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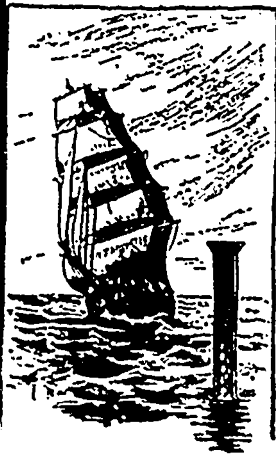
A QUESTION OF PROFITS.



IN view of the fact that terms are being materially shortened in the dry goods trade a consideration of the manner in which retailers determine the selling price of an article will be opportune. The dealer who makes his advances without any rule or system of calculation is apt to find himself brought up short some day for one of two reasons—either that he has been making some lines too high and they are still on shelf, or he has been marking many lines too low and profits have disappeared. One is as disastrous as the other—one bringing about the loss of capital directly and the other the loss of capital indirectly by means of loss of trade.

What is a legitimate profit? It is exceedingly difficult to tell; in fact, practice varies very much, and this is a point on which an exchange of views between retailers would be productive of much information and benefit. The dry goods merchant has to carry many lines of goods which go out of fashion very quickly, and the remainder then must have its price cut almost in two in order to clear it out. Hence the profit must be sufficient to make up for the loss on lots which are a little off in fashion. Remnants and odd sizes must also be sacrificed in order to ensure their sale, and this is another cause of loss. From this we would conclude that the least margin of profit would be 25 per cent. Some dealers get more, others try to get along with less. It depends very much on the class of goods, the quantity likely to be sold, the nature of the trade, and the size of the constituency.

But even when this is settled, there is yet something to be considered. There are two ways of buying goods—at 5 per cent. 30 days or 4 months and net 60 days. Supposing a dealer has two articles, each costing $1, one being bought with a 5 per cent. cash discount and the other at 60 days net. He marks both $1.25—and let us compare the profits. The first cost 95c., and the profit is therefore 30c., or 31.6 per cent. The other costs $1, and the profit is therefore 25 per cent. Figured in this way the difference is shown to be 6.6 per cent. But it will be noticed that the 95c. is paid 30 days before the $1; hence the interest on 95c. for one month must be computed. When this is taken into consideration the profit in the first case is only 29½c., taking interest at 6 per cent. This still leaves a difference between the two methods of 6.05 per cent.

The conclusion to be drawn from the above calculation is that when articles are bought on different terms, the same rate of profit cannot be used. If the terms are 60 days net, the rate of advance on the invoice price should be about 5 per cent. higher than if the goods were bought at 5 per cent., 30 days.

But there is another method which some merchants use. An article invoiced at $1, 5 per cent., 30 days, they conclude costs them 95c., and they say, "Well I ought to get $1.25 for that." Then the next article costs $1, 60 days net, and they conclude that perhaps that will bring $1.40, as it was bought close. If any person will take the trouble to work out the different rates of profit, the difference will be seen to be 8.95 per cent. This rate of percentage on a business of $20,000 is $1,790.

Slipshod ways of computing the advance to be asked cannot be tolerated in these days of close competition. The man who makes money now must figure both close and accurately. The age of large sales and huge profits is gone forever. The present generation is too smart to allow retailers to charge as much as they like. Information is too general, and every buyer has a good idea of the worth of the particular article of which he is in need. The man who can control the largest volume of business on the smallest margin is the winner.