FAIR TRADE AND THE RETAIL PHARMACY - A CASE STUDY

by

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INTRODUCTION

The purpose of the study was an attempt to determine the relative economic importance of fair traded products to one retail pharmacy. The relative economic importance of fair traded products was based on the relationship of: (1) the percentage of total sales that were fair traded products, and (2) the percentage contribution to gross profit by fair traded products.

The scope of the study was limited to one retail pharmacy. A comprehensive and objective analysis was made of the retail pharmacy. An objective research methodology was used to obtain the information required for the study. Throughout the study emphasis was on objective methods of observation and measurement, the use of the most accurate measuring devices available, and an open mind on the part of the investigator.

After a brief background on the subject of fair trade, the methodology, limitations, findings, and the summary and conclusions of the study will be presented in that order.

As far as the author knows the study was the first study of its kind. There were no other studies found which attempted to determine quantitatively the relative economic importance of fair traded products to one retail pharmacy.

FAIR TRADE

History

The first American attempt to set the prices of drugs and medicines on the basis of associative agreement was made by the Massachusetts College of Pharmacy in the year 1828. In that year the "Catalogue of the Materia Medica and of the Pharmaceutical Preparations with the Uniform Prices of the Massachusetts College of Pharmacy" was published. The catalogue consisted of 40 pages which included listings for 700 items of materia medica, 42 patent medicines, and 62 "miscellaneous articles." This was the first time prices were included in an American pharmaceutical catalogue. All earlier catalogues of drugs had merely enumerated the items having blank columns for the prices to be entered by each pharmacist.

The Massachusetts College of Pharmacy was organized in 1823. The College was an association of Massachusetts pharmacists. The primary activities of the College, after its organization in 1823, had to do with the regulation of the business of pharmacy as far as practical and consistent with social institutions. The question of regulation of retail prices was also included in the College's activities. The College made no serious attempt at regular instruction until

1867.[1] The preface of the catalogue which reads as follows gives the purpose of the catalogue and of the College:

> The committee for publishing this Price Book think it proper to mention, that in their opinion a judicious arrangement as to prives is no small means of adding support and dignity to the business. They cannot but hope, and think, that the prices, as here set down, will be followed, as near as possible, by every Druggist. This must be for the benefit of all. One evil where there is a difference in prices is, that the purchaser either thinks that the one who charged the high wronged him as to price, or that the one who charged low wronged him as to quality. This makes it apparent that every Druggist, the more he values his interest or credit, will adhere more closely to these prices that have been regularly fixed by the Society. A competition as to price must be eventually ruinous to all, but a competition as to the quality of the medicines and attention to business, will add to the respectability and standing of the profession.[2]

How successful the Massachusetts College of Pharmacy was in persuading the druggists to follow the prices suggested would be difficult to determine accurately. The druggists who were members of the organization probably adhered to the suggested prices. The druggists who were not members or who were located in other areas of the country would probably have found it difficult to follow such prices had they been inclined to do so. Furthermore, the economic and trade situations during that time were not sufficiently stabilized to make fixed prices workable.[3]

1. E. Kremers and G. Urdang, History of Pharmacy, Second Edition, J. B. Lippincott Company, 1951, p. 248.
2. G. Griffenhagen, "'Fair Trade' in 1828," Journal of American Pharmaceutical Association, March 1959, p. 156.
3. Loc. cit.

Competition in the form of price cutting became one of the more common forms of business practice between the too numerous drugstores during the 1800's. As early as the first decade of the nineteenth century, price cutting was a striking feature of American pharmacy.[4] These conditions resulted in the initiation of movements by independent retail pharmacists to abandon or at least mitigate the threat of price cutting. The tripartite plan of the National Association of Retail Druggists, founded in 1898, was fairly successful in its attempt to limit price cutting. The plan was an agreement among three parties, the National Association of Retail Druggists, the National Wholesale Druggist's Association, and the Proprietary Association of America. The agreement limited effectively the sale and distribution of many proprietories to dealers who maintained established resale prices. The agreement, however, led to action by the United States Department of Justice. As a result, on May 9, 1907, the essential and effective measures of the agreement were declared, by the United States Circuit Court for the District of Indiana, to be illegal under the Sherman Act of 1890. Other decisions abolishing every possibility even for the individual manufacturer to maintain resale prices for his products followed.[5]

4. Kremers, E. and Urdang, G. Op. cit., p. 406.
5. Ibid., p. 413.

For a more effective form of resale price maintenance of drugs, medicines and other products sold in the drug stores, the druggist had to wait until the 1930's. The economic distress caused by the recession at that time induced a number of states to pass Fair Trade laws. Under the fair trade laws which contained a non-signer clause, the manufacturer of a product that was: (1) branded, and (2) in free and open competition with other similar products manufactured and sold by others could set a minimum resale price for his product. The manufacturer to fair trade the product would sign a contract with a single retailer in the state and notify all other retailers of the product in that state. Notification by the manufacturer bound all retailers to the contract as soon as they were notified. Willfully and knowingly advertising, offering for sale, or selling a product below the minimum resale price was a violation of the fair trade contract and the manufacturer might take action to avoid such practices.

The first state fair trade law was passed by California in 1931. By 1937, 13 other states had passed fair trade laws. These state laws applied only to reselling within the state boundaries. The fixing of retail prices on sales to other states was a violation of the Sherman Act.

In 1937, the Miller-Tydings Act was passed. The Act was an amendment to the Sherman Act and made individual price maintenance in inter-state commerce, where state laws existed, lawful.

Within two years of the passage of this amendment, the number of states with Fair Trade laws increased from 14 to 45. The states of Missouri, Texas, Vermont, and the District of Columbia being the only areas which never passed such laws.

