

OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY STORES
IN 1936

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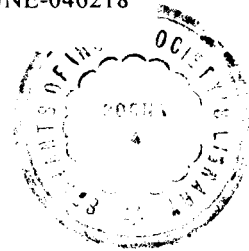


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FOREWORD

In this bulletin the Bureau presents its seventeenth annual report on the margins, expenses, and profits of department and specialty stores based on profit and loss statements and balance sheets from the regular books of account of 487 firms.

This report on 1936 results, like earlier bulletins, includes tables presenting figures on merchandising operations, earnings, expenses by natural divisions, expenses by functional divisions, and expenses expressed in cents per transaction. In addition, this bulletin continues the more detailed data for specialty stores introduced in Bulletin Number 100.

The Bureau is glad to express its appreciation of the assistance given by the 558 firms which reported their figures for 1936. Without the interest and loyal coöperation of these firms in all parts of the United States, and in Hawaii and Canada, the continuation of this work would be impossible. The Bureau is sincerely grateful, also, for the generosity of the National Retail Dry Goods Association which, by its financial support, has made possible the Bureau's series of studies in the department and specialty store field. In addition to bearing substantially all the expense of this work since the studies began in 1921, the Association has assisted in various other ways; and the Controllers' Congress, one of the affiliated groups within the Association, has been particularly helpful.

The Bureau's department and specialty store surveys are part of a wider program of research in the cost of doing business among retail and other trades; this program is conducted by the Harvard Business School as one of its efforts toward assembling reliable and timely information for use in teaching.

The statistical and accounting phases of the work resulting in the present bulletin were supervised by Miss Elizabeth A. Burnham.

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Boston, Massachusetts
May, 1937

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1. Operating results for department stores and specialty stores arranged according to the form of income statement approved by the Board of Directors of the National Retail Dry Goods Association. See Tables 2 and 3.
2. Merchandising statistics and profits. See Tables 6, 9, 14, 20, and 21.
3. Expenses by natural divisions. See Tables 7, 10, 15, 22, and 23.
4. Pay roll and total expense by functional divisions. See Tables 8, 11, 16, and 24.
5. Goal figures representing the average performance for the firms with best merchandising profit showings. See tables for which numbers are italicized above.
6. Complete natural breakdown of functional expenses. See Tables 12, 17, 18, 25, and 26.
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OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1936

SUMMARY AND CONCLUSIONS RESULTS OF 1936: PROBLEMS OF 1937

Note: In arranging the text of this bulletin, an attempt was made to conserve space by omitting topics well covered in earlier bulletins and by confining discussion of observations pertaining to department stores of all sizes largely to the Summary.

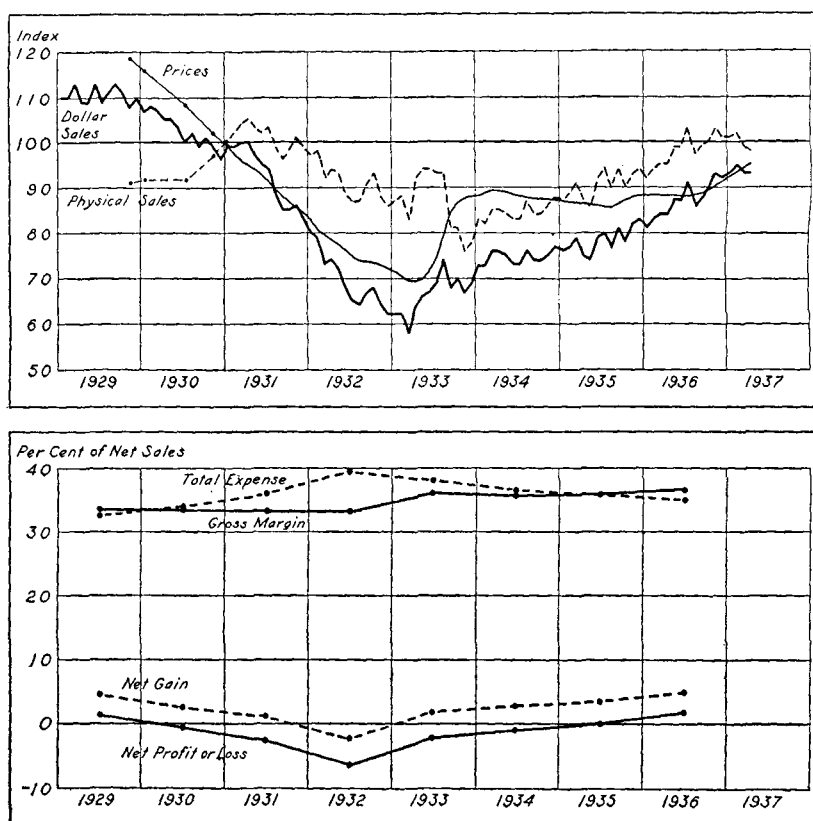
Greater Sales

The outstanding feature of department store operations in 1936 was the pronounced increase in sales. The average rate of increase for the 10 groups of department stores covered in this study ranged from 7.6% for stores with sales of \$150,000 to \$300,000 to 13.0% for stores with sales of \$20,000,000 or more; and the Federal Reserve Board reports that the aggregate net sales for 515 stores in 1936 were 12% higher than the aggregate sales in 1935.

Among the specialty stores even larger gains in business were typical. These increases in sales volume are important, not only because of their effects upon margin, expense, and profit in 1936, but also because, in conjunction with the increases for the preceding years, they afford an excellent measure of the recovery achieved since the bottom of the depression.

This recovery is pictured clearly in Chart 1.

Chart 1. Summary of Department Store Statistics for Recent Years



After reaching a peak in the third quarter of 1929, the dollar sales of department stores declined steadily, and at an increasing rate, until the summer of 1932, when general business conditions in many countries reached their low point. From then until March, 1933, the drop continued, but less sharply. Following March, 1933, dollar sales assumed an upward trend

Sources of Data in Chart 1:

Dollar Sales (adjusted for seasonal variation; 1923-1925=100): *Twenty-Second Annual Report* of the Federal Reserve Board (Washington, 1936); *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System (Washington, 1937), Vol. 23; and current news releases.

Prices (beginning and end of month averaged; January 2, 1931=100): Composite retail price index, *Fairchild Financial Manual* (Fairchild Publications, New York, May, 1934); *idem*

(May, 1935); and current releases in *Women's Wear Daily*. Physical Sales: Dollar sales index divided by price index.

Net Profit or Loss and Net Gain (general averages; net sales=100%): See Table 1, p. 3.

Gross Margin and Total Expense (general averages; net sales=100%): Harvard Business School, Bureau of Business Research, Bulletin No. 92, *Operating Results of Department and Specialty Stores in 1933*, by Carl N. Schmalz, Table 1, p. 1; and recently computed figures.

which thus far has had no important interruption. The rate of gain varied somewhat from year to year. In 1936 it was more than twice as great as in the preceding year, and roughly equivalent to that of the last nine months of 1933.

Since prices fluctuated widely during these years, the movements of dollar sales do not depict accurately the changes in the physical volume of goods sold. Accordingly, the line for dollar sales in Chart 1 is accompanied by two other lines; one representing the movement of department store prices (Fairchild Index), and the other the estimated fluctuations in physical sales computed by correcting the dollar sales index for price changes.¹

This last line shows that physical sales reached their peak during the first six months of 1931, at which time they were at least 9% above the levels of 1929.² Before the middle of 1931, however, the depression decline began. This decline was interrupted in a most impressive fashion by the tremendous spurt in buying which occurred after March, 1933, and lasted for five months. Following this spurt, however, the physical volume of department store sales declined to the lowest point for the depression, which was reached in the last quarter of 1933. Since that time, the rise in physical sales has been steady and continuous, the rate of increase being not greatly different from the rate of decrease in 1931 and 1932.

The chart indicates that by the end of 1936 dollar sales had recovered to a point roughly 16% below the average level of 1929. Taken by itself, this fact, of course, suggests that business has some distance to go before it reaches normal, let alone boom levels, for certainly since 1929 there have been important increases in population and in

¹ This statement is an expression of the familiar reasoning that dollar sales (S) are the result, or product, of quantity of goods sold (Q_n) times price (P); and that, therefore, dollar sales divided by price equals the quantity of goods sold, or physical sales. In the form of equations, the reasoning is that, since $S = Q_n P$, $\frac{S}{P} = Q_n$. This is quite true of data relating to a single commodity of constant quality; but it is not strictly true with reference to sales at retail for different years, because there changes in the average quality (Q_l) of the goods sold undoubtedly occur. S , therefore, equals not $Q_n P$, but $Q_l Q_n P$; and S/P equals not Q_n , but $Q_l Q_n$, the product of quality and quantity. The index of Chart 1, computed by correcting the dollar sales index for price changes, represents changes in the quantity and the quality of goods sold. To simplify the present text, the phrase, physical sales, is employed to describe this index of $Q_l Q_n$.

² See footnote 1, page 3. Other estimates do not confirm the indication that 1931 was the peak year for physical sales or that the peak was as much as 9% above 1929 sales, but they do suggest that the peak of physical sales came later than 1929. There is not space here to discuss the merits of the several estimates.

the amount of business to be done. Such an inference, however, is contradicted by the more reliable conclusions (in view of price changes) to be drawn from comparing the level of physical sales in 1936 with that for 1929. Although probably sales in no single month of 1936 were as large as those in the peak month of 1931, the general level of sales in physical volume for the last six months of 1936 was only about 2% below the level for the first six months of 1931, when judging by the Fairchild price index, physical sales were at the highest point ever reached. Furthermore, the physical volume of sales during the last six months of 1936 was about 7%, and probably more, above the average level of 1929.³ Even with due allowance for unavoidable statistical inaccuracies, it appears probable that the department store business is now operating at a level above that of 1929 and approximately at the all-time peak.

Manifestly, these facts gave color to department store operating results for 1936 in almost all their aspects. In addition, they suggest that, in so far as the department store business is concerned, the great depression is definitely a matter of history. Store policy now should reflect the fact that business is in a period of prosperity; and it is distinctly pertinent to inquire when and at what level department store sales will reach their peak for this movement.

Earnings

Under the stimulus of the sharp increase in sales, percentage earnings recorded further and conspicuous improvement in 1936. On the average, for the 10 groups of department stores covered in this survey, net profits were higher in 1936 than in 1935 by 1.3% of sales; and for the seven groups of specialty stores net profits were higher by almost 1.0% of sales. Because dollar sales themselves were more than 10% higher, the increase in dollar profits as a rule was most gratifying. In 1936 not one of the 10 groups of department stores incurred a net loss, although the stores in two groups on the average broke even. In 1935, how-

³ The average level of physical sales for 1929 was not much higher than that for November, 1929, the month represented by the first data included in the Fairchild index and hence the earliest month covered by the index of Chart 1. According to the Federal Reserve index, dollar sales during the first 10 months of the year were less than 3% above dollar sales in November, while prices during the first 10 months of the year also were higher than in November. The movements of the wholesale prices of textile products and home furnishings (Bureau of Labor Statistics index) suggest that this latter difference was about 1%.

Table 1. Operating Results for Department and Specialty Stores: 1929-1936
(General Averages)

Groups and Items	1929	1930	1931	1932	1933	1934	1935	1936
Department Stores:								
Number of Reports.....	527	564	451	428	450	458	459	394
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Cost of Sales ¹	98.8	100.6	102.8	106.4	102.1	100.9	100.0	98.4
Net Profit or Loss.....	1.2%	L. 0.6%	L. 2.8%	L. 6.4%	L. 2.1%	L. 0.9%	0.0%	1.6%
Net Other Income ²	3.1	3.2	3.8	4.0	3.9	3.5	3.4	3.3
Net Gain ³	4.3%	2.6%	1.0%	L. 2.4%	1.8%	2.6%	3.4%	4.9%
Specialty Stores with Net Sales of \$2,000,000 or More in 1930 (See Note):								
Number of Reports.....	12	14	14	14	14	14	14	14
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Cost of Sales ¹	97.8	99.4	101.7	105.1	101.35	101.15	99.8	98.8
Net Profit or Loss.....	2.2%	0.6%	L. 1.7%	L. 5.1%	L. 1.35%	L. 1.15%	0.2%	1.2%
Net Other Income ²	2.8	2.2	2.2	2.3	2.5	2.7	2.6	2.4
Net Gain ³	5.0%	2.8%	0.5%	L. 2.8%	1.15%	1.55%	2.8%	3.6%
Department Stores with Net Sales of \$2,000,000 or More:								
Number of Reports.....	133	151	121	113	120	130	136	134
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Cost of Sales ¹	98.5	100.2	102.4	106.2	101.9	100.9	99.9	98.3
Net Profit or Loss.....	1.5%	L. 0.2%	L. 2.4%	L. 6.2%	L. 1.9%	L. 0.9%	0.1%	1.7%
Net Other Income ²	3.2	3.2	3.8	4.0	3.9	3.5	3.5	3.4
Net Gain ³	4.7%	3.0%	1.4%	L. 2.2%	2.0%	2.6%	3.6%	5.1%
Department Stores with Net Sales of \$500,000 to \$2,000,000:								
Number of Reports.....	168	168	143	122	137	132	138	120
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Cost of Sales ¹	99.8	101.9	104.3	107.4	102.8	100.6	100.2	98.8
Net Profit or Loss.....	0.2%	L. 1.9%	L. 4.3%	L. 7.4%	L. 2.8%	L. 0.6%	L. 0.2%	1.2%
Net Other Income ²	2.9	2.9	3.4	4.2	3.8	3.3	3.1	3.1
Net Gain ³	3.1%	1.0%	L. 0.9%	L. 3.2%	1.0%	2.7%	2.9%	4.3%
Department Stores with Net Sales of Less than \$500,000:								
Number of Reports.....	226	245	187	193	193	196	185	140
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Net Cost of Sales ¹	100.6	102.8	106.1	107.9	102.0	100.4	100.5	99.6
Net Profit or Loss.....	L. 0.6%	L. 2.8%	L. 6.1%	L. 7.9%	L. 2.0%	L. 0.4%	L. 0.5%	0.4%
Net Other Income ²	2.8	2.8	3.3	3.5	3.3	2.7	2.9	2.5
Net Gain ³	2.2%	0.0%	L. 2.8%	L. 4.4%	1.3%	2.3%	2.4%	2.9%

¹ Total merchandise costs plus operating costs.

² Including interest on capital owned.

³ Before Federal income taxes.

NOTE. The figures for specialty stores are not general averages prepared as described in the Appendix, page 36, but are common figures for 14 (12 for 1929) identical larger specialty stores. For several reasons general average figures for specialty stores are believed to be less reliable than those for department stores.

ever, profits were reported by only three of the 10 groups, while seven reported net losses. Among specialty stores in 1936 only one group showed an average net loss as compared with three groups in 1935.

Net other income in 1936 tended to be slightly lower than in 1935, perhaps owing to the fact that interest expense, and hence the credit for interest on capital owned, was smaller. Thus, the improvement in net gain was somewhat less pronounced than the improvement in net profit. Average rates of net gain before Federal income taxes for the 10 groups of department stores, however, ranged from 2.5% to 5.5% of sales; and the corresponding figures for net gain as a percentage of net worth ranged from 5.2% for the stores with sales of less than \$150,000 to 12.2% for the stores with sales of \$10,000,000 to \$20,000,000. Net gain after Federal income taxes was slightly smaller. Figures are not available for department stores with sales of less than \$300,000; but for the eight groups of larger stores typical figures for net gain after Federal income taxes ranged from 7.0% to 10.5% of net worth.

Earnings for specialty stores displayed a slight tendency to be higher in percentage than the earnings of department stores of similar size. This was especially true of net gain in relation to net worth.

Of the 394 department store firms for which data were used in this study, 60% earned some net profit and 94% earned some net gain. For the 93 specialty stores, the corresponding figures were 62% and 88%. The percentages for both department and specialty stores are larger than the similar percentages for 1935.

Gross Margin

The better percentage earnings of department stores in 1936 resulted from both higher margin rates and lower expense rates. Eight of the 10 groups of department stores had higher common figures for gross margin in 1936 than in 1935; and the average gain in percentage margin (common figures) for all 10 groups was 0.4% of sales. For specialty stores, however, the higher earnings resulted more from lower expense percentages than from higher margins.

The higher margins of the department stores reflected lower mark-downs rather than higher mark-up. Average mark-up rates for seven of the nine groups of stores having comparable data were the same as in 1935 or lower; but the mark-down percentages were lower in 1936 for all eight groups

with comparable figures. The average improvement in the common figures for mark-downs was 0.7% of sales. Presumably, the gains arose chiefly from the increasing sales which characterized the year 1936 and from the rising prices of the last half of that year. Both influences, of course, tended on the one hand to reduce the amount of depreciation and obsolescence, and on the other to reduce the percentage importance of such losses as did occur.

In addition, stock shortages were slightly lower in 1936 than in 1935, and workroom and alteration costs showed a disposition to be lower. The other factors affecting gross margin (employees' discounts, inward transportation charges, and cash discounts) did not display significant changes on the average.

The success which department stores, and specialty stores as well, have achieved in maintaining gross margin rates at the record level attained in 1933 is truly remarkable, especially in view of the growing consumer unrest which has been evident for a number of years. The price rise and speculative buying of 1933 not only operated to reduce mark-downs but also afforded stores an opportunity to raise mark-up rates. At the time, the high mark-up percentages were regarded as temporary; but apparently neither competition among department stores, nor between department stores and other retailers, has yet been severe enough to force a reduction in mark-ups greater than that made possible by the lower mark-downs.

Expense

In 1936 the average rate of total expense among department stores was sharply lower than in 1935, as should have been expected in the light of the increasing physical volume of sales coupled with the upward trend of prices; and these lower expense percentages, in turn, were the chief reason for the higher profit rates. Although increasing sales probably made necessary some additions to personnel and to plant, no doubt these additions tended to lag behind sales, so that more complete utilization of employees and facilities resulted. Furthermore, forward buying and long-term commitments presumably caused the average price of goods and services used to rise less rapidly than the average price of goods sold, and hence operated to reduce percentage expenses.

Comparison of the total expense figures for the several groups of stores published in this bulletin with those presented similarly a year ago indicates

that costs for the average group were lower by 0.9% of sales in 1936 than in 1935. This was equivalent to roughly 2.5% of the general average expense rate for 1935, 35.8%.

