DOMINION BUREAU OF SIATISTICS-DEPARTMENT OF TRADE AND COMMERCE

## MAY 281953

# OPERATING RESULTS OF MISCELLANEOUS CHAIN STORES 

1951

VARIETY STORES - DRUG STORES - FURNITURE STORES


## Published by

Authority of the Rt. Hon. C. D. Howe
Minister of Trade and Commerce

Prepared in the Merchandising and Services Secto:1
Industry and Merchandising Division
Dominion Bureau of Statistics
Ottawa

## NOTICE

The annual reports prepared by the Industry and Merchandising Division of the Bureau of Statistics are divided into 4 volumes, as follows: Volume I-The Primary Industries, including mining, forestry and fisheries; Volume II-Manufacturing; Volume III Construction; Volume IV - Merchandising and Services.

Volume IV consists of the following parts with individual trade reports listed under each:

## Part I - Wholesale Statistics

A-Wholesale Trade, 254.
B - Operating Results of Food Wholesalers, $25 \$$.
C-Operating Results of Dry Goods, Piece Goods, and Footwear Wholesalers, $25 \$$.
D-Operating Results of Miscellaneous Wholesalers, (Automotive parts and accessories, drugs, hardware, plumbing and heating equipment), $25 \$$.

## Part II - Retail Statistics

E-General Review, 25ф.
F-Retail Trade, $25 \$$.
G-Retail Chain Stores, 25 .
H - Operating Results of Chain Food Stores, $25 \$$.
1-Operating Results of Chain Clothing Stores, 25 .
J-Operating Results of Miscellaneous Chain Stores (Variety, drug, furniture), $25 \$$.
*K - Operating Results of Retail Food Stores, $25 \$$.

- L - Operating Results of Retail Clothing Stores, $25 \$$.
- M - Operating Results of Retail Hardware, Furniture, Appliance and Radio Stores, $25 \$$.
- N - Operating Results of Filling Stations and Garages, 25 \$.
* O - Operating Results of Miscellaneous Retail Stores, 25 .

P-Retail Consumer Credit, 25 \$.

## Part 11 - Service and Special Fields

Q-Laundries, Cleaners and Dryers, $25 \$$.
R - Motion Picture Theatres, Exhibitors, and Distributors, 25 .
S-Hotels, 25 ¢ .
T-Sales Financling, 25\$.
U -Farm Implement and Equipment Sales, 25 \&
V - New Motor Vehicle Sales and Motor Vehicle Financing 25 .
W-Advertising Agencies (Memorandum) $25 \$$.
The reports are punched to permit of filing in a ring binder.

- Biennial reports - not issued for 1951.


## CONTENTS

Page
INTRODUCTION ..... J- 3
CHART ..... J- 4
REVIEW OF RESULTS AND TABLES:
Variety Stores ..... J- 5
Drug Stores ..... J- 7
Furniture Stores ..... J-10

## OPERATING IRESULTS - LIST OR REPORTS

WHOLESALE TRADE (1947, 1949 and 1951)

1. Food Wholesalers.
2. Dry Goods, Piece Goods and Footwear Wholesalers,
3. Miscellaneous Wholesalers (automotive equipment, drugs, hardware, heating and plumbing supplies).
INDEPENDENT RETAIL STORES (1944, 1945, 1946, 1948 and 1950)
4. Food Stores.
5. Clothing Stores.
6. Hardware, Furniture, Household Appliance and Radio Stores.
7. Filling Stations and Garages.
8. Miscellaneous Stores (country general, restaurants, fuel, drugs, jewellery and tobacco stores).
RETAIL CHAIN STORES (1947, 1949 and 1951)
9. Food Stores.
10. Clothing Stores.
11. Miscellaneous Stores (variety, drugs and furniture).

# OPERATING RESULTS OF MISCELLANEOUS CHAIN STORES 

1951

## VARIETY STORES - DRUG STORES - FURNITURE STORES

## INTRODUCTION

The following explanatory notes describe certain features of the operating results series contained in this report.

