operating as a unit under the former name of the local chain. The new owners are maintaining recommended prescription pricing policies. Much of the merchandise in this store, and in other units now in the chain, is of a private brand name, which is furnished by small drug manufacturing companies in which the owners of this chain

hold considerable or controlling interests. It appears that this drug chain also has a controlling interest in companies which produce cigars, toys, and plastics, in addition to a chain of drug stores in the eastern part of the United States. The major part of the merchandise in these stores at present is shipped by truck from the state of Rhode Island. A local warehouse which formerly supplied this chain operation has been closed. Apparently, it is cheaper to move merchandise by truck from one very large centralized warehouse than it is to maintain a local warehouse.

Under the new management, it is apparent that business has dropped off slightly. It appears that the store policy has been changed in regard to front-end pricing, and prices have been raised slightly. This action has resulted in less volume but a greater profit for the entire operation. It appears there may be some local resentment of the eastern ownership of these drug stores. It stems particularly from the practice of billing local customer charge accounts directly from headquarters in Rhode Island. Also, certain services, including delivery service, have been restricted in the interests of greater economy.

The manager commented that under the new set-up he is receiving much more management help and direction than he did formerly under the former ownership. The present owners from the East have retained a local manager who supervises the entire present chain. All units of the local chain of 19

stores now operate under the original name of the local chain, of which this store was recently a part.

The general objectives of the manager are to make a profit for both the company and himself. He reported that he is interested in getting chain store experience, and that some day he intends to own his own store.

The store is open from 7:15 A. M. to 10:00 P. M., 360 days a year. The store is crowded and rather old, with fixtures slightly out-of-date; generally, it presents a cluttered appearance. It is generally known that the new management will soon undertake a modernization program, which has already been begun in one local unit of the chain.

#### Merchandising

Buying.--As stated previously, most of the front-end merchandise and many drugs are shipped from Rhode Island by the trucking service which this operation maintains. However, very few pharmaceuticals for the prescription department are brought in from the East. These items are furnished locally by two full-service wholesalers. Most of the business is done with a national drug wholesale firm which maintains a volume buying and advertising plan in which this store has not yet participated. The manager reported that he has not yet had time to investigate the plan, and when he becomes familiar with it, he might participate in it. This store purchases direct from three national drug manufacturers, in

addition to the local purchases from full-service wholesalers. The store manager reported that he is not personally concerned with discount and turnover policies because most of the store policies in this regard are determined by the central management.

Pricing.--This store and others in the local chain are not engaged in a cut-price operation. The managers strictly adhere to the recommended pricing policies. Most national brand goods in the front-end are priced according to the recommended prices published in a national drug manual. The interest which the present ownership has in small drug and sundry manufacturing firms results in the stocking of much private brand goods which gives much of their merchandise a greater price appeal; however, on national brand goods the recommended prices are generally followed.

Competition.--The store manager reported that, because of being located in this large medical center, he experiences considerable competition from clinic pharmacies. He indicated that this competition was not one of price because nine out of ten drug stores in this metropolitan area follow the recommended prices. Many clinic pharmacies charge even higher prescription drug prices. However, the manager did indicate that it appears to him that physicians are interested in making a profit from pharmacies in clinics in the area. He believes that many of the physicians are involved in rental agreements whereby they either receive a certain

percentage of clinic pharmacy sales or they receive rebates from pharmacists who operate these clinics. It appears to be a widespread belief of the pharmacists in the area that clinic pharmacies engage in compensating doctors for prescriptions which are sent to their particular clinics. The informant apparently believes that he has proof of this arrangement; however, he failed to report any particular instances. He believes that the situation in which doctors have a financial interest in clinic pharmacies will get worse than it is at the present time. When asked if he would participate in operating a clinic pharmacy in which the doctors demanded a lease agreement based on a percentage of the sales, he replied that he would be inclined to accept such a proposition because of the attractive profit to both the physician and the pharmacist.

The informant reported that, although there are discount prescription operations in the metropolitan area, they are located some distance away, and he is not aware that they particularly affect the sales in his store. He reported, however, that he believes these discount operations are violating the ethical codes of the pharmacy profession. He apparently feels that certain pharmacists in the discount houses substitute drugs in the dispensing of prescription items. He also believes that they do not follow the pharmaceutical practice of charging the original price on a

prescription drug when a copy of the prescription is presented for refilling.

The informant indicated that the store meets all types of competition by stressing personal service and attempting to establish close relations with customers. Apparently, most drug outlets in the city have not found it advisable to cut prescription drug prices as a method of competing with the discount houses.

Advertising.--The principal advertising undertaken by this chain is a double full-page advertisement which is run each Wednesday evening in the metropolitan daily newspaper. Each advertisement features items such as paper tissue, diet foods, private brand drugs, and general type merchandise. It appears that the newspaper is the most advantageous type of advertising for a chain of drug stores which blankets the city. No other advertising effort at the present time was reported.

Personal selling.--Since this store is furnished with older fixtures and has a somewhat "dated" appearance, most of the store service involves clerk assistance, rather than self-service. Three cash registers are maintained in the store; one at the fountain, another at the cosmetics counter, and a third as a general cash register maintained in an island location near the main front door. The store manager indicated that he is receiving some supervision of the store layout and

display, but that for the most part he controls the store operation.

Inventory control.--The manager maintains a very tight control of the merchandise stock. An inventory of the store is taken every two weeks from a standardized stock list which contains every item in the store. The store is divided into two parts, labeled Part A and Part B, and every other week each department is inventoried. This type of inventory which is forwarded to chain headquarters is apparently necessary for the management to control merchandise shipments by truck from Rhode Island, although the contents of most shipments are determined by the local manager. It appears that inventory control is a very important factor in this new operation. No other form of dollar control of inventory was reported.

Services.--The store specializes in personal service. Credit is established by having the customer complete a credit information form which is forwarded to the head office.

The manager believes that the soda fountain provides a very desirable service to the medical personnel in the area. He said that he is furnished window banners in order to increase traffic in the store, and that he has neglected to make much use of these banners. It appears that this operation has ceased using "loss leaders" and gifts at the soda fountain in order to increase traffic. Services which this unit offers include delivery service on all prescription drugs

and all merchandise purchases which amount to more than \$2.50. A public telephone is maintained in the store for the convenience of the customers.

It appears that the former chain's policy of having a delivery vehicle for each store has now been changed, and four delivery vehicles service the entire chain of 19 stores. A popular service which this store maintains is the purchase by doctors of fountain tickets which are given to their younger patients in order to build good will. These patients come into the store with the tickets, entitling them to receive free ice cream cones, drinks, candy, and related items.

#### Accounting

The principal accounting service which involves the manager is the daily financial report. The daily receipts in the store are divided into three principal departments, including the soda fountain department, the cigar department, and the drug department (which includes sundry merchandise). This unit operates with three cash registers; one located in the fountain area, one in the cosmetics department, and one general register on which all other types of merchandise, including prescription drugs, are processed. The drug sales are departmentalized into four departments.

The daily cash report includes the cash register readings for each department, and "shorts" and "overs" for each cash drawer. This report is recapitulated to provide

the net cash sales for the day, adjusted for net over-rings and refunds. The balance is then adjusted for "shorts" and "overs" and added to the sales on account items to obtain the total store sales. Charge sales are then deducted to get the net cash receipts, and the bank deposit is deducted to give the net cash on hand in the store. This daily cash report is sent daily by air mail to the home office.

All accounting is done in the head office in Rhode Island. With the exception of a petty cash fund, all invoices are processed and paid at the head office. This procedure creates a delay in cash and salary payments and is slightly cumbersome.

The store manager checks all merchandise inventories against the suppliers' statements and mails these bills to the central office for payment.

Accounts receivable.--Charge sales are processed in triplicate; the customer receives one copy, and two copies are retained by the store. One of the store's copies is mailed to the head office in Rhode Island where the account is processed. The other carbon copy is retained by the store for financial control. All customer statements are mailed from Rhode Island. The customer can pay his bill at the head office in the East, at any of the local chain stores, or at the No. 1 store in this city.

The store manager reported that apparently many customers in the metropolitan area resent being billed from

Rhode Island rather than from the local area, and charge accounts have fallen off in the new store operation. Most customers apparently prefer to be billed locally. Records of all prescriptions, including both cost and retail information, are kept in the prescription department and also constitute an item on the daily cash sheet which is mailed to the head office. The date of each prescription is included on the prescription record, as well as the number, the name of the prescribing physician, whether it is a refill, and the cost and the retail price. It appears that, by recording the cost and the retail price of each prescription drug, more adequate daily control is maintained in reference to prescription drug income and expense; however, this involves a slight increase in paper work. Also, copies of daily prescription records are useful in checking customers' prescription drug purchases, either in reference to insurance claims or if copies of the prescriptions are desired. No alphabetized list of prescription customers is kept. If the customers do not remember the number or date of a particular prescription, considerable time may be necessary to locate this information.

#### Personnel

This store operation is conducted in two shifts with one group of employees working from 7:00 A. M. to 3:00 P. M. and another from 3:00 P. M. to 10:00 P. M. Approximately 20 to 25 employees are utilized with 10 to 12 working on each

shift. One registered pharmacist is used in addition to the manager. Department responsibilities are delegated to the personnel and each employee has definite duties in regard to cleaning, inventorying, receiving, ordering, and selling merchandise in his department. Employees wishing to work for this firm are required to complete a detailed application blank upon which the recommendation of the store manager is placed before it is sent to the head office for approval.

The manager reported that no store meetings are held with the personnel, but that individual supervision is the chief method utilized to improve employee efficiency. The employees working in the cosmetics department are regularly sent to cosmetic schools. Occasionally, certain drug representatives will carry on training programs for the personnel concerning their particular lines of products. Premiums for moving merchandise are stressed, and the average employee earns up to \$10 per week in premiums. Contests, however, are not often held between employees. Internal control and merchandising control are stressed through the employment of two different internal control and merchandising services which verify the honesty and merchandising ability of the employees. Merchandising efficiency at one time was stressed, but it appears that the chief service now provided is an honesty check. All employees are bonded. The store manager reported that the soda fountain constitutes his biggest problem, and he

indicated that, although there is a fountain manager, this particular person requires considerable help.

Securing and retaining capable employees are the chief management problems, according to the manager.

### Public Relations

Professional, customer, and employee.--The manager reported that most physicians in the area use clinic pharmacies to whom they send their prescription business. The manager indicated, however, that many customers prefer to patronize this establishment. Furnishing prescription blanks for physicians is not practiced in this area. Very little contact other than by telephone is maintained with physicians. Physicians patronize the soda fountain to a great extent and also encourage their children patients to do the same by obtaining for them special fountain tickets. Physicians are furnished their drugs at cost plus 10 per cent and are entitled to buy front-end merchandise at a 20 per cent discount. Customer relations are developed by the emphasis of personal service.

Advancement of pharmacy.--The manager reported that he does not belong to the county pharmaceutical association and has never been invited to join. Apparently, the independent druggists in this area look with skepticism upon a chain operation. He believes that community activities are not an important part of a pharmacist's duties. He does not have

much opportunity to publicly display leadership in advancement of pharmacy in the area. He indicated that this chain operation probably surpasses most operations in the community insofar as observing the ethics of the pharmacy profession. He repeatedly stressed a personal concern over the recent increase in doctor-owned or controlled clinic pharmacies, indicating that he believes that when doctors have financial interests in the clinic pharmacies they are apt to over-prescribe medicines in order to make a greater profit on prescribing drugs to their patients.

Education.--The store manager indicated that he sees little need for additional general education in the pharmaceutical curriculum because of the necessity for specialized courses. He reported that he has received very little benefit from his management courses in school because he did not, at that time, have an appreciation of the merchandising problems which he would face. He indicated that students cannot realize the importance of management subjects until they are faced with actual problems. He believes one of the most important educational aspects in pharmacy training is the practical experience requirement; however, he indicated that much remains to be done to make this practical experience effective. He recommended that the internship period be required after graduation from a pharmacy school. In carrying out the internship program, he believes the school should work with drug store owners. He indicated a great need for a knowledge

of management but was skeptical of the ability of the school faculty to teach effectively in such areas as advertising, salesmanship, and related courses. He suggested that the most effective method of doing this is by utilizing the services of people in the drug business who are skilled and experienced in merchandising procedures. This is presently accomplished by having occasional lectures, exposing the students to the opinion of experts in their fields.

## CASE 27

### Nature of the Store Operation

This is a neighborhood chain store with annual sales of about \$124,000 and a merchandise inventory of \$41,000. The merchandise turnover is approximately twice a year. Prescription drugs account for approximately 50 per cent of the sales, with 33 per cent in the sundry department and the remaining 17 per cent in the tobacco department. Charge sales are encouraged and constitute 25 per cent of the total. This store has been in operation for many years but has been in its present location only two years. It is a member of a local chain of eight drug stores; however, most of these units operate independently, and there are very few coordinated policies or practices between the operations. The store operates in conjunction with a professional prescription shop which is located on separate premises. The over-all manager of this two-store unit is the manager of the prescription shop. It is an agency store of a national drug supplier.

The store is located in the downtown business district of a suburban area which is a considerable distance from the center of a metropolitan city of over 324,000. It operates in many ways like a typical downtown drug store in a small community.

When the store was located here about two years ago, after moving from another location, it was extensively

remodeled and business has been increasing. Apparently, except for a drug store located across the street, this store experiences very little competition in the immediate area. The store stresses customer convenience and service, including credit and delivery. This store does not have a soda fountain. It is a practice of this local chain not to include soda fountain operations in the drug stores, although they are general type stores. The assistant manager reported that a fountain seems to be unnecessary, as business is good without it. The store does maintain a machine which dispenses soft drinks and also carries packaged ice cream. The assistant manager, who graduated from pharmacy school about two years ago, was the person interviewed. He is a young and enthusiastic pharmacist.

#### Merchandising

Buying practices.--The store is supplied with much merchandise by its national agency supplier. Also, it participates extensively in a volume buying plan of a local wholesaler. Since the store operates in conjunction with a prescription pharmacy, direct buying is often done in conjunction with this prescription shop; however, with this exception, almost all purchasing for the store is done independently, even though it is a unit in a chain of eight stores. The informant indicated that the store volume is generally sufficient to receive maximum discounts on direct purchases,

and therefore chain coordinated volume purchasing does not seem to have any advantages.

The management also purchases a small volume of merchandise from a retailer-owned cooperative located in another state. A feature of this plan is the absence of sales representatives, as well as of credit. Also, freight charges must be paid by the buyer. Because of this procedure a large amount of merchandise is not purchased from the source just mentioned, even though it may be obtained at a 10 per cent discount.

The informant reported that the turnover of merchandise in the store appeared particularly low because of the one-cent sales policies of the national drug supplier which enables them to restock a considerable amount of this supplier's private brand goods twice a year at very low prices. Daily service is available from two full-service wholesalers in the area which makes it unnecessary to maintain a large amount of pharmaceutical stock. The informant indicated that he watches for special deals in merchandising and will purchase in volume when he deems it is advisable.

Pricing.--The informant reported that the store follows recommended prices on prescription drugs. Also, most front-end merchandise is marked at recommended prices which are established by a national drug manual. No effort is made to be particularly competitive. One other drug store in the area which is located across the street is the chief

competitor. Efforts are made to check on prices, particularly on prescription drugs, so neither store will be engaged in undercutting prices. All merchandise is priced by a marking machine which indicates the date the merchandise was purchased, the name of the supplier, the wholesale price in code, the name of the store, and the retail price. The machine is particularly advantageous with the marking of volume purchases.

Competition.--The informant reported very little competition in the area with the exception of the neighboring drug store. He indicated that the relatively isolated position gives considerable pricing freedom. However, he did remark that, in this area located some distance away, a new discount house is being established which will utilize an area of 90,000 square feet. He indicated that the discount house has not yet secured a manager for its prescription shop, and that, according to friends who had been interviewed for the position, the prescription drug policy will be to have a lower price than anybody else, even if it is necessary to sell merchandise at cost. This operation is relatively free from competition of pharmacies in clinics, and it is also free from discount price competition because of its location.

Advertising.--The informant reported that this store advertises very little. The chief advertising consists of handbills distributed twice a year for one-cent sales. For this sales event, 6,000 handbills are distributed throughout the community. Approximately twice a month, an advertisement

is placed in the local weekly newspaper. A few specials are featured which include mostly front-end and private brand merchandise.

Personal selling.--The informant indicated that a definite effort is made to please the customer. He observed that, in many cases, selling is not necessary because of the personal relationships established with the regular customers. He pointed out that, in these instances, selling consists principally of meeting the needs of the customers when they come into the store.

The prescription department, which was installed about two years ago, was furnished by one of their full-service wholesale suppliers which supervised the entire project. It appears to be very modern and acceptable, except that the informant said that he did not like the all-white color.

Inventory control.--Inventory control is achieved by the dating of the merchandise when it is purchased and by personal observation. Under the new volume buying plan, it is possible to keep the inventory order sheets of this source and, at the end of the year, determine which merchandise has been moving and which has not.

