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OPERATING RESULTS OF CHAIN FOOD STORES 1951

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NOTICE

The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 4 volumes, as follows: **Volume I** – The Primary Industries, including mining, forestry and fisheries; **Volume II** – Manufacturing; **Volume III** – Construction; **Volume IV** – Merchandising and Services.

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

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S – Hotels, 25¢.
T – Sales Financing, 25¢.
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V – New Motor Vehicle Sales and Motor Vehicle Financing 25¢.
W – Advertising Agencies (Memorandum) 25¢.

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

* Biennial reports – not issued for 1951.

(29 Apr '53)

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OPERATING RESULTS OF CHAIN FOOD STORES
1951

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 three trades are covered in this bulletin – grocery stores, combination grocery and meat stores, and meat markets.

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 no chain food stores in Newfoundland. 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 and 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 1951 operations and is the third biennial publication in a series begun in 1947. Certain summary tables show comparative results for 1949 and 1951. The charts show the gross profit components for 1947, 1949 and 1951 by suitable sales-size classifications for each trade.

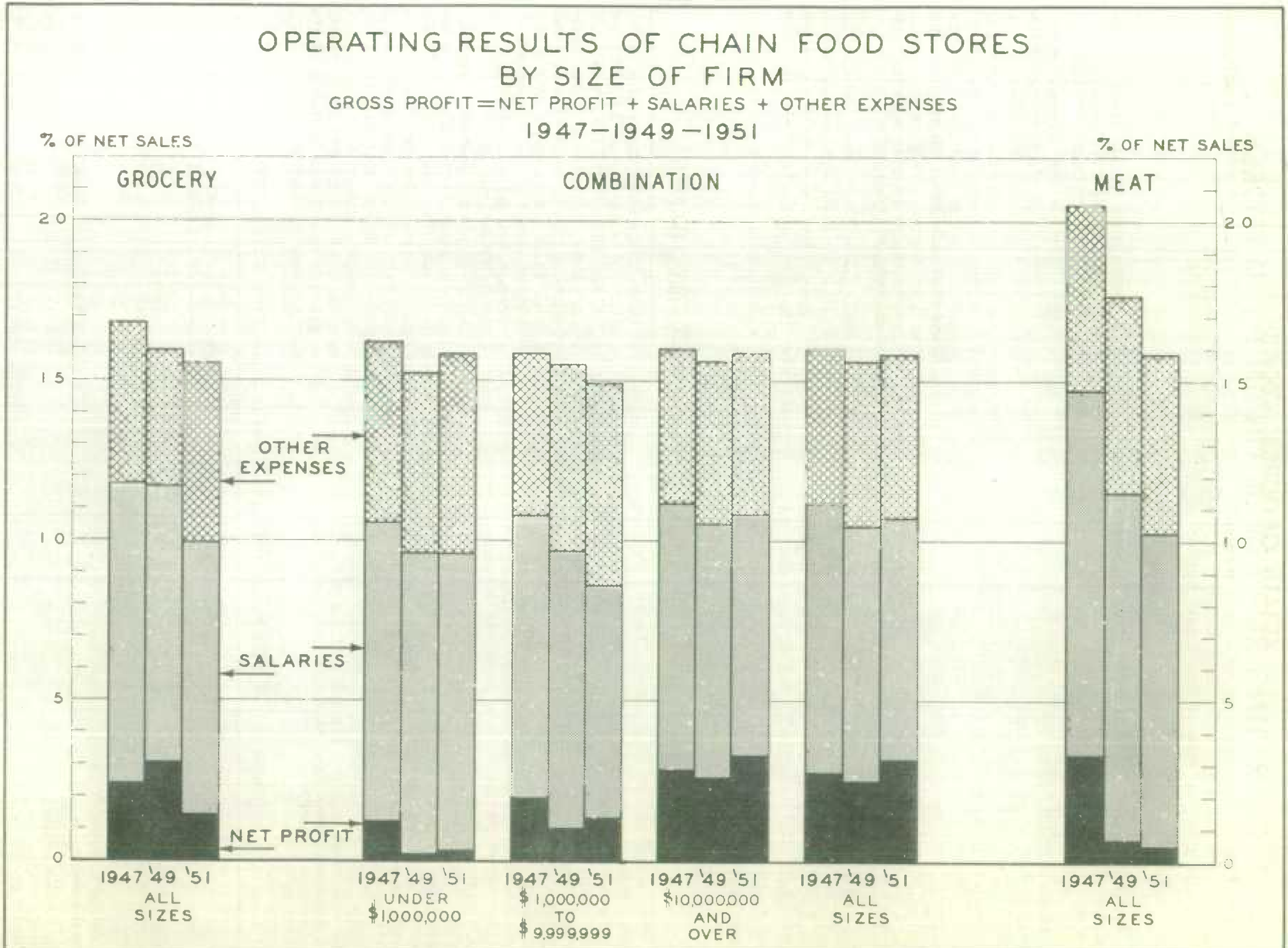
SUMMARY OF 1951 OPERATING RESULTS BY TRADES