## Scope

Chain store firms are those which operate four or more retail outlets. Chain firms of three trades are covered in this bulletin - variety stores, drug stores and furniture stores.

## Content

This bulletin deals with profit and loss statistics. Average gross and net profits and detailed operating expenses are shown for the most suitable salessize classes. There were not enough firms in any of these trades to permit publigiation of regional results. There were no Newfoundland stores in this survey. salaries of proprietors of unincorporated companies have been included with tuxecutive salaries. Income tax tabulation was made for incorporated companies anly.

In this report "occupancy expense" includes taxes, insurance, mortgage interest, repairs and depreciation on owned real estate used in the business, together with rental expense on rented premises. Similarly, "delivery expense" includes salaries, insurance, licenses, repairs, maintenance, gas, oil and depreciation of owned equipment, together with expense of contract delivery.

## Purpose

The primary purpose of the operating costs surveys is to provide averages on the different phases of business operations against which firms in the same trade may make direct comparisons with their own operating results. They also provide useful information to others interested in the cost of distribution of consumer goods.

## Period Covered

This report deals mainly with 1951 operations and is the third biennial publication in a series begun in 1947. Certain summary tables show comparative results for 1949 and 1951. The charts show the gross profit components for 1947. 1949 and 1951 by suitable sales-size classifications for each trade.


## CHAIN VARIETY STORES

The 13 firms from which reports were received, together operated 523 retail outlets in 1951. There was a sufficient number of firms reporting to permit a sales-size breakdown of results. All firms which
reported were incorporated companies. Consequently income tax information is shown for both sales-size categories.

## REVIEW OF 1951 OPERATING RESULTS

## Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items presented in this form, on a unit basis, a standard is established. To this standard the operating results of variety store chains, irrespective of the number of retail outlets, might be compared with a high degree of accuracy.

In 1951. variety store chains obtained a gross profit ratio or margin of 37.79 per cent of average net sales. Average operating expense ratios totalling 27.64\% reduced this figure to a net operating profit ratio of $10.15 \%$. A lower gross profit ratio of
$32.56 \%$ was experienced by the first sales-size category, compared to $38.16 \%$ by the second category. This, together with a higher operating expense ratio of $29.33 \%$ compared to $27.32 \%$ respectively, resulted in the firms of the first category averaging a lower net operating profit ratio of $3.23 \%$ compared to $10.64 \%$. Miscellaneous expense and income netted an increase in each instance, and increased the profit ratio for all firms to $10.59 \%$. Income tax decreased the net profit ratios to $5.08 \%$ for all firms, $1.99 \%$ for the firms of the smallercategory and $5.30 \%$ for the firms of the larger category. These declines represent profit reductions of $52.0 \%, 43.1 \%$ and $52.3 \%$ respectively.

## Inventories and Stuch Iurnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased slightly from $12.40 \%$ at the beginning of the year to $12.96 \%$ at the end of the year. This trend was common to both of the sales-size categories. The rate of stock turnover - average of beginning
and ending inventories divided into cost of goods sold - was 4.90 , a slight decline from the rate ascertained from the 1949 survey results. The stock turnover rates of the two categories increased directly with the sales-size.

TAisLE 1. Operating results of Chain Variety Stores, 1951, by Size of Firm

| Item | Firms with 1951 sales of |  |
| :--- | ---: | ---: | ---: | ---: |

TABLE 1. Operating Results of Chain Variety Stores, 1951, by Size of Firm - Concluded