The informant indicated that the cosmetics department is inventoried once a month, but that this is the only department in which an attempt is made to maintain inventory control. He stated that one of the principal buying practices is not to purchase over a 60 to 90 day supply of merchandise

except on products purchased from the national agency. The informant was definite in stressing that one of the major problems in an operation of this kind is in the inventory control.

Services.--The manager emphasizes delivery and credit services which he believes cause a marked increase in the business. He also spoke of the benefits of a "welcome wagon" program which the merchants in the area maintain. New residents are given gift cards, which they are invited to exchange for fever thermometers, shampoo, or similar items. It appears to generally please the customers and results in obtaining increased prescription drug business. The policy of the store on delivery service is to have free delivery on all merchandise orders of \$2.50 or over.

#### Accounting

A daily data sheet is prepared which is forwarded to the central accounting office of the chain once a week. This store and the prescription store are operated as separate units, and an accountant is engaged to supervise the bookkeeping. A feature of the store's operation is the arrangement of the customers' ledger cards alongside the cash ledger. When a credit sale is made, the card of the customer is inserted in the cash register. When the sale is rung up, the ledger account is posted. This appears to be a very efficient system with one disadvantage. Because of this posting

process, the prescription numbers cannot be retained on the ledger accounts unless they are entered at the time of the sale.

The store utilizes an alphabetical prescription record which aids in securing information for tax deductions and insurance. It consists of an alphabetical file in which all prescriptions are entered according to the customers' names. Also, when this particular page is full, it is transferred into another book which constitutes a master summary. The informant reported that it takes an average of 30 minutes to one hour to prepare the income tax information for a customer. He stressed, however, that this is an indication of the service which the small pharmacy can provide for the customer which is not furnished by discount houses or other large scale outlets. All payroll and tax reports are handled by the accountant. Once a week, all invoices, along with supplier statements, are forwarded to the central accounting office after they are verified.

### Personnel

The store operates with two registered pharmacists and five additional employees. Generally, three of these employees are clerks and two are boys who deliver, clean, and wait on customers. At least four people are on duty in the store at all times.

Employees are compensated partly by the use of promotional premiums which offer rewards to employees for moving certain types of merchandise, including cosmetics. They generally earn \$10 to \$15 per month on this type of compensation. The informant reported no particular personnel problems. Employees are generally paid the customary rate of \$1.25 per hour.

### Finance

The informant related that the operation presents an interesting contrast between a prescription shop and the general type drug store in relation to investment and operating cost. In comparing the store operation, he related that this store does \$124,000 worth of business on a \$41,000 inventory; in contrast, the associated pharmacy professional prescription shop located on separate premises does \$121,000 worth of business on a \$20,000 inventory. Thus this store, although profitable, makes less than one-half of the percentage of profit on the investment as the professional prescription shop. The reasons are because of the high overhead expense in the general type store and the greater investment required. The informant related that he does not believe, however, that small prescription shops are feasible as one-man operations. He indicated that the most this small type of operation could expect would be around \$60,000 in sales, and because of the

necessary limited hours of operation, it would be very difficult to make it profitable.

### Public Relations

The informant reported that physicians were furnished both drug merchandise and front-end merchandise at cost. No close associations have been established with physicians in the area. He mentioned that the doctor for whom the most prescriptions are filled is a woman physician whose office is located around the corner from the store, but whom he has not seen in the several months that he has been working in the store. However, he talks with her often on the telephone. He commented that when she telephones a prescription she appears to prefer the store across the street.

Advancement of pharmacy.--The informant belongs to the usual professional associations. He indicated, however, that participating in community activities is difficult; consequently, he has not had the opportunity to become better acquainted with the people in the area. However, he reported that his manager was insistent that all the employees take a public speaking and memory course which he believes is very helpful in developing the proper attitude by pharmacists in a retail operation. He is not directly concerned with any of the current problems with which his pharmacy is faced. This outlet apparently has no particular problems, and the

informant is not aware of injury to the operation by any of the reported unethical practices in pharmacy today.

Education.--The informant feels that there is no particular need for expanding the general education program. He believes there are technical courses in the pharmacy curriculum which are more important.

The informant believes that pharmacy education should be of a more practical nature, and that it should include more training in procedures for those who wish to own stores and operate them. He thinks a valuable part of the pharmacy program is to have experienced speakers in the drug business come into the pharmacy school and relate their practical experiences to the students. He said this was done when he was in school, and he received a great deal of benefit thereby. He emphasized that this should be done for students who are seniors who will soon be faced with practical problems in their work. Although he is not concerned with accounting practices, he, nevertheless, expects to own his own drug store sometime in the near future. He believes also that courses in accounting are very practical. He appears to be satisfied with the business administration curriculum except that he feels that not enough emphasis is given to it.



Nature of the Store Operation

This is a professional prescription shop with 90 per cent of its sales in the form of prescription drugs. The establishment has been in operation for approximately eight years with annual sales of \$150,000 in 1961. The current inventory at cost is \$26,000 and the stock is turned over regularly between four and five times a year. Credit sales are encouraged, and approximately 50 per cent of all sales are for credit. The accounts receivable outstanding vary between \$7,000 and \$8,000. Almost all merchandise carried is related to the professional pharmaceutical function of the store.

This shop is located in a relatively new building situated across the street from a large hospital. Its position on the corner of a main thoroughfare and adjacent to both a medical clinic and a dental clinic is ideal. Another professional pharmacy is located some distance away on the main thoroughfare. This hospital area is servicing a city of approximately 7,700 people, as well as providing hospital care for the surrounding communities. The city is the principal trading center in its part of the state and attracts trade from a wide area. A large shaded and protected drive-in window serves many of the customers. The majority, however, prefer to enter the building, except in bad weather. Parking space is plentiful, both in the front of the store and the

rear. The pharmacy is open from 8:30 A. M. to 7:00 P. M. except on Sundays.

The pharmacy is modern and functional in its arrangement, with merchandise displayed at low levels for the convenience of the customers. A unique office arrangement locates the office adjacent to the cash register check-out desk. The office is separated from the store by a large green-tinted window with one-way vision which permits the owner-manager to view the customers and employees, but does not permit them to see him.

The owner-manager is attempting to maintain a strictly professional prescription shop with high standards of professional service. A studied attempt is made to keep abreast of new developments in drugs and to establish the pharmacy as a place to which the medical men in the community can refer for professional advice. The owner-manager has had extensive experience in conventional retail drug stores, as well as experience in a smaller prescription pharmacy which he previously owned, in a downtown location in the same community. He emphasized that his principal interest is in maintaining and increasing his prescription business, and that the related products in the front of his pharmacy are there for his customers if they want them, but that he is not particularly interested in increasing their sales.

Merchandising

Buying.--This pharmacy is supplied principally by two independent full-service wholesalers and by direct purchases from manufacturers. The owner-manager does not enter into any cooperative buying plan and expressed a desire to remain independent. He commented that, because of the wide variety of drugs and the tendency of different drug outlets to carry different drugs, it would be very difficult for a cooperative buying plan to function well for him, although he does see some advantages in cooperative buying of "up-front" merchandise. He remarked that he has ceased buying from a certain full-service wholesale house because of the failure of one of its executives, in his opinion, to adequately defend the profession in a national congressional drug investigation.

Pricing.--The owner-manager indicated that he follows non-competitive pricing policies and is interested in increasing his business through professional services rather than through price competition. He stated that it is very essential that all merchandise be marked at cost price in code, both in the prescription department and in the front of the store. He emphasized that this procedure aids in inventorying merchandise as well as in furnishing a check on the accuracy with which the marking is done.

Competition.--The owner-manager disclosed that most of his competition is ethical, with the exception of a neighboring professional pharmacy which he believes to be

associated with a physicians' clinic with a financial interest in the pharmacy. He related that he had been offered the management of the pharmacy by the clinic on a basis of 20 per cent of the gross sales in lieu of rent. He stated his opposition to any collusive agreement between doctors and pharmacists as being unprofessional and not in the best interests of the public, the pharmacy profession, or the medical profession.

As this community is located a great distance from any metropolitan area in which discount houses generally operate, the owner-manager indicated there is little competition of this type. Generally, he reported the area to be free from price-cutting competition. He did state that a very perplexing problem existed in the area in regard to the dispensing of prescription drugs without a doctor's authorization. He said that he is faced with a very competitive situation and is concerned whether pharmacists can, in all cases, resist such pressure since individual customers have asserted that they have been able to buy without prescriptions in other drug stores.

Advertising.--The pharmacy is distinguished by a large illuminated billboard featuring the owner's name and business. A considerable amount of advertising is done on the radio and in the newspaper. In this advertising, the prescription department is featured with accompanying emphasis at different times on auxiliaries such as diabetic

candies, non-allergic cosmetics, surgical or baby supplies, and brace-fitting services and supplies. Generally, the advertising features a professional type of greeting such as "Good Wishes from Your Professional Pharmacist" rather than merchandising advertisements.

Selling.--The owner-manager emphasized that, in a professional pharmacy, there exists a great amount of related selling of companion type merchandise which a pharmacist can effectively promote. He described this and other selling techniques as constituting never-ending training responsibilities on the part of the owner-manager. His front-end merchandise is attractively displayed for self-service. The cashier's location, facing the drive-in window and in close proximity to the prescription department overlooking the store, promotes the self-service aspects of the store. The entire layout of the pharmacy emphasizes the professional aspects of pharmacy, including a gold model of the pharmacist's scales, and two apothecary "show globes," pictures surrounding the pharmacy depicting the history of pharmacy, licenses prominently displayed, and other manufacturer displays featuring various insignia which are symbols of pharmacy.

Inventory control.--The owner-manager expressed the belief that adequate inventory control can be implemented by utilization of help from suppliers' representatives who call on the pharmacy. By using previous purchase orders and

checking stock with the owner-manager, a reasonable check on most lines of merchandise and drugs can be maintained.

Services.--The drive-in window provides a great convenience for customers, as does an abundance of parking space. Emergency 24-hour prescription service and delivery service are greatly appreciated by many customers, according to the owner-manager. He also makes a sustained effort to maintain complete information on drugs for doctors who request this service. Credit accounts are valued by the owner-manager, but they present a continuous problem of collection. He expressed the belief that the recent establishment of a small-claims court is increasing the ease of collection without the excessive costs often previously encountered. He has promoted a rather extensive business in selling and fitting braces and supports and travels to nearby towns at designated times in rendering this service.

Legal problems.--The building is owned by the owner-manager. He stated that in all his drug store experience he had never filed an insurance liability claim until recently when a customer slipped on a slick spot on the pavement in the drive-in runway and suffered a minor injury.

#### Accounting

Financial statements.--Financial statements are prepared once a year by a professional accountant who prepares the owner-manager's income tax return. All bookkeeping data

are kept by the owner-manager's wife, who keeps the books according to a system designed by a professional accountant. A cash payments journal is kept for all checks written, designating the type of expense. Another journal consists of a daily summary of cash register data and "paid outs."

Accounts receivable.--Credit sales slips are prepared in triplicate. Credit accounts are kept in a large alphabetical loose-leaf ledger in which charges and credits are made daily by the owner-manager's wife. The owner-manager personally checks the accounts receivable with the control account at least quarterly and makes notations of questionable accounts which he enters in a personal notebook. These accounts are personally collected by the owner-manager.

Auxiliary records and reports.--Payroll records and tax reports are prepared by the owner-manager's wife. No alphabetical prescription records are maintained, but the owner-manager reported he is considering beginning this type of record to facilitate the location of prescription numbers when the customer has lost the original container. Sales are departmentalized into prescription drug and other drug sales. All bills and expenses are paid promptly in order to take advantage of cash discounts.

### Personnel

The owner-manager described his personnel as consisting of two registered pharmacists (one employee and himself),

two women employees, and his wife. The women employees operate the cash register and prepare charge and credit tickets. They also aid in servicing front-end and drive-in customers. The owner-manager's wife is responsible for the bookkeeping duties. He indicated that securing satisfactory registered pharmacists is his chief problem. He stated that he had been looking for a third pharmacist for several months but had not yet located one whom he considers desirable.

Because of the heavy volume of business and the outside financial and civic duties and responsibilities of the owner-manager, the operation of the pharmacy has apparently placed a heavy burden upon him. He stated that he is interested in obtaining a pharmacist who possesses the personality and ability to increase the volume of sales.

The owner-manager stated that he has experienced success in using incentive payments for registered pharmacist employees, indicating that in the past he has sometimes paid the pharmacist employee a basic salary plus a percentage bonus on increases in gross sales.

The owner-manager described a capable pharmacist as one who would make himself well-known and liked in the community, as well as being professionally competent. He expressed the belief that previous experience in the drug store business is a handicap. He said he prefers to hire people with good personalities and even temperament with no experience in this type of work, so that he can train them himself

for his type of store. He indicated that too often experienced drug clerks have felt they should aid in dispensing prescription drugs and counseling customers--functions which he believes are the professional responsibility of the registered pharmacist.

He emphasized that too often pharmacy graduates have no concept of the importance of leaving the prescription department so they may greet customers and build up personal relationships. He also criticized the pharmacy graduate who is not willing to do the housekeeping chores and menial tasks necessary in any business. He indicated that approximately three years of training in a large independent or chain retail pharmacy is desirable before the pharmacist can be expected to be worth the relatively high current salaries many of them are receiving. He attributes much of his present success in management to his previous experience with a large chain drug store.

### Finance

The owner-manager is apparently very successful financially, relating that his incidental investments in housing developments, farming, and real estate account for almost as much of his income as his pharmacy.

He carries workmen's compensation insurance, liability insurance coverage up to \$300,000, and other standard insurance coverage.

Public Relations

Professional, customer, and employee.--The owner-manager said that he treats doctors as his equal in status and believes that they respect him for it. He related in detail that professional competency assures him of good professional relations with the medical profession, and that the development of customer relations occupies most of his direct attention.

Advancement of pharmacy.--The owner-manager maintains a complete library of professional publications. He is a state leader in the pharmaceutical association and participates in all local, district, and state associations. He is at present the director of a city-wide civic project that brings him in contact with a great many people in his community and the surrounding towns and rural areas. He repeatedly emphasized that pharmacy is a professional service in which the pharmacist should not watch the clock but must be available any time of the day or night. He expressed the belief that pharmacy laws should be more strictly enforced and that prescriptions should be filled only by registered pharmacists.

Education.--The owner-manager believes that pharmacists should gain from business training: (1) adequate ability to type, (2) ability to speak in public, (3) ability to understand bookkeeping procedures and processes well enough to direct an accountant concerning what he wants and expects from an accounting system, and (4) ability to deal with people

in all situations with the resources to be "one step ahead of them" in arriving at satisfactory relationships with them. He repeatedly emphasized the importance of public relations and the ability to meet and influence people.

Nature of Store Operation

This is a small, modern prescription pharmacy which has been in operation for about nine months, located in a community of about 9,600 inhabitants. Its estimated annual sales will approximate \$39,000 with a merchandise inventory valued at cost of \$12,000. The stock will this year be turned over only slightly more than twice.

This prescription pharmacy commenced business on a main street slightly removed from the central business district of the city and located in close proximity to the community hospital and various medical offices. It is located in a new building shared with a dentist, and has excellent drive-in parking facilities. It is obviously the most convenient pharmacy location in the community from the standpoint of convenience and nearness to other medical facilities. The owner-manager reported that his establishment of this pharmacy has provoked considerable unfavorable reaction from downtown drug stores who fear increased competition from a better located pharmacy.

The owner-manager is a recent graduate from pharmacy school, engaged in his first business enterprise, and he exhibited some misgivings concerning his ability to establish successfully a profitable enterprise. He is optimistic and reported that business is gradually increasing. He operates

this business with the help of his wife and thus has very low overhead expenses.

His expressed objective is to build up a strong prescription business and operate an ethical modern professional pharmacy. He is striving for the approval of the doctors in his community and also is encouraging the business of elderly people and farmers. He is willing to bargain with his customers if, by doing so, he can build up increased prescription business.

#### Merchandising

Buying.--The owner-manager is supplied principally by two full-service wholesalers and also an undisclosed source from which he secures pre-marked merchandise at reduced rates, enabling him to have slightly reduced prices on much front-end merchandise. He indicated that his volume of sales is not sufficient to enable him to purchase under a volume buying and advertising plan sponsored by a national wholesale supplier. Also, he commented that his volume of business does not justify his taking many discounts offered by purchasing through direct accounts with manufacturers.

Pricing.--The owner-manager indicated that he would, if necessary, "mark-down" merchandise prices in the front-end if by doing so he could secure more prescription business. He stated that he does not cut prices on prescriptions because he considers this unprofessional. He also commented

that his drugs carry a 40 per cent margin based on the selling price, and that his method of arriving at the selling price is to divide the cost by 0.6. Other front-end merchandise is generally marked up one-third of the selling price, which is determined by adding 50 per cent to the cost of the goods. He marks the cost of his drugs in code and also dates the items. Much of his front-end merchandise is pre-tagged at the selling price when he received it.

