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OPERATING RESULTS OF CHAIN CLOTHING STORES
1951

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NOTICE

The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 4 volumes, as follows: **Volume I** – The Primary Industries, including mining, forestry and fisheries; **Volume II** – Manufacturing; **Volume III** – Construction; **Volume IV** – Merchandising and Services.

Volume IV consists of the following parts with individual trade reports listed under each:

Part I – Wholesale Statistics

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B – Operating Results of Food Wholesalers, 25¢.
C – Operating Results of Dry Goods, Piece Goods, and Footwear Wholesalers, 25¢.
D – Operating Results of Miscellaneous Wholesalers, (Automotive parts and accessories, drugs, hardware, plumbing and heating equipment), 25¢.

Part II – Retail Statistics

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G – Retail Chain Stores, 25¢.
H – Operating Results of Chain Food Stores, 25¢.
I – Operating Results of Chain Clothing Stores, 25¢.
J – Operating Results of Miscellaneous Chain Stores (variety, drug, furniture), 25¢.
*K – Operating Results of Retail Food Stores, 25¢.
*L – Operating Results of Retail Clothing Stores, 25¢.
*M – Operating Results of Retail Hardware, Furniture, Appliance and Radio Stores, 25¢.
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*O – Operating Results of Miscellaneous Retail Stores, 25¢.
P – Retail Consumer Credit, 25¢.

Part III – Service and Special Fields

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S – Hotels, 25¢.
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U – Farm Implement and Equipment Sales, 25¢.
V – New Motor Vehicle Sales and Motor Vehicle Financing 25¢.
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The reports are punched to permit of filing in a ring binder.

* Biennial reports – not issued for 1951.

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OPERATING RESULTS OF CHAIN CLOTHING STORES

1951

INTRODUCTION

The following explanatory notes describe certain features of the operating results series contained in this report.

Scope – Chain store firms are those which operate four or more retail outlets. Chain firms of four trades are covered in this bulletin – men's clothing, women's clothing, family clothing and shoe stores.

Content – This bulletin deals with profit and loss statistics. Average gross and net profits and detailed operating expenses are shown for the most suitable sales-size classes. There were not enough firms in any of these trades to permit publication of regional results. There were no Newfoundland stores in this survey. Salaries of proprietors of unincorporated companies have been included with executive salaries. Income tax tabulation was made for incorporated companies only.

In this report "occupancy expense" includes taxes, insurance, mortgage interest, repairs and depreciation on owned real estate used in the business, together with rental expense on rented premises. Similarly "delivery expense" includes salaries, insurance, licenses, repairs, maintenance, gas, oil and depreciation of owned equipment, together with expense of contract delivery.

Purpose – The primary purpose of the operating costs surveys is to provide averages on the different phases of business operation against which firms in the same trade may make direct comparisons with their own operating results. They also provide useful information to others interested in the cost of distribution of consumer goods.

Period Covered – This report deals mainly with 1951 operations and is the third biennial publication in a series begun in 1947. Certain summary tables show comparative results for 1949 and 1951. The charts show the gross profit components for 1947, 1949 and 1951 by suitable sales-size classifications for each trade.

SUMMARY OF 1951 OPERATING RESULTS BY TRADES

The principal operating results figures for the chain clothing store business are summarized in the following table. In analyzing the results of an individual chain clothing company, reference should be made to the detailed tables in the appropriate section of this bulletin. In these sections (men's, women's and family clothing and shoe store chains) where practicable, operating figures for typical sales-size classifications, in addition to detailed operating ratios, are revealed. Because a chain store is a firm operating four or more retail outlets, the absolute dollar values (average net sales, cost of goods etc.) are shown for a singular purpose only. That is, these dollar values are shown for the purpose of assisting chain store managements to place their respective firms in relation to the average in the appropriate sales-size category. This relationship to the average facilitates a more accurate profit and loss statement ratio analysis.

