

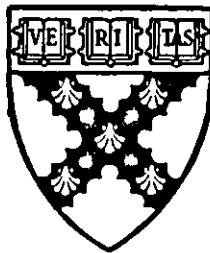
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**AN ANALYSIS OF OPERATING DATA FOR  
SMALL DEPARTMENT STORES  
1938-1942**

**BY  
ELIZABETH A. BURNHAM**



**PRICE, \$1.50**

**HARVARD UNIVERSITY  
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
BUREAU OF BUSINESS RESEARCH  
SOLDIERS FIELD, BOSTON 63, MASSACHUSETTS**

DIGEST

**AN ANALYSIS OF OPERATING DATA FOR  
SMALL DEPARTMENT STORES  
1938-1942**

*Management problems of smaller business are being studied currently by the Harvard Business School. The present Bulletin reports on one phase of this research.*

*The study is offered as having particular interest to persons in the department store field; to persons who consider entering that field; and to persons concerned with those problems which are peculiar to small enterprise.*

*The Bulletin was written by Professor Elizabeth A. Burnham, Acting Chief of the Bureau of Business Research. The following digest indicates more fully the material contained in the study and gives some of the more important findings.*

The study is based on the experience during the five years 1938-1942 of 42 department stores with annual sales of \$100,000 to \$1,000,000.

The operating and financial history of these 42 firms makes it appear that there exists a genuine consumer liking for stores of this kind, located with consideration for public convenience and managed with intelligent understanding.

To make the data studied more usable for persons with a particular sales level in mind, the 42 reports were divided into three size groups for which operating results are reported separately. Stores in each size group had their own particular problems, their special advantages, and their special difficulties. For example, the types of localities served by stores in the three size groups typically differed. In general, the greater the sales volume, the greater was the population density of the county in which the store operated.

Substantial sales increases for the period were shown for all three groups of stores: 28% for the smallest stores; 48% for the middle group; and 60% for the largest stores. In part these differ-

ences in rate of sales increase may be taken to reflect the relatively greater war production activity of the larger population centers.

Gross margin percentages also rose for each size group. In 1942, gross margin common figures were 35.5% of net sales for the smallest stores; 35.0% for the middle group; and 37.0% for the largest stores. Expense rates, however, declined for the period. The lowest total expense percentages for all five years were recorded by the stores in the middle size group. These stores apparently were able to make the best use of the space occupied, with consequent advantage in real estate costs as a percentage of sales. Executive compensation as a percentage of sales, on the other hand, was lowest for the largest stores although considerably greater in dollar amount.

For 1942, the favorable expense rate of the stores in the middle-size group contributed to their over-all advantage. Their average earnings in that year before dividends and federal taxes on income and excess profits were 8.8% of sales as compared with 7.8% for the smallest stores and 8.5% for the largest. For the five-year period, however, the rate of increase in earnings was best for the smallest stores.

The comparisons just made are based on averages for each of the three groups of stores. Within each group, however, there was much variation as between individual stores. War conditions and other factors affecting the sales potentials of the various store locations had a part in the end results. But, in addition, differences in the quality of merchandising policies and management abilities made themselves felt.

Most of the firms which consistently realized better than average profits had low percentage costs. Several firms showed curtailed profits as a result of sales declines without corresponding reductions in dollar expenses. And, in other cases, unfavorable margins on the merchandise sold were reflected in low earnings.

Ready-to-wear and ready-to-wear accessories formed the backbone of sales for the 42 stores reporting. Shoe and millinery departments frequently were operated by lessees. Study of the leased departments led to the conclusion that profits are endangered when sales of leased departments rise much above 10% of total volume.

All the stores surveyed had been in business more than 10 years in 1942, and more than 90% of them were established before 1920. This age distribution is significant but not atypical. Census data show that only 13% of the independent department stores in the country in 1940 were founded after 1929.

In defining a department store, the Census sets a lower sales limit of \$100,000. Thus it would appear from the information offered as to age of stores that reinvestment of earnings for some years ordinarily has been required to enable a store to reach this volume and be classed as a department store. The Bureau's study shows that the stores investigated typically had surplus, reserves (other than for depreciation and taxes), and capital (exclusive of real estate owned) equivalent to between 40% and 50% of the annual sales realized.

Growth of chain department stores perhaps has increased the difficulties which the small department stores face in their development. Nevertheless, it is concluded that there is a real opportunity in many communities for small independent stores to build up sales and reach earnings of 10% to 15% on their investment. Also, it reasonably may be anticipated that, after the war, there will be a swing away from standardized fashions with an increased need for creative merchandising aimed at meeting individual demands of local clientele.

Soldiers Field  
Boston 63, Massachusetts  
September, 1944

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**ELIZABETH A. BURNHAM**

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## FOREWORD

For twenty-four years the Harvard Bureau of Business Research has conducted cost research for department stores, and during that time has accumulated a considerable body of confidential operating statements of firms of all sizes.

In view of the current widespread interest in the problems of small business, and as a part of a program of research in the management problems of small business on which the School has embarked, it appeared desirable to have a segregation made of the statements of small department stores which have reported consistently for a number of years, and to analyze the figures thus made available. To supplement this analysis, special questionnaires were mailed to the executives of the firms for which figures were being studied. The Bureau is grateful for the response of the individual executives approached.

Professor Malcolm P. McNair, who for many years has taken an active part in the cost research program, gave many suggestions which proved valuable in planning and executing the program. The statistical work was supervised by Miss Esther M. Love of the School's Research Staff. The report was written by Professor Elizabeth A. Burnham, Acting Chief of the Bureau.

MELVIN T. COPELAND  
*Director of Research*

BOSTON, MASSACHUSETTS  
August, 1944

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# AN ANALYSIS OF OPERATING DATA FOR SMALL DEPARTMENT STORES: 1938-1942

## SECTION I

### INTRODUCTION

The war years have witnessed a public recognition of the fact that small business enterprises are faced with many grave problems. These problems are not necessarily caused by the conflict but are aggravated by it. Since private enterprise with its stimulus to the individual is basic to a democratic way of life, measures must be taken to assure the founding or continuance of many small companies in all lines of activity.

One of the great needs is for factual information relative to small firms of all types. Clearly such data should include statistics on sales, expenses, earnings, and capital requirements. Statistics on competition and business mortality also should be made available, with analyses of the causes of individual failures and evaluations of individual successes.

It is distinctly desirable in studying the subject, however, that the maximum use should be made of material already filed at various agencies. Now is not the time to approach firms with lengthy special questionnaires when manpower shortages are acute and the preparation of required government reports is time-consuming.

Department store profit and loss statements in considerable detail have been filed by individual companies for many years with the Harvard Bureau of Business Research in connection with its annual cost research program. The statements for 42 of these companies which have reported for several consecutive years, supplemented by a limited amount of new material, form the basis for this present research into the operations of small department stores. The Bureau unfortunately has no data on department store failures. Furthermore, the information on hand undoubtedly represents the operations of fairly well managed firms. On the other hand, among the firms for which material is available, some have been consistently more profitable and others consistently less profitable than the majority of the reporting firms. Study of these statements can be expected to throw some light on factors associated with success.

#### The Small Department Store Defined

A necessary preliminary step, of course, was to establish the definition of the word "small" for purposes of this study. The Census defines a department store as a general merchandise store securing annual sales of \$100,000 or more. Thus, if we accept this definition, we have at the outset a lower limit for the group. This limit eliminates the very small retail firms in which the personnel consists of three persons or fewer, one accepted criterion of small retail enterprise.

In the department store trade, however, the sales volume per store can and frequently does run up over \$10,000,000 in large cities, and in the very large multiple shopping centers to well over \$30,000,000. It seemed reasonable, therefore, for purposes of this study, to confine the analysis to stores with sales between \$100,000 and \$1,000,000. For the most part, though not necessarily, these firms would be located in cities with populations of less than 100,000. In passing, it is interesting to note that, although the number of employees has not been used here as a measure of size of business, many<sup>1</sup> of these firms on the average employ regularly fewer than 100 people (full time or full-time equivalent), and hence from an employment standpoint, compare roughly with one accepted classification of small manufacturing enterprises as those having less than 100 employees.

#### Period Surveyed

The analysis in the following chapters deals with 42 small department stores which reported to the Harvard Bureau of Business Research for the five consecutive years, 1938-1942. This period was selected as being fairly recent and as including years of the latter part of the recovery period as well as one or two years of expansion. Information for the very unusual year, 1943, purposely has

<sup>1</sup>Meaningful statistics on employment are difficult to secure in a trade using part-time workers. However, out of a group varying in number from 18 to 24 firms during the 5 years, not more than 7 firms reported more than 100 employees, and these firms usually had sales in excess of \$500,000.

not been covered in the special analysis. For those who wish to see the typical results for small department stores in 1943, significant common figures<sup>1</sup> for all small stores reporting to the Harvard Bureau for that year have been summarized in Tables II and III, Appendix C, pages 41 and 42.

#### Age of Firms

Inquiry into the age of the reporting firms yielded the information given in Table 1. For comparison, statistics presented in the Retail Census for 1939 also are included. For the 26 reporting firms giving the data of establishment, none was founded after 1929 and 24 were in business before 1916. Of the 16 that did not report the date of establishment, it is known that 13 had been in business for at least 20 years in 1939 and the remaining 3 had been operating for at least 9 years at that time. At first these figures seem to indicate that the group is biased in that it includes only well-established firms. However, the Census data indicate that at least 75% of the total number of independent department stores in the United States were established before 1919 and that an additional 12% were founded between 1920 and

1929. Hence, there were few really young department stores in the country in 1939, a significant fact in itself.

**Table 1. Classification of 42 Reporting Department Stores According to Date of Establishment with Similar Census Data<sup>1</sup> for All Independent Department Stores in 1939**

Date of Establishment	42 Department Stores Reporting Sales of \$100,000-1,000,000		All Independent Department Stores Covered in the 1939 Census <sup>1</sup>	
	Number	% of Total	Number	% of Total
Prior to 1890.....	11	26.2%	451	32.2%
1890-1906.....	8	19.0	377	26.9
1907-1916.....	5	11.9	194	13.8
1917-1919.....	.....	.....	36	2.6
1920-1929.....	2	4.8	172	12.2
1930-1933.....	.....	.....	61	4.3
1934-1937.....	.....	.....	39	2.8
1938.....	.....	.....	5	0.4
1939.....	.....	.....	5	0.4
Unknown or Not Reported.....	.....	.....	62	4.4
Not Reported, but Firm in Business at Least:				
20 Years in 1939.	13	31.0	.....	.....
9 Years in 1939.	3	7.1	.....	.....
Total.....	42	100.0%	1,402	100.0%

<sup>1</sup>For a definition of the term "common figures," see Appendix A, page 37.

<sup>1</sup>U. S. Bureau of the Census, Sixteenth Census of the United States: 1940, Census of Business, Volume I, *Retail Trade: 1939*, Part 1, p. 170.

## SECTION II

### DEPARTMENT STORES WITH SALES OF \$100,000 TO \$300,000

Firms with sales of \$100,000 to \$300,000 in at least three of the five years 1938-1942 made up more than one-fourth of the total group surveyed. These 12 stores typically operated as closely owned corporations with an average of two executives responsible for managing all phases of the business.

#### Extent of Departmentization

As noted in the Introduction, the Census includes department stores as one component of a broader group identified as general merchandise stores. The assignment of a store to the department store classification rests on the annual sales volume. Thus a general merchandise store with annual sales of \$100,000 or more is designated as a department store. This grouping assumes, of course, that when volume of more than \$100,000 is achieved, effective store operation calls for departmentizing the merchandise. Such a division aids in selecting and controlling stock and in presenting it in an orderly and attractive manner to the customers.

In response to a question on the number of departments operated, 10 of the 12 firms surveyed reported data for 1939. The number of departments ranged from an extreme low of 2 to a high of 44, with a typical figure of 17. Half the firms operated between 10 and 24 departments.

#### Type of Merchandise Sold

Because of the lack of standardization of departments among these stores, comparable sales statistics by merchandise lines were extremely difficult to secure. Consequently the data presented for broad merchandise classifications in Table 2, below, are not to be regarded as exact but rather as indicative of the sales importance of the various types of goods in small department stores. Furthermore, it should be noted that within each merchandise classification not all the items listed necessarily were carried by each store reporting sales in that particular category. Since the number of firms providing the information was not the same in the two years, comparison of changes between 1939 and 1942 should not be made. Instead, emphasis should be placed on the general similarity of the figures for the two years.

Clearly the most important division of merchandise was that of ready-to-wear accessories, in which more than one-fourth of the total sales usually were achieved. All reporting stores had substantial sales of those goods. Next in significance were sales of women's, misses', and juniors' ready-to-wear, which always accounted for at least one-tenth and usually as much as one-fifth of the volume. Sales of the three divisions covering piece goods and domestics, household furnishings, and men's and boys' clothing and furnishings,

**Table 2. Sales by Merchandise Lines for Department Stores  
with Net Sales of \$100,000 to \$300,000:<sup>1</sup> 1939 and 1942**

(Owned Department Net Sales = 100%)

Items	1939			1942		
	Common Figures	Extreme Range		Common Figures	Extreme Range	
		From	To		From	To
Number of Firms Reporting.....	9	....	....	7	....	....
Piece Goods and Domestics.....	10.5%	0.00%	25.83%	11.5%	0.00%	29.15%
Smallwares, Toilet Goods, Notions, and Novelties.....	7.0	2.00	11.98	7.0	1.89	10.78
Women's, Misses', and Juniors' Ready-to-Wear.....	19.0	10.00	27.58	20.0	11.00	23.39
Ready-to-Wear Accessories (including millinery, hosiery, women's and children's shoes, underwear, infants' wear, etc.)	26.5	17.00	36.02	27.0	17.00	37.88
Men's and Boys' Clothing and Furnishings (including shoes)	12.0	4.03	26.89	10.0	5.53	22.92
Home Furnishings (including furniture and radios).....	13.0	0.00	25.99	10.0	0.00	28.66
All Other.....	12.0	0.31	43.00	14.5	0.00	43.00
Total.....	100.0%	....	....	100.0%	....	....

<sup>1</sup>Firms with total store net sales of \$100,000 to \$300,000 in at least three of the five years 1938-1942 were included in this classification.

respectively, each typically made up more than one-tenth of the total, while sales of smallwares, toilet goods, notions, and novelties amounted to less than one-tenth of the total.

Study of the individual range figures reveals considerable variation in the importance of the several lines among the reporting firms. These differences, most pronounced in the case of piece goods and domestics, men's and boys' clothing and furnishings, and home furnishings, probably reflected, on the one hand, the type of community served and the competition encountered, and, on the other, the interests and skills of the executive performing the merchandising function.

### Trading Areas Served

Since the sales volume of any retail store is dependent on and limited by the demands of customers having access to the store, it is reasonable to expect to find these fairly small stores serving relatively small cities. With two exceptions, the 12 stores studied were situated in cities with population of less than 35,000, the typical figure being 15,000. Population of the city in which the store is located is not the only factor contributing to sales potential, however. The character of the surrounding area, transportation facilities, and the proximity of larger trading centers are important considerations. It is significant to note, therefore, that 8 of the 12 cities represented are listed in Hearst's publication, *Leading Department Stores in Leading Trading Areas*.<sup>1</sup> Six of the cities are designated as principal trading centers and an additional two as secondary centers. On the other hand, four cities were not listed by that survey, one being a good size shopping center in Canada and the other three having populations of five, seven, and ten thousand, respectively.

Further evidence of the importance of the towns from a merchandising standpoint is found in the fact that units of one or more national chains dealing in variety store or department store merchandise were located in at least 10 of the 12 centers. In response to a special questionnaire sent to the executives of the 12 stores, several returns listed as leading competitors the local outlet of Sears, Roebuck and Company, J. C. Penney Company, or W. T. Grant Company.

Less than half the stores were located in thickly settled districts. Only 4 of the 12 were situated in

<sup>1</sup>Hearst Magazines Inc., The Marketing Division, *Leading Department Stores in Leading Trading Areas*, New York, 1940.

counties classified by the Census as metropolitan counties—that is, counties which had at least half their population in metropolitan districts. (Metropolitan districts as defined by the Census, are composed of the densely populated minor civil divisions in and around cities of 50,000 or more inhabitants.) One additional firm, as noted earlier was located in a large Canadian city not covered by the U. S. Census. But the remaining seven were in non-metropolitan, or less densely populated, counties.

A suggestion of the growing importance of small trading centers was observed in Part I of the Retail Census of the United States for 1939.<sup>2</sup> In a paragraph on all retail trade headed "Sales Trend Toward Small Cities," the tendency is cited as "a modest but well-defined trend of retail business toward the smaller cities (5,000 to 30,000 population) with compensating decrease both in the larger cities and the small or rural communities". As reasons for this swing the Census report calls attention to the improvement in merchandising and storekeeping by small stores confronted with the competition of well-managed chains in modern premises. An outgrowth of this improvement in small store merchandising, as pointed out in the Census report, is that small shopping centers have become more attractive now to customers who previously patronized stores in larger centers.

Many other factors, however, either singly or in combination may have had weight in this movement. Among these a few are worth mention. Greater customer awareness of fashion trends through such media as the movies and more realistic magazine, newspaper, and mail-order-catalog advertising probably has led to confidence in those local stores which offer the desired merchandise. Again the advertising emphasis on brands in staple goods and such ready-to-wear accessories as hosiery and underwear which are distributed through local outlets may have influenced the customers to purchase in neighborhood stores. Congestion in large cities makes shopping there time-consuming and difficult, particularly if children are to be outfitted. Moreover a long-term trend toward suburban dwelling has increased the trading potentialities of satellite cities. Decentralization of industry, in some areas, also, may have been a factor.

<sup>2</sup>United States Bureau of the Census, Sixteenth Census of the United States: 1940, Census of Business, Volume I, *Retail Trade: 1939*, Part I (Washington, Government Printing Office, 1944), pp. 9 and 10.

## OPERATING RESULTS

### Sales and Earnings

During the five years 1938-1942 the twelve department stores with annual sales of less than \$300,000 increased their sales from a common figure of \$205,000 in the first year to a corresponding figure of \$265,000 in the last year, a rise of approximately 30%. As shown in Table 3, below, the major growth in sales came in 1941 and 1942, when year-to-year increases of 12% and 13% were recorded. There was an improvement in the earnings position also during the period. In 1938, a year when sales had fallen 6% below 1937 levels, only five, or 41.7% of the reporting stores, were able to secure earnings. From the rather fragmentary data available, it seems

clear that these firms experienced heavy retail reductions in 1938 which resulted in gross margins inadequate to cover costs even when supplemented by sundry revenue. In 1939, however, the firms were able to retain a larger share of the initial mark-up (characteristically 35% or 36% of original retail for those stores) and three-fourths of the stores were able to achieve final gains. In 1941, all but one firm reported earnings, and in 1942 the entire group was profitable. The typical figures varied from a loss of 0.5% of sales in 1938 to a gain of 7.8% before federal income taxes in 1942. Earnings for 1942, when expressed in relation to net worth, amounted to a 20% return on investment, an unusually high figure.