In May, 1951, the Supreme Court delivered what looked like a death-blow to fair trade. The court ruled, in the Schwegmann[6] case, that the non-signer clause had not been legalized in inter-state commerce and that, consequently, resale price maintenance on this basis in inter-state trade was violation of Federal anti-trust legislation. Under this new ruling a manufacturer in order effectively to fair trade his product in inter-state commerce would have to sign fair trade contracts with all retailers in the various states in which the product was sold.

The effect of the Supreme Court decision was that a great majority of branded goods which up to this time had been regarded as price protected in inter-state commerce were now open to intra-brand competition, that is, the same brand could be purchased in different stores at different prices at the same time. In some states, especially New York, retail competition for a while took a rather

6. Schwegmann Bros. v. Calvert Distillers, 341 U.S. 384.

violent form. Retailers' trade associations, which had been the main advocates of the Miller-Tydings Act as well as the fair trade laws in the various states, then started a nation-wide campaign to amend the Federal anti-trust legislation. In July, 1952, the McGuire Act, an amendment to the Federal Trade Commission Act, was passed. Under this Act, resale price maintenance in inter-state commerce on the basis of the non-signer clause in state laws was declared not to be in violation of Federal anti-trust legislation.

Recent Developments and Present Situation

The attacks against fair trade laws on a national and state level since 1952 have substantially impaired the legal protection of the system.

In thirteen fair trade states, viz., Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Louisiana, Michigan, New Mexico, Ohio, Oregon, South Carolina, and Utah, the Supreme Courts have found the non-signer clause of their respective fair trade laws to be unconstitutional. In two states, Nebraska and Virginia, the Supreme Courts have held the entire fair trade act to be invalid. Recently, however, Virginia has enacted a new fair trade law. Consequently, fair trade laws with non-signer provisions are now enforceable in thirty-one states.

In 1957, an additional notable setback to fair trading occurred when the courts held that mail order sales from the District of Columbia (where there is no fair trade law) to New York at prices below those fixed under fair trade agreements in that state did not violate the New York fair trade statute, on the basis that the sales were made in the District of Columbia and not New York.[7]

As a result of these developments a number of manufacturers who have been staunch supporters of fair trading have now abandoned the practice. The General Electric Company announced the abandonment of its fair trade policy on February 27, 1958. The company had been one of the principal proponents of fair trade, having spent millions of dollars and filled some 3,000 petitions for injunctions against price cutters since 1952. After the announcement of this decision, the company's principal competitors followed suit.

The effectiveness of fair trade laws have also been weakened because of: (1) the rapid growth of discount houses, and (2) the fact that some manufacturers have dropped resale price agreements or have minimized their efforts to enforce them because of widespread disregard for stated resale prices.

7. Gammelgaard, Søren, Resale Price Maintenance, Project 238, Published by The European Productivity Agency of The Organization for European Economic Co-operation, Washington, D. C., November 1958, p. 33.

Foes and Advocates of Fair Trade

The opponents and the proponents of fair trade present arguments to show how the manufacturer, retailer, and the consumer are affected by resale price maintenance.

Considered from the manufacturers point of view the opponents argue that a resale price maintenance policy creates problems such as: (1) organized pressure from retailers to seek higher margins, (2) encourages the substitution of non-price fixed manufacturers' advertised brands or private brands for the price fixed manufacturers' brands, (3) frequent objections to resale price maintenance from chain stores and other retailers who rely heavily on cut prices to attract customers, and (4) the advisability of accepting merchandise returned by the retailer who for some reason cannot sell the product; otherwise the retailer would be tempted to sell the unreturnable merchandise at lower than the minimum resale price, irrespective of any action the manufacturer might take, and thus upset the uniformity of the resale price of the product.

The main argument of retailers, who have lower operating costs and are willing to accept a smaller profit per unit sales, is that price maintenance prevents freedom in their price policy. They note further that retailers who favor price maintenance may secure little long-run benefit from the higher prices and margins because of the large number of stores that would be established in response to the possibility of greater net profit and as the result of spreading the business among an increased number of retailers, a fall in net profits.

For the consumer, the argument is that resale price maintenance results in higher prices because resale price maintenance prevents dealers whose costs are low, either because of reduced service or greater efficiency, from passing on the price advantage which results.

The proponents of fair trade argue that resale price maintenance prevents "loss-leader" competition which is disadvantageous to the manufacturer of a well known branded product. A retailer under such circumstances sells the particular product at a loss to draw customers into the store. The retailer does this in the hope that the customer will buy not only the loss-leader, but also other commodities carrying normal or high profits. The loss realized by the sale of the leader to customers is then offset, or more than offset, by the profits accruing from increased sales and higher margins of the other commodities. The disadvantages to the manufacturer are that such practices are likely to result in:

(1) Encouraging other retailers to discontinue the brand.

(2) The practice of substitution, i.e., to urge the purchase of another brand, by retailers who are

not selling the product at a loss.

(3) Loss of prestige for the brand, since some consumers might believe that the reduction in price represented its true value.

From the retailers point of view, resale price maintenance is favored because of the fact that competitive pressure increases when goods become branded. It should be noted at this point that from the manufacturers point of view the branding of a product along with national advertising reduces the competitive pressures on the product. In some cases a manufacturer may through the development of a brand name protect the product against price competition. An unbranded product would cause more competitive pressure than a branded product for the manufacturer. But for the retailer, a nationally advertised branded product that is not under any form of resale price maintenance results in intra-brand competition, that is, the same brand could be purchased in different stores at different prices at the same time. Resale price maintenance prevents intra-brand competition. Where there is intra-brand competition permitted, the independent retailer cannot compete in price with the giant retail corporations who can sell at much lower prices because of the cost savings realized from buying in large quantities. As a result, the independent merchant loses sales and there is the possibility of him going out of business.