Competition.--The owner-manager confided that it is extremely difficult to establish a new prescription pharmacy in a well-established community in which the existing drug stores are established with firm community relationships. Two grocery stores are located across the street and in close proximity of this operation, and they distribute many of the drug products which he has for sale. The community has an auto supply and general appliance departmental chain outlet which has recently established an extensive drug and toiletry display and is using these products as "loss-leaders." Many of these drug items are selling below the price at which they can be purchased by this shop.

The owner-manager related that when it first became known that he was contemplating his present operation, the owners of the leading drug store in the community were said to have threatened to place another prescription shop in the same area as his shop and run him out of business. He indicated that there is not yet any evidence of this being done.

Advertising.--Personal advertising constitutes almost the only advertising effort yet pursued by this pharmacy. The owner-manager indicated that he has recently joined about every available club in town in an effort to establish the personal relationships he believes necessary.

Selling.--"There is a great need for personal selling in a professional prescription shop," the owner-manager said. He indicated that learning to sell effectively has been difficult for him, but that it is necessary to move such items as vitamins and nutrients. The prescription shop is modern in appearance and the merchandise is attractively displayed.

Inventory control.--The owner-manager indicated that he watches his purchases very carefully in relation to current sales and buys carefully.

Services.--This prescription shop stocks candy, magazines, and various convenience items in an effort to build traffic. The owner-manager related that he is considering the establishment of a drive-in window, although there is adequate and convenient parking around his shop.

#### Accounting

Accounting was a difficult subject for him in college, the owner-manager observed. He reported that he now uses a system furnished by a national drug manufacturer, although he does not keep all the records recommended. He related that he does not "ring up" sales taxes on transactions but places

the additional money in the cash register. He keeps his excise tax records on luggage, jewelry, and cosmetics in a separate ledger. His accounts receivable are recorded on a blank sheet of paper upon which he writes the charge at the time of the sale. When the charge is paid, it is processed through the cash register, and the sheet is immediately marked paid and removed from the file.

The owner-manager indicated that he and his wife, who helps him in the store, prepare the tax reports; a family lawyer is utilized in the preparation of the annual income tax return.

#### Personnel

This prescription shop is a "one-man" operation. The owner-manager is aided by his wife, and in this way his overhead expenses are kept at a minimum.

#### Finance

The owner-manager indicated that he is being helped financially in the establishment of the business by relatives of his wife who are operating another business establishment in the community.

#### Public Relations

Professional, customer, and employee.--The owner-manager indicated that one of his most difficult tasks is to establish favorable relations with the doctors in the

community. He did not reveal any specific methods utilized except by being gracious when meeting them in social situations and helping them in any manner possible.

"I cultivate the older people and particularly the farmers," commented the owner-manager. He observed that the convenient location of his shop was appreciated by his customers.

Advancement of pharmacy.--The owner-manager is concerned over the violation of professional ethics which occurs in this community. He complained about the dispensing of drugs by a non-registered pharmacy student who assists in a doctor's office. He indicated fear that drugs may be dispensed by a nurse or a secretary. While this is not illegal, he said that he considers it unethical.

The owner-manager also commented that a drug store in the community recently discharged a registered pharmacist and replaced him with a non-registered man, presumably, he believes, because the non-registered man works for less pay. He reported that he favors more strict enforcement of laws and would like to see prescription drugs dispensed only by registered pharmacists. He stated that a fair trade law is urgently needed to aid the independent retail drug operator. However, he is doubtful that such a law will ever again be adopted. He objects strongly to the practice of grocery stores displaying and selling drug products, indicating that he believes this to be in the professional province of the

pharmacist. He expressed the opinion that discount houses are doing great damage to the pharmacy profession. He commented that a classmate of his has recently accepted a position in a discount operation, and he predicted that some day this individual would regret his action in accepting this type of employment.

Education.--The owner-manager commented that he had recently needed extensive management training which he did not have. He explained that he had no conception of his future need for business training when he was in the pharmacy school.

The owner-manager also expressed a desire that more information be made available to students in a pharmacy school about such things as investments, insurance, stocks, and credit. He stressed the importance of telephone communications with doctors.

He also pointed out the value of speech, letter-writing, and typewriting as worthwhile subject areas in the pharmacy school program. He has joined a speech improvement club to improve his ability to speak before groups.

## CASE 30

### Nature of Store Operation

This is a professional prescription shop with annual sales of \$97,500, maintained on a merchandise inventory valued at \$19,000 cost. The merchandise inventory is turned over between 2.5 and 3 times annually. The prescription business constitutes about 90 per cent of the total sales. Charge accounts are encouraged and amount to approximately 50 per cent of the total sales. The business is located in an agricultural area of 5,100 inhabitants, and has been in operation for five years. The business maintains, in general, a 40 per cent gross markup on sales.

This prescription shop is located across the street from a hospital and a medical clinic. Six doctors are located in the community, including two specialists who draw people seeking medical treatment from a large surrounding area. This is the only professional prescription shop in town, and its location across the street from the clinic and the community hospital is a very desirable one.

The prescription shop is also associated with a downtown store which operates under an agency contract with a national drug firm. The assistant manager reported that the associated downtown store experiences strong competition from three drug stores in the area, and that the downtown location is probably not so good as that of one of the competitors.

A distinctive characteristic of the operation is the direct phone system to the physicians' offices, which the assistant manager reported costs \$90 per month. The shop is very professional with the exception of the stocking of candy bars, newspapers, and magazines for the convenience of the doctors and customers. The shop is organized as a part of a corporation, a feature which the assistant manager said is considered very advantageous by the controlling stockholder.

Some of the advantages mentioned which are related to the corporate status are as follows:

1. The owners can pay themselves rather adequate salaries and have the company pay their social security tax which is deducted as business expense.
2. Through the corporate organization, retirement plans can be organized which have tax advantages for the principal stockholders--the pharmacists.
3. A corporation has limited liability which is an important factor in the operation of a drug store.
4. It is easy to sell stock to pharmacists as an incentive to be associated with this prescription shop.

The assistant manager related that the controlling stockholder has operated the downtown store for many years and that it has been only moderately successful. This prescription shop has apparently been very successful. However, he reported that his employer, the principal stockholder, cautions students to remember that prescription shops depend almost entirely upon the doctor relationships which are established by the prescription shop owner, and this is a vital factor in such an operation. The objective of the owners is

to make an adequate profit in operating a professional establishment. The assistant manager said that their policy is to meet competition on certain prescription items with downtown stores. However, other items are marked up correspondingly because the principal stockholder believes that it is necessary for a business to maintain an adequate over-all margin of profit.

The principal owner of the operation endeavors to maintain satisfactory relationships with the neighboring hospital and with the doctors with whom he and his partner are associated.

#### Merchandising

Buying.--The prescription shop is not associated with any cooperative buying group but buys independently, both from full-service wholesalers and direct from manufacturers. The assistant manager emphasized that, in an operation such as this one, sales cannot be anticipated but depend upon the type of medical problems which exist currently in the community. This shop cooperates with detail representatives of manufacturing concerns who aid the managers in maintaining adequate inventory control. Maintenance of an adequate turnover of stock is one of the prime objectives of the owner-manager.

Pricing.--The assistant manager reported that this operation meets competition on certain drugs which may be very competitive in the area. However, he said that his

establishment is higher on many prescription items than others in the community. He believes that people know this fact, but that they desire the professional service which this operation furnishes. The objective of the controlling stockholder-pharmacist, as related to the assistant manager, is that an adequate profit must be maintained in order that the operators can "smile when a customer walks in," knowing that the ensuing transaction will result in adequate profit. All drug goods are coded at the cost price to assist in maintaining adequate control.

Competition.--The assistant manager reported that there is some price-cutting on prescription drugs but that it is not excessive. He considers that most of the competition is ethical.

Advertising.--The assistant manager reported that there is very little advertising which is associated with an operation such as this one. He said that less than 0.5 per cent of the sales is spent for advertising purposes, and that what advertising is done is of a professional nature.

Selling.--The assistant manager indicated that there is considerable personal selling involved in the operation, particularly in regard to vitamin products and other items of a similar nature. Layout is supervised by full-service drug wholesalers who service the establishment.

Inventory control.--The assistant manager indicated that detail men are relied on to watch inventories of their own products.

Services.--The prescription shop seeks to provide for the customers' needs and comfort by stocking a few convenience items, including an adequate supply of newspapers and magazines, cokes, and candies. One of the large expenses is the offering of a free delivery service in which this shop specializes. Credit is extended enthusiastically to qualified customers.

The assistant manager indicated that the lot upon which this shop is located was originally owned by the controlling stockholder-pharmacist, who has worked out a sale-lease plan whereby the property was sold and is now leased from another operator. This entitles the owner to deduct the lease payments as business expense.

#### Accounting

The assistant manager indicated that the balance sheet and operating statement are prepared by the controlling stockholder in cooperation with the family lawyer which the firm retains. The fiscal period ends on the last day of August. A daily summary is maintained of cash, credit sales, and related items, as well as expenses. A single-entry book-keeping system is utilized for keeping these various accounts.

Accounts receivable are processed by preparing duplicate tickets, one copy of which is furnished to the customer and the other is posted to the ledger sheets. This operation then utilizes, at a cost of three cents per sheet, a duplicating copy machine which reproduces copies of the ledger accounts for customers' statements. The assistant manager indicated that the copy machine originally cost over \$300, but that he is happy with this expenditure because he believes that adequate reproduction of ledger sheets is a customer service which promotes the business. The payroll and tax reports are prepared by the store bookkeeper. All bills are paid promptly in order to take all advantageous cash discounts.

#### Personnel

This prescription shop is operated by two registered pharmacists, including the controlling stockholder-pharmacist and the assistant manager. In addition, one bookkeeper is employed and occasionally part-time help is utilized. The assistant manager reported that personnel problems are extremely limited because of the nature of the operation.

#### Finance

According to the assistant manager, this operation is being financed by a private loan at the local bank. He said that it requires only two-thirds as much capital to start a professional prescription shop as it would to start a retail

drug store. He revealed that insurance costs for the pharmacy are \$369 a year.

### Public Relations

Professional.--The assistant manager reported that the controlling stockholder-pharmacist has very close relationships with most of the doctors in the community and plays golf, bridge, and poker with them. He emphasized that neither he nor the controlling stockholder-pharmacist mix business with pleasure. He said that the doctors pay their bills promptly, and that they have had no difficulties with "dead-beat" doctors who expect the prescription shop to finance them. The assistant manager claims that they do everything within reason to please their customers, and that they operate under the principle that "the customer is always right."

Advancement of pharmacy.--The assistant manager indicated that he and the controlling stockholder-pharmacist belong to the local and state professional pharmaceutical associations. He also said that it is important for the pharmacists in this area to participate actively in community activities. He is concerned with the increase in discount houses which he believes are endangering the professional practice of pharmacy by placing almost complete emphasis on price. He believes that maintaining adequate markup on prescription drugs is one of the principal problems confronting the professional prescription shops.

Education.--The assistant manager indicated that he feels that general education courses have provided him with a broad background which is very valuable.

Accounting is an important subject, according to him. He also said that the controlling stockholder-pharmacist emphasizes that the significance of the figures on a financial statement depends upon the method used in obtaining these figures. He indicated that the students need to learn this fact in the accounting courses. He mentioned an example of a graduate pharmacy student who accepted a position in a drug store firm because of a misunderstanding of a statement prepared by a public accountant. He said that the student did not realize that salaries in a partnership are a part of the net profit, and consequently the net profit was much lower than the student had originally thought. He also expressed the opinion that public accountants do not analyze the firm's operations with sufficient thoroughness. The preceding comment emphasizes the importance of an understanding of salary relationships in a proprietorship or a partnership which a student can learn through a thorough knowledge of accounting procedures. He indicated that a knowledge of accounting, including the ability to analyze financial statements, is of great importance to a pharmacy student. He said also that accounting statements are no more valuable than the integrity of the person who draws up the statement.

Economics is a good course to furnish an adequate background for other business knowledge, according to the assistant manager. He believes that he was benefited by a speech course and that the management courses are very valuable in the pharmacy school program. The assistant manager stated as follows:

We need pharmacists who can deal with human relations. Essentially, we are in the business of restricting sales. Certain things, by law, we are not allowed to do. The success of a pharmacist in business consequently depends upon his ability to say 'no' to a customer and have the customer realize and accept the situation graciously.

## CASE 31

### Nature of the Store Operation

This is a professional prescription pharmacy located in a neighborhood area of a city of approximately 138,000 inhabitants. The annual sales of this pharmacy shop total about \$200,000 with an inventory valued at cost of approximately \$40,000. Eighty-five per cent of the total sales are obtained from the prescription department. Baby and sickroom supplies constitute the other principal items sold. Considerable street parking is available, but the pharmacy has no drive-in window. Greeting cards and convenience items are sold in addition to pharmaceutical products. Because these items are not considered strictly professional, the partners in this pharmacy have not been invited to become members of the American College of Apothecaries. Although the partners are extremely professional, they do not see fit to terminate their sales of traffic and convenience items of merchandise in order to be eligible to join this association.

The partners in this pharmacy describe themselves as prescription pharmacists and pharmaceutical consultants. This prescription shop is located in a relatively old building. It was especially constructed for a professional pharmacy and the appearance is reasonably modern. It has an exceptionally large volume of business for a prescription pharmacy.

The shop is organized as a partnership with the controlling senior partner having been a former detail man for a large "ethical" drug manufacturer. He established the pharmacy shop thirteen years ago. The junior partner and assistant manager is a Southwestern State College graduate of ten years ago. The firm also employs another Southwestern State College pharmacy graduate. The senior partner is a member of the State Board of Pharmacy. The partner interviewed is the assistant manager.

#### Merchandising

Buying.--This pharmacy operates independently and is not associated with any buying group; drugs and merchandise are bought from the usual sources.

Pricing policies.--The informant believes in the "professional fee" system of pricing prescription drugs, and he explained that he and his partner are experimenting with it. Prescription drug prices are determined by adding a professional fee to the cost of the drugs to cover the overhead and return a fair profit. The partners appear well satisfied with this fee system but believe it is necessary to proceed slowly and "educate" the doctors and the public to accept it. The informant expressed the belief that this system will aid materially in eliminating the haphazard pricing which has always been a criticism leveled by the public at the pharmacy profession. He believes that inconsistent prices have

encouraged misunderstandings which have led to poor relationships between the general public and the pharmacist.

Competition.--The informant indicated that his firm is not especially concerned with competition, as they do not indulge in competitive practices; they consider themselves members of a profession. He reported that their operation has been very successful.

Advertising.--The informant indicated that the firm does very little advertising, as the partners do not consider their firm a promotional organization. The shop does, however, advertise with a distinctive-colored delivery car with bright lettering painted on it. A large telephone advertisement is carried in the yellow pages of the city telephone directory.

Selling.--The informant indicated that sales ability is a most necessary attribute of a successful professional pharmacist, but that he does not think of selling in terms of moving merchandise; rather he considers selling as the ability of a pharmacist to sell himself to his customers and to the doctors with whom he works. He said that this type of operation demands a much higher type of ability to converse and to communicate effectively with those with whom he deals than a retail store.

Services.--This pharmacy furnishes free delivery of prescription drugs and features merchandise of a convenience nature in limited quantity in the front end. It also provides

chairs for customers while they wait for prescription drugs. The firm extends credit liberally.

### Accounting

The senior partner in charge of the accounting hires an accountant to oversee the bookkeeping. He believes that no pharmacy store can afford to do its own accounting these days, as this phase of the business has become too complicated. Accounting, he believes, has become a specialty. The senior partner writes the checks for the firm but relies on the accountant for most of the bookkeeping. A full-time lady bookkeeper is responsible chiefly for posting the accounts receivable and collecting the basic information needed by the accountant.

The accounts receivable are processed by the issuance of a credit ticket in triplicate, one copy of which is given to the customer and two of which are retained. These credit tickets are filed alphabetically by customers' names and, once a month, they are totaled and the credit tickets are stapled to a statement of the accounts which are mailed to customers. The charges for the month are then entered on a ledger account card for each customer from the remaining charge ticket slips. When a customer pays his account, the remaining charge tickets in the folder are removed from the unpaid file and placed alphabetically in the customer's "paid"

file after proper ledger entries have been made. Credits are handled in the same manner.

An accounts receivable control is compared monthly with the balances of accounts receivable, to which is added the month's charges and from which the credit payments are subtracted. Once a month, a proof of accounts receivable is made on all accounts.

### Personnel

The personnel of this operation include three registered pharmacists and a bookkeeper. The partners believe that they have few personnel problems.

### Public Relations

The pharmacy has a multiple switchboard for direct calls to doctors. The informant said that they (he and his partner) are continually advising doctors concerning drug medication. The partners believe that professional pharmacists have a duty to educate the public concerning the pharmacy profession. The informant explained that the senior partner makes speeches throughout the community, attempting to carry a message which the partners believe the pharmacist should tell the public.