**Table 3. Common Figures for Merchandising Operations and Profits for 12 Identical Department Stores with Total Store Net Sales of \$100,000 to \$300,000:<sup>1</sup> 1938-1942**

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

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$2,458	\$2,399	\$2,440	\$2,737	\$3,151
Typical Total Store Net Sales (in thousands).....	205	205	208	235	265
Typical Net Sales in Owned Departments (in thousands)...	205	205	208	235	265
Change in Net Sales in Owned Departments (Current Year/ Preceding Year).....	94.0	100.0	101.5	112.0	113.0
Population of City (in thousands).....	....	....	15	....	....
Population (interquartile range <sup>2</sup> —in thousands).....	....	....	10-22	....	....
Initial Markup (percentage of original retail value) on In- voice Cost Delivered <sup>2</sup> .....	35.0%†	35.4%†	34.6%†	35.2%†	36.3%†
Total Retail Reductions.....	10.0%†	7.5%†	7.0%†	5.0%†	4.5%†
Inward Freight, Express, and Truckage.....	1.15%	1.25%	1.15%†	1.15%†	0.9%
Alteration and Workroom Costs (Net).....	0.5†	0.5†	0.5†	0.45†	0.35†
Cash Discounts Received on Purchases (percentage of sales)	2.5	2.55	2.45	2.7	2.45
Gross Margin.....	30.5	32.6	32.0	34.2	35.5
Total Merchandise Costs (Net).....	69.5%	67.4%	68.0%	65.8%	64.5%
Total Expense.....	34.5	34.2	34.2	32.5	30.0
TOTAL COST.....	104.0%	101.6%	102.2%	98.3%	94.5%
NET PROFIT OR LOSS.....	L. 4.0%	L. 1.6%	L. 2.2%	1.7%	5.5%
Net Other Income (including interest on capital owned)....	3.5	2.9	2.9	2.5	2.3
NET GAIN before Federal Taxes on Income:					
Percentage of Net Sales.....	L. 0.5%	1.3%	0.7%	4.2%	7.8%
Percentage of Net Worth.....	*	2.5	2.2	8.0	20.0
Federal Taxes on Income.....	0.0%	0.2%	0.1%	1.0%†	3.5%
NET GAIN after Federal Taxes on Income:					
Percentage of Net Sales.....	L. 0.5%	1.1%	0.6%	3.2%†	4.3%
Percentage of Net Worth.....	*	2.1	1.9	6.0†	11.0
Percentage of Firms:					
Earning Some Net Profit.....	16.7%	41.7%	25.0%	58.3%	91.7%
Earning Some Net Gain.....	41.7	75.0	66.7	91.7	100.0
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories.....	2.5	2.5	2.8	2.7	2.75
Based on Monthly Inventories.....	2.15	2.2	2.5	2.4	2.1

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

<sup>1</sup>Firms with total store net sales of \$100,000 to \$300,000 in at least three of the five years were included in this classification.

<sup>2</sup>See the definition in Appendix A.

In the latter two years the favorable earnings resulted not only from higher margins reflecting lowered retail reductions but also from a reduced total expense rate. Total expense including interest<sup>1</sup> declined from more than 34% of sales in the first three years to 32.5% in 1941 and 30.0% in 1942.

### Analysis of Expense

In Table 4, below, common figures for the natural divisions of expense are given for the twelve firms for the five-year period. These small stores offer no exception to the rule that the most important part of store operating cost is the payroll item. In each of the five years more than half the total expense was incurred for compensation of proprietors, executives,<sup>2</sup> and other personnel.

For the most part each of these firms had two executives during the period, although one store had four, and two or three each had only one per-

<sup>1</sup>Total Expense, according to the Bureau's definition, includes not only actual expenditures and regular charges, such as those for depreciation, but also charges for interest at 6% on investment in plant and equipment used, in merchandise inventory, and in accounts receivable, regardless of the source of the capital invested in these various assets or the rates paid on any capital borrowed. See also Appendix A, p. 37.

<sup>2</sup>In the case of the one partnership included in the group, a fair charge for the services of the partners has been included in payroll costs.

son performing the management function. Satisfactory data on the number of people employed per store were not available; but from information given by about half the group it is estimated that the total staff including executives did not exceed an average of 65 persons, with the common figure about 50. During the period covered, typical payments to executives varied between 4.1% and 4.3% of sales. The total dollar compensation of these people ranged from an average of \$8,300 in 1939 to \$11,000 in 1942. Average salary per executive typically was \$3,800 in 1938 compared with \$6,000 in 1942, when larger sales and earnings made higher payments possible.

The total payroll of all other employees combined varied between a typical payment of \$28,800 in 1939 and that of \$32,200 in 1942, or roughly between 14% and 12% of sales. The lower percentage in 1942, of course, resulted from the greater sales realized.

Next in importance to payroll was the real estate cost item, which absorbed in the neighborhood of 4.0% of sales in the first three years, and 3.8% and 3.4%, respectively, in 1941 and 1942. The expense considered in the real estate cost account comprised all costs incurred on real estate used in the business, including rental payments to landlords, any real estate taxes incurred by the store, and insurance and depreciation on owned

**Table 4. Common Figures for Expense by Natural Divisions for 12 Identical Department Stores with Total Store Net Sales of \$100,000 to \$300,000:<sup>1</sup> 1938-1942**  
(Net Sales in Owned Departments = 100%).

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$2,458	\$2,399	\$2,440	\$2,737	\$3,151
Typical Total Store Net Sales (in thousands).....	205	205	208	235	265
Typical Net Sales in Owned Departments (in thousands).....	205	205	208	235	265
Change in Net Sales in Owned Departments (Current Year/ Preceding Year).....	94.0	100.0	101.5	112.0	113.0
Population of City (in thousands).....	....	....	15	....	....
Population (interquartile range <sup>2</sup> —in thousands).....	....	....	10-22	....	....
Total Payroll.....	18.4%	18.1%	18.15%	17.5%	16.3%
Real Estate Costs <sup>3</sup> .....	4.0	4.2	4.1	3.8	3.4
Advertising.....	2.1	2.3	2.3	2.1	2.0
Taxes <sup>2</sup> .....	1.15	1.1	1.1	1.05	1.0
Interest <sup>2</sup> .....	2.5	2.4	2.4	2.3	2.15
Supplies.....	1.35	1.6	1.55	1.75	1.3
Service Purchased.....	1.2	1.15	1.1	1.0	0.8
Losses from Bad Debts.....	0.1	0.2	0.45	0.2	0.35
Other Unclassified.....	0.8	0.6	0.6	0.5	0.45
Traveling.....	0.35	0.2	0.2	0.2	0.25
Communication.....	0.55	0.55	0.6	0.55	0.4
Repairs.....	0.35	0.35	0.2	0.3	0.25
Insurance <sup>2</sup> .....	0.7	0.7	0.6	0.55	0.6
Depreciation <sup>2</sup> .....	0.6	0.4	0.45	0.4	0.4
Professional Services <sup>2</sup> .....	0.35†	0.35†	0.4†	0.3	0.35†
Total Expense.....	34.5%	34.2%	34.2%	32.5%	30.0%

<sup>1</sup>Usable figures for this item were given on less than 75% of the reports.

<sup>2</sup>Firms with total store net sales of \$100,000 to \$300,000 in at least three of the five years were included in this classification.

<sup>3</sup>See the definition in Appendix A.

<sup>4</sup>Except on real estate.



property. A charge for interest on the investment in real estate also was included in the item. Five of the firms owned their real estate, while the remaining seven leased the real estate used. There was a slightly greater tendency for firms located in metropolitan counties to lease real estate than for those in less densely settled districts to do so.

Aside from the interest on real estate included in real estate costs, a charge for interest on other selected assets, merchandise inventory, accounts receivable, and fixtures and equipment was made in the expense statement. This charge, derived by applying 6%<sup>1</sup> to the average of the beginning- and end-of-the-year value of the chosen assets, was not an actual out-of-pocket cost, of course, but it was a charge to the business for the use of capital which might have been otherwise employed at a profit. The interest was credited under other income so that the final net gain is not affected by the inclusion of interest as an expense. For the stores with sales of \$100,000 to \$300,000, the interest amounted to 2.5% of sales in 1938 and 2.15% in 1942. The lower figure in 1942 resulted chiefly from the higher sales. It reflects the fact that the average inventories did not climb proportionately to sales and that credit sales may have diminished in relative importance in 1942.

Advertising costs, mainly incurred for newspaper space, usually were about 2% of sales. The typical expenditure for each of the remaining accounts typically was less than 2% of sales with taxes, supplies, service purchased, and depreciation requiring larger amounts than communication, traveling, insurance, or professional service. One general comment may be made about the expense items: For many of the accounts the percentage outlay in 1942 was lower than in 1938 since the sales base had broadened.

### Financial Data

The balance sheets submitted by the stores for the beginning and end of 1938 and of 1942 were examined in some detail. Since total assets were affected to a marked degree by the amount of real estate investment, ratios expressed in terms of

<sup>1</sup>For a number of years the Bureau, following the practice recommended by the Controllers' Congress of the National Retail Dry Goods Association to its member stores, has included imputed interest on selected assets, using the 6% rate. Of recent years, the use of this rate has been open to some question since the charges for borrowed capital usually are lower than 6%. Because interest rates vary in various localities, and also in view of the fact that large firms often can secure borrowed capital more economically than can small firms, it is extremely difficult to know what percentage would constitute a fair rate. For the sake of simplicity, therefore, the 6% rate has been retained. For a tabulation of the rates commonly paid on short-term and long-term borrowings by firms of different sizes, see Appendix A, page 38.

total assets were not comparable among firms which had varying investments in property used. Consequently, the relationships of current assets, current liabilities, and net worth to sales were studied instead. In the case of the net worth comparison, the equity in real estate was deducted from the net worth of any firm having real estate investment. Thus the data for firms owning and leasing real estate were made more comparable.

As shown in Table 5, below, current assets for small stores in 1938 commonly amounted to close to 50% of sales while in 1942 the percentage was nearer 40%. This drop resulted chiefly from the 28% increase in the sales level for 1942 as compared with 1938. Apparently about the same dollar investment in current assets existed in the two years. The make-up of the item differed with somewhat heavier investment in inventories at the end of 1942 and somewhat lesser investment in accounts receivable owing to the restrictions placed on accounts receivable by Regulation W. Whereas in 1938 and at the beginning of 1942 accounts receivable commonly made up about 20% of the total current assets, by the end of 1942 only about 13% of the total current assets were customer accounts. The fact remains, however, that a store with sales of \$205,000 in 1938 and \$265,000 in 1942 typically tied up roughly \$100,000 in current assets in both years. The current liabilities amounted to around 8% of sales in 1938 and 7.5% to 10.0% of sales in 1942, and the current ratio consequently declined from about 6 to 1 in 1938 to between 4 and 5 to 1 in 1942. The larger current liabilities in 1942 may have

**Table 5. Selected Financial Data for 12 Department Stores with Total Store Net Sales of \$100,000 to \$300,000:<sup>1</sup> 1938 and 1942**

(Common Figures;  
Annual Net Sales in Owned Departments = 100%)

Items	1938		1942	
	Beginning of Year	End of Year	Beginning of Year	End of Year
Current Assets.....	48.0%	48.0%	40.0%	42.5%
Current Liabilities.....	8.3	8.0	7.5	9.8
Net Working Capital	39.7%	40.0%	32.5%	32.7%
Current Assets/Current Liabilities.....	5.8	6.0	5.3	4.3
Net Worth (excluding real estate equity).....	46.5%	45.0%	36.9%	38.0%
Total Assets (including any investment in real estate).....	66.0	66.0	53.5	55.0

<sup>1</sup>Firms with total store net sales of \$100,000 to \$300,000 in at least three of the five years were classified in this group.

reflected to some extent the increased reserves necessary for federal income tax payments at the end of 1941 and 1942.

It must be stressed that all these balance sheet figures are end-of-the-year figures, and therefore do not reflect the seasonal needs which these department stores experienced. When pre-Easter and pre-Christmas inventories were being accumulated, for example, the current assets and current liabilities may well have been greater, the

assets showing higher stocks of goods and the liabilities increased accounts and notes payable.

Net worth, excluding real estate equity, on the average amounted to about 46% of sales in 1938 and between 37% and 38% of sales in 1942. Or for the typical sales of \$205,000 and \$265,000 in 1938 and 1942 these firms had a net worth of about \$95,000 in capital stock, surplus, undivided profits, and reserves. Net working capital required between \$80,000 and \$85,000.

## HIGH AND LOW PROFIT FIRMS REVIEWED

Common or typical figures represent levels of achievement but may not throw light on factors associated with unfavorable earnings or unusual success. The firms reporting sales of \$100,000 to \$300,000 were, on the whole, profitable enterprises, and, hence, study of causes of failure for firms of this size was impossible from the data on hand. Nevertheless, examination of data for two firms which consistently had lower-than-average earnings, contrasted with a study of figures for two firms which had better-than-average earnings, may prove helpful.<sup>1</sup> Without discussing the background for the firms in question or revealing confidential data, some findings can be presented.

### Sales Volume

Review of data for these four stores serves to focus attention on the importance of dollar sales volume to percentage operating results. The two successful stores had favorable sales and were able to operate economically. The less profitable stores during most of the five-year period had lower volumes than they were equipped to handle and hence their percentage costs were high. Favorable sales to a considerable degree reflect the demands of the community served. Merchandising skill, of course, is also a significant, but regrettably an immeasurable, factor.

Turning to the sales records, we find that the two with high earnings had realized volume increases between 1938 and 1942 of more than 35%, well above the 28.5% common for all 12 stores with sales of \$100,000 to \$300,000. Furthermore, in one of the two cases the sales level

in 1942 was 10% higher than in 1929. Of the two firms with unfavorable earnings, one had sales expansion of 30% between 1938 and 1942, while one sustained decreasing sales. Neither of these two firms had sales during any of the five years which equalled predepression sales, and for one the volume was less than half the 1929 volume.

### Low Profit Firms

Total expense as a percentage of sales was relatively high for both stores with losses or low earnings. The high total expenses reflected large percentage outlays for payroll, real estate costs, and advertising. The high tenancy and payroll costs resulted in part from a failure to secure effective use of space and personnel with unfavorable sales. In one of the two instances the firm, which came into competition with at least one larger department store in its community, moved its store late in the five-year period to a building in a higher rent location but with smaller total space. A further reduction in sales and a somewhat changed merchandise emphasis resulted. After the move, however, much more effective use of personnel and space became possible, and percentage costs dropped and earnings rose. The other store, an old established firm, was the only department store in a small city serving a rather large farming area. A complete line of merchandise was stocked with considerable stress on furniture. It seems probable that with the increase in automobile traffic and improved roads, the store lost patronage to a large city some miles away. (A report available for 1943, a year of gasoline shortages, tends to confirm this, as the company had sales in that year more than 50% above the 1942 level, an extreme rate of increase.)

### High Profit Firms

Of the two stores with unusually good percentage earnings, one was in a city of less than 25,000 population while the other was situated in a city

<sup>1</sup>The firms were selected as follows: The net gain percentages for the 12 firms for each of the five years were arrayed from the lowest to the highest and the rank in the series for each year was determined for each firm. It was found that only one firm had net gain percentages falling in the low third of the array for all five years, while one other had earnings in this low third for four out of five years. Similarly, it was found that one store achieved percentage earnings in the high third all five years, while a fourth company held a favorable position for four years. These companies were chosen for contrast.

of 100,000 or more population. Relatively high gross margin percentages were characteristic of both stores, and low total expense rates also were enjoyed. These low total expense rates reflected chiefly favorable payroll costs. In addition, however, the store in the small city had economies in real estate costs and in advertising. Low percentages for these two accounts reflect not only favorable sales but also the low dollar rental rates usual in small cities and the low rates for advertising in local newspapers. In the large city store there were advantages in taxes, interest, and insurance. The relatively low outlay for these items undoubtedly was associated with the rapid stock-turn rate which the store was able to secure, since expense for taxes, interest, and insurance is substantially influenced by the size of the investment in inventory. High stock-turn, long considered an index of good management, may, in this instance, have been facilitated by the greater demand of the large city in which the store was located. There is some indication in the data, however, that the store was specializing in certain lines of merchandise—sales of yard goods, domestics, apparel, and accessories being relatively heavy. If the store was specializing, then smaller dollar inventories relative to sales may have been required than would

have been the case if complete stocks of widely diversified lines had been carried.

#### Financial Data

Reference to the balance sheet material disclosed that the two firms with unfavorable earnings had relatively low current assets in 1938 and again at the beginning of 1942. At the same time, one of the two was able to keep current liabilities low, also, while the other permitted them to rise to a high level. As a consequence, one had a normal or favorable current ratio while the other had a distinctly unfavorable ratio. Both firms, however, had low net working capital in 1938 and 1942.

The two firms with unusually high earnings had relatively high net worth as a percentage of sales. Both had high current ratios for 1938 and the beginning of 1942. At the end of 1942, however, in the case of one firm current liabilities rose, reflecting high income tax reserves. Thus the current ratio fell below normal. The successful firm which had a high stock-turn rate was able to operate on a relatively small net working capital, while the profitable store in the small city had substantial working capital.

### SECTION III

## DEPARTMENT STORES WITH SALES OF \$300,000 TO \$500,000

The second group of department stores studied realized sales of \$300,000 to \$500,000 in at least three years of the five-year period, 1938-1942. Of the eleven stores in this category, the majority were corporations, but two and later three of the stores were operated as partnerships.

Half of the eight stores providing the information had between 17 and 35 owned departments, with a typical figure of 28. Eight of the firms had one or more leased departments in addition to those merchandised by the stores' own personnel. Details furnished by seven of the eight indicated that three had only millinery departments managed by outsiders; one had millinery and shoe departments so operated; one had millinery and vacuum cleaners; one had a millinery department at one time and a photograph studio at another; while the remaining store had a leased shoe department.

#### Type of Merchandise Sold

As was true in the case of the very small firms discussed in the preceding section, comparable detailed figures on sales by merchandise lines were difficult to secure. A percentage distribution of owned department sales by broad merchandise groups was available, however, for 1939 and 1942. This is given in Table 6, below. In addition, separate data on leased department sales are presented in Table 7, page 11. Ordinarily sales in

leased departments made up between 3.5% and 4.0% of total store sales during the five years.

There was some indication that the sales data for the stores with sales of \$300,000 to \$500,000 were more specific than those provided by smaller stores. The miscellaneous category, in which more than 10% of the sales of the stores in Volume Group 1 were classified, contained only 5% of the sales of the stores in Volume Group 2. This situation may have resulted either from a more exact departmentization within the store, yielding more specific statistical data, or from a merchandising policy which restricted the types of merchandise carried to those appropriate to the departments set up within the store. The stores with sales of \$300,000 to \$500,000, through their location in somewhat larger cities, may have been able to specialize to a somewhat greater degree.

