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DOMINION BUREAU OF STATISTICS

MERCHANDISING AND SERVICES BRANCH

OPERATING RESULTS OF UNINCORPORATED RETAIL STORES

1944

Bulletin No. 1

INDEPENDENT HARDWARE STORES
INDEPENDENT FURNITURE STORES
INDEPENDENT HOUSEHOLD APPLIANCE AND RADIO STORES

Including

Purpose, Importance, Explanation of Use, Summary of Results,
and
Statistical Tables

OTTAWA
1946

Price 25 cents

FOREWORD

For some time the Bureau has recognized the practical value of published information on average operating results, that is, on average rates of expenses and profits, etc., in the principal retail trades. Indeed the first studies of this nature were made for the year 1938, and since then an increasing demand for such information has been experienced by this Bureau. It is in response to this demand that the present series of reports is now being issued.

Concerned mainly with average expense and profit percentages, comprehensive information on the operating results of retail stores deals with many of the significant factors which eventually determine their success or failure. Such information therefore represents the results which many retailers have obtained in meeting the problems that are common to their particular kind of business. Statistics of this nature, moreover, have the practical value of enabling individual merchants to compare their own rates of expenses and profits with the results of similar stores in their trade, from which they can isolate for further analysis the areas in which their performance has been below average. The resulting opportunities for improving the efficiency in retail store managements may well be of some importance in peacetime as Canadian retailers under more competitive conditions endeavour to distribute the products of an expanded industrial economy. These considerations and possibilities have been set forth under the heading "Importance of Information on Operating Results in Retail Trade" commencing on page 2 of these reports. A separate discussion beginning on page 8 under the topic "How the Retailer Can Use Information on Operating Results" has also been included as a possible guide to retailers using the bulletins.

It must be emphasized here, however, that the statistics presented in these reports are subject to important limitations in respect to their coverage and representativeness. This is because the figures are based, not upon a comprehensive survey of large numbers of co-operating stores, but rather upon comparatively small sample numbers of such firms. These samples, of course, should be large enough to permit the different influences affecting operating results to average themselves out and thus present the more typical operating experiences of stores in the different size and occupancy classifications of stores. For many kinds of stores, unfortunately, the number of usable returns when distributed between these classifications may be too small to permit any special or erratic conditions completely to iron or cancel themselves out. These aspects of the reports are discussed more fully under the heading "Limitations to Information on Operating Results" on page 6 of the bulletins, and to some extent under "How the Retailer Can Use Information on Operating Results" on page 8, to both of which the reader is referred. It should therefore be noted that the present studies are tentative in nature and must await the results of subsequent surveys for conclusive evidence as to the validity of many of the statistics herein presented.

In spite of the preliminary nature of the statistics, however, these reports are being issued in the belief that they will at least reveal the future scope for such studies and may well provide some useful, although perhaps rough, indications of the operating experiences of the retail trades under review. The bulletins have been prepared in the Merchandising and Services Branch of the Bureau, of which Mr. A.C. Steedman, B.A., is Chief, by Mr. A.M. Chipman, M.B.A., Statistician in the Branch. The suggestions of those obtaining and using these reports will be most welcome to the end that better and more useful studies can be made in future.

Herbert Marshall

H. Marshall,
Dominion Statistician.

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Dominion Statistician: Herbert Marshall, B.A., F.S.S.
Chief, Merchandising and Services Branch: A. C. Steedman, B.A.
Statistician: A. M. Chipman, M.B.A.

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OPERATING RESULTS OF INDEPENDENT RETAIL STORES, 1944

PART I - GENERAL SECTION

This report is one of a series presenting average operating results in selected branches of retail trade for 1944 and, where possible, for both 1941 and 1944. The first series of such studies was made by the Bureau for the year 1938 and presented somewhat similar information on average operating expenses and profits against which individual firms could compare their own results. Since that time requests have been received on an expanding scale for corresponding types of reports, a fact which indicates the growing interest of merchants and others in information on costs in retail trade. It is in response to this demand that these reports are now being issued.

The basic information for such studies was obtained primarily for the purpose of improving the Bureau's estimates of the country's National Income which originated in unincorporated and independent retail stores. Such establishments predominate to a marked extent in retail trade, comprising 90 per cent of all 137,331 stores enumerated in the 1941 Census, accounting for 55 per cent of total sales of $3,440,901,700, and providing a livelihood for nearly 132,000 proprietors and partners. The net earnings of these proprietors and partners thus represent an important contribution to the National Income totals. Aggregate figures on these net earnings, however, are not readily available to the Bureau from other sources and for this reason it was decided early in 1945 to obtain the required information by a direct survey of sample groups of retail stores.

Accurate and comprehensive figures on the National Income are now regarded as one of the best measures of the purchasing power and economic activity of the country. These statistics, consequently, are highly important as aids to both governments and business in the determination of their plans and policies, and particularly so in relation to the problem of maintaining high levels of employment within the country. Periodic surveys of retail trade will therefore be made to obtain the information necessary to estimate accurately the total net earnings of unincorporated retail stores for inclusion in the National Income statistics.

In carrying out this task it is hoped that information on average operating results will be made available to retailers in even greater detail than has been found possible in the recent survey. Thus, the co-operation of retailers in supplying information on their own operating experiences has two beneficial

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results. In the first instance, it enhances the accuracy of the Bureau's estimates of the National Income and the soundness of the governmental and business policies which are based on such figures. Secondly, the co-operation of retailers in these surveys provides them with yardsticks of performance against which they can compare their own financial results.

The figures which co-operating retailers supply to the Bureau on their costs, expenses and profits are quite obviously highly confidential in nature. They are strictly so regarded by the Bureau and are used only for the two purposes just outlined with no disclosures of the results of individual operations being made.

Information Contained in Reports on Retail Operating Results.

The information presented in this and subsequent bulletins consists primarily of the financial results which the different kinds of co-operating stores obtained in the year under review. The information consequently covers such individual items as net sales, purchases of merchandise for resale and beginning and ending merchandise inventories, cost of goods sold, gross trading profits after costs of merchandise sold have been deducted from sales, the several categories of operating expenses incurred during the period and finally the net earnings available to proprietors after all costs and expenses have been subtracted from sales. In other words, the information here under study consists of the more important financial items usually found in the typical retail Profit and Loss Statement.

There are of course many general factors which commonly affect the financial results of retail stores. Three of the more important of these consist of the kind of business, that is whether the store is a grocery, an apparel, a furniture store, etc., the amount of annual sales made by the store, and the basis of occupancy, that is whether the store is owned or rented. The reports of the co-operating retail stores were therefore classified by kind of business and within the kind of business categories into groups according to the amount of sales made. These groups were again divided by method of occupancy into "owned" and "rented" categories. The figures were then compiled for each of the individual groups and reduced to the form shown in the tables of this report. Thus gross trading profits, the several expense items and proprietors' net earnings before income taxes and withdrawals appear as percentages of sales while stock turnover appears as a ratio indicating the number of times the average inventories were turned over during the year.

These ratios are therefore averages of the operating results which the different groups of unincorporated stores actually obtained. As such, these averages are at least indicators of rates of gross trading profits, of expenses and net earnings which similar stores may have experienced in the period under review.

Importance of Information on Operating Results in Retail Trade.

The critical value of information on operating results for use in computing the net earnings contributed by unincorporated retail stores to the highly important National Income estimates has already been pointed out. Indeed, the net earnings of individually operated stores add to really sizable contributions, being estimated at nearly $150,000,000 in 1941 and nearly $200,000,000 in 1944. Quite apart from its value in this respect, however, there are other economic and business uses which increase still further the practical importance of this type of information.

Many of these uses arise from economic changes brought about by transition from war to peacetime conditions. During the war years, retail trade experienced high levels of consumer demand, usually for relatively inadequate and in some lines for severely restricted supplies of merchandise. These conditions in turn tended to reduce the intensity of competition between stores in the same kind of business, as well as competition for the consumer's dollar between stores handling different kinds of goods. The resulting curtailment of price competition between retailers, the extension of price control which in general tended to stabilize buying and selling price relationships for retailers, and a diminished need for mark downs and sales allowances all exerted influence in the direction of maintaining or improving the percentages of realized gross trading profits. Apart from the furniture, radio and electrical, and automotive kinds of stores, the sales volumes of individual stores generally increased throughout the war period. These gains in turn tended to level off or to reduce expense percentages, the dollar amounts for some of which had been favourably affected by reduced credit losses and by curtailed expenses of operation.

Different conditions, however, can be expected to prevail in peacetime which, for purposes of discussion, can be broken down into two phases. During the earlier transition period industry will re-convert to peacetime activities and its subsequent production can be deemed to go far to meet consumers' pent-up demands, especially for many types of durable goods. Consumer purchasing power will likely remain relatively high due partly to wartime savings, partly to the high level of industrial activity, and partly, with crops permitting, to the substantial export and domestic demand for food products. An expansion in the numbers of retail stores in business may also be anticipated as war veterans, and individuals displaced from war production, establish their own businesses. During the early part of this phase, the supplies of many kinds of consumer goods may be inadequate to meet popular demands for them. As this period advances, however, consumer demands will settle down more to a replacement basis, expanded output will be able to build up normal stocks of merchandise at different levels in the manufacturing and distributive processes, and the functions of demand creation and sales promotion will become steadily more important.

The more normal peacetime period may therefore be marked by the greater necessity to promote and sell the products of an expanded industry. With freer price relationships between merchandise cost and selling prices then prevailing, greater pressures may be exerted on retailers' gross trading profit margins than before. This condition will probably result from a combination of influences including the increased quantities of readily available supplies, the desire of manufacturers and retailers to increase commodity and store sales through lower prices, and from making mark downs and sales allowances more extensively than in the war and transition periods. Lower individual store sales volumes for many kinds of retail trade on average may also be experienced from increases in the store population, the diffusion of consumer purchasing power over widened ranges of merchandise, including, for instance, automobiles and related products, electrical appliances, etc., and from more intense competition between different types and kinds of retail outlets. These lowered sales volumes will then tend to increase percentage rates of expense, many of which will be forced upward by greater dollar expenditures for advertising, for store renovation, and possibly for the provision of greater services to store customers.

Such tendencies toward reduced store sales volumes, to lowered gross trading profit and to increased operating expense percentages in the more normal peacetime period emphasize the need for progressive improvements in the management of independent stores if their continued existence and their proprietors' standards of living are to be assured. These conditions thus impose upon retail merchants the necessity for using productive methods of sales promotion to maintain sales volumes, for informed buying and pricing practices to obtain adequate gross trading profits, and for careful control of operating expenses to secure adequate and reasonable net trading profits. They require in addition the periodic self-examination of the merchant's financial results so that weak spots in the store's operations can be revealed and remedied.

These periodic reviews of the store's operations are most revealing when individual merchants can measure their own financial results against certain outside standards or yardsticks of achievement. It is these standards or yardsticks of financial performance which this Bureau is now presenting in its reports on the actual operating results of sample groups of retail stores. With reports of this type, individual merchants can compare their rates of inventory turnover and their percentages of gross trading profits, operating expenses, and net trading profits with those obtained by similar kinds of stores. Guides of this nature enable retailers to determine whether their experiences are better or poorer than average, and where poorer, the factors producing the inferior results can be further analyzed for corrective action.

In addition to serving as aids to store management, information on operating costs is of considerable practical value to individuals planning the establishment of retail businesses. Reports of this type enable prospective retailers to find out what operating conditions are like in the trades they are considering, what net earnings they may reasonably expect from different sales volumes, and what standards they must achieve to obtain the net earnings they desire. The same reports also provide these individuals with knowledge of the average sizes of inventories carried, a factor of importance in estimating their capital requirements. Frequent requests are now received by the Bureau for information on sales and earnings possibilities in different trades and localities, on trade practices, capital requirements, etc. Provision of figures on operating costs thus widens the field of service the Bureau can provide, a service particularly timely when so many are appraising the opportunities for profitable establishment in business.

