

Discounting Bills

By F. R. BOOCOCK IN
BUSINESS.

In these days of close competition and narrow profits, the business man, to be successful, must study every detail of his affairs with careful scrutiny. It is by this means alone that he can discover where unnecessary expense can be cut off, and where additional profits can be realized without sacrificing liberality toward patrons and without diminishing the popularity of his store. It is frequently discovered that a merchant, while progressive in most matters, still fails to perceive the profits to be made from discounts. A case in point comes to my mind: Some time ago a customer of a certain house was found to be very tardy in his payments. Investigation of his statements made to the commercial agencies showed that he was in good financial condition, having a surplus of some \$20,000 over all indebtedness. He carried a stock of about \$10,000. His annual sales were about \$30,000, which would indicate that he turned his stock three times a year. In other words, with a capital in use of only \$10,000 he was doing a business three times that volume in amount. This is an important fact to bear in mind. It was found further, upon investigation, that this merchant, in common with many others, had gained the idea that he could place his money in outside investments to better advantage than would follow from using it in his business.

Finally, I had the opportunity to do some figuring for this man. In some lines of goods which he carried he received a discount of 6 per cent. on bills paid in ten days. In other lines the discounts varied, grading down to 2 per cent. for the minimum. The average discount allowed for prompt settlement was 4 per cent. It was soon made clear that, inasmuch as the capital employed, say \$10,000, was used for purchases three times a year, and each time by claiming discounts was entitled to 4 per cent., it was possible to make a profit of 12 per cent. per annum upon the investment through this means alone. The merchant at once perceived that a yearly income of \$1,200 upon a capital of \$10,000 is a much better return than he could expect from any outside operations that are absolutely safe.

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Probably a great many more than you ever suspect—a great many that you consider as individually typewritten—for an accurate estimate shows that

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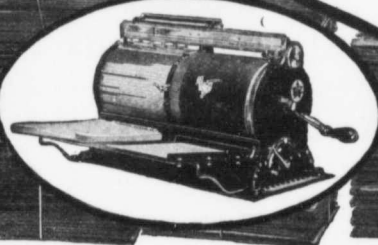
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The question arises in many cases how to take advantage of discounts when ready cash is not at hand. This, however, is a problem of no very great difficulty, provided the business is in good condition and shows by the relation of live assets to liabilities that the merchant is entirely solvent and in possession of a reasonable surplus. Money is plentiful in the banks, and bankers are always ready to lend to responsible borrowers. The rate of discount at which

money can be secured from a bank is rarely above 6 per cent. per annum. Accordingly the merchant who occasionally borrows from his bank for the purpose of claiming discounts which net him 12 per cent. per annum, is enabled to make a clear profit of 6 per cent. upon the transactions. Or where he borrows for all his payments, with a business of the size mentioned above there is still a gain of \$600 in discounts.