

OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY
STORES IN 1934

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OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1934

GENERAL INTERPRETATION AND COMMENT

Summary

In 1934, department stores typically incurred a small loss (less than 1.0% of sales) on merchandising operations after interest, but earned a profit of about 2.5% of sales after other income and before interest. This represented a material improvement over earnings in 1933. For specialty stores, also, earnings were better; and for both small department stores and the goal firms (both department and specialty stores) earnings rates on the whole were back to those achieved by the average store before the depression.

This improvement in earnings was due almost entirely to larger sales which, in turn, may have reflected governmental spending, genuine recovery, or skillful management. Although gross margin rates in 1934 were slightly lower than in 1933, dollar margins were higher; and though dollar expenses rose, the larger sales brought percentage expenses down.

The most important recent development of possible long-run significance is the sharp decrease in the difference which formerly existed between the profit rates of large and small stores. This decrease is of importance chiefly to the large stores because of the possibility that it reflects for them some unfavorable change in the underlying competitive situation or demand.

Whether sales increase encouragingly in coming months or continue at present levels, apparently the most important single problem of store executives will be the control of dollar expenses. For that purpose, they should place less emphasis on percentages of sales and should give more attention to expense statistics expressed in dollars or in dollars and cents per unit of output (*e.g.*, per transaction), and to data on output per employee.

Improved Earnings

First in interest and in importance among the facts disclosed by this study are the improved earnings of department and specialty stores in 1934. For stores of practically all sizes the net loss, after charging interest as an expense, was materially smaller than in 1933; and for no sales volume group was there an unfavorable

change in the rate of net profit or loss. Moreover, 1934 was the first year since 1930 in which a profit was shown for any of the ten groups of department stores.

The more favorable figures for net profit were, of course, reflected in larger percentages of net gain, that is, net business profit, including miscellaneous income, before any charge for interest on owned capital. For all volume groups except one the average rate of net gain to net sales was substantially larger in 1934 than in 1933. The one exception was the group of specialty stores with sales of \$2,000,000 or more, for which the average figure was the same in both years. Net gain on net worth was distinctly larger in 1934 for all volume groups of department and specialty stores without exception.

The amount of the improvement in earnings since 1932 is indicated by the facts that for the small department stores percentage earnings in 1934 equalled or exceeded those of 1929, and for the goal firms they equalled or exceeded the earnings of the average firm in 1929.

Tables 1 and 2 disclose this trend toward better earnings. Also, they make clear how earnings shrank under the influence of the depression from 1929 to 1932, and how they have improved steadily since 1932. In using the data in Tables 1 and 2 it should be noted that, while the common figures shown in most of the tables in this bulletin give equal weight to the experience of each firm covered and hence reflect the results of the typical firm, the percentages in Tables 1 and 2 are weighted averages of common figures and reflect the experience of the trade taken as a whole.¹ Thus department stores on the average in 1934 sold their goods for 0.9% less than the cost of those goods plus the cost of moving them through the stores to consumers. Other sources of income apart from, but related to, merchandising operations produced net income equal to 3.5% of sales, so that on all operations combined the trade made a profit (before interest on owned capital) which amounted to 2.6% of sales.

Two other observations may be made with reference

¹ See explanation in the Appendix, page 40.

to Tables 1 and 2. The first is that in 1934, as in every recent year, specialty stores showed more favorable net profits than department stores. The second is that since 1929 neither department stores nor specialty stores on the average have shown any net profit on merchandising operations after charges for interest.

Larger Sales

Net sales for the several groups of department and specialty stores in 1934 were 6% to 18% larger than sales in 1933. The average increase for the firms reporting in this study was about 11%. This figure is con-

firmed by the Federal Reserve Board's index of department store sales, which for the year shows an average increase of 12% for the United States as a whole.

The increase in sales clearly was the chief reason for the improvement in earnings of department and specialty stores in 1934. For all volume groups of department and specialty stores except one the percentage of gross margin to sales was smaller in 1934 than in 1933, but figures arrived at in preparing Tables 7, 8, 9, and 10 show clearly that gross margin in dollars was larger in 1934 than in 1933. Better dollar margins, therefore, contributed to the improved earnings, but manifestly

Table 1. Operating Results for Department Stores: 1929-1934
(General Averages)

Groups	Items	1929	1930	1931	1932	1933	1934
All Stores	Number of Reports.....	527	564	451	428	450	458
	Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Net Cost of Sales (total merchandise cost plus operating cost)...	98.8	100.6	102.8	106.4	102.1	100.9
	Net Profit or Loss.....	1.2%	L. 0.6%	L. 2.8%	L. 6.4%	L. 2.1%	L. 0.9%
	Net Other Income (including interest on capital owned).....	3.1	3.2	3.8	4.0	3.9	3.5
	Net Gain.....	4.3%	2.6%	1.0%	L. 2.4%	1.8%	2.6%
Stores with Net Sales of less than \$500,000	Number of Reports.....	226	245	187	193	193	196
	Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Net Cost of Sales (total merchandise cost plus operating cost)...	100.6	102.8	106.1	107.9	102.0	100.4
	Net Profit or Loss.....	L. 0.6%	L. 2.8%	L. 6.1%	L. 7.9%	L. 2.0%	L. 0.4%
	Net Other Income (including interest on capital owned).....	2.8	2.8	3.3	3.5	3.3	2.7
	Net Gain.....	2.2%	0.0%	L. 2.8%	L. 4.4%	1.3%	2.3%
Stores with Net Sales of \$500,000 to \$2,000,000	Number of Reports.....	168	168	143	122	137	132
	Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Net Cost of Sales (total merchandise cost plus operating cost)...	99.8	101.9	104.3	107.4	102.8	100.6
	Net Profit or Loss.....	0.2%	L. 1.9%	L. 4.3%	L. 7.4%	L. 2.8%	L. 0.6%
	Net Other Income (including interest on capital owned).....	2.9	2.9	3.4	4.2	3.8	3.3
	Net Gain.....	3.1%	1.0%	L. 0.9%	L. 3.2%	1.0%	2.7%
Stores with Net Sales of \$2,000,000 or More	Number of Reports.....	133	151	121	113	120	130
	Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Net Cost of Sales (total merchandise cost plus operating cost)...	98.5	100.2	102.4	106.2	101.9	100.9
	Net Profit or Loss.....	1.5%	L. 0.2%	L. 2.4%	L. 6.2%	L. 1.9%	L. 0.9%
	Net Other Income (including interest on capital owned).....	3.2	3.2	3.8	4.0	3.9	3.5
	Net Gain.....	4.7%	3.0%	1.4%	L. 2.2%	2.0%	2.6%

Table 2. Operating Results for Specialty Stores: 1929-1934
(General Averages)

Group	Items	1929	1930	1931	1932	1933	1934
All Stores	Number of Reports.....	85	85	70	73	75	86
	Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Net Cost of Sales (total merchandise cost plus operating cost).....	98.0	100.4	102.6	105.6	100.5	100.4
	Net Profit or Loss.....	2.0%	L. 0.4%	L. 2.6%	L. 5.6%	L. 0.5%	L. 0.4%
	Net Other Income (including interest on capital owned).....	2.7	2.4	2.7	2.5	2.6	2.7
	Net Gain.....	4.7%	2.0%	0.1%	L. 3.1%	2.1%	2.3%

these better margins resulted from the larger sales. On the other hand, dollar expenses were higher in 1934 than in 1933, so that the lower expense percentages registered by all volume groups likewise were due to the larger sales. Of course in instances good management may have been responsible for the increased business, but it appears likely that as a rule general business recovery and government spending were more important factors.

Goal Firms Back to 1929 Earnings Rates

Comparison of the 1934 showings of the department store goal firms as regards net profit and net gain percentages with the corresponding figures for the *average* store (not the goal store) in 1929 indicates that the goal firms in 1934 operated on a more favorable earnings basis.

For specialty stores inter-year comparisons are complicated by the fact that the volume groupings were changed in 1929 and again in 1934, as it became possible to set up more and more subdivisions. Among specialty stores with sales of less than \$1,000,000 the goal firms in 1934 typically had larger earnings rates than the average store of similar size had in 1927, 1928, and 1929. This was true for both net profit on merchandising operations and net gain on net worth. For specialty stores with sales of \$1,000,000 or more the same cannot be said.

In other words, so far as department stores and the smaller specialty stores are concerned, earnings rates for goal firms in 1934 were at pre-depression levels. These goal firms comprised on the average 25% of the stores in the respective sales volume groups. For them good earnings frequently must have resulted from better-than-average management, for detailed study of the common figures given in this bulletin discloses many evidences pointing in this direction, including higher margin rates, lower percentage outlays for total expense and for practically all items of expense, faster rates of

stock-turn,¹ and higher sales per employee and per square foot. It seems likely, also, that fortunate circumstances, such as improved general business locally, relief payments, favorable leases, or relatively weak competition, played important parts in some instances. Such forces as these, as well as good management, may have caused the relatively large percentage increases in sales which the goal firms in general enjoyed in 1934. However, for the firms with better-than-average management and/or better-than-average situations the depression definitely was broken in 1934, whether finally or not remains to be seen.

Improved Position of Small Stores

Tables 3, 4, 5, and 6, as well as the tables in succeeding sections of this bulletin, show clearly that in 1934, as in 1933, the small department stores were practically on a par with large stores as regards earnings. The same was true of specialty stores in 1934, the first year for which detailed figures are available.

This tendency for the large stores to show no more favorable earnings than the small stores represents a pronounced change from conditions prevailing before the depression, when year after year the earnings rates of large stores were more favorable than the earnings rates of small stores and when the percentage of net profit on merchandising operations tended to vary directly with size of store.

Of course a condition must prevail for more than two years before it can be said to represent a permanent shift. The suggestion a year ago was that the improved position of the small stores perhaps was due to better margin rates resulting from the association of sharp price increases and low rates of stock-turn. The line of reasoning was that these stores, which carry relatively heavy stocks, had been able to earn an unusually large margin by the simple process of marking up goods on

¹ Only two of the five goal groups of specialty stores had faster rates of stock-turn than average stores of similar size.

hand. Of course there was no assurance that executives of small stores actually do mark up prices on goods in stock at such a time, but the possibility that they had done so constituted a reason for thinking that perhaps the improved earnings of the small stores in that year were temporary.

Now, however, when we know that the improvement in the relative position of the small store has persisted for two years, and when we realize that price movements in those years were in opposite directions, it seems more likely that there have been some fundamental changes of importance to the fortunes of the large stores. This conclusion led to a study of the figures for all years covered by these reports to see whether

there had been any tendency for the net profits of the small store to improve prior to 1933. It has not been possible to make an exhaustive study of this question during ten days or two weeks since the 1934 figures became available. The data for stores of different sizes since 1920, however, indicate:

1. That although the rate of net profit did tend to be directly proportionate to size from 1921 through 1932, there was a tendency also for the spread between the profit rates of small stores and large stores to narrow;

2. That this narrowing in the profit spread was due to a widening in spread between the typical total expense percentages for small and large stores;

Table 3. Operating Results for Department Stores in 1934 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association

Item Nos.	Items	Sales Volume Groups		
		\$150,000-300,000	\$300,000-500,000	\$500,000-750,000
1	Number of Reports Giving Functional Data.....	16	21	25
2	Number of Reports Giving Other Data.....	74	47	40
3	Index of Change in Sales (1934/1933).....	115.0	117.0	118.3
4	SALES.....	104.85%†	105.7%†	106.0%†
5	Less Returns (and allowances).....	4.85†	5.7†	6.0†
6	NET SALES.....	100.0%	100.0%	100.0%
MERCHANDISE COSTS				
7	Inventory — First of Period.....	23.5%	19.8%	16.5%
8	Purchases (including inward freight, express, and truckage)	70.55	68.15	68.45
		94.05%	87.95%	84.95%
9	Less Cash Discounts.....	2.6	2.7	2.6
		91.45%	85.25%	82.35%
10	Workrooms (and alteration costs).....	0.55†	0.45†	0.25†
11	Occupancy.....	6.9	7.6	7.9
12	Buying, Receiving, and Marking.....	2.5	3.6	4.2
13	Publicity.....	3.25	3.75	4.35
		104.65%	100.65%	99.05%
14	Inventory — End of Period.....	23.7	19.3	16.8
		80.95	81.35	82.25
		19.05%	18.65%	17.75%
OPERATING COSTS				
15	Administrative.....	10.1%	8.4%	7.95%
16	Selling.....	9.0	10.0	8.8
17	Delivery.....	0.45	0.55	0.8
		19.55	18.95	17.55
18	OPERATING INCOME OR LOSS.....	L. 0.5%	L. 0.3%	0.2%
19	OTHER INCOME.....	2.8	2.7	3.0
20	NET PROFIT OR LOSS.....	2.3%	2.4%	3.2%

†Figures for this item were given on less than 75% of the reports used.

‡Sales taxes were negligible for stores with sales of less than \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more, sales taxes amounting typically to 0.1% and 0.3% of net sales respectively have been included in the administrative function.

3. That there was no discernible tendency for the gross margin spread to change; and

4. That these three tendencies apparently were interrupted during the years of decline, 1930, 1931, and 1932, but were resumed, perhaps with greater intensity, in 1933 and 1934.

The forces which have become active in the last two years have wiped out the difference in profit rates, and these now are about the same for stores of all sizes, the differences in margin and expense rates for small and large stores being about equal.

This fact gives rise to some very important questions, including the following:

Is this narrowing of the profits spread between small

and large stores merely the result of forces connected with recovery, or does it represent a permanent shift in relationships?¹

What is the bearing of the N.R.A. and of other governmental recovery measures on this changing spread? Have these measures favored the smaller cities and towns, and hence the smaller stores?

What were the forces which, during the twenties, enabled large stores to earn at higher rates than small stores? Have these forces undergone permanent change?

Have there been changes in living and buying habits

¹ With reference to this question, it may be noted that the spread widened sharply in 1922 and again in 1931, one a year of recovery and one a year of decline.

Table 3. Operating Results for Department Stores in 1934 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association (Continued)

Item Nos.	Sales Volume Groups					
	\$750,000- 1,000,000	\$1,000,000- 2,000,000	\$2,000,000- 4,000,000	\$4,000,000- 10,000,000	\$10,000,000- 20,000,000	\$20,000,000- or more
1	20	53	47	48	17	7
2	26	66	55	51	17	7
3	112.0	113.0	114.0	112.3	109.0	106.0
4	106.0%†	107.3%†	109.3%	111.8%	113.4%	114.6%
5	6.0†	7.3†	9.3	11.8	13.4	14.6
6	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
7	16.8%	17.0%	14.95%	13.2%	14.4%	11.9%
8	67.45	67.7	66.75	66.45	65.5	66.8
9	84.25%	84.7%	81.7%	79.65%	79.9%	78.7%
	2.45	2.6	2.8	3.3	3.35	3.65
10	81.8%	82.1%	78.9%	76.35%	76.55%	75.05%
11	0.6	0.5	0.65	0.75	0.55	0.55
12	8.1	8.1	8.8	8.85	9.6	10.0
13	4.35	4.25	4.25	4.7	4.5	4.15
	4.15	4.7	5.1	5.6	4.95	4.65
14	99.0%	99.65%	97.7%	96.25%	96.15%	94.4%
	16.2	17.0	14.65	12.7	13.9	12.2
	82.8	82.65	83.05	83.55	82.25	82.2
	17.2%	17.35%	16.95%	16.45%	17.75%	17.8%
15	8.25%	8.0%	7.7%	7.25%	7.1%†	6.45%†
16	9.1	9.05	9.05	9.15	9.4	9.8
17	1.05	1.1	1.3	1.55	1.65	2.15
	18.4	18.15	18.05	17.95	18.15	18.4
18	L. 1.2%	L. 0.8%	L. 1.1%	L. 1.5%	L. 0.4%	L. 0.6%
19	3.2	3.4	3.5	3.6	3.3	3.6
20	2.0%	2.6%	2.4%	2.1%	2.9%	3.0%

which have favored the smaller stores in outlying sections of cities, and in the smaller cities, at the expense of the large downtown department store? What are these changes, and how long will they persist? What is the bearing of traffic and transport conditions on these questions?

Do the relatively low margin rates of the smaller department stores constitute an advantage which the large stores should try to secure?

Has competition among the large downtown department stores, and between those stores and other distributors serving the same clienteles, become more keen, so as to make for higher expense rates?

Possibly large department stores are now faced with a series of questions the answers to which will not be found in store operating results, or if found there will

be found too late. The situation may well call for a thoroughgoing analysis of the demand for the sort of distribution services which department stores can offer, and for such a readjustment in store policies and methods as may be indicated by such a study.¹

New Form of Income Statement

From the very beginning of its work in 1911, the Bureau of Business Research has sought, as one of its important objectives, to promote understanding of the costs of doing business and of the true size of profits, among both students and the public generally. With the rise in operating expense rates since 1920 the need for such understanding has become more vital.

To aid in meeting this need the Bureau has, from

¹ This topic is discussed further on pages 18 and 28.

Table 4. Operating Results for Specialty Stores in 1934 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association

Items	Sales Volume Groups	
	\$1,000,000- 2,000,000	\$2,000,000 or more
Number of Reports Giving Functional Data.....	12	14
Number of Reports Giving Other Data.....	12	15
Index of Change in Sales (1934/1933).....	109.7	109.8
SALES.....	113.6%	116.0%
Less Returns (and allowances).....	13.6	16.0
NET SALES.....	100.0%	100.0%
MERCHANDISE COSTS		
Inventory — First of Period.....	9.45%	8.5%
Purchases (including inward freight, express, and truckage).....	67.65	67.05
	77.1%	75.55%
Less Cash Discounts.....	4.05	4.35
	73.05%	71.2%
Workrooms (and alteration costs).....	0.65	0.6
Occupancy.....	9.1	9.1
Buying, Receiving, and Marking.....	5.0	4.6
Publicity.....	6.5	5.9
	94.3%	91.4%
Inventory — End of Period.....	9.7	9.0
	84.6	82.4
	15.4%	17.6%
OPERATING COSTS		
Administrative.....	8.35%	7.75%†
Selling.....	9.0	8.6
Delivery.....	1.05	1.05
	18.4	17.4
OPERATING INCOME OR LOSS.....	L. 3.0%	0.2%
OTHER INCOME.....	3.0	2.7
NET PROFIT OR LOSS.....	0.0%	2.9%

†Sales taxes were negligible for stores with sales of \$1,000,000 to \$2,000,000. For stores with sales of \$2,000,000 or more, sales taxes amounting typically to 0.2% of net sales have been included in the administrative function.

time to time, revised its terminology and the form of presentation followed in its reports. Some years ago, for instance, the term *gross margin* was substituted for *gross profit* in the interest of clarity; and in the present bulletin a series of changes have been introduced in many of the tables to the same end.

During the last two years, the view has been advanced, notably by Mr. C. B. Clark, that some rearrangement of the traditional form of profit and loss statement might show more effectively the real costs incurred in making merchandise available to consumers at retail. One such new form of statement was approved by the Board of Directors of the National Retail Dry Goods Association on May 14, 1935, after having been accepted as satisfactory by the Securities and Exchange Commission; and at the request of the Board of Directors the Bureau has presented in Tables 3 and 4 results of department and specialty stores for 1934 according to the revised arrangement. This form requires a breakdown by functional divisions of what commonly is known as expense; and hence it was not possible to give figures arranged in this form for some groups of the

smaller stores which frequently do not divide expenses functionally. In order to overcome this difficulty and to provide, for stores of *all* sizes, comparable figures which do not emphasize what commonly is called gross margin but do reflect total cost of sales, Tables 5 and 6 have been provided.