| Item | Firms with 1951 sales of |  | Total all sizes |
| :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { Under } \\ & \$ 5,000,000 \end{aligned}$ | $\$ 5,000,000$ and over |  |
| Profit and loss data (per cent of net sales) |  |  |  |
| Gross profit | 32 | 38.16 | 37. 79 |
| Operating expenses: |  |  |  |
| Salaries: |  |  |  |
| Executives | 2.29 | 0.68 | 0.79 |
| Other employees | 14.42 | 16.46 | 16.32 |
| Employees' benefits | 0.25 | 0.53 | 0.51 |
| Occupancy | 4.60 | 2.91 | 3.02 |
| Heat, light and power | 0.75 | 0.73 | 0.73 |
| Taxes, licenses | 0.59 | 0.44 | 0.45 |
| Insurance | 0.47 | 0.31 | 0.32 |
| Repairs and maintenance | 0.55 | 0.23 | 0.25 |
| Depreciation | 1.15 | 0.30 | 0.33 |
| Supplies | 1.09 | 1.06 | 1.06 |
| Advertising | 0.66 | 0.24 | 0.27 |
| Travelling | 0.37 | 0. 20 | 0.21 |
| Communication | 0.25 | 0.13 | 0.13 |
| Delivery | 0.14 | - | 0.01 |
| Bad debt loss | - | - | - |
| All other expenses | 1.75 | 2. 80 | 2. 74 |
| Total operating expenses | 29.33 | 27.52 | 27.64 |
| Net operating profit | 3.23 | 10.64 | 10.15 |
| Other income ......... | 0.28 | 0.55 | 0.53 |
| Miscellaneous expense | 0.01 | 0.09 | 0.09 |
| Net profit before income tax deduction | 3.50 | 11.10 | 10.59 |
| Income tax ....... | 1.51 | 5.80 | 5.51 |
| Final net profit | 1.99 | 5.30 | 5.08 |

## Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only 11 firms reported for the 1949 survey, compared to 13 respondents in 1951. The total number of retail outlets as well as average netsales per firm increased correspondingly. Ratios, however, tend to eliminate the lack of comparability arising from variations in the number of responding firms and total retail outlets operated. The ratios of items expressed as percentages of net sales, may be used with a high degree of reliability for a specific year when compared with any one firm's results irrespective of the number of retail outlets.

Since profit and expense ratios are percentages based on net sales, it is difficult to interpret a ratio change from one year to the next without examining
the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in net sales together with changes in operating ratios, it would be advisable to express net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison, That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the: profit or expense item did not increase at as great
a rate as net sales. As an example, if net sales increased $10 \%$ from $\$ 1,000,000$ in 1949 to $\$ 1,100,000$ in 1951, and rent showed a proportionate increase trom $\$ 5,000$ to $\$ 5,500$, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than $10 \%$, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were $3.3 \%$ below the average ascertained from the 1949 survey. Therefore, the slight increase in the gross proflt ratio in 1951 indicates that the average gross profit decreased at a smaller rate than did average net sales. A corresponding increase occurred in the total operating expense ratio which offset the gross profit ratio gain, resulting in a slight decline in the net operating profit ratio from $11.29 \%$ in 1949 to $10.15 \%$ in 1951.

TABLE 2. Main Operating Results Items for 1949 and 1951 Compared
(Items expressed as percentages of net sales)

| Item | $\begin{gathered} 1949 \\ \text { (11 firms) } \end{gathered}$ | $\begin{gathered} 1951 \\ (13 \text { firms }) \end{gathered}$ |
| :---: | :---: | :---: |
|  | $\%$ | $\%$ |
| Gross profit. | 37.52 | 37. 79 |
| Operating expenses: |  |  |
| Salaries | 16.66 | 17.11 |
| Occupancy | 4.06 | 3.02 |
| Supplies | 1.00 | 0.27 |
| All other | 4.51 | 7.24 |
| Total operating expenses | 26.23 | 27.64 |
| Net operating profit | 11.29 | 10.15 |

## CHAIN DRUG STORES

A total of 289 retail outlets were operated by the 22 drug store firms reporting to this survey. Operating profit and expense ratios are presented for three typical sales-size entegories as well as total
all sizes. In addition, main operating ratios, income tax deductions and final net profits are shown for the incornorated companies.