The principal operating results figures for the chain food store business are summarized in the following table. In analyzing the results of an individual food chain company, reference should be made to the detailed tables in the appropriate sections of this bulletin. In these sections (grocery, combination and meat) 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 net sales of the three trades, due to the respective peculiarities, ranged from $785,905 for meat to $2,136,087 and $26,604,019 for grocery and combination chain stores respectively. The interrelationship of stock turnover rates showed meat stores highest with 44.33, combination with 18.21 and grocery with 10.60. Gross profits, expressed as percentages of average net sales, showed a small range from 15.53% to 15.84% for grocery and meat stores respectively. However, operating expense ratios showed a wider range from 12.67% for combination stores to 15.40% for meat stores. Consequently, combination stores obtained the highest net operating profit ratio of 3.15% and meat stores, with the comparatively highest operating expenses, averaged 0.44%. Grocery stores averaged a net operating profit ratio of 1.41%. For each trade, miscellaneous expense and income netted a slight increase to the net operating profits.

Comparison of Main Profit and Loss Items in Chain Food Stores, 1951

Item	Grocery	Combination	Meat
Number of firms	8	21	8
Average net sales per firm ... $	2,136,087	26,604,019	785,905
Rate of stock turnover (times per year)	10.60	18.21	44.33
Profit and Loss data (Per cent of net sales):			
Gross profit	**15.53**	**15.82**	**15.84**
Operating expenses	14.12	12.67	15.40
Net operating profit	1.41	3.15	0.44
Other income	0.31	0.25	0.08
Miscellaneous expense	0.17	0.06	0.02
Net profit before income tax deduction	**1.55**	**3.34**	**0.50**


OPERATING RESULTS OF CHAIN FOOD STORES
BY SIZE OF FIRM
GROSS PROFIT = NET PROFIT + SALARIES + OTHER EXPENSES
1947—1949—1951
% OF NET SALES
% OF NET SALES
GROCERY
COMBINATION
MEAT
20
15
10
5
0
OTHER EXPENSES
SALARIES
NET PROFIT
1947 '49 '51
ALL SIZES
1947 '49 '51
UNDER $1,000,000
1947 '49 '51
$1,000,000 TO $9,999,999
1947 '49 '51
$10,000,000 AND OVER
1947 '49 '51
ALL SIZES
1947 '49 '51
ALL SIZES

CHAIN GROCERY STORES

The 8 firms from which reports were received, together operated 129 retail outlets in 1951. It was not practicable, in view of the small number of firms in this classification, to present a sales-size classification breakdown.

REVIEW OF 1951 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 grocery store chains, irrespective of the number of retail outlets, might be compared with a high degree of accuracy. In 1951 grocery store chains obtained an average gross profit of 15.53 per cent of average net sales. Average operating expense ratios totalling 14.12% reduced this figure to a net operating profit of 1.41%. Salaries and wages, amounting to 8.53%, together with employees' benefits of 0.26%, accounted for almost two thirds of the total operating expense ratio. Miscellaneous income and expense netted a slight increase to the net operating profit resulting in a net profit before income tax deduction ratio of 1.55%.

Inventories and Stock Turnover

Average inventories, expressed as proportions of average net sales of responding firms, increased from 7.13% at the beginning of the year, to 8.80% at the end of the year. The rate of stock turnover-average of beginning and ending inventories divided into cost of goods sold—was 10.60, a slight increase over the rate ascertained from the 1949 survey results.

TABLE 1. Operating Results of Chain Grocery Stores, 1951

Item		Total all sizes
Number of firms		8
Number of stores operated		129
Average net sales per firm	$	2,136,087
Average cost of goods sold	$	1,804,246
Average inventories per firm:		
Beginning of year	$	152,345
Per cent of average net sales		7.13
End of year	$	188,044
Per cent of average net sales		8.80
Stock turnover (times per year)		10.60
Profit and loss data (per cent of net sales):		
Gross profit		**15.53**
Operating expenses:		
Salaries:		
Executives		0.84
Other employees		7.69
Employees' benefits		0.26
Occupancy		1.19
Heat, light and power		0.42
Taxes, licenses		0.12
Insurance		0.15
Repairs and maintenance		0.26
Depreciation		0.56
Supplies		0.49
Advertising		0.51
Travelling		0.19
Communication		0.20
Delivery		0.64
Bad debt loss		0.15
All other expenses		0.45
Total operating expenses		**14.12**
Net operating profit		**1.41**
Other income		0.31
Miscellaneous expense		0.17
Net profit before income tax deduction		**1.55**

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Although eight nonidentical firms reported in each survey, the number of retail outlets of the firms responding in the 1951 survey was almost double the number of outlets shown in the 1949 survey results. 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 1949 to $1,100,000 in 1951, 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 per retail outlet showed an increase of approximately 20%. Therefore, the slight decline of the gross profit ratios indicates that the average gross profit or margin increased at a rate slightly below that of average net sales. Each of the itemized factors of expense, salaries, occupancy and supplies, showed a slight ratio decline, but the "all other" expense group ratio increased sufficiently to result in a greater total operating expense ratio for 1951 operations. This, together with the slight decline in gross profit, resulted in a substantial decrease in the 1951 net operating profit ratio.

