

**EXPENSES AND PROFITS OF
LIMITED PRICE VARIETY STORES
IN 1944**

CHAINS AND INDEPENDENTS

**BY
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DIGEST

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This report, by giving 1944 data for limited price variety chain stores, brings up to date a series of figures which has been prepared for 14 consecutive years. In addition to data for chains, for the second time figures for independent variety stores are also provided.

As in the past the study includes many tabulations of sales, margins, expenses, earnings, and supplementary data. While these detailed data are of special interest to retail executives who wish to compare the experience of their company with the average performance in the trade, the study also includes many generally interesting and useful facts about limited price variety stores.

Some of the highlights of the report, which was written by Elizabeth A. Burnham, Assistant Professor of Business Administration, are summarized below.

Chain Stores

In the face of increasing scarcities of many types of merchandise, the 37 reporting variety chains expanded their sales in 1944 by approximately 6% over 1943. The total volume realized in 1944 by those firms in their 5,279 stores was \$1.4 billion, or more than 85% of the estimated total variety chain sales in the United States.

The 6% sales growth compares with a 7.4% rise in total consumer expenditures and a 10% to 12% increase in department store sales. The evidence suggests that the somewhat more moderate sales growth in the variety field resulted partly from a "trading up" among the customers and partly from scarcities of low-end merchandise. For instance, sales of apparel, in relation to total sales, were less important than in 1943, while substantially better volume was attained in such lines as ready-to-wear accessories, stationery, games, books, and toys.

The change in sales emphasis to merchandise characteristically carrying high markons, and lowered shortages and markdowns, produced higher gross margin percentages in 1944 than in prior years. At the same time total dollar expense did not increase to the same degree as volume rose, and hence percentage costs declined. As a consequence total expense including interest averaged somewhat less than 28% of sales, and

net earnings after sundry income and deductions amounted to approximately 11.5% of sales.

A large share, roughly two-thirds, of these earnings was paid out in state and federal taxes on income and excess profits, leaving 3.8% of sales as net earnings to cover dividend and surplus requirements. The comparable figure in 1943 was 3.92%. The earnings after taxes amounted to 9.83% of net worth, a figure practically identical with the 9.8% reported by the National City Bank of New York for 1,327 leading manufacturing corporations in 1944.

Average dollar inventories per store were about 15% lower at the end of 1944 than at the end of 1943. Declining stocks were a characteristic of the late summer and autumn months in 1944, and, in general, chains faced the heavy seasonal demands of December with inventories sufficient for about 45 days. The annual reports of several leading chains disclosed that the companies as a matter of policy were purchasing with caution substitute merchandise which might fail to sell as better civilian merchandise became available.

There was little net change in the number of stores operated between 1943 and 1944, and for the most part the operations were carried out in the same locations as in the earlier year. New information assembled on tenancy arrangements indicates that for 25 reporting chains, operating 4,897 stores, 10.0% of the store property was entirely owned by the chains while in more than 88% of the cases the stores were leased, usually from outside landlords. More than half the leases involved flat rental payments or flat rentals plus taxes or plus taxes and insurance. Many chains, however, particularly the large organizations, had percentage leases or modified percentage leases in some of their stores. Tenancy cost payments which always constitute an important part of the total operating costs of variety chains, in 1944 averaged for all reporting chains 6.73% of sales or almost one-fourth of the total operating expense including interest. It was exceeded only by payroll which amounted to 14.89% of net sales and by taxes on income and excess profits (not included in operating expense) which amounted to 7.65% of sales.

The medium-size chains tended to obtain greater sales increases from 1943 to 1944 than did the large chains. This situation quite possibly reflected differences in demand in various regions. The results of the national chains may have been influenced, for instance, by the relatively less favorable markets in the New England and Middle Atlantic areas where many of their stores are located.

The study reveals some interesting contrasts between large and small chains. New data available for the first time in this report disclose that payments to executives in dollars averaged \$35,000 per executive in chains

with sales of more than \$25,000,000, while in firms with sales of \$2,000,000 to \$25,000,000 the corresponding figure was \$15,000. The large chains, however, by virtue of their substantially greater sales, incurred lower percentage expenditure for administrative and general accounts than did the medium-size chains in 1944. The advantage of large volume appeared chiefly in the payroll item. Despite the fact that executive payments in dollars averaged higher, the additional volume secured was sufficient to result in total percentage payments to executives of about one-third the size of the corresponding costs for moderate-size chains.

Independent Stores

The averages based on figures for 43 reporting independent variety stores shed light on the ability of independent management to capitalize on favorable business conditions. In these stores, primarily operated by partnerships or proprietorships, sales typically increased more than 18% from 1943 to 1944. The average sales per store in the latter year was \$56,495. About one-third of the sales was realized as gross margin, and final earnings before income taxes averaged more than 11.5% of net sales and between one-fourth and one-third of net worth.

About three-fourths of the reporting independents were members of voluntary chains. Examination of the data for all the firms disclosed little significant variation between the results for members of voluntary chains, on the one hand, and the results for firms without such affiliations, on the other hand.

For 35 independent firms providing detailed balance sheets, net worth including real estate equity typically amounted, at the beginning of the year, to somewhat more than one-quarter of net sales for the year. Earnings during the year increased the proportion to more than one-third. Commonly a firm with annual sales of about \$35,000 began the year with an investment other than in real estate of about \$10,000, while a firm with sales of roughly \$85,000 began the year with an investment of \$25,000.

Reporting independent firms increased their inventory investment between the end of 1943 and the end of 1944, a situation contrary to that found for the variety chains.

Soldiers Field
Boston 63, Massachusetts
September, 1945

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HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
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FOREWORD

In the years of postwar adjustment ahead, the retail industries have a very vital part to play. If a high rate of employment is to be maintained in this country, the retail industries must distribute far greater quantities of merchandise than they have ever sold before. Competition will be keen, and high standards of efficiency in operation will be required. Under these circumstances a knowledge of past trends of expenses and standards for current comparison should be especially helpful.

In this bulletin are reported analyses of sales, margins, expense, and earnings data for limited price variety chains and independent variety stores in North America. This is the fourteenth consecutive year in which our research organization has analyzed the chain store data and the second year in which data on independent variety stores have been included. Thus these studies provide not only a statement of current results for purposes of comparison, but the studies also are building up a record of operations during a period of drastic change.

It has been possible to carry on this research only because of the interest and cooperation of the members of the Limited Price Variety Stores Association. The association also has provided funds essential for defraying the cost of the research. For this interest, cooperation, and support we are sincerely grateful.

The author of this bulletin, Professor Elizabeth A. Burnham, who has long been in charge of the cost research program of the Bureau of Business Research, also supervised the accounting phases of the work. For any conclusions and opinions expressed herein she assumes complete responsibility.

MELVIN T. COPELAND
Director of Research

BOSTON, MASSACHUSETTS
September, 1945

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Chart 1. Limited Price Variety Chain Expenses and Profits: 1944
(with 1943 percentages for comparison)

Items	1944		1943 ¹
	Aggregate Dollar Figures (in thousands) for 37 Chains Operating 5,279 Stores	1944 Net Sales = 100%	1943 Net Sales = 100%
<i>The chief source of revenue for these chains, of course, was</i>			
Net Sales	\$1,354,213	100.00%	100.00%
<i>A primary charge against this revenue, and the largest single expenditure, was represented by</i>			
Net Cost of Merchandise Sold	\$854,733	63.12%	63.68%
Which included the cost of merchandise purchased for resale delivered at the stores, less trade and cash discounts, plus or minus the amounts taken from, or added to, inventories during the year.			
<i>Other costs which had to be met were those for operating the chains, as follows:</i>			
Salaries and Wages	\$201,644	14.89%	15.00%
Comprising salaries, wages, and bonuses of all employees including executives, but excluding pensions and payroll taxes:			
Tenancy Costs	\$91,092	6.73%	7.09%
Including rentals, taxes, and insurance paid on leased real estate; taxes, insurance, depreciation, repairs, and interest on owned real estate; and heat;			
Light, Water, and Power	\$9,751	0.72%	0.76%
Depreciation on Fixtures and Equipment	\$7,934	0.59%	0.63%
Supplies	\$9,287	0.68%	0.77%
Taxes	\$12,586	0.93%	1.04%
Not including taxes on real estate, or on income, but comprising other taxes imposed by national, state, and local governments;			
All Other Expense (including interest)	\$44,506	3.28%	3.31%
The charge for interest included interest paid on borrowed capital and, in addition, an imputed charge for interest at the rate of 6% on net worth except real estate, leaseholds, and goodwill. Interest at 6% on the real estate equity and mortgage interest were included in Tenancy Costs. Interest received was credited to the Interest account.			
<i>Thus, for merchandise and chain operation combined, these firms experienced a</i>			
Total Cost of	\$1,231,533	90.94%	92.28%
<i>After meeting these costs, there remained a</i>			
Net Profit of	\$122,680	9.06%	7.72%
Which constituted the net profit from merchandising operations.			
<i>The chains, however, received</i>			
Sundry or Other Revenue, Net	\$32,835	2.42%	2.43%
Including any profit or loss on real estate operations; the amount charged in expense for interest on net worth; dividends from manufacturing or foreign subsidiaries; and other miscellaneous revenue.			
<i>And, therefore,</i>			
Total Net Business Profit Amounted to	\$155,515	11.48%	10.15%
This was the earnings of these firms before income taxes.			
<i>Taxes on income and excess profits, after credits for debt retirement and postwar refunds, amounted to²</i>	.....	7.65%	6.20%
<i>Thus leaving available for dividends, withdrawals, and surplus²</i>	.....	3.80%	3.92%

¹ Data for 1943 are based on aggregate dollar figures for 43 chains with net sales of \$1,284,635,933 and operating 5,291 stores.

² Income and excess profits tax data were reported by 29 and 30 chains, respectively, in 1944 and 1943. The total sales of these chains represented approximately 90% of the volume reported in each year by all reporting firms. Since the averages for taxes on income and excess profits and net gain after such taxes are based on a smaller number of reports and slightly lower dollar sales than the other data in the chart, the figures will not necessarily add exactly to net gain before taxes.

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SECTION I

GENERAL SUMMARY

Variety Chains

1. In the face of increasing scarcities of many types of merchandise, 37 reporting variety chains increased their sales by approximately 6% in 1944 as compared with 1943. Since changes in the number of stores were negligible, there was a corresponding increase in the average sales per store.

2. The rate of gross margin for all reporting stores averaged 36.88% of sales, a rise from the 1943 figure of 36.32% for 43 chains. The upward movement probably reflected proportionately lower sales in lines of merchandise characteristically carrying low markons and relatively greater sales in lines of merchandise carrying high markons. Fragmentary data also suggest that combined shortages and markdowns were lower in 1944 than in 1943.

3. Rising sales were accompanied by substantially smaller increases in dollar costs; as a result, percentage costs for all items in Chart 1 were lower in 1944 than in 1943.

4. Average earnings before taxes amounted to almost \$30,000 per store for 37 reporting chains, or 11.48% of sales and 29.88% of net worth. Federal taxes on income and excess profits, and state taxes on income, took roughly two-thirds of these gains, leaving final earnings of 3.8% of sales to cover dividend and surplus requirements. This result compared with a figure of 3.92% for 1943.

5. Average dollar inventories per store were about 15% lower at the end of 1944 than at the end of 1943. Declining stocks were a characteristic of the late summer and autumn months. In general, chains as of December 1, had sufficient inventories for about 45 days.

Independent Variety Stores¹

1. Profit and loss statements for 1944 were submitted by 43 independent variety store operators having a combined volume of \$2,542,283, or \$56,495 per store. These firms realized gross margins of more than 33% of sales on the average and earned 11.59% of net sales, or 27.49% of net worth prior to income tax payments. Since all except one firm were organized as proprietorships or partnerships, data on income taxes were not readily available.

2. Reporting independent stores increased their inventory investment between the end of 1943 and the end of 1944, a situation contrary to that found for variety chains.

3. Among the firms, those with sales per store in excess of \$50,000 had higher percentage margins and lower percentage operating expense than those with smaller stores.

4. For 35 firms providing detailed balance sheets, net worth excluding real estate equity typically amounted, at the beginning of the year, to somewhat more than one-quarter of net sales for the year. Earnings during the year increased the proportion to more than one-third. Typically a firm with annual sales of about \$35,000 began the year with an investment other than in real estate of about \$10,000, while a firm with sales of roughly \$85,000 began the year with an investment of \$25,000.

5. About three-fourths of the reporting independents were members of voluntary chains. The results for the firms with such affiliations showed little significant variation from those typical for firms which were not members of voluntary chains.

¹The average figures for reporting independent variety stores may not be representative of all such stores in the country. The

evidence suggests instead that the figures indicate the experience of competent management in favorable circumstances.

SECTION II

LONG-TERM TRENDS IN VARIETY CHAIN OPERATING RESULTS

1944 Sales 6% Above 1943 Levels

Despite shortages of many types of civilian goods in the year 1944, total consumer expenditures increased from 90.9 billions of dollars in 1943 to 97.6 billions in 1944¹, a rise of 7.4%. At the same time, the total volume of retail trade as a whole increased 8.8% according to the Department of Commerce²; but there were pronounced variations in the degree of change for various segments of the retail field. Large variety chains, as shown by published annual statements for individual companies and by data made available to the Bureau, increased their aggregate sales by about 6% from 1943 to 1944. As is indicated in Chart 2, the augmented volume was achieved without any noticeable change in the number of stores, and hence sales per store likewise increased by about

6%. This rise brought the average sales per store to the highest level in any of the 21 years, 1924 through 1944. The 6% growth, however, was less than that of 10% to 12% typical for department stores throughout the nation.³ Again, as was the case in 1943, as compared with 1942, the independent department store volume rise surpassed that of the variety chains.

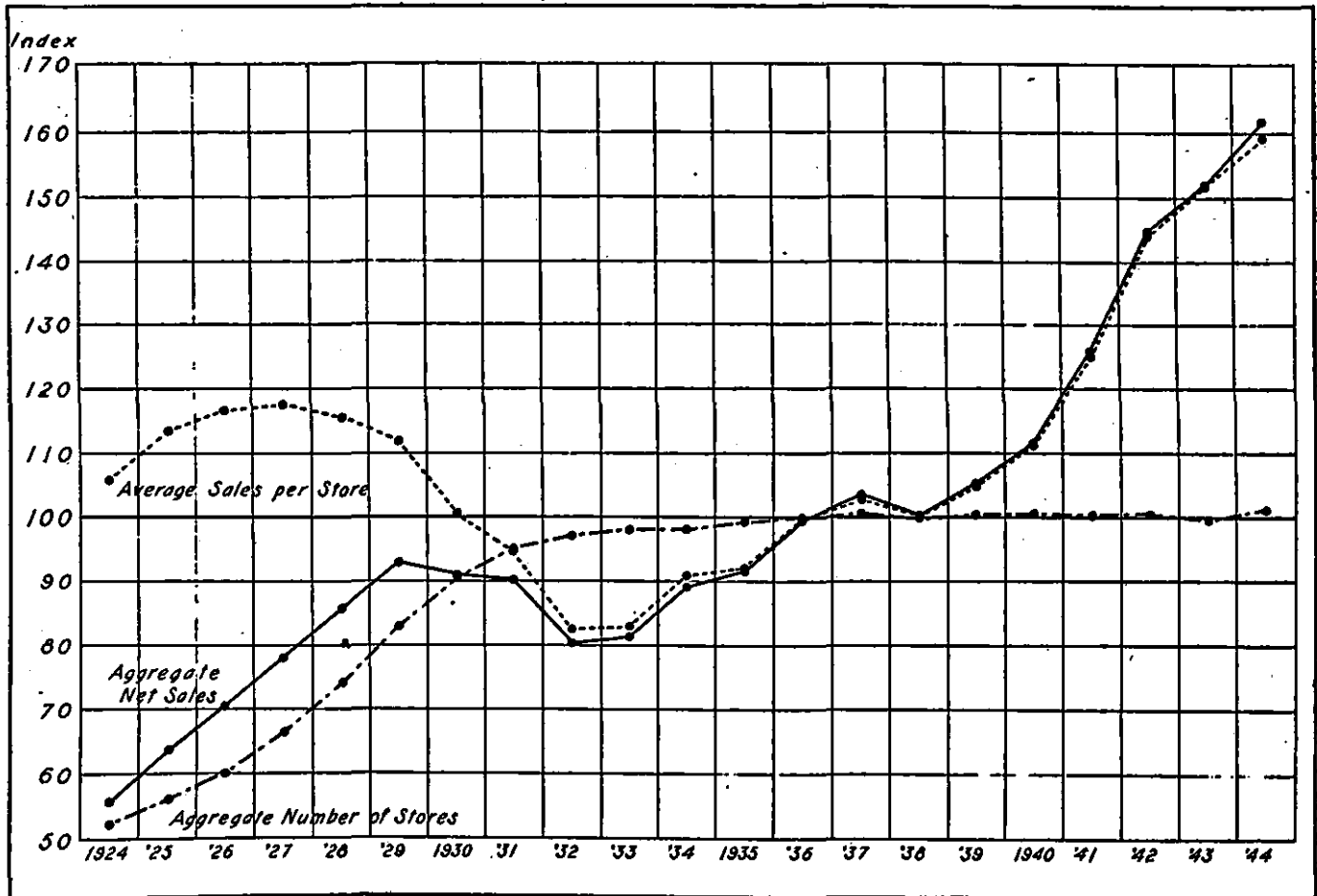
This situation to some degree reflected "trading up" of individuals with increased incomes (income payments to individuals rose¹ by more than 20%

³In 1944 the 372 department store companies reporting to the Bureau increased their net sales by 12.3% over 1943 sales (Harvard Business School, Bureau of Business Research, Bulletin No. 122, *Operating Results of Department and Specialty Stores in 1944*, by Malcolm P. McNair, page 3). The Federal Reserve Index climbed 11% (as revealed by statistics published currently in the *Survey of Current Business*, page S-8, and in the December, 1944, issue, page 17) and the Department of Commerce figures for department stores including mail-order houses showed a 10% rise. (This last result was based on data obtained directly from the Bureau of Foreign and Domestic Commerce.)

¹U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, February, 1945, page 5.

²*Ibid*, page 22.

Chart 2. Summary Statistics for 7 Variety Chains: 1924-1944
(Average for 1935-1939 = 100)



NOTE: The data included in this summary are based on figures for the seven chains for which published data were available for the years prior to 1929. The identity of the firms differs somewhat from that of the seven chains for which statistics are given in Tables 5 and 6, pages 8 and 9.