Problems of the Immediate Future

The outlook for the remaining months of 1935 and the early months of 1936 is somewhat clouded. Business in general seems impatient and eager to go forward, but there is evidence of considerable hesitancy because governmental actions are uncertain, especially in view of the recent Supreme Court decisions, and because unsettlement in the foreign exchanges may cause further trouble. There is reason for thinking that prices cannot rise very substantially during the rest of this year, and that, indeed, they may give way slightly. Government spending will be an anchor to windward, but recovery in private business may not proceed rapidly.

Thus it appears that, under the most favorable circumstances to be expected, department and specialty

Table 5. Itemized Cost of Sales for Department Stores in 1934, by Sales Volume Groups
(Net Sales=100%)

Items	Sales Volume Groups (000 omitted)									
	Less than \$150	\$150- 300	\$300- 500	\$500- 750	\$750- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000- 10,000	\$10,000- 20,000	\$20,000 or more
Number of Reports.....	75	74	47	40	26	66	55	51	17	7
Total Merchandise Costs (Net)....	69.3%	68.3%	66.4%	65.8%	66.2%	65.6%	64.9%	64.4%	63.2%	63.4%
Pay Roll.....	16.5	17.2	17.7	17.25	18.35	17.5	17.3	18.25	18.4	18.35
Real Estate Costs (See Appendix, page 41).....	4.0	3.6	4.0	4.2	4.3	4.5	5.05	5.05	5.9	6.5
Advertising.....	1.9	2.5	2.9	3.3	3.05	3.55	4.0	4.35	3.75	3.5
Taxes (See Appendix, page 41)....	0.6	0.6	0.45	0.45	0.45	0.45	0.45	0.35	0.5†	0.6†
Interest (except on real estate)....	2.7	2.4	2.25	2.1	2.3	2.25	2.15	1.9	2.0	1.55
Supplies.....	0.85	1.0	1.35	1.3	1.45	1.65	1.8	1.95	1.85	2.0
Service Purchased.....	1.1	1.05	1.05	1.15	1.0	1.0	1.05	1.05	0.65	1.0
Unclassified: Losses from Bad Debts	0.4	0.5	0.45	0.5	0.4	0.45	0.5	0.35	0.25	0.1
Other.....	0.8	0.6	0.8	0.65	0.6	0.7	0.75	0.7	0.8	0.85
Travelling.....	0.35†	0.35	0.4	0.4	0.4	0.45	0.45	0.45	0.35	0.2
Communication.....	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.55	0.55	0.5
Repairs.....	0.2†	0.25	0.3	0.4	0.4	0.4	0.4	0.5	0.4	0.4
Insurance (except on real estate)...	0.6	0.5	0.45	0.45	0.4	0.4	0.35	0.3	0.25	0.3
Depreciation (except on real estate)	0.6	0.75	0.9	0.85	0.85	0.9	0.9	0.85	1.05	0.9
Professional Services (See Appendix, page 41).....	0.2†	0.4†	0.4	0.5	0.55	0.5	0.55	0.5	0.5	0.45
TOTAL COST OF SALES.....	100.5%	100.5%	100.3%	99.8%	101.2%	100.8%	101.1%	101.5%	100.4%	100.6%
SALES.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NET PROFIT OR LOSS.....	L. 0.5%	L. 0.5%	L. 0.3%	0.2%	L. 1.2%	L. 0.8%	L. 1.1%	L. 1.5%	L. 0.4%	L. 0.6%
Net Other Income (including interest on capital owned).....	2.8	2.8	2.7	3.0	3.2	3.4	3.5	3.6	3.3	3.6
NET GAIN: Percentage of Net Sales	2.3%	2.3%	2.4%	3.2%	2.0%	2.6%	2.4%	2.1%	2.9%	3.0%
Percentage of Net Worth	4.5	4.5	5.5	6.6	3.0†	4.0	4.6	4.8	5.2	* 3.0%

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

†Sales taxes were negligible for stores with sales of less than \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more, sales taxes amounting typically to 0.1% and 0.3% of net sales, respectively, have been included in taxes.

stores may experience a continuation of recovery at a modest rate, with sales running between 5% and 10% ahead of the preceding year; but that, if circumstances are less favorable, business may level off for a time, or recede temporarily, so that sales gains will be less than 5%. Under the latter conditions, there of course would be little profit from price increases during the rest of this year, margin rates might yield ground, and dollar expenses would have to be cut to get percentage expenses down; while under the former conditions, margin rates would be more easily maintained, and possibly no reduction in dollar expenses would be required, but store operation would not be easy and careful control would be in order.

Under either set of circumstances, the most important problem will be that of holding dollar expenses down; perhaps in a strong effort to make ends meet, perhaps to avoid losing the efficiency gained during the last few years. Profits will depend largely upon either expense reduction or expense control. In this connection it should be remembered that no business can afford to drift into a state of reduced efficiency; and least of all can a high-cost institution, subject to severe

competition from other institutions operating at lower cost, afford to permit any widening of the gap between its costs and those of its competitors.

Since this is true, and since the depression has given new emphasis to the well-known fact that percentages by themselves do not give an accurate picture of the movement of dollar expenses, department store executives should see to it that they have more serviceable expense statistics. Actual expenditures and charges in dollars should be watched, of course; but new ratios are needed and for the most part these statistics should not involve the use of dollar figures, or should involve dollar figures in only one element instead of two. Among the indexes which store executives will find valuable at this time are those reflecting costs per unit of work done and output per person or per person-day, such as the following: direct selling salary cost per transaction; total expense per transaction; delivery cost per package, or per count, delivered; number of transactions per salesperson; number of charge transactions per biller; number of pieces marked per marking room employee; and number of invoices handled per accounts payable employee.

Table 6. Itemized Cost of Sales for Specialty Stores in 1934, by Sales Volume Groups
(Net Sales = 100%)

Items	Sales Volume Groups (000 omitted)				
	Less than \$300	\$300- 500	\$500- 1,000	\$1,000- 2,000	\$2,000 or more
Number of Reports.....	27	16	16	12	15
Total Merchandise Costs (Net).....	65.9%	64.7%	62.0%	64.0%	62.8%
Pay Roll.....	16.2	16.9	17.2	18.1	17.2
Real Estate Costs (See Appendix, page 41).....	5.3	5.3	5.45	5.3	5.6
Advertising.....	3.0	3.55	4.6	4.95	4.4
Taxes (See Appendix, page 41).....	0.4	0.45	0.45†	0.35	0.45†
Interest (except on real estate).....	2.0	2.5	2.0	1.85	1.7
Supplies.....	1.15	1.1	1.25	1.8	1.65
Service Purchased.....	1.3	1.25	1.25	1.4	1.2
Unclassified: Losses from Bad Debts.....	0.5	0.6	0.55	0.55	0.5
Other.....	0.75	0.65	1.45	0.75	0.85
Travelling.....	0.75	0.5	0.6	0.7	0.65
Communication.....	0.6	0.6	0.6	0.75	0.6
Repairs.....	0.25†	0.25	0.35	0.4	0.35
Insurance (except on real estate).....	0.5	0.45	0.5	0.45	0.3
Depreciation (except on real estate).....	0.9	1.0	1.0	0.85	1.0
Professional Services (See Appendix, page 41).....	0.5†	0.6	0.45	0.8	0.55
Total Cost of Sales.....	100.0%	100.4%	100.6%	103.0%	99.8%
SALES.....	100.0	100.0	100.0	100.0	100.0
NET PROFIT OR LOSS.....	0.0%	L. 0.4%	L. 0.6%	L. 3.0%	0.2%
Net Other Income (including interest on capital owned).....	2.4	2.4	2.7	3.0	2.7
Net Gain: Percentage of Net Sales.....	2.4%	2.0%	2.1%	0.0%	2.9%
Percentage of Net Worth.....	7.8	6.0	5.5	0.0	7.2

†Figures for this item were given on less than 75% of the reports used.

‡Sales taxes were negligible for stores with sales of less than \$500,000, and with sales of \$1,000,000 to \$2,000,000. For stores with sales of \$500,000 to \$1,000,000, and \$2,000,000 or more, sales taxes amounting typically to 0.1% and 0.2% of net sales, respectively, have been included in taxes.

YEAR-TO-YEAR TRENDS IN EXPENSE FOR DEPARTMENT AND SPECIALTY STORES

During any period when there are large year-to-year fluctuations in sales, the custom of expressing expenses as percentages of sales leads to more or less confusion. When the sales base is shifting, percentage figures fail to reflect changes in dollar expenses at all closely; and yet sizable fluctuations in dollar sales usually are accompanied by the need, or the opportunity, for important changes in dollar expense.

Executives of individual stores have records of costs in dollars which are ample for internal purposes, but average expense figures for groups of stores customarily have been expressed in percentages. In order to furnish a truer picture of the changes which have taken place in department store expenses during the depression, the Bureau this year is presenting a series of four tables (Tables 7 to 10 inclusive), each showing for a group of identical firms roughly similar in size the course of both dollar expense and percentage expense for the past five years.

Procedure

In preparing the figures for each of these four tables the Bureau first selected all the firms of appropriate size which had supplied reliable, comparable figures for all five years; then it set common figures for the various expenses expressed as percentages of sales and for such supplementary data as rate of stock-turn and sales per store.

Next, the dollar expenditures of each store for each item of expense for the several years were expressed as relatives, the dollar outlay for that item of expense for that store in 1930 being 100. Thus for each store there was prepared a series of relatives for eighteen or nineteen performance indexes. This having been done, the relatives for each item for all the stores in each group were arranged in series, and common (relative) figures for each item and year were computed. The common figures are shown in Tables 7 to 10 and in the charts on pages 14 and 15.

Controllable versus Fixed Expense

In studying the figures preparatory to charting them, it became apparent that the fifteen items of expense fall readily into five classifications based on the movement of dollar outlays during the depression. These classifications are as follows:

1. Highly controllable expense, which includes travelling, repairs, and unclassified.

2. Major controllable expense, which consists of pay roll, advertising, and supplies, all items for which apparently the dollar expenditure could be controlled by management within rather broad limits.

3. Taxes, insurance, and interest, all items over which the management has some degree of influence, but none controllable directly to the degree that pay roll, supplies, and advertising are. These items are similar in that all are related to investment in fixtures and inventory.

4. Plant expense, including real estate costs, service purchased, and depreciation. These are among the most nearly fixed and uncontrollable expenses incurred by department stores. Service purchased is included here because, for many stores, it represents, in large measure, expenditures for electric light and power, water, and heat, which must be purchased in about the same quantity regardless of the amount of business done. Depreciation, of course, is purely a bookkeeping charge and may be made or not at the discretion of management; but actually it cannot properly be varied and hence it is included here with fixed costs.

5. Other costs, including losses from bad debts, communication, and professional services. Among these items communication expense is but little subject to control; in fact the charts show that expenditure for communication in dollars during the past five years has been more stable on the average than expense for any other natural division. Losses from bad debts are controllable through the care and skill used in credit extension and in collection activity; beyond this point, however, the amount of loss may be recognized or not, but it cannot be controlled.

Total Expense

The lines representing the course of total expense and net sales during the five years show clearly why percentage costs rose as the depression deepened and are still high relative to 1930. As net sales declined, expense in dollars declined, but to a much smaller extent. In 1934 expenses rose more slowly than sales, but nevertheless expenses at present show a smaller net reduction from 1930 levels than do net sales. Hence, percentage costs are still relatively high.

Highly Controllable Expense

Travelling expense, in so far as department stores are concerned, was cut not only more sharply than total expense but also, in most instances, more sharply than

net sales; so that, as a rule, percentages fell. In the case of specialty stores, this extreme reduction was not possible and travelling expense percentages remained essentially unchanged throughout the depression.

The movement of repairs expense shows clearly the tendency of executives to economize early in the depression in the least painful way. Repairs expense was cut early more than, or as much as, expense for any other item. This economy in the first years of the depression, however, was obtained partly by deferring work which had to be done, for repairs expense rose sharply in 1933 and 1934 in all four groups of stores.

Unclassified expense, though representative of a heterogeneous lot of costs, some of which apparently were reduced with difficulty, on the basis of the record as a whole, should be listed with travelling and repairs as a type of expense which can be cut quickly and substantially.

Major Controllable Expense

The three major controllable items of expense, pay roll, advertising, and supplies, on the whole fell off about as much as total expense or slightly more.

Pay roll bore the brunt of the depression's economies. This item, the largest single item of expense, was cut more than total expense in the cases of all four groups for which figures are charted. Other items of expense, such as repairs, were cut to a larger degree for shorter periods, but pay roll expense was cut earlier than most other items, was cut more deeply than many other items, and even now is being held at a relatively low level.

Advertising expense was reduced more than pay roll by department stores with sales of less than \$2,000,000, but substantially less than pay roll (and total expense) by department stores and specialty stores with sales of more than \$2,000,000. Apparently the larger stores, which of course are located in the larger cities, found it

Table 7. Trends of Expense in Dollars and in Percentages for 42 Department Stores with Net Sales of Less Than \$500,000 in 1930, by Natural Divisions: 1930-1934

Items	1930		1931		1932		1933		1934	
	Index of Dollar Amounts (1930=100)	% of 1930 Net Sales	Index of Dollar Amounts (1930=100)	% of 1931 Net Sales	Index of Dollar Amounts (1930=100)	% of 1932 Net Sales	Index of Dollar Amounts (1930=100)	% of 1933 Net Sales	Index of Dollar Amounts (1930=100)	% of 1934 Net Sales
Aggregate Sales (in thousands)	—	\$13,024	—	\$10,771	—	\$8,135	—	\$8,283	—	\$9,807
Typical Net Sales (in thousands)	100.0	\$270	81.5	\$220	60.5	\$163	59.5	\$161	69.8	\$188
Average Gross Sale	—	*	—	*	—	*	—	*	—	*
Number of Gross Sales Transactions	*	—	*	—	*	—	*	—	*	—
Total Merchandise Costs (Net)	100.0	70.6%	82.7	71.6%	62.4	72.8%	57.6	68.4%	67.8	68.6%
Total Pay Roll	100.0	17.55	90.5	19.5	70.5	20.45	64.5	19.0	69.8	17.55
Real Estate Costs (See Appendix, page 41)	100.0	3.45	99.0	4.2	90.0	5.1	78.0	4.5	78.4	3.85
Advertising	100.0	2.4	92.0	2.7	71.7	2.85	58.5	2.35	69.0	2.35
Taxes (See Appendix, page 41)	100.0	0.75	92.5	0.85	72.5	0.9	74.0	0.9	66.5	0.7
Interest (except on real estate)	100.0	3.1	85.7	3.25	73.2	3.75	65.1	3.4	63.0	2.8
Supplies	100.0	0.85	92.7	0.95	72.9	1.0	67.0	0.95	78.0	0.95
Service Purchased	100.0	0.95	94.5	1.1	88.6	1.4	83.0	1.3	85.7	1.15
Unclassified: Losses from Bad Debts	100.0	0.35	105.0	0.45	102.0	0.6	80.0	0.45	79.0	0.4
Other	100.0	0.65	80.2	0.6	72.0	0.75	66.5	0.7	67.3	0.6
Travelling	100.0	0.4	75.0	0.35	53.4	0.35	53.0	0.35	56.0	0.3
Communication	100.0	0.35	93.4	0.3	92.0	0.55	80.0	0.45	90.2	0.45
Repairs	100.0	0.25	63.2	0.2	46.7	0.2	56.0	0.25	60.0	0.2
Insurance (except on real estate)	100.0	0.5	92.0	0.55	80.0	0.65	72.0	0.6	71.0	0.5
Depreciation (except on real estate)	100.0	0.55	101.6	0.7	90.0	0.8	85.5	0.8	75.0	0.6
Professional Services (See Appendix, page 41)	100.0	0.2	87.8	0.2	80.0	0.25	66.0	0.2	75.0	0.2
TOTAL EXPENSE	100.0	32.3%	90.6	35.9%	74.2	39.6%	66.5	36.2%	70.5	32.6%
NET PROFIT OR LOSS	—	L. 2.9%	—	L. 7.5%	—	L. 12.4%	—	L. 4.6%	—	L. 1.2%
NET GAIN	—	0.5%	—	L. 3.8%	—	L. 8.2%	—	0.1%	—	1.9%
Rate of Stock-turn (times a year) Based on Average of Inventories at the Beginning and End of the Year	—	2.3	—	2.2	—	2.0	—	2.1	—	2.5
% of Firms Earning Some Net Profit	—	31.0%	—	7.1%	—	4.8%	—	16.7%	—	33.3%
% of Firms Earning Some Net Gain	—	61.0	—	22.0	—	7.3	—	57.1	—	73.8

*Data not available.

difficult to dispense with advertising to the same degree as the small department stores, partly because of the keener competition frequently alleged to exist in the large cities, partly because of the size of the areas from which their customers must be drawn, and partly because of the highly impersonal relations between these stores and their customers. Perhaps, also, rate reductions have been a relatively small factor as regards this item of expense.

Supplies expense was reduced rather sharply prior to 1933, the cuts being about equivalent to those in total expense. It seems that the reductions here may have been effected in part by using up inventories, for after 1932 supplies expense rose, in 1934 rather sharply, so that by the end of 1934 supplies expense showed the smallest, or next to the smallest, net drop from 1930 of the three major controllable items.

Taxes, Insurance, and Interest

In considering these three items of expense, it should be remembered that interest charges tend to vary automatically with sales and with prices because 80% or more of these charges represent interest on merchandise and accounts receivable (interest on real estate is included in real estate costs); and that expenditures for taxes and insurance show a tendency to follow sales volume and the price level because both depend to some degree on inventories and on valuations. Expenses for the last two items, however, are not so flexible as charges for interest because they involve negotiation and are based partly on rates set by persons outside the business.