TABLE 2. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (8 firms)	1951 (8 firms)
Gross profit	**15.96**	**15.53**
Operating expenses:		
Salaries	8.66	8.53
Occupancy	1.24	1.19
Supplies	0.66	0.49
All other	2.38	3.91
Total operating expenses	**12.94**	**14.12**
Net operating profit	**3.02**	**1.41**

CHAIN COMBINATION STORES

A total of 831 retail outlets were operated by the 21 chain combination store firms reporting to this survey. All firms in the two largest sales-size categories were incorporated companies for which income tax information was tabulated.

REVIEW OF 1951 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 combination store chains, irrespective of the number of retail outlets, might be compared with a high degree of accuracy.

In 1951 combination store chains obtained a gross profit ratio or margin of 15.82 per cent of average net sales. Average operating expense ratios totalling 12.67% reduced this figure to a net operating profit ratio of 3.15%. Miscellaneous expense and income netted a slight increase to the net operating profit resulting in a net profit before income tax deduction ratio of 3.34%. Firms classified in the smallest sales-size category operated on a gross profit ratio equal to the average ratio of all firms. The ratio for the middle category firms was slightly below and the ratio for the firms of the largest sales-size was slightly above the average for all firms combined. Total operating expense ratios for the three categories ranged from 12.60% to 15.54% and varied inversely with the sales-size classifications. Consequently, the net operating profit ratios ranged from 0.28% in the smallest category to 1.32% and 3.28% in the middle and largest categories respectively. Miscellaneous expense netted an increase in each instance to raise the range to 0.34%, 1.49% and 3.47% for the three respective categories. Income tax reduced the net profits of the middle and largest sales-size firms by 49.0% and 47.6% respectively.

Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased from 4.17% at the beginning of the year to 5.07% at the end of the year. This trend was common to each of the sales-size categories. The rate of stock turnover—average of beginning and ending inventories divided into cost of goods sold—was 18.21, a slight increase over the rate ascertained from the 1949 survey results. The stock turnover rates of the three categories increased with the sales-size.

TABLE 3. Operating Results of Chain Combination Stores, 1951, by Size of Firm

Item	Firms with 1951 sales of			Total All Sizes
	Under $1,000,000	$1,000,000 to $9,999,999	$10,000,000 and over	
Number of firms	5	10	6	21
Number of stores operated	24	92	715	831
Average net sales per firm $	492,551	3,151,092	87,451,530	26,604,019
Average cost of goods sold $	414,652	2,680,314	73,566,379	22,394,093
Average inventories per firm:				
Beginning of year $	35,764	186,578	3,543,233	1,109,717
Per cent of average net sales	7.26	5.92	4.05	4.17
End of year $	37,007	193,931	4,368,850	1,349,406
Per cent of average net sales	7.51	6.15	4.99	5.07
Stock turnover (times per year)	11.40	14.09	18.60	18.21
Profit and loss data (per cent of net sales):				
Gross profit	**15.82**	**14.94**	**15.88**	**15.82**
Operating expenses:				
Salaries:				
Executives	1.15	0.58	0.30	0.32
Other employees	8.15	6.69	7.28	7.25
Employees' benefits	0.14	0.06	0.26	0.25
Occupancy	1.33	1.79	0.96	1.01
Heat, light and power	0.40	0.30	0.27	0.27
Taxes, licenses	0.14	0.12	0.11	0.11
Insurance	0.12	0.12	0.07	0.08
Repairs and maintenance	0.36	0.32	0.28	0.28
Depreciation	0.51	0.64	0.50	0.51
Supplies	0.76	1.05	1.11	1.10
Advertising	0.68	0.66	0.48	0.49
Travelling	0.03	0.04	0.15	0.14
Communication	0.16	0.09	0.05	0.05
Delivery	0.79	0.61	0.13	0.16
Bad debt loss	0.13	0.05	—	0.01
All other expenses	0.69	0.50	0.65	0.64
Total operating expenses	**15.54**	**13.62**	**12.60**	**12.67**
Net operating profit	**0.28**	**1.32**	**3.28**	**3.15**
Other income	0.06	0.29	0.25	0.25
Miscellaneous expense	—	0.12	0.06	0.06
Net profit before income tax deduction	0.34	1.49	3.47	3.34
Income tax	—	0.73	1.65	—
Final net profit	—	**0.76**	**1.82**	—

