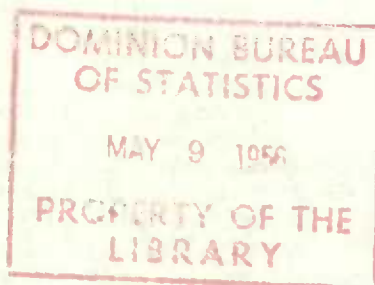


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CANADA

OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT TOBACCO STORES 1954



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NOTICE

The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 3 volumes, as follows: **Volume I**—The Primary Industries, including mining, forestry and fisheries; **Volume II**—Manufacturing; **Volume III**—Merchandising and Services.

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

Part I—Wholesale Statistics

- A—Wholesale Trade, 25¢
- *B—Operating Results of Food Wholesalers, 25¢
- *C—Operating Results of Dry Goods, Piece Goods and Footwear Wholesalers, 25¢
- *D—1 Operating Results of Automotive Parts and Accessories Wholesalers, 25¢
 - 2 Operating Results of Drug Wholesalers, 25¢
 - 3 Operating Results of Hardware Wholesalers, 25¢
 - 4 Operating Results of Plumbing and Heating Supply Wholesalers, 25¢
 - 5 Operating Results of Household Appliance & Electrical Supply Wholesalers, 25¢

Part II—Retail Statistics

- E—General Review—(Discontinued)
- F—Retail Trade, 50¢
- G—Retail Chain Stores, 50¢
- *H—Operating Results of Food Store Chains, 25¢
- *I—Operating Results of Clothing Store Chains, 25¢
- *J—1 Operating Results of Variety Store Chains, 25¢
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- K—Operating Results of Independent Food Stores, 25¢
- L—Operating Results of Independent Clothing Stores, 25¢
- M—Operating Results of Independent Hardware, Furniture, Appliance and Radio Stores, 25¢
- N—Operating Results of Filling Stations & Garages, 25¢
- O—1 Operating Results of Independent General Stores, 25¢
 - 2 Operating Results of Independent Restaurants, 25¢
 - 3 Operating Results of Independent Fuel Dealers, 25¢
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 - 5 Operating Results of Independent Jewellery Stores, 25¢
 - 6 Operating Results of Independent Tobacco Stores, 25¢
- P—Retail Consumer Credit, 25¢

Part III—Services and Special Fields

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- W—Advertising Agencies (Memorandum), 10¢
- X—Motion Picture Production (Memorandum), 10¢

The reports are punched to permit of filing in a ring binder.

*Biennial reports—not issued for 1954.

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DEFINITIONS

Profit and Loss

Net sales — the dollar volume of business done. Allowances and discounts granted to customers and value of goods returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.

Cost of goods sold — determined by adding the beginning inventory to net purchases and deducting the ending inventory.

Gross profit — the difference between "cost of goods sold" and "net sales".

Operating expenses — all costs incurred in the year's operation of a business, except the cost of merchandise. These include:

Salaries and wages (except delivery) — payments to employees before deduction of income tax or unemployment insurance. Proprietors' salaries or withdrawals are included in "net operating profit" in unincorporated store operations.

Taxes — business, property and water taxes. Taxes collected for remittance to governmental bodies and income tax are not included.

Insurance — annual proportion of premiums for insurance policies carried to protect the business.

Rent — payments for use of business premises.

Heat, light and power — cost applicable to year's operations.

Delivery — includes salaries paid to delivery men, truck repairs and maintenance, depreciation, licenses and insurance on delivery equipment and supplies used in connection with delivery (gas, oil, etc.).

Repairs and maintenance — costs incurred to keep fixed store assets operating efficiently (excludes capital expenditure).

Depreciation allowances — provision for decrease in the value of fixed store assets.

Store supplies — wrapping paper, office supplies, etc.

Advertising — displays, window dressing and sales promotion.

Net bad debt loss — estimated amount of uncollectable customers' accounts receivable less the amount recovered from former bad debts.

Other expenses — telephone, telegraph, postage, bank charges, legal, auditing and collection fees, etc.