Table 1. Sales by Merchandise Lines for 10 Identical Variety Chains: 1933-1944

Items	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Aggregate Dollar Sales (in thousands):												
Apparel and Accessories	\$86,433	\$97,128	\$99,831	\$111,979	\$112,709	\$106,741	\$113,049	\$119,630	\$139,568	\$178,434	\$193,866	\$211,283
Dry Goods, Notions, and Domestics	50,165	62,257	63,690	69,744	72,334	68,396	70,203	63,878†	74,451†	92,835†	101,606†	111,484†
Hardware, Electrical Supplies, Crockery, Glassware, and Other Home Furnishings	47,332	54,809	57,598	62,157	60,790	57,494	59,809	73,237†	83,281†	91,001†	82,105†	79,753†
Confectionery and Nuts	21,844	24,202	25,738	27,186	27,618	27,016	27,310	28,874	30,879	36,825	45,576	48,952
Drugs and Toiletries	24,157	27,835	28,298	30,766	31,920	31,382	33,173	33,940	37,554	41,314	44,092	46,888
Toys, Games, Books, and Stationery	32,809	35,746	37,521	41,635	43,622	43,200	46,584	48,720	56,207	68,002	77,202	91,918
Soda Fountains, Luncheonettes, and Restaurants	18,493	20,321	21,876	24,217	25,618	24,888	26,022	24,015	28,332	32,873	35,837	35,798
Jewelry	6,458	7,036	6,887	7,138	7,465	7,508	7,971	8,431	10,295	11,357	11,450	12,321
Other (including groceries)	19,760	15,610	16,660	17,757	23,092	23,466	25,693	34,559†	38,128†	46,933†	43,888†	33,944†
Total	\$307,451	\$344,944	\$358,099	\$392,579	\$405,168	\$390,091	\$409,814	\$435,284	\$498,695	\$599,574	\$635,622	\$672,341
Index of Change in Aggregate Dollar Sales:												
Apparel and Accessories	100.00	112.37	115.50	129.56	130.40	123.50	130.79	138.41	161.48	206.44	224.30	244.45
Dry Goods, Notions, and Domestics	100.00	124.10	126.96	139.03	144.19	136.34	139.94	....	....	....	....	....
Hardware, Electrical Supplies, Crockery, Glassware, and Other Home Furnishings	100.00	115.80	121.69	131.32	128.43	121.47	126.36	....	....	....	....	....
Confectionery and Nuts	100.00	110.79	117.83	124.45	126.43	123.68	125.02	132.18	141.36	168.58	208.64	224.10
Drugs and Toiletries	100.00	115.23	117.14	127.36	132.14	129.91	137.32	140.50	155.46	171.02	182.52	194.10
Toys, Games, Books, and Stationery	100.00	108.95	114.36	126.90	132.95	131.67	141.98	148.50	171.32	207.27	235.31	280.16
Soda Fountains, Luncheonettes, and Restaurants	100.00	109.89	118.30	130.95	138.53	134.58	140.71	129.86	153.20	177.76	193.79	193.58
Jewelry	100.00	108.95	106.63	110.53	115.58	116.25	123.42	130.55	159.41	175.86	177.30	190.79
Other (including groceries)	100.00	79.00	84.31	89.87	116.87	118.75	130.03	....	....	....	....	....
Total	100.00	112.19	116.47	127.69	131.78	126.88	133.29	141.58	162.20	195.01	206.74	218.68

† Beginning with the 1940 study, the classification used for the collection of data on sales by merchandise lines was changed to afford greater detail. (See Table 12.) Since the definitions of some of the groups were altered, figures for 1940-1944 comparable to those for prior years were not available for all merchandise groups.

from 1942 to 1943 and by more than 9% from 1943 to 1944). Quite probably many persons shifted their purchasing to department stores where a greater diversification of merchandise and a wider quality range were available. It is equally possible, however, that the growing shortages of low-end merchandise in 1944 acted as a brake on sales in the chain outlets in which these units of low-priced merchandise commonly had been sold. Furthermore, government restrictions existent until the passage of a new price control law effective June 30, 1944, precluded the addition of merchandise lines in higher price brackets than those offered by the chains in the 1942 base period. Hence substitutes at somewhat higher prices for disappearing low-end apparel, for instance, could not lawfully be offered by the chains. The fact that despite merchandise shortages sales increased to the extent of 6% is testimony to the ability of the chains' merchandising personnel in providing the requisite merchandise inventory.

Sales by Merchandise Groups

Table 1, page 3, traces the sales by broad merchandise groups for 10 chains from 1933 to 1944, while Table 2, below, provides somewhat more detailed data for 16 chains for the period 1940 through 1944. Study of these averages clearly shows that from 1940 on, transactions in ready-to-wear accessories and apparel contributed largely to the growth in sales in the chains. The volume of business in this merchandise rose 45% over the 1941 level, a rise, however, which was clearly less than the increase of 87.5% experienced by women's apparel and accessories stores¹ in the corresponding

¹Based on figures compiled by the Department of Commerce and obtained directly from the Bureau of Foreign and Domestic Commerce.

period. The proportionate part of the total chain volume in ready-to-wear accessories and apparel was 27.5% in 1940 and 31.4% in 1944 for the 10, and 21.5% increasing to 24.6% for the 16. It should be stressed that a large share, probably two-thirds, of the volume in such lines in 1944 was accounted for in the sale of ready-to-wear accessories, a slightly larger proportion than in 1940. Women's, misses', and juniors' ready-to-wear sales declined from more than one-fifth of the total accessory and apparel business in 1943 to only about one-sixth in 1944, probably as a result of scarcities of low-end merchandise.

Dramatic changes in volume occurred for other lines of merchandise, which, however, were not responsible for such a large share of the volume as were accessories and apparel. Outstanding among these items were toys, games, books, and stationery, sales, of which increased substantially and consistently after 1940. Stationery sales, reflecting war mail requirements, by 1944 had attained a level 81% higher than in 1940, 13% above the previous record high in 1943, and 31% above the level for 1942². Sales of toys, games, and books were 78% higher than in 1940 and 20% above the 1943 peak. To some extent, of course, the increases reflect the sale of pocket-size paper-bound books and other popular price volumes introduced into these stores. Together, sales in these lines, toys, games, books, and stationery, constituted over 13% of the aggregate sales of the reporting chains in 1944, or more than 2% of sales more than was characteristic in 1940. On the other hand, sales of that staple de-

²In 1942 sales of stationery in 20 reporting variety chains accounted for virtually 50% of the entire noncommercial sales of stationery and writing supplies in the United States. (Harvard Business School, Bureau of Business Research, Bulletin No. 120, *Expenses and Profits of Limited Price Variety Stores in 1943*, by Edward C. Bursk, page 22.

Table 2. Sales by Merchandise Lines for 16 Identical Variety Chains: 1940-1944

Items	Aggregate Dollar Sales (in thousands)					Index of Change in Aggregate Dollar Sales (1940 = 100)			
	1940	1941	1942	1943	1944	1941	1942	1943	1944
Apparel and Accessories	\$184,114	\$214,760	\$271,327	\$291,692	\$311,097	116.65	147.37	158.43	168.97
Dry Goods and Domestics	64,657	73,103	92,904	103,891	107,929	113.06	143.69	160.68	166.93
Notions and Smallwares	67,963	77,654	88,830	90,906	99,376	114.26	130.70	133.76	146.22
Hardware, Paint, Electrical Supplies, and Appliances	75,532	85,209	92,072	71,643	68,639	112.81	121.90	94.85	90.87
Home Furnishings	71,126	81,816	89,528	85,982	86,365	115.03	125.87	120.89	121.43
Confectionery and Nuts	61,201	64,496	76,021	89,995	97,022	105.38	124.21	147.05	158.53
Drugs and Toiletries	82,134	89,878	97,279	103,079	110,221	109.43	118.44	125.50	134.20
Toys, Games, and Books	43,669	51,279	60,494	64,596	77,671	117.43	138.53	147.93	177.86
Stationery	66,261	76,415	91,586	106,026	120,274	115.32	138.22	160.01	181.52
Soda Fountains, Luncheonettes, and Restaurants	58,339	67,741	78,701	88,580	89,929	116.12	134.90	151.84	154.15
Jewelry	17,858	21,778	23,047	24,327	24,907	121.95	129.06	136.22	139.47
Other (including groceries)	62,042	68,596	77,444	77,578	69,205	109.50	123.63	123.84	110.47
Total	\$855,496	\$972,725	\$1,139,233	\$1,198,295	\$1,262,635	113.70	133.17	140.07	147.59

partment of variety chains, drugs and toiletries, increased only moderately, being less than 40% above the 1940 level in 1944, and contributing almost 1% less to total volume in 1944 than in 1940. Dollar sales of home furnishings, amounting to approximately 7% of sales, were only slightly above the 1943 volume and only 21% above the 1940 level, while sales of hardware, paint, and electrical supplies dropped below the low level of 1943 to a point almost 10% under that common in 1940. Volume in these hard goods accounted for roughly only 5½% of the total sales in 1944 in contrast to more than 8½% in 1940.

As pointed out in earlier reports, the shift in merchandise emphasis was associated with a lifting of price limits which permitted a wider diversification of merchandise. Had this policy not been fairly generally adopted during the late 1930's and early 1940's, the chains undoubtedly would have experienced serious sales declines when the war emergency resulted in drastic restrictions in the amounts of merchandise available for sale at extremely low unit prices.

Trends in Operating Results: 1929, 1931-1944

A realization of these changes in the sales structure is basic to the understanding of the trends in operating statistics for the past few years. Tables 3 and 4, pages 6 and 7, present results for 15 chains which have submitted data for 1929 and for 1931 and all consecutive years thereafter. The first of these two tables provides data in terms of dollars per store, while the second gives figures as percentages of sales.

The first line of Table 3 shows vividly the change in dollar sales per store. The \$303,484 average for 1944, the highest in the 15 years covered by the data, not only is well above the prewar level of \$200,789 in 1940, but also is markedly above the \$227,578 experienced in 1929.

The sharp rise in sales per store in 1941, associated with the lifting of price limits¹ in that year, was accompanied by an advance in the rate of gross margin from 35.2% to 36.7% (see Table 4, page 7). Here two or three factors may have influenced the margin figure. The new lines introduced may have carried longer markons, and the ready market for merchandise may have resulted in a decrease in retail reductions. Furthermore, a rising retail price level at that time may have been reflected in the in-

¹In 1941, 6 out of 27 chains which had reported \$1 limits for 1940 raised their upper brackets to \$5 (Harvard Business School, Bureau of Business Research, Bulletin No. 116, *Expenses and Profits of Limited Price Variety Chains in 1941*, by Elizabeth A. Burnham, page 2).

creased percentage margins. After 1941 the margin rose slightly in 1942 to decline fractionally in 1943. In 1944, however, it once more rose to the highest level in the period, 37.6% as compared with 36.9% in 1943 and 36.7% in 1941. Inasmuch as the retail price level of general merchandise has been kept at a fairly constant level during the war years through the use of ceiling prices, it seems clear that the rise in the overall margin percentage for variety chains in 1944 must have resulted chiefly from a reduction² in combined shortages and markdowns and a change in the kinds of merchandise sold in the variety chains. Data on combined shortages and markdowns given by 7 of the 15 firms disclose a decrease from 1943 to 1944 in the percentage of net sales for such reductions in 5 cases and an increase in 2 cases. The depletion of stocks of low-end merchandise, carrying low rates of markon, and the new emphasis necessarily placed on other lines of merchandise, characteristically retailed at a longer markon, undoubtedly contributed to the situation. It is interesting to note in this connection that among the lines in which sales increases were pronounced were stationery, a high margin line, and notions, apparel, and accessories, some of which probably had high margins.³

While the percentage margin climbed for the 15 chains summarized in Tables 3 and 4, the percentage of total expense including interest⁴ fell to the lowest level since 1929, 27.7% of sales. Hence the net operating profit rose to a new high of nearly 10% of sales. The net business profit after other income and deductions but before income and excess profits taxes amounted to 12.3% of sales, or more than 30% of the average net worth, by all odds the highest return in the 15 years. A large share of these earnings (more than 71%) went to the state and Federal tax authorities in the form of income and excess profits taxes. Such levies climbed from 7.0% of net sales in 1943 to 8.7% in 1944, leaving final earnings after taxes of 3.6% in 1944 compared with 3.8% in 1943. The increase in taxes reflects not only higher earnings but also a higher effective excess profits tax rate as a result of revisions in the Internal Revenue Code (as amended

²For further comments on the matter of shortages and markdowns, see page 20.

³Average figures for gross margins by lines have not been reported for variety chains. Data published by the Controllers' Congress of the National Retail Dry Goods Association for departments within department stores indicate that relatively high margins are typical in those stores for laces, trimmings and ribbons, millinery, handkerchiefs, neckwear, and stationery.

⁴The Bureau includes as operating expense an interest figure of 6% on the net worth. This expense is offset by a corresponding credit under other income so that the final figure for net gain before taxes is not affected by the inclusion of the interest charge.

Table 3. Operating Results per Store for 15 Identical Variety Chains: 1929, 1931-1944

Items	1929	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Average Sales per Store.....	\$227,578	\$173,482	\$149,063	\$153,607	\$170,362	\$175,077	\$188,811	\$192,412	\$182,352	\$190,544	\$200,789	\$229,479	\$266,431	\$285,386	\$303,484
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	\$153,198	\$117,647	\$102,139	\$98,920	\$110,811	\$114,760	\$122,725	\$124,809	\$119,338	\$123,473	\$130,051	\$145,336	\$167,344	\$180,158	\$189,367
GROSS MARGIN.....	74,380	55,835	46,924	54,687	59,551	60,317	66,086	67,603	63,014	67,071	70,738	84,143	99,087	105,228	114,117
Salaries and Wages.....	\$29,465	\$22,701	\$19,389	\$21,284	\$24,418	\$24,758	\$26,587	\$28,320	\$27,067	\$28,086	\$29,536	\$34,011	\$40,054	\$43,664	\$45,578
Tenancy Costs.....				15,790	15,929	15,952	16,515	16,791	17,143	17,511	17,810	-18,116	18,537	18,650	18,798
Light, Water, and Power.....	20,076	19,789	19,573	1,711	1,782	1,814	1,886	1,900	2,043	2,058	2,129	2,191	2,163	2,076	2,068
Depreciation of Fixtures and Equipment.....				1,625	1,570	1,389	1,457	1,501	1,579	1,600	1,600	1,686	1,756	1,755	1,676
Supplies.....	3,687	2,523	1,929	2,072	2,284	2,463	2,557	2,678	1,938	1,944	2,088	2,431	2,557	2,506	2,382
Advertising.....	480	424	463	436	478	541	513	690	698	743	904	875	1,037	907	947
Insurance (except on real estate).....	819	559	650	630	710	730	688	731	718	743	783	796	913	892	861
Taxes (except on real estate or income):															
Sales.....	665	624	637	387	593	327	331	282	282	286	281	257	191	165	123
Other.....				680	791	887	1,144	1,775	2,074	2,001	2,028	2,200	2,415	2,464	2,438
Miscellaneous.....	2,491	1,790	1,671	1,422	1,387	1,436	2,062	2,116	2,223	2,401	2,570	3,206	4,037	4,317	5,175
Total Expense before Interest.....	\$57,683	\$48,410	\$44,312	\$46,037	\$49,942	\$50,297	\$53,740	\$56,844	\$55,765	\$57,373	\$59,735	\$65,769	\$73,660	\$77,396	\$80,046
Total Interest.....	3,198	2,613	2,414	2,644	2,748	2,820	2,813	2,847	2,922	2,953	3,092	3,364	3,638	3,982	3,935
TOTAL EXPENSE including Interest.....	\$60,881	\$51,023	\$46,726	\$48,681	\$52,690	\$53,117	\$56,553	\$59,691	\$58,687	\$60,326	\$62,827	\$69,133	\$77,298	\$81,378	\$83,981
NET PROFIT.....	\$13,499	\$4,812	\$198	\$6,006	\$6,861	\$7,200	\$9,533	\$7,912	\$4,327	\$6,745	\$7,911	\$15,010	\$21,789	\$23,850	\$30,136
Net Profit from Real Estate Operation.....	.....	.....	.....	\$2,130	\$2,027	\$2,032	\$2,567	\$2,975	\$2,831	\$2,858	\$2,912	\$2,770	\$2,846	\$2,894	\$2,980
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	.....	.....	.....	2,539	2,813	2,889	2,819	2,840	2,884	2,954	3,092	3,352	3,622	4,071	4,157
Other Revenue, Net.....	.....	.....	.....	L. 123	167	412	207	212	247	362	361	350	L. 143	L. 110	67
Total Net Other Income.....	\$6,095	\$4,961	\$4,820	\$4,546	\$5,007	\$5,333	\$5,593	\$6,027	\$5,962	\$6,174	\$6,365	\$6,472	\$6,325	\$6,855	\$7,204
NET GAIN before Income Taxes.....	\$19,594	\$9,773	\$5,018	\$10,552	\$11,868	\$12,533	\$15,126	\$13,939	\$10,289	\$12,919	\$14,276	\$21,482	\$28,114	\$30,705	\$37,340
Net Taxes on Income and Excess Profits ¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	2,509	3,957	10,375	18,181	20,071	26,057
NET GAIN after Income Taxes ¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	\$10,526	\$10,453	\$11,309	\$10,199	\$10,910	\$10,999

¹ Figures for this item are based on data for 13 firms having 99.5% of the total sales volume of the 15 chains in each of the years 1939 through 1944. Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942, 1943, and 1944.

Table 4. Operating Results for 15 Identical Variety Chains: 1929, 1931-1944

(Percentages Computed from the Aggregate Dollar Figures: Combined Net Sales = 100%, except where noted)

Items	1929	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Aggregate Number of Stores.....	1,579	2,085	2,185	2,188	2,217	2,261	2,303	2,341	2,374	2,395	2,405	2,420	2,430	2,418	2,403
Aggregate Net Sales (in millions).....	\$359	\$362	\$326	\$336	\$378	\$396	\$435	\$450	\$433	\$456	\$483	\$555	\$647	\$690	\$729
Average Net Sales per Chain (in millions).....	\$24	\$24	\$22	\$22†	\$25†	\$26	\$29	\$30	\$29	\$30	\$32	\$37	\$43	\$46	\$49
Average Sales per Store (in thousands).....	\$228	\$173	\$149	\$154†	\$170†	\$175	\$189	\$192	\$182	\$191	\$201	\$229	\$266	\$285	\$303
Index of Change (1932 = 100):															
Number of Stores per Chain.....	72.3	95.4	100.0	100.1	101.5	103.5	105.4	107.1	108.7	109.6	110.1	110.8	111.2	110.7	110.0
Net Sales per Chain.....	110.3	111.1	100.0	103.3	115.9	121.5	133.5	138.3	132.9	140.1	148.3	170.5	198.8	211.9	223.9
Average Sales per Store.....	152.7	116.4	100.0	103.1	114.3	117.5	126.7	129.1	122.3	127.8	134.7	154.0	178.7	191.5	203.6
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	67.3%	67.8%	68.5%	64.4%	65.0%	65.6%	65.0%	64.9%	65.4%	64.8%	64.8%	63.3%	62.8%	63.1%	62.4%
GROSS MARGIN.....	32.7	32.2	31.5	35.6	35.0	34.4	35.0	35.1	34.6	35.2	35.2	36.7	37.2	36.9	37.6
Salaries and Wages.....	13.0%	13.1%	13.0%	13.9%	14.3%	14.2%	14.1%	14.7%	14.9%	14.7%	14.7%	14.8%	15.0%	15.3%	15.0%
Tenancy Costs.....				10.3	9.4	9.1	8.7	8.7	9.4	9.2	8.9	7.9	7.0	6.5	6.2
Light, Water, and Power.....	8.8	11.4	13.2	1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.1	0.9	0.8	0.7	0.7
Depreciation of Fixtures and Equipment.....				1.1	0.9	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Supplies.....	1.6	1.5	1.3	1.3	1.3	1.4	1.3	1.4	1.1	1.0	1.0	1.1	1.0	0.9	0.8
Advertising.....	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Insurance (except on real estate).....	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Taxes (except on real estate or income):															
Sales.....				0.3	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Other.....	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.9	1.1	1.1	1.0	1.0	0.9	0.9	0.8
Miscellaneous Expense.....	1.1	1.0	1.1	0.9	0.8	0.8	1.1	1.1	1.2	1.3	1.3	1.4	1.5	1.5	1.7
Total Expense before Interest.....	25.4%	27.9%	29.7%	30.0%	29.3%	28.7%	28.5%	29.5%	30.6%	30.1%	29.8%	28.6%	27.7%	27.1%	26.4%
Total Interest.....	1.4	1.5	1.6	1.7	1.6	1.6	1.5	1.5	1.6	1.6	1.5	1.5	1.3	1.4	1.3
TOTAL EXPENSE including Interest.....	26.8%	29.4%	31.3%	31.7%	30.9%	30.3%	30.0%	31.0%	32.2%	31.7%	31.3%	30.1%	29.0%	28.5%	27.7%
NET PROFIT.....	5.9%	2.8%	0.2%	3.9%	4.1%	4.1%	5.0%	4.1%	2.4%	3.5%	3.9%	6.6%	8.2%	8.4%	9.9%
Net Profit from Real Estate Operations.....	.....	.....	.....	1.4%	1.2%	1.2%	1.4%	1.5%	1.5%	1.5%	1.5%	1.2%	1.1%	1.0%	1.0%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	.....	.....	.....	1.7	1.6	1.7	1.5	1.5	1.6	1.6	1.5	1.5	1.4	1.4	1.4
Other Revenue, Net.....	.....	.....	.....	L. 0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.1	L. 0.1	0.0	0.0
Total Net Other Income.....	2.7%	2.8%	3.2%	3.0%	2.9%	3.1%	3.0%	3.1%	3.2%	3.3%	3.2%	2.8%	2.4%	2.4%	2.4%
NET GAIN before Income Taxes:															
Percentage of Net Sales.....	8.6%	5.6%	3.4%	6.9%	7.0%	7.2%	8.0%	7.2%	5.6%	6.8%	7.1%	9.4%	10.6%	10.8%	12.3%
Percentage of Net Worth.....	20.1†	10.7	5.7	11.6	12.5†	12.8†	15.0†	13.9†	10.1	12.1	13.0	19.0	24.2	25.1	30.5
Net Taxes on Income and Excess Profits ¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1.3%	1.9%	4.5%	6.8%	7.0%	8.7%
NET GAIN after Income Taxes ¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.5%	5.2%	4.9%	3.8%	3.8%	3.6%
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	5.2	5.3	5.1	4.9	5.0	5.0	5.1	4.9	4.9	5.1	4.8	4.3	4.2	4.4	5.0

¹The statement of one firm did not cover a full fiscal year. This average is adjusted to reflect the sales for the entire period.

