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**OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY STORES
IN 1939**

BY
MALCOLM P. McNAIR



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**HARVARD UNIVERSITY
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OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY STORES IN 1939

BY

MALCOLM P. McNAIR
Professor of Marketing



HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
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SOLDIERS FIELD, BOSTON, MASSACHUSETTS

HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

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FOREWORD

In this bulletin, the Bureau of Business Research reports on the margins, expenses, and profits of department stores and departmentized specialty stores for 1939, the twentieth consecutive year for which such a study has been made. This analysis is based on 521 reports from companies operating 657 stores, with total store net sales in 1939 of \$1,725,149,000. It is estimated that this figure constitutes approximately a 38% sample of the total sales of retail establishments of these types; that is, department stores and departmentized specialty stores in the United States in 1939.

The bulletin this year follows closely the pattern of the 1938 report, except that certain tables have been moved from the appendix to the main sections in order that they may be more readily usable. The first section presents a summary of the 1939 results, traces the major trends in department store operating ratios over the past 11 years, discusses some of the economic background of the department store business, and exhibits the 1939 figures arranged in the modified form of income statement approved by the directors of the National Retail Dry Goods Association. The second section offers data for department stores in 10 sales volume classifications, ranging from less than \$150,000 to over \$20,000,000. Appropriate tables and comments cover the topics of sales, profits, gross margin, expenses by natural divisions and functional groups, pay roll, personnel data, real estate costs, credit costs, and goal figures. A new feature of the report this year is a classification of operating results by size of city within each of several volume groups, permitting an appraisal of the relative importance of the size-of-city factor and the volume-of-sales factor in their effect on operating ratios. The third section of the bulletin, reporting the results of departmentized specialty stores in 1939, parallels broadly the arrangement of the department store section, but the figures reported are substantially less complete.

The accounting and statistical work on this 1939 survey was supervised by Miss Rose Winisky under the direction of Miss Elizabeth A. Burnham. The bulletin was written by Professor Malcolm P. McNair.

On the occasion of the twentieth anniversary of the beginning of this cooperative research program on distribution costs, the Harvard Business School, of which the Bureau is a part, desires to express its cordial appreciation both of the financial support from the National Retail Dry Goods Association, which has made these studies possible, and of the interested cooperation of the Controllers' Congress, which has helped so much to enhance the scope and usefulness of the reports. At the same time, the School wishes to acknowledge its very great indebtedness to the hundreds of individual companies who, over these years, have been willing to assist the School in its educational and research program by making the detailed reports on which these surveys are based.

On this occasion, also, some personal notes perhaps are not out of place. In 1920, when the Harvard Business School first undertook these studies of department store operating results in cooperation with the National Retail Dry Goods Association, Professor Melvin T. Copeland was director of the Bureau of Business Research; and it was

at his initiative that the pleasant association of the School was begun with Lew Hahn, Carlos B. Clark, Jay Iglauer, Ernest Katz, David Moeser, and other department store "stalwarts", whose names are known throughout the field of retail distribution. Subsequently, Professor Copeland withdrew from the Bureau to devote his attention to teaching and other forms of research and was succeeded by Professor Malcolm P. McNair, to whose continued interest in the study of distribution costs this bulletin offers testimony. The active directorship of the Bureau was assumed by Professor Carl N. Schmalz in 1929, who continued in that post until his resignation in the autumn of 1939 to join the staff of R. H. Stearns Company as controller.

Although in the meantime the School's circle of friends in the department store and specialty store business has widened enormously, it is a source of gratification to the School and the Bureau that through all the changes which 20 years normally bring, the association with the original group of men who were active in the councils of the National Retail Dry Goods Association and the Controllers' Congress when these studies began has continued to be active, stimulating, and fruitful.

HOWARD T. LEWIS,
Director of Research.

Boston, Massachusetts
May, 1940

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Chart 1. Department Store Expenses and Profit: 1939

(with 1938 and 1937 percentages for comparison)

Items	1939		1938 ¹	1937 ¹
	Aggregate Dollar Figures for 428 Firms Operating 512 Stores	1939 Net Sales = 100%	1938 Net Sales = 100%	1937 Net Sales = 100%
<i>The chief source of revenue for these stores, of course, was</i>				
Net Sales	\$1,490,776,107	100.0%	100.0%	100.0%
<i>A primary charge against this revenue, and the largest single expenditure, was represented by</i>				
Total Merchandise Cost	\$941,694,656	63.2%	63.75%	63.7%
Which included the cost of merchandise purchased for resale delivered at the stores, less trade and cash discounts; the production costs of goods manufactured by the store; alteration and workroom costs, net; plus or minus the amounts taken from, or added to, inventories during the year.				
<i>Other costs which had to be met were those for operating the stores, as follows:</i>				
Total Pay Roll	\$265,666,944	17.8%	18.25%	17.85%
Comprising salaries, wages, and bonuses of all employees including executives, but excluding pensions and pay roll taxes;				
Real Estate Costs	\$70,116,076	4.7%	4.95%	4.5%
Including rentals, taxes, and insurance paid on leased real estate; as well as taxes, insurance, depreciation, and interest on owned real estate;				
Advertising	\$53,765,758	3.6%	3.75%	3.6%
Taxes	\$18,479,067	1.25%	1.3%	1.05%
Not including taxes on real estate, or Federal income taxes, but embracing other taxes imposed by national, state, and local governments;				
Supplies and Services Purchased	\$47,889,767	3.2%	3.1%	3.0%
Including electric power, steam, and delivery service bought;				
All Other Expense (including interest)	\$87,587,920	5.85%	6.05%	5.85%
The charge for interest being 6% of the average value of accounts receivable, merchandise inventory, fixtures, and equipment. (A corresponding charge on real estate was included in real estate costs. These charges for interest were made whether the capital invested in the respective assets was owned or borrowed.)				
<i>Thus, for merchandise and store operation combined, these stores experienced a</i>				
Total Cost of	\$1,485,200,188	99.6%	101.15%	99.55%
After meeting these costs, there remained a				
Net Profit	\$5,575,919	0.4%	Loss 1.15%	0.45%
Which constituted the net profit from merchandising operations.				
<i>In addition, the stores received</i>				
Sundry or Other Revenue, Net	\$52,623,042	3.5%	3.8%	3.7%
Including net profits from leased and manufacturing departments, carrying charges on installment accounts, and other incidental receipts not part of merchandising revenues; any net profit or loss on real estate, whether used in the business or not; and an amount equivalent to the excess of interest charged as expense over interest actually paid (less interest received).				
<i>And, therefore,</i>				
Total Net Business Profit Amounted to	\$58,198,961	3.9%	2.65%	4.15%
This was the earnings of these firms before Federal income taxes.				

¹Data for 1938 are based on aggregate dollar figures for 430 firms with net sales of \$1,450,595,863, and operating 547 stores; data for 1937 are based on aggregate dollar figures for 458 firms with net sales of \$1,547,897,414, and operating 532 stores.

OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1939

SECTION I

SUMMARY OF 1939 AND CURRENT TRENDS

Higher Sales Bring Better Earnings in 1939

For department stores, 1939 was a substantially better year than 1938. In contrast to 1938, when department store sales dipped sharply during the first six months and then recovered in the second half year, sales in the first part of 1939, on a seasonally adjusted basis, stayed not far from the level attained in the closing months of 1938 and in the second six months advanced to a higher stage in December than reached at any time since May, 1931. Net sales for the year of the stores reporting to the Bureau were $5\frac{1}{2}\%$ higher than in 1938.

Net profit from merchandising operations in 1939, after allowance for interest on the capital used, was again in black figures; and net gain, or ordinary net business profit, exhibited an increase of more than 45% over 1938, thus returning approximately to the 1937 level and retracing considerably more than half the decline suffered since the most recent peak year, 1936. These profit changes over the past three years testify in a striking manner to the sensitive relationship which exists in the department store business between earnings and changes in net sales volume.

Gross Margin Slightly Higher, Expense Rate Lower

The year 1939 afforded further evidence of the relative stability which has characterized the gross margin rate in recent years. This percentage rate attained the highest point on record; but it moved up by only $\frac{1}{2}\%$ of sales, whereas the expense rate moved twice as far in the opposite direction, dropping 1% of sales. Among the several expense classifications, significant downward changes, as shown by Chart 1 on the opposite page, appeared in pay roll, real estate costs, and advertising. The pay roll and advertising expense percentages retreated to their 1937 levels, but real estate costs only moved about half way back to the 1937 position, a result attributable both to improvements, such as escalators and air conditioning, and also to the increased burden of real estate taxes. With sales volume in 1939 broadly approximating the 1937 level, it was to be expected that many expenses would return to their 1937 positions. Two instances where such a return did not take place were taxes and the combination of supplies and services purchased. The latter group, in fact, was even slightly above the 1938 figure. The trend which

we are witnessing in taxes, although distasteful, is nevertheless understandable, and probably will go farther before it is halted; but the reason for the advance in supplies and services purchased is not so clear unless it be that an increased tendency for stores to purchase heat, light, and power, and delivery service is tending to obscure what would otherwise be an advance in the total pay roll expense.

Real estate costs are well recognized as a fixed expense, but it is worth observing that some other department store expense classifications, notably advertising and some parts of pay roll, behave much like fixed expenses in the face of moderate annual changes in dollar sales volume. This situation is a joint consequence of the necessity of planning requirements in advance and of the virtual impossibility of forecasting sales accurately from month to month.

Profit Improvement General among All Sizes of Stores

Department stores of all sizes participated in the better profit showing in 1939. Percentage-wise, the small stores, those with sales under \$500,000, enhanced their standing most in comparison with the previous year, even though they obtained no greater sales increases than did the larger stores. On a comparative basis within the year 1939, however, large stores turned in a better profit performance than did smaller stores. The highest ratio of earnings, 4.3% of net sales, appeared both for the group with sales between \$2,000,000 and \$4,000,000, and for the group with sales over \$20,000,000. The highest ratio of earnings to invested capital was that shown for the group with sales between \$10,000,000 and \$20,000,000. It is to be remarked, however, that none of these classifications of stores typically achieved earnings of as much as 5% of sales or 10% of invested capital.

As for many years past, the gross margin percentage in 1939 was higher for the large stores and lower for the small stores; and the same relationship existed in the stock-turn figures — the higher the sales volume, the faster the rate of stock turnover. Also, as a general rule, the total expense of doing business absorbed a greater percentage of sales in large stores than in small ones in 1939. In previous bulletins, some of the reasons for these characteristic differences between small and large

department stores have been discussed at some length. In one respect, this year's survey throws new light on the problem. Table 7 in this bulletin, following up a study by Miss Elizabeth A. Burnham which is being currently published in the *Harvard Business Review*, reveals the extent to which the higher expense rates associated with the larger department stores are in reality attributable to the size-of-city factor rather than to the volume-of-sales factor.

Earnings Lower in Specialty Stores Than in Department Stores

Specialty stores shared in the improvement in sales volume in 1939, but their earnings were generally inferior to those of department stores in the same size groupings. Gross margin showed more increase over 1938 than did department store gross margin, but the cost of doing business required the same percentage of sales as in the previous year. Summary figures on the principal operating ratios for specialty stores for 1939 as compared with several preceding years are given in the lower section of Table 1. More detailed specialty store figures for 1939 appear in Section III.

General Trends in the Major Operating Ratios, 1929-1939

A period of 11 years from 1929 through 1939 is covered by the figures in Table 1. This period begins with the peak business year of the 1920's; next ensue the decline and depression years (1930, 1931, and 1932), followed by the years of upturn and faltering recovery (1933, 1934, and 1935); then comes one year of relatively good business (1936), succeeded by the sharp downturn of 1937-1938; and the period ends with the advance of industrial activity to a new high point in the second half of 1939. Table 1 shows a conspectus of the most important department store operating ratios over this 11-year period.

The gross margin figures show two distinct levels. From 1929 straight through the depression years, the gross margin figure remained almost unchanged at the 33% mark. Then in 1933 it jumped to 36%, and for seven years has shown remarkable stability around that level. The highest figure, just short of 37%, appears for 1939; and it remains to be seen whether this slight rise is significant of any new trend.

The cost of doing business over these 11 years has responded primarily to fluctuations in sales volume. The highest total expense percentages were encountered in the years of lowest sales income, 1932 and 1933; whereas the three years in this series when dollar sales were highest, namely, 1929, 1930, and 1936, experienced

the lowest ratios for the cost of doing business. But through these figures there runs the strong suggestion of a continuing upward secular trend in the total cost of doing business for department stores. Thus, the year 1939, though producing very nearly the same sales volume as 1937, yielded an expense rate higher by nearly $\frac{1}{2}$ of 1% of sales. This rising secular trend of operating expense in the 1930's, however, so far as it can be dissociated from cyclical movements, possibly was not so steep a trend as that which characterized department store expenses between 1922 and 1929; at least for the six years from 1934 through 1939 the trend was considerably flatter than it was from 1922 through 1928.

With respect to net gain, that is, net business profits in the ordinary sense, Table 1 suggests that, for the current period, 4% of sales is about the figure which can be expected in a year of fairly good business.

Table 1 also presents typical figures for the totals of the principal functional expense classifications during the years from 1932 through 1939. These functional expense totals show broadly the same fluctuations in relation to changes in sales as do the total expense figures. As might be expected, this relationship is especially clear for the administrative and general and occupancy classifications. With the exception of the depression year 1932, buying and merchandising expense has remained quite steady; and for six out of the past seven years, the typical selling expense has been either 9.2% or 9.3%. Delivery and administrative and general are the two functional classifications which most clearly reveal an upward trend.

Another way of looking at the trends of operating expenses is provided by the tabulation in the next part of Table 1, which sets forth typical cost figures in cents per sales transaction for the several functional expense classifications in department stores during the years from 1934 through 1939. In some respects, these transaction cost data, even though they are affected by changes in the price level, are a better measure of department store operating efficiency than are the conventional cost figures in percentages of sales. Over the six-year period, the cost in cents per transaction shows a definite increase, the most pronounced change coming between 1936 and 1937. Occupancy is the only one of the functional classifications which does not show a clear upward trend. The upward changes in the administrative and general, selling, and delivery classifications suggest that department stores have not yet succeeded in developing the efficiency required to meet the conditions of higher wage rates and shorter hours.

In the bottom section of Table 1, trends of the principal operating ratios for specialty stores also are shown

Table 1. General Averages for Department and Specialty Stores: 1929-1939

Groups and Items	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
DEPARTMENT STORES:											
Number of Reports	527	564	451	428	450	458	459	394	458	430	428
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Margin	33.5%	33.3%	33.1%	33.1%	36.0%	35.6%	35.9%	36.5%	36.4%	36.4%	36.9%
Total Pay Roll	16.8%	17.3%	17.9%	18.7%	18.3%	18.0%	17.95%	17.4%	17.9%	18.3%	17.8%
Real Estate Costs	3.9	4.3	5.1	6.5	5.85	5.4	5.05	4.65	4.55	5.0	4.7
Advertising	3.3	3.5	3.8	4.0	4.0	3.8	3.8	3.65	3.65	3.75	3.6
All Other Expense	8.3	8.8	9.1	10.3	9.95	9.3	9.1	9.2	9.9	10.35	10.3
Total Expense	32.3%	33.9%	35.9%	39.5%	38.1%	36.5%	35.9%	34.9%	36.0%	37.4%	36.4%
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%	0.4%	L. 1.0%	0.5%
Net Other Income	3.1	3.2	3.8	4.0	3.9	3.5	3.4	3.3	3.5	3.6	3.5
Net Gain	4.3%	2.6%	1.0%	L. 2.4%	1.8%	2.6%	3.4%	4.9%	3.9%	2.6%	4.0%
Functional Division of Expense:											
Administrative and General	*	*	*	8.4%	7.8%	7.3%	7.2%	7.3%	7.8%	8.2%	7.9%
Occupancy	*	*	*	10.4	10.0	9.1	8.6	8.0	8.0	8.6	8.2
Publicity	*	*	*	5.2	5.2	5.0	5.0	4.9	4.9	5.0	4.9
Buying and Merchandising	*	*	*	4.9	4.4	4.3	4.4	4.3	4.4	4.5	4.4
Selling	*	*	*	9.0	9.2	9.3	9.2	8.8	9.2	9.3	9.2
Delivery	*	*	*	1.6	1.5	1.5	1.5	1.6	1.7	1.8	1.8
Total Expense	*	*	*	39.5%	38.1%	36.5%	35.9%	34.9%	36.0%	37.4%	36.4%
Cost per Transaction:											
Administrative and General	*	*	*	*	*	12.9¢	13.1¢	14.4¢	15.8¢	16.2¢	15.9¢
Occupancy	*	*	*	*	*	16.7	16.0	16.0	16.7	17.2	16.7
Publicity	*	*	*	*	*	9.1	9.4	9.9	10.2	10.0	10.0
Buying and Merchandising	*	*	*	*	*	7.9	8.2	8.7	9.2	8.9	8.8
Selling	*	*	*	*	*	16.7	17.0	17.7	18.9	18.6	18.6
Delivery	*	*	*	*	*	3.0	3.0	3.2	3.6	3.7	3.9
Total Expense	*	*	*	*	*	66.3¢	66.7¢	69.9¢	74.4¢	74.6¢	73.9¢
SPECIALTY STORES:											
Number of Reports	85	85	70	73	75	86	122	93	113	99	93
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross Margin	35.3%	34.3%	33.7%	34.0%	36.9%	36.8%	36.8%	37.1%	37.0%	37.1%	37.8%
Total Pay Roll	16.5%	16.8%	17.1%	17.6%	17.0%	17.3%	16.9%	16.75%	17.2%	17.55%	17.6%
Real Estate Costs	4.2	4.6	5.4	7.1	5.8	5.5	5.85	5.3	5.05	5.25	5.2
Advertising	4.0	4.3	4.4	4.8	4.4	4.4	4.25	4.1	4.2	4.4	4.4
All Other Expense	8.6	9.0	9.4	10.1	10.2	10.0	9.5	9.45	9.95	10.3	10.3
Total Expense	33.3%	34.7%	36.3%	39.6%	37.4%	37.2%	36.5%	35.6%	36.4%	37.5%	37.5%
Net Profit or Loss	2.0%	L. 0.4%	L. 2.6%	L. 5.6%	L. 0.5%	L. 0.4%	0.3%	1.5%	0.6%	L. 0.4%	0.3%
Net Other Income	2.7	2.4	2.7	2.5	2.6	2.7	2.6	2.75	2.6	2.75	2.7
Net Gain	4.7%	2.0%	0.1%	L. 3.1%	2.1%	2.3%	2.9%	4.25%	3.2%	2.35%	3.0%

*Comparable data not available.

for the 11-year period, 1929-1939. For this class of enterprise, both gross margin and total expense throughout the period have stood at higher levels than for department stores, but there has been no tendency for the differentials to widen. The steadiness of the gross margin percentage, in evidence from 1933 on, is not dissimilar to the department store experience. On the other hand, expense ratios in specialty stores seem to have remained a little more rigid over these years, apparently responding somewhat less sensitively than the department store cost percentages to year-to-year changes in dollar sales income.

