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OPERATING RESULTS OF CHAIN FURNITURE STORES 1957

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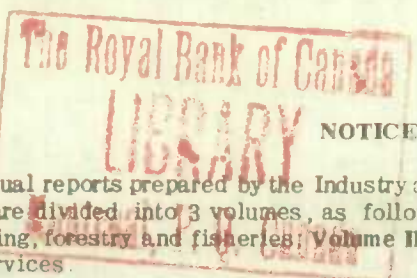
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The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 3 volumes, as follows: Volume I — The Primary Industries, including mining, forestry and fisheries; Volume II — Manufacturing; Volume 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¢
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 - 3 Operating Results of Independent Fuel Dealers, 25¢
 - 4 Operating Results of Independent Drug Stores, 25¢
 - 5 Operating Results of Independent Jewellery Stores, 25¢
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- P — Retail Credit, 25¢

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- W — Advertising Agencies (Memorandum), 10¢
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The reports are punched to permit of filing in a ring binder.

• Biennial reports — not issued for 1957.

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 FURNITURE STORES 1957

INTRODUCTION

General comments regarding this sixth study of the operating results of Chain Furniture 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. Firms whose main business is the sale of household appliances are not included, although most of the classified furniture store chains sell some appliances radio and television sets. All known firms meeting this definition were canvassed for financial statements.

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 proprietors' 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 structure 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 shown, on a biennial basis, generally since 1947. This study is alternated each year with a similar one on independent retail stores covering the even year.

CHAIN FURNITURE STORES

The ten firms reporting results for 1957 operated 186 retail stores. All of the firms were incorporated organizations which permits a tabulation of income tax and final net profit for the entire group. The sales-size range was such that no meaningful compilations could be made for different size

categories; ratios and averages are shown for the ten firms in one group.

Firms included in this classification are those whose sales are mainly furniture and house furnishings. Household appliances may also be sold but, to remain in this class, such sales must not exceed 33 per cent of total sales.

Review of 1957 Operation Results

Profit and Expense Ratios

Most of the profit and expense items are presented in the standard form of percentages to net sales, which provides a convenient means of comparison. The gross profit of furniture chains in 1957 amounted to 36.69 per cent of net sales. Operating expenses exceeded this profit margin with a total amounting to 41.46 per cent, thus creating an operating loss of 4.77 per cent. In this trade, non-trading income includes a substantial amount of financial income which originates from carrying charges placed on credit accounts. The expenses of the credit departments, however, are necessarily included in the regular expense items of salaries,

occupancy, etc. Net profit before income tax deduction amounted to 8.71 per cent of net sales; this was finally reduced to 4.74 per cent profit after income tax was paid.

Inventories and Stock Turnover

Inventories on hand at the end of the year were lower in relation to sales than they were at the beginning of the year, declining from 15.02 per cent to a year-end ratio of 13.99 per cent. The cost of goods sold divided by the average of these two inventories was the basis of obtaining the rate of stock turnover. The 1957 rate was 4.36 times per year compared with 4.81 times during 1955.

TABLE 1. Operating Results of Chain Furniture Stores, 1957

Item	Total all firms
Number of firms	10
Number of stores operated	186
Average net sales per firm	\$ 4,758,623
Average cost of goods sold	\$ 3,012,709
Average inventory per firm:	
Beginning of year	\$ 714,770
Percent of average net sales	15.02
End of year	\$ 665,634
Per cent of average net sales	13.99
Stock turnover (times per year)	4.36
Profit and loss data (per cent of net sales)	
Gross profit	36.69
Operating expenses:	
Salaries:	
Executives	2.71
Other employees	14.10
Employees' benefits	0.42
Occupancy	4.43
Taxes, licenses ¹	0.23
Insurance ¹	0.25
Repairs and maintenance ¹	1.10
Depreciation ¹	0.55
Supplies	0.51
Advertising	4.82
Travelling	0.55
Communication	1.02
Delivery	2.94
Bad debt loss	4.32
All other expenses	3.51
Total operating expenses	41.46
Net operating loss	4.77
Non-trading income	14.12
Non-trading expense	0.64
Net profit before income tax deduction	8.71
Income tax	3.97
Final net profit	4.74

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

Comparison of Operating Results, 1947-1957

A comparison of operating results for the years surveyed in this series is shown in Table 2. While the firms reporting were not identical each year, ratio comparisons are quite valid since all are based on net sales. Any change in ratio, therefore, means that the expense item has changed in relation to sales but not necessarily in dollar terms. If sales increased between two years to the extent of 10 per cent and an expense item only 5 per cent, the ratio of that expense item would be lower in the second year even when it increased in dollar terms.

Gross profit ratios have increased from a low of 30.68 per cent of net sales in 1951 to a record high of 36.69 per cent in 1957. The range of total operating expenses was more extreme, increasing from a low of 24.74 per cent in 1947 to a high of 41.46 per cent in 1957. Net operating profit has declined in recent years to a loss of 4.77 per cent in 1957. In this trade, other income (mainly from carrying charges) reversed this loss to a gain of 8.71 per cent before income tax deduction. This compares with 5.85 per cent in 1955 and 5.65 per cent in 1953.

TABLE 2. Chain Furniture Stores Main Operating Results for 1947 and 1957 Compared
(Items expressed as percentages of net sales)

Item	1947	1949	1951	1953	1955 ¹	1957
Number of firms	10	10	13	10	8	10
Gross profit	32.57	35.11	30.68	31.78	33.45	36.69
Operating expenses:						
Salaries	13.86	12.11	12.62	11.98	14.24	16.81
Occupancy	2.85	5.34	4.11	3.96	4.95	4.43
Advertising	3.04	4.69	3.22	3.46	3.15	4.82
All Other expenses	4.99	8.94	7.27	7.05	8.90	15.40
Total operating expenses	24.74	31.08	27.22	26.45	31.24	41.46
Net operating profit	7.83	4.03	3.46	5.33	2.21	4.77 ²
Net profit before income tax deduction	7.83	7.73	4.51	5.65	5.85	8.71

¹ Revised.

² Net operating loss.

Balance Sheet Data, 1957

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 average of the "highs" and "lows" of different items and are not therefore "typical" or "goal" averages. Nevertheless, they can be of some value in that they depict the financial status of 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 and the results of doubtful value, this part of the biennial survey could be discontinued.



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RETAIL TRADE

TABLE 3. Financial Status of Incorporated Chain Furniture Stores, as at December 31, 1957,
(Average results of ten firms having an annual sales average of \$4,758,623)

Assets	\$	Liabilities	\$
Current assets:		Current liabilities:	
Cash on hand and in bank	32,510	Accounts and notes payable	2,468,826
Accounts and notes receivable (Net)	4,091,598	Fixed liabilities	66,717
Merchandise inventory	646,980	Other liabilities	378,821
Other current assets	55,764	Total liabilities	2,914,364
Total current assets	4,826,852	Net worth:	
Total fixed assets (net)	672,904	Capital stock	1,117,856
Other assets:		Surplus and undivided profits	1,586,930
Long term investments	115,857	Total net worth	2,704,786
Other assets	3,537	Total liabilities and net worth	5,619,150
Total other assets	119,394		
Total assets	5,619,150		