Net operating profit — is the difference between "total operating expenses" and "gross profit" and includes proprietors' salaries and withdrawals before income tax deductions.

Occupancy — the cost of maintaining and occupying a place of business and includes: rent, business and property taxes, insurance, heat, light and power, repairs and maintenance and depreciation.

DEFINITIONS

Balance Sheet

Assets

Cash on hand or in bank — the amount of cash in the business at the end of the year.

Net accounts receivable — all customers' notes and accounts owing to the business at the end of the year less any reserve for doubtful accounts.

Merchandise inventory — the cost value of merchandise on hand for resale but does not include store supplies on hand.

Other current assets — includes assets which may be converted into cash, if necessary within a reasonably short time, such as Dominion of Canada Bonds and prepaid insurance.

Fixed assets (net) — the book value of land, buildings, furniture, fixtures and equipment less any reserves for depreciation. Separate figures are shown for assets used in the business and those not used in the business.

Other assets — investments of a permanent nature not readily converted into cash and intangibles such as goodwill and organization costs.

Liabilities and Net Worth

Current liabilities — obligations which must be paid in the near future and represent accounts payable or any item that may be considered as a direct lien against current assets.

Fixed liabilities — mortgages secured by fixed assets and separated, as are fixed assets, between those used and not used in business.

Other liabilities — long term notes payable, accrued expenses such as taxes due but not yet paid, and prepaid or deferred income.

Net Worth — Unincorporated business — the amount invested in the business together with any accumulated profits after proprietor's or partners' withdrawals

— Incorporated business — net worth is shown in two parts:

- (1) Capital stock, which represents the shareholders' investment of fully paid-up subscribed shares, and
- (2) Surplus, which represents distributable surplus, capital surplus and earned surplus.

DEFINITIONS

Profit and Loss Statement Ratios

Stock Turnover — the number of times in a year that the average merchandise inventory is sold and replaced. The average of the beginning and ending inventories is divided into the cost of goods sold.

Note: Each of the following ratios are expressed as a percentage of "net sales". Consequently, it is permissible to make direct comparisons between these ratios. Each ratio represents a portion of the average net sales' dollar.

Gross Profit Ratio — sometimes referred to as the "gross margin ratio" or "mark-up" represents the difference between "cost of goods sold" and "net sales". It is the portion of the average sales' dollar from which the merchant meets his operating expenses and obtains his net operating profit.

Operating Expense Ratios — Each item of expense, as well as "total operating expenses" when expressed as a percentage of "net sales" shows the amounts of the average sales' dollar required to operate the average business.

Net Operating Profit Ratio — the remaining proportion of the average sales' dollar after "cost of goods sold" and "total operating expenses" have been deducted. From this amount, the percentage allowances for both proprietors' salaries and income tax should be deducted, in order to determine the percentage to sales of net returns on capital investment.

Balance Sheet Ratios

Current Ratio — $\text{Current Assets} \div \text{Current Liabilities}$ — indicates to what extent the business is able to meet its current obligations out of "current assets". Care should be taken to examine the components of current assets because overstocking of inventories and overinvestment in credit sales (accounts receivable) can result in a stronger or more favourable ratio.

Liquidity Ratio — $\text{Current Assets less Merchandise Inventory} \div \text{Current Liabilities}$ — sometimes referred to as the "acid test", is similar to the "current ratio" as a test of current credit strength. A ratio of 100% (or 1) is usually considered favourable.

Working Capital to Net Worth Ratio — denotes the relationship between "working capital" (current assets less current liabilities) and a proprietor's equity in the business. That is, the proportion of "net worth" that could be realized readily if liquidation were necessary.

Worth-Debt Ratio — $\text{Net Worth} \div \text{Total Liabilities}$ — if used in conjunction with the "current ratio", would reflect any weakening of the capital structure of a business through large loans which give a high "current ratio".

Interstatement Ratio

Turnover of Total Capital Employed — $\text{Net Sales} \div \text{Total Assets used in the business}$ — provides an indication of the degree of management efficiency. However, this ratio should not be used alone because "profits" and not "sales" are the major criterion of efficiency.

