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# DRUG CHAIN STORES

## OPERATING RESULTS

1965



The last issue of this report, formerly known as Operating Results of Chain Drug Stores, was for 1959. Previously Biennial, it is now Triennial.

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## DRUG CHAIN STORES

### OPERATING RESULTS

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A retail chain is an organization operating four or more retail stores in the same kind of business under the same legal ownership.

This report deals with profit and loss statistics presented mainly in the form of percentages of net sales. Results are shown for sales-size groups. Balance sheet data are not presented.

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

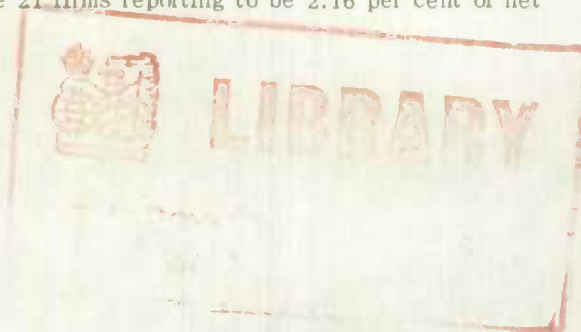
Stores included in this classification are those selling mainly prescription drugs, patent medicines, drug sundries, cosmetics and toilet articles and preparations; tobacco, books, magazines and novelties may also be sold. Soft drinks and ice cream may be handled from a box cooler but the respondents to this survey did not operate soda fountains or lunch counters.

This is the first operating results survey of drug chain stores since 1959. Financial data of 21

incorporated companies which operated 334 retail stores are included in this report.

It is of some interest to note that the gross profit as a percentage of net sales for this kind of business revealed by the 1961 Census of Merchandising was 32.3 per cent for drug stores without lunch counters and 32.9 per cent for drug stores operating a restaurant or lunch counter. The range for the former was 29.3 per cent for Newfoundland and 33.8 per cent in the case of British Columbia. For the latter it was 29.4 per cent for Saskatchewan and Alberta and 38.1 per cent for New Brunswick. The Census statistics pertain to independent stores as well as chain and to both incorporated companies and unincorporated businesses. The 1965 survey indicated gross profit of 33.08 per cent of net sales for incorporated companies operating chain stores in this kind of business.

Table 1 which follows provides a comparison of the operating results of drug chain stores for a number of years. The 1965 results in more detail and by size of business are shown in Table 2. Final net profit after providing for income tax is shown for the 21 firms reporting to be 2.16 per cent of net sales.



# DECEMBER 1963

## MEMORANDUM

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**TABLE 1. Drug Chain Stores — Main Operating Results for 1947-65 Compared**  
(Items expressed as percentages of net sales)

Item	1947	1949	1951	1953	1955	1957	1959	1965
Number of firms .....	22	20	22	25	26	25	28	21
<b>Gross profit</b> .....	<b>34.18</b>	<b>33.27</b>	<b>33.74</b>	<b>33.78</b>	<b>34.93</b>	<b>34.36</b>	<b>33.92</b>	<b>33.08</b>
Operating expenses:								
Salaries .....	16.07	17.33	18.03	18.34	19.07	18.76	18.51	17.48
Occupancy .....	5.38	5.24	4.98	5.09	5.05	5.03	5.34	6.28
Advertising .....	1.52	1.65	1.13	1.13	0.99	1.09	1.24	1.43
All other .....	5.86	6.06	6.39	6.04	6.56	6.48	6.47	4.96
<b>Total operating expenses</b> .....	<b>28.83</b>	<b>30.28</b>	<b>30.53</b>	<b>30.60</b>	<b>31.67</b>	<b>31.36</b>	<b>31.56</b>	<b>30.15</b>
<b>Net operating profit</b> .....	<b>5.35</b>	<b>2.99</b>	<b>3.21</b>	<b>3.18</b>	<b>3.26</b>	<b>3.00</b>	<b>2.36</b>	<b>2.93</b>