The most important merchandise lines in owned departments, from a volume standpoint, were the ready-to-wear accessories. When it is recalled that many of the firms also had leased departments dealing in accessories, the significance of these lines to small store operation is striking.

Accessories are the backbone of small store merchandising since the demand for such goods is continual. Hosiery, underwear, and infants' wear, essential goods with periodic replacement, frequently bear national brands. Such branded

**Table 6. Sales by Merchandise Lines for Department Stores with Net Sales of \$300,000 to \$500,000:<sup>1</sup> 1939 and 1942**

(Owned Department Net Sales = 100%)

Items	1939			1942		
	Common Figures	Extreme Range		Common Figures	Extreme Range	
		From	To		From	To
Number of Firms Reporting.....	9	....	....	9	....	....
Piece Goods and Domestics.....	9.5%	6.55%	15.56%	11.0%	4.25%	17.14%
Smallwares, Toilet Goods, Notions, and Novelties.....	8.0	3.00	12.32	7.0	3.99	14.20
Women's, Misses', and Juniors' Ready-to-Wear.....	20.5	16.64	32.83	26.0	16.72	36.91
Ready-to-Wear Accessories (including millinery, hosiery, women's and children's shoes, underwear, infants' wear, etc.)	33.0	19.11	41.52	28.5	10.60	44.36
Men's and Boys' Clothing and Furnishings (including shoes)	10.5	0.00	25.69	10.5	0.00	23.39
Home Furnishings (including furniture and radios).....	13.5	0.00	35.56	12.0	0.00	33.47
All Other.....	5.0	0.00	23.17	5.0	0.26	27.34
Total Owned Departments.....	100.0%	....	....	100.0%	....	....

<sup>1</sup>Firms with total store net sales of \$300,000 to \$500,000 in at least three of the five years 1938-1942 were included in this classification.

**Table 7. Summary of Sales by Leased Departments in 7 Department Stores with Net Sales of \$300,000 to \$500,000:<sup>1</sup> 1939 and 1942**

(Total Store Net Sales = 100%)

Firm	Departments Operated	1939	1942
1	Millinery.....	2.98%	3.40%
2	Millinery.....	4.32	3.89
3	Millinery.....	1.96	1.84
4	Millinery.....	1.80	2.44
	Shoes.....	5.40	6.09
5	Millinery.....	3.15	2.32
	Vacuum Cleaners.....	3.59	0.76
6	Millinery.....	2.91	....
	Photo Studio.....	....	0.74
7	Shoes.....	10.78	11.09

<sup>1</sup>Firms with total store net sales of \$300,000 to \$500,000 in at least three of the five years 1938-1942 were included in this classification.

goods are sold readily by stores of all sizes. Shoes, another line for which there is continued replacement demand, are more difficult for small stores with limited financial resources to swing. The necessity for maintaining a complete assortment of sizes for numerous styles calls for substantial investment in inventory. Moreover, knowledge of shoe construction, shoe fitting, and fashion calls for a degree of specialized training not always found in or afforded by small stores. For this reason not all small stores carry shoes. In some cases, if shoes are offered for sale, the department is operated by a lessee, frequently by a chain specializing in shoe retailing. This was the case with at least one of the eleven stores studied.

The accessory department most frequently leased, as noted earlier, was the millinery department. This high fashion merchandise, with its rapid obsolescence, requires constant attention from a merchandising specialist. In small stores such departments commonly are operated by millinery syndicates. Several of the stores with

sales of \$300,000 to \$500,000 followed this practice.

The remaining two-thirds to three-quarters of the total net sales were distributed through the various merchandise divisions. Women's, misses', and children's ready-to-wear accounted typically for between one-fourth and one-fifth of the total volume. Other lines, ranked in order of importance, were: home furnishings, 12%-13.5%; men's and boys' wear, 10.5%; piece goods and domestics, 9.5%-11%; and smallwares, toilet goods, notions, and novelties, 7%-8%. As was true with the smaller stores, there was great variation among the firms in the degree to which men's and boys' clothing and household furnishings were sold. This is shown by the extreme range data given in Table 6.

### Trading Areas Served

The eleven stores were about evenly distributed between fairly densely populated areas and less thickly settled districts. Five were in metropolitan counties and six were not. Nine were situated in cities designated by the Hearst survey<sup>1</sup> as "principal trading centers," one was in a "secondary trading center," and one was in a city with population somewhat above 15,000, not listed by Hearst.

Half the stores were located in cities with population ranging from 17,000 to 33,000 and the typical size of city was 25,000, or about 10,000 more inhabitants than was the case for the stores with sales of less than \$300,000. In all the cities, chain store competition existed. There were also independents, often including several small stores specializing in such merchandise as women's and children's ready-to-wear and millinery. Frequently, but not always, there were rival department stores. In only one city, however, were there competing department stores with considerably greater annual sales volume than that of the stores reviewed.

<sup>1</sup>Hearst Magazines Inc., The Marketing Division, *Leading Department Stores in Leading Trading Areas*, New York, 1940.

## OPERATING RESULTS

### Sales and Earnings

During the years 1938-1942, as shown in Table 8, page 12, the eleven stores with sales of \$300,000 to \$500,000 in three out of the five years commonly increased their annual total store volume from \$355,000 to \$500,000, a rise of slightly more than 40%. Sales in owned departments increased somewhat more sharply, climbing from \$335,000

to \$485,000. These increases, more marked than for the smaller stores, occurred chiefly in the last two years of the period.

In all years the stores of this group were more profitable concerns than those with sales of less than \$300,000. In fact, for the three years 1940-1942 none of the group had final operating deficits. The typical percentage of net gain to net

sales rose from 1.1% in 1938 to 8.8% in 1942. The latter result represented a return of 26% on the average net worth in 1942. Of course, this figure was prior to federal income tax payments. Data on income taxes were very unsatisfactory. On the basis of incomplete information it is estimated that such costs ranged typically from less than 0.5% of sales in 1938 to roughly 4.5% in 1942.

The improved earnings resulted from several factors combined. The growth in sales was accompanied by increased merchandise turnover reflected in lowered retail reductions and consequent higher gross margin levels. At the same time dollar expense climbed less rapidly than sales so that the percentage costs fell from 33.6% in 1938 to 28.5% in 1942.

### Analysis of Expense

Payroll costs, which amounted to 18.5% of sales in 1938, required only 16.2% in 1942 as

indicated in Table 9, page 13. On a dollar basis, the total payroll costs climbed from a typical figure of about \$62,000 in 1938 to about \$78,000 in 1942. In the first year one-fifth of the amount went to executives, while in the last year slightly more than one-fourth went to officers. This rise in the proportionate share to management resulted partly from the fact that sales and earnings were improved, enabling management to take more from the business. It should be noted that the usual number of executives per store varied between 2 and 3 and showed a slight tendency to increase over the period. Average payments per executive were \$5,000 in 1938, \$6,000 in 1939 and 1940, \$6,500 in 1941, and \$7,000 in 1942. Thus between 1938 and 1942 there was a 40% increase in the average payment per executive, while total executive compensation rose about 75%. In evaluating these payments one must keep in mind that the executives probably had a substantial interest in the business. It is

**Table 8. Common Figures for Merchandising Operations and Profits for 11 Identical Department Stores with Total Store Net Sales of \$300,000 to \$500,000:<sup>1</sup> 1938-1942**

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

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$3,757	\$3,909	\$4,113	\$4,865	\$5,582
Typical Total Store Net Sales (in thousands)	355	365	375	435	500
Typical Net Sales in Owned Departments (in thousands)	335	350	360	420	485
Change in Net Sales in Owned Departments (Current Year/Preceding Year)	93.0	106.0	103.5	116.5	116.0
Population of City (in thousands)	....	....	25	....	....
Population (interquartile range <sup>2</sup> —in thousands)	....	....	17-33	....	....
Initial Markup (percentage of original retail value) on Invoice Cost Delivered <sup>3</sup>	*	35.7%†	36.0%†	36.3%†	36.4%†
Total Retail Reductions	*	9.1%†	9.0%†	7.5%†	6.0%†
Inward Freight, Express, and Truckage	1.3%	1.4%	1.35%	1.3%	1.05%
Alteration and Workroom Costs (Net)	0.8	0.8	0.65	0.6	0.55
Cash Discounts Received on Purchases (percentage of sales)	3.0	3.1	3.0	2.9	3.0
Gross Margin	32.0	32.1	32.6	33.8	35.0
Total Merchandise Costs (Net)	68.0%	67.9%	67.4%	66.2%	65.0%
Total Expense	33.6	33.1	32.3	30.7	28.5
TOTAL COST	101.6%	101.0%	99.7%	96.9%	93.5%
NET PROFIT OR LOSS	L. 1.6%	L. 1.0%	0.3%	3.1%	6.5%
Net Other Income (including interest on capital owned)	2.7	2.7	2.4	2.5	2.3
NET GAIN before Federal Taxes on Income:					
Percentage of Net Sales	1.1%	1.7%	2.7%	5.6%	8.8%
Percentage of Net Worth	3.0	4.5	8.0	16.6	26.0
Percentage of Firms:					
Earning Some Net Profit	45.5%	36.4%	63.6%	100.0%	100.0%
Earning Some Net Gain	72.7	81.8	100.0	100.0	100.0
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories	3.6	3.6	3.7	4.0	4.2
Based on Monthly Inventories	2.9†	3.0	3.2	3.0†	3.0†

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

<sup>1</sup>Firms with total store net sales of \$300,000 to \$500,000 in at least three of the five years were included in this classification.

<sup>2</sup>See the definition in Appendix A.

most likely that the stock in the corporations was held by the officers and that payments to these men may have included some return in the nature of dividends.

The typical real estate cost percentage was only 10% lower in 1942 than in 1938. Since real estate expense in dollars usually is rather fixed, a more drastic curtailment of the expense rate might have been expected. The fact that the typical cost decreased only moderately may have had several causes. Stores may have been expanding floor area to accommodate growing sales or making improvements to plant which had been allowed to depreciate during the depression. Information on the latter possibility unfortunately is not available. It is doubtful if it was an important factor since investment in real estate was negligible for at least 6 of the 11 stores. Perhaps some of the leases were arranged on a percentage basis, a method which, of course, would serve to stabilize the percentage cost.

Apparently the advertising expense in dollars remained approximately constant during the five years at about \$8,500 a year. Firms did not find it necessary to expand their advertising budgets to increase sales but presumably used about the same amount of newspaper space throughout the period, paying the regular space rates common in their cities. As a result, the advertising cost percentage dropped from 2.5% to 1.8%, a fall of 28%.

Interest charges<sup>1</sup> on inventory, accounts receivable, and fixtures also declined substantially in 1942, reflecting not only the lower merchandise inventories relative to sales but also the decline in the relative importance of charge sales. Not all the firms reported a classification of volume by terms of sale. For the few that did, however, the percentage of credit sales in 1942 was 47% in contrast to 55% in 1938 through 1941. These figures, based on meager data, indicate that cash sales may have increased well over 50% during the period, while charge sales rose not more than 25%. The inflationary tendencies of 1941 and 1942 combined with government restrictions on credit undoubtedly were underlying causes.

### Financial Data

Following the method used with the smaller stores, current assets, current liabilities, and net worth exclusive of real estate equity were related to net sales.<sup>2</sup> These figures are presented in Table 10, page 14. For the stores with sales of \$300,000 to \$500,000, current assets typically were in the neighborhood of 40% of sales in 1938 and 30%-32% of sales in 1942. At the end of 1942, however, only about one-fourth of the cur-

<sup>1</sup>See explanation of method of charging interest, Appendix A, page 38.

<sup>2</sup>For discussion, see page 7.

**Table 9. Common Figures for Expense by Natural Divisions for 11 Identical Department Stores with Total Store Net Sales of \$300,000 to \$500,000:<sup>1</sup> 1938-1942**

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

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$3,757	\$3,909	\$4,113	\$4,865	\$5,582
Typical Total Store Net Sales (in thousands)	355	365	375	435	500
Typical Net Sales in Owned Departments (in thousands)	335	350	360	420	485
Change in Net Sales in Owned Departments (Current Year/Preceding Year)	93.0	106.0	103.5	116.5	116.0
Population of City (in thousands)	....	....	25	....	....
Population (interquartile range <sup>2</sup> —in thousands)	....	....	17-33	....	....
Total Payroll	18.5%	17.9%	17.7%	16.9%	16.2%
Real Estate Costs <sup>3</sup>	3.2	3.2	3.1	2.9	2.9
Advertising	2.5	2.45	2.35	2.2	1.8
Taxes <sup>3</sup>	1.35	1.35	1.25	1.1	1.05
Interest <sup>3</sup>	2.3	2.25	2.2	2.1	1.8
Supplies	1.4	1.5	1.5	1.5	1.15
Service Purchased	1.0	1.0	0.9	0.8	0.7
Losses from Bad Debts	0.3	0.3	0.25	0.25	0.2
Other Unclassified	0.6	0.7	0.65	0.7	0.45
Traveling	0.55	0.45	0.4	0.5	0.55
Communication	0.45	0.45	0.45	0.4	0.35
Repairs	0.25	0.3	0.25	0.25	0.35
Insurance <sup>3</sup>	0.4	0.4	0.45	0.4	0.4
Depreciation <sup>3</sup>	0.45	0.45	0.4	0.4	0.35
Professional Services <sup>3</sup>	0.35	0.4	0.45	0.3	0.25
Total Expense	33.6%	33.1%	32.3%	30.7%	28.5%

<sup>1</sup>Firms with total store net sales of \$300,000 to \$500,000 in at least three of the five years were included in this classification.

<sup>2</sup>See the definition in Appendix A.

<sup>3</sup>Except on real estate.

rent assets represented customer accounts, whereas, in 1938 and at the beginning of 1942 more than one-third of the current assets comprised accounts receivable. Here again, as in the case of the smaller stores, the influence of Regulation W is seen. Furthermore, data available for less than 75% of the firms indicate that the proportion of charge sales to total sales declined from 55% common for 1938 through 1941 to 47% in 1942.

**Table 10. Selected Financial Data for 10 Department Stores with Total Store Net Sales of \$300,000 to \$500,000:<sup>1</sup> 1938 and 1942**

(Common Figures;  
Annual Net Sales in Owned Departments = 100%)

Items	1938		1942	
	Beginning of Year	End of Year	Beginning of Year	End of Year
Current Assets.....	40.5%	39.5%	31.8%	30.5%
Current Liabilities.....	*	7.3	7.5	6.5
Net Working Capital	*	32.2%	24.3%	24.0%
Current Assets/Current Liabilities.....	*	5.4	4.2	4.7
Net Worth (excluding real estate equity).....	34.5%	34.9%	27.6%	30.0%
Total Assets (including any investment in real estate).....	50.0	50.0	41.0	43.0

\*Data not available.

<sup>1</sup>Firms with total store net sales of \$300,000 to \$500,000 in at least three of the five years were classified in this group. One of the 11 stores reporting sales within these limits did not provide balance sheet material.

This drop may have resulted in part from the stringent credit regulations and in part from a greater expansion in cash than in credit sales during an inflationary period.

While accounts receivable became less important than usual as a component part of current assets, during 1942 inventories probably rose. During the latter part of 1942 there was a general tendency among retailers to accumulate stocks against a period of anticipated merchandise shortages. The net result of these tendencies combined with changes in the stores' cash position was a moderate decrease in the dollar value of current assets at the end of 1942 as compared with the beginning of the year.

However, for the beginning and end of 1942 averaged, total current assets in dollars were somewhat above current assets for the beginning and end of 1938 averaged. For a store with sales in the two years of \$335,000 and \$485,000, respectively, current assets absorbed between \$135,000 and \$150,000.

Current liabilities typically were between 6% and 8% of sales except at the beginning of 1938, for which date reliable averages could not be secured. Thus the current ratio was between 4.0 and 5.5. Net worth excluding real estate equity amounted to roughly 34% of sales in 1938 and 28% to 30% of sales in 1942. In terms of the common dollar sales, then, the net worth in 1938 was \$115,000 and in 1942 was nearer \$140,000.

## HIGH AND LOW PROFIT FIRMS REVIEWED

As with the smaller stores surveyed in Chapter II, several firms with sales of \$300,000 to \$500,000 were found to have consistently low earnings while others had consistently high profits for at least four of the five years 1938-1942. The statements of two firms with low earnings and three with high profits have been examined in considerable detail.

### Low Profit Firms

Unfavorable sales volume was a fundamental cause of low earnings in one of the two cases. The store did not secure as large sales increases as were usual for similar size stores; furthermore, the sales level in 1942 was more than 20% below the volume achieved by the store in 1920. The company evidently had a plant equipped to take care of substantially larger sales than were realized in the years 1938-1942. Hence real estate costs in relation to sales were high and advertising, designed to stimulate sales, was high in relation to the

volume secured. As a result, the total expense percentage was greater than the average for similar size stores. Because of the unfavorable expense level, earnings were low. As competition there was one other local department store as well as other bigger stores in a larger city about 40 miles distant.

The second of the two firms to achieve relatively low profits also had high percentage operating costs. In this instance, however, the primary cause of the high expense rate was not unfavorable sales but rather the payment of unusually large dollar amounts to the firm's executives.

There is a temptation, of course, for owner-executives to draw extensively on the earnings of their companies. Two questions naturally arise, however. First, for comparability with other firms, should part of the payment in this case have been regarded as a dividend, thus lowering the total expense and increasing the net gain prior to taxes and dividends? Second, have the total with-



drawals been sufficiently substantial to weaken the capital position?

Quite possibly the firm's figures are not thoroughly comparable with data for other firms which may have handled the compensation differently. However, we have no information on dividends of other firms to warrant comparisons. Approaching the matter from another angle, however, we find indications that the total payments may have exceeded those made by other stores. The financial data for the firm disclose that both the net worth and the working capital were notably low in relation to sales. Several departments, however, were leased,<sup>1</sup> and hence, the firm may not have required so much working capital as do firms merchandising all their departments themselves.

### High Profit Firms

Two of the three firms with high earnings were the only department stores in the small and moderate-size cities in which they were located. The third was situated in a large city which had a pre-war industrial growth. While the sales increases were not high during the period for any of the three firms, the volume levels compared favorably with the sales attained in predepression years. Two of the three had low expense ratios in all five

<sup>1</sup>For a discussion of leased departments, see Section IV, page 17, and Appendix B, page 39.

years and one had low expense percentages in the first two years and high gross margins throughout the period. None of the three had high real estate or advertising cost percentages, and one had unusually low payroll costs, perhaps resulting from the fact that no business was transacted on a credit basis.

There is a suggestion in the sales data that each firm was stocking merchandise well adapted in type and price to the local demand. All three stores carried fairly complete lines. But in one store, situated in a rural community, there was more than the usual emphasis on men's wear and home furnishings and small housewares; in another, located in a reasonably prosperous residential city, more fashion goods were sold; while in the third, situated in a manufacturing city, men's wear, apparel, and accessories of rather low price were sold on cash terms.

### Financial Data

Both the firms with relatively low earnings had lower current ratios and lower-than-normal net working capital relative to sales. Their net worth exclusive of real estate equity also was low.

