OPERATING RESULTS OF MISCELLANEOUS RETAIL CHAINS 1947

VARIETY CHAINS

DRUG CHAINS

FURNITURE CHAINS

CONTENTS.

FACSIMILE OF THE SCHEDULE.......

CONFIDENTIAL

One copy of this form, properly completed, should be returned on or before ....

DOMINION BUREAU OF STATISTICS — File no. ....

MERCHANDISING AND SERVICES
OTTAWA

OPERATING COSTS - RETAIL CHAINS

1947

The returns from this inquiry will be used in the preparation of a report which will be published for general use of the trade, providing information on average operating results and profits against which the individual firm may compare its own results.

All replies will be treated as strictly confidential. Figures for all firms in the same line of business will be combined and average results only will be shown. Your report will not be used for income tax purposes or divulged to any other government department.

All figures should relate to the calendar year or to your fiscal year conforming most closely to the calendar year. PLEASE answer all questions, inserting 'nil' if the answer is none.

I. DESCRIPTION OF BUSINESS

(1) Name of firm ....

(2) Head office address ....

(3) Kind of business ....
(such as grocery, meats, variety, men's- women's clothing, drugs, etc.)

(4) On the following dates the number of units in operation was:

(a) Jan. 1, 1947 .... (b) June 30, 1947 .... (c) Dec. 31, 1947 ....

(5) We operated in rented premises ☐, owned premises ☐, some rented and some owned ☐.
(check only one square)

The number of owned and rented premises in each type of establishment was:-

	Head office	Warehouse(s)	Stores
Owned	....	....	....
Rented	....	....	....

(6) This report does not include any wholesale business ☐, includes wholesale ☐ to the extent of ....% . (Insert estimated percentage)

(7) This business is a corporation ☐, partnership ☐, individual proprietorship ☐.

II. PROFIT AND LOSS STATEMENT, 1947:

A. MERCHANDISING STATEMENT

(1) Gross sales for the year. Include meals sold or consumed, receipts from repair or other service, goods taken for personal use. Exclude sales tax and non-trading revenues. .... $

(2) Returns from and allowances to customers .... $

(3) NET SALES (item 1 minus 2) .... $

(4) NET INVENTORY OF MERCHANDISE at beginning of year:

In warehouse .... $

In stores .... $ $

(5) Merchandise purchased for resale at invoice value, less returns, allowances, cash and trade discounts .... $

(6) Inward freight, express and truckage .... $

(7) Total of beginning inventory, purchases and freight .... $

(8) NET INVENTORY OF MERCHANDISE at end of year:

In warehouse .... $

In stores .... $ $

(9) COST OF MERCHANDISE SOLD (item 7 minus 8) .... $

(10) GROSS MARGIN OR PROFIT (item 3 minus 9) .... $

12-K(b)-47 (OVER)

B. EXPENSE STATEMENT

	Head office and general	Warehouse	Stores	Total
	$	$	$	$
(1) Payroll - before any deductions				
(a) To executives and proprietors - include managers				
(b) To employees				
(2) Payments by the firm to employee pension funds, unemployment insurance, or other staff benefits such as hospitalization, insurance etc., which are not deducted from payroll.				
(3) Tenancy costs - taxes, insurance, repairs and depreciation on owned real estate and rentals on rented premises				
(4) Taxes - except on real estate and federal income tax; include taxes and licences imposed by provincial and local governments; sales taxes collected directly from the customer are to be excluded entirely from this report.				
(5) Repairs and maintenance to fixtures and equipment, including delivery equipment .				
(6) Depreciation on fixtures and equipment, including delivery equipment				
(7) Supplies - wrapping paper, twine, office supplies, gas and oil for trucks, etc. ..				
(8) Heat, light, and power used during the year .				
(9) Advertising		XXXXXXX		
(10) Travelling expenses		XXXXXXX	XXXXXXX	
(11) Communication - telephone, telegraph, postage				
(12) Loss on bad debts - amount written off less amount recovered		XXXXXXX	XXXXXXX	
(13) All other expenses - interest on loans, bank charges, professional fees, etc.				
(14) TOTAL EXPENSES (total of items 1 to 13 inclusive)				

C. NET GAIN STATEMENT

(1) OPERATING PROFIT OR LOSS (item A(10) minus B(14)) .... $______

(2) Federal income tax, 1947 .... $______

(3) NET GAIN OR LOSS (before dividends or profit sharing) .... $______

III. MISCELLANEOUS INFORMATION

(1) If not incorporated, please state the number of proprietors and their salaries or a fair charge for their services. Number ______ Salaries .... $______

Are these included in item B-1 (a) of section II above? (Yes or No) ______

(2) What was the value of customers' accounts outstanding at the end of the year? Include charge accounts, open accounts, instalment accounts or other receivables. Do not include accounts written off. .... $______

NOTES ON EXPENSE STATEMENT

1. Tenancy - In some instances heat or light may be included in rentals. If this is the case, please indicate in item 8 that these charges are included in item 3.