In general, expenditures for these three items declined at about the same rate that total expense declined, and much less than sales declined. Hence percentage

Table 8. Trends of Expense in Dollars and in Percentages for 42 Department Stores with Net Sales of \$500,000 to \$2,000,000 in 1930, by Natural Divisions: 1930-1934

Items	1930		1931		1932		1933		1934	
	Index of Dollar Amounts (1930=100)	% of 1930 Net Sales	Index of Dollar Amounts (1930=100)	% of 1931 Net Sales	Index of Dollar Amounts (1930=100)	% of 1932 Net Sales	Index of Dollar Amounts (1930=100)	% of 1933 Net Sales	Index of Dollar Amounts (1930=100)	% of 1934 Net Sales
Aggregate Sales (in thousands)	—	\$48,091	—	\$42,262	—	\$32,676	—	\$32,723	—	\$36,848
Typical Net Sales (in thousands)	100.0	\$1,140	87.8	\$1,000	67.5	\$770	67.8	\$774	76.0	\$865
Average Gross Sale	*	*	*	*	*	*	*	*	*	*
Number of Gross Sales Transactions	*	—	*	—	*	—	*	—	*	—
Total Merchandise Costs (Net)	100.0	68.9%	88.2	69.2%	67.9	69.3%	64.9	66.0%	73.6	66.7%
Total Pay Roll	100.0	17.3%	92.0	18.1%	75.9	19.4%	71.0	18.1%	78.2	17.85%
Real Estate Costs (See Appendix, page 41)	100.0	3.5	98.3	3.9	92.0	4.8	83.3	4.3	85.0	3.9
Advertising	100.0	3.25	96.0	3.55	75.5	3.65	67.0	3.2	72.5	3.1
Taxes (See Appendix, page 41)	100.0	0.4	94.0	0.45	80.5	0.5	74.0	0.45	76.0	0.4
Interest (except on real estate)	100.0	2.2	89.5	2.25	79.5	2.6	74.0	2.4	78.0	2.25
Supplies	100.0	1.3	93.0	1.4	77.0	1.5	75.0	1.45	80.5	1.4
Service Purchased	100.0	0.85	97.5	0.95	80.5	1.15	85.0	1.1	86.5	0.95
Unclassified: Losses from Bad Debts	100.0	0.4	104.0	0.45	118.0	0.7	116.0	0.7	88.0	0.45
Other	100.0	0.65	99.0	0.75	70.5	0.7	71.0	0.7	79.0	0.7
Travelling	100.0	0.5	91.0	0.5	68.5	0.5	63.5	0.45	70.0	0.45
Communication	100.0	0.4	103.0	0.45	103.0	0.6	104.5	0.6	104.0	0.55
Repairs	100.0	0.3	93.0	0.3	66.5	0.3	74.0	0.3	95.0	0.35
Insurance (except on real estate)	100.0	0.4	94.5	0.45	83.5	0.5	76.0	0.45	77.5	0.4
Depreciation (except on real estate)	100.0	0.7	102.0	0.8	100.0	1.05	93.0	0.95	87.0	0.8
Professional Services (See Appendix, page 41)	100.0	0.35	104.0	0.4	89.0	0.45	85.5	0.45	95.0	0.45
TOTAL EXPENSE	100.0	32.5%	93.8	34.7%	79.8	38.4%	74.2	35.6%	79.6	34.0%
NET PROFIT OR LOSS	—	L. 1.4%	—	L. 3.9%	—	L. 7.7%	—	L. 1.6%	—	L. 0.7%
NET GAIN	—	1.0%	—	L. 0.7%	—	L. 4.1%	—	1.9%	—	2.6%
Rate of Stock-turn (times a year) Based on Average of Inventories at the Beginning and End of the Year	—	3.75	—	3.65	—	3.4	—	3.4	—	3.7
% of Firms Earning Some Net Profit	—	23.8%	—	14.3%	—	7.1%	—	31.0%	—	45.2%
% of Firms Earning Some Net Gain	—	65.0	—	40.0	—	25.0	—	77.5	—	79.5

*Data not available.

expenditures for them rose. Stores on the average were able to cut their costs for taxes, insurance, and interest somewhat less than the major controllable items, but more than they were able to reduce plant costs, which of the large segments of expense are least subject to change. Also, it should be noted that taxes, insurance, and interest resisted reduction, so that savings in those items came somewhat later in the depression than did savings in pay roll, supplies, and advertising.

Plant Expense

Plant costs, which include equipment costs, resisted reduction more than any other important group of operating costs. In 1931 the major item, real estate costs, typically differed by only 1% or 2% from the 1930 level. This put reductions in real estate costs one year behind those in other costs. Later, when real estate costs were

brought down, the annual reductions were approximately commensurate with those achieved in the preceding year in total expense; moreover the decline in real estate costs did not continue after 1933 when total expense in dollars uniformly reached its lowest point. Hence landlords fared relatively well because they suffered smaller reductions than others and because these reductions obtained for a shorter period during the depression.

As regards depreciation expense,¹ the figures suggest a tendency on the part of stores to maintain write-offs and to postpone new investments. During the depression department store executives did not reduce their losses to any degree by failing to take depreciation.

Expense for service purchased fluctuated in fairly

¹According to the Bureau's classification, depreciation includes only depreciation on fixtures and equipment, depreciation on real estate being included in real estate costs.

Table 9. Trends of Expense in Dollars and in Percentages for 74 Department Stores with Net Sales of \$2,000,000 or More in 1930, by Natural Divisions: 1930-1934

Items	1930		1931		1932		1933		1934	
	Index of Dollar Amounts (1930=100)	% of 1930 Net Sales	Index of Dollar Amounts (1930=100)	% of 1931 Net Sales	Index of Dollar Amounts (1930=100)	% of 1932 Net Sales	Index of Dollar Amounts (1930=100)	% of 1933 Net Sales	Index of Dollar Amounts (1930=100)	% of 1934 Net Sales
Aggregate Sales (in thousands)	—	\$674,936	—	\$598,341	—	\$461,105	—	\$445,387	—	\$498,444
Typical Net Sales (in thousands)	100.0	\$5,100	88.3	\$4,500	68.0	\$3,470	66.5	\$3,390	74.0	\$3,750
Average Gross Sale	—	\$2.80†	—	\$2.40†	—	\$1.80†	—	\$1.75†	—	\$1.95†
Number of Gross Sales Transactions	100.0	—	99.0†	—	92.1	—	91.1†	—	97.3†	—
Total Merchandise Costs (Net)	100.0	66.3%	88.8	66.7%	68.5	66.8%	64.1	63.9%	71.6	64.1%
Total Pay Roll	100.0	17.5%	91.5	18.1%	73.8	19.0%	69.6	18.3%	76.0	18.0%
Real Estate Costs (See Appendix, page 41)	100.0	4.25	101.5	4.9	96.0	6.0	88.0	5.6	89.0	5.1
Advertising	100.0	3.35	94.5	3.6	78.8	3.9	77.0	3.9	82.0	3.7
Taxes (See Appendix, page 41)	100.0	0.4	93.5	0.4	84.0	0.5	80.0	0.5	81.5	0.45
Interest (except on real estate)	100.0	2.2	92.5	2.3	78.0	2.55	68.5	2.25	71.0	2.1
Supplies	100.0	1.7	87.2	1.7	69.5	1.75	70.0	1.8	81.0	1.85
Service Purchased	100.0	0.75	98.5	0.85	91.0	1.00	86.0	0.95	92.0	0.95
Unclassified: Losses from Bad Debts	100.0	0.35	115.0	0.45	133.0	0.7	128.0	0.65	90.0	0.4
Other	100.0	0.85	86.0	0.85	66.5	0.85	64.0	0.8	72.0	0.8
Travelling	100.0	0.45	85.5	0.45	66.5	0.45	60.0	0.4	69.5	0.4
Communication	100.0	0.4	102.0	0.45	99.0	0.6	96.0	0.6	95.0	0.5
Repairs	100.0	0.3	84.0	0.3	62.0	0.25	70.0	0.3	100.0	0.4
Insurance (except on real estate)	100.0	0.3	95.0	0.3	83.5	0.35	76.0	0.35	77.5	0.3
Depreciation (except on real estate)	100.0	0.9	98.5	1.0	93.5	1.25	90.0	1.2	82.0	1.0
Professional Services (See Appendix, page 41)	100.0	0.5	99.0	0.55	87.0	0.65	80.0	0.6	82.0	0.55
Total Expense	100.0	34.2%	93.5	36.2%	79.0	39.8%	74.3	38.2%	79.0	36.5%
NET PROFIT OR LOSS	—	L. 0.5%	—	L. 2.9%	—	L. 6.6%	—	L. 2.1%	—	L. 0.6%
Net Gain	—	3.0%	—	1.2%	—	L. 2.2%	—	1.9%	—	3.2%
Rate of Stock-turn (times a year) Based on Average of Inventories at the Beginning and End of the Year	—	4.35	—	4.35	—	4.1	—	4.2	—	4.6
% of Firms Earning Some Net Profit	—	47.3%	—	20.3%	—	4.1%	—	27.0%	—	40.5%
% of Firms Earning Some Net Gain	—	86.6	—	70.1	—	32.4	—	70.6	—	85.1

†Figures for this item were given on less than 75% of the reports used.

close agreement with real estate costs; expense for these services bought has come to be something like a fixed charge.

Other Costs

Three of the four charts bear out the statement that communication expense proved to be more stable during the depression than expense for any other natural division. In 1934 the dollar outlay for this item averaged less than 10% below the 1930 level, whereas total expense on the whole was down more than 20%. The increase in postage rates and the tendency toward stability in telephone and telegraph rates undoubtedly were important factors in bringing about these results. Losses from bad debts increased sharply early in the depression for obvious reasons. Apparently the large specialty stores were somewhat slow in writing off bad accounts. Their losses typically showed a sharp peak

in 1933, while for the several groups of department stores the peak came earlier. Department stores with sales of less than \$500,000 also may have deferred their losses somewhat, for their aggregate losses during the depression were relatively small. The charts indicate that in department stores the expenditure for professional services is to some degree controllable; both the small department stores and the large specialty stores cut this item very materially.

Conclusions

When it is desirable to reduce expenses in a department store, executives can get a quick response in the items of travelling, repairs, and unclassified. Unfortunately these items do not bulk large; they account for only 4% or 5% of total expense. In the course of six months to a year, however, dollar expenditures for these

Table 10. Trends of Expense in Dollars and in Percentages for 14 Specialty Stores with Net Sales of \$2,000,000 or More in 1930, by Natural Divisions: 1930-1934

Items	1930		1931		1932		1933		1934	
	Index of Dollar Amounts (1930 = 100)	% of 1930 Net Sales	Index of Dollar Amounts (1930 = 100)	% of 1931 Net Sales	Index of Dollar Amounts (1930 = 100)	% of 1932 Net Sales	Index of Dollar Amounts (1930 = 100)	% of 1933 Net Sales	Index of Dollar Amounts (1930 = 100)	% of 1934 Net Sales
Aggregate Sales (in thousands)	—	\$81,320	—	\$72,544	—	\$56,227	—	\$53,959	—	\$58,986
Typical Net Sales (in thousands)	100.0	\$2,950	88.0	\$2,600	66.5	\$1,960	65.5	\$1,930	71.0	\$2,100
Average Gross Sale	—	*	—	*	—	*	—	*	—	*
Number of Gross Sales Transactions	*	—	*	—	*	—	*	—	*	—
Total Merchandise Costs (Net)	100.0	65.4%	88.0	65.4%	66.2	65.1%	63.4	63.3%	69.4	63.9%
Total Pay Roll	100.0	16.7%	91.5	17.35%	73.0	18.35%	68.2	17.4%	76.2	17.9%
Real Estate Costs (See Appendix, page 41)	100.0	4.2	100.5	4.8	91.0	5.75	81.0	5.2	82.5	4.85
Advertising	100.0	3.9	96.0	4.25	80.0	4.7	75.5	4.5	83.0	4.5
Taxes (See Appendix, page 41)	100.0	0.3	97.5	0.35	89.0	0.4	84.0	0.4	76.0	0.3
Interest (except on real estate)	100.0	1.65	95.0	1.8	79.5	1.95	71.0	1.8	70.0	1.6
Supplies	100.0	1.6	91.0	1.65	72.0	1.75	74.0	1.8	82.0	1.8
Service Purchased	100.0	0.8	100.0	0.9	87.0	1.05	86.5	1.05	95.0	1.1
Unclassified: Losses from Bad Debts	100.0	0.3	105.0	0.35	116.0	0.5	145.0	0.65	89.0	0.35
Other	100.0	0.8	88.5	0.8	73.0	0.9	61.0	0.75	69.0	0.75
Travelling	100.0	0.8	89.0	0.8	68.5	0.8	65.0	0.8	70.5	0.8
Communication	100.0	0.5	102.0	0.55	91.5	0.7	89.5	0.7	93.5	0.65
Repairs	100.0	0.35	84.0	0.35	47.5	0.25	60.0	0.3	84.5	0.4
Insurance (except on real estate)	100.0	0.35	100.0	0.4	95.5	0.5	86.5	0.45	89.0	0.4
Depreciation (except on real estate)	100.0	1.0	100.5	1.15	96.0	1.45	95.0	1.45	75.0	1.0
Professional Services (See Appendix, page 41)	100.0	0.75	95.5	0.8	83.0	0.95	66.5	0.75	68.0	0.7
TOTAL EXPENSE	100.0	34.0%	94.0	36.3%	78.0	40.0%	73.3	38.0%	77.5	37.1%
NET PROFIT OR LOSS	—	0.6%	—	L. 1.7%	—	L. 5.1%	—	L. 1.3%	—	L. 1.0%
NET GAIN	—	2.8%	—	0.5%	—	L. 2.8%	—	1.2%	—	1.7%
Rate of Stock-turn (times a year) Based on Average of Inventories at the Beginning and End of the Year	—	7.4	—	7.3	—	6.7	—	7.1	—	7.5
% of Firms Earning Some Net Profit	—	42.9%	—	35.7%	—	7.1%	—	35.7%	—	42.9%
% of Firms Earning Some Net Gain	—	92.9	—	57.1	—	28.6	—	57.1	—	64.3

*Data not available.

†Figures for this item were given on less than 75% of the reports used.

Chart 1. Trends of Expense for 42 Department Stores with Net Sales in 1930 of Less than \$500,000, and for 42 Department Stores with Net Sales in 1930 of \$500,000 to \$2,000,000: 1930-1934
(Relatives: 1930 Dollar Amount = 100)

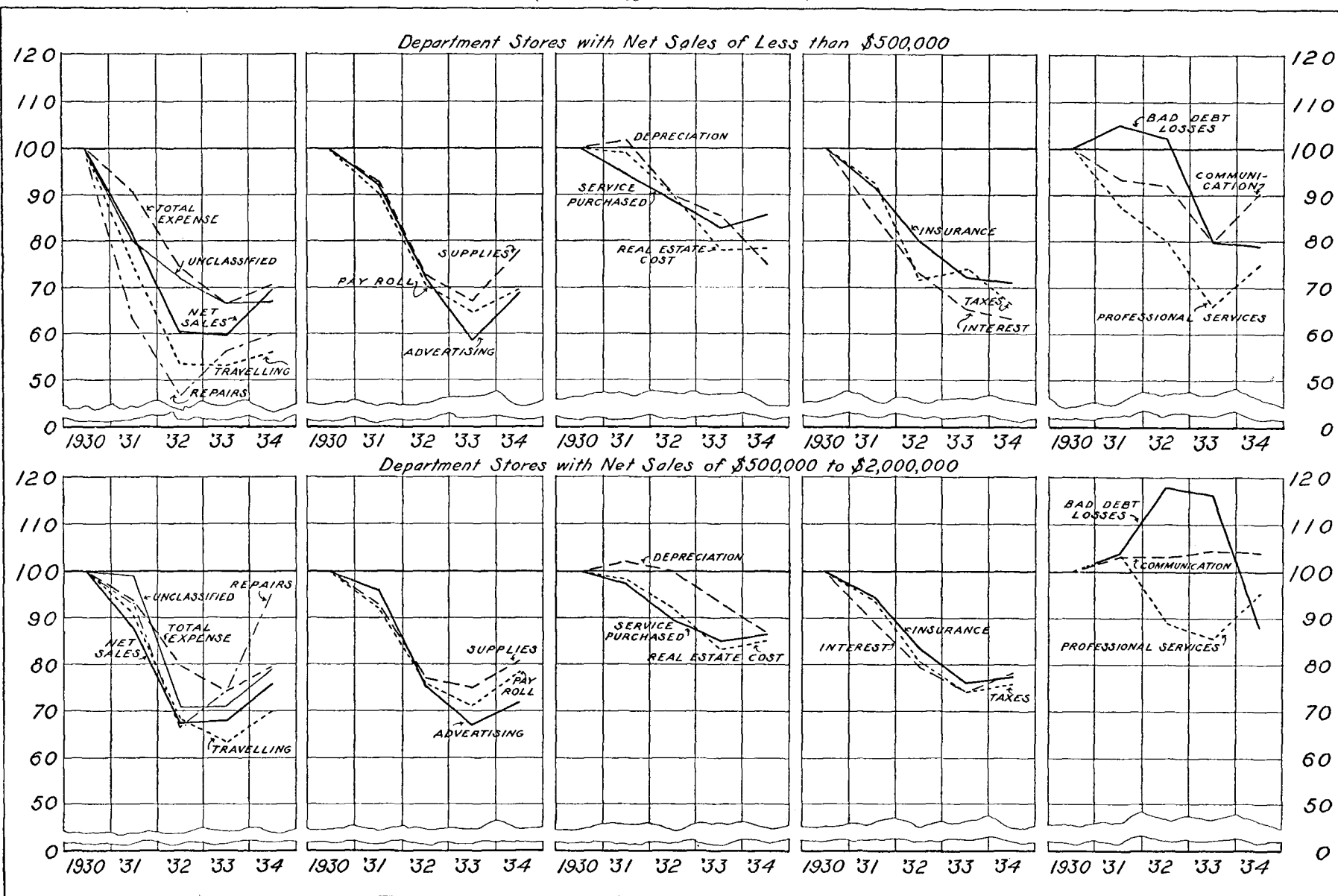
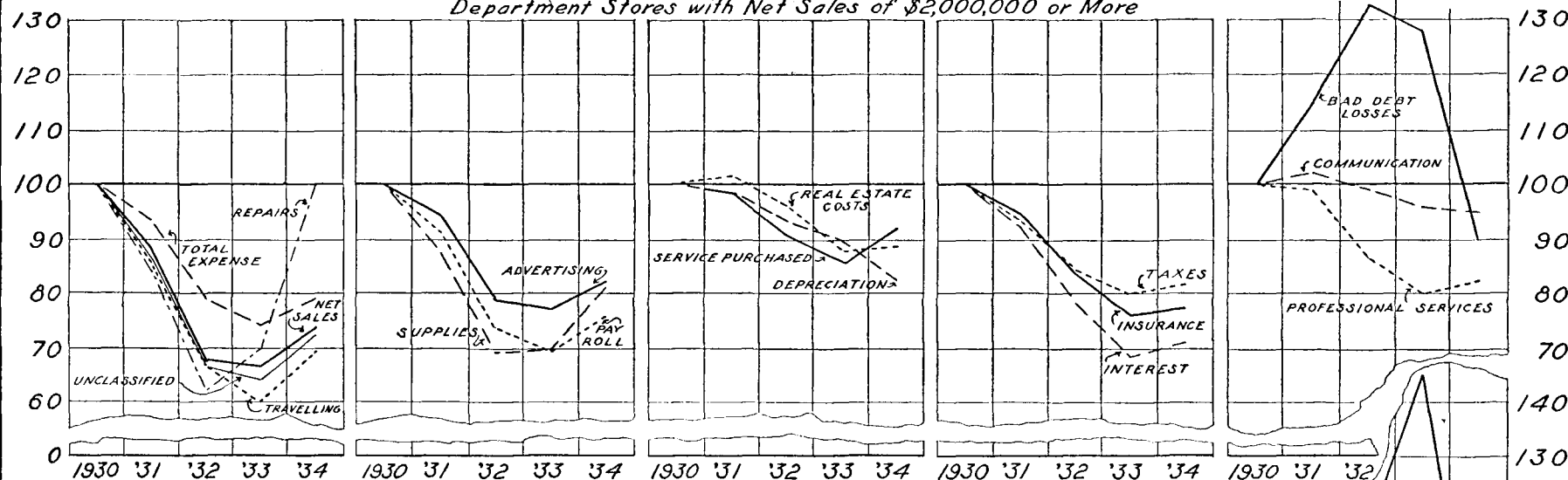
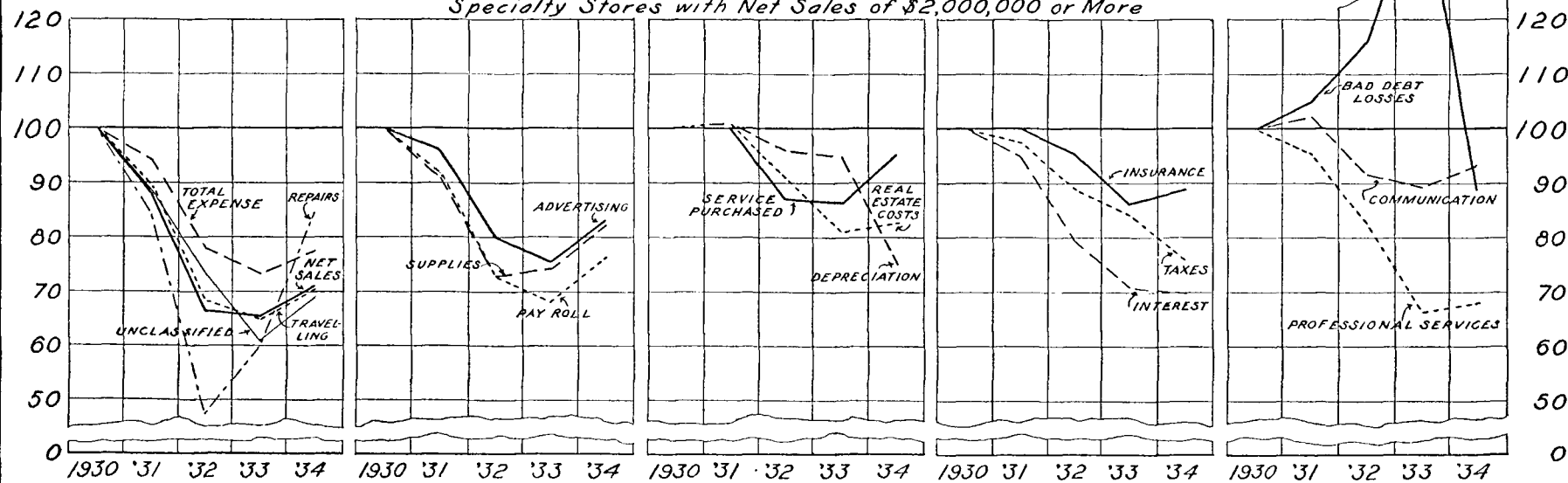