The absolute decline in percentage expense for the individual natural and functional classifications in department stores, of course, was smaller; and, in several instances (unclassified, repairs, and delivery), there was a tendency for expense percentages to be the same as in 1935 or higher. Percentage expenditures for taxes other than Federal income taxes as a rule were higher in 1936. The largest declines in the percentages were found in those for pay roll, which is the largest single item of expense and accounts for about half of total expense. Since union activity in the retail field did not become pronounced until after the close of 1936, the pay roll percentages presumably reflect to the maximum degree both the increased sales and the careful control measures left over from the depression. Quite possibly stores will find it difficult to avoid higher percentage pay roll costs in 1937. Also, the lower pay roll percentages and higher unclassified percentages reflect in some measure the change in the classification of expense for suppers and pensions. See page 37.

Among the larger items of expense, the largest proportionate declines occurred in the real estate cost rates as a result of the semi-fixed nature of much real estate expense.

Among the functional divisions of expense, there were important decreases in the percentages for direct and general selling, where pay roll is so large a factor, and for occupancy. There was a clear tendency for publicity, and buying and merchandising, expense in percentage to be lower. Administrative and general expense, however, was higher for four of the eight groups for which data were available.

Among specialty stores percentage expenditures for administrative and general, buying and merchandising, taxes, repairs, and unclassified as a rule were higher than in 1935; while percentage expenditures for occupancy, publicity, selling, delivery, real estate costs, service purchased, and depreciation tended to be lower. Pay roll expense was higher for the small specialty stores and lower for the medium-size and large stores.

Inventories

In spite of the fact that rates of stock-turn among department stores tended definitely to be higher in 1936 than in 1935, inventories at the

close of the year were higher in relation to 1936 sales than they were at the beginning of the year. This fact is shown clearly in Table 2. Among specialty stores, also, inventories at the close of 1936 were heavier in percentage of 1936 sales than at the beginning of 1936; and their rates of stock-turn, as a rule, were lower in 1936 than in 1935. For nine of the twelve volume groups, the increase in end-of-year inventories over beginning-of-year inventories for 1936 was more than the increase in prices, which was somewhat less than 6% according to the Fairchild Index. Evidently department and specialty store executives purchased more freely during the latter months of 1936 than during the corresponding months of 1935, possibly because of the expectation that prices would be higher and sales larger. In other words, department store executives, as a rule, were speculating in merchandise for the rise slightly more heavily at the end of 1936 than they were a year earlier. It, of course, remains to be seen whether these dollar inventories at the close of 1936 will prove to be higher in percentage of 1937 sales than the inventories of January, 1936, were in percentage of 1936 sales.

Miscellaneous Indexes

Although the percentages of returns showed sizeable changes in the cases of several groups of department stores, there was no tendency for these changes to be in the same direction.

Sales per square foot for department stores were higher in 1936 than in 1935; and, for most groups, by more than the increase in prices. In other words, 1936 witnessed more intensive utilization of department store physical plant than did 1935.

As a rule, sales per employee similarly were higher in 1936 than in 1935; and the increase tended to exceed that in prices. Personnel, therefore, was more productive in 1936. The same cannot be said for specialty stores, although among them three of the four groups showed increases in productivity of personnel.

Certain data on expense and on receivables in relation to credit sales are new to these studies this year and hence afford no comparisons with 1935 results. The total of accounts receivable and credit pay roll, losses from bad debts, and interest on accounts receivable outstanding for the five groups of department stores with sales of \$1,000,000 or more ranged from 3.45% to 2.8% of credit sales. For specialty stores with sales of \$2,000,000 to \$4,000,000 the total was smaller, 2.4%. Ac-

counts receivable outstanding (average of balances at the beginning and end of the year) typically were from 22.0% to 27.0% of credit sales for department stores, and from 18.0% to 21.8% for specialty stores.

Relation of Size to Results

Examination of Table 4 shows that net profit usually was lower among small department stores, those with sales of less than \$500,000, than among larger stores. Percentage net profits were smallest (non-existent) for the stores with sales of less than \$300,000 and largest (2.4%) for the stores with sales of \$20,000,000 or more; and if the experience of the stores with sales of \$500,000 to \$1,000,000 are disregarded (profit percentages 1.8 and 1.6, respectively), profit rates tended to increase with size of store. There is reason for thinking that the two groups of medium-size stores just mentioned enjoyed an unusually good year in 1936.

Among the several groups of department stores, gross margin ranged from 30.0% for the smallest firms to 37.5% for the largest firms; and, with one negligible exception, varied directly with size. Total expense, also, was lowest for the smallest stores (30.0%) and rose with size up to the \$20,000,000 point. The very large stores, those with sales of \$20,000,000 or more, typically had lower expense percentages than the stores with sales of \$4,000,000 to \$20,000,000. Thus, in 1936 as in 1935, the department stores with largest sales had an advantage in expense. In 1936, they also had an advantage in margin, and it already has been observed that they had highest profits.

For specialty stores the relationship between margin, expense, and profit, on the one hand, and size, on the other hand, was much less direct. Figures were more nearly similar for stores of all sizes.

The Problems of 1937

Both portions of Chart 1 indicate emphatically that, for the department store business, the depression is over and prosperity has returned. In fact, the 1936 statistics, when compared with those for 1929, suggest that executive attention now should center not upon recovery but upon the peak of prosperity with which the present movement will terminate. Of course, there may be an interruption of substantial size in the upward progress, or a recession, before the absolute top for the current cycle is reached. An emergency no longer exists; the back-to-the-wall struggle to provide

employment for loyal staffs, to maintain a skeleton organization, and even to preserve solvency, has been won in so far as the trade as a whole is concerned. The heads of such individual stores as still find themselves in difficulty should not ascribe their troubles primarily to hard times and expect the next wave of prosperity to wash those troubles away. If the troubles have not been reduced materially by such recovery as has occurred thus far, they are not likely to be drowned in what is to come; they presumably trace their ancestry to something more deeply seated than the depression.

The emergency being over, there should be time, as there is urgent need, for giving attention to the less pressing, but in the long run more important, problems which many observers were attempting to resolve when the depression came on. The first task of the present breathing spell is to isolate these older problems and to attack them.

Why were department store expense rates rising and profit rates falling prior to 1929? Have those trends continued since 1929; and, if so, why? Is the department store holding its own with competing institutions, or is it gradually losing ground? Is a reduction in expense of major proportions a possibility for the department store? Will such reduction require a radical revision of services offered, and will customers resist, tolerate, or welcome such a revision? Whether important reduction in expense is possible or not, how can stores better control the expense of operating on the present basis so as to ensure the lowest possible costs and the highest profits from existing margins? Are department stores now mature; and, if they are, what does that mean? How can stores best meet the critical attitude which many consumers have adopted? How can employee relations be improved, and how can employee productivity be increased to make practicable higher wages and shorter hours?

As executives proceed with this job, however, they must remember that they have two more immediate problems: how to gain the most strength from the present prosperity and how to prepare for the new depression to follow.

How can stores draw greatest strength from what remains of this year, 1937, and possibly from 1938 and 1939? What are the problems peculiar to prosperity; the dangers to be guarded against; the signs to watch? How can store executives deal most wisely with these problems? What are the problems of depression; and how can stores, during prosperity, best fit themselves to meet these

problems satisfactorily? What, in other words, are the opportunities as well as the problems of prosperity?

Is it desirable to expand plant during the present prosperity period? If so, when? Or is it even now too late for that step? Should credits be expanded or curtailed? May one safely change the character of credit arrangements offered by extending the installment privilege to additional articles, or by adapting installment procedures to regular charge operations, as in the three-payment plan? Should

merchandise executives buy freely or cautiously, and when should they shift from the one policy to the other? How can a store head secure and maintain a knowledge of general business conditions sufficiently reliable to enable him to adapt store policy to those conditions?

In 1937, store executives should make progress in solving their long-run problems, but also they should seize the opportunities of the present and get ready for the difficulties which lie ahead.

Table 2. Operating Results for Department Stores in 1936 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association

Items	Sales Volume Groups							
	\$300,000- 500,000	\$500,000- 750,000	\$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
Number of Reports Giving Functional Data...	15	21	21	51	48†	51	17	11
Number of Reports Giving Other Data.....	50‡	28	24	68	52‡	54	17	11
Index of Change in Sales (1936/1935)	109.0	111.0	109.8	110.3	110.5	112.2	111.4	113.0
SALES.....	105.0%†	105.9%†	106.5%†	107.7%†	109.2%	111.8%	112.7%	114.5%
Less Returns (and allowances).....	5.0†	5.9†	6.5†	7.7†	9.2	11.8	12.7	14.5
NET SALES.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
MERCHANDISE COSTS								
Inventory — First of Period.....	18.8%	16.1%	14.5%	14.8%	13.6%	11.8%	11.9%	10.7%
Purchases (including inward freight, express, and truckage).....	70.95	68.7	68.6	68.5	67.5	68.1	67.4	67.05
	89.75%	84.8%	83.1%	83.3%	81.1%	79.9%	79.3%	77.75%
Less Cash Discounts.....	2.7	2.9	2.8	2.7	2.7	3.3	3.5	3.55
	87.05%	81.9%	80.3%	80.6%	78.4%	76.6%	75.8%	74.2%
Workrooms (and alteration costs).....	0.35†	0.3	0.4	0.6	0.5	0.7	0.5	0.7
Occupancy.....	7.0	6.8	7.0	7.2	8.0	7.75	8.05	8.6
Buying, Receiving, and Marking.....	3.4†	4.0	4.15	4.2	4.2	4.6	4.5	4.1
Publicity.....	4.1	4.05	4.4	4.75	4.9	5.25	5.1	4.55
	101.9%	97.05%	96.25%	97.35%	96.0%	94.9%	93.95%	92.15%
Less Inventory — End of Period.....	20.5	16.4	15.5	15.8	14.7	13.8	13.7	12.4
	81.4%	80.65%	80.75%	81.55%	81.3%	81.1%	80.25%	79.75%
Net Sales less Merchandise Costs.....	18.6%	19.35%	19.25%	18.45%	18.7%	18.9%	19.75%	20.25%
OPERATING COSTS								
Administrative.....	8.3%†	7.5%	7.9%	7.7%	7.6%	7.4%	7.3%	6.8%
Selling.....	9.1	9.25	8.8	8.7	8.55	8.7	9.0	9.15
Delivery.....	0.5	0.8	0.95	1.05	1.35	1.6	1.65	1.9
	17.9%	17.55%	17.65%	17.45%	17.5%	17.7%	17.95%	17.85%
OPERATING INCOME OR LOSS.....	0.9%	1.8%	1.6%	1.0%	1.2%	1.2%	1.8%	2.4%
OTHER INCOME.....	2.4	2.8	3.1	3.1	3.1	3.6	3.6	3.1
NET PROFIT OR LOSS (before Federal Tax on Income).....	3.1%	4.6%	4.7%	4.1%	4.3%	4.8%	5.4%	5.5%

†Usable figures for this item were given on less than 75% of the reports.
‡Some of the reports covered the operations of more than one store.

OPERATING RESULTS ARRANGED IN THE FORM APPROVED BY THE NATIONAL RETAIL DRY GOODS ASSOCIATION

On May 14, 1935, the Board of Directors of the National Retail Dry Goods Association adopted a new form of profit and loss statement calculated to convey a more accurate impression of retail store costs and profits than that presented by the older and more familiar form; and intended, also, to reduce confusion by bringing retail statements more nearly into conformity with the statements of manufacturing and other enterprises. Shortly before its adoption by the Board, this new form of statement was accepted as satisfactory by the Securities and Exchange Commission.

Tables 2 and 3 present the 1936 operating results of department stores and specialty stores, respectively, in the new arrangement. It will be observed that the NRDGA form includes under merchandise costs the expenditures and charges for certain functional divisions of what commonly has been called expense. For this reason, the NRDGA form can be used only for stores classifying their expenses by functions; and, for the same reason, the Bureau's common figures can be arranged in the NRDGA form for only those sales volume groups for which functional data are available. Tables 2 and 3, there-

Table 3. Operating Results for Specialty Stores in 1936 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association

Items	Sales Volume Groups			
	\$500,000- 1,000,000	\$1,000,000- 2,000,000	\$2,000,000- 4,000,000	\$4,000,000 or more
Number of Reports Giving Functional Data.....	9†	6	15	6
Number of Reports Giving Other Data.....	13†	8	17	6
Index of Change in Sales (1936/1935).....	110.5	120.5	110.5	112.0
SALES.....	109.5%†	*	117.0%	116.1%
Less Returns (and allowances).....	9.5†	*	17.0	16.1
NET SALES.....	100.0%	100.0%	100.0%	100.0%
MERCHANDISE COSTS				
Inventory — First of Period.....	10.9%	10.5%	9.1%	9.2%
Purchases (including inward freight, express, and truckage).....	67.15	66.85	68.1	66.4
	78.05%	77.35%	77.2%	75.6%
Less Cash Discounts.....	4.1	4.1	4.4	3.9
	73.95%	73.25%	72.8%	71.7%
Workrooms (and alteration costs).....	0.75	0.65	0.3	0.8
Occupancy.....	8.35	8.0	8.5	8.55
Buying, Receiving, and Marking.....	4.0	4.1	5.0	4.25
Publicity.....	5.95	5.5	6.15	4.9
	93.0%	91.5%	92.75%	90.2%
Less Inventory — End of Period.....	11.5	12.1	10.7	9.6
	81.5%	79.4%	82.05%	80.6%
Net Sales less Merchandise Costs.....	18.5%	20.6%	17.95%	19.4%
OPERATING COSTS				
Administrative.....	8.9%	8.8%	7.55%	7.45%
Selling.....	8.1	8.3	8.1	8.5
Delivery.....	0.9	1.0	1.1	1.35
	17.9%	18.1%	16.75%	17.3%
OPERATING INCOME OR LOSS.....	0.6%	2.5%	1.2%	2.1%
OTHER INCOME.....	2.8	2.0	2.4	3.1
NET PROFIT OR LOSS (before Federal Tax on Income).....	3.4%	4.5%	3.6%	5.2%

*Data not available. †Usable figures for this item were given on less than 75% of the reports.
‡Some of the reports covered the operations of more than one store.

fore, do not cover all sales volume groups represented in subsequent tables of this report. Data for department stores with net sales of less than \$300,000, and for specialty stores with net sales of less than \$500,000, necessarily have been omitted.

In order to provide comparable figures for all volume groups of department and specialty stores in an arrangement which has some of the characteristics of the NRDGA form, Tables 4 and 5 have been devised. These tables utilize the natural classification of expense employed almost universally among retailers; but they permit of no confusion between gross profit (or gross margin) and net profit, and they indicate that the costs incurred in operating the store are as much a charge on income as the costs of merchandise itself. Both must be met before any profit is earned.

All the underlying figures presented in Tables 4 and 5 are reprinted from other tables appearing later in this bulletin, and the same is true of the data in Tables 2 and 3 with the exception of those for inventories and purchases. These latter figures were prepared especially for Tables 2 and 3.

Tables 2 and 3 have no exact counterpart in the last four sections of this bulletin. As regards merchandising statistics, however, they may be compared with Tables 6, 9, 14, 20, and 21; and as regards expense statistics they may be compared with Table 8 and with the lower portions of Tables 11, 16, and 24. Tables 2 and 3, however, are peculiar not only in their definition of merchandise costs to include occupancy, buying, receiving, marking, and publicity expense, but also in showing all the constituent items of merchandise costs.

Table 4. Itemized Cost of Sales for Department Stores in 1936, by Sales Volume Groups
(Net Sales=100%)

Items	Sales Volume Groups (ooo 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
Reports.....	52†	38†	50†	28	24	68	52†	54	17	11
Merchandise Costs (Net).....	70.0%	68.4%	66.9%	65.8%	65.2%	65.4%	64.2%	63.5%	62.6%	62.5%
State Costs ¹	15.7	16.9	17.1	16.9	17.0	16.75	16.6	17.3	17.9	17.7
Advertising.....	3.55	3.3	3.45	3.6	3.65	3.9	4.6	4.35	4.6	5.4
Interest.....	2.1	2.6	2.75	2.85	3.4	3.55	3.7	4.0	3.9	3.4
Interest (except on real estate).....	0.75	0.8	0.7	0.7	0.6	0.65	0.65	0.65	0.6	0.6
Supplies.....	2.6	2.4	2.2	2.0	2.0	2.0	2.0	1.95	1.9	1.65
Service Purchased.....	0.9	1.2	1.35	1.45	1.65	1.65	1.75	1.9	1.95	1.75
Unclassified: Losses from Bad Debts	1.1	1.0	1.05	1.15	1.05	1.05	1.2	1.1	0.75	0.8
Other.....	0.25	0.35	0.3	0.25	0.35	0.35	0.3	0.2	0.25	0.15
Travelling.....	1.0†	0.7†	0.9	0.65	0.65	0.7	0.9	0.9	0.9	1.05
Communication.....	0.3†	0.35	0.45	0.45	0.4	0.5	0.45	0.4	0.35	0.2
Repairs.....	0.3	0.5	0.45	0.5	0.5	0.5	0.5	0.55	0.55	0.5
Insurance (except on real estate).....	0.15†	0.2	0.35	0.4	0.45	0.45	0.4	0.5	0.45	0.45
Depreciation (except on real estate).....	0.5	0.55	0.4	0.4	0.35	0.35	0.3	0.25	0.25	0.25
Professional Services ¹	0.55	0.5	0.55	0.6	0.7	0.7	0.7	0.65	0.75	0.7
Professional Services ¹	0.25†	0.25	0.4	0.5	0.45	0.5	0.55	0.6	0.5	0.5
TOTAL COST OF SALES.....	100.0%	100.0%	99.3%	98.2%	98.4%	99.0%	98.8%	98.8%	98.2%	97.6%
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.....	0.0%	0.0%	0.7%	1.8%	1.6%	1.0%	1.2%	1.2%	1.8%	2.4%
Net Other Income (including interest on capital owned).....	2.5	2.7	2.4	2.8	3.1	3.1	3.1	3.6	3.6	3.1
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales.....	2.5%	2.7%	3.1%	4.6%	4.7%	4.1%	4.3%	4.8%	5.4%	5.5%
Percentage of Net Worth.....	5.2	6.6	7.8	11.1	10.5	8.6	10.0	10.8†	12.2	10.8†
Federal Tax on Income.....	*	*	0.3%†	0.5%†	0.6%	0.6%†	0.7%	0.8%	0.8%	0.9%
NET GAIN after Federal Tax on Income:										
Percentage of Net Sales.....	*	*	2.8%†	4.1%†	4.1%	3.5%†	3.6%	4.0%	4.6%	4.6%
Percentage of Net Worth.....	*	*	7.0†	9.8†	9.2†	7.4†	8.4†	9.0†	10.5	9.0†

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
‡Some of the reports covered the operations of more than one store.

