CANADA

OPERATING RESULTS OF CHAIN CLOTHING STORES

1953

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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:

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A — Wholesale Trade (not issued 1953)
B — Operating Results of Food Wholesalers, 25¢
C — Operating Results of Dry Goods, Piece Goods and Footwear Wholesalers, 25¢
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* Biennial reports — not issued for 1953.

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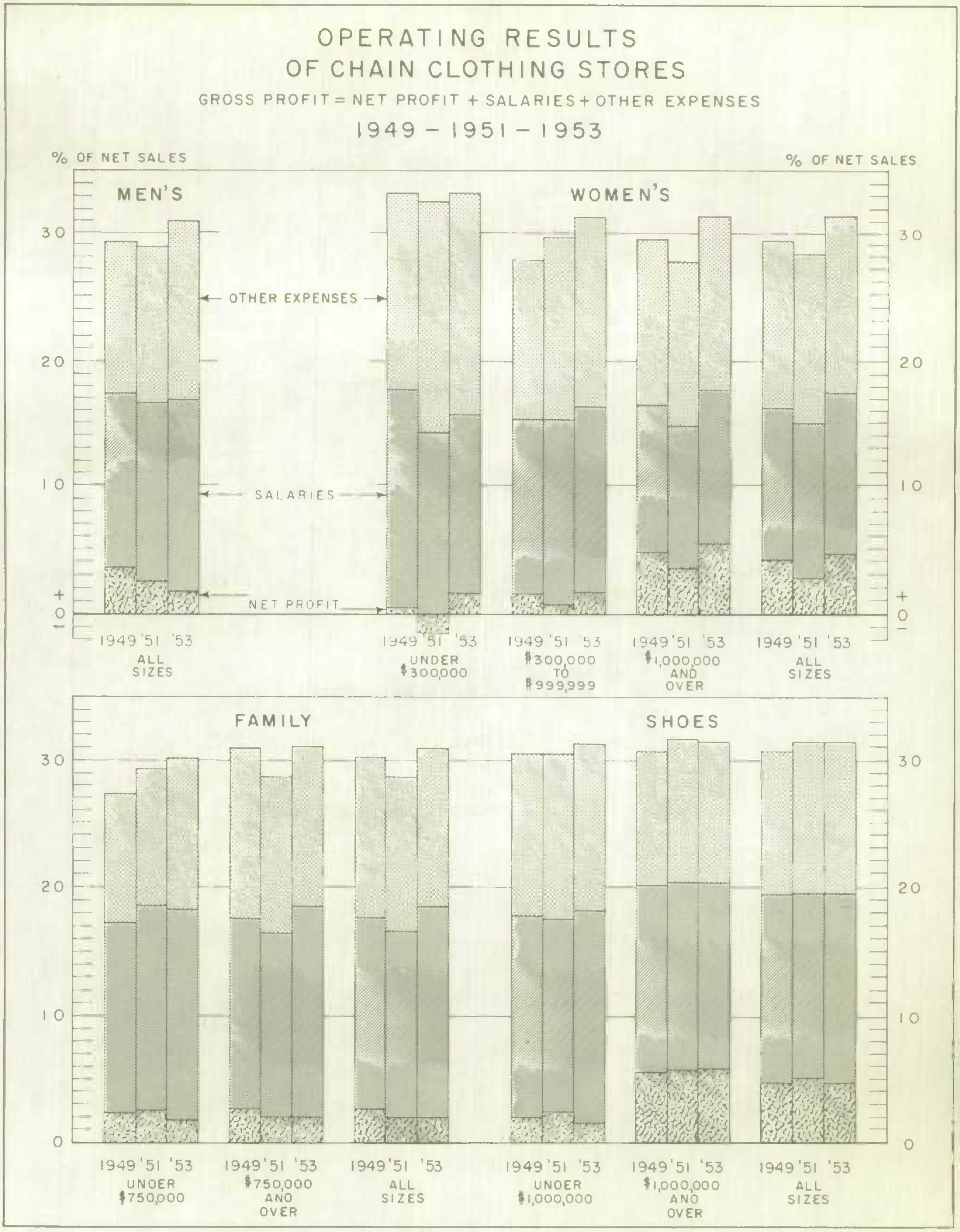
OPERATING RESULTS
OF CHAIN CLOTHING STORES
GROSS PROFIT = NET PROFIT + SALARIES + OTHER EXPENSES
1949 – 1951 – 1953
% OF NET SALES
% OF NET SALES
MEN'S
WOMEN'S
OTHER EXPENSES
SALARIES
NET PROFIT
30
20
10
+
0
–
1949 '51 '53
ALL SIZES
1949 '51 '53
UNDER $300,000
1949 '51 '53
$300,000 TO $999,999
1949 '51 '53
$1,000,000 AND OVER
1949 '51 '53
ALL SIZES
FAMILY
SHOES
1949 '51 '53
UNDER $750,000
1949 '51 '53
$750,000 AND OVER
1949 '51 '53
ALL SIZES
1949 '51 '53
UNDER $1,000,000
1949 '51 '53
$1,000,000 AND OVER
1949 '51 '53
ALL SIZES

