

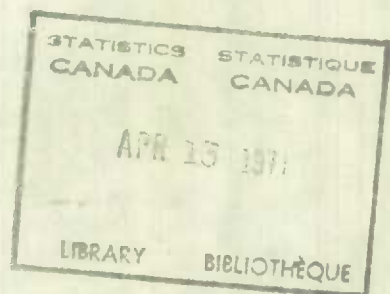
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# OPERATING RESULTS OF CHAIN DRUG STORES

1957



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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¢
- E - Agents and Brokers, Wholesale Trade (Memorandum), 10¢

**Part II - Retail Statistics**

- 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¢
  - 2 Operating Results of Drug Store Chains, 25¢
  - 3 Operating Results of Furniture Store Chains, 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, Radio and Television Stores, 25¢
- \*N - Operating Results of Filling Stations and 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 Credit, 25¢

**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¢

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

\* Biennial reports - not issued for 1957.

January 9, 1959

## 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 for personal use are included.

**Purchases** — are taken at invoice value less returns and allowances, cash and trade discounts. Added to the cost of merchandise are the following expenses: duty, inward freight, express and trucking, alterations, and transportation costs from warehouse to stores.

**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, commissions and bonuses (except delivery)** — payments to employees before deduction of income tax or unemployment insurance, etc. Also included are salaries paid to executives of incorporated firms and to proprietors of unincorporated businesses.

**Payments contributed by the firm** — contributions made towards employees' pensions, unemployment insurance, hospitalization and other staff benefits. (Excludes employees' own contributions.)

**Occupancy** — the cost of maintaining and occupying a place of business and includes property taxes, insurance, heat, light and power, repairs and maintenance, depreciation, mortgage interest on owned real estate and rental expense on rented premises.

**Taxes and business licences** — excluding property taxes.

**Insurance** — premiums for insurance policies carried to protect the business, covering furniture and fixtures and inventories but excluding real estate insurance and insurance on delivery equipment.

**Repairs and maintenance** — costs incurred to keep fixtures and equipment operating efficiently. (Excludes capital expenditure and delivery.)

**Depreciation allowances** — expenditure on fixtures and equipment (except delivery).

**Office and store supplies** — wrapping paper, twine, store and office supplies, etc.

**Advertising** — displays, window dressing and sales promotion.

**Travelling** — all travelling expense including buying.

**Communication** — telephone, telegraph and postage.

**Delivery** — salaries paid to delivery men, truck repairs and maintenance, depreciation, licences and insurance on delivery equipment and supplies used in connection with delivery (gas, oil, etc.), all other costs from stores to customers including amounts paid for contract delivery.

**Loss on bad debts** — amount written off or reserve provided for during the current year.

**All other operating expenses** — bank charges, legal, auditing and collection fees, etc.

**Non-trading income** — interest earned, net revenues from rentals, financial charges, delivery charges made to customers and bad debts recovered, revenues from investments and other non-trading activities.

**Non-trading expenses** — interest expense and any other expenses not pertaining to the business.



## DEFINITIONS

### Balance Sheet

#### Assets

**Cash on hand or in bank** — the amount of cash on hand 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 not including 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, prepaid insurance, and deferred and prepaid charges of a current nature.

**Fixed assets (net)** — the cost value of land, buildings, furniture, fixtures, equipment and improvements, less any reserves for depreciation.

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

#### Liabilities and Net Worth

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

**Fixed liabilities** — mortgages payable, secured by fixed assets.

**Other liabilities** — Long-term loans, notes payable, accrued expenses such as taxes due but not yet paid, and prepaid or deferred income, advances to shareholders, etc.

**Net worth** — for incorporated businesses, net worth is shown in two parts:

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

Where unincorporated firms are included, only "total" net worth is shown.

# OPERATING RESULTS OF CHAIN DRUG STORES 1957

## INTRODUCTION

General comments regarding this sixth study of the operating results of Chain Drug stores conducted by the Dominion Bureau of Statistics are as follows:

**Scope** — Chain store firms are defined as those organizations operating four or more retail outlets in the same or related lines of business under the same ownership. Controlled subsidiary companies are included but "voluntary" groups in which individual owners enjoy certain purchasing or other privileges are not.

**Content** — This report deals mainly with profit and loss statistics. Operating expenses are shown in percentage to net sales for suitable sales-size categories. A few unincorporated firms are included for which proprietor's salaries are grouped with executive salaries; income tax tabulation, however, was made only for groups where all were incorporated companies.