Finally, arguments have been set forth to show that the consumer would benefit if the manufacturer were allowed to set more or less uniform prices for their products. Such a system would: (1) promote an orderly market for the product and in the case of drugs such a distribution system would maintain the high standard of health of the American people, (2) tend to insure the customer gainst being overcharged by "greedy" retailers when the state law specifies a stipulated price, and (3) put inter-store competition on the basis of quality and service rather than on the basis of price.

The Future of Fair Trade

Some indication of the future of the fair trade system might be gained from a discussion of the latest developments in the attempt to legislate a Federal fair trade law.

The Departments of Justice and Commerce, the Federal Trade Commission, and the President's Council of Economic Advisers have strongly opposed fair trade laws on the basis that it is against the public interest. They give the following reasons for opposing such legislation:

(1) Resale price maintenance is inconsistent with a free enterprise economy.

(2) It increases the cost of living for American consumers.

(3) Resale price maintenance does not benefit small business but might, in fact, handicap it.

(4) There are grave doubts concerning the Constitutionality of fair trade legislation, that is, fair trade laws may violate the Constitution's due process clause which says that "no person ... shall be deprived of life, liberty, or property without due process of law...."

The advocates of fair trade, on the other hand, at the present time are attempting to enact a Federal fair trade law. One of the chief sponsors of the Federal fair trade bill is Representative Oren C. Harris, Democrat, Arkansas, and Chairman of the House Commerce Committee. The Harris Bill has also received strong support from the National Association of Retail Druggists and other small independent businessmen.

The Harris Bill if passed would permit manufacturers to set a minimum resale price for their product and make it an unfair trade practice for any one to sell below the manufacturer's price. The Federal fair trade law would be enforceable under the Federal Trade Commission Act. The fixed price would apply to all retailers of the manufacturer's products without the necessity of contracts. The bill would permit resale price maintenance by a manufacturer on sales in states which do not have fair trade laws, provided only that the product has at some time been part of a "shipment in commerce." The present fair trade laws leave it up to the states whether fair trade pricing is to be legal within the state. The proposed bill would remove state discretion in this area.

The Harris Bill is expected to pass the House of Representatives but may have more difficulty in the Senate. Even if the bill should get through Congress the White House may veto the bill on the recommendation of the Justice Department, the Federal Trade Commission, and other Federal agencies who strongly oppose the bill. However, the strategy of the advocates of the bill is to seek enactment during the presidential election drive and thus attempt to reduce the possibility of a veto.

To support their position both the advocates and the foes of fair trade have conducted extensive investigations. These investigations have attempted to determine the effect of fair trade on margins and price of goods. The results of these studies have tended to reflect the views of those conducting the investigation. It is hoped that this study may be of some value by presenting additional information, using a different approach, on the subject of fair trade.

METHODOLOGY

Case Method of Study

The study was a detailed study of one retail pharmacy. An intensive and comprehensive analysis was made of the retail pharmacy. The methodology was designed to obtain as representative a sample of yearly purchases as possible. The emphasis was on obtaining an adequate description of all aspects of the case and to determine the interrelationship of those aspects.

The study was carefully designed to insure a minimum of bias in the collection of data and to reduce the error to which interpretation is subject.

Source of Data

The data collected for the study were primary data. As far as the author knows there were no secondary data which fit the needs of the study exactly.

All of the data were collected from one retail pharmacy. The pharmacy was an independently operated business and had been in operation approximately two years at the time of the study.

In addition to the owner who was a registered pharmacist, the pharmacy employed one part-time registered pharmacist, two full-time clerks, two part-time clerks, and a part-time janitor.

The nearest competitor was located approximately one mile from the pharmacy. The two retail pharmacies provided the drugs, health needs, and service for a trading area of approximately 15,000 people.

<u>Selection of Four Weeks for Analysis</u>

Since all the purchase (for resale) invoices for the year were not analyzed, due to the time limitation, a representative sample of the yearly purchases was used. The sample data consisted of purchase invoices of four weeks. The procedure used to select the four representative weeks was as follows:

(1) The cost of the purchases for each month for the year was determined.

(2) The arithmetic mean of the twelve monthly purchases was calculated.

(3) The twelve months were divided into three groups of four equidistant months each, i.e., January-April-July-October, February-May-August-November, and March-June-September-December.

(4) The percentage variation from the arithmetic mean of the months in each of the three groups was calculated.

(5) The percentage variation of the months in each group from the arithmetic mean was summed algebracially.

(6) From the group of four equidistant months with the smallest average percentage variation from the arithmetic mean, four weeks were selected, one week from each of the four equidistant months

> in the group. The first week of the first month, the second week of the second month, the third week of the third month and the fourth week of the fourth month were selected.

The four weeks thus selected were reasonably representative of the yearly purchases.

The fact that the months in the group, from which the weeks were selected, were equidistant to offset any seasonal variation in yearly purchases aided the representativeness of the selected weeks.

The representativeness of the weeks selected was supported also by the fact that the buying policy of the retail pharmacy was essentially a policy of "buying-short," that is, the period for which purchases were made was usually short. For many products the period for which they were purchased was approximately one week. Thus purchases were made frequently. As a result, the representativeness of the selected weeks of the yearly purchases increased, because of the possibility of many purchases being included in at least one of the four weeks selected.

Weekly Analysis

The purchase invoices for each selected week were classified using two methods of classification. Method I classified purchases as fair trade, non-fair trade, and prescription. Method II classified purchases as fair trade and non-fair trade.

As each product was classified, the cost and the pharmacy's actual resale price was noted. After classifying the purchases the four weeks were analyzed to determine the following:

(1) The average gross margin in dollars and in percentage for each category or purchase.

(2) The percentage of the gross margin of each week attributable to each category of purchase.

(3) The percentage of total cost of purchases of each week attributable to each category of purchase.

(4) The percentage of total sales for each week attributable to each category of purchase.

Copies of the data collection forms are in Appendix A and B to the study.