OPERATING RESULTS OF CHAIN CLOTHING STORES

1953

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 1953 operations and is the fourth biennial publication in a series begun in 1947. Certain summary tables show comparative results for 1951 and 1953. The chart shows the gross profit components for 1949, 1951 and 1953 by suitable sales-size classifications for each trade.

SUMMARY OF 1953 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 average net sales for the four specific kinds of chain clothing store business, were within the narrow range of 30.91 per cent to 31.60 per cent for men's clothing store and shoe store chain firms respectively. Total operating expenses showed a much wider range from 29.10 per cent for men's clothing store, to 26.72 per cent for shoe store chain firms. Consequently, men's clothing store chain firms, which averaged the lowest gross profit ratio and the highest operating expense ratio, reported the lowest net operating profit ratio of 1.81 per cent. Conversely, shoe store chain firms, which averaged the highest gross profit ratio and the lowest total operating expense ratio, netted the highest operating profit ratio of 4.88 per cent. In each instance non-trading income and expense operations netted an increase which resulted in ratios of net profit before taxation of 2.44 per cent for men's clothing, 5.25 per cent for women's clothing, 2.91 per cent for family clothing and 4.49 per cent for shoe store chain firms.

Comparison of Main Profit and Loss Items in Clothing Store Chains, 1953

Item	Men's clothing	Women's clothing	Family clothing	Shoes
Number of firms	15	28	15	30
Average net sales per firm $	1,040,348	1,556,947	1,201,798	1,159,354
Rate of stock turnover (times per year)	2.61	5.48	2.99	2.51
Profit and Loss data (Per cent of net sales):				
Gross profit	30.91	31.48	31.04	31.60
Operating expenses	29.10	26.80	29.04	26.72
Net operating profit	1.81	4.68	2.00	4.88
Non-trading income	0.69	0.59	1.16	0.16
Non-trading expense	0.06	0.02	0.25	0.10
Net profit before income tax deduction	2.44	5.25	2.91	4.94

MEN'S CLOTHING STORE CHAINS

The 15 firms from which reports were received, together operated 121 retail outlets in 1953. 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 1953 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 1953, men's clothing store chains obtained a gross profit ratio of 30.91 per cent of net sales. Operating expense ratios totalled 29.10 per cent and reduced the gross profit to a net operating profit of 1.81 per cent. 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 an operating loss of 0.74 per cent. The second, or larger, sales-size group averaged a net operating profit of 2.13 per cent. In each instance, non-trading 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 2.44 per cent.

TABLE 1. Operating Results of Men's Clothing Store Chains, 1953, by Size of Firm

Item		Firms with 1953 sales of		Total all sizes
		Under $500,000	$500,000 and over	
Number of firms		5	10	15
Number of stores operated		25	96	121
Average net sales per firm	$	343,521	1,388,761	1,040,348
Average cost of goods sold	$	234,727	960,668	718,688
Average inventory per firm:				
Beginning of year	$	93,512	339,476	257,488
Per cent of average net sales		27.22	24.44	24.75
End of year	$	91,315	395,717	294,250
Per cent of average net sales		26.58	28.49	28.28
Stock turnover (times per year)		2.54	2.61	2.61
Profit and loss data (per cent of net sales)				
Gross profit		**31.67**	**30.82**	**30.91**
Operating expenses:				
Salaries:				
Executives		4.32	1.65	1.94
Other employees		11.81	13.36	13.19
Employees' benefits		0.19	0.25	0.24
Occupancy		4.85	4.22	4.29
Heat, light and power		0.80	0.58	0.60
Taxes,[1] licenses		0.37	0.28	0.29
Insurance [1]		0.72	0.52	0.54
Repairs and maintenance[1]		0.45	0.32	0.33
Depreciation[1]		1.65	0.59	0.71
Supplies		0.67	0.95	0.92
Advertising		2.48	3.27	3.18
Travelling		0.76	0.27	0.32
Communication		0.37	0.35	0.35
Delivery		0.10	0.22	0.21
Bad debt loss		0.19	0.26	0.26
All other expenses		2.68	1.60	1.73
Total operating expenses		**32.41**	**28.69**	**29.10**
Net operating profit		**0.74**[2]	**2.13**	**1.81**
Non-trading income		1.13	0.64	0.69
Non-trading expense		—	0.07	0.06
Net profit before income tax deduction		**0.39**	**2.70**	**2.44**