Operating income or loss in Tables 2 and 3 corresponds to net profit in the other tables of this bulletin, and net profit or loss (before Federal tax on income) in Tables 2 and 3 corresponds to net gain or loss in the other tables. The NRDGA form of statement contains no items that correspond to total merchandise costs (net), gross margin, or total expense as defined by the Bureau and as used in preparing the figures for the tables following Table 5. This difference, of course, is one of the chief features of the NRDGA form and was adopted deliberately in order to remove the emphasis on the distinction between the costs for merchandise itself

and the costs or expenses incurred in connection with store operation.

For the purposes of Tables 4 and 5, total merchandise costs (net) was defined precisely as it was for the tables following Table 5; in other words, total merchandise costs in Tables 4 and 5 represents the complement of gross margin; and total cost of sales, which appears only in Tables 4 and 5, is the same as total cost in Tables 6, 9, 14, 20, and 21. It represents total merchandise costs plus total expense. Sales minus total cost of sales, therefore, is precisely the same as gross margin (sales minus total merchandise costs) minus total expense.

Table 5. Itemized Cost of Sales for Specialty Stores in 1936, by Sales Volume Groups
(Net Sales = 100%)

Items	Sales Volume Groups (000 omitted)						
	Less than \$150	\$150- 300	\$300- 500	\$500- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000 or more
Number of Reports.....	25†	10	14†	13†	8	17	
Total Merchandise Costs (Net).....	65.7%	63.5%	65.1%	63.2%	61.8%	62.4%	
Pay Roll.....	17.4	17.4	17.3	16.7	16.2	16.9	
Real Estate Costs ¹	4.9	5.55	3.8	5.2	5.1	5.3	
Advertising.....	2.35	3.6	3.8	4.7	4.1	4.8	
Taxes ¹	0.5	0.7	0.7	0.55	0.45	0.5	
Interest (except on real estate).....	1.8	1.7	1.85	1.9	1.85	1.6	
Supplies.....	0.85	1.1	1.2	1.2	1.9	1.65	
Service Purchased.....	1.1	1.1	1.2	1.3	1.25	1.4	
Unclassified: Losses from Bad Debts.....	0.25	0.15	0.7	0.3	0.5	0.15	
Other.....	0.6	1.2	1.25	1.15	1.05	0.75	
Travelling.....	0.8	0.6	0.75	0.55	0.65	0.65	
Communication.....	0.6	0.5	0.55	0.65	0.6	0.6	
Repairs.....	0.2†	0.3	0.3	0.3	0.5	0.5	0.35
Insurance (except on real estate).....	0.4	0.5	0.5	0.5	0.45	0.3	0.25
Depreciation (except on real estate).....	0.7	0.8	0.6	0.75	0.65	0.75	0.8
Professional Services ¹	0.35†	0.4	0.5†	0.45	0.45	0.55	0.5
Total Cost of Sales.....	98.5%	99.1%	100.1%	99.4%	97.5%	98.8%	97.9%
SALES.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0
NET PROFIT OR LOSS.....	1.5%	0.9%	L. 0.1%	0.6%	2.5%	1.2%	2.1%
Net Other Income (including interest on capital owned).....	2.0	1.7	3.6	2.8	2.0	2.4	3.1
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales.....	3.5%	2.6%	3.5%	3.4%	4.5%	3.6%	5.2%
Percentage of Net Worth.....	7.5†	14.0	8.0	12.0	18.0	12.0	12.0
Federal Tax on Income.....	*	*	*	0.5	0.8	0.6	0.7
NET GAIN after Federal Tax on Income:							
Percentage of Net Sales.....	*	*	*	2.0%	3.7%	3.0%	4.5%
Percentage of Net Worth.....	*	*	*	10.2	14.8	10.0†	10.5

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
†Some of the reports covered the operations of more than one store.

DEPARTMENT STORES: SALES LESS THAN \$500,000

For reasons to which the figures give no clue, the small department stores in 1936 typically enjoyed increases in sales somewhat smaller than those common among medium-size and large stores. As

Table 6 indicates, their rates of gain in dollar sales, on the average, were 9.3%, 7.6%, and 9.0%; while those for the larger stores represented in Tables 9 and 14 ranged (common figures for the several

Table 6. Merchandising Statistics and Profits for Department Stores with Net Sales of Less than \$500,000, by Sales Volume Groups: 1936
(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.....	52†	13†	38†	7	50†	10†
Aggregate Sales (in thousands).....	\$7,150	\$3,279	\$9,007	\$1,549	\$21,763	\$5,818
Typical Net Sales (in thousands).....	\$95	\$100	\$220	\$220	\$390	\$400
Index of Change in Sales (1936/1935).....	109.3	115.0	107.6	110.5	109.0	110.0
Population of City (in thousands).....	14	25	18	16	33	38
Initial Mark-up (% of original retail value) on Invoice Cost Delivered¹.....	*	*	35.1%	*	35.9%	36.2%
Mark-downs.....	*	*	7.1%†	*	6.5%†	} 7.0%†
Discounts to Employees and Others.....	*	*	0.5†	*	0.5†	
Stock Shortages.....	*	*	1.1†	*	1.1†	
Total Retail Reductions.....	*	*	8.7%†	*	8.1%†	8.6%†
Inward Freight, Express, and Truckage.....	1.6%	1.6%	1.3%	1.3%	1.3%	1.25%
Alteration and Workroom Costs (Net).....	0.2†	*	0.5†	*	0.35†	0.45†
Cash Discounts Received on Purchases (% of sales).....	2.5	2.4	2.7	2.5	2.7	2.8
Gross Margin.....	30.0	30.6	31.6	32.5	33.1	33.1
Total Merchandise Costs (Net).....	70.0%	69.4%	68.4%	67.5%	66.9%	66.0%
Total Expense.....	30.0	26.8	31.6	28.5	32.4	29.1
TOTAL COST.....	100.0%	96.2%	100.0%	96.0%	99.3%	96.0%
NET PROFIT OR LOSS.....	0.0%	3.8%	0.0%	4.0%	0.7%	4.0%
Net Other Income (including interest on capital owned).....	2.5	2.0	2.7	2.7	2.4	2.6
NET GAIN before Federal Tax on Income:						
Percentage of Net Sales.....	2.5%	5.8%	2.7%	6.7%	3.1%	6.6%
Percentage of Net Worth.....	5.2	15.5	6.6	13.0	7.8	15.7
Federal Tax on Income.....	*	*	*	*	0.3%†	0.9%†
NET GAIN after Federal Tax on Income:						
Percentage of Net Sales.....	*	*	*	*	2.8%†	5.7%†
Percentage of Net Worth.....	*	*	*	*	7.0†	14.0†
Rate of Stock-turn (times a year):						
Based on Beginning and Ending Inventories.....	2.4	3.1	2.9	2.7	3.4	3.7
Based on Monthly Inventories.....	2.3†	*	2.4†	*	2.9†	3.3†
Returns and Allowances:						
Percentage of Gross Sales.....	*	*	*	*	4.75%†	6.1%†
Percentage of Net Sales.....	*	*	*	*	5.0†	6.5†
% Cash and C. O. D. Sales.....	60.0%†	*	53.0%†	60.0%†	50.0%†	55.0%†
% Charge and Installment Sales.....	40.0†	*	47.0†	40.0†	50.0†	45.0†
% of Firms Earning Some Net Profit.....	48.1%	100.0%	52.6%	100.0%	50.0%	100.0%
% of Firms Earning Some Net Gain.....	86.5	100.0	84.2	100.0	96.0	100.0

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
‡Some of the reports covered the operations of more than one store. In such cases the population of the city in which the main store was located was used in preparing the common figure for population.

groups) from 9.8% to 13.0%. Nevertheless, sales in the small stores were substantially larger in 1936 than they were in 1935, and this increase in business contributed materially to the reduction of mark-down and expense percentages.

Margin

In conformity with the experiences of earlier years, the common figures for gross margin for small department stores in 1936 were lower than those for stores with sales of \$500,000 or more, and even among the three groups represented in Table 6, percentage margins varied directly with size. There is little doubt that small department stores on the

average perform fewer functions¹ than stores of larger size, and in other ways operate under conditions which make lower costs possible. As a result, smaller margin rates are possible, and undoubtedly competition tends to make them necessary.

Despite the fact that gross margin rates for small department stores were relatively low, those for two of the three groups of stores covered in Table 6 were higher (by 0.1% and 0.2% of sales) in 1936 than in 1935.

¹ For instance, the small stores buy less from manufacturers and more from intermediaries, do less private brand merchandising, have less elaborate plants, do a smaller proportion of their business on credit, and offer less elaborate services of a promotional nature.

Table 7. Expenses by Natural Divisions for Department Stores with Net Sales of Less Than \$500,000, by Sales Volume Groups: 1936
(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.....	52†	13†	38†	7	50†	10†
Aggregate Sales (in thousands).....	\$7,150	\$3,279	\$9,007	\$1,549	\$21,763	\$5,818
Typical Net Sales (in thousands).....	\$95	\$100	\$220	\$220	\$390	\$400
Index of Change in Sales (1936/1935).....	109.3	115.0	107.6	110.5	109.0	110.0
Population of City (in thousands).....	14	25	18	16	33	38
Total Pay Roll.....	15.7%	13.8%	16.9%	15.5%	17.1%	15.8%
Real Estate Costs ¹	3.55	3.2	3.3	3.1	3.45	3.45
Newspaper Advertising.....	*	*	*	*	2.2†	1.45†
Direct Advertising.....	*	*	*	*	0.15†	0.15†
Other Advertising.....	*	*	*	*	0.4†	0.2†
Total Advertising (subtotal).....	2.1	1.75	2.6	1.9	(2.75)	(1.8)
Taxes ¹	0.75	0.95	0.8	0.9	0.7	0.7
Interest (except on real estate).....	2.6	2.0	2.4	2.3	2.2	2.2
Supplies.....	0.9	0.75	1.2	0.95	1.35	1.3
Service Purchased.....	1.1	1.0	1.0	0.9	1.05	0.8
Unclassified: Losses from Bad Debts.....	0.25	0.1†	0.35	0.35	0.3	0.25
Other.....	1.0†	1.3†	0.7†	0.45	0.9	0.5
Travelling.....	0.3†	0.35†	0.35	0.35	0.45	0.35
Communication.....	0.3	0.3	0.5	0.4	0.45	0.4
Repairs.....	0.15†	0.15†	0.2	0.2†	0.35	0.35
Insurance (except on real estate).....	0.5	0.35	0.55	0.45	0.4	0.3
Depreciation (except on real estate).....	0.55	0.55	0.5	0.5	0.55	0.55
Professional Services ¹	0.25†	0.25†	0.25	0.25†	0.4	0.35
TOTAL EXPENSE.....	30.0%	26.8%	31.6%	28.5%	32.4%	29.1%
Sales per Square Foot of Total Space.....	\$9.30†	*	\$12.00†	*	\$11.40†	*
Real Estate Costs per Square Foot of Total Space.....	0.33†	*	*	*	0.39†	*
Sales/Total Number of Employees.....	\$7,000†	*	\$6,500†	*	\$5,300†	\$6,000†
Sales/Number of Selling Employees.....	9,900†	*	8,900†	*	7,900†	8,600†
Percentages of Net Credit Sales:						
Pay Roll: Accounts Receivable and Credit.....	*	*	*	*	*	*
Losses from Bad Debts.....	*	*	*	*	0.7%†	*
Interest on Accounts Receivable.....	1.6%†	*	1.3%†	1.3%†	1.5†	*
Average Accounts Receivable Outstanding§.....	27.0†	*	22.0†	22.0†	24.0†	*

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

‡Some of the reports covered the operations of more than one store. In such cases, the population of the city in which the main store was located was used in preparing the common figure for population.

§At beginning and end of year.

The low gross margins typical among the small department stores resulted from low rates of initial mark-up. Mark-down percentages, as a rule, were distinctly higher among stores with sales of less than \$500,000 than among larger stores; and there was no offsetting advantage in discounts to employees or in stock shortages. Total retail reductions, therefore, were higher in the small stores. In fact, the typical percentages of both mark-downs and total retail reductions showed a clear tendency to vary inversely with size among stores with sales of \$150,000 to \$2,000,000; and the smallest typical percentages for both items were recorded by the stores with sales of \$20,000,000 or more.

In addition, initial mark-up for stores with sales of \$150,000 to \$500,000 was definitely smaller in 1936 than in 1935, while larger stores, in six of the seven instances, had the same or higher mark-up rates, or at least experienced a smaller decline. Apparently the small stores experienced keener competition for business, perhaps from department store chains, were unduly slow in raising retail prices, or found it more difficult to buy advantageously.

If the gross margin rates for the small stores were relatively low, merchandise costs, of course, were relatively high. These high costs resulted in part from relatively high outlays for inward transportation expense and in part from relatively low cash discounts. Inward freight, express, and truckage expense clearly was disposed to vary inversely with size of store; and in 1936 this item among the smallest stores represented an expenditure larger by almost 1.0% of sales than it did among the largest stores. Cash discounts, on the other hand, tended to vary directly with size; and here again the smallest stores operated at a handicap of about 1.0% as contrasted with the largest stores. Inward transportation and cash discounts combined, therefore, operated to increase merchandise costs for the smallest stores as contrasted with the largest by 2.0% of sales. Any advantage of the smallest stores arising from low alteration and workroom costs was by no means sufficient to offset this disadvantage.

Expense

Expense rates for the small stores were lower in 1936 than in 1935, but the amount of decrease (1.4%, 0.7%, and 0.6% of sales, respectively) in general was smaller than that typically encountered among larger stores. This was due in part to the lower percentage increase in sales for the small stores; but perhaps, in addition, control mech-

anisms and the will to control were inadequate.

The stores with sales of less than \$150,000 (typical sales \$95,000) not only had a lower average rate of pay roll expense than any other group (15.7%) but also had the largest decline (1.0% of sales) in the percentage from 1935 to 1936. Presumably many of these stores had less to fear from labor troubles than larger stores and were under less pressure to increase wages. Also, they had larger average sales per employee than any stores except those with sales of \$20,000,000 or more, which indicates good utilization of personnel.

Earnings

The common figures for all three groups of small department stores indicate improvement in net profit rates in 1936 as compared with 1935 amounting to 0.8% of sales or more; and for each of the three groups approximately 50% of the stores earned some net profit. As regards both percentage of net profit and percentage of stores earning some net profit, no group of stores with sales less than \$500,000 reported a showing as good (common figures) as any group of stores with sales of \$500,000 or more. For the small stores, as for department stores in general, net other income tended to be lower in 1936 than in 1935, but net gain was higher, reflecting the higher rates of net profit. The stores with sales of less than \$150,000 constituted the only group to show rates of net gain (before Federal income taxes) to net worth lower than 6%.

**Table 8. Total Expense by Functions
for Department Stores with Net Sales
of \$300,000 to \$500,000: 1936**
(Common Figures; Net Sales=100%)

Number of Reports.....	15
Administrative and General	
Accounting Office, Accounts Receivable, and Credit	2.9%
Executive and Other Administrative and General.	5.4†
Total Administrative and General.....	8.3%†
Occupancy.....	7.0
Publicity	
Sales Promotion and General Advertising.....	3.5
Display.....	0.6
Total Publicity.....	4.1%
Buying and Merchandising.....	3.4†
Direct and General Selling.....	9.1
Delivery.....	0.5
TOTAL EXPENSE.....	32.4%

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

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

The percentage of increase in dollar sales for the medium-size stores in 1936 (9.8% to 11.0% according to Table 9) was somewhat higher than that

for the small stores, but a trifle lower than that for the large stores.

In spite of this slight handicap, net profit rates

Table 9. Merchandising Statistics and Profits for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1936
(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	28	7	24	7	68	17
Aggregate Sales (in thousands)	\$16,942	\$4,146	\$21,044	\$6,195	\$101,495	\$25,420
Typical Net Sales (in thousands)	\$590	\$570	\$885	\$885	\$1,490	\$1,490
Index of Change in Sales (1936/1935)	111.0	111.0	109.8	112.0	110.3	114.7
Population of City (in thousands)	45	45	65	70	105	70
Initial Mark-up (% of original retail value) on Invoice Cost Delivered ¹	36.6%	*	37.0%	37.3%	36.9%	37.3%
Mark-downs	6.2%†	*	5.6%†	5.5%	5.5%†	5.2%†
Discounts to Employees and Others	0.5†	*	0.6†		0.45†	0.45†
Stock Shortages	1.1	*	1.1		0.95	0.85
Total Retail Reductions	7.8%	*	7.3%	6.5%	6.9%	6.5%
Inward Freight, Express, and Truckage	1.1%	1.4%	1.0%	0.9%†	1.2%	1.0%
Alteration and Workroom Costs (Net)	0.3	0.2†	0.4	0.1	0.6	0.55
Cash Discounts Received on Purchases (% of sales)	2.9	2.8	2.8	3.1	2.7	2.75
Gross Margin	34.2	34.2	34.8	36.2	34.6	35.4
Total Merchandise Costs (Net)	65.8%	65.8%	65.2%	63.8%	65.4%	64.6%
Total Expense	32.4	29.6	33.2	31.4	33.6	30.2
TOTAL COST	98.2%	95.4%	98.4%	95.2%	99.0%	94.8%
NET PROFIT OR LOSS	1.8%	4.6%	1.6%	4.8%	1.0%	5.2%
Net Other Income (including interest on capital owned)	2.8	2.6	3.1	1.7†	3.1	2.9
NET GAIN before Federal Tax on Income:						
Percentage of Net Sales	4.6%	7.2%	4.7%	6.5%†	4.1%	8.1%
Percentage of Net Worth	11.1	17.7	10.5	*	8.6	16.5
Federal Tax on Income	0.5%†	1.2%†	0.6%	*	0.6%†	1.2%†
NET GAIN after Federal Tax on Income:						
Percentage of Net Sales	4.1%†	6.0%†	4.1%	*	3.5%†	6.9%†
Percentage of Net Worth	9.8†	14.8†	9.2†	*	7.4†	14.0†
Rate of Stock-turn (times a year):						
Based on Beginning and Ending Inventories	4.1	4.5	4.3	4.3	4.3	5.0
Based on Monthly Inventories	3.6	3.9	3.6	3.8	3.7	4.3
Returns and Allowances:						
Percentage of Gross Sales	5.55%†	5.55%†	6.1%†	5.85%	7.15%†	6.7%
Percentage of Net Sales	5.9†	5.9†	6.5†	6.2	7.7†	7.2
% Cash Sales	50.0%	46.8%	49.5%†	56.0%	43.0%†	44.7%†
% C. O. D. Sales			2.5†	2.2	2.6†	2.4†
% Charge Sales			48.0	41.8	46.2†	46.2†
% Installment Sales	50.0	53.2			8.2†	6.7†
% of Firms Earning Some Net Profit	78.6%	100.0%	66.7%	100.0%	52.9%	100.0%
% of Firms Earning Some Net Gain	96.4	100.0	91.6	100.0	97.0	100.0

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

for the medium-size stores compared favorably with those for larger stores and, in the cases of two groups of stores, were unusually high. The average net profit percentage for the stores with sales of \$500,000 to \$750,000 was exceeded by the average percentage for only one other group of department stores, that including stores with sales of \$20,000,000 or more; and the percentage of net profit for the stores with sales of \$750,000 to \$1,000,000 was exceeded by the typical percentages for only three other groups, the two just mentioned and the one comprising stores with sales of \$10,000,000 to \$20,000,000. The net profits of these two groups of medium-size stores in 1936 were somewhat

higher than might have been expected in view of the conclusion, often stated in the Bureau's series of reports, that profit rates tend to be lowest for the smallest stores and highest for the largest stores, increasing more or less directly with size.