In addition to the above data, the following information was collected to clarify or support such data and thus strengthen and increase the value of the study:

(1) Graphs of:

(a) Monthly purchases.
(b) Monthly sales.
(c) Weekly purchases and weekly sales.

(2) An analysis of each week to determine the percentage of merchandise resources investigated that were represented in the week.

(3) The percentage of products purchased from the various merchandise resources that were fair traded.

(4) An analysis of the non-fair trade category to determine the percentage of such products under some form of resale price maintenance.

(5) An analysis of all the purchases in the weeks investigated to determine the percentage of purchases under resale price maintenance.

Although a complete analysis of all the purchase invoices for the year was not made, the author feels the methodology provided a sufficient amount of data and information for analysis so that confidence can be placed in the representativeness of the final results of the study.

LIMITATIONS

The Study

The study was an attempt to determine the relative economic importance of fair traded products to one retail pharmacy. The interpretation of the results and the conclusions can be applied with assurance only to the retail pharmacy studied.

Merchandise Resources Analyzed

The retail pharmacy bought merchandise from 55 different resources. Thirty-five of these resources were represented in the four weeks selected for study. The fact that 20 merchandise resources were not represented was a limitation of the study. However, these 35 resources represented 93% of the year's purchases. Therefore, the fact that 7% of the year's purchases were not represented would tend to affect the representativeness of the results but slightly.

Buying-Short Policy

The buying-short policy of the retail pharmacy was not completely reliable. Some purchases were made by the pharmacy for periods as long as one or even two months. Therefore, some purchases were not represented in all of the four weeks selected.

However, the buying-short policy was reasonably reliable. The graph showing weekly purchases and weekly sales and the results of the analysis of the merchandise resources represented in the four weeks supported the fact of the buying-short policy.

Consequently, the representativeness of the final results might have been slightly different, but not enough to alter the conclusions reached in the study.

Projected Sales

The sales for the weeks were projected on the basis of the purchases for each week. Thus the limitation of the projected sales figured was that in some instances the purchase made for the week was not sold that week.

However, the percentage which these purchases would be of total sales and their contribution to the pharmacy's total gross profit would not have changed.

FINDINGS

In presenting the results of the study, no dollar values will be disclosed. Instead the dollar values will be expressed as percentages. In the case of some graphs the dollar value will be omitted. The fact that percentages are used and not dollar values should not detract in any way from the accuracy of the results.

Results

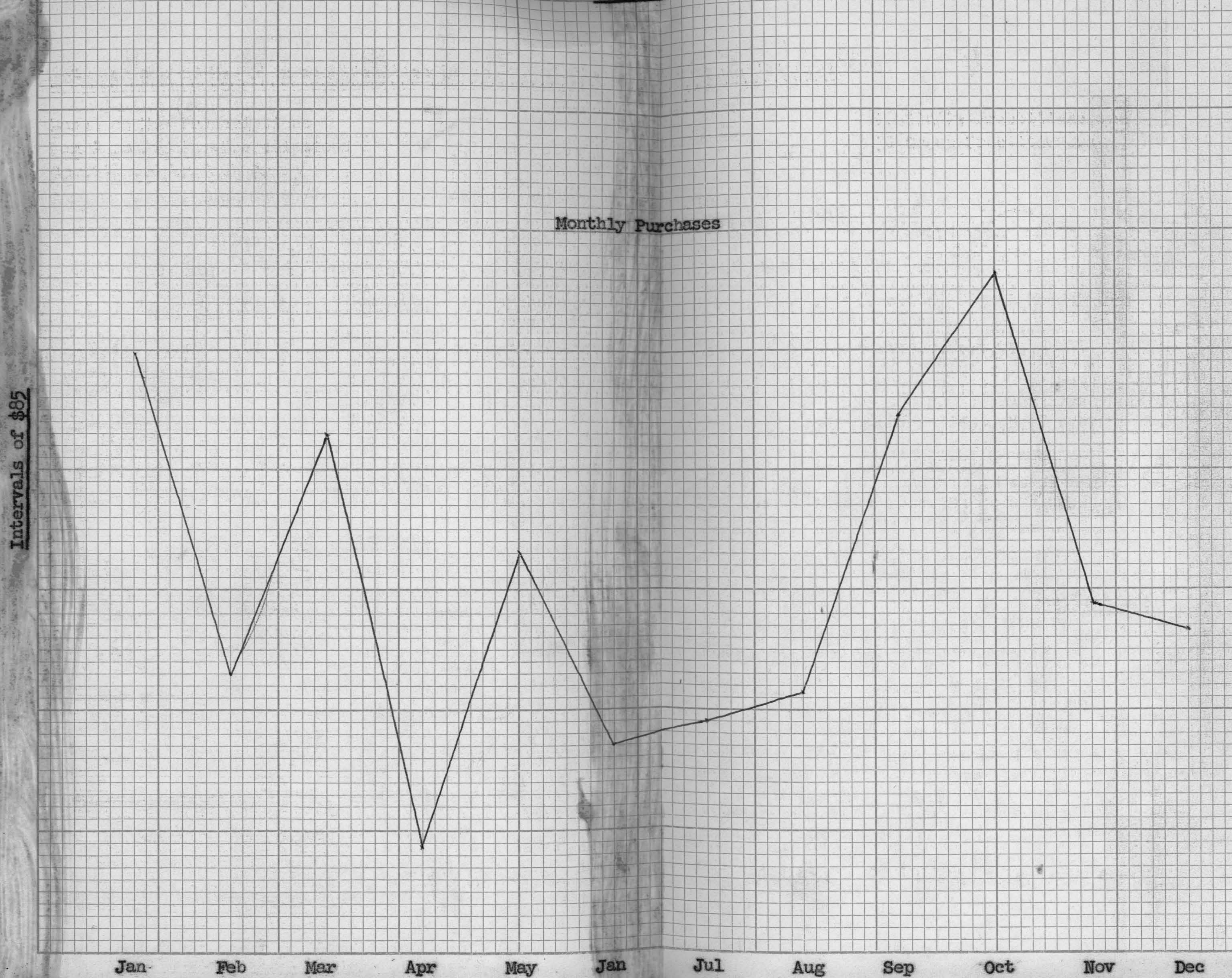
All the invoices of purchases for resale for the year 1958 were separated by month and the total cost of purchases for each month determined. Graph 1 shows graphically the purchases by month for the year.