## REVIEW OF 1951 OPERATING RESULTS

## Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items expressed in this form, on a unit basis, a standard is established. To this standard the operating results of chain drug stores, irrespective of the number of retail outlets, might be compared with a high degree of accuracy. In 1951, drug store chains obtained an average gross profit of 33.74 per cent of average net sales. Gross profit ratios for the three sales-size categories increased directly with the sales-size and ranged from $30.90 \%$ to $32.16 \%$ and $34.62 \%$. Similarly, total
operating expenses which averaged $30.53 \%$, ranged from $27.81 \%$ in the first to $29.14 \%$ and $31.34 \%$ in the middle and largest sales-size categories, respective1y. Consequently, the net operating ratios ranged from $3.02 \%$ in the middle sales-size classification to $3.09 \%$ and $3.28 \%$ in the first and largest sales-size groups. The net operating profit ratio for all firms combined was $3.21 \%$. Miscellaneous expense and income netted an increase to each group resulting in a net profit ratio, before income tax deduction, of $4.10 \%$.

## Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, increased slightly from $18.01 \%$ at the beginning of the year, to $18.33 \%$ at the end of the year. This trend was common to the first two sales-size categories, but the largest category showed a slight decline. The rate of stock turnover - average of beginning
and ending inventories divided into cost of goods sold - was 3.65 times per year, a slight decrease from the 1949 rate of 3.81 . The rates for the three categories ranged from 3.49 in the largest to 3.94 and 4.27 in the first and second size groups, respectively.

TABLE 3. Operating Results of Chain brug Stores, 1951 , by size of Firm


## Incorporated Companies

Comparison of the profit and expense ratios of the incorporated firms only, with all firms, indicated that the differences in the ratios were negligible. Net profit before income tax deduction, expressed
as a proportion of the respective net sales, was $4.23 \%$ and $4.10 \%$ for "incorporated firms" and "all firms" respectively. Income tax reduced the incorporated firms' ratio of $4.23 \%$ to $2.19 \%$, a decrease of 48\%.

# rABLE 4. Operating Results of Incorporated Drug Stores, 1951 , by Size of Firm 

(Items expressed as percentages of net sales)

| Item | Firms with 1951 sales of |  |  | Total all sizes |
| :---: | :---: | :---: | :---: | :---: |
|  | Under $\$ 500,000$ | $\begin{gathered} \$ 500,000 \\ \text { to } \\ \$ 999,999 \end{gathered}$ | $\$ 1,000,000$ and over |  |
|  | $\%$ | \% | \% | \% |
| Gross profit | 29.76 | 32. 16 | 35.13 | 34.17 |
| Total operating expenses | 27.05 | 29.14 | 31.68 | 30.85 |
| Net operating profit ............................................... | 2.71 | 3.02 | 3.45 | 3.32 |
| Other income........................................................ | 0.53 | 0.62 | 1.11 | 0.98 |
| Miscellaneous expense ........................................ | 0.24 | 0.22 | 0.01 | 0.07 |
| Net profit before income tax deduction.................... | 3.00 | 3.42 | 4.55 | 4.23 |
| Income tax | 1. 10 | 1.54 | 2. 26 | 2.04 |
| Final net profit..................................................... | 1. 90 | 1.88 | 2. 29 | 2.19 |

## Comparison of 1949 and 1951 Operating Results

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only 20 firms reported for the 1949 survey, compared to 22 respondents in 1951. Despite the additional firms and the subsequent additional retail outlets included in the 1951 tabulations, the average net sales per firm showed a slight decrease. Ratios, however, tend to eliminate the lack of comparability arising from variations in the number of responding firms and total retail outlets operated. The ratios of items expressed as percentages of net sales, may be used with a high degree of reliability, for a specific year, when compared with any one firm's results irrespective of the number of retail outlets.