**TABLE 2. Drug Chain Stores, Operating Results, by Size of Business, (Incorporated Companies), 1965**

Item	Firms with 1965 sales of			Total all sizes
	Under \$500,000	\$ 500,000- 1,499,999	\$1,500,000 and over	
Number of firms .....	4	8	9	21
Number of stores operated .....	19	44	271	334
Average net sales per firm ..... \$	440,204	1,066,428	5,730,198	2,945,906
Average cost of goods sold ..... \$	305,288	711,893	3,831,567	1,971,448
Average inventory per firm:				
Beginning of year ..... \$	63,688	192,184	1,127,424	568,526
Per cent of average net sales .....	14.47	18.02	19.68	19.30
End of year ..... \$	90,084	205,893	1,184,343	603,170
Per cent of average net sales .....	20.46	19.31	20.67	20.47
Stock turnover (times per year) .....	3.97	3.58	3.31	3.37
<b>Profit and loss</b> (Per cent of net sales)				
<b>Gross profit</b> .....	<b>30.65</b>	<b>33.25</b>	<b>33.13</b>	<b>33.08</b>
Operating expenses:				
Salaries:				
Executives .....	2.47	2.54	1.06	1.31
Other employees .....	17.41	14.72	16.37	16.17
Employees' benefits .....	0.21	0.54	0.56	0.54
Occupancy .....	3.89	5.50	6.49	6.28
Taxes <sup>1</sup> and licences .....	0.38	0.33	0.22	0.24
Insurance <sup>1</sup> .....	0.26	0.29	0.22	0.23
Repairs and maintenance <sup>1</sup> .....	0.31	0.21	0.27	0.27
Depreciation <sup>1</sup> .....	0.60	0.72	0.99	0.95
Supplies .....	0.35	0.49	0.45	0.45
Advertising .....	0.98	0.96	1.52	1.43
Travelling .....	0.31	0.12	0.23	0.22
Communication .....	0.22	0.30	0.27	0.27
Delivery .....	0.57	1.85	0.55	0.73
Bad debt loss .....	0.15	0.10	0.05	0.06
All other expenses .....	0.95	2.03	0.84	1.00
<b>Total operating expenses</b> .....	<b>29.06</b>	<b>30.70</b>	<b>30.09</b>	<b>30.15</b>
<b>Net operating profit</b> .....	<b>1.59</b>	<b>2.55</b>	<b>3.04</b>	<b>2.93</b>
Non-trading income .....	0.25	0.75	1.67	1.50
Non-trading expense .....	—	0.16	0.79	0.68
<b>Net profit before income tax deduction</b> .....	<b>1.84</b>	<b>3.14</b>	<b>3.92</b>	<b>3.75</b>
<b>Income tax</b> .....	<b>0.38</b>	<b>0.97</b>	<b>1.74</b>	<b>1.59</b>
<b>Final net profit</b> .....	<b>1.46</b>	<b>2.17</b>	<b>2.18</b>	<b>2.16</b>

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

## 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. Included are salaries paid to executives of incorporated firms. Proprietors' salaries or withdrawals are included in "net operating profit" for unincorporated store operations.

**Employees' benefits** — 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 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 on fixtures and equipment (except delivery).

**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.

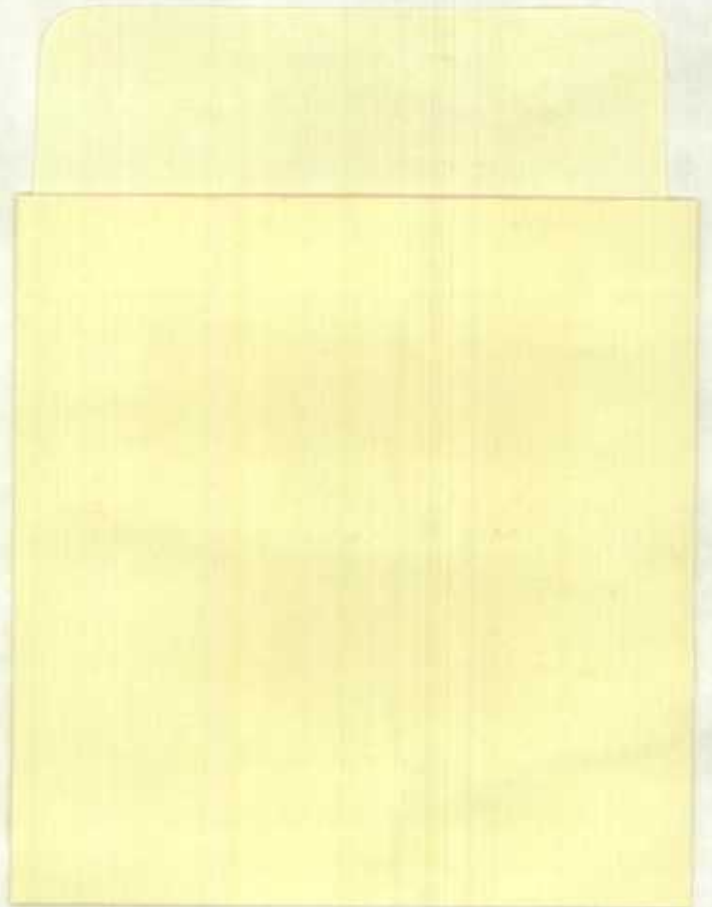
**Delivery** — salaries paid to delivery men, truck repairs and maintenance, depreciation, licences and insurance on delivery equipment and supplies used in connection with delivery (gas, oil, etc.), all other costs from stores to customers including amounts paid for contract delivery.

**Bad debt loss** — 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 expense** — interest expense and any other expenses not pertaining to the business.



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