1. Excludes amount attributed to real estate which is in occupancy expense.
2. Operating loss.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased from 24.75 per cent at the beginning of the year to 28.28 per cent at the end of the year. This trend was common to firms in the larger sales-size category, but the average inventories of the smaller firms showed a slight decline. The rate of stock turnover—average of beginning and ending inventories divided into cost of goods sold—was 2.61 times per year, a slightly higher rate than was ascertained from the 1951 survey results. Comparison of results within the two typical sales-size ranges indicated that the rate was higher for the larger firms.

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 2.45 per cent and 2.44 per cent for "incorporated" and "all firms" respectively. Income tax reduced the incorporated firms' ratio to 1.20 per cent, a decrease of 51 per cent.

TABLE 2. Operating Results of Incorporated Men's Clothing Store Chains, 1953

(Items expressed as percentages of net sales)

Item	Firms with 1953 sales of		Total all sizes
	Under $500,000	$500,000 and over	
	%	%	%
Gross profit	**32.10**	**30.82**	**30.95**
Total operating expenses	33.08	28.69	29.14
Net operating profit	0.98[1]	2.13	1.81
Non-trading income	1.25	0.64	0.70
Non-trading expense	—	0.07	0.06
Net profit before income tax deduction	**0.27**	**2.70**	**2.45**
Income tax	0.79	1.31	1.25
Final net profit	**0.52[1]**	**1.39**	**1.20**

1. Loss.

Comparison of 1951 and 1953 Operating Results

The principal operating ratios of the 1951 and 1953 surveys are summarized in the following table for the purpose of comparison. Only 12 firms reported for the 1951 survey compared to 15 respondents in 1953. The additional firms and subsequent additional retail outlets included in the 1953 tabulations, resulted in a marked increase in the average net sales per firm. 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 1951 to $1,100,000 in 1953, 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.

The average net sales per firm in 1953 was 6.41 per cent greater than the average derived from the 1951 survey results. Therefore, the increase in the proportion of gross profit to sales in 1953 indicates that the average absolute gross profit also increased but to a greater extent than did average net sales. This increase in the gross profit ratio was insufficient to offset the increase in the ratio of operating expenses from 1951 to 1953. Consequently, the net operating profit ratio declined from 2.53 per cent in 1951 to 1.81 per cent in 1953.

TABLE 3. Main Operating Results Items for 1951 and 1953 Compared

(Items expressed as percentages of net sales)

Item	1951 (12 firms)	1953 (15 firms)
	%	%
Gross profit	**28.75**	**30.91**
Operating expenses:		
Salaries	14.07	15.13
Occupancy	3.41	4.29
Advertising	3.12	3.18
All other	5.62	6.50
Total operating expenses	**26.22**	**29.10**
Net operating profit	**2.53**	**1.81**

WOMEN'S CLOTHING STORE CHAINS

A total of 434 retail outlets were operated by the 28 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 1953 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 1953 women's clothing store chains obtained an average gross profit of 31.48 per cent of average net sales. Within the three typical sales-size ranges, the smaller firms reported the highest ratio of 33.17 per cent, the middle-sized firms the lowest of 31.21 per cent, and the larger firms 31.46 per cent. Total operating expenses amounted to 26.80 per cent of net sales for all reporting firms and ranged from 31.58 per cent to 26.10 per cent, decreasing with sales-size. Because the operating expense ratios showed a much larger range than the gross profit ratios, the larger firms, which reported the lowest operating expense ratio, obtained the highest net operating profit ratio of 5.36 per cent. The smaller and middle-sized firms reported net operating profit ratios of 1.59 per cent and 1.55 per cent respectively. Non-trading income and expense netted an increase in each sales-size grouping which resulted in ratios of net profit before taxation of 1.96 per cent, 1.92 per cent, and 5.98 per cent, for the firms in the smallest, middle, and largest size groups respectively.