Movement of Department Store Sales, Stocks, and Prices, 1929-1939

Chart 2 sketches the broader economic background of some of these changes in department store operating ratios. This chart, which is an extension of the one presented in the 1938 report, depicts the movement of department store sales, prices, and stocks over an 11-year period.

The top section of the chart includes three lines: department store prices as recorded by the Fairchild Index, department store dollar sales, and department store "real" sales (that is, the dollar sales divided by the price index). The dollar sales of department stores reached a peak at the end of 1939 which was slightly higher than the previous high point attained in February, 1937, although still below the dollar sales of 1929, 1930, and the early months of 1931. "Real" sales were at the same level in November and December of 1939 as they had previously reached in November of 1936, a level practically as high (index of 104 as compared with 105) as the probable all-time high of "real" sales recorded in the early months of 1931. In other words, the physical volume of goods handled by department stores during the Christmas season of 1939 was at a peak attained only twice before in the period for which such statistics are available.

The middle section of the chart is similar to the top section except that it deals with merchandise stocks. The price index is repeated, and lines are drawn which show the movement of both dollar stocks and "real"

stocks. Although dollar stocks moved up somewhat in the second half of 1939, the chief influence at work was prices. "Real" stocks showed no upward trend and remained well below the levels reached in 1937.

The bottom section of Chart 2 presents four lines. To the indexes of "real" sales, "real" stocks, and retail prices, repeated from the other two sections of the chart, is added a fourth line, the Federal Reserve Board Index of Industrial Production. This section of the chart confirms the familiar impression that "real" sales in department stores show a wider amplitude of movement than do "real" stocks. The lines also show that department store "real" sales fluctuate much less widely than does the Federal Reserve Index of Industrial Production. Such a relationship, of course, is to be expected, since the Federal Reserve Index of Industrial Production reflects the activity in capital goods as well as in consumer goods.

There is another aspect of the relationship between these two lines, however, which demands some attention. Looking at the index of "real" sales, one can lay a ruler practically horizontally across the three peaks made by this index in the last nine years, namely, 1931, 1936, and 1939. In other words, there is no upward trend. But, if one lays a ruler across the three peaks made by the index of production over this period, in the years 1933, 1936, and 1939, a very distinct upward trend is evident. Taken at its face value, such a comparison suggests that the physical volume of business transacted through department stores is not keeping pace with the growth of production. In other words, this picture tends to confirm the impression that department stores during recent years have been feeling the effect of competition from other types of retail outlets which in the aggregate are growing more rapidly.

Many observers have commented on possible relationships between retail prices and "real" sales in department stores. Sustained upward movements of retail prices seem generally to encounter declines in "real" sales, but a causal connection is not certain. Retail prices are sluggish; they lag behind wholesale prices. Hence, a downturn in industrial activity not infrequently comes just about at the point when retail prices

Note: The data presented in Chart 2 are not based on reports submitted to the Bureau but are drawn from the following sources:

Prices: Composite retail price index, January 2, 1931=100; data for beginning and end of each month averaged. (*Fairchild's Financial Manual* and current releases in *Women's Wear Daily*.)

Dollar Sales: Relatives, 1923-1925=100, adjusted for seasonal variation. (*Federal Reserve Bulletin* and current news releases.)

"Real" Sales: Dollar sales index divided by price index.

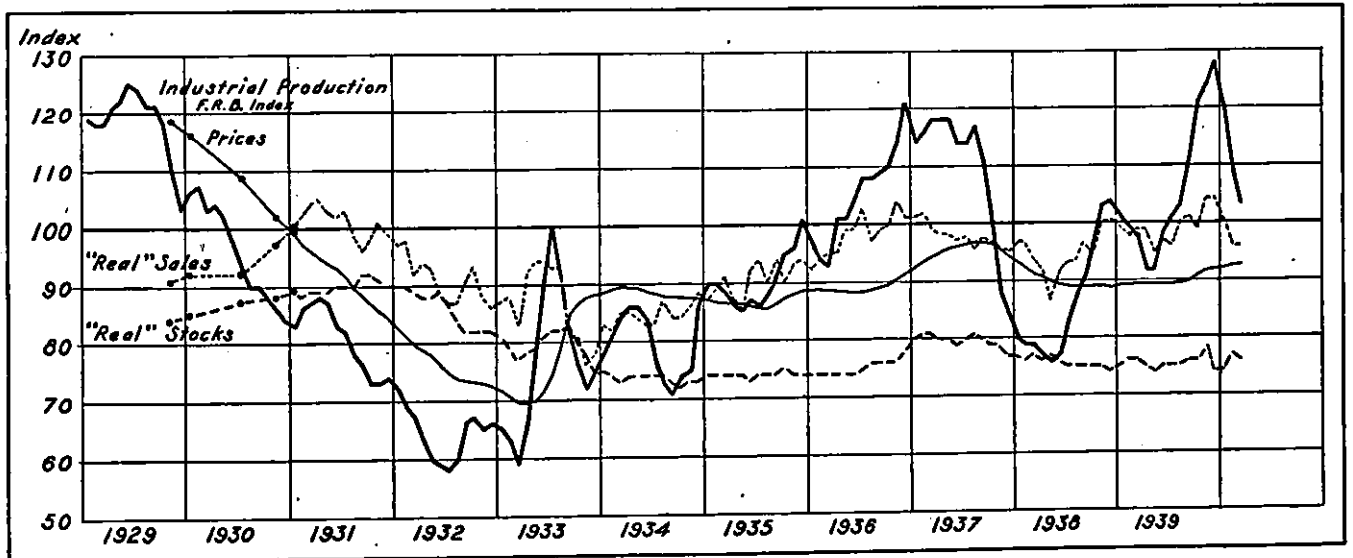
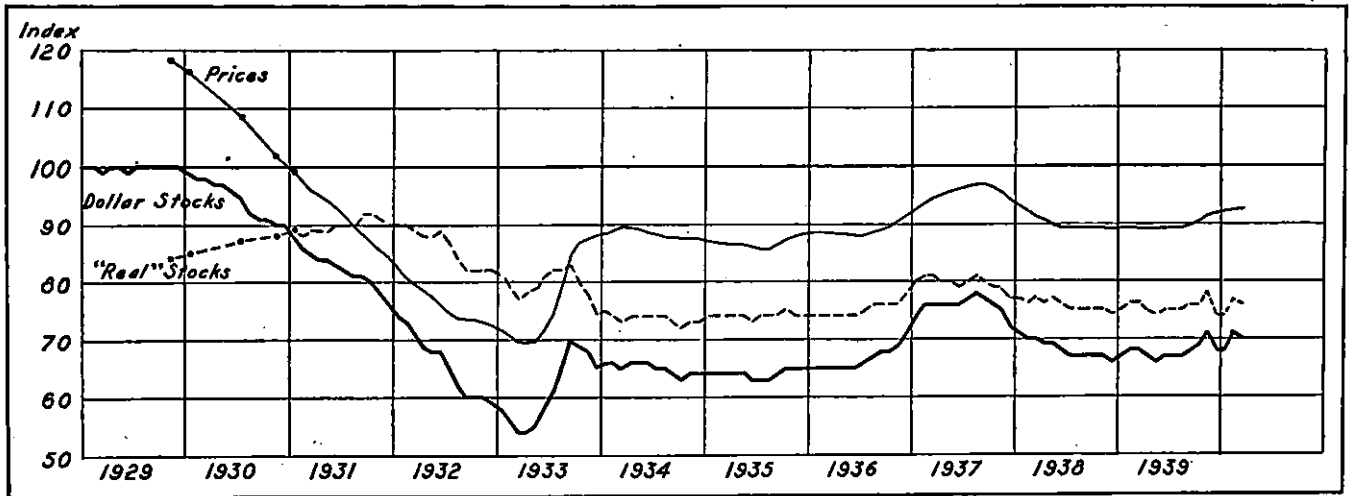
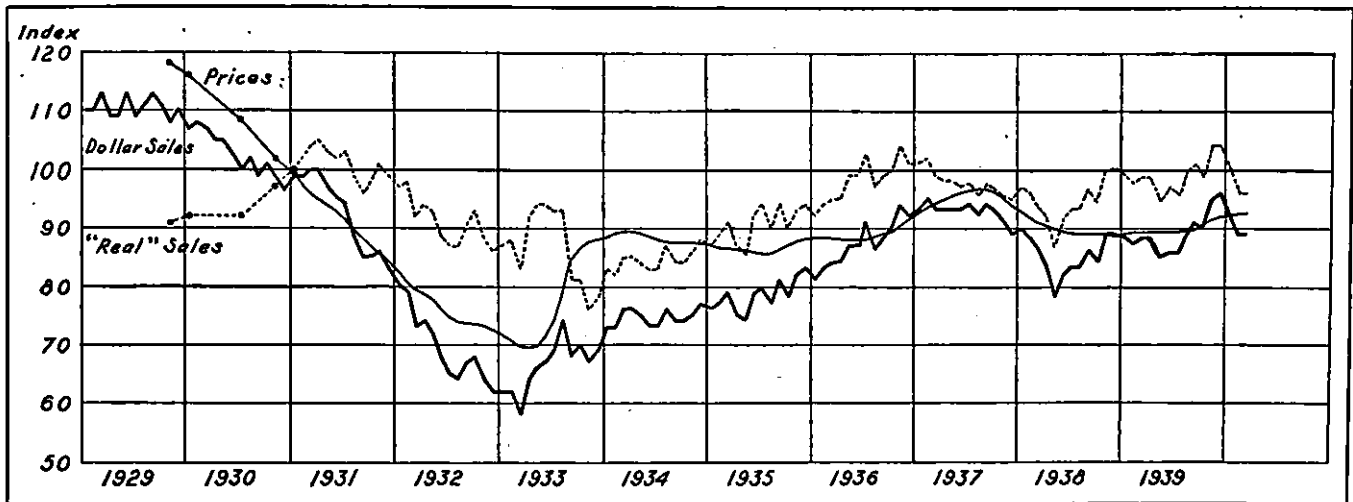
Dollar Stocks (Inventories): Relatives, 1923-1925=100; end-

of-month stocks (based on selling price valuations) adjusted for seasonal variations. (*Federal Reserve Bulletin*.)

"Real" Stocks (Inventories): Dollar stocks index divided by price index. End-of-month stocks were used; but average prices for the respective months were employed in order that the same price index might be used for adjusting both sales and stocks.

Index of Industrial Production: Federal Reserve index, 1923-1925=100, based on physical volume, adjusted for seasonal variation. (*Federal Reserve Bulletin*.)

Chart 2. Department Store Sales, Stocks, and Prices: 1929-1939



Sources: For a statement of the sources of the data presented in this chart and the manner of their preparation, see note at the bottom of page 4.

Table 2. Operating Results for Department and Specialty Stores in 1939 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association

(Common Figures)

Items	Department Stores with Net Sales (in thousands) of							Specialty Stores with Net Sales (in thousands) of		
	\$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	\$1,000-2,000	\$2,000-4,000	\$4,000-or more
Number of Reports:										
Giving Functional Data	30†	20†	50†	52†	59†	24†	12†	9†	15†	8†
Giving Other Data	47†	26†	64†	58†	61†	25†	13†	9†	15†	8†
Change in Sales (1939/1938)	106.0	105.0	105.5	104.0	105.7	107.1	104.5	106.0	101.4	103.9
SALES	106.25%†	107.35%†	107.25%†	107.7%	110.7%	112.6%	114.0%	*	115.9%	120.0%
Less Returns (and allowances)	6.25†	7.35†	7.25†	7.7	10.7	12.6	14.0	*	15.9	20.0
NET SALES	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
MERCHANDISE COSTS										
Inventory — First of Period	15.9%	14.7%	14.35%	14.1%	12.9%	11.6%	10.9%	*	9.3%	8.8%
Purchases (including inward freight, express, and truckage)	68.2%	68.55	67.55	66.5	66.2	65.9	65.35	66.15%	66.75	66.35
	84.1%	83.25%	81.9%	80.6%	79.1%	77.5%	76.25%	*	76.05%	75.15%
Less Cash Discounts	2.8	2.85	2.75	2.7	3.1	3.3	3.6	4.4	4.25	4.5
	81.3%	80.4%	79.15%	77.9%	76.0%	74.2%	72.65%	*	71.8%	70.65%
Workroom (and alteration costs)	0.2†	0.4	0.55	0.5	0.8	0.6	0.75	0.8	0.45	0.15
Occupancy	7.8	7.05	7.4	7.5	8.0	8.3	8.85	8.45	8.65	8.75
Buying, Receiving, and Marking	4.55	3.85	4.3	4.45	4.6	4.45	4.1	4.15	5.45	4.4
Publicity	4.15	4.2	4.8	4.85	5.35	5.15	4.6	5.7	6.15	6.1
	98.0%	95.9%	96.2%	95.2%	94.75%	92.7%	90.95%	*	92.5%	90.05%
Less Inventory — End of Period	16.6	15.3	15.4	14.5	13.6	12.3	11.0	*	9.45	9.2
	81.4%	80.6%	80.8%	80.7%	81.15%	80.4%	79.95%	80.0%	83.05%	80.85%
Net Sales less Merchandise Costs	18.6%	19.4%	19.2%	19.3%	18.85%	19.6%	20.05%	20.0%	16.95%	19.15%
OPERATING COSTS										
Administrative	8.1%	8.35%	8.6%	8.2%	8.0%	7.95%	7.55%	10.0%	8.65%	7.45%
Selling	9.2	9.2	9.0	8.75	9.0	9.5	9.4	8.4	8.2	9.2
Delivery	0.7	1.05	1.1	1.35	1.65	1.95	2.4	0.8	1.1	1.5
	18.0%	18.6%	18.7%	18.3%	18.65%	19.4%	19.35%	19.2%	17.95%	18.15%
OPERATING INCOME OR LOSS	0.6%	0.8%	0.5%	1.0%	0.2%	0.2%	0.7%	0.8%	1.10%	1.0%
OTHER INCOME	3.1	2.8	3.1	3.3	3.6	3.6	3.6	2.2	2.5	3.0
NET PROFIT OR LOSS (before Federal tax on income)	3.7%	3.6%	3.6%	4.3%	3.8%	3.8%	4.3%	3.0%	1.5%	4.0%

* 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.

have been rising for three or four months in belated response to wholesale price advances. If we could be certain that turns in "real" sales precede (and cause) turns in the index of production, we could perhaps more plausibly postulate a cause and effect relationship between retail prices and "real" sales. In the report for 1938 the hypothesis was advanced that in recent cyclical fluctuations department store "real" sales had turned the corners slightly ahead of production. The 1939 figures offer conflicting evidence in this regard. Department store "real" sales apparently moved simultaneously with production on the upturn in June; but, in November, "real" sales came to a peak just a little before production. Perhaps the most we are justified in concluding is that turns in department store "real" sales synchronize very closely with turns in industrial production. Therefore, we cannot with any certainty argue that retail price advances by constricting "real" sales tend to bring about declines in industrial production. Nevertheless, it is a fair statement that a sustained advance in retail prices must be regarded as one of the signals which warn of impending difficulties.

"Real" stocks did not go appreciably higher in 1939 than they did in 1936, even though the index of production reached a higher point in 1939 than in the earlier year and wholesale markets exhibited a sharp upward flurry in prices after the war began in September. The facts that there was not a greater rise in "real" stocks and that the advance in retail prices was only moderate constitute a tribute to the responsible leaders of the department store industry who, acting under the auspices of the National Retail Dry Goods Association and the American Retail Federation, took a public stand last

autumn calculated to discourage inventory speculation. It is largely because of their wisdom that in the early months of 1940, with "real" sales declining, stocks did not present so serious a problem as in 1937.

In general, the significant rises in "real" stocks appear to follow rather than to precede the significant declines in "real" sales. Consequently, retail inventory statistics do not serve as a particularly good barometer of business difficulties.

Modified Form of Operating Statement

As commented on in previous bulletins, particularly in the report for 1938, the board of directors of the National Retail Dry Goods Association has given its approval to a modified form of operating statement designed to clarify some of the economic aspects of the cost of retailing. The modification consists primarily in allocating the costs of certain functions to cost of merchandise rather than to operating expenses. Table 2, drawn up in accordance with this modified form of operating statement, depicts the 1939 data for seven groups of department stores and three groups of specialty stores, with the costs for three functional classifications, occupancy; buying, receiving, and marking; and publicity, included in the total cost of the merchandise sold. Computed on this basis, the figures for total merchandise cost range approximately from 80% to 83% of sales. Subtracting such merchandise costs from net sales leaves spreads varying from 17% to 20%, from which are deducted operating costs varying from about 18% to nearly 19½% of sales. This form of income statement, of course, does not change the profit and loss figures in any way.

SECTION II

DEPARTMENT STORES

In this section of the bulletin common figures for department stores in 1939 are given for 10 groups of companies classified according to volume, ranging from stores at the low end of the scale with total receipts under \$150,000 to stores at the high end with sales of \$20,000,000 or more. These groups were established this year on the basis of total net sales, rather than on the basis of net sales in owned departments only, as in earlier years. This change affected the grouping of some firms and consequently may have caused some slight changes in the common figures.