In contrast, the two more successful firms for which balance sheet data were provided had high current ratios and for the most part had higher percentages of net working capital and net worth.

## SECTION IV

### DEPARTMENT STORES WITH SALES OF \$500,000 TO \$1,000,000

The third and last group of department stores studied comprised 19 firms each of which, in at least three of the five years 1938-1942, secured total sales volume between \$500,000 and \$1,000,000. For the most part, these firms used the corporate form of organization. Two exceptions, however, included a firm which was a partnership during the five years and another store which operated as a proprietorship for two years and a partnership for three years.

The stores were long-established enterprises. Seventeen of the 19 had been in business for 20 years or more in 1938; the remaining 2, for which data on the time of establishment were not available, had been in business at least 8 years in 1938. Each of the 14 firms furnishing the information had been under the same management 7 years or more in 1938, and 12 had been directed by the same executives for 14 years or more. The typical figure was in the neighborhood of 30 years. Thus these 14 firms on the average had experienced the expansion of the late 1920's, the depression, and subsequent recovery without much change in the managing executive group.

#### Type of Merchandise Sold

Table 11, below, presents common figure and range data on the sales by merchandise lines for the 16 firms reporting the information. This analysis is of sales in owned departments only.

The following table summarizes statistics for leased department sales, which commonly contributed from 8% to 9% of the total volume.

The most important classification of departments was the ready-to-wear accessory group, in which somewhat more than 25% of the total owned department volume was realized. Review of supplementary data available indicates that on a total store basis nearer 30% of the volume was done in accessory lines. (Eight firms had leased shoe departments and 11 had leased millinery sections.)

Sales of women's, misses', and children's ready-to-wear commonly amounted to 22% or 23% of sales. Thus, the sales of apparel and accessories together made up more than half the total net sales.

The remaining half of the volume was distributed as follows: home furnishings, 14.5%-11%; piece goods and domestics, 10.5%; smallwares, toilet goods, notions, and novelties, 9.5%-10.5%; miscellaneous departments including cost departments and bargain basements, 9.5%; and men's and boys' clothing and furnishings, 8% to 9%. As was true of the smaller stores surveyed in Chapters II and III, there was considerable variation among the individual stores in the extent to which home furnishings, men's and boys' clothing, and miscellaneous departments were offered. It is noteworthy, however, that at least four firms in the group had bargain basements.

**Table 11. Sales by Merchandise Lines for Department Stores with Net Sales of \$500,000 to \$1,000,000:<sup>1</sup> 1939 and 1942**

(Owned Department Net Sales = 100%)

Items	1939			1942		
	Common Figures	Extreme Range		Common Figures	Extreme Range	
		From	To		From	To
Number of Firms Reporting.....	16	....	....	16	....	....
Piece Goods and Domestics.....	10.5%	5.46%	20.09%	10.5%	6.37%	21.12%
Smallwares, Toilet Goods, Notions, and Novelties.....	9.5	5.58	15.18	10.5	5.72	17.65
Women's, Misses', and Juniors' Ready-to-Wear.....	22.0	13.68	37.30	23.0	14.20	34.10
Ready-to-Wear Accessories (including millinery, hosiery, women's and children's shoes, underwear, infants' wear, etc.)	26.0	15.95	32.29	26.5	14.48	32.92
Men's and Boys' Clothing and Furnishings (including shoes)	8.0	0.00	27.18	9.0	1.43	25.52
Home Furnishings (including furniture and radios).....	14.5	0.00	35.83	11.0	4.99	25.99
All Other (including cost departments and bargain basements).....	9.5	0.00	28.93	9.5	0.00	31.27
<b>Total Owned Departments.....</b>	<b>100.0%</b>			<b>100.0%</b>		

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years 1938-1942 were included in this classification.

Moreover, some of the stores had cost departments.<sup>1</sup> It was chiefly because several stores had such basements or cost departments that the percentage of sales in the "all other" item rose above that for the stores with sales of \$300,000 to \$500,000.

### Leased Departments

One of the marked characteristics of department stores with sales of \$500,000 to \$1,000,000 was their common practice of having one or more departments operated by outsiders. In all, 16 of the 19 stores, or 85% of the group, had such departments, the number varying from 1 to 13 for the firms reporting this fact. The departments most frequently leased by the reporting stores, as indicated in Table 12, below, were millinery and shoes.

Several considerations may influence a store executive to let other individuals or firms assume the merchandising responsibility for special departments. Fundamentally, the reason is one of

<sup>1</sup>The term "cost department" is used principally to designate a department selling merchandise or service (especially service) but carrying no inventories at retail value on the statistical records. Examples are: restaurant, barber shop, fur storage, and beauty parlor. See John W. Wingate, *Manual of Retail Terms* (New York, Prentice-Hall, Inc., 1931), pp. 150, 168.

expense. In stores of this size carrying a varied line of merchandise, the management frequently cannot afford to hire as buyer or department head an expert on shoes, to make decisions on their construction, fit, and fashion. These decisions, furthermore, differ so greatly among women's, children's, and men's shoes that there is a high premium on the opportunity for specialized attention to each type. Similarly, the employment of a specialist in the high-fashion field of millinery may require the payment of larger salaries than the firm can afford. Frequent trips to market to buy these fast-moving fashion goods also would increase travel expense. A second cause may be lack of capital to finance inventory, particularly in a shoe department where complete stocks in a wide range of sizes require substantial investment. Service departments also involve financial risk and special skills, and hence, if provided for customers, may have to be operated by lessees.

The millinery sections reported by these stores usually were leased to one of the chains specializing in operating millinery departments. Nine of the 11 departments were so leased. The fact that a syndicate was willing to arrange to manage a department within one of these moderate-size stores attests to the fact that the syndicate, free to

**Table 12. Leased Department Statistics for 12 Department Stores with Sales of \$500,000-\$1,000,000<sup>1</sup>: 1939 and 1942**

Leased Departments Operated	Years	Number of Stores Reporting Leased Departments	Typical Commission (% of Leased Dept. Sales)	Typical Sales in Leased Departments (% of Total Store Sales)
Millinery.....	1939	11	17.5%	2.8%
	1942	11	17.5	2.4
Shoes.....	1939	8	10.5	9.4
	1942	8	10.5	9.8
Shoe Repairs.....	1939	3	15.0	*
	1942	3	15.0	*
Vacuum Cleaners.....	1939	3	*	*
	1942	2	*	*
Photo Studio.....	1939	3	*	*
	1942	3	*	*
Beauty Salon.....	1939	3	*	*
	1942	3	*	*
Furs.....	1939	2	*	*
	1942	2	*	*
Books.....	1939	2	*	*
	1942	2	*	*
Watch Repair.....	1939	2	*	*
	1942	2	*	*

\*Data not available.

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years 1938-1942 were included in this classification.

NOTE: Other departments mentioned once only included departments selling art goods, bakery goods, basement ready-to-wear, candy, electrical supplies, flowers, furniture, gifts, music, optical goods, paint, sewing machines, toys, umbrellas, and yarn. Leased service departments included a restaurant and chiropody and dry cleaning departments.

choose its location, believed that business could be done in the location selected and that the store selected was a satisfactory outlet. Shoe departments were run by chains in four of the eight stores having leased shoe departments. Other types of departments run by chains included two of the three fur departments<sup>1</sup> reported, all three beauty salons, and two of the three shoe repair departments.

The usual lease agreement provides that a percentage of the department sales be paid to the store to cover occupancy costs; wrapping, packing, and delivery expense; and any cost incurred in charge transactions. The store assumes the credit risk. In some cases a higher rate of commission is charged on credit than on cash sales. The leased department assumes the merchandising and stock-keeping function and pays the wages of the people employed in the department. Any advertising of leased department merchandise or service also is paid for by the lessee.

The typical commission received by the reporting stores from leased departments was found to be about 17.5% of sales for millinery and 10.0% of sales for shoes. Shoe sales bulked much larger than millinery sales in total volume, probably reflecting both larger unit sales and a larger number of transactions. Such shoe sales, as shown in Table 12, commonly accounted for between 9% and 10% of the total store volume while millinery sales amounted to between 2% and 3%. The average commission on all leased department operations was about 13.5% of total leased department sales in 1938 and 12.5% in 1942. For all 12 stores, leased department sales amounted typically to between 10% and 12% of the total volume. Revenue from leased departments thus amounted to about 1.5% on total store net sales.

The reporting department stores were requested to include as net sales in their profit and loss statement only sales in owned departments. In order that a clear-cut picture might be secured of the cost of operating owned departments, the stores were asked to estimate the indirect costs incurred by them for the leased departments and to eliminate these estimated costs from their operating expense statement. The difference between the commission received and the estimated cost was included as other income in arriving at the final net gain. Thus the percentage cost figures in Tables 13 through 16 represent the cost of operating the stores' owned departments.

<sup>1</sup>One of the three fur departments was not in operation in 1939, and one was discontinued before 1942.

In addition to the averages presented in these tables, special tabulations of 1942 data were made for two groups of firms—those in which leased department sales were small or nonexistent, and those in which such sales amounted to more than 10% of the total store sales.

Comparison of the resulting averages showed that final percentage earnings, relative to sales in owned departments, were low for firms in which leased department sales were extensive. Thus seven firms with leased department sales amounting on the average to 16% of total store sales secured a typical net gain amounting to 7.5% of owned department sales while seven stores with leased department sales of about 1.5% commonly secured a net gain of 9.0% of owned department sales.

In terms of typical dollars, the earnings per store were \$58,500 and \$73,800, respectively, for the two groups. Yet total store sales, or sales including those in leased departments, were \$930,000 for stores with extensive leased section operation and \$830,000 for stores with small leased department volume. Relative to total sales the former firms realized a net gain of 6.3% in contrast to the 8.9% secured by the latter group. It seems pertinent to inquire whether the stores could have secured greater total revenue at somewhat greater profit by conducting a larger number of owned departments or perhaps by arranging for somewhat higher percentage commissions from lessees.

It is interesting to note, in this regard, that the 10% commission common in 1939 and 1942 for shoe departments was the same as that found in 1928 by the National Retail Dry Goods Association in an examination of leased department contracts. In view of the long-term trend of rising operating costs experienced by department stores and the store-wide increases in owned department gross margins (a rise of roughly 3% of net sales was typical of the entire trade in 1933), it seems warranted to raise the question as to whether store executives were realistic in failing to secure larger percentage commissions from these volume-important shoe departments.

Perhaps failure to secure additional commission resulted from a lack of understanding of the indirect costs actually incurred by the store in behalf of the leased departments. If so, then it is doubly important that department store executives should make an effort to estimate accurately the expenses which rightfully should be allocated to such sections. For those interested in further data concerning the influence of extensive leased department operation on department store operating

results, additional data are provided in Appendix B, page 39.

### Trading Areas Served

The stores with sales of \$500,000 to \$1,000,000 were variously located, 11 being in metropolitan counties, 7 in non-metropolitan counties, and 1 in a Canadian city of moderate size.<sup>1</sup> The stores situated in the thickly settled counties commonly

<sup>1</sup>Separate analyses for stores in metropolitan counties and non-metropolitan counties are presented on pages 23 and 26.

were located in cities almost twice the size of the stores located in non-metropolitan counties. Half the entire group of 19 firms, however, were in cities with population ranging between roughly 30,000 and 60,000, and the typical size of city was 45,000. This compares with a figure of 25,000 for stores with sales of \$300,000 to \$500,000. Among the 19 different cities represented, 15 were designated as principal trading centers, one was classified as a secondary trading center, and 3 were not mentioned by the Hearst survey, *Leading Department Stores in Leading Trading Areas*.

## OPERATING RESULTS

### Sales and Earnings

The sales records for the five-year period 1938-1942 showed a greater typical increase for these 19 stores than for the stores in either of the two smaller volume groups. (See Table 13, page 20.) The level for 1942 on the average was about 60% higher than the 1938 level. The rise from 1938 to 1939 was better than that for smaller stores, and, as was the case with those other stores, the sharpest expansion came in 1941 and 1942. The typical dollar volume of the 19 stores rose from \$530,000 in owned departments in 1938 to \$840,000 in 1942.

As sales improved, final earnings also improved. In 1938, 2 of the stores incurred losses while 17 had final net gains out of which to pay dividends and build surplus. In the following years, however, all the stores realized profits. The typical percentage of net earnings before federal income taxes climbed continually from 2.6% of sales in 1938 to 8.5% of sales in 1942. The latter figure represented a return of 26% on the average net worth. With income and excess profits taxes deducted, the return on net worth ranged typically from a low of 7.0% in 1938 to a high of 12.0% in 1941.

The better average earnings of 1942 in contrast to 1938 can be attributed to a rise of 2.2% of sales in the gross margin percentage figure and a decline of 4.0% of sales in the total expense percentage. The rise in the margin level resulted not from a changed initial markup (the common figure for markup varied during the period between the narrow limits of 37.3% and 37.7% of the original retail value), but rather from a drop in the retail reductions from 8.0% of net sales in 1938 to 5.3% in 1942. At the same time there was a minor drop in the inward transportation cost percentage.

### Analysis of Expense

Somewhat greater detail on expense is available for this group than for the smaller stores since for each year 9 or 10 of the 19 firms reported their expenses by functions. Thus in Table 14, page 21, the top section presents the usual natural divisions of expense, while the lower section presents the expense classified by functions.

Turning first to the upper part of the table we find that payroll again accounted for roughly half the total expense, varying from 17.6% in 1938 to 16.3% in 1942. Two or three executives usually were responsible for the management, but the stores exhibited a tendency to employ more executives in the last years of the period. Information not presented in the tables indicates that the average compensation per executive was about \$6,500 in 1938, increasing to \$9,000 in 1942. Total executive compensation in dollars rose from a common figure of \$14,000 in 1938 to almost \$23,000 in 1942. These payments resulted in a percentage outlay of between 2.5% and 2.8% of sales. Thus executive compensation, though higher in dollars than for the smaller stores reviewed in Sections II and III, actually amounted to a lower proportion of net sales for the stores with sales of \$500,000 to \$1,000,000 than was the case for firms with less volume. This economy in percentage costs for management commonly is associated with good volume.

Details reported by the firms providing functional data suggested that this executive expense was allocated to several functions including the accounting office and buying and merchandising activities.

The balance of the payroll usually amounted roughly to between 15% and 13% of sales. Of this, 8% or 9% ordinarily was paid to employees engaged in direct selling or delivery work and the

remaining 4% went to other nonselling employees.

During the five years there was a decline in the percentage cost for real estate from 4.1% of sales to 3.25%. This drop concealed a rise in the dollar expense of about 25% between 1938 and 1942. The additional dollar cost may have resulted from a necessity to expand store area, warehousing space, or both, to accommodate the growing volume of business. Or there may have been extensive alterations leading to higher real estate costs per square foot. For the few firms reporting the statistics, however, real estate costs per square foot remained at about 50 cents during the five years studied and store areas remained stable.

Unlike the stores with sales of \$300,000 to \$500,000, these larger stores increased their total dollar advertising budget in each of the five years. On the basis of the \$530,000 typical sales in 1938 and \$840,000 typical sales in 1942, the total annual expenditure climbed from slightly less than \$15,000 in 1938 to almost \$19,000 in 1942. The rise was less than the increase in sales, however, and hence the percentage cost fell from 2.7% in 1938 to 2.25% in 1942. A sufficient number of stores gave details on their advertising expense to justify the preparation of common figures for newspaper, direct mail, and other advertising costs. From these figures it is clear that newspaper

**Table 13. Common Figures for Merchandising Operations and Profits for 19 Identical Department Stores with Total Store Net Sales of \$500,000 to \$1,000,000:<sup>1</sup> 1938-1942**

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

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$10,227	\$11,019	\$11,885	\$14,205	\$16,371
Typical Total Store Net Sales (in thousands).....	585	640	680	770	920
Typical Net Sales in Owned Departments (in thousands).....	530	575	610	710	840
Change in Net Sales in Owned Departments (Current Year/ Preceding Year).....	92.0	108.5	107.5	117.5	118.0
Population of City (in thousands).....	....	....	45	....	....
Population (interquartile range <sup>2</sup> —in thousands).....	....	....	31-61	....	....
Initial Markup (percentage of original retail value) on In- voice Cost Delivered <sup>3</sup> .....	37.4%	37.3%	37.4%	37.6%	37.7%
Markdowns.....	6.8%†	5.9%†	5.7%†	5.1%†	*
Discounts to Employees and Others.....	0.45†	0.45†	0.55†	0.55†	*
Stock Shortages.....	0.75	0.75	0.75	0.75†	*
Total Retail Reductions.....	8.0%	7.1%	7.0%	6.4%†	5.3%†
Inward Freight, Express, and Truckage.....	1.1%	1.15%	1.1%	1.0%	0.8%
Alteration and Workroom Costs (Net).....	0.3†	0.25†	0.25	0.25†	0.25†
Cash Discounts Received on Purchases (percentage of sales)	2.7	2.8	2.85	2.9	2.8
Gross Margin.....	34.8	35.4	35.6	36.3	37.0
Total Merchandise Costs (Net).....	65.2%	64.6%	64.4%	63.7%	63.0%
Total Expense.....	35.0	34.3	34.1	32.7	31.0
TOTAL COST.....	100.2%	98.9%	98.5%	96.4%	94.0%
NET PROFIT OR LOSS.....	L. 0.2%	1.1%	1.5%	3.6%	6.0%
Net Other Income (including interest on capital owned).....	2.8	2.5	2.9	2.5	2.5
NET GAIN before Federal Taxes on Income:					
Percentage of Net Sales.....	2.6%	3.6%	4.4%	6.1%	8.5%
Percentage of Net Worth.....	8.0	10.0	11.0	19.0	26.0
Federal Tax on Income.....	0.4%†	0.6%†	0.9%	2.3%†	4.9%†
NET GAIN after Federal Taxes on Income:.....					
Percentage of Net Sales.....	2.2%†	3.0%†	3.5%†	3.8%†	3.6%†
Percentage of Net Worth.....	7.0†	8.5†	8.5†	12.0†	11.0†
Percentage of Firms:					
Earning Some Net Profit.....	52.6%	63.2%	73.7%	94.7%	100.0%
Earning Some Net Gain.....	89.5	100.0	100.0	100.0	100.0
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories.....	4.0	4.2	4.4	4.6	4.8
Based on Monthly Inventories.....	3.6	3.8	4.0	4.0	3.7

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

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years were classified in this group.

<sup>2</sup>See the definition in Appendix A.