Over a period of years the expanding use of the Bureau's reports on operating results may produce benefits of importance to those engaged in retail trade. These benefits may well appear in the form of greater efficiency in store managements, increased flexibility to meet changing conditions in distribution, and greater stability in the business existence of retail stores through reductions in overall rates of business mortality. Improved management implies a greater knowledge of operating costs and the means of controlling them. It enables the value of services rendered to be measured against their costs, and by focussing attention on the critical gross trading profit percentage emphasizes the importance of careful buying to reduce mark downs, etc., and yet maintain satisfactory net earnings positions. Management of this sort, particularly in the smaller independent stores, also implies an awareness of trends and competitive conditions in retail trade, thus tending to promote the openmindedness and flexibility to meet new problems with new methods and cope with them.

The economy of the country also gains from the extension of these benefits throughout retail trade. Improved managerial efficiency may well mean the provision of higher standards of living to those engaged in retailing. Under the pressure of competition lower prices can be passed on to consumers without impairing the earnings of other groups of individuals or producers, thereby increasing indirectly the purchasing power available for other commodities and services. Finally, reductions in business mortalities represents lowered credit losses and the decreased wastage of capital and effort invested by unsuccessful merchants in their retail businesses.

Methods of Making Survey and of Compiling Results.

As already indicated, the purpose of this survey of operating results was to obtain sufficient information from stores operated by individuals and partnerships to enable accurate overall estimates of their net earnings in 1941 and 1944 to be made for inclusion in National Income figures. This would have involved a coverage according to 1941 figures of some 124,000 stores -- far too many to permit a comprehensive survey of all stores.

It was therefore decided to obtain the results from a sample of these stores, some 17,000 being chosen for this purpose. These stores, although selected at random, were carefully distributed geographically to represent each province and each of the 28 important retail trades from which the information was needed. Not all firms were able readily to provide the required information while changes in business and other causes further reduced the sample. In addition, some of the reporting stores were able to supply figures for only 1944. In general, however, sufficient reports were received to enable overall net earnings' estimates to be made for both 1941 and 1944. Reductions in the size of the sample, however, prevented the preparation of tables showing 1941-1944 comparisons of operating results for some trades and in some cases also limited the extent to which average operating results could be broken down into sales size and "owned" and "rented" classifications.

Following completion of the editing process and the preparation of the National Income estimates, the schedules were re-processed for compilation of reports on operating results in the various kinds of retail business. In addition to the kind-of-business groupings, there were several ways in which the schedules could have been classified such as by size of business and method of occupancy, by provinces or regions by size of business, by size of locality by size of business, etc. Examination of the reports submitted for the different retail trades, however, indicated that in many instances the number of schedules was too small to enable many of these detailed classifications to be made. The reports were therefore grouped on a Canada-wide basis into size-of-business categories and within these by method of occupancy into "owned" and "rented" sub-divisions.

Statistical tables showing average operating results in 1944 for the various retail trades were then prepared. Here the results appear in five size-of-business groups for "owned" and for "rented" stores having 1944 sales volumes of less than $10,000, between $10,000 and $20,000, $20,000 and $30,000, $30,000 and $50,000, and sales of $50,000 and over. In some instances, however, the number of reports for "owned" or for "rented" stores was too small to justify the publication of figures for one of these types of occupancy.

Where possible tables were also prepared to present comparative and average figures on the results which identical groups of stores obtained in 1941 and 1944. Individual returns were therefore classified before tabulation into three size-of-business divisions and within these, between "owned" and "rented" establishments, according to the sales they made and the methods of occupancy they used in 1941, irrespective of their size of business or type of occupancy in 1944. Unfortunately, however, comparative statistics for both 1941 and 1944 cannot be published for some retail trades due to the limited numbers of reports giving information for both years. In other cases, comparative results for 1941 and 1944 are presented by size-of-business groups for only "owned" or "rented" stores, the sample in these instances being too small to permit statistics for one of these types of occupancy to be of much practical value.

A glance at the tables appearing in this report will reveal quickly the items for which statistics are given in the various size-of-business and occupancy columns. These are grouped into two sections, one designated as the "General Information" and the other as the "Profit and Loss Data" section.

The "General Information" section, as its name implies, consists of statistics useful as background material for interpreting the percentages shown in the following division of the tables. Nine individual items are here shown, consisting of figures on number of stores reporting, sales, inventories, cost of goods sold, and stock turnover in times per year. Apart from "Average Sales Per Store", "Average Inventory Per Store, End of Year", and "Stock Turnover (times per year)", the figures appearing in this section are the dollar totals of the amounts shown in the individual reports of the co-operating stores.

Items included in the "Profit and Loss Data" section consist of "Gross Trading Profit", "Employees' Salaries and Wages", "Rent", "Advertising", "Depreciation", "Other Operating Expenses", "Total Operating Expenses", "Proprietor's Net Earnings Before Income Taxes and Withdrawals", and "Average Proprietor's Net Earnings Per Store". Dollar figures for all of the above items with the exception of "Average Proprietor's Net Earnings Per Store" were of course compiled by sales-size and occupancy categories and were then expressed as percentages of the total sales reported by those groups of stores. In this way the percentages become averages for the several classes of unincorporated retail stores.

The explanations for the above terms are set forth later in this report under the sub-heading entitled "How The Retailer Can Use Information on Operating Costs". It can be noted here, however, that both the percentages and the dollar figures for proprietor's net earnings are weighted by the inclusion of two different elements. One of these comprises the proprietor's remuneration for managing the business -- an amount which would in fact have been charged as an expense against the store if the business had been incorporated or had been operated as a unit of a retail chain system -- while the second consists of the smaller and residual net profit element which compensates for capital invested and risked and for unusual merchandising abilities brought into play. Quite obviously the figures shown for net earnings considerably overstate the proprietor's 'net profits' because they also include the allowance for proprietor's managerial services. Questions were consequently included in the schedule to permit objective allowances to be made for these services but insufficient information was obtained to enable the two elements in proprietor's net returns to be separately presented. The final item on average net earnings per store is therefore shown in dollar figures in the tables, partly as an offset to the relatively high net earnings percentages revealed by the previous series and partly to enable the reader to make his own allowances for the two principal elements the net earnings figures contain.

Limitations to Information on Operating Results.

Many retailers may quite probably use the averages contained in the tables of this series of reports as information against which their own results can be compared and analyzed. Others may use the statistics in a broader way as indicators of distribution costs in the various retail trades. Both uses are of course quite proper but the information will serve these uses best when the limitations inherent in the figures are fully appreciated.

In the first instance it is important to note that the figures are based only on the results of unincorporated retail stores. The averages therefore do not reflect the results obtained by stores operating under the incorporated form of organization. The absence of these stores probably bears most heavily upon the representativeness of the averages for stores in the higher sales volume brackets in which incorporated stores are most frequently found. Quite apart from differences in the qualities of management between these two types of establishments, however, the figures for average sales and average year-end inventories per store, stock turnover, gross trading profits and percentages for rent, advertising, depreciation and all other operating expenses will be readily useful to incorporated store managements. Employees' salaries and wages and proprietor's net earnings before income taxes and withdrawals, on the other hand, are not comparable without adjustments with similar percentage figures for individual incorporated stores because allowances for proprietors' managerial services have been excluded from the former and included in the latter item.

In the second place, the figures on operating results are based upon returns from relatively restricted numbers of stores in the different retail trades under study. These samples, chosen at random, are presumed to give representation to the several factors which influence operating results, including differences arising from size of business, methods of occupancy, from the sizes of locality and provinces in which the stores are situated, from degrees of service provided to customers, merchandising policies and variations in the quality of store managements. Size of business and method of occupancy rank high among these factors and the tables were therefore prepared to show operating result averages for different sales-size and occupancy groups of stores. Within these breakdowns of the overall sample the remaining factors naturally tend to 'average out' in the Canada-wide operating averages presented.

The proper 'averaging-out' of the above variations is naturally dependent upon a sufficient number of reports being included to permit this process automatically to take place. Examination of the tables, however, will indicate that the number of usable reports included in the various sales-size and occupancy categories is often quite small, frequently representing less than ten stores. In such cases the results should be compared carefully with the results shown for other sales-size brackets to appraise consistencies in trends between the different groups. Where the results appear definitely out of line with these trends, the figures should be interpreted with considerable care because it is quite possible that the averages for that bracket are not typical of the average results for all stores of that size.

The 'averaging-out' within the different sales-size brackets of the factors which affect retail operating results, however, imposes certain limitations upon the use of operating cost information by individual merchants. This is because retailers wish to compare their own results with those obtained by stores as similar to their own as possible. With the tables set up in the present manner, retailers are able in part to do this because they can match their own results against those of stores in their own sales-size and occupancy classes. On the other hand, these overall figures also reflect the combined and average influences of location by provinces and by size of locality, of degrees of service provided and of merchandising policies followed. Individual retail stores, however, experience not the 'average', but rather the full effects of such factors in their operating results. Thus the overall percentages may well be quite accurate in what they represent and yet differ considerably from the experiences of many individual stores. Unfortunately the isolation of such influences would require a considerably larger number of reports than were received from the recent survey of operating costs.

An additional point arises in connection with the way average expense percentages for employees' salaries and wages, advertising and depreciation were built up. Some reports for instance did not show dollar amounts for one or two of these expense items. When no values were shown for the first two types of expenses, the practice was to accept the report on the assumption that the store required no paid help and in the case of advertising that no such expenditures were incurred. Where no amounts were shown for depreciation and no indication was given that any had been taken, the schedule was examined to see if the size of business justified further attention. If so, the firm was either corresponded with or an estimate was made for this item. In all cases, of course, the expense ratios represent the total dollar expense figures for each item in each individual classification expressed as percentages of the total sales reported by stores in that category. The expense percentages for these three items may therefore be slightly less than they would have been if only the sales of stores reporting full expense figures had been used.

How the Retailer Can Use Information on Operating Results.

Mention has already been made of the conditions in retail trade which may prevail in the more normal peacetime period after the transition phase has been negotiated. This possible pattern of economic factors, it was suggested, may include a greater pressure of available supplies on retail and consumer markets, a relatively smaller unstimulated demand for those commodities, a greater competition in retailing associated quite probably with freer and often somewhat lower prices, and the possibilities of reduced percentages of gross trading profit, of lower individual store sales volumes for many kinds of independent stores, and of higher expense percentages. Such factors raise the question of how individual merchants can best utilize information on average operating results as a management tool in meeting their problems of transition and adjustment to changing economic conditions.

Use of operating cost averages in this way depends essentially upon comparing results of individual stores with those obtained by similar stores in the same kind of business. The retailers therefore should first determine from the tables the size of business and occupancy categories most similar to his own store. This may be done by comparing his own sales for the period with the sales-size brackets of the tables to determine his size category and by selecting the occupancy basis coinciding with that of his own business. He should next reduce his own financial items such as his stock turnover, his gross trading profits and his several expense categories to conform with those appearing in the tables and express these figures in ratio form -- for the most part as percentages of his own total net sales and receipts from services performed. He is then in a position to compare directly his own results with those which other more or less similar Canadian stores obtained in the same period.

"Number of Stores Reporting", the first item in the tables is also the first item to which the merchant should direct his attention. This figure, indicating the number of reports upon which the following percentages are based, is a good overall indicator of how typical those ratios may be of the entire class of stores they are presumed to represent. Such percentages, it will be recalled, become more accurate as overall measures of their class as the numbers of stores in the sample increases. Consequently the averages for particular categories where the number of reports is small should be compared with other brackets for consistency before those averages are applied against the results of the individual store.

"Average Sales Per Store" is a useful comparative figure because it gives the retailer an idea of the size of the 'average' store in each size-of-business bracket. With this information the merchant can identify the position of his store as either below, above, or at the sales-average point in his appropriate category. He can make the necessary allowances therefor when comparing figures for stock turnover and percentages for the various operating expenses and net earnings with his own results.