The informant explained that, in his opinion, the wholesalers do not have the professional pharmacists' interests at heart--he believes they are just selling merchandise. He indicated that he and his partner agree with the

pharmaceutical leaders in the American Pharmaceutical Association and the American College of Apothecaries who are critical of large-scale retail outlets which "merchandise" drugs. He said that management courses might be necessary in a pharmacy school to a limited extent but stressed that professional pharmacy education must come first. He believes that pharmacy today is controlled by the wholesale houses and retail drug store which place selfish interests above the profession of pharmacy.

The assistant manager complained that, in his opinion, retail druggists as a group are exploiting the pharmacy profession. He believes that often large-scale retail drug operators are using the prescription department to create traffic for increased front-end merchandise sales. The partners feel that the public will come to demand a professional type of pharmacy such as they believe this operation represents. The assistant manager said that every day people are confirming his belief in professional pharmacy dispensing. He said that customers demonstrated by their remarks that they are dissatisfied with buying their drugs "between bicycle sales" and therefore prefer a professional drug service.

The informant indicated that the senior partner believes that the graduates of the local pharmacy school are lacking in "social polish." This senior partner apparently believes that graduates from certain other pharmacy schools generally have a superior ability to converse on a social

level with doctors and customers. The informant agrees that a course in public speaking would be very desirable for pharmacy students.

The informant emphasized that the profession of pharmacy needs to adopt the methods of the medical profession and repeatedly appear before civic groups and other community groups to inform them of the professional nature of pharmacy. He explained that pharmacy graduates generally have an inability or are unwilling to present the pharmacy story before the public, physicians' groups, women's clubs, and related organizations. He stressed that pharmacists need to be trained by pharmacy schools to do this more effectively.

These partners believe that the profession of pharmacy will rise or fall, depending upon the public's opinion of the profession. He emphasized repeatedly that professional pharmacy education must come first, and business knowledge, though necessary, must take a second place in the preparation of pharmacy graduates.

Nature of the Store Operation

This is a professional prescription shop located in a neighborhood area in a city of approximately 138,000 people. It has annual retail sales of between \$90,000 and \$100,000 and is stocked with an inventory valued at \$16,000 at cost. Additional sales are made both to a medical clinic and a hospital located nearby. The prescription shop is operated by the owner-manager who is a registered pharmacist, assisted by one employee. The merchandise is turned over between four and five times annually. Approximately 90 per cent of the total sales are for prescription drugs.

The owner of this prescription shop is a member of the American College of Apothecaries, a professional organization recognizing the highest type of professional operation. As a member of this organization, his operation must meet many stringent professional standards including the following:

1. The exterior of the pharmacy nor its windows shall neither display any sign of cigarettes, cigars, tobacco, liquor, beverages, or ice cream.
2. The pharmacy must not display in the windows, either outside or inside, any advertising material which detracts from the professional appearance of the pharmacy.
3. No pharmacist who offers for sale or sells in his pharmacy ice cream sodas, soft drinks, or beverages of any kind shall have membership.

This prescription shop is located on a heavily traveled street in close proximity to a medical clinic and a hospital. It occupies a corner location with adequate parking facilities and a drive-in window through which is transacted approximately 20 per cent of the total sales. The owner-manager has recently moved to this location and believes that business is improving substantially. He has recently become associated with a volume buying and advertising plan sponsored by a nationally known drug distributor. He also acts as a drug distributor for a national drug manufacturer.

The professed objective of the owner-manager is to maintain a professional prescription shop in conformity to the requirements of the American College of Apothecaries. It is interesting to note that he has available in his prescription shop a candy display case (which must not occupy a prominent position in the shop), and he also has cigarettes for sale, but he keeps them under the counter in order to conform to the standards of the professional apothecary. He has coffee available for doctors and others who desire this convenience, but he does not offer it for sale.

The prescription shop is neatly and modernistically arranged and has comfortable chairs with available reading material for customers while they wait. The prescription shop contains a combination office and sitting room for the benefit of customers and doctors. It is utilized for office

work and serves as a place in which the pharmacist can relax. The shop also contains a sizable stock room.

### Merchandising

Buying.--The owner-proprietor objects to the term "merchandising" of drug products. He buys locally from local service wholesalers and does a considerable amount of direct buying. Recently, he became associated with a cooperative buying and advertising plan sponsored by a full-service national drug distributor.

Pricing.--The owner-manager believes in a non-competitive pricing system known as the professional fee schedule. This pricing system adds a professional fee to the cost of the ingredients in the prescription. The professional fee is based upon the cost of operation of the pharmacy plus a fair profit. Its effect is to raise the price of the lower-priced prescription items and to lower the price of the higher-priced prescription items. The owner-manager looks with favor on a fair-trade pricing system; however, he is concerned with the current legislation before congress because he feels strongly that, in order to get pricing laws, other regulatory measures will be included which may be more obnoxious than the absence of fair trade laws. He is firmly convinced that government regulation of pharmacy is impinging on individual enterprise.

Competition.--The owner-manager mentioned that his chief competition is a downtown chain store which aggressively discounts prescription drug prices as well as front-end merchandise. He believes that the most effective method of meeting competition is through service and increased education of the public in regard to the importance of the professional dispensing of drugs.

Advertising.--The owner-manager reported that he generally considers extensive advertising as being inconsistent with a professional approach towards the practice of pharmacy.

Selling.--The owner-manager believes that personal selling consists principally of effectively meeting the needs of the customer and is also a matter of proper treatment of the customer. He stressed that "pressure" salesmanship has no place in a professional pharmacy.

His prescription shop is arranged with the help of a full-service wholesale firm, which also furnished his store fixtures. It was carefully laid out to conform with regulations of the American College of Apothecaries.

#### Accounting

The shop has a very modern cash register. The owner-manager employs an accountant and supplies him with summaries of the total sales, cash and charges, and other essential data once a week. He utilizes charge tickets in triplicate and processes his own accounts receivable. His sales on the

cash register are classified as drug sales, doctor sales, prescription drug sales, and sundry merchandise sales. He also rings up charge sales and received-on-account items. He processes his own payroll and pays his own bills; however, the tax work is done by an accountant.

### Finance

The owner-manager stated that he has borrowed money for his new store fixtures from an automobile finance company in this state, and that it was able to give him better financial terms than he could arrange elsewhere. He stated that he was originally financed by a partnership arrangement through the efforts of a druggist, but that he has since acquired complete control. He expressed great appreciation of this individual for enabling him to begin his own business. He formerly worked on a part-time basis for him while in a pharmacy school.

### Public Relations

Professional, customer and employee.--The owner-manager stated that he has excellent relations with the doctors and dentists and is frequently called upon to advise them as to the medication and dosage. He indicated that he is opposed to any form of rebate payments to doctors or dentists for directing patients to his or any other pharmacy. He stated that he maintains satisfied customers through personal service.

Advancement of pharmacy.--The owner-manager is particularly fearful of government encroachment upon private pharmacy practice. He is opposed to any legislation which might enable the government to determine whether or not he can operate.

The owner-manager believes that the pharmacists themselves have created the prescription drug "shopper" by cutting individual prescription drug prices, thereby causing customers to become price-conscious. He believes that the professional fee pricing system which he has inaugurated in the community is a great step forward in advancing the professional practice of pharmacy. A professional fee is recommended by the American Pharmaceutical Association. The owner-manager indicated that he is the only pharmacist in the city who has fully adopted this pricing system.

The owner-manager stated that he considers it the responsibility of the pharmacy profession to engage in public education activities. As a leader in the local pharmacy association, he is now engaged in hiring a public relations expert to represent the pharmacists in the area and to promote a public education campaign to sell the profession of pharmacy to the public. He believes that this type of activity must be engaged in by the pharmacists if the public is to appreciate the services which are provided by the professional dispensing of drugs.

The practice of having direct lines to doctors' offices has been criticized as being a violation of the principle of a patient's right to select his own pharmacist. When questioned about the direct phone switchboard which is contained in his office, he said that he does not consider this necessarily unethical. He stated that if the pharmacists are to advise doctors on drug medication, it is necessary for them to be in convenient conversational reach of the prescribing doctor, and normally, this can only be achieved by the installation of direct lines to the doctors' offices. He observed that, whether or not this procedure is abused, depends upon the method used by the doctor in referring the prescription to the patient--that the doctor should let the patient choose the pharmacist whom he prefers.

The owner-manager described the profession of pharmacy as being divided into two factions. One faction includes an older group who received their licenses, in many cases, years ago, and who believe that a minimum of schooling is necessary in order to practice pharmacy. Another faction is a younger group of recent graduates from pharmacy schools who view pharmacy as a profession in which the pharmacist serves as an advisor to doctors on drug medications, and as a safety factor in the protection of patients in the administering of dangerous drugs.

The owner-manager commented that the pharmacy profession faces severe problems because the government in the

recent court cases has secured several adverse decisions that, in his opinion, serve only to degrade the professional nature of pharmacy. He views the adoption of the fee basis as one solution to prescription drug pricing.

He is obviously proud of his membership in the American College of Apothecaries. He commented that a fellow prescription shop operator down the street would be asked to join the association if he would take out his greeting cards and other front-end items which are not permitted by this association. He commented that, while it may seem that the American College of Apothecaries is unduly severe in its requirements, it is very difficult to determine the degree of the professional nature of the operation if the sale of such things as cigarettes, drinks, and greeting cards is permitted.

Education.--The owner-manager indicated that he is in favor of retaining academic and scientific courses in the pharmacy curriculum. He also expressed a strong belief in general education, explaining that he wished that he had had more music appreciation, economics, literature, and cultural subjects. He emphasized that well-educated people representing pharmacy will be the best advertisement for an increase in the professional acceptance and respect with which pharmacy will be held by the public. He expressed no particular desire for additional management courses, stating that the knowledge of pharmacy must come first. Management courses are desirable but not essential, in his opinion.

The owner-manager recommended that great emphasis be placed on an "internship" program for pharmacy graduates and he suggested that a special administrative board at the state level be set up to administer this practical training. He suggested that the training should take place after graduation from a pharmacy school.

The owner-manager commented that a person can be trained in six months to dispense drugs, but that he will know nothing of dosages and will not be able to recognize the doctor's mistakes. He stressed that serious consequences might result from the dispensing of drugs by such a professionally unprepared person.

The owner-manager obviously deeply feels that every pharmacy student should have an appreciation of the economic portents of what he considers are the present governmental socialistic policies. He expressed the opinion that such things as socialized medical care would be the greatest catastrophe that could be perpetrated upon the American people. For this reason, he believes that a close analysis of economics is a "must" for every pharmacy student.

## CASE 33

### Nature of the Store Operation

This is a clinic pharmacy with approximately 85 per cent of the total sales in the form of prescription drugs. It is located in an expanding community of over 61,000 people, adjacent to a large military establishment. The pharmacy has annual sales of approximately \$90,000, maintained on a merchandise inventory valued at a cost of \$10,000. The merchandise stock is turned over approximately seven to eight times annually. Charge accounts are encouraged and credit sales approximate 35 per cent of the total sales. Outstanding accounts receivable approximate \$2,000.

The clinic pharmacy is located on a residential street near a neighborhood business area. The pharmacy contains a very small amount of front-end merchandise and is professional in appearance. It is located in the center of a building, with doctors' offices on both sides. It is open from 9:00 A. M. to 7:00 P. M. on weekdays and closed on Sundays.

The owner-manager is a dynamic, aggressive young man who is well-known throughout the community. He has recently opened a general drug store as "insurance" against the possibility of difficulties developing between the doctors who control this medical clinic and himself. He said that the medical clinic required him to pay a lease rental of 13 per cent

of the total pharmacy sales. He reported that he pays more than double the rent for the clinic pharmacy, which occupies a relatively small area, than he does for the retail store which covers a much larger area. It was apparent to the interviewer that he is not satisfied with his rental agreement with the medical clinic.

"I know this type of rental agreement is considered unethical," he said, "but I thought that if I didn't take it, somebody else would. It gave me my start." He said that he desires to be independent. He indicated that he does not want to be a big operator; he wishes only for a large enough operation to protect him against the possibility of the doctors "moving out" on him.

#### Merchandising

Buying.--Most purchasing is done from two full-service wholesalers. The manager also is associated in a new cooperative buying and advertising plan recently created by a national drug wholesaler to give volume discounts to independent merchants, and to provide a means whereby independent retail drug store operators can take advantage of various advertising discounts available to chain and other large scale outlets (but which formerly could not be taken advantage of by independents because of the relatively small amounts involved on an individual basis).

The owner-manager observed that this independent dealers' advertising and buying plan is working out advantageously. The clinic pharmacy and the drug store combine their direct purchases and are able to take advantage of quantity discounts.

Pricing policies.--The owner-manager indicated that he is featuring a few price leaders, but that generally it is impossible for him to compete in price with a few other outlets in the community. He reported that he is meeting discount competition only when individual customers complain of the prices charged. All merchandise, with the exception of a few front-end items, is code priced at cost to aid in inventorying and exchange of merchandise between stores.

Competition.--A new discount house with a prescription pharmacy has recently been established on the outskirts of the city, and while it has not yet achieved a high volume of sales, apparently, it has the effect of bringing down the local price structure on prescription items and other drug products. Other drug outlets are attempting to some extent to compete with this discount house on a price basis. Many of the people in this city are military personnel who patronize the military base pharmacy.

The owner-manager said that he is attempting to compete with other outlets on the basis of convenience and professional service. It is his belief that pharmacists in this area have cooperated fairly well. He is concerned about the

presence of the military base pharmacy nearby which constitutes a serious problem.

Advertising.--The owner-manager indicated that advertising for his clinic is principally of a professional nature and emphasizes his prescription department. He reported that a certain television advertising program originating in a nearby city in another state is well worth the money. It is costing him \$50 per month for a 20 second spot on a very desirable evening program featuring a medical series. He believes that this spot on a popular program gives him a type of prestige advertising which is very valuable. A small delivery car, which is brightly painted with appropriate advertising, also serves to promote business in the two establishments. He reported that he advertises week-end "specials" in the daily newspaper occasionally.

Selling.--The owner-manager pointed out that personal selling is an important function in this operation with regard to the selling of related drug products such as vitamins. The layout of the pharmacy was planned by a full-service drug wholesale firm and it utilizes a limited amount of self-service displays.

Inventory control.--The owner-manager indicated that he is using an accounting system provided by a national drug manufacturer which provides a dollar inventory control system based on the estimated sales. Future sales are estimated and the merchandise is purchased in accordance with a planned

budget. In addition, the "want book" and visual control are used to indicate the items to be purchased.

Services.--The patients in the clinic constitute the principal traffic in the clinic pharmacy. The owner-manager believes that his participation on various civic committees serves to encourage customer traffic in the pharmacy.

### Accounting

The single-entry bookkeeping system which is used has been provided free of charge by a national drug manufacturer. It utilizes daily summaries which are entered into designated classifications in a large ledger. Monthly summaries of income and expense data are also provided. This single-entry bookkeeping system furnishes a great deal of control of the merchandising operation if it is kept up to date. The owner-manager compares his operating figures very carefully with the national averages furnished by the manufacturer, but does not utilize the accounting analysis service which has also been furnished free of charge by the drug manufacturer.

The accounts receivable are prepared in triplicate with one copy going to the customer, another copy being mailed with the monthly statements, and a third copy being retained for control purposes. The owner-manager prepares the payroll for the pharmacy and also the tax reports. Tobacco is the only item in which sales are departmentalized. This is done so that these sales will not be included in

taxable sales. He said that it is not necessary to separate the prescription department sales from other sales because the accounting system maintains a separate record of all prescription drug sales.

### Personnel

The clinic pharmacy is serviced by the owner-manager and by a registered pharmacist employee, who works half time in the clinic pharmacy and half time in the retail drug store. One additional clerk comprises the remainder of the personnel. The nearby military base has registered pharmacists who are available for part-time and emergency work when needed. The owner-manager reported that he utilizes their services quite often and makes it a practice to pay more than the average wage in the community. He believes that the extra compensation is reflected in increased effectiveness of the personnel.

### Finance

The owner-manager of the clinic pharmacy said he started the pharmacy with \$500 cash and a \$3,000 bank loan and has made money from the day the pharmacy opened. He related that he was helped by wholesale suppliers who furnished him with liberal credit terms. He believes he has been very successful. He takes advantage of all cash discounts.

Public Relations

Professional.--The owner-manager has close social relationships with many of the doctors in the community. He plays golf with them and meets them socially through club memberships and in other ways. Personal service is stressed in his relations with customers.

Advancement of pharmacy.--The local pharmacy association is considered very worthwhile by the owner-manager, and he believes it provides a cooperative approach to mutual pharmacy problems which confront the local druggists. He asserted that pharmacists should stick together and fight other types of outlets such as discount houses and grocery stores rather than fighting within the profession. He also believes that his cooperation and participation in civic enterprises has brought many prominent people into his establishment.