The monthly sales for the year 1958 were determined from the accounting records of the retail pharmacy. Graph 2 shows graphically the sales by month for the year.

The buying-short policy of the pharmacy is illustrated by Graph 3 which shows the relationship of purchases and sales on a weekly basis. The purchases and sales were for the first sixteen weeks of the year.

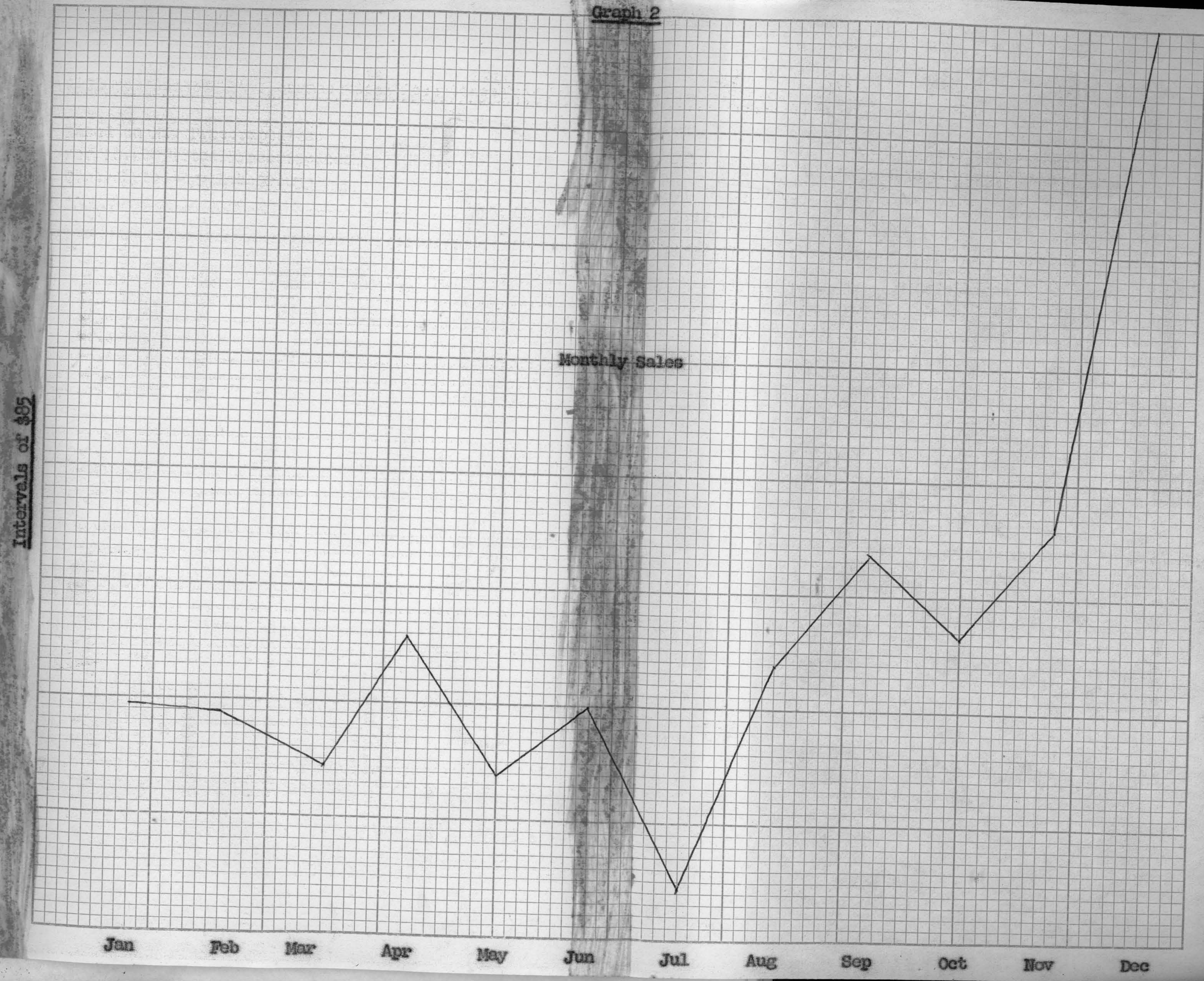
After the monthly purchases were determined, they were divided into three groups of four equidistant months each. The three groups and the percentage variation of each month in the groups from the arithmetic mean of the twelve monthly