"Total Inventory Reported" as a section within the tables contains four items of which the first two and the last will be of considerable interest. The first two show total inventories of merchandise for resale of all reporting stores at the beginning and end of the year under review. Individual merchants can thereby take note of the dollar change in such stocks between the two dates which for the sake of convenience may be reduced to percentage form. This variation can then be compared with changes in their own inventory levels to indicate how their own experiences conform with the trend for the group.

"Average Inventory Per Store, End of Year", the last of such inventory items reduces the total end-of-year stocks of reporting retailers to a per store basis and thereby indicates the average amount of capital per store that was invested in stocks at that date. Admittedly these figures have been influenced by wartime conditions which have affected the quantities on hand, the commodity composition of the stocks and the cost prices on which the inventory valuations rest. Moreover, the value of inventories on hand at the end of the year is often an inadequate measure of the stocks which were maintained throughout the period because the end-of-year stocks for many trades tend to reach a relatively low point at that time. In view of such limitations, comparisons based on these averages reveal at the most the extent to which the merchant's residual and immediate supply position conforms with others in his own sales-size bracket. Under normal supply-demand conditions, however, such figures would probably provide on average a better indication of the more basic and minimum inventories which reporting retailers of that size feel were required at that time.

"Stock Turnover (times per year)" is the number of times that reporting stores disposed of their average inventories of merchandise in the year. For purposes of this report, it has been calculated by dividing the average of the total beginning and ending inventories at cost values into the "Cost of Goods Sold". The latter item itself is a computed one, being determined by adding beginning merchandise inventories to purchases and deducting stocks of goods left on hand at the year-end. Merchandise purchases here consists of the invoice value of all goods bought for resale during the year, less returns, allowances and cash and trade discounts, but including duty, inward freight, and express and truckage charges. Obviously the individual merchant must calculate his own stock turnover in the same way before valid comparisons can be made with similar stores. So computed, both stock turnover figures probably overstate the actual number of times the average inventory was disposed of since the beginning and ending inventory figures each reflect year-end valuations when stocks are frequently at their lowest. This does not impair the value of conclusions based on comparisons because the turnover figures for the individual store and sample group of stores are similarly affected.

Having computed his stock turnover in the above manner, the retailer may find the figure for his store somewhat lower than the average for the comparable group of retail establishments. The immediate explanation for this variation of course is that the merchant seemingly used a larger average inventory to obtain his sales volume than the sample of similarly-sized stores used to obtain theirs. The merchant's larger average inventory, in turn, may result from one of three situations, namely, that his opening inventory was higher than the beginning per store inventory for the group, that his ending inventory was larger than the ending per store inventory for the group, or that both his beginning and ending inventories were larger than that of the sample group of stores.

The first of these, that the retailer's opening inventory was out of line with the average for the group, may be determined by calculating the average per store beginning inventory for his class of store and then making a direct comparison. The merchant's larger beginning inventory may have been caused by the arrival of a comparatively large shipment of merchandise just before the year opened, or to other conditions applying more particularly to operations in the preceding year. The fact, however, that his end-of-year stocks were more closely in line with the average for his group not only indicates a liquidation of part of his inventories, but also suggests that the merchant enjoyed a higher rate of stock turnover during the latter part of the year than that of his class.

The second possibility, that his ending inventory exceeded the average for his group while his beginning stocks were more closely in line, could have been caused by several factors. Thus receipts of merchandise just before his financial year ended may have been sufficiently heavy to produce the comparatively larger inventory position. This would clearly reduce his calculated rate of stock turnover but it would not necessarily mean that his real turnover was lower than the average for his class. Another explanation is that the merchant experienced a lower volume of sales in the closing months of the year than he had expected, while his purchases of merchandise continued unchecked. Such a condition might be a matter of considerable concern, first because of the possibility of continued curtailments in sales and second, because the merchant would be facing a new financial year with a relatively heavy and perhaps unbalanced inventory position.

The third possibility, that the retailer's beginning and ending inventories were both higher than the average beginning and ending per store inventories for the group, from the merchant's viewpoint is probably most significant of all. Some retailers, of course, may end their fiscal years at times when due to seasonal factors their stocks are naturally quite high. In such instances an unreal comparison could result because most of the reporting stores terminated their accounting years at the end of December, January, or February when their stocks were comparatively low. In all other cases, however, such a state of affairs indicates quite definitely that the retailer is using a larger inventory to produce his sales than those used on the average by other stores in his class. For some stores, the size of the floor area or the use of mass displays of merchandise may require heavy but balanced stocks of goods; for others, the comparatively large inventories may result from the policy of purchasing in sizable quantities for quantity discounts, or for other reasons. Such inventories of course require the investment of additional capital in merchandise, but the retailers concerned may feel the risks to be justified in the light of the gains achieved. In other instances, however, the carrying of higher inventories may well suggest the presence in the inventory of unnecessarily large quantities of slow-moving goods which have accumulated over a considerable period. Here, the careful examination of the retailer's inventory position with a view to the clearance of the excessive stocks of particular items may be in order to minimize the possibilities of losses on eventual disposal, to make way for better stocks, and to release capital for more profitable investment in other ways.

"Gross Trading Profit", as has been pointed out earlier, is the difference between net sales of merchandise, including proprietor's withdrawals of goods and receipts from repairs and services, and the "Cost of Goods Sold". The latter item is calculated by adding beginning merchandise inventories to purchases and then subtracting the inventory of merchandise left over at the end of the period. Merchandise purchases, of course, represents the total invoice cost of the goods less returns, allowances and cash and trade discounts, but includes both duties levied on imported commodities and inward transportation charges. "Cost of Goods Sold" is therefore the cost value of the merchandise which was sold or otherwise disposed of while "Gross Trading Profit" is the gross income fund remaining from store receipts after the merchandise costs have been deducted.

The "Gross Trading Profit", then, arises directly out of the retailer's activities in buying, selling and managing his inventories of merchandise. As such, it can be considered in two ways, that is, the total amount of gross trading profits realized during the period and also the percentage rate at which they are made. To retailers, both aspects are important. The actual amount of such profits is significant because it is from this profit fund that the operating expenses must be deducted before the retailer can properly claim the net earnings which determine his standard of living. The percentage rate is of interest because it is a measure of his success in obtaining a satisfactory overall spread between merchandise costs and sales, and indicates what could reasonably be expected in the future from a given volume of sales.

In the tables, the gross trading profit is shown only as a percentage of sales, thereby setting forth average standards of performance for each of the size and occupancy classes of co-operating stores. These percentages therefore represent the overall maintained mark up on sales which, on average, was obtained by the reporting stores. Such ratios can also be expressed as percentages of cost of goods sold merely by expressing the gross profit percentage as a fraction of the remaining cost of goods sold percentage and multiplying by 100. For instance, if the gross profit forms 25 per cent of sales, the cost of goods sold would form 75 per cent of sales, and the maintained mark up on cost for the store then would be 25 per cent over 75 per cent times 100 per cent, or 33-1/3 per cent on the cost of goods sold.

To compare his own rate of gross trading profit with the average obtained by the reporting stores in his own group the retailer should be sure his gross profits have been calculated in the above manner and then expressed as a percentage of his total net sales including his receipts from repairs and other services rendered. Having done this, the retailer may find his own gross profit percentage, for instance, somewhat lower than the average for the reporting stores in his sales and occupancy group. He can then analyze his own trading activities to uncover by process of elimination the possible reasons for his seeming less-than-average performance.

One or more of a number of factors, together or singly, could depress the merchant's percentage of gross trading profits. On the selling side of the picture it is possible, for instance, that an unusually large proportion of the retailer's sales could have been concentrated in the lower-profit lines of merchandise; in other words, that he was not selling enough of the higher profit items to 'average-up' his gross trading profits. Competition may possibly have required the retailer to sell at relatively low selling prices and thus at relatively small original mark ups over cost values during the period under study. In some cases, merchants may have had satisfactory original mark ups but later on have marked down sharply the retail prices of various items for sales promotional purposes; in others, heavy mark downs may have been taken to clear excessive stocks of slow-moving goods, to sell merchandise depreciated by style changes or by the possible appearance of better goods to replace various types of wartime articles, or to dispose of perishable commodities before total losses were sustained.

Factors relating to purchasing for resale likewise could have had a downward influence on the gross profit percentage. Miscalculations in estimating the demand for certain lines of merchandise, for instance, could have been the original reason for some of the clearance mark downs just described. Difficulties in purchasing goods at cost prices sufficiently low to enable satisfactory original mark ups to competitive selling values to be obtained is another factor. This experience, of course, is at least partly common to other retailers in the same kind of business. Failure to take the full benefit of cash discounts also tends to reduce the gross trading profit percentage. Such discounts, although representing a worth while addition to the income of the business, will usually not of themselves cause any considerable change in the gross profit percentage.

A number of other factors may also be influential in producing a lower-than-average rate of gross profit. An over-valued beginning inventory, for instance, will cause a larger figure to be shown for cost of goods sold and thereby will reduce gross trading profits. An ending inventory that is under-valued, or one which has been written down in value due to lower cost prices or to depreciation in the quality of the merchandise, will also lead to the same result. Stock shortages, too, will have a similar effect. Here the retailer should perhaps compare his gross profit percentage with those for previous years to see whether a sudden or more gradual drop has been experienced. Merchandise withdrawn by proprietors or by employees as part payment for services rendered, will likewise depress the gross profit percentage if such amounts have not been included in sales at full retail values. In cases where cash receipts are considered as sales the withdrawal of cash by the proprietor without including it in his total receipts, or the transacting of an unusually large proportion of business on a credit basis near the end of the financial year, again will reduce the gross trading profit and its percentage for the year under review.

"Employees' Salaries and Wages", exclusive of all types of cash withdrawals by the individual retailer, may appear higher when expressed as a percentage of his total sales than the average obtained by reporting stores in his own size and occupancy group. Such a situation could mean that the merchant's employees are not as productive of sales volume in proportion to their salaries and wages as those of similar stores. This might result from the fact that the retailer is paying them at higher rates of pay than other merchants in his class. Alternatively, the retailer could be using more full-time and fewer part-time workers than the comparable outlets, or is relying more on male employees than was true of the group of similar reporting stores.

The types of services provided by the retailer to his customers might also be an explanation. Some of these extended on a non-charge basis, such as free delivery, the provision of credit, the making of adjustments and alterations, etc., could have increased the routine work of the store sufficiently to require additional help. Certain other services performed on a charge basis, such as repairs, etc., could also increase staff requirements, even though profitable revenues were obtained.

Certain peculiarities in the retailer's business may also account for the higher-than-average percentage for salaries and wages. If the merchant is conducting a mixed business or, in other words, is operating another business besides his retail store, he may have allocated too high a proportion of his salaries and wages to his store. On the other hand, the proprietor may be giving more of his attention to the other activity, relying to a greater extent on paid help to operate his store.

In some instances the merchant's higher payroll percentage may reflect peculiarities of some of the stores included in the different sample groups of stores. Probably the most important of these is the likelihood that some of the reporting stores may have been relying in part at least on family members for store help. Some of these individuals may not receive any regular wages and others may be paid at less than going rates of pay for their services. The inclusion of these stores in the sample therefore would result in a somewhat lower salary and wage percentage than otherwise would have been shown. In general, however, these peculiarities to the extent that they do exist will probably be most pronounced in the smaller size-of-business groups of stores.

"Rent", when expressed as a percentage of the retailer's total sales may also appear higher than the average for comparable stores. Some allowance, though, should be made for such differences, particularly when merchants who are comparing their results are situated in the larger centers of population. This is because the reporting stores represent the various sizes of locality, including the larger cities in which dollar rents often tend to be somewhat higher than in the smaller places. In the tables, however, these higher rents are 'averaged down' by the lower rental experiences of stores in the smaller localities.