**Table 14. Common Figures for Expense by Natural and Functional Divisions for 19 Identical Department Stores with Total Store Net Sales of \$500,000 to \$1,000,000:<sup>1</sup> 1938-1942**

(Net Sales in Owned Departments = 100%)

Items	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$10,227	\$11,019	\$11,885	\$14,205	\$16,371
Typical Total Store Net Sales (in thousands)	585	640	680	770	920
Typical Net Sales in Owned Departments (in thousands)	530	575	610	710	840
Change in Net Sales in Owned Departments (Current Year/Preceding Year)	92.0	108.5	107.5	117.5	118.0
Population of City (in thousands)	....	....	45	....	....
Population (interquartile range <sup>2</sup> —in thousands)	....	....	31-61	....	....
<b>NATURAL DIVISIONS</b>					
Total Payroll	17.6%	17.1%	17.1%	16.9%	16.3%
Real Estate Costs <sup>2</sup>	4.1	4.0	3.9	3.3	3.25
Newspaper Advertising	2.25†	2.25†	2.2†	2.0†	1.95†
Direct Advertising	0.15†	0.05†	0.05†	0.05†	0.05†
Other Advertising	0.3†	0.3†	0.35†	0.35†	0.25†
Total Advertising (subtotal)	(2.7)	(2.6)	(2.6)	(2.4)	(2.25)
Taxes <sup>2</sup>	1.25	1.2	1.25	1.1	1.0
Interest <sup>2</sup>	2.3	2.2	2.15	2.0	1.8
Supplies	1.6	1.7	1.8	1.9	1.75
Service Purchased	1.1	1.1	1.15	0.95	0.8
Losses from Bad Debts	0.2	0.2	0.2	0.25	0.3
Other Unclassified	1.0	1.15	0.9	0.9	0.8
Traveling	0.4	0.35	0.35	0.35	0.4
Communication	0.6	0.55	0.55	0.5	0.45
Repairs	0.3	0.45	0.45	0.5	0.45
Insurance <sup>2</sup>	0.45	0.35	0.35	0.35	0.35
Depreciation <sup>2</sup>	0.8	0.75	0.8	0.8	0.6
Professional Services <sup>2</sup>	0.6	0.6	0.55	0.5	0.5
<b>Total Expense</b>	<b>35.0%</b>	<b>34.3%</b>	<b>34.1%</b>	<b>32.7%</b>	<b>31.0%</b>
<b>FUNCTIONAL DIVISIONS</b>					
Number of Reports Giving Functional Data	10	10	10	9	10
<b>Administrative and General:</b>					
Accounting Office, Accounts Receivable, and Credit	2.75%	2.6%	*	*	2.6%†
Executive and Other Administrative and General	6.5†	6.3	*	*	6.2†
<b>Total Administrative and General</b>	<b>9.25%</b>	<b>8.9%</b>	<b>9.1%</b>	<b>9.1%</b>	<b>8.8%</b>
<b>Occupancy:</b>					
Operating and Housekeeping	1.5%	1.5%	1.5%	*	*
Real Estate Costs <sup>2</sup>	4.1	4.0	3.9	3.3%	3.25%
Fixtures and Equipment Costs	1.2	1.0	1.05	*	*
Heat, Light, and Power	0.95	0.9	0.95	*	*
<b>Total Occupancy</b>	<b>7.75%</b>	<b>7.4%</b>	<b>7.4%</b>	<b>6.9%</b>	<b>6.3%</b>
<b>Publicity:</b>					
Sales Promotion and General Advertising	3.35%	3.1%	3.1%	3.0%	2.7%
Display	0.65	0.7	0.7	0.7	0.6
<b>Total Publicity</b>	<b>4.0%</b>	<b>3.8%</b>	<b>3.8%</b>	<b>3.7%</b>	<b>3.3%</b>
<b>Buying and Merchandising:</b>					
Merchandise Management and Buying	3.1%†	3.05%†	2.9%†	*	2.65%†
Receiving and Marking	0.35†	0.35†	0.35†	*	0.35
<b>Total Buying and Merchandising</b>	<b>3.45%</b>	<b>3.4%</b>	<b>3.25%</b>	<b>3.0%</b>	<b>3.0%</b>
<b>Direct and General Selling:</b>					
Delivery	9.7	10.0	9.8	9.3	9.1
	0.85	0.8	0.75	0.7	0.5
<b>Total Expense</b>	<b>35.0%</b>	<b>34.3%</b>	<b>34.1%</b>	<b>32.7%</b>	<b>31.0%</b>

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

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years were classified in this group.

<sup>2</sup>See the definition in Appendix A.

<sup>3</sup>Except on real estate.

advertising was by far the most important, usually requiring about 85% of the total advertising budget in each year.

The imputed interest charge on investment in merchandise, accounts receivable, and equipment fell from 2.3% in 1938 to 1.8% in 1942. The largest part of this expense represented interest on inventories and accounts. The continual acceleration in the rate of stock-turn during the period from 4.0 to 4.8 times per year and the decrease in the relative proportion of credit sales common in 1942 were chiefly responsible for this situation. Figures available for less than three-quarters of the firms<sup>1</sup> indicate that the proportion of charge sales changed from approximately 55% of sales in the early years to 50% in 1942. At the same time the collection of accounts outstanding was speeded up during the five years. In 1938 the average outstanding accounts, regular and installment combined, typically amounted to 25% of the net credit sales. In 1942, on the other hand, the outstanding accounts receivable amounted to less than 20% of the net credit sales.

From the lower section of Table 14, the relative cost of the different operating functions can be seen. Thus the costliest function was the selling function which required between 9% and 10% of sales. The next most expensive was the administrative and general function, which absorbed usually between 8.8% and 9.3% of sales. Occupancy took between 6% and 8% of sales; publicity between 3% and 4%; buying, receiving, and marking, between 3.0% and 3.5%; and delivery less than 1%.

It is interesting to note that the two most costly functions and the only two for which outlays increased to a greater degree than total expense increased were those made up for the most part of payroll costs, namely the administrative and general and the selling functions. Enlarged sales volumes probably made it necessary to increase the number of both selling and clerical employees. Moreover, the rising cost of living, the increased demand for labor, or the higher commissions resulting from larger sales per employee may have been reflected in higher average wages.

Occupancy costs, made up chiefly of plant costs, were more nearly fixed in dollars, and, therefore, these expenses did not climb as sharply as did total expense.

#### Financial Data

Balance sheets were provided by all the firms, and those for the beginning and end of 1938 and the beginning and end of 1942 were selected as a

<sup>1</sup>Not presented in the tables.

**Table 15. Selected Financial Data for 19 Department Stores with Total Store Net Sales of \$500,000 to \$1,000,000;<sup>1</sup> 1938 and 1942**

(Common Figures;  
Annual Net Sales in Owned Departments = 100%)

Items	1938		1942	
	Beginning of Year	End of Year	Beginning of Year	End of Year
Current Assets.....	35.5%	35.5%	29.5%	31.0%
Current Liabilities.....	11.5	9.7	9.1	9.0
Net Working Capital..	24.0%	25.8%	20.4%	22.0%
Current Assets/Current Liabilities.....	3.1	3.6	3.2	3.4
Net Worth (excluding real estate equity)....	36.5%	37.0%	29.6%	29.0%
Total Assets (including any investment in real estate).....	54.0	54.0	45.0	47.5

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years were classified in this group.

basis for analysis. Average figures are presented in Table 15, above. Here again, as in the case of the smaller stores, it must be emphasized that the averages are based on year-end data and do not reflect seasonal situations.

Total assets for firms with sales of \$500,000 to \$1,000,000 in 1938 through 1942 commonly amounted to about 54% of total net sales in 1938 and to slightly more than 45% of net sales in 1942. In other words, total dollar assets did not increase as rapidly as sales volume increased in the five-year period. At the same time, current assets on the average fell from 35.5% of net sales in 1938 to about 30% in 1942. With current assets amounting roughly to between 36% and 30% of sales in 1938 and 1942 and current liabilities amounting to between 11% and 9%, it follows that net working capital was about 25% of sales in 1938 and 21% in 1942. The ratio of current assets to current liabilities was about three to one, a lower ratio than was found for the smaller stores. This ratio corresponds closely to the findings of Roy A. Foulke, presented in *Dun's Review* for October, 1943.<sup>2</sup> Here it was shown that department stores with net worth of \$200,000-500,000 (and sales on the average of from about \$700,000 in 1940 to roughly \$1,000,000 in 1942) had current ratios of 3.18, 3.24, and 2.82 in 1940, 1941, and 1942, respectively.

Four of the 19 stores had substantial real estate investments subject to mortgages, and one other

<sup>2</sup>Roy A. Foulke, "Retail Trade in a War Economy," *Dun's Review*, October, 1943, p. 8. The sales figures quoted in parentheses in the text have been derived by applying average figures for turnover of tangible net worth to the average of the net worth limits used in defining the group.



owned considerable real estate outright. A few additional stores reported leaseholds or improvements to leased property. In order to secure greater comparability among the firms owning and not owning real estate, the value of real estate equity was eliminated from the net worth.

Net worth excluding real estate equity amounted to slightly more than 35% of sales in 1938 and to about 30% in 1942. (This figure corresponds with a figure of 33.7 derived from data in the article cited for the relation of tangible net worth to sales.) In terms of the typical sales volume, the

average dollar net worth, therefore, for the 19 reporting stores was \$185,000 in 1938 and \$250,000 in 1942. It seems clear that the firms were leaving a substantial part of their earnings in the business. Quick estimates of the probable dollar earnings typical for each of the five years, based on the common figures for net gain after federal income taxes times typical net sales figures, show that the dollar net earnings may have aggregated to between \$100,000 and \$110,000. A change in net worth of \$65,000 would indicate that about 60% of the earnings after taxes was retained in the business.

## EXPERIENCE OF DEPARTMENT STORES IN METROPOLITAN AND NON-METROPOLITAN COUNTIES COMPARED

### Size of City

Tables 16 and 17, pages 24 and 25, present common figures for the firms classified according to the location of the stores in metropolitan or non-metropolitan counties. As noted earlier, the stores in the more thickly settled areas were usually located in larger cities than were those of less densely populated areas. Thus we find that five of the eleven metropolitan county stores were in cities with populations between 51,000 and 68,000. In contrast, four of the seven firms in non-metropolitan counties were in cities of 30,000 to 35,000.

### Competition

Most of the firms in metropolitan counties were operating in competition with local department stores of similar or somewhat larger size. Furthermore, in at least two cases considerably larger department stores were readily accessible in substantially larger adjacent cities. Thus the reporting stores were not the largest department stores in their trading areas.

In contrast to this we find that the seven stores in non-metropolitan counties usually reported no local competition from large department stores. They tended to be the leading department stores in their communities. A supplementary examination of many current reports on file at the Bureau indicates that comparatively few firms in 1943, a year of unusually high sales performance, were able to secure sales of more than \$1,000,000 in non-metropolitan counties.<sup>1</sup> This finding offers further evidence that these seven firms with sales typically approaching \$1,000,000 during the

<sup>1</sup>For 1943, only 19 out of 54 stores reporting sales of \$1,000,000 to \$2,000,000 and only 3 stores with larger sales were located in non-metropolitan counties.

period 1938-1942 were well-managed leading stores in their areas.

For both groups the cities in which the firms were situated had chain stores dealing in general merchandise as well as small or moderate-size independent stores or branches specializing in millinery, apparel, or shoes.

The reporting department stores in the more populous districts had somewhat larger typical net sales as a rule than did the department stores in non-metropolitan counties. For the most part, both groups expanded their sales at a similar rate during the years 1939 through 1941. In 1942, however, the non-metropolitan county stores typically had a 24% increase over 1941, while the metropolitan county stores realized an increase of only 12.5%.

### Sales and Earnings

Except in 1941 and 1942, the non-metropolitan county stores earned somewhat higher percentage profits before federal taxes than did the stores in the other group. In 1941, however, both groups achieved net gain percentages of 6.1% of sales, and in 1942 the metropolitan county stores made 8.8% of sales compared to 8.0% for the other group.

In general, gross margins were higher for the non-metropolitan stores, despite the fact that the typical percentage expense for inward transportation of merchandise also was higher. On the other hand, total operating expenses for these stores required a high percentage of sales, so that in three of the five years net operating profits before other income were lower for these stores in districts where population was scattered than in more urban areas. Thus the higher gross

**Table 16. Common Figures for Merchandising Operations and Profits for 18 Identical Department Stores with Total Store Net Sales of \$500,000 to \$1,000,000,<sup>1</sup> Classified by County Location: 1938-1942**

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

Items	Figures for 11 Firms in Metropolitan Counties <sup>2</sup>					Figures for 7 Firms in Non-Metropolitan Counties <sup>3</sup>				
	1938	1939	1940	1941	1942	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$6,225	\$6,702	\$7,230	\$8,641	\$9,600	\$3,537	\$3,806	\$4,084	\$4,917	\$6,028
Typical Total Store Net Sales (in thousands).....	620	660	700	830	940	580	640	690	770	900
Typical Net Sales in Owned Departments (in thousands)	570	610	650	770	870	490	540	570	660	820
Change in Net Sales in Owned Departments (Current Year/Preceding Year).....	91.0	107.0	107.5	118.5	112.5	93.0	110.0	105.5	116.0	124.0
Population of City (in thous.)	....	....	60	....	....	....	....	30	....	....
Population (interquartile range <sup>4</sup> -in thousands).....	....	....	51-68	....	....	....	....	30-35	....	....
Initial Markup (percentage of original retail value) on Invoice Cost Delivered <sup>5</sup> .....	37.0%	36.5%	36.7%	37.5%	37.7%	38.0%†	*	*	*	*
Markdowns.....	7.2%†	5.7%†	5.65%†	5.0%†	3.6%†	6.7%†	*	*	*	*
Discounts to Employees and Others.....	0.25	0.25†	0.35†	0.35†	0.35†	0.4†	*	*	*	*
Stock Shortages.....	0.65	0.65	0.7	0.65	0.55	1.0†	*	*	*	*
Total Retail Reductions.....	8.1%	6.6%	6.7%	6.0%	4.5%	8.1%†	*	*	*	*
Inward Freight, Express, and Truckage.....	1.05%	1.05%	1.05%	0.9%	0.75%	1.25%	1.35%	1.3%	1.2%	0.9%
Alteration and Workroom Costs (Net).....	0.2†	0.25†	0.2†	0.25†	0.25†	0.3†	0.2†	0.25	0.25†	0.25
Cash Discounts Received on Purchases (percent. of sales)	2.75	2.9	2.85	2.8	2.8	2.65	2.65	2.85	3.0†	2.8
Gross Margin.....	34.5	35.0	35.1	36.3	37.4	35.3	35.9	36.6	36.4	37.0
Total Merchandise Costs (Net)	65.5%	65.0%	64.9%	63.7%	62.6%	64.7%	64.1%	63.4%	63.6%	63.0%
Total Expense.....	34.6	34.2	33.7	32.3	31.0	36.6	34.7	35.2	34.0	31.6
TOTAL COST.....	100.1%	99.2%	98.6%	96.0%	93.6%	101.3%	98.8%	98.6%	97.6%	94.6%
NET PROFIT OR LOSS.....	L. 0.1%	0.8%	1.4%	4.0%	6.4%	L. 1.3%	1.2%	1.4%	2.4%	5.4%
Net Other Income (including interest on capital owned)...	2.5	2.5	2.7	2.1	2.4	4.0	2.7	3.7	3.7	2.6
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales....	2.4%	3.3%	4.1%	6.1%	8.8%	2.7%	3.9%	5.1%	6.1%	8.0%
Percent of Net Worth.....	* <sup>6</sup>	9.0	10.0	21.0	28.0	* <sup>6</sup>	* <sup>6</sup>	11.0	13.6	20.5
Percentage of Firms:										
Earning Some Net Profit	54.5%	63.6%	81.8%	100.0%	100.0%	42.9%	57.1%	57.1%	85.7%	100.0%
Earning Some Net Gain....	81.8	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Rate of Stock-turn (times a year):										
Based on Beginning and Ending Inventories.....	3.8	4.0	4.15	4.45	4.2	4.6	5.0	5.0	5.0	5.35
Based on Monthly Inventories	3.5	3.7	3.8	4.0	3.45	4.0	4.6†	4.5	* <sup>6</sup>	4.2
Returns and Allowances:										
Percentage of Gross Sales...	*	5.2%†	5.6%†	4.9%†	4.5%†	*	7.8%†	7.8%†	*	6.1%†
Percentage of Net Sales....	*	5.5†	5.9†	5.1†	4.7†	*	8.5†	8.5†	*	6.5†

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

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years were classified in this group.

<sup>2</sup>A metropolitan county, as defined by the United States Bureau of the Census, is one in which at least half the population is in metropolitan districts. A metropolitan district is composed of the densely populated minor civil divisions in and around cities of 50,000 or more inhabitants.

<sup>4</sup>See the definition in Appendix A.

margin may have been necessitated by the higher operating costs.

The fact that these firms were able to achieve relatively satisfactory final earnings in spite of lower operating profits was due to the substantial other income received. The unusual size of these receipts arose partly from the fact that typically leased section operations were extensive in these non-metropolitan county stores. Sales in leased departments commonly amounted to 15% or more of sales in four out of five years and nearly 10% in the fifth year. This was in contrast to a typical figure of between 7.0% and 8.5% for the other stores. As explained in detail in Appendix B,<sup>1</sup> the difference between commissions received from lessees and the indirect costs incurred by the store for the leased departments (excluded from operating expense) is included as other income. Thus with the net profits from extensive leased department operations added to other income, this item became considerable.

Study of the detailed expense items discloses that the typical percentage expense usually was

<sup>1</sup>See page 39.

higher for the non-metropolitan than for the metropolitan county firms for real estate costs, advertising, losses from bad debts, unclassified items, traveling, communication, insurance, and depreciation. In some of these accounts the differences were slight but at the same time consistent throughout the period.

The real estate costs, however, were markedly higher, amounting typically to between 4.45% and 3.35% of sales as compared with a range of 3.9% to 3.1% in the averages for firms in more thickly settled districts. Closely related to this are the notably higher depreciation costs, between 1.15% and 0.7% for the former group in contrast to a range of typical figures between 0.7% and 0.55% for the latter group. These differences in the two accounts which pertain to plant suggest that the non-metropolitan county stores may not have been able to use their buildings and equipment so effectively as did the other stores. Possibly they secured much smaller sales per square foot.