Both Sales and Transactions Increase

All sizes of stores shared in the increase in dollar sales in 1939. It is a factor of strength that this sales increase, as shown in Table 3, was not due merely to the higher retail prices which characterized the latter half of the year but was caused in part by an increase in the number of sales transactions.

The improvement in sales was about equally marked in the upstairs departments and in the basement. As in previous years, basement sales made up a substantially larger proportion of the total for large stores than for small stores.

Leased departments were most common in the middle volume classification; that is, the stores between the \$500,000 and \$4,000,000 levels. Comparison with the corresponding table in the 1938 report suggests that there was some decline in the importance of leased sections during 1939 in the stores with sales under \$1,000,000, and at the same time a slight increase in their importance in the stores with sales ranging between \$2,000,000 and \$4,000,000; but because of the changes in the composition of these volume groups described above too much importance should not be attached to such evidence for a single year.

Sales by Merchandise Lines

The middle section of Table 3 reveals the customary sharp difference between small stores and large stores with respect to the typical make-up of the sales volume in the upstairs departments. In the stores with relatively low sales, piece goods and domestics, ready-to-wear, and ready-to-wear accessories are proportionately more important than they are in the large department stores. For small wares and home furnishings, on the other hand, the contrary situation obtains, these classifications of merchandise being proportionately more

important in the larger stores. Thus, for the stores with sales below \$750,000, the first three mentioned classifications amounted to from 60% to 71% of total sales in 1939; whereas at the other end of the scale, in the stores with sales over \$4,000,000, these classifications were only 40% to 46% of the total. At the same time, small wares and home furnishings in the volume groups under the \$750,000 mark ranged from 16% to 23% of the total, whereas they amounted to from 33% to 38% of the total in the stores with sales beyond the \$4,000,000 mark. The men's and boys' business was the single merchandise classification which exhibited no significant variation with respect to size of store.

A comparison of these figures for sales by merchandise lines with corresponding data for the previous year yielded no indication of any significant trends.

Installment Sales Still Below 10%

Installment credit sales did not reach a common figure of as much as 10% of sales for any of the 10 volume groups. The closest approach was a figure of 9.0% for stores with sales between \$10,000,000 and \$20,000,000. Sales on various intermediate types of serial payment plans, amounting to not more than 2½% of the total for any group, and ranging as low as ½ of 1%, were included with regular charge sales. The proportion of C.O.D. sales was much greater for the large stores, and their proportion of cash sales lower.

Relation of Returns to Proportion of Transactions Delivered

The 1939 figures corroborate the well-known conclusion that large stores have higher returns, not only in percentage of sales, but also in percentage of transactions. As might be expected, the value of the merchandise involved in the average return transaction was much greater than the value of the average sales transaction. For three volume groups, figures showing the percentage of transactions delivered indicate not only that the tendency was for the larger stores to deliver a higher proportion of sales transactions than did the smaller stores, but also that these higher proportions of "send" transactions were conducive to higher ratios of returns. These data confirm the similar findings in the 1937 report.

Only Small Stores Show Net Loss

Data on the margins and profits of the 10 volume groups of department stores are presented in Table 4.

Table 3. Common Figures for Sales Data for Department Stores: 1939

Items	Net Sales (in thousands)									
	Less than \$150	\$150- 300	\$300- 500	\$500- 750	\$750- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000- 10,000	\$10,000- 20,000	\$20,000 or more
Number of Reports:										
Giving Transaction Data.....	4	3	10†	14†	12†	33†	37†	48†	25†	13†
Giving Data for Sales by Mer- chandise Lines.....	12	21†	26†	35†	20†	54†	51†	57†	25†	12†
Giving Other Data.....	45†	44†	45†	47†	26†	64†	58†	61†	25†	13†
Aggregate Sales (in thousands)...	\$4,472	\$10,447	\$19,114	\$28,637	\$20,844	\$83,516	\$174,152	\$361,322	\$346,854	\$441,416
Typical Net Sales (in thousands)...	\$85	\$225	\$375	\$550	\$800	\$1,250	\$2,600	\$5,600	\$13,550	\$26,000
Population of City (in thousands)...	10	18	25	45	60	85	190	425	1,000	2,000
Pop. (interquartile range ¹ —in thousands).....	5-16	11-25	14-40	31-63	40-76	58-130	111-302	260-670	487-2,560	1,238-3,376
Change in Sales (1939/1938):										
Main Store.....	*	*	*	*	*	105.5	104.0	105.4	107.1	104.2
Basement.....	*	*	*	*	*	106.0†	102.5†	107.0	107.1	106.1
Total Owned Departments.....	100.2	103.5	104.5	106.0	105.0	105.5	104.0	105.7	107.1	104.5
Average Gross Sale.....	*	*	\$1.85	\$1.90	\$1.84	\$1.95	\$1.94	\$2.05	\$2.35	\$2.55
Change in Transactions (1939/ 1938).....	*	*	102.0	102.0	100.0	101.0	101.0	103.5	104.5	103.0
Total Basement Sales (percentage of total net sales in owned de- partments).....	\$	\$	\$	\$	\$	6.5%	9.0%	13.5%	16.5%	19.0%
Leased Department Sales ² (per- centage of total store sales in- cluding leased department sales)	0.0%	2.0%	3.8%	9.2%	8.0%	8.9%	10.0%	5.0%	4.0%	1.4%
Sales by Merchandise Lines—										
Main Store Owned Depts.:										
Piece goods and domestics....	12.3%	11.4%	10.4%	9.5%	9.2%	8.4%	8.2%	7.5%	6.4%	6.4%
Small wares, toilet goods, no- tions, and novelties.....	8.1	9.0	11.0	8.4	9.0	10.0	10.7	11.5	13.5	13.8
Women's, misses', and juniors' ready-to-wear.....	31.0	24.7	23.6	22.2	20.1	18.8	17.6	17.6	17.9	15.0
Ready-to-wear accessories.....	28.2	27.0	27.5	28.1	27.7	25.7	23.5	21.4	19.1	19.6
Men's and boys' clothing and furnishings.....	10.4	15.0	12.0	11.0	8.8	11.1	11.6	11.0	11.4	11.7
Home furnishings.....	8.0	10.7	12.5	14.5	19.2	20.5	18.5	21.8	22.3	24.8
Regular cost departments.....	0.0	0.0	0.0	1.5	1.0	1.5	3.5	3.2	3.6	3.2
Miscellaneous.....	2.0	2.2	3.0	4.8	5.0	4.0	6.4	6.0	5.8	5.5
Total Main Stores Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cash Sales.....	57.0%†	52.3%†	50.5%†	47.7%†	42.0%†	41.3%†	39.0%	35.5%	33.0%	33.0%
C.O.D. Sales.....				1.8†	3.0†	3.9†	5.0	6.5	8.0	10.5
Regular Charge Sales.....						48.4†	50.0	49.5	50.0	49.0
Installment Sales.....	43.0†	47.7†	49.5†	50.5†	55.0†	6.4†	6.0†	8.5	9.0	7.5
Returns and Allowances:										
Percentage of Gross Sales.....	*	*	5.05%†	5.9%†	6.85%†	6.75%†	7.15%	9.65%	11.2%	12.3%
Percentage of Net Sales.....	*	*	5.3†	6.25†	7.35†	7.25†	7.7	10.7	12.6	14.0
Transactions Delivered (percent- age of total transactions).....	*	*	*	*	*	*	20.5%†	24.5%†	27.5%†	*
Transactions Returned (percent- age of total transactions).....	*	*	*	*	*	*	3.4†	5.0†	5.4†	7.0%†
Dollar Returns/Transactions Re- turned.....	*	*	*	*	*	*	\$4.50†	\$4.50†	\$5.00†	\$4.60†

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹ See definition in the Appendix.² For a discussion of the treatment of leased department sales, see the Appendix, page 34.³ The operation of basement stores was not typical of firms with sales of less than \$1,000,000. The following arithmetic averages which include zero weighting for firms having no basements may be suggestive: Less than \$150,000, 1.95%; \$150,000-300,000, 4.9%; \$300,000-500,000, 3.55%; \$500,000-750,000, 3.25%; and \$750,000-1,000,000, 6.15%.

After the inclusion of interest as a cost for the purpose of computing net profit in the narrow sense of a "pure" profit, only the two smallest volume groups, those with sales under \$150,000 and between \$150,000 and \$300,000, exhibited a net loss in this narrow sense.

After the crediting of other income, both these groups displayed notably better earnings than in the preceding year. Above the \$500,000 mark, earnings (that is, net gain, or ordinary net business profits) were remarkably steady as a percentage of net sales, the range of varia-

Table 4. Common Figures for Merchandising Operations and Profits for Department Stores: 1939
(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)									
	Less than \$150	\$150-300	\$300-500	\$500-750	\$750-1,000	\$1,000-2,000	\$2,000-4,000	\$4,000-10,000	\$10,000-20,000	\$20,000 or more
Number of Reports.....	45†	44†	45†	47†	26†	64†	58†	61†	25†	13†
Aggregate Sales (in thousands)	\$4,472	\$10,447	\$19,114	\$28,637	\$20,844	\$83,516	\$174,152	\$361,322	\$346,854	\$441,416
Typical Net Sales (in thous.)	\$85	\$225	\$375	\$550	\$800	\$1,250	\$2,600	\$5,600	\$13,550	\$26,000
Change in Sales (1939/1938)	100.2	103.5	104.5	106.0	105.0	105.5	104.0	105.7	107.1	104.5
Population of City (in thous.)	10	18	25	45	60	85	190	425	1,000	2,000
Pop. (interquartile range ¹ —in thousands)	5-16	11-25	14-40	31-63	40-76	58-130	111-302	260-670	487-2,560	1,238-3,376
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹ ...	*	36.5%†	36.2%†	37.6%†	36.6%	38.1%	38.3%	39.0%	39.2%	38.7%
Mark-downs.....	*	8.2%†	6.7%†	6.6%†	5.75%†	5.9%†	5.7%	5.75%	5.5%	4.75%
Discounts to Employees and Others.....	*	0.6†	0.7†	0.55†	0.6†	0.55†	0.6†	0.65	0.8	0.65
Stock Shortages.....	*	1.05†	1.0†	1.0†	0.8	0.9†	0.9	0.9	0.95	1.1
Total Retail Reductions.....	*	9.85%†	8.4%†	8.15%†	7.15%	7.35%	7.2%	7.3%	7.25%	6.5%
Inward Freight, Express, and Truckage.....	1.55%	1.3%	1.3%	1.25%	1.05%	1.15%	1.2%	1.05%	0.85%†	0.6%
Alteration and Workroom Costs (Net).....	0.2†	0.4†	0.45†	0.2†	0.4	0.55	0.5	0.8	0.6	0.75
Cash Discounts Received on Purchases (percentage of sales).....	2.6	2.65	2.9	2.8	2.85	2.75	2.7	3.1	3.3	3.6
Gross Margin.....	30.9%	32.5%	33.3%	35.1%	34.5%	35.7%	36.1%	36.8%	37.5%	37.6%
Total Merchandise Costs(Net)	69.1%	67.5%	66.7%	64.9%	65.5%	64.3%	63.9%	63.2%	62.5%	62.4%
Total Expense.....	32.5	32.9	32.9	34.5	33.7	35.2	35.1	36.6	37.3	36.9
TOTAL COST.....	101.6%	100.4%	99.6%	99.4%	99.2%	99.5%	99.0%	99.8%	99.8%	99.3%
NET PROFIT OR LOSS.....	L.1.6%	L.0.4%	0.4%	0.6%	0.8%	0.5%	1.0%	0.2%	0.2%	0.7%
Net Other Income (including interest on capital owned)...	3.3	3.1	2.6	3.1	2.8	3.1	3.3	3.6	3.6	3.6
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales....	1.7%	2.7%	3.0%	3.7%	3.6%	3.6%	4.3%	3.8%	3.8%	4.3%
Percentage of Net Worth...	3.0	5.5	6.5	8.0	7.1	7.7	8.7	8.1†	9.2	7.4†
Federal Tax on Income.....	0.3%	0.2%†	0.3%	0.5%	0.5%†	0.6%†	0.75%	0.5%	0.7%	0.8%
Percentage of Firms:										
Earning Some Net Profit...	35.6%	47.7%	57.8%	55.3%	61.5%	56.3%	62.1%	55.7%	56.0%	69.2%
Earning Some Net Gain...	71.1	86.4	88.9	89.4	96.2	92.1	96.6	95.1	80.0	100.0
Rate of Stock-turn (times a year):										
Based on Beginning and Ending Inventories.....	2.35	2.8	3.5	4.0	4.35	4.45	4.45	4.75	5.2	5.7
Based on Monthly Inventories.....	2.2†	2.4†	2.85	3.4	3.7	3.75	3.9	4.15	4.5	4.8

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹ See definition in the Appendix.

tion being only from 3.6% to 4.3%. In other words, a store with sales of \$10,000,000, for example, enjoyed practically no advantage in its earnings ratio in 1939 over a store with sales of \$500,000 to \$750,000.

Large Stores Have Faster Stock-turn, Lower Mark-downs, Better Gross Margin

With respect to gross margin, as shown also in Table 4, large department stores maintained their usual advan-

Table 5. Goal Figures for Merchandising Operations and Profits for Department Stores: 1939
(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)									
	Less than \$150	\$150-300	\$300-500	\$500-750	\$750-1,000	\$1,000-2,000	\$2,000-4,000	\$4,000-10,000	\$10,000-20,000	\$20,000 or more
Number of Reports.....	6†	6†	6†	11†	7†	15†	13†	11†	5†	5†
Aggregate Sales (in thousands)	\$875	\$1,451	\$4,492	\$6,109	\$5,435	\$19,303	\$33,261	\$67,780	\$72,596	\$180,516
Typical Net Sales (in thous.)	\$80	\$225	\$410	\$530	\$780	\$1,250	\$2,500	\$6,200	\$14,500	\$34,000
Change in Sales (1939/1938)	100.5	107.5	105.8	106.6	104.3	106.0	103.5	107.2	107.6	103.8
Population of City (in thous.)	7	17	32	42	60	70	160	300	640	2,000
Pop. (interquartile range ¹ —in thousands)	4-10	13-22	22-44	31-55	58-64	60-93	143-203	284-328	487-809	1,569-2,560
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹	*	*	36.6%	37.6%†	37.7%†	37.9%	39.2%	39.3%	40.1%	40.2%
Mark-downs.....	*	*	6.7%	5.55%†	6.35%†	5.45%†	5.95%	5.7%	5.4%	4.75%
Discounts to Employees and Others.....	*	*	0.6	0.6†	0.55†	0.55†	0.55	0.7	0.95	1.0
Stock Shortages.....	*	*	1.3	0.95†	0.7†	0.65	0.9	0.8	0.75	1.05
Total Retail Reductions.....	*	*	8.6%	7.1%†	7.6%†	6.65%	7.4%	7.2%	7.1%	6.8%
Inward Freight, Express, and Truckage.....	1.95%	1.2%	1.0%	1.3%	1.05%	1.0%	1.05%	1.1%	0.85%†	*
Alteration and Workroom Costs (Net).....	0.0	0.0	0.4	0.2	0.3	0.45	0.35	0.8	0.45	0.75
Cash Discounts Received on Purchases (percentage of sales).....	2.5	3.0	3.15	2.85	3.1	2.85	2.8	3.05	3.6	3.35
Gross Margin.....	30.8	33.5	33.9	35.8	35.8	36.2	37.2	37.2	39.0	38.7
Total Merchandise Costs (Net)	69.2%	66.5%	66.1%	64.2%	64.2%	63.8%	62.8%	62.8%	61.0%	61.3%
Total Expense.....	27.3	30.4	28.9	31.3	32.0	32.5	33.2	34.1	35.3	36.1
TOTAL COST.....	96.5%	96.9%	95.0%	95.5%	96.2%	96.3%	96.0%	96.9%	96.3%	97.4%
NET PROFIT OR LOSS.....	3.5%	3.1%	5.0%	4.5%	3.8%	3.7%	4.0%	3.1%	3.7%	2.6%
Net Other Income (including interest on capital owned).....	2.8	2.4	2.0	3.3	2.9	3.0	3.0	3.0	3.3	2.9
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales....	6.3%	5.5%	7.0%	7.8%	6.7%	6.7%	7.0%	6.1%	7.0%	5.5%
Percentage of Net Worth...	14.5	14.5	14.5†	16.0†	12.5†	16.0	12.5	14.8†	16.5	5.5*
Federal Tax on Income.....	0.8%	0.7%†	0.9%	1.4%	1.15%†	1.0%†	1.2%	0.9%†	1.3%	0.9%
Percentage of Firms:										
Earning Some Net Profit...	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Earning Some Net Gain...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Rate of Stock-turn (times a year):										
Based on Beginning and Ending Inventories.....	2.6	3.0	4.3	4.0	4.9	5.25	4.45	5.0	5.55	6.0
Based on Monthly Inventories.....	*	*	3.4	3.55	4.3	4.1	3.95	4.3	4.65	5.0
Returns and Allowances:										
Percentage of Gross Sales..	*	*	*	6.35%†	8.65%†	5.2%†	6.35%	9.5%	*	13.4%
Percentage of Net Sales....	*	*	*	6.8†	9.45†	5.5†	6.8	10.5	*	15.5

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

§ See definition in the Appendix.

tage over small stores. The range was from 30.9% at one end of the volume scale to 37.6% at the other end. It is worth remarking, however, that this difference was attributable in somewhat greater degree to the lower mark-downs of the large stores than to their higher initial mark-ups. The typical mark-down figures ranged from 8.2% at the low end of the volume scale to 4.75% at the high end.

The faster stock-turn rate of the large stores was undoubtedly a contributing factor to their lower mark-downs. As in many previous years, the stores with sales over \$10,000,000 turned their stock more than twice as fast as the stores with sales under \$150,000. Large volume of business is in itself a manifest aid to the achievement of rapid turnover, since it permits a rate of sales activity commensurate with the necessary assortments of merchandise; but along with this fact it must be borne in mind that the types of merchandise handled by large stores do not lend themselves so readily to rapid stock-turn, as indicated by Table 3, which reveals the much greater importance of home furnishings in the sales make-up of large concerns. Of course, proximity to buying markets has some effect on stock-turn; and this is presumably an advantage enjoyed by many large retail enterprises over their smaller competitors, a supposition which is strengthened by the evidence in Table 4 that inward transportation charges for small stores were substantially higher in 1939 than for large stores. Yet the advantages of sheer size and proximity to markets do not explain all the superiority of large companies in the matter of stock-turn; it is plausible to suppose that more effective merchandise management and control play some part.

