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FOOD CHAIN STORES
OPERATING RESULTS
1966

The last issue of this report, formerly known as Operating Results of Chain Food Stores, was for 1963.

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24
25
26

TABLE OF CONTENTS

	Page
Introduction	5
Summary of Results by Trades	5
Combination Chain Stores	5
Dairy Products Chain Stores	7
Definitions	8



FOOD CHAIN STORES

OPERATING RESULTS

1966

INTRODUCTION

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 in some instances. Balance sheet data are not presented.

The primary purpose of the operating results survey is to provide averages or 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.

SUMMARY OF RESULTS BY TRADES

The 1966 survey covers combination and dairy products chain stores. These are two food trades where chain stores are of significance. In the grocery and meat field a shifting has occurred toward the combination store type of merchandising, i.e., specialized grocery chain stores and meat market chains are gradually disappearing.

The comparison of operating ratios for the food chain stores is shown below. Three dairy products

chains reporting operated on higher ratios of gross profit, spent more of their sales dollar on expenses and obtained larger net profits than the other kind of stores. For 1963 comparable figures were 3.05 per cent net profit and a loss of 0.33 per cent for combination stores and dairy products stores respectively. The panels were not comprised of precisely the same firms for the two years.

TABLE 1. Comparison of Main Operating Results of Food Chain Stores, 1966

Item	Combination	Dairy products
Number of firms	28	3
Average net sales per firm \$	76,981,337	288,294
Rate of stock turnover (times per year)	14.01	39.59
Profit and loss data (per cent of net sales)		
Gross profit	21.33	37.68
Operating expenses	17.84	32.72
Net operating profit	3.49	4.96
Non-trading income	1.08	3.91
Non-trading expense	0.44	—
Net profit before income tax deduction	4.13	8.87

COMBINATION CHAIN STORES

Firms included in this classification sell mainly groceries and fresh meat, with meat sales between 15 per cent and 50 per cent of sales. Fresh fruits and vegetables frequently form an important part of the trade of combination stores and other items may include tobacco and candy. All firms reporting to the survey were incorporated companies. Operating results data are given for three sales size categories and for all sizes. There is a table giving historical data back to 1947.

Financial data of 28 incorporated companies operating 1,750 combination stores are included in this report. The gross profit for combination chain stores was 21.33 per cent of net sales in 1966, compared with 19.58 per cent in 1963. It is of some

interest to note that the gross profit as a percentage of net sales for combination stores revealed by the 1961 Census of Merchandising was 17.7 per cent. Gross profit ranged from 15.2 per cent in the case of Newfoundland to 18.0 per cent for Quebec. The Census statistics pertain to all stores of this kind, independent as well as chain and incorporated companies as well as unincorporated businesses. Salaries and wages, in 1966, were 9.35 per cent of net sales compared with 8.26 per cent in 1963. Total operating expenses amounted to 17.84 per cent (16.96 per cent in 1963) and net operating profit reached 3.49 per cent against 2.62 per cent three years earlier. Final net profit was 2.36 per cent compared with 1.61 per cent in 1963.

TABLE 2. Combination Chain Stores - Comparison of Main Operating Results, 1947-66
(Items expressed as percentages of net sales)

Item	1947	1949	1951	1953	1955	1957	1959	1963	1966
Number of firms	24	21	21	24	22	26	29	34	28
Gross profit	15.99	15.60	15.82	16.50	16.45	17.44	17.90	19.58	21.33
Operating expenses:									
Salaries	8.38	7.99	7.57	7.41	7.67	7.32	7.88	8.26	9.35
Occupancy	1.15	1.35	1.28	1.26	1.39	1.84	2.14	3.01	2.97
Supplies	0.71	1.31	1.10	1.00	0.96	0.98	0.99	0.97	0.98
Advertising	0.51	0.49	0.49	0.71	0.91	0.91	1.08	1.43	1.40
All other expenses	2.48	1.99	2.23	2.88	2.47	2.75	3.08	3.29	3.14
Total operating expenses	13.23	13.13	12.67	13.26	13.40	13.80	15.17	16.96	17.84
Net operating profit	2.76	2.47	3.15	3.24	3.05	3.64	2.73	2.62	3.49

TABLE 3. Operating Results of Combination Chain Stores, 1966, by Size of Firm

Item	Firms with 1966 sales of			Total all sizes
	Under \$10,000,000	\$10,000,000 - 99,999,999	\$100,000,000 and over	
Number of firms.....	16	7	5	28
Number of stores operated	125	358	1,267	1,750
Average net sales per firm	\$ 3,734,592	28,166,074	379,712,293	76,981,337
Average cost of goods sold	\$ 3,145,314	23,251,832	296,526,896	60,561,511
Average inventory per firm:				
Beginning of year	\$ 214,442	1,335,253	20,768,928	4,165,089
Percent of average net sales	5.74	4.74	5.47	5.41
End of year	\$ 223,306	1,479,108	22,321,199	4,483,309
Percent of average net sales	5.98	5.25	5.88	5.82
Stock turnover (times per year)	14.37	16.52	13.76	14.01
Profit and loss data (per cent of net sales)				
Gross profit	15.78	17.45	21.91	21.33
Operating expenses:				
Salaries:				
Executives	0.93	0.28	0.14	0.18
Other employees	6.81	7.53	9.42	9.17
Employees' benefits	0.22	0.41	0.64	0.61
Occupancy	2.16	3.20	2.98	2.97
Taxes, licenses ¹	0.23	0.14	0.16	0.16
Insurance ¹	0.12	0.08	0.07	0.08
Repairs and maintenance ¹	0.40	0.23	0.48	0.45
Depreciation ¹	0.73	0.69	0.92	0.89
Supplies	0.99	0.96	0.98	0.98
Advertising	1.36	1.20	1.42	1.40
Travelling	0.11	0.12	0.20	0.19
Communication	0.10	0.08	0.06	0.06
Delivery	0.49	0.21	0.26	0.27
Bad debt loss	0.06	0.02	0.01	0.01
All other expenses	0.86	0.51	0.40	0.42
Total operating expenses	15.57	15.66	18.14	17.84
Net operating profit	0.21	1.79	3.77	3.49
Non-trading income	0.31	0.73	1.14	1.08
Non-trading expense	0.07	0.27	0.47	0.44
Net profit before income tax deduction	0.45	2.25	4.44	4.13
Income tax	0.23	1.07	1.89	1.77
Final net profit	0.22	1.18	2.55	2.36