Graph 1

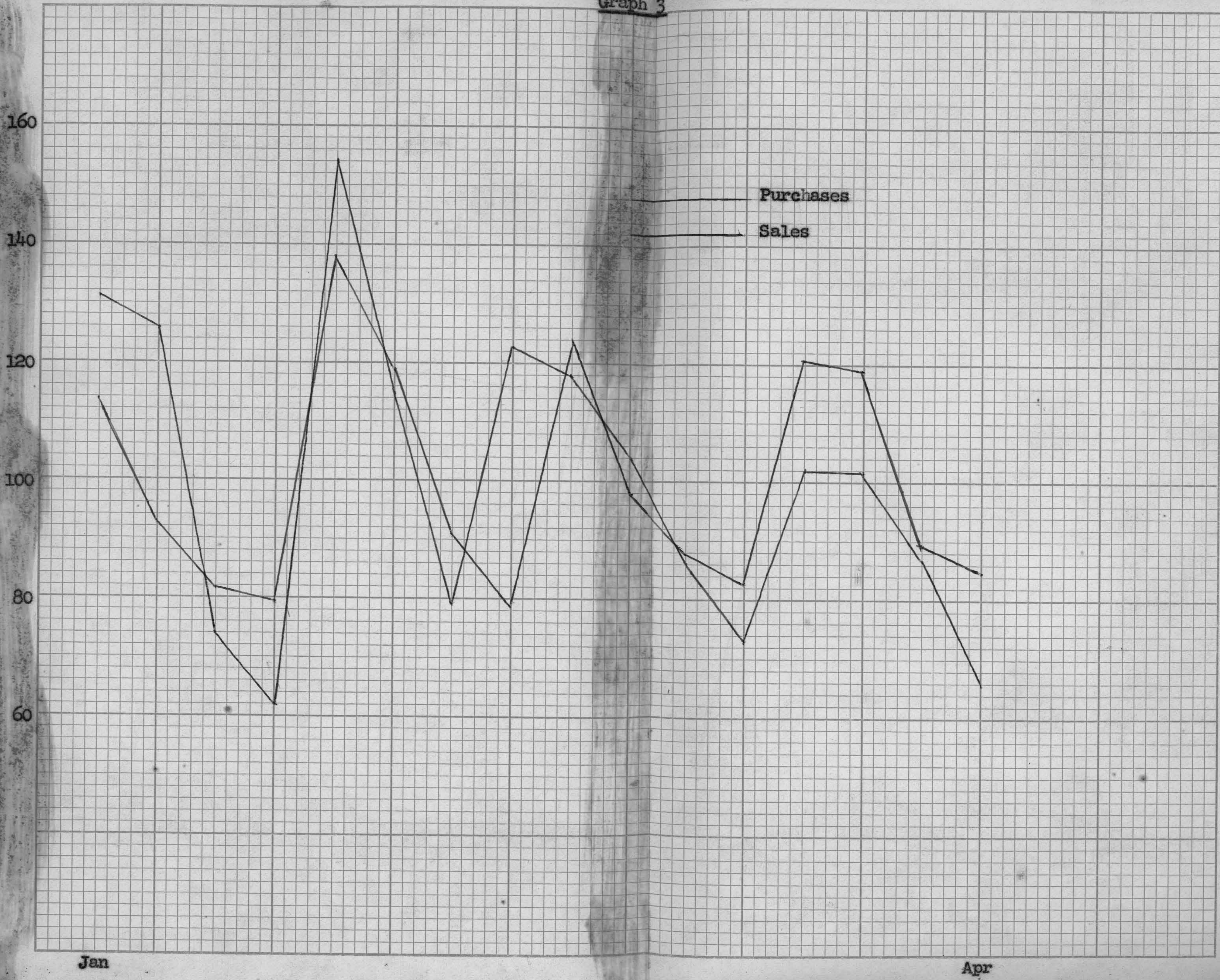


Monthly Purchases
Intervals of $85
Jan
Feb
Mar
Apr
May
Jan
Jul
Aug
Sep
Oct
Nov
Dec

Graph 2


Monthly Sales
Intervals of $85
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec

Graph 3



purchases are shown in Table 1.

Next, four weeks, one for each month in Group I were selected and the purchases for each week classified using two methods of classification. The results of the analysis using Method I are shown in Tables 2 through 6. The results of the analysis using Method II are shown in Tables 7 through 11.

Table 12 lists the merchandise resources analyzed in the study and the percentage of such resources represented in each of the weeks investigated.

Merchandise resources were further analyzed in an attempt to determine the percentage of the products supplied by the various resources that were fair traded. This information would give some indication of the extent of the fair trade system among the manufacturers and wholesalers supplying the retail pharmacy. Table 13 shows the results of the analysis.

The non-fair trade category of each week was analyzed to determine the percentage of such purchases under some form of resale price maintenance other than fair trade; such as, selective distribution system, exclusive-dealer contracts, and consignment selling. The results are shown in Table 14.

Table 1

Percentage Variation of Each Month in Group for Arithmetic Mean

Group I		Group II		Group III	
Month	Percentage Variation	Month	Percentage Variation	Month	Percentage Variation
Jan.	+9	Feb.	+4	Mar.	+6
Apr.	-10	May	+1	Jan.	-5
Jul.	-6	Aug.	-5	Sep.	+7
Oct.	+11	Nov.	-1	Dec.	-3
TOTAL	+4		-9		+5

Table 2

Results of the Week of January 5-11, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	40.02	38.53	35.82	32.80
Non-Fair Trade	32.51	28.46	21.04	26.09
Prescription	27.47	33.01	43.14	46.14
TOTAL	100.00	100.00	100.00	-

1. Projected sales

Table 3

Results of the Week of April 13-19, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	24.85	24.65	24.24	32.77
Non-Fair Trade	44.48	39.15	28.49	24.24
Prescription	30.67	36.20	47.27	43.51
TOTAL	100.00	100.00	100.00	-

1. Projected sales

Table 4

Results of the Week of July 20-26, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	27.32	27.22	27.02	31.61
Non-Fair Trade	53.96	48.97	38.30	24.91
Prescription	18.72	23.81	34.68	46.40
TOTAL	100.00	100.00	100.00	-

1. Projected sales.

Table 5

Results of the Week of October 26-31[1]

Category	Percentage of Purchases	Percentage of Sales[2]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	37.89	38.22	38.80	37.45
Non-Fair Trade	40.62	36.58	29.64	29.91
Prescription	21.49	25.20	31.56	46.20
TOTAL	100.00	100.00	100.00	-

1. Includes purchases made November 1.
2. Projected sales.

Table 6

Averages of Weekly Figures[1]