In making a better gross margin showing, the large stores had some assistance from their greater cash discounts, but the disparity in this respect was not nearly so marked as many critics of large enterprise might expect. The size of cash discounts, as a matter of fact, is dependent more on types of merchandise and trade customs than it is on superiority of financial or bargaining power.

Among the several volume groups of stores, there was little variation in either discounts to employees or stock shortages. Alteration and workroom costs, of course, were notably higher for the large concerns.

Goal Figures Show Good Profits for Well-Managed Stores of All Sizes

As demonstrated in Table 5, page 11, small volume of sales is not a bar to good profit performance. It is possible for department stores in any size group from smallest to largest to achieve excellent ratios of earnings both

to net sales and to invested capital. Table 5 is the counterpart of Table 4, except that it gives goal figures rather than common figures. Goal figures are those for the most profitable firms in each volume group. Because of the way in which expense rates are related to size of city, as brought out in Table 7, page 15, the composition of the goal groups has been changed this year to exclude some companies whose good showing was thought to be primarily attributable to a combination of relatively large sales volume with location in small cities, and also to exclude some small concerns in large cities. As a result, the goal figures given in Table 5 (as well as other goal figures in Tables 10, 14, and 20) should represent a standard more readily attainable through the exercise of managerial skill.

There was surprisingly little variation in the profits performance of any of these goal groups in 1939. In general, the good showing of these selected groups, in comparison with the common figures in Table 4, resulted principally from low expense ratios. Although the goal gross margin figures were slightly above the common figures, the difference was considerably less than in the case of the expense ratios. The goal firms in the \$20,000,000-and-up group were an exception to the foregoing statements, their better earnings being attributable more to high margin than to low expense. As in a number of previous years, the goal firms among these largest stores made only moderately greater profits than were typical for the group as a whole, a circumstance which probably reflects the intensity of competition among large stores in large cities. In most instances, the goal stock-turn figures were higher than the common figures.

Expense Ratios Generally Lower in Small Stores

Table 6, opposite, testifies again to the characteristic differences between small and large stores in the cost of doing business. Below the \$500,000 mark, the common figures in 1939 were around 32.5% and 33%. From \$500,000 to \$4,000,000 sales, expense rates ranged somewhat irregularly between 33.7% and 35.2%. Beyond the \$4,000,000 mark, the total expense jumped up to more than 36.5%, the highest figure, as for several years past, appearing in the \$10,000,000 to \$20,000,000 bracket.

In looking at all these expense figures it is to be borne in mind that the Bureau regularly includes interest on accounts receivable as an expense, although there are many stores whose accounting systems do not make provision for this item. As a rough common figure, interest on accounts receivable in 1939 amounted to approximately 0.8% of sales.

Among the natural divisions of expense, total pay roll, real estate costs, total advertising, supplies, and other unclassified expense all tended to be higher for the

large stores. In proportion, the variations in pay roll were small. In spite of wide differences in organization and degree of specialization of labor, large department

Table 6. Common Figures for Expense by Natural and Functional Divisions for Department Stores: 1939
(Net Sales = 100%)

Items	Net Sales (in thousands)									
	Less than \$150	\$150- 300	\$300- 500	\$500- 750	\$750- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000- 10,000	\$10,000- 20,000	\$20,000 or more
Number of Reports:										
Giving Functional Data.....	0	12†	20†	30†	20†	50†	52†	59†	24†	12†
Giving Other Data.....	45†	44†	45†	47†	26†	64†	58†	61†	25†	13†
Aggregate Sales (in thousands)...	\$4,472	\$10,447	\$19,114	\$28,637	\$20,844	\$83,516	\$174,152	\$361,322	\$346,854	\$441,416
Typical Net Sales (in thousands)...	\$85	\$225	\$375	\$550	\$800	\$1,250	\$2,600	\$5,600	\$13,550	\$26,000
Change in Sales (1939/1938)....	100.2	103.5	104.5	106.0	105.0	105.5	104.0	105.7	107.1	104.5
Population of City (in thousands)	10	18	25	45	60	85	190	425	1,000	2,000
Population (interquartile range ¹ in thousands).....	5-16	11-25	14-40	31-63	40-76	58-130	111-302	260-670	487-2,560	1,238-3,376
NATURAL DIVISIONS										
Total Pay Roll.....	17.0%	17.2%	17.15%	17.7%	16.75%	17.65%	17.1%	17.6%	18.35%	17.85%
Real Estate Costs ¹	4.3	3.5	3.3	3.95	3.55	4.0	4.2	4.55	4.5	5.55
Newspaper Advertising.....	*	*	2.1†	2.4†	2.5	3.0	3.15	3.45	3.4	2.95
Direct Advertising.....	*	*	0.15†	0.1†	0.1†	0.2†	0.15	0.25	0.25	0.2
Other Advertising.....	*	*	0.4†	0.4†	0.5†	0.25	0.3	0.25	0.25	0.25
Total Advertising (subtotal).....	1.9	2.6	(2.65)	(2.9)	(3.1)	(3.45)	(3.6)	(3.95)	(3.9)	(3.4)
Taxes ¹	1.35	1.15	1.2	1.2	1.25	1.2	1.25	1.2	1.25	1.2
Interest ²	2.7	2.45	2.3	2.0	2.0	2.05	2.05	2.05	1.9	1.7
Supplies.....	1.0	1.15	1.4	1.55	1.8	1.7	1.75	1.9	1.9	1.8
Service Purchased.....	1.25	1.2	1.0	1.25	1.2	1.2	1.2	1.2	1.5	1.5
Losses from Bad Debts.....	0.15	0.35	0.3	0.2	0.2	0.25	0.25	0.2	0.2	0.15
Other Unclassified.....	0.6	0.85	0.85	0.85	0.85	0.8	0.8	0.9	1.0	1.2
Travelling.....	0.35	0.3	0.45	0.4	0.35	0.45	0.4	0.4	0.3	0.2
Communication.....	0.45	0.55	0.55	0.55	0.55	0.55	0.5	0.55	0.55	0.5
Repairs.....	0.2†	0.25	0.3	0.35	0.5	0.4	0.4	0.45	0.5	0.45
Insurance ²	0.45	0.5	0.45	0.35	0.4	0.35	0.3	0.3	0.25	0.2
Depreciation ²	0.45	0.55	0.5	0.75	0.65	0.65	0.7	0.75	0.75	0.7
Professional Services ¹	0.35†	0.3	0.5	0.5	0.55	0.5	0.6	0.6	0.45	0.5
Total Expense.....	32.5%	32.9%	32.9%	34.5%	33.7%	35.2%	35.1%	36.6%	37.3%	36.9%
FUNCTIONAL DIVISIONS										
Administrative and General										
Acctg. Office, Accts. Rec., & Credit.....	*	*	*	2.6%†	2.65%	2.65%	2.55%	2.4%	2.35%	2.1%
Exec. and Other Admin. and General.....	*	*	*	5.5†	5.7	5.95	5.65	5.6	5.6	5.45
Total.....	*	*	*	8.1%	8.35%	8.6%	8.2%	8.0%	7.95%	7.55%
Occupancy										
Operating and Housekeeping..	*	*	*	1.65%	1.6%	1.55%	1.5%	1.65%	2.05%	1.85%
Real Estate Costs ¹	*	*	*	3.95	3.55	4.0	4.2	4.55	4.5	5.55
Fixtures and Equip. Costs.....	*	*	*	1.1	0.9	0.9	0.95	1.05	1.0	0.85
Heat, Light, and Power.....	*	*	*	1.1	1.0	0.95	0.85	0.75	0.75	0.6
Total.....	*	*	*	7.8%	7.05%	7.4%	7.5%	8.0%	8.3%	8.85%
Publicity										
Sales Prom. and Gen. Adv.....	*	*	*	3.5%	3.6%	4.2%	4.3%	4.8%	4.6%	4.05%
Display.....	*	*	*	0.65	0.6	0.6	0.55	0.55	0.55	0.55
Total.....	*	*	*	4.15%	4.2%	4.8%	4.85%	5.35%	5.15%	4.6%
Buying and Merchandising										
Mdse. Management & Buying..	*	*	*	4.2%†	3.4%	3.85%	3.95%	4.1%	3.95%	3.55%
Receiving and Marking.....	*	*	*	0.35	0.45	0.45	0.5	0.5	0.5	0.55
Total.....	*	*	*	4.55%	3.85%	4.3%	4.45%	4.6%	4.45%	4.1%
Direct and General Selling.....	*	*	*	9.2%	9.2%	9.0%	8.75%	9.0%	9.5%	9.4%
Delivery.....	*	*	*	0.7	1.05	1.1	1.35	1.65	1.95	2.4
Total Expense.....	32.5%	32.9%	32.9%	34.5%	33.7%	35.2%	35.1%	36.6%	37.3%	36.9%

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹ See definition in the Appendix.

² Except on real estate.

stores achieve no economies of a nature which permits them to devote a smaller part of their sales dollar to the remuneration of their personnel. In fact, the opposite is the case. The wage bill, in 1939, in large stores, was a slightly higher percentage of sales than in small stores.

Real estate costs is one of those expense ratios which tends to be high at both ends of the volume scale. The lowest figure appearing for any group in 1939 was 3.3% for stores in the \$300,000 to \$500,000 bracket. The very small stores showed 4.3%; and at the other end of the range, above the \$20,000,000 mark, the ratio jumped sharply to 5.5% of sales. These two important natural expense divisions, total pay roll and real estate costs, are examined again in Table 8, page 17, in juxtaposition with other pertinent ratios.

Three of the natural expense divisions: namely, interest, travelling, and insurance, ran counter to the general tendency; that is, they were higher for the small stores than for the large concerns. In the case of interest (made up of interest on merchandise, accounts receivable, and fixtures and equipment) and insurance, the significant cause of this variation presumably was the greater rapidity of stock-turn in the enterprises with larger sales volume. The lower travelling expense for large department stores possibly can be explained in part by the proximity of many of these firms to the principal wholesale markets, but it is more likely that buyers' travelling expense is a type of outlay in which sheer economies of size are important.

The natural divisions, taxes, losses from bad debts, communication, and professional services, as indicated in Table 6, either tended to be fairly uniform in relation to sales volume or else exhibited no regular or significant variations. Beyond the \$500,000 mark, depreciation did not vary greatly, but for the small stores it was a little on the low side.

In the lower part of Table 6, common figures for the totals of functional subdivisions of expense are given for seven groups of stores ranging in volume from \$500,000 to over \$20,000,000. Costs of the administrative and general function tended to be a little lower for the large stores. But occupancy costs, on the whole, were higher as the volume scale was ascended, and the same was true of publicity outlays. In buying and merchandising expenses, the variations were irregular with respect to size of business. Direct and general selling showed slightly higher figures for the two largest volume groups. In delivery costs, the difference in favor of the small stores was striking. The only subfunctions where the very large stores, those with sales over \$20,000,000, appeared to have any advantage were accounting office, accounts receivable, and credit; fixtures and equipment

costs; heat, light, and power; and merchandise management and buying. More detailed common figures for subfunctional expense divisions appear in Tables 11, 12, and 13, pages 21, 22, and 23.

In any comparisons between large department stores and small department stores, the frequently repeated warning must be borne in mind that the large store is a considerably different type of institution from the small store; it sells a different assortment of merchandise, it offers different services, and it occupies a different position in the marketing structure. Also, large stores, almost by definition, have their habitat in large cities. The significance of this fact is developed in the following paragraphs.

Size of City is an Important Factor Governing Expense

During recent months, Miss Elizabeth A. Burnham, Research Supervisor of the Bureau of Business Research, has made a special study of the size-of-city factor and the size-of-store factor in relation to the principal department store operating ratios, utilizing data for the years 1937 and 1938. Because of the apparent significance of the findings in this study, which is being published in the current (Summer, 1940) issue of the *Harvard Business Review*, it was deemed desirable to apply the same methods of analysis to the department store figures for 1939. This is done in Table 7.

This tabulation is concerned with only four items: gross margin, total expense, net gain, and stock-turn. These items are common figures determined for stores classified by sales volume groups within population-of-city groups. The same ten volume groups used elsewhere in the bulletin run from top to bottom at the left-hand side of Table 7, while across the top of the table are listed eight population-of-city groups, ranging from cities with population under 15,000 to cities with population of 1,000,000 or more. Thus the figures for gross margin, total expense, net gain, and rate of stock-turn which appear in the extreme upper left-hand corner are common figures for a group of 32 firms with sales under \$150,000 all located in cities with population under 15,000. Similarly, at the extreme lower right-hand corner of the table, common figures for the same four items appear for the ten firms with sales of \$20,000,000 or more situated in cities with population over 1,000,000. But in these largest cities, as the table shows, there were representative groups of stores ranging down to \$2,000,000 in sales volume; and at the other end of the population scale, in the cities under 15,000, there were stores in all the first three volume classifications. Conversely, it was possible to establish representative samples of stores with sales between \$150,000 and \$300,000 for

Table 7. Common Figures for Margin, Expense, and Profit for Department Stores Classified According to Net Sales Volume and Size of City: 1939

(Net Sales = 100%)

Net Sales (in thousands)	Items	Population Groups (in thousands)							
		Less than 15	15- 25	25- 50	50- 100	100- 250	250- 500	500- 1,000	1,000 or more
Less than \$150	Number of Reports.....	32	.....	.....	.....	.....	.....	.....	.....
	Gross Margin.....	30.8%	.....	.....	.....	.....	.....	.....	.....
	Total Expense.....	31.9	.....	.....	.....	.....	.....	.....	.....
	Net Gain.....	2.0	.....	.....	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	2.3	.....	.....	.....	.....	.....	.....	.....
\$150- 300	Number of Reports.....	16	16	6	.....	.....	.....	.....	.....
	Gross Margin.....	31.8%	33.0%	33.5%	.....	.....	.....	.....	.....
	Total Expense.....	33.0	32.3	38.0	.....	.....	.....	.....	.....
	Net Gain.....	2.5	3.7	L. 1.6	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	2.5	3.3	2.8	.....	.....	.....	.....	.....
\$300- 500	Number of Reports.....	12	10	15	.....	.....	.....	.....	.....
	Gross Margin.....	32.4%	32.9%	34.7%	.....	.....	.....	.....	.....
	Total Expense.....	32.3	34.1	34.1	.....	.....	.....	.....	.....
	Net Gain.....	3.6	1.9	3.2	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	3.1	3.3	3.4	.....	.....	.....	.....	.....
\$500- 750	Number of Reports.....	.....	.....	21	13	5	.....	.....	.....
	Gross Margin.....	.....	.....	35.4%	34.5%	33.0%	.....	.....	.....
	Total Expense.....	.....	.....	34.7	33.0	34.0	.....	.....	.....
	Net Gain.....	.....	.....	4.1	4.7	1.2	.....	.....	.....
	Rate of Stock-turn.....	.....	.....	3.9	3.85	4.95	.....	.....	.....
\$750- 1,000	Number of Reports.....	.....	.....	7	11	.....	.....	.....	.....
	Gross Margin.....	.....	.....	35.1%	35.3%	.....	.....	.....	.....
	Total Expense.....	.....	.....	34.7	33.5	.....	.....	.....	.....
	Net Gain.....	.....	.....	3.7	4.4	.....	.....	.....	.....
	Rate of Stock-turn.....	.....	.....	4.1	4.6	.....	.....	.....	.....
\$1,000- 2,000	Number of Reports.....	.....	.....	.....	25	17	5	.....	.....
	Gross Margin.....	.....	.....	.....	36.0%	35.5%	35.1%	.....	.....
	Total Expense.....	.....	.....	.....	35.0	35.5	35.2	.....	.....
	Net Gain.....	.....	.....	.....	4.3	3.4	*	.....	.....
	Rate of Stock-turn.....	.....	.....	.....	4.5	4.2	4.25	.....	.....
\$2,000- 4,000	Number of Reports.....	.....	.....	.....	10	23	15	5	4
	Gross Margin.....	.....	.....	.....	35.4%	36.4%	36.7%	36.4%	34.8%
	Total Expense.....	.....	.....	.....	32.8	34.7	36.7	36.1	38.1
	Net Gain.....	.....	.....	.....	6.6	4.9	2.8	3.5	0.6
	Rate of Stock-turn.....	.....	.....	.....	4.75	4.4	4.35	4.65	4.5
\$4,000- 10,000	Number of Reports.....	.....	.....	.....	.....	9	30	17	5
	Gross Margin.....	.....	.....	.....	.....	37.2%	36.7%	37.1%	36.1%
	Total Expense.....	.....	.....	.....	.....	34.8	36.0	38.5	37.8
	Net Gain.....	.....	.....	.....	.....	6.0	4.4	2.4	1.7
	Rate of Stock-turn.....	.....	.....	.....	.....	4.9	4.75	4.65	4.8
\$10,000- 20,000	Number of Reports.....	.....	.....	.....	.....	.....	8	7	10
	Gross Margin.....	.....	.....	.....	.....	.....	37.5%	38.2%	36.9%
	Total Expense.....	.....	.....	.....	.....	.....	35.5	37.2	39.2
	Net Gain.....	.....	.....	.....	.....	.....	6.0	4.5	1.0
	Rate of Stock-turn.....	.....	.....	.....	.....	.....	5.4	5.2	5.0
\$20,000 or more	Number of Reports.....	.....	.....	.....	.....	.....	.....	.....	10
	Gross Margin.....	.....	.....	.....	.....	.....	.....	.....	37.8%
	Total Expense.....	.....	.....	.....	.....	.....	.....	.....	37.1
	Net Gain.....	.....	.....	.....	.....	.....	.....	.....	4.1
	Rate of Stock-turn.....	.....	.....	.....	.....	.....	.....	.....	6.2

* Data not available.

three different population-of-city groups; and in the volume group with sales between \$2,000,000 and \$4,000,000, such samples could be established for five population-of-city groups.