Average gross profits, expressed as percentages of the respective average net sales, were slightly above 28% for the men's, women's and family chain clothing trades and 31.58% for chain shoe stores. Total operating expense ratios for the four trades were of much the same order. Consequently, the net operating profit ratios for the first three trades showed a narrow range from 2.01% for family clothing to 2.53% and 2.76% for men's and women's clothing, respectively. Shoe stores' net operating profit ratio was 5.10%. Miscellaneous expense and income netted an increase in each instance with the result that shoe stores obtained a net profit ratio, before deduction of income tax, of 5.16%, women's clothing showed 3.07% and family and men's clothing ranked lowest with 2.94% and 2.79% respectively. The interrelationship of stock turnover rates showed women's clothing highest with 5.74, family clothing with 3.39 and men's clothing and shoe stores with 2.49 and 2.46, respectively. This is the same interrelationship as was ascertained from the 1949 survey results.

Comparison of Main Profit and Loss Items in Chain Clothing Stores 1951

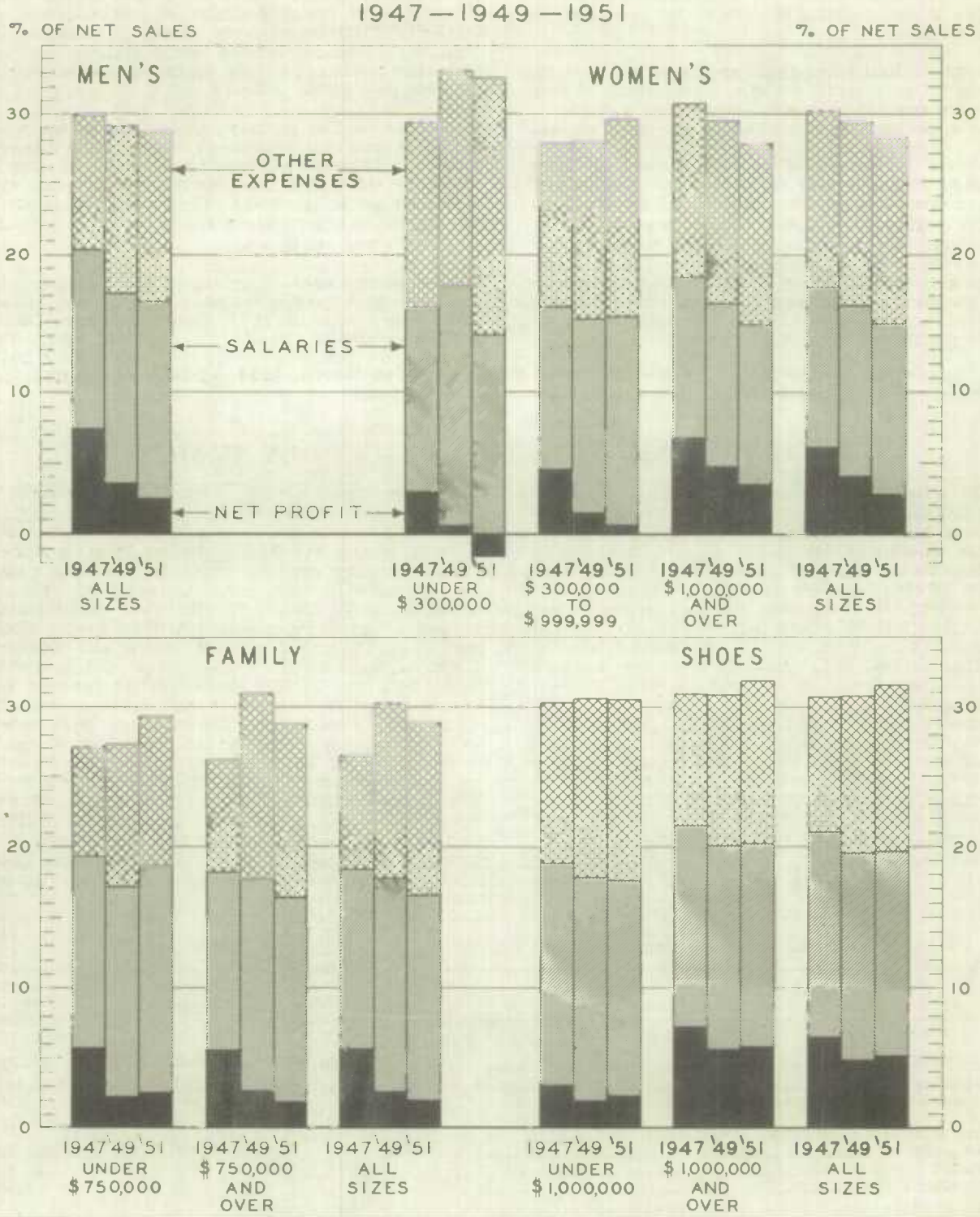
Item	Men's clothing	Women's clothing	Family clothing	Shoes
Number of firms	12	29	16	29
Average net sales per firm $	977,599	1,233,302	2,094,984	1,072,419
Rate of stock turnover (times per year)	2.49	5.74	3.39	2.46
Profit and loss data (Percentage of net sales):				
Gross profit	**28.75**	**28.32**	**28.78**	**31.58**
Operating expenses	26.22	25.56	26.77	26.48
Net operating profit	2.53	2.76	2.01	5.10
Other income	0.28	0.41	1.28	0.19
Miscellaneous expense	0.02	0.10	0.35	0.13
Net profit before income tax deduction	**2.79**	**3.07**	**2.94**	**5.16**