TABLE 4. Operating Results of Women's Clothing Store Chains, 1953, by Size of Firm

Item		Firms with 1953 sales of			Total all sizes
		Under $300,000	$300,000 to $999,999	$1,000,000 and over	
Number of firms		7	12	9	28
Number of stores operated		42	102	290	434
Average net sales per firm	$	193,065	543,508	3,968,996	1,556,947
Average cost of goods sold	$	129,011	373,860	2,720,254	1,066,846
Average inventory per firm:					
Beginning of year	$	47,032	107,221	394,012	184,356
Per cent of average net sales		24.36	19.73	9.93	11.84
End of year	$	41,897	107,050	463,176	205,231
Per cent of average net sales		21.70	19.70	11.67	13.18
Stock turnover (times per year)		2.90	3.49	6.35	5.48
Profit and loss data (per cent of net sales)					
Gross profit		**33.17**	**31.21**	**31.46**	**31.48**
Operating expenses:					
Salaries:					
Executives		5.12	2.64	1.39	1.69
Other employees		8.98	12.03	11.13	11.21
Employees' benefits		0.15	0.18	0.24	0.23
Occupancy		7.01	5.68	4.76	4.97
Heat, light and power		0.90	0.74	0.60	0.63
Taxes, licenses[1]		0.93	0.35	0.57	0.54
Insurance[1]		0.60	0.47	0.29	0.33
Repairs and maintenance[1]		0.67	0.52	0.71	[illegible]
Depreciation[1]		0.64	1.02	1.02	[illegible]
Supplies		0.69	1.00	1.21	1.15
Advertising		2.04	1.46	1.50	[illegible]
Travelling		0.54	0.50	0.38	0.40
Communication		0.51	0.32	0.35	0.35
Delivery		0.75	0.18	0.03	0.06
Bad debt loss		—	0.14	0.18	0.17
All other expenses		2.05	2.43	1.74	[illegible]
Total operating expenses		**31.58**	**29.66**	**26.10**	**26.80**
Net operating profit		**1.59**	**1.55**	**5.36**	**4.68**
Non-trading income		0.72	0.38	0.63	[illegible]
Non-trading expense		0.35	0.01	0.01	[illegible]
Net profit before income tax deduction		**1.96**	**1.92**	**5.98**	**5.25**

1. Excludes amount attributed to real estate which is in occupancy expense.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased from 11.84 per cent at the beginning of the year to 13.18 per cent at the end of the year. This trend was common only to firms in the largest sales-size category. The rate of stock turnover—average of beginning and ending inventories divided into cost of goods sold—was 5.48 times per year, a slight decline from the rate ascertained from the 1951 survey results.

Incorporated Companies

All firms classified in the largest sales-size category were incorporated. Only a small proportion of the firms in the smallest category were incorporated; therefore the results of this group were 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 profits before income tax deduction, expressed as proportions of the respective net sales, were 5.37 per cent and 5.25 per cent for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' profit ratio to 2.76 per cent, a decrease of 48.6 per cent.

TABLE 5. Operating Results of Incorporated Women's Clothing Store Chains, 1953

(Items expressed as percentages of net sales)

Item	Firms with 1953 sales of		Total all sizes
	$300,000 to $999,999	$1,000,000 and over	
Gross profit	**31.25**	**31.46**	**31.43**
Total operating expenses	30.01	26.10	26.64
Net operating profit	1.24	5.36	4.79
Non-trading income	0.36	0.63	0.59
Non-trading expense	0.02	0.01	0.01
Net profit before income tax deduction	**1.58**	**5.98**	**5.37**
Income tax	0.22	2.95	2.61
Final net profit	**1.36**	**3.03**	**2.76**

Comparison of 1951 and 1953 Operating Results

The principal operating ratios of the 1951 and 1953 surveys are summarized in the following table for the purpose of comparison. Although only 28 firms reported in 1953, compared to 29 in 1951, the number of retail outlets operated by these 28 firms (434) exceeded the number operated by the 29 responding firms (352) in 1951. This difference is primarily due to the differences in the number of reporting firms within the smallest and largest sale-sizes. The number of smaller firms declined from 10 to 7 but the number of retail outlets operated decreased only from 49 in 1951 to 42 in 1953. The larger firms increased from 7 to 9 with a corresponding increase in the number of retail outlets operated from 208 to 290. Consequently, with fewer smaller firms reporting in 1953, the average sales per firm showed a substantial increase.