Chart 2. Trends of Expense for 74 Department Stores with Net Sales in 1930 of \$2,000,000 or More, and for 14 Specialty Stores with Net Sales in 1930 of \$2,000,000 or More: 1930-1934
(Relatives: 1930 Dollar Amount = 100)

Department Stores with Net Sales of \$2,000,000 or More



Specialty Stores with Net Sales of \$2,000,000 or More



items can be reduced by 10% to 20%, so that a saving of somewhat less than 1% can be made in total expense.

Next in degree of flexibility come what have been called the major controllable items of expense: pay roll, advertising, and supplies. These items represent about two-thirds of total dollar expense, and although they are not particularly easy to cut, it is from them that executives must secure the bulk of any dollars-and-cents reduction. Ordinarily, therefore, as an executive withholds money which as a rule would be spent freely for travel, repairs, and miscellaneous expenses, he must lay the groundwork for curtailment in pay roll, he must reduce the space and/or frequency of advertisements, and he must cut supplies expense by reducing qualities and quantities consumed and by allowing inventories to fall. In the first year of a depression, dollar costs for these items thus can be cut by 6% or 8%, which means that total expense in dollars can be reduced 4% or 5% by this means.

During this first year, as sales volume and/or prices fall, dollar investments in inventories and in accounts receivable will decline. Hence there will be automatic reductions in the imputed charge for interest; and alert executives will see opportunities to reduce taxes and insurance premiums through lower valuations.

Meanwhile, the decline in sales may well have outrun the reductions in expense, and percentage costs may have risen alarmingly. By the end of the first year, therefore, executives in general are likely to have moved on to the semi-fixed expenses and have begun to put pressure on landlords, tax boards, and insurance companies (lower rates and lower valuations) in an attempt to cut the semi-fixed expenses, and to institute new drives against outlays for service purchased. These four items constitute 17% to 20% of total expense and are reducible only to a slight degree without revision of contracts with outsiders. Apparently they are among the last to yield important economies.

During the second and third years of expense reduction, economies are likely to be made in all classes of expense.

Rising Dollar Costs

Dollar outlays for total expense and for almost all items of expense reached their low points in 1933 and rose in 1934. Expenditures for supplies and for repairs

constitute two exceptions; both reached lows in 1932 and rose in both 1933 and 1934. Depreciation and losses from bad debts constitute two additional exceptions; for both the low points came in 1934.

In the main, the controllable expenses, which responded most readily to downward pressure in 1931 and 1932, displayed the greatest resilience in 1934 and rose relatively more than the somewhat sluggish semi-fixed expenses. In some groups of stores individual items of expense in this latter category actually declined in 1934.

Repairs expense in dollars, which fell further than any other item of expense on the average, has risen very materially. Department stores with sales of \$2,000,000 or more spent as much for repairs in 1934 as in 1930. Expenditures for travel and unclassified rose markedly in 1934, but frequently no more than expense for pay roll, advertising, and supplies, the major controllable items. The outlay for pay roll, advertising, and supplies uniformly was higher in 1934, owing perhaps to some effects of the N.R.A. and to expanding physical volume of sales, as well as to other influences. Among the expenses less easily reduced, real estate costs and service purchased were larger in 1934 for all four groups of stores, and for the two groups of larger department stores taxes and interest charges were larger. Insurance costs went up, even though slightly, for specialty stores and for all but the smallest department stores. Losses from bad debts and depreciation were the only expenses smaller in 1934 for all groups of stores.

Thus it appears that expenditures postponed during the depression, increasing physical volume of business (which reached its low point in 1933), and possibly some relaxation of control activities conspired to bring about increases in dollar expense in 1934 of 6% or 7% from the levels of 1933, which were the low for the depression. It will be very easy for executives to permit further increases in dollar outlays in 1935; and this is one of the chief dangers in the current situation. Percentage expenses will be particularly treacherous as control tools if dollar sales continue to show a tendency to rise, and executives should place more and more reliance upon simple dollar costs, upon costs per transaction or per unit of output, and upon output per person or per person-day. Data of this sort will be found most helpful in consolidating the ground gained during the depression in the fight against inefficiency.

DEPARTMENT STORES: SALES LESS THAN \$500,000

Conspicuous in Tables 11 and 12, which give figures compared favorably with those for larger stores. With for department stores with sales of less than \$500,000, the exception of the stores with sales of \$500,000 to are the following facts: \$750,000, which on the average earned a profit of 0.2%

1. Earnings were considerably improved in 1934 and in 1934 after charging interest, none of the ten groups of

Table 11. Merchandising Statistics and Profits for Department Stores with Net Sales of Less Than \$500,000, by Sales Volume Groups: 1934
(Net Sales=100%, except where noted)

Items	Stores with Net Sales of less than \$150,000		Stores with Net Sales of \$150,000 to \$300,000		Stores with Net Sales of \$300,000 to \$500,000	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports.....	75	21	74	17	47	8
Aggregate Sales (in thousands).....	\$9,117	\$4,118	\$19,281	\$5,862	\$20,020	\$3,139
Typical Net Sales (in thousands).....	\$85	\$100	\$230	\$230	\$420	\$390
Index of Change in Sales (1934/1933).....	117.0	120.8	115.0	119.0	117.0	122.0
Population of City (in thousands).....	11	10	22	22	35	32
Initial Mark-up (% of original retail value) on Invoice Cost Delivered.....	33.9%†	*	35.8%†	35.5%†	37.4%†	37.7%†
Mark-downs.....	6.0†	*	7.6†	7.5†	7.8†	*
Discounts to Employees and Others.....	0.3†	*	0.6†	0.65†	0.4†	*
Stock Shortages.....	1.5†	*	1.4†	1.15†	1.4†	*
Total Retail Reductions.....	7.8%†	*	9.6%†	9.3%†	9.6%†	10.5%†
Inward Freight, Express, and Truckage.....	1.55	1.7	1.25	1.15	1.15	1.3†
Alteration and Workroom Costs (Net).....	0.35†	0.3†	0.55†	0.4†	0.45†	0.6
Cash Discounts Received on Purchases (% of sales).....	2.35	2.3	2.6	2.85	2.7	2.9
Gross Margin.....	30.7	31.4	31.7	32.0	33.6	33.5
Total Merchandise Costs (Net).....	69.3%	68.6%	68.3%	68.0%	66.4%	66.5%
Total Expense.....	31.2	27.8†	32.2	29.0	33.9	29.7
TOTAL COST.....	100.5%	96.4%	100.5%	97.0%	100.3%	96.2%
NET PROFIT OR LOSS.....	L. 0.5%	3.6%	L. 0.5%	3.0%	L. 0.3%	3.8%
Net Other Income (including interest on capital owned).....	2.8	2.2	2.8	2.0	2.7	2.4
NET GAIN: Percentage of Net Sales.....	2.3%	5.8%	2.3%	5.0%	2.4%	6.2%
Percentage of Net Worth.....	4.5	12.6	4.5	12.5	5.5	11.4
Rate of Stock-turn (times a year):						
Based on Beginning and Ending Inventories.....	2.2	2.55	2.9	3.35	3.4	3.5
Based on Monthly Inventories.....	2.0†	2.2†	2.6†	2.8†	2.8	2.6
Returns and Allowances:						
Percentage of Gross Sales.....	1.7%†	1.5%†	4.65%†	*	5.4%†	*
Percentage of Net Sales.....	1.7†	1.5†	4.85†	*	5.7†	*
% Cash and C. O. D. Sales.....	60.0%†	69.0%†	51.0%†	60.0%†	59.0%†	68.0%†
% Charge and Installment Sales.....	40.0†	31.0†	49.0†	40.0†	41.0†	32.0†
% of Firms Earning Some Net Profit.....	46.7%	100.0%	40.5%	100.0%	51.1%	100.0%
% of Firms Earning Some Net Gain.....	79.7	100.0	75.3	100.0	80.0	100.0

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

†Sales taxes were negligible for stores in all groups except for the goal firms with sales of less than \$150,000. For stores in this group a typical sales tax figure of 0.1% of net sales has been included in total expense.

department stores reported net losses of less than 0.7% of sales and three of the ten groups had losses of more than 1% of sales.

2. The percentage of increase in dollar sales which these stores secured in 1934 as contrasted with 1933 was relatively high. Of the ten groups of department stores covered in this bulletin, only one had a percentage of increase which equalled those (15.0 and 17.0) secured by the stores covered in Table 11.

3. The rates of gross margin were low, especially for the two groups of stores with sales of less than \$300,000. No group of stores with sales above \$500,000 experienced margins so low as those reported in Table 11.

4. The rates of total expense were low.

5. The rates of stock-turn were low.

Better Earnings

As regards margin, expense, and turnover, these findings are in agreement with those for earlier years, but

the relatively low net losses on merchandising operations sustained by the small stores in 1934 represent a reversal of the conditions which prevailed prior to 1933. In those years, the small stores represented in the Bureau's studies uniformly had less satisfactory percentage profits than the stores with sales of \$500,000 or more. This situation was altered in 1933, when the smallest stores had earnings about on a par with those of larger stores, presumably in part at least because their low rates of stock-turn gave them an advantage while prices were rising. Throughout most of the year 1934, however, prices were falling, and the favorable results for that year relative to those for large stores seem to have been due chiefly to low rates of expense, secured largely because of sharply increasing dollar sales which, in turn, may have been connected with the low percentage margins.

Whether this reversal of the small stores' earnings position relative to that of large stores as disclosed in

Table 12. Expenses by Natural Divisions for Department Stores with Net Sales of Less Than \$500,000, by Sales Volume Groups: 1934

(Net Sales = 100%, except where noted)

Items	Stores with Net Sales of less than \$150,000		Stores with Net Sales of \$150,000 to \$300,000		Stores with Net Sales of \$300,000 to \$500,000	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports	75	21	74	17	47	8
Aggregate Sales (in thousands)	\$9,117	\$4,118	\$19,281	\$5,862	\$20,020	\$3,139
Typical Net Sales (in thousands)	\$85	\$100	\$230	\$230	\$420	\$390
Index of Change in Sales (1934/1933)	117.0	120.8	115.0	119.0	117.0	122.0
Population of City (in thousands)	11	10	22	22	35	32
Total Pay Roll	16.5%	14.2%	17.2%	15.8%	17.7%	16.1%
Real Estate Costs (See Appendix, page 41)	4.0	3.3	3.6	3.1	4.0	3.6
Newspaper Advertising	1.4†	*	2.1†	*	2.35†	*
Direct Advertising	0.35†	*	0.15†	*	0.25†	*
Other Advertising	0.15†	*	0.25†	*	0.3†	*
Total Advertising (subtotal)	(1.9)	1.85	(2.5)	2.1	(2.9)	2.4
Taxes (See Appendix, page 41)	0.6	0.7†	0.6	0.55	0.45	0.45
Interest (except on real estate)	2.7	2.35	2.4	2.0	2.25	2.05
Supplies	0.85	0.9	1.0	1.0	1.35	1.2
Service Purchased	1.1	0.95	1.05	0.8	1.05	0.65
Unclassified: Losses from Bad Debts	0.4	0.45	0.5	0.4	0.45	0.3
Other	0.8	0.75	0.6	0.45	0.8	0.7
Travelling	0.35†	0.35	0.35	0.5	0.4	0.35
Communication	0.4	0.35	0.5	0.55	0.5	0.45
Repairs	0.2†	0.3†	0.25	0.3	0.3	0.25
Insurance (except on real estate)	0.6	0.5	0.5	0.45	0.45	0.35
Depreciation (except on real estate)	0.6	0.7	0.75	0.6	0.9	0.55
Professional Services (See Appendix, page 41)	0.2†	0.15†	0.4†	0.4†	0.4	0.3
TOTAL EXPENSE	31.2%	27.8%	32.2%	29.0%	33.9%	29.7%
Sales per Square Foot of Total Space	\$8.80†	\$9.10†	\$10.30†	\$15.00†	\$11.90†	\$10.00†
Real Estate Costs per Square Foot of Total Space	*	*	*	*	*	*
Sales/Total Employees	\$5,600†	\$6,350†	\$5,400†	\$5,850†	\$5,370†	\$6,300
Losses from Bad Debts (% of charge sales)	*	*	1.05%†	*	1.15%†	*

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

†Sales taxes were negligible for stores with sales of less than \$500,000 except for the goal firms with sales of less than \$150,000. For stores in this group a typical sales tax figure of 0.1% of net sales has been included in taxes.

these studies represents (a) a definite improvement in the fortunes of the first group and a decline in the fortunes of the second based in part on the low expense and margin rates of the small stores; (b) merely a result of forces connected with depression and recovery; or (c) a change in the type of small stores reporting to the Bureau, is an unusually complicated question which cannot be answered fully for several years. It is discussed in more detail on pages 3 and 28. There is, however, reason to believe that a gradual narrowing of the spread in earnings rates between small and large stores was taking place before 1929, and there is some reason for thinking that this narrowing process has been intensified in the last two years. On the other hand, the stores with sales of less than \$500,000, as contrasted with larger stores, experienced larger declines in sales during the depression, cut dollar expenses more drastically, achieved 1934 percentage expenses more favorable relative to 1930, and may well have been located in areas where governmental activities have been particularly helpful during the last two years.

Supposedly the smaller department stores, which are located for the most part in cities of less than 40,000 population, have important advantages over larger stores as regards some items of expense, such as rent, wage rates, and delivery, but it seems likely also that with owner management in charge many of them are being run with considerable all-round efficiency. This idea is borne out by the figures on sales per employee in Tables 12, 15, and 20. In spite of small total sales, the stores with sales of less than \$500,000 operated at no important disadvantage in employee productivity. Reports from seven small stores show an average number of transactions per employee of 3,600, more than the number typically reported by the large stores covered by Table 24.

Margin

Noteworthy also in Table 11 are the figures on initial mark-up. The two groups of stores with sales of less than \$300,000 had typical mark-up rates substantially lower than those reported on the average by stores with sales of \$300,000 or more, 33.9% and 35.8% as contrasted with 37.0% to 39.3%. Of course, lower mark-ups were warranted by lower percentage expenses, and may have been of real help in securing the relatively high percentage increases in sales in 1934. On the other hand, it seems pertinent to inquire whether the smallest stores operate at a considerable disadvantage in their buying or are forced into low margins by the competition of low-mark-up distributors.

Worthy of note, also, is the fact that in 1934 the small stores had not only relatively low mark-ups on invoice

Table 13. Pay Roll and Total Expense by Functions for Department Stores with Net Sales of \$150,000 to \$500,000, by Sales Volume Groups: 1934

(Common Figures; Net Sales = 100%)

Items	Stores with Net Sales of	
	\$150,000 to \$300,000	\$300,000 to \$500,000
Number of Reports	16	21
PAY ROLL		
Administrative and General		
Executive	*	1.5%
Accounting Office	*	0.85
Accounts Receivable and Credit	*	0.6†
Executive Office	*	0.15†
Superintendency and General Store	*	0.4†
Total Administrative and General	4.85%	3.5%
Occupancy		
Operating and Housekeeping	*	*
Heat, Light, and Power	*	*
Total Occupancy	0.7%	1.0%
Publicity		
Sales Promotion and General		
Advertising	*	0.4
Display	*	0.4
Total Publicity	0.8%	0.8%
Buying and Merchandising		
Merchandise Managers and Assistants	*	0.7
Buyers and Assistants	*	1.7†
Receiving and Marking	*	0.35
Other	*	0.2†
Total Buying and Merchandising	1.9%	2.95%
Direct and General Selling		
Salespeople	*	8.1
Floor Superintendents and Section Managers	*	0.7†
Other	*	0.4†
Total Direct and General Selling	8.7%	9.2%
Delivery	0.25	0.25
Total Pay Roll	17.2%	17.7%
TOTAL EXPENSE		
Administrative and General		
Accounting Office, Accounts Receivable, and Credit	3.1%	3.2%
Executive and Other Administrative and General	7.0	5.2
Total Administrative and General	10.1%	8.4%
Occupancy		
Operating and Housekeeping	1.2	1.35
Real Estate Costs (See Appendix, page 41)	3.6	4.0
Fixtures and Equipment Costs	1.1	1.15
Heat, Light, and Power	1.0	1.1
Total Occupancy	6.9%	7.6%
Publicity		
Sales Promotion and General		
Advertising	2.7	3.2
Display	0.55	0.55
Total Publicity	3.25%	3.75%
Buying and Merchandising	2.5	3.6
Direct and General Selling	9.0	10.0
Delivery	0.45	0.55
Total Expense	32.2%	33.9%

*Data not available.