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Although 21 non-identical firms reported in each survey, the number of retail outlets of the firms responding increased from 816 to 831 in 1949 and 1951 respectively. 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 1949 to $1,100,000 in 1951, 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 per retail outlet showed an increase of approximately 40%. Therefore, the slight increase of the gross profit ratio in 1951 indicates that the average gross profit or margin increased at a slightly greater rate than did average net sales. Each of the itemized factors of expense and the total expenses showed a ratio decline with the exceptions of supplies, which remained of the same order, and the all other expense category, which showed a slight increase in 1951. The ratio decrease of total operating expenses together with an increased gross profit ratio, resulted in a greater net operating profit ratio for 1951 operations. That is, the net operating profit increased at a greater rate than did net sales.

TABLE 4. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (21 firms)	1951 (21 firms)
Gross profit	**15.60**	**15.82**
Operating expenses:		
Salaries	7.99	7.57
Occupancy	1.12	1.01
Supplies	1.31	1.10
Advertising	0.49	0.49
All other	2.22	2.50
Total operating expenses	**13.13**	**12.67**
Net operating profit	**2.47**	**3.15**

CHAIN MEAT STORES

A total of 43 retail outlets were operated by the eight chain meat store firms reporting to this survey. It was not practicable, in view of the small number of firms in this classification, to present operating results in a sales-size classification breakdown.

REVIEW OF 1951 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 meat store chains, irrespective of the number of retail outlets, might be compared with a high degree of accuracy. In 1951, meat store chains obtained an average gross profit of 15.84 per cent of average net sales. Average operating expense ratios totalling 15.40%

reduced this figure to a net operating profit ratio of 0.44%. Salaries and wages, amounting to 9.82%, together with employees' benefits of 0.14% accounted for almost two thirds of the total operating expense ratio. Miscellaneous expense and income netted a slight increase to the net operating profit resulting in a net profit before income tax deduction ratio of 0.50%.

Inventories and Stock Turnover

Average inventories, expressed as proportions of average net sales of responding firms, increased from 1.63% at the beginning of the year to 2.16% at the end of the year. The rate of stock turnover—average of beginning and ending inventories divided into cost of goods sold—was 44.33, a very slight increase over the rate ascertained from the 1949 survey results.

TABLE 5. Operating Results of Chain Meat Stores, 1951

Item	Total all sizes
Number of firms	8
Number of stores operated	43
Average net sales per firm $	785,905
Average cost of goods sold $	661,422
Average inventories per firm:	
Beginning of year $	12,843
Per cent of average net sales	1.63
End of year $	17,001
Per cent of average net sales	2.16
Stock turnover (times per year)	44.33
Profit and loss data (per cent of net sales):	
Gross profit	**15.84**
Operating expenses:	
Salaries:	
Executives	1.40
Other employees	8.42
Employees' benefits	0.14
Occupancy	1.34
Heat, light and power	0.41
Taxes, licenses	0.11
Insurance	0.17
Repairs and maintenance	0.29
Depreciation	0.52
Supplies	0.69
Advertising	0.43
Travelling	0.08
Communication	0.12
Delivery	0.24
Bad debt loss	0.02
All other expenses	1.02
Total operating expenses	**15.40**
Net operating profit	**0.44**
Other income	0.08
Miscellaneous expense	0.02
Net profit before income tax deduction	**0.50**

Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only eight firms reported for the 1951 survey, compared to 11 respondents in 1949. The total number of retail outlets decreased correspondingly. 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 1949 to $1,100,000 in 1951, 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 per retail outlet in 1951 were more than 50% greater than in 1949. Therefore, the decline in gross the profit ratio in 1951 indicates that the average gross profit increased at a slightly smaller rate than did average net sales. Each of the itemized factors of expense showed a ratio decline for 1951 operations. However, this expense ratio decline was insufficient to offset the effect of the decreased gross profit ratio resulting in a slight decline in the net operating profit ratio from 0.64% in 1949 to 0.44% in 1951.

TABLE 6. Main Operating Results Items for 1949 and 1951 Compared

(Items expressed as percentages of net sales)

Item	1949 (11 firms)	1951 (8 firms)
Gross profit	**17.64**	**15.84**
Operating expenses:		
Salaries	10.85	9.32
Occupancy	1.47	1.34
Supplies	1.06	0.69
All other	3.62	3.55
Total operating expenses	**17.00**	**15.40**
Net operating profit	0.64	0.44

Edmond Cloutier, C.M.G., O.A., D.S.P., Queen's Printer and Controller of Stationery, Ottawa, 195[illegible].