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 1951 to $1,100,000 in 1953, 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 for firms in 1953 were 26.24 per cent greater than the average derived from the 1951 survey results. Consequently, the increase in the gross profit ratio indicates that the average gross profit increased to a greater extent than did average net sales. The total operating expense ratio increased only slightly in 1953. Therefore, the net operating profit ratio showed a substantial increase from 2.76 per cent in 1951 to 4.68 per cent in 1953.

TABLE 6. Main Operating Results Items for 1951 and 1953 Compared

(Items expressed as percentages of net sales)

Item	1951 (29 firms)	1953 (28 firms)
	%	%
Gross profit	**28.32**	**31.48**
Operating expenses:		
Salaries	12.16	12.90
Occupancy	4.75	4.97
Advertising	1.54	1.51
All other	7.11	7.42
Total operating expenses	**25.56**	**26.80**
Net operating profit	**2.76**	**4.68**

FAMILY CLOTHING STORE CHAINS

The 15 firms, from which reports were received, together operated a total of 98 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, most firms in the larger category were incorporated and their income tax deduction and final net profit ratio are shown in the table of operating results of incorporated firms.

REVIEW OF 1953 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 1953, family clothing store chains obtained an average gross profit ratio of 31.04 per cent of average net sales. The ratios of the firms in the smaller and larger sales-size categories closely approximated this average of all firms. Operating expense ratios, totalling 29.04 per cent, reduced the gross profit to a net operating profit of 2.00 per cent for all firms combined. Again, there were only slight differences between the ratios for firms in the sales-size classifications and the all firms category. In each instance non-trading income and expense netted an increase which resulted in the smaller firms obtaining a ratio of net profit before taxation of 3.17 per cent, the larger firms 2.89 per cent, and all firms 2.91 per cent of their respective net sales.

TABLE 7. Operating Results of Family Clothing Store Chains, 1953, by Size of Firm

Item	Firms with 1953 sales of: Under $750,000	Firms with 1953 sales of: $750,000 and over	Total all sizes
Number of firms	4	11	15
Number of stores operated	21	77	98
Average net sales per firm $	410, 396	1, 489, 581	1, 201, 798
Average cost of goods sold $	286, 925	1, 025, 743	828, 725
Average inventory per firm:			
Beginning of year $	143, 798	321, 438	274, 067
Per cent of average net sales	35. 04	21. 58	22. 80
End of year $	134, 879	331, 904	279, 364
Per cent of average net sales	32. 87	22. 28	23. 25
Stock turnover (times per year)	2. 06	3. 14	2. 99
Profit and loss data (per cent of net sales)			
Gross profit	**30. 08**	**31. 14**	**31. 04**
Operating expenses:			
Salaries:			
Executives	3. 05	2. 12	2. 20
Other employees	13. 30	14. 38	14. 28
Employees' benefits	0. 19	0. 34	0. 32
Occupancy	5. 06	3. 33	3. 49
Heat, light and power	0. 52	0. 64	0. 63
Taxes, licenses [1]	0. 24	0. 37	0. 36
Insurance [1]	0. 88	0. 41	0. 45
Repairs and maintenance [1]	0. 15	0. 31	0. 29
Depreciation [1]	0. 38	1. 02	0. 96
Supplies	0. 63	0. 90	0. 87
Advertising	1. 32	1. 86	1. 81
Travelling	0. 75	0. 52	0. 54
Communication	0. 32	0. 23	0. 24
Delivery	0. 05	0. 22	0. 21
Bad debt loss	0. 14	0. 53	0. 50
All other expenses	1. 31	1. 94	1. 89
Total operating expenses	**28. 29**	**29. 12**	**29. 04**
Net operating profit	**1. 79**	**2. 02**	**2. 00**
Non-trading income	1. 56	1. 12	1. 16
Non-trading expense	0. 18	0. 25	0. 25
Net profit before income tax deductions	**3. 17**	**2. 89**	**2. 91**

1. Excludes amount attributed to real estate which is in occupancy expense.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased from 22.80 per cent at the beginning of the year, to 23.25 per cent at the end of the year. This trend was common only to firms in the larger sales-size category; the smaller firms reported a decline of average inventories from 35.04 per cent to 32.87 per cent. The rate of stock turnover—average of beginning and year-end inventories divided into cost of goods sold—was 2.99 times per year for all responding firms. The rate increased with size of firms from 2.06 to 3.14 for firms in the two typical sales-size groupings, respectively.

