

CATALOGUE No.

63-411

BIENNIAL



OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT GENERAL STORES 1958

Published by Authority of
The Honourable Gordon Churchill, Minister of Trade and Commerce

DOMINION BUREAU OF STATISTICS
Industry and Merchandising Division

February, 1960
6542-526

Price 50 cents

058.87
C 162
D
1957 no. 4

PUBLICATIONS RELATING TO RETAIL TRADE

**Catalogue
number**

Title

Price

(a) Weekly

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OPERATING RESULTS AND FINANCIAL STRUCTURE INDEPENDENT GENERAL STORES

1958

This report is a continuation of the practice of the Dominion Bureau of Statistics to publish operating results and financial structure for selected trades primarily as a guide for retailers. The averages and ratios that are shown in this report can be used as a standard by which businessmen can compare their own operating experience. The pattern of expense and financial ratios by size and age of business permits direct analysis of operating results for the year. It should be borne in mind, however, that the averages and ratios as published in this report do not represent top performance guides. They are the "average" of a broad range of operational efficiencies.

This survey of independent general stores covers only retail establishments usually located in rural communities and engaged in selling dry goods or apparel with groceries amounting to one-third to two-thirds of total sales. In addition, such establishments must show sales for at least one of the following subsidiary lines: hard goods (hardware, farm implements, building materials, housewares, household appliances, furniture, etc.) feed, fertilizer, gasoline and lubricants.

Although this report is similar to the previous operating results reports issued for this trade, some slight changes have been made in the presentation and quantity of information in order to increase its value to the user. In Table 1, the historical series of major operating ratios has been increased from a two year period to a six year period on a biennial basis. It is hoped that this change will enable the

users to more readily compare the trends in operating with their own experiences during the years. It should be mentioned that the data in Table 1, as well as the "total" column in Table 3 have been weighted in order to arrive at ratios which are representative of the trade as a whole. Weights are assigned to the ratios in each sales-size category in relation to its position in the sales picture as found in 1951. For example, in 1951 owned stores with sales between \$20,000-\$49,999 did 30.3 per cent of the total volume of business in the "owned" class whereas rented stores with the same sales volume did 24.7 per cent of the total sales in the "rented" class. These "weights" are applied to the current year ratios to arrive at a total ratio for owned and for rented stores which in turn are similarly weighted to obtain a total for the trade. The remaining averages and ratios published in this report have not been weighted and therefore represent the averages and ratios obtained from a reporting panel of firms in each cell.

As shown in table 1, the gross profit in 1958 for general stores declined by .35 per cent of net sales to 14.81 per cent from the high of 15.16 per cent registered in 1956. A Slight increase in operating expenses due to increases in occupancy expenses and "all other" expenses produced a net operating profit of 5.78 per cent of sales which is a decline of .38 per cent from the high of 6.16 per cent in 1956.

Note: Profit and loss and balance sheet definitions are shown on pages 7 and 8.

TABLE 1. Operating Results of Independent General Stores, 1952-58

Item	1952	1954	1956	1958
	percent of net sales			
Gross profit	14.34	14.82	15.16	14.81
Operating expenses:				
Employees' salaries	3.47	3.74	3.28	3.15
Occupancy	2.61	2.96	3.07	3.15
Office and store supplies	0.37	0.39	0.41	0.35
Advertising	0.20	0.26	0.30	0.29
All other expenses	1.91	1.89	1.94	2.09
Total operating expenses	8.56	9.24	9.00	9.03
Net operating profit before deduction of proprietors' salaries and income tax and addition of net non-trading income	5.78	5.68	6.16	5.78

Note: These ratios are "weighted" according to the 1951 Census weights of the different sales sizes for independent stores.