Category	Percentage of Purchases	Percentage of Sales[2]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	33.50	33.18	32.56	33.96
Non-Fair Trade	41.40	36.74	27.92	26.30
Prescription	25.10	30.08	39.52	45.46
TOTAL	100.00	100.00	100.00	-

1. Percentages are weighted averages.
2. Projected sales.

Table 7

Results of the Week of January 5-11, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	49.31	49.31 ? o.k.	50.67	35.91
Non-Fair Trade	50.69	50.69	49.33	34.67
TOTAL	100.00	100.00	100.00	-

1. Projected sales.

Table 8

Results of the Week of April 13-19, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	39.76	43.45	50.84	38.98
Non-Fair Trade	60.24	56.55	49.16	28.97
TOTAL	100.00	100.00	100.00	-

1. Projected sales.

Table 9

Results of the Week of July 20-26, 1958

Category	Percentage of Purchases	Percentage of Sales[1]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	38.24	40.69	45.94	35.95
Non-Fair Trade	61.76	59.31	54.06	29.03
TOTAL	100.00	100.00	100.00	-

1. Projected sales.

Table 10

Results of the Week of October 26-31[1]

Category	Percentage of Purchases	Percentage of Sales[2]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	52.21	55.10	60.06	40.22
Non-Fair Trade	47.79	44.90	39.94	32.83
TOTAL	100.00	100.00	100.00	-

1. Includes purchases made November 1.
2. Projected sales.

Table 11

Average of Weekly Figures[1]

Category	Percentage of Purchases	Percentage of Sales[2]	Percentage of Total Gross Profit	Average Mark-up
Fair Trade	45.53	47.89	52.50	37.81
Non-Fair Trade	54.47	52.11	47.50	31.61
TOTAL	100.00	100.00	100.00	-

1. Percentages are weighted averages.
2. Projected sales.

Table 12

Merchandise Resources Analyzed and Percentage Represented In Each Week[1]

MERCHANDISE RESOURCES	The Week of Jan	Apr	Jul	Oct
Full-Line Service Wholesalers				
Galler Drug Co.	x	x	x	x
Madison Drug Co.	x	x	x	x
Specialty Wholesalers				
Chambers and Owens	x	x	x	x
Coca-Cola	x	x	x	x
Dean Rubber Co., Milwaukee				x
Harder Paper and Supply Co.				x
J & V Enterprises				x
L. Karno and Co.		x	x	x
Mrs. Drenk's Food, Inc.	x	x	x	x
Myers-Cox Co.	x	x	x	x
OZ Cardlines				x
Pepsi Cola	x	x	x	x
Seven Up	x	x	x	x
The Liedersdorf Co.				x
Agent Middlemen				
Madison News Agency	x	x	x	x
Direct				
Abbott Laboratories	x	x	x	
Borden's Ice Cream	x	x	x	x
Estee Candy Co., Inc.			x	
Hallmark Cards, Inc.	x			
Kelly Candy Co.				x
Lederle Laboratories	x			x
Madison News papers, Inc.	x	x	x	x
Parke-Davis and Co.	x			
Plough, Inc.				x
Red Dot Foods, Inc.	x	x	x	x
Revlon, Inc.				x
Sealtest Ice Cream	x	x	x	x
Star Photo, Inc.	x	x	x	x
Stephen F. Whitman & Sons, Inc.		x		
Television Service Co., Inc.		x	x	
The Norwich Pharmacal Co.				x
The Upjohn Company	x	x	x	x
Whitehall Pharmacal Co.	x			
Whitman Publishing Co.			x	
Wyeth Laboratories	x	x		
Percentage Represented in Each Week	61	53	60	72

1. 43% of the merchandise resources analyzed were 100% represented in each week and account for 84% of the purchases for the four weeks.

Table 13

Percentage of Purchases From Various Merchandise Resources Fair Traded[1]

MERCHANDISE RESOURCES[2]	For the Week of Jan.	Apr.	Jul.	Oct.
Galler Drug Co.	65.6	78.2	66.6	68.3
Madison Drug Co.	64.5	60.4	58.9	59.1
Dean Rubber Co. of Milwaukee	-	-	-	100
Abbott Laboratories	100	100	100	-
Lederle Laboratories	100	-	-	100
Parke-Davis & Co.	100	-	-	-
Plough, Inc.	-	-	-	100
Revlon, Inc.	-	-	-	100
The Norwich Pharmacal Co.	-	-	-	100
The Upjohn Co.	100	100	-	100
Whitehall Pharmacal Co.	100	-	-	-
Wyeth Laboratories[3]	0	22.8	-	-

1. Other 23 suppliers (see Table 12) do not supply fair trade products.
2. Includes non-prescription and prescription fair trade items.
3. All products are not fair traded.

Table 15 shows the results of an analysis to determine the percentage of all purchases under some form of resale price maintenance. The resale price maintenance percentage figure includes fair traded prescription products.

Table 14

Analysis of Non-Fair Trade Category

Price Policy	For the Week of- Jan	Apr	Jul	Oct	Average
Resale Price Maintenance	27.36	31.30	36.38	19.35	28.60
Non-Resale Price Maintenance	72.64	68.70	63.62	80.65	71.40
TOTAL	100.00	100.00	100.00	100.00	-

Table 15

Percentage of Purchases Under Resale Price Maintenance

Price Policy	For the Week of- Jan	Apr	Jul	Oct	Average
Resale Price Maintenance	58.22	53.68	57.88	60.06	57.46
Non-Resale Price Maintenance	41.78	46.32	42.12	39.94	42.54
TOTAL	100.00	100.00	100.00	100.00	

SUMMARY AND CONCLUSIONS

Basis For Determining Relative Economic Importance

The study bases the relative economic importance of fair trade to the retail pharmacy on the relationship of the percentage of total sales attributable to fair trade products and the percentage contribution to the total gross profit by fair traded products.