The net gain figures, whether expressed as percentages of net sales or of net worth, disclose results for the stores with sales of \$500,000 to \$1,000,000, which are similarly favorable.

Margin

As regards gross margin and the several factors controlling gross margin, the typical performance of the medium-size stores in 1936 compared with

Table 10. Expenses by Natural Divisions for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1936
(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.....	28	7	24	7	68	17
Aggregate Sales (in thousands).....	\$16,942	\$4,146	\$21,044	\$6,195	\$101,495	\$25,420
Typical Net Sales (in thousands).....	\$590	\$570	\$885	\$885	\$1,490	\$1,490
Index of Change in Sales (1936/1935).....	111.0	111.0	109.8	112.0	110.3	114.7
Population of City (in thousands).....	45	45	65	70	105	70
Total Pay Roll.....	16.9%	15.0%	17.0%	16.1%	16.75%	15.2%
Real Estate Costs ¹	3.6	3.2	3.65	3.4	3.9	3.4
Newspaper Advertising.....	2.55†	2.4	2.95	3.0	3.15	2.65
Direct Advertising.....	0.1†	0.3	0.1	0.2†	0.15†	0.2†
Other Advertising.....	0.2†		0.35	0.5	0.25	0.25†
Total Advertising (subtotal).....	(2.85)	(2.7)	(3.4)	(3.7)	(3.55)	(3.1)
Taxes ¹	0.7	0.7	0.6	0.65†	0.65	0.6
Interest (except on real estate).....	2.0	1.9	2.0	1.65	2.0	1.75
Supplies.....	1.45	1.5	1.65	1.4	1.65	1.65
Service Purchased.....	1.15	1.15	1.05	1.15	1.05	0.9
Unclassified: Losses from Bad Debts.....	0.25	0.15	0.35	0.35	0.35	0.25
Other.....	0.65	0.6	0.65	0.6	0.7	0.65
Travelling.....	0.45	0.45	0.4	0.3	0.5	0.4
Communication.....	0.5	0.45	0.5	0.4	0.5	0.45
Repairs.....	0.4	0.4	0.45	0.4	0.45	0.45
Insurance (except on real estate).....	0.4	0.4	0.35	0.3	0.35	0.25
Depreciation (except on real estate).....	0.6	0.45	0.7	0.45	0.7	0.65
Professional Services ¹	0.5	0.55	0.45	0.55	0.5	0.5
TOTAL EXPENSE.....	32.4%	29.6%	33.2%	31.4%	33.6%	30.2%
Sales per Square Foot of Total Space.....	\$15.90†	*	\$14.50†	*	\$15.50†	\$22.00
Real Estate Costs per Square Foot of Total Space.....	0.56†	*	0.52†	*	0.61†	0.75
Sales/Total Number of Employees.....	\$6,200†	\$6,700†	\$5,700†	*	\$5,800†	\$7,300
Sales/Number of Selling Employees.....	9,500†	*	10,150†	*	10,500†	13,500†
Percentages of Net Credit Sales:						
Pay Roll: Accounts Receivable and Credit.....	*	*	*	*	1.4%†	*
Losses from Bad Debts.....	0.5%†	0.3%†	*	*	0.65	0.45%
Interest on Accounts Receivable.....	1.4†	1.25†	1.45%	1.35%	1.4	1.25
Average Accounts Receivable Outstanding\$.....	24.0†	21.0†	24.0†	22.5†	23.0	21.0

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
‡At beginning and end of year.

Table 11. Pay Roll and Total Expense by Functions for Department Stores with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1936
(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	21	6	21	6	51	13
PAY ROLL						
Administrative and General						
Executive	1.15%	1.1%†	1.45%	1.35%	1.1%	0.9%
Accounting Office	1.0†		0.9†	0.85	0.8†	0.85†
Accounts Receivable and Credit	0.65†	1.65†	0.65†	0.5	0.8†	0.75†
Executive Office	0.1†		0.1†	0.1†	0.1†	
Superintendency and General Store	0.35		0.45	0.4	0.5	0.35
Total Administrative and General	3.25%	2.75%	3.55%	3.2%	3.3%	2.85%
Occupancy						
Operating and Housekeeping	0.8	*	0.85	*	0.85	*
Heat, Light, and Power	0.05†		0.05†		0.05†	
Total Occupancy	0.85%	0.65%	0.9%	0.9%	0.9%	0.65%
Publicity						
Sales Promotion and General Advertising	0.4	0.35	0.35	0.4	0.3	0.3
Display	0.45	0.45	0.35	0.3	0.35	0.35
Total Publicity	0.85%	0.8%	0.7%	0.7%	0.65%	0.65%
Buying and Merchandising						
Merchandise Managers and Assistants	0.7†	0.75†	0.6†	*	0.55†	*
Buyers and Assistants	2.05†	2.05†	2.3†	*	2.35†	*
Receiving and Marking	0.4	0.3	0.45	*	0.35	*
Other					0.15†	*
Total Buying and Merchandising	3.15%	3.1%	3.35%	3.3%	3.4%	3.35%
Direct and General Selling						
Salespeople	7.8†	*	7.2†	7.0†	7.0	6.5†
Floor Superintendents and Section Managers	0.2†	*	0.25†	0.2†	0.25†	0.7†
Other	0.55†	*	0.7	0.6	0.75†	
Total Direct and General Selling	8.55%	7.55%	8.15%	7.8%	8.0%	7.2%
Delivery	0.25	0.15	0.35	0.2	0.5	0.5
Total Pay Roll	16.9%	15.0%	17.0%	16.1%	16.75%	15.2%
TOTAL EXPENSE						
Administrative and General						
Accounting Office, Accounts Receivable, and Credit	2.5%	*	2.5%	2.05%	2.5%	2.3%
Executive and Other Administrative and General	5.0	*	5.4	4.8	5.2	4.4
Total Administrative and General	7.5%	7.0%	7.9%	6.85%	7.7%	6.7%
Occupancy						
Operating and Housekeeping	1.35	1.2	1.6	1.5	1.5	1.25
Real Estate Costs ¹	3.6	3.2	3.65	3.4	3.9	3.4
Fixtures and Equipment Costs	0.85	0.8	0.9	0.55	0.9	0.75
Heat, Light, and Power	1.0	0.95	0.85	0.8	0.9	0.7
Total Occupancy	6.8%	6.15%	7.0%	6.25%	7.2%	6.1%
Publicity						
Sales Promotion and General Advertising	3.35	3.1	3.85	4.2	4.2	4.1
Display	0.7	0.8	0.55	0.45	0.55	0.6
Total Publicity	4.05%	3.9%	4.4%	4.65%	4.75%	4.7%
Buying and Merchandising	4.0	4.0	4.15	4.05	4.2	4.0
Direct and General Selling	9.25	8.1	8.8	8.8	8.7	7.75
Delivery	0.8	0.45	0.95	0.8	1.05	0.95
Total Expense	32.4%	29.6%	33.2%	31.4%	33.6%	30.2%

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

**Table 12. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$500,000 to \$2,000,000, by Sales Volume Groups: 1936**
(Common Figures; Net Sales=100%)

Items	17 Stores with Net Sales of \$500,000 to \$750,000		18 Stores with Net Sales of \$750,000 to \$1,000,000		49 Stores with Net Sales of \$1,000,000 to \$2,000,000	
ADMINISTRATIVE AND GENERAL:						
Pay Roll: Executive		1.15%		1.40%		1.10%
All Other Admin. and General		2.10		2.15		2.20
Taxes ¹		0.69		0.57		0.62
Interest on Mdse. and on Accts. Rec.		1.70		1.79		1.79
Supplies		0.10		0.10		0.18
Unclassified: Losses from Bad Debts		0.25		0.35		0.35
Other		0.38		0.37		0.36
Travelling		0.04†		0.03		0.05
Communication		0.46		0.48		0.47
Insurance		0.36		0.31		0.30
Professional Services		0.17		0.24		0.26
Total		7.50%†		7.90%†		7.70%†
OCCUPANCY:						
Pay Roll		0.85%		0.90%		0.90%
Real Estate Costs ¹		3.60		3.65		3.90
Taxes on Fixtures and Equipment		0.03†		0.02†		0.04†
Interest on Fixtures and Equipment		0.28		0.22		0.21
Supplies		0.26		0.28		0.26
Service Purchased		0.86		0.84		0.79
Unclassified		0.02		0.05		0.05
Travelling		0.00†		0.00†		0.00†
Repairs		0.34		0.40		0.40
Insurance on Fixtures and Equipment		0.03		0.03		0.02
Depreciation on Fixtures and Equip.		0.53		0.62		0.65
Total		6.80%		7.00%†		7.20%†
PUBLICITY:						
Pay Roll: Sales Pro. and General Adv.		0.40%		0.35%		0.30%
Display		0.45		0.35		0.35
Total Advertising		2.85		3.40		3.55
Supplies		0.28		0.28		0.39
Unclassified		0.05		0.02		0.10
Travelling		0.00†		0.01†		0.01†
Communication		0.01†		0.01†		0.02†
Professional Services		0.00†		0.00†		0.01†
Total		4.05%†		4.40%†		4.75%†
BUYING AND MERCHANDISING:						
Pay Roll: Mdse. Mgrs. and Assts.		0.70%		0.60%†		0.55%†
Buyers and Assistants		2.05		2.30†		2.35†
Receiving and Marking						0.35
Other		0.40		0.45		0.15†
Supplies		0.08		0.10		0.07
Unclassified		0.00†		0.08		0.04
Travelling		0.40		0.35		0.41
Communication		0.04		0.02		0.03
Professional Services ¹		0.35		0.23		0.25†
Total		4.00%†		4.15%†		4.20%
SELLING:	Direct and General Selling	Delivery	Direct and General Selling	Delivery	Direct and General Selling	Delivery
Pay Roll: Salespeople	7.80%	....	7.20%	....	7.00%	....
Floor Supts. and Sec. Mgrs.	0.20†	....	0.25†	....	0.25	....
Other	0.55†	....	0.70	....	0.75	....
Delivery	....	0.25%	....	0.35%	....	0.50%
Taxes	....	0.00†	....	0.01	....	0.01
Interest on Equipment	....	0.00†	....	0.01	....	0.01
Supplies	0.55	0.11	0.66	0.58	0.60	0.14
Service Purchased	....	0.30	....	0.19	....	0.24
Unclassified	0.17	0.01†	0.09	0.03†	0.11	0.02
Travelling	0.00†	0.00†	0.00†	0.00†	0.01†	0.00†
Repairs	....	0.04†	....	0.06†	....	0.05
Insurance	....	0.02†	....	0.03	....	0.03
Depreciation	....	0.05†	....	0.06	....	0.05
Total	9.25%†	0.80%†	8.80%†	0.95%†	8.70%†	1.05%†
TOTAL						
		32.40%		33.20%		33.60%

†Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

†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.

that for 1935 much as did the performance of department stores in general already described.

A notable exception, however, is that of the stores with sales of \$500,000 to \$750,000, which reported a larger increase in gross margin from 1935 to 1936 (1.0% of sales) than any other group of department stores. Initial mark-up for these stores was larger in 1936 than in 1935 by 0.2% of sales, although for the two groups of larger stores it was smaller than in 1935. In addition, they enjoyed a drop of 1.2% of sales in total retail reductions, 1.1% of sales in mark-downs and 0.15% of sales in stock shortages, discounts to employees being slightly higher. The improvement in total retail reductions for these stores was greater than that shown by any other group of department stores, although it was closely approximated by that for stores with sales of \$150,000 to \$300,000 (1.1%) and that for stores with sales of \$20,000,000 or more (1.1%).

It may be noted, also, that cash discounts were slightly higher for medium-size stores in 1936 than in 1935, while for six of the seven groups of small and large stores, cash discounts were the same or lower in 1936 than in 1935.

Expense

The stores with sales of \$500,000 to \$750,000 enjoyed, in 1936, not only an unusually large improvement in the rate of gross margin as compared with 1935, but also a larger-than-average decrease in the percentage of total expense (1.3% of sales). Since the rate of increase in sales for these stores (11.0%) was not outstandingly high, presumably either conditions in 1936 favored the medium-size stores operating in cities of about 45,000 to an unusual degree or they enjoyed unusually effective management. It is apparent (Table 2) that both merchandise and operating costs for these stores were relatively low as compared with stores in other groups for which functional data are available. On the average, they had the lowest percentage occupancy and publicity expense, next to the lowest buying expense, low delivery expense, and (size of store considered) low administrative expense. Their rate of selling expense was high, apparently because high dollar outlays for this item were not offset by high sales per salesperson; but sales per employee and per square foot for this group of stores were distinctly favorable in relation to those for all groups of stores with sales of less than \$4,000,000. Their common figure for their percentage of total expense was lower than might

Table 13. Expenses and Profit Per Transaction, and in Percentage of Sales, for 22 Department Stores with Net Sales of \$1,000,000 to \$2,000,000: 1936

Items	Cents per Gross Sales Transaction	Net Sales = 100%
Aggregate Sales (in thousands) . . . . .	....	\$33,623
Typical Net Sales (in thousands) . . . . .	....	\$1,575
Index of Change in Sales (1936/1935) . . . . .	....	109.0
Index of Change in Number of Transactions (1936/1935)	103.6	....
Average Gross Sale	188.5¢	....
Returns and Allowances	13.5¢	7.7%
Net Sales Income	175.0	100.0
Total Merchandise Costs (Net)	113.5¢	64.9%
Pay Roll Expense		
Administrative and General	5.6¢	3.2%
Occupancy	1.6	0.9
Publicity	1.15	0.65
Buying and Merchandising	6.25	3.55
Direct and General Selling	14.0	8.0
Delivery	0.9	0.5
Total Pay Roll	29.5¢	16.8%
Real Estate Costs ¹	6.8	3.9
Advertising	6.2	3.55
Taxes ¹	1.15	0.65
Interest (except on real estate)	3.5	2.0
Supplies	2.9	1.65
Service Purchased	1.85	1.05
Unclassified: Losses from Bad Debts	0.7	0.4
Other	1.2	0.7
Travelling	0.85	0.5
Communication	0.85	0.5
Repairs	0.7	0.4
Insurance (except on real estate)	0.65	0.35
Depreciation (except on real estate)	1.2	0.7
Professional Services ¹	0.95	0.55
TOTAL EXPENSE	59.0¢	33.7%
Functional Division of Expense		
Administrative and General	13.5¢	7.7%
Occupancy	12.5	7.15
Publicity	8.3	4.75
Buying and Merchandising	7.55	4.3
Direct and General Selling	15.3	8.75
Delivery	1.85	1.05
TOTAL EXPENSE	59.0¢	33.7%
TOTAL COST	172.5¢	98.6%
NET PROFIT OR LOSS	2.5¢	1.4%
Net Other Income (including interest on capital owned)	4.9	2.8
NET GAIN before Federal Tax on Income	7.4¢	4.2%
Federal Tax on Income	*	*
NET GAIN after Federal Tax on Income	*	*
Number of Gross Sales Transactions/ Total Number of Employees	3,100	....
Number of Gross Sales Transactions/ Number of Selling Employees	6,100	....
Net Sales/Total Number of Employees . . . . .	....	\$5,400
Net Sales/Number of Selling Employees . . . . .	....	10,700

* Data not available. ¹ See definition in the Appendix.

have been expected in the light of the corresponding figures for smaller and larger stores. Finally, these stores showed favorable rates of stock-turn as compared with stores immediately larger; and they constituted the one group of department stores which did not increase inventories substantially during the year (Table 2).

These favorable characteristics of medium-size stores may well merit careful study not only in academic quarters but also by operating executives. Quite possibly their executives have been able to gain some of the merchandising and promotional advantages of larger stores while retaining some of the operating advantages of smaller stores. If other stores, especially larger ones, can learn how this has been accomplished and can apply that knowledge, manifestly it will be much worth while.

Costs Per Transaction

As was the case in the study of 1935 results, among the department stores with sales of \$500,000 to \$2,000,000, only the stores with sales of \$1,000,000 to \$2,000,000 reported number of transactions with sufficient frequency to make possible the preparation of common figures on costs per transaction. These common figures, based on 22 reports, are given in Table 13.

Of the 22 firms covered by these data, only 15 were included among the 28 for which costs per transaction for 1935 were given in Table 17 of Bulletin No. 100. Hence the statistics in Table 13 are not comparable with the corresponding data for 1935 and should not be used in conjunction with those latter data as evidence of year-to-year change. The information in Table 13, however, affords a reliable picture of expenses in 1936, for the common figures in percentage of sales given in Table 13 resemble closely those for all 68 firms with sales of \$1,000,000 to \$2,000,000 presented in Table 10.