TABLE 2. Independent General Stores — Balance Sheet Ratios as at December 31

Item	1948	1950	1952	1954	1956	1958
Current ratio—Owned	4.11	4.56	4.45	4.57	5.00	4.70
Rented	4.14	3.62	4.04	5.69	6.07	6.97
Liquidity ratio—Owned .....	..	..	1.65	1.85	2.03	1.92
Rented .....	..	..	1.66	2.06	2.44	3.21
Working capital to net worth ratio—Owned	0.70	0.73	0.73	0.72	0.74	0.69
Rented	0.91	0.94	0.89	0.84	0.93	0.91
Worth debt ratio—Owned	3.57	3.57	3.36	3.25	3.11	3.54
Rented	3.22	2.08	2.72	4.20	2.80	3.68
Turnover of total capital employed—Owned .....	..	..	2.38	2.06	2.00	2.29
Rented .....	..	..	2.70	2.81	2.74	2.77

.. Not available.

TABLE 3. Independent General Stores — Operating Results by Annual Sales Volume and Occupancy Basis, 1958

Item	Owned stores with annual net sales of					Rented stores with annual net sales of			All sizes ¹
	Under \$10,000	\$10,000-\$19,999	\$20,000-\$49,999	\$50,000-\$99,999	\$100,000 and over	\$20,000-\$49,999	\$50,000-\$99,999	\$100,000 and over	
Number of stores reporting	23	73	188	157	104	18	17	17	609
Average net sales per store	7,032	15,519	33,657	69,166	161,036	34,689	65,173	205,550	84,395
Average beginning inventory	2,477	4,509	7,612	13,559	28,031	9,083	12,998	25,808	15,464
Average inventory, end of year	2,466	4,452	7,631	13,820	28,912	9,533	13,633	27,337	15,874
Average cost of goods sold	5,872	13,017	28,968	59,119	136,036	29,386	56,876	172,855	71,654
Stock turnover (times per year)	2.38	2.91	3.80	4.32	4.78	3.16	4.26	6.51	4.57
Profit and Loss data (Percent of net sales)									
Gross profit	16.50	16.12	13.94	14.52	15.52	15.29	13.04	15.91	14.81
Operating expenses:									
Employees' salaries and wages (except delivery)	0.91	1.40	1.61	3.20	4.93	2.86	2.15	4.80	3.15
Delivery	0.51	0.85	0.79	0.81	0.64	0.72	0.88	0.73	0.74
Occupancy expenses:									
Taxes	1.04	0.96	0.60	0.42	0.38	0.19	0.31	0.17	0.48
Insurance	0.53	0.70	0.52	0.48	0.42	0.49	0.24	0.23	0.46
Rent	—	—	—	—	—	1.64	0.61	0.78	0.14
Heat, light and power	1.99	1.72	1.02	0.69	0.55	0.88	0.59	0.50	0.82
Repairs and maintenance	1.02	0.54	0.47	0.35	0.33	0.34	0.20	0.21	0.39
Depreciation allowances	0.44	0.82	0.85	1.04	0.88	0.28	0.48	0.76	0.86
Total occupancy expenses	5.02	4.74	3.46	2.96	2.56	3.82	2.63	2.65	3.15
Office and store supplies	0.71	0.52	0.35	0.31	0.37	0.28	0.28	0.20	0.35
Advertising	0.01	0.12	0.22	0.34	0.35	0.11	0.31	0.33	0.29
Net loss on bad debts	0.75	0.38	0.17	0.29	0.28	0.27	0.16	0.27	0.26
All other expenses	0.93	1.42	1.01	1.15	1.13	0.94	0.94	0.89	1.09
Total operating expenses	8.84	9.43	7.81	9.06	10.24	9.00	7.17	9.87	9.03
Net operating profit	7.66	6.69	6.13	5.46	5.28	6.29	5.87	6.04	5.78
Non-trading income	1.31	1.01	0.73	0.36	0.42	0.18	0.41	0.28	0.53
Non-trading expense	—	0.07	0.28	0.02	0.12	0.03	0.01	0.00	0.12
Net profit before deduction of proprietors' salaries and income tax	8.97	7.63	6.58	5.80	5.58	6.44	6.27	6.32	6.19

¹ These ratios are "weighted" according to the 1951 Census weights of the different sales sizes for independent stores.