2. Delivery - Charges for delivery from warehouse to stores should come under warehouse expense whether trucks are owned and operated by the firm or delivery is on a contract basis. Delivery to customers should be reported as store expense.

IN THIS SERIES..........

OPERATING RESULTS OF RETAIL CHAIN STORES (1947)

1. Food chains
2. Clothing chains
3. Miscellaneous chains

OPERATING RESULTS OF INDEPENDENT RETAIL STORES (1944, 1945, 1946)

1. Food stores
2. Clothing stores
3. Country general and dry goods stores
4. Hardware, furniture, household appliances and radio stores
5. Miscellaneous stores
6. Filling stations and garages

OPERATING RESULTS OF WHOLESALERS (1947)

1. Food and tobacco
2. Dry goods, piece goods, footwear
3. Miscellaneous wholesalers

Price 25¢ each.

Merchandising and Services Section
Dominion Bureau of Statistics

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DOMINION BUREAU OF STATISTICS

MERCHANDISING AND SERVICES SECTION

OTTAWA

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Series, 1947
No. 13

16-7072

OPERATING RESULTS OF MISCELLANEOUS RETAIL CHAINS, 1947

Content of the Bulletin

This publication contains the results of a survey on the operations of retail variety, drug, and furniture chains in 1947. Figures contained in it and in the two previous chain store operating results bulletins are the results of the first detailed inquiry made by the Dominion Bureau of Statistics into operating costs of this phase of retailing.

There are two other publications in the 1947 chain store operations series, one outlining ratios for four types of clothing chains - men's, women's, family clothing and shoe chains - the other containing data for food chains - grocery, combination and meat chains.

Purpose of the Survey

The costs of distribution, and the allocation of these costs has become the focus of attention of merchants, the general public and government in recent years. While distribution expenses are by no means confined to middlemen and retailers, the approach to the problem of assessing these costs must be made through these types of business organization. The Bureau has carried on extensive studies into the operating expenses of independent retailers, first for the year 1938, and again for 1944, 1945 and 1946.

As a result of requests from the trade, from individuals and from trade associations, it became apparent that the remaining distributive agencies should be surveyed for operating costs. The result has been studies on the operations of retail chains and wholesalers proper covering the year 1947.

What is Distribution?

The three major channels of distribution -- independent retail firms, chain store firms and wholesalers -- leave untouched much of the field of distribution costs.

The conversion of goods from raw materials to finished products, and the placing of commodities before consumers involves the processes of production and distribution. The distinction between the two terms as made by economics seems quite clear cut. Production involves the addition of physical or form utilities to goods, by means of such acts as processing, fabrication, and transformation. Distribution, on the other hand, involves the addition of time and place utilities to goods, by such means as transportation, storage, merchandising, display, advertising, expenses of carrying stocks (spoilage, shrinkage), losses from bad debts and financing.

It becomes evident from the consideration of this distinction that distribution costs are not limited to the handling of finished consumers' goods, and that a large part of such expense is borne by primary producers and manufacturers during the early stages of fabrication or processing of commodities. The transportation of raw materials, expenses of storage while awaiting processing, financing of inventories, are all distribution costs incurred before the end-product is ready for the ultimate consumer.

While the producer and processor assume some of the costs of distribution, the retailer and wholesaler may take on certain productive functions. Wholesalers may package and repack commodities while certain retailers such as clothiers finish off semi-ready garments or make alterations on finished clothing.

Although the distinction between production and distribution is a useful one, and serves to separate major functions, there are costs which are not clearly one or the other. Some of these difficult to allocate are insurance, financing, taxes, service department costs, and executive salaries. The list is not exhaustive, but where it is impossible to make a clear-cut division of functions, costs are often apportioned on a pro-rata basis, decided upon by the relative expense ratios of more easily allocated functions, such as selling salaries, store occupancy expense, advertising etc.