OPERATING RESULTS OF CHAIN CLOTHING STORES

BY SIZE OF FIRM

GROSS PROFIT = NET PROFIT + SALARIES + OTHER EXPENSES

1947—1949—1951



MEN'S CLOTHING CHAINS

The 12 firms from which reports were received, together operated 77 retail outlets in 1951. There was a sufficient number of firms reporting to permit a sales-size breakdown of results. A large proportion of the firms were incorporated which permitted the showing of income tax information for both sales-size categories.

REVIEW OF 1951 OPERATING RESULTS

Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items presented in this form, on a unit basis, a standard is established. To this standard, the operating results of men's clothing store chains, irrespective of the number of retail outlets, might be compared with a high degree of accuracy.

In 1951, men's clothing store chains obtained a gross profit ratio of 28.75 per cent of net sales. Operating expense ratios totalled 26.22% and reduced the gross profit to a net operating profit of 2.53%. Gross profit ratios for the firms of both sales-size categories were of much the same order as the ratio for all firms combined. Firms of the smaller category, however, averaged a slightly larger total operating expense ratio and consequently netted a lower net operating profit ratio of 1.30%. The second, or larger, sales-size group averaged a net operating profit of 2.84%. In each instance, miscellaneous expense and income increased the profit ratios with the result that the net profit ratio, before income tax deduction, for all firms combined advanced to 2.79%.

TABLE 1. Operating Results of Chain Men's Clothing Stores, 1951, by Size of Firm

Item	Firms with 1951 sales of		Total All Sizes
	Under $500,000	$500,000 and over	
Number of firms	7	5	12
Number of stores operated	30	47	77
Average net sales per firm $	333,917	1,878,754	977,599
Average cost of goods sold $	239,879	1,335,884	696,548
Average inventory per firm:			
Beginning of year $	93,248	568,840	291,411
Per cent of average net sales	27.93	30.28	29.81
End of year $	100,252	499,933	266,786
Per cent of average net sales	30.02	26.61	27.29
Stock turnover (times per year)	2.48	2.50	2.49
Profit and loss data (per cent of net sales):			
Gross profit	**28.16**	**28.90**	**28.75**
Operating expenses:			
Salaries:			
executives	2.58	2.03	2.14
other employees	11.05	12.15	11.93
Employees' benefits	0.17	0.32	0.29
Occupancy	4.04	3.26	3.41
Heat, light and power	0.63	0.42	0.46
Taxes, licenses	0.35	0.27	0.29
Insurance	0.68	0.46	0.50
Repairs and maintenance	0.44	0.16	0.21
Depreciation	1.02	0.60	0.69
Supplies	0.50	1.04	0.94
Advertising	2.02	3.39	3.12
Travelling	0.38	0.19	0.23
Communication	0.36	0.19	0.22
Delivery	0.14	0.18	0.17
Bad debt loss	0.20	0.12	0.14
All other expenses	2.30	1.28	1.48
Total operating expenses	**26.86**	**26.06**	**26.22**
Net operating profit	**1.30**	**2.84**	**2.53**
Other income:			
Discounts earned	0.05	0.03	0.03
Interest earned	0.06	0.01	0.03
Bad debts recovered	0.01	0.04	0.03
Other	0.62	0.08	0.19
Total other income	0.74	0.16	0.28
Miscellaneous expense	0.11	—	0.02
Net profit before income tax deduction	**1.93**	**3.00**	**2.79**

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, decreased slightly from 29.81% at the beginning of the year, to 27.29% at the end of the year. This trend was common to the larger sales-size category, but the smaller category showed an increase. The rate of stock turnover – average of beginning and ending inventories divided into cost of goods sold – was 2.49, a decline from the rate ascertained from the 1949 survey results. The stock turnover rates of the two categories increased with the sales-size.