TABLE 4. Independent General Stores — Owned — Financial Structure by Size and Age of Business as at December 31, 1958

Item	Stores with annual net sales of								
	\$20,000-\$49,999			\$50,000-\$99,999			\$100,000 and over		
	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total	Under 10 years	10 years and over	Total
average per store (dollars)									
Assets									
Current assets:									
Cash on hand and in bank	1,463	2,749	2,461	1,980	3,725	3,330	4,898	6,881	6,443
Accounts and notes receivable (net)	1,452	1,925	1,619	3,422	5,337	4,904	10,585	9,310	9,592
Merchandise inventory	6,593	8,154	7,805	13,651	14,116	14,011	25,248	29,952	28,912
Other current assets	719	2,662	2,227	880	2,337	2,008	932	1,717	1,543
Total current assets	10,227	15,490	14,312	19,933	25,515	24,253	41,663	47,860	46,490
Fixed assets (net):									
Used in the business	7,427	5,787	8,154	9,103	6,697	7,241	15,082	12,534	13,098
Not used in the business	2,178	2,838	2,690	1,062	2,748	1,979	2,735	2,574	2,609
Total fixed assets (net)	9,605	8,625	8,844	10,165	9,445	9,220	17,817	15,108	15,707
Other assets:									
Long term investments	1,778	1,099	1,251	517	1,293	1,118	814	1,065	1,009
Other assets	44	337	272	124	297	258	4	506	395
Total other assets	1,822	1,436	1,523	641	1,590	1,376	818	1,571	1,404
Total assets	21,654	25,551	24,679	30,739	36,050	34,849	60,298	64,539	63,601
Liabilities									
Current liabilities:									
Accounts and notes payable	1,993	2,306	2,238	4,043	4,611	4,492	9,150	12,872	12,048
Fixed liabilities:									
Mortgages on fixed assets used in business	1,828	300	642	1,850	623	900	3,499	1,777	2,159
Mortgages on fixed assets not used in business	482	86	175	284	147	178	—	107	83
Total fixed liabilities	2,310	386	817	2,134	770	1,078	3,499	1,884	2,241
Other liabilities	1,284	391	590	2,188	1,250	1,462	5,984	2,522	3,288
Total liabilities	5,587	3,083	3,643	6,365	6,631	7,022	18,633	17,278	17,577
Net worth: Proprietor's or partners' equity in the business	16,067	22,468	21,036	22,374	29,419	27,827	41,665	47,261	46,024
Total liabilities and net worth	21,654	25,551	24,679	30,739	36,050	34,849	60,298	64,539	63,601
Average net sales of stores reporting	33,055	34,424	34,118	69,219	70,024	69,842	155,491	162,610	161,036

**TABLE 5. Independent General Stores — Rented — Financial Structure by Size and Age of Business
as at December 31, 1958**

Item	Stores with annual net sales of				
	\$20,000 - \$49,999			\$50,000 - \$99,999	\$100,000 and over
	Under 10 years	10 years and over	Total		
average per store (dollars)					
Assets					
Current assets:					
Cash on hand and in bank	2,337	1,430	1,827	2,232	7,746
Accounts and notes receivable (net)	1,935	4,456	3,353	3,007	13,150
Merchandise inventory	13,023	7,607	9,977	14,225	28,510
Other current assets	1,752	1,322	1,510	1,382	10,341
Total current assets	19,047	14,815	16,667	20,846	59,747
Fixed assets (net):					
Used in the business	1,018	3,265	2,282	3,853	9,536
Not used in the business	1,131	1,000	1,057	1,850	200
Total fixed assets (net)	2,149	4,265	3,339	5,703	9,736
Other assets:					
Long term investments	—	420	236	113	24
Other assets	—	167	94	—	19
Total other assets	—	587	330	113	43
Total assets	21,196	19,667	20,336	26,662	69,526
Liabilities					
Current liabilities:					
Accounts and notes payable	1,384	2,286	1,891	2,435	9,507
Fixed liabilities:					
Mortgages on fixed assets used in business	—	122	69	1,267	667
Mortgages on fixed assets not used in business	237	—	103	245	—
Total fixed assets	237	122	172	1,512	667
Other liabilities	800	111	413	727	7,450
Total liabilities	2,421	2,519	2,476	4,674	17,704
Net worth: Proprietor's or partners' equity in the business	18,775	17,148	17,860	21,988	51,822
Total liabilities and net worth	21,196	19,667	20,336	26,662	69,526
Average net sales of stores reporting	33,727	37,851	38,047	65,928	210,831

DEFINITIONS

PROFIT AND LOSS

Items

Net sales — the dollar volume of business done. Allowances and discounts granted to customers and value of goods returned by customers are deducted from gross sales, but sales of meals or lunches provided employees and any goods withdrawn by the proprietor for personal use are included.