Distribution costs, therefore, are not limited to middlemen or retailers but are a part of the interlocking distribution-production system which prepares finished goods and places them before the consumer. The practical distinction between distribution and production is made, however, by dividing industry into units which perform chiefly either productive or distributive functions.

Major distributive agencies may be classified as follows:

Wholesalers or the Intermediary Trade

Wholesalers proper
Manufactures' sales branches or
offices
Petroleum bulk tank stations
Agents and Brokers
Assemblers of primary products
Other types of operation

Retailers

Independent Retailers
Independent Consumer Co-operatives
Chains - Voluntary chains
Chains under central
ownership and control
Retail co-operative chains.

Relative importance to total trading of chain organizations is brought out by the table below.

Retail Trade	Percent
Independents	81.1
Chains	18.7
Other types	0.2
	100.0

Source: 1941 Census, **Vol. X, Table 13,** P. 598

A comparison between the three classifications in terms of the relative importance of chain and independent form of organization in 1941 is demonstrated by the following table.

Comparison of Chain Sales to Total Sales, 1941

Kind of Business	1941 Total Sales	1941 Chain Sales	Percentage Chains to Total
	$	$	%
Variety	85,177,000	74,179,100	87.1
Drug	101,027,400	18,849,500	18.7
Furniture	64,057,000	15,484,200	24.2

Source - 1941 Census, Vol. X.

The Schedule

A sample questionnaire was drawn up in the Bureau and despatched to the firms in the various trades surveyed. An accompanying letter requested that the companies make suggestions in order that the form be designed in such a way that it could be filled out with a minimum of effort from existing accounting records. The suggestions received were invaluable in the format of the final form.

A facsimile of this final schedule is presented on page 2 to help clarify meanings of terms used.

Methods

The ten kinds of business in the survey were selected for their importance in the field of retail distribution. As the majority of firms indicated that they could not give results for individual stores, a consolidated report only for each firms was required. When received, some returns could not be used for such reasons as manufacturing activities or outside wholesaling for which expenses could not be separated from retailing costs. Where the number of reports was sufficient, the results were tabulated according to the most suitable sales-size range. In most reports, no clear distinction between head office, warehouse and store expense was made, so that results for these functions are shown separately for only a few kinds of business. The salaries of proprietors of unincorporated firms are included with executive salaries. Income tax tabulation was made only for incorporated firms.