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

DAIRY PRODUCTS CHAIN STORES

Three firms in this classification reported profit and loss data for 1966. All of them were incorporated companies. Retail establishments included in this classification sell mainly dairy products but small amounts of products such as lard, honey, cooked meats and light groceries may be handled.

executives amounted to 1.26 per cent and salaries paid to other employees were 18.89 per cent. Total operating expenses reached 32.72 per cent and net operating profit was 4.96 per cent. Income tax payment or provision made for 1966 was 2.95 per cent. After taking account of non-trading income final net profit was 5.92 per cent.

For all three companies reporting gross profit was 37.68 per cent of net sales in 1966. Salaries paid to

TABLE 4. Operating Results of Dairy Products Chain Stores, 1966

Item	Total all firms
Number of firms	3
Number of stores operated	18
Average net sales per firm \$	288, 294
Average cost of goods sold \$	179, 676
Average inventory per firm:	
Beginning of year \$	4, 434
Per cent of average net sales	1. 54
End of year \$	4, 642
Per cent of average net sales	1. 61
Stock turnover (times per year)	39. 59
Profit and loss data (per cent of net sales)	
Gross profit	37. 68
Operating expenses:	
Salaries:	
Executives.....	1. 26
Other employees	18. 89
Employees' benefits.....	0. 65
Occupancy	4. 57
Taxes and licenses ¹	0. 25
Insurance ¹	0. 32
Repair and maintenance ¹	0. 84
Depreciation ¹	1. 23
Supplies	0. 28
Advertising	0. 27
Travelling	0. 23
Communication	0. 25
Delivery	2. 42
Bad debt loss	0. 03
All other expenses	1. 23
Total operating expenses	32. 72
Net operating profit	4. 96
Non-trading income.....	3. 91
Non-trading expense.....	-
Net profit before income tax deduction	8. 87
Income tax	2. 95
Final net profit	5. 92

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



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DEFINITIONS

PROFIT AND LOSS

Items

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 by the proprietor 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, etc.

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 (except for delivery employees)—payments to employees (wages, salaries, bonuses, payments for leave, payments in kind) before deduction of income tax or unemployment insurance. Proprietors' salaries or withdrawals are included in "net operating profit" in unincorporated store operations.

Delivery—includes 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.)

Taxes—business, property and water taxes and licenses. Taxes collected for remittance to governmental bodies and income tax are not included.

Insurance—annual proportion of premiums for insurance policies carried to protect the business.

Rent—payments for use of business premises.

Heat, light and power—cost applicable to year's operations.

Repairs and maintenance—costs incurred to keep fixed store assets operating efficiently (excludes capital expenditure).

Depreciation—Write-offs for the year of fixed assets used in the business only, or rates authorized by the Income Tax Department.

Store supplies—wrapping paper, office supplies, etc.

Advertising—displays, window dressing and sales promotion.

Net bad debt loss—estimated amount of uncollectable customers' accounts receivable less the amount recovered from former bad debts.

Other expenses—telephone, telegraph, postage, bank charges, legal, auditing and collection fees, etc.

Net operating profit—is the difference between "total operating expenses" and "gross profit" and in the case of unincorporated businesses includes proprietors' salaries and withdrawals before income tax deductions.

Occupancy—the cost of maintaining and occupying a place of business and includes: rent, business and property taxes, insurance, heat, light and power, repairs and maintenance and depreciation.

Non-trading income—interest earned, revenues from rentals, other activities, carrying charges and investments.

Non-trading expense—interest expense, rental expense, any other expense not pertaining to the business.

Ratios

Stock turnover—the number of times in a year that the average merchandise inventory is sold and replaced. The average of the beginning and ending inventories is divided into the cost of goods sold.

Note: Each of the following ratios are expressed as a percentage of "net sales". Consequently, it is permissible to make direct comparisons between these ratios. Each ratio represents a portion of the average net sales' dollar.

Gross profit ratio—sometimes referred to as the "gross margin ratio" or "mark-up" represents the difference between "cost of goods sold" and "net sales". It is the portion of the average sales' dollar from which the merchant meets his operating expenses and obtains his net operating profit.

Operating expense ratios—each item of expense, as well as "total operating expenses" when expressed as a percentage of "net sales" shows the amounts of the average sales' dollar required to operate the average business.

Net operating profit ratio—the remaining proportion of the average sales' dollar after "cost of goods sold" and "total operating expenses" have been deducted. From this amount, the percentage allowances for both proprietors' salaries and income tax should be deducted, in order to determine the percentage to sales of net returns on capital investment.