price to $23.62 and obtained the contract, underbidding smaller firms. At this time, Schering was charging $170 per thousand at wholesale to druggists, implying a discount of 86.7 per cent to the government.[38] In February 1959 Premo was again the low bidder, with a price of $20.98. At that time, Premo was selling at $26 per thousand to the druggist, with the comparative discount to the government at 19.3 per cent.[39]

It is interesting that quoted wholesale prices and bids tend to vary inversely with the size of firm. The three large firms charged identical prices of $17.90 per hundred 5-milligram tablets. Prices of the smaller companies named varied from Lannett's $12.00 to Premo's $2.35. A Washington chain drugstore dealer reported to the Subcommittee that he had been able to purchase the same goods at $1.75 from an unidentified 'first line' company, and the 1959 *Drug Topics Red Book* listed twenty firms selling at prices below $3.00.[40] Such facts lead one to the question: what is the relationship between size of firm and cost of production? The presidents of Merck, Schering and Upjohn testified that the sales they made to the government were either not profitable, or did not yield a sufficient profit to cover the cost of an adequate research program. The smaller firms testified that they definitely made a profit at their prices. Syntex, however, spent about half again as high a percentage of sales revenue upon research as did the larger firms, and Formet spent relatively nearly twice as much.[41] A comparison of selling costs is more instructive. Premo (the only small firm for which sales costs are available) devotes 2.0 per cent of its sales dollar to selling activities while the weighted average for the three large firms was 24.3 per cent.[42] There is some reason to suspect that Premo might spend more of its revenues on selling efforts than do other small firms. Premo once attempted to increase its sales force, hire detailmen and compete with the large firms, using their own methods. In 1955 the company's sales outlays increased to almost 7 per cent of sales, but their campaign failed because of 'the tremendous increase in the advertising dollars spent by our large competitors, to the extent that our efforts appeared, in the market place, as a mere spark in a vast conflagration'.[43] Advertising outlays were cut, but may yet remain above the levels for small firms which never attempted large-scale selling campaigns.

[38] Data submitted by the Military Medical Supply Agency to the Subcommittee, ibid., Part 21, pp. 11551–3.

[39] Data from Premo 1959 Hospital Price Catalog, as reported in the *Hearings*, ibid., Part 15, p. 8709.

[40] *Report*, op. cit., p. 17.

[41] *Hearings*, op. cit., Part 14, pp. 8064, 8301.

[42] *Report*, op. cit., p. 31.

[43] *Hearings*, op. cit. Part 14, p. 8215.