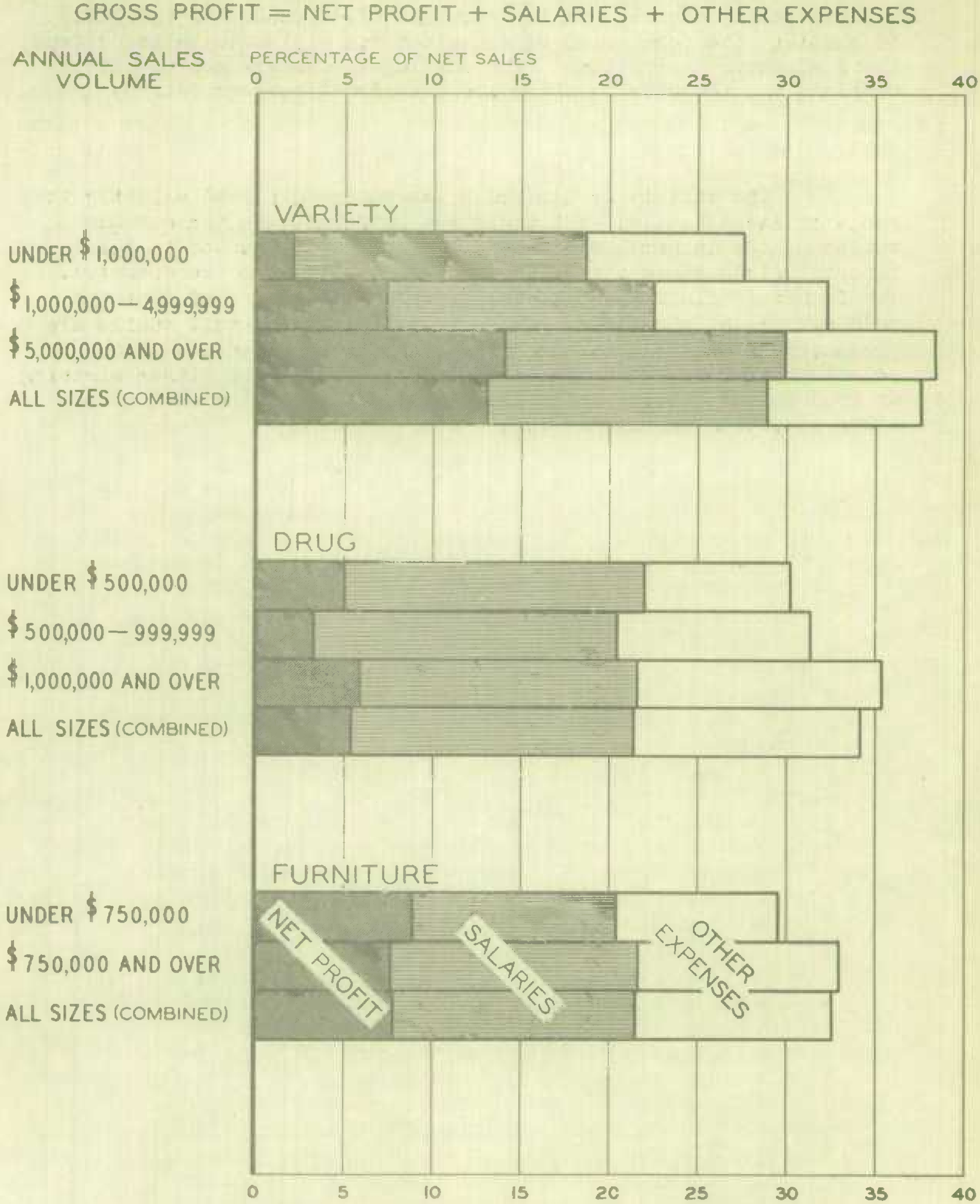
As with all surveys conducted by the Bureau, average results only are shown, and all information submitted by the co-operating firms has been kept in strictest confidence. This study does not replace the regular annual survey of retail chains which takes in all kinds of business and covers such items as: number of stores, net retail sales, salaries, store and warehouse stocks and customers' accounts outstanding.

RESULTS OF THE SURVEY.

All known chain firms in the three trades were canvassed by mail in this survey. A few were excluded because of inability to complete the form or to separate outside wholesale business from their warehouse operations. The coverage, however, was nearly complete and the results shown are considered representative.

The variety or limited price chains differed slightly in range of items handled, but there was uniformity in the expense ratios of the larger businesses. Drug chains presented in this report include those stores in which soda fountains are operated. The furniture classification includes a small amount of clothing sold by some of the firms. These three types of retail chains are presented in one bulletin as "miscellaneous" not because of any relationship between them, but because they were not either clothing or food chains. This is the final publication in the 1947 chain store operating results series.

OPERATING RESULTS OF MISCELLANEOUS RETAIL CHAINS, 1947



NOTE — NET PROFIT IS BEFORE INCOME TAX DEDUCTION.

VARIETY CHAINS.

Reports completed satisfactorily were received from sixteen firms and were used to obtain the results shown. The fifteen incorporated and one unincorporated companies operated 510 retail outlets. For tabulation of results, three sales-size groups were chosen - firms with over $5,000,000 annual net sales, $1,000,000 to $4,999,999 and those whose sales were less than $1,000,000. There were 5 firms in the largest, 5 firms in the middle and 6 firms in the lowest sales-size groups.

Tabulation of income tax and net profit was made for the two largest groups which were comprised entirely of incorporated companies.

1. A striking feature of the individual firms in this kind of business was the similarity of operating expense ratios in all sizes while the gross profit or margin increased consistently with size.

2. Variety store firms obtained the greatest profits of the chain classifications surveyed, averaging 37.67 per cent gross and 13.04 per cent net profit. In 1947 the smallest size chains realized a net profit of only $2.05 out of $100 sales, the middle group $7.35 and the firms with sales over $5,000,000 obtained $14.10 net profit. The trend of gross profit was the same ranging from $27.71 out of $100 in the smallest to $38.65 in the largest sales-size class.

3. More than half the expense dollar was absorbed by salaries and wages, the average ratio being 15.91 per cent of net sales. Head office executive salaries comprised 1.39 per cent and employees' wages the remainder.