Incorporated Companies

Comparison of the profit and expense ratios of the incorporated firms only, with all firms, indicated that the differences in the ratios were negligible. Total operating expense ratios were generally larger for "incorporated firms" with the result that their net profit ratios were slightly below corresponding ratios for "all firms". Net profit ratios, before income tax deduction, for the total all sizes category, were 2.70% and 2.79% for "incorporated" and "all" firms" respectively. Income tax reduced the incorporated firms' ratio to 1.42%, a decrease of 47%.

TABLE 2. Operating Results of Incorporated Men's Clothing Stores, 1951

(Items expressed as percentages of net sales)

Item	Firms with 1951 sales of		Total all Sizes
	Under $500,000	$500,000 and over	
Gross profit	29.94	29.23	29.33
Total operating expenses	29.88	26.44	26.89
Net operating profit	0.06	2.79	2.44
Other income	1.24	0.16	0.29
Miscellaneous expense	0.19	–	0.03
Net profit before income tax deduction	1.11	2.95	2.70
Income tax	0.77	1.36	1.28
Final net profit	0.34	1.59	1.42

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only nine firms reported for the 1949 survey compared to 12 respondents in 1951. Despite the additional firms and subsequent additional retail outlets included in the 1951 tabulations, the average net sales per firm showed a slight decline. Ratios, however, tend to eliminate this difference and may be used with a high degree of reliability when compared with any one firm's results irrespective of the number of outlets.

Profit and expense ratios are expressed as percentages of average net sales and it is therefore difficult to interpret the ratio changes from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in average net sales together with changes in operating ratios, it would be advisable to express average net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales a decrease does mean that the profit or expense item did not increase at as great a rate as net sales. As an example, if net sales increased 10% from $1,000,000 in 1949 to $1,100,000 in 1951, and rent showed a proportionate increase from $5,000 to $5,500, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than 10%, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were 7.2% below the average ascertained from the 1949 survey. Therefore, the slight decline in the proportion of gross profit to net sales for 1951, indicates that the average gross profit decreased at a slightly greater rate than did average net sales. This decrease in the gross profit ratio together with a slight increase in the total operating expense ratio accounted for the decline in net operating profit from 3.56% in 1949 to 2.53% in 1951.

TABLE 3. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (9 firms)	1951 (12 firms)
	%	%
Gross profit	29.13	28.75
Operating expenses:		
Salaries	13.60	14.07
Occupancy	3.51	3.41
Advertising	2.99	3.12
All other	5.47	5.62
Total operating expenses	25.57	26.22
Net operating profit	3.56	2.53

WOMEN'S CLOTHING CHAINS

A total of 352 retail outlets were operated by the 29 women's clothing store firms reporting to this survey. Operating profit and expense ratios are presented for three typical sales-size categories as well as total all sizes. In addition, main operating ratios, income tax information and final net profits are shown for the incorporated companies.

REVIEW OF 1951 OPERATING RESULTS

Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items expressed in this form, on a unit basis, a standard is established. To this standard the operating results of women's clothing store chains, irrespective of the number of retail outlets operated, might be compared with a high degree of reliability.

In 1951 women's clothing store chains obtained an average gross profit of 28.32 per cent of average net sales. Gross profit ratios for the three sales-size categories decreased as sales-size increased and ranged from 27.78% in the largest to 29.66% and 32.74% in the middle and smallest categories. Similarly, total operating expense, which averaged 25.56%, ranged from 24.33% in the largest to 28.98% and 34.32% in the middle and first categories, respectively. The net operating profit ratio for all firms combined was 2.76% but was not typical of the profit situation experienced within the sales-size categories. The first group showed an operating loss of 1.58%, whereas the middle and largest categories showed profits of 0.68% and 3.45% respec-

TABLE 4. Operating Results of Chain Women's Clothing Stores, 1951, by Size of Firm