From this description of the arrangement of figures in Table 7, it is clear that the effects of the sales-volume factor on these several operating ratios can be discerned by reading down from top to bottom, whereas the effects of the population-of-city factor can be discerned by reading across from left to right. Of course, when stores are grouped according to this dual classification, the size of the samples from which common figures are drawn is necessarily much restricted. The resulting data and indicated conclusions, therefore, must be regarded as tentative until confirmed by longer experience.

With respect to gross margin, Table 7 suggests some definite correlation with sales volume; in a majority of instances, the gross margin percentage was higher for the larger stores in the same size-of-city group. In relation to the size-of-city factor, although gross margin was lower for small stores in small cities, it is to be remarked that starting roughly in the middle of the population scale, that is, somewhere around the 100,000 mark, gross margin exhibited a very slight tendency to be lower in the larger cities, a reflection perhaps of the more vigorous competition in populous centers.

For the total expense ratio, an irregular relationship to sales volume is indicated by Table 7. Reading down the several columns reveals perhaps a slight tendency for total expense to be higher for the larger stores, but certainly no uniform correlation. On the other hand, when the figures are read across, it is observable, particularly for stores with sales beyond the \$2,000,000 mark, that differences in the total cost of doing business in 1939 were associated with size of city rather than with sales volume, the higher percentages appearing for the larger cities.

Thus the tentative conclusion is plausible for 1939 that gross margin was somewhat more closely associated with differences in sales volume than with differences in size of city, whereas the percentage cost of doing business was more closely associated with population of cities than with volume of sales. This tentative conclusion is by no means unreasonable. Large stores not only have greater buying power, but are in a position to buy more of their goods direct from manufacturers. Also, these stores have generally higher stock-turn rates and are able to control mark-downs more effectively. It is natural, therefore, that they should have higher gross margins. In the case of expense, on the other hand, it is clear that many of the conditions making for higher outlays are closely associated with the size-of-city factor: high real estate values, high taxes, high adver-

tising rates, not infrequently higher wage scales, congested traffic conditions, strong competition in services, and so on. If stock-turn is to be taken as an index of efficiency in management, it is interesting to observe that in the volume groups above \$1,000,000 the highest stock-turn rates in each group appeared for the firms in the smallest cities.

Scanning the figures in Table 7 for net gain (that is, net business profit in the ordinary sense) one may observe that the percentages are higher as read down the columns but that they become lower as they are read across the table. In other words, larger sales volume affects earnings favorably, whereas larger population of city affects earnings adversely. Hence, the best combination from a profit standpoint is a large store in a not-too-large city. As might be expected, the stock-turn figures in Table 7 reveal a closer correlation with sales volume than with size of city.

Lower Selling Pay Roll and Higher Sales per Employees in Large Stores

Although the total pay roll percentage displayed no great variation, the salesforce pay roll, as shown in Table 8, opposite, for seven groups ranging in sales from \$500,000 to over \$20,000,000, was definitely lower for the large stores, a fact which obviously agrees with the much higher sales per salesperson in those establishments. This last figure, however, is not a good general test of productivity. The total personnel productivity is better measured by the sales per total employee, that is, net sales divided by the number of persons employed over the year. Here the advantage again lay with the larger concerns in 1939, although not by any wide margin; the lowest figures characteristically appeared not in the smallest stores, but in some of the medium-size establishments. The higher sales per employee in the large stores, taken in conjunction with the slightly higher total pay roll ratios in those stores, carry the implication that the average remuneration per person employed in the large stores was higher than in the small stores.

The profound difference in organization and degree of specialization of labor which exists between large and small retail establishments is illustrated by the ratio of salespeople to total employees, which ranged in 1939 from a high of 72% at the lower end of the volume scale to a low of 37.5% at the upper end. This difference, of course, explains why, in the very large stores, there was so great a gap between sales per total employee and sales per salesperson. In view of these marked organizational differences, it is rather significant that the number

Table 8. Common Figures for Pay Roll, Productivity of Personnel, Real Estate Costs, and Productivity of Space for Department Stores: 1939

Items	Net Sales (in thousands)									
	Less than \$150	\$150-300	\$300-500	\$500-750	\$750-1,000	\$1,000-2,000	\$2,000-4,000	\$4,000-10,000	\$10,000-20,000	\$20,000 or more
Number of Reports:										
Giving Transaction Data.....	4	3	10†	14†	12†	33†	37†	48†	25†	13†
Giving Other Data.....	45†	44†	45†	47†	26†	64†	58†	61†	25†	13†
Aggregate Sales (in thousands)...	\$4,472	\$10,447	\$19,114	\$28,637	\$20,844	\$83,516	\$174,152	\$361,322	\$346,854	\$441,416
Typical Net Sales (in thousands)...	\$85	\$225	\$375	\$550	\$800	\$1,250	\$2,600	\$5,600	\$13,550	\$26,000
Change in Sales (1939/1938)....	100.2	103.5	104.5	106.0	105.0	105.5	104.0	105.7	107.1	104.5
Population of City (in thousands)	10	18	25	45	60	85	190	425	1,000	2,000
Population (interquartile range ¹ in thousands).....	5-16	11-25	14-40	31-63	40-76	58-130	111-302	260-670	487-2,560	1,238-3,376
Total Pay Roll ²	17.0%	17.2%	17.15%	17.7%	16.75%	17.65%	17.1%	17.6%	18.35%	17.85%
Pay Roll of Salespeople ³	*	*	*	7.6	7.3	7.1	6.65	6.3	6.2	5.75
Sales/Total Employees.....	\$6,170†	\$6,000†	\$5,900†	\$5,650†	\$6,200†	\$5,650†	\$6,200	\$6,500	\$7,000	\$7,700
Sales/Number of Salespeople....	\$8,540†	\$9,100†	\$8,550†	\$9,000†	\$10,600†	\$10,300†	\$12,500†	\$14,300	\$17,000	\$20,500
Salespeople/Total Employees...	72.0%†	66.0%†	69.0%†	62.5%†	58.5%†	55.0%†	50.0%†	45.5%	41.0%	37.5%
Trans./Total Employees.....	*	*	3,600	3,300†	3,600†	3,200	3,400	3,600	3,200	3,400
Trans./Number of Salespeople...	*	*	5,200	*	6,200†	5,800	6,800	7,900	7,800	9,100
Average Gross Sale.....	*	*	\$1.85	\$1.90	\$1.84	\$1.95	\$1.94	\$2.05	\$2.35	\$2.55
Real Estate Costs ⁴ , ⁵	4.3%	3.5%	3.3%	3.95%	3.55%	4.0%	4.2%	4.55%	4.5%	5.55%
Real Estate Costs/Square Feet of Total Space.....	\$0.40†	\$0.41†	\$0.45†	\$0.56†	\$0.50†	\$0.55†	\$0.69†	\$0.74	\$0.81	\$1.09
Sales/Sq. Ft. of Total Space.....	\$9.50†	\$12.00†	\$13.60†	\$14.25†	\$14.00†	\$14.00†	\$16.40†	\$16.20	\$18.00	\$19.60
Sales/Sq. Ft. of Selling Space....	\$13.00†	\$17.00†	\$18.85†	\$19.50†	\$22.00†	\$22.00†	\$27.00†	\$30.00	\$38.20	\$49.00
Selling Space/Total Space.....	73.0%†	71.0%†	72.0%†	73.5%†	64.0%†	65.0%†	61.0%†	54.0%	47.0%	40.0%
Trans./Sq. Ft. of Total Space...	*	*	*	*	*	8†	9†	9	9	9
Trans./Sq. Ft. of Selling Space..	*	*	*	*	*	12†	15†	17	19	22

* Data not available. † Usable figures for this item were given on less than 75% of the reports.
¹ Some of the reports covered the operations of more than one store. In such cases, the population of the city in which the main store was located was used in preparing the figures for population. ² See definition in the Appendix. ³ Net Sales = 100%.

of sales transactions, when divided by the average number of employees during the year, yielded figures which showed relatively little variation in accordance with sales volume. The high figure of 3,600 transactions per total employee appeared for two of the groups below the \$1,000,000 mark and also for the bracket between \$4,000,000 and \$10,000,000; the low figure of 3,200 was shown both for the \$1,000,000 to \$2,000,000 group and for the \$10,000,000 to \$20,000,000 group. It is apparent, then, that the principal reason why dollar sales per total employee tended to be higher for the larger stores was the fact that these stores, as shown also in Table 8, generally had a higher average retail value per gross sales transaction. But the basic truth is worth pondering that in spite of vastly greater size and far more elaborate organization the large store cannot obtain any greater per capita output of sales transactions than can the relatively small department store.

This condition is a measure of the extent to which retailing, amid all the surroundings of a machine age, remains a distinctly personal business.

Higher Space Productivity Does Not Fully Counterbalance High Rental Costs in Large Stores

As shown also in Table 8, the large stores ran true to form in 1939 in having higher sales per square foot, both of total space and of selling space, than did the small stores. Yet the situation commented on in the 1938 report still remained true, namely, that the real estate costs per square foot of total space for large stores as compared with small ones were out of proportion with the apparent sales potentialities to an extent which made it necessary for the large stores, especially those in the over \$20,000,000 group, to devote a higher percentage of sales to these "landlord" costs than was required of the small companies. The lower proportion

Table 9. Common Figures for Credit Data for Department Stores: 1939

(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)									
	Less than \$150	\$150- 300	\$300- 500	\$500- 750	\$750- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000- 10,000	\$10,000- 20,000	\$20,000 or more
Number of Reports:										
Giving Transaction Data.....	4	3	10†	14†	12†	33†	37†	48†	25†	13†
Giving Other Data.....	45†	44†	45†	47†	26†	64†	58†	61†	25†	13†
Aggregate Sales (in thousands)...	\$4,472	\$10,447	\$19,114	\$28,637	\$20,844	\$83,516	\$174,152	\$361,322	\$346,854	\$441,416
Typical Net Sales (in thousands)...	\$85	\$225	\$375	\$550	\$800	\$1,250	\$2,600	\$5,600	\$13,550	\$26,000
Change in Sales (1939/1938).....	100.2	103.5	104.5	106.0	105.0	105.5	104.0	105.7	107.1	104.5
Population of City (in thousands)	10	18	25	45	60	85	190	425	1,000	2,000
Population (interquartile range ¹ in thousands).....	5-16	11-25	14-40	31-63	40-76	58-130	111-302	260-670	487-2,560	1,238-3,376
Cash Sales.....	57.0%†	52.3%†	50.5%†	47.7%†	42.0%†	41.3%†	39.0%	35.5%	33.0%	33.0%
C.O.D. Sales.....				1.8†	3.0†	3.9†	5.0	6.5	8.0	10.5
Regular Charge Sales.....	43.0†	47.7†	49.5†	50.5†	55.0†	48.4†	50.0	49.5	50.0	49.0
Installment Sales.....						6.4†	6.0†	8.5	9.0	7.5
Net Credit Sales = 100%:										
Pay Roll: Accts. Rec. & Cr....	*	*	*	1.0%†	1.45%†	1.45%†	1.4%	1.3%	1.2%	1.1%
Losses from Bad Debts.....	0.35%†	*	0.55%†	0.4†	0.35†	0.45†	0.4	0.35	0.35	0.3
Int. on Accts. Receivable.....	*	1.55%†	1.35†	1.4†	1.35†	1.45†	1.5	1.55	1.5	1.35
Average Accts. Rec. Outst.\$...	*	26.0†	22.5†	23.2†	23.0†	24.2†	25.0	25.6	25.0	22.5
Returns and Allowances:										
Percentage of Gross Sales.....	*	*	5.05%†	5.9%†	6.85%†	6.75%†	7.15%	9.65%	11.2%	12.3%
Percentage of Net Sales.....	*	*	5.3†	6.25†	7.35†	7.25†	7.7	10.7	12.6	14.0
Average Gross Sale.....	*	*	\$1.85	\$1.90	\$1.84	\$1.95	\$1.94	\$2.05	\$2.35	\$2.55

* Data not available.

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

§ For the beginning and end of the year.

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

¹ See definition in the Appendix.

of nonselling space in small stores is, of course, a complementary condition to the lower proportion of non-selling employees in those establishments. This factor, however, does not afford any explanation for the lower percentage of sales needed by these concerns to meet real estate costs, since the sales per square foot of selling space tend to run much higher in the larger stores where selling space is a smaller proportion of the total.

For the stores with sales over \$1,000,000, Table 8 reveals little difference in the number of transactions per square foot of total space; although a similar figure computed on the basis of selling space was, of course, higher for the large stores. These figures afford a further commentary on the present-day character of the department store business. The physical volume of output from a department store plant is low. Suppose, for example, it is assumed that, from a purely physical standpoint, 12 square yards of selling space are ample to accommodate a customer, a salesperson, and a reasonable assortment of merchandise. This is 108 square feet. Then, in department stores with sales over \$20,000,000, the typical figure of 22 transactions per square foot of selling space yields an annual number of 2,376 transactions for 12 square yards of space. If there are approx-

imately 300 selling days in the year, this space is used at the rate of only 8 transactions per day, one for each hour that the store is open. Actually, of course, no department store mans its selling space at anything near a rate of one salesperson per 12 square yards; in other words, the potential productivity of the space used is even greater than the potential productivity of the personnel. In a sense this calculation is a measure of consumer freedom of choice, of all the "extras" with which a high standard of living has surrounded the simple act of transferring ownership of consumer goods. Such a calculation also shows how misleading it is to judge the rate of sales activity even in large department stores by the impressions which might be gained by observing Macy's street floor on a crowded noon hour.

From a cold-blooded technical standpoint, the productivity of both personnel and space in the present-day department store business is undeniably low. The obvious retort is that retailing is not a mechanical business but a human business. Yet the foregoing discussion suggests some of the broad lines along which imaginative merchants need to be thinking if they ever are to narrow the segment of the customer's dollar which department store costs now require.

Credit Costs Highest in Middle-Size Stores

Although the large stores generally did a higher percentage of credit business, including transactions on installment and other serial-payment plans, the figures in Table 9, opposite, show that the credit expenses of the large stores as percentages of their net credit sales were not so high in 1939 as the credit expenses of some of the middle-size stores. This comparison does not cover all the expenses of granting credit, but only those elements which can readily be isolated, including accounts receivable and credit pay roll, losses from bad debts, and interest on accounts receivable (an imputed figure). The clearest advantage of the large companies over the middle-size concerns appeared in the pay roll of the accounts receivable and credit office. The average accounts receivable at the beginning and end of the year apparently amounted to roughly a quarter of the annual credit sales for most companies.

The Most Profitable Stores Had Lower Expenses

As previously remarked, the goal firms in 1939 owed their better profit showing principally to their lower expense ratios. Table 10, page 20, displays goal expense figures for each of the 10 volume groups. Comparisons should be made with Table 6, page 13, Table 8, page 17, and Table 9, opposite. For total pay roll, goal figures were lower in all but one volume group; for real estate costs, the goal firms had lower outlays in all but two groups; and for total advertising, the goal figures were lower in every volume group. In the other natural expense divisions, the differences between common figures and goal figures were small, slight savings for the goal firms generally being exhibited in interest, supplies, service purchased, losses from bad debts, and insurance.

In all six volume groups for which figures were available, sales per total employee in 1939 were higher for the goal firms; and in four of these six groups, the ratio of selling employees to total employees was higher for the goal firms. The goal firms also showed to advantage with respect to sales per square foot of total space. In all six volume groups for which goal figures on this item could be established, they were slightly higher than the corresponding common figures. No significant evidence appeared in the ratio of selling space to total space.

There was no indication that the goal firms were differentiated in any significant way from the other firms with respect to proportions of cash, C.O.D., credit, and installment sales; but credit expenses, including pay roll of the accounts receivable and credit office, losses from bad debts, and the imputed cost of interest on accounts receivable, were generally lower as percentages of net credit sales for goal firms. Likewise, the

average accounts receivable outstanding constituted a lower percentage of credit sales for goal firms.

Looking now at the top of Table 10, one may observe that the goal firms were not significantly different in their average sales volume from the other firms in the respective volume groups, except possibly in the top volume classification, where the typical net sales of the goal firms were \$34,000,000 as against a common figure of \$26,000,000 for the group as a whole. The interquartile range figures on population of cities where the stores were located suggest that the goal firms tended to be in slightly smaller cities. Undoubtedly some importance should be attached to the fact that in seven out of ten groups the goal firms enjoyed a slightly greater increase in sales over the previous year than did the other firms.

More Detailed Functional Expense Comparisons

Tables 11, 12, 13, and 14, on the following pages, carry more detailed breakdowns of expense figures on a subfunctional basis for seven volume groups ranging from \$500,000 to \$20,000,000 or more. From these more detailed tables, it may be noted, for example, that executive salaries in 1939 were considerably less than half as great in percentage of sales for the \$20,000,000-and-up group as they were for the bracket between \$500,000 and \$750,000. On the other hand, it may be observed that the receiving and marking pay roll exhibited an opposite relationship to sales volume.

Table 14 presents goal figures for subfunctional divisions of pay roll. A comparison of these figures with the data in Tables 11, 12, and 13, shows, for instance, that administrative and general pay roll was lower for the goal firms in six out of seven volume groups, and that salespeople's compensation was lower in five out of six groups.

In Table 14 there are presented also goal figures for the functional and subfunctional totals of expense, which may be compared with common figures in Table 6, page 13. In all seven volume groups, the total expense for the publicity function was lower for the goal firms. In six out of seven groups, the functional totals, administrative and general, occupancy, and delivery, were lower for the goal firms; and in five out of seven groups, direct and general selling also was lower for the goal firms. The one functional expense classification in which the goal firms showed a slight tendency to have higher figures was buying and merchandising.

Broadly speaking, the evidence points to the conclusion that the expense savings which enabled goal firms to achieve their better profits were not attributable to any peculiar advantages but rather to an all-around superiority of management.