Education.--The owner-manager wants pharmacists who have a strong general education background. He said that a knowledge of discounts and percentages is very important in making buying decisions, and that this should be stressed in the pharmacy curriculum. A merchandising and management program is an essential part of a good pharmacy preparation program, he believes. He mentioned that any type of program which would better equip students to meet and associate successfully with people would be highly desirable. Also, he said that speech and business correspondence might be worthwhile courses.

## CASE 34

### Nature of the Store Operation

This is a clinic pharmacy located in a rapidly expanding city of approximately 128,000 inhabitants. The clinic has two doctors, a fourteen-bed hospital, and a pharmacy which is a part of the clinic. It is operated independently, and the pharmacist pays a fixed rent to the medical clinic. The annual sales of this clinic are about \$65,000 achieved on a merchandise inventory valued at a cost of approximately \$8,000. The merchandise is turned over five to six times annually. Ninety-five per cent of the total sales are prescription drugs. The clinic pharmacy permits charge accounts which total 15 per cent of the sales and currently amount to approximately \$1,000. The owner-manager has been in this operation for three years.

The pharmacy is located on a well-traveled street in a neighborhood area. The city is distinguished by having 148 doctors, which is a high number for a community of this size. According to the owner-manager, his primary objective is to maintain satisfactory relations with the doctors in the clinic and their patients.

The owner-manager commented that the doctors desire the pharmacy clinic to dispense medicine for the customers' convenience. He stated that when he graduated from pharmacy school about ten years ago, he worked in a full-service retail

store. He said that his hours were very long, and that he frequently worked until 11:00 P. M. He has also had previous experience in managing a medical clinic pharmacy in another town. He prefers his present situation to any previous one. He said:

I like this clinic. We close Saturday afternoons and Sundays. I am not on call and I like that. I like to have some time off the job. There is less investment in a prescription pharmacy than in a retail drug store and that is an advantage.

### Merchandising

Buying.--The owner-manager related that his buying is done principally from the usual sources, and that he is not associated with any buying group or agency.

Pricing.--According to the owner-manager, pricing is not a particular problem because he charges what he feels is a professional price, and most of the doctors' patients patronize the pharmacy.

He explained that he utilizes a "pull-off" tape on which he marks his prices. He indicated that the advantage of using this "pull-off" marker is because he can date and price the goods in code and, if a particular medicine is not used, it is possible for him to remove the sticker and return it to the drug company which will accept it without discount because it is in an unmarked container.

Competition.--The owner-manager reported that he is not particularly concerned with the outside competition in

the area. He indicated that his clientele consists of patients of the doctors who are located in the clinic, and friends and acquaintances who drop in to have prescriptions filled.

Advertising.--The owner-manager stated that he is little concerned with advertising. He makes a practice of giving a small bottle of perfume or an appropriate gift to certain patients who patronize the pharmacy. When a baby is born in the clinic, he makes a present of some item of baby goods to the parents when they come into the pharmacy. He mentioned that he also makes it a practice to place small advertising items, such as emery boards, in medicine envelopes which he supplies to customers. These envelopes feature the name and address of the pharmacy and price data, suggesting that the customer save this information and use it as medical deduction on his income tax return.

Selling.--Personal selling ability is an important attribute of the operation, the owner-manager pointed out. He believes that the pharmacist must be able to meet the customers and sell himself to them. Many of the items he receives are pre-sold before they come into his pharmacy, but, he commented, this is not enough, the pharmacist must still help in turning the merchandise.

The owner-manager reported that he is not particularly concerned with layout and display in the clinic pharmacy.

Inventory control.-- The owner-manager commented that inventory control is not a problem in a prescription shop. He stated that the practices of manufacturers from whom he buys much of his merchandise directly make it unnecessary to be too concerned about overstocking drugs. These manufacturers take returns on any drug merchandise which is not sold, and he stressed that, if a pharmacist watches his stock closely and returns the excess stock within a reasonable time, the drug companies will make full restitution of the purchase price. His practice of not marking the bottles aids him, he said, because if the bottles are marked, the manufacturer frequently discounts the medicines which are returned.

Services.--He commented that he uses a free delivery service and provides credit for his customers. By giving away gifts, more amiable relations are established with his customers, he commented.

#### Accounting

The owner-manager's wife maintains a journal of his accounts which is very simple. Different types of income and expenses are itemized. One of their usual practices is to record taxable and non-taxable sales on the cash register for purposes of computing the sales tax. The accounts receivable are processed by means of a card file in which the owner-manager enters the charge at the time of the sale. When the money is received, the payment is recorded on the same ledger

card immediately. Credit sales are not recorded on the cash register until the cash is received. He reported that he prepares the payroll records and the tax reports, in addition to paying the invoices.

### Personnel

The pharmacist-owner said that the personnel consists only of himself and one lady assistant who aids about the premises. He commented that he has no personnel problems.

### Finance

Capital finance.--The owner-manager reported that he paid \$15,000 for this pharmacy when it had about \$12,000 worth of stock and fixtures in it. He explained that much of the merchandise and drugs which were in the store when he obtained it were old. He estimated that he paid about \$3,000 for "good will."

The owner-manager went into extensive detail in describing a former operation in a medical clinic in a neighboring town which he operated for four and one-half years. He said that from July, 1954, until December, 1958, he operated a pharmacy in a clinic in which were associated four general medical practitioners who were operating a thirty-bed hospital. He reported that while he was there he filled 110,002 new prescriptions. He did not keep an accurate record of the number of refills. He stated that in his last year of operation he paid income tax on \$29,000 after paying the medical clinic

\$1,000 for rent. His annual volume was about \$110,000 in prescription drug sales. This pharmacy occupied only a very small area in the clinic.

He reported that the doctors in the clinic had then forced him out of the clinic and taken over the operation themselves. For this reason, he transferred to his present operation. He said that he gave this information to stress the fact that there is a real opportunity to make money in a medical clinic.

In the present clinic pharmacy, he pays \$500 a month for rent with utility bills paid, and he considers this is the only ethical way to operate a prescription pharmacy. He further commented, "When you see a pharmacy in a medical clinic, as a rule you can conclude that the doctors are involved in some way in prescription drug profits."

#### Public Relations

The owner-manager observed that he knows only a fraction of the number of physicians that some of the retail druggists in the city do. He commented that other operations in the city often cultivate physicians extensively, but that he deals only with the physicians here in the clinic. Therefore, he receives only a small amount of transient business.

The owner-manager is principally concerned with satisfying only the clinic physicians and their patients.

The professional organizations may help advance the cause of pharmacy through public relations programs, he believes, but in his opinion it is the duty of every pharmacist to sell himself to his customers in order to sell the profession. He participates actively in church groups and this comprises his principal public relations or community service.

The owner-manager said:

I am opposed to unethical doctor-pharmacist relationships. I am not particularly concerned with pricing drugs as it does not affect me much because we have our own patients here.

In evaluating educational preparation for pharmacists, the owner-manager stated that he believes in anything that will improve public relations. This would include courses such as public speaking. He observed that management training is necessary for all pharmacists, even though only a minimum of this type of training may be needed, in a few instances. In his opinion, a graduate pharmacist never knows in what type of an operation he will practice, and therefore it is necessary, he believes, that some management training be given.

## CASE 35

### Nature of the Store Operation

This is a clinic pharmacy with annual sales of about \$175,000, located in a medical arts clinic. Prescription business accounts for 65 to 70 per cent of the total sales; sundries, 8 per cent; and wholesale sales, the balance. Some wholesaling of drugs to other retail outlets is done, and this pharmacy also supplies drugs for four nursing homes, in addition to the four doctors who are in the clinic. Credit sales are extensive, with three-fourths of all sales being on credit. Accounts receivable outstanding average from \$20,000 to \$25,000, which is not excessive in view of the fact that monthly charges average approximately \$12,000 per month. The owner has conducted this business approximately six years.

The pharmacy is located in a community of approximately 12,000 inhabitants in a church orientated community in close proximity to a large city of over 324,000 inhabitants. The shop is in the corner of a medical clinic with a glass frontage on two sides and is modernistic in appearance. It maintains a pneumatic tube system by which physicians in the clinic send their prescriptions directly to the pharmacy. This practice is regarded by most pharmacists as unprofessional, as it may violate the right of the customer to select his own pharmacist. An intercommunications system is also used between this clinic and the physicians' offices.

An indication of the professional nature of the operation is shown by the recent invitation received by the owner-manager to meet with the American College of Apothecaries, which offers membership only to pharmacists who restrict the sale of front-end merchandise and maintain high standards.

The owner-manager believes that pharmacists must learn to be good business men. He indicated that too many drug store owners are not alert to changes in the business world and do not change with the times. He pointed out that many drug stores have no offices and operate in a haphazard manner. He believes that today an office is indispensable in properly managing the purchasing, record keeping, and detail work which is a necessity in a properly controlled pharmacy business.

The owner-manager is obviously alert, intelligent, capable, and successful. He observed that pharmacists who are unhappy with the drug business are generally those who seem to believe that they are doing the customer a favor by filling a prescription. This type of pharmacist, he believes, is generally out-of-date, unrealistic, and feels that the customer owes him a living.

According to the owner-manager, service to the customer at a fair price is the operating rule of this establishment. He does not follow the recommended price schedule, as he believes he can operate more efficiently and maintain adequate profits with lower prices. He indicated that drug

store owners need to study their expenses more realistically and take steps to control them. The high cost of delivery service and credit privileges is one area in which progress must be made, he emphasized, if the independent pharmacist is to compete effectively with discount operations.

The owner-manager stated that his philosophy is to follow the "Golden Rule" in the practice of pharmacy and treat the customer as you would want him to treat you. Personal, friendly service is the principle upon which this operation is based, the manager said.

#### Merchandising

Buying practices.--The pharmacy is supplied principally by two nearby full-service wholesalers located in the metropolitan area. The owner-manager indicated that, whereas he formerly purchased entirely from the smaller of the two full-service wholesalers, he has now changed his policy and is buying equally from both. This procedure is a result of the new volume buying plan which has been set up for retailers by a national drug wholesaler.

During his first quarter of a year of operation in which he used this plan, he has received a rebate check for \$300. This discount is based upon the line extension (the dollar amount of the total order divided by the number of lines or items purchased.) Under this plan, the retailer gets a 10 per cent discount for a line extension of over \$14

and a graduated percentage for lesser amounts. The owner-manager has devised a unique "want book" with which to operate the system. He has placed each of the several standardized order blanks in plastic covers and assembled them in a loose-leaf notebook with the principal items which he usually purchases underscored for easy checking. He uses a red pencil and checks the item in the "want book" when it is needed. Every two weeks, when the order is mailed to the wholesaler, he utilizes these red check marks to locate the proper items to place on the order blank. The wholesaler, under this plan, eliminates the cost of salesmen's personal calls. The plan also enables the wholesale house to operate more efficiently because of maximum utilization of employees help in filling the orders during slack periods.

The owner-manager indicated that he is not participating in the cooperative advertising plan of the wholesaler whereby this wholesaler enables retailers to pool their advertising allowances and advertise in the metropolitan newspapers. He has participated actively in club buying and is a principal member of a club in which a few small retailers make a practice of pooling their orders when buying direct from manufacturers in order to obtain quantity discounts. He indicated that his store now has sufficient volume to secure the maximum discounts without pooling his orders with other pharmacies. His former associates, however, still want him to continue the practice, and he said that he has now found

that it is necessary for him to add a 10 per cent charge for this service in order to cover the handling costs. He reported he is acting somewhat as a wholesaler for a few small-service operators.

The owner-manager recently has been working for a maximum turnover of merchandise stock because of the encouragement of the sales manager of a full-service wholesaler. He indicated that, when making a decision as to the advisability of buying in quantity for maximum discounts, he compares the return on his investment with dividends from money invested in stocks or bonds. By investing his money in the merchandise at the greatest discount, he can make a better return. He considers this merely a matter of an efficient use of capital. He does not make a practice of purchasing over a three months' supply of merchandise unless he receives over a 15 per cent discount.

Pricing.--The owner-manager apparently believes that much of the trouble with the discount houses and other types of competition has been caused by the unrealistic attitude of druggists in maintaining their pricing schedules at too high a level. He bases his prescription drug prices on what he considers a satisfactory level.

The owner-manager uses a machine marking system for his merchandise. This machine sets the date, the price of the item in code, the supplier (which is indicated by a code letter), and the retail price on each item of merchandise.

It also stamps the store name on the item. The manager reported that this allows control of merchandise by providing both the cost price and turnover information, which is determined by the dating. He reported that this procedure is a valuable aid, particularly when several items are to be marked. Another advantage of this tab-marking machine is the ease with which the tab can be removed from the drug bottle when the bottle is to be returned to the drug supplier for credit, since items which are not marked carry a full refund.

Competition.--The owner-manager is not extremely concerned with competition in the area; however, he seemed perturbed over the existence of competition from the hospital pharmacy located in a nearby church-operated hospital. He indicated that drug manufacturers sell to the hospitals in a manner which may create a pricing problem. Hospitals generally purchase drugs at wholesale rates or often at even lower prices. The recent action of the nearby hospital pharmacy in offering excessive discounts to nursing homes which have previously been supplied by the owner-manager makes it almost impossible for him to compete. While hospital pharmacies generally have made it a policy not to compete with retail outlets on a price basis in regard to sales to out-patients, it appears that the policy in regard to sales to nursing homes is not so well established.

Another type of competition with which he is concerned is that of the discount houses located in distant

areas. He reported that they apparently operate with a two-price system, with a very low price for new customers, and higher prices for established customers. He believes they do not always charge the original price when they refill a prescription copy of another pharmacist, thereby creating a low price image. Almost all pharmacists believe this procedure is extremely unethical. Also, he believes that they have a very low price for new customers to secure their initial business, but a higher rate for established customers. He believes the most effective method to meet this type of competition is friendly personalized service. He also observed that druggists must now watch their overhead cost much more carefully than in the past.

Advertising.--The owner-manager reported that he advertises very little because of his type of operation. His advertising effort is centered on the use of "give-aways" such as pencils, balloons for the children, calendars, and other personal items. He also sponsors football programs and donates to community projects.

Selling.--The owner-manager reported that there is a definite place for suggestive selling in a pharmacy clinic in reminding the customer of his needs in regard to related products.

The owner-manager designed his own layout and display, and a contractor built his fixtures for him. He has been in his present location for only two years--having moved from

another part of the building. It apparently grew too small, as it was set up as a one-man operation. It appears that business has increased much faster than he originally anticipated. He said that he is in the financial position now after six years of operation that he had expected to accomplish at the end of twelve years.

Inventory control.--The owner-manager indicated that information relative to the stock turnover of drug merchandise is of very little value to him. He said that physicians demand a certain drug item and prescribe it repeatedly--then they get another favorite and the previous "fast-mover" is a dead item. He believes that his marking machine system which includes the date of purchase constitutes sufficient control of inventory, supplemented by a card file system which he maintains on all his inventories. The certified public auditor requires an itemized inventory twice a year. He devised a system so that, rather than make up a new list every six months, he keeps a card inventory file on all items of merchandise carried in the pharmacy clinic. This card has the drug title, whether the item is a wholesale or a direct purchase, and by whom it is supplied. Also, the card contains the date, the quantity, the unit, the price per unit, and the total price. All drugs on the shelves are alphabetized, and this card system indicates the location of the drug on the shelf. The manager said that this card plan has helped him to locate drugs, to determine shortages, and to be consistent

in writing off dead merchandise. He reported that when he discards an item he removes the inventory card from the inventory file and places it in the dead file which is retained.

Services.--Delivery service and credit extension to customers are the principal store services. The owner-manager pays a boy to make his deliveries for him. This boy is legally an independent contractor because of the method used in paying him. The boy makes deliveries twice a day--one at 2:30 P. M. and another at 5:30 P. M. He uses his own car and averages 12 deliveries a day in return for a payment of \$100 a month. This service, the owner-manager believes, costs him about 28 cents for each item delivered. The standard rates by commercial firms in this area are 65 cents for short runs, 95 cents for runs over two miles, and \$1.25 for runs over four miles. Thus, the manager claims that he has a very satisfactory arrangement.

The owner-manager reported that he has very little trouble with credit collections and that his credit losses are less than 0.5 per cent of charged sales. When he is faced with a bad account, he utilizes a collection service which operates on a service fee of one-third of the amount collected; however, before he uses this service he mails a credit letter collection series to the customer in an effort to collect the account.

Accounting

Financial statements are made for this pharmacy twice a year by a certified public accountant. Physical inventories are also taken twice a year, utilizing the card system previously mentioned. The owner-manager indicated that the chief purpose of the financial statements is to give him a good picture of the over-all operation.

Each day a daily report sheet of the total operation is prepared. Credit tickets are made in duplicate. The pharmacy's bookkeeper operates a modern posting machine which simultaneously posts both to the ledger and to the journal, keeping a summary total of charges and credits each day. All prescription sales, whether for cash or credit, are posted to the customers' accounts whereby the owner-manager can furnish customers with a detailed list of prescription drugs bought during the year for income tax or insurance purposes. All payroll and tax reports are made by the manager. The accounts receivable ledgers are utilized for checking prescriptions when the customer has lost his prescription number and wishes information. He indicated that this system of keeping all prescription items posted in the ledger accounts aids in expediting the processing of the customer's insurance claims. All bills are paid by the owner-manager. No accounts payable ledger is maintained, but instead, the invoices are allowed to accumulate for the month and are checked against the monthly statement. When paid, the invoices are filed by the

company name. These invoices are retained for a period of five years, which is required by law.