4. Stocks held by the largest sized firms averaged 10.50 per cent of net sales at the first of the year and 12.13 per cent at the end. This ratio increased in the smaller chains to 16.83 per cent and 18.62 for the two dates respectively. With year ending inventories greater in dollar volume in all sizes, the rate of stock turnover ranged from 4.1 times per year in the smallest group to 5.4 times in the largest.

Table 1. - OPERATING RESULTS OF VARIETY CHAINS, 1947

By Size of Firm

Item	Under $1,000,000	$1,000,000 to $4,999,999	$5,000,000 and over	Total
Number of firms	6	5	5	16
Number of stores	29	105	376	510
Average sales per chain $	397,857	2,839,993	20,121,931	7,324,797
Average sales per store $	82,315	135,238	267,579	229,797
Average cost of goods sold $	59,506	91,434	164,161	143,237
Average inventory per store				
Beginning of year $	13,855	20,541	28,087	25,724
End of year $	15,323	21,814	32,464	29,296
Stock turnover (times per year)	4.1	4.3	5.4	5.2
	Profit and Loss Data (Items expressed as percentage of net sales)			
Gross margin or profit	27.71	32.39	38.65	37.67
Operating expenses:				
Salaries - executives	2.88	2.34	1.22	1.39
- employees	13.78	12.86	14.76	14.52
Employees' benefits	0.11	0.19	0.61	0.55
Occupancy	3.74	3.79	4.00	3.97
Taxes (1)	0.34	0.42	0.36	0.36
Repairs (1)	0.88	0.68	0.26	0.32
Depreciation (1)	0.40	0.42	0.60	0.57
Supplies	0.47	0.91	0.81	0.82
Heat, light and power	0.84	0.67	0.63	0.63
Advertising	0.05	0.22	0.14	0.15
Travelling expense	0.37	0.29	0.16	0.18
Communication	0.11	0.18	0.10	0.11
Bad debt losses	-	-	-	-
All other expenses	1.69	2.07	0.90	1.06
Total operating expenses	25.66	25.04	24.55	24.63
Operating profit before income taxes	2.05	7.35	14.10	13.04
Income taxes		3.31	6.42	
Net profit		4.04	7.68	

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

DRUG CHAINS.

Twenty-two reports on the operations of retail drug chains were completed satisfactorily and were used in this survey. The 16 incorporated and 6 unincorporated companies operated a total of 282 stores. Tabulation was made for three-size-of-business groups, $1,000,000 and over annual net sales (5 firms) $500,000 to $999,999, (7 firms) and under $500,000 sales (10 firms). A tabulation on income tax and net profit was made for the incorporated firms.

Because individual reports were not available for each store, the results of stores operating soda fountains are included in the one consolidated report received from the respective firms. There were too few reports to permit separate tabulation of drug chains with and without soda fountains. Soda fountain receipts principally affects the ratio of gross profit and salary expense, resulting in a greater ratio in each case.

1. In 1947, gross margin or profit increased with volume of business from 30.22 per cent of net sales in the smallest sized class to 35.54 per cent in the largest. Expenses followed the same upward trend to net operating profits of 4.98 per cent, 3.27 per cent and 5.93 per cent in the largest chains.

2. While head office executive salaries decreased in ratio with increased volume of business it is notable that employees' salaries remained practically unchanged. With more than half the expense dollar absorbed by salaries, executives accounted for $1.45 out of every $100 net sales, employees $14.62, which varied from $14.94 to $14.54 over the three sizes. Occupancy cost was the second largest expense item at 4.69 per cent of net sales.

3. Inventories on hand at the end of the year were greater in dollar volume than at the beginning of the year in all size groups. The average of these two inventories divided into cost of goods sold resulted in an average stock turn rate of 4.0 times per year, ranging between 3.9 and 4.4 times for the three size classes of drug chains.

4. Income tax payments reduced the operating profit of incorporated companies approximately 40 per cent from 5.50 per cent of net sales to 3.25 per cent. The final net gain after this reduction for the three sales classes of drug chains is shown below.