In studying these data it should be remembered:

1. That net sales income per gross sales transaction is not the same as the amount of the average transaction resulting in a complete and final sale, or the amount of the average final sale. Of course, if the average transaction resulting in a complete or partial return represents goods of the same value as the average gross sale,¹ the average gross sales

transaction and the average net sales transaction would be the same. On the other hand, if returns tend to be greater for merchandise of relatively high unit sale (such as rugs, dresses, and children's apparel) than for goods of lower unit sale, the average gross sales transaction might be larger than the average net sales transaction.

2. That returns and allowances per gross sales transaction do not represent the average return (total returns divided by total number of returns) because many gross sales transactions do not give rise to returns, and the total number of gross sales transactions is used in computing returns per gross sales transaction.

3. That expense per gross sales transaction is a fairly accurate measure of operating effectiveness in department stores having different ratios of returns to sales (provided the merchandise carried is similar), for expense must be incurred to produce and handle transactions resulting in returns just as it is incurred for transactions resulting in sales.

4. That it is pertinent also to compute expense per net sales transaction, because only transactions which result, wholly or in part, in net sales produce any revenue; and the expense of handling all transactions must be defrayed from the revenue of those which result in final sales. The expense to be borne by each transaction resulting in a final sale for the 22 firms of Table 13, therefore, would be larger than 59.0 cents.

5. That, since gross margin is produced only by transactions which result in final sales, merchandise cost (aside from some shrinkage) is incurred and net profit is produced only by those transactions.

These facts imply certain shortcomings in the data of Table 13, and of Table 19, which are fully recognized. The figures have been presented in their existing form because it has not been practicable thus far to get information on the number of net sales transactions,² and because it has seemed desirable to present some sort of per-transaction data for margin, expense, and profit which parallel those expressed in percentages.

² Since many returns represent only part of the goods purchased in a single gross sales transaction, there are important theoretical difficulties, as well as important practical difficulties, to be solved before a suitable measure of net sales transactions is available. Students of accounting and of retailing would perform a real service by suggesting solutions for both the theoretical and the practical problems.

¹ Which, of course, reflects the transactions which result in returns as well as those which do not.

DEPARTMENT STORES: SALES OF \$2,000,000 OR MORE

It already has been noted that the large department stores, those with net sales of \$2,000,000 or more, in 1936 had the highest rates of increase in

sales, the highest percentages of gross margin, and on the whole the highest percentage earnings.

For three of the four groups of large department

Table 14. Merchandising Statistics and Profits for Department Stores with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1936
(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	52†	12	54	14	17	6	11
Aggregate Sales (in thousands)	\$190,909	\$35,998	\$350,191	\$89,497	\$251,933	\$84,076	\$384,907
Typical Net Sales (in thousands)	\$2,900	\$2,950	\$6,500	\$6,500	\$14,800	\$14,000	\$25,500
Index of Change in Sales (1936/1935)	110.5	115.5	112.2	113.9	111.4	114.0	113.0
Population of City (in thousands)	235	135	470	270	1,200	500	2,000
Initial Mark-up (% of original retail value) on Invoice Cost Delivered ¹	38.1%	38.2%	38.5%	39.0%	39.0%	38.8%	38.5%
Mark-downs	5.8%	5.15%	5.9%	5.7%	5.75%	5.5%	4.6%
Discounts to Employees and Others	0.55	0.55	0.6	0.7	0.75	0.6	0.55
Stock Shortages	0.9	0.9	0.9	0.8	1.0	0.7	1.15
Total Retail Reductions	7.25%	6.6%	7.4%	7.2%	7.5%	6.8%	6.3%
Inward Freight, Express, and Trackage	1.1	1.1	1.0	1.3	0.8†	0.9†	0.65†
Alteration and Workroom Costs (Net)	0.5	0.5	0.7	0.6	0.5	0.5	0.7
Cash Discounts Received on Purchases (% of sales)	2.7	3.0	3.3	3.2	3.5	3.5	3.55
Gross Margin	35.8	36.6	36.5	37.2	37.4	37.6	37.5
Total Merchandise Costs (Net)	64.2%	63.4%	63.5%	62.8%	62.6%	62.4%	62.5%
Total Expense	34.6	31.5	35.3	32.5	35.6	33.5	35.1
TOTAL COST	98.8%	94.9%	98.8%	95.3%	98.2%	95.9%	97.6%
NET PROFIT OR LOSS	1.2%	5.1%	1.2%	4.7%	1.8%	4.1%	2.4%
Net Other Income (including interest on capital owned)	3.1	3.4	3.6	3.1	3.6	4.0	3.1
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales	4.3%	8.5%	4.8%	7.8%	5.4%	8.1%	5.5%
Percentage of Net Worth	10.0	16.8†	10.8†	17.0†	12.2	18.4	10.8†
Federal Tax on Income	0.7	1.2	0.8	1.2	0.8	1.5	0.9
NET GAIN after Federal Tax on Income:							
Percentage of Net Sales	3.6%	7.3%†	4.0%	6.6%	4.6%	6.6%	4.6%
Percentage of Net Worth	8.4†	14.2†	9.0†	14.5†	10.5	15.2	9.0†
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories	4.6	5.1	4.9	5.5	4.9	5.0	5.4
Based on Monthly Inventories	4.0	4.7	4.4	4.7	4.4	4.5	5.1
Returns and Allowances:							
Percentage of Gross Sales	8.4%	8.4%	10.55%	11.1%	11.25%	8.95%	12.65%
Percentage of Net Sales	9.2	9.2	11.8	12.5	12.7	9.8	14.5
% Cash Sales	40.0%	35.5%	35.6%	37.2%	35.0%	33.4%	36.0%
% C. O. D. Sales	4.5	3.0†	6.0	4.5	7.0	3.5	12.0
% Charge Sales	46.5†	53.0	49.6	52.5†	46.3	51.1	45.6
% Installment Sales	9.0†	8.5	8.8	5.8†	11.7	12.0	6.4
% of Firms Earning Some Net Profit	71.2%	100.0%	64.8%	100.0%	64.7%	100.0%	81.8%
% of Firms Earning Some Net Gain	98.0	100.0	96.3	100.0	100.0	100.0	100.0

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

‡Some of the reports covered the operations of more than one store. In such cases the population of the city in which the main store was located was used in preparing the common figures for population.

stores represented in Table 14, gross margin in percentage of sales commonly was higher than in 1935 by more than the average amount of increase for all 10 groups, 0.4% of sales; and for three of the four groups, the percentage of net profit, also, was higher in 1936 than in 1935 by more than the average amount of increase for all 10 groups. Among the large stores, the largest gain in percentage of net profit in 1936 as compared with 1935 was reported by the \$4,000,000 to \$10,000,000 stores. These stores, on the average, had a net loss of 0.7% of sales in 1935 and a net profit of 1.2% in 1936. Also, it was among the large stores that the highest per-

centages of stores earning some net gain were encountered, and all reporting stores with sales of \$10,000,000 or more earned some net gain.

In 1936 all groups of large department stores showed average percentages of net gain (before Federal income taxes) to net worth of 10.0 or higher, and the stores with sales of \$10,000,000 to \$20,000,000 had a common figure for this item of 12.2% higher than that for any other volume group. In 1935 the stores with sales of \$750,000 to \$1,000,000 had the highest average rate of net gain to net worth, 9.0%.

The greatest improvement in the typical rate of

Table 15. Expenses by Natural Divisions for Department Stores
with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1936
(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.....	52†	12	54	14	17	6	11
Aggregate Sales (in thousands).....	\$100,909	\$35,998	\$350,191	\$89,497	\$251,933	\$84,076	\$384,907
Typical Net Sales (in thousands).....	\$2,900	\$2,950	\$6,500	\$6,500	\$14,800	\$14,000	\$25,500
Index of Change in Sales (1936/1935).....	110.5	115.5	112.2	113.9	111.4	114.0	113.0
Population of City (in thousands).....	235	135	470	270	1,200	500	2,000
Total Pay Roll.....	16.6%	16.0%	17.3%	16.2%	17.9%	17.9%	17.7%
Real Estate Costs¹.....	4.6	4.15	4.35	3.9	4.6	3.95	5.4
Newspaper Advertising.....	3.3	2.55	3.55	2.75	3.35	2.55	3.05
Direct Advertising.....	0.15	0.05	0.2	0.25	0.3	0.25	0.1
Other Advertising.....	0.25	0.2	0.25	0.3	0.25	0.2	0.25
Total Advertising (subtotal).....	(3.7)	(2.8)	(4.0)	(3.3)	(3.9)	(3.0)	(3.4)
Taxes¹.....	0.65	0.8	0.65	0.65	0.6	0.6	0.6
Interest (except on real estate).....	2.0	1.9	1.95	1.7	1.9	1.75	1.65
Supplies.....	1.75	1.55	1.9	1.8	1.95	1.65	1.75
Service Purchased.....	1.2	0.85	1.1	1.1	0.75	0.6	0.8
Unclassified: Losses from Bad Debts.....	0.3	0.25	0.2	0.2	0.25	0.2	0.15
Other.....	0.9	0.65	0.9	0.8	0.9	0.85	1.05
Travelling.....	0.45	0.45	0.4	0.45	0.35	0.4	0.2
Communication.....	0.5	0.45	0.55	0.5	0.55	0.55	0.5
Repairs.....	0.4	0.35	0.5	0.5	0.45	0.6	0.45
Insurance (except on real estate).....	0.3	0.25	0.25	0.2	0.25	0.25	0.25
Depreciation (except on real estate).....	0.7	0.55	0.65	0.65	0.75	0.65	0.7
Professional Services¹.....	0.55	0.5	0.6	0.55	0.5	0.55	0.5
TOTAL EXPENSE.....	34.6%	31.5%	35.3%	32.5%	35.6%	33.5%	35.1%
Sales per Square Foot of Total Space.....	\$15.60	*	\$18.60†	\$23.50	\$19.80	\$19.30	\$21.00
Real Estate Costs per Square Foot of Total Space.....	0.70	*	0.81†	*	0.91	0.77	1.15
Sales/Total Number of Employees.....	\$6,075	\$6,760	\$6,280	\$6,400	\$6,300	\$6,800	\$7,100
Sales/Number of Selling Employees.....	12,400	14,300	14,600	15,500	15,900	17,000	18,500
Percentages of Net Credit Sales:							
Pay Roll: Accounts Receivable and Credit.....	1.4%	1.1%	1.2%	1.0%	1.2%	1.05%	1.1%
Losses from Bad Debts.....	0.6	*	0.35	0.4	0.45	0.3	0.3
Interest on Accounts Receivable.....	1.45	1.4	1.45	1.15	1.35	1.3	1.4
Average Accounts Receivable Outstanding§.....	24.7†	23.0†	24.0	19.5†	22.5	21.9	23.3†

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

§At beginning and end of year. † See definition in the Appendix.

†Some of the reports covered the operations of more than one store. In such cases the population of the city in which the main store was located was used in preparing the common figure for population.

**Table 16. Pay Roll and Total Expense by Functions for Department Stores
with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1936**
(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.....	48†	11	51	12	17	6	11
PAY ROLL							
Administrative and General							
Executive.....	1.05%	0.95%	0.8%	1.0%	0.7%	0.9%	0.75%
Accounting Office.....	0.85	0.8	0.8	0.7	0.8	0.8	0.75
Accounts Receivable and Credit.....	0.75	0.65	0.7	0.6	0.7	0.7	0.55
Executive Office.....	0.05†	0.05†	0.05	0.05	0.05	0.05†	0.05
Superintendency and General Store.....	0.65	0.55	0.85	0.75	0.95	0.95	0.95
Total Administrative and General.....	3.35%	3.0%	3.2%	3.1%	3.2%	3.4%	3.05%
Occupancy							
Operating and Housekeeping.....	0.9	0.8	1.0	0.85	1.15	1.15	1.1
Heat, Light, and Power.....	0.1	0.1	0.1	0.1†	0.1	0.1	0.1
Total Occupancy.....	1.0%	0.9%	1.1%	0.95%	1.25%	1.25%	1.2%
Publicity							
Sales Promotion and General Advertising.....	0.35	0.35	0.4	0.35	0.35	0.4	0.35
Display.....	0.3	0.25	0.25	0.25	0.25	0.25	0.25
Total Publicity.....	0.65%	0.6%	0.65%	0.6%	0.6%	0.65%	0.6%
Buying and Merchandising							
Merchandise Managers and Assistants.....	0.55	0.65	0.65	0.6	0.7	0.95	0.7
Buyers and Assistants.....	2.3	2.7	2.4	2.4	2.3	2.2	2.1
Receiving and Marking.....	0.4	0.4	0.45	0.4	0.45	0.45	0.45
Other.....	0.2†	0.2	0.3	0.3	0.35	0.3	0.35
Total Buying and Merchandising.....	3.45%	3.95%	3.8%	3.7%	3.8%	3.9%	3.6%
Direct and General Selling							
Salespeople.....	6.4	6.0	6.05	5.95	5.95	5.95	5.65
Floor Superintendents and Section Managers.....	0.2	0.15	0.35	0.3	0.4	0.35	0.45
Other.....	1.05	0.9	1.4	1.15	1.7	1.6	2.0
Total Direct and General Selling.....	7.65%	7.05%	7.8%	7.4%	8.05%	7.9%	8.1%
Delivery.....	0.5	0.5	0.75	0.45	1.0	0.8	1.15
Total Pay Roll.....	16.6%	16.0%	17.3%	16.2%	17.9%	17.9%	17.7%
TOTAL EXPENSE							
Administrative and General							
Accounting Office, Accounts Receivable, and Credit.....	2.5%	2.3%	2.3%	2.0%	2.3%	2.3%	2.0%
Executive and Other Administrative and General.....	5.1	5.05†	5.1	5.1	5.0	5.2	4.8
Total Administrative and General.....	7.6%	7.35%	7.4%	7.1%	7.3%	7.5%	6.8%
Occupancy							
Operating and Housekeeping.....	1.5	1.3	1.7	1.6	1.8	1.85	1.7
Real Estate Costs¹.....	4.6	4.15	4.35	3.9	4.6	3.95	5.4
Fixtures and Equipment Costs.....	1.05	0.8	0.95	1.0	1.0	0.7	0.9
Heat, Light, and Power.....	0.85	0.75	0.75	0.6	0.65	0.55	0.6
Total Occupancy.....	8.0%	7.0%	7.75%	7.1%	8.05%	7.05%	8.6%
Publicity							
Sales Promotion and General Advertising.....	4.4	3.25	4.75	4.05	4.6	3.6	4.1
Display.....	0.5	0.5	0.5	0.45	0.5	0.5	0.45
Total Publicity.....	4.9%	3.75%	5.25%	4.5%	5.1%	4.1%	4.55%
Buying and Merchandising.....	4.2	4.7	4.6	4.6	4.5	4.7	4.1
Direct and General Selling.....	8.55	7.55	8.7	8.1	9.0	8.8	9.15
Delivery.....	1.35	1.15	1.6	1.1	1.65	1.35	1.9
Total Expense.....	34.6%	31.5%	35.3%	32.5%	35.6%	33.5%	35.1%

† Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
‡ One of the reports covered the operations of more than one store.

net gain to net worth in 1936 as contrasted with 1935 was that reported by the stores with sales of \$500,000 to \$750,000, for which the ratio for 1936 was 11.1% and the improvement over 1935, 5.7% of net worth. Nevertheless, in 1936 the large stores on the average not only secured the highest return on net worth but also reported more improvement as compared with the percentages for 1935. For the three groups of large stores represented in the Bureau's common figures for both years, the average amount of improvement in the ratio of net gain to net worth was 3.8% of net worth.

Mark-up and Mark-downs

The percentage of initial mark-up to original retail value was distinctly higher among large department stores in 1936 than among any of the groups of department stores with sales of less than \$2,000,000. The difference between the mark-up figures for stores with sales of \$2,000,000 to \$4,000,000 and those with sales of \$750,000 to \$1,000,000 was 1.1% of sales; and the former group had the lowest rate of mark-up among the large stores, while the latter group had the highest rate among small and medium-size stores.

The mark-up rates for the large stores were practically unchanged from 1935, when they were but slightly below the high record figures of 1933 and 1934.

Mark-downs in percentage of sales were lower for large department stores in 1936 than for small department stores; and both the lowest and the highest figures for the four groups of large stores were lower than the lowest and highest figures, respectively, for medium-size stores. The largest stores, those with sales of \$20,000,000 or more, had a typical percentage of mark-downs smaller by 0.9% of sales than the stores of any other group, and in addition experienced a decrease in the common figure from 1935 to 1936 greater than the average decrease for the eight groups of stores for which the comparison was possible, 0.85% of sales as contrasted with the 0.7% of sales mentioned on page 4.

With reference to employees' discounts and stock shortages, the large stores in 1936 operated at neither an advantage nor a disadvantage compared with small and medium-size stores.

Other Factors Affecting Margin

The stores with sales of \$20,000,000 or more had the lowest common figure for inward transportation expense, 0.65% of sales; and the stores with sales of

\$10,000,000 to \$20,000,000 had the next lowest percentage; while the smallest stores, those with sales of less than \$150,000, had the highest percentage (1.6), and the stores with sales of \$150,000 to \$500,000 had the next highest percentage (1.3). In the volume range from \$500,000 to \$10,000,000, there was little relationship between the percentage of inward transportation expense and size, but, nevertheless, large size definitely was associated with low percentage expenditures for this item and small size was associated with high percentage expenditures.

Perhaps organized attention to the routing and classification of shipments, such as many large stores provide through their traffic departments, is distinctly advantageous; and possibly the very large stores, being located in large cities, can and do buy a relatively large proportion of their goods locally. Also, large stores commonly may have secured somewhat lower transportation rates than small stores by shipping in larger average quantities; while in the size range from \$500,000 to \$10,000,000 the operation of this factor may have been offset to some degree by a tendency among the larger stores to use expensive forms of transportation relatively more than the smaller stores.

Alteration costs, which of course are charged against the cost of merchandise, typically were largest among large stores in 1936; and the large stores, especially those with sales of \$4,000,000 or more, enjoyed a substantial advantage in cash discounts.

Expense

Detailed discussion of Tables 15 and 16 is omitted, but the tables show clearly the tendency for percentage expense to be at its highest for stores with sales of \$10,000,000 to \$20,000,000 and to be lower for larger stores. Real estate costs, total occupancy expense, direct and general selling expense, and delivery expense are notable exceptions. All were at their highest in percentage of sales among the largest stores.