### Personnel

This clinic is serviced by the owner-manager and one other registered pharmacist--a last year's graduate from the School of Pharmacy, Southwestern State College, who happens to be a girl. In addition, the business requires a bookkeeper, clerk, and a delivery boy. Each of the employees is required to take a well-known public-speaking and personality course, as the manager believes that human relations and psychology are the most important factors in running a good business. He indicated that the duties of his employees include cleaning and arranging merchandise on the shelf. He firmly believes that the average drug store "beats itself" by its high employee overhead cost, caused in many drug establishments, by employees who stand around doing nothing.

### Finance

The owner-manager indicated that he started this pharmacy with \$1,000 cash which he deposited to his clinic bank account. He said that the medical clinic with which he is associated furnished the necessary fixtures. Originally, he began business by delayed dating on merchandise purchased and by buying in very small quantities. Because of the success of this operation, he has no present financial worries.

The owner-manager indicated that customer insurance policies which provide for drug expenses are fast becoming a problem because the druggist is often called upon to provide prescription information.

### Public Relations

The owner-manager indicated that he gets along well with the doctors in his clinic. He recommended that any pharmacist going into a medical clinic should become acquainted with the basic characteristics of the physicians with whom he associates. He stated that no lease agreement is possible which is broad enough to cover the many personal relationships and problems which arise in the close contacts necessary with the physicians in a medical clinic.

The owner-manager also reported that the duplication of drug products is one of the problems in drug retailing. He believes there is much senseless duplication of products, requiring overstocking. He said, however, that duplication in his operation is not a major problem as he works closely with the doctors in the clinics and stocks the drugs which they prefer. Professionalism, he believes, is a matter of basic character. He indicated that, in his opinion, pharmacists who are really professional place service to their customers above monetary reward. He said that the pharmacy school can do much to teach the ethics of the pharmacy profession, but that generally the basic character of the pharmacist

is formed before he attends pharmacy school. He emphasized that he likes the practice of pharmacy for what it is and is not interested primarily in the money. However, he thinks that pharmacists must recognize that they are operating a business.

Education.--The owner-manager emphasized that the most important single asset which the pharmacist must have, in addition to his certificate of professional competency, is the ability to type. He can hire a high school girl to type labels who can perform the job more efficiently than the typical newly graduated registered pharmacist. He said that he would never pay \$700 per month to a pharmacist to "hunt and peck" on the typewriter. He pointed out that a good part of a pharmacist's time is spent in using the typewriter, and, therefore, he believes that emphasis on this part of the pharmacist's education should be stressed. Pharmacists are losing jobs to secretaries in many prescription shops, he believes, because, it appears to him, that secretaries often prove to be better typists than the registered pharmacists. He reported that if a pharmacist cannot type 60 words a minute, he considers it a handicap.

He emphasized that students need to know what is most important to learn in pharmacy school. He told of an incident in which the pharmacist who was working for him made a mistake in the dispensing of a dangerous drug, as follows:

When I asked this pharmacist if he was not taught to do better in pharmacy school, he replied that he was, but that he had just memorized the information to pass a test and had promptly forgotten it, like he has forgotten most other things in school.

The owner-manager believes that pharmacy teachers should be required to work part-time occasionally in dispensing drugs. He thinks they need to learn more about what they teach. In this way, he believes they can more adequately help their students with an understanding of pharmacy as it actually is and not lose touch with the profession. He would like to see more discussion seminars and a more practical approach to pharmacy than is sometimes taken. He appeared well satisfied with the knowledge of drugs the pharmacy school graduates have. He indicated that, in his opinion, it is of importance to a pharmacist to know how to organize and operate a pharmacy. He believes accounting can be a very valuable course, and that almost every pharmacist needs to know how to prepare a payroll and understand various tax problems.

The owner-manager suggested that a practicing pharmacist should visit other drug stores and learn what is taking place in order to adequately run his own pharmacy. He indicated that a practical experience requirement should be a part of the pharmacy course and should be supervised by pharmacy instructors in conjunction with teacher-managers such as himself. He believes that this supervised practical experience should take place before a pharmacist is graduated from

a pharmacy school. He also believes that management training should occupy a much more important place in the education of a professional pharmacist.

## CASE 36

### Nature of the Store Operation

This is a clinic pharmacy which operates in a medical clinic owned by eight physicians and one dentist. It is a unit in a local drug store chain. Annual sales approximate \$60,000, maintained almost exclusively from prescription drugs. The number of prescriptions filled daily will vary from 40 to 50 in the summer and up to 100 in the winter. The pharmacy occupies a small area of approximately 100 square feet and opens into a hallway some distance removed from the clinic entrance. The customers are serviced from a large ledge-type opening in the front of the clinic; there is no customer traffic in the pharmacy itself. The merchandise inventory is probably valued at less than \$4,000, as inventory is often replenished from another store in the chain which is located nearby.

The medical clinic is located near a large community hospital in a city of over 40,000 inhabitants. The pharmacy in this medical clinic is serviced by a woman pharmacist and is open nine hours a day for five days a week and until noon on Saturdays. The pharmacy clinic has two telephones which service both the physicians' offices and outside calls. Between 75 and 80 per cent of all prescriptions are received by direct telephone lines from physicians in the clinic.

This pharmacy is operated under a lease agreement which requires that 20 per cent of the gross sales be paid to the medical clinic. The chain of which this pharmacy is a unit has four general drug stores. The owner of the chain does not operate the clinic pharmacy primarily for profit purposes; instead, he feels that his operation of this unit reduces outside competition for his other stores and provides related business.

The woman pharmacy manager graduated from Southwestern State College about seven years ago. She has had previous experience in a chain prescription pharmacy in a large city. It is apparent that she is well-liked, capable, and possesses a pleasing personality.

#### Merchandising

Buying.--Because of its professional nature and the small enclosed area within which the pharmacy is located, merchandise stock is principally confined to prescription drugs and a few other products. This pharmacy is operated as an adjunct of another unit of the drug chain, which is a general drug store located within two blocks. The drug products used are supplied by either the nearby drug store or by the central warehouse of the chain. In this chain, the individual store units order a few drugs directly from the manufacturer, and the remainder are secured through the warehouse maintained

by the central buying office or from full-service wholesalers.

Pricing.--Pricing policies conform to those of the other units of the chain, as no attempt is made to raise prices in order to compensate for the higher cost of the lease agreement. Generally, the pharmacy achieves from a 40 to a 50 per cent gross profit based on the prescription drug sales.

Competition.--Because of their financial interest in the prescription sales in this pharmacy, the physicians in the clinic encourage their patients to patronize this pharmacy. As mentioned previously, over 75 per cent of all prescriptions are received by telephone from the physicians in the clinic. The pharmacy provides the neighboring retail store and others of the chain, when requested, with copies of any prescription filled. In this manner, all stores in the chain can have any prescription information available and are able to provide customers of this pharmacy with refills. This procedure results in a considerable number of prescription refills for the other stores and enables customers to purchase from the stores which are located in their neighborhoods.

The manager reported little concern with outside competition, indicating her principal interest is in providing service for the patients of the physicians in the clinic.

Advertising.--No advertising is done by this clinic pharmacy, except that its name, location, and phone number

are listed, along with that of the other units of the chain, and appears in all store advertisements, which are extensive.

Selling.--The manager indicated that there is really no selling in this pharmacy since the drugs are already sold when the doctors write the prescriptions. The manager reported that the only thing she has to sell is competent and friendly customer service. She believes that personality constitutes an important factor in the success of any retail drug operation.

Services.--The pharmacy offers extensive credit. Credit accounts are serviced by the central office of the chain; delivery service is also provided as the chain employs a man who makes deliveries for all the stores.

#### Accounting

Accounting is centralized in the accounting office of the chain, which employs a full time accountant. Each day, the accountant collects the daily pouch which contains cash receipts, credit tickets, cash register tapes, purchase requisitions, and other pertinent information. The accounting office then prepares the daily summary and sends a copy of it to the pharmacy the next day. Yearly statements are prepared by the accountant. Each 10 days, the manager is furnished with a sales comparison prepared by the accounting office which compares the sales for this period of time with that of

the same period the previous year. All accounts receivable are processed by the central accounting office.

### Personnel

The manager, who is a registered pharmacist, is the only person in the pharmacy. She is occupied almost full time in the dispensing of prescription drugs, as other duties and responsibilities are assumed by the chain store management.

The manager related that she is paid a fixed salary which she considers satisfactory. It approximates \$500 a month which is less than the salary received by most male pharmacists. She commented that in her experience, women in retail pharmacy do not seem to be paid as much as men, and that she originally was paid \$275 per month in a chain prescription shop in a nearby city upon her graduation from a pharmacy school about 8 years ago.

The manager has been recently married and does not desire to change her employment. However, she said that she feels that women pharmacists would profit generally by entering civil service work, hospital pharmacy, or governmental employment in which pay scales are not different because of sex.

She indicated that one requirement of working in a clinic pharmacy is speed in dispensing prescription drugs.

Public Relations

Professional, customer, and employee.--The manager indicated that she works closely with the physicians in the clinic. She reported that occasionally they will consult her in regard to drug dosage, but that principally her duties are to provide prompt and efficient service.

Customers are treated with friendly courtesy. No particular effort is made to provide them with promotional materials or advertising.

Advancement of pharmacy.--The manager indicated that her present position affords her some time to consult professional journals and to keep up to date with new drugs. She reported that she was very disappointed in her first position in a chain prescription shop in a large city, saying that there was little opportunity to keep up to date, as there was practically no contact between working pharmacists and drug supplier representatives. In addition, she complained of the absence of a drug library and a professional atmosphere, indicating that the pressure of work required her entire attention.

The manager does not favor the new five-year pharmacy program. She sees particular value in learning discounts and accounting procedures, although she does not need them in her present position.

Nature of the Store Operation

This is a retail drug store located in a grocery store. Annual sales are approximately \$85,000 a year, and the inventory at cost is about \$30,000. The store has an unusually low merchandise turnover of two times a year. Prescription drug sales constitute about 25 per cent of the total. Credit sales are encouraged, and about 40 per cent of all sales are charged. Outstanding accounts receivable amount to about \$5,300. The store has been in operation for three years. It is associated with a national drug concern as an agency store and is independently owned. The grocery store in which the drug store operates is also an independently owned agency store.

The drug store is located at one side of the grocery store and has its own front and entrance. It is set apart from the grocery store by fixtures which are back to back and provide an extensive shelf and service area. A seventeen-foot opening between the two units furnishes a passageway through which customers can move freely from one unit to the other. The store is located in a neighborhood shopping center in a large metropolis. Another retail drug store is located in an adjacent shopping center. Three shopping centers units are located at this intersection, each containing a grocery and drug store, in addition to other outlets. Included in

this shopping center are a toy shop, dentist's office, liquor store, coin laundry, and coffee shop.

This shopping center operates under an integrated management which occasionally advertises cooperatively. Its management provides music for the entire center, maintenance of the parking area, and general supervision of the center. The owner-manager of this store acts as a co-ordinator between the units in the center and the shopping center management.

The grocery store in the center handles fast-moving health, beauty, and drug products which are also sold by the drug store. The drug store, however, provides a wider variety of drug items.

This drug store is distinctive because of a "traffic center" office in which utility bills, auto licenses, postal service, hunting and fishing licenses, and money orders are handled. It is almost completely self-service, except for the prescription department. The store has no fountain; the owner-manager indicated that his "traffic department" substitutes for a soda fountain in bringing traffic into the store.

The owner-manager is an experienced retail drug store operator who only recently was licensed as an assistant pharmacist under the state pharmacy laws. The assistant manager was the person interviewed. He expressed his belief in the necessity for drug store operators to adjust to new merchandising trends, including the use of "loss leaders" and low prices. He indicated that the termination of fair trade

enforcement by the courts about three years ago has confronted most druggists with competition with which they have had no previous experience. While he is hopeful of national legislation to restore fair trade laws, he believes meanwhile that pharmacists must recognize that new methods are needed to meet competition.

### Merchandising

Buying.--The informant reported that buying competitively is perhaps the most difficult problem a small operator faces. The store has joined a volume cooperative purchasing plan on fast-moving items sponsored by a full-service wholesaler, along with a plan for a group advertising program for independent operators. Since the plan has been operative, business with the wholesale house has increased substantially. The store manager owns stock in a retail-owned cooperative wholesale house which entitles him to purchase national brand merchandise at approximately a 10 per cent discount; however, as freight must be paid from a distant city and the service is slow, little merchandise is purchased from this source. In addition, the store manager participates in cooperative buying or direct accounts with manufacturers, each pharmacist thus sharing in quantity discounts. The informant mentioned that, while there are many advantages in operating as an agency store, there are also disadvantages, both in the limited variety of private-brand merchandise and the possibility

of being overstocked with merchandise difficult to sell. This operation still depends upon the full-service wholesalers located in the same city because of their quick service. The informant remarked that it is possible to buy identical drug merchandise from grocery wholesalers (which is pre-marked with the selling price) at prices below that charged by drug wholesalers.

The informant expressed severe criticism of the discount policies of manufacturers, charging them with offering preferential discounts to chains and discount houses and thus placing the small independent store at a disadvantage.

Pricing.--The informant indicated that the store pricing policies need to be competitive because of the store location. Price leaders are used to build store traffic. The informant stated that "everybody is price-conscious today" and that in the current competitive situation the public is inclined to patronize the establishment with the lowest prices. All drug items are marked in code with the cost price and date of receipt for merchandising control. Prescription drugs are priced to yield a profit of 50 per cent of the selling price, except on a few standardized prescription items which yield approximately a 33 per cent profit. These items are standardized throughout the city at a price lower than the recommended one. Also, the informant reported that special prices are arranged when customers must buy certain drugs repeatedly. Most front-end merchandise is priced at recommended fair trade

or suggested prices, except for price leaders which are established to give the store a low price image.

Competition.--This retail drug store is obviously faced with severe competition from discount houses, chain drug stores, and two retail drug stores located in the shopping center area. The most severe competition arises from an adjacent shopping center store which operates as a supplier-owned chain store, the ownership representing the same company with which this store is associated under an agency agreement. A drug store near this area also engages in cutting prescription drug prices and may sell as low as cost, if necessary, to undersell a competitor. This store advertises that it will beat any prescription item price in the city, and the informant said this appears to be true. The operation is also faced with competition on health, toilet, and proprietary items from the grocery store in which the unit is located.

The informant considers some of his competition unethical, particularly if there is price-cutting on prescription drugs. However, he generally criticizes the manufacturers for offering preferential discounts which make it possible for competitors to sell more cheaply and still make a customary margin. As an illustration, he cites a recent example of a drug which this store buys at a price of 30 tablets for \$12.00, or 40 cents apiece. This tablet is sold at 60 cents, making a 33 1/3 per cent profit on the selling price. A

chain competitor buys the same tablet for 27 cents and re-tails it for 50 cents, making a 46 per cent profit.

Another example concerned a name brand iron which the owner-manager purchases for \$21.75 and sells for \$28.00. This same iron, according to the informant, could be bought in a discount house for \$17.88. Apparently, discount operators buy in large volume and receive special discounts. Also, they often make "special deals" on the excess production of manufacturers. As this informant stresses, it appears that either no effort is made to enforce the national legislation which restricts preferential pricing practices or it is not enforceable.

The informant expressed the belief that this store is meeting competition by low prices on selected items and self-service operation. The prescription department specializes in personal service and customer satisfaction. A traffic center of auxiliary services is believed to be an important factor in building good will. Also, complete and accurate bookkeeping service and tax information are furnished to the customers and are believed to be important factors in building good will.

Advertising.--This store holds regular sales sponsored by the national drug supplier with whom the store is associated. The manager subscribes to a promotional service for \$5 a month and believes that the service is well worth the money. He participates in the group advertising plan sponsored by a

full-service wholesaler whereby independent stores are identified by a distinctive designation used in metropolitan newspaper and television advertising. A distinctive store sign also is used.

Selling.--The store is organized for self-service with a check-out register located at the front. The informant reported that it is operated under a policy of customer assistance rather than customer selling. He is convinced that self-service is more effective than clerk-service in increasing sales. He believes that, when customers handle the merchandise, they invariably select larger sizes and purchase more. He reported little difficulty with pilferage, partially because of excellent visibility throughout the store. He disclosed that he collects cash at the prescription counter for one confidential item sold to men to allay possible embarrassment that might be experienced at the check-out register which is invariably serviced by a woman. He indicated that even though this establishment is based on self-service, personal selling by pharmacists is very important, particularly in selling proprietaries such as vitamins.

