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CANADA

OPERATING RESULTS OF CHAIN DRUG 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:

Part I — Wholesale Statistics

- 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¢
- 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 Supplies 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 Chain Food Stores, 25¢
- I — Operating Results of Chain Clothing Stores, 25¢
- J — 1 Operating Results of Chain Variety Stores, 25¢
 - 2 Operating Results of Chain Drug Stores, 25¢
 - 3 Operating Results of Chain Furniture Stores, 25¢
- * 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¢
 - 4 Operating Results of Independent Drug Stores, 25¢
 - 5 Operating Results of Independent Jewellery Stores, 25¢
 - 6 Operating Results of Independent Tobacco Stores, 25¢
- P — Retail Consumer Credit

Part III — Services and Special Fields

- Q — Laundries, Cleaners and Dyers, 25¢
- R — Motion Picture Theatres, Exhibitors and Distributors, 25¢
- S — Hotels, 25¢
- T — Sales Financing, 25¢
- U — Farm Implement and Equipment Sales, 25¢
- V — New Motor Vehicle Sales and Motor Vehicle Financing, 25¢
- W — Advertising Agencies (Memorandum), 10¢
- X — Motion Picture Production (Memorandum), 10¢

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* Biennial reports — not issued for 1953.

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OPERATING RESULTS OF CHAIN DRUG 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 the drug trade only are covered in this bulletin.

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 this trade 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 operations 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

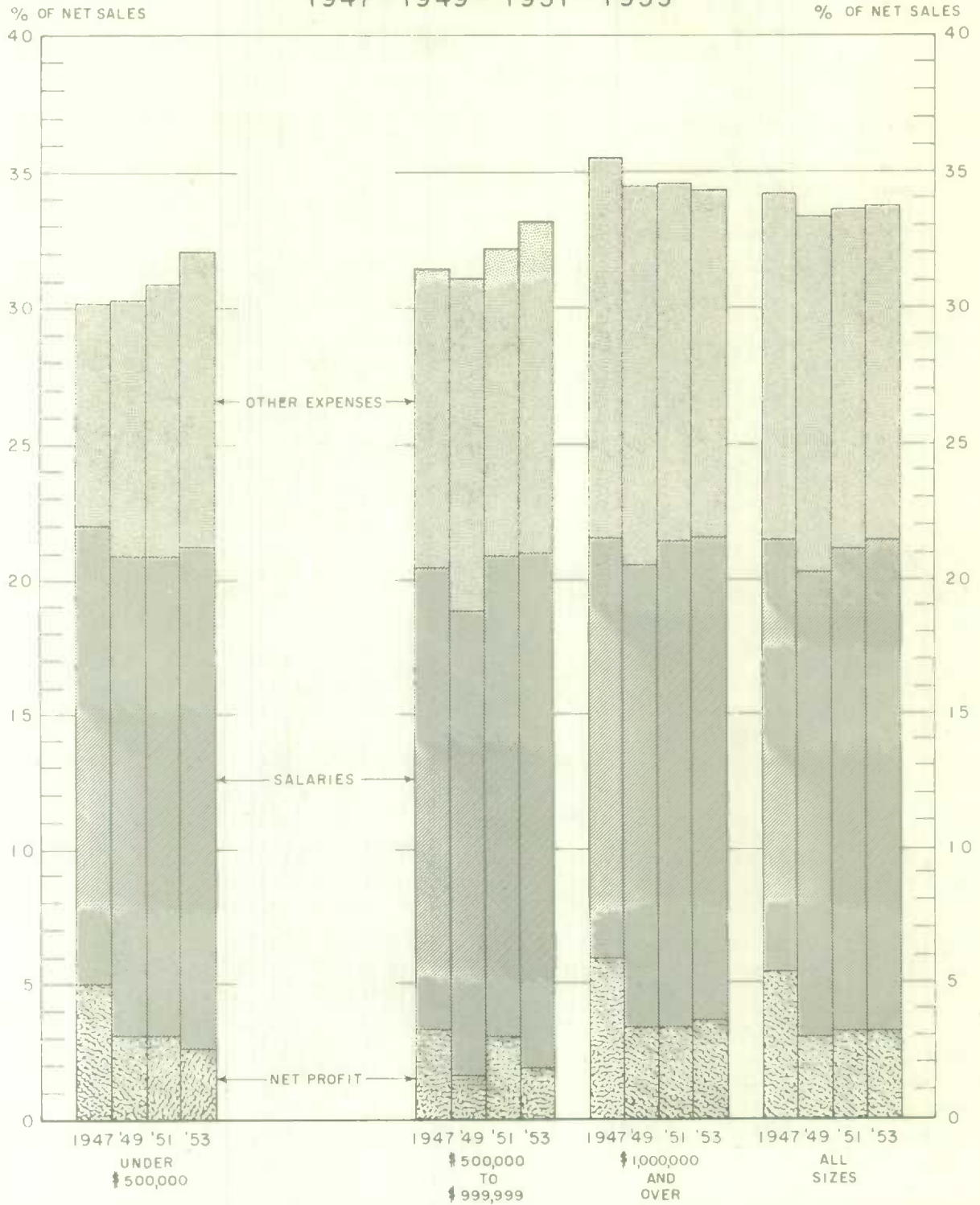
This report deals mainly with 1953 operations and is the fourth biennial publication in a series begun in 1947. A summary table shows comparative results for 1951 and 1953. The chart shows the gross profit components for 1947, 1949, 1951 and 1953 by suitable sales-size classifications.