Costs Per Transaction

The data on margin, expense, and profit per gross sales transaction presented in Table 19 continue the series of unit cost statistics inaugurated in the Bureau's report for 1931.

In spite of the limitations listed on page 19, the statistics in Table 19 are valuable because they indicate emphatically the high absolute cost of serving the average customer in large department stores. Among the stores with sales of \$10,000,000 to \$20,000,000, for instance, total operating expense

**Table 17. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$2,000,000 to \$10,000,000, by Sales Volume Groups: 1936**
(Common Figures; Net Sales=100%)

Items	48† Stores with Net Sales of \$2,000,000 to \$4,000,000			49 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.....	0.85%	....		0.80%	....		
Accts. Rec. and Credit.....	0.75	....		0.70	....		
Executive.....	....	1.05%		....	0.80%		
Executive Office.....	....	0.05†		....	0.05		
Superintendency and Gen. Store ..	....	0.65	3.35%	....	0.85	3.20%	
Taxes¹.....	....	0.60	0.60	....	0.63	0.63	
Interest on Mdse. and Accounts Rec.....	....	1.71	1.71	....	1.68	1.68	
Supplies.....	0.12	0.05	0.17	0.12	0.06	0.18	
Unclassified: Losses from Bad Debts	0.30	....	0.30	0.20	....	0.20	
Other.....	0.09	0.37	0.46	0.06	0.44	0.50	
Travelling.....	0.01†	0.03	0.04	0.00†	0.03	0.03	
Communication.....	0.22	0.20	0.42	0.22	0.24	0.46	
Insurance.....	....	0.26	0.26	....	0.22	0.22	
Professional Services.....	0.15	0.12	0.27	0.18	0.10	0.28	
Total.....	2.50%†	5.10%†	7.60%†	2.30%†	5.10%	7.40%†	
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.....	0.90%		0.10%	1.00%	1.00%		0.10%
Real Estate Costs¹.....		4.60%		4.60		4.35%	4.35
Taxes on Fixtures and Equipment.....		0.03†		0.03†		0.03†	0.03†
Interest on Fixtures and Equipment.....		0.30		0.30		0.27	0.27
Supplies.....	0.13		0.16	0.20	0.14		0.14
Service Purchased.....	0.04†		0.59	0.63	0.04		0.51
Unclassified.....	0.05	0.00†	0.00†	0.05	0.06	0.00†	0.00†
Travelling.....	0.00†			0.00†	0.00†		0.00†
Repairs.....	0.38			0.38	0.48		0.48
Insurance on Fixtures and Equipment.....		0.02		0.02	0.02†		0.02†
Depreciation on Fixtures and Equipment ..		0.68		0.68		0.61	0.61
Total.....	1.50%	5.65%†	0.85%	8.00%†	1.70%†	5.30%†	7.75%
PUBLICITY:							
	Sales Promotion and General Advertising	Display		Sales Promotion and General Advertising	Display		
Pay Roll.....	0.35%	0.30%	0.65%	0.40%	0.25%	0.65%	
Advertising.....	3.70	....	3.70	4.00	....	4.00	
Supplies.....	0.20	0.19	0.39	0.25	0.25	0.50	
Unclassified.....	0.06	0.02†	0.08	0.03	0.01	0.04	
Travelling.....	0.01†	0.00†	0.01	0.01	0.00†	0.01	
Communication.....	0.05	....	0.05	0.04	....	0.04	
Professional Services.....	0.03†	....	0.03†	0.00†	....	0.00†	
Total.....	4.40%	0.50%†	4.90%†	4.75%†	0.50%†	5.25%†	
BUYING AND MERCHANDISING:							
Pay Roll: Mdse. Mgrs. and Assts.....	....	....	0.55%	....	....	0.65%	
Buyers and Assistants.....	....	....	2.30	....	....	2.40	
Receiving and Marking.....	....	....	0.40	....	....	0.45	
Other.....	....	....	0.20†	....	....	0.30	
Supplies.....	....	....	0.08	....	....	0.08	
Unclassified.....	....	....	0.03	....	....	0.03	
Travelling.....	....	....	0.37	....	....	0.37	
Communication.....	....	....	0.03	....	....	0.03	
Professional Services¹.....	....	....	0.26	....	....	0.30	
Total.....	....	....	4.20%†	....	....	4.60%†	
SELLING:							
	Direct and General Selling	Delivery		Direct and General Selling	Delivery		
Pay Roll: Salespeople.....	6.40%	....		6.05%	....		
Floor Supts. and Sec. Mgrs.....	0.20	....		0.35	....		
Other.....	1.05	....		1.40	....		
Delivery.....	....	0.50%	8.15%	....	0.75%	8.55%	
Taxes.....	....	0.01†	0.01†	....	0.01	0.01	
Interest on Equipment.....	....	0.01	0.01	....	0.01†	0.01†	
Supplies.....	0.67	0.13	0.80	0.70	0.14	0.84	
Service Purchased.....	....	0.56	0.56	....	0.54	0.54	
Unclassified.....	0.23	0.03	0.26	0.22	0.03	0.25	
Travelling.....	0.01†	0.00†	0.01†	0.00†	0.00†	0.00†	
Repairs.....	....	0.04†	0.04†	....	0.04	0.04	
Insurance.....	....	0.03†	0.03†	....	0.03	0.03	
Depreciation.....	....	0.04	0.04	....	0.05	0.05	
Total.....	8.55%†	1.35%	9.90%†	8.70%†	1.60%	10.30%†	
TOTAL.....			34.60%	35.30%			

†Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

‡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.

¶Some of the reports covered the operations of more than one store.

**Table 18. Expenses by Natural and Functional Divisions for Department Stores
with Net Sales of \$10,000,000 or More, by Sales Volume Groups: 1936**
(Common Figures; Net Sales = 100%)

Items	16 Stores with Net Sales of \$10,000,000 to \$20,000,000			11 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.....	0.80%	....		0.75%	....			
Accts. Rec. and Credit.....	0.70	....		0.55	....			
Executive.....	....	0.70%		....	0.75%			
Executive Office.....	....	0.05		....	0.05			
Superintendency and Gen. Store.....	....	0.95	3.20%	....	0.95	3.05%		
Taxes ¹.....	....	0.59	0.59	....	0.58	0.58		
Interest on Mdse. and Accts. Rec.....	....	1.62	1.62	....	1.40	1.40		
Supplies.....	0.12	0.06	0.18	0.10	0.03	0.13		
Unclassified: Losses from Bad Debts.....	0.25	....	0.25	0.15	....	0.15		
Other.....	0.10	0.40	0.50	0.10	0.46	0.56		
Travelling.....	0.00	0.02	0.02	0.00	0.01	0.01		
Communication.....	0.19	0.27	0.46	0.18	0.25	0.43		
Insurance.....	....	0.20	0.20	....	0.19	0.19		
Professional Services.....	0.15	0.13	0.28	0.15	0.15	0.30		
Total.....	2.30%†	5.00%†	7.30%	2.00%†	4.80%†	6.80%		
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%	1.10%		0.10%	1.20%
Real Estate Costs ¹		4.60%		4.60		5.40%		5.40
Taxes on Fixtures and Equipment.....		0.02†		0.02†		0.01†		0.01†
Interest on Fixtures and Equipment.....		0.25		0.25		0.23		0.23
Supplies.....	0.13		0.09	0.22	0.12		0.10	0.22
Service Purchased.....	0.02†		0.45	0.47	0.02		0.39	0.41
Unclassified.....	0.06	0.00†	0.00†	0.06	0.07	0.00†	0.00†	0.07
Travelling.....	0.00†			0.00†	0.00†			0.00†
Repairs.....	0.43			0.43	0.40			0.40
Insurance on Fixtures and Equipment.....		0.02		0.02		0.01		0.01
Depreciation on Fixtures and Equipment ..		0.71		0.71		0.65		0.65
Total.....	1.80%†	5.60%	0.65%†	8.05%†	1.70%†	6.30%	0.60%†	8.60%
PUBLICITY:								
	Sales Promotion and General Advertising	Display			Sales Promotion and General Advertising	Display		
Pay Roll.....	0.35%	0.25%	0.60%		0.35%	0.25%	0.60%	
Advertising.....	3.90	....	3.90		3.40	....	3.40	
Supplies.....	0.22	0.25	0.47		0.19	0.20	0.39	
Unclassified.....	0.06	0.02	0.08		0.08	0.02	0.10	
Travelling.....	0.00	0.00	0.00		0.00	0.00†	0.00	
Communication.....	0.06	....	0.06		0.06	....	0.06	
Professional Services.....	0.00†	....	0.00†		0.00†	....	0.00†	
Total.....	4.60%†	0.5%†	5.10%†		4.10%†	0.45%†	4.55%	
BUYING AND MERCHANDISING:								
Pay Roll: Mdse. Mgrs. and Assts.....			0.70%				0.70%	
Buyers and Assistants.....			2.30				2.10	
Receiving and Marking.....			0.45				0.45	
Other.....			0.35				0.35	
Supplies.....			0.08				0.06	
Unclassified.....			0.06				0.04	
Travelling.....			0.32				0.18	
Communication.....			0.03				0.02	
Professional Services ¹			0.22				0.22	
Total.....			4.50%†				4.10%†	
SELLING:								
	Direct and General Selling	Delivery			Direct and General Selling	Delivery		
Pay Roll: Salespeople.....	5.95%	....			5.65%	....		
Floor Supts. and Sec. Mgrs.	0.40	....			0.45	....		
Other.....	1.70	....			2.00	....		
Delivery.....	....	1.00%	9.05%		....	1.15%	9.25%	
Taxes.....	....	0.01	0.01		....	0.02	0.02	
Interest on Equipment.....	....	0.01	0.01		....	0.01	0.01	
Supplies.....	0.84	0.14	0.98		0.84	0.13	0.97	
Service Purchased.....	....	0.30	0.30		....	0.39	0.39	
Unclassified.....	0.13	0.05	0.18		0.21	0.06	0.27	
Travelling.....	0.00†	0.00†	0.00†		0.00†	0.00†	0.00†	
Repairs.....	....	0.04	0.04		....	0.03	0.03	
Insurance.....	....	0.02	0.02		....	0.03	0.03	
Depreciation.....	....	0.06	0.06		....	0.06	0.06	
Total.....	9.00%†	1.65%†	10.65%		9.15%	1.90%†	11.05%†	
TOTAL.....			35.60%	TOTAL.....			35.10%	

†Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

†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 19. 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: 1936**

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 Trans- action	Net Sales = 100%	Cents per Gross Sales Trans- action	Net Sales = 100%	Cents per Gross Sales Trans- action	Net Sales = 100%	Cents per Gross Sales Trans- action	Net Sales = 100%
Number of Reports.....	28†	28†	43	43	16	16	11	11
Aggregate Sales (in thousands).....	....	\$107,634	....	\$279,036	....	\$234,884	....	\$384,907
Typical Net Sales (in thousands).....	....	\$2,800	....	\$6,250	....	\$14,600	....	\$25,500
Index of Change in Sales (1936/1935).....	....	112.0	....	112.0	....	111.7	....	113.0
Index of Change in Number of Transactions (1936/1935)	105.6	....	105.0	....	105.3	....	105.9	....
Average Gross Sale.....	190.5¢	....	206.5¢	....	244.0¢	....	249.5¢	....
Returns and Allowances.....	15.5¢	8.9%	22.5¢	12.2%	28.0¢	13.0%	31.5¢	14.5%
Net Sales Income.....	175.0	100.0	184.0	100.0	216.0	100.0	218.0	100.0
Total Merchandise Costs (Net).....	111.3¢	63.6%	116.3¢	63.2%	135.0¢	62.5%	136.3¢	62.5%
Pay Roll Expense								
Administrative and General.....	6.1¢	3.5%	5.9¢	3.2%	6.9¢	3.2%	6.65¢	3.05%
Occupancy.....	1.7	0.95	2.1	1.15	2.7	1.25	2.6	1.2
Publicity.....	1.05	0.6	1.3	0.7	1.3	0.6	1.3	0.6
Buying and Merchandising.....	6.4	3.65	7.15	3.9	8.5	3.9	7.8	3.6
Direct and General Selling.....	13.5	7.7	14.2	7.7	17.3	8.0	17.65	8.1
Delivery.....	0.85	0.5	1.35	0.75	2.0	0.95	2.5	1.15
Total Pay Roll.....	29.6¢	16.9%	32.0¢	17.4%	38.7¢	17.9%	38.5¢	17.7%
Real Estate Costs¹.....	7.2	4.1	8.1	4.4	9.7	4.5	11.75	5.4
Advertising.....	6.65	3.8	7.9	4.3	8.2	3.8	7.4	3.4
Taxes¹.....	1.3	0.75	1.2	0.65	1.3	0.6	1.3	0.6
Interest (except on real estate).....	3.5	2.0	3.6	1.95	4.1	1.9	3.6	1.65
Supplies.....	2.95	1.7	3.7	2.0	4.2	1.95	3.8	1.75
Service Purchased.....	1.95	1.1	2.2	1.2	1.75	0.8	1.75	0.8
Unclassified: Losses from Bad Debts.....	0.5	0.3	0.45	0.25	0.45	0.2	0.35	0.15
Other.....	1.6	0.9	1.75	0.95	1.95	0.9	2.3	1.05
Travelling.....	0.7	0.4	0.75	0.4	0.7	0.35	0.45	0.2
Communication.....	0.8	0.45	1.0	0.55	1.2	0.55	1.1	0.5
Repairs.....	0.8	0.45	0.9	0.5	1.0	0.45	1.0	0.45
Insurance (except on real estate).....	0.5	0.3	0.45	0.25	0.55	0.25	0.55	0.25
Depreciation (except on real estate).....	1.2	0.7	1.3	0.7	1.65	0.75	1.55	0.7
Professional Services¹.....	0.95	0.55	1.1	0.6	1.05	0.5	1.1	0.5
TOTAL EXPENSE.....	60.2¢	34.4%	66.4¢	36.1%	76.5¢	35.4%	76.5¢	35.1%
Functional Division of Expense								
Administrative and General.....	13.7¢	7.8%	13.6¢	7.4%	15.7¢	7.25%	14.8¢	6.8%
Occupancy.....	12.8	7.3	14.7	8.0	17.3	8.0	18.8	8.6
Publicity.....	8.7	5.0	10.4	5.65	10.8	5.0	9.9	4.55
Buying and Merchandising.....	7.7	4.4	8.55	4.65	9.7	4.5	8.9	4.1
Direct and General Selling.....	15.1	8.65	16.1	8.75	19.6	9.05	19.9	9.15
Delivery.....	2.2	1.25	3.05	1.65	3.4	1.6	4.2	1.9
TOTAL EXPENSE.....	60.2¢	34.4%	66.4¢	36.1%	76.5¢	35.4%	76.5¢	35.1%
TOTAL COST.....	171.5	98.0	182.7	99.3	211.5	97.9	212.8	97.6
NET PROFIT OR LOSS.....	3.5¢	2.0%	1.3¢	0.7%	4.5¢	2.1%	5.2¢	2.4%
Net Other Income (including interest on capital owned)	4.9	2.8	6.6	3.6	8.0	3.7	6.8	3.1
NET GAIN before Federal Tax on Income.....	8.4¢	4.8%	7.9¢	4.3%	12.5¢	5.8%	12.0¢	5.5%
Federal Tax on Income.....	1.6	0.9	1.1†	0.6†	1.9	0.9	2.0	0.9
NET GAIN after Federal Tax on Income.....	6.8¢	3.9%	6.8¢	3.7%	10.6¢	4.9%	10.0¢	4.6%
Number of Gross Sales Transactions/Total Number of Employees.....	3,500	....	3,300	....	3,050	....	3,300	....
Number of Gross Sales Transactions/Number of Selling Employees.....	7,300	....	7,700	....	7,600	....	8,600	....
Net Sales/Total Number of Employees.....	....	\$6,300	....	\$6,250	....	\$6,400	....	\$7,100
Net Sales/Number of Selling Employees.....	....	13,000	....	14,600	....	16,000	....	18,500

†Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.
‡Some of the reports covered the operations of more than one store.

in 1936 amounted to 76.5 cents per gross sale. In other words, for each initial sales transaction, whether that transaction resulted in a return or in a final sale of all the goods concerned, the average store incurred expense of more than 76 cents. If it were possible to allow for the transactions which eventually were cancelled in whole or in part through returns, and to charge the expense of handling those transactions to the revenue-producing transactions, the expense for each of those latter transactions, of course, would have been higher than 76.5 cents. If it is assumed that every return represented an entire gross sales transaction, an assumption involving the fewest probable returns transactions, the cost per revenue, or net sales, transaction would have been 86.4 cents.¹

Performance of Goal Firms

The goal firms operating large stores were similar to the goal firms among small and medium-size firms in that, as a rule, their sales were not appreciably² larger than those of stores of similar size making smaller profits. In practically all volume groups, however, the goal firms as a rule enjoyed larger increases in sales than other firms. This, of course, suggests that either the high profits of the goal firms resulted from exceptionally able management which, among other things, caused sales to go ahead at an unusual rate; or that the exceptionally good profits resulted from conditions which made unusually large sales possible.

The statistics in Table 14 show that, on the average, the goal firms had initial mark-up percentages no higher than those of other firms of similar size. This was at variance with the experience of smaller stores as shown in Tables 6 and 9. When data for all volume groups are considered, it seems safe to say that unusually profitable firms frequently have an advantage in the percentage of initial mark-up. This advantage, of course, may result from either superior buying or skillful pricing.

With reference to mark-downs, a much stronger statement may be made. All three groups of goal stores covered by Table 14 had lower percentage mark-downs than other stores of corresponding size; and since this advantage never was accompanied by an important disadvantage as regards the percentages of discounts or stock shortages, the goal firms uniformly had lower total reductions

than other firms. The same was true for two of the three groups of smaller stores for which comparisons were possible.

In contrast with the experience of stores with sales of less than \$2,000,000, the goal firms among large department stores had higher percentages of inward transportation costs in two out of three instances;³ but as regards alteration and work-room costs and cash discounts, they did not operate at either an advantage or a disadvantage.

The net effect of all these factors was an advantage in gross margin rates for the goal stores. This advantage, which was found typically among small and medium-size stores as well as among large stores, amounted, for the three groups of large stores, to 0.8%, 0.7%, and 0.2% of sales, respectively.