Incorporated Companies

Almost all of the reporting firms in the large sales-size category, were incorporated whereas a large proportion of the smaller firms were unincorporated. For this reason, the income tax information has been omitted for the smaller firms in 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 profits before income tax deduction, expressed as proportions of their respective net sales, were 3.38 per cent and 2.91 per cent for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' ratio of 3.38 per cent to a net profit ratio of 2.26 per cent, a decrease of approximately one-third.

TABLE 8. Operating Results of Incorporated Family Clothing Store Chains, 1953

(Items expressed as percentages of net sales)

Item	Firms with 1953 sales of $750,000 and over	Total all sizes
Gross Profit	**31.67**	**31.55**
Total operating expenses	29.18	29.02
Net operating profit	2.49	2.53
Non-trading income	1.10	1.13
Non-trading expense	0.29	0.28
Net profit before income tax deduction	**3.30**	**3.38**
Income tax	1.11	1.12
Final net profit	**2.19**	**2.26**

Comparison of 1951 and 1953 Operating Results

The principle operating ratios of the 1951 and 1953 surveys are summarized in the following table for the purpose of comparison. There was a decline in the number of responding firms from 16 in 1951 to 15 in 1953 accompanied by a decline in the number of retail outlets operated from 106 to 98 for the two survey years respectively. However, the results of a few of the larger firms which reported in 1951 are not included in the 1953 tabulations. Consequently, there is a substantial decline in the average net sales per firm. Ratios, however, tend to eliminate this difference and may be used with a reasonable degree of reliability when comparing the results of two surveys.

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 1951 to $1,100,000 in 1953, 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.

The gross profit ratio increased from 28.78 per cent in 1951 to 31.04 per cent in 1953 for all reporting firms. Operating expenses, also expressed as percentages of average net sales for the respective years, showed an increase of approximately the same magnitude from 26.77 per cent to 29.04 per cent. Consequently, there was only a negligible decline in the ratio of net operating profit from 2.01 per cent in 1951 to 2.00 per cent in 1953.

TABLE 9. Main Operating Results Items for 1951 and 1953 Compared

(Items expressed as percentages of net sales)

Item	1951 (16 firms)	1953 (15 firms)
	%	%
Gross profit	**28.78**	**31.04**
Operating expenses:		
Salaries	14.56	16.48
Occupancy	3.06	3.49
Advertising	3.13	1.81
All other	6.02	7.26
Total operating expenses	**26.77**	**29.04**
Net operating profit	**2.01**	**2.00**

SHOE STORE CHAINS

A total of 516 retail outlets were operated by the 30 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 1953 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 1953 shoe store chains obtained an average gross profit of 31.60 per cent of average net sales. Gross profit ratios for the two categories were 31.23 per cent and 31.71 per cent, increasing with sales-size. Conversely, total operating expenses which averaged 26.72 per cent, were 29.57 per cent in the smaller category and 25.85 per cent 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 5.86 per cent. Non-trading 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 1.98 per cent and 4.94 per cent. The larger sales-size group showed a net profit ratio, before deduction of income tax, of 5.84 per cent.