OPERATING RESULTS AND FINANCIAL STRUCTURE

INDEPENDENT TOBACCO STORES

1954

This report on operating results and financial structure presents information in the form of averages and ratios as a guide to operators of retail tobacco stores. These ratios are the "average" of a broad range of operational efficiency, and as such do not represent top performance guides. However, used with this in mind, they show a standard by which business men can compare their own operating experiences. The pattern of expense and financial ratios, by size and kind of business, permit direct analysis of operating results for the year.

There is growing evidence that independent retail merchants are making more advantageous use of the results shown in the biennial operating results bulletins issued by the Dominion Bureau of Statistics. Many accounting firms whose clientele includes retail merchants have shown much interest in these series.

A number of trade papers and business periodicals have reproduced and interpreted the results of previous studies with the object of illustrating to retail merchants the manner in which operating results can be used as a tool in store management. This is a practice the Bureau is pleased to encourage, since it meets with one of the most important objects in maintaining this series, namely the promotion of improved merchandising on the part of retailers.

The new owner of a retail store or the prospective operator might well study these averages. Not all failures in business, however, come from the

"new-owner" group. It seems reasonable to suppose, however, that failure in many cases is the result of inadequate knowledge on the part of new proprietors of the true fiscal requirements involved in operating a business and the proper allocation of costs. Where capital is limited, as is often the case in a newly-established store, it would seem that most careful attention should be given to maintenance of proper records and that provision be made to check against some such standard performance as these publications provide.

Analyses of both profit and loss and balance sheet statements are presented in this report.

Profit and loss data are shown for owned and rented stores separately, and for various sale-size categories.

Balance sheet data, which were introduced in 1948, are continued in this 1954 study. This information is presented by sales-size and kind of occupancy groups for stores with \$20,000 or more annual net sales. Where possible, a further differentiation has been made between businesses in operation less than 10 years and 10 years or more. An important change, introduced in 1950, is the segregation of fixed assets and fixed liabilities between those used in the business and those not used in the business. This makes possible a better relationship between assets used in the business and sales, than was possible when all fixed assets of the proprietor were reported as one item.

INDEPENDENT TOBACCO STORES

Retail establishments selling mainly tobacco, cigars, cigarettes and smokers' sundries, or a combination of these items with newspapers and magazines, were used in this report. Sales of the above articles must constitute over 50% of total net sales.

Unincorporated "single establishments" or "independent" firms only are covered. After careful editing, it was possible to use 253 questionnaires for

tabulation of profit and loss statements. The owned store group contributed 78 questionnaires and rented stores 175.

Returns from which balance sheet data were used numbered 180. Any change in the actual count from survey to survey may be attributed to changes in store classification, stores going out of business, the necessity of augmenting the survey list or simply to different non-response in the survey years.

Tabulation of balance sheet data was made on a sales-size range basis and, where possible, a further breakdown by number of years in business.

Compilation of profit and loss data was made for different sales-size categories. The response from large stores is generally better than that from smaller ones. To obtain proper ratios for total trade, weights of the 1951 census were used. For example, in response to this survey, independent stores between \$10,000 and \$19,999 may represent 5% of the business done by all respondents. According to the 1951 census, they might account for approximately 11% of total tobacco store sales. To obtain ratios for total all sizes, the census weights were applied to the various expense and profit ratios of the different sales-size classes.

The summary chart does not show weighted ratios; for sake of comparability with previous years for which weights are not available, aggregate or unweighted ratios were used.

The average gross profit expressed as a percentage of average net sales increased from 16.78 per cent in 1952 to 18.26 per cent in 1954. A greater

increase in operating expenses than in gross profit brought the net operating profit down to 7.32 per cent in 1954 from 7.63 per cent in 1952. In operating expenses only store supplies showed a decrease in 1954.

Inventories at the end of the year, for both owned and rented stores, were slightly lower than at the beginning of the year; any increases registered in certain sales-sizes were more than counter balanced by decreases in the remaining sales-sizes.

No pattern is set for the rate of stock turnover; it fluctuated from 6.71 times per year to 9.72 for owned and rented stores.