Inventory control.--The informant considers inventory control a most important part of the store operation. This is indicated by very complete inventory control records. Inventory control sheets are maintained on direct accounts by the suppliers' name and arranged alphabetically. They include items by name and the recommended supply, with

periodical entries made when the detail representatives call, listing items on hand and amounts reordered.

Services.--Adjacent to the prescription counter is the bookkeeping office, and back of it is a "traffic center" located at the rear of the store. This "traffic center" processes license tags, hunting and fishing licenses, utility bills, money orders, and postal service. The informant reported that the bookkeeper is able to service this department. The fees for the service have more than paid her wages, in addition to adding an important traffic service to the store. The location of the drug store in the grocery store has been only partially successful in capitalizing on the grocery store trade. The grocery store traffic encourages women to leave their prescriptions at this drug store and have them filled while they shop for groceries. This procedure has helped the prescription business to some extent. However, if the women do not have prescriptions to be filled, they apparently prefer to buy their drug items in the grocery store and do not enter the drug department.

The bookkeeping machine used in posting accounts receivable is also utilized in posting all cash as well as credit prescription business by the names of the customers, thus enabling the manager to present the customers with their tax deductible prescription records at the end of the year, along with the season's greetings.

Credit is freely extended and posted by machine to customer accounts from credit tickets prepared in duplicate. The informant reported that apparently credit service is a most important factor in developing customer loyalty and increased business.

Legal problems.--The informant reported that the store's lease requires a \$250 minimum monthly rent or 3 per cent of the gross sales, whichever is larger. He mentioned that a previous drug store operation was terminated because of personal and political disagreement between the store manager and the lessor, coupled with an incomplete leasing option agreement through which the lessor was able to force the manager out by increasing the rent.

#### Accounting

Financial statements.--Monthly statements are prepared by a public accountant for the small fee of \$25.00 a month. These appear to be complete operating statements and balance sheets, although no ratios or comparisons are prepared by the accountant. The owner-manager indicated that he studies these statements carefully. They are prepared from duplicate bank deposit tickets (which list daily cash register data in addition to the deposit) stapled to daily cash register tapes, the monthly bank statements, and the check register. Accounts receivable are posted by a modern bookkeeping machine and operated by an employee of the owner-manager.

Auxiliary records and reports.--Payrolls and tax reports are prepared by the public accountant. A petty cash control system is used to control cash "paid-outs," thus providing a system whereby eventually all cash payments are replaced by checks. This is one of the few "petty cash" control systems experienced by the interviewer.

### Personnel

Because of self-service, the personnel expense is kept at a minimum. The prescription department is serviced by the owner-manager and the informant, who is on a half-time basis. The usual work force consists of a registered pharmacist and three employees, one employee at the cash register, one assisting on the selling floor, and a bookkeeper.

The informant reported that the manager complains that he cannot pay all his employees a satisfactory wage. Apparently, he is forced to utilize married women with other sources of income because of the low rate of return of the store. He described the help as competent. He indicated that, through personal supervision, the store is able to secure effective performance from the employees.

### Finance

The informant reported that the store is operating at a slight loss, although the owner-manager appears confident that the situation is improving. He commented that store sales do not justify the present large inventory, and that

the merchandise turnover must improve. He said that the firm is currently taking all cash discounts and does not appear to have any problems relative to lack of capital. The operation seems to be well-financed with the most modern fixtures and equipment.

### Public Relations

Professional, customer, and employee.--The informant reported few contacts with doctors, indicating that their chief efforts are expended in building close customer relations through service. Customers are treated as personal friends, and personal relationships are emphasized. He described employee relations as good, although employees' wages are inadequate. The manager lets employees take time off when they desire it and does not deduct from their pay for short absences from work.

Advancement of pharmacy.--The informant is apparently strongly convinced that the difficulties of the independent druggist can be traced chiefly to the discount policies of large drug manufacturers in favoring the large scale buyer through preferential discounts. He was also forceful in expressing the opinion that pharmacists must learn to sell and exist on lower profit margins and increased sales. He also commented that some druggists have charged too much for their merchandise, creating an image of high prices which is hurting drug store sales.

Education.--The informant expressed the opinion that probably one of the most valuable learnings which can be taught to students is an adequate knowledge of discounts and how they operate. He said that pharmacy graduates need more business training and less technical training. He believes that the pharmacy training program should be made more practical.

He feels that, in a pharmacy school, the knowledge of technical and ethical aspects of pharmacy are so stressed that practical aspects of pharmacy practice as found in the business world are often under-emphasized. He said that retail pharmacists need training in purchasing and dealing with supplier representatives to protect them from possible over-buying.

Nature of the Store Operation

This is a downtown chain discount store, located in a city of over 138,000 inhabitants. No sales or inventory data were revealed, as it is not the store policy to disclose these figures. The prescription department employs four pharmacists. This is a self-service, cash and carry store, which emphasizes reduced prices. It is part of a chain consisting of approximately 24 large-scale operations scattered throughout the western and southwestern areas of the United States. Currently from six to eight new supermarket discount stores are being opened each year in new locations.

The store features check-out cash registers which service the major portion of the store. In front of the check-out cash register is an area featuring convenience and bargain merchandise which is sold by means of individual cash registers for each section. Bargain tables of low-priced impulse items are predominant. The store is crowded and perhaps rather "worn" in appearance, partially because it is an old store. A new giant discount store has recently been opened by this chain in a shopping center in the city, and the two operations are coordinated.

The downtown prescription department manager graduated from pharmacy school about ten years ago. He stated that he was a "retread" pharmacist who had returned to

pharmacy school after considerable practical experience in various types of drug stores.

### Merchandising

Buying.--This operation does not utilize a warehouse source of supply, the management preferring to order directly from manufacturers.. Many drug items are purchased from local wholesalers. All direct orders are made 30 days in advance and this necessitates a comprehensive stock control system which discloses the stock on hand, reorders, and movement of individual drug items. The prescription department manager emphasized the value of this inventory stock control system, and said that few operations could approach this type of control.

The manager stated that the high volume of sales enables him to order in large quantities, thus securing special discounts. Because of buying power and low cost of operation, he believes that the store can undersell other drug outlets in the city and still make a reasonable profit.

Pricing policies.--The manager stressed the importance of a cost control system in the prescription department which enables him to price prescription drugs on the basis of the actual cost of dispensing each item. He indicated that the prices are extremely competitive. All merchandise is marked at cost in code and also at the retail price. He explained

that, by this procedure, he can determine current price changes and adjust the prices accordingly.

Competition.--The manager believes that this store has an advantage over many other stores because of the limited service, in addition to the buying power based on volume sales. By stressing a cash and carry operation, expenses are decreased.

Advertising.--The manager reported that satisfied customers have proved to be the source of their best advertising. The store advertises extensively in the newspapers and by television, and price leaders are regularly featured to create a low-price image. Advertising is coordinated with that of the new discount shopping center.

Selling.--The manager emphasized that he has been associated with this store for eight years and has never been asked to go on the selling floor. He explained, however, that it is now the practice to keep a pharmacist on the selling floor to advise customers in regard to their drug purchases. He considers this a necessary adjunct to a self-service drug operation.

The self-service checkout system requires the operator at the "check-out" cash register to retain prescription tickets, in order that they may be compared with prescription records to indicate whether or not customers are paying for all their prescription items.

The store layout and display is under the supervision of the store manager, who is assisted by merchandising specialists.

Inventory control.--As previously mentioned, stock control inventory cards are maintained on all direct accounts. Comparative data are kept on the movement of the merchandise.

Services.--This establishment promotes customer traffic by constant advertising and low prices on brand-name merchandise. The manager believes that customers who desire to pay cash and who do not want delivery service should have the privilege of buying at lower prices which are made possible partially by the elimination of delivery and credit services.

#### Accounting

Aside from maintenance of inventory control stock cards and prescription records, the prescription manager is not personally concerned with accounting records, which are kept by the store accountant.

#### Personnel

The manager reported that the principal duty of pharmacists in this operation is to fill prescriptions. However, he emphasized that pharmacists with experience in selling are preferred to those without such experience. He believes that ability to converse with customers and establish friendly relationships is a necessity in any operation.

Public Relations

The manager believes that most physicians respect the professional dispensing of the quality drugs of this store. Customers are attracted to the store principally by its "low-price" appeal and the sizable quantity of merchandise which is offered. He indicated that much business is secured from the medium to high income bracket clientele who often appear to be as much attracted by price appeal as people with lower incomes.

Public relations activity consists principally of maintaining friendly relations with customers. The manager indicated that even with a volume business, it is possible to establish many personal relationships.

The manager belongs to the county pharmaceutical association but rarely attends its meetings because of the dissension which he believes often accompanies these meetings. Apparently, many local pharmacists are extremely critical of the price-cutting activities of this store, and they consider its pricing policies as being unethical and detrimental to the pharmacy profession. The manager pointed out that he considers this operation to be more ethical than most drug stores, and he vigorously defends the store policies. He reported that this store operates in strict accordance with the law.

Education.--The manager indicated that general education is an important phase in the training of pharmacists. He said that, while he is not aware of any direct practical

benefits from it, he is nevertheless appreciative of this part of his educational background in his personal life. He believes that more management training is needed in the pharmacy school.

## CASE 39

### Nature of the Store Operation

This is a newly opened large discount chain store located in a city of approximately 138,000 people. The store has recently been established by a long-time "cut rate" drug chain which has adapted itself to modern departmental discount merchandising. The chain currently consists of approximately 24 large-scale operations located throughout the southwestern part of the United States. Ordinarily, these units are located only in areas where "fair trade" is not effective.

The store is approximately 100 by 200 feet in area. The prescription department is located at the rear of the store, which is in a large building resembling a gymnasium. The prescription department is arranged in such a manner that eight pharmacists may work at one time. The store features the "basket type" of self-service operation, with "check-out" cash register stands at the front of the store. Various displays of impulse merchandise are located in front of the check-out registers. This auxiliary merchandise may be purchased by the customers at special cash registers situated at the place of sale.

The interviewer was present the second night of the opening of the store. The opening was preceded by extensive advertising both by newspaper and television, and at night a searchlight illuminated the establishment. The store is

located in a fairly new and rather large shopping center with extensive residential areas and other shopping centers located in various directions. The new store employs about 80 people, including four registered pharmacists. A downtown drug store has been operated in this city by the chain for many years, and this store represents its second operation in the community. Pharmacists may be shifted between the two stores.

The assistant manager of the prescription department graduated from pharmacy school about five years ago. His father operated a drug store in this city for many years. Upon his father's death, the assistant manager sold the store because at the time he believed he was too inexperienced to operate it. The assistant manager was the interviewee.

#### Merchandising

Buying.--The informant emphasized that, although a large part of the drugs are supplied directly from the manufacturers, others are purchased locally because of restrictions by certain drug manufacturers against direct sales. He reported that this chain does not have its own warehouse system. Because of volume purchases, the store is able to take advantage of many quantity discounts. The informant believes that the store can undersell every drug store in town and still make an adequate margin of profit because of the store's buying power. He stated that the high volume of sales enables the chain to secure special prices and discounts. (It is

commonly believed that volume operators such as this organization often get "preferential discounts"--special prices and concessions which are not available to the conventional retailer, and which some believe may be illegal under the Robinson-Patman Act.)

Pricing policies.--This outlet attempts to keep prices very competitive. The informant said that many times 59-cent and 69-cent prescription items are dispensed, which creates a low-price image with the general public. "Loss leaders" are utilized to strengthen this low price image.

All goods are marked at cost (in code) and at the retail price. This provides an auxiliary means of determining current price changes and permits more control over pricing.

Competition.--The informant reported that the store operates on a pricing policy designed to undersell all retail drug outlets in the city. The store appeals to the cash customer who picks up his own prescription drugs, thus eliminating the cost of credit and delivery service. A variety store chain is building a giant outlet in the city which will cover 70,000 square feet, as compared with the 20,000 square feet which this store occupies. The variety store discount outlet may provide substantial competition to this store, since a prescription department is planned.

Adversiting.--The store advertises extensively, and at the time of the interview was running a six-page advertisement in the daily newspaper, in conjunction with the downtown

store. The informant described a television program planned for the next day which was to originate in the store. He reported that the downtown store has advertised in the newspaper at least once a week, and also that television has been used extensively. He assumes the advertising activity will be increased with the addition of the new store. The informant said that the store does not advertise prescription drug prices, as this procedure is against the law in the state. However, he indicated that "word of mouth" advertising by the customers proves effective in securing business for the store based on price appeal.

Selling.--The informant indicated that it is store policy to keep one pharmacist on the selling floor in the self-service area at all times to advise people concerning their drug purchases. He commented that ability to work with the customers and to sell merchandise is a function of this store, although most of the pharmacists' time is occupied in filling prescriptions.

He reported that the store uses a control check to insure that customers are paying for the drugs dispensed in the prescription shop. Sales bills from the prescription department are left at the cash register by the customer and must agree with the prescription records of drugs dispensed on that day. If they do not, the prescription customer who does not pay can be identified.

The layout and display for this store are supervised by head office specialists to whom this is a full-time job.

All departments in the store are marked by numbers, and over 90 different types of merchandise are displayed. Storage bins are placed above head level around the entire perimeter of the store and serve as additional storage for merchandise and restocking of shelves. The openings to these bins are concealed by a border which is a part of the store design, and the customer is not aware of the reserve supply of merchandise.

Inventory control.--The informant reported that stock control is maintained by the use of stock cards on merchandise for all direct accounts. Merchandise in the prescription department is inventoried periodically and, by this system, it is possible to know how fast each drug item is moving. He emphasized that cost control is an integral part of the prescription operation and that the cost of dispensing each prescription item is known. This stock control system is necessary, according to the informant, because all drugs purchased directly from the manufacturer must be ordered 30 days in advance. Therefore, it is necessary that a comprehensive inventory records system be maintained, which consists of items on hand and items reordered. He further emphasized that prescription drug prices are carefully calculated.

Services.--This outlet operates on a low overhead cost basis because of the elimination of delivery service and

credit and the emphasis on volume sales at low prices. Store traffic is encouraged by constant advertising, fountain service, price appeal, and "loss leaders."

#### Accounting

Records are kept of the sales in the prescription department. Stock records are also maintained in this department. The general accounting function is centered in the store accounting office, and the pharmacists in the prescription department are not concerned with this aspect of the operation.

#### Personnel

The store is opening with four registered pharmacists in the prescription department. The informant said that they generally work eight hours a day for a six day week. He reported that pharmacists receive time and a half for overtime work and also are provided with retirement benefits. The informant's salary is \$175 a week.

The informant pointed out that, because of the policy of keeping one pharmacist on the selling floor, the management prefers to hire pharmacists who have had experience in selling.

Store meetings are held only occasionally. Department managers regularly attend training meetings in the western part of the United States where the firm headquarters are located.

The informant commented that all employees in the store are required to take lie detector tests periodically as a matter of store policy. Because of this policy, the informant believes that no other system of internal control is needed.

### Public Relations

Professional, customer, and employee.--The informant reported the pharmacists do not attempt to work directly with the doctors. He emphasized that, in his opinion, doctors respect this operation because of the policy of dispensing only brand-name drugs. It was stressed that store policy requires strict conformance with all legal requirements.

Customer appeal is based on low prices on brand-name merchandise.

Advancement of pharmacy.--By appealing to customers on a price basis, this store appears to be breaking the conventional price structure on prescription drugs. As a desire for freedom from price competition appears to be one of the characteristics of a profession, it appears that this outlet presents serious problems in the matter of professional compensation. The practice of using "loss-leaders" to create a low price appeal on certain drugs appears to create the impression that conventional drug outlets are over-charging customers, and this idea may have serious professional ramifications. Also, it is obvious that, although the prescription

department is controlled by a registered pharmacist, the overall operation is under the supervision of store managers who are not pharmacists. This practice indicates a fundamental change in drug distribution.

The informant pointed out that prescriptions are filled at low prices in a professional manner by qualified pharmacists who devote their full-time efforts to the practice of pharmacy. He believes that this store operates more ethically than most independent operations, and that the public is entitled to reasonably priced drugs. One practice of the store often involves dispensing prescription drugs in original bottles provided by the manufacturer without removing the manufacturer's label. The practice permits the customer to identify the medicine and make price comparisons, which is a violation of usual pharmaceutical ethics.

The informant reported that he belongs to the county pharmaceutical association. He does not consider that public relations are very important in an operation of this magnitude.

Education.--The informant said that management training should be an integral part of the pharmacy curriculum and that more of it is needed. He indicated that any type of training which will aid pharmacists in developing the ability to serve customers more effectively would be desirable.

## CASE 40

### Nature of the Store Operation

This drug department is in a "closed door" discount store for government employees located on the outskirts of a metropolitan city. As the drug department dispenses over 400 prescription items daily which constitute approximately 20 per cent of the total sales, it may be estimated that the drug department sells over \$2,000,000 worth of merchandise annually. Between 30 and 40 per cent of the prescriptions are received by telephone. Merchandise turnover varies from 9½ to 14½ times annually, averaging 12 times. Charge sales represent 8 to 10 per cent of the total. However, credit sales are processed by the discount house management which provides this department with cash for these sales. The prescription and drug department operate on a very short-term lease agreement with the management of the discount house.