Since profit and expense ratios are percentages based on net sales, it is difficult to interpret a ratio change from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical ligure (as such) to use for year to year comparative purposes, due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in net sales together with changes in operating ratios, it would be advisable to express net sales as an average per retail outlet. Ratios are practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the profit or expense item did not increase at as great a rate as net sales. As an example, if net sales increased $10 \%$ from $\$ 1,000,000$ in 1949 to $\$ 1,100,000$ in 2951, and rent showed a proportionate increase from
$\$ 5,000$ to $\$ 5,500$, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than $10 \%$, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 were four per cent greater than the average ascertained from the 1949 survey. Therefore the slight increase in the 1951 gross profit ratio indicates that the average gross profit increased at a greater rate than did average net sales. A smaller increase occurred in the total operating expense ratio, resulting in a slight gain in the net operating profit ratio from $2.99 \%$ in 1949 to $3.21 \%$ in 1951.

TABLE 5. Main Operating Hesults Items for 1949 and 1951 Compared
(Items expressed as percentages of net sales)

| Item | $\begin{gathered} 1949 \\ (20 \text { firms }) \end{gathered}$ | $\begin{gathered} 1951 \\ (22 \text { firms }) \end{gathered}$ |
| :---: | :---: | :---: |
|  | \% | \% |
| Gross profit | 33.27 | 33. 74 |
| Dperating expenses: |  |  |
| Salaries | 17.33 | 18.03 |
| Occupancy | 4.62 | 4.27 |
| Advertising | 1.65 | 1.13 |
| All other .......................................... | 6.68 | 7.10 |
| Total operating expenses ............. | 30.28 | 30. 53 |
| Net operating profit | 2.99 | 3.21 |

## CHAIN FURNITURE STORES

The 13 firms, from which reports were received, together operated a total of 69 retail outlets in 1951. A sufficient number of the reporting firms was in-
corporated which permitted the presentation of income tax information by sales-size classification.

## REVIEW OF 1951 OPERATING RESULTS

## Profit and Expense Ratios

Profit and expense ratios represent portions of the average net sales' dollar. With profits and detailed expense items expressed in this form, on a unit basis, a standard is established. To this standard the operating results of furniture store chains, irrespective of the number of retail outlets. might be compared with a high degree of reliability.

In 1951, furniture store chains obtained an average gross profit of 30.68 per cent of average net sales. The ratios of the smaller and larger sales-
size categories were slightly below and slightly above the average, respectively. Operating expense ratios, totalling $27.22 \%$, reduced the average gross profit to a net operating profit ratio of $3.46 \%$ for all firms combined. Firms in the smaller sales-size group experienced a greater than average total operating expense ratio and netted an operating loss of $0.47 \%$. Firms in the larger sales-size category, however, netted an operating profit of $4.46 \%$. In both instances other income and expense increased the profit ratios to $1.86 \%$ and $\mathbf{5 . 1 9 \%}$ respectively.

## Inventories and Stock Turnover

Average inventories, expressed as percentages of average net sales of all responding firms, decreased from $23.09 \%$ at the beginning of the year, to $21.84 \%$ at the end of the year. Although this trend was common to the firms of the larger salessize category, the ratios of the first category showed
an increase from $23.27 \%$ to $28.56 \%$. The rate of stock turnover - the average of beginning and ending inventories divided into cost of goods sold - was 3.09 for all firms. The rate increased directly with sales-size from 2.68 to 3.21 for the two respective categories.