When due regard has been paid to this fact, it may be true that the merchant's rental percentage is still above the average for his group,- in other words that he is not obtaining as large a sales volume per dollar of rent expense as the comparable stores obtained. Several factors, of course, can account for his less-than-average performance. Among these is the possibility that especially severe competition or lack of aggressive promotion may be keeping the retailer's sales volume down; that he has been in business for a relatively short time and has not yet built up his sales volume to the potential his location offers; or that the merchant is situated in a city with particularly high commercial rentals. In other cases, the merchant may be renting more than the space required for his store and yet be charging the full rent to the store business. Here the comparison may not be as adverse as it seems when the proportionate amount of rent is charged against the store.

"Advertising", shown in the tables as average percentages of sales, is based on the sales of all stores in the several categories even though some stores may not have incurred any advertising expenses. This clearly would reduce the average advertising expense ratios below what would have been the average for the stores that advertised, and hence should be allowed for in making comparisons. As in other cases, a higher-than-average advertising expense ratio may be due to a number of possibilities requiring analysis by the merchant concerned. Thus he may have been trying to expand his sales volume through advertising and deliberately incurring high initial expenses for such publicity. Special clearance sales may have been held which required higher-than-average advertising expenditures, or perhaps he found it necessary to advertise heavily as a defensive measure against especially severe competition which may have featured his trading locality. There is also the further possibility that due to various reasons his advertising is not producing the extra business that it should.

"Depreciation", as percentages of total sales, measures the extent to which the owned fixed assets of the store -- including the value of new additions or replacements -- have decreased in value by wear and tear, by getting out of date, or simply by growing older. This of course is a real expense of the business even though it does not immediately involve cash expenditures, for the business man should recover his capital either for investment in new assets or for other uses. The size of this expense obviously depends upon whether the store building is owned or rented, the original costs and types of the fixed assets which are owned, and the rate at which those assets are being written off.

Not all of the co-operating stores reported allowances for depreciation. In some instances, at least, this may have been due to the fact that the fixed assets had already been written off. Quite possibly, the wartime scarcities of equipment, materials and labour may often have prevented replacement or renovation of the fixed assets, thus depressing the depreciation expense percentages below what they would have been in normal times. In other instances where no depreciation was shown, a corrected figure was obtained for depreciation or alternatively an estimate was entered in the tabulations for this expense. In general where correspondence with reporting stores was undertaken the following rates were suggested for consideration: on cost of building, a maximum of 5 per cent if of wood, and of 2-1/2 per cent if of brick or stone; on delivery equipment, 25 per cent of cost for the first year and 20 per cent thereafter; on fixtures, a maximum of 5 per cent; and on machinery, of 10 per cent per year.

In comparing his own depreciation expense percentage with those shown in the tables, the retailer should recognize that the averages are somewhat lower, frequently in the smaller size groups, than they would have been if only stores reporting depreciation allowances had been taken. If the merchant's depreciation ratio still appears high it is very likely due to certain factors peculiar to his own business. Thus his fixed assets may be more elaborate; their original cost may have been greater; some of them may have been purchased more recently; or the rates of depreciation used may have been higher. In any event the element of depreciation is there, and the rate of allowing for it can only vary on a sound basis between fairly narrow limits.

"Other Operating Expenses", comprise all legitimate expenses still remaining and include heat, light and power, store supplies, taxes other than income taxes, business insurance, losses on bad debts, repairs and maintenance, interest on borrowed money, etc., but do not include proprietor's salaries or withdrawals. As such it is unfortunately too mixed an expense category to permit a detailed analysis of the reasons for the difference btween the individual retailer's expense ratio and that of his group. Furthermore the merchant must make an allowance for a reasonable difference between the two expense percentages because of the varying experiences of stores reporting their "all other operating expenses". If his own percentage is still somewhat higher than the average, however, the retailer may well check through his residual expenses to determine the reasons for them and to assess the possibilities of effecting certain reductions in the future.

"Total Operating Expenses", when expressed as a percentage of the store's total sales, is of course merely the sum of the individual expense percentages previously discussed. The difference between the individual merchant's total expense ratio and that of his group is consequently the net result of the variations he finds between his own individual expense items and the averages for his comparable group of stores. These differences could quite possibly cancel each other out to leave the retailer's total expense ratio closely approaching the average for the category against which it is compared. Clearly, however, this does not mean that no opportunities exist for a curtailment in total operating expenses by a careful examination of the individual expenses which were incurred.

"Proprietor's Net Earnings Before Income Taxes and Withdrawals" is obviously the final result and financial objective of the retailer's merchandising activities. In percentage form it is the measure of the merchant's success in keeping his gross trading profit and his total operating expenses sufficiently far apart to yield a positive percentage of net earnings which is, of course, exclusive of non-trading incomes such as return on investments, rentals received and so forth. If, then, the retailer's percentage of net earnings is less-than-average, it must be due to either one - or both - of two factors: i.e., a lower-than-average gross trading profit percentage, or a higher-than-average total operating expense ratio, the possible causes of which have already been commented upon.

"Average Proprietor's Net Earnings Per Store", as already explained, consists of the total reported net earnings divided by the number of co-operating stores. Expressed as a percentage of total net sales, this item will frequently appear large. This is because it contains two dissimilar and unmeasured elements, one being the remuneration usually thought of as the proprietor's real salary for managing the business, the other consisting of the net trading profits which are in turn made up of a legitimate reward for exceptional merchandising abilities and a return on capital invested - and risked - in the enterprise. Allowances must therefore be made in the dollar figures shown in this item for the proprietor's managerial services before the real profitability of the individual store or the comparable group of stores can be appraised.

Discussion in this section, it will be noted, has dealt with three phases of the problem of "How The Retailer Can Use Information On Operating Results" in studying his stock turnover and his various profit and expense items. First has come an explanation of what each item is and how it is made up. Then it was assumed, for purposes of comparison only, that the retailer's results were inferior to the average for his comparable class of stores. This, in turn, was followed by a discussion of the possible operating factors which might have caused the poorer results. Many of these factors, however, would have resulted in average or better-than-average performances being obtained if their direction had been reversed. For this reason, therefore, no attempt was made to analyze the reasons for higher-than-average operating results.

Finally, it will be observed that no recommendations were made for the correction of adverse conditions. Frequently such conditions, such as particularly severe competition, are in fact hard realities which must be faced. Here, as in other cases, analysis based on facts and imagination must be relied upon to solve many of the individual problems of retail managements.

PART II - HARDWARE STORES

Trends by Size of Business, 1944.

Figures for stock turnover in times per year, ranging between a low of 1.6 and a high of 3.7 times during 1944, rose for both owned and rented stores as the size of business increased. This, of course, is to be expected because even a relatively small sales volume will require a fairly complete and balanced stock of merchandise for efficient retailing; and once established, this inventory will service a larger sales volume before increased basic stocks of goods become necessary. The increase in stock turnover was generally uniform except for a levelling off at 2.7 times per year for rented stores in the $10,000 to $20,000 and the $20,000 to $30,000 sales-size groups, and for owned stores at 3.7 times in the $30,000 to $50,000 and $50,000 and over classifications. The upward trend, however, was in evidence in the other size categories for rented stores and was confirmed by the steady upward movement to be noted in the figures for owned hardware outlets.

The fact that hardware stores require sizable investments of capital in stocks of merchandise is adequately demonstrated in the figures shown in Table 1 for average inventories per store at the end of 1944. Even in the smallest size-of-business classification, the average end-of-year stocks amounted to $3,570 for owned and $2,510 for rented stores. Beyond that point stocks moved up sharply and consistently with increases in size of business, amounting to averages of $18,655 and $18,999 per store for owned and rented establishments in the $50,000 and over sales-size category. Total inventories at the end of 1944 reported for most sales and occupancy classes of stores were somewhat larger than the total value of inventories reported at the beginning of the year. Whether these increases resulted from an expansion in the quantities of merchandise carried or alternatively were due to changes in the commodity and price compositions of the inventories, however, cannot be determined because in most instances the relative gains were too small for accurate conclusions to be drawn from the figures.

Average percentages of gross trading profit for the ten size and occupancy groups into which the reports of the 161 co-operating hardware stores were classified ranged between a low of 21.2 per cent and a high of 32.1 per cent of total net sales in 1944. The most common averages for gross trading profits varied between 24.6 and 26.8 per cent of sales with five of the ten averages being found within these limits.

The highest gross trading profit averages for both owned and rented stores appeared in the smallest size-of-business classification consisting of stores with sales of less than $10,000 in 1944. This is probably due in considerable measure to the fact that the smaller stores found it profitable to supplement their normal earnings with additional gross receipts derived from the provision of repair and other services. Such receipts are included in sales but having comparatively no counterpart in cost of merchandise sold thus raise the percentage of gross trading profit. Reflecting probably a relatively greater concentration on trading activities, however, the percentage averages for the next larger size classification dropped to 21.2 per cent for owned and to 25.4 per cent of sales for rented stores.

Apart from the above, no conclusive tendencies were found for gross trading profits to vary either directly or inversely with sales volume. It is true that gross profits for owned stores rose step by step from the low of 21.2 per cent of sales in the $10,000 to $20,000 size group to 26.4 per cent for stores with sales of $50,000 and over, but the number of stores was small in each of these categories. For rented stores, where the numbers were generally larger, the gross profit averages were considerably more erratic, rising from 25.4 per cent in the $10,000 to $20,000 sales bracket to the secondary high of 28.3 per cent in the $20,000 to $30,000 group, then receding to 24.6 per cent in the $30,000 to $50,000 classification, and rising to 26.2 per cent for stores with sales of $50,000 or over in 1944.

Among the operating expenses, average employees' salaries and wages ranged from a low of 1.9 to a high of 7.9 per cent of total sales in 1944 for the ten size and occupancy classifications into which the reports of the 161 co-operating stores were classified. Such ratios were higher in the under $10,000 sales bracket for both the owned and the rented stores than for the two classes of stores included in the $10,000 to $20,000 group. This presumably means that stores in the smaller size bracket were performing more services on a charge basis, such as repair work, than were outlets in the next larger size-of-business category -- a conclusion supported by the fact that the gross trading profit percentages were also higher for the under $10,000 group of stores.

In spite of these variations, however, there is a clear tendency for the salary and wage percentages to increase as the size of business becomes larger. For both owned and rented stores, the averages reached their highest points in the $50,000 and over sales groups at 6.8 and 7.9 per cent of sales; and, in addition, there is an irregular upward progression for owned stores and a consistent increase for rented stores from the $10,000 to $20,000 to the largest size classification. This movement also conforms with a similar trend evident in the results of the 1941 Census of Merchandising where the average salary and wage ratios for 2,195 hardware stores increased steadily as the size-of-business became larger. Such a trend probably means that increases in number of sales transactions and in the expanding activities associated with purchasing, inventory management and control and with record-keeping require greater shares of the merchant's sales dollar for salaries and wages as total sales expand; it also reflects the decreasing relative importance of the proprietor's clerical services in relation to the total selling personnel. The importance of maintaining control of the salary and wage expense and of obtaining a high level of sales production from store staffs is also clearly indicated for in many of the groups salary and wage expenses form upwards of a third of the total expenses of the reporting stores.

Rent, unlike salaries and wages, is obviously a fixed and uncontrollable expense once the lease has been negotiated; and while the rental cost may be based in part on the sales potential of the location it becomes in practice at least partially independent of the sales volume the merchant is able to obtain. It is therefore to be expected that rental expenses as percentages of total sales will become steadily smaller as business expands. This is clearly shown in Table 1 where the rental expense dropped from 4.8 per cent of sales in the under $10,000 sales bracket to a low of 1.5 per cent for reporting stores with annual volumes of $50,000 and over in 1944.

Advertising expenses remained uniformly low for all sales and occupancy groups of hardware stores in the year under review, varying between a low of 0.1 and a high of 0.5 per cent of sales. No marked tendency is apparent for this expense to vary with sales although in the survey of operating costs made by the Bureau for 1938 such a trend was moderately in evidence. It is quite likely that wartime conditions of high demand and restricted supplies are responsible in considerable degree for both the smallness of this expense and the lack of a trend relationship between the percentages for advertising expenses and the different sizes of business.