²Because of inadequate balance sheet data in the case of one chain, the figure for net gain as a percentage of net worth was not based on the reports of all the chains in the group.

³Figures for this item are based on data for 13 firms having 99.5% of the total sales volume of the 15 chains in each of the years 1939 through 1944. Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942, 1943, and 1944.

by the Revenue Act of 1943). In terms of percentages, the earnings after taxes were the lowest in the six years, 1939 through 1944, for which data are available.

From the dollar standpoint, on the other hand, the final earnings after taxes were slightly above the earnings for four of the five preceding years, being exceeded only by the earnings in 1941.

The net income tax levy on chains of \$26,657 per store for 1944 represents the highest recorded assessment by the Federal Government on variety chain earnings. From the standpoint of the Government, the collection of these income taxes probably was as economically and easily accomplished as the securing of any tax of such proportions could be, a fact to be considered, of course, in this war period of abnormal Government requirements. As to the impact of the tax, it is difficult to estimate to what extent it was a hidden sales tax affecting the masses of low-income consumers who patronize variety chains and to what degree it was an impost on the stockholders. It can only be said that the two groups shared the burden.

Operating Expenses

The decrease in percentage cost in 1944 did not result from important reductions in dollar cost. As shown in Table 3, total dollar costs per store climbed in 1944 to the highest point in the 15-year period. This increase developed chiefly from a 4% rise in the dollar payments for salaries and wages and a 20% jump in miscellaneous expense, which amounted in dollars to \$1,914 and \$858 per store, respectively. Minor increases in dollar expenditures for tenancy and advertising were more than offset by decreases in all the other accounts.

The 4% change in payroll cost per store was reasonable in the face of the larger 6% increase in the value of the merchandise sold. The abrupt rise in the miscellaneous account may have reflected greater outlays for travel, for professional services, such as auditing, for contributions and donations, and for pension plans.

The fact that the advantages of lowered percentage costs came wholly from increased sales should be realized. In periods of rising sales volume, falling percentage costs often conceal serious increases in dollar outlay. In the year 1944, however, the total dollar costs per store rose by only 3.1% over 1943, a more moderate year-to-year increase than had been characteristic in the four preceding years when volume increases also had been more marked. It seems clear that expenses have been carefully controlled during the period of expanding sales.

Trend Data for Medium-Size and Large Chains: 1935-1944

For a number of years separate trend figures for moderate-size and large chains have been published. Data given in Table 6, page 9, bring these series up to date. Here again the upward movement of the margin percentage in 1944 is clear for both groups. Total expense, including interest, however, as a percentage of sales, rose slightly in 1944 for the middle-size chains, while it declined substantially for the large chains. As a consequence of these trends, percentage earnings before taxes in 1944 were higher for the large than for the medium-size chains. In both groups the rate of stock-turn became more rapid as merchandise shortages cut into the chain inventories.

Table 5, below, presents figures for the two chief assets of seven large chains. As is shown by data in the first and third columns, there was a marked drop (18%) in inventory investment from the end of 1943 to the end of 1944.

Table 5. Selected Balance Sheet Items¹ of 7 Identical Variety Chains with Net Sales of \$10,000,000 to \$150,000,000†: 1935-1944

Year	Average Dollar Amounts per Store		Index of Change in Average Dollar Amounts per Store (1935 = 100)	
	Inventory	Plant and Equipment ²	Inventory	Plant and Equipment ²
1935	\$24,337	\$51,283	100.0	100.0
1936	25,611	52,347	105.2	102.1
1937	25,834	55,125	106.2	107.5
1938	23,693	55,404	97.4	108.0
1939	27,446	55,766	112.8	108.7
1940	31,257	56,417	128.4	110.0
1941	43,758	56,940	179.8	111.0
1942	45,312	*	186.2	*
1943	47,061	*	193.4	*
1944	38,540	*	158.4	*

* Data not available for entire seven firms. For the six firms giving the data in 1942, 1943, and 1944, the investment per store in plant and equipment was \$64,682 in 1942, \$62,245 in 1943, and \$59,327 in 1944 as compared with \$57,106 in 1935 and \$64,583 in 1941. Thus the index for the six chains would be 112.9 in 1941, 113.1 in 1942, 108.8 in 1943, and 103.7 in 1944.

† The chains were classified according to their net sales volume in 1935.

¹ End-of-year dollar aggregates divided by number of stores in operation at end of year.

² Less amortization or reserve for depreciation.

Inventory and Stock-Sales Ratios

Table 7, page 10, based on figures for a larger group of firms, not necessarily identical over the period, gives monthly inventory figures. A decrease in inventories similar to that shown in Table 5 (more than 16%) appears between the December, 1943, and December, 1944, figure. As of December, 1944, dollar inventories were at the lowest level since July, 1941. In view of the fact that sales per

Table 6: Operating Results of Variety Chains with Net Sales of \$500,000 or More: 1935-1944
(Percentages Computed from the Aggregate Dollar Figures, Combined Net Sales = 100%)

Group and Items	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
7 Identical Chains with Net Sales of \$500,000 to \$10,000,000†										
Aggregate Number of Stores.....	352	377	394	407	416	424	437	439	439	442
Average Sales per Store (in thousands).....	\$67	\$71	\$73	\$69	\$72	\$80	\$91	\$106	\$115	\$121
GROSS MARGIN.....	34.0%	34.5%	35.1%	35.0%	35.7%	35.4%	36.8%	37.4%	37.6%	38.1%
Salaries and Wages.....	15.9%	15.8%	16.3%	16.7%	16.8%	16.3%	16.8%	16.8%	17.3%	17.3%
Tenancy Costs and Light, Water, and Power.....	8.7	8.0	8.0	8.6	8.3	7.9	7.1	6.5	5.9	5.7
Depreciation of Fixtures and Equipment.....	1.1	1.1	1.0	1.2	1.1	1.0	1.1	1.0	0.9	0.8
Supplies.....	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0	0.8	0.8
Taxes.....	0.7	0.7	1.0	1.1	1.1	1.0	1.0	0.9	0.9	0.9
Other Expense.....	2.2	2.5	2.5	2.6	2.3	2.4	2.0	2.0	1.9	2.2
Total Expense before Interest.....	29.6%	29.1%	29.9%	31.2%	30.6%	29.6%	29.0%	28.2%	27.7%	27.7%
Total Interest.....	1.7	1.4	1.4	1.5	1.5	1.3	1.3	1.2	1.2	1.3
TOTAL EXPENSE including Interest.....	31.3%	30.5%	31.3%	32.7%	32.1%	30.9%	30.3%	29.4%	28.9%	29.0%
NET PROFIT.....	2.7%	4.0%	3.8%	2.3%	3.6%	4.5%	6.5%	8.0%	8.7%	9.1%
Total Net Other Income.....	1.6	1.5	1.9	2.1	1.9	1.9	1.9	1.8	1.7	1.9
NET GAIN before Income Taxes: Percentage of Net Sales.....	4.3%	5.5%	5.7%	4.4%	5.5%	6.4%	8.4%	9.8%	10.4%	11.0%
Percentage of Net Worth.....				13.0	16.4	20.7	28.9	35.2	36.1	36.5
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	4.3	4.2	4.1	4.1	4.5	4.4	4.0	3.9	4.1	4.4
7‡ Identical Chains with Net Sales of \$10,000,000 to \$150,000,000†										
Aggregate Number of Stores.....	1,777	1,815	1,847	1,872	1,886	1,892	1,906	1,917	1,911	1,904
Average Sales per Store (in thousands).....	\$175	\$191	\$194	\$185	\$195	\$207	\$239	\$282	\$308	\$326
GROSS MARGIN.....	32.7%	33.4%	33.4%	32.9%	33.5%	33.6%	35.5%	35.8%†	35.4%†	36.5%†
Salaries and Wages.....	13.5%	13.5%	14.1%	14.2%	14.1%	14.1%	14.4%	14.4%†	14.8%†	14.5%†
Tenancy Costs and Light, Water, and Power.....	9.1	9.1	9.1	9.8	9.6	9.2	8.3	7.2†	6.8†	6.4†
Depreciation of Fixtures and Equipment.....	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.7†	0.6†	0.6†
Supplies.....	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.0†	0.9†	0.8†
Taxes.....	0.6	0.7	1.0	1.2	1.1	1.1	1.0	1.0†	0.9†	0.8†
Other Expense.....	2.2	2.2	2.4	2.2	2.3	2.4	2.2	2.4†	2.4†	2.6†
Total Expense before Interest.....	27.2%	27.3%	28.4%	29.3%	28.9%	28.6%	27.7%	26.7%†	26.4%†	25.7%†
Total Interest.....	1.6	1.5	1.5	1.6	1.5	1.5	1.4	1.3†	1.3†	1.3†
TOTAL EXPENSE including Interest.....	28.8%	28.8%	29.9%	30.9%	30.4%	30.1%	29.1%	28.0%†	27.7%†	27.0%†
NET PROFIT.....	3.9%	4.6%	3.5%	2.0%	3.1%	3.5%	6.4%	7.8%†	7.7%†	9.5%†
Total Net Other Income.....	2.6	2.8	3.0	3.0	2.9	2.8	2.6	2.4†	2.4†	2.4†
NET GAIN before Income Taxes: Percentage of Net Sales.....	6.5%	7.4%	6.5%	5.0%	6.0%	6.3%	9.0%	10.2%†	10.1%†	11.9%†
Percentage of Net Worth.....	14.1	16.9	14.6	10.5	13.3	14.2	22.6	28.3†	28.8†	35.0†
Net Taxes on Income and Profits ³	0.9%	1.6%	1.3%	1.0%	1.1%	1.8%	4.5%	6.7%†	6.6%†	8.6%†
NET GAIN after Income Taxes (percentage of net sales).....	5.6%	5.8%	5.2%	4.0%	4.9%	4.5%	4.5%	3.5%†	3.5%†	3.3%†
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	5.1	5.1	5.0	5.0	5.1	4.7	4.1	4.1†	4.3†	5.0†

* Data not available. See the paragraph on methods, Appendix, page 35.

† The chains were classified according to their net sales volume in 1935.

‡ For the years 1942, 1943, and 1944, one of the seven chains did not submit data to the Bureau. Information on number of stores, sales, earnings, and income taxes, however, was available from published sources. The sales-per-store and average-number-of-stores figures, therefore, are for the seven chains. The margin, expense, and profit data are the averages for six chains. The net gain before income taxes for the six firms, as indicated above, amounted to 10.2% of sales and 28.3% of net worth for 1942, 10.1% of sales and 28.8% of net worth for 1943, and 11.9% of net sales and 35.0% of net worth for 1944. For the seven, the corresponding figures were 10.2% and 28.9% for 1942, 10.3% and 30.3% for 1943, and 11.8% and 35.9% for 1944. For both 1942 and 1943, net gain after taxes remained 3.5% after the inclusion of the data for the seventh firm, and, for 1944, the gain after taxes remained 3.3% when data for the seventh firm were included. Study of the margin and expense data for the six and seven chains separately for the years 1935-1941 indicated that omission of data for 1942, 1943, and 1944 for the seventh chain would not invalidate year-to-year comparisons.

¹ Income tax data were reported by too few chains in this group to make possible the preparation of averages.

² Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942, 1943, and 1944.

Table 7. Average End-of-Month Retail Inventory per Store: 1934-1944

Month	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Number of Chains.....	17	18	19	20	22	29	29	28	25	23	21
January ¹	\$29,143	\$34,532	\$34,451	\$36,427	\$35,657	\$32,367	\$36,542	\$39,349	\$58,804	\$57,141	\$60,537
February.....	35,539	35,382	35,314	38,865	36,604	34,953	39,579	41,532	62,469	55,833	62,080
March.....	37,220	38,280	37,274	41,586	39,482	38,900	41,031	44,468	68,593	58,733	65,469
April.....	40,199	38,532	37,494	44,180	38,551	38,326	42,807	45,096	71,000	60,965	65,067
May.....	40,296	38,395	36,980	43,592	38,306	37,483	41,828	44,049	70,377	61,437	64,684
June.....	38,528	37,219	36,445	42,840	37,015	36,874	38,974	44,616	71,231	62,177	63,866
July.....	31,758	36,044	36,355	41,571	35,066	36,627	33,866	47,204	73,131	63,800	64,407
August.....	37,052	36,509	40,002	43,538	36,322	39,686	40,306	49,083	72,902	65,861	64,018
September.....	38,816	40,003	42,714	46,814	39,200	41,891	44,916	55,103	75,408	69,032	62,679
October.....	41,009	43,978	46,324	50,122	42,747	46,076	49,747	62,074	76,914	70,988	63,917
November.....	42,946	45,593	48,061	50,930	45,616	48,579	52,153	64,882	75,406	71,253	63,230
December.....	33,377	31,688	35,783	35,085	30,995	33,721	37,380	52,651	56,847	57,936	48,338

¹ Inventory per store for January, 1945, averaged \$52,886 for the 20 firms reporting such data, as compared with \$49,115 for the same firms for December, 1944.

store in 1944 tended to be more than 30% higher than in the year 1941, the ratio of stock to sales reached a new low, as shown in Table 8, page 11. The monthly figures disclose that, following the unusually high ratios of inventories to sales in 1942, when chains definitely were building up emergency stocks, the ratios fell to an approximately normal level in 1943 and early 1944. Beginning with August, 1944, however, the ratios coasted sharply downward until in December there was typically less than 45 days' stock on hand.

This situation stemmed directly from the difficulty of procuring desirable merchandise. Apparently a real effort was made by merchandising executives not to overbuy on substitute articles which would prove generally unacceptable to consumers or which would fail to move if better merchandise should become available. In this regard it is interesting to review some of the statements in annual printed reports of the leading chains. The W. T. Grant Company, for example, a firm which has no upper price limit, included this statement, "The end-of-year inventory was considerably lower than had been planned. There is a very real shortage of desirable merchandise. It is the company policy to keep stocks of war substitute goods at a minimum." A 15% drop in inventories for the F. W. Woolworth Co., another firm which has abandoned price limits, is commented on in the annual report for that firm, as follows: "The merchandise inventoried is of good quality, and we do not anticipate any material inventory losses during the transition period to normal conditions. It is the policy of the Company at this time to keep stocks as low as possible, consistent with anticipated business, so that the Company will be in a position to take advantage of better values and improved items of merchandise as soon as they become available."

The S. H. Kress Co., which has maintained a dollar upper limit, commented on a 33% reduction in inventory as resulting from "the increasing difficulty in obtaining desirable merchandise".

Comparison of the Kress experience with that for Woolworth and Grant suggests that the chains with fixed upper price limits may have experienced greater reductions in inventory than those without fixed limits. Partial corroboration of this is found in an article on inventories which appeared in the September, 1944, edition of *Chain Store Age*¹. R. A. Sprouse, President of Sprouse-Reitz Co., Inc., writes of the situation in his 180-store chain as follows: "Of course, the biggest decline [in inventories] has been on 5- and 10-cent items. This lack has been offset to a great extent through the addition of higher priced lines — merchandise such as giftwares and pictures."

The two dominant problems encountered by variety chains, in common with other retailers during the war period, have been merchandise scarcities and employee turnover. The first of these has been touched on in the preceding discussion, while the latter has been given no consideration.

Failure to mention the employment problem earlier resulted from a lack of basic statistical data. The Bureau for the past two years has omitted the assembling of material on the average number of part-time and full-time employees, for example, in recognition of the fact that, though the information would be valuable, it would be too time-consuming for individual reporting chain executives to prepare in a period of acute shortages of office personnel. That the employment problem has been serious both in stores and offices is indicated by the numerous articles in trade journals on

¹*Chain Store Age*, Administration Edition, "Maintaining Balanced Stocks Far from Markets." September, 1944, page 20.

Table 8. Stock-Sales Ratios: 1934-1944

Month	Ratio of Retail Inventory for End of Preceding Month to Sales for Month										
	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943	1944
Number of Chains	17	18	19	20	22	29	29	28	25	23	21
January ¹	3.31	3.29	3.30	3.43	3.47	3.06	3.22	3.31	3.54	3.25	3.29
February	3.30	3.34	3.26	3.26	3.46	3.15	3.31	3.31	3.86	3.10	3.25
March	2.54	3.09	3.08	2.62	3.11	2.87	2.77	3.00	3.43	2.75	2.89
April	3.10	2.92	2.71	3.16	2.76	2.77	3.23	2.75	3.51	2.54	2.80
May	2.93	3.10	2.69	2.90	3.03	2.75	2.97	2.69	3.55	2.78	2.74
June	2.97	3.04	2.56	2.92	2.91	2.74	2.93	2.87	3.46	2.75	2.87
July	3.36	3.15	2.73	2.95	2.96	2.89	2.95	2.96	3.78	2.91	2.98
August	2.95	2.89	2.72	3.10	2.81	2.86	2.68	2.84	3.56	3.05	2.80
September	2.98	3.45	2.94	3.06	2.74	2.86	2.96	3.02	3.46	3.00	2.61
October	2.85	2.95	2.74	3.02	2.63	2.88	2.86	3.10	3.10	2.82	2.42
November	3.08	3.13	3.23	3.43	2.99	3.08	3.03	3.39	3.26	2.82	2.31
December	1.69	1.75	1.65	1.75	1.52	1.60	1.66	1.80	1.81	1.75	1.40

¹ The ratio of stocks for December 31, 1944, to sales for January, 1945, was 2.52 for 20 firms.

the necessity for personnel training programs, and by the many cartoons appearing in *Chain Store Age* and *Syndicate Store Merchandiser* highlighting the lack of competent trained help.