The determination of relative importance was on a reasonably sound basis when one considers the fact that the operating expenses of the pharmacy must be paid out of the gross profit.

Consequently, the category of products which contributes the highest percentage to the total gross profit would be relatively more important. This does not, however, imply that the other category of products were not important - they were only relatively less important.

Representativeness of Selected Weeks

The weeks selected for the study were sufficiently representative of the year's purchases made by the retail pharmacy. The representativeness of the four weeks of the year's purchases was supported by the following facts: (1) the consideration of seasonal influence on purchases, (2) the reasonableness of the buying-short policy, and

(3) the degree of representativeness of the merchandise resources analyzed of the year's purchases.

The selection of the weeks from equidistant months offset to some extent the seasonal variation in purchases and thus increased the degree of representativeness of the four weeks of the year's purchases.

The buying-short policy was reasonably reliable. This fact was supported by: (1) The graph relating weekly purchases and weekly sales. The graph showed that as sales went up so did purchases for the week, and (2) The merchandise resources analyzed which is duscussed in the following paragraph.

The retail pharmacy bought merchandise from approximately 55 different resources. Of these 55, 35 or 64% were represented in the four weeks selected. However, the 64% of the resources represented in the four weeks provided approximately 93% of the year's purchases. The remaining 20 or 36% of the resources which were not represented in the four weeks accounted for only 7% of the year's purchases.

The 35 merchandise resources analyzed were not 100% represented in each of the four weeks. Only 43% of the 35 resources were represented in each of the four weeks. However, the 43% of the 35 resources represented an average of approximately 84% of the purchases of the four weeks.

The fact that (1) the merchandise resources analyzed represented 93% of the year's purchases and (2) the merchandise resources which accounted for 84% of the purchases of the four weeks were 100% represented in each week would tend to indicate adequate representation of the year's purchases by the four selected weeks.

Classification of Purchases

Two methods of classifying purchases were used. Both methods showed that fair traded products were relatively more important to the retail pharmacy than non-fair traded products. Of the two methods used, Method I, which classified purchases as fair trade, non-fair trade, and prescription provided a more reasonable basis on which to determine the relative importance of fair traded products when one considers the following facts:

(1) Fair traded prescription products usually were resaled at prices higher than the fair trade price. Therefore, if prescription products were included in the fair trade category they would tend to overemphasize the relative importance of fair traded products.

(2) Fair trade sets a minimum resale price below which the product cannot be sold. Therefore, to include fair traded prescription products in the non-fair

trade category would under-emphasize the relative importance of fair traded products.

(3) Fair traded prescription products were sold only on the prescription of a doctor, whereas fair traded products which did not require a prescription were sold not only by the pharmacy but also by other retail outlets. In other words, the pharmacy would have greater control over the prices of prescription products than it would over the non-prescription fair traded products and the non-fair trade products. The determination of relative importance of fair traded products on this basis would tend to be more meaningful than the other method of classifying the purchases.

<u>Results of Study</u>

The results of the study using Method I of classifying purchases showed: (1) that fair traded products were 33.18% of total sales and contributed 32.56% of the pharmacy's total gross profit, (2) that non-fair trade products were 36.74% of total sales and contributed 27.92% of the total gross profit, and (3) that prescription products were 30.08% of total sales and contributed 39.52% to the total gross profit.

The percentage figures showed that a smaller volume of sales of fair trade and prescription products contributed more to the pharmacy's total gross profit than a larger volume of sales of non-fair traded products. This fact was explained by the higher average percentage mark-up on fair traded and prescription products when compared to the average percentage mark-up on non-fair traded products. Fair trade items had an average percentage mark-up of 33.96%, prescription items produced an average percentage mark-up of 45.46%, and non-fair traded items had an average percentage mark-up of 26.30%.

Based on the percentage figures presented above, the order of relative importance of the three classes of purchases would be prescription, fair trade, and non-fair trade.

The results of the study using Method II of classifying purchases showed: (1) that fair traded products were 47.89% of total sales and contributed 52.50% to the pharmacy's total gross profit, and (2) that non-fair traded products were 52.11% of total sales and contributed 47.50% to the pharmacy's total gross profit. Based on these percentages fair traded products would be relatively more important than non-fair traded products.

In addition to the above results, the analysis of the four weeks showed: (1) that fair traded products were 45.53% (Method II of classification) of the purchases of the four weeks, (2) that approximately 34% of the merchandise resources analyzed were suppliers of fair traded products, and (3) that 57.46% of the purchases of the four weeks were under some form of resale price maintenance.

The above figures illustrate indirectly the relative importance of fair traded products to the retail pharmacy. The figures showed that fair traded products appear to be also relatively important to the manufacturers and wholesalers supplying the retail pharmacy. The fact that 57.46% of the purchases of the four weeks were under resale price maintenance, which included fair trade, would tend to indicate the desire of the manufacturers and wholesalers to establish uniform prices.

In conclusion, fair traded products were relatively economically more important to the retail pharmacy than were the non-fair traded products. Prescription products, however, were relatively economically more important than fair traded products.

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APPENDIX A

PURCHASE CLASSIFICATION FORM

Fair Trade				Non-Fair Trade				Prescription[1]			
Unit(s)	Cost	Resale	Total	Unit(s)	Cost	Resale	Total	Unit(s)	Cost	Resale	Total

1. Also noted as fair trade or non-fair trade.

APPENDIX B

FORMS FOR WEEKLY ANALYSIS

	FAIR TRADE	NON-FAIR TRADE	PRESCRIPTION	TOTALS FOR THE WEEK
SALES				
PURCHASES				
GROSS MARGIN				
% MARK-UP				

	FAIR TRADE	NON-FAIR TRADE	PRESCRIPTION
% OF WEEKLY GROSS MARGIN			
% OF WEEKLY SALES			
% OF WEEKLY PURCHASES			