Depreciation allowances ranged between outside limits of 0.4 and 1.4 per cent of total sales for the ten sales and occupancy groups of stores. The percentages for both owned and rented stores, moreover, were highest for establishments in the two smallest sales-size classifications. These of course require reasonably complete complements of equipment which once installed will service considerably larger sales volumes. Beyond these two sales categories, a tendency is apparent for the depreciation percentages of rented stores to decrease as the size of business grew; the reverse, however, is true of owned stores but too much significance should not be attached to this contra-movement in view of the small numbers of owned stores classified into these sales categories.

Other operating expenses, the last individual expense item shown in Table 1, varied between a low of 4.4 and a high of 9.1 per cent of total sales for the ten sales and occupancy classifications. Possibly due to the variety of individual expenses this item included, no conclusive trend was apparent for such expense ratios to vary consistently either directly or inversely with sales. For owned stores the expense percentage generally declined as the sales volume rose, but for rented stores no significant decreases in the percentage occurred until the two largest size categories were reached where lower averages appeared.

Total operating expenses, consolidating the results just described, ranged from a low of 10.4 to a high of 16.0 per cent of total sales for the ten groups of stores. Such expenses for both owned and rented stores were highest in the under $10,000 group, being due in the case of owned stores to the relatively high percentage for other operating expenses, and mainly to the rentals ratio in the case of rented outlets. The total expense ratios, similarly for both owned and rented establishments, were lowest for stores in the $10,000 to $20,000 sales group with ratios of 10.4 and 13.2 per cent of sales, resulting in both instances mainly from the fact that the salary and wage percentages were lowest in this category. Thereafter the trend moved irregularly upward.

As percentages of total sales, proprietor's net earnings before income taxes and withdrawals varied between the comparatively wide limits of 10.8 and 16.1 per cent of sales. Six of the ten ratios, however, were concentrated within the narrower range of from 11.1 to 13.2 per cent of total sales. Net earnings ratios were again highest in the smallest sales bracket for both types of stores but no consistent tendencies for the net earnings' percentages to vary directly or indirectly with size of business were in evidence in the remaining groups.

Expressed in dollars, average proprietor's net earnings per store moved steadily upward as the size of business increased. Average net earnings per store for the less than $10,000 sales group were somewhat under the $1,200 level for both owned and rented stores; were $1,500 and $1,926 per store for owned and rented stores in the $10,000 to $20,000 sales group; $3,032 and $3,182 for the $20,000 to $30,000 category; $4,663 and $4,344 in the $30,000 to $50,000 classification; and amounted to the considerably larger figures of $13,156 and $10,741 per owned and rented store for outlets with volumes of $50,000 and over in 1944.

These figures on net earnings per store theoretically at least include the rewards for the regular managerial services of the proprietor and the profits which cover the interest on the capital invested and risked in the store. Both elements naturally tend to increase as the size of the business expands for greater responsibilities are involved and larger amounts of capital are required. The substantial gain in net earnings per store between the $30,000 to $50,000 and the $50,000 and over classifications, although due to the considerable expansion in average sales from about $39,000 to over $93,000 per store in the two groups, is consequently a reflection of increase in the weighting of these two elements which are contained in net earnings. In this respect it may be noted that the capital invested in ending inventories alone increased from a rough average of about $9,000 per store in the $30,000 to $50,000 class to nearly $19,000 per store for owned and rented in the largest size-of-business bracket, thus representing considerably larger sums from which returns on invested capital could properly be expected.

Results of Owned and Rented Stores in 1944 Compared.

By way of further summary a few of the outstanding differences between the operating results of owned and rented hardware stores may be noted here. Stock turnover ratios of owned stores were somewhat lower than those of rented stores in the two smallest size-of-business classes, higher in the next two size groups, and the same as rented stores in the $50,000 and over sales category. Average ending inventories per store were higher for owned outlets in the two smaller sizes but were somewhat smaller than rented stores in the last three size groups.

Owned hardware stores also differed in respect to rates of gross trading profit obtained in 1944, with percentages in the four smaller size classifications being lower than those recorded by their rented counterparts. In the first three of these the spread ranged between a low of 4.2 and a high of 5.3 percentage points but dropped to a difference of only 1.1 points in the $30,000 to $50,000 group. On the other hand, there was practically no difference in the $50,000 and over category between the gross profit percentages of owned and rented stores, where both ratios amounted to slightly over 26 per cent of sales.

Paralleling the lower gross profit percentages, the total expense ratios of owned stores were less than those of rented establishments in all five size-of-business divisions. Here again the spreads were greatest in the three smaller size classifications where variations of 3.2, 2.8 and 3.9 percentage points were recorded, thereafter dropping to differences of 1.9 and 2.2 points in favor of owned stores in the two larger categories. These differences, however, were not sufficient to offset the lower percentages of gross trading profit with the result that the net earnings ratios of owned stores were 2.1, 1.4 and 1.2 percentage points lower than for rented outlets in the three size categories. Owned stores in the two larger sizes of business were somewhat more profitable, their net earnings' ratios being 0.8 and 2.4 percentage points greater than the averages for rented stores.

Among the individual expense items, owned stores in all sales-size groups had lower ratios for salaries and wages than those of rented stores. These differences were greatest in the two smallest groups with spreads of 2.8 and 2.4 percentage points, almost disappeared in the $20,000 to $30,000 sales bracket, and then widened to 1.1 points in favour of owned stores in each of two largest sales sizes. Depreciation expenses, on the other hand, with the exception of averages for the $20,000 to $30,000 size group, were higher for owned stores, a reflection of the greater capital which was invested in the fixed assets of such outlets. All other operating expenses, again with the exception of the $20,000 to $30,000 category were also higher for the owned stores with the greatest spreads being found in the two smallest sales classifications. Here the differences may be a partial reflection at least of the residual occupancy costs such as taxes, insurance, repairs, interest on borrowed capital, etc., which were included in the other expenses of owned stores, but which naturally tend to be included in the rental expenses of the rented stores.

Operating Results of Continuing Stores in 1941 and 1944 Compared.

Table 2 in this section presents figures on the operating results obtained by the sample of hardware stores reporting for both 1941 and 1944. Of the 161 stores whose reports were used in Table 1 for the 1944 statistics, however, only 103 were able to give figures for 1941 as well. The sales-size classifications appearing in Table 2 have therefore been widened and reduced in number to three groups to permit a sufficient number of stores to be included in each individual category. For this table, moreover, each store has been assigned to a size-of-business classification determined entirely by its sales in 1941 and irrespective of the amount of business transacted in 1944. In this manner, the operating results obtained by identical stores in 1941 and 1944 can be compared and, so far as the size of the sample will permit, the trends during this wartime period can be determined.

A glance at the table will reveal that both the owned and rented stores in each size classification recorded substantial increases in sales between 1941 and 1944. These gains, in fact, amounted to about 44 and 66 per cent for owned and rented stores in the under $20,000 sales class, to 37 and 50 per cent in the $20,000 to $50,000 category, and to 24 per cent for rented stores with 1941 sales of $50,000 and over. According to the Bureau's monthly indexes of retail sales, however, the sales of hardware stores in 1944 were only 20.3 per cent above the 1941 level. It is probable therefore that the sales gains shown in Table 2 include many stores whose experiences on average were not typical of the trade -- particularly since the monthly index of hardware store sales represents a considerably larger sample of stores than that on which Table 2 is based.

Reflecting in part the substantial sales increases of the reporting stores between 1941 and 1944, the rates of stock turnover moved up considerably. This trend moreover was consistent for both owned and rented stores in each size of business. During 1941, the five series of turnover ratios varied between 1.6 and 2.9 times per year, of which three ranged from 1.6 to 1.9; in 1944, the extreme range was between 2.4 and 3.9, with three of them varying from a low of 3.0 to a high of 3.5 times per year. These increases were also due to a relative stability in the year-end inventories for 1941 and 1944 reported by the co-operating stores. Indeed the average inventories per store at the end of 1944 for owned and rented stores in the under $20,000 sales group varied from their 1941 levels by only $144 and $124 respectively, by $400 and $891 in the $20,000 to $50,000 sales size, and by $2,909 per store for rented stores in the $50,000 and over category.

Average gross trading profit ratios for the 103 reporting stores in 1944 were not greatly changed from their 1941 levels, the five average gross profit percentages ranging from a low of 23.4 to a high of 27.9 per cent of sales in 1941 while in 1944 the overall variation was between 23.1 and 26.1 per cent of sales. The three percentages most closely together in 1941, however, varied between 23.4 and 24.4 per cent of sales, while in 1944 the three most closely grouped ratios were found between the outside limits of 25.3 and 25.9 per cent of total sales for a slightly higher level of gross trading profits.

Total operating expense ratios, on the other hand, were consistently lower in 1944 than in 1941 for all five of the owned and rented classifications. During 1941 these ratios ranged between a low of 12.8 and a high of 17.7 per cent with the three middle percentages varying between 16.0 and 16.6 per cent of sales; in 1944, however, the outside limits were represented by ratios of 10.1 and 16.8 per cent, while the three middle ones stood at 13.7, 13.8 and 14.1 per cent of sales.

As a result of the comparatively stable ratio of gross trading profit and the uniformly lower ratios for total operating expenses, the percentages for proprietor's net earnings before income taxes and withdrawals were all higher in 1944 than in 1941. In the earlier year, it may be noted, the average percentages for net earnings ranged between a low of 6.7 and 11.3 per cent of sales, while in 1944 the outer limits stood at 8.9 and 13.0 per cent of the dollar volume. The three middle ratios for net earnings also indicated the upward trends apparent in the five series, forming 7.4, 9.6 and 10.8 per cent of sales in 1941 and the higher figures of 11.5, 11.8 and 12.4 per cent of sales in 1944.

Among the various kinds of operating expenses, salaries and wages in all but one instance -- that of rented stores with 1941 sales volume of $50,000 or more -- formed a smaller percentage of total sales in 1944 than in 1941. Declines in the expense ratio, however, were largest for both owned and rented stores in the under $20,000 group where the ratios for the two classes of stores dropped from 3.8 to 3.2 and from 5.5 to 4.8 per cent of sales, respectively. Owned and rented stores in this group, it will be noted, had average sales of $9,591 and $11,912 per store in 1941 and of $13,781 and $19,826 per outlet in the more recent year. These increases in sales presumably enabled many of the stores in this category to handle the increase in business without adding proportionately to their sales staffs. Sizable increases in sales were also experienced by owned and rented stores in the $20,000 to $50,000 sales bracket but here the decreases in the salary and wage ratios were relatively somewhat less, suggesting the presence of either some enlarged sales staffs of part-time or full-time employees, or the distribution of greater payrolls to maintained staffs. Some at least of the 12 rented stores in the $50,000 and over classification may have found it necessary to increase their store staffs for the average payroll ratio rose from 8.4 to 9.1 per cent of sales while their average sales expanded from $76,206 per store in 1941 to $94,650 in the later year.

Rent expense, being a fixed dollar outlay, dropped sharply in all sales classifications due, of course, to the substantial increase in the volume of business transacted. In 1941 the rentals percentage ranged inversely with the size of business between a low of 1.6 and a high of 3.8 per cent of sales, while by 1944 the range had narrowed and dropped to the lower ratios of 1.5 and 2.4 per cent of sales. Advertising, a controllable expense on the other hand, was low in each of the two years at 0.6 per cent or less for both owned and rented stores and showed very little change between the two years.

Depreciation allowances, again relatively fixed in nature, were all lower as percentages of sales in 1944, due in considerable measure to the expanded sales volume which in contrast to 1941 was transacted in the more recent year. Reflecting the greater investment of capital in owned store properties, moreover, the depreciation expense ratios for such establishments were higher than those recorded by rented stores in the same year and size-of-business classifications.