†Figures for this item were given on less than 75% of the reports used.

cost but also relatively low cash discounts, the disadvantage in this respect amounting to around 0.25% of sales, or about half the net loss.

Mark-downs for stores with sales of from \$150,000 to \$500,000 were relatively high as compared with mark-downs for smaller and for larger stores. In view of their low rates of stock-turn these small stores might be expected to experience relatively high mark-downs in times of declining prices. The fact that the stores with sales of less than \$150,000 did not have larger mark-downs in 1934, when prices were falling (mark-downs amounting to, say, 7.5% of sales or more), suggests that these very small stores on the average did not reduce their prices and write down their inventories so rapidly as they should have done. If this is true, profits for these stores, as shown in Table 11, are to some degree overstated.

Returns

Table 11, when read in conjunction with Tables 14 and 19, on pages 21 and 27, indicates very clearly that, as in other years, the percentage of returns and allowances to gross sales and to net sales tends to be larger the larger the store. There may be many reasons why this is true and it is not possible to discuss the matter at any length here, but perhaps some reasons for the relatively low returns in the small stores lie in the fact that those stores are smaller, are located in smaller cities, and draw upon smaller market areas. Hence, presumably, they may be characterized by (a) greater ease in choosing merchandise because stocks are smaller and more closely adjusted to the needs of customers, (b) more personal, and hence more satisfactory, service, (c) fewer errors on the part of the store, (d) less crowding and hubbub in selling departments, (e) greater ease in bringing children to the store, and (f) more shopping before definite choices are made. Perhaps also the stores in the smaller cities have less to contend with in the way of competitive liberality in returns and adjustments.

Expense

Table 12 shows that the small stores had low rates of supplies expense; and high percentage expenditures for interest and insurance, as would be expected from their low rates of stock-turn.

Table 13, in contrast with Tables 16 and 21, pages 23 and 29, and Table 3, page 4, shows that manifestly the small stores operate at a substantial disadvantage as regards percentage expenditure for the administrative and general function, are about on a par with larger stores in rates of direct and general selling cost, but have lower percentage expenditures for the occupancy, publicity, buying and merchandising, and delivery functions.

Also, there is a clear tendency for occupancy and delivery cost to vary directly with the size of store, and for publicity cost to become larger as stores increase in size until a volume of about \$10,000,000 annually is reached, beyond which point percentage expenditures for publicity tend to be lower. All three tendencies have appeared consistently in the figures for earlier years and may safely be used as bases for generalizations.

Goal Figures

The high-profit firms represented in Tables 11 and 12 typically earned 3.0% or more net profit on net sales in 1934, and around 12.0% net gain on net worth, both satisfactory in the light of experience during the last ten years and on a par with, or better than, earnings of the *average* store before the depression. In 1933 the corresponding groups of stores earned 3.4% or more net profit on net sales and 10.0% or 11.0% net gain on net worth.

Looking at these three groups of profitable stores in comparison with the average firm of similar size, it appears that in general they did not enjoy any advantage in size, but clearly they did experience a larger increase in business in 1934 as compared with 1933 and in all cases they had a larger percentage of cash and C.O.D. sales to total sales than did the less profitable stores.

For two of the three goal groups covered in Table 11, gross margin was relatively favorable, and it seems safe to say that there was some tendency in 1934 for the high-profit firms to earn better-than-average margins. At least, the more profitable firms apparently did not achieve their superior increase in sales by the appeal of lower gross margin. Certainly, however, the chief advantage of the goal firms lay in their conspicuously lower percentage expenses. The differences between the common figures and the goal figures for total expense (in percentage of sales) for the three sales volume groups were, respectively, 3.4, 3.2, and 4.2. Thus the goal firms on the average enjoyed advantages amounting to around one-tenth of the total percentage cost in the cases of two groups and around one-eighth in the case of the third group. In view of the tendency for dollar operating expense to be relatively stable, decreasing less rapidly than sales when sales are falling and increasing less rapidly than sales when sales are rising, the advantage of the goal firms in percentage expense in 1934 undoubtedly was due in part to the larger increase in sales which these firms typically achieved.

In addition to their low percentage expenses (and merchandise costs) the goal firms had higher rates of stock-turn, larger sales per employee, and larger sales per square foot, all evidences of skillful management.

DEPARTMENT STORES: SALES FROM \$500,000 TO \$2,000,000

Table 14 is interesting because it includes data for the only volume group of department stores which in 1934 on the average earned a net profit after charging interest on investment. It is four years since the department stores in any volume group covered by these

studies have shown a profit. The last instance occurred in 1930, when stores with sales of \$10,000,000 or more on the average earned a net profit of 0.1% of sales. No other group of department stores in that year operated at a profit.

Table 14. Merchandising Statistics and Profits for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1934
(Net Sales = 100%, except where noted)

Items	Stores with Net Sales of \$500,000 to \$750,000		Stores with Net Sales of \$750,000 to \$1,000,000		Stores with Net Sales of \$1,000,000 to \$2,000,000	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports.....	40	10	26	6	66	17
Aggregate Sales (in thousands).....	\$45,090	\$6,590	\$22,955	\$5,036	\$98,470	\$23,710
Typical Net Sales (in thousands).....	\$650	\$660	\$890	\$840	\$1,400	\$1,375
Index of Change in Sales (1934/1933).....	118.3	126.8	112.0	117.0	113.0	115.5
Population of City (in thousands).....	75	75	70	75	115	105
Initial Mark-up (% of original retail value) on Invoice Cost Delivered.....	37.1%	38.3%	37.0%	35.2%	37.4%	38.5%
Mark-downs.....	6.4	7.2	6.15	5.1†	6.3	6.55
Discounts to Employees and Others.....	0.45†	0.45†	0.5†	0.5†	0.5†	0.45†
Stock Shortages.....	1.45	1.9	1.35	0.9†	1.3	1.6
Total Retail Reductions.....	8.3%	9.55%	8.0%	6.5%†	8.1%	8.6%
Inward Freight, Express, and Truckage.....	1.05	1.2	1.05	1.0†	1.15	1.1
Alteration and Workroom Costs (Net).....	0.25†	0.3†	0.6	0.25	0.5	0.4
Cash Discounts Received on Purchases (% of sales).....	2.6	3.0	2.45	2.45	2.6	2.7
Gross Margin.....	34.2	35.1	33.8	33.2	34.4	35.5
Total Merchandise Costs (Net).....	65.8%	64.9%	66.2%	66.8%	65.6%	64.5%
Total Expense.....	34.0	32.4	35.0	30.0	35.2	32.2
TOTAL COST.....	99.8%	97.3%	101.2%	96.8%	100.8%	96.7%
NET PROFIT OR LOSS.....	0.2%	2.7%	L. 1.2%	3.2%	L. 0.8%	3.3%
Net Other Income (including interest on capital owned).....	3.0	2.7	3.2	2.0	3.4	3.1
NET GAIN: Percentage of Net Sales.....	3.2%	5.4%	2.0%	5.2%	2.6%	6.4%
Percentage of Net Worth.....	6.6	11.5	3.0†	11.2	4.0	13.2
Rate of Stock-turn (times a year):						
Based on Beginning and Ending Inventories.....	3.9	4.25	4.0	4.3	3.85	4.25
Based on Monthly Inventories.....	3.45	3.9	3.3	3.6†	3.4	3.7
Returns and Allowances:						
Percentage of Gross Sales.....	5.7%†	7.4%†	5.7%†	4.8%†	6.8%†	7.4%
Percentage of Net Sales.....	6.0†	8.0†	6.0†	5.0†	7.3†	8.0
% Cash Sales.....	50.0%†	64.5%†	48.5%	50.0%	46.0%	48.0%
% C. O. D. Sales.....	3.0†	2.5†	2.0†	1.5†	2.0†	2.0†
% Charge Sales.....	43.0†	27.0†	44.0	} 48.5	46.0	45.0
% Installment Sales.....	4.0†	6.0†	5.5†		6.0†	5.0†
% of Firms Earning Some Net Profit.....	50.0%	100.0%	34.6%	100.0%	33.3%	100.0%
% of Firms Earning Some Net Gain.....	89.7	100.0	78.3	100.0	84.6	100.0

†Figures for this item were given on less than 75% of the reports used.

The average department store with sales of \$500,000 to \$750,000 in 1934 not only had a higher rate of net profit after charging interest than did the average store in any other of the ten groups, but also had a higher rate of return (6.6%) on net worth after including miscellaneous income and before charges for interest on capital owned. This group of stores was conspicuous also for the percentage (89.7) of firms earning some net gain, a higher figure than that shown for any other group of department stores.

Examination of the common figures for these stores with sales of \$500,000 to \$750,000 shows that they had a larger percentage increase in dollar sales from 1933 to 1934 than the stores in any other of the ten volume groups. This fact of course aided them in keeping the rate of total expense down; and comparison of the percentage expense for this group with the percentages for other groups indicates that, when allowance is made for the factor of size, their percentage expenses in 1934 were relatively low. Initial mark-up and mark-downs

showed only a slight advantage, if any, for the stores in this profitable group and their average gross margin rate was but a trifle higher than might have been expected for stores of their size. The rate of turnover and the percentage of returns and allowances give no evidence of unusual effectiveness in management.

Thus the superior profit showing seems to have been due chiefly to low total expense, which resulted in part from an unusually favorable rate of change in sales as compared with the preceding year.

Results for Medium-Size Stores

When the figures for the three groups of medium-size stores covered by Table 14 are considered as a whole, and are compared with the results for the smaller stores represented in Table 11 and the larger stores represented in Table 19, it appears that in many respects the medium-size stores occupy an intermediate position. The rates of mark-up, gross margin, total expense, stock-turn, and returns and allowances for these stores

Table 15. Expenses by Natural Divisions for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1934
(Net Sales = 100%, except where noted)

Items	Stores with Net Sales of \$500,000 to \$750,000		Stores with Net Sales of \$750,000 to \$1,000,000		Stores with Net Sales of \$1,000,000 to \$2,000,000	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports.....	40	10	26	6	66	17
Aggregate Sales (in thousands).....	\$45,090	\$6,590	\$22,955	\$5,036	\$98,470	\$23,710
Typical Net Sales (in thousands).....	\$650	\$660	\$890	\$840	\$1,400	\$1,375
Index of Change in Sales (1934/1933).....	118.3	126.8	112.0	117.0	113.0	115.5
Population of City (in thousands).....	75	75	70	75	115	105
Total Pay Roll.....	17.25%	16.7%	18.35%	15.6%	17.5%	16.3%
Real Estate Costs (See Appendix, page 41).....	4.2	3.6	4.3	3.65	4.5	3.9
Newspaper Advertising.....	2.7	*	2.8	*	3.05	2.8
Direct Advertising.....	0.2†	*	0.05	*	0.2†	0.25†
Other Advertising.....	0.4†	*	0.2	*	0.3†	0.25†
Total Advertising (subtotal).....	(3.3)	3.05	(3.05)	3.05	(3.55)	(3.3) †
Taxes (See Appendix, page 41).....	0.45	0.55	0.45	0.35	0.45	0.4
Interest (except on real estate).....	2.1	2.1	2.3	1.85	2.25	1.9
Supplies.....	1.3	1.35	1.45	1.35	1.65	1.6
Service Purchased.....	1.15	1.1	1.0	0.85	1.0	0.9
Unclassified: Losses from Bad Debts.....	0.5	0.45	0.4	0.3	0.45	0.45
Other.....	0.65	0.6	0.6	0.45	0.7	0.6
Travelling.....	0.4	0.4	0.4	0.3	0.45	0.4
Communication.....	0.5	0.45	0.5	0.45	0.5	0.5
Repairs.....	0.4	0.4	0.4	0.4	0.4	0.45
Insurance (except on real estate).....	0.45	0.45	0.4	0.3	0.4	0.3
Depreciation (except on real estate).....	0.85	0.75	0.85	0.7	0.9	0.8
Professional Services (See Appendix, page 41).....	0.5	0.45	0.55	0.4	0.5	0.4
TOTAL EXPENSE.....	34.0%	32.4%	35.0%	30.0%	35.2%	32.2%
Sales per Square Foot of Total Space.....	\$11.40†	\$8.40	\$12.60	*	\$13.40†	\$16.70†
Real Estate Costs per Square Foot of Total Space.....	0.48†	0.30†	0.54†	*	0.60†	0.65†
Sales/Total Employees.....	\$5,600†	\$5,900	\$5,000†	*	\$5,750	\$6,350†
Losses from Bad Debts (% of charge sales).....	1.1%†	*	0.85%†	*	0.8%	0.9%

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

Table 16. Pay Roll and Total Expense by Functions for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1934

(Net Sales = 100%)

Items	Stores with Net Sales of \$500,000 to \$750,000		Stores with Net Sales of \$750,000 to \$1,000,000		Stores with Net Sales of \$1,000,000 to \$2,000,000	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports	25	7	20	5	53	15
PAY ROLL						
Administrative and General						
Executive	1.15%	0.95%	1.6%	0.95%	1.05%	1.0%
Accounting Office	1.1	2.5	1.0	1.25	0.95	0.75†
Accounts Receivable and Credit	0.65†		0.8	0.45	0.8	0.75†
Executive Office	0.05†		0.05†	*	0.1†	0.1†
Superintendency and General Store	0.55		0.5	0.7	0.6	0.6
Total Administrative and General	3.5%	3.45%	3.95%	3.35%	3.5%	3.2%
Occupancy						
Operating and Housekeeping	0.9	*	0.95	*	0.9	*
Heat, Light, and Power	0.05†	*	0.05†	*	0.1†	*
Total Occupancy	0.95%	0.85%	1.00%	0.7%	1.0%	0.75%
Publicity						
Sales Promotion and General Advertising	0.4	0.35	0.4	0.4	0.35	0.35
Display	0.35	0.4	0.35	0.35	0.35	0.3
Total Publicity	0.75%	0.75%	0.75%	0.75%	0.7%	0.65%
Buying and Merchandising						
Merchandise Managers and Assistants	0.85	0.85	0.7	*	0.55†	*
Buyers and Assistants	2.2	1.85	2.4	*	2.4	*
Receiving and Marking	0.3	0.4	0.35	*	0.35	*
Other	0.15†	*	0.15†	*	0.2†	*
Total Buying and Merchandising	3.5%	3.1%	3.6%	3.45%	3.5%	3.65%
Direct and General Selling						
Salespeople	7.4	*	7.5	*	7.05	6.4
Floor Superintendents and Section Managers	0.2†	*	0.3†	*	0.35	0.25†
Other	0.65†	*	0.7	*	0.9	0.9†
Total Direct and General Selling	8.25%	8.35%	8.5%	7.05%	8.3%	7.55%
Delivery	0.3	0.2	0.55	0.3	0.5	0.5
Total Pay Roll	17.25%	16.7%	18.35%	15.6%	17.5%	16.3%
TOTAL EXPENSE						
Administrative and General						
Accounting Office, Accounts Receivable, and Credit	3.2%	3.15%	2.75%	2.6%	2.7%	2.4%
Executive and Other Administrative and General	4.75	4.65	5.5	4.5	5.3	4.9
Total Administrative and General	7.95%	7.8%	8.25%	7.1%	8.0%	7.3%
Occupancy						
Operating and Housekeeping	1.6	1.7	1.55	1.4	1.45	1.4
Real Estate Costs (See Appendix, page 4†)	4.2	3.6	4.3	3.65	4.5	3.9
Fixtures and Equipment Costs	1.15	1.4	1.3	1.2	1.2	0.95
Heat, Light, and Power	0.95	0.85	0.95	0.8	0.95	0.85
Total Occupancy	7.9%	7.55%	8.1%	7.05%	8.1%	7.1%
Publicity						
Sales Promotion and General Advertising	3.8	3.2	3.6	3.35	4.1	3.9
Display	0.55	0.65	0.55	0.55	0.6	0.5
Total Publicity	4.35%	3.85%	4.15%	3.9%	4.7%	4.4%
Buying and Merchandising	4.2	3.7	4.35	3.6	4.25	4.2
Direct and General Selling	8.8	8.7	9.1	7.7	9.05	8.2
Delivery	0.8	0.8	1.05	0.65	1.1	1.0
Total Expense	34.0%	32.4%	35.0%	30.0%	35.2%	32.2%

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

**Table 17. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1934**
(Common Figures; Net Sales = 100%)

Items	21 Stores with Net Sales of \$500,000 to \$750,000		17 Stores with Net Sales of \$750,000 to \$1,000,000		43 Stores with Net Sales of \$1,000,000 to \$2,000,000	
ADMINISTRATIVE AND GENERAL:						
Pay Roll: Executive.....	1.15%		1.60%		1.05%	
All Other Admin. and General.....	2.35		2.35		2.45	
Taxes (See Appendix, page 41).....	0.39		0.42		0.42	
Interest on Mdse. and on Accts. Rec.....	1.84		1.83		1.92	
Supplies.....	0.16		0.15		0.20	
Unclassified: Losses from Bad Debts.....	0.50		0.40		0.45	
Other.....	0.42		0.35		0.43	
Travelling.....	0.03†		0.02		0.03	
Communication.....	0.47		0.46		0.45	
Insurance.....	0.36		0.36		0.33	
Professional Services.....	0.26		0.30		0.25	
Total.....	7.95%†		8.25%†		8.00%†	
OCCUPANCY:						
Pay Roll.....	0.95%		1.00%		1.00%	
Real Estate Costs (See Appendix, p. 41).....	4.20		4.30		4.50	
Taxes on Fixtures and Equipment.....	0.07†		0.00†		0.04†	
Interest on Fixtures and Equipment.....	0.27		0.47		0.31	
Supplies.....	0.25		0.31		0.26	
Service Purchased.....	0.92		0.85		0.75	
Unclassified.....	0.07†		0.02		0.06†	
Travelling.....	0.00†		0.00†		0.00†	
Repairs.....	0.37		0.32		0.33	
Insurance on Fixtures and Equipment.....	0.05		0.03†		0.03	
Depreciation on Fixtures and Equip.....	0.77		0.79		0.84	
Total.....	7.90%†		8.10%†		8.10%†	
PUBLICITY:						
Pay Roll: Sales Pro. and General Adv.....	0.40%		0.40%		0.35%	
Display.....	0.35		0.35		0.35	
Total Advertising.....	3.30		3.05		3.55	
Supplies.....	0.25		0.26		0.31	
Unclassified.....	0.04†		0.08		0.09	
Travelling.....	0.00†		0.01†		0.01†	
Communication.....	0.02†		0.02		0.04†	
Professional Services.....	0.00†		0.00†		0.00†	
Total.....	4.35%†		4.15%†		4.70%	
BUYING AND MERCHANDISING:						
Pay Roll: Mdse. Mgrs. and Assts.....	0.85%		0.70%		0.55%	
Buyers and Assistants.....	2.20		2.40		2.40	
Receiving and Marking.....	0.30		0.35		0.35	
Other.....	0.15†		0.15†		0.20	
Supplies.....	0.05		0.07		0.07	
Unclassified.....	0.02†		0.03		0.01†	
Travelling.....	0.37		0.35		0.39	
Communication.....	0.02		0.03		0.03	
Professional Services(See Appen., p. 41).....	0.25		0.26†		0.27	
Total.....	4.20%†		4.35%†		4.25%†	
SELLING:						
	Direct and General Selling	Delivery		Direct and General Selling	Delivery	
Pay Roll: Salespeople.....	7.40%	—		7.50%	—	
Floor Supt. and Sec. Mgrs....	0.20†	—		0.30†	—	
Other.....	0.65†	—		0.70	—	
Delivery.....	—	0.30%	8.55%	—	0.55%	9.05%
Taxes.....	—	0.01†	0.01†	—	0.01	0.01
Interest on Equipment.....	—	0.01†	0.01†	—	0.01	0.01
Supplies.....	0.47	0.13	0.60	0.50	0.18	0.68
Service Purchased.....	—	0.21	0.21	—	0.13	0.13
Unclassified.....	0.08	0.00†	0.08†	0.10	0.01	0.11
Travelling.....	0.00†	0.00†	0.00†	0.00†	0.00†	0.00†
Repairs.....	—	0.04†	0.04†	—	0.06	0.06
Insurance.....	—	0.02	0.02	—	0.03	0.03
Depreciation.....	—	0.06†	0.06†	—	0.08	0.08
Total.....	8.80%	0.80%†	9.60%†	9.10%	1.05%†	10.15%†
TOTAL.....						
	8.80%	0.80%†	9.60%†	9.10%	1.05%†	10.15%†
TOTAL.....						
	34.00%		35.00%		35.20%	

†Figures for this item were given on less than 75% of the reports used.