Note: "Operating Results of Chain Drug Stores" was formerly contained in the bulletin "Operating Results of Miscellaneous Chain Stores".

OPERATING RESULTS OF CHAIN DRUG STORES BY SIZE OF FIRM

GROSS PROFIT = NET PROFIT + SALARIES + OTHER EXPENSES

1947-1949 - 1951-1953



CHAIN DRUG STORES

A total of 329 retail outlets were operated by the 25 drug store chain 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 deductions, 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 chain drug stores, irrespective of the number of retail outlets, might be compared with a high degree of accuracy. In 1953, drug store chains obtained a gross profit of 33.78 per cent of net sales. Gross profit ratios for the three sales-size categories increased directly with size and ranked from 32.05 per cent to 33.07 per cent and 34.26 per cent. Total operating expenses amounted to 30.60 per cent

for all firms and increased from 29.38 per cent for the smaller firms to 30.62 per cent and 31.23 per cent for the larger and middle-sized firm groups respectively. Consequently, the middle-sized firms, which reported the highest ratio of expense, netted the lowest operating profit ratio of 1.84 per cent. The smaller firms reported a net operating profit of 2.67 per cent, the larger firms the highest of 3.64 per cent and all firms combined averaged 3.18 per cent. In each instance, non-trading operations netted an increase which resulted in a ratio of net profit before taxation of 4.03 per cent for all firms combined.

Inventories and Stock Turnover

Average inventories, expressed as proportions of average net sales of all responding firms, increased from 17.80 per cent at the beginning of the year to 18.60 per cent at the end of the year. This trend was common to each of the three sales-size groups. The rate of stock turnover—average of beginning and

end-of-year inventories divided into cost of goods sold—was 3.64 times per year, almost of the same order as the rate determined by the survey of 1951 operations. Within the sales-size groupings, the rate decreased with size of firm and ranged from 4.03 to 3.55 times per year.

Incorporated Companies

Comparison of the profit and expense ratios of the incorporated firms only with all firms indicated that the differences were slight. Net profits, before income tax deductions, expressed as proportions of the respective net sales, were 3.94 per cent and

4.03 per cent for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' ratio of 3.94 per cent to a final net profit of 2.20 per cent, a decrease of 44.16 per cent.