Other operating expenses comprising both fixed and controllable types of expenses were also consistently smaller in 1944 in all sales-size classifications, varying from the outside range of 5.4 and 7.5 per cent of sales in 1941 to the lower extreme range of 4.1 and 5.7 per cent of sales in 1944. Resulting from the proper inclusion of certain types of occupancy expenses attaching to owned stores, such as property taxes, etc., those outlets again had uniformly higher ratios for operating expense than those experienced by the rented hardware stores.

Table 1.--Hardware Stores - Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944

Item	AMOUNT OF ANNUAL SALES			
	Less than $10,000		$10,000 to $19,999	
	Owned	Rented	Owned	Rented
	GENERAL INFORMATION			
1. Number of Stores Reporting	16	8	15	28
2. Total Sales	$118,849	$57,308	$207,871	$441,1[illegible]3
3. Average Sales Per Store	7,428	7,164	13,858	15,757
Total Inventory Reported,				
4. Beginning of Year	50,046	18,794	75,025	114,218
5. End of Year	57,126	20,079	78,945	128,630
6. Average for Year	53,586	19,437	76,985	121,424
Average Inventory Per Store,				
7. End of Year	3,570	2,510	5,263	4,594
8. Cost of Goods Sold	86,997	38,912	163,802	329,130
9. Stock Turnover (times per year) ..	1.6	2.0	2.1	2.7
	PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)			
10. Gross Trading Profit	26.8	32.1	21.2	25.4
Operating Expenses:				
11. Employees' Salaries and Wages ..	2.2	5.0	1.9	4.3
12. Rent	-	4.8	-	2.5
13. Advertising	0.1	0.2	0.4	0.3
14. Depreciation	1.4	0.7	1.2	0.7
15. Other Operating Expenses	9.1	5.3	6.9	5.4
16. Total Operating Expenses	12.8	16.0	10.4	13.2
17. Proprietor's Net Earnings Before Income Taxes and Withdrawals ...	14.0	16.1	10.8	12.2
18. Average Proprietor's Net Earnings Per Store	$1,042	$1,152	$1,500	$1,926

Table 1.--Hardware Stores - Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944

AMOUNT OF ANNUAL SALES						
$20,000 to $29,999		$30,000 to $49,999		$50,000 and Over		
Owned	Rented	Owned	Rented	Owned	Rented	
GENERAL INFORMATION						
9	19	14	17	11	24	1.
$226,567	$458,661	$550,612	$665,723	$1,043,367	$2,234,583	2.
25,174	24,140	39,329	39,160	94,852	93,108	3.
53,027	123,468	109,691	150,539	215,122	437,732	4.
57,508	123,875	118,632	159,662	205,206	455,983	5.
55,268	123,671	114,162	155,100	210,164	446,858	6.
6,390	6,520	8,474	9,392	18,655	18,999	7.
174,003	328,860	421,218	501,955	767,918	1,649,122	8.
3.1	2.7	3.7	3.2	3.7	3.7	9.
PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)						
23.2	28.3	23.5	24.6	26.4	26.2	10.
5.6	5.7	5.1	6.2	6.8	7.9	11.
-	2.8	-	1.9	-	1.5	12.
0.2	0.3	0.3	0.3	0.4	0.5	13.
0.5	0.6	0.7	0.4	0.8	0.4	14.
4.9	5.7	5.5	4.7	4.5	4.4	15.
11.2	15.1	11.6	13.5	12.5	14.7	16.
12.0	13.2	11.9	11.1	13.9	11.5	17.
$3,032	$3,182	$4,663	$4,344	$13,156	$10,741	18.

Table 2.--Hardware Stores - Operating Results for Stores Classified According to 1941 Sales Size and Occupancy Basis, Canada, 1941 and 1944

Item	AMOUNT OF ANNUAL SALES			
	Less than $20,000			
	1 9 4 1		1 9 4 4	
	Owned	Rented	Owned	Rented
	GENERAL INFORMATION			
1. Number of Stores Reporting	25	32	25	32
2. Total Sales	$239,779	$381,194	$344,516	$634,444
3. Average Sales Per Store	9,591	11,912	13,781	19,826
Total Inventory Reported,				
4. Beginning of Year	109,375	134,351	105,956	151,266
5. End of Year	116,835	152,920	113,225	156,903
6. Average for Year	113,105	143,636	109,591	154,085
Average Inventory Per Store,				
7. End of Year	4,673	4,779	4,529	4,903
8. Cost of Goods Sold	183,191	274,841	264,933	468,854
9. Stock Turnover (times per year) ..	1.6	1.9	2.4	3.0
	PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)			
10. Gross Trading Profit	23.6	27.9	23.1	26.1
Operating Expenses:				
11. Employees' Salaries and Wages ..	3.8	5.5	3.2	4.8
12. Rent	-	3.8	-	2.4
13. Advertising	0.3	0.3	0.2	0.3
14. Depreciation	1.2	0.7	1.0	0.6
15. Other Operating Expenses	7.5	6.3	5.7	5.6
16. Total Operating Expenses	12.8	16.6	10.1	13.7
17. Proprietor's Net Earnings Before Income Taxes and Withdrawals ...	10.8	11.3	13.0	12.4
18. Average Proprietor's Net Earnings Per Store	$1,041	$1,354	$1,794	$2,449

Table 2.--Hardware Stores - Operating Results for Stores Classified According to 1941 Sales Size and Occupancy Basis, Canada, 1941 and 1944

AMOUNT OF ANNUAL SALES								
$20,000 - $49,999				$50,000 and Over				
1941		1944		1941		1944		
Owned	Rented	Owned	Rented	Owned	Rented	Owned	Rented	
GENERAL INFORMATION								
12	20	12	20		12		12	1.
$366,364	$586,717	$502,060	$882,050	SAMPLE	$914,468	SAMPLE	$1,135,805	2.
30,530	29,336	41,838	44,103		76,206		94,650	3.
106,829	217,491	102,788	209,936	TOO	220,145	TOO	217,381	4.
114,142	228,664	111,116	210,835		249,901		214,990	5.
110,486	223,078	106,952	210,386		235,023		216,186	6.
9,512	11,433	9,912	10,542	SMALL	20,825	SMALL	17,916	7.
280,635	432,997	372,026	658,891		691,338		843,903	8.
2.5	1.9	3.5	3.1		2.9		3.9	9.
PROFIT AND LOSS DATA (Items Expressed as Percentages of Sales)								
23.4	26.2	25.9	25.3		24.4		25.7	10.
7.5	7.3	7.4	6.9	SAMPLE	8.4	SAMPLE	9.1	11.
-	3.1	-	2.1		1.6		1.5	12.
0.3	0.4	0.3	0.4		0.6		0.5	13.
1.2	0.4	0.7	0.3	TOO	0.6	TOO	0.5	14.
7.0	5.4	5.7	4.1		6.5		5.2	15.
16.0	16.6	14.1	13.8	SMALL	17.7	SMALL	16.8	16.
7.4	9.6	11.8	11.5		6.7		8.9	17.
$2,276	$2,816	$4,944	$5,081		$5,113		$8,434	18.

PART III - FURNITURE STORES

Trends by Size of Business, 1944

Some 120 usable reports on operating results were received from the survey of a sample group of furniture stores for the calendar year 1944. This relatively small sample was classified into the five regular size-of-business categories and these were then broken down by method of occupancy into owned and rented stores. Owned stores in the sample, however, were relatively less numerous than rented establishments and it was found that the number of reports for owned stores in three of the sizes of business were too small to justify the publication of average figures. Statistics on operating results are therefore shown for the five size groups of rented stores and for two categories, that is, the $10,000 to $20,000 and the $20,000 to $30,000 size intervals for owned stores. In all, a total of 110 usable reports form the basis for the seven series of operating cost figures which appear in the five size groups of rented and the two size categories of owned stores.

The seven average stock turnover ratios for furniture stores ranged between a low of 2.5 and 4.5 times per year in 1944, being lowest for rented stores in the $10,000 to $20,000 sales bracket and highest for owned outlets in the $20,000 to $30,000 size of business. Examination of the table will also reveal the absence of any clear tendency for the stock turn to become faster as the size of business increased. Thus, moving from the smallest through to the largest size-of-business groups of rented stores, the stock turnover in the less than $10,000 sales category stood at 4.0, then dropped to 2.5 times, rose to 3.6, again decreased to 2.8 and rose to 3.0 times in the $50,000 and over classification. These variations may quite possibly reflect in part the erratic experiences of some stores which were included in the sample. Too much weight should therefore not be given to the ratio of 4.0 times recorded by furniture stores in the less than $10,000 sales classification because only 7 reports form the basis for this average. A somewhat similar situation is also found in the $20,000 to $30,000 sales size where the average of the slightly larger sample of 11 stores amounted to 3.6 stock turns in 1944.

At least a partial explanation for these variations in the stock turnover of rented stores, however, may be drawn from the statistics which appear in the table. Thus the relatively high turnover average for the 7 stores in the less than $10,000 group may indicate that at least some of these stores used somewhat incomplete stocks of merchandise in obtaining their sales volumes for the average inventory amounted to only $1,236 per store at the end of 1944. As the reporting stores approached a more normal sales size, larger and more complete inventories of salable goods apparently were required. These stocks while necessary for stores in the $10,000 to $20,000 sales group could also support, with moderate expansion, a still larger volume of business. In this connection then, it will be noted that while year-end inventories more than tripled from $1,236 per store in the smallest to $4,316 in the $10,000 to $20,000 size of business, average sales per store only doubled, the two factors accounting for the drop from 4.0 to 2.5 in the stock turnover ratio. Between the $10,000 to $20,000 and the $20,000 to $30,000 classification, average ending inventories per store gained only by roughly 25 per cent to $5,284 per store against an increase in average store sales of about 70 per cent, a combination of changes mainly responsible for the sharp rise from 2.5 to 3.6 in stock turnover. From this point, average year-end inventories rose by nearly 85 per cent to $9,774 per store in the $30,000 to $50,000 size but this was accompanied by an expansion of slightly less than 50 per cent in average sales per store, and stock turnover thus dropped to 2.8 times per year. Both average sales and average year-end inventories per store were sharply larger at $93,145 and $20,724 per store in the $50,000 and over sales size than in the preceding classification.

Here the gain in average sales at about 140 per cent was somewhat greater than the inventory expansion of around 110 per cent and the stock turnover for the 30 stores therefore rose slightly from 2.8 to 3.0 times per year.

This rise in stock turnover, it may be observed, would have been considerably greater if only stores with sales between $50,000 and $100,000 in 1944 had been included in this category. Indeed a supplementary analysis indicates that the stock turnover for the 21 stores in this narrower sales size averaged 3.6 times per year with average sales and year-end inventories of $63,935 and $12,928 per store in 1944. The remaining 9 stores with annual sales of $100,000 or over, however, had overall a sharply lower stock turn of 2.6 times while average sales and ending inventories for this group amounted to $161,303 and $38,915 per store, respectively. On this basis then a regular up-and-down movement in the turnover ratios is apparent from the less than $10,000 sales size through intervening categories to the supplementary $50,000 to $100,000 and $100,000 and over sales classifications.

Overall changes in inventory levels between the beginning and end of 1944 according to the table were upward in the case of rented furniture stores comprising the first four size-of-business classifications. The increases, however, were comparatively small and when the possibility of carrying items with higher unit valuations is considered, it is quite possible that the physical quantities on hand at the end of 1944 were somewhat smaller than at the beginning of the period. Rented stores with sales of $50,000 or over, on the other hand, recorded a sharp decrease in their inventories during the period and in total a reduction of nearly 6 per cent from the beginning of the year is shown for rented outlets in all five sizes of business.