Table 10. Goal Figures for Expense by Natural Divisions, Productivity of Space and of Personnel, and Other Data for Department Stores: 1939

(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)									
	Less than \$150	\$150-300	\$300-500	\$500-750	\$750-1,000	\$1,000-2,000	\$2,000-4,000	\$4,000-10,000	\$10,000-20,000	\$20,000 or more
Number of Reports:										
Giving Transaction Data.....	0	0	2†	3	4	9†	7†	7†	5†	5†
Giving Other Data.....	6†	6†	6†	11†	7†	15†	13†	11†	5†	5†
Aggregate Sales (in thousands)...	\$875	\$1,451	\$4,992	\$6,109	\$5,435	\$19,303	\$33,261	\$67,780	\$72,596	\$180,516
Typical Net Sales (in thousands)...	\$80	\$225	\$410	\$530	\$780	\$1,250	\$2,500	\$6,200	\$14,500	\$34,000
Change in Sales (1939/1938)....	100.5	107.5	105.8	106.6	104.3	106.0	103.5	107.2	107.6	103.8
Population of City (in thousands)	7	17	32	42	60	70	160	300	640	2,000
Population (interquartile range ¹ in thousands).....	4-10	13-22	22-44	31-55	58-64	60-93	143-203	284-328	487-809	1,569-2,560
Total Pay Roll.....	14.5%	14.7%	15.6%	16.4%	15.4%	16.65%	16.7%	16.4%	18.45%	17.5%
Real Estate Costs ¹	3.8	3.35	3.0	3.6	3.45	3.4	4.4	4.15	3.95	5.8
Newspaper Advertising.....	*	*	2.0†	2.2†	2.2	2.7	2.55	3.2	2.2	2.4
Direct Advertising.....	*	*	0.1†	0.0	0.15	0.2	0.1	0.2	0.35	0.2
Other Advertising.....	*	*	0.2†	0.15†	0.3	0.25	0.25	0.2	0.15	0.15
Total Advertising (subtotal)....	1.75	2.3	(2.3)	(2.35)	(2.65)	(3.15)	(2.9)	(3.6)	(2.7)	(2.75)
Taxes ¹	1.1	1.0	1.2	1.15	1.4	1.15	1.4	1.25	1.25	1.25
Interest ¹	2.0	2.4	1.75	2.0	1.95	1.75	1.9	1.95	1.9	1.6
Supplies.....	0.9	1.2	1.1	1.35	1.8	1.6	1.6	1.8	1.7	1.65
Service Purchased.....	1.0	1.15	0.9	1.05	1.3	1.1	1.1	1.25	1.2	1.6
Losses from Bad Debts.....	0.05	0.25	0.05	0.15	0.15	0.25	0.15	0.15	0.15	0.1
Other Unclassified.....	0.35	1.2	0.75	0.8	0.8	0.75	0.65	0.75	1.15	1.2
Travelling.....	0.35	0.5	0.35	0.35	0.45	0.4	0.35	0.4	0.3	0.25
Communication.....	0.35	0.65	0.5	0.45	0.5	0.5	0.4	0.5	0.5	0.45
Repairs.....	0.15†	0.15	0.2	0.3	0.45	0.4	0.4	0.4	0.6	0.6
Insurance ²	0.45	0.85	0.3	0.3	0.35	0.25	0.25	0.25	0.2	0.15
Depreciation ²	0.3	0.5	0.4	0.75	0.7	0.65	0.6	0.7	0.8	0.7
Professional Services ¹	0.25†	0.2†	0.5	0.3	0.65	0.5	0.4	0.55	0.45	0.5
TOTAL EXPENSE.....	27.3%	30.4%	28.9%	31.3%	32.0%	32.5%	33.2%	34.1%	35.3%	36.1%
Sales/Total Employees.....	*	*	*	*	\$6,300	\$6,150†	\$7,000	\$6,800†	\$7,500	\$7,800
Sales/Number of Salespeople....	*	*	*	*	\$10,000	\$11,400†	\$13,500	\$14,800†	\$19,000	\$19,800
Salespeople/Total Employees....	*	*	*	*	63.0%	54.0%†	52.0%	46.0%†	39.5%	39.5%
Trans./Total Employees.....	*	*	*	*	*	3,700	3,300	*	*	3,200
Trans./Number of Salespeople...	*	*	*	*	*	7,000	6,300	*	*	8,100
Real Estate Costs/Sq. Ft. of Total Space.....	*	*	*	*	\$0.50†	\$0.52†	\$0.72†	\$0.73†	\$0.78	\$1.15
Sales/Sq. Ft. of Total Space.....	*	*	*	*	\$14.50†	\$15.50†	\$16.50†	\$17.60†	\$20.00	\$19.80
Sales/Sq. Ft. of Selling Space....	*	*	*	*	\$23.00†	\$23.00†	\$27.00	\$27.00	\$51.50	\$43.00
Selling Space/Total Space.....	*	*	*	*	63.0%†	68.0%†	61.0%†	65.0%†	39.0%	46.0%
Trans./Sq. Ft. of Total Space...	*	*	*	*	*	10†	9	*	9	8
Trans./Sq. Ft. of Selling Space...	*	*	*	*	*	15†	15	*	23	17
Cash Sales.....	*	*	*	}50.0%†	41.5%	42.5%†	39.5%	35.0%	27.5%	33.0%
C.O.D. Sales.....	*	*	*		2.5†	5.0†	5.5	6.0	6.0	10.0
Regular Charge Sales.....	*	*	*	}50.0†	}56.0	}52.5	}55.0	}59.0	}66.5	}57.0
Installment Sales.....	*	*	*							
Net Credit Sales = 100%:										
Pay Roll: Accts. Rec. and Cr...	*	*	*	*	1.2%†	1.25%†	1.3%†	1.1%	1.1%	*
Losses from Bad Debts.....	*	*	*	0.3%†	0.3	0.4	0.3	0.25	0.25	0.2%
Int. on Accts. Receivable.....	*	*	*	1.35†	1.35	1.25	1.5	1.4	1.3	1.2
Average Accts. Rec. Outst.\$...	*	*	*	22.4†	22.5	20.75	25.0	23.4	22.0	20.0
Average Gross Sale.....	*	*	*	*	*	\$1.85	\$2.04	\$2.07	*	\$2.80
Change in Trans. (1939/1938)...	*	*	*	*	*	103.7	102.5	109.5	105.8	102.0

* Data not available.

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

‡ For the beginning and end of the year.

§ 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.

¹ See definition in the Appendix.

² Except on real estate.

Table 11. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$500,000 to \$2,000,000: 1939

(Common Figures; Net Sales = 100%)

Items	30% Stores with Net Sales of \$500,000-750,000			20% Stores with Net Sales of \$750,000-1,000,000			50% Stores with Net Sales of \$1,000,000-2,000,000		
	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total
ADMINISTRATIVE AND GENERAL:									
Pay Roll: Accounting Office.....	1.10%†	....		1.00%†	....		0.95%	....	
Accts. Rec. and Credit.....	0.55†	....		0.80†	....		0.80	....	
Executive.....	....	1.50%		....	1.10%		....	1.40%	
Executive Office.....	....	0.05†		....	0.00		....	0.10†	
Superintendency and Gen. Store	....	0.40	3.60%	....	0.45	3.35%	....	0.50	3.75%
Taxes ¹.....	....	1.08	1.08	....	1.20	1.20	....	1.14	1.14
Interest on Mdse. and Accts. Rec.	....	1.69	1.69	....	1.79	1.79	....	1.83	1.83
Supplies.....	*	*	0.18	*	*	0.19	*	*	0.20
Losses from Bad Debts.....	0.20	....	0.20	0.20	....	0.20	0.25	....	0.25
Other Unclassified.....	*	*	0.36	*	*	0.45	*	*	0.37
Travelling.....	*	*	0.01†	*	*	0.04†	*	*	0.03
Communication.....	*	*	0.48	*	*	0.49	*	*	0.48
Insurance.....	....	0.31	0.31	....	0.34	0.34	....	0.29	0.29
Professional Services.....	*	*	0.21	*	*	0.28	*	*	0.24
Total.....	2.60%†	5.50%†	8.10%†	2.65%	5.70%	8.35%†	2.65%	5.95%	8.60%†
OCCUPANCY:									
	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	
Pay Roll.....	0.95%	....	0.00%	0.95%	0.85%	....	0.05%†	0.90%	0.95%
Real Estate Costs ¹.....	....	3.95%	....	3.95	....	3.55%	....	3.55	4.00
Taxes on Fixt. and Equip.....	....	0.10†	....	0.10†	....	0.05†	....	0.05†	0.07†
Interest on Fixt. and Equip.....	....	0.29	....	0.29	....	0.22	....	0.22	0.22
Supplies.....	*	*	0.33	*	*	0.36	*	*	0.20
Service Purchased.....	*	*	1.01	*	*	0.88	*	*	0.86
Unclassified.....	*	*	0.08	*	*	0.03†	*	*	0.03
Travelling.....	0.00	....	0.00	0.00	....	0.00	0.00	....	0.00
Repairs.....	0.34	....	0.34	0.46	....	0.46	0.37	....	0.37
Insurance on Fixt. and Equip.....	....	0.04	0.04	....	0.03	....	0.03	....	0.03
Depreciation on Fixt. and Equip.....	....	0.69	0.69	....	0.58	....	0.60	....	0.60
Total.....	1.65%	5.05%†	1.10%	7.80%†	1.60%	4.45%†	1.00%	7.05%†	7.40%†
PUBLICITY:									
	Sales Prom. & Gen. Advt.	Display	Total	Sales Prom. & Gen. Advt.	Display	Total	Sales Prom. & Gen. Advt.	Display	Total
Pay Roll.....	0.40%	0.40%	0.80%	0.35%	0.35%	0.70%	0.40%	0.40%	0.80%
Total Advertising.....	2.90	....	2.90	3.10	....	3.10	3.45	....	3.45
Supplies.....	*	*	0.35	*	*	0.31	*	*	0.38
Unclassified.....	*	*	0.08	*	*	0.05	*	*	0.08
Travelling.....	....	....	0.00	....	....	0.01†	....	....	0.01
Communication.....	0.02†	....	0.02†	0.03†	....	0.03†	0.06†	....	0.06†
Professional Services.....	0.00	....	0.00	0.00	....	0.00	0.00	....	0.00
Total.....	3.50%	0.65%	4.15%	3.60%	0.60%	4.20%	4.20%	0.60%	4.80%†
BUYING AND MERCHANDISING:									
	Mdse. Mgmt. and Buying	Rec. and Marking	Total	Mdse. Mgmt. and Buying	Rec. and Marking	Total	Mdse. Mgmt. and Buying	Rec. and Marking	Total
Pay Roll: Mdse. Mgrs. and Assts.	0.95%†	....		2.70%	....		0.50%†	....	
Buyers and Assistants.....	2.10†	....		....	....		2.50†	....	
Other.....	0.35†	....		....	....		0.15†	....	
Receiving and Marking.....	....	0.30%	3.70%	....	0.40%	3.10%	....	0.40%	3.55%
Supplies.....	0.02†	0.05	0.07	0.02	0.06	0.08	0.02	0.05	0.07
Unclassified.....	0.04†	0.00	0.04†	0.07†	0.00	0.07†	0.05†	0.00	0.05†
Travelling.....	0.39	0.00	0.39	0.30	0.00	0.30	0.39	0.00	0.39
Communication.....	0.04	....	0.04	0.03	....	0.03	0.02	....	0.02
Professional Services ¹	0.31	....	0.31	0.29	....	0.29	0.24†	....	0.24†
Total.....	4.20%†	0.35%	4.55%	3.40%†	0.45%†	3.85%†	3.85%†	0.45%	4.30%†
SELLING:									
	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total
Pay Roll: Salespeople.....	7.60%	....		7.30%	....		7.10%	....	
Floor Supts. and Sec. Mgrs.....	0.35†	....		0.25†	....		0.25	....	
Other.....	0.45†	....		0.75	....		0.75	....	
Delivery.....	....	0.25%	8.65%	....	0.40%	8.70%	....	0.50%	8.60%
Taxes.....	....	0.00	0.00	....	0.01†	0.01†	....	0.01†	0.01†
Interest on Equipment.....	....	0.00	0.00	....	0.01†	0.01†	....	0.01†	0.01†
Supplies.....	0.55	0.09	0.64	0.70	0.15	0.85	0.66	0.12	0.78
Service Purchased.....	....	0.26	0.26	....	0.31	0.31	....	0.33	0.33
Unclassified.....	0.26	0.01	0.27	0.20	0.03†	0.23	0.23	0.02	0.25
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Repairs.....	....	0.02†	0.02†	....	0.04†	0.04†	....	0.05	0.05
Insurance.....	....	0.02†	0.02†	....	0.03	0.03	....	0.02	0.02
Depreciation.....	....	0.04†	0.04†	....	0.06	0.06	....	0.05	0.05
Total.....	9.20%†	0.70%†	9.90%	9.20%	1.05%†	10.25%†	9.00%†	1.10%†	10.10%
TOTAL EXPENSE.....			34.5%			33.7%			35.2%

* Data not available. † Usable figures for this item were given on less than 75% of the reports. ‡ Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest 0.00 or 0.05, 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. † See definition in the Appendix.

Table 12. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$2,000,000 to \$10,000,000: 1939
(Common Figures; Net Sales = 100%)

Items	52½ Stores with Net Sales of \$2,000,000—4,000,000			59½ Stores with Net Sales of \$4,000,000—10,000,000				
	Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General	Total	Accounting Office, Accounts Receivable, and Credit	Executive and Other Administrative and General	Total		
ADMINISTRATIVE AND GENERAL:								
Pay Roll: Accounting Office.....	0.90%	....		0.85%	....			
Accts. Rec. and Credit.....	0.80	....		0.75	....			
Executive.....	....	0.95%		....	0.80%			
Executive Office.....	....	0.05†		....	0.05			
Superintendency and Gen. Store...	....	0.65	3.35%	....	0.75	3.20%		
Taxes¹.....	....	1.19	1.19	....	1.13	1.13		
Interest on Mdse. and Accts. Rec.....	....	1.78	1.78	....	1.76	1.76		
Supplies.....	0.12	0.04	0.16	0.12	0.05	0.17		
Losses from Bad Debts.....	0.25	....	0.25	0.20	....	0.20		
Other Unclassified.....	0.08	0.35	0.43	0.08	0.39	0.47		
Travelling.....	0.01†	0.02	0.03	0.00	0.03	0.03		
Communication.....	0.23	0.22	0.45	0.22	0.25	0.47		
Insurance.....	....	0.27	0.27	....	0.26	0.26		
Professional Services.....	0.15	0.15	0.30	0.17	0.15	0.32		
Total.....	2.55%†	5.65%†	8.20%†	2.40%†	5.60%†	8.00%†		
OCCUPANCY:								
	Operating and House- keeping	Fixed Plant and Equip- ment Costs	Heat, Light, and Power	Total	Operating and House- keeping	Fixed Plant and Equip- ment Costs	Heat, Light, and Power	Total
Pay Roll.....	0.85%		0.10%†	0.95%	1.00%		0.10%†	1.10%
Real Estate Costs¹.....		4.20%		4.20		4.55%		4.55
Taxes on Fixtures and Equipment.....		0.05†		0.05†		0.05†		0.05†
Interest on Fixtures and Equipment.....		0.25		0.25		0.28		0.28
Supplies.....	0.14		0.12	0.26	0.13		0.12	0.25
Service Purchased.....	0.05†		0.63	0.68	0.03		0.54	0.57
Unclassified.....	0.05	0.00	0.00	0.05	0.06	0.00	0.00	0.06
Travelling.....	0.00			0.00	0.00			0.00
Repairs.....	0.39			0.39	0.42			0.42
Insurance on Fixtures and Equipment.....		0.01		0.01		0.02		0.02
Depreciation on Fixtures and Equipment.....		0.66		0.66		0.69		0.69
Total.....	1.50%†	5.15%†	0.85%	7.50%	1.65%†	5.60%†	0.75%†	8.00%†
PUBLICITY:								
	Sales Promotion and Gen. Advt.	Display	Total	Sales Promotion and Gen. Advt.	Display	Total		
Pay Roll.....	0.40%	0.30%	0.70%	0.45%	0.30%	0.75%		
Advertising.....	3.60	....	3.60	3.95	....	3.95		
Supplies.....	0.17	0.23	0.40	0.28	0.23	0.51		
Unclassified.....	0.07	0.02†	0.09	0.05	0.02	0.07		
Travelling.....	0.01†	0.00	0.01	0.01†	0.00	0.01		
Communication.....	0.03	....	0.03	0.05	....	0.05		
Professional Services.....	0.01	....	0.01	0.02†	....	0.02†		
Total.....	4.30%†	0.55%	4.85%†	4.80%†	0.55%	5.35%†		
BUYING AND MERCHANDISING:								
	Mdse. Management and Buying	Receiving and Marking	Total	Mdse. Management and Buying	Receiving and Marking	Total		
Pay Roll: Mdse. Mgrs. and Assts.....	0.45%	....		0.60%	....			
Buyers and Assistants.....	2.55	....		2.50	....			
Other.....	0.20†	....		0.30	....			
Receiving and Marking.....	....	0.45%	3.65%	....	0.45%	3.85%		
Supplies.....	0.03	0.06	0.09	0.02	0.05	0.07		
Unclassified.....	0.04	0.01†	0.05	0.05	0.00	0.05		
Travelling.....	0.34	0.00	0.34	0.37	0.00	0.37		
Communication.....	0.02	....	0.02	0.02	....	0.02		
Professional Services¹.....	0.30	....	0.30	0.25	....	0.25		
Total.....	3.95%†	0.50%†	4.45%	4.10%†	0.50%	4.60%†		
SELLING:								
	Direct and General Selling	Delivery	Total	Direct and General Selling	Delivery	Total		
Pay Roll: Salespeople.....	6.65%	....		6.30%	....			
Floor Supts. and Sec. Mgrs.....	0.15	....		0.30	....			
Other.....	1.10	....		1.40	....			
Delivery.....	....	0.55%	8.45%	....	0.70%	8.70%		
Taxes.....	....	0.01†	0.01†	....	0.01	0.01		
Interest on Equipment.....	....	0.01†	0.01†	....	0.01†	0.01†		
Supplies.....	0.72	0.10	0.82	0.78	0.14	0.92		
Service Purchased.....	....	0.54	0.54	....	0.63	0.63		
Unclassified.....	0.15	0.01	0.16	0.20	0.03	0.23		
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00		
Repairs.....	....	0.03†	0.03†	....	0.04	0.04		
Insurance.....	....	0.02†	0.02†	....	0.03	0.03		
Depreciation.....	....	0.06†	0.06†	....	0.06†	0.06†		
Total.....	8.75%†	1.35%†	10.10%	9.00%†	1.65%	10.65%†		
TOTAL EXPENSE.....			35.1%			36.6%		

† Usable figures for this item were given on less than 75% of the reports.
 ‡ Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest 0.00 or 0.05, 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.
 ¶ See definition in the Appendix.