Balance sheet ratios are shown historically, affording valuable comparison for further study.

The following summaries, chart and tables, will give more detail and information on operating results and financial position of independent tobacco stores for 1954.

Financial Ratios of Independent Tobacco Stores, as at December 31, 1950-52-54

Ratios ¹		Owned	Rented
Current ratio	1950	3.93	2.22
	1952	3.37	2.09
	1954	2.02	2.32
Liquidity ratio	1952	1.33	0.73
	1954	1.00	0.73
Working capital to net worth ratio	1950	0.44	0.60
	1952	0.38	0.65
	1954	0.24	0.58
Worth debt ratio	1950	2.17	1.45
	1952	2.68	1.17
	1954	2.05	1.63
Turnover of total capital employed	1952	2.82	4.51
	1954	1.91	4.73

1. Ratio definitions are shown on page 6.

Operating Results of Tobacco Stores 1952 and 1954 Compared

Item	Unincorporated	
	1952	1954
	(per cent of net sales)	
Gross profit	16.78	18.26
Operating expenses:		
Employees' salaries	3.50	4.09
Occupancy	4.03	5.18
Store supplies	0.37	0.34
All other expenses	1.25	1.33
Total operating expenses	9.15	10.94
Net operating profit before deduction of income tax ¹	7.63	7.32

1. Proprietors' salaries included for unincorporated stores.

Note: These ratios are "weighted" according to the 1951 Census weights of the different sales sizes for independent stores and are shown here for the first time. They do not agree with ratios shown formerly for 1952 nor with those shown in historical tables.

