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VARIETY AND GENERAL MERCHANDISE
CHAIN STORES
OPERATING RESULTS
1964

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Operating Results of Chain Variety Stores, was for
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VARIETY AND GENERAL MERCHANDISE CHAIN STORES

OPERATING RESULTS

1964

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 1964 survey covers three kinds of stores in the variety and general line. Chain stores do practically all of the business of variety stores in Canada. In the case of General Merchandise Stores, slightly more than one third of the business is done by chain organizations. At the other extreme the business of General Chain Stores is a very small part of all

general store business. Gross profit ranged from 17.23 per cent of net sales in the case of General Chain Stores to 36.24 per cent in the case of Variety Chain Stores. Net profit before income tax deduction varied from 2.33 per cent for General Chain Stores to 7.38 per cent in the case of Variety Chain Stores

TABLE 1. Comparison of Main Operating Results of Variety and General Merchandise Chain Stores, 1964

Item	General	General merchandise	Variety
Number of firms	8	6	16
Average net sales per firm \$	3,241,415	6,430,345	25,937,094
Rate of stock turnover (times per year)	4.94	4.73	4.34
Profit and loss data (Per cent of net sales)			
Gross profit.....	17.23	30.13	36.24
Operating expenses	16.83	28.50	29.39
Net operating profit	0.40	1.63	6.85
Non-trading income	2.45	1.45	0.80
Non-trading expense	0.52	0.05	0.27
Net profit before income tax deduction.....	2.33	3.03	7.38

GENERAL CHAIN STORES

The stores of firms in this classification are usually located in rural communities and engage in selling dry goods or apparel, with groceries amounting to one third to two thirds of total sales. In addition, these businesses have sales of at least one of the following subsidiary lines: hard goods (hardware, farm implements, building materials, housewares, household appliances, furniture and so forth); feed, fertilizer; gasoline and lubricants.

This is the first time that General Chain Stores have been surveyed and operating results are shown in Table 2 which follows. All respondents were incorporated companies. It is of interest that the 1961 Census of Merchandising revealed that the gross profit for General Stores as a group was 17.0 per cent of net sales. The ratios ranged from 15.5 per cent for New Brunswick to 18.2 per cent for Saskatchewan. These figures were derived from reports of both chain and independent stores.

TABLE 2. General Chain Stores, Operating Results, 1964
Incorporated companies

Item	Total all firms
Number of firms	8
Number of stores operated	62
Average net sales per firm	\$ 3,241,415
Average cost of goods sold	\$ 2,682,973
Average inventory per firm:	
Beginning of year	\$ 536,196
Per cent of average net sales	16.54
End of year	\$ 549,493
Per cent of average net sales	16.95
Stock turnover (times per year)	4.94
Profit and loss data (Per cent of net sales)	
Gross profit	17.23
Operating expenses:	
Salaries:	
Executives	0.66
Other employees	8.11
Employees benefits	0.41
Occupancy	2.23
Taxes ¹ and licenses	0.15
Insurance ¹	0.38
Repairs and maintenance ¹	0.33
Depreciation ¹	0.97
Supplies	0.77
Advertising	0.35
Travelling	0.13
Communication	0.20
Bad debt loss	0.09
All other expenses (delivery excluded)	2.05
Total operating expenses	16.83
Net operating profit	0.40
Non-trading income	2.45
Non-trading expense	0.52
Net profit before income tax deduction	2.33
Income tax	0.14
Final net profit	2.19

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

GENERAL MERCHANDISE CHAIN STORES

The stores of firms in this classification are primarily engaged in selling piece goods and/or a combination of men's and women's apparel, home wares and house furnishings and other lines in limited amounts. Stores selling commodities covered in the definition for Department Stores, but not carrying either major household appliances or furniture are included in this classification. A general merchandise store may carry a line of grocery items but these should not exceed one third of total sales.

This is the first time that General Merchandise Chain Stores have been surveyed and operating results are shown in Table 3 which follows. All respondents were incorporated companies. It is of interest that the 1961 Census of Merchandising revealed that the gross profit for General Merchandise Stores as a group was 30.0 per cent of net sales. The ratios ranged from 21.5 per cent for Newfoundland to 38.8 per cent in the case of Saskatchewan. These figures were derived from reports of both chain and independent stores.

TABLE 3. General Merchandise Chain Stores, Operating Results, 1964, by Size of Firm
Incorporated companies

Item	Firms with 1964 sales of under \$5,000,000	Total all firms
Number of firms	4	6
Number of stores operated	23	73
Average net sales per firm \$	1,654,230	6,430,345
Average cost of goods sold \$	1,130,546	4,492,662
Average inventory per firm:		
Beginning of year \$	300,654	918,700
Per cent of average net sales	18.17	14.29
End of year \$	334,027	980,343
Per cent of average net sales	20.19	15.25
Stock turnover (times per year)	3.56	4.73
Profit and loss data (Per cent of net sales)		
Gross profit	31.66	30.13
Operating expenses:		
Salaries:		
Executives	2.63	0.93
Other employees	15.12	13.07
Employees' benefits	0.61	0.42
Occupancy	4.50	4.55
Taxes ¹ and licences	0.46	0.58
Insurance ¹	0.32	0.24
Repairs and maintenance ¹	0.57	0.87
Depreciation	0.80	0.38
Supplies	1.10	0.68
Advertising	3.39	3.77
Travelling	0.53	0.31
Communication	0.52	0.37
Bad debt loss	0.33	0.16
All other expenses (delivery included)	1.97	2.17
Total operating expenses	32.85	28.50
Net operating profit	1.19²	1.63
Non-trading income	3.11	1.45
Non-trading expense	0.32	0.05
Net profit before income tax deduction	1.60	3.03
Income tax	0.25	1.47
Final net profit	1.35	1.56

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

² Net operating loss.