Gross trading profit percentages for the seven size and occupancy classifications for 1944 had a range from a low of 27.7 to a high of 34.2 per cent of total sales with both of these representing the experiences of rented furniture stores. Three ratios, standing for rented establishments in the $10,000 to $20,000, the $30,000 to $50,000 and the $50,000 and over sales brackets appear in the table fairly closely together between outside limits of 29.4 and 30.2 per cent of sales. The highest rate of gross profit at 34.2 per cent of sales was obtained by the 7 rented stores with sales of less than $10,000 in 1944. The number of reporting stores in this size of business is of course too small to permit anything more than tentative conclusions to be drawn from contrasting this with other ratios. It may be, however, that these stores were probably either providing somewhat more in the way of services to their customers on a charge basis or were selling in their limited way a larger proportion of the higher margin lines of merchandise than the stores included in the other sales volume categories. Progressively smaller average ratios of 29.4 and 27.7 per cent of sales were obtained by the 20 and 11 rented stores in the two larger sizes of business, after which the rates of gross profits for the 27 and 30 rented establishments in the two following size categories rose to 30.0 and 30.2 per cent of sales. Here quite possibly the downward tendency in gross profit ratios for stores in the $10,000 to $20,000 and in the $20,000 to $30,000 classifications may have resulted from the maintenance of more balanced lines of merchandise, some of which have carried relatively low mark ups, while the upward tendency in the two largest sizes of business may have reflected the advantages of purchasing in larger quantities. In any event this downward and then upward movement in gross profit percentages is partly in evidence in the Bureau's study of the operating results of furniture stores for 1938 where establishments with sales of $50,000 and over obtained average gross profit ratios somewhat greater than stores with sales of less than $50,000.

Among the operating expenses, the average ratios for salaries and wages ranged between a low of 1.1 per cent and a high of 9.1 per cent of total sales, the low of 1.1 per cent of sales for rented stores in the less than $10,000 sales size being quite likely a depressed figure because of the possibility that some of these stores may not have had any employees on their staffs in 1944. For all groups of rented furniture stores, a consistent trend is in evidence for the salary and wage percentage to increase from one size of business to the next through the five sales-size categories. The sharpest gain naturally occurred between the less than $10,000 and the $10,000 to $20,000 sales brackets as the volume of sales expanded to a point where the presence of at least one employee was required. In the next two sizes, the payroll percentages remained fairly close to each other, but sharp increases of 2.3 and 2.1 percentage points separated the $20,000 to $30,000, the $30,000 to $50,000, and the $50,000 and over sales brackets from each other. Here the average sales per store rose from $26,044 in the $20,000 to $30,000 category to $38,641 and $93,145 in the two following classifications.

Rentals as percentages of the total sales of rented stores was naturally highest at 4.9 per cent of sales in the less than $10,000 sales size and lowest at 2.5 per cent for stores with 1944 sales of $50,000 or over. From the high point of 4.9 per cent of sales in the less than $10,000 group, however, the rentals ratio dropped sharply to 3.8 and 3.9 per cent in the two immediately larger sizes of business. The ratio again dropped sharply to 2.8 per cent in the $30,000 to $50,000 sales inverval and to the smaller figure of 2.5 per cent in the $50,000 and over group, as the expansions in size of business more than offset the increases in dollar rentals which resulted from more central locations and the probable use of greater amounts of floor space.

Advertising expenditures varied between a minimum of 0.2 and a high of 1.7 per cent of total sales for the seven size-of-business classifications shown in the table. As in the case of salaries and wages, the low of 0.2 per cent of sales in the less than $10,000 group reflects in part the fact that some of the 7 stores in this category may not have incurred any advertising expenses in the year under review. Most of the rented stores in the four remaining sales categories apparently found it desirable to spend a progressively larger proportion of their sales dollar in publicity during 1944, for with one exception the percentages increased with the size of business.

Depreciation allowances, ranging between a low of 0.4 and a high of 1.1 per cent of total sales, were irregular in trend from the smallest to the largest sizes of business. The low point is found in the under $10,000 sales category where probably only a limited amount of store fixtures and equipment was used, which, in some cases, may have been entirely written off previously. The high point for this expense was reached in the case of rented stores in the $10,000 to $20,000 sales size at 1.0 per cent of sales from which it dropped to 0.4 per cent in the next size, rose again to 0.8 per cent in the $30,000 to $50,000 sales category and receded to 0.6 per cent for stores with sales of $50,000 and over in 1944.

All other expenses, including all remaining business expenses of furniture stores but excluding proprietors' salaries and withdrawals, varied from a high of 11.4 per cent of sales in the under $10,000 sales size to a low of 7.0 per cent obtained by stores in the $50,000 and over class. A sharp drop occurred in this ratio from the high of 11.4 per cent for rented stores in the smallest size of business to 7.5 per cent of total sales achieved by rented outlets in the $10,000 to $20,000 sales category. Thereafter, the three remaining averages for rented stores moved irregularly between 7 and 8 per cent of sales.

The seven ratios for total operating expenses, including the two for owned and the five for rented stores, ranged between outside limits of 13.7 and 20.9

per cent of sales, the low ratio being obtained by owned stores in the $20,000 to $30,000 sales class and the high percentage by rented outlets in the largest size of business. Considering only the five size groups of rented stores, the ratio dropped from 18.0 per cent in the under $10,000 sales group to 16.6 per cent in the $10,000 to $20,000 category, due largely to the decline in the ratios for the residual all other operating expense item which occurred between these two sizes of business. From this point the total expense percentages rose steadily through the larger size-of-business classifications to the high of 20.9 per cent in the $50,000 and over sales bracket, the cause of which can be traced principally to the upward progression in the percentages for total salaries and wages.

Representing the difference between gross trading profit and total operating expenses, the seven ratios for proprietor's net earnings before income taxes and withdrawals varied from a high of 16.2 per cent of sales obtained by rented stores in the under $10,000 size to a low of 9.3 per cent for rented outlets in the $50,000 and over sales size. Taking into account only the five percentages for rented stores, the ratios with one exception decreased as the size of business increased. The greatest decline, as in the case of other items, occurred between the smallest and the next larger size classes, where a drop of 3.4 percentage points was recorded, a result due entirely to the decidedly sharp decrease in gross trading profit percentages. Between the second and third larger sales sizes another considerable decline in the net earnings ratio was recorded, this time reflecting partly a further reduction in the rate of gross profit and partly a rise in the total expense percentage. A slight increase in net earnings, on the other hand, took place between the $20,000 to $30,000 and the $30,000 to $50,000 sales intervals where the rise in gross trading profits slightly exceeded the expansion in total operating expenses. From this point, however, the net earnings ratio declined to its low of 9.3 per cent of sales in the $50,000 and over category due entirely to the increase in total expenses between the two sizes of business.

Notwithstanding the downward trend in the net earnings' ratios, the dollar figures for average proprietor's net earnings per store rose consistently from $1,141 per store in the smallest to $8,681 per outlet in the largest sales-size classification. This was due entirely to the fact that the increases in average sales per store between the five sales groups occurred at a much faster rate than the net effects of the drops in gross trading profit and the gains in the total operating expense ratios. It should of course be noted that both the percentage and dollar figures for proprietor's net earnings consist of two rewards, one for his personal services in managing the business, the other representing a return on the capital he has invested and risked in the enterprise. Allowances should therefore be made for these two rewards in assessing the real profitability of the furniture stores included in this survey.

Furniture Stores--Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944.

Item	AMOUNT OF ANNUAL SALES			
	Less than $10,000		$10,000 to $19,999	
	Owned	Rented	Owned	Rented
	GENERAL INFORMATION			
1. Number of Stores Reporting		7	6	20
2. Total Sales		$49,168	$86,346	$305,048
3. Average Sales Per Store		7,024	14,391	15,252
Total Inventory Reported,	SAMPLE			
4. Beginning of Year		7,622	17,928	85,212
5. End of Year	TOO	8,649	19,895	86,316
6. Average for Year		8,136	18,912	85,764
Average Inventory Per Store,	SMALL			
7. End of Year		1,236	3,316	4,316
8. Cost of Goods Sold		32,353	62,255	215,364
9. Stock Turnover (times per year) ..		4.0	3.3	2.5
	PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)			
10. Gross Trading Profit		34.2	27.9	29.4
Operating Expenses:				
11. Employees' Salaries and Wages ..		1.1	5.9	3.8
12. Rent	SAMPLE	4.9	-	3.8
13. Advertising		0.2	0.6	0.5
14. Depreciation	TOO	0.4	1.0	1.0
15. Other Operating Expenses		11.4	8.6	7.5
	SMALL			
16. Total Operating Expenses		18.0	16.1	16.6
17. Proprietor's Net Earnings Before Income Taxes and Withdrawals ...		16.2	11.8	12.8
18. Average Proprietor's Net Earnings Per Store		$1,141	$1,692	$1,947

Furniture Stores--Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944 (Cont.)

AMOUNT OF ANNUAL SALES						
$20,000 to $29,999		$30,000 to $49,999		$50,000 and Over		
Owned	Rented	Owned	Rented	Owned	Rented	
GENERAL INFORMATION						
9	11		27		30	1.
$215,664	$286,486		$1,043,299		$2,794,363	2.
23,965	26,044		38,641		93,145	3.
		SAMPLE		SAMPLE		
35,566	57,848		253,691		696,445	4.
32,614	58,122	TOO	263,895	TOO	621,734	5.
34,090	57,985		258,793		659,090	6.
		SMALL		SMALL		
3,624	5,284		9,774		20,724	7.
154,861	207,129		730,309		1,950,465	8.
4.5	3.6		2.8		3.0	9.
PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)						
28.2	27.7		30.0		30.2	10.
4.7	4.7		7.0		9.1	11.
-	3.9	SAMPLE	2.8	SAMPLE	2.5	12.
0.6	1.3		1.0		1.7	13.
1.1	0.4	TOO	0.8	TOO	0.6	14.
7.3	7.2		7.9		7.0	15.
		SMALL		SMALL		
13.7	17.5		19.5		20.9	16.
14.5	10.2		10.5		9.3	17.
$3,483	$2,644		$4,059		$8,681	18.

PART IV - HOUSEHOLD APPLIANCE, AND HOUSEHOLD APPLIANCE AND RADIO STORES

Trends by Size of Business, 1944.

With the possible exception of automobile dealers, probably no individual kind of business was so severely affected by wartime conditions as the business of household appliance, and household appliance and radio stores. This is principally for the reason that the sales of these establishments were naturally concentrated in durable and metallic articles, the production of which was so severely curtailed in the interests of the war effort. Indeed a distribution of the 1941 sales of these outlets by classes of commodities indicated that around 82 per cent of the dollar volume of the household appliance, and about 75 per cent of the sales of household appliance and radio stores consisted of major items of durable electrical and household equipment. The remaining 18 to 25 per cent of their total gross revenues was obtained from such relatively small items of gross income as electrical and radio parts and supplies, furniture, miscellaneous commodities, second-hand merchandise, and receipts from repairs and other services.

It is not surprising therefore to find that, according to the Bureau's monthly indexes, the sales of continuing stores in these two closely related kinds of retail business were in 1944 almost 28 per cent below their dollar volume in 1941. This decrease in sales and the virtual disappearance of almost all of the principal commodities formerly carried presented to these retailers a major problem of re-adjustment to wartime conditions. From the merchandising standpoint, consideration had to be given to the handling and promotion of other kinds of products, including used goods, and to the extension of repair and other services for the twin purposes of maintaining customer contacts and of obtaining at least survival levels of sales volumes. The financial aspect of the problem was also intensified for new patterns of gross profit and expense relationships were created which had to be met at the price of staying in business.

That many household appliance, and household appliance and radio stores were not able to survive this process of re-adjustment is indicated from the considerable number of cancellations for non-responses and for unusable reports which was experienced in the survey for 1944 of a sizable sample of such stores. In some cases, the cancellations were made because the stores were out of business; in other instances, reporting stores had so changed the commodity composition of their sales that they could no longer be considered as appliance and radio stores. In still other cases, the reporting stores were concentrating so heavily on providing repair and other services that they did not in fact represent the activities of retail trading establishments in the year under review.

The reports of stores still remaining in the sample, as can be expected, indicated that they were specializing in handling a considerably narrower range of merchandise than they did in 1941, their commodity sales in 1944 consisting principally of radio parts and batteries, electrical supplies and other small items. The sale of comparatively small amounts of the larger items was occasionally indicated, but a substantial proportion of this may have been second-hand goods for the sale of used goods formed about 3 per cent of the total sales of these kinds of stores in the earlier year.