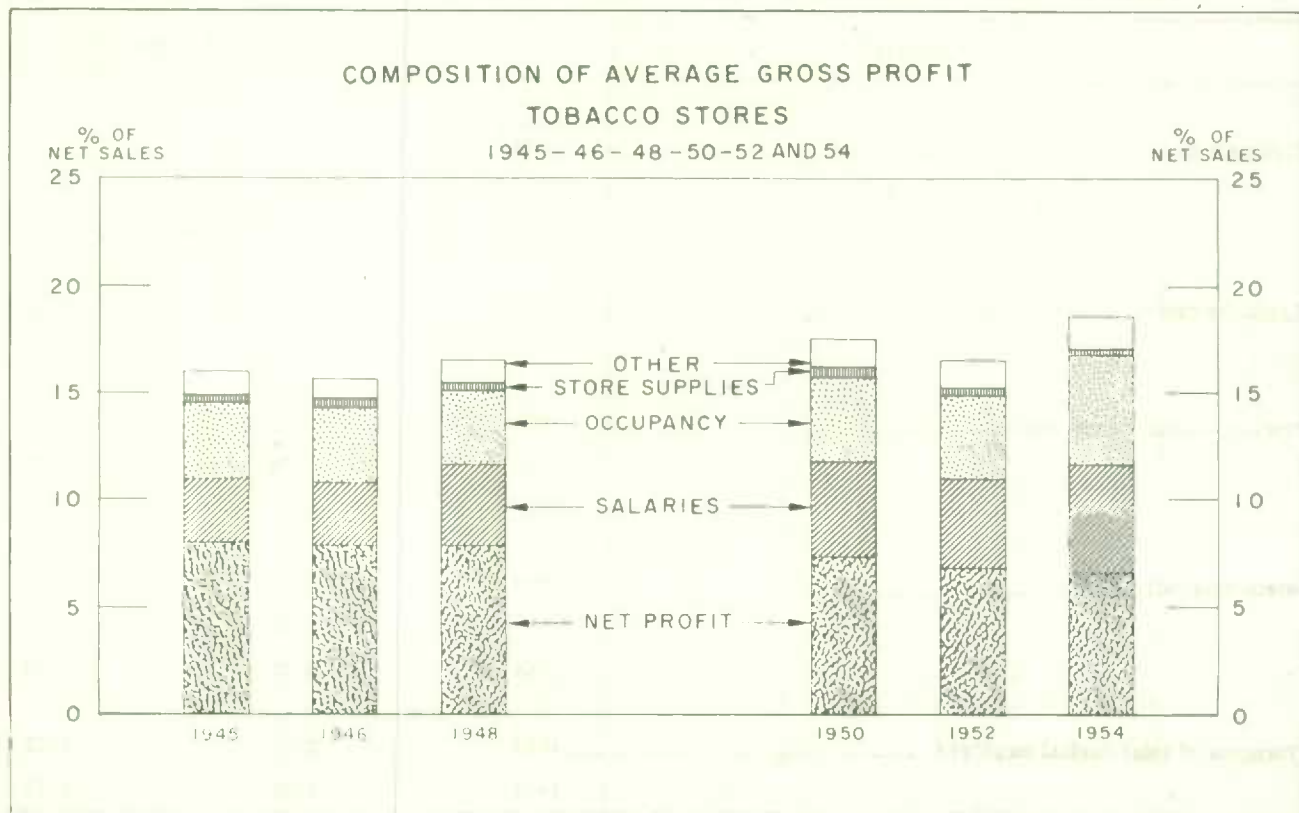


TABLE 1. Independent Tobacco Stores — Operating Results by Annual Sales Volume and Occupancy 1954

Item	Owned stores with annual net sales of				Rented stores with annual net sales of				
	Under \$10,000	\$10,000-\$19,999	\$20,000-\$49,999	\$50,000-\$99,999	Under \$10,000	\$10,000-\$19,999	\$20,000-\$49,999	\$50,000-\$99,999	\$100,000 and over
Number of stores reporting	8	18	34	18	9	13	89	52	12
Average net sales per store \$	8,057	14,459	32,067	69,162	7,637	15,489	33,503	70,158	123,503
Average beginning inventory \$	696	1,726	3,072	7,906	788	1,274	3,473	6,807	11,898
Average inventory, end of year \$	616	1,664	3,006	7,917	805	1,314	3,291	6,941	12,078
Average cost of goods sold \$	6,255	11,595	26,774	55,303	5,344	12,583	27,772	57,347	97,102
Stock turnover (times per year)	9.54	6.84	8.81	6.99	6.71	9.72	8.21	8.34	8.10
Profit and Loss Data (Per cent of net sales)									
Gross profit	22.37	19.81	16.50	20.04	30.02	18.76	17.10	18.26	21.38
Operating expenses:									
Employees' salaries and wages (except delivery)....	1.84	2.42	3.15	6.12	2.24	2.28	3.48	5.54	8.13
Occupancy expenses:									
Taxes	2.00	0.94	1.03	0.76	0.66	0.24	0.30	0.32	0.30
Insurance	0.50	0.32	0.36	0.49	0.28	0.16	0.28	0.31	0.28
Rent	—	—	—	—	8.99	3.47	3.40	2.51	2.33
Heat, light and power	2.40	1.76	1.07	0.80	1.53	1.33	0.57	0.52	0.49
Repairs and maintenance	1.31	0.60	0.59	1.02	0.57	0.39	0.30	0.32	0.57
Depreciation allowances	0.16	1.08	1.31	2.06	0.40	0.39	0.48	0.74	1.27
Total occupancy expenses	6.37	4.70	4.36	5.13	12.43	5.98	5.33	4.72	5.24
Office or store supplies	0.22	0.31	0.36	0.41	0.72	0.21	0.29	0.38	0.37
Advertising	—	0.16	0.10	0.20	0.03	0.05	0.13	0.29	0.48
Net loss on bad debts	0.08	0.02	0.03	—	0.21	0.01	0.01	0.01	0.08
All other expenses	0.46	1.18	1.34	1.31	0.68	1.09	0.84	1.43	1.49
Total operating expenses	8.97	8.79	9.34	13.17	16.31	9.62	10.08	12.37	15.79
Net operating profit before deductions of proprietors' salaries and income tax	13.40	11.02	7.16	6.87	13.71	9.14	7.02	5.89	5.59

TABLE 2. Independent Tobacco Stores — Owned — Financial Structure by Size and Age of Business as at December 31, 1954