Table 13. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$10,000,000 or More: 1939

(Common Figures; Net Sales = 100%)

Items	24§ Stores with Net Sales of \$10,000,000—20,000,000			12§ Stores with Net Sales of \$20,000,000 or more				
	Accounting Office, Accounts Receiv- able, and Credit	Executive and Other Administra- tive and General	Total	Accounting Office, Accounts Receiv- able, and Credit	Executive and Other Administra- tive and General	Total		
ADMINISTRATIVE AND GENERAL:								
Pay Roll: Accounting Office.....	0.90%	....		0.80%	....			
Accts. Rec. and Credit.....	0.70	....		0.60	....			
Executive.....	....	0.70%		....	0.60%			
Executive Office.....	....	0.05		....	0.05			
Superintendency and Gen. Store...	....	0.90	3.25%	....	0.90	2.95%		
Taxes¹.....	....	1.18	1.18	....	1.18	1.18		
Interest on Mdse. and Accts. Rec.....	....	1.66	1.66	....	1.49	1.49		
Supplies.....	0.12	0.05	0.17	0.11	0.03	0.14		
Losses from Bad Debts.....	0.20	....	0.20	0.15	....	0.15		
Other Unclassified.....	0.10	0.45	0.55	0.13	0.56	0.69		
Travelling.....	0.00	0.02	0.02	0.00	0.01	0.01		
Communication.....	0.20	0.27	0.47	0.19	0.28	0.47		
Insurance.....	....	0.21	0.21	....	0.16	0.16		
Professional Services.....	0.13	0.12	0.25	0.13	0.17	0.30		
Total.....	2.35%	5.60%†	7.95%‡	2.10%†	5.45%‡	7.55%‡		
OCCUPANCY:								
	Operating and House- keeping	Fixed Plant and Equip- ment Costs	Heat, Light, and Power	Total	Operating and House- keeping	Fixed Plant and Equip- ment Costs	Heat, Light, and Power	Total
Pay Roll.....	1.30%		0.10%	1.40%	1.20%		0.10%	1.30%
Real Estate Costs¹.....		4.50%		4.50		5.55%		5.55
Taxes on Fixtures and Equipment.....		0.06†		0.06†		0.00		0.00
Interest on Fixtures and Equipment.....		0.23		0.23		0.21		0.21
Supplies.....	0.15		0.09	0.24	0.14		0.11	0.25
Service Purchased.....	0.02†		0.57	0.59	0.02		0.38	0.40
Unclassified.....	0.09	0.00	0.00	0.09	0.07	0.00	0.00	0.07
Travelling.....	0.00			0.00	0.00			0.00
Repairs.....	0.47			0.47	0.42			0.42
Insurance on Fixtures and Equipment.....		0.02		0.02		0.01		0.01
Depreciation on Fixtures and Equipment.....		0.69		0.69		0.64		0.64
Total.....	2.05%†	5.50%	0.75%†	8.30%‡	1.85%	6.40%†	0.60%†	8.85%
PUBLICITY:								
	Sales Promotion and Gen. Advt.	Display	Total	Sales Promotion and Gen. Advt.	Display	Total		
Pay Roll.....	0.40%	0.25%	0.65%	0.40%	0.25%	0.65%		
Advertising.....	3.90	....	3.90	3.40	....	3.40		
Supplies.....	0.18	0.25	0.43	0.17	0.26	0.43		
Unclassified.....	0.06	0.03	0.09	0.06	0.02	0.08		
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00		
Communication.....	0.07	....	0.07	0.04	....	0.04		
Professional Services.....	0.00	....	0.00	0.00	....	0.00		
Total.....	4.60%†	0.55%†	5.15%‡	4.05%†	0.55%†	4.60%‡		
BUYING AND MERCHANDISING:								
	Mdse. Management and Buying	Receiving and Marking	Total	Mdse. Management and Buying	Receiving and Marking	Total		
Pay Roll: Mdse. Mgrs. and Assts.....	0.65%	....		0.65%	....			
Buyers and Assistants.....	2.30	....		2.05	....			
Other.....	0.40	....		0.40	....			
Receiving and Marking.....	....	0.45%	3.80%	....	0.50%	3.60%		
Supplies.....	0.01	0.06	0.07	0.02	0.05	0.07		
Unclassified.....	0.05	0.00	0.05	0.03	0.00	0.03		
Travelling.....	0.30	0.00	0.30	0.17	0.00	0.17		
Communication.....	0.02	....	0.02	0.01	....	0.01		
Professional Services¹.....	0.20	....	0.20	0.22	....	0.22		
Total.....	3.95%†	0.50%†	4.45%‡	3.55%	0.55%	4.10%		
SELLING:								
	Direct and General Selling	Delivery	Total	Direct and General Selling	Delivery	Total		
Pay Roll: Salespeople.....	6.20%	....		5.75%	....			
Floor Supts. and Sec. Mgrs.....	0.40	....		0.45	....			
Other.....	1.85	....		2.10	....			
Delivery.....	....	0.80%	9.25%	....	1.05%	9.35%		
Taxes.....	....	0.01	0.01	....	0.01†	0.01†		
Interest on Equipment.....	....	0.01†	0.01†	....	0.01	0.01		
Supplies.....	0.88	0.10	0.98	0.83	0.08	0.91		
Service Purchased.....	....	0.91	0.91	....	1.10	1.10		
Unclassified.....	0.17	0.03	0.20	0.26	0.05	0.31		
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00		
Repairs.....	....	0.03	0.03	....	0.03	0.03		
Insurance.....	....	0.02	0.02	....	0.03	0.03		
Depreciation.....	....	0.06	0.06	....	0.06	0.06		
Total.....	9.50%	1.95%†	11.45%‡	9.40%†	2.40%†	11.80%‡		
Total.....			37.3%	Total.....			36.9%	

† 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.
 ‡ Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest 0.00 or 0.05, 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. ¹ See definition in the Appendix.

Table 14. Goal Figures for Pay Roll and Total Expense by Functions for Department Stores: 1939

(Net Sales = 100%)

Items	Net Sales (in thousands)						
	\$500- 750	\$750- 1,000	\$1,000- 2,000	\$2,000- 4,000	\$4,000- 10,000	\$10,000- 20,000	\$20,000 or more
Number of Reports.....	7	7†	13†	11†	10†	5†	4†
PAY ROLL							
Administrative and General							
Executive.....	*	0.9%	1.4%	1.1%	0.65%	0.8%	0.6%
Accounting Office.....	*		0.85	0.9	0.75	0.8	0.75
Accounts Receivable and Credit.....	*	2.0	0.65	0.75	0.65	0.7	0.55
Executive Office.....	*		0.1†		0.05	0.05	0.05
Superintendency and General Store.....	*		0.4	0.55	0.7	0.7	0.55
Total Administrative and General.....	3.6%	2.9%	3.4%	3.3%	2.8%	3.05%	2.5%
Occupancy							
Operating and Housekeeping.....	*	0.75%	0.8%	0.85%	0.9%	1.3%	1.05%
Heat, Light, and Power.....	*	0.0	0.05†	0.1†	0.1†	0.1	0.1
Total Occupancy.....	0.65%	0.75%	0.85%	0.95%	1.0%	1.4%	1.15%
Publicity							
Sales Promotion and General Advertising.....	*	0.35%	0.35%	0.4%	0.4%	0.4%	0.4%
Display.....	*	0.35	0.35	0.3	0.3	0.3	0.25
Total Publicity.....	0.65%	0.7%	0.7%	0.7%	0.7%	0.7%	0.65%
Buying and Merchandising							
Merchandise Managers and Assistants.....	*	*	*	0.55%	0.6%	0.95%	0.85%
Buyers and Assistants.....	*	*	*	2.4	2.5	2.5	1.9
Other Merchandise Management and Buying.....	*	*	*	0.1†	0.3	0.5	0.4
Total Merchandise Management and Buying.....	*	*	3.15%	3.05%	3.4%	3.95%	3.15%
Receiving and Marking.....	*	*	0.45	0.45	0.45	0.5	0.4
Total Buying and Merchandising.....	2.85%	3.1%	3.6%	3.5%	3.85%	4.45%	3.55%
Direct and General Selling							
Salespeople.....	*	6.9%	6.9%	6.6%	6.0%	5.95%	6.2%
Floor Superintendents and Section Managers.....	*	0.3	0.2	0.15	0.3	0.4	0.5
Other.....	*	0.45	0.6	0.95	1.25	1.7	2.3
Total Direct and General Selling.....	8.4%	7.65%	7.7%	7.7%	7.55%	8.05%	9.0%
Delivery.....	0.25	0.3	0.4	0.55	0.5	0.8	0.65
Total Pay Roll.....	16.4%	15.4%	16.65%	16.7%	16.4%	18.45%	17.5%
TOTAL EXPENSE							
Administrative and General							
Accounting Office, Accts. Rec., and Credit.....	*	2.7%	2.3%	2.25%	2.05%	2.25%	1.8%
Executive and Other Admin. and General.....	*	5.65	5.25	5.6	5.25	5.5	5.15
Total Administrative and General.....	7.55%	8.35%	7.55%	7.85%	7.3%	7.75%	6.95%
Occupancy							
Operating and Housekeeping.....	*	1.5%	1.55%	1.5%	1.5%	2.15%	1.8%
Real Estate Costs (See Appendix, page 33).....	*	3.45	3.4	4.4	4.15	3.95	5.8
Fixtures and Equipment Costs.....	*	0.95	0.8	0.85	1.05	1.05	0.85
Heat, Light, and Power.....	*	0.85	0.85	0.7	0.7	0.7	0.6
Total Occupancy.....	6.6%	6.75%	6.6%	7.45%	7.4%	7.85%	9.05%
Publicity							
Sales Promotion and General Advertising.....	*	3.1%	3.9%	3.5%	4.25%	3.25%	3.5%
Display.....	*	0.6	0.65	0.55	0.55	0.6	0.5
Total Publicity.....	3.5%	3.7%	4.55%	4.05%	4.8%	3.85%	4.0%
Buying and Merchandising							
Merchandise Management and Buying.....	*	3.6%	3.8%	3.7%	4.1%	4.6%	3.75%
Receiving and Marking.....	*	0.4	0.55	0.5	0.5	0.55	0.45
Total Buying and Merchandising.....	3.7%	4.0%	4.35%	4.2%	4.6%	5.15%	4.2%
Direct and General Selling.....	9.2%	8.3%	8.45%	8.4%	8.5%	8.95%	10.1%
Delivery.....	0.75	0.9	1.0	1.25	1.5	1.75	1.8
Total Expense.....	31.3%	32.0%	32.5%	33.2%	34.1%	35.3%	36.1%

* Data not available.

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

‡ One or more of these reports covered the operations of more than one store.

SECTION III SPECIALTY STORES

This section of the bulletin presents figures for the 93 specialty stores which reported to the Bureau for 1939. These are departmentized specialty stores; that is, stores with a departmental form of organization specializing in the sale of women's wearing apparel and related accessories. Tables 15 through 20 present common and goal figures for these concerns arranged in seven volume groups, running from sales of less than \$150,000 to sales of \$4,000,000 or more. As in previous years, some

warning is necessary that owing to the relatively small number of firms in each volume group, the figures are not so reliable as the corresponding data for department stores.

Earnings Lower, Though Gross Margin Higher Than in Department Stores

Specialty store earnings, although better than in 1938, were not so good as the net business profits of

Table 15. Common Figures for Merchandising Operations and Profits for Specialty Stores: 1939

(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)						
	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.....	20†	16†	11	14†	9†	15†	8†
Aggregate Sales (in thousands).....	\$2,136	\$4,278	\$4,121	\$14,769	\$12,037	\$35,005	\$75,220
Typical Net Sales (in thousands).....	\$95	\$185	\$370	\$620	\$1,250	\$2,250	\$6,600
Change in Sales (1939/1938).....	101.8	108.0	101.3	105.6	106.0	101.4	103.9
Population (interquartile range ¹ —in thousands).....	23-111	37-259	62-104	270-781	209-634	400-1,569	781-6,930
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹	*	*	*	39.9%	40.4%	39.2%	39.9%
Mark-downs.....	*	*	*	*	*	8.3%	7.85%
Discounts to Employees and Others.....	*	*	*	*	*	0.65	1.0
Stock Shortages.....	*	*	*	*	*	0.65	0.8
Total Retail Reductions.....	*	*	*	8.4%	9.5%	9.6%	9.65%
Inward Freight, Express, and Truckage.....	1.0%	0.8%	0.7%	0.9%†	0.65%	0.4%†	0.45%
Alteration and Workroom Costs (Net).....	1.1†	0.35†	1.6	1.0	0.8	0.45	0.15
Cash Discounts Received on Purchases (percentage of sales).....	4.8	4.75	4.3	4.2	4.4	4.25	4.5
Gross Margin.....	33.9%	35.5%	35.5%	38.0%	38.3%	37.2%	38.4%
Total Merchandise Costs (Net).....	66.1%	64.5%	64.5%	62.0%	61.7%	62.8%	61.6%
Total Expense.....	34.9	35.5	36.5	38.0	37.5	38.2	37.4
TOTAL COST.....	101.0%	100.0%	101.0%	100.0%	99.2%	101.0%	99.0%
NET PROFIT OR LOSS.....	Loss 1.0%	0.0%	Loss 1.0%	0.0%	0.8%	Loss 1.0%	1.0%
Net Other Income (including interest on capital owned).....	2.5	2.0	2.5	2.5	2.2	2.5	3.0
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales.....	1.5%	2.0%	1.5%	2.5%	3.0%	1.5%	4.0%
Percentage of Net Worth.....	6.0	7.5	3.7	9.0	10.0	5.1	9.7
Federal Tax on Income.....	0.2%	0.3%	0.2%	0.5%	0.6%	0.3%	0.7%
Percentage of Firms:							
Earning Some Net Profit.....	45.0%	43.8%	36.4%	57.1%	88.9%	33.3%	75.0%
Earning Some Net Gain.....	70.0	81.3	81.8	78.6	88.9	73.3	75.0
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories..	4.7	5.3	5.3	5.1	6.3	6.7	6.9
Based on Monthly Inventories.....	3.7†	4.5†	4.0†	4.6	5.2	5.5	5.1

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹ See definition in the Appendix.

similar size department stores. As shown in Table 15, page 25, the large specialty stores secured somewhat more favorable earnings ratios than the small ones. But this condition was not uniformly true. Gross margin percentages, which were higher than for department stores, exhibited less marked differences between large and small enterprises, 34% and 35% below \$500,000

sales and 37% and 38% above that point. Because of their concentration in women's apparel, specialty stores took larger mark-downs and at the same time received larger cash discounts than did department stores. Bearing out the contention advanced earlier in the bulletin, cash discounts were no higher for large specialty stores than for small ones. Alteration and workroom costs

Table 16. Common Figures for Expense by Natural and Functional Divisions for Specialty Stores: 1939
(Net Sales = 100%)

Items	Net Sales (in thousands)						
	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:							
Giving Functional Data.....	0	3	2	11†	9†	15†	8†
Giving Other Data.....	20†	16†	11	14†	9†	15†	8†
Aggregate Sales (in thousands).....	\$2,136	\$4,278	\$4,121	\$14,769	\$12,037	\$35,005	\$75,220
Typical Net Sales (in thousands).....	\$95	\$185	\$370	\$620	\$1,250	\$2,250	\$6,600
Change in Sales (1939/1938).....	101.8	108.0	101.3	105.6	106.0	101.4	103.9
Population (interquartile range ¹ —in thousands).....	23-111	37-259	62-104	270-781	209-634	400-1,569	781-6,930
NATURAL DIVISIONS							
Total Pay Roll.....	17.15%	17.4%	18.15%	17.6%	17.1%	17.85%	17.6%
Real Estate Costs ¹	4.2	5.0	4.0	5.0	5.2	5.4	5.2
Newspaper Advertising.....	*	*	*	3.8	3.4	4.1	3.75
Direct Advertising.....	*	*	*	0.5†	0.45	0.4	0.25
Other Advertising.....	*	*	*	0.5	0.35	0.2	0.3
Total Advertising (subtotal).....	2.9	3.0	4.0	(4.8)	(4.2)	(4.7)	(4.3)
Taxes ¹	1.05	1.05	1.3	1.2	1.1	1.05	1.0
Interest ²	2.2	1.9	1.95	2.2	1.8	1.75	1.6
Supplies.....	1.25	1.15	1.1	1.45	1.95	1.7	2.15
Service Purchased.....	1.25	1.35	1.35	1.4	1.25	1.45	1.7
Losses from Bad Debts.....	0.25	0.35	0.3	0.3	0.45	0.2	0.1
Other Unclassified.....	1.2†	0.8	1.0†	0.85†	0.9	0.7	1.0
Travelling.....	0.7	0.6	0.7	0.5	0.55	0.7	0.3
Communication.....	0.7	0.6	0.7	0.65	0.65	0.6	0.55
Repairs.....	0.25†	0.3	0.25†	0.3	0.5	0.4	0.35
Insurance ²	0.45	0.6	0.5	0.55	0.45	0.3	0.2
Depreciation ²	0.95	0.8	0.7	0.65	0.7	0.65	0.85
Professional Services ¹	0.4†	0.6	0.5†	0.55	0.7	0.75	0.5
Total Expense.....	34.9%	35.5%	36.5%	38.0%	37.5%	38.2%	37.4%
FUNCTIONAL DIVISIONS							
Administrative and General							
Accounting Office, Accounts Receivable, and Credit.....	*	*	*	*	3.0%	2.5%	2.15%
Executive and Other Administrative and General.....	*	*	*	*	7.0	6.15	5.3
Total.....	*	*	*	*	10.0%	8.65%	7.45%
Occupancy							
Operating and Housekeeping.....	*	*	*	*	1.5%	1.7%	1.75%
Real Estate Costs ¹	*	*	*	*	5.2	5.4	5.2
Fixtures and Equipment Costs.....	*	*	*	*	1.05	0.9	1.15
Heat, Light, and Power.....	*	*	*	*	0.7	0.65	0.65
Total.....	*	*	*	*	8.45%	8.65%	8.75%
Publicity							
Sales Promotion and General Advertising.....	*	*	*	*	4.95%	5.55%	5.45%
Display.....	*	*	*	*	0.75	0.6	0.65
Total.....	*	*	*	*	5.7%	6.15%	6.1%
Buying and Merchandising							
Merchandise Management and Buying.....	*	*	*	*	3.7%	5.0%	3.95%
Receiving and Marking.....	*	*	*	*	0.45	0.45	0.45
Total.....	*	*	*	*	4.15%	5.45%	4.4%
Direct and General Selling.....	*	*	*	*	8.4%	8.2%	9.2%
Delivery.....	*	*	*	*	0.8	1.1	1.5
Total Expense.....	34.9%	35.5%	36.5%	38.0%	37.5%	38.2%	37.4%

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹ See definition in the Appendix.