Receipts from repairs and other services contributed in 1941 between 3 and 5 per cent of the sales of all appliance, and appliance and radio stores analyzing their gross revenues by sources of income. Expanding their income from the provision of such services was clearly the natural policy for these stores to follow during the war years. It is therefore entirely reasonable to find in the following table that receipts from repairs and services of the establishments reporting operating result figures ranged between a low of 12 and a high of 46.8 per cent of their total sales, with the four middle ratios grouped closely between 19.7 and 21.8 per cent of such revenues. Efforts were made, of course, to assure that only stores with service receipts of less than 50 per cent of their total revenues were included in the tabulations. In view of the peculiar features of this trade during wartime, however, it is quite possible, especially in the case of rented stores with annual sales of less than $10,000 where service receipts amounted to 46.8 per cent of total sales, that some stores with service receipts of more than 50 per cent of their total sales were included in the compilations.

Household Appliance and Radio Stores, 1944
Distribution of Total Revenues by Size of Business

Occupancy Class	Size of Business			
	Under $10,000	$10,000 -$19,999	$20,000 -$29,999	$30,000 -$49,999
Owned Stores				
Total Number Reporting	11	6	Sample	Sample
Total Gross Revenues Reported	$ 46,811	$ 82,114		
Number Reporting Breakdown of Revenues ..	7	3		
Total Revenues so Analyzed	$ 31,266	$ 45,334	Too	Too
Per Cent Sales of Merchandise	80.3%	78.2%		
Per Cent Receipts From Services	19.7%	21.8%	Small	Small
Rented Stores				
Total Number Reporting	27	25	16	11
Total Gross Revenues Reported	$165,118	$378,199	$371,703	$416,333
Number Reporting Breakdown of Revenues ..	20	12	8	5
Total Gross Revenues so Analyzed	$112,646	$188,303	$187,523	$204,660
Per Cent Sales of Merchandise	53.2%	78.4%	78.5%	88.0%
Per Cent Receipts From Services	46.8%	21.6%	21.5%	12.0%

To enable the erratic influences of wartime conditions to iron themselves out within the overall figures shown in the table on operating results, a large number of reports should have been included in the tabulations. Unfortunately the cancellations above mentioned were quite numerous and only 105 usable reports were available for classification by size of business and method of occupancy. When such distributions were made, it became apparent that the sample was far too small for owned stores in the $20,000 to $30,000 and the $30,000 to $50,000 classes, and for both owned and rented stores in the $50,000 and over groups, to permit figures to be presented for these sales sizes. Statistics are consequently shown for only six sales and occupancy classifications and these rest upon the fairly thinly scattered reports of 96 stores. The conclusions to be drawn from these figures must therefore be regarded as highly tentative until more normal conditions return to the trade when larger numbers of reports will enable more typical figures on operating results to be compiled.

Stock turnover in times per year varied from a low of 2.3 to a high of 4.1 times for the six size and occupancy classes of stores for which statistics are presented in the main table. No marked tendencies are apparent for these averages to cluster closely around a middle figure for three ratios had outside limits of 2.3 and 2.9 times per year while the limits for the other three were 3.2 and 4.1 times per year. There is also no clear tendency for the turnover figures to vary either directly/with increases in sales size. Thus the lowest stock turn of 2.3 times was
or indirectly

recorded by rented stores in the under $10,000 sales category in contrast to which owned stores in the same size had an average ratio of 3.6 times. In the next larger size of business the comparison is reversed with an average of 2.8 for owned and the high figure of 4.1 times for rented outlets. The two following averages, however, are progressively lower at 3.2 and 2.9 times per year for rented establishments.

Average inventories per store, end of year, on the other hand, rose steadily with increases in the size of business. For rented stores alone average ending inventories per store stood at $1,538 in the less than $10,000 sales group and amounted to a high of $7,275 in the $30,000 to $50,000 size class. All of these averages, of course, are depressed by the depletion in stocks which occurred during the war years.

Changes between the total values of inventories reported at the beginning and the end of 1944 were relatively small for the two owned and the three rented groups of stores found in the three smallest sales sizes. The direction of the changes, however, was quite irregular for increases by two groups and decreases by three groups of stores were recorded between the two inventory dates. The greatest variation in inventories - a decline - is evident in the $30,000 to $50,000 sales category where a drop of about 27 per cent is shown. In total, a reduction of approximately 10 per cent in the inventories of the 96 reporting stores took place between the beginning and the ending of the year under review.

Gross trading profit percentages for the six occupancy and size classifications ranged from a low of 33.4 to a high of 44.4 per cent of sales in 1944. Owned stores in the $10,000 to $20,000 sales category were responsible for the low percentage while rented stores in the less than $10,000 sales size accounted for the high of 44.4 per cent. Considering only the four groups of rented establishments for which the samples are somewhat larger, gross profits dropped steadily from 44.4 per cent of sales in the under $10,000 size to 34.0 per cent of sales in the $30,000 to $50,000 size of business. Reference to the text table will indicate that the proportions of receipts from services also declined as the size of business increased and it is to this circumstance that at least part of the declining tendency in gross profit percentages must be attributed. This is, of course, due to the fact that receipts from repairs and services consist principally of customers' payments for labour services which are not included in the cost of goods sold.

Turning to the operating expense ratios of appliance and appliance and radio stores, the average percentages for salaries and wages distributed to employees varied for the six classifications between a low of 2.3 per cent obtained by owned stores in the less than $10,000 sales size and a high of 10.6 per cent of sales recorded by rented stores with sales between $30,000 and $50,000 in 1944. Among the four sales classifications of rented stores, a consistent trend is evident for the payroll ratios to increase from one size of business to the next. This upward progression, also apparent in the operating results of hardware and furniture stores, is probably a reflection both of the decreasing importance of the proprietor's clerical services in relation to total selling personnel, and of the expansions in both selling and non-selling work which larger sales volumes entail.

Rent, as a percentage of total sales, was naturally highest in the less than $10,000 sales category where the average stood at 4.9 per cent and from which it dropped to 3.4 per cent in the next larger size. In contrast to the tendency for rentals percentages to decrease with expansions in the size of business, however, the ratios were progressively higher for establishments in the $20,000 to $30,000 and the $30,000 to $50,000 sizes of business. Such stores probably experienced a substantial decline in sales during the war period while their dollar expenditures for rentals remained constant, thus causing their rentals ratio to rise considerably during the same interval.

Advertising expenses ranged between a low of 0.5 and a high of 1.3 per cent of total sales with the percentages for both groups of owned stores being below 1 per cent of total revenues. Rented stores in the $20,000 to $30,000 and the $30,000 to $50,000 sales sizes both had average ratios of 1.3 per cent of total sales, being slightly larger than the 1.1 per cent figures shown for each of the two smaller sizes of stores. Depreciation expense percentages were also quite low, varying between outside limits of 0.6 and 2.1 per cent of sales. For this item a distinctly downward tendency is apprent, the ratios being highest in the less than $10,000 sales category and decreasing thereafter as the size of business increased.

All other expenses, the residual item, was highest at 13.1 per cent for owned stores in the $10,000 to $20,000 sales group, and lowest at 8.8 per cent for rented establishments in the $20,000 to $30,000 sales size. Considering only rented appliance and radio stores, the ratio dropped from 11.2 per cent of total sales in the smallest to 8.8 per cent in the $20,000 to $30,000 size of business, rising thereafter to 10.9 per cent for stores with sales between $30,000 and $50,000 in 1944.

The six ratios for total operating expenses ranged widely from a low of 14.8 per cent realized by owned stores in the less than $10,000 sales size to a high of 27.7 per cent of sales obtained by rented stores in the $30,000 to $50,000 size of business. Both groups of owned stores in the less than $10,000 and the $10,000 to $20,000 sales categories experienced considerably lower total expense ratios than their rented counterparts due mainly to their smaller payroll percentages and the absence of rental charges. Among the four groups of rented establishments the low point of 23.0 per cent for total expenses was realized by outlets in the $10,000 to $20,000 sales class, the ratios thereafter rising to 24.3 and 27.7 per cent of sales in the two following sizes of business.

Proprietor's net earnings before income taxes and withdrawals had outside limits of 6.3 and 21.7 per cent of total sales in the year under review. Considering only the four ratios for rented stores, the rate of net earnings decreased sharply with increases in the size of business, the figures dropping from a high of 20.0 per cent in the less than $10,000 sales size to the low of 6.3 per cent for rented outlets in the $30,000 to $50,000 size of business. This trend, as examination of the table will show, resulted from the downward movement in rates of gross trading profit and the increases in total expense ratios which occurred in the two larger sales categories of rented stores.

Average dollar figures for proprietor's net earnings varied irregularly between a low of $922 and a high of $3,151 per store in 1944, with the low being recorded by the 11 owned stores in the smallest size of business. Among the four groups of rented stores the average amounted to $1,222 per store in the smallest category, rose to $2,383 in the $10,000 to $20,000 size, to the high of $3,151 in the $20,000 to $30,000 classification, and then receded to $2,381 per store in the $30,000 to $50,000 size of business.

Household Appliance and Radio Stores - Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944

Item	AMOUNT OF ANNUAL SALES			
	Less than $10,000		$10,000 to $19,999	
	Owned	Rented	Owned	Rented
	GENERAL INFORMATION			
1. Number of Stores Reporting	11	27	6	25
2. Total Sales	$46,811	$165,118	$82,114	$378,199
3. Average Sales Per Store	4,256	6,115	13,686	15,128
Total Inventory Reported,				
4. Beginning of Year	8,364	37,494	19,097	58,976
5. End of Year	8,219	41,537	20,256	55,289
6. Average for Year	8,292	39,515	19,677	57,132
Average Inventory Per Store,				
7. End of Year	747	1,538	3,376	2,212
8. Cost of Goods Sold	29,725	91,806	54,688	231,836
9. Stock Turnover (times per year) ..	3.6	2.3	2.8	4.1
	PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)			
10. Gross Trading Profit	36.5	44.4	33.4	38.7
Operating Expenses:				
11. Employees' Salaries and Wages ..	2.3	5.1	5.0	7.5
12. Rent	-	4.9	-	3.4
13. Advertising	0.5	1.1	0.8	1.1
14. Depreciation	1.7	2.1	1.0	1.2
15. Other Operating Expenses	10.3	11.2	13.1	9.8
16. Total Operating Expenses	14.8	24.4	19.9	23.0
17. Proprietor's Net Earnings Before Income Taxes and Withdrawals ...	21.7	20.0	13.5	15.7
18. Average Proprietor's Net Earnings Per Store	$922	$1,222	$1,854	$2,383

Household Appliance and Radio Stores - Operating Results for Stores Classified According to 1944 Sales Size and Occupancy Basis, Canada, 1944 (Cont.)

AMOUNT OF ANNUAL SALES						
$20,000 to $29,999		$30,000 to $49,999		$50,000 and Over		
Owned	Rented	Owned	Rented	Owned	Rented	
GENERAL INFORMATION						
SAMPLE TOO SMALL	16	SAMPLE TOO SMALL	11	SAMPLE TOO SMALL	SAMPLE TOO SMALL	1.
	$371,703		$416,333			2.
	23,231		37,848			3.
	73,025		110,495			4.
	69,081		80,021			5.
	71,053		95,258			6.
	4,318		7,275			7.
	230,828		274,780			8.
	3.2		2.9			9.
PROFIT AND LOSS DATA (Items Expressed As Percentages of Sales)						
	37.9		34.0			10.
SAMPLE TOO SMALL	9.1	SAMPLE TOO SMALL	10.6	SAMPLE TOO SMALL	SAMPLE TOO SMALL	11.
	3.9		4.3			12.
	1.3		1.3			13.
	1.2		0.6			14.
	8.8		10.9			15.
	24.3		27.7			16.
	13.6		6.3			17.
	$3,151		$2,381			18.