The discount house has been in operation for approximately three years. It is a member of a group of similar operations located throughout the nation, owned by a concern with long time experience in mail order billing. Customers of the establishment are restricted to those who are employed by the state or federal government including principally military personnel, teachers, and civil service employees. Eight discount houses are at present operated by this concern. The store covers a selling area of 90,000 square feet. It

will soon open a grocery supermarket, which will add 30,000 square feet to the store dimensions. It is operated by utilizing only one shift of employees. It is open from 12:00 noon to 9:00 P. M. Tuesdays through Fridays, on Saturdays from 9:30 A. M. to 6:00 P. M., on Sundays from 1:00 P. M. to 6:00 P. M., and is closed all day on Mondays. During special selling seasons, longer hours are maintained.

One of the characteristics of this discount store is that the leased departments operate under a common name with uniform over-all store management, utilizing a "closed door" policy. Each leased department is expected to maintain the lowest prices in town in its respective departments. The theory behind the leased operation is that the over-all store management secures the services of specialists in each specific department. The women's wear department is leased by a large dress retailing chain; the furniture department by a local large furniture dealer; the automobile sales department by a local automobile concern; etc.

Each department in the store leases its own floor space, store room, and cash registers, and operates as a separate unit, although it is represented to the public and advertised under a common name. The total operation is under the control of the store manager, who constantly supervises the store to see that the regulations are uniformly maintained by each leased department.

The "closed door" policy combines a mixture of selling psychology, low-price policy, and service to customers through a membership program. By means of the membership arrangements, which includes representation from different governmental, teacher, and military groups, customers are represented on a board of control which cooperates with the store management in allowing customers a voice in the store policy. This gives customers a means of presenting grievances which may arise. It also provides a membership list of financially stable customers. Certain services are provided customers, including credit cards, spacious parking facilities, low-priced gasoline service, and delivery service (for a fee) in some departments. The emphasis on one-stop shopping includes an automobile service center, a cafeteria, an automobile sales service, and an insurance operation.

The leased drug department is an extension of a cut-rate retail drug operation centering in a large city in a neighboring state. This drug operation has competed successfully for years with another cut-rate drug chain in the same city. At the time of the establishment of this unit, the chain drug concern operated only two leased departments in discount outlets. Today, 32 leased departments are located in larger retail units; these retail units are located in the midwestern region of the United States and on both coasts. The conventional stores represented in this operation have

been reduced from 22 to 17 as leased departments have been increased.

The prescription and drug department occupies an area of 6,000 square feet, extending from the center to almost one end of the store. The storage and receiving room is located adjacent to one end of the store and is convenient to the drug department. The prescription division of the department is slightly raised from the floor level. It features a long prescription counter with a raised 14-inch glazed glass separator with spaced customer openings providing a necessary work area to protect the pharmacists from customer interruptions while filling prescriptions. The prescription division is experimenting (apparently successfully) with a means of increasing efficiency and speed in dispensing by utilizing the services of a typist to prepare prescription labels. A cash register and check-out area is located at one end of the prescription counter on the floor level to provide easy contact with customers. Prescription items are distributed over a counter adjacent to the cash register, awaiting the customers' convenience while shopping in other parts of the store. The department office is located directly over the prescription division, affording a view of the store.

The drug department manager graduated from pharmacy school five years ago. After two years of experience, he assumed responsibility for setting up and managing this store, under the supervision of the head office. The present

assistant manager in charge of the prescription division is also a recent Southwestern State College graduate with two years of experience in this store. The drug department manager related that his objectives are to maintain high volume sales through low mark-up policies and through the use of selling psychology, including the use of "loss leaders." National brand "pre-sold" merchandise is featured in the operation. The manager reported that no private brands are used. He said that the leased department has consistently been among the top three leased drug departments maintained by the drug concern. He believes that this is because of the previous absence of this type of operation in the area and because of a local high price structure on drug items favoring the type of competition this department represents.

#### Merchandising

Buying.--In the prescription division, most pharmaceuticals are bought directly from manufacturers. This division is also serviced by a local national chain wholesale house from which certain drug items are purchased, which are distributed only through wholesalers; also, "shorts" are quickly serviced from the same source. The bulk of the merchandise in the drug department is purchased directly from manufacturers. Some merchandise is shipped from a central warehouse in a neighboring state through which the department is controlled. In addition, the company maintains purchasing agents in

various parts of the country, who are constantly contacting different manufacturers and brokers and buying "special deals" upon which the department can promote special selling emphasis because of its purchasing power. The department manager indicated that the drug department often receives large shipments of merchandise without notification, which the management is expected to move. He reported that at times the department practically gives away certain items of merchandise in order to maintain a turnover. This type of buying creates a low-price image for the entire store on various brands of merchandise. He said that theoretically the head office approves all orders; however, none of his orders have yet been turned down. When drug merchandise is received in the storeroom, the freight bill is attached to the invoice and is later forwarded to the home office for payment.

Pricing policies.--The drug department manager commented that generally a 20 to 30 per cent gross profit on the selling price is experienced on prescription merchandise, with less than a 20 per cent gross profit on front-end merchandise. He indicated that this profit is calculated on accepted wholesale prices, whereas the per cent of profit of this department may be larger because of favorable purchase prices. He cited an illustration of an article with a wholesale cost of \$8.00 which is sold for \$10.25, yielding about a 22 per cent gross profit on the selling price.

The over-all store policy requires this discount house to sell at the lowest prices in the city. The central management of the house maintains a shopping service by which it continually shops to check on other retail prices in the city. The drug department manager reported he is not required to meet special sales prices (one to three days) which other outlets may promote.

The general pricing policy is to maintain accepted low prices, providing the customers with uniform prices throughout the drug department. These prices generally do not fluctuate during the year. The department manager reported that he sets and maintains pricing policies on all items sold in the department. However, some featured price-leaders are emphasized in the monthly store bulletin and over the store loud-speaker system. These leaders are used to establish departmental and store traffic and promote a low-price image. The department manager reported that one of the difficult things for him to learn was that in merchandising one must be prepared to lose money in order to make it. Specials in the drug department may be featured for a 30 minute period or over the week end on the store loud speaker. These specials generally utilize a well-known item of brand name merchandise being sold at a very low price. An illustrative example is a name brand of paper tissues which normally sells for a retail price of 29 cents and has a wholesale price of 23 cents. Over a week end, this item may be sold at "2 for

25 cents"--each sale apparently costing the department approximately 20 cents. The department is prepared to lose up to \$500 during a short period of time to establish store traffic and a low-price image. Another example is an item which lists for \$1.25 and which is normally sold by this store for 98 cents. On a special, this item might be featured as a leader at 2 for 98 cents.

A marking machine is used to record on the merchandise the cost of the item in code, the date, the name of the supplier in code, the retail price, and the name of the store.

Competition.--The drug department manager reported that the department's chief competition is from other discount outlets and from conventional drug stores which provide personalized service (including 24 hour prescription service) and stay open longer hours. Apparently, the department loses a certain amount of prescription drug business by not being open during the morning hours and available for telephoned prescriptions. However, he said that occasionally prescription calls are taken during the morning hours when a pharmacist happens to be in the store.

A new one-stop shopping outlet of 90,000 square feet area recently opened in another part of the city. This discount house contains a prescription division and an extensive drug department. The department manager said that this new drug outlet features a large quantity of private brand merchandise, in contrast to his department which features only

national brands. He believes that no serious competition will result from the featuring of private brands in a volume outlet. He is convinced that private brands generally can only be sold by a professional personal recommendation of a pharmacist in the store.

The manager commented that the manager of the drug department in the new store is obviously inexperienced in merchandising. He cited an example of an item stocked in two sizes--large size for \$1.00 and small size for 59¢. The large size was being sold for 74 cents and the small size for 42 cents. The small size was featured in store advertisements. Apparently, if the larger item had been featured, store sales would be greater and profits would be increased. The drug department manager emphasized that the sale of large sizes is advertised in the store for this reason.

Advertising.--One of the characteristics of this drug department is that little advertising is done, and, therefore, there is little advertising expense. The department features the selling of name brand merchandise which is "pre-sold" through national advertising. This elimination of advertising expense permits a lower pricing policy. Once each month, pamphlets prepared in magazine form which feature price leaders in each department are mailed to members of this "closed door" establishment. Other government employees may also be sent these pamphlets to encourage membership.

As mentioned previously, this department is prepared to sell an item throughout the month at little or no profit in order to establish traffic. This, in a sense, may be considered advertising expense. In addition to the monthly pamphlets, a loud speaker system is operated in the store; at various times throughout the day, specials are announced in different departments.

The monthly pamphlets emphasize the public relations aspects of the "closed door" membership program and usually feature such benefits as the distribution of educational scholarships to selected children of store members, gifts of valuable merchandise to government employees as door prizes, and other benefits which enhance the public view of the operation.

Selling.--The entire store operates under a common management in which all merchandise signs must be approved and printed by the store manager in a uniform manner. No unusual signs or unusual marking privileges on merchandise are permitted whereby any particular department might secure an unfair advantage over another department. All store signs are of small size and uniformly printed in black. Emphasis on bargains or price by means of displays featuring special prices in large letters is not permitted. The merchandise is neatly and conservatively displayed. One of the rules which is violated to some extent in this department is a regulation that all merchandise gondolas must be confined in their

displays to a 54-inch height. Since the most effective selling level is generally accepted to be the eye level, there is a strong incentive to build higher displays.

This store utilizes the self-service principle with individual departmental cash registers. Customers in this department are serviced from eight cash registers. Baskets may or may not be utilized, as the customers desire. Membership cards must be presented when paying for merchandise. A thin distinctive store tape is fastened to each purchase with the cash register tape, which permits the customers to pass the store inspector with the merchandise purchased when leaving the store.

The department manager indicated that this store is unique because it operates in a similar manner to a grocery chain in which discounts on the merchandise purchased are dependent upon the position in which various lines of merchandise are displayed on the gondolas and merchandise racks.

Apparently, a widespread practice exists in which a seller of a national brand merchandise is willing to make price concessions to have his particular brand placed in a more favorable selling position than competitive brands. Cigarettes were cited as an example of this practice. Contracts relative to purchase and display are generally negotiated by the central office.

The layout and display of the department is almost entirely the responsibility of the drug department manager,

so long as store regulations are followed. He reported that he receives very little supervision in regard to merchandise display.

Inventory control.--The drug department manager reported that he operates on a three-months' budget in which dollar control is exercised. According to this budget, purchases are governed on the basis of the previous years' sales and adjusted to the annual increase in the store volume. The department has a sundry, drug, cosmetics, and candy division, in addition to the prescription division. Separate records are kept on the prescription division.

General merchandise is checked into the receiving department and recorded on inventory sheets, generally by the case. These inventory sheets are posted in the general area of the merchandise and record both receipts of merchandise and the re-orders. Prescription drug inventories are generally maintained by supplier representatives when they visit the department. A typical entry will record the date of the visit, the number of items on hand, and the number ordered in the following manner: 8/4, 5/7, 1/11. In this instance, it is desired to have twelve items either available or on order. The first number represents the number on hand and the second, the number ordered. Control over re-ordering is maintained by this process. Thus, individual stock cards are maintained on all merchandise in the department, indicating the amount on hand and the amount reordered. This furnishes the

management with a record of the movement of merchandise upon which merchandising decisions can be made.

In the stock room, individual return boxes of broken or defective merchandise are maintained by company name and adjustments are made when manufacturers' representatives visit about twice each month. A complete merchandise inventory is taken twice annually.

Services.--As indicated previously, this is essentially a self-service, cash-and-carry store, emphasizing the elimination of the costs of credit, advertising, delivery, and extensive clerk service. Customers are encouraged to establish revolving credit accounts upon which a service charge is made monthly, thus establishing another profitable department for the store. Delivery service is available in some departments but not in the drug department. The "closed door" policy provides services to customers through grievance procedures handled by a representative advisory board.

Legal problems.--The drug department manager indicated that this department is careful to comply with all legal operating requirements. He mentioned that markdown pricing policies are in the process of being altered in which the recommended price is listed, followed by the current store price. Apparently this practice is being questioned by the government authorities.

### Accounting

The accounting for this department consists almost entirely of preparing supplementary statements and records which are forwarded to the head office, where they are compiled and analyzed.

In the prescription department, all refilled prescriptions are recorded on a daily record sheet. New prescriptions filled are determined by recording the current prescription number at the beginning of each day. Processed prescriptions are filed in convenient steel filing drawers. Prescriptions are divided into groups of 100 each and separated by rubber bands for easy handling. These steel filing cabinets appear to be a marked improvement over the paper-type filing boxes used in most retail drug outlets. The store manager said that it took some time for him to get accustomed to this type of system, but he now believes it to be much faster and more convenient than other types. Customers sign slips in duplicate for all credit sales. Copies of these slips are then forwarded to the credit department in exchange for cash credits. The original copies are retained for verification purposes.

The department manager maintains daily sales data, which are used to prepare monthly and annual totals. This permits him to analyze current sales in reference to previous performance.

The cash register utilizes a special key which records the sales of any particular item which is being used as a price leader. In this way, the management is able to keep a record of the volume of sales on a particular item of merchandise and to determine accurately the cost involved in featuring it.

### Personnel

All employees in the store must dress in accordance with the over-all store policy. The store manager works through the different leased department managers to achieve this uniformity.

Normally, the prescription division utilizes five registered pharmacists. At present, it is operating with four, with a replacement to be added in the near future. The department manager supervises the general over-all management of the entire drug department. His duties are principally concerned with front-end merchandising. The prescription division is in charge of the assistant manager who assumes complete responsibility for personnel, purchasing, and general management of the prescription division. The assistant manager is paid \$750 per month plus 3 per cent of the net department profits. The manager's salary was not reported. He receives a base salary plus a higher per cent of departmental profits than the assistant manager. Very little dispensing of drugs is done by the prescription manager, as he is

constantly on the floor supervising the operation, except in emergencies when his help is needed in the prescription division.

The department employs about 20 additional employees to service cash registers, aid customers, and receive and stock merchandise. Eight employees are required to service the eight cash registers; eight are normally used in the stock room; and the remainder have other duties. A bookkeeper is employed to process office data, along with other duties. Employees are expected to keep busy cleaning and arranging stock when not operating cash registers. The manager indicated that he likes to hire personnel who have had previous experience working as checkers in grocery outlets. He reported that supervision of personnel often requires the assistance of the store management. The store normally operates on a nine-hour shift, which eliminates double shifts.

The full-time services of a typist to process prescription labels is being utilized in the prescription division.

### Finance

The store operates on the principle of volume sales achieved by low margins of profit; thus, profits are secured by emphasizing turnover rather than profit margins. The manager reported that this department is consistently one of the three top leaders of the leased departments of the drug

company. The unusually rapid expansion of the company into new leased drug departments indicates their success. The elimination of delivery costs, credit costs, and advertising expenses are factors permitting lower profit margins.

### Public Relations

Professional, customer, and employee.--The drug manager reported that relations with physicians are good. Apparently, few overtures are made to physicians in the way of granting them the special privileges common in most retail drug operations. The department manager commented that one of the things which he likes about this operation is the independence which exists in their relationships with physicians and professional people. He said that customers are usually desirous of trading here. If physicians do not allow them freedom in selecting their pharmacist, the customers can change to physicians who will do so. It would appear that physicians are cooperating well with this prescription department as 30 to 40 per cent of the prescriptions are received by telephone.

Because of the volume of prescription drugs dispensed in this department, few personal relationships are established with customers. The department manager stresses fast and efficient dispensing, with customer satisfaction achieved through reasonable prices. He emphasized that the customers receive quality merchandise at uniformly low prices.

Advancement of pharmacy.--The department manager reported that the pharmacists in this store do not participate in the local pharmacy association. He indicated that, because of the critical attitude of pharmacists throughout the profession about discount operations, he does not feel welcome at the meetings of the local pharmaceutical association.

Participation in community activities by the pharmacists is not considered by the manager to be vital to the successful operation of this leased prescription division. Overall, the store policy encourages the establishment of a favorable community image by participation in civic benevolences.

Education.--The manager believes that this type of operation requires practical experience, which he believes would be very difficult to learn in any other way. He indicated that his accounting background affords him a good knowledge of business, which is helpful in analyzing different cost ratios and discount problems with which he is confronted. He said that the ability to meet and work with the public is a very important factor in this operation, as well as speed and efficiency.

The manager of the department stressed the value of studying general marketing principles and practices, including the reading of general marketing magazines and trade papers not necessarily associated with drug merchandise.

He believes the pharmacy school can best teach merchandising by providing demonstrations and talks by visiting

marketing experts. He reported that management and marketing classes are probably an effective means of teaching basic principles of merchandising. He indicated that knowledge of displays based on different marketing principles such as price or quality might be very helpful.