The largest variations in the typical advertising cost percentages for the two groups occurred in

**Table 17. Common Figures for Expense by Natural Divisions for 18 Identical Department Stores with Total Store Net Sales of \$500,000 to \$1,000,000,<sup>1</sup> Classified by County Location: 1938-1942**

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

Items	Figures for 11 Firms in Metropolitan Counties <sup>2</sup>					Figures for 7 Firms in Non-Metropolitan Counties <sup>2</sup>				
	1938	1939	1940	1941	1942	1938	1939	1940	1941	1942
Aggregate Net Sales in Owned Departments (in thousands)	\$6,225	\$6,702	\$7,230	\$8,641	\$9,600	\$3,537	\$3,806	\$4,084	\$4,917	\$6,028
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Typical Net Sales in Owned Departments (in thousands)	570	610	650	770	870	490	540	570	660	820
Change in Net Sales in Owned Departments (Current Year/Preceding Year).....	91.0	107.0	107.5	118.5	112.5	93.0	110.0	105.5	116.0	124.0
Population of City (in thous.)	....	....	60	....	....	....	....	30	....	....
Population (interquartile range <sup>3</sup> in thousands).....	....	....	51-68	....	....	....	....	30-35	....	....
Total Payroll.....	17.7%	17.3%	17.2%	16.9%	16.5%	17.6%	16.9%	16.9%	16.9%	16.0%
Real Estate Costs <sup>4</sup> .....	3.9	3.9	3.8	3.3	3.1	4.45	4.1	3.9	3.3	3.35
Advertising.....	2.65	2.6	2.6	2.3	2.1	2.85	2.6	2.65	2.7	2.5
Taxes <sup>4</sup> .....	1.3	1.25	1.25	1.05	1.0	1.2	1.2	1.25	1.25	1.05
Interest <sup>4</sup> .....	2.3	2.25	2.15	2.0	2.0	2.35	2.15	2.15	1.95	1.6
Supplies.....	1.6	1.7	1.8	1.95	1.75	1.65	1.75	1.8	1.8	1.75
Service Purchased.....	1.1	1.1	1.1	0.9	0.85	1.25	1.15	1.25	1.05	0.8
Losses from Bad Debts.....	0.15	0.15	0.15	0.2	0.2	0.3	0.35	0.35	0.4	0.4
Other Unclassified.....	0.95	0.95	0.8	0.85	0.8	1.2	1.25	1.2	1.0	0.9
Traveling.....	0.35	0.35	0.3	0.3	0.4	0.55	0.55	0.55	0.55	0.65
Communication.....	0.55	0.55	0.5	0.5	0.45	0.7	0.6	0.65	0.6	0.55
Repairs.....	0.35	0.5	0.45	0.5	0.45	0.27	0.37	0.45	0.55	0.45
Insurance <sup>4</sup> .....	0.4	0.35	0.35	0.35	0.3	0.55	0.45	0.45	0.5	0.4
Depreciation <sup>4</sup> .....	0.7	0.65	0.7	0.65	0.55	1.15	0.8	1.05	0.95	0.7
Professional Services <sup>3</sup> .....	0.6	0.6	0.55	0.55	0.55	0.6	0.55	0.6	0.5	0.5
Total Expense.....	34.6%	34.2%	33.7%	32.3%	31.0%	36.6%	34.7%	35.2%	34.0%	31.6%

<sup>1</sup>Firms with total store net sales of \$500,000 to \$1,000,000 in at least three of the five years were classified in this group.  
<sup>2</sup>A metropolitan county, as defined by the United States Bureau of the Census, is one in which at least half the population is in metropolitan districts. A metropolitan district is composed of the densely populated minor civil divisions in and around cities of 50,000 or more inhabitants.

<sup>3</sup>See the definition in Appendix A.

<sup>4</sup>Except on real estate.

1941 and 1942, when the outlay was 0.4% of sales higher for the stores in the non-metropolitan counties. Perhaps these firms had wider trading areas necessitating the purchase of space in a number of local newspapers. Or again it is possible that the stores found it desirable to use direct-mail advertising to a substantial degree.

The relatively high percentage traveling costs, as well as the high inward transportation expense mentioned earlier, probably result from the re-

moteness of the stores from their suppliers. Possibly, also, these stores bought more merchandise direct than did the stores in metropolitan counties.

The high communication costs may reflect several things—expensive telephone calls to distant suppliers, extensive mail-order selling, greater use of direct-mail advertising to customers in outlying districts, and relatively high proportions of customer billings requiring 3-cent rather than local 2-cent postage rates.

## HIGH AND LOW PROFIT FIRMS REVIEWED

Lower-than-average earnings were realized in at least four of the five years 1938-1942 by three department stores with sales of \$500,000 to \$1,000,000. During the same period, four firms had consistently high earnings. The operating and financial statements of these seven firms have been examined in some detail in an attempt to throw light on factors associated with success.

From a study of the sales records of the seven stores, it seems clear that large sales expansions were not common either for the stores with uniformly low earnings or for the stores with favorable net gains. In neither group did any of the firms attain the 60% increase from 1938 to 1942 common for the entire group of 19 stores with sales of \$500,000 to \$1,000,000. If anything, the three relatively unprofitable firms had somewhat greater volume increases during the period than did the firms with high profits. In other words, the firms achieving the greatest sales increases were not among those with the most uniformly satisfactory profit records.

The implication here, of course, is that the unusually high rate of increase, 60% as compared with the nation-wide 45% (based on the department store index prepared by the Federal Reserve Board),<sup>1</sup> was a phenomenon of war-industry spending and not an indication of managerial efficiency. However, rapid enlargement of sales volume may have proved to be a deterrent to efficiency of operation. In some cases, it may have necessitated expansion in plant and personnel resulting in increased dollar costs and possibly even in increased percentage costs, which finally served to lower profits both dollar-wise and percentage-wise.

### Low Profit Firms

The three firms with unfavorable earnings were variously located. One was in a city of moderate size in a non-metropolitan county, the second

was in a city about twice as large in a metropolitan county, and the third was in a city with a population of over 100,000. The first was one of three department stores in the community; the second, one of five; and the third had competition from several stores, one having considerably larger sales. This last large-city store had sales in 1942 more than 25% below the level for 1926.

The problem of low productivity of personnel and of space, especially, confronted this large-city firm. Sales per employee were comparatively low, for the last two years of the period, at least, while percentage payroll costs were consistently high. Similarly, sales varying between \$10 and \$13 per square foot of total space did not compare favorably with the experience of other firms. With high rental costs of approximately 60 cents a square foot, the real estate cost percentage was bound to be high as long as sales remained low in relation to space occupied. The unfavorable effect of high rental rates on relatively low-volume stores in large cities has frequently been noted in the annual cost studies of the Harvard Bureau.

The store located in a non-metropolitan county in a much smaller city paid in the neighborhood of 40 cents to 45 cents per square foot and achieved somewhat greater total sales per square foot than did the urban store. The sales per square foot, however, were computed including leased department sales, which for this firm amounted to over 25% of the total store volume. There is indication here that the store may not have allocated to the leased departments a fair share of the tenancy cost, for the real estate cost absorbed by the store was still high relative to sales in owned departments. Likewise, the store may not have secured sufficient revenue from leased sections to cover charges for depreciation on fixtures used by these departments. In any event, the depreciation percentage cost was considerably above the typical figure. As a result, total expense was high and profits and final earnings were low.

The third firm, located in a fair size city, suf-

<sup>1</sup>U. S. Survey of Foreign and Domestic Commerce, *Survey of Current Business*.

ferred not from low volume but from volume achieved at too low a margin to yield a satisfactory profit. The low margin percentage undoubtedly was an outgrowth of the fact that the store engaged in wholesale selling to help build sales volume after the depression. The sales were brought well above the 1929 level by this means. Although percentage costs for the most part were not high,<sup>1</sup> in comparison to the common figures for the 19 reporting stores, the low wholesale margin in combination with the regular retail margin resulted in reduced revenue and low earnings.

Not all the three firms reported statistics for sales by merchandise lines. For the large city store, however, there was some indication that the unfavorable sales per square foot may have been an outgrowth of a low average sale. Approximately 15% of the total sales in owned departments were made in smallwares and notions, in contrast to a common figure of 10% to 11%. At the same time, sales of ready-to-wear amounted to less than 20% of the total, while in other stores the typical figure was 22% to 25%.

Review of the net working capital for the three stores showed relatively high percentages to net sales for two and low percentages for the other. The store with low net working capital also had a very low current ratio, resulting chiefly from extensive current liabilities. Two of the three firms had low net worth in relation to net sales.

### High Profit Firms

None of the four stores enjoying better-than-average profits during at least four of the five years 1938-1942 had sales increases of more than 40% between 1938 and 1942. Nor were the stores necessarily the leading stores in the localities served. All the stores, two of which were located in metropolitan counties, and two in non-metropolitan counties, encountered local competition of other department stores of similar or greater volume.

High earnings resulted from a combination of favorably high gross margin percentages and low total expense percentages. (For only one of the four stores were margin percentages consistently

<sup>1</sup>Among the expense items there was one, interest, which was disproportionately high. This probably resulted from two factors: the rate of stock-turn was somewhat low, indicating rather large inventory investment, and the proportion of charge sales was high, resulting probably in substantial accounts receivable. Interest on inventories and accounts, of course, constitute the major part of the imputed interest charge.

below the typical figures, and for all four, total expense ratios tended to be less than the common figures.)

Low total expenses resulted chiefly from economies in the following accounts: payroll (3 out of 4 firms); real estate costs (3 out of 4 firms); advertising (a tendency noted for all 4 firms); and low interest charge (3 out of 4 firms).

From this summary it appears clear that the stores were making efficient use of space and personnel. This is confirmed by somewhat meager data on sales per square foot and per employee. Sales per square foot were high for the two stores reporting the data. Likewise, sales per employee tended to be high for the scattered years for which the stores provided the information. The successful stores were all service stores, and all made more than one-half their sales on a credit basis.

The merchandise emphasis varied considerably among the four firms. One had a very diversified line but with sales of piece goods amounting to around 20% of the total rather than the 10% or 11% common for stores with sales of \$500,000 to \$1,000,000. A second firm, with a fairly broad line of merchandise, had extensive furniture sales and very low volume in men's wear. The third had a complete department store line but had higher proportions of sales in men's wear than was normal. The fourth accented women's, misses', and juniors' ready-to-wear.

Thus these data indicate that there can be no general rule established as to what lines can be profitably carried. The problem rather is one of adapting the merchandising policy to the needs of the community served and then selling the goods efficiently.

Three of the four firms provided balance sheets for 1938 and 1942. For two of the stores the current ratio was considerably above the average, and the net working capital was high as a percentage of sales. For the third, however, the current ratio fell below 3 to 1 and the net working capital was very low as a percentage of sales reflecting moderate-to-low current assets and moderate-to-high current liabilities. The net worth excluding real estate equity amounted to more than 40% of sales for two of the stores in both 1938 and 1942. For the third store it varied between 27% and 32% of sales. From the conflicting evidence it is not possible to suggest an ideal relationship for net working capital to sales or the amount of equity capital desirable for profitable operation.

## SECTION V

### COMPARISONS OF DATA FOR THE THREE SIZE GROUPS

#### Trading Area and Size of City

The locations of the reporting stores clearly point to the importance of the potential market to the volume achieved. With a retail business, of course, volume depends on making a large number of rather small sales to a varied group of customers. Moreover, except in the case of mail-order selling, these customers must be near at hand. Thus the retailer's problem differs from that of a manufacturer who may secure substantial sales volume from a limited number of customer contacts. Table 18, below, classifies the department stores in the three size groups according to the population<sup>1</sup> of the cities and the type of county in which the firms were located.

It is noteworthy that all small cities were not equally desirable as sites for small department stores. As shown in the right-hand section of the table, only 4 stores were located in cities with populations less than 30,000 in metropolitan counties. On the other hand, 13 firms were in cities of that size in less thickly settled counties. These latter stores must have secured the patronage of people in a large trading area in addition to that of residents within the city limits. In the metropolitan counties, however, the development of local department stores in small cities probably was discouraged by the existence of shopping facilities in nearby large cities.

<sup>1</sup>The population figures used were those of the 1940 Census.

Sales up to \$500,000 commonly were possible in non-metropolitan counties, but larger sales, as a rule, were realized more readily in metropolitan county locations. As shown in the table, stores reporting sales of less than \$300,000 tended to be located in fairly small cities in counties of scattered population, and stores with sales of \$300,000 to \$500,000 were about evenly divided between metropolitan and non-metropolitan counties. Stores with sales in excess of \$500,000, in contrast, were apt to be situated in metropolitan counties and were in markedly larger cities.

#### Sales and Earnings

Between 1938 and 1942, as shown in Table 19, page 29, the department stores with sales of \$100,000 to \$300,000 increased their volumes 28%, stores with sales of \$300,000 to \$500,000 increased their sales 48%, while those with sales of \$500,000 to \$1,000,000 increased their volumes 60%. These figures compare with an increase of 45% for department stores reporting sales to the Federal Reserve Board. Within each group the largest expansion came in the last two years. The more rapid rates of increase for the bigger stores probably reflect the purchasing power resulting from the more extensive war industry in the larger cities in which these stores were doing business. Thus the war may have interrupted the growth in the relative importance of small cities as shop-

**Table 18. Location of 40† Reporting Department Stores by Size of City and Type of County<sup>1</sup>**

Population of City	Sales Volume (in thousands)						All Stores	
	\$100-300		\$300-500		\$500-1,000		Metro-politan County	Non-Metro-politan County
	Metro-politan County	Non-Metro-politan County	Metro-politan County	Non-Metro-politan County	Metro-politan County	Non-Metro-politan County		
Less than 10,000.....	..	3	..	1	..	..	..	4
10,000-15,000.....	1	3	..	1	..	1	1	5
15,000-20,000.....	..	..	2	..	..	..	2	..
20,000-30,000.....	1	1	..	2	..	1	1	4
30,000-40,000.....	1	..	1	2	3	3	5	5
40,000-50,000.....	..	..	..	..	..	2	..	2
50,000-60,000.....	..	..	..	..	2	..	2	..
60,000-75,000.....	..	..	..	..	3	..	3	..
75,000-100,000.....	1	..	1	..	1	..	3	..
100,000 or More.....	..	..	1	..	2	..	3	..
<b>Total.....</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>11</b>	<b>7</b>	<b>20</b>	<b>20</b>

†Two stores in Canada have been excluded from this summary.

<sup>1</sup>A metropolitan county is one which has at least half its population in a metropolitan district or districts. A metropolitan district in turn, as defined by the Census, is composed of the densely populated minor civil divisions in and around a city of 50,000 or more inhabitants.

ping centers, a growth which was noted in the Retail Census for 1939.<sup>1</sup>

In all groups of stores improved percentage earnings were generally associated with sales growth. Thus we find the smallest stores, which typically incurred deficits of 0.5% of sales in 1938, were earning 7.8% on sales in 1942. The changes in percentage level for the larger firms, while not so marked, were still substantial. Average earnings of 1.1% and 2.6% of sales for the two groups of larger stores in 1938 increased to 8.8% and 8.5%, respectively, in 1942. These gains, of course, were before payments of dividends and federal taxes on income and excess profits.

If the dollar earnings of the typical firms in each group are computed on the basis of the common figures for sales and gains (before federal income taxes) for each of the five years, the typical combined dollar earnings for the period sum to \$33,600, \$85,500, and \$176,000 for the three groups. This would have amounted to average

returns for the five years of 3.0%, 4.4%, and 5.4% on sales for stores with annual sales, respectively, of \$100,000 to \$300,000, \$300,000 to \$500,000, and \$500,000 to \$1,000,000. These gains, of course, were after salary payments to executives, partners, and proprietors.

For the year of highest earnings, 1942, the common percentage of net gain to net worth was 20% for the smallest stores and 26% for each of the two groups of larger stores. The lower figure for the small stores reflects not only lower earnings on sales but also a larger net worth in relation to sales. (Net worth including real estate equity in 1942 usually amounted to about 40% of sales for stores with sales of less than \$300,000 and to between 30% and 35% for the larger stores.)

### Margin and Expense

For the most part the smallest stores had the lowest percentages of gross margin, while the largest stores surveyed had the highest percentages during the five years. Within each group, how-

**Table 19. Selected Operating Data for Department Stores in Three Size Groups Compared: 1938-1942**

Items	Sales Volume <sup>2</sup> (in thousands)	1938	1939	1940	1941	1942
Index of Change in Sales in Owned Departments (1939=100).....	\$100- 300	100.0	100.0	101.5	113.7	128.5
	300- 500	100.0	106.0	109.7	127.8	148.0
	500-1,000	100.0	108.5	116.0	136.0	160.0
Net Gain before Federal Tax on Income: Typical Dollars.....	\$100- 300	L. \$1,025	\$2,665	\$1,456	\$9,870	\$20,670
	300- 500	3,685	5,950	9,720	23,520	42,680
	500-1,000	13,780	20,700	26,840	43,310	71,400
Percentage of Sales.....	\$100- 300	L. 0.5%	1.3%	0.7%	4.2%	7.8%
	300- 500	1.1	1.7	2.7	5.6	8.8
	500-1,000	2.6	3.6	4.4	6.1	8.5
Percentage of Net Worth.....	\$100- 300	*	2.5%	2.2%	8.0%	20.0%
	300- 500	3.0%	4.5	8.0	16.6	26.0
	500-1,000	8.0	10.0	11.0	19.0	26.0
Gross Margin (Percentage of Sales).....	\$100- 300	30.5%	32.6%	32.0%	34.2%	35.5%
	300- 500	32.0	32.1	32.6	33.8	35.0
	500-1,000	34.8	35.4	35.6	36.3	37.0
Total Expense (Percentage of Sales).....	\$100- 300	34.5%	34.2%	34.2%	32.5%	30.0%
	300- 500	33.6	33.1	32.3	30.7	28.5
	500-1,000	35.0	34.3	34.1	32.7	31.0
Executive Compensation: Typical Dollars.....	\$100- 300	\$8,700	\$8,300	\$8,600	\$9,500	\$11,000
	300- 500	12,000	13,000	15,000	19,300	21,000
	500-1,000	14,000	14,400	15,800	20,000	22,800
Percentage of Sales.....	\$100- 300	4.3%	4.1%	4.1%	4.1%	4.2%
	300- 500	3.6	3.7	4.2	4.6	4.3
	500-1,000	2.6	2.5	2.6	2.8	2.75
Percentage of Adjusted Earnings <sup>3</sup> .....	\$100- 300	113.2%	75.9%	85.4%	49.4%	35.0%
	300- 500	76.6	68.5	60.9	45.1	32.8
	500-1,000	50.0	41.0	37.1	31.5	24.4

\*Data not available.

<sup>1</sup>The assignment of a firm to a given volume group was governed by the total store net sales for three out of five years.

<sup>2</sup>Net gain before Federal Tax on Income plus executive compensation.

ever, there was a year-to-year rise in the typical rate of margin, and the differences between the level at the beginning and end of the period exceeded the annual differences between the levels for the several volume groups. In 1942 the three common figures for gross margin were 35.5%, 35.0%, and 37.0% of net sales, for the three groups in order of size.

The total expense percentages for the three groups also showed more difference between the level at the beginning and end of the period than between groups in a given year. With the year-to-year rise in sales, there was a decline in the common expense rates from between 33.5% and 35.0% of sales in 1938 to between 28.5% and 31.0% of sales in 1942.

The lowest total expense percentages for all five years, however, were recorded by the stores in the middle group. This favorable showing resulted from low costs for real estate, depreciation, repairs, supplies, service purchased, and communication. The most substantial advantage was in the real estate cost account. Located usually in cities of not more than 33,000 population (typically 25,000), the firms probably did not have to pay large rents per square foot and yet were in big enough trading centers to achieve satisfactory sales per square foot. This experience was in contrast to that of the smallest stores which, in cities of about 15,000, were unable to secure sufficiently large sales per square foot to result in low percentage costs. The firms with sales of \$500,000 to \$1,000,000, which also incurred high percentage costs for tenancy, usually were located in cities with population up to 60,000 (typical figure 45,000), and were in metropolitan counties. No doubt these firms paid higher rents per square foot than did the firms in smaller cities. The greater productivity of the space, however, made it possible for these stores to operate with slightly lower percentage costs for real estate than did the smallest stores in small cities.