Item		Firms with 1951 sales of			Total All Sizes
		Under $300,000	$300,000 to $999,999	$1,000,000 and over	
Number of firms		10	12	7	29
Number of stores operated		49	95	208	352
Average net sales per firm	$	164,577	491,857	4,031,110	1,233,302
Average cost of goods sold	$	110,699	345,957	2,911,112	884,008
Average inventory per firm:					
Beginning of year	$	34,693	104,023	405,638	152,920
Per cent of average net sales		21.08	21.15	10.06	12.40
End of year	$	42,000	97,857	415,469	155,261
Per cent of average net sales		25.52	19.90	10.31	12.59
Stock turnover (times per year)		2.89	3.43	7.09	5.74
Profit and loss data (per cent of net sales):					
Gross profit		**32.74**	**29.66**	**27.78**	**28.32**
Operating expenses:					
Salaries:					
executives		3.97	2.32	1.49	1.74
other employees		11.76	12.33	9.94	10.42
Employees' benefits		0.17	0.20	0.25	0.23
Occupancy		8.07	4.50	4.60	4.75
Heat, light and power		0.99	0.74	0.53	0.63
Taxes, licenses		0.79	0.52	0.28	0.35
Insurance		0.59	0.56	0.22	0.29
Repairs and maintenance		0.76	0.57	0.62	0.62
Depreciation		0.83	0.97	0.88	0.90
Supplies		0.76	0.99	1.37	1.28
Advertising		0.99	1.70	1.54	1.54
Travelling		0.41	0.50	0.37	0.39
Communication		0.52	0.31	0.38	0.37
Delivery		0.51	0.62	0.08	0.19
Bad debt loss		0.37	0.09	0.04	0.06
All other expenses		2.83	2.06	1.69	1.80
Total operating expenses		**34.32**	**28.98**	**24.33**	**25.56**
Net operating profit		**(L) 1.58**	**0.68**	**3.45**	**2.76**
Other income:					
Discounts earned		0.01	0.05	0.21	0.18
Interest earned		0.02	0.03	0.02	0.02
Bad debts recovered		—	—	—	—
Other		0.45	0.59	0.12	0.21
Total other income		0.48	0.67	0.35	0.41
Miscellaneous expense		—	0.02	0.12	0.10
Net profit before income tax deduction		**(L) 1.10**	**1.33**	**3.68**	**3.07**

(L) Operating loss.

tively. Miscellaneous expense and income netted an increase to each group which resulted in a net profit ratio, before income tax deduction, of 3.07% for all firms combined.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, showed a very slight increase from 12.40% at the beginning of the year, to 12.59% at the end of the year. This trend was common to the smallest and largest sales-size groups, but the middle group showed a slight decline. The rate of stock turnover — average of beginning and ending inventories divided into cost of goods sold — was 5.74, a decrease from the 1949 rate of 6.09. The rates of the three categories increased with sales-size and ranged from 2.89 to 3.43 and 7.09.

Incorporated Companies

All firms classified in the largest sales-size category were incorporated. Only a small proportion of the firms in the first category were incorporated; therefore this group was omitted from the incorporated companies' table. Comparison of the profit and expense ratios of the incorporated firms only, with all firms, indicated that the differences in the ratios were negligible. Net profit before income tax deduction, expressed as proportions of the respective net sales, was 3.21% and 3.07% for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' ratio of 3.21% to a final net profit of 1.54%, a decrease of 52%.

TABLE 5. Operating Results of Incorporated Women's Clothing Stores, 1951

(Items expressed as percentages of net sales)

Item	Firms with 1951 sales of		Total all Sizes
	$300,000 to $999,999	$1,000,000 and over	
Gross profit	**30.08**	**27.78**	**28.16**
Total operating expenses	29.87	24.33	25.26
Net operating profit	0.21	3.45	2.90
Other income	0.90	0.35	0.42
Miscellaneous expense	0.03	0.12	0.11
Net profit before income tax deduction	**1.08**	**3.68**	**3.21**
Income tax	16	1.94	1.67
Final net profit	**0.92**	**1.74**	**1.54**

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only 23 firms reported in the 1949 survey, compared to 29 respondents in 1951. Despite the additional firms and subsequent additional retail outlets included in the 1951 tabulations, the average net sales per firm showed a slight decrease. Ratios, however, tend to eliminate this difference and may be used with a high degree of reliability when compared with any one firm's results irrespective of the number of outlets.