It is regrettable that employment material is not

available for discussion. All chain executives, however, are conscious of the current situation. They also must realize that a big and challenging problem awaits them in the rebuilding of their staffs to assist in the large postwar distribution job which lies ahead.

SECTION III

OPERATING RESULTS FOR VARIETY CHAINS IN 1944

The figures presented in Section I indicate the general trend in variety chain operating results. For a more detailed analysis of the experience in 1944, Tables 10 through 22 provide averages for a greater number of accounts based on a larger group of reporting firms.

Data for All Reporting Chains

The basic material used consisted of statements submitted by 37 firms operating a total of 5,279 stores. As is shown in Table 10, page 13, the aggregate sales volume realized in these stores was well over a billion and a third dollars. The stores, which varied in size, were located in many different places, more than 70% of them being situated in cities of less than 100,000 population. The average sales volume per store, derived by dividing the total net sales by the number of stores, was over \$250,000. This figure, however, is influenced upward by the existence of several very large stores. Information in Table 9, below, based on the reports of 30 firms, indicates that somewhat more than 40% of the stores had sales of less than \$150,000 and about 65% had volumes under \$250,000. The firms typically increased their sales per store from 1943 to 1944 by between 5% and 6% of sales.

Operating Results

In Table 10 income and expense data are given for the 37 variety chains. The first column provides a summary of the aggregate dollars reported, while the second column presents the relationship of the various dollar figures to the total net sales. These figures, then, show what was covered by the consumers' dollars spent in variety chains. Merchandise costs absorbed more than 63 cents out of each

dollar, salaries and wages nearly 15 cents, and total expense including this payroll, not quite 28 cents.

Because average percentages based on aggregate dollar figures are influenced by the experience of large volume firms, another set of percentage figures giving equal weight to the experience of large and small chains is furnished in the third column. The median data in this column were derived by arranging the individual percentages reported by the 37 firms for the various items in order from the lowest figure to the highest, as shown for selected accounts in Table 11, page 14. The middle figure in each such series was used as the median. The data in Table 11 indicate, as might well be expected, considerable variation in the experience of the individual firms. The percentages of gross margin, for instance, ranged from an extreme low of 27.12% to a high of 41.90%; and, if the first quarter and last quarter of the reported percentages were cut off, thus eliminating extremely high or low items, the remaining half of the data differed within only 4% of sales from 35.30% to 39.03%. In the last two columns of Table 10, similar limits of the middle half of the items in the series for each account are provided.

The median figures, which are not influenced by the performance of a few unusually large firms, probably are more typical of the individual chains than are the averages based on dollar aggregates. Comparison of the average percentages based on aggregates with the medians substantiates findings of earlier years. The payroll percentage based on aggregates is lower than the median, reflecting the more effective use of personnel by the large volume firms. On the other hand, in the case of tenancy

Table 9. Distribution of Stores Operated by 30 Variety Chains Classified According to Sales per Store: 1944

(Aggregate Figures)

Annual Net Sales per Store	Number of Chains Operating Stores of the Size Indicated	Stores Operated for the Entire Fiscal Year		Net Sales in Stores Operated for the Entire Fiscal Year		Average Sales per Store
		Number	Percentage of Total Number of Stores	Dollars	Percentage of Total Net Sales	
Less than \$30,000.....	8	41	1.31%	\$1,050,492	0.12%	\$25,622
\$30,000-75,000.....	29	447	14.30	24,315,227	2.77	54,396
\$75,000-150,000.....	27	787	25.19	88,018,631	10.01	111,841
\$150,000-250,000.....	22	753	24.10	146,830,118	16.70	194,994
\$250,000-500,000.....	14	685	21.92	238,872,584	27.18	348,719
\$500,000-1,000,000.....	9	299	9.57	201,971,971	22.98	675,492
\$1,000,000-2,000,000.....	8	96	3.07	130,686,256	14.87	1,361,315
\$2,000,000 or More.....	5	17	0.54	47,170,492	5.37	2,774,735
Total.....	30	3,125	100.00%	\$878,915,771	100.00%	\$281,253

Table 10. Operating Results for 37 Variety Chains: 1944

(Net Sales = 100%, except where noted)

Items	Aggregate Figures		Median ¹ and Range Figures		
	Amounts (Dollar figures given in thousands)	Percentages Computed from the Combined Dollar Figures of the 37 Chains	Percentages Computed from the Figures in Each Chain Taken Individually		
			Median ¹ Figures	One-half the Reported Figures, Centered on the Median, Lay between the Limits Listed Below	
Aggregate Number of Stores.....	5,279	....	5,279	....	....
Aggregate Net Sales.....	\$1,354,213	100.00%	\$1,354,213	....	....
Average Net Sales per Chain.....	\$36,600	....	....	....	....
Average Sales per Store.....	\$256	....	....	....	....
Index of Change (1944/1943):					
Number of Stores per Chain.....	....	....	100.00	99.15	100.00
Net Sales per Chain.....	....	....	105.26	102.37	109.54
Average Sales per Store.....	....	....	105.99	102.27	108.86
Net Sales in Identical Stores ².....	....	....	105.35	103.67	108.03
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	\$854,733	63.12%	62.64%	60.97%	64.70%
GROSS MARGIN.....	499,480	36.88	37.36	35.30	39.03
Salaries and Wages.....	\$201,644	14.89%	16.06%	14.65%	18.61%
Tenancy Costs.....	91,092	6.73	3.93	2.88	5.90
Light, Water, and Power.....	9,751	0.72	0.66	0.54	0.83
Depreciation of Fixtures and Equipment.....	7,934	0.59	0.56	0.47	0.68
Supplies.....	9,287	0.68	0.75	0.56	0.90
Advertising.....	2,473	0.18	0.16	0.07	0.30
Insurance (except on real estate).....	4,332	0.32	0.42	0.30	0.54
Taxes (except on real estate or income):					
Sales.....	682	0.05	0.00	0.00	0.05
Other.....	11,904	0.88	1.00	0.79	1.18
Miscellaneous Expense.....	19,101	1.41	1.61	1.25	2.16
Total Expense before Interest.....	\$358,200	26.45%	26.78%	23.76%	28.90%
Total Interest.....	18,599	1.37	1.32	1.16	1.48
TOTAL EXPENSE including Interest.....	\$376,799	27.82%	27.92%	24.85%	30.18%
NET PROFIT.....	\$122,681	9.06%	9.07%	7.41%	10.97%
Net Profit from Real Estate Operations.....	\$12,882	0.95%	0.14%	0.05%	0.28%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	18,559	1.37	1.19	1.12	1.48
Other Revenue, Net.....	1,393	0.10	0.07	0.01	0.41
Total Net Other Income.....	\$32,834	2.42%	1.67%	1.38%	2.21%
NET GAIN before Income Taxes.....	\$155,515	....	....	....	....
Percentage of Net Sales.....	....	11.48%	11.41%	8.96%	13.28%
Percentage of Net Worth ³.....	....	29.88	42.04	34.27	56.92
Provision for Taxes on Income and Excess Profits ⁴	*	*	7.81%	6.14%	9.28%
Total Excess Profits Tax Credits (Postwar Refund and Debt Retirement Credit) ⁴	*	*	0.66	0.45	0.80
Net Taxes on Income and Excess Profits ⁴	*	7.65%	8.21%	5.96%	8.50%
NET GAIN after Income Taxes.....	*	....	....	....	....
Percentage of Net Sales ⁴.....	....	3.80%	3.44%	2.50%	4.03%
Percentage of Net Worth ⁴.....	....	9.83	12.62	10.12	16.45
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories.....	....	5.17	4.59	3.77	5.60
Based on Monthly Inventories ⁵.....	....	4.73	3.88	3.25	4.82
Total Markdowns and Shortages.....	*	*	1.62%	1.51%	1.98%
Freight, Express, Postage, and Truckage.....	*	*	1.59%	1.25%	2.14%
Distribution of Stores among Cities with Populations of: ⁶					
Less than 10,000.....	1,474	29.01%	....	....	....
10,000-25,000.....	1,179	23.21	....	....	....
25,000-100,000.....	1,027	20.21	....	....	....
100,000-500,000.....	569	11.20	....	....	....
500,000-1,000,000.....	306	6.02	....	....	....
1,000,000 or More.....	526	10.35	....	....	....

* Data not available.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² Data on stores operated continuously for 24 consecutive months were provided by 27 of the 37 chains.

³ The figures for this item were based on the reports of the 36 chains giving balance sheet data.

⁴ The figures for this item were based on the reports of 29 chains representing 99.0% of the sales volume. Since the data for income taxes and earnings after taxes are based on a reduced sample, exact arithmetical relationships cannot be expected between these percentages and those for net gain before taxes based on information from 37 reports.

⁵ The figures for this item were based on the reports of the 21 chains giving monthly data.

⁶ Information concerning the location of some of the stores was not available.

**Table 11. Operating Percentages for
37 Variety Chains: 1944**

(Net Sales = 100%; medians in bold type)

NOTE: The percentages in each column are arranged in order of size and hence the percentages in each horizontal row are not figures for the same firm.

Gross Margin ¹	Total Expense including Interest ¹	Net Profit ¹	Net Gain ¹ before Income Taxes	Salaries and Wages
27.12%	21.11%	Loss 0.01%	1.97%	10.57%
31.23	21.16	Profit 1.44	3.44	11.54
31.91	22.40	3.71	4.48	11.94
32.70	22.95	4.32	5.73	13.42
33.65	23.90	4.84	7.09	13.85
34.40	24.03	5.96	7.28	13.98
34.68	24.39	6.39	7.67	14.20
35.05	24.44	7.06	8.27	14.41
35.29	24.72	7.26	8.73	14.52
35.30	24.85	7.41	8.96	14.65
35.33	25.17	7.54	9.32	14.93
35.66	25.47	7.64	9.42	14.95
36.16	26.22	7.65	9.60	15.15
36.26	26.99	7.70	9.73	15.33
36.63	27.34	8.06	10.01	15.62
36.74	27.48	8.50	10.14	15.70
36.99	27.59	8.68	10.83	15.81
37.14	27.71	8.83	11.22	15.99
37.36	27.92	9.07	11.41	16.06
37.39	27.95	9.51	11.48	16.37
37.66	28.52	9.75	11.72	16.68
37.71	28.84	9.76	11.74	17.22
38.09	29.22	9.96	11.80	17.56
38.13	29.23	10.07	11.81	17.78
38.29	29.85	10.38	11.95	17.79
38.59	29.87	10.52	12.07	17.82
38.80	30.01	10.94	12.74	18.56
39.03	30.18	10.97	13.28	18.61
39.87	31.02	11.56	13.68	18.79
40.17	31.58	11.89	13.85	19.12
40.20	31.86	12.13	14.03	19.48
40.26	32.52	12.29	14.09	19.86
40.36	32.62	12.49	14.63	20.19
40.67	33.41	13.57	14.95	22.03
40.78	33.66	13.74	16.06	22.32
41.74	33.86	15.13	16.51	22.38
41.90	35.03	17.46	19.71	23.62
37.36%	27.92%	9.07%	11.41%	16.06%
Median	Median	Median	Median	Median

¹One figure included in the array for gross margin and one for net gain has been adjusted so as to be more nearly comparable with the data reported by the other firms. Two figures included in the arrays for Total Expense and Net Profit have been similarly adjusted.

costs, the average based on aggregates exceeds the median percentage showing the effect of the high rentals paid by large chains in their urban locations.

Another account in which the medians differ pronouncedly from the aggregates is that of net gain in relation to net worth. The median figures exceed those based on aggregates for earnings both before and after income taxes. The difference probably reflects the larger investment relative to sales volume of the large chains. Marked differences do not appear between the medians and averages based on aggregates for net gain as a percentage of sales.

On the aggregate basis net gain after taxes averaged 9.38% of net worth. The corresponding

figure for 1943 was 9.78%. Both of these percentages compare closely with the averages of 9.8% and 9.9% for the same two years published for leading manufacturing corporations by the National City Bank of New York.¹

New Data on Real Estate Arrangements

Since the tenancy cost account is one for which significant cost is incurred by variety chains, it seemed desirable to secure further information on the real estate arrangements. Twenty-five chains, operating 4,897 stores, reported on the extent of ownership of store property. In only 10% of the stores was the property entirely owned by the chains and in 1.5% owned in part by the firms. More than 88% of the stores were leased either from outsiders or through subsidiary realty companies, the latter method being used by approximately 2% of the stores. It is clear then that the leasing of stores from outside landlords was the common practice.

Inquiry into the types of leases brought information from 23 of the 25 chains. More than half the store leases provided for flat dollar payments. A few leases, less than 2%, involved special arrangements such as flat dollar amounts plus taxes or plus taxes and insurance. In the remainder of the cases some form of percentage lease was employed, about half such leases being on a straight percentage of sales basis, with the balance combinations of flat dollar amounts and percentage terms. The straight percentage leases and those involving both dollar amounts and percentages of sales were used chiefly by the organizations operating large numbers of stores. No chain, however, had percentage leases or modifications of such leases in all its stores.

Sales by Merchandise Lines

Table 12 presents a classification of sales by merchandise lines for 18 chains which secured 93.5% of the total volume represented in this study. As was the case in 1943, sales of ready-to-wear accessories and apparel were of primary significance. The median figures indicate that the sales of such accessories were relatively more important than in 1943, while volume in women's, misses', and juniors' ready-to-wear was somewhat lower in 1944 than in 1943. The latter trend, no doubt, resulted from scarcities of low-end merchandise.

Comparison of the medians and the averages based on aggregates again discloses differences which suggest that some of the large volume chains did not put as much emphasis on ready-to-wear

¹The percentages for net income after taxes to net worth, presented in the August, 1945, monthly letter of the bank, are based not on average net worth, but on net worth as of the beginning of the period. For 1944 the figure represents the results of 1,327 companies.

**Table 12. Sales by Merchandise Lines for
18 Variety Chains: 1944**

(Net Sales = 100%)

Merchandise Lines	Medians ¹	Aggregates ²
Women's, Misses', and Juniors' Ready-to-Wear.....	5.20%	*
Ready-to-Wear Accessories.....	20.80	*
Men's and Boys' Clothing and Furnishings.....	5.23†	*
Total Apparel and Accessories.....	30.66	24.67%
Notions and Smallwares.....	7.42	7.87
Dry Goods and Domestics.....	6.77	8.54
Drugs and Toiletries.....	8.08	8.73
Hardware, Paint, Etc.....	4.00	5.44
Electrical Supplies and Appliances.....	1.47	
Home Furnishings.....	7.08	6.83
Stationery.....	8.11	9.52
Toys, Games, and Books.....	6.24	6.16
Jewelry.....	1.87	1.97
Confectionery and Nuts.....	8.51	7.67
Soda Fountains, Luncheonettes, and Restaurants.....	4.11	7.12
Miscellaneous (including groceries).....	5.07	5.48
Total.....	100.00%	100.00%

* Data not available.

† Usable data for this item were given on less than 75% of the reports.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal 100.

² The total net sales used in arriving at these figures amounted to \$1,265,657,493, or approximately 93.5% of the total volume of sales represented in this study.

accessory and apparel lines as did the rest of the reporting firms. The median figure for sales of total accessories and apparel was 30.66% contrasted to a figure of 24.67% based on total dollars. On the other hand, the aggregate figures indicate for the large chains more extensive sales in soda fountains, luncheonettes, and restaurants, departments not so frequently operated by small chains. Furthermore, the figures for large chains, which influenced the aggregates disclosed somewhat greater proportionate volume in notions and smallwares, dry goods and domestics, drugs and toiletries, and stationery.

Operating Results for Small, Medium, and Large Volume Chains

As already indicated by differences in the medians and the averages based on aggregates for all reporting chains, the results for large and small chains had significant differences. This finding, also characteristic in prior years, led in former studies to the preparation of special data for chains in different size groups. The program used in earlier surveys has been extended to this study, so that chain executives may have for comparison average figures based on the experience of companies similar to their own. Tables 13 through 23, therefore, recognize some measure of size. For the most part

the value of these tables is for individual chain comparisons. Comment on the figures will therefore be restricted to pointing out a few important tendencies or characteristics displayed by the data.

The first of the tables, Number 13, page 16, presents detailed operating averages for four groups of chains classified according to sales per chain. The volume limits are comparable with those used in the 1943 study. The identity of the firms in the fourth group, with sales of \$25,000,000 to \$250,000,000, is the same as the identity of the corresponding group for 1943; there were differences, however, in the representation in the other three groups, the greatest change having taken place in the membership in the group of firms with sales of less than \$500,000. There was a decline from 1943 in the number of small chains submitting data. It must be stressed that the averages for the first two volume groups are based on small numbers of reports and may not be so representative of chains of those sizes as the figures for the third and fourth volume groups are for the larger firms.

Greatest Sales Increases in Medium-Size Chains

A glance at the third line of the table shows that firms in the second group — those with total sales of \$500,000 to \$2,000,000 — appeared to achieve greater sales increases per store from 1943 to 1944 than did the larger chains. This tendency, of course, may reflect regional advantages peculiar to the areas in which these moderate-size chains were situated. Monthly sales comparisons prepared by *Chain Store Age* have disclosed substantially better sales comparisons for 1944 relative to 1943 for local or regional chains in some sections¹ of the country than was characteristic of the national chains. According to those comparisons, in 10 out of 12 months the performance of the chains of the South West, Pacific Coast, and Mountain zones was better than that of the national chains. In 9 out of 12 months the same was true for regional chains operating in the East Central states, while

¹The eight regions recognized by *Chain Store Age* were as listed below:

New England: Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island.

Mid-Atlantic: New York, Pennsylvania, New Jersey, Maryland, Delaware.

South East: Virginia, West Virginia, Kentucky, North Carolina, Tennessee, South Carolina, Georgia, Florida, Alabama, Mississippi.

East Central: Ohio, Indiana, Illinois, Michigan, Wisconsin.

West Central: Minnesota, North Dakota, South Dakota, Iowa, Nebraska, Missouri, Kansas, Colorado.

South West: Arkansas, Oklahoma, Louisiana, Texas, New Mexico, Arizona.

Mountain: Montana, Idaho, Wyoming, Utah, Nevada.

Pacific: Washington, Oregon, California.