Purchases — are taken at invoice value less returns and allowances, cash and trade discounts. Added to the cost of merchandise are the following expenses; duty, inward freight, express and trucking, alterations, etc.

Cost of goods sold — determined by adding the beginning inventory to net purchases and deducting the ending inventory.

Gross profit — the difference between "cost of goods sold" and "net sales".

Operating expenses — all costs incurred in the year's operation of a business, except the cost of merchandise. These include:

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

Delivery — includes salaries paid to delivery men, truck repairs and maintenance, depreciation, licences and insurance on delivery equipment and supplies used in connection with delivery (gas, oil, etc.)

Taxes — business, property and water taxes. Taxes collected for remittance to governmental bodies and income tax are included.

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

Rent — payments for use of business premises.

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

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

Store supplies — wrapping paper, office supplies, etc.

Advertising — displays, window dressing and sales promotion.

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

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

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

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

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

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

Ratios

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

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

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

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

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

BALANCE SHEET

Asset Items

Cash on hand or in bank — the amount of cash in the business at the end of the year.

Net accounts receivable — all customers' notes and accounts owing to the business at the end of the year less any reserve for doubtful accounts.

Merchandise inventory — the cost value of merchandise on hand for resale but does not include store supplies on hand.

Other current assets — includes assets which may be converted into cash, if necessary within a reasonably short time, such as Dominion of Canada Bonds and prepaid insurance.

Fixed assets (net) — the cost value of land, buildings, furniture, fixtures and equipment less any reserves for depreciation. Separate figures are shown for assets used in the business and those not used in the business.

Other assets — investments of a permanent nature not readily converted into cash and intangibles such as goodwill and organization costs.



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Liabilities and Net Worth Items

Current liabilities — obligations which must be paid in the near future (usually one year) and represent accounts payable or any item that may be considered as a direct lien against current assets.

Fixed liabilities — mortgages secured by fixed assets and separated, as are fixed assets, between those used and not used in business.

Other liabilities — long term notes payable, accrued expenses such as taxes due but not yet paid, and prepaid or deferred income.

Net worth — Unincorporated business — the amount invested in the business together with any accumulated profits after proprietor's or partners' withdrawals.

— Incorporated business — net worth is shown in two parts:

- (1) Capital stock, which represents the shareholders' investment of fully paid-up subscribed shares, and
- (2) Surplus, which represents distributable surplus, capital surplus and earned surplus.

Ratios

Current ratio — $\text{Current Assets} \div \text{Current Liabilities}$ — indicates to what extent the business is able to meet its current obligations out of "current assets". Care should be taken to

examine the components of current assets because overstocking of inventories and overinvestment in credit sales (accounts receivable) can result in a stronger or more favourable ratio.

Liquidity ratio — $\text{Current Assets less Merchandise Inventory} \div \text{Current Liabilities}$ — sometimes referred to as the "acid test", is similar to the "current ratio" as a test of current credit strength. A ratio of 100% (or 1) is usually considered favourable.

Working capital to net worth ratio — denotes the relationship between "working capital" (current assets less current liabilities) and a proprietor's equity in the business. That is, the proportion of "net worth" that could be realized readily if liquidation were necessary.

Worth-debt ratio — $\text{Net Worth} \div \text{Total Liabilities}$ — if used in conjunction with the "current ratio", would reflect any weakening of the capital structure of a business through large loans which give a high "current ratio".

Understatement Ratio

Turnover of total capital employed — $\text{Net Sales} \div \text{Total Assets}$ used in the business — provides an indication of the degree of management efficiency. However, this ratio should not be used alone because "profits" and not "sales" are the major criterion of efficiency.