Item	Stores with annual net sales of				Total all sizes \$20,000 and over
	\$20,000-\$49,999			\$50,000-\$99,999	
	Under 10 years	10 years and over	Total		
(average per store)					
Assets					
Current assets:					
Cash on hand and in bank	795	2,326	1,661	4,393	2,860
Accounts and notes receivable (net).....	—	2	1	240	106
Merchandise inventory	3,191	3,316	3,261	7,919	5,306
Other current assets	129	336	246	387	308
Total current assets	4,115	5,980	5,169	12,939	8,580
Fixed assets (net):					
Used in the business	10,983	10,396	10,651	22,516	15,860
Not used in the business	1,233	1,166	1,196	2,293	1,678
Total fixed assets (net)	12,216	11,562	11,847	24,809	17,538
Other assets:					
Long term investments	290	538	430	712	554
Other assets	371	208	279	978	586
Total other assets	661	746	709	1,690	1,140
Total assets	16,992	18,288	17,725	39,438	27,258
Liabilities					
Current liabilities:					
Accounts and notes payable	2,164	1,503	1,790	5,162	3,271
Fixed liabilities:					
Mortgages on fixed assets used in business	2,405	2,189	2,283	6,044	3,934
Mortgages on fixed assets not used in business	—	—	—	389	171
Total fixed liabilities	2,405	2,189	2,283	6,433	4,105
Other liabilities	—	2,592	1,465	1,700	1,569
Total liabilities	4,569	6,284	5,338	13,297	8,945
Net worth: Proprietor's or partners' equity in the business	12,423	12,004	12,187	26,141	18,313
Total liabilities and net worth	16,992	18,288	17,725	39,438	27,258
Average net sales of stores reporting	33,323	32,631	32,932	69,162	48,338
Number of stores reporting	10	13	23	18	41

INDEPENDENT TOBACCO STORES

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TABLE 3. Independent Tobacco Stores — Rented — Financial Structure by Size and Age of Business
as at December 31, 1954

Item	Stores with annual net sales of						Total all sizes \$20,000 and over	
	\$20,000-\$49,999			\$50,000-\$99,999				
	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total		
(average per store)								
Assets								
Current assets:								
Cash on hand and in bank	973	1,227	1,101	2,149	1,586	1,914	4,747	1,697
Accounts and notes receivable (net)	285	40	161	237	337	279	2,464	401
Merchandise inventory	3,493	3,444	3,468	6,909	7,115	6,995	12,079	5,429
Other current assets	156	760	462	185	80	141	925	391
Total current assets	4,907	5,471	5,192	9,480	9,118	9,329	20,215	7,918
Fixed assets (net):								
Used in the business	1,561	1,444	1,502	3,235	1,548	2,533	6,555	2,294
Not used in the business	137	2,020	1,090	470	1,932	1,079	56	997
Total fixed assets (net)	1,698	3,464	2,592	3,705	3,480	3,612	6,611	3,291
Other assets:								
Long term investments	6	6	6	—	339	141	15	54
Other assets	723	451	586	2,417	727	1,713	3,865	1,257
Total other assets	729	457	592	2,417	1,066	1,854	3,880	1,311
Total assets	7,334	9,392	8,376	15,602	13,664	14,793	30,706	12,520
Liabilities								
Current liabilities:								
Accounts and notes payable	2,340	1,236	1,781	4,623	5,726	5,082	7,510	3,416
Fixed liabilities:								
Mortgages on fixed assets used in business	200	—	99	1,027	169	670	919	367
Mortgages on fixed assets not used in business	72	995	539	—	386	161	—	362
Total fixed liabilities	272	995	638	1,027	555	831	919	729
Other liabilities	354	155	253	1,888	346	1,246	428	611
Total liabilities	2,966	2,386	2,672	7,538	6,627	7,159	8,853	4,756
Net worth: Proprietor's or partners' equity in the business	4,368	7,006	5,704	8,064	7,037	7,636	21,851	7,764
Total liabilities and net worth	7,334	9,392	8,376	15,602	13,664	14,793	30,706	12,520
Average net sales of stores reporting	35,704	32,746	34,206	70,740	70,457	70,622	123,503	54,491
Number of stores reporting	39	40	79	28	20	48	12	139

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