Table 13. Operating Results for 36 Variety Chains Classified According to Volume of Sales: 1944

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures				Aggregate Figures			
	Percentages Computed from the Figures of Each Chain Taken Individually				Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales Volume Group			
	Net Sales Volume (in thousands)				Net Sales Volume (in thousands)			
	Less than \$500	\$500-2,000	\$2,000-25,000	\$25,000-250,000	Less than \$500	\$500-2,000	\$2,000-25,000	\$25,000-250,000
Number of Chains.....	6	7	15	8	6	7	15	8
Average Sales per Store.....	\$52,723	\$87,838	\$102,854	\$354,860	\$48,307	\$75,208	\$97,782	\$352,682
Index of Change (1944/1943):								
Number of Stores per Chain.....	100.00	100.00	100.00	99.48	....	....	....	....
Net Sales per Chain.....	100.43	108.05	107.37	105.51	....	....	....	....
Average Sales per Store.....	95.76	108.46	106.23	106.24	....	....	....	....
Net Sales in Identical Stores ²	*	108.05	106.28	105.45	....	....	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	66.31%	62.64%	61.71%	61.88%	65.76%	62.82%	61.44%	62.40%
GROSS MARGIN.....	33.69	37.36	38.29	38.12	34.24	37.18	38.56	37.60
Salaries and Wages.....	13.64%	18.56%	17.56%	15.04%	16.71%	17.57%	17.33%	14.88%
Tenancy Costs.....	2.71	2.88	3.93	6.18	2.72	3.02	4.52	6.29
Light, Water, and Power.....	0.50	0.63	0.65	0.72	0.57	0.70	0.70	0.71
Depreciation of Fixtures and Equipment.....	0.51	0.51	0.61	0.55	0.48	0.50	0.79	0.54
Supplies.....	0.35	0.68	0.80	0.83	0.69	0.82	0.78	0.82
Advertising.....	0.21	0.20	0.16	0.10	0.23	0.13	0.16	0.29
Insurance (except on real estate).....	0.57	0.33	0.49	0.33	0.62	0.33	0.46	0.30
Taxes (except on real estate or income):								
Sales.....	0.00	0.00	0.01	0.03	0.00	0.01	0.01	0.04
Other.....	1.09	1.01	1.06	0.80	1.23	0.99	0.99	0.79
Miscellaneous Expense.....	1.66	2.07	1.32	1.85	1.76	2.30	1.54	1.77
Total Expense before Interest.....	20.63%	28.79%	26.78%	27.17%	25.01%	26.37%	27.28%	26.43%
Total Interest.....	1.56	1.22	1.28	1.17	1.58	1.21	1.28	1.27
TOTAL EXPENSE including Interest.....	22.68%	30.01%	27.71%	28.24%	26.59%	27.58%	28.56%	27.70%
NET PROFIT.....	7.61%	8.50%	9.51%	10.02%	7.65%	9.60%	10.00%	9.90%
Net Profit from Real Estate Operations.....	0.09%	0.06%	0.08%	0.60%	0.09%	0.12%	0.26%	0.95%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	1.37	1.17	1.18	1.20	1.48	1.16	1.27	1.32
Other Revenue, Net.....	*	0.05	0.20	0.03	0.02	0.10	0.21	0.14
Total Net Other Income.....	1.43%	1.39%	1.54%	2.11%	1.59%	1.38%	1.74%	2.41%
NET GAIN before Income Taxes:								
Percentage of Net Sales.....	9.45%	9.73%	11.41%	11.81%	9.24%	10.98%	11.74%	12.31%
Percentage of Net Worth ³	34.90	52.48	50.09	37.72	35.18	54.88	43.68	31.68
Provision for Taxes on Income and Excess Profits ⁴	*	*	8.20%	9.33%	*	*	*	9.48%
Total Excess Profits Tax Credits ⁴	*	*	0.74	0.73	*	*	*	0.73
Net Taxes on Income and Excess Profits ⁴	*	5.96%	7.90%	8.55%	*	6.83%	7.77%	8.75%
NET GAIN after Income Taxes:								
Percentage of Net Sales ⁴	*	3.53%	2.97%	3.59%	*	4.53%	3.33%	3.56%
Percentage of Net Worth ⁴	*	19.40	13.05	9.92	*	19.75	11.89	9.16
Rate of Stock-turn (times a year):								
Based on Beginning and Ending Inventories..	3.79	5.60	4.47	4.95	3.54	5.86	4.20	5.03
Based on Monthly Inventories ⁵	*	*	3.68	4.88	*	*	3.38	4.88
Total Markdowns and Shortages.....	*	*	*	1.68%	*	*	*	*
Freight, Express, Postage, and Truckage.....	*	1.54%	1.76%	1.42%	*	*	*	1.59%
Distribution of Stores among Cities with Populations of: ⁶								
Less than 10,000.....	....	....	....	....	60.71%	86.21%	68.02%	16.87%
10,000-25,000.....	....	....	....	....	3.57	5.17	14.58	25.07
25,000-100,000.....	....	....	....	....	17.86	1.72	5.99	29.72
100,000-500,000.....	....	....	....	....	17.86	6.90	6.10	12.93
500,000-1,000,000.....	....	....	....	....	0.00	0.00	2.60	5.98
1,000,000 or More.....	....	....	....	....	0.00	0.00	1.81	9.43

* Data not available.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² Data on stores operated continuously for 24 consecutive months were provided by 5 chains in the second group, 9 in the third, and by all chains in the fourth group.

³ The figures for net gain as a percentage of net worth were based on the reports of the 6 chains in the first group, 6 chains in the second group, and all chains in the third and fourth groups providing balance sheet data.

⁴ The figures for this item were based on data for 5 chains in the second group, 12 chains in the third group, and all chains in the fourth group.

⁵ The figures for this item for the chains in the third group were based on reports of the 11 chains giving monthly data.

⁶ Data on store locations were provided by 6 firms in the second group.

Table 14. Store Expense, General Overhead Expense, and Total Expense for 18 Variety Chains
Classified According to Volume of Sales: 1944

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Chain Taken Individually		Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales Volume Group	
	Net Sales Volume (in thousands)		Net Sales Volume (in thousands)	
	\$2,000-25,000	\$25,000-250,000	\$2,000-25,000	\$25,000-250,000
Number of Chains.....	10	8	10	8
Average Sales per Store.....	\$92,764	\$354,860	\$95,919	\$352,682
Store Expense:				
Salaries, Wages, and Bonuses:				
Store Managers.....	4.15%	2.04%	3.95%	*
Salespeople.....	*	7.65	*	8.01%
All Other Store.....	*	3.24	*	*
Total Salespeople and All Other Store.....	9.28%	11.40%	10.00%	*
Total Store Salaries and Wages.....	13.37%	13.15%	13.95%	12.88%
Tenancy Costs.....	4.23	6.11	4.79	6.15
Light, Water, and Power.....	0.62	0.70	0.65	0.70
Depreciation of Fixtures and Equipment.....	0.61	0.54	0.79	0.53
Supplies.....	0.64	0.74	0.65	0.73
Advertising.....	0.08	0.10	0.13	0.29
Insurance (except on real estate).....	0.41	0.31	0.35	0.29
Taxes (except on real estate or income):				
Sales.....	0.04	0.03	0.02	0.04
Other.....	0.76	0.57	0.77	0.57
Miscellaneous Expense.....	0.58	0.87	0.82	0.92
Total Store Expense before Interest.....	21.94%	23.52%	22.92%	23.10%
Administrative and General:				
Salaries and Wages:				
Officers and Chief Executives.....	0.93%	0.31%	*	*
Buyers.....	0.57	0.42	*	*
District Managers.....	0.40	0.30	*	*
Total Administrative.....	2.40%	1.20%	*	*
Office.....	*	0.73%	*	*
All Other.....	*	0.28	*	*
Total General.....	1.08%	0.99%	*	*
Total Administrative and General Salaries and Wages.....	3.38%	2.06%	3.30%	2.00%
Tenancy Costs.....	0.17	0.13	0.14	0.14
Light, Water, and Power.....	0.02	0.01	0.02	0.01
Depreciation of Fixtures and Equipment.....	0.04	0.02	0.05	0.01
Supplies.....	0.10	0.08	0.10	0.09
Insurance (except on real estate).....	0.10	0.01	0.11	0.01
Taxes (except on real estate or income).....	0.25	0.18	0.23	0.22
Miscellaneous Expense.....	0.62	0.90	0.77	0.85
Total Administrative and General Expense.....	4.87%	3.30%	4.72%	3.33%
Total Expense (Store and Admin. and Gen. Combined)				
Salaries and Wages.....	17.67%	15.04%	17.25%	14.88%
Tenancy Costs.....	4.38	6.18	4.93	6.29
Light, Water, and Power.....	0.64	0.72	0.67	0.71
Depreciation of Fixtures and Equipment.....	0.64	0.55	0.84	0.54
Supplies.....	0.75	0.83	0.75	0.82
Advertising.....	0.08	0.10	0.13	0.29
Insurance (except on real estate).....	0.46	0.33	0.46	0.30
Taxes (except on real estate or income):				
Sales.....	0.04	0.03	0.02	0.04
Other.....	1.15	0.80	1.00	0.79
Miscellaneous Expense.....	1.36	1.85	1.59	1.77
Total Expense before Interest.....	27.52%	27.17%	27.64%	26.43%
Rate of Stock-turn (times a year):				
Based on Beginning and Ending Inventories.....	4.53	4.95	4.13	5.03
Based on Monthly Inventories ²	3.68	4.88	3.42	4.88

* Data not available.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² The figures for this item in the first group were based on the reports of the 9 chains giving monthly data.

in 8 out of 12 months the same was true for chains operating in the South East and West Central zones. On the other hand, firms in the Mid-Atlantic area did not have as great sales increases as the national chains in 9 out of 12 months, while New England operators had less satisfactory sales changes in 8 out of the 12 months.

Size of City a Factor

Material presented at the foot of Table 13 indicates that chains reporting in the first two volume groups had no outlets in cities with populations in excess of 500,000 and commonly had a majority of their stores in cities with populations of less than 10,000. Firms with total sales of \$2,000,000 to \$25,000,000 had a few units in cities with populations of more than 500,000, while firms with sales of more than \$25,000,000 had more than 15% of their stores so located. These large chains had slightly less than 42% of their stores in cities of less than 25,000.

The effect of the size of city is shown not only in the high average sales per store figures of the larger chains but also in the percentage of sales incurred for tenancy costs. The largest chains with more urban locations paid more than 6% of sales for this item, whereas the small chains paid in the neighborhood of 3% of sales.

Low Percentage Payroll and Administrative Costs for Large Chains

An advantage associated with large volume per chain and per store was evident, as it has been in other years, in the low percentage cost for salaries and wages incurred by chains with sales of more than \$25,000,000.

Further light is thrown on the payroll advantage of the largest chains by the data provided in Table 14, page 17. Here it is clearly shown by the medians that the salaries of store managers were substantially lower in percentage of sales for firms with sales above \$25,000,000 than they were for chains with sales from \$2,000,000 to \$25,000,000. This lower percentage resulted despite the fact that dollar payments to store managers were almost twice as high in the case of the larger chains. The sales per store, however, were more than 3.5 times as great, so that the percentage cost was less. A substantial economy, more than 1% of sales, was also shown in the total administrative and general payroll of the very large chains as compared with the group with lower sales volumes.

New data collected for 1944 indicate that the chains with sales of \$2,000,000 to \$25,000,000 commonly employed three executives at an average compensation¹ per executive of about \$15,000. Total payments to these executives amounted commonly to 0.9% of net sales, a figure closely

agreeing with the median for salaries of officers and chief executives in Table 14. For the chains with sales of more than \$25,000,000, five executives usually were employed at an average compensation per person of approximately \$35,000. Since the sales volume per chain was far greater for these firms than for firms in the preceding group, the executive payments typically amounted to 0.24% of sales, a figure somewhat below the median of 0.31% given in Table 14.

Small percentage savings in many of the administrative and general accounts other than payroll contributed to a total administrative and general expense which was in the neighborhood of 1.5% of sales lower for the group of large chains than for the group with sales of \$2,000,000 to \$25,000,000. This advantage more than compensated for higher store expenses so that total operating expense before interest, as shown in Table 14, was lower for the very large chains than for those in the preceding volume group.

It should be noted that costs incurred for warehouse operation are included as administrative and general expenditures. Firms with sales of \$2,000,000 to \$25,000,000 reported rather extensive warehousing. Of 13 firms answering a question on such activity, 12 indicated that they had a central warehouse or warehouses, while only one had no warehouse. Typically 35% of the goods sold by the nine of these 13 firms reporting the material passed through their warehouses in 1944. In the case of the largest chains, 7 of the 8 had warehouses but only 4.4% of the goods sold typically passed through these warehouses.

Drop in 1944 Expense Ratio for Large Chains Resulted from Lowered Store Costs

Comparison of the 1944 average percentages for the largest chains with those furnished for the same group of firms for 1943² indicates a decline of 0.9% of sales in total store expense from the 1943 level but a rise of slightly more than 0.1% of sales in the total administrative and general expense. This increase came primarily in the miscellaneous account and to a lesser extent in salaries and wages, perhaps reflecting, in the latter case, the difficulty of keeping trained help in offices and warehouses and, in the former, increased travel costs, pension

¹Corporations were asked to indicate the total amount paid to all executive officers (as reported in Schedule F of Form 1120 for Federal Income taxes), as well as the number of such officers. Partnerships and proprietorships were requested to report fair charges for the services of active owners. These data were provided by 9 firms with sales of \$2,000,000 to \$25,000,000, and by 5 firms with sales over \$25,000,000.

²Harvard Business School, Bureau of Business Research, Bulletin No. 120, *Expenses and Profits of Limited Price Variety Stores in 1943*, by Edward C. Bursk, Table 8, page 13.

plan expenditures, and heavier contributions and donations to such organizations as Community Chests and the Red Cross.

Detailed Tax Data for Large Chains

An analysis of total tax expense, other than taxes on real estate, is offered in Table 15, below, for the two groups of chains with sales of more than \$2,000,000. Since this table required more detailed information than was reported by all the chains, it is based on the statements of only 15 firms.

Notable among the tax expenditures were payments of more than 0.4% of sales for social security levies, nearly nine-tenths of such expense being chargeable against store operations. There was a close similarity between the social security percentage costs for the two size groups, despite the fact that the largest chains had lower total payroll percentage costs. This result doubtless arises from the fact that the payroll economies of the large chains came in the more effective use of their store managers, and executives, most of whom would in

either size group receive salaries in excess of \$3,000 a year, the limit above which social security assessments are not made.

Taxes on property other than real estate, mainly merchandise inventories, were higher in percentage of sales for the moderate-size than for the large chains, a result associated with the slower rate of stock-turn and greater warehousing activity of the smaller firms.

Details on income tax provisions indicated that the state income tax payments were the smallest part of such expense, while the bulk of the total tax provision was for the Federal tax on excess profits. This provision amounted to about 6.5% of sales for the medium-size firms and 7.5% for the large organizations included in the special analysis. Postwar refunds or debt retirement credits resulted in a decrease in the total tax provision which amounted to 10% of the levy on excess profits. Even with this credit, however, income taxes amounted to over 7% of sales for the medium-size firms and over

Table 15. Breakdown of Tax Expense for 15 Variety Chains¹ Classified According to Volume of Sales: 1944
(Median Figures:² Net Sales = 100%)

Items	Net Sales Volume (in thousands)	
	\$2,000- 25,000	\$25,000- 250,000
Number of Chains.....	8	7
Sales Taxes.....	0.02%	0.02%
Other Store Taxes (except on real estate):		
Social Security Taxes.....	0.38%	0.35%
Property Taxes (except on real estate).....	0.25	0.18
Miscellaneous Taxes (including occupational licenses and state chain store taxes).....	0.07	0.07
Total Other Store Taxes.....	0.76%	0.56%
Administrative and General Taxes (except on real estate and income):		
Social Security Taxes.....	0.05%	0.04%
Property Taxes (except on real estate).....	0.00	0.00
Capital Stock Taxes.....	0.13	0.12
Miscellaneous Taxes (including occupational licenses).....	0.03	0.00
Total Administrative and General Taxes.....	0.23%	0.17%
Total Taxes (except on sales, real estate, and income):		
Social Security Taxes.....	0.45%	0.41%
Property Taxes (except on real estate).....	0.32	0.17
Capital Stock Taxes.....	0.13	0.12
Miscellaneous Taxes (including occupational licenses and state chain store taxes).....	0.09	0.07
Total Taxes (except on sales, real estate, and income).....	1.13%	0.75%
Provision for State Income Taxes for 1944.....	0.20%	0.35%
Provision for Federal Income Tax for 1944.....	0.96	1.69
Provision for Excess Profits Tax for 1944.....	6.57	7.47
Total Provision for Taxes on Income and Excess Profits.....	7.81	9.16
Total Excess Profits Tax Credits (Postwar Refund and Debt Retirement Credit).....	0.66	0.75
Net Taxes on Income and Excess Profits.....	7.21%	8.36%

¹ Not all reporting chains provided the details necessary for this table. Moreover, figures reported by Canadian firms were omitted.
² All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

Table 16. Average End-of-Month Retail Inventory per Store for 19 Variety Chains Classified According to Volume of Sales: 1944

Month	Net Sales Volume ¹ (in thousands)	
	\$2,000- 25,000	\$25,000- 250,000
Number of Chains.....	11	8
December, 1943.....	\$25,342	\$67,552
January, 1944.....	26,362	70,270
February.....	27,093	72,077
March.....	28,854	75,943
April.....	29,433	75,264
May.....	29,947	74,626
June.....	30,422	73,450
July.....	30,045	74,243
August.....	29,747	73,813
September.....	29,360	72,187
October.....	29,928	73,631
November.....	30,073	72,730
December.....	21,799	56,282
January, 1945.....	23,006†	60,851

† Based on data for 10 chains. The December, 1944, average for the same 10 firms was \$22,251.

¹ Only one chain in each of the two groups of firms with net sales of less than \$2,000,000 for the fiscal year 1944 reported data on monthly inventories; hence, it was not possible to establish averages for the small stores.

8% for the large chains. All the income assessments for state and Federal taxes averaged larger as a percentage of sales for the firms with sales of more than \$25,000,000 than for the chains with lower volume, reflecting the higher dollar earnings for the large companies.

Inventories and Stock-Sales Ratios

Monthly inventory figures and stock-sales ratios for the two groups of chains with sales of more than \$2,000,000 are presented in Tables 16 and 17 given above. Comparison of these data with corresponding figures published for 1943¹ indicate that firms of both sizes were affected by merchandise scarcities toward the end of 1944. There is a suggestion in the averages that the moderate-size chains may have experienced declining inventories relative to sales as early as May and June, whereas for the large chains the downward movement appeared somewhat later, or at the end of the summer.

Operating Results Classified According to Number of Stores

Size of chain can be measured in terms of the number of stores operated as well as in terms of total volume. This second method of classification has been employed in Table 18, page 21, which provides averages for four different groups. The

¹Ibid, Tables 11 and 12, page 17.

Table 17. Stock-Sales Ratios¹ for 19 Variety Chains Classified According to Volume of Sales: 1944

Month	Net Sales Volume ² (in thousands)	
	\$2,000- 25,000	\$25,000- 250,000
Number of Chains.....	11	8
January, 1944.....	4.64	3.19
February.....	4.27	3.17
March.....	4.15	2.80
April.....	3.82	2.72
May.....	3.65	2.67
June.....	4.00	2.78
July.....	4.15	2.88
August.....	3.96	2.71
September.....	3.85	2.52
October.....	3.62	2.33
November.....	3.33	2.23
December.....	1.91	1.36
January, 1945.....	3.78	2.43

¹ Ratio of retail inventory for end of preceding month to sales for month.

² Only one chain in each of the two groups of firms with net sales of less than \$2,000,000 in the fiscal year 1944 reported data on monthly sales and inventories; hence, it was not possible to establish stock-sales ratios for the small chains.

limits of these groups are the same as those used in the 1943 report.² Not only is this true but the firms represented in each of the last two groups, those with 50 to 150 stores and 150 to 750 stores, are identical with those included in the groups for 1943. Furthermore, figures for 12 of the 13 firms with 10 to 50 stores in 1944 were used in the averages for the corresponding group in 1943. Thus comparisons of the year-to-year changes based on the averages for these groups is justifiable.

