OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1934

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The figures given in this bulletin include the following:

1. Operating results for department stores and specialty stores arranged according to the form of income statement approved by the Board of Directors of the National Retail Dry Goods Association. See Tables 3 and 4.
2. Merchandising statistics and profits. See Tables *11*, *14*, *19*, and *25*.
3. Expenses by natural divisions. See Tables *12*, *15*, *20*, and *26*.
4. Pay roll and total expense by functional divisions. See Tables 13, *16*, *21*, and *27*.
5. Goal figures representing the average performance for the firms with best merchandising profit showings. See tables for which numbers are italicized above.
6. Complete natural breakdown of functional expenses. See Tables 17, 22, and 23.
7. Sales income, expenses, and profits in cents per transaction. See Tables 18, 24, and 28.
8. Relatives showing the course of dollar expenses, 1930–1934, inclusive, with corresponding percentage data. See Tables 7, 8, 9, and 10.

APPENDIX

Materials

The information and conclusions contained in this bulletin are based on profit and loss statements, balance sheets, and other materials received on 605 separate schedules covering the operations of more than 799 stores in 1934. Of these 605 schedules, 38 arrived too late to be used, and 23 were not complete or were in such form that they could not be made comparable with the data for the other stores. As a result, the common figures published in this bulletin are based on data taken from 544 statements. These statements came from firms located in all parts of the United States, Canada, and Hawaii.

The form on which the coöperating stores reported their figures and other information was developed by the Bureau out of its experience in conducting fourteen preceding studies for this trade, and from personal contact with store executives. Copies of the form or information regarding it may be secured by writing to the Bureau.

Size of Sample

The total sales volume of the 605 firms which sent reports somewhat exceeded $1,363,000,000; and the total sales of the 544 firms for which data were actually used in setting common figures was $1,311,980,000.

It is estimated that this latter amount is in the neighborhood of 35% of the total sales of department and specialty stores in the United States in 1934. According to the Census of American Business, United States Summary of the Retail Census for 1933, page 7, sales of department stores, specialty stores, and related stores in 1933 were:

Department stores	$2,545,000,000
Dry goods stores	150,000,000
Specialty stores (apparel and accessories)	568,000,000
Women's accessories stores (estimated)	167,000,000
Total	$3,430,000,000

On the basis of the Federal Reserve Board's index, sales of department stores in 1934 amounted to roughly 112% of their sales in 1933, so that the figure for 1934 corresponding to the total above was about $3,842,000,000. The sales of the 544 stores for which data actually were used in this study amount to approximately 34% of $3,842,000,000.

Classification of Reports By Kind of Store

In classifying the reports, the first step was to separate them according to type of store, department store reports being distinguished from specialty store reports. In making this classification the Bureau defined a department store as one handling a number of lines of merchandise, including yard goods and, usually, home furnishings. As a rule, these stores were subdivided into departments for operating purposes. Specialty stores were defined as stores specializing in women's wearing apparel, often handling such accessories as costume jewelry, bags, and toilet goods, but generally not handling either yard goods or home furnishings, and for the most part operated by means of a departmental form of organization similar to that employed by department stores.

By Sales Volume

Having divided the reports into two major groups by kind of store, the next step was to classify the reports in each group by sales volume. This resulted in ten volume groups for department stores and five volume groups for specialty stores.

The limits of the volume groups for department stores have remained unchanged since the 1929 study, and they dovetail with the group limits used in earlier years. Similarly, the limits of the new volume groups for specialty stores established this year in going from three to five groups dovetail with the limits used heretofore. Of course, there has been considerable change in the firms assigned to the several groups in recent years owing to the changes in dollar sales volume. Some of the disadvantages of retaining the same class limits have been eliminated by the introduction of new year-to-year trend data based on reports from identical firms. These data are given in Tables 7, 8, 9, and 10.

Common Figures

In this bulletin common figures and goal figures are given for each of the several volume groups, except where the data received imposed limitations.

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 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 or representative performance.

The common figures published in this bulletin and in earlier bulletins have represented the experience of *the typical store* in either a limited group of stores or the entire body of reporting stores. All the common figures for department and specialty stores published prior to 1932 were compiled by assigning equal influence or weight to the experience of each reporting store regardless of size. In preparing the figures for Tables 1 and 2 the Bureau has averaged the common figures established by the familiar method for each of a number of sales volume groups by weighting them according to the *aggregate* sales of the stores reporting for the respective groups. This procedure has given results approaching those which would have been secured if it had been practicable to arrive at the aggregate dollar sales and the aggregate dollar figure for each other aspect of performance for all stores reporting, and then to figure the various ratios and percentages from these aggregates. Thus, it may be said that the figures in Tables 1 and 2, instead of representing the experience of the typical or average store, represent the experience of the trade as a whole. It is believed that they summarize trade-wide results with conciseness and fidelity.

Goal Figures

Many of the tables in this bulletin contain "goal figures" which depict the typical results for a number of the most profitable firms in the respective groups. These goal figures are intended to be used much as common figures for the "most profitable" stores might be used, but they are not here referred to as "common figures" because, owing to the small number of reports on which they have been based, it was necessary in setting them to use judgment to a somewhat greater degree than the Bureau customarily does in establishing the regular "common figures."

Transactions

In arriving at income, expense, and profit per transaction, the Bureau used only the reports for firms which gave the number of gross sales transactions, gross sales transactions being understood to mean the number of sales transactions or sales checks which produced total gross sales, without additions or deductions for returns or credit transactions. In arriving at the common figures for average gross sale, the gross sales for each firm reporting the data were divided by the total number of gross sales transactions.