‡Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest .00 or .05, it is not always possible to tie the detailed expense percentages into the totals exactly. The error, however, in no case exceeds 0.02% of net sales.

fall between those for the smaller and larger stores. As regards rate of mark-downs, however, the medium-size stores are distinctly low. Only two of the ten groups of department stores represented in this study typically reported lower mark-downs than did the three groups covered by Table 14, which had mark-downs amounting to between 6.1% and 6.4% of sales. The department stores with net sales of less than \$150,000 had mark-downs of only 6.0%, but, as has been noted (page 20), these stores may have failed to take sufficient mark-downs; and the stores with net sales of \$20,000,000 or more had mark-downs of only 5.7%, but probably this low rate of mark-downs was connected with the high average rate of stock-turn, 5.25 times, reported by these very large stores.

Table 15, when compared with Tables 12 and 20, pages 18 and 28, discloses the same tendency for the medium-size stores to experience intermediate results. The common figures in Table 15 for real estate costs, total advertising, newspaper advertising cost as a percentage of total advertising cost, interest, and supplies fall between the percentages typically experienced by smaller and larger stores. As regards sales per square foot, also, the medium-size stores occupied an intermediate position between the small stores with relatively low sales per square foot (\$8.80 to \$11.90) and the large stores with relatively high sales per square foot (\$13.70 to \$18.20). This intermediate position was repeated in the case of real estate costs per square foot. Common figures for real estate costs per square foot are not available for the three groups of stores with sales of less than \$500,000, but if available such common figures would be lower than 42 cents in all three instances.

Expense by Functions

Examination of the data on expense by functions presented in Tables 13, 16, and 21, pages 19, 23, and 29, discloses the same tendency for the expense rates of medium-size stores to occupy an intermediate position between the figures for smaller and larger stores. This was true for five of the six functions, direct and general selling being the only exception. Since it should be relatively easy to compute direct and general selling costs accurately in stores of all sizes, apparently the evidence afforded by the tables may be taken at face value, and one may conclude that direct and general selling costs are approximately the same in percentage of sales in department stores of all sizes.

Table 16 shows up one interesting fact regarding percentage expenditure for direct and general selling among stores with sales of \$750,000 to \$1,000,000 and \$1,000,000 to \$2,000,000: namely, that this expense was larger in 1934 than in 1933 in spite of the fact that sales for

these two groups of stores were larger in 1934 by 12% and 13%, respectively. In other words, direct and general selling costs in dollars for the average store in these

Table 18. Expenses and Profit Per Transaction, and in Percentage of Sales, for 28 Department Stores with Net Sales of \$1,000,000 to \$2,000,000: 1934

Items	Cents per Gross Sales Transaction	Net Sales = 100%
Aggregate Sales (in thousands)	—	\$41,334
Typical Net Sales (in thousands)	—	\$1,500
Index of Change in Sales (1934/1933)	—	112.7
Index of Change in Number of Transactions (1934/1933)	105.0	—
Average Gross Sale	183.9¢	—
Returns and Allowances	13.3¢	7.8%
Net Sales Income	170.6	100.0
Total Merchandise Costs (Net)	110.9¢	65.0%
Pay Roll Expense		
Administrative and General	6.05¢	3.55%
Occupancy	1.7	1.0
Publicity	1.3	0.75
Buying and Merchandising	5.5	3.25
Direct and General Selling	14.8	8.6
Delivery	0.9	0.5
Total Pay Roll	30.25¢	17.65%
Real Estate Costs (See Appendix, page 41)	7.55	4.4
Advertising	6.0	3.5
Taxes (See Appendix, page 41)	0.7	0.4
Interest (except on real estate)	3.8	2.3
Supplies	3.0	1.75
Service Purchased	1.6	0.95
Unclassified: Losses from Bad Debts	0.85	0.5
Other	1.2	0.7
Travelling	0.8	0.5
Communication	0.9	0.5
Repairs	0.8	0.45
Insurance (except on real estate)	0.75	0.45
Depreciation (except on real estate)	1.5	0.9
Professional Services (See Appendix, page 41)	0.9	0.55
TOTAL EXPENSE	60.6¢	35.5%
Functional Division of Expense		
Administrative and General	13.75¢	8.05%
Occupancy	13.5	7.95
Publicity	7.9	4.65
Buying and Merchandising	7.0	4.1
Direct and General Selling	16.5	9.6
Delivery	1.95	1.15
TOTAL EXPENSE	60.6¢	35.5%
TOTAL COST	171.5	100.5
NET PROFIT OR LOSS	L. 0.9¢	L. 0.5%
Net Other Income (including interest on capital owned)	5.2	3.0
NET GAIN	4.3¢	2.5%
Number of Gross Sales Transactions/ Total Number of Employees	3,400	—
Net Sales/Total Number of Employees	—	\$5,800

two groups rose by more than 12%. This occurred at a time when total expense in dollars on the average was rising by only 5% or 6%. The figures in Table 17 suggest that for stores with sales of from \$750,000 to \$1,000,000 this increase in total direct and general selling cost was due largely to increased dollar expenditures for pay roll. If this situation does not reflect higher wage rates, presumably it indicates some decrease in the efficiency of labor. Of course in certain respects the efficiency of selling employees was decreased by the operation of the N.R.A. codes, but in some stores the higher expenses encountered after adoption of the codes seem to have stimulated management to discover ways of utilizing labor more effectively.

Cost and Profit Per Transaction

Although the Bureau of Business Research has published figures on average sale, and on expense and profit per transaction, for various sales volume groups each year since 1930, heretofore no attempt has been made to present both these figures expressed in cents per transaction and percentages for the same, identical stores. Hence usually or frequently percentages computed on the basis of the net sales income, expense, and profit per transaction have not agreed with the percentages for stores of similar size given in other tables. This year the Bureau is instituting the practice of publishing common figures showing percentage performance for the identical stores on which the data on cents per transaction are based, and the first table of this sort is Table 18.

Impressive in this table is the fact that with an average sale of approximately \$1.71 in 1934, department stores with sales of from \$1,000,000 to \$2,000,000 typically incurred pay roll costs of more than 30 cents a transaction, advertising cost of 6 cents a transaction, and total expense of more than 60 cents a transaction. On the average each sales check represented a publicity expense of 7.9 cents and expense for delivery amounted to approximately 2 cents.

The 1933 bulletin did not include any figures on operating results expressed in cents per transaction for medium-size stores, but some tentative figures were prepared on this basis. Comparison of those tentative figures with those given in Table 18 indicates that the average gross sale was appreciably larger in 1934, a conclusion which is substantiated by the fact that dollar sales increased by a larger percentage than did number of transactions. Of course the increase in the average sale was of material help in the reducing of per-

centage expenses, and presumably the increase in the number of transactions was an influence favorable to lower costs per transaction.

Goal Figures

All the firms selected for each of the goal groups represented in Table 14 operated profitably in 1934; and like the goal firms for the three groups of department stores with sales of less than \$500,000 (see Table 11, page 17) their rates of net profit and of net gain in 1934 were quite satisfactory, roughly 3% net profit on sales and 11% to 13% net gain on net worth. By 1934 the medium-size department stores which were well managed or fortunately situated definitely had recovered the normal earning power which was interrupted by the depression and by other circumstances in the years immediately preceding the depression.

The goal firms among the medium-size stores showed some tendency to have higher rates of mark-up than the less profitable stores of similar size, but on the average their percentages of total retail reductions also tended to be relatively high, so that although they enjoyed an advantage in the rate of gross margin, this advantage was small.

In sharp contrast to the rather mixed situation as regards gross margin, the goal firms in all three groups covered by Table 14 on the average had a pronounced advantage in total expense percentages. This advantage ranged from 1.6% of sales in the case of the stores with sales of from \$500,000 to \$750,000 to 5.0% of sales for stores with annual business between \$750,000 and \$1,000,000; and was accompanied by an advantage, similarly clear-cut, in the rate of stock-turn. Tables 15 and 16 indicate no natural or functional division of expense for which the goal firms tended to have higher percentage costs than the average store of similar size, although for one or two divisions, including publicity pay roll, the goal firms had little if any advantage.

As was true of the goal firms with sales of less than \$500,000, the goal firms in the three groups of medium-size stores were not larger on the average than the less profitable stores of similar size, but in each of the three cases they had a larger increase in business in 1934 as compared with 1933. Presumably this was an important factor in causing their lower percentage expenses. The uniformly superior performance of the goal firms as regards percentage operating costs, stock-turn, and sales per employee suggests not only that these stores profited by their favorable rate of change in sales, but also that they enjoyed better-than-average management.

DEPARTMENT STORES: SALES OF \$2,000,000 AND OVER

Two important problems for the executives of department stores with sales of \$2,000,000 or more emerge from careful study of the 1934 operating results reported in this bulletin.

The first of these is a problem generally recognized but frequently neglected: namely, the problem of controlling dollar expenses during a time of increasing dollar sales when percentage expenses are likely to fall. As

Table 19. Merchandising Statistics and Profits for Department Stores with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1934
(Net Sales = 100%, except where noted)

Items	Stores with Net Sales of \$2,000,000 to \$4,000,000		Stores with Net Sales of \$4,000,000 to \$10,000,000		Stores with Net Sales of \$10,000,000 to \$20,000,000		Stores with Net Sales of \$20,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports.....	55	12	51	14	17	5	7
Aggregate Sales (in thousands).....	\$184,965	\$33,516	\$303,781	\$89,302	\$230,538	\$67,154	\$254,616
Typical Net Sales (in thousands).....	\$2,700	\$2,780	\$5,700	\$6,000	\$13,000	\$13,500	\$30,000
Index of Change in Sales (1934/1933).....	114.0	122.0	112.3	118.1	109.0	109.0	106.0
Population of City (in thousands).....	300	190	500	300	1,300	*	3,900
Initial Mark-up (% of original retail value) on Invoice Cost Delivered.....	38.2%	38.8%	38.4%	38.9%	39.5%	40.3%	38.5%
Mark-downs.....	6.7	6.6	6.85	6.9	7.05	7.35	5.7
Discounts to Employees and Others.....	0.55	0.65†	0.6	0.6	0.65	0.7	0.7
Stock Shortages.....	1.3	1.1	1.3	1.3	1.4	1.0	1.8
Total Retail Reductions.....	8.55%	8.35%	8.75%	8.8%	9.1%	9.05%	8.2%
Inward Freight, Express, and Truckage.....	1.0	1.6	0.85	0.9	0.7†	0.85†	0.45†
Alteration and Workroom Costs (Net).....	0.65	0.6	0.75	0.55	0.55	0.55	0.55
Cash Discounts Received on Purchases (% of sales).....	2.8	2.7	3.3	3.2	3.35	3.4	3.65
Gross Margin.....	35.1	35.8	35.6	36.2	36.8	37.7	36.6
Total Merchandise Costs (Net).....	64.0%	64.2%	64.4%	63.8%	63.2%	62.3%	63.4%
Total Expense.....	36.2	32.5	37.1	34.1	37.2‡	35.3	37.2‡
TOTAL COST.....	101.1%	96.7%	101.5%	97.9%	100.4%	97.6%	100.6%
NET PROFIT OR LOSS.....	L. 1.1%	3.3%	L. 1.5%	2.1%	L. 0.4%	2.4%	L. 0.6%
Net Other Income (including interest on capital owned).....	3.5	3.2	3.6	3.5	3.3	2.9	3.6
Net Gain: Percentage of Net Sales.....	2.4%	6.5%	2.1%	5.6%	2.9%	5.3%	3.0%
Percentage of Net Worth.....	4.0	13.0	4.8	12.0	5.2	9.5	*
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories.....	4.4	4.4	4.95	5.4	4.45	4.55	5.25
Based on Monthly Inventories.....	3.8	4.1	4.2	4.45	3.85	3.85	4.5
Returns and Allowances:							
Percentage of Gross Sales.....	8.5%	7.9%	10.6%	10.2%	11.8%	10.7%	12.7%
Percentage of Net Sales.....	9.3	8.6	11.8	11.3	13.4	12.0	14.6
% Cash Sales.....	42.0%	43.7%	39.5%	36.6%	36.3%	35.4%	43.0%
% C.O.D. Sales.....	5.3	5.1†	6.3	5.1	8.3	4.5	14.0
% Charge Sales.....	45.8	45.3	47.5	52.8	48.0	55.4	38.0
% Installment Sales.....	0.9	5.9†	6.7	5.5	7.4	4.7	5.0
% of Firms Earning Some Net Profit.....	32.7%	100.0%	37.3%	100.0%	47.1%	100.0%	42.9%
% of Firms Earning Some Net Gain.....	78.4	100.0	76.1	100.0	82.4	100.0	85.7

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

‡Sales taxes were negligible for stores with sales of \$2,000,000 to \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more sales taxes amounting typically to 0.1% and 0.3% of net sales, respectively, have been included in total expense.

business proceeds on its way toward recovery, probably no matter will be of greater immediate concern. Control of dollar expenses will be to the fore in 1935 and 1936, also, if recovery is interrupted and dollar sales do not rise.

The second problem was mentioned a year ago by the 1933 bulletin, which observed that the earnings position of the very small department stores had improved materially relative to that of the large stores. The improvement in the small stores' performance in 1933 was then thought due in large measure to the combination of their low rates of stock-turn and the rapidly rising prices which prevailed during more than half of the year 1933. Evidence now available, however, shows that in 1934 the small stores continued to hold, and even to better, their improved earnings position with reference to the large stores. Since they did this in a year when

prices were falling, even if but slightly, some more fundamental forces may have been at work.

Accordingly, an examination was made of the relationship between the margins, expenses, and profits of department stores of different sizes for all years from 1921 through 1934. This examination showed that from 1921 through 1929 the smallest stores had rates of net profit substantially smaller than the largest stores, the rate of net profit varying directly with size; but showed, also, that the spread between the percentage earnings of small and large stores was gradually narrowing, owing to an essentially constant spread between the margin rates of the two groups of stores and an increasing spread between their expense rates. The movements were slight, so slight as to be imperceptible to one not seeking them, but nevertheless they existed throughout the period.

Table 20. Expenses by Natural Divisions for Department Stores with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1934
(Net Sales = 100%, except where noted)

Items	Stores with Net Sales of \$2,000,000 to \$4,000,000		Stores with Net Sales of \$4,000,000 to \$10,000,000		Stores with Net Sales of \$10,000,000 to \$20,000,000		Stores with Net Sales of \$20,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports.....	55	12	51	14	17	5	7
Aggregate Sales (in thousands).....	\$184,965	\$33,516	\$303,781	\$89,302	\$230,538	\$67,154	\$254,616
Typical Net Sales (in thousands).....	\$2,700	\$2,780	\$5,700	\$6,000	\$13,000	\$13,500	\$30,000
Index of Change in Sales (1934/1933).....	114.0	122.0	112.3	118.1	109.0	109.0	106.0
Population of City (in thousands).....	300	190	500	300	1,300	*	3,900
Total Pay Roll.....	17.3%	16.3%	18.25%	17.4%	18.4%	18.1%	18.35%
Real Estate Costs (See Appendix, page 41).....	5.05	4.3	5.05	4.3	5.9	5.4	6.5
Newspaper Advertising.....	3.55	2.85	3.9	3.0	3.3	2.5	3.1
Direct Advertising.....	0.2	0.2†	0.25	0.2	0.2	0.2	0.2
Other Advertising.....	0.25	0.25	0.2	0.2	0.25	0.25	0.2
Total Advertising (subtotal).....	(4.0)	(3.3)	(4.35)	(3.4)	(3.75)	(2.95)	(3.5)
Taxes (See Appendix, page 41).....	0.45	0.5	0.35	0.4	0.5†	0.4	0.6†
Interest (except on real estate).....	2.15	1.95	1.9	1.85	2.0	1.9	1.55
Supplies.....	1.8	1.55	1.95	1.9	1.85	1.75	2.0
Service Purchased.....	1.05	0.85	1.05	0.9	0.65	0.9	1.0
Unclassified: Losses from Bad Debts.....	0.5	0.5	0.35	0.45	0.25	0.05	0.1
Other.....	0.75	0.6	0.7	0.6	0.8	0.95	0.85
Travelling.....	0.45	0.5	0.45	0.55	0.35	0.35	0.2
Communication.....	0.5	0.4	0.55	0.45	0.55	0.5	0.5
Repairs.....	0.4	0.4	0.5	0.45	0.4	0.5	0.4
Insurance (except on real estate).....	0.35	0.25	0.3	0.2	0.25	0.25	0.3
Depreciation (except on real estate).....	0.9	0.65	0.85	0.8	1.05	0.8	0.9
Professional Services (See Appendix, page 41).....	0.55	0.45	0.5	0.45	0.5	0.5	0.45
TOTAL EXPENSE.....	36.2%	32.5%	37.1%	34.1%	37.2%	35.3%	37.2%
Sales per Square Foot of Total Space.....	\$13.70	*	\$15.40†	\$17.00†	\$16.30	\$17.80	\$18.20
Real Estate Costs per Square Foot of Total Space.....	0.69	*	0.78†	0.73†	0.96	0.95	1.17
Sales/Total Employees.....	\$5,500	\$6,200	\$5,900	\$6,100	\$5,800	\$6,500	\$6,500
Losses from Bad Debts (% of charge sales).....	0.95%	0.95%	0.65%	0.75%	0.5%	0.1%	0.25%

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

†Sales taxes were negligible for stores with sales of \$2,000,000 to \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more sales taxes amounting typically to 0.1% and 0.3% of net sales, respectively, have been included in taxes.