The gross margin percentages for all chains with 10 or more stores averaged higher in 1944 than in 1943, a finding consistent with that for the chains studied in the trend section. In addition to the explanation there given of changes in sales emphasis to lines with characteristically higher percentage markons, another cause is suggested by the somewhat meagre information on total shortages and markdowns. For the five large firms reporting the material in both years, shortages and markdowns combined fell from 2.94% of sales typical in 1943 to 1.60% in 1944. If this tendency was typical of all chains, the diminishing retail reductions alone would have been sufficient to explain the upward movement in gross margin.

The highest total expense percentages were recorded by chains with between 50 and 150 stores and by chains with less than 10 stores. In the case of both these groups, the percentage figures for 1944 exceeded those typical for 1943. The increases

²Ibid, Table 6, page 9.

Table 18. Operating Results for 36 Variety Chains Classified According to Number of Stores: 1944
(Net Sales = 100%, except where noted)

Items	Median ¹ Figures				Aggregate Figures			
	Percentages Computed from the Figures of Each Chain Taken Individually				Percentages Computed from the Combined Dollar Figures of the Chains in Each Number-of-Stores Group			
	Number of Stores				Number of Stores			
	Less than 10 Stores	10-50 Stores	50-150 Stores	150-750 Stores	Less than 10 Stores	10-50 Stores	50-150 Stores	150-750 Stores
Number of Chains.....	9	13	7	7	9	13	7	7
Average Sales per Store.....	\$55,627	\$82,675	\$111,062	\$353,091	\$71,124	\$95,293	\$209,716	\$325,657
Index of Change (1944/1943):								
Number of Stores per Chain.....	100.00	100.00	99.15	100.00	....	....	....	....
Net Sales per Chain.....	103.64	108.86	104.13	105.90	....	....	....	....
Average Sales per Store.....	103.77	106.84	105.99	106.57	....	....	....	....
Net Sales in Identical Stores ²	103.64	106.93	105.60	105.54	....	....	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	65.32%	62.61%	60.97%	61.41%	64.52%	62.32%	61.86%	62.39%
GROSS MARGIN.....	34.68	37.39	39.03	38.59	35.48	37.68	38.14	37.61
Salaries and Wages.....	18.56%	16.68%	17.78%	14.93%	18.25%	17.12%	16.57%	14.75%
Tenancy Costs.....	3.11	3.06	5.90	6.01	3.74	3.61	6.27	6.17
Light, Water, and Power.....	0.52	0.72	0.75	0.66	0.58	0.77	0.74	0.70
Depreciation of Fixtures and Equipment.....	0.55	0.53	0.64	0.55	0.56	0.63	0.71	0.53
Supplies.....	0.38	0.77	0.83	0.80	0.90	0.90	0.95	0.79
Advertising.....	0.20	0.19	0.07	0.15	0.21	0.24	0.06	0.32
Insurance (except on real estate).....	0.57	0.38	0.33	0.35	0.62	0.46	0.37	0.30
Taxes (except on real estate or income):								
Sales.....	0.00	0.00	0.05	0.03	0.02†	0.07	0.03	0.04
Other.....	1.18	1.01	0.92	0.84	1.16	1.02	0.78	0.81
Miscellaneous Expense.....	1.84	1.58	1.75	1.40	2.32	1.54	2.52	1.61
Total Expense before Interest.....	28.69%	25.91%	28.27%	27.36%	28.32%	26.36%	29.00%	26.02%
Total Interest.....	1.63	1.25	1.20	1.28	1.51	1.30	1.11	1.30
TOTAL EXPENSE including Interest.....	29.87%	27.48%	29.22%	28.52%	29.83%	27.66%	30.11%	27.32%
NET PROFIT.....	6.39%	9.76%	8.68%	10.97%	5.65%	10.02%	8.03%	10.29%
Net Profit from Real Estate Operations.....	0.06%	0.10%	0.21%	0.54%	0.05%	0.14%	0.44%	0.99%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	1.32	1.18	1.17	1.24	1.39	1.25	1.08	1.36
Other Revenue, Net.....	0.01	0.25	0.24	0.02	0.04‡	0.42	0.88	0.00
Total Net Other Income.....	1.38%	1.55%	1.68%	1.85%	1.40%	1.81%	2.40%	2.35%
NET GAIN before Income Taxes:								
Percentage of Net Sales.....	7.67%	11.72%	10.14%	12.74%	7.05%	11.83%	10.43%	12.64%
Percentage of Net Worth ³	34.90	50.41	37.77	41.13	29.75	51.58	39.66	31.21
Provision for Taxes on Income and Excess Profits ⁴	*	*	*	10.21%	*	*	*	*
Total Excess Profits Tax Credits ⁴	*	*	*	0.77	*	*	*	*
Net Taxes on Income and Excess Profits ⁴	3.49%	7.89%	7.02%	9.33%	*	7.81%	7.04%	9.00%
NET GAIN after Income Taxes:								
Percentage of Net Sales ⁴	3.57%	3.33%	2.72%	3.45%	*	3.32%	3.09%	3.64%
Percentage of Net Worth ⁴	17.13	13.44	10.43	10.67	*	14.93	11.69	8.99
Rate of Stock-turn (times a year):								
Based on Beginning and Ending Inventories.....	3.77	4.47	5.55	4.88	4.13	4.36	4.81	5.00
Based on Monthly Inventories ⁵	*	3.60	4.62	4.74	*	3.46	4.51	4.83
Total Markdowns and Shortages.....	*	*	*	1.60%	*	*	*	*
Freight, Express, Postage, and Truckage.....	1.87%	1.73%	1.59%	1.52%	*	*	*	*
Distribution of Stores among Cities with Populations of: ⁶								
Less than 10,000.....	....	....	....	....	64.45%	72.09%	41.09%	23.77%
10,000-25,000.....	....	....	....	....	4.44	15.93	13.90	25.32
25,000-100,000.....	....	....	....	....	11.11	4.91	18.43	26.73
100,000-500,000.....	....	....	....	....	20.00	4.60	11.63	11.57
500,000-1,000,000.....	....	....	....	....	0.00	3.37	3.62	5.60
1,000,000 or More.....	....	....	....	....	0.00	0.00	11.33	7.01

* Data not available. † Collections in excess of payments. ‡ Deduction.
¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.
² Data on stores operated continuously for 24 consecutive months were provided by 6 chains in the first group, 8 chains in the second group, and 6 chains in each of the third and fourth groups.
³ The figures for net gain before income taxes as a percentage of net worth for firms in the first group were based on the reports of the 8 chains which provided complete balance sheet data.
⁴ The figures for this item were based on data for 5 chains in the first group, 10 chains in the second group, 6 chains in the third group, and all chains in the fourth group.
⁵ The figures for this item were based on monthly data reported by 8 firms in the second group, 5 firms in the third group, and all firms in the fourth group.
⁶ Data on store locations were provided by all firms in the first group, by 12 firms in the second group, and by all firms in the two larger groups.

in the percentage cost for the chains with from 50 to 150 stores came chiefly as a result of a rise of 0.5% or more of sales in the expense incurred for the miscellaneous account. A corresponding but considerably smaller rise was shown in the same item for chains with more than 150 stores. In general, in chains with 50 or more stores the percentage outlay for other items tended to decrease or remain the same between 1943 and 1944.

Chains with 150 or more stores had the highest net gain before taxes as a percentage of net sales and also paid the highest percentage income taxes, typically 9% or more of sales.

Operating Results Classified According to Average Sales per Store

During the past nine years, as indicated in Chart 2, page 2, changes in total variety chain volume have come about chiefly through fluctuations in the sales per store. Variations in the number of stores operated per chain have been negligible.

Growth in Sales Common for Stores of All Sizes

The rise in sales per store typical in the variety chain trade from 1943 to 1944 was experienced by stores of all sizes. This fact is clearly shown by the figures given in Table 19, below, for 25 chains. For these firms there was a minor decline, less than 1% in the total number of stores operated during the 12 months of each year. The figure declined from 3,034 operated during the entire year 1943 to 3,023 open during the entire year 1944. In contrast to this small decrease, there were declines of more than 10% in the two groups of stores with sales of less than \$75,000 and a decrease of about 8% in the number of stores with sales of \$75,000 to \$150,000. Offsetting the drop in the number of small stores were increases in the number of larger stores — increases ranging from slightly more than 4% for stores with sales of \$1,000,000 to \$2,000,000 to over 20% in the number of stores securing volumes in excess of \$2,000,000. Apparently there was an upward shifting of the stores throughout the volume range.

The Sales-per-Store Groups

Partly because of this sales trend and partly because there was a decrease in the number of reports filed by chains of small stores, there were only two chains reporting for 1944 which had average annual sales per store in that year of less than \$50,000. For that reason, it has been necessary to omit averages for chains of very small stores. Table 20, page 23, therefore, presents averages for four rather than for the five sales-per-store groups for which corresponding averages were given for 1943.

Typically the chains represented in the first three groups were regional or local chains. The median number of stores operated was 8 in the first group, 23 in the second, and 39 in the third. In contrast, none of the chains with average sales per store of \$250,000 or more had fewer than 100 stores and the median was somewhat more than 200 stores.

The third group of chains, those with sales of \$100,000 to \$250,000 per store, however, was not a particularly homogeneous group of chains. In it there were three chains with more than 100 stores and two with less than 10 stores. Two of the large ones had stores in cities with population over 1,000,000 and also, along with some of the lesser size chains, had units in cities of 500,000 to 1,000,000. Thus, although more than half the stores covered in the group were in small cities, more than 5% were in cities of over 500,000, a fact which is reflected in relatively high tenancy costs for the group. In using the averages given in Table 20, allowance should be made for the mixed character of this third group.

Use of the Averages Limited

Since large chains clearly can operate small stores and some small chains can operate reasonably large stores, a classification based on average sales per store cannot be clear-cut and the value of the figures based on such a classification is restricted to accounts in which volume per store is the significant factor. Such analysis, furthermore, is rendered difficult because volume per store is controlled by

Table 19. Distribution of Stores Operated by 25 Variety Chains According to Sales per Store: 1943-1944

Annual Net Sales per Store	Number of Chains		Number of Stores Operated for Entire Fiscal Year		Percentage 1944 to 1943
	1943	1944	1943	1944	
Less than \$30,000.....	6	7	35	31	88.57%
\$30,000-75,000.....	22	23	451	393	87.14
\$75,000-150,000.....	22	23	822	757	92.09
\$150,000-250,000.....	18	19	705	745	105.67
\$250,000-500,000.....	13	14	643	685	106.53
\$500,000-1,000,000.....	9	9	272	299	109.93
\$1,000,000-2,000,000.....	8	8	92	96	104.35
\$2,000,000 or More.....	4	5	14	17	121.43
Total.....	25	25	3,034	3,023	99.64%

Table 20. Selected Operating Results for 33¹ Variety Chains Classified According to Average Sales per Store: 1944
(Net Sales = 100%, except where noted)

Items	Median ² Figures				Aggregate Figures			
	Percentages Computed from the Figures of Each Chain Taken Individually				Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales-per-Store Group			
	Sales per Store (in thousands)				Sales per Store (in thousands)			
	\$50-75	\$75-100	\$100-250	\$250 or More	\$50-75	\$75-100	\$100-250	\$250 or More
Number of Chains ³	7	8	11	7	7	8	11	7
Average Sales per Store (in thousands).....	\$59	\$82	\$134	\$357	\$60	\$82	\$145	\$372
GROSS MARGIN.....	36.26%	37.90%	38.29%	37.66%	38.36%	38.89%	38.19%	37.54%
Salaries and Wages:								
Store Managers.....	*	*	2.92%	1.77%	*	*	*	*
Total Salespeople and All Other Store.....	*	*	10.13	11.68	*	*	*	*
Total Store Salaries and Wages (subtotal)...	*	*	13.05	12.93	*	*	*	12.85%
Total Administrative and General.....	*	*	2.75	2.03	*	*	*	1.97
Total Salaries and Wages (subtotal).....	17.56%	17.52%	16.37	14.93	19.67%	17.77%	16.32%	(14.82)
Tenancy Costs:								
Store.....	*	*	*	6.16	*	*	*	6.16
Administrative and General.....	*	*	*	0.12	*	*	*	0.14
Total Tenancy Costs (subtotal).....	2.88	2.71	4.39	6.25	3.70	2.95	5.29	(6.30)
Light, Water, and Power.....	0.65	0.72	0.59	0.75	0.70	0.75	0.70	0.71
Depreciation of Fixtures and Equipment.....	0.61	0.52	0.55	0.55	0.61	0.72	0.68	0.54
Taxes: Sales.....	0.00	0.00	0.00	0.04	0.03	0.14	0.01†	0.04
Other.....	1.02	1.00	1.07	0.75	1.09	1.04	0.98	0.78
All Other Expense.....	3.22	2.79	3.41	3.46	2.94	2.92	3.27	3.17
Total Expense before Interest.....	28.47%	28.34%	27.70%	26.97%	28.74%	26.29%	27.23%	26.36%
Total Store Expense.....	*	*	21.94%	23.90%	*	*	*	23.10%
Total Administrative and General Expense....	*	*	4.12	3.13	*	*	*	3.26
Total Expense before Interest.....	28.47%	26.34%	27.70%	26.97%	28.74%	26.29%	27.23%	26.36%
Total Interest.....	1.36	1.28	1.20	1.18	1.34	1.38	1.21	1.27
TOTAL EXPENSE including Interest.....	29.85%	27.60%	28.84%	27.95%	30.08%	27.67%	28.44%	27.63%
NET PROFIT.....	7.54%	10.07%	8.50%	10.07%	8.28%	11.22%	9.75%	9.91%
Net Other Income.....	1.39	1.85	1.54	2.25	1.26	1.89	1.84	2.43
NET GAIN before Income Taxes:								
Percentage of Net Sales.....	8.06%	11.84%	10.14%	11.80%	9.54%	13.11%	11.59%	12.34%
Percentage of Net Worth ⁴	47.66	59.11	46.68	34.31	43.30	52.98	43.17	31.12
Net Taxes on Income and Excess Profits ⁵	6.30%	8.04%	7.52%	8.74%	6.24%	8.01%	6.47%	8.77%
NET GAIN after Income Taxes:								
Percentage of Net Sales ⁶	2.93%	3.45%	3.11%	3.73%	3.14%	3.43%	2.93%	3.57%
Percentage of Net Worth ⁶	14.88	15.58	13.44	9.17	14.27	14.41	12.89	8.99
Rate of Stock-turn (times a year):								
Based on Beginning and Ending Inventories..	3.80	4.46	5.50	5.02	4.34	4.42	4.63	5.05
Based on Monthly Inventories ⁷	*	*	3.70	5.02	*	*	3.82	4.96
Distribution of Stores among Cities with Population of: ⁷								
Less than 10,000.....	.....	.....	.....	.....	76.03%	90.26%	47.77%	15.01%
10,000-25,000.....	.....	.....	.....	.....	8.27	6.66	26.76	23.52
25,000-100,000.....	.....	.....	.....	.....	4.13	1.54	13.24	30.76
100,000-500,000.....	.....	.....	.....	.....	11.57	1.54	6.48	13.88
500,000-1,000,000.....	.....	.....	.....	.....	0.00	0.00	3.45	6.50
1,000,000 or More.....	.....	.....	.....	.....	0.00	0.00	2.30	10.33

* Data not available. † Collections in excess of payments.

¹ In preparing this table, statements for four reporting chains were excluded. These chains comprised one very large chain, another with more than 50 small stores, and two with average sales per store of less than \$50,000.

² All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

³ Separate data for store and administrative costs were given by only three of the chains with sales per store of \$50,000 to \$75,000 and four of the chains with sales of \$75,000 to \$100,000; consequently, no separate percentage figures for store or administrative costs are given for chains in the first two groups. Only six chains in the third group provided this functional breakdown of expense; hence the medians given for those groups are based on a very limited sample. All the chains in the last group provided detailed data by functions.

⁴ The figure for this item for the chains in the third group was based on the reports of the 10 firms giving complete balance sheet data.

⁵ The figures for this item were based on data for 6 chains in the first group, for 6 chains in the second group, 8 chains in the third group, and all chains in the last group.

⁶ The figures for this item were based on monthly data reported by 7 chains in the third group and all chains in the last group.

⁷ Data on store locations were provided by 6 firms in the first group and by all firms in the other three groups.

the size of the potential customer group which in turn depends on the population of the shopping area. And, as has been noted, dense urban populations lead to high dollar rental charges. Thus the higher dollar rental costs found in large city operation more than counteracted the economy which might have been expected from the effective use of space in large volume stores; percentage tenancy costs were high for stores with sales of \$250,000 or more.

A definite advantage of large store volume is displayed, however, by the percentage costs for total salaries and wages which were progressively lower

from group to group. Detailed median figures available only for chains with sales per store in excess of \$100,000 clearly show that the payments to store managers were substantially less percentage-wise in stores with sales above \$250,000 than in the preceding group. Furthermore, since the largest sales-per-store group also consisted entirely of chains of more than 100 stores, the total volume in the last group averaged high, making possible a saving in administrative salaries, and consequently in total administrative and general costs.

The lowest costs were experienced by the chains realizing sales of \$75,000 to \$100,000 per store.

Table 21.. Operating Results for 19 Variety Chains for Regular Merchandise Departments: 1944

Soda Fountains, Luncheonettes, or Restaurants Either Not Operated or Excluded

(Net Sales in Regular Merchandise Departments = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Chain Taken Individually		Percentages Computed from the Combined Dollar Figures of the Chains in Each Number-of-Stores Group	
	Number of Stores		Number of Stores	
	Less than 50 Stores	50-750 Stores	Less than 50 Stores	50-750 Stores
Number of Chains.....	10	9	10	9
Average Sales per Store:				
Total (including Soda Fountains, Luncheonettes, and Restaurants) ²		\$353,091	\$91,269	\$345,304
Regular Merchandise Departments Only.....	\$81,520	328,093	89,249	330,593
Percentage of Stores Having Soda Fountains, Luncheonettes, or Restaurants ³.....	.....	.....	9.89%	27.72%
Operating Data for Regular Merchandise Departments:				
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	63.38%	63.70%	63.83%	64.21%
GROSS MARGIN.....	36.62	36.30	36.17	35.79
Expense ⁴ :				
Salaries and Wages.....	17.39%	14.22%	17.58%	14.13%
Tenancy Costs.....	3.34	6.11	3.96	5.83
Light, Water, and Power.....	0.52	0.66	0.59	0.66
Supplies.....	0.75	0.80	1.02	0.74
Other Expense.....	4.41	3.98	4.18	3.92
Total Expense before Interest.....	27.51%	26.31%	27.33%	25.28%
Total Interest.....	1.24	1.25	1.31	1.31
TOTAL EXPENSE including Interest.....	28.67%	27.43%	28.64%	26.59%
NET PROFIT.....	7.62%	9.52%	7.53%	9.20%
Rate of Stock-turn (times a year):				
Based on Beginning and Ending Inventories.....	4.46	4.93	4.46	4.93
Based on Monthly Inventories ⁵	3.46	4.58	3.41	4.62
Distribution of Stores among Cities with Populations of:				
Less than 10,000.....	.....	.....	68.68%	24.45%
10,000-25,000.....	.....	.....	13.74	25.67
25,000-100,000.....	.....	.....	3.85	25.61
100,000-500,000.....	.....	.....	8.79	12.25
500,000-1,000,000.....	.....	.....	4.94	4.73
1,000,000 or More.....	.....	.....	0.00	7.29

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² With two exceptions, none of the chains in the first group operated soda fountains, luncheonettes, or restaurants. All the chains in the second group operated such departments in one or more of their stores.