Total expense percentages were highest for the largest stores. These high expense rates resulted from the relatively high real estate costs already noted as well as high percentage outlay for advertising, supplies, repairs, depreciation, professional services, and unclassified items. The most important of these accounts were the real estate costs, which absorbed typically between 3% and 4% of sales, and the supply item, which took between 1.5% and 2.0% of sales.

The smallest stores had total expense rates only slightly below those for stores with sales over \$500,000. These stores not only were not able to use their space to the greatest advantage, but also

may not have been able to realize as large sales per employee as did the larger stores in larger cities. Hence these very small department stores incurred high percentage costs for payroll as well as for plant. Another factor contributing to the high payroll percentage cost was the executive salary item. In spite of the fact that dollar payments to executives were low, these payments were large in relation to the sales volume. Other accounts for which percentage expenditure was high included interest and insurance, the outlay for these items reflecting the rather slow rate of stock-turn common for the stores with sales of less than \$300,000.

### Executive Compensation

The department stores with sales of \$100,000 to \$300,000 commonly paid their executives considerably lower compensation than the larger stores afforded. These little stores typically paid their two executives total amounts ranging from \$8,300 in 1939 to \$11,000 in 1942. Firms in the middle group, however, usually paid to two or three executives total compensation ranging from \$12,000 in 1938 to \$21,000 in 1942, while stores in the third group had corresponding payments of \$14,000 to \$22,800 for their two or three executives combined. In terms of percentages, these salaries amounted to 4.1% to 4.3% of sales for firms in Volume Group 1, 3.6% to 4.6% for firms in Volume Group 2, and 2.5% to 2.8% for firms in Volume Group 3. For all three groups, therefore, the executive salaries constituted an important part of the total operating expense.

Since the stores were proprietorships, partnerships, or closely owned corporations, it is fitting to compare the executive salaries with earnings before payments to executives. On this basis the executives of the smallest took slightly more than 113% of earnings in 1938, with the proportion declining to 35% of the earnings in 1942. The executives of the middle group received nearly 77% of the earnings in 1938, and proportionately less each year until in 1942 they had 33% of the earnings. The officers of the third group typically took half the earnings in 1938 and by 1942 had reduced the percentage to 24% of earnings before executive compensation. These relationships are significant in that they emphasize how large a share of earnings had to go to pay fair salaries to management. Clearly when earnings are low, the owners or interested executives of such stores have to expect either to take drastic cuts in the amounts drawn as salaries or to run the risk of impairing the net working capital position of the firm.



### Financial Data

Working capital requirements of the reporting department stores differed among the volume groups, as is shown in Table 20, below. The smallest stores, those with annual sales of \$100,000 to \$300,000, had relatively large current assets as percentages of sales. At the beginning and end of 1938 such assets commonly amounted to between 45% and 50% of total net sales for these stores in comparison to between 35% and 40% for the larger stores studied. Similar differences but at lower levels were true for 1942 when the smallest stores commonly invested in current assets amounts equal to about 40% of sales while the larger stores used about 30% of sales for this purpose. This situation arose partly from the fact that the small stores had slow rates of stock-turn, and hence, merchandise at a given time was rather high in proportion to sales.

Current liabilities as percentages of sales in general showed little consistent variation among the size groups. The level for the most part was less than 10% of sales. The current ratio for the smallest firms tended to be high (roughly 6 to 1 in

1938 and 4 or 5 to 1 in 1942), since current assets for these companies usually were high. The lowest current ratios were those for stores with sales of \$500,000 to \$1,000,000 (typically between 3 to 1 and 3.6 to 1).

Net working capital typically required from 40% to 33% of sales for the smallest stores and from 25% to 20% of sales for stores with volumes between \$500,000 and \$1,000,000.

Equity capital ordinarily was somewhat higher in proportion to sales for the smallest stores than for the firms in the other two groups. In 1938 net worth exclusive of real estate equity typically amounted to about 45% of sales for firms with volumes of less than \$300,000. The larger firms had net worth averaging 35% of sales at that time. In 1942, when sales volumes were substantially higher, the common percentage had declined to around 37% or 38% for the little stores and between 28% and 30% for the larger stores.

It should be remembered, of course, when the financial data are used for comparative purposes, that the averages are based on year-end figures and do not reflect peak seasonal requirements.

**Table 20. Selected Financial Data for 41 Department Stores in Three Size Groups Compared: 1938 and 1942**

(Common Figures; Annual Net Sales in Owned Departments = 100%, except where noted)

Items	Sales Volume <sup>1</sup> (in thousands)	1938		1942	
		Beginning of Year	End of Year	Beginning of Year	End of Year
Current Assets.....	\$100-300	48.0%	48.0%	40.0%	42.5%
	\$300-500	40.5	39.5	31.8	30.5
	\$500-1,000	35.5	35.5	29.5	31.0
Current Liabilities.....	\$100-300	8.3%	8.0%	7.5%	9.8%
	\$300-500	*	7.3	7.5	6.5
	\$500-1,000	11.5	9.7	9.1	9.0
Net Working Capital.....	\$100-300	39.7%	40.0%	32.5%	32.7%
	\$300-500	*	32.2	24.3	24.0
	\$500-1,000	24.0	25.8	20.4	22.0
Current Assets/Current Liabilities.....	\$100-300	5.8	6.0	5.3	4.3
	\$300-500	*	5.4	4.2	4.7
	\$500-1,000	3.1	3.6	3.2	3.4
Net Worth (excluding real estate equity).....	\$100-300	46.5%	45.0%	36.9%	38.0%
	\$300-500	34.5	34.9	27.6	30.0
	\$500-1,000	36.5	37.0	29.0	29.0
Total Assets (including any investment in real estate).....	\$100-300	66.0%	66.0%	53.5%	55.0%
	\$300-500	50.0	50.0	41.0	43.0
	\$500-1,000	54.0	54.0	45.0	47.5

\*Data not available.

<sup>1</sup>Classification according to sales volume for a given firm depended upon total store net sales in at least three out of the five years 1938-1942. There were 12 firms in the first group, 10 firms in the second group, and 19 firms in the third group.

## SECTION VI

### CONCLUSION

From the material surveyed in this study, it is possible to draw conclusions which may be helpful to existing and would-be executives of small department stores.

1. Ready-to-wear and ready-to-wear accessories were the backbone of the business done by reporting small department stores in 1938-1942.

2. Shoe and millinery departments, requiring particular merchandising skills, and in the case of shoes, substantial inventory investment, frequently were operated by lessees, usually by chains or syndicates specializing in such merchandise.

3. The small reporting stores during the five-year period, 1938-1942, typically had capital, surplus, and reserves other than for depreciation equivalent to between 40% and 50% of the sales realized. This was exclusive of any capital which might have been required for real estate ownership.

4. Net gain (before federal taxes on income and excess profits) during the five years averaged 3.0% of sales for stores with sales of \$100,000 to \$300,000, 4.4% for stores with sales of \$300,000 to \$500,000, and 5.4% for stores with sales of \$500,000 to \$1,000,000.

5. The services of two executives ordinarily were required in the smallest stores and of two or three in the larger stores.

6. The dollar compensation of all executives averaged for the five-year period amounted to \$9,200 per year for the smallest stores, \$16,000 for the middle-size stores, and \$17,400 for the largest stores surveyed. These payments were 4.1%, 4.1%, and 2.7% of sales, or 58%, 48%, and 33% of earnings before compensation, respectively.

7. The smallest stores commonly were located in counties in which there were no large cities. Usually these stores were in fairly small cities which drew customers from a rather wide area. Because of a limited customer group and consequent small demand, sales volumes were relatively low and dollar expenses, though in themselves low, were high in relation to sales. Some of the firms in these locations had lower volumes than in

the 1920's, a situation reflecting, perhaps, changed shopping habits resulting from improved roads and increased automobile ownership.

8. The stores with sales of \$300,000 to \$500,000 were located in somewhat larger cities than the smaller stores and frequently were situated in more densely populated counties. In these larger shopping centers more sales were possible without correspondingly larger dollar costs; partly because of this situation, the stores enjoyed low total expense rates.

9. The stores with sales of \$500,000 to \$1,000,000 were for the most part in substantially larger cities and usually were in counties with 50% or more of the population in and near cities with population of 50,000 or more. These firms, though securing larger dollar volume, incurred considerably higher rent per square foot, and hence had relatively high real estate cost percentages. Chiefly because of this fact, the stores with sales above \$500,000 had higher total expense percentages than stores with sales of \$300,000 to \$500,000.

10. Between 1938 and 1942, the stores with sales of \$500,000 or more increased their sales by 60%, those with sales of \$300,000 to \$500,000 by 48%, and those with sales of \$100,000 to \$300,000 by 28%. The large increases for the biggest stores studied probably developed from the spending of workers in war industries which tended to be in the larger cities. These findings underline the significance of local purchasing power to retail enterprise.

11. The importance of low percentage expense in determining the success of the reporting stores was clearly shown. Most of the firms consistently realizing better-than-average profits had low percentage costs.

12. Equally clearly the limitation of profits resulting from curtailed revenue was demonstrated.

a. Several firms had lower sales in the good year, 1942, than the sales attained in the 1920's. This reduction in sales volume in a plant designed to accommodate a greater

number of transactions was one of the factors contributing to high percentage costs.

b. Curtailed revenue and relatively low dollar gains, resulted if a large share of the business was done by leased departments. Whereas it often may be economical from the standpoint of capital requirements and merchandising salaries to have millinery and shoe departments leased, there appears to be a danger in allowing leased department sales to creep much above 10% of the total volume. The necessity for determining as accurately as possible the actual cost to the store and the final net profits of such departments is acute.

c. Unfavorable margins on the merchandise sold sometimes were associated with low net gain. In at least one instance these low margins reflected wholesale selling, a somewhat questionable practice for small retail firms to follow.

13. Throughout the data there was a strong implication, not capable of statistical proof, that the most successful firms were those which were doing a good merchandising job; that is, planning sales not only to satisfy the customers and thus maintain and build dollar volume, but also to provide lines on which favorable profits could be secured.

### THE SMALL DEPARTMENT STORE AS MEANS OF LIVELIHOOD

The small department store presumably ordinarily had its genesis in a dry goods store, or a store offering a limited line of merchandise, or occasionally in a general merchandise store. Increased volume may have been made possible by growth in the size of the town or city served. Several of the department stores surveyed were located in cities that had doubled or tripled their population since the stores were established. Or the size of the trading area may have been expanded as roads were improved and automobile ownership grew. Again increased volume may have come through a conscious diversification of lines adapted to the needs of the population served. In any case, the accumulation of approximately \$100,000 in capital through the reinvestment of earnings over a period of years appeared to be essential to the attainment of sales of \$200,000 or more.

As was indicated in Table 1, page 2, the firms surveyed were all nine years old or more in 1939, and many had been in business at least thirty years. The Census data, presented in Table 1, and repeated in Table 21, above, also disclosed few young independent department stores. This situation reflects in part the fact that it may take several years to work up to the point where the business yields annual sales of \$100,000, the lower limit used by the Census, to define a department store. It also may result from the impact of the depression. The situation in 1931 through 1934 probably militated against the establishment of new retail firms and interrupted the progress of existing small stores, which under different conditions might have grown to department store stature in a few years' time.

That many vicissitudes are met in establishing small retail enterprises on a firm financial basis is

**Table 21. Comparison of All Independent and Chain Department Stores Operating in 1939 Classified According to the Date of Establishment**

Date of Establishment	Independent Stores		Chain Stores	
	Number	% of Total	Number	% of Total
Prior to 1890.....	451	32.2%	8	0.3%
1890-1906.....	377	26.9	22	0.8
1907-1916.....	194	13.8	163	6.1
1917-1919.....	36	2.6	77	2.9
1920-1929.....	172	12.2	1,672	62.6
1930-1933.....	61	4.3	284	10.6
1934-1937.....	39	2.8	263	9.9
1938.....	5	0.4	54	2.0
1939.....	5	0.4	32	1.2
Unknown.....	62	4.4	97	3.6
<b>Total.....</b>	<b>1,402</b>	<b>100.0%</b>	<b>2,672</b>	<b>100.0%</b>

Source: U. S. Bureau of the Census, Sixteenth Census of the United States: 1940, Census of Business, Volume 1, Retail Trade: 1939, Part I, p. 170.

shown by statistics published by Dun<sup>1</sup> on the failure of business enterprise. Over the period 1938-1942, roughly 62% of all business failures were in retail trade. More than half these retail failures were those of firms having liabilities of less than \$5,000, and nearly nine-tenths of them were of firms having liabilities of less than \$25,000. Clearly many people with small capital and limited merchandising experience are tempted to engage in retailing enterprise and are unable to succeed. Dun's record of department store mortality is not classified according to the extent of liabilities. Throughout the nation, however, 42 department stores of all sizes either liquidated or

<sup>1</sup>Dun & Bradstreet, Inc., *Dun's Statistical Review*, New York, monthly. The statistics cited are from the February issues for 1940-1943.

passed into other hands in 1938, 36 did so in 1939, 37 in 1940, 2 in 1941, and none in 1942. Based on the Census total of 1,402 independent department stores for 1939, the annual rate of mortality dropped from approximately 3% to 0% in the unusually good year, 1942. It is not known how many new stores joined the department store ranks during the five years.

Conceivably, it may be more difficult for an independent firm to develop into a department store in this generation than it was 40 years ago. Established chains are able to avoid the growing period usually required by independents, and to launch well-stocked stores in favorable locations, using the experience and capital which they have accumulated through other stores located elsewhere. Evidence of this is shown in Table 21, summarizing information of the 1940 Census covering 1939 retail operations. Almost twice as many chain department stores as independents were in existence in 1939. Of these chain stores, 13.1% had been opened since 1934, while only 3.6% of the independents had been established after that date. Since the 1920's when, as shown by the table, the large number of 1,672 chain stores were added, it must have been increasingly difficult for small independent stores to make their way.

Yet there is a real place in many communities for a store similar to those surveyed in this report. Frequently there is a demand for merchandise of a quality not offered in the chains, which usually stress low-price goods. Services including the extension of credit facilities and the delivery of merchandise often are desired and may be essential if customers are scattered through a wide trading area. A more individualized approach to the specific needs of a locality may be made in merchandising for an independent than in merchandising for a chain. Thus, as shown by the profit and loss data of the stores studied, if a small firm has competent executives who keep in touch with their customer groups and satisfy their needs economically, there is an opportunity for building sales and earning 10% to 15% on the investment.

In some instances, a retailer interested in small store operation and with capital to invest may be able to purchase a going enterprise. Two of the stores for which figures were included in this report, for example, were purchased in 1943 by other department stores to operate as branches. Every now and then *Women's Wear* publishes accounts of the changes in the ownership of stores. For example, the issue for July 6, 1944, tells of a change in ownership of a store similar to those studied, located in Great Falls, Montana. This

store, established in 1910, will be carried on as in the past but under new direction. When one considers the age of the department store groups shown in Table 21, it seems quite possible that in the next few years there may be favorable opportunities for purchasing the goodwill of stores whose executives may wish to retire.

It is distinctly desirable, however, if the establishment of a new branch store is considered in a given place, to study first the demands of the community and how these demands are being met. Such analyses frequently are made by chains before opening new units in order to determine whether there is a need for an outlet of the type contemplated. Since retail profits depend on volume, which again depends on local demand, individuals would do well to take a cue from the chains and conduct preliminary studies of sales potentials.

Some locations offer much greater chance for success than others. The pronounced migration of workers during the war has changed the importance of trading areas throughout the country. While many of these population shifts will be temporary, some of the changes will have a lasting effect on the distribution picture. Study of these altered markets may reveal locations which should be favorable for the growth of new independent enterprises. Furthermore, if the trend toward decentralization of industry is renewed after the war, additional small cities may become leading shopping centers, and thus be attractive as sites for new retail enterprise.

Executives of large urban stores realized several years before the war that lesser cities were winning away some of the volume previously secured by metropolitan merchants. To meet this problem a few of the big stores experimented with suburban branches. The program may be expected to be continued and broadened after the war. But here again the adaptation of the purchasing policy of the large city store to meet the needs of a more restricted community may not be accomplished easily. Administrative methods which have proved practicable in large plants may prove unsuited to stores located in small cities.

The small independent retailer may have a chance to do creative merchandising after the war. With the advent of peace, there may be a swing away from standardized merchandise, which has been important in the wartime design. If so, then one of the aids to mass merchandising will have been reduced in importance. For the past few years there has been a tendency for simplification of merchandise and the promotion of national brands. This tendency has applied not only to

staple commodities but also to ready-to-wear lines. Modification of extreme fashions in apparel, reflected, for example, in the shirtmaker dress and the basic black dress, have facilitated chain store merchandising of ready-to-wear. WPB regulations and wartime living have strengthened the trend by emphasizing the advantages of the casual dresses. It is within reason, however, that after the war there may be a strong movement away from the assembly line dress to models with greater individuality. Such frocks do not lend themselves so readily to quantity production and marketing. The small independent store operator, in that event, will have a good opportunity to build a

reputation for fashion-right goods with his clientele.

An individual seeking to establish a new store in a selected community should possess three major qualifications. First, he should have a practical knowledge of the merchandise to be offered for sale and of the best sources of supply. Further, he should have grasp of the principles of store administration and selling technique. Finally, he should have access to sufficient capital to be able to test fairly, that is, over a span of several years, the combination of the demands of the district and the management's ability to meet those demands.

## APPENDIX A

### DEFINITIONS

#### Common Figures

The term "common figure" is used by the Bureau to mean the most representative figure in any series or array. It is the figure around which the percentages from all the individual reports in a group tend to concentrate. It is determined partly by the median, that is, the middle figure when the items are arranged in order of magnitude; and partly by the interquartile average, which is the arithmetic average of the middle half of the figures. The lowest and highest figures, respectively, of those occurring in the middle half of the series mark the interquartile range. The common figure is selected partly by judgment based on inspection of the data and partly by means of computed averages. It is designed to reflect the typical performance.

#### Definitions of Major Items

*Net sales*, used as a base for computing percentages, represents the volume of business done in owned departments only. This figure is computed by deducting from gross sales the amount of merchandise returned by customers and the allowances granted to customers. For classification purposes the size of store has been measured by net sales in both owned and leased departments, that is, total store net sales.

*Gross margin* is net sales less total merchandise costs (net). The Bureau defines total merchandise costs (net) as the sum of three factors: (a) the difference in merchandise inventories at the beginning and end of the year; (b) purchases of merchandise at net cost delivered at the store or warehouse; that is, after cash discounts received have been deducted and after inward freight, express, and truckage have been added; and (c) alteration and workroom costs, net (costs less receipts from customers).