VARIETY CHAIN STORES

Variety stores are sometimes known as "five-cents-to-a-dollar stores" or some such designation indicating the merchandise sold is in the low price ranges. Usually a wide variety of merchandise is carried but as a rule no furniture or major household appliances are sold which is a feature to distinguish variety stores from department stores. They are also distinguishable from general merchandise stores because the emphasis is on a cash-and-carry basis with merchandise displayed openly and selected directly by the customers. The operating results of the 16 firms reporting to the 1964 survey are fairly comparable to those for previous years.

Gross profit was 36.24 per cent which is somewhat smaller than the 38.66 per cent shown by the 1959 survey. It is of some interest to note that the 1961 Census of Merchandising showed the gross profit for variety stores to be 34.5 per cent for Canada as a whole with provincial figures ranging from 29.0 per cent for British Columbia to 37.7 per cent for Ontario. The Census statistics take account of both variety chain and independent stores. Salaries, as a percentage of net sales, were down from 1959 (16.39 per cent against 18.10 per cent in 1959).

There were significant increases in occupancy expense, advertising expense and the residual "All other expenses" which offset some of the decreases in other expense items but the end result was a somewhat smaller total operating expense figure of 29.39 per cent of net sales, compared with 29.93 per cent in 1959. Cost of delivery services was of no significance in 1964. Net operating profit was 6.85 per cent of net sales, compared with 8.73 per cent for 1959, a decrease of 1.88 per cent. The decrease is primarily accounted for by the decrease in gross profit of 2.42 per cent. Final net profit after income tax was 3.68 per cent, compared with 4.89 per cent in 1959.

By size breakdown firms with annual net sales of five million dollars and over operated on higher rates of gross and net profit than the smaller firms. Operating expenses were significantly smaller in relation to net sales, a feature which was not evident for 1959, and the rate of stock turnover was more rapid. Inventory on hand at year-end was at a higher dollar level than at the beginning of 1964 for both size classes.

TABLE 4. Variety Chain Stores, Operating Results, 1964, by Size of Firm.
Incorporated companies

Item	Firms with 1964 sales of		Total all firms
	Under \$5,000,000	\$5,000,000 and over	
Number of firms	6	10	16
Number of stores operated	47	798	845
Average net sales per firm \$	979,516	40,911,641	25,937,094
Average cost of goods sold \$	645,633	26,071,504	16,536,802
Average inventory per firm:			
Beginning of year \$	232,375	5,390,539	3,456,227
Per cent of average net sales	23.72	13.18	13.33
End of year \$	270,244	6,495,282	4,160,893
Per cent of average net sales	27.59	15.88	16.04
Stock turnover (times per year)	2.51	4.39	4.34

TABLE 4. Variety Chain Stores, Operating Results, 1964, by Size of Firm - Concluded
Incorporated companies

Item	Firms with 1964 sales of		Total all firms
	Under \$5,000,000	\$5,000,000 and over	
Profit and loss data (Per cent of net sales)			
Gross profit	34.09	36.27	36.24
Operating expenses:			
Salaries:			
Executives	1.91	0.85	0.87
Other employees	15.26	15.53	15.52
Employees' benefits	0.37	0.59	0.59
Occupancy	6.98	6.25	6.26
Taxes ¹ and licences	0.52	0.61	0.61
Insurance ¹	0.67	0.18	0.19
Repairs and maintenance ¹	0.45	0.20	0.20
Depreciation ¹	1.25	1.41	1.41
Supplies	0.94	1.02	1.02
Advertising	0.61	1.04	1.03
Travelling	0.35	0.15	0.15
Communication	0.25	0.19	0.19
Bad debt loss	—	0.08	0.08
All other expenses	1.44	1.27	1.27
Total operating expenses	31.00	29.37	29.39
Net operating profit	3.09	6.90	6.85
Non-trading income	0.44	0.81	0.80
Non-trading expense	0.20	0.27	0.27
Net profit before income tax deduction	3.33	7.44	7.38
Income tax	1.18	3.73	3.70
Final net profit	2.15	3.71	3.68

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

TABLE 5. Variety Chain Stores and Main Operating Results for 1947-64 Compared
Incorporated companies
(Items expressed as percentages of net sales)

Item	1947	1949	1951	1953	1955	1957	1959	1964
Number of firms	16	11	13	11	15	16	16	16
Gross profit	37.67	37.52	37.79	37.77	38.30	38.56	38.66	36.24
Operating expenses:								
Salaries	15.91	16.66	17.11	17.53	17.86	18.16	18.10	16.39
Occupancy	4.60	4.70	3.75	5.09	5.02	5.34	5.09	6.26
Supplies	0.82	1.00	1.06	1.12	0.93	1.28	1.32	1.02
All other expenses	3.30	3.87	5.72	4.60	5.22	4.77	5.42	5.72
Total operating expenses	24.63	26.23	27.64	28.34	29.03	29.55	29.93	29.39
Net operating profit	13.04	11.29	10.15	9.43	9.27	9.01	8.73	6.85

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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