**Table 21. Pay Roll and Total Expense by Functions for Department Stores
with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1934**

(Net Sales = 100%)

Items	Stores with Net Sales of \$2,000,000 to \$4,000,000		Stores with Net Sales of \$4,000,000 to \$10,000,000		Stores with Net Sales of \$10,000,000 to \$20,000,000		Stores with Net Sales of \$20,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports.	47	10	48	12	17	5	7
PAY ROLL							
Administrative and General							
Executive.	1.0%	1.05%	0.8%	1.0%	0.7%	0.9%	0.6%
Accounting Office.	0.9	0.85	0.9	0.8	0.9	0.85	0.85
Accounts Receivable and Credit.	0.8	0.65	0.75	0.7	0.7	0.65	0.55
Executive Office.	0.05†	0.05†	0.05	0.05	0.05	0.05	0.05
Superintendency and General Store.	0.7	0.55	0.95	0.75	0.85	0.6	1.0
Total Administrative and General.	3.45%	3.15%	3.45%	3.3%	3.2%	3.05%	3.05%
Occupancy							
Operating and Housekeeping.	0.95	0.95	1.1	1.0	1.15	1.3	1.15
Heat, Light, and Power.	0.1†	0.05†	0.15	0.1	0.1	0.1	0.1
Total Occupancy.	1.05%	1.0%	1.25%	1.1%	1.25%	1.4%	1.25%
Publicity							
Sales Promotion and General Advertising.	0.35	0.3	0.4	0.35	0.4	0.3	0.4
Display.	0.25	0.25	0.25	0.25	0.2	0.25	0.2
Total Publicity.	0.6%	0.55%	0.65%	0.6%	0.6%	0.55%	0.6%
Buying and Merchandising							
Merchandise Managers and Assistants.	0.55	0.45	0.7	0.8	0.55	0.65	0.75
Buyers and Assistants.	2.35	2.55	2.4	2.25	2.4	2.25	2.0
Receiving and Marking.	0.4	0.35	0.5	0.4	0.5	0.5	0.45
Other.	0.15†	0.15†	0.3	0.3	0.35	0.4	0.4
Total Buying and Merchandising.	3.45%	3.5%	3.9%	3.75%	3.8%	3.8%	3.6%
Direct and General Selling							
Salespeople.	6.8	6.3	6.35	6.3	6.15	6.3	6.1
Floor Superintendents and Section Managers.	0.25	0.25	0.35	0.35	0.45	0.5	0.55
Other.	1.1	1.15	1.55	1.45	1.9	1.7	2.05
Total Direct and General Selling.	8.15%	7.7%	8.25%	8.1%	8.5%	8.5%	8.7%
Delivery.	0.6	0.4	0.75	0.55	1.05	0.8	1.15
Total Pay Roll.	17.3%	16.3%	18.25%	17.4%	18.4%	18.1%	18.35%
TOTAL EXPENSE							
Administrative and General							
Accounting Office, Accounts Receivable, and Credit.	2.85%	2.5%	2.6%	2.45%	2.4%	2.1%	2.0%
Executive and Other Administrative and General.	4.85	4.8	4.65	4.6	4.7†	4.6	4.45†
Total Administrative and General.	7.7%	7.3%	7.25%	7.05%	7.1%	6.7%	6.45%
Occupancy							
Operating and Housekeeping.	1.5	1.5	1.8	1.65	1.75	2.0	1.75
Real Estate Costs (See Appendix, page 41).	5.05	4.3	5.05	4.3	5.9	5.4	6.5
Fixtures and Equipment Costs.	1.3	0.95	1.15	1.1	1.35	1.0	1.1
Heat, Light, and Power.	0.95	0.8	0.85	0.7	0.6	0.6	0.65
Total Occupancy.	8.8%	7.55%	8.85%	7.75%	9.6%	9.0%	10.0%
Publicity							
Sales Promotion and General Advertising.	4.65	3.85	5.1	4.05	4.5	3.5	4.25
Display.	0.45	0.45	0.5	0.5	0.45	0.5	0.4
Total Publicity.	5.1%	4.3%	5.6%	4.55%	4.95%	4.0%	4.65%
Buying and Merchandising.	4.25	4.2	4.7	4.65	4.5	4.7	4.15
Direct and General Selling.	9.05	8.2	9.15	8.95	9.4	9.5	9.8
Delivery.	1.3	0.95	1.55	1.15	1.65	1.4	2.15
Total Expense.	36.2%	32.5%	37.1%	34.1%	37.2%	35.3%	37.2%

†Figures for this item were given on less than 75% of the reports used.

‡Sales taxes were negligible for stores with sales of \$2,000,000 to \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more, sales taxes amounting typically to 0.1% and 0.3% of net sales, respectively, have been included in the executive and other administrative and general function.

**Table 22. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$2,000,000 to \$10,000,000, by Sales Volume Groups: 1934**
(Common Figures; Net Sales = 100%)

Items	42 Stores with Net Sales of \$2,000,000 to \$4,000,000			46 Stores with Net Sales of \$4,000,000 to \$10,000,000				
	Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General		Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General			
ADMINISTRATIVE AND GENERAL:								
Pay Roll: Accounting Office.....	0.90%	—		0.90%	—			
Accts. Rec. and Credit.....	0.80	—		0.75	—			
Executive.....	—	1.00%		—	0.80%			
Executive Office.....	—	0.05†		—	0.05			
Superintendency and Gen.Store	—	0.70	3.45%	—	0.95	3.45%		
Taxes (See Appendix, p. 41).....	—	0.36	0.36	—	0.31	0.31		
Interest on Mdse. and Accounts Rec.....	—	1.78	1.78	—	1.61	1.61		
Supplies.....	0.13	0.05	0.18	0.12	0.06	0.18		
Unclassified: Losses from Bad Debts....	0.50	—	0.50	0.35	—	0.35		
Other.....	0.09	0.28	0.37	0.07	0.28	0.35		
Travelling.....	0.01†	0.03	0.04	0.01†	0.02	0.03		
Communication.....	0.23	0.21	0.44	0.22	0.26	0.48		
Insurance.....	—	0.29	0.29	—	0.24	0.24		
Professional Services.....	0.17	0.12	0.29	0.18	0.09	0.27		
Total.....	2.85%†	4.85%†	7.70%	2.60%	4.65%†	7.25%†		
OCCUPANCY:								
	Operating and Housekeeping	Fixed Plant & Equipment Costs	Heat, Light, and Power		Operating and Housekeeping	Fixed Plant & Equipment Costs	Heat, Light, and Power	
Pay Roll.....	0.95%	—	0.10%†	1.05%	1.10%	—	0.15%	1.25%
Real Estate Costs (See Appendix, p. 41) ..	—	5.05%	—	5.05	—	5.05%	—	5.05
Taxes on Fixtures and Equipment.....	—	0.08	—	0.08	—	0.04†	—	0.04†
Interest on Fixtures and Equipment.....	—	0.34	—	0.34	—	0.28	—	0.28
Supplies.....	0.13	—	0.13	0.26	0.15	—	0.16	0.31
Service Purchased.....	0.04†	—	0.71	0.75	0.03	—	0.56	0.59
Unclassified.....	0.03	0.00†	0.01†	0.04	0.06	0.00†	0.00†	0.06
Travelling.....	0.00†	—	—	0.00†	0.00†	—	—	0.00†
Repairs.....	0.35	—	—	0.35	0.45	—	—	0.45
Insurance on Fixtures and Equipment....	—	0.02	—	0.02	—	0.03†	—	0.03†
Depreciation on Fixtures and Equip.....	—	0.86	—	0.86	—	0.79	—	0.79
Total.....	1.50%	6.35%	0.95%	8.80%	1.80%†	6.20%†	0.85%†	8.85%
PUBLICITY:								
	Sales Promotion and General Advertising	Display			Sales Promotion and General Advertising	Display		
Pay Roll.....	0.35%	0.25%	0.60%		0.40%	0.25%	0.65%	
Advertising.....	4.00	—	4.00		4.35	—	4.35	
Supplies.....	0.22	0.19	0.41		0.27	0.22	0.49	
Unclassified.....	0.05	0.01†	0.06		0.05	0.01†	0.06	
Travelling.....	0.01†	0.00†	0.01		0.01†	0.00†	0.01	
Communication.....	0.02	—	0.02		0.04	—	0.04	
Professional Services.....	0.00†	—	0.00†		0.00†	—	0.00†	
Total.....	4.65%	0.45%	5.10%		5.10%†	0.50%†	5.60%	
BUYING AND MERCHANDISING:								
Pay Roll: Mdse. Mgrs. and Assts.....			0.55%				0.70%	
Buyers and Assistants.....			2.35				2.40	
Receiving and Marking.....			0.40				0.50	
Other.....			0.15†				0.30	
Supplies.....			0.07				0.08	
Unclassified.....			0.04				0.04	
Travelling.....			0.40				0.40	
Communication.....			0.03				0.03	
Prof. Services (See Appendix, p. 41).....			0.26†				0.25†	
Total.....			4.25%				4.70%	
SELLING:								
	Direct and General Selling	Delivery			Direct and General Selling	Delivery		
Pay Roll: Salespeople.....	6.80%	—			6.35%	—		
Floor Supt. and Sec. Mgrs....	0.25	—			0.35	—		
Other.....	1.10	—			1.55	—		
Delivery.....	—	0.60%	8.75%		—	0.75%	9.00%	
Taxes.....	—	0.01	0.01		—	0.01†	0.01†	
Interest on Equipment.....	—	0.01†	0.01†		—	0.01†	0.01†	
Supplies.....	0.71	0.18	0.89		0.75	0.14	0.89	
Service Purchased.....	—	0.30	0.30		—	0.45	0.45	
Unclassified.....	0.20	0.03	0.23		0.15	0.03	0.18	
Travelling.....	0.00†	0.00†	0.00†		0.00†	0.00†	0.00†	
Repairs.....	—	0.06†	0.06†		—	0.05	0.05	
Insurance.....	—	0.04	0.04		—	0.03	0.03	
Depreciation.....	—	0.06	0.06		—	0.06†	0.06†	
Total.....	9.05%†	1.30%†	10.35%		9.15%	1.55%†	10.70%†	
TOTAL.....								
			36.20%				37.10%	

†Figures for this item were given on less than 75% of the reports used.

‡Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest .00 or .05, it is not always possible to tie the detailed expense percentages into the totals exactly. The error, however, in no case exceeds 0.02% of net sales.

Table 23. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$10,000,000 or More, by Sales Volume Groups: 1934

(Common Figures; Net Sales = 100%)

Items	15 Stores with Net Sales of \$10,000,000 to \$20,000,000			7 Stores with Net Sales of \$20,000,000 or more			
	Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General		Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General		
ADMINISTRATIVE AND GENERAL:							
Pay Roll: Accounting Office.....	0.90%	—		0.85%	—		
Accts. Rec. and Credit.....	0.70	—		0.55	—		
Executive.....	—	0.70%		—	0.60%		
Executive Office.....	—	0.05		—	0.05		
Superintendency & Gen. Store	—	0.85	3.20%	—	1.00	3.05%	
Taxes (See Appendix, p. 41).....	—	0.42§	0.42§	—	0.52§	0.52§	
Interest on Mdse. and Accounts Rec.....	—	1.67	1.67	—	1.28	1.28	
Supplies.....	0.12	0.04	0.16	0.10	0.03	0.13	
Unclassified: Losses from Bad Debts....	0.25	—	0.25	0.10	—	0.10	
Other.....	0.07	0.36	0.43	0.12	0.36	0.48	
Travelling.....	0.00	0.02	0.02	0.00	0.00	0.00	
Communication.....	0.20	0.25	0.45	0.15	0.26	0.41	
Insurance.....	—	0.22	0.22	—	0.21	0.21	
Professional Services.....	0.16	0.11	0.27	0.12	0.16	0.28	
Total.....	2.40%	4.70%†	7.10%†	2.00%†	4.45%†	6.45%†	
OCCUPANCY:							
	Operating and Housekeeping	Fixed Plant & Equipment Costs	Heat, Light, and Power		Operating and Housekeeping	Fixed Plant & Equipment Costs	Heat, Light, and Power
Pay Roll.....	1.15%	—	0.10%	1.25%	1.15%	—	0.10%
Real Estate Costs (See Appendix, p. 41).....	—	5.90%	—	5.90	—	6.50%	6.50
Taxes on Fixtures and Equipment.....	—	0.06†	—	0.06†	—	0.05†	0.05†
Interest on Fixtures and Equipment.....	—	0.32	—	0.32	—	0.25	0.25
Supplies.....	0.15	—	0.10	0.25	0.15	—	0.14
Service Purchased.....	0.02	—	0.42	0.44	0.02	—	0.39
Unclassified.....	0.07	0.00†	0.00	0.07	0.07	0.00†	0.00†
Travelling.....	0.00†	—	—	0.00†	—	—	0.00†
Repairs.....	0.34	—	—	0.34	0.37	—	0.37
Insurance on Fixtures and Equipment...	—	0.01	—	0.01	—	0.02	0.02
Depreciation on Fixtures and Equip....	—	0.98	—	0.98	—	0.80	0.80
Total.....	1.75%†	7.25%†	0.60%†	9.60%†	1.75%†	7.60%†	10.00%†
PUBLICITY:							
	Sales Promotion and General Advertising	Display		Sales Promotion and General Advertising	Display		
Pay Roll.....	0.40%	0.20%	0.60%	0.40%	0.20%	0.60%	
Advertising.....	3.75	—	3.75	3.50	—	3.50	
Supplies.....	0.24	0.22	0.46	0.22	0.18	0.40	
Unclassified.....	0.05	0.01	0.06	0.07	0.02	0.09	
Travelling.....	0.00	0.00†	0.00	0.00	0.00†	0.00	
Communication.....	0.07	—	0.07	0.06	—	0.06	
Professional Services.....	0.00†	—	0.00†	0.00†	—	0.00†	
Total.....	4.50%†	0.45%†	4.95%†	4.25%	0.40%	4.65%	
BUYING AND MERCHANDISING:							
Pay Roll: Mdse. Mgrs. and Assts.....			0.55%			0.75%	
Buyers and Assistants.....			2.40			2.00	
Receiving and Marking.....			0.50			0.45	
Other.....			0.35			0.40	
Supplies.....			0.07			0.08	
Unclassified.....			0.05			0.06	
Travelling.....			0.32			0.20	
Communication.....			0.02			0.02	
Prof. Services (See Appendix, p. 41).....			0.24			0.18	
Total.....			4.50%			4.15%†	
SELLING:							
	Direct and General Selling	Delivery		Direct and General Selling	Delivery		
Pay Roll: Salespeople.....	6.15%	—		6.10%	—		
Floor Supt. and Sec. Mgrs....	0.45	—		0.55	—		
Other.....	1.90	—		2.05	—		
Delivery.....	—	1.05%	9.55%	—	1.15%	9.85%	
Taxes.....	—	0.02	0.02	—	0.03	0.03	
Interest on Equipment.....	—	0.01	0.01	—	0.02	0.02	
Supplies.....	0.77	0.14	0.91	0.96	0.14	1.10	
Service Purchased.....	—	0.22	0.22	—	0.59	0.59	
Unclassified.....	0.14	0.03	0.17	0.14	0.01	0.15	
Travelling.....	0.00†	0.00†	0.00†	0.00	0.00	0.00	
Repairs.....	—	0.05	0.05	—	0.04	0.04	
Insurance.....	—	0.03	0.03	—	0.06	0.06	
Depreciation.....	—	0.09	0.09	—	0.10	0.10	
Total.....	9.40%†	1.65%†	11.05%	9.80%	2.15%†	11.95%†	
TOTAL.....	37.20%			37.20%			

†Figures for this item were given on less than 75% of the reports used.

‡Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest .00 or .05, it is not always possible to tie the detailed expense percentages into the totals exactly. The error, however, in no case exceeds 0.02% of net sales.

§For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more, sales taxes amounting typically to 0.1% and 0.3% of net sales respectively have been included in taxes in the executive and other administrative and general function.

From 1929 to 1932 these two trends were interrupted, presumably because the forces which caused them were overshadowed by the forces of depression. In 1933 and 1934, however, the tendency of the spread to become smaller was resumed, but apparently with increased intensity. In fact, for those two years, differing though they did as to price movements, the earnings of the very small stores were about on a par with the earnings of the large stores. Of course, because of the N.R.A., government spending, the usual forces of recovery, and other factors, the results of the last two years may be exceptional. In these years, for instance, the lower margin rates of the small stores may have been of unusual importance in building sales volume.

Nevertheless, it appears that there *may* be emerging for executives of large department stores some very real and disturbing problems. For years, the figures published in these Harvard studies have seemed to warrant an attitude of complacency on the part of these executives. Although the large stores' expenses have been relatively high in percentage of sales, their rates of margin also have been high, and their profits larger than those of smaller department stores. Many people have felt that the large stores have had better executive direction and that the position of the small department stores in the smaller cities was not to be envied, with competition from variety chains and other low-cost distributors in their own cities and with out-of-town competition from the better assortments of large department stores and mail-order houses. Now it appears that the shoe may be on the other foot. If the results shown in 1933 and 1934 continue, it will be clear that either the small store has gained ground surprisingly, or the large store has suffered a substantial setback, or both. The gap between the large store and the small store has narrowed; and as long as this situation prevails, careful study of the demand for the sort of distribution service afforded by the large stores, and of their operating methods, will certainly be in order.

Margin

The large department stores have relatively high percentages of initial mark-up, relatively high percentage retail reductions, and relatively high rates of gross margin. The percentage retail reductions for the large stores, as was noted on page 25, were smaller than those reported typically by the stores with sales between \$150,000 and \$500,000, which had very low rates of stock-turn, but the figures for stores with sales of more than \$500,000 indicate the tendency for retail reductions to be larger for large stores. These larger retail reductions on the whole are due to larger mark-downs, larger discounts to employees and others,

but not clearly to larger stock shortages. It should be noted, however, that as a rule mark-downs for stores with sales of \$20,000,000 or more are substantially smaller in percentage of sales than those for other large stores, and tend to be smaller than the mark-downs for any other group of department stores covered in these bulletins.

Cash discounts received were larger as a percentage of sales in the large stores covered by Table 19 than in the smaller stores whose results are reported in Tables 11 and 14. This advantage increased directly with the size of store, being largest on the average for the very large stores. The amounts of advantage secured in this way were substantial in relation to net profit. For instance, the stores with sales of \$20,000,000 or more had cash discounts larger by 1.0% of sales than did the stores with sales of \$1,000,000 to \$2,000,000, and their advantage over stores with sales of \$4,000,000 to \$20,000,000 was about 0.3% of sales. Presumably these better discounts resulted both from size, which frequently gives a considerable buying advantage, and from ready financial resources.

The stores with sales of \$2,000,000 or more had, also, markedly lower ratios of inward transportation expense to sales, the percentages for this item varying inversely with size.

On the whole, therefore, the larger gross margins of the large firms were due to higher mark-ups on invoice cost, larger cash discounts, and lower costs for inward transportation.