In this report, "occupancy expense" includes heat, light and power, taxes, insurance, mortgage interest, repairs and depreciation on owned real estate used in the business, together with rental expense on rented premises. Delivery expense generally includes salaries, insurance, licenses, repairs and maintenance, gas, oil and depreciation of owned equipment, together with the expense of contract delivery. Some chain store firms do not provide any delivery service while others, using contract delivery, were able to report only a "net" cost for this item.

Balance sheet data were requested for the first time from retail chain store organizations from which it was intended to show certain averages and ratios. In some cases, the financial structures of the firms were so different that averages of some items would be meaningless. This variability, plus failure to supply balance sheet information in other cases, places a certain caution on the use of these data.

**Purpose** — The primary purpose of the operating results survey 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 1957 business operations with summaries of principal ratios since 1947 on a biennial basis. This study is alternated each year with a similar one on independent retail stores covering the even year.



# OPERATING RESULTS OF CHAIN DRUG STORES BY SIZE OF FIRM

GROSS PROFIT = NET PROFIT + SALARIES + OTHER EXPENSES

1951-'53-'55-'57



## CHAIN DRUG STORES

Firms included in this classification are those selling mainly prescription drugs, patent medicines, drug sundries, cosmetics, and toilet articles and preparations; tobacco, books, magazines, and other novelties may also be sold. The business done by soda fountains, an operational part of some drug store chains, is included in these results. Financial data of 25 firms, which operated 345 retail outlets, are included in this report.

Most operating, or profit and loss, items are expressed in the standard form of percentages to net sales. These results, as in former years, are shown in three sales-size groups for comparative analysis. Since such financial statistics are reported on an "enterprise" basis, it is not possible to show any results by individual store sizes.

### REVIEW OF 1957 OPERATING RESULTS

#### Profit and Expense Ratios

Chain drug stores obtained a gross profit of 34.36 per cent in 1957. A ratio of 31.36 per cent for total operating expenses reduced this marginal profit to a net operating profit of 3 per cent. Approximately 62 per cent of operating expenses were accounted for by salaries and employees' benefits. Net non-trading transactions increased the net operating profit to 4.07 per cent before income tax deduction.

#### Inventories and Stock Turnover

Inventories of the reporting firms, expressed as percentages of net sales, showed an increase during the year from 17.83 per cent at the beginning to 20.55 per cent at the end of the year. The average of these two inventories, divided into the cost of goods sold, produced a stock turnover rate of 3.42 times per year compared with 3.45 in 1955.

**TABLE 1. Operating Results of Chain Drug Stores, 1957, by Size of Firm**

Item	Firms with 1957 sales of			Total all sizes
	Under \$500,000	\$500,000-\$999,999	\$1,000,000 and over	
Number of firms .....	8	7	10	25
Number of stores operated .....	40	49	256	345
Average net sales per firm ..... \$	411,884	697,161	3,273,482	1,636,401
Average cost of goods sold ..... \$	273,465	465,345	2,140,513	1,074,011
Average inventory per firm:				
Beginning of year ..... \$	64,718	113,977	598,014	291,829
Per cent of average net sales .....	15.71	16.35	18.27	17.83
End of year ..... \$	64,921	124,656	701,565	336,304
Per cent of average net sales .....	15.76	17.88	21.43	20.55
Stock turnover (times per year) .....	4.22	3.90	3.29	3.42
<b>Profit and loss (per cent of net sales)</b>				
<b>Gross profit .....</b>	<b>33.61</b>	<b>33.25</b>	<b>34.61</b>	<b>34.36</b>
Operating expenses:				
Salaries:				
Executives .....	2.69	2.61	1.08	1.40
Other employees .....	16.85	16.17	17.59	17.36
Employee's benefits .....	0.42	0.39	0.66	0.61
Occupancy .....	5.31	4.46	5.09	5.03
Taxes, licenses <sup>1</sup> .....	0.42	0.33	0.40	0.39
Insurance <sup>1</sup> .....	0.21	0.28	0.24	0.24
Repairs and maintenance <sup>1</sup> .....	0.46	0.70	0.80	0.76
Depreciation <sup>1</sup> .....	0.71	0.72	1.11	1.03
Supplies .....	0.54	0.54	0.33	0.37
Advertising .....	0.64	0.95	1.16	1.09
Travelling .....	0.22	0.04	0.21	0.19
Communication .....	0.35	0.20	0.27	0.27
Delivery .....	1.42	0.63	0.64	0.70
Bad debt loss .....	0.06	0.04	0.05	0.05
All other expenses .....	0.93	1.43	2.03	1.87
<b>Total operating expenses .....</b>	<b>31.23</b>	<b>29.49</b>	<b>31.66</b>	<b>31.36</b>
<b>Net operating profit .....</b>	<b>2.38</b>	<b>3.76</b>	<b>2.95</b>	<b>3.00</b>
Non-trading income .....	0.43	0.57	1.35	1.18
Non-trading expense .....	—	0.01	0.14	0.11
<b>Net profit before income tax deduction .....</b>	<b>2.81</b>	<b>4.32</b>	<b>4.16</b>	<b>4.07</b>

<sup>1</sup> Excludes amount attributed to real estate which is in occupancy expense.