³ In deducting figures for soda fountains, luncheonettes, or restaurants from the consolidated figures for chains operating such departments, no allocation of administrative expense or interest to these departments was possible; consequently, the expense items here given are overstated by the amounts of such indirect charges.

⁴ The figures for stock-turn based on monthly inventories are based on data for 7 firms in the small store group.

NOTE: All the 9 chains in the second group and 7 of the 10 chains in the first group were identical with those included in the corresponding classifications shown in Table 18, Bulletin No. 120, *Expenses and Profits of Limited Price Variety Stores in 1943*.

Over 90% of the stores of the eight chains in this group were located in cities of less than 10,000. The favorable sales volume achieved in such small shopping centers together with the low dollar rental charges typical of such locations resulted in very low percentage tenancy charges, an advantage which more than offset the relatively high percentage payroll costs which are generally characteristic of small store operation. Percentage figures for net gain before income taxes, therefore, were high for this group, both in relation to net sales and net worth.

The lowest returns on net worth both before and after taxes were reported by the large chains for which sales per store averaged more than \$250,000 in 1944. Evidently the capital and surplus position of these firms was heavier in relation to sales than was that of the smaller chains. This relatively greater net worth may have reflected a better earnings record over a period of years, a more conservative dividend policy, and a larger investment in the glamour-type store operated in metropolitan sites. From the stock-turn ratios there is little indication of large investments in merchandise.

Operating Figures Excluding Soda Fountains, Luncheonettes, and Restaurants

The discussion of the 1944 sales by merchandise lines indicated that soda fountains, luncheonettes, and restaurants contributed substantially to variety chain sales, particularly in the large chains. Since the margins and expenses of such service departments differ considerably from those for regular merchandise departments, an effort has been made in the annual surveys for the last five years to segregate the results for soda fountains, luncheonettes, and restaurants and publish averages which would reflect the operations in regular merchandise departments only.

Table 21, page 24, presents medians and averages based on aggregates for the regular merchandise business for two groups of chains, firms with less than 50 stores and firms with 50 to 750 stores. It is noteworthy that eight of the ten chains in the first group had no soda fountains, luncheonettes, or restaurants, hence little adjustment of the total chain profit and loss and expense data was required in this group. In the case of the larger chains, soda fountains, luncheonettes, or restaurants were operated in some of the stores of all the nine chains. The averages indicate that such departments were provided in more than one-fourth of the stores operated by this group, presumably chiefly in outlets in cities of more than 100,000 population.

The adjustment for the operations of these service departments, consisted of deducting sales,

merchandise cost, gross margin, and store expenses for the departments from the operating statements for the individual chains. Since no allocation of administrative or interest charges was attempted, the expenses in the large chain group may be somewhat overstated.

As has been the case in preceding years, the elimination of the high-margin service departments resulted in reducing the average gross margin percentage for the chains. The average gross margin for regular merchandise departments actually was somewhat lower for the large than for the small chains — a different situation than was displayed by the data in Table 18 giving total chain results classified by number of stores.

Data Compared with Results for Small Department Stores

Some interest may attach to comparing the figures for regular merchandise departments in variety chains with corresponding data for small department stores of similar size. The department store figures cited in Table 22, below, are taken from the Harvard report for that trade for 1944.

Table 22. Operating Results for Regular Merchandise Departments in 19 Variety Chains Compared with Operating Results for 59 Department Store Firms: 1944

(Net Sales = 100%)

Items	Variety Chains (Regular Merchandise Departments)		Department Stores ¹	
	Medians		Common Figures	
	Less than 50 Stores	50-750 Stores	Sales less than \$150,000	Sales of \$300,000- 500,000
Typical Sales per Store...	\$81,520	\$328,093	\$100,000	\$400,000
Gross Margin.....	36.62%	36.30%	33.5%	36.0%
Salaries and Wages.....	17.30%	14.22%	13.9%	14.3%
Tenancy Costs.....	3.34	6.11	2.0	2.9
Supplies.....	0.75	0.80	0.6	0.75
Total Expense including Interest.....	28.67%	27.45%	22.3%	24.6%
Net Profit.....	7.62%	9.52%	11.2%	11.4%
Stock-turn (times a year) Based on Beginning and Ending Inventories.....	4.46	4.93	4.2	4.8

¹Source: Harvard Business School, Bureau of Business Research, Bulletin No. 122, *Operating Results of Department and Specialty Stores in 1944*, by Malcolm P. McNair, pp. 11 and 13.

The small variety chains operated more than 80% of their stores in cities of less than 25,000 population. This compares with a figure of 75% of the smallest department stores in cities of less than 30,000. It seems quite clear that these two groups of small chains and small department stores were

competitors, the chains typically securing about four-fifths of the volume per store typical of the department stores. It is noteworthy that the percentage expense typically incurred by the small chains was about 6% of sales higher than that incurred by the smallest department stores, and that the gross margins to cover the costs were only about 3% of sales higher. As a consequence, the net operating profit of the chains was not as great as that of their competitors. The higher chain cost was chiefly in the payroll item and the tenancy cost account. The former higher cost may have reflected both smaller unit transactions per salesperson and greater administrative cost for the chains, while the latter probably reflected not only lower total sales but also higher dollar rentals.

The larger chains had 75% of their stores in cities of less than 100,000, whereas 75% of the larger department stores considered were situated in cities of less than 67,000. The typical population figure in each case was in the neighborhood of 25,000. It should be emphasized, however, that the percentages for the chains are based on consolidated statements covering all stores, and hence are influenced by the results of the large volume metropolitan stores.

With these qualifications it is interesting to note that the gross margin levels for the competing stores were very similar, a 36.3% median for the large chains and a 36.0% common figure for the department stores. Payroll costs were closely similar at 14.22% and 14.3% of net sales, respectively. Supply costs were about the same at 0.8% and 0.75%. The tenancy cost figure undoubtedly shows the effect of the high rental locations characteristically selected by the chains and the relatively low unit sales achieved as well as the distortion due to large city operations. Chiefly because of the high rental cost, the chains incurred higher total expense and realized lower operating profits than did department stores with sales per store of \$300,000 to \$500,000.

The rates of stock-turn for both types of enterprise corresponded closely.

Stock-Sales Ratios

In Table 23 stock-sales ratios are given for regular

merchandise departments for seven small chains and the nine large firms. These figures show the characteristic higher ratios for smaller firms already shown in Table 17 based on total chain results: Again the fall in the ratio started in August, 1944, and continued throughout the calendar year.

For the student of trends, attention is called to the fact that the nine large chains are the same firms for which corresponding data were made available in 1941, 1942, and 1943, in bulletins for those years. The 1.42 ratio of regular merchandise stocks at the beginning of December to December, 1944 sales was the lowest in the four years for which figures have been published. It is reasonable to assume that the relatively smaller increase in regular merchandise sales per store, typically 6.77% in 1944 over 1943, as compared with 7.25% for the same nine chains in 1943 over 1942, may have resulted from restricted merchandise stocks in the fall and pre-Christmas season of 1944.

Table 23. Stock-Sales Ratios¹ for 17 Variety Chains for Regular Merchandise Departments: 1944
Soda Fountains, Luncheonettes, or Restaurants Either Not Operated or Excluded

Month	Number of Stores	
	Less than 50 Stores	50-750 Stores
Number of Chains.....	7	9
January, 1944.....	3.88	3.41
February.....	3.95	3.46
March.....	3.88	2.98
April.....	3.77	2.86
May.....	3.60	2.79
June.....	4.12	2.86
July.....	4.23	3.09
August.....	4.11	2.94
September.....	3.85	2.71
October.....	3.66	2.49
November.....	3.55	2.37
December.....	1.88	1.42
January, 1945.....	3.65†	2.39

† This ratio is based on data for 6 chains.

¹ Ratio of retail inventory for end of preceding month to sales for the month. Note: All the 9 chains in the second group and 6 of the 7 chains in the first group were identical with those included in the corresponding classifications shown in Table 19, Bulletin No. 120, Expenses and Profits of Limited Price Variety Stores in 1943.

SECTION IV

RESULTS FOR INDEPENDENT VARIETY STORES

The study of operating results for independent variety stores, initiated in the bulletin for 1943, has been extended to cover the year 1944. For the latter year a total of 43 usable statements was received by the Bureau, a considerable increase over the 28 reports available for study for 1943. The aggregate sales volume for the 43 reporting firms was \$2,542,283 for 1944, the average sales per store was \$56,495, and the extreme range in sales per store was from \$17,000 to \$131,000. The sales volume of these independents thus was somewhat similar to that in the units of small variety chains. The stores usually were located in cities of less than 4,000 population and were widely scattered throughout the country in 21 different states. Areas not represented included the South East, the Rocky Mountain sections, and the densely populated states in the New England and the Mid-Atlantic areas.

Thirty-nine of the firms specified their form of organization. By far the largest number, 26, were proprietorships. Partnerships were operated in 12 cases and only one firm was incorporated. Thirty-two of the 43 firms reported membership in voluntary chains, while 11 stated that they had no such affiliation.

Thirty-eight of the 43 firms gave information concerning price policy. Of the 38, 23 (considerably more than half) indicated that they had no price limits, 8 that they used a \$5 limit, 5 that they used a \$1 limit, and 2 that they used mainly a \$1 limit with some exceptions.

Data for All Reporting Independents

Table 24, page 28, presents operating data for all the 43 reporting firms. In the left-hand column are provided average figures for the several operating items prepared from the aggregates of the dollars reported by all the firms combined. Aggregate net sales was used as the basis in computing the percentages. Since such averages tend to reflect the performance of the stores with the largest sales volumes, another set of figures was derived through the preparation of individual percentage figures for each of the 43 firms. The 43 percentages for each item were then arrayed separately in order from the lowest to the highest. The middle, or "median", item in each series was selected as representative of the typical experience of the firms, regardless of size. These median figures are given in the second column of the table.

The lowest quarter and the highest quarter of each series were then cut off and the limits of the remaining middle half of the array are given in the last two columns of the table. These latter figures are useful to executives of individual firms in measuring their own results against the average. Variations from the average which fall within the reported range, of course, are not so significant as those falling below or above the listed range.

An interesting feature of the table is the indication of sales change from 1943 to 1944. The median figure discloses a typical volume increase of slightly more than 18% above the level for the prior year. Furthermore it was not unusual for the firms to have increases up to 26%. Three-quarters of the stores experienced at least a 9% increase in volume, or 3% more than the typical 6% increase recorded by variety chains.

Figures compiled by the Department of Commerce for various types of retail trade indicate an increase of 4.9% for the variety stores as a whole. Furthermore, a second index of rural sales of general merchandise reveals an upward trend of only 4.5%¹. It seems probable, therefore, that the group of firms reporting to the Bureau may well represent independent variety stores in which the management is superior to that found in the majority of such stores. As such, perhaps the averages for the 43 firms should not be regarded as typical of all variety stores but rather as an indication of what can be achieved by competent management in favorable circumstances.

According to the averages in Table 24, about two-thirds of each sales dollar was spent for merchandise, leaving one-third to defray operating expenses and provide a profit. Operating expenses, including a fair charge for salaries of proprietors or partners, as well as a charge for interest on the investment,² amounted to less than one-quarter of the sales dollar, leaving about one-eleventh, or 9.11%, as net profit. The final net gain after sundry income and deductions amounted to more than 11% of net sales or close to 30% of the average net worth. Since all but one of the reporting firms were partnerships or proprietorships, no data on Federal income taxes were available. Clearly, however, the taxes on these earnings would have absorbed a substantial portion of the total gains.

¹These indexes were prepared from monthly data published currently in the *Survey of Current Business*, pp. S-7 and S-9.

²See page 29 for a discussion of the interest item.

Table 24. Operating Results for 43 Firms Operating Independent Variety Stores: 1944

(Net Sales = 100%, except where noted)

Items	Aggregate Figures	Median ¹ and Range Figures		
		Percentages Computed from the Figures for Each Firm Taken Individually		
		Median ¹ Figures	One-half the Reported Figures, Centered on the Median, Lay between the Limits Listed Below	
Aggregate Number of Stores.....	45	.....	.....	.....
Aggregate Net Sales.....	\$2,542,283	100.00%	.....	.....
Average Sales per Store.....	\$56,495	\$47,383	\$31,033	\$77,453
Change in Sales (1944/1943).....	.....	118.13	109.75	126.13
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	66.68%	66.42%	64.73%	68.86%
GROSS MARGIN.....	33.32	33.58	31.14	35.27
Salaries and Wages:				
Executive.....	5.36%	5.98%	4.06%	7.54%
Other.....	8.76	8.00	5.52	9.44
Total Salaries and Wages (subtotal).....	(14.12)	14.24	11.74	15.63
Tenancy Costs (including Heat).....	2.74	2.82	2.16	3.75
Light, Water, and Power.....	0.52	0.51	0.37	0.71
Depreciation of Fixtures and Equipment.....	0.63	0.58	0.34	0.79
Supplies.....	0.74	0.78	0.52	0.98
Advertising.....	0.55	0.37	0.17	0.72
Insurance (except on real estate).....	0.37	0.35	0.26	0.51
Taxes (except on real estate or income):				
Sales.....		0.00	0.00	0.00
Other.....	0.73	0.64	0.47	0.83
Miscellaneous Expense.....	1.62	1.58	1.08	2.47
Total Expense before Interest.....	22.02%	22.25%	20.18%	24.47%
Total Interest ²	2.19	1.99	1.63	2.85
TOTAL EXPENSE including Interest.....	24.21%	24.54%	22.33%	25.93%
NET PROFIT.....	9.11%	9.20%	5.64%	11.56%
Net Other Income (including interest on Net Worth).....	2.48	1.95	1.50	2.90
NET GAIN before Income Taxes:				
Percentage of Net Sales.....	11.59%	11.92%	7.76%	14.06%
Percentage of Net Worth.....	27.49	31.04	17.66	41.96
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	3.82	3.82	3.27	4.48
Discounts and Allowances Received.....	*	1.00% [†]	0.91% [†]	1.31% [†]
Freight, Express, Postage, and Truckage.....	*	1.86 [†]	1.42 [†]	2.14 [†]
Population of City ³.....	.....	3,070	1,804	6,632
Distribution of Stores among Cities with Populations of: ³				
Less than 10,000.....	34	.....	.....	.....
10,000-25,000.....	2	.....	.....	.....
25,000-100,000.....	3	.....	.....	.....
100,000-500,000.....	3	.....	.....	.....
500,000-1,000,000.....	1	.....	.....	.....
1,000,000 or More.....	0	.....	.....	.....

* Data not available. † Usable figures for this item were given on less than 75% of the reports.

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² Total interest includes any interest paid on borrowed capital plus an imputed charge for interest at 6% on net worth other than real estate. The latter interest is credited back under Net Other Income so that the final net gain is not affected by the inclusion of such interest as expense.

³ In the case of reports covering two stores, only the location of the principal one was indicated.

The most important of the expense items was the salary and wage account which required somewhat more than 14% of sales. About two-fifths of this cost, typically about \$3,000 for a store with sales of \$56,000, was for payments to proprietors or partners, with the remainder, or roughly \$5,000,

being paid to employees. Tenancy costs, comprising rent actually paid, heat, and all expenses, such as taxes, insurance, depreciation, interest, and repairs on owned or leased real estate used in the business amounted, on the average, to 2.74% of sales. In terms of dollars, this amounted to some-

what more than \$1,500 per store, or about \$130 per month.

Only one additional account other than interest (discussed below) required more than 1% of sales. This was the miscellaneous item which absorbed about 1.6% of sales. In this account were included expenses incurred for traveling, repairs (other than on real estate), legal or auditing services, franchise expense in the case of members of voluntary chains, and all other unlisted expenses. Since almost three-fourths of the firms were members of voluntary chains, the franchise cost contributed heavily to this account.

Special comment is necessary at this point concerning the interest account which on the average amounted to about 2% of sales. It has long been the practice of the Bureau in its cost surveys to include a charge for the use of owned capital as well as the out-of-pocket expense incurred as interest on borrowed funds. Theoretically use of owned capital involves expense since such resources if invested in outside enterprise should be expected to yield a fair return. The usual provision was made, therefore, to charge interest at 6% on net worth and combine this with any interest actually paid on borrowed capital. Any interest and dividends actually received on investments were then offset against the total interest charge and the net amount included as expense.

Study of the 43 reports received revealed that little outside borrowing was engaged in by these variety stores; 23 firms reported no interest expense, and the outlay by the remaining 20 averaged only 0.25% of sales. The net worth position, doubtless reflecting high earnings, was strong (see Table 28, page 33); hence charges on the average net worth were substantial. Yet income reported from investments was negligible. Survey of the individual financial statements suggests that a substantial part of the current assets was kept in the form of cash on hand and in banks. In a number of instances, however, investments were reported. The absence of dividend receipts suggests that these investments may have been in Government bonds, such as the Series E and F, which yield no annual interest payments but accumulate interest until maturity at the average rate of 2.9% and 2.53%, respectively. The interest on net worth, therefore, may well be overstated at least to the extent of a 2.5% interest charge on such Government bonds as the firms possess. Since specific information on the investments of the various firms is not available, it has proved impracticable to adjust the interest figures to a more realistic basis. A further qualification derives from the fact that all but one of the statements were for partnerships and proprietor-

ships. It is doubtful whether the net worth reflected full withdrawals or income tax payments by proprietors and partners. Since the interest account is subject to these criticisms, the emphasis in this section will be placed on the items, total expense before interest and final net gain, rather than on the items, total expense including interest and net profit.

Large Stores Had More Favorable Results than Did the Small Stores

Tables 25 and 26, below, present operating data for independent variety stores with sales of less than \$50,000 as separate from those with sales of \$50,000 to \$150,000. None had sales above \$150,000 in 1944. The number of firms in these two categories was about equal; figures for 22 firms were included in the first group and for 21 in the second.

The advantage of better volume in the second group was clearly shown by the expense percentages. Both the median and the aggregate figures disclosed lower percentage outlays for the larger stores for total salaries and wages, as well as all other items except advertising. The chief savings in percentages of sales were in payroll, tenancy costs, and miscellaneous, the three largest items in the budget.