For all three groups of large department stores, the advantage of the goal firms as regards total expense was greater than the advantage in margin, a condition which confirms the findings for earlier years and that for medium-size stores in 1936. The advantage in percentage expenses as a rule was characteristic of all important classifications of expense except (a) executive and other administrative and general and (b) buying and merchandising. In the latter case, two of the three goal groups of Table 16 had higher costs than other firms of similar size.

The goal firms represented in Table 16 clearly tended to be located in smaller cities than the less profitable stores in the same volume groups, and hence their low expense rates may have been due in part to advantages associated with that fact. Also, the higher sales per salesperson and per employee of the goal firms were a factor making for lower percentage costs.

Net profit rates among the goal groups of large department stores ranged from 4.1% to 5.1% of sales, slightly less on the average than the profits for the goal groups of middle-size stores. Net gain (before Federal income taxes) for the goal firms of large stores ranged from 7.8% to 8.5% of sales, somewhat more than the earnings on the average of the goal groups among medium-size stores; and the ratios of net gain to net worth for goal firms confirmed this indication that the most profitable large firms had higher earnings in relation to net worth than the most profitable stores with sales of \$500,000 to \$2,000,000.

¹ Where $76.5 : x :: 100 : 113$, $x = 86.4$.

² In the case of no group were the sales of the average goal firm more than 6% larger than the average for all firms.

³ Possibly a reflection of the fact that the goal firms were located in smaller cities than the less profitable firms.

SPECIALTY STORES

The percentages of increase in net sales for specialty stores in 1936 tended to be somewhat higher than those for department stores of similar size. Among department stores the percentage increase tended to be larger for the larger stores, varying more or less directly with size; but among the specialty stores there was no evidence of any such relationship between size and rate of improvement in volume.

Comparison of data in Tables 20 and 21 with comparable information for department stores

shows that initial mark-up in 1936 was higher among specialty stores. For stores with sales of less than \$2,000,000, this advantage of specialty stores amounted to 2% or more of retail value. For larger concerns, the advantage was smaller, 1% or less. Although the relationship is not evident throughout the sales volume range, there was a tendency for mark-up rates to vary directly with size among both specialty stores and department stores.

In part, the higher mark-up rates of the specialty

Table 20. Merchandising Statistics and Profits for Specialty Stores with Net Sales of Less Than \$500,000, by Sales Volume Groups: 1936
(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.....	25¶	6¶	10	5	14¶	5¶
Aggregate Sales (in thousands).....	\$3,587	\$878	\$2,073	\$1,052	\$5,867	\$2,527
Typical Net Sales (in thousands).....	\$95	\$110	\$205	\$210	\$375	\$400
Index of Change in Sales (1936/1935).....	110.5	118.6†	119.5†	*	112.0	108.0
Initial Mark-up (% of original retail value) on Invoice Cost Delivered ¹	*	*	*	*	37.8%	37.3%
Total Retail Reductions.....	*	*	*	*	11.0%†	9.6%
Inward Freight, Express, and Trackage.....	1.1%	1.05%	0.75%	*	0.85%	0.85%
Alteration and Workroom Costs (Net).....	*	*	*	*	0.8	0.9
Cash Discounts Received on Purchases (% of sales).....	5.2	5.1	4.0	4.4%	4.8	4.7
Gross Margin.....	34.3	33.8	36.5	38.5	34.9	35.1
Total Merchandise Costs (Net).....	65.7%	66.2%	63.5%	61.5%	65.1%	64.9%
Total Expense.....	32.8	29.5	35.6	34.9	35.0	32.0
TOTAL COST.....	98.5%	95.7%	99.1%	96.4%	100.1%	96.9%
NET PROFIT OR LOSS.....	1.5%	4.3%	0.9%	3.6%	L. 0.1%	3.1%
Net Other Income (including interest on capital owned)	2.0	2.4	1.7	1.4	3.6	2.5
NET GAIN before Federal Tax on Income:						
Percentage of Net Sales.....	3.5%	6.7%	2.6%	5.0%	3.5%	5.6%
Percentage of Net Worth.....	7.5†	21.0	14.0	31.0	8.0	12.5
Rate of Stock-turn (times a year):						
Based on Beginning and Ending Inventories.....	5.2	6.0	6.0	8.5	5.9	7.0
Based on Monthly Inventories.....	4.4†	*	5.4†	*	4.4	5.0
% Cash and C. O. D. Sales.....	*	*	*	*	38.0%†	45.0%
% Charge and Installment Sales.....	*	*	*	*	62.0†	55.0
% of Firms Earning Some Net Profit.....	64.0%	100.0%	60.0%	100.0%	42.9%	100.0%
% of Firms Earning Some Net Gain.....	80.0	100.0	90.0	100.0	92.9	100.0

*Data not available. †Usable figures for this item were given on less than 75% of the reports.
||Items omitted in this table but found in other similar tables are omitted because of lack of data.
¶Some of the reports covered the operations of more than one store. ¹ See definition in the Appendix.

stores offset their higher percentages of total retail reductions. Statistics on mark-downs are available only for specialty stores with sales of \$2,000,000 or more, but for these stores the mark-down

rates were higher than those of department stores by 1.5% of sales or more. Figures on total retail reductions are available for five groups of specialty stores, and in all instances the figures are higher

Table 21. Merchandising Statistics and Profits for Specialty Stores with Net Sales of \$500,000 or More, by Sales Volume Groups: 1936

(Net Sales=100%, except where noted)

Items||	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 to \$4,000,000		Stores with Net Sales of \$4,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports.....	13†	4†	8	4	17	6	6
Aggregate Sales (in thousands).....	\$22,151	\$16,249	\$11,103	\$6,462	\$42,514	\$17,780	\$57,824
Typical Net Sales (in thousands).....	\$650	\$670	\$1,390	\$1,600	\$2,300	\$3,000	\$7,500
Index of Change in Sales (1936/1935).....	110.5	110.5	120.5	130.5	110.5	109.7	112.0
Initial Mark-up (% of original retail value) on Invoice Cost Delivered ¹	38.9%	39.8%	39.9%	*	39.1%	39.6%	39.3%
Mark-downs.....	*	*	*	*	7.9%	7.7%	7.4%
Discounts to Employees and Others.....	*	*	*	*	0.6	0.45	0.6
Stock Shortages.....	*	*	*	*	0.7	0.7	0.8
Total Retail Reductions.....	8.9%†	6.0%	8.6%	*	9.2%	8.85%	8.8%
Inward Freight, Express, and Truckage.....	0.65%	0.55%	0.65%	*	0.4%	0.35%	0.5%†
Alteration and Workroom Costs (Net).....	0.75	0.65	0.65	*	0.3	0.3	0.8
Cash Discounts Received on Purchases (% of sales).....	4.1	4.3	4.1	3.7%	4.4	4.5	3.9
Gross Margin.....	36.8	39.8	38.2	39.8	37.6	38.4	37.1
Total Merchandise Costs (Net).....	63.2%	60.2%	61.8%	60.2%	62.4%	61.6%	62.9%
Total Expense.....	36.2	34.5	35.7	34.7	36.4	35.3	35.0
TOTAL COST.....	99.4%	94.7%	97.5%	94.9%	98.8%	96.9%	97.9%
NET PROFIT OR LOSS.....	0.6%	5.3%	2.5%	5.1%	1.2%	3.1%	2.1%
Net Other Income (including interest on capital owned).....	2.8	2.5	2.0	1.8	2.4	2.0	3.1
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales.....	3.4%	7.8%	4.5%	6.9%	3.6%	5.1%	5.2%
Percentage of Net Worth.....	12.0	21.0	18.0	27.5	12.0	19.5	12.0
Federal Tax on Income.....	0.5%	1.3%	0.8%	*	0.6%	0.9%	0.7%
NET GAIN after Federal Tax on Income:							
Percentage of Net Sales.....	2.9%	6.5%	3.7%	*	3.0%	4.2%	4.5%
Percentage of Net Worth.....	10.2	17.5	14.8	*	10.0†	16.0	10.5
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories.....	5.7	6.3	5.4	5.0	6.3	6.3	6.7
Based on Monthly Inventories.....	4.7	4.9	4.9	4.7	5.6	5.6	5.3
Returns and Allowances:							
Percentage of Gross Sales.....	8.7%†	10.3%	*	*	14.5%	14.4%	13.9%
Percentage of Net Sales.....	9.5†	11.5	*	*	17.0	16.8	16.1
% Cash Sales.....	32.0%	30.0%	28.0%†	25.0%	26.0%	37.0%	35.0%
% C. O. D. Sales.....					5.5		6.0
% Charge Sales.....	68.0	70.0	72.0†	75.0	68.5	63.0	59.0
% Installment Sales.....							
% of Firms Earning Some Net Profit.....	53.9%	100.0%	87.5%	100.0%	64.7%	100.0%	83.3%
% of Firms Earning Some Net Gain.....	92.3	100.0	100.0	100.0	88.2	100.0	83.3

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

||Some of the reports covered the operations of more than one store.

||Items omitted from this table but found in other similar tables have been omitted because of lack of data.

than those for department stores of similar size. In fact, the lowest common figure for total retail reductions among specialty stores (8.6%) was the same as the highest common figure for this item among department stores. The specialty stores with sales of \$300,000 to \$500,000, the smallest specialty stores for which data on total retail reductions are available, had the highest common figure for this item, 11% of sales; and, in general, the relationship between percentage retail reductions and size of store was much the same among specialty stores as among department stores. In both instances, relatively low rates were reported on the average by stores with sales of \$1,000,000 to \$2,000,000.

Specialty stores in 1936, on the average, received higher percentages of cash discounts on purchases than did department stores of similar size. In fact, the lowest common figure for specialty stores was higher than the highest common figure for the department stores. Undoubtedly, these higher discounts reflect differences in the prevailing terms for apparel as contrasted with other merchandise. The smallest specialty stores had the highest common figure for cash discounts and the largest specialty stores had the lowest common figure, a situation which was exactly the reverse of that obtained for department stores.

Inward transportation expense for specialty stores was smaller in percentage of sales than for

Table 22. Expenses by Natural Divisions for Specialty Stores with Net Sales of Less Than \$500,000, by Sales Volume Groups: 1936
(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.....	25¶	6¶	10	5	14¶	5¶
Aggregate Sales (in thousands).....	\$3,587	\$878	\$2,073	\$1,052	\$5,867	\$2,527
Typical Net Sales (in thousands).....	\$95	\$110	\$205	\$210	\$375	\$400
Index of Change in Sales (1936/1935).....	110.5	118.6†	119.5†	*	112.0	108.0
Total Pay Roll.....	17.4%	16.0%	17.4%	17.4%	17.3%	16.5%
Real Estate Costs ¹	4.9	3.4	5.55	5.1	3.8	3.4
Total Advertising.....	2.35	2.1	3.6	3.6	3.8	3.8
Taxes ¹	0.5		0.7		0.7	0.9
Interest (except on real estate).....	1.8		1.7		1.85	1.5
Supplies.....	0.85		1.1		1.2	1.25
Service Purchased.....	1.1		1.1		1.2	1.15
Unclassified: Losses from Bad Debts.....	0.25		0.15		0.7	0.2
Other.....	0.6		1.2		1.25	0.55
Travelling.....	0.8	8.0	0.6	8.8	0.75	0.55
Communication.....	0.6		0.5		0.55	0.6
Repairs.....	0.2†		0.3		0.3	0.3
Insurance (except on real estate).....	0.4		0.5		0.5	0.35
Depreciation (except on real estate).....	0.7		0.8		0.6	0.45
Professional Services ¹	0.35†		0.4		0.5†	0.5
TOTAL EXPENSE.....	32.8%	29.5%	35.6%	34.9%	35.0%	32.0%
Sales per Square Foot of Total Space.....	*	*	*	*	\$31.00†	*
Real Estate Costs per Square Foot of Total Space.....	*	*	*	*	1.15†	*
Sales/Total Number of Employees.....	*	*	*	*	\$6,900†	*
Sales/Number of Selling Employees.....	*	*	*	*	13,000†	*
Percentages of Net Credit Sales:						
Pay Roll: Accounts Receivable and Credit.....	*	*	*	*	*	*
Losses from Bad Debts.....	*	*	*	*	1.15%†	*
Interest on Accounts Receivable.....	*	*	*	*	1.2†	*
Average Accounts Receivable Outstanding§.....	*	*	*	*	19.5†	*

* Data not available. † Usable figures for this item were given on less than 75% of the reports.
|| Items omitted in this table but found in other similar tables are omitted because of lack of data.
¶ Some of the reports covered the operations of more than one store.
¹ See definition in the Appendix.

§ At beginning and end of year.

department stores of similar size by 0.4% of sales or more, a difference which is substantial when the size of the items themselves is considered. Presumably, the greater use of express and other expensive forms of transport by specialty stores was more than offset by the higher ratio of value to bulk for specialty store merchandise.

The advantage which the specialty stores enjoyed as regards initial mark-up and cash discounts was offset only in part by their relatively high retail reductions and (for some groups of stores) alteration and workroom costs. Hence, gross margin

rates among specialty stores typically were higher than those for department stores of similar size. This advantage of the specialty stores ranged from 0.6% of sales for stores with sales of \$4,000,000 or more to 4.9% for stores with sales of \$150,000 to \$300,000; and displayed some tendency to vary inversely with size of store. This suggests that the difference between the small department store and the small specialty store may be more pronounced than that between the large department stores and large specialty stores.

It may be observed, in addition, that the higher

Table 23. Expenses by Natural Divisions for Specialty Stores with Net Sales of \$500,000 or More, by Sales Volume Groups: 1936
(Net Sales=100%, except where noted)

Items||	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 to \$4,000,000		Stores with Net Sales of \$4,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports	13†	4†	8	4	17	6	6
Aggregate Sales (in thousands)	\$22,151	\$16,249	\$11,103	\$6,462	\$42,514	\$17,780	\$57,824
Typical Net Sales (in thousands)	\$650	\$670	\$1,390	\$1,600	\$2,300	\$3,000	\$7,500
Index of Change in Sales (1936/1935)	110.5	110.5	120.5	130.5	110.5	109.7	112.0
Total Pay Roll	16.7%	16.0%	16.2%	15.8%	16.9%	16.6%	16.7%
Real Estate Costs ¹	5.2	4.3	5.1	4.7	5.3	5.1	5.5
Newspaper Advertising	3.8	*	3.25†	*	4.1	4.1	3.0
Direct Advertising	0.3†	*	0.4†	*	0.45	0.45	0.2
Other Advertising	0.6†	*	0.45†	*	0.25	0.35	0.3
Total Advertising (subtotal)	(4.7)	3.9	(4.1)	4.1	(4.8)	(4.9)	(3.5)
Taxes ¹	0.55	0.75	0.45	0.5	0.5	0.5	0.5
Interest (except on real estate)	1.9	1.95	1.85	1.9	1.6	1.55	1.65
Supplies	1.2	1.45	1.9	1.85	1.65	1.75	1.8
Service Purchased	1.3	1.15	1.25	1.25	1.4	1.25	1.0
Unclassified: Losses from Bad Debts	0.3	0.35	0.5	0.7	0.15	0.15	0.3
Other	1.15	1.15	1.05	0.9	0.75	0.55	1.15
Travelling	0.55	0.6	0.65	0.65	0.65	0.55	0.5
Communication	0.65	0.75	0.6	0.7	0.6	0.6	0.5
Repairs	0.3	0.25	0.5	0.2	0.5	0.55	0.35
Insurance (except on real estate)	0.5	0.5	0.45	0.3	0.3	0.3	0.25
Depreciation (except on real estate)	0.75	0.9	0.65	0.55	0.75	0.55	0.8
Professional Services ¹	0.45	0.5	0.45	0.6	0.55	0.4	0.5
TOTAL EXPENSE	36.2%	34.5%	35.7%	34.7%	36.4%	35.3%	35.0%
Sales per Square Foot of Total Space	*	*	*	*	\$35.50†	*	*
Real Estate Costs per Square Foot of Total Space	*	*	*	*	\$1.90†	*	*
Sales/Total Number of Employees	\$6,700†	*	*	*	\$6,300	*	\$8,500
Sales/Number of Selling Employees	14,500†	*	*	*	15,800	*	21,000
Percentages of Net Credit Sales:							
Pay Roll: Accounts Receivable and Credit	*	*	*	*	1.1%	1.35%	*
Losses from Bad Debts	0.45%	0.5%	*	0.95%	0.2	0.25	*
Interest on Accounts Receivable	1.3	1.3	1.3%†	1.2	1.1	1.1	1.15%
Average Accounts Receivable Outstanding\$	21.8	22.0	21.4†	20.0	18.0	18.0	19.0

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

†Some of the reports covered the operations of more than one store.

||Items omitted in this table but found in other similar tables are omitted because of lack of data.

1 See definition in the Appendix.

\$At beginning and end of year.