**Incorporated Companies**

Income tax and final net profit data are not shown for all firms since five of the twenty-five firms were unincorporated; a special tabulation for incorporated companies is shown in Table 2. The

net profit of this group amounted to 4.22 per cent of net sales before income tax deduction compared with 4.07 per cent for all firms reporting. Income tax of 1.74 per cent reduced this to a final net profit ratio of 2.48 per cent of net sales.

**TABLE 2. Operating Results of Incorporated Chain Drug Stores, 1957, by Size of Firm**  
(Items expressed as percentage of net sales)

Item	Firms with 1957 sales of			
	Under \$500,000	\$500,000-\$999,999	\$1,000,000 and over	Total all sizes
Gross profit .....	33.04	33.25	35.14	34.76
Total operating expenses .....	30.89	29.49	32.12	31.69
Net operating profit .....	2.15	3.76	3.02	3.07
Non-trading income .....	0.47	0.57	1.45	1.27
Non-trading expense .....	—	0.01	0.15	0.12
Net profit before income tax deduction .....	2.62	4.32	4.32	4.22
Income tax .....	0.54	1.07	1.93	1.74
Final net profit .....	2.08	3.25	2.39	2.48

**Comparison with Previous Years**

The historical presentation of the main operating results for the last six biennial surveys is shown in the following table. The gross profit reached a high of 34.93 per cent in 1955 after a steady climb since 1949. Although a slight decrease occurred in 1957, the 34.36 per cent ratio was the second highest in the series. Total operating expenses increased gradually from 1947 to 1955; this

upward trend was broken by a slight decrease in the ratio for 1957 compared with 1955. Aside from a 5.35 per cent ratio in 1947, the net operating profit ratios remained fairly constant. The net operating profit ratio for 1957 (3.00 per cent) was the lowest of the six except for an equally low ratio of 2.99 per cent in 1949.

**TABLE 3. Chain Drug Stores — Main Operating Results for 1947 and 1957 Compared**  
(Items expressed as percentages of net sales)

Item	1947	1949	1951	1953	1955	1957
Number of firms .....	22	20	22	25	26	25
Gross profit .....	34.18	33.27	33.74	33.78	34.93	34.36
Operating expenses:						
Salaries .....	16.07	17.33	18.03	18.34	19.07	18.76
Occupancy .....	5.38	5.24	4.98	5.09	5.05	5.03
Advertising .....	1.52	1.65	1.13	1.13	0.99	1.09
All other .....	5.86	6.06	6.39	6.04	6.56	6.48
Total operating expenses .....	28.83	30.28	30.53	30.60	31.67	31.36
Net operating profit .....	5.35	2.99	3.21	3.18	3.26	3.00



## Balance Sheet Data

Firms of similar size tend to have comparable operating experiences so that average ratios of expense to net sales have some meaning. The financial structure of firms, however, can be extremely different even while their expense ratios are identical. One firm may be a subsidiary of another in one case while, in another, a firm may own controlling interest in other companies. Such situations result in high liabilities on the one hand and large assets in long-term investments on the other or, again, an unusually large capital surplus account. The figures shown here represent the