Incorporated Drug Chains, 1947

(Percent of net sales)

Item	Under $500,000	$500,000 to $999,999	$1,000,000 and over	All sizes
Gross profit	30.33	31.38	35.60	34.24
Operating expenses	25.13	28.11	29.41	28.74
Operating profit	5.20	3.27	6.19	5.50
Income tax	2.05	1.35	2.54	2.25
Net profit	3.15	1.92	3.65	3.25

Table 2. - OPERATING RESULTS OF DRUG CHAINS, 1947

By Size of Firm

Item	$100,000 to $499,999	$500,000 to $999,999	$1,000,000 and over	Total
Number of firms	10	7	5	22
Number of stores	53	54	175	282
Average sales per chain ...... $	306,425	631,939	3,596,986	1,157,852
Average sales per store ...... $	57,816	81,918	102,771	90,329
Average cost of goods sold ... $	40,345	56,209	66,248	59,457
Average inventory per store				
Beginning of year .... $	9,804	12,523	16,063	14,209
End of year .... $	10,197	13,047	18,237	15,732
Stock turnover (times per year).	4.0	4.4	3.9	4.0
	Profit and Loss Data (Items expressed as percentage of net sales)			
Gross margin or profit	30.22	31.38	35.54	34.18
Operating expenses:				
Salaries - executives	2.08	2.60	1.06	1.45
- employees	14.94	14.54	14.58	14.62
Employees' benefits	0.19	0.24	0.71	0.57
Occupancy	3.34	4.55	4.95	4.69
Taxes (1)	0.29	0.28	0.67	0.56
Repairs (1)	0.32	0.35	0.56	0.49
Depreciation (1)	0.39	0.68	0.72	0.67
Supplies	0.70	0.46	0.75	0.69
Heat, light and power	0.66	0.74	0.68	0.69
Advertising	0.86	1.12	1.74	1.52
Travelling expense	0.12	0.16	0.22	0.20
Communication	0.28	0.20	0.19	0.20
Bad debt losses	0.01	0.08	0.01	0.03
All other expenses	1.06	2.11	2.77	2.45
Total operating expenses	25.24	28.11	29.61	28.83
Operating profit before income taxes	4.98	3.27	5.93	5.35

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

FURNITURE CHAINS.

Reports suitable for inclusion in this study on operating costs of retail chains were received from ten furniture chains of the incorporated type of organization. These companies operated 58 outlets. Tabulation was made for two size-of-business classes, under $750,000, and $750,000 and over with 4 firms in the first group and 6 in the latter.

1. The larger sized firms obtained a greater gross margin than the smaller class - 33.01 and 29.52 per cent of net sales respectively. This advantage of the larger class was more than balanced by higher expense ratios to net them a lower profit before income tax deduction - 7.67 per cent as compared to 8.92 in the smaller group.

2. For every $100 sales, $13.72 was spent in salaries. This figure represented more than half of the expense dollar. Advertising was the next largest expense item accounting for $3.04 out of every $100 sales with the larger sized class expending proportionately more than twice that expended by the smaller class.

3. Inventories were greater in dollar volume at the end of the year than at the beginning. Based on the average of beginning and year ending stock, the turnover rate was 3.2 times per year, with no appreciable difference between the two size groups.

4. Deduction of income taxes reduced the operating profit of these incorporated companies from 7.83 per cent to 4.76 per cent of net sales.

Table 3. - OPERATING RESULTS OF FURNITURE CHAINS, 1947

By Size of Firm

Item	Under $750,000	$750,000 and over	Total
Number of firms	4	6	10
Number of stores	16	42	58
Average sales per chain $	491,326	2,270,993	1,559,126
Average sales per store $	122,831	324,427	268,815
Average cost of goods sold $	86,566	217,319	181,249
Average inventory per store			
Beginning of year $	23,807	64,959	53,607
End of year $	27,843	74,218	61,425
Stock turnover (times per year)	3.4	3.1	3.2
	Profit and Loss Data (Items expressed as percentage of net sales)		
Gross margin or profit	29.52	33.01	32.57
Operating expenses:			
Salaries and wages	11.52	14.04	13.72
Employees' benefits	0.12	0.14	0.14
Occupancy	2.71	2.25	2.31
Taxes (1)	0.20	0.27	0.25
Repairs (1)	0.19	0.46	0.43
Depreciation (1)	0.21	0.56	0.52
Supplies	0.81	0.95	0.93
Heat, light and power	0.55	0.54	0.54
Advertising	1.19	3.31	3.04
Travelling expense	0.15	0.28	0.27
Communication	0.35	0.34	0.34
Bad debt losses	0.43	0.21	0.24
All other expenses	2.17	1.99	2.01
Total operating expenses	20.60	25.34	24.74
Operating profit before income taxes	8.92	7.67	7.83
Income tax	3.79	2.97	3.07
Net profit	5.13	4.70	4.76

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