TABLE 1. Operating Results of Incorporated Drug Store Chains, 1953, by Size of Firm

(Items expressed as percentages of net sales)

Item	Firms with 1953 sales of			Total all sizes
	Under \$500,000	\$500,000 to \$999,999	\$1,000,000 and over	
	%	%	%	%
Gross profit.....	31.11	33.27	34.68	34.20
Total operating expenses	27.98	31.58	31.29	31.16
Net operating profit	3.13	1.69	3.39	3.04
Non-trading income	0.17	0.58	1.16	0.99
Non-trading expense	0.06	0.22	0.05	0.09
Net profit before income tax deduction.....	3.24	2.05	4.50	3.94
Income tax.....	0.75	0.68	2.11	1.74
Final net profit.....	2.49	1.37	2.39	2.20

TABLE 2. Operating Results of Chain Drug Stores, 1953, by Size of Firm

Item	Firms with 1953 sales of			Total all sizes
	Under \$500,000	\$500,000 to \$999,999	\$1,000,000 and over	
Number of firms.....	10	9	6	25
Number of stores operated.....	51	76	202	329
Average net sales per firm \$	372,433	709,035	3,898,940	1,339,971
Average cost of goods sold..... \$	253,073	474,573	2,563,312	837,270
Average inventory per firm:				
Beginning of year \$	60,432	117,102	717,402	238,506
Per cent of average net sales.....	16.23	16.52	18.40	17.80
End of year \$	65,178	134,180	728,375	249,186
Per cent of average net sales.....	17.50	18.92	18.68	18.60
Stock turnover (times per year).....	4.03	3.78	3.55	3.64
Profit and loss data (per cent of net sales)				
Gross profit.....	32.05	33.07	34.26	33.78
Operating expenses:				
Salaries:				
Executives.....	1.76	2.87	0.90	1.37
Other employees.....	16.87	16.34	17.16	16.97
Employees' benefits.....	0.20	0.38	0.71	0.59
Occupancy.....	3.78	4.06	4.52	4.35
Heat, light and power.....	0.70	0.55	0.79	0.74
Taxes, licenses ¹	0.39	0.31	0.23	0.26
Insurance ¹	0.39	0.37	0.24	0.28
Repairs and maintenance ¹	0.51	0.57	0.38	0.43
Depreciation ¹	0.85	0.82	1.02	0.96
Supplies.....	0.48	0.89	0.48	0.56
Advertising.....	0.56	1.14	1.21	1.13
Travelling.....	0.20	0.19	0.28	0.25
Communication.....	0.34	0.30	0.25	0.27
Delivery.....	0.84	0.88	0.68	0.74
Bad debt loss.....	0.04	0.12	0.01	0.03
All other expenses.....	1.47	1.44	1.76	1.67
Total operating expenses.....	29.38	31.23	30.62	30.60
Net operating profit.....	2.67	1.84	3.64	3.18
Non-trading income.....	0.23	0.59	1.12	0.92
Non-trading expense.....	0.03	0.20	0.05	0.07
Net profit before income tax deduction.....	2.87	2.23	4.71	4.03

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

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. The number of reporting firms increased from 22 in 1951 to 25 in 1953 with a subsequent increase in the number of retail outlets operated from 289 to 329. For this reason, average net sales per firm showed a substantial increase in 1953 which represented a gain of 5.65 per cent in average net sales per retail outlet. Ratios, however, tend to eliminate the lack of comparability arising from variations in the number of responding firms and total retail outlets operated. The ratios of items expressed as percentages of net sales may be used with a high degree of reliability for a specific year when compared with any one firm's results, irrespective of the number of retail outlets operated.

Since profit and expense ratios are percentages based on net sales, it is difficult to interpret a ratio change 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 net sales together with changes in operating ratios, it would be advisable to express 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.

There were no significant differences in the 1951 and 1953 surveys. The gross profit ratio showed a very slight gain. The total operating expense ratio also increased but only to the extent to cause a decline in the net operating profit ratio from 3.21 per cent to 3.18 per cent. Within the principal factors of expense, the advertising ratio remained at the same level, and the increase in salaries and occupancy ratios was partially offset by a decline in the proportion of all other expenses.

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

(Items expressed as percentages of net sales)

Item	1951 (22 firms)	1953 (25 firms)
	%	%
Gross profit	33.74	33.78
Operating expenses:		
Salaries	18.03	18.34
Occupancy	4.27	4.35
Advertising	1.13	1.13
All other.....	7.10	6.78
Total operating expenses	30.53	30.60
Net operating profit	3.21	3.18

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