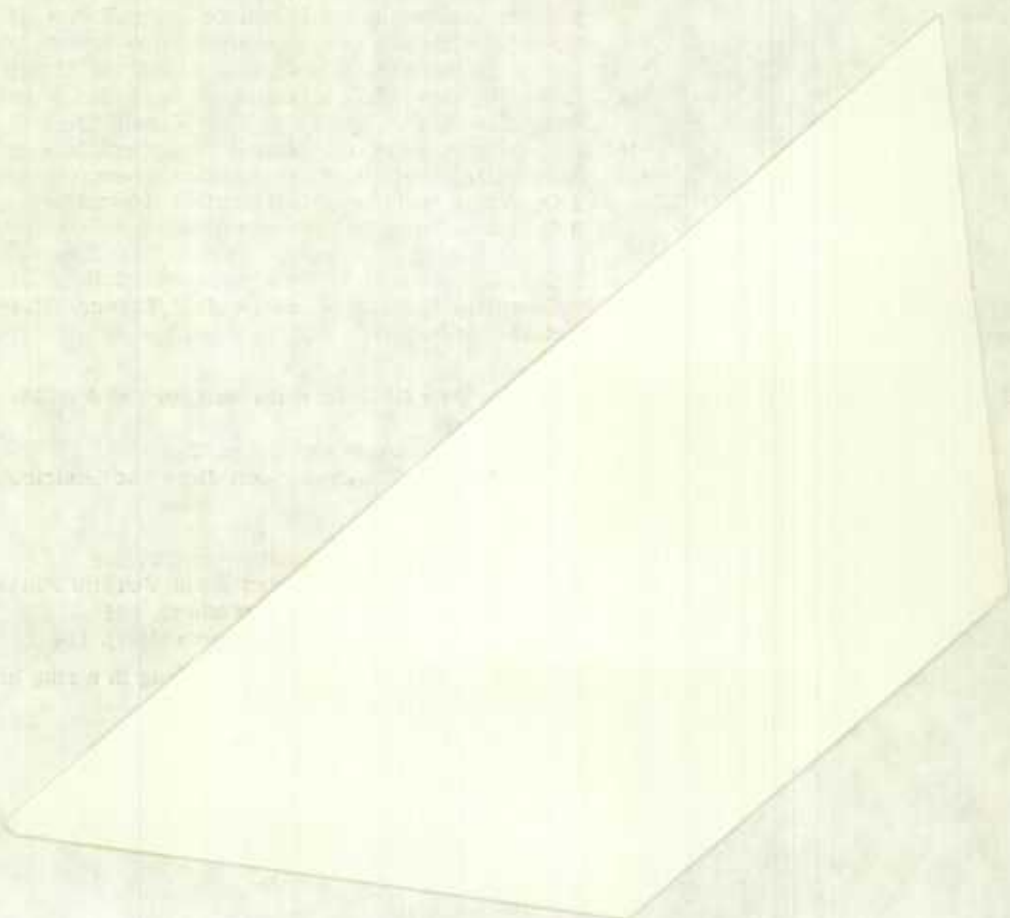
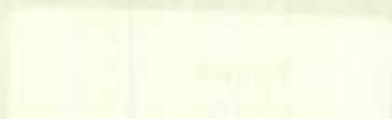
"highs" and "lows" of different items and are not therefore, "typical" or "goal" averages. With these facts in mind, they are of some interest in that they represent the trade as a whole. From them, certain ratios of interest can be derived but these should not be taken as top performance. This first attempt to assemble balance sheet data on retail chain stores may well be improved in subsequent studies or, again, if the group of firms in a trade is too heterogeneous, this part of the biennial survey could be discontinued.

TABLE 4. Financial Status of Incorporated Chain Drug Stores, as at December 31, 1957

Item	Firms with annual net sales of			Total all sizes
	Under \$500,000	\$500,000 - \$999,999	\$1,000,000 and over	
	average per firm			
Assets				
Current assets:				
Cash on hand and in bank .....	16,209	17,429	69,959	38,136
Accounts and notes receivable (net) .....	4,313	9,383	51,568	24,990
Merchandise inventory .....	75,374	125,164	813,172	387,919
Other current assets .....	3,706	7,274	30,634	15,726
Total current assets .....	99,602	159,250	965,333	466,771
Total fixed assets (net) .....	17,724	41,779	401,072	179,482
Other assets:				
Long term investments .....	4,114	18,074	144,327	65,085
Other assets .....	28,315	22,562	16,811	21,700
Total other assets .....	32,429	40,636	161,138	86,785
Total assets .....	149,755	241,665	1,527,543	733,038
Liabilities				
Current liabilities:				
Accounts and notes payable .....	35,546	42,778	491,068	220,286
Fixed liabilities .....	217	3,319	10,517	5,423
Other liabilities .....	4,020	19,047	136,337	62,206
Total liabilities .....	39,783	65,144	637,922	287,915
Net worth				
Capital Stock .....	46,260	49,297	407,913	191,984
Surplus and undivided profits .....	63,712	127,224	481,708	253,139
Total net worth .....	109,972	176,521	889,621	445,123
Total liabilities and net worth .....	149,755	241,665	1,527,543	733,038
Average net sales of firms reporting .....	419,071	697,161	3,646,908	1,807,536
Number of firms reporting .....	5	7	8	20







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