*Total expense*, according to the Bureau's definition, includes not only actual expenditures and regular charges, such as those for depreciation, but also charges for interest at 6% on investment in plant and equipment used, in merchandise inventory, and in accounts receivable, regardless of the source of the capital invested in these various

assets or the rates paid on any capital borrowed. Also, total expense includes charges for the salaries of proprietors, active partners, and chief executives, whether or not they actually were paid. Salaries of inactive partners are considered as deductions from net gain. Total expense, therefore, represents the true long-run economic cost of conducting the merchandising or trading operations of the reporting stores.

*Net profit*, as the Bureau uses the term, is the amount which remains after deducting total expense from gross margin; or, stated differently, it is the amount which remains after deducting total cost, the sum of total merchandise costs (net), and total expense, as defined above, from net sales. Thus net profit is the profit after charges for capital, including that invested in real estate, and for management. It reflects the efficiency of a firm in the conduct of its merchandising operations and the profitableness of a concern as a merchandising enterprise. This figure, however, is *not* the net business profit *before interest on owned capital* which many businessmen customarily look upon as net profit and which the Bureau calls "net gain."

*Net other income* includes interest at 6% on such part of the capital used in the business as represents the firms' equity, including the equity in real estate; and, as regards borrowed capital used in the business, any difference between interest at 6% and interest actually paid. These interest credits are made to offset imputed interest charged as expense. In addition, net other income includes the amount of interest actually received, receipts from leased departments,<sup>1</sup> and net income from any nonmerchandising operations.

*Net gain before federal tax on income* is the total of net profit and net other income. It is the net earnings, including return on investment, after considering all miscellaneous income or deductions other than federal income taxes. Net gain is the figure which many merchants, bankers, and accountants have in mind when they speak of net profit, net business profit, or net earnings. In using the net gain figures, allowance must be made for the desired rate of return on invested

<sup>1</sup>For a discussion of leased department operations, see Appendix B, page 39.

capital. The Bureau's treatment of cash discounts and interest in no way affects the net gain figure.

### Classification of Expense

The Bureau's classification of expense agrees substantially with that set up by the Controllers' Congress of the National Retail Dry Goods Association in its Expense Manual published in 1928 and revised in 1937 and 1942. There are, however, three important differences, those in the handling of (a) rentals and related items, (b) interest, and (c) professional services. These are discussed below.

### Real Estate Costs

In order to secure as great a degree of comparability as possible between the figures for firms owning their real estate and the figures for firms leasing all or part of their real estate, the Bureau's classification includes no item for rentals but has, instead, an item called "real estate costs." *Real estate costs* includes (for properties used in the business only) rentals, taxes, and insurance paid on improvements and leasehold valuation; in addition, it includes taxes, interest, insurance, and depreciation on owned real estate. Thus, the figures given in this bulletin for taxes, interest, insurance, and depreciation do not represent the total expenditures or charges for these items. They exclude all expenditures or charges related to real estate, but include expenditures or charges on equipment.

### Interest

*Interest* includes interest at 6%<sup>1</sup> on the following assets: the average merchandise inventory, the average amount of accounts receivable outstanding, and the average investment in equipment. Interest on the average investment in real estate is

<sup>1</sup>The use of the 6% rate may have resulted in the overstatement of interest expense, particularly for the larger firms covered by the study. Data on interest rates on borrowed capital prepared in connection with the Bureau's annual studies for 1940, 1941, and 1942 are summarized below:

#### INTEREST RATES ON BORROWED CAPITAL: 1940, 1941, 1942

Department Stores with Net Sales (in thousands):	Year	Short-term Loans		Long-term Loans	
		Number of Reporting Firms	Rate	Number of Reporting Firms	Rate
\$150- 300	1940	17	5%	8	5%
	1941	11	5	9	5
	1942	11	5	9	5
\$300- 500	1940	16	5	9	5
	1941	16	5	9	5
	1942	10	6	11	5
\$500- 750	1940	20	5	14	4½
	1941	15	5	9	4½
	1942	13	5	9	4
\$750-1,000	1940	12	4	9	5
	1941	14	3½	10	3½
	1942	7	4½	6	5

Harvard Business School, Bureau of Business Research, Bulletins Nos. 113, 115, and 117, *Operating Results of Department and Specialty Stores for 1940, 1941, and 1942.*

included in real estate costs. Interest paid on borrowed capital and interest received are not considered in arriving at the interest charges in the expense statement, but are considered in arriving at net other income.

### Taxes

*Taxes* do not include taxes on real estate, which are included in real estate costs, or federal income taxes; but do include payroll taxes and such taxes on sales or gross income as the stores were unable to collect directly from their customers.

### Stock-turn

The stock-turn figures given in this report, based upon beginning and ending inventories, were computed by dividing total merchandise costs (net) as defined under gross margin on page 37 by the average inventory as shown by the profit and loss statement; that is, at cost. The stock-turn figures based on average monthly inventories were computed through the use of cost or retail inventory figures, whichever were furnished, total merchandise costs or net sales being used as dividends.

Undoubtedly the rate of stock-turn based on monthly inventories provides a more reliable index of the turnover of physical merchandise than does the rate of stock-turn based on beginning and ending inventories; but since the figures computed on the latter basis are somewhat more representative, from the standpoint of the number of firms reporting the necessary data, they usually are the ones mentioned in the text.

### Initial Markup

Of the other items given in the tables, initial markup requires special explanation. The figures for initial markup were not based on initial markup percentages reported by, or computed for, the individual firms; but rather were prepared through the use of the common figures for gross margin, alteration and workroom costs, total retail reductions, and cash discounts received.

In calculating the percentage of markup, of course, the original retail value before retail reductions had to be secured. For this purpose the figure 100%, representing net sales, plus the common figures for total retail reductions as a percentage of net sales, was taken as original retail value expressed in terms of net sales. To secure the percentage of initial markup on invoice cost delivered, this original retail value was divided into the sum of the common figures for gross

margin, alteration and workroom costs, and total retail reductions, less the amount of cash discounts received, all expressed as percentages of net sales. This dividend represented the difference between original retail price of merchandise sold and delivered invoice cost of merchandise sold expressed as percentages of net sales.

This definition may be put into the form of an equation as follows, all figures to the right of the equality sign being percentages of net sales:

$$\text{Initial Markup (on invoice cost delivered)} = \frac{\text{Gross Margin} + \text{Alteration and Workroom Costs} + \text{Total Retail Reductions} - \text{Cash Discounts Received}}{100 + \text{Total Retail Reductions}}$$

Using figures for department stores with sales of \$500,000 to \$1,000,000 in 1942 from Table 11, the computation of the rate of initial markup based on invoice cost delivered is as follows:

$$\frac{37.0 + 0.25 + 5.3 - 2.8}{100 + 5.3} = \frac{39.75}{105.3} = 37.7$$

## APPENDIX B

### LEASED DEPARTMENTS

The operation of leased departments is common with small and moderate-size department stores. Such a practice, however, leads to some accounting difficulties if the costs of operating owned departments are to be clearly recognized. The common practice is for the lessee to pay a commission on the sales in its department, this commission supposedly to cover occupancy costs and any sums incurred by the store in behalf of the lessee for merchandise wrapping and delivery, credit risks and other accounts receivable expense, and general overhead. The lessee pays directly its own payroll and advertising expense. In order to secure a picture of the costs of operating owned departments only, it is necessary to estimate the indirect costs incurred for leased departments and to eliminate these costs from the store's operating expense statement.

Accordingly, the cooperating stores were asked to report the sales of their leased departments, the amount of commissions or rentals received from lessees, and the portion of the stores' indirect expenses properly chargeable to leased departments. It was indicated that the sales of leased departments should be excluded from sales; that direct expenses paid by the stores for the account of lessees should be excluded from expense; and that the indirect expenses chargeable to leased sections similarly should be excluded. To complete the process, the difference between the commissions received from leased departments and the indirect expenses incurred on their behalf, constituting the store's net profit from leased sections, should be included in other income.

In many instances, the reporting firms made all these adjustments and thus segregated the figures of their leased departments and obtained clear pictures of the results of their owned departments. Where the firms themselves did not do this,

and where the sales of leased departments amounted to 10% or more of total sales, the Bureau made the appropriate adjustments. Where this could not be done, and where leased department sales amounted to 10% or more of total sales, the percentages which were most likely to be distorted by leased section operations (real estate costs, supplies, service purchased, total expense, net profit, and other income) were considered not comparable and were not used in arriving at the common figures published in this bulletin.

It is believed, then, that for the most part the common figures published in the text reflect fairly the operations of owned departments. It is recognized, however, that necessarily some of the estimates of indirect costs were arbitrary and therefore subject to some question. Since it is of vital importance that executives of firms know their owned department costs and the net earnings from leased departments, common figures are presented in Table I, page 40, for a group of stores with extensive leased department sales in 1942 to focus attention on the influence which such operations have on the stores' profit and loss and expense figures. The average expense data are shown in two ways: first with leased department indirect expenses deducted from expense and the stores' net profit on leased sections included in Other Income; and, second, with the indirect expenses left in the expense accounts and the full commission credited to Sundry Revenue. In both cases the percentages are calculated on Net Sales in Owned Departments.

The eight firms selected for this analysis had total sales including leased department sales of from \$700,000 to \$2,750,000 in 1942, with the average figure, roughly \$1,000,000. The average percentage of leased department sales to total was 19%; hence sales in owned departments amounted



typically to \$800,000. Six of the eight gave details on the departments operated by lessees. All six had both millinery and shoe departments operated by outsiders, with the shoe departments accounting usually for about one-half the leased department sales. The average total commission was about 12% of leased department sales or 2.9% of net sales in owned departments, as shown under Other Income in the second column of the table.

A glance at the figures in the table shows that without the indirect expense eliminated from the stores' statement, total expense as a percentage of sales in owned departments was 2.5% of sales higher than when the indirect expenses were deducted. The consequent net profit showing was 4.5% of net sales rather than the 7.0% shown when indirect expenses for leased departments were eliminated. These figures demonstrate vividly that the net profits on owned department operations may be substantially understated if proper allocations of expense to leased departments are not made.

A further point is of great significance; the net profit to stores on leased departments, shown under Other Income in the first column of the table, typically amounted to 0.4% of sales in owned departments, whereas net profit in owned departments amounted to 7.0% of sales. In terms of leased department sales, the stores' profit on leased departments was 1.8%. Thus in leased departments the store received only 1.8% of the sales revenue, while in owned departments the net profit was 7.0%.

The question naturally arises whether or not the stores were securing adequate commissions from the lessees to cover costs and yield satisfactory earnings. In this regard it is pertinent to note that the commission rates for these eight stores corresponded closely to those shown as typical in the case of somewhat smaller stores in Table 12, page 17. Furthermore, the rates for shoe departments were practically the same as those found typical in a special study of leased departments published by the National Retail Dry Goods Association in 1928.<sup>1</sup> This stability is of considerable

<sup>1</sup>National Retail Goods Association, Bureau of Research and Information, *Survey of Leased Departments, Terms and Contracts*, New York, the Association, 1928.

significance since stores in general found it necessary to raise gross margins on owned department merchandise on a store-wide basis by about 3% of net sales between 1932 and 1933. In any event, the difference in profitability of owned and leased departments shown by these data gives warning of the danger of allowing too large a proportion of the total sales to be achieved through leased departments.

**Table I. Common Figures for 8 Moderate-Size<sup>1</sup> Department Stores with Leased Department Sales Amounting to 10% or More of Total Sales: 1942**

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

Items	Indirect Expense Incurred by Store for Leased Departments	
	Excluded from Expense	Included in Expense
Typical Net Sales (Owned Departments)	\$800,000	\$800,000
Gross Margin.....	37.0%	37.0%
Payroll.....	15.3%	16.1%
Real Estate Costs.....	2.9	3.6
Advertising.....	2.4	2.4
Taxes.....	1.0	1.0
Interest.....	1.7	1.8
Supplies.....	1.7	2.05
Service Purchased.....	0.8	0.9
Losses from Bad Debts.....	0.3	0.35
Other Unclassified.....	0.7	0.8
Traveling.....	0.6	0.6
Communication.....	0.5	0.55
Repairs.....	0.55	0.65
Insurance.....	0.45	0.5
Depreciation.....	0.7	0.75
Professional Services.....	0.4	0.45
Total Expense.....	30.0%	32.5%
Net Profit.....	7.0%	4.5%
Net Other Income:		
Net profit to Store from Leased Departments.....	0.4%	....
Commissions Received from Leased Departments.....	....	2.9%
All other income (including interest on capital owned).....	2.0	2.0
Total Net Other Income.....	2.4%	4.9%
Net Gain before Federal Tax on Income and Excess Profits.....	9.4%	9.4%
Leased Department Sales (% Total Store Sales).....	19.0%	19.0%

<sup>1</sup>The firms represented in this table had total store sales, including leased department sales, of between \$700,000 and \$2,750,000.

APPENDIX C

SIGNIFICANT RESULTS FOR 1943

Table II. Operating Results for Department Stores with Net Sales of \$150,000 to \$1,000,000: 1943  
(Common Figures; Net Sales = 100%, except where noted).

Items	Net Sales (in thousands)			
	\$150-300	\$300-500	\$500-750	\$750-1,000
Number of Reports.....	30†	33†	30†	27
Aggregate Sales (in thousands).....	\$6,283	\$13,045	\$17,428	\$22,335
Typical Net Sales (in thousands).....	\$200	\$375	\$575	\$820
Change in Sales (1943/1942).....	130.0	120.0	128.0	125.0
Population of City (in thousands).....	12	25	20	40
Population (interquartile range <sup>1</sup> —in thousands).....	6-20	17-45	13-28	26-62
Initial Markup (percentage of original retail value) on Invoice Cost Delivered.....	*	*	*	37.75%
Total Retail Reductions.....	*	*	*	4.7%†
Inward Freight, Express, and Truckage.....	0.85%	0.9%	0.9%	0.8%
Alteration and Workroom Costs (Net).....	*	*	0.3†	0.2
Cash Discounts Received on Purchases (percentage of sales).....	2.5	2.35	2.7	2.6
Gross Margin.....	34.9	35.0	36.4	37.2
Operating Expenses:				
Total Payroll.....	13.5%	14.8%	14.5%	15.0%
Real Estate Costs <sup>1</sup> .....	2.2	2.95	2.8	2.45
Newspaper Advertising.....	*	*	1.2†	1.8†
Direct Advertising.....	*	*	0.05†	0.1†
Radio Advertising.....	*	*	0.2†	0.1†
Other Advertising.....	*	*	0.15†	0.15†
Total Advertising (subtotal).....	1.0	1.7	(1.6)	(2.15)
Taxes.....	0.8	0.9	0.9	0.9
Interest <sup>2</sup> .....	1.45	1.35	1.4	1.4
Supplies.....	0.75	0.85	1.0	1.2
Service Purchased.....	0.65	0.75	0.7	0.6
Losses from Bad Debts.....	0.15	0.1	0.1	0.1
Other Unclassified.....	0.7†	0.85	0.9	0.8
Traveling.....	0.45	0.45	0.6	0.5
Communication.....	0.25	0.3	0.3	0.35
Repairs.....	0.15†	0.3†	0.35	0.6
Insurance <sup>3</sup> .....	0.4	0.35	0.35	0.35
Depreciation <sup>3</sup> .....	0.3	0.25	0.4	0.35
Professional Services <sup>1</sup> .....	0.15†	0.3†	0.3	0.45
Total Expense.....	22.9%	26.2%	26.2%	27.2%
NET PROFIT OR LOSS.....	12.0%	8.8%	10.2%	10.0%
Net Other Income (including interest on capital owned).....	1.6	2.0	2.3	2.5
NET GAIN before Federal Tax on Income:				
Percentage of Net Sales.....	13.6%	10.8%	12.5%	12.5%
Percentage of Net Worth.....	36.0	34.0	*	38.5
Federal Tax on Income.....	*	6.0%†	7.7%†	8.0%†
NET GAIN after Federal Tax on Income:				
Percentage of Net Sales.....	*	4.8%†	4.8%†	4.5%†
Percentage of Net Worth.....	*	*	*	14.0†
Rate of Stock-turn (times a year):				
Based on Beginning and Ending Inventories.....	3.75	4.0	4.55	4.7
Based on Monthly Inventories.....	3.4†	3.4†	3.7†	4.0†

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

<sup>1</sup>Some of the reports covered the operations of more than one store. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

<sup>2</sup>See the definition in Appendix A.

<sup>3</sup>Except on real estate.

SOURCE:—Harvard Business School, Bureau of Business Research, Bulletin No. 119, *Operating Results of Department and Specialty Stores in 1943*, by Stanley F. Teele.

**Table III. Common Figures for Sales Data for Department Stores with Net Sales of \$500,000 to \$1,000,000: 1943**

Items	Net Sales (in thousands)	
	\$500-750	\$750-1,000
<b>Number of Reports:</b>		
Giving Data for Sales by Merchandise Lines.....	15†	17
Giving Other Data.....	30†	27
Aggregate Sales (in thousands).....	\$17,428	\$22,335
Typical Net Sales (in thousands).....	\$575	\$820
Change in Owned Department Sales (1943/1942).....	128.0	125.0
Population of City (in thousands).....	20	40
Population (interquartile range <sup>1</sup> —in thousands).....	13-28	26-62
<b>Leased Department Sales (percentage of total store sales including leased department sales)</b>	<b>4.5%</b>	<b>6.0%</b>
<b>Sales by Merchandise Lines—Owned Departments:</b>		
Piece Goods and Domestics.....	13.5%	13.5%
Smallwares, Toilet Goods, Notions, and Novelties.....	8.2	8.0
Women's, Misses', and Juniors' Ready-to-Wear.....	29.0	26.5
Ready-to-Wear Accessories.....	30.5	28.0
Men's and Boys' Clothing and Furnishings.....	5.8	12.0
Home Furnishings.....	9.5	9.5
Regular Cost Departments.....	0.0†	0.0†
Miscellaneous.....	3.5†	2.5
<b>Total Owned Department Sales.....</b>	<b>100.0%</b>	<b>100.0%</b>
Cash and C.O.D. Sales and Layaways.....	62.0%†	60.0%†
Regular Charge and Instalment Sales.....	38.0†	40.0†
<b>Returns and Allowances:</b>		
Percentage of Gross Sales.....	2.9%†	3.85%†
Percentage of Net Sales.....	3.0†	4.0†
<b>Total Payroll<sup>2</sup>.....</b>	<b>14.5%</b>	<b>15.0%</b>
Sales/Total Employees.....	\$9,000†	\$9,200†
Sales/Number of Salespeople.....	13,300†	14,200†
Salespeople/Total Employees.....	67.5%†	65.0%†
<b>Real Estate Costs<sup>3</sup>.....</b>	<b>2.8%</b>	<b>2.45%</b>
Real Estate Costs/Square Feet of Total Space.....	*	\$0.60†
Sales/Square Feet of Total Space.....	*	\$25.00†
Sales/Square Feet of Selling Space.....	*	35.00†
Selling Space/Total Space.....	*	72.0%†

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

<sup>1</sup>Some of the reports covered the operations of more than one store. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

<sup>2</sup>See Appendix A.

<sup>3</sup>Net Sales = 100%.