TABLE 6. Operating Results of Chain Furniture Stores, 1951, by size of Firm

| Item | firms with 1951 sales of |  | $\begin{aligned} & \text { Total } \\ & \text { all } \\ & \text { sizes } \end{aligned}$ |
| :---: | :---: | :---: | :---: |
|  |  |  |  |
|  | $\begin{aligned} & \text { Under } \\ & \$ 750,000 \end{aligned}$ | $\$ 750,000$ and over |  |
| Number of firms | 7 | 6 | 13 |
| Number of stores operated | 29 | 41 | 69 |
| Average net sales per firm............................................................... \$ | 389,063 | 1,767,496 | 1,025,266 |
| Average cost of goods sold ........................................................... $\$$ | 270,414 | 1,224, 411 | 710.722 |
| Average inventory per firm: |  |  |  |
| Beginuing of year | 90,539 | 407, 262 | 236, 720 |
| Per cent of average net sales......................................................... | 23.27 | 23.04 | 23.09 |
| End of year | 111,102 | 355,454 | 223,850 |
| Per cent of average net sales | 28.56 | 20.11 | 21.84 |
| Stock turnover (times per year) | 2. 68 | 3.21 | 3.09 |
| Profit and loss data (per cent of net sales) |  |  |  |
| Gross profit | 30.50 | 30. 73 | 30.68 |
| Operating expenses: |  |  |  |
| Salaries: |  |  |  |
| executives | 2. 46 | 1.69 | 1. 55 |
| other employees | 11.82 | 10.49 | 10.77 |

TABLE 6. Operating Results of Chain Furniture Stores, 1951, by Size of Firm - Concluded

| Item | Firms with 1951 sales of |  | $\begin{aligned} & \text { Total } \\ & \text { all } \\ & \text { sizes } \end{aligned}$ |
| :---: | :---: | :---: | :---: |
|  | Under $\$ 750,000$ | $\begin{aligned} & \$ 750,000 \\ & \text { and over } \end{aligned}$ |  |
| Employees' benefits | 0.09 | 0.21 | 0.19 |
| Dccupancy .............. | 4.50 | 3.11 | 3.39 |
| Heat, light and power | 1.03 | 0.64 | 0.72 |
| Taxes, licenses ........ | 0.29 | 0.22 | 0. 23 |
| Insurance .......... | 0.24 | 0.36 | 0.33 |
| Repairs and maintenance | 0.46 | 0. 23 | 0.27 0.43 |
| Sepreciation | 0.51 | 0.49 0.28 | 0.43 0.33 |
| Advertising | 2. 52 | 3.40 | 3.22 |
| Travelling | 0. 30 | 0.17 | 0.20 |
| communication | 0. 37 | 0. 21 | 0.24 |
| Delivery | 1. 75 | 2. 15 | 2.07 |
| 3 Bat debt loss ........ | 2.63 1.78 | 0.29 2.33 | 0.76 2.22 |
| rotal operating expenses | 30.97 | 26.27 | 27.22 |
|  |  |  |  |
| Net operating prorit Other income: | 0.471 | 4.46 | 3.46 |
| Discounts earned | 0.12 | 0.07 | 0.08 |
| Interest earned | 0.29 | 0.21 | 0.22 |
| Financing charges | 0.46 | 0.46 | 0.46 |
| Bad debts recovered | 0,03 | 0.07 | 0.06 |
| Other | 1.48 | 0.08 | 0.37 |
| Total other income | 2.38 | 0.89 | 1.19 |
| Miscellaneous expense | 0.05 | 0.16 | 0.14 |
| Net profit before income tax deduction | 1.86 | 5.19 | 4.51 |

1. Operating loss.

## Incorporated Companies

All of the reporting firms classified to the larger sales-size category and most of the smaller firms were incorporated. Therefore, there is no significant difference between the operating ratios of the "all firms" and "incorporated companies" classifications as shown in this section. Net profit before income
tax deduction, expressed as a proportion of the respective net sales, was $4.51 \%$ and $4.66 \%$ for "all firms" and "incorporated firms" respectively. Income tax reduced the incorporated firms' net profit ratio of $4.66 \%$ to $2.45 \%$, a decrease of $47.4 \%$.