TABLE 10. Operating Results of Shoe Store Chains, 1953, by Size of Firm

Item	Firms with 1953 sales of		Total all sizes
	Under $1,000,000	$1,000,000 and over	
Number of firms	21	9	30
Number of stores operated	148	368	516
Average net sales per firm $	386,825	2,961,922	1,159,354
Average cost of goods sold $	266,002	2,022,686	793,008
Average inventory per firm:			
Beginning of year $	118,847	708,685	295,799
Per cent of average net sales	30.72	23.93	25.51
End of year $	127,391	823,211	336,137
Per cent of average net sales	32.93	27.79	28.99
Stock turnover (times per year)	2.16	2.64	2.51
Profit and loss data (per cent of net sales)			
Gross profit	**31.23**	**31.71**	**31.60**
Operating expenses:			
Salaries:			
Executives	3.44	1.49	1.95
Other employees	13.07	12.76	12.83
Employees' benefits	0.14	0.13	0.13
Occupancy	5.43	4.41	4.65
Heat, light and power	0.73	0.62	0.65
Taxes, licenses[1]	0.51	0.43	0.45
Insurance[1]	0.50	0.36	0.39
Repairs and maintenance[1]	0.52	0.46	0.47
Depreciation[1]	0.53	0.62	0.60
Supplies	0.46	0.60	0.57
Advertising	1.57	1.67	1.65
Travelling	0.32	0.22	0.24
Communication	0.35	0.19	0.22
Delivery	0.59	0.25	0.33
Bad debt loss	0.01	0.01	0.01
All other expenses	1.40	1.63	1.58
Total operating expenses	**29.57**	**25.85**	**26.72**
Net operating profit	**1.66**	**5.86**	**4.88**
Non-trading income	0.50	0.06	0.16
Non-trading expense	0.18	0.08	0.10
Net profit before income tax deduction	**1.98**	**5.84**	**4.94**

1. Excludes amount attributed to real estate which is in occupancy expense.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased from 25.51 per cent at the beginning of the year to 28.99 per cent at the end of the year. This trend was common to firms in both sales-size groups. The rate of stock turnover — average of beginning and year-end inventories divided into cost of goods sold — was 2.51 times per year, a slightly higher rate than was ascertained from the 1951 survey results. The rates for the two groups, 2.16 and 2.64 times per year, increased with sale-size.

Incorporated Companies, 1953

Comparison of the profit and expense ratios of the incorporated firms only, with all firms, indicated that the incorporated firms obtained slightly higher profit ratios. Net profits before income tax, expressed as proportions of the respective net sales, were 5.41 per cent and 4.94 per cent for "incorporated firms" and "all firms". Income tax reduced the incorporated firms' ratio of 5.41 per cent to a final net profit of 2.65 per cent, a decline of 51 per cent.

TABLE 11. Operating Results of Incorporated Shoe Store Chains, 1953

(Items expressed as percentages of net sales)

Item	Firms with 1953 sales of		Total all sizes
	Under $1,000,000	$1,000,000 and over	
Gross profit	**30.83**	**32.20**	**31.96**
Total operating expenses	28.47	26.13	26.54
Net operating profit	2.36	6.07	5.42
Non-trading income	0.48	0.03	0.11
Non-trading expense	0.29	0.09	0.12
Net profit before income tax deduction	**2.55**	**6.01**	**5.41**
Income tax	1.23	3.08	2.76
Final net profit	**1.32**	**2.93**	**2.65**

Comparison of 1951 and 1953 Operating Results

The principal operating ratios of the 1951 and 1953 surveys are summarized in the following table for comparative purposes. The 1953 results were derived from returns submitted by 30 firms whereas the 1951 survey had 29 respondents. This addition to the number of firms in the 1953 results is the net result of one less large firm and two additional smaller firms. Despite the increased number of smaller firms, the number of retail outlets operated by this group of firms declined from 154 in 1951 to 148 in 1953. This situation was therefore reflected in the comparison of all firms. The disparity resulting from the additional smaller firms tended to depress the increase of average net 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 1951 to $1,100,000 in 1953, 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.

The average net sales per firm in 1953 was 8.11 per cent greater than the average ascertained from the 1951 survey. Therefore, the very slight increase in the gross profit ratio indicates that the average gross profit per firm increased at a slightly higher rate than did net sales. Although the total operating expenses also showed only a slight increase in the ratio, the increase was greater than that which occurred in the gross profit. Consequently, the net operating profit ratio declined from 5.10 per cent in 1951 to 4.88 per cent in 1953.

TABLE 12. Main Operating Results Items for 1951 and 1953 Compared

(Items expressed as percentages of net sales)

Item	1951 (29 firms)	1953 (30 firms)
	%	%
Gross Profit	**31.58**	**31.60**
Operating expenses:		
Salaries	14.61	14.78
Occupancy	4.57	4.65
Advertising	1.55	1.65
All other	5.75	5.64
Total operating expenses	**26.48**	**26.72**
Net operating profit	**5.10**	**4.88**