Profit and expense ratios are expressed as percentages of average net sales and it is therefore difficult to interpret the ratio changes from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in average net sales together with changes in operating ratios, it would be advisable to express average net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the profit or expense item did not increase at as great a rate as net sales. As an example, if net sales increased 10% from $1,000,000 in 1949 to $1,100,000 in 1951, and rent showed a proportionate increase from $5,000 to $5,500, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than 10%, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were 8.4% below the average ascertained from the 1949 survey. Therefore the slight decline in the 1951 gross profit ratios indicates that the average gross profit decreased at a slightly greater rate than did average net sales. This decrease, together with a small gain in the total operating expense ratio, accounted for the decline of the net operating profit ratio from 4.08% in 1949 to 2.76% in 1951.

TABLE 6. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (23 firms)	1951 (29 firms)
	%	%
Gross profit	29.40	28.32
Operating expenses:		
Salaries	12.14	12.16
Occupancy	4.81	4.75
Advertising	1.43	1.54
All other	6.94	7.11
Total operating expenses	**25.32**	**25.56**
Net operating profit	**4.08**	**2.76**

FAMILY CLOTHING CHAINS

The 16 firms, from which reports were received, together operated a total of 106 retail outlets. An insufficient number of firms in the smaller sales-size category were incorporated to permit the presentation of income tax information for this group. However, all firms in the larger category were incorporated and their income tax deduction and final net profit ratio are shown at the foot of the main operating results table.

REVIEW OF 1951 OPERATING RESULTS

Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items expressed in this form, on a unit basis, a standard is established. To this standard the operating results of family clothing chains, irrespective of the number of retail outlets, might be compared with a high degree of reliability.

In 1951, family clothing chain stores obtained an average gross profit ratio of 28.78 per cent of average net sales. The ratios of the smaller and larger sales-size categories were slightly above and slightly below the average, respectively. Operating expense ratios, totalling 26.77%, reduced the average gross profit to a net operating profit ratio of 2.01% for all firms combined. Firms in the larger sales-size group experienced a greater than average total operating expense ratio and netted an operating profit of 1.96%. Conversely, the smaller firms operated on below average expense ratios and netted a higher operating profit ratio of 2.63%. In all instances, miscellaneous expense and income increased the profit ratios to 3.15%, 2.93% and 2.94% for the smaller, larger and combined categories,

TABLE 7. Operating Results of Chain Family Clothing Stores, 1951, by Size of Firm

Item	Firms with 1951 sales of		Total All Sizes
	Under $750,000	$750,000 and over	
Number of firms	5	11	16
Number of stores operated	33	73	106
Average net sales per firm $	526,673	2,807,850	2,094,984
Average cost of goods sold $	372,617	2,000,784	1,491,983
Average inventory per firm:			
Beginning of year $	113,494	598,451	446,902
Per cent of average net sales	21.55	21.31	21.33
End of year $	123,012	575,083	433,811
Per cent of average net sales	23.36	20.48	20.71
Stock turnover (times per year)	3.14	3.41	3.39
Profit and loss data (per cent of net sales):			
Gross profit	**29.25**	**28.74**	**28.78**
Operating expenses:			
Salaries:			
Executives	4.09	1.51	1.71
Other employees	12.00	12.92	12.85
Employees' benefits	0.11	0.23	0.22
Occupancy	4.05	2.98	3.06
Heat, light and power	0.69	0.48	0.50
Taxes, licenses	0.37	0.33	0.33
Insurance	0.50	0.46	0.45
Repairs and maintenance	0.21	0.33	0.33
Depreciation	0.42	0.64	0.62
Supplies	0.58	0.67	0.67
Advertising	1.82	3.24	3.13
Travelling	0.75	0.44	0.46
Communication	0.42	0.26	0.27
Delivery	0.03	0.39	0.37
Bad debt loss	0.08	0.41	0.39
All other expenses	0.50	1.49	1.41
Total operating expenses	**26.62**	**26.78**	**26.77**
Net operating profit	**2.63**	**1.96**	**2.01**
Other income:			
Discounts earned	0.01	0.09	0.09
Interest earned	0.32	0.05	0.07
Bad debts recovered	0.01	0.32	0.30
Other	0.27	0.87	0.82
Total other income	0.61	1.33	1.28
Miscellaneous expense	0.09	0.36	0.35
Net profit before income tax deduction	**3.15**	**2.93**	**2.94**
Income tax	—	1.44	—
Final net profit	—	**1.49**	—