TABLE 7. Operating Results of Incorporated Furniture Stores, 1951 , by Size of Firm
(Items expressed as percentages of net sales)

| Item | Firms with 1951 sales of |  | Total all sizes |
| :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { Under } \\ & \$ 750,000 \end{aligned}$ | $\$ 750,000$ <br> and over |  |
|  | \% | \% | \% |
| Gross profit | 30.27 | 30.73 | 30. 64 |
| Operating expenses | 30.48 | 26.27 |  |
| Net operating profit | $0.21{ }^{1}$ | 4.46 | 3. 58 |
| Other income .......... | 2.62 | 0.89 | 1. 22 |
| Misce llaneous expense | 0.01 | 0.16 | 0.14 |
| Net profit before income tax deduction | 2.40 | 5.19 | 4.66 |
| lucome tax | 0.70 | 2.56 | 2. 21 |
| Final met profit. | 1.70 | 2. 63 | 2.45 |

i. Operating loss.

The principal operating ratios of the 1949 and 1951 surveys are summarized in the following table for the purpose of comparison. Only 10 firms reported for the 1949 survey, compared to 13 respondents in 1951. The increase in the number of responding firms occurred in the smaller sales-size category, which would have a depressing effect on the 1951 figures with respect to absolute values. Despite the increase in the number of responding firms, there was a decrease inthe average number or retail outlets operated and a subsequent decrease in average sales perretail outlet. Although this condition could have occurred because the additional firms were classifled to the smaller category, the identical situation occurred in the larger sales-size category. Ratios, however, tend to eliminate the lack of comparability arising from variations in the number of responding firms and total retail outlets operated. Ratios may be used with a high degree of reliability for direct comparison purposes with the results of any one firm, irrespective of the number of retall outlets.

Profit and expense ratios are expressed as per centages of average net sales and it is therefore difficult to interpret the ratio changes from one year to the next without examining the changes in net sales. Because the average net sales figure is an average per firm, it is an impractical figure (as such) to use for year to year comparative purposes due to the distortion by the variation in the number of retail outlets. Therefore, in order to examine the change in
average net sales together with changes in operating ratios, it would be advisable to express average net sales as an average per retail outlet. Ratios art practically unaffected by this condition, therefore sales and operating ratios have a common basis which permits direct comparison. That is, because a profit or expense ratio decreases from one year to the next, it does not necessarily mean that the profit or expense has decreased. However, because the ratios are percentages of the respective net sales, a decrease does mean that the prof it or expense item did not increase at as great a rate as net sales. As an example, if net sales increased $10 \%$ from $\$ 1,000,000$ in 1949 to $\$ 1,100,000$ in 1951, and rent showed a proportionate increase from $\$ 5,000$ to $\$ 5,500$, the rent expense ratio would be identical for both years. However, if rent remained unchanged, or increased less than $10 \%$, the rent expense ratio would show a decrease. It is therefore necessary to note changes in net sales in order to interpret a change in ratios between two years correctly.

Average net sales per retail outlet in 1951 showed a decline from the 1949 figure. Therefore, the decrease in the 1951 gross profit ratio indicates that the average gross profit decreased at a greater rate than did average net sales. Conversely, total operating expenses declined less than net sales. which resulted in a narrowing of the 1949 to 1951 profit ratio differential.

TABLE 8. Main Operating Results fiems for 1949 and 1951 Compared
(Items expressed as percentages of net sales)

| Item | $\begin{gathered} 1949 \\ (10 \text { firms }) \end{gathered}$ | $\begin{gathered} 1951 \\ (13 \mathrm{firms}) \end{gathered}$ |
| :---: | :---: | :---: |
|  | $\bigcirc$ | $\%$ |
| Gross profit | 35. 11 | 30.68 |
| Operating expenses: |  |  |
| Salaries | 12.11 | 12.62 |
| Occupancy | 4.79 | 3.39 |
| Advertising | 4.69 | 3.22 |
| All other | 9.49 | 7.99 |
| Total operating expenses | 31.08 | 27.22 |
| Net operating profit | 4.03 | 3.45 |