Table 24. Pay Roll and Total Expense by Functions for Specialty Stores
with Net Sales of \$500,000 or More, by Sales Volume Groups: 1936
(Net Sales=100%)

Items	Stores with Net Sales of						
	\$500,000 to \$1,000,000		\$1,000,000 to \$2,000,000		\$2,000,000 to \$4,000,000		\$4,000,000 or more
	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures	Goal Figures	Common Figures
Number of Reports.....	9†	4†	6	4	15	6	6
PAY ROLL							
Administrative and General							
Executive.....	1.8%	*	1.95%†	*	1.45%	1.2%	1.35%
Accounting Office.....	0.7	*		*	0.85	0.85	0.75
Accounts Receivable and Credit.....	0.9	*	2.3†	*	0.75	0.85	0.55
Executive Office.....	0.6†	*		*	0.1†	0.05†	0.05†
Superintendency and General Store.....		*		*	0.7	0.6	0.85
Total Administrative and General.....	4.0%	3.85%	4.25%	4.45%	3.85%	3.55%	3.55%
Occupancy							
Operating and Housekeeping.....	*	*	*	*	0.9	*	0.9
Heat, Light, and Power.....	*	*	*	*	0.0†	*	0.05
Total Occupancy.....	0.75%	0.75%	0.7%	0.6%	0.9%	0.9%	0.95%
Publicity							
Sales Promotion and General Advertising....	0.4	0.55	0.3	*	0.5	0.35	0.4
Display.....	0.35	0.3	0.25	*	0.25	0.25	0.2
Total Publicity.....	0.75%	0.85%	0.55%	0.55%	0.75%	0.6%	0.6%
Buying and Merchandising							
Merchandise Managers and Assistants.....	*	*	*	*	0.85	0.65	0.6†
Buyers and Assistants.....	*	*	*	*	2.35†	2.05†	2.3†
Receiving and Marking.....	*	*	*	*	0.45	0.7	0.35
Other.....	*	*	*	*	0.3†		0.25
Total Buying and Merchandising.....	3.4%	2.95%	3.1%	2.65%	3.95%	3.4%	3.5%
Direct and General Selling							
Salespeople.....	6.1	*	6.05	6.25	5.6	5.95	5.6
Floor Superintendents and Section Managers	0.6	*	0.4	0.25	0.35	0.4†	0.5
Other.....	0.7	*	0.85	0.8	1.25	1.45	1.5
Total Direct and General Selling.....	7.4%	7.3%	7.3%	7.3%	7.2%	7.8%	7.6%
Delivery.....	0.4	0.3	0.3	0.25	0.25	0.35	0.5
Total Pay Roll.....	16.7%	16.0%	16.2%	15.8%	16.9%	16.6%	16.7%
TOTAL EXPENSE							
Administrative and General							
Accounting Office, Accounts Receivable, and Credit.....	2.95%	*	*	*	2.35%	2.35%	2.15%
Executive and Other Administrative and General.....	5.95	*	*	*	5.2	4.8	5.3
Total Administrative and General.....	8.9%	8.9%	8.8%	9.0%	7.55%	7.15%	7.45%
Occupancy							
Operating and Housekeeping.....	1.35	1.15	*	*	1.55	1.65	1.45
Real Estate Costs ¹	5.2	4.3	*	*	5.3	5.1	5.5
Fixtures and Equipment Costs.....	0.95	1.25	*	*	1.0	0.75	1.1
Heat, Light, and Power.....	0.85	0.6	*	*	0.65	0.65	0.5
Total Occupancy.....	8.35%	7.3%	8.0%	7.25%	8.5%	8.15%	8.55%
Publicity							
Sales Promotion and General Advertising....	5.4	4.85	4.95†	*	5.65	5.7	4.4
Display.....	0.55	0.5	0.55†	*	0.5	0.45	0.5
Total Publicity.....	5.95%	5.35%	5.5%	5.5%	6.15%	6.15%	4.9%
Buying and Merchandising.....	4.0	3.8	4.1	3.7	5.0	4.25	4.25
Direct and General Selling.....	8.1	8.25	8.3	8.3	8.1	8.5	8.5
Delivery.....	0.9	0.9	1.0	0.95	1.1	1.1	1.35
Total Expense.....	36.2%	34.5%	35.7%	34.7%	36.4%	35.3%	35.0%

*Data not available. †Usable figures for this item were given on less than 75% of the reports. ¹See definition in the Appendix.
†Some of the reports covered the operations of more than one store.

margin rates of specialty stores, in most instances, did not merely reflect higher expense rates. For four of the seven groups of specialty stores the advantage in gross margin percentages as compared to department stores was greater than the disadvantages in expense rates.

Expense and Earnings

The common figures for six of the seven groups of specialty stores show higher expense percentages for those stores than for department stores of similar size. For the seventh group, specialty stores with sales of \$4,000,000 or more, expenses on the average were lower by 0.3% of sales than for department stores with sales of \$4,000,000 to \$10,000,000. This same condition obtained in 1935. For stores with sales of \$300,000 or more, there was a definite tendency for the difference between the expense rates of department stores and specialty stores to be smaller the larger the stores; and for the difference to favor the specialty stores rather than the department stores for sales volumes in excess of \$4,000,000. This relationship between the difference in expense rates and size of store was not evident among small stores.

As has been noted, net profit rates averaged higher for four groups of specialty stores than for department stores of corresponding size. For one group, stores with sales of \$300,000 to \$500,000, however, the typical rate of net profit was not merely lower than that for department stores, but was actually negative. Of the 17 groups of department and specialty stores represented in this study, only this one group on the average had a net loss.

As regards the return on net worth before Federal income taxes the specialty stores displayed distinctly better results than the department stores. Among the former, the lowest percentage of net gain to net worth was 7.5, and for each of the seven groups of specialty stores the average percentage was higher than that for department stores of similar size.

Turnover

The rates of stock-turn for specialty stores were distinctly higher than those for department stores. For only one group of department stores was the average rate of stock-turn as high as the lowest figure for any group of specialty stores. More interesting, however, is the fact that among the specialty stores the relation of size to rate of stock-turn was by no means direct and consistent throughout the volume range covered as it was among department stores.

Table 25. Expenses by Natural and Functional Divisions for 6 Specialty Stores with Net Sales of \$1,000,000 to \$2,000,000: 1936
(Net Sales=100%)

Items	Common Figures	
ADMINISTRATIVE AND GENERAL:		
Pay Roll:		
Executive.....		1.95%†
All Other Admin. and Gen.		2.30†
Taxes ¹		0.42
Interest on Mdse. and on		
Accts. Rec.....		1.63
Supplies.....		0.24
Losses from Bad Debts.....		0.50
Other Unclassified.....		0.39
Travelling.....		0.02†
Communication.....		0.50
Insurance.....		0.44
Professional Services.....		0.41
Total.....		8.80%‡
OCCUPANCY:		
Pay Roll.....		0.70%‡
Real Estate Costs ¹		5.10
Taxes on Fixtures and Equip.....		0.03†
Interest on Fixtures and		
Equipment.....		0.20
Supplies.....		0.16
Service Purchased.....		0.65
Unclassified.....		0.08
Travelling.....		0.00†
Repairs.....		0.48
Insurance on Fixtures and		
Equipment.....		0.01†
Depreciation on Fixtures		
and Equipment.....		0.61
Total.....		8.00%‡
PUBLICITY:		
Pay Roll:		
Sales Pro. and Gen. Adv.....		0.30%‡
Display.....		0.25
Total Advertising.....		4.10
Supplies.....		0.59
Unclassified.....		0.17†
Travelling.....		0.00†
Communication.....		0.07†
Professional Services.....		0.00†
Total.....		5.50%‡
BUYING AND MERCHANDISING:		
Pay Roll.....		3.10%‡
Supplies.....		0.13
Unclassified.....		0.12†
Travelling.....		0.62
Communication.....		0.05†
Professional Services ¹		0.06†
Total.....		4.10%‡
SELLING:		
Pay Roll:	Direct and General Selling	Delivery
Salespeople.....	6.05%‡	.....
Floor Supts. and Sec. Mgrs.....	0.40	.....
Other.....	0.85	.....
Delivery.....	.....	0.30%‡
Taxes.....	.....	0.00†
Interest on Equipment.....	.....	0.00†
Supplies.....	0.73	0.06†
Service Purchased.....	.....	0.61
Unclassified.....	0.20	0.00†
Travelling.....	0.00†	0.00†
Repairs.....	.....	0.00†
Insurance.....	.....	0.01†
Depreciation.....	.....	0.02†
Total.....	8.30%‡	1.00%‡
TOTAL.....		35.70%‡

†Usable figures for this item were given on less than 75% of the reports.
‡See footnote ‡, Table 26, p. 34. ¹ See definition in the Appendix.

Table 26. Expenses by Natural and Functional Divisions for Specialty Stores
with Net Sales of \$2,000,000 or More, by Sales Volume Groups: 1936
(Common Figures; Net Sales=100%)

Items	14 Stores with Net Sales of \$2,000,000 to \$4,000,000			6 Stores with Net Sales of \$4,000,000 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.....	0.85%	....		0.75%	....			
Accts. Rec. and Credit.....	0.75	....		0.55	....			
Executive.....	....	1.45%		....	1.35%			
Executive Office.....	....	0.10†		....	0.05†			
Superintendency and Gen. Store .....	....	0.70	3.85%	....	0.85	3.55%		
Taxes¹.....	....	0.49	0.49	....	0.45	0.45		
Interest on Mdse. and Accts. Rec. ....	....	1.40	1.40	....	1.38	1.38		
Supplies.....	0.15	0.04	0.19	0.11	0.05†	0.16		
Unclassified: Losses from Bad Debts	0.15	....	0.15	0.30	....	0.30		
Other.....	0.05	0.40	0.45	0.12	0.44	0.56		
Travelling.....	0.00†	0.02	0.02	0.00†	0.04†	0.04†		
Communication.....	0.24	0.22	0.46	0.17	0.23	0.40		
Insurance.....	....	0.27	0.27	....	0.24	0.24		
Professional Services.....	0.15	0.12	0.27	0.16	0.21	0.37		
Total.....	2.35%†	5.20%†	7.55%	2.15%†	5.30%†	7.45%		
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.....	0.90%		0.00%†	0.90%	0.90%		0.05%	0.95%
Real Estate Costs¹.....		5.30%		5.30		5.50%		5.50
Taxes on Fixtures and Equipment.....		0.02†		0.02†		0.03†		0.03†
Interest on Fixtures and Equipment.....		0.19		0.19		0.25		0.25
Supplies.....	0.10		0.06	0.16	0.13		0.06†	0.19
Service Purchased.....	0.02†		0.60	0.62	0.02†		0.40	0.42
Unclassified.....	0.07	0.00†	0.00†	0.07	0.07	0.00†	0.00†	0.07
Travelling.....	0.00†			0.00†				0.00†
Repairs.....	0.48			0.48	0.33			0.33
Insurance on Fixtures and Equipment.....		0.03		0.03		0.01		0.01
Depreciation on Fixtures and Equipment		0.75		0.75		0.79		0.79
Total.....	1.55%†	0.30%†	0.65%†	8.50%†	1.45%	6.60%†	0.50%†	8.55%†
PUBLICITY:								
	Sales Promotion and General Advertising	Display		Sales Promotion and General Advertising	Display			
Pay Roll.....	0.50%	0.25%	0.75%	0.40%	0.20%	0.60%		
Advertising.....	4.80	....	4.80	3.50	....	3.50		
Supplies.....	0.20	0.22	0.42	0.37†	0.26	0.63		
Unclassified.....	0.03	0.01	0.04	0.03	0.02	0.05		
Travelling.....	0.01†	0.00	0.01	0.00†	0.00†	0.00†		
Communication.....	0.11	....	0.11	0.09	....	0.09		
Professional Services.....	0.00†	....	0.00†	0.03†	....	0.03†		
Total.....	5.65%	0.50%†	6.15%†	4.40%†	0.50%†	4.90%		
BUYING AND MERCHANDISING:								
Pay Roll: Mdse. Mgrs. and Assts.....	....	....	0.85%	....	....	0.60%†		
Buyers and Assistants.....	....	....	2.35	....	....	2.30†		
Receiving and Marking.....	....	....	0.45	....	....	0.35		
Other.....	....	....	0.30	....	....	0.25		
Supplies.....	....	....	0.08	....	....	0.08		
Unclassified.....	....	....	0.05	....	....	0.05		
Travelling.....	....	....	0.60	....	....	0.46		
Communication.....	....	....	0.04	....	....	0.03		
Professional Services¹.....	....	....	0.30	....	....	0.12†		
Total.....	....	....	5.00%†	....	....	4.25%†		
SELLING:								
	Direct and General Selling	Delivery		Direct and General Selling	Delivery			
Pay Roll: Salespeople.....	5.60%	....		5.60%	....			
Floor Supts. and Sec. Mgrs.....	0.35	....		0.50	....			
Other.....	1.25	....		1.50	....			
Delivery.....	....	0.25%	7.45%	....	0.50%	8.10%		
Taxes.....	....	0.00†	0.00†	....	0.00†	0.00†		
Interest on Equipment.....	....	0.00†	0.00†	....	0.00†	0.00†		
Supplies.....	0.76	0.05	0.81	0.61	0.14	0.75		
Service Purchased.....	....	0.80	0.80	....	0.56	0.56		
Unclassified.....	0.12	0.00	0.12	0.31	0.09	0.40		
Travelling.....	0.00†	0.00†	0.00†	0.00†	0.00†	0.00†		
Repairs.....	....	0.00†	0.00†	....	0.02†	0.02†		
Insurance.....	....	0.00†	0.00†	....	0.02†	0.02†		
Depreciation.....	....	0.00†	0.00†	....	0.02†	0.02†		
Total.....	8.10%†	1.10%	9.20%†	8.50%†	1.35%	9.85%†		
TOTAL.....			36.40%	35.00%				

†Usable figures for this item were given on less than 75% of the reports. ¹ See definition in the Appendix.

‡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.

APPENDIX

Materials

The information and conclusions contained in this bulletin are based on profit and loss statements, balance sheets, and other materials received on 558 separate schedules covering the operations of more than 637 stores in 1936. Of these 558 schedules, 39 arrived too late to be used, and 32 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 487 statements.

The form on which the cooperating stores reported their figures and other information was developed by the Bureau out of its experience in conducting 16 preceding studies for this trade, and from contact with store executives. Copies of the form may be secured by writing to the Bureau.

Size of Sample

The total sales volume of the 558 firms which sent reports was slightly less than \$1,550,000,000, and the total sales of the 487 firms for which data were actually used in setting common figures was \$1,500,460,000.

It is estimated that this latter amount is more than 34% of the total sales of department and specialty stores in the United States in 1936. According to the Census of Business: 1935, Retail Distribution, Preliminary United States Summary (October, 1936), page 15, the sales of department stores and women's ready-to-wear specialty stores in 1935 were in excess of \$3,874,000,000. On the basis of the Federal Reserve Board's index, sales of department stores in 1936 amounted to roughly 112% of their sales in 1935, so that the figure for 1936 corresponding to the total above was about \$4,338,880,000. The sales of the 487 stores for which data actually were used in this study amount to somewhat more than 34% of \$4,338,880,000.

Classification of Reports By Kind of Store

In classifying the reports, the first step was to separate those for department stores from those for specialty stores. The Bureau defined a department store as one handling a number of lines of merchandise, including yard goods and, usually, home fur-

nishings. 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 of 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. In this work, consolidated reports for a main store and its branches were classified according to the main store's volume, but consolidated reports for groups of stores more or less similar in volume and not strictly in the relationship of a main store and branches were classified according to sales per store.

This resulted in ten volume groups for department stores and seven 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 in the 1934 and 1935 studies 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 changes in sales.

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 com-

puted 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 department store figures for Table 1 and for the lower portion of Chart 1, however, 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, the department store figures in Table 1, instead of representing the experience of the typical or average store, represent the experience of the trade as a whole.

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 is customary 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, represents the real volume of business done (in owned departments only). This figure is computed by deducting from gross sales the amount of merchandise returned by customers and the allowances granted to customers.

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

Total expense, according to the Bureau's definition, includes not only actual expenditures and regular charges, such as those for depreciation, but also charges for interest at 6% on investment in plant and equipment used, in merchandise inventory, and in accounts receivable, regardless of the source of the capital invested in these various assets or the rates paid on any capital borrowed. Also, total expense includes charges for the salaries of proprietors, active partners, and chief executives, whether or not they actually were paid. Salaries of inactive partners are considered as deductions from net gain. Total expense, therefore, represents the true long-run economic cost of conducting the merchandising or trading operations of the reporting stores.

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: 1936". Readers who wish more information should write to the Bureau.

Net profit, as the Bureau uses the term, is the amount which remains after deducting total expense from gross margin; or, stated differently, it is the amount which remains after deducting total cost, the sum of total merchandise costs (net) and total expense as defined above, from net sales. Thus net profit is the profit after charges for capital, including that invested in real estate, and for management; it reflects the efficiency of a firm in the conduct of its merchandising operations and the profitability of a concern as a merchandising enterprise. This 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 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, including the equity in real estate; and, as regards borrowed capital used in the business, any difference between interest at 6% and interest actually paid. These interest credits are made to offset imputed interest charged as expense. In addition, net other income includes the amount of interest actually received, receipts from leased departments, and net income from any non-merchandising operations.

Net gain before Federal tax on income is the total of net profit and net other income. It is the net earnings including return on investment after considering all miscellaneous income or deductions other than Federal income taxes. Net gain is the figure which many merchants, bankers, and accountants have in mind when they speak of net profit, net business profit, or net earnings. In using the net gain figures, allowance must be made for the desired rate of return on invested 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 latter 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. They exclude all expenditures or charges related to real estate, but they 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, which 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, usually 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 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.

Pay Roll

Largely as a result of the federal and state social security legislation, the Controllers' Congress, in February, 1936, made several changes in the handling of pensions and retirement allowances, unemployment insurance privately provided, and supper money. Since February, 1936, expenses for these items have been included in unclassified, rather than in pay roll. In making the 1936 study, the Bureau adopted these revisions in the Controller's Congress classifications and, as a result, introduced

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.

some lack of comparability between the figures for pay roll and unclassified for 1936 and earlier years.

Taxes

Taxes do not include taxes on real estate, which are included in real estate costs, or Federal income taxes; but do include pay roll taxes and 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.

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 36 by the average inventory as shown by the profit and loss statement; that is, at cost. The stock-turn figures based on average monthly inventories were computed through the use of cost or retail inventory figures, whichever were furnished, total merchandise costs or net sales being used as dividends.

Undoubtedly the rate of stock-turn based on monthly inventories provides a more reliable index of the turnover of physical merchandise than does the rate of stock-turn based on beginning and ending inventories; but since the figures computed on the latter basis are somewhat more representative, they usually are the ones mentioned 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 mer-

chandise sold and delivered invoice cost of merchandise sold expressed as percentages of net sales.

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

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

Using figures for department stores with \$2,000,000 to \$4,000,000 sales from Table 14, the computation of the rate of initial mark-up based on invoice cost delivered is as follows:

$$\frac{35.8 + 0.5 + 7.25 - 2.7}{100 + 7.25} = \frac{40.9}{107.25} = 38.1$$

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 cooperating stores were asked to report the sales of their leased departments, the amount of commissions or rentals received from lessees, and the portion of the stores' indirect expenses properly chargeable to leased departments. It was indicated that the sales of leased departments should be excluded from sales; that direct expenses paid by the stores for the account of lessees should be excluded from expense; and that the indirect expenses chargeable to leased sections similarly should be excluded. 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, and where leased department sales amounted to 10% or more of total sales, the percentages which were most likely to be distorted by leased section operations (real estate costs, supplies, service purchased, total expense, net profit, and other income) were considered not comparable and were not used in arriving at the common figures published in this bulletin. In the few cases where all expenses apparently were distorted as a result of leased department operations, the entire statement was omitted.