respectively. Income tax reduced the profit ratios of the larger firms to 1.49%, a decline of 49%.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, decreased from 21.33% at the beginning of the year, to 20.11% at the end of the year. Although this trend was common to the firms of the larger sales-size category, the ratios of the first category showed an increase from 21.55% to 23.36%. The rate of stock turnover – average of beginning and ending inventories divided into cost of goods sold – was 3.39. The rate increased directly with sales-size from 3.14 to 3.41 for the two respective categories.

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. There were 15 firms which reported for the 1949 survey, compared to 16 respondents in 1951. This increase in the number of firms, together with an increase in the number of retail outlets included in the 1951 tabulations, accounted for the substantial increase in average sales. Ratios, however, tend to eliminate this difference and may be used with a high degree of reliability when compared with any one firm's results irrespective of the number of outlets.

Profit and expense ratios are expressed as percentages of average net sales and it is therefore difficult to interpret the ratio changes from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in average net sales together with changes in operating ratios, it would be advisable to express average net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the profit or expense item did not increase at as great a rate as net sales. As an example, if net sales increased 10% from $1,000,000 in 1949 to $1,100,000 in 1951, and rent showed a proportionate increase from $5,000 to $5,500, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than 10%, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were approximately a third greater than the average ascertained from the 1949 survey. Therefore the slight decrease in the 1951 gross profit ratio indicates that the average gross profit increased at a slightly smaller rate than did average net sales. A smaller decrease occurred in the total operating expense ratio, resulting in a net operating profit ratio of almost a third below that of 1949. Because the ratio decreased at approximately the same rate as net sales increased, it may be deduced that the average dollar value of operating profits for both years were of the same order.

TABLE 8. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (15 firms)	1951 (16 firms)
	%	%
Gross profit	**30.23**	**28.78**
Operating expenses:		
Salaries	14.98	14.56
Occupancy	2.77	3.06
Advertising	2.86	3.13
All other	6.97	6.02
Total operating expenses	**27.58**	**26.77**
Net operating profit	**2,65**	**2.01**

SHOE STORE CHAINS

A total of 541 retail outlets were operated by the 29 shoe store chains reporting to this survey. Operating profit and expense ratios are presented for two typical sales-size categories as well as total all sizes. In addition, main operating ratios, income tax deductions and final net profit ratios are shown for the incorporated companies.

REVIEW OF 1951 OPERATING RESULTS

Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and expense items expressed in this form, on a unit basis, a standard is established. To this standard the operating results of chain shoe stores, irrespective of the number of retail outlets, might be compared with a high degree of accuracy. In 1951 shoe store chains obtained an average gross profit of 31.58 per cent of average net sales. Gross profit ratios for the two categories were 30.49% and 31.87% increasing with sales-size. Conversely, total operating expenses which averaged 26.48%, were 28.12% in the smaller category and 26.06% in the larger category. Consequently the firms in the larger sales-size group, having the larger gross profit and smaller operating expense ratios, netted a substantially greater operating profit ratio of 5.81%. Miscellaneous expense and income netted an increase to the operating profit ratios of the smaller and total all firms categories resulting in respective net profit ratios, before income tax deduction, of 2.72% and 5.16%. The larger sales-size group showed a net profit ratio, before deduction of income tax, of 5.80%.