Table 25. Per Store Operating Results for 43 Independent Variety Stores Classified According to Volume of Sales per Store: 1944

(Based on Aggregate Figures)

Items	Sales per Store	
	Less than \$50,000	\$50,000-150,000
Number of Reports	22	21
Average Sales per Store	\$32,050	\$82,040
Net Cost of Merchandise Sold (including freight, express, postage, and truckage)	\$21,630	\$54,430
Gross Margin	10,420	27,610
Salaries and Wages:		
Executive	\$2,440	\$3,640
Other	2,270	7,740
Total Salaries and Wages (subtotal)	(4,710)	(11,380)
Tenancy Costs (including heat)	1,080	2,040
Light, Water, and Power	210	385
Depreciation of Fixtures and Equipment	230	485
Supplies	260	580
Advertising	125	510
Insurance (except on real estate)	145	280
Taxes (except on real estate or income):		
Sales	250	580
Other		
Miscellaneous	620	1,220
Total Expense before Interest	\$7,630	\$17,460
Net Gain before Income Taxes	\$2,840	\$10,430

Table 26. Operating Results for 43 Firms Operating Independent Variety Stores
Classified According to Volume of Sales per Store: 1944

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Firm Taken Individually		Percentages Computed from the Combined Dollar Figures of the Firms in Each Sales-per-Store Group	
	Sales per Store		Sales per Store	
	Less than \$50,000	\$50,000-150,000	Less than \$50,000	\$50,000-150,000
Number of Reports.....	22	21	22	21
Number of Stores.....	23	22	23	22
Number of Members of Voluntary Chains.....	16	15	16	15
Average Sales per Store.....	\$30,722	\$81,930	\$32,050	\$82,040
Change in Sales (1944/1943).....	119.51	115.64	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	67.04%	66.10%	67.49%	66.34%
GROSS MARGIN.....	32.96	33.90	32.51	33.66
Salaries and Wages:				
Executive.....	7.30%	4.40%	7.62%	4.43%
Other.....	7.13	9.42	7.08	9.44
Total Salaries and Wages (subtotal).....	14.53	14.14	(14.70)	(13.87)
Tenancy Costs (including Heat).....	3.14	2.20	3.36	2.49
Light, Water, and Power.....	0.55	0.47	0.65	0.47
Depreciation of Fixtures and Equipment.....	0.66	0.52	0.72	0.59
Supplies.....	0.79	0.67	0.80	0.71
Advertising.....	0.27	0.39	0.40	0.62
Insurance (except on real estate).....	0.39	0.33	0.46	0.34
Taxes (except on real estate or income):				
Sales.....	0.00	0.00	} 0.78	} 0.71
Other.....	0.67	0.64		
Miscellaneous Expense.....	1.87	1.35	1.94	1.49
Total Expense before Interest.....	23.84%	20.96%	23.81%	21.29%
Total Interest.....	1.96	1.99	2.31	2.15
TOTAL EXPENSE including Interest.....	25.45%	23.05%	26.12%	23.44%
NET PROFIT.....	6.38%	10.32%	6.39%	10.22%
Net Other Income (including Interest on Net Worth).....	2.04	1.87	2.47	2.49
NET GAIN before Income Taxes:				
Percentage of Net Sales.....	8.81%	12.73%	8.86%	12.71%
Percentage of Net Worth.....	21.45	33.97	20.93	30.18
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	3.38	4.30	3.34	4.06
Population of City ²	1,930	5,101	....	....
Distribution of Stores among Cities with Populations of: ²				
Less than 10,000.....	....	....	20	14
10,000-25,000.....	....	....	0	2
25,000-100,000.....	....	....	0	3
100,000-500,000.....	....	....	2	1
500,000-1,000,000.....	....	....	0	1
1,000,000 or More.....	....	....	0	0

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² In the case of reports covering two stores, only the location of the principal one was indicated.

On a dollar-per-store basis (as shown in the preceding tables), the actual expenses were higher for all accounts in the large stores; but in relation to sales, the reverse was true, with the one exception noted above. A breakdown of the salary and wage account shows that the total executive salaries (that is, the amounts estimated as fair compensation by the proprietors and partners) averaged

about \$2,400 per store for the small stores and about \$3,600 for the larger stores. Despite the higher dollar level for the large stores, the percentage cost was more than 3.00% of sales below the expense incurred in the smaller units, 4.43% as compared with 7.62%. All other salaries, reflecting a greater staff of employees, were substantially higher in dollars and not quite 2½% of sales higher in the

case of the large stores. The net result, as indicated earlier, was lower total salary and wage percentage cost for the large stores.

The stores with sales over \$50,000 also secured higher percentage margins so that earnings in relation both to sales and net worth were substantially greater than those secured by the small stores. The larger firms also enjoyed a somewhat more rapid

stock-turn rate, more than 4.0 turns a year contrasted to between 3.0 and 3.5.

New Data for Members of Voluntary Chains

Averages for 1944 have also been prepared for 32 members of voluntary chains distinct from 11 independent stores without such affiliation. The data, presented in Table 27, below, reveal no significant

Table 27. Operating Results for 32 Independent Variety Store Firms, Members of Voluntary Chains, Compared with 11 Independent Variety Store Firms Without Such Affiliation: 1944

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Firm Taken Individually		Percentages Computed from the Combined Dollar Figures of the Firms in Each Group	
	Members of Voluntary Chains	Not Members of Voluntary Chains	Members of Voluntary Chains	Not Members of Voluntary Chains
Number of Reports.....	32	11	32	11
Number of Stores.....	33	11	34	11
Average Sales per Store.....	\$46,325	\$51,208	\$58,678	\$49,749
Change in Sales (1944/1943).....	118.15	115.84	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	66.45%	66.42%	66.86%	66.02%
GROSS MARGIN.....	33.55	33.58	33.14	33.98
Salaries and Wages:				
Executive.....	6.10%	5.46%	5.25%	5.75%
Other.....	8.39	4.73	8.95	8.07
Total Salaries and Wages (subtotal).....	14.30	12.90	(14.20)	(13.82)
Tenancy Costs (including Heat).....	2.61	3.90	2.56	3.40
Light, Water, and Power.....	0.49	0.64	0.49	0.65
Depreciation of Fixtures and Equipment.....	0.61	0.41	0.65	0.54
Supplies.....	0.78	0.78	0.74	0.74
Advertising.....	0.31	0.39	0.52	0.66
Insurance (except on real estate).....	0.36	0.31	0.38	0.33
Taxes (except on real estate or income):				
Sales.....	0.00	0.00	} 0.72	} 0.76
Other.....	0.64	0.71		
Miscellaneous Expense.....	1.92	0.94	1.82	0.89
Total Expense before Interest.....	22.36%	20.18%	22.08%	21.79%
Total Interest.....	1.93	2.10	2.07	2.63
TOTAL EXPENSE including Interest.....	24.67%	23.58%	24.15%	24.42%
NET PROFIT.....	9.20%	9.02%	8.99%	9.56%
Net Other Income (including Interest on Net Worth).....	1.84	2.18	2.21	3.47
NET GAIN before Income Taxes:				
Percentage of Net Sales.....	11.69%	11.92%	11.20%	13.03%
Percentage of Net Worth.....	32.55	23.12	29.59	22.48
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	4.20	3.40	4.05	3.16
Population of City ²	3,070	3,768	....	....
Distribution of Stores among Cities with Populations of: ²				
Less than 10,000.....	....	....	27	7
10,000-25,000.....	....	....	2	0
25,000-100,000.....	....	....	2	1
100,000-500,000.....	....	....	0	3
500,000-1,000,000.....	....	....	1	0
1,000,000 or More.....	....	....	0	0

¹ All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

² In the case of reports covering two stores, only the location of the principal one was indicated.

differences in size of store. From the expense standpoint, there was a tendency for tenancy costs and light, water, and power to be somewhat higher for the 11 firms, perhaps reflecting the situation in the larger cities in which 4 of the stores were located. On the other hand, salaries and wages tended to be lower for the 11 than for the 32 firms, as did miscellaneous expense. The latter item, of course, was about 1% of sales lower since the stores did not incur the franchise cost which was charged by the sponsoring wholesaler in the case of the members of voluntary chains.

There was little difference in the gross margin median percentage figures. The percentages based on aggregates, however, disclosed that the 11 firms as a group realized a higher margin rate than did the members of voluntary chains. Too much emphasis should not be placed on this difference in the averages based on aggregates since these averages give weight to the firms with large sales volume. Inasmuch as the total expense before interest was somewhat lower for the 11 stores, their earnings before taxes were superior in percentage of sales.

In relation to net worth, however, the earnings of the members of voluntary chains averaged substantially higher than those for the other stores. As shown in Table 28, page 33, the net worth including real estate equity tended to be lower relative to sales for members of voluntary chains than for the other firms. This tendency is more vividly shown by the averages based on aggregates than by the median data. To some degree this lower net worth reflects a smaller investment in inventory for the voluntary chain group, a characteristic also shown more clearly by the data based on aggregates than by the median data. The lower inventory position is further revealed in the more rapid rates of merchandise turn experienced by the chain members. The rate, somewhat more than 4 turns a year, was almost one turn higher than that for the other stores. These figures suggest that an advantage attached to having a centralized and definite source of supply may be a more effective flow of stock requiring less capital investment. Since the figures for the two groups are based on rather small numbers of stores operating in a period of extremely active consumer buying, and great merchandise scarcities, however, definite conclusions on the matter of merchandise investment cannot be drawn at present.

Selected Financial Data

Table 28, to which reference has already been made, provides averages for a few selected balance sheet figures for the beginning and end of the year

1944 in relation to sales for the year. The data are presented in turn for all reporting firms, firms classified by size, and firms classified according to their policy in regard to affiliation with voluntary chains. In each group, one fact stands out clearly. Inventory, total assets, and net worth were higher at the end than at the beginning of the year. This finding, in so far as inventory is concerned, differs from that for variety chains and independent department stores¹ for which a decline in inventories was the usual experience between the beginning and end of the year.

Since the reporting firms had varying real estate investments (5 firms owned the real estate used, 4 had investments in improvements to leased real estate, 9 owned only real estate not used in the business, and 17 had no real estate assets), it appeared desirable to publish, in addition to the total net worth figures, averages for net worth exclusive of real estate equity. Such figures more fairly indicate the investment for merchandising activities than do those for the total net worth. Therefore, net worth figures are provided with and without real estate equity included. For the various groups considered, the net worth (excluding real estate) as of the beginning of the year amounted on a median basis to between 25% and 30% of net sales for the year. By the end of the year, the corresponding figure was roughly 5% to 7% of sales higher in most of the groups and almost 10% higher in the case of the firms which were not members of voluntary chains. This upward movement, of course, resulted from the earnings achieved by the firms during 1944.

In analyzing these net worth data, it should be remembered that with one exception the 35 firms represented were partnerships or proprietorships. The net worth reported in many cases may not have reflected owners' withdrawals of funds or income tax payments. Hence the figures may be overstated. Furthermore, since the period studied was one of large sales increases and high earnings for the stores, it would be unwise to consider the ratios of net worth to sales as standards. They should be regarded as suggestive rather than as definitive. With this reservation it can be pointed out that the firms began the year with a net worth exclusive of real estate equity amounting to about 30% of the sales volume or in the neighborhood of \$10,000 for a business of about \$35,000 of sales, or \$25,000 for a store with an annual volume of approximately \$85,000.

¹See Harvard Business School, Bureau of Business Research, Bulletin No. 122, *Operating Results of Department and Specialty Stores in 1944*, by Malcolm P. McNair, p. 28.

Table 28. Selected Financial Data for 35 Independent Variety Store Firms¹: 1944

(Net Sales = 100%)

Group	Items	Median Figures		Aggregate Figures	
		Percentages Computed from the Figures of Each Firm Taken Individually		Percentages Computed from the Combined Dollar Figures of the Firms in Each Group	
		Beginning of Year	End of Year	Beginning of Year	End of Year
All Reporting Firms	Inventory.....	15.56%	17.57%	16.22%	17.73%
	Total Assets.....	32.69	36.84	41.97	48.84
	Net Worth (including real estate equity)...	29.08	36.23	38.42	45.51
	Net Worth (excluding real estate equity)...	27.10	35.10	29.96	35.84
Firms with Net Sales per Store of Less than \$50,000	Inventory.....	18.99%	19.81%	18.88%	20.36%
	Total Assets.....	33.74	39.84	42.94	48.16
	Net Worth (including real estate equity)...	32.74	38.23	37.45	44.20
	Net Worth (excluding real estate equity)...	29.08	36.23	29.72	36.50
\$50,000-150,000	Inventory.....	15.21%	16.16%	15.48%	17.00%
	Total Assets.....	31.34	36.31	41.71	49.03
	Net Worth (including real estate equity)...	26.84	33.73	38.69	45.87
	Net Worth (excluding real estate equity)...	26.84	33.73	30.03	35.65
Members of Voluntary Chains	Inventory.....	15.48%	17.29%	15.50%	16.83%
	Total Assets.....	30.04	35.94	37.32	43.78
	Net Worth (including real estate equity)...	27.66	30.90	34.08	40.61
	Net Worth (excluding real estate equity)...	25.24	30.32	28.33	33.26
Not Members of Voluntary Chains	Inventory.....	16.71%	17.80%	18.87%	21.07%
	Total Assets.....	37.36	51.52	59.10	67.49
	Net Worth (including real estate equity)...	29.34	43.16	54.39	63.54
	Net Worth (excluding real estate equity)...	29.34	38.23	35.95	45.32

¹ Sufficiently-complete balance sheet data (for both the beginning and end of 1944) for use in preparing these figures were given by only 35 variety store firms.

APPENDIX

Base of Percentages. All percentages in this bulletin, unless otherwise indicated, are based on net sales as 100%.

Gross Margin. Gross margin is the amount remaining after the deduction of net cost of goods sold from net sales. Net cost of goods sold is billed or invoice cost of goods sold, less discounts taken and allowances received, plus transportation charges, and plus proper charges for merchandise depreciation and stock shortages.

Transportation Charges. In this account are included all transportation charges on merchandise shipped either directly to individual stores or to chain warehouses. Any transportation cost incurred by the chains for transferring merchandise from warehouses to stores or between stores likewise is included in this item. The transportation charges are considered as a part of the cost of merchandise.

Salaries and Wages. The salary and wage classification embraces all items of payroll expense both in stores and in the case of chains in the central organizations, including the compensation of chief executives. For proprietorships or partnerships fair salaries have been included for executives. One change in the definition of the account made for the 1936 study and continued in following years should be noted: pensions, formerly included in salaries and wages, are now considered as miscellaneous expense.

Tenancy Costs. Tenancy costs comprise all expenses on property used in the business. They therefore cover, in the case of leased property, not only rentals paid but other payments made in lieu of rent, such as taxes, insurance, repairs, and amortization of leaseholds. Charges on owned real estate included in this account comprise taxes, insurance, repairs, and depreciation on owned real estate, plus a fair charge for interest on equity in land, buildings, and improvements, as well as interest actually paid on mortgages. The definition of the tenancy cost account for 1944 differs in two respects from that for 1929, 1931, and 1932, but is the same as that obtaining in the years 1933 through 1943. Charges for amortization of major improvements on leased property, formerly combined with charges for depreciation on fixtures and equipment, have been allocated to the tenancy cost item. Also, since many of the firms lease stores for which heat is provided by the landlords, the cost of heat has been included with other real estate charges in order to assure comparability.

Interest. In order to obtain comparability be-

tween businesses using different methods of financing, interest at the rate of 6% on the average net worth exclusive of real estate, leaseholds, and goodwill is considered as an expense, as well as interest actually paid other than mortgage interest. Interest computed on real estate equity and mortgage interest are considered as tenancy expense. From the sum of the actual interest payments and the interest on owned capital is deducted the amount of interest and dividends received.

Total Expense including Interest. Total expense including interest is the complete cost of doing business, comprising, in addition to the usual outlays, salaries of executives, proprietors, and partners; rental charges for owned real estate; and interest on owned capital.

Net Profit. The above procedure with respect to interest leads to a narrow definition of net profit as a theoretically residual sum over and above a customary interest return on invested capital.

Net Other Income. Net other income has three component parts: profit or loss from real estate operations; interest on net worth other than real estate; and other revenue, net. In the first of these are included net profit or loss on owned real estate not used in the business, interest previously charged as expense on the investment in owned real estate used in the business, profit or loss on real estate which has been sublet, and profit or loss of any subsidiary real estate holding companies. Under interest on net worth is credited back the interest at 6% on the average net worth, excluding real estate, previously included as an operating expense in arriving at the net profit on merchandising operations. Miscellaneous revenue, including such receipts as dividends from manufacturing and/or foreign subsidiaries and income from weighing machines and telephones, is considered as sundry revenue, net. Commissions or net profits from leased or concession departments were included here by several chains.

Net Gain before Income Taxes. To arrive at the final net gain or net business profit, net other income is added to the net profit. Therefore the net gain figure, while not affording, from a statistical standpoint, so valid an interchain comparison as the net profit figure, may be taken as roughly approximate to net business profit in the commonly understood sense. Net gain is expressed both as a percentage of net sales and as a percentage of the average net worth. The use of the average net worth as a base for this figure introduces the com-

plication of differing policies in regard to real estate. For a chain which, either directly or through a subsidiary real estate corporation, owns many of the stores operated, the total average net worth is large in proportion to the net sales volume; and as a result the rate of return on invested capital is low as compared with that for a chain owning little or no real estate.

Taxes on Income and Excess Profits. Taxes on income and excess profits have been considered as deductions from net gain. In this tax figure a deduction has been made for the 10% credit whether used currently for debt reduction or set up as a postwar rebate.

Taxes (except on real estate or income). This tax account includes all tax expense except real estate taxes, included under tenancy costs, and federal and state taxes on net income. Where state or municipal taxes on sales or gross income are not collected directly from customers but are absorbed by the firm as expense, such cost is included under sales taxes, a subdivision of the tax account. Other tax expense includes special chain taxes, licenses, taxes on equipment and merchandise inventory, corporate taxes, the federal capital stock tax, payments for unemployment and old age taxes made in compliance with the Social Security Act, and other taxes not specifically mentioned elsewhere.

Rate of Stock-turn. The rate of stock-turn, or rapidity of merchandise turnover, is calculated by dividing the cost of merchandise sold by the average inventory at cost. For chain enterprises the average inventory includes merchandise both in stores and in warehouses. Stock-turn figures of two types have been computed: the first rate, available for all firms, is based on the average of the beginning and ending inventories; and the second rate, available for part of the chains only, is based on the average of 12 monthly inventories.

Leased or Concession Departments. Twelve of the 37 chains indicated that leased departments or concessions were operated in some of their stores in 1944. Volume in such departments usually was small in relation to total sales, and the firms were requested to exclude the revenue from total sales and consider the commissions received under net other income.

For a few chains, however, leased department or concession sales amounted to 3.0% or more of the total volume. In such cases adjustments were made to insure comparability of the operating percentages. Two alternate methods were suggested

to the firms as acceptable bases for the adjustments. The first method was to exclude the leased department sales from total sales, estimate the indirect expenses incurred by the chain in behalf of the departments, and exclude these charges from expense; the difference between commissions and the estimated indirect expenses was to be considered under other revenue. The second method was to include the leased department sales in chain sales and add to chain operating expenses estimates of the expenses incurred directly by the leased or concession departments. An amount corresponding to these direct expenses was then added to the commissions and included in the gross margin with the difference between leased department sales and this figure charged to merchandise cost.

Methods. The statements used in the study were carefully examined for comparability and completeness of data. Whenever questions arose concerning the omission of or the interpretation of material, letters were written to the individual firms requesting additional information. Usually the necessary material was forthcoming. In other cases when it seemed probable that the omission of a figure by a firm was equivalent to a zero entry, zero figures were used in arriving at the averages presented. When it was evident that one reported expense figure covered two or more accounts, adjustments were made to allocate the amount to the proper accounts. In still other instances where material was not reported, the averages were based on a reduced sample; usually medians only are presented in this latter case, and asterisks in the tables indicate the lack of averages for such items.

Aggregates and Averages. Some of the figures included in this report are averages based on aggregate dollar figures. Such aggregate figures manifestly are weighted according to sales volume. These average figures based on dollar aggregates obviously do not afford a good year-to-year comparison unless only identical firms are used, since the averages are substantially affected by the omission or addition of one or two large firms.

Median Figures. Many of the other data presented in this report consist of median figures. These figures are based on percentages computed for each firm in the group individually. Such figures, therefore, give equal weight to each firm, irrespective of sales volume and number of stores. The median is the middle figure in an array of percentages listed in order from the smallest to the largest.

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