Expense

After the high levels of total expense (percentage expense) encountered during the depression, when many stores recorded figures above 40%, the 36% and 37% shown on the average in 1934 seem low and reassuring. Nevertheless, expenses, especially in large department stores, are still very high. Perhaps such stores are performing efficiently the distribution functions which they have set out to perform, but with costs in cents per transaction running as high as those indicated in Table 24, manifestly there should be a careful scrutinizing not only of the efficiency with which the functions are being performed, but also of the desirability of performing the functions. It cost the average large department store in 1934 roughly 60 cents to 75 cents to serve each customer.

The large department stores may need not only a survey of demand to see what distribution functions they should attempt to perform, but also a careful analysis of operating expenses for various types of distributors, in order that they may get a clearer idea of the power of their competitors. Variety chains with a

Table 24. Expenses and Profit Per Transaction, and in Percentage of Sales, for Department Stores with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1934

Items	Stores with Net Sales of \$2,000,000 to \$4,000,000		Stores with Net Sales of \$4,000,000 to \$10,000,000		Stores with Net Sales of \$10,000,000 to \$20,000,000		Stores with Net Sales of \$20,000,000 or more	
	Cents per Gross Sales Transaction	Net Sales = 100%	Cents per Gross Sales Transaction	Net Sales = 100%	Cents per Gross Sales Transaction	Net Sales = 100%	Cents per Gross Sales Transaction	Net Sales = 100%
Number of Reports.....	27	27	42	42	16	16	7	7
Aggregate Sales (in thousands).....	—	\$90,005	—	\$251,911	—	\$215,315	—	\$254,616
Typical Net Sales (in thousands).....	—	\$2,700	—	\$5,650	—	\$12,700	—	\$30,000
Index of Change in Sales (1934/1933).....	—	116.9	—	113.0	—	109.0	—	106.0
Index of Change in Number of Transactions (1934/1933).....	108.0	—	104.6	—	106.2	—	102.2	—
Average Gross Sale.....	179.0¢	—	191.9¢	—	224.5¢	—	213.7¢	—
Returns and Allowances.....	16.0¢	9.8%	20.9¢	12.2%	26.5¢	13.4%	27.2¢	14.6%
Net Sales Income.....	163.0	100.0	171.0	100.0	198.0	100.0	186.5	100.0
Total Merchandise Costs (Net).....	105.2¢	64.5%	110.0¢	64.3%	125.2¢	63.2%	118.3¢	63.4%
Pay Roll Expense								
Administrative and General.....	5.95¢	3.65%	6.0¢	3.5%	6.35¢	3.2%	5.7¢	3.05%
Occupancy.....	1.6	1.0	2.15	1.25	2.45	1.25	2.4	1.25
Publicity.....	1.0	0.6	1.2	0.7	1.2	0.6	1.15	0.6
Buying and Merchandising.....	6.0	3.7	6.9	4.05	7.5	3.8	6.8	3.6
Direct and General Selling.....	12.9	7.9	14.0	8.2	16.85	8.5	16.3	8.7
Delivery.....	1.05	0.65	1.15	0.65	2.1	1.05	2.15	1.15
Total Pay Roll.....	28.5¢	17.5%	31.4¢	18.35%	36.45¢	18.4%	34.5¢	18.35%
Real Estate Costs (See Appendix, page 41).....	8.15	5.0	8.7	5.1	11.7	5.9	12.2	6.5
Advertising.....	6.55	4.05	7.6	4.45	7.4	3.75	6.1	3.5
Taxes (See Appendix, page 41).....	0.8	0.5	0.6	0.35	0.95†	0.5†	1.05†	0.6†
Interest (except on real estate).....	3.6	2.2	3.25	1.9	3.95	2.0	2.9	1.55
Supplies.....	2.8	1.7	3.25	1.9	3.7	1.85	3.75	2.0
Service Purchased.....	1.95	1.2	2.05	1.2	1.3	0.65	1.85	1.0
Unclassified: Losses from Bad Debts.....	0.8	0.5	0.6	0.35	0.45	0.25	0.2	0.1
Other.....	1.15	0.7	1.3	0.75	1.6	0.8	1.6	0.85
Travelling.....	0.75	0.45	0.75	0.45	0.65	0.35	0.35	0.2
Communication.....	0.9	0.55	1.0	0.6	1.05	0.55	0.95	0.5
Repairs.....	0.5	0.3	0.75	0.45	0.8	0.4	0.75	0.4
Insurance (except on real estate).....	0.5	0.3	0.5	0.3	0.5	0.25	0.55	0.3
Depreciation (except on real estate).....	1.55	0.95	1.4	0.8	2.1	1.05	1.7	0.9
Professional Services (See Appendix, page 41).....	1.0	0.6	0.95	0.55	1.0	0.5	0.85	0.45
TOTAL EXPENSE.....	59.5¢	36.5%	64.1¢	37.5%	73.6¢	37.2%	69.3¢	37.2%
Functional Division of Expense								
Administrative and General.....	13.0¢	8.0%	12.6¢	7.35%	14.05¢	7.1%	12.0¢	6.45%
Occupancy.....	14.6	8.95	15.5	9.05	19.0	9.6	18.6	10.0
Publicity.....	8.25	5.05	9.8	5.75	9.8	4.95	8.65	4.65
Buying and Merchandising.....	7.4	4.55	8.0	4.7	8.9	4.5	7.7	4.15
Direct and General Selling.....	14.2	8.7	15.4	9.0	18.6	9.4	18.3	9.8
Delivery.....	2.05	1.25	2.8	1.65	3.25	1.65	4.05	2.15
TOTAL EXPENSE.....	59.5¢	36.5%	64.1¢	37.5%	73.6¢	37.2%	69.3¢	37.2%
TOTAL COST.....	164.7	101.0	174.1	101.8	198.8	100.4	187.6	100.6
NET PROFIT OR LOSS.....	L. 1.7¢	L. 1.0%	L. 3.1¢	L. 1.8%	L. 0.8¢	L. 0.4%	L. 1.1¢	L. 0.6%
Net Other Income (including interest on capital owned).....	5.4	3.3	6.4	3.7	6.5	3.3	6.7	3.6
NET GAIN.....	3.7¢	2.3%	3.3¢	1.9%	5.7¢	2.9%	5.6¢	3.0%
Number of Gross Sales Transactions/Total Number of Employees.....	3,500	—	3,450	—	2,950	—	3,490	—
Net Sales/Total Number of Employees.....	—	\$5,700	—	\$5,900	—	\$5,850	—	\$6,500

†Sales taxes were negligible for stores with net sales of less than \$10,000,000. For stores with sales of \$10,000,000 to \$20,000,000, and \$20,000,000 or more, respectively, sales taxes amounting to 0.1% of net sales and 0.2 cents per transaction, and 0.3% of net sales and 0.5 cents per transaction were included in taxes.

50-cent limit, for instance, where the average sale is around 20 cents, apparently have an average cost per

average rate of stock-turn, may have used the more rapid and more expensive carriers to a larger extent than

were not available for 1933, as well as more serviceable statistics on functional expenses.

The change in the number of sales volume groups makes comparison with the 1933 figures difficult, although of course there are compensating advantages. It appears, however, that specialty store performance in 1934 resembled department store performance: on the average the increase in sales was about the same, 10% or more, and the larger specialty stores, like the larger department stores, had smaller rates of increase than the small stores; margins in percentage appear to have been smaller than in 1933, though for stores with sales over \$2,000,000 margin was slightly higher; and expense percentages were lower than in 1933 or unchanged. There was only a slight improvement in earnings. For specialty stores, as for department stores, however, the

small stores had a larger improvement in earnings than the large stores.

The increase in the number of groups of specialty stores in this report made it possible to compare results for department and specialty stores located in cities of about the same size. Of course the specialty stores tended to be substantially smaller, respectively, than the department stores, but their percentages of total expense were almost the same as those of the department stores, as were their percentage increases in sales. Real estate costs in percentage and per square foot tended to be higher for the specialty stores, reflecting not only location differences but also the greater importance of lower floors in the specialty stores; sales per square foot were higher; and, of course, retail reductions were much higher.

Table 26. Expenses by Natural Divisions for Specialty Stores, by Sales Volume Groups: 1934
(Net Sales=100%, except where noted)

Items	Stores with Net Sales of less than \$500,000		Stores with Net Sales of \$500,000 to \$1,000,000		Stores with Net Sales of \$1,000,000 to \$2,000,000		Stores with Net Sales of \$2,000,000 or more	
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports.....	27	7	16	5	16	5	12	6
Aggregate Sales (in thousands).....	\$3,192	\$791	\$10,391	\$6,016	\$19,215	\$3,872	\$18,322	\$8,879
Typical Net Sales (in thousands).....	\$107	\$106	\$410	\$435	\$690	\$750	\$1,510	\$1,475
Index of Change in Sales (1934/1933).....	116.5	127.0†	116.0	114.3	113.8	113.0	109.7	115.0
Population of City (in thousands).....	60	150	135	300	480	210	780	1,000
Total Pay Roll.....	16.2%	15.55%	16.9%	16.0%	17.2%	16.7%	18.1%	17.6%
Real Estate Costs (See Appendix, page 41).....	5.3	5.0	5.3	5.0	5.45	5.45	5.3	5.2
Newspaper Advertising.....	*	*	*	*	3.65	2.35	4.45	4.1
Direct Advertising.....	*	*	*	*	0.45†	0.45	0.3	0.3
Other Advertising.....	*	*	*	*	0.5†	0.5†	0.2	0.15
Total Advertising (subtotal).....	3.0	2.5	3.55	3.6	(4.6)	(3.3)	(4.95)	(4.55)
Taxes (See Appendix, page 41).....	0.4	0.65†	0.45	0.5	0.45†	1.05†	0.35	0.4
Interest (except on real estate).....	2.0	1.65	2.5	2.65	2.0	2.2	1.85	1.6
Supplies.....	1.15	0.85†	1.1	1.1	1.25	1.4	1.8	1.65
Service Purchased.....	1.3	1.25	1.25	1.15	1.25	1.0	1.4	1.1
Unclassified: Losses from Bad Debts.....	0.5	0.1†	0.6	0.7	0.55	0.45	0.55	0.5
Other.....	0.75	0.1†	0.65	0.7	1.45	1.4	0.75	0.65
Travelling.....	0.75	0.85	0.5	0.3	0.6	0.55	0.7	0.65
Communication.....	0.6	0.55	0.6	0.6	0.6	0.6	0.75	0.7
Repairs.....	0.25†	0.25†	0.25	0.2	0.35	0.35	0.4	0.35
Insurance (except on real estate).....	0.5	0.4	0.45	0.4	0.5	0.5	0.45	0.3
Depreciation (except on real estate).....	0.9	0.9	1.0	0.8	1.0	0.8	0.85	0.8
Professional Services (See Appendix, page 41).....	0.5†	0.5†	0.6	0.3	0.45	0.25	0.8	0.75
TOTAL EXPENSE.....	34.1%	31.1%	35.7%	34.0%	37.7%	36.0%	39.0%	37.0%
Sales per Square Foot of Total Space.....	\$15.00†	\$25.00†	\$23.60†	\$20.00†	*	*	\$24.50	\$28.00
Real Estate Costs per Square Foot of Total Space.....	0.80†	1.25†	1.25†	1.00†	*	*	1.30	1.45
Sales/Total Employees.....	\$8,450†	\$7,750†	\$6,950†	*	\$5,900	\$6,100	\$5,750	\$5,900
Losses from Bad Debts (% of charge sales).....	*	*	*	*	0.9%†	*	0.85%	0.9%

*Data not available.

†Figures for this item were given on less than 75% of the reports used.

‡Sales taxes were negligible, on the average, for stores with sales of less than \$300,000, but for the goal firms of this size a typical figure of 0.3% of net sales has been included in taxes. Sales taxes were negligible for stores with sales of \$300,000 to \$500,000, and for stores with sales of \$1,000,000 to \$2,000,000. For stores with sales of 500,000 to \$1,000,000, however, sales taxes amounting to 0.1% and 0.7% have been included in taxes in the common figures and goal figures, respectively. Similarly, sales taxes of 0.2% and 0.1% have been included in the common and goal figures for taxes for stores with sales of \$2,000,000 or more.

Table 27. Pay Roll and Total Expense by Functions for Specialty Stores
with Net Sales of \$1,000,000 or More, by Sales Volume Groups: 1934

(Net Sales = 100%)

Items	Stores with Net Sales of \$1,000,000 to \$2,000,000		Stores with Net Sales of \$2,000,000 or more	
	Common Figures	Goal Figures	Common Figures	Goal Figures
Number of Reports.....	12	6	14	5
PAY ROLL				
Administrative and General				
Executive.....	1.7%	1.6%	1.4%	1.55%
Accounting Office.....	0.9	0.9	0.95	0.85
Accounts Receivable and Credit.....	0.9	0.85	0.75	0.85
Executive Office.....	0.1	0.1	0.1	0.05†
Superintendency and General Store.....	0.5	0.5	0.8	0.75
Total Administrative and General.....	4.1%	3.95%	4.0%	4.05%
Occupancy				
Operating and Housekeeping.....	1.1	1.05	0.95	0.75
Heat, Light, and Power.....	0.05	0.05	0.05†	0.05†
Total Occupancy.....	1.15%	1.1%	1.0%	0.8%
Publicity				
Sales Promotion and General Advertising.....	0.5	0.45	0.45	0.4
Display.....	0.3	0.3	0.25	0.2
Total Publicity.....	0.8%	0.75%	0.7%	0.6%
Buying and Merchandising				
Merchandise Managers and Assistants.....	1.15†	1.3	0.75†	} 2.9
Buyers and Assistants.....	2.1†	1.8	2.1†	
Receiving and Marking.....	0.4	0.4	0.4	0.35
Other.....	0.25†	0.25†	0.25	0.25
Total Buying and Merchandising.....	3.9%	3.75%	3.5%	3.5%
Direct and General Selling				
Salespeople.....	6.1	6.15	5.8	5.85
Floor Superintendents and Section Managers.....	0.4	0.35†	0.4	0.45
Other.....	1.35	1.2	1.4	1.25
Total Direct and General Selling.....	7.85%	7.7%	7.6%	7.55%
Delivery.....	0.3	0.35	0.4	0.5
Total Pay Roll.....	18.1%	17.6%	17.2%	17.0%
TOTAL EXPENSE				
Administrative and General				
Accounting Office, Accounts Receivable, and Credit.....	3.15%	2.95%	2.6%	2.65%
Executive and Other Administrative and General.....	5.2	5.1	5.15†	5.3†
Total Administrative and General.....	8.35%	8.05%	7.75%	7.95%
Occupancy				
Operating and Housekeeping.....	1.7	1.55	1.5	1.2
Real Estate Costs (See Appendix, page 41).....	5.3	5.2	5.6	4.2
Fixtures and Equipment Costs.....	1.25	1.1	1.4	1.6
Heat, Light, and Power.....	0.85	0.75	0.6	0.5
Total Occupancy.....	9.1%	8.6%	9.1%	7.5%
Publicity				
Sales Promotion and General Advertising.....	6.0	5.45	5.4	5.05
Display.....	0.5	0.45	0.5	0.55
Total Publicity.....	6.5%	5.9%	5.9%	5.6%
Buying and Merchandising.....	5.0	4.8	4.6	4.55
Direct and General Selling.....	9.0	8.6	8.6	8.55
Delivery.....	1.05	1.05	1.05	1.05
Total Expense.....	30.0%	37.0%	37.0%	35.2%

†Figures for this item were given on less than 75% of the reports used.

‡Sales taxes were negligible for stores with sales of \$1,000,000 to \$2,000,000. For stores with sales of \$2,000,000 or more, however, sales taxes amounting to 0.2% and 0.1% have been included in the executive and other administrative and general function in the common and goal figures, respectively.

**Table 28. Expenses and Profit Per Transaction, and in Percentage of Sales
for Specialty Stores with Net Sales of \$1,000,000 or More, by Sales Volume Groups: 1934**

Items	Stores with Net Sales of \$1,000,000 to \$2,000,000		Stores with Net Sales of \$2,000,000 or more	
	Cents per Gross Sales Transaction	Net Sales = 100%	Cents per Gross Sales Transaction	Net Sales = 100%
Number of Reports.....	7	7	10	10
Aggregate Sales (in thousands).....	—	\$11,082	—	\$56,909
Typical Net Sales (in thousands).....	—	\$1,500	—	\$2,950
Index of Change in Sales (1934/1933).....	—	100.0	—	100.0
Index of Change in Number of Transactions (1934/1933).....	110.0	—	104.0	—
Average Gross Sale.....	453.0¢	—	515.0¢	—
Returns and Allowances.....	63.0¢	16.2%	75.0¢	17.1%
Net Sales Income.....	390.0	100.0	440.0	100.0
Total Merchandise Costs (Net).....	249.2¢	63.9%	274.0¢	62.3%
Pay Roll Expense				
Administrative and General.....	16.2¢	4.15%	18.25¢	4.15%
Occupancy.....	4.5	1.15	4.4	1.0
Publicity.....	3.3	0.85	3.1	0.7
Buying and Merchandising.....	16.8	4.3	16.5	3.75
Direct and General Selling.....	29.65	7.6	34.35	7.8
Delivery.....	0.95	0.25	1.8	0.4
Total Pay Roll.....	71.4¢	18.3%	78.4¢	17.8%
Real Estate Costs (See Appendix, page 41).....	21.05	5.4	24.65	5.6
Advertising.....			19.15	4.35
Taxes (See Appendix, page 41).....			1.54	0.35‡
Interest (except on real estate).....			7.5	1.7
Supplies.....			7.7	1.75
Service Purchased.....			4.85	1.1
Unclassified: Losses from Bad Debts.....			1.55	0.35
Other.....	61.55	15.8	3.95	0.9
Travelling.....			3.1	0.7
Communication.....			2.65	0.6
Repairs.....			1.55	0.35
Insurance (except on real estate).....			1.3	0.3
Depreciation (except on real estate).....			4.6	1.05
Professional Services (See Appendix, page 41).....			2.65	0.6
TOTAL EXPENSE.....	154.0¢	39.5%	165.1¢	37.5%
Functional Division of Expense				
Administrative and General.....	33.2¢	8.5%	35.6¢	8.1%
Occupancy.....	35.9	9.2	39.2	8.9
Publicity.....	24.7	6.35	25.75	5.85
Buying and Merchandising.....	22.6	5.8	20.7	4.7
Direct and General Selling.....	33.5	8.6	38.55	8.75
Delivery.....	4.1	1.05	5.3	1.2
TOTAL EXPENSE.....	154.0¢	39.5%	165.1¢	37.5%
Total Cost.....	403.2	103.4	439.1	99.8
NET PROFIT OR LOSS.....	L. 13.2¢	L. 3.4%	0.9¢	0.2%
Net Other Income (including interest on capital owned).....	9.7	2.5	11.4	2.6
NET GAIN.....	L. 3.5¢	L. 0.9%	12.3¢	2.8%
Number of Gross Sales Transactions/Total Number of Employees.....	1,490	—	1,520	—
Net Sales/Total Number of Employees.....	—	\$5,800	—	\$6,700

‡Sales taxes were negligible for stores with net sales of \$1,000,000 to \$2,000,000. For stores with sales of \$2,000,000 or more, sales taxes amounting to 0.1% of net sales and 0.4 cents per transaction were included in taxes.

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 cooperating 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 rate 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.

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Where the figure was 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:

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

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.