TABLE 9. Operating Results of Chain Shoe Stores, 1951, by Size of Firm

Item	Firms with 1951 sales of		Total All Sizes
	Under $1,000,000	$1,000,000 and over	
Number of firms	19	10	29
Number of stores operated	154	337	541
Average net sales per firm $	340,311	2,463,430	1,072,419
Average cost of goods sold $	236,545	1,678,384	733,730
Average inventory per firm:			
Beginning of year $	101,605	640,995	287,601
Per cent of average net sales	29.86	26.02	26.82
End of year $	107,739	694,295	309,999
Per cent of average net sales	31.66	28.18	28.91
Stock turnover (times per year)	2.26	2.51	2.46
Profit and loss data (per cent of net sales):			
Gross profit	**30.49**	**31.87**	**31.58**
Operating expenses:			
Salaries:			
executives	3.02	1.41	1.75
other employees	12.27	13.01	12.86
Employees' benefits	0.15	0.14	0.13
Occupancy	4.53	4.58	4.57
Heat, light and power	0.75	0.75	0.75
Taxes, licenses	0.53	0.48	0.49
Insurance	0.48	0.37	0.39
Repairs and maintenance	0.37	0.20	0.23
Depreciation	0.74	0.64	0.66
Supplies	0.58	0.74	0.70
Advertising	1.40	1.59	1.55
Travelling	0.33	0.32	0.32
Communication	0.33	0.21	0.23
Delivery	0.31	0.22	0.24
Bad debt loss	—	0.01	0.01
All other expenses	2.33	1.39	1.60
Total operating expenses	**28.12**	**26.06**	**26.48**
Net operating profit	2.37	5.81	5.10
Other income	0.35	0.14	0.19
Miscellaneous expense	—	0.15	0.13
Net profit before income tax deduction	**2.72**	**5.80**	**5.16**

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased slightly from 26.82% at the beginning of the year, to 28.91% at the end of the year. This trend was common to both sales-size categories. The rate of stock turnover — average of beginning and ending inventories divided into cost of goods sold — was 2.46, a very slight increase over the 1949 rate of 2.41. The rates for the two categories increased with sales-size.

Incorporated Companies, 1951

Comparison of the profit and expense ratios of the incorporated firms only, with all firms, indicated the incorporated firms obtained slightly higher profits. Net profit before income tax deduction, expressed as proportions of the respective net sales, were 5.52% and 5.16% for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' ratio of 5.52% to 2.89%, a decrease of 48%.

TABLE 10. Operating Results of Incorporated Shoe Stores, 1951

(Items expressed as percentages of net sales)

Item	Firms with 1951 sales of		Total all Sizes
	Under $1,000,000	$1,000,000 and over	
Gross profit	**29.72**	**32.40**	**31.97**
Total operating expenses	27.17	26.32	26.46
Net operating profit	2.55	6.08	5.51
Other income	0.37	0.12	0.16
Miscellaneous expense	—	0.18	0.15
Net profit before income tax deduction	**2.92**	**6.02**	**5.52**
Income tax	1.08	2.93	2.63
Final net profit	**1.84**	**3.09**	**2.89**

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for comparative purposes. Only 23 firms reported in the 1949 survey compared to 29 respondents in 1951. The number of retail outlets operated by these firms was 497 and 541 respectively. That is, the additional firms in 1951 represent an increase of 26%, whereas the corresponding additional outlets operated, only represent a gain of nine per cent. The disparity resulting from these additional smaller firms was sufficient to cause a decrease in average net sales **per firm**, and an increase in average sales **per retail outlet.** Ratios, however, tend to eliminate this difference and may be used with a high degree of reliability when compared with any one firm's results irrespective of the number of outlets.

Profit and expense ratios are expressed as percentages of average net sales and it is therefore difficult to interpret the ratio changes from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in average net sales together with changes in operating ratios, it would be advisable to express average net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the profit or expense item did not increase at as great a rate as net sales. As an example, if net sales increased 10% from $1,000,000 in 1949 to $1,100,000 in 1951, and rent showed a proportionate increase from $5,000 to $5,500, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than 10%, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were 2.7% greater than the average ascertained from the 1949 survey. Therefore the slight increase in the 1951 gross profit ratio indicates that the average gross profit increased at a greater rate than did average net sales. A smaller increase occurred in the total operating expense ratio, resulting in a slight gain in the net operating profit ratio from 4.93% in 1949 to 5.10% in 1951.

TABLE 11. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (23 firms)	1951 (29 firms)
	%	%
Gross profit	**30.78**	**31.58**
Operating expenses:		
Salaries	14.71	14.61
Occupancy	4.68	4.57
Advertising	1.45	1.55
All other	5.01	5.75
Total operating expenses	**25.85**	**26.48**
Net operating profit	**4.93**	**5.10**

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