Definitions of Major Items

Net sales, as used throughout this bulletin, represent the real volume of business done. This figure is computed by deducting from gross sales the amount of merchandise returned by customers and the allowance granted to customers.

Gross margin is net sales less total merchandise cost (net). The Bureau defines total merchandise costs (net) as the sum of three factors: (*a*) the difference (net decrease) 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 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 economic cost of conducting the merchandising or trading operations of the reporting stores.

Some of the charges which are included in total expense according to the Bureau's classification are discussed later in this Appendix. Detailed definitions of all the items are included in the Bureau's pamphlet, "Explanation of Schedule for Department and Specialty Stores: 1934." Readers who wish more information on the expense classification than is contained in this bulletin should write to the Bureau, which will gladly answer their questions or mail a copy of the explanatory pamphlet.

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, from net sales. Total expense, as just defined, includes not only actual expenditures and regular charges, such as those for depreciation, but also fair compensation for managerial services and interest at 6% on selected assets, including the firm's equity in those assets. 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. The Bureau's net profit figure, however, is not the net business profit *before interest* which many business men customarily look upon as net profit and which the Bureau calls net gain. Net profit, as defined by the Bureau, affords a better basis for comparing the results of different firms, and provides a more accurate measure of operating efficiency than does net gain.

Net other income includes any net profit or loss on real estate operations after charging interest at 6% on the average depreciated value of real estate used; interest at 6% on such part of the capital used in the business as represented the firm's equity; and any difference between interest at 6% and interest actually paid on borrowed capital used in the business. 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, and net income from any non-merchandising operations.

Net gain 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 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. There are, however, three important differences, those in the handling of (*a*) rentals and related items, (*b*) interest, and (*c*) professional services.

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 leased real estate; and a fair rental charge for owned real estate. This amount, of course, reflects taxes, interest, insurance, depreciation, and any other landlord charges, except repairs, 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, but exclude all expenditures or charges related to real estate. These items, however, do include the respective expenditures or charges on equipment.

This treatment of real estate costs yields, in some cases, a profit or loss on owned real estate. This profit or loss is carried to other income, along with the profit or loss on real estate not used in the business.

Interest

Interest includes interest at 6%[1] on 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 included in real estate costs. In all four cases, averages of the asset figures as of the beginning and end of the fiscal year were used in computing interest charges. Interest paid on borrowed capital and interest received were not considered in arriving at the interest charges in the expense statement, but were considered in arriving at the amount of net other income.

Professional Services

Professional services includes expenses, memberships, dues, and fees for buying or research organizations, and for domestic and foreign buying offices. In order to secure comparability between firms that own their offices and those which use the services of other agencies, tenancy charges on buying offices are included in professional services rather than in real estate costs. The central office expense for stores in ownership groups also is included in professional services.

Taxes

Taxes do not include taxes on real estate, which are included in real estate costs, or Federal income taxes. Such taxes on sales or gross income as the stores were unable to collect directly from their customers and hence were forced to absorb as expense were reported to the Bureau separately from other taxes. Common figures were set for these sales taxes for each volume group. In most instances the common figure was zero, but

[1] There has been some discussion of the advisability of changing the rate used in computing interest on invested capital periodically to reflect changes in the cost of money. In the decision to hold to the 6% rate there have been two compelling arguments: (1) that if the 6% rate were abandoned there would be no general agreement upon a method for choosing the rate to be substituted; and (2) that, since the rate is used in arriving at an imputed charge, on the whole it is more important to use a fixed rate year after year than to attempt to find the correct rate for each year and thus to force users of the figures to make a separate set of mental adjustments in interpreting each year's data.

…s more than zero the figure was included in taxes (the natural item) and also was shown separately in a footnote.

Stock-turn

The stock-turn figures given in this report and based upon beginning and ending inventories were computed by dividing total merchandise costs (net) as defined under gross margin on page 40 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. In each individual case either total merchandise costs or net sales were used as the dividend, depending upon circumstances.

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, they are the ones, unless otherwise noted, referred to in the text.

Initial Mark-up

Of the other items given in the tables, initial mark-up requires special explanation. The figures for initial mark-up were not based on initial mark-up 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 mark-up, 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 figure 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 mark-up 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 net 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:

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

Using figures for department stores with \$2,000,000 to \$4,000,000 sales from Table 19, the computation of the rate of initial mark-up based on invoice cost delivered is as follows:

$$\frac{35.1 + 0.65 + 8.55 - 2.8}{100 + 8.55} = \frac{41.5}{108.55} = 38.2.$$

Number of Reports

Each table contains data regarding the number of reports used. Since some reports included the figures for branches, or for more than one unit of an ownership group, the number of stores involved often was larger than the number of reports used. Consolidated reports for ownership groups were classified according to average sales per store.

Leased Departments

This year the Bureau continued its attempt to eliminate the effects of leased departments so that its common figures might reflect the operations of owned departments only, and so that the figures for different stores would be essentially comparable regardless of differences in practice regarding leasing. The coöperating 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, and that direct expenses paid by the stores for the account of lessees should be excluded from expense; and it was implied that the indirect expenses similarly should be excluded. The amounts of gain or loss from leased department operations were included in other income.

In many instances, the reporting firms made all these adjustments and thus practically eliminated the effects of their leased department operations. 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, the percentages which were most likely to be distorted by leased section operations (real estate costs, 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. There were a few cases where all expenses apparently were distorted as a result of leased department operations. In such cases the entire statement was omitted in setting common figures.