² Except on real estate.

were much lower for the large stores, testifying to the success of those companies in passing these specific costs to customers.

Expense Rates Higher Than in Department Stores

For all sizes of specialty stores the cost of doing business was higher in 1939 than for department stores with comparable sales volume. The specialty store expense figures are given in Table 16, opposite, by natural divisions for seven volume groups and by functional divisions for three volume groups. From \$500,000-up on the volume scale, there was little variation in the expense rate. Below that point, expenses required somewhat lower percentages of net sales.

Among the natural divisions, pay roll costs were very little different for specialty stores than for department stores of the same size, as may be noted from a comparison with Table 6, page 13. On the other hand, real estate costs and total advertising were distinctly higher than in department stores. Here the size-of-city factor

must be taken into account; for, as the population figures indicate, specialty stores normally are situated in much larger cities than are department stores of the same sales volume, and there is ample evidence that both these expense outlays are governed to a substantial extent by size of city.

Interest was lower for specialty stores primarily because these enterprises turned both their stocks of merchandise and their accounts receivable more rapidly than did department stores. High expense for service purchased presumably reflects the tendency of these specialists in women's apparel to buy their delivery service rather than to operate their own trucks. The higher travelling and communication outlays can easily be related to the characteristics of the women's ready-to-wear market.

Functional expense divisions which were clearly higher for specialty stores than for department stores included occupancy and publicity. On the other hand, direct and general selling and delivery were consistently lower in specialty stores.

Table 17. Common Figures for Pay Roll, Productivity of Personnel, Real Estate Costs, and Productivity of Space for Specialty Stores: 1939

Items	Net Sales (in thousands)						
	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:							
Giving Transaction Data.....	2	1	4	6†	4†	13†	8†
Giving Other Data.....	20†	16†	11	14†	9†	15†	8†
Aggregate Sales (in thousands).....	\$2,136	\$4,278	\$4,121	\$14,769	\$12,037	\$35,005	\$75,220
Typical Net Sales (in thousands).....	\$95	\$185	\$370	\$620	\$1,250	\$2,250	\$6,600
Change in Sales (1939/1938).....	101.8	108.0	101.3	105.6	106.0	101.4	103.9
Population (interquartile range ¹ —in thousands).....	23-111	37-259	62-104	270-781	209-634	400-1,569	781-6,930
Total Pay Roll ²	17.15%	17.4%	18.15%	17.6%	17.1%	17.85%	17.6%
Pay Roll of Salespeople ²	*	*	*	*	*	5.9	6.0
Sales/Total Employees.....	*	*	*	\$6,100†	\$7,400†	\$6,550†	\$7,900
Sales/Number of Salespeople.....	*	*	*	\$14,500†	\$20,000†	\$18,200†	\$19,800
Salespeople/Total Employees.....	*	*	*	42.0%†	37.0%†	36.0%†	40.0%
Transactions/Total Employees.....	*	*	*	*	*	1,500†	2,000
Transactions/Number of Salespeople.....	*	*	*	*	*	4,200†	5,000
Average Gross Sale.....	*	*	*	*	*	\$5.20	\$5.30
Real Estate Costs ^{1, 2}	4.2%	5.0%	4.0%	5.0%	5.2%	5.4%	5.2%
Real Estate Costs/Square Feet of Total Space..	*	*	*	*	\$1.56	*	\$1.55
Sales/Square Feet of Total Space.....	*	*	*	*	\$30.00	*	\$30.00
Sales/Square Feet of Selling Space.....	*	*	*	*	*	*	*
Selling Space/Total Space.....	*	*	*	*	*	*	*
Transactions/Square Feet of Total Space.....	*	*	*	*	*	*	9
Transactions/Square Feet of Selling Space.....	*	*	*	*	*	*	17

* Date 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.

¹See definition in the Appendix.

²Net Sales = 100%.

Fewer Transactions but Higher Dollar Sales per Salesperson Than in Department Stores

Too small a number of specialty stores reported adequate data on productivity of employees and of space. On the basis of the rather fragmentary figures shown in Table 17, page 27, specialty stores in 1939 achieved slightly larger sales per total employee and considerably larger sales per salesperson than did department stores of comparable sales volume. At the same time, specialty stores had a considerably higher ratio of nonselling employees. Naturally, their much higher average gross sale was accompanied by a substantially smaller number of transactions, both per total employee and per salesperson.

The few figures available on costs and productivity of space indicate that specialty stores in 1939 had higher real estate costs per square foot and also higher sales per square foot than department stores of similar sales performance; but the relations of the cost per square foot and the sales per square foot were such that specialty stores, as previously noted, incurred definitely higher real estate cost percentages.

Higher Proportion of Charge Sales in Specialty Stores

In regard to credit business, Table 18, below, in comparison with Table 9, page 18, presents the familiar picture of specialty stores, as contrasted with department stores, making a higher proportion of charge sales and incurring higher percentages of returned goods, but, nevertheless, turning their accounts receivable more

rapidly and holding their credit costs to lower percentages.

More Detailed Functional Expense Comparisons

For three volume groups of specialty stores, Table 19, opposite, offers a more detailed breakdown of expenses by functions and subfunctions. Here, for instance, it may be noted that executive salaries required a distinctly higher percentage of sales than in department stores. Also, it may be observed that the operating and housekeeping pay roll was definitely lower for medium-size stores than for large ones.

Goal Figures Show Both Margin and Expense Advantages

Goal figures, that is, figures for the most profitable concerns, are shown in Table 20, page 30, for five groups of specialty stores. In a majority of these groups the goal firms owed their more advantageous profit position to a combination of higher gross margin and lower total expense. Although for all groups the goal gross margin figures were higher than the common figures, the difference was less pronounced in the case of the larger stores. The goal total expense figures were lower in four out of five groups, and in these same four groups the goal stock-turn rates were higher. For pay roll, the goal firms had lower percentages in all five volume groups, and for both real estate and advertising the goal figures were lower than the common figures in four out of five groups.

Table 18. Common Figures for Credit Data for Specialty Stores: 1939

(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)						
	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:							
Giving Transaction Data.....	2	1	4	6†	4†	13†	8†
Giving Other Data.....	20†	16†	11	14†	9†	15†	8†
Aggregate Sales (in thousands).....	\$2,136	\$4,278	\$4,121	\$14,769	\$12,037	\$35,005	\$75,220
Typical Net Sales (in thousands).....	\$95	\$185	\$370	\$620	\$1,250	\$2,250	\$6,600
Change in Sales (1939/1938).....	101.8	108.0	101.3	105.6	106.0	101.4	103.9
Population (interquartile range!—in thousands).....	23-111	37-259	62-104	270-781	209-634	400-1,569	781-6,930
Cash Sales.....	*	*			26.0%	24.0%	32.5%
C.O.D. Sales.....	*	*	30.0%†	30.0%†	5.5†	5.6	9.0
Regular Charge and Installment Sales.....	*	*	70.0†	70.0†	68.5	70.4	58.5
Net Credit Sales = 100%:							
Pay Roll: Accounts Receivable and Credit....	*	*	*	*	*	1.1%	1.15%
Losses from Bad Debts.....	*	*	0.4%†	*	0.7%	0.3	0.2
Interest on Accounts Receivable.....	*	*	1.5†	1.4%†	1.25	1.3	1.15
Average Accounts Receivable Outstanding\$...	*	*	25.0†	23.0†	20.8	21.6	19.2
Returns and Allowances:							
Percentage of Gross Sales.....	*	*	*	8.0%†	*	13.7%	16.65%
Percentage of Net Sales.....	*	*	*	8.7†	*	15.9	20.0
Average Gross Sale.....	*	*	*	*	*	\$5.20	\$5.30

* Data not available.

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

§ For the beginning and end of the year.

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

! See definition in the Appendix.

Table 19. Detailed Expenses by Natural and Functional Divisions for Specialty Stores with Net Sales of \$1,000,000 or More: 1939
(Common Figures; Net Sales = 100%)

Items	98 Stores with Net Sales of \$1,000,000-2,000,000			158 Stores with Net Sales of \$2,000,000-4,000,000			88 Stores with Net Sales of \$4,000,000 or more		
	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total	Acctg. Office, Accts. Rec., and Credit	Exec. and Other Admin. and General	Total
ADMINISTRATIVE AND GENERAL:									
Pay Roll: Accounting Office.....	0.90%	.....		0.90%	.....		0.85%	.....	
Accts. Rec. and Credit.....	0.85	.....		0.80	.....		0.65	.....	
Executive.....	.....	2.30%		.....	1.60%		.....	1.00%	
Executive Office.....	.....	0.65		.....	0.10†		.....	0.05	
Superintendency and Gen. Store Taxes ¹.....	.....	1.10	4.70%	.....	0.65	4.05%	.....	0.90	3.45%
Interest on Mdse. and Accts. Rec. Supplies.....	.....	1.53	1.10	.....	1.01	1.01	.....	0.98	0.98
Losses from Bad Debts.....	.....	*	0.23	.....	1.58	1.58	.....	1.33	1.33
Other Unclassified.....	0.45	.....	0.45	0.14	0.04	0.18	0.10	0.04	0.14
Travelling.....	*	*	0.56	0.20	.....	0.20	0.10	.....	0.10
Communication.....	*	*	0.02†	0.02	0.40	0.42	0.07	0.35	0.42
Insurance.....	.....	0.38	0.60	0.25	0.08	0.08	0.00	0.02	0.02
Professional Services.....	*	*	0.38	.....	0.25	0.50	0.19	0.25	0.44
Total.....	3.00%	7.00%	10.00%†	0.19	0.28	0.28	0.17	0.20	0.20
				0.16	0.35	0.35	0.17	0.18	0.35
				2.50%	6.15%	8.65%	2.15%†	5.30%	7.45%†
OCCUPANCY:									
	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	
Pay Roll.....	0.75%	.....	0.00%	0.75%	1.00%	.....	0.05%†	1.05%	1.10%
Real Estate Costs ¹.....	.....	5.20%	.....	5.20	.....	5.40%	.....	5.40	5.20
Taxes on Fixtures and Equip.....	.....	0.00	.....	0.00	.....	0.05†	.....	0.05†	0.02†
Interest on Fixtures and Equip. Supplies.....	.....	0.29	.....	0.29	.....	0.19	.....	0.19	0.27
Service Purchased.....	*	*	0.21	0.16	.....	0.05	0.21	0.08	0.22
Unclassified.....	*	*	0.69	0.05	.....	0.57	.....	0.54	0.61
Travelling.....	0.00	.....	0.05	0.07	0.00	0.00	0.00	0.00	0.06
Repairs.....	0.50	.....	0.00	0.00	.....	0.00	.....	0.00	0.00
Insurance on Fixt. and Equip.....	.....	0.05†	0.50	0.40	.....	0.40	.....	0.40	0.36
Depreciation on Fixt. and Equip.....	.....	0.72	0.05†	0.72	.....	0.02	.....	0.02	0.01
Total.....	1.50%	6.25%†	0.70%	8.45%†	1.70%†	6.30%	0.65%†	8.65%	8.84
	1.75%†	6.35%†	0.65%†	8.75%†	1.75%†	6.35%†	0.65%†	8.75%†	
PUBLICITY:									
	Sales Prom. & Gen. Advt.	Display	Total	Sales Prom. & Gen. Advt.	Display	Total	Sales Prom. & Gen. Advt.	Display	Total
Pay Roll.....	0.45%	0.40%	0.85%	0.60%	0.30%	0.90%	0.40%	0.30%	0.70%
Total Advertising.....	4.20	.....	4.20	4.70	.....	4.70	4.30	.....	4.30
Supplies.....	*	*	0.57	0.12	0.30	0.42	0.54	0.34	0.88
Unclassified.....	*	*	0.05	0.03	0.01	0.04	0.05	0.03	0.08
Travelling.....	*	*	0.00	0.01†	0.00	0.01†	0.00	0.00	0.00
Communication.....	0.02†	.....	0.02†	0.07†	.....	0.07†	0.10	.....	0.10
Professional Services.....	0.00	.....	0.00	0.00	.....	0.00	0.05†	.....	0.05†
Total.....	4.95%	0.75%	5.70%†	5.55%†	0.60%†	6.15%†	5.45%†	0.65%†	6.10%†
	5.55%†	0.60%†	6.15%†	5.45%†	0.65%†	6.10%†	5.45%†	0.65%†	6.10%†
BUYING AND MERCHANDISING:									
	Mdse. Mgmt. and Buying	Rec. and Marking	Total	Mdse. Mgmt. and Buying	Rec. and Marking	Total	Mdse. Mgmt. and Buying	Rec. and Marking	Total
Pay Roll: Mdse. Mgrs. and Assts. Buyers and Assistants.....	2.85%	.....		1.10%†	.....		3.45%	.....	
Other.....	.....	0.35%	3.20%	2.45†	.....		.....	0.40%	3.85%
Receiving and Marking.....	.....	0.07	0.08	0.30	0.40%	4.25%	.....	0.06	0.08
Supplies.....	0.01†	0.01†	0.03	0.03	0.06	0.09	0.02	0.00	0.07
Unclassified.....	0.02†	0.00	0.03	0.03	0.00	0.03	0.07	0.00	0.29
Travelling.....	0.52	.....	0.52	0.61	.....	0.61	0.29	.....	0.03
Communication.....	0.03†	.....	0.03†	0.05	.....	0.05	0.03	.....	0.10†
Professional Services ¹	0.29	.....	0.29	0.41	.....	0.41	0.10†	.....	0.10†
Total.....	3.70%†	0.45%†	4.15%	5.00%†	0.45%†	5.45%†	3.95%†	0.45%†	4.40%†
	5.00%†	0.45%†	5.45%†	3.95%†	0.45%†	4.40%†	3.95%†	0.45%†	4.40%†
SELLING:									
	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total
Pay Roll: Salespeople.....	6.60%	.....		5.90%	.....		6.00%	.....	
Floor Supts. and Sec. Mgrs.....	0.80†	.....		0.30	.....		0.55	.....	
Other.....	.....	0.20%	7.60%	1.15	0.25%	7.60%	1.60	0.30%	8.45%
Delivery.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Taxes.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Interest on Equipment.....	0.82	0.02†	0.84	0.75	0.03	0.78	0.81	0.02	0.83
Supplies.....	.....	0.57	0.57	.....	0.81	0.81	.....	1.07	1.07
Service Purchased.....	0.20	0.00	0.20	0.12	0.00	0.12	0.25	0.10	0.35
Unclassified.....	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Travelling.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Repairs.....	.....	0.00	0.00	.....	0.01†	0.01†	.....	0.00	0.00
Insurance.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Depreciation.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Total.....	8.40%†	0.80%†	9.20%†	8.20%†	1.10%	9.30%†	9.20%†	1.50%†	10.70%
	8.40%†	0.80%†	9.20%†	8.20%†	1.10%	9.30%†	9.20%†	1.50%†	10.70%
TOTAL EXPENSE.....			37.5%			38.2%			37.4%

* 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.
§ Owing to the Bureau's practice of rounding off the common figures for functional and subfunctional totals to the nearest 0.00 or 0.05, 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.
1 See definition in the Appendix.

Table 20. Goal Figures¹ for Merchandising Operations, Profits, Expenses by Natural Divisions, and Other Data for Specialty Stores: 1939
(Net Sales = 100%, except where noted)

Items	Net Sales (in thousands)				
	Less than \$150	\$150-300	\$300-500	\$500-1,000	\$1,000-4,000
Number of Reports.....	7†	5	5†	4†	5
Aggregate Sales (in thousands).....	\$624	\$1,052	\$8,419	\$4,960	\$11,602
Typical Net Sales (in thousands).....	\$90	\$205	\$650	\$1,250	\$2,150
Change in Sales (1939/1938).....	105.5	110.0	103.5	*	101.7
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ²	*	*	*	*	39.2%
Mark-downs.....	*	*	*	*	7.6%
Discounts to Employees and Others.....	*	*	*	*	0.6
Stock Shortages.....	*	*	*	*	0.7
Total Retail Reductions.....	*	*	*	*	8.9%
Inward Freight, Express, and Truckage.....	0.8%	0.8%	0.65%	*	*
Alteration and Workroom Costs (Net).....	0.1†	0.45†	0.45	1.5%	0.4%
Cash Discounts Received on Purchases (percentage of sales).....	5.0	4.55	4.45	4.4	4.25
Gross Margin.....	36.3	37.8	38.9	40.6	37.6
Total Merchandise Costs (Net).....	63.7%	62.2%	61.1%	59.4%	62.4%
Total Expense.....	32.0	33.4	36.3	38.5	35.1
TOTAL COST.....	95.7%	95.6%	97.4%	97.9%	97.5%
NET PROFIT OR LOSS.....	4.3%	4.4%	2.6%	2.1%	2.5%
Net Other Income (including interest on capital owned).....	1.9	1.9	2.7	2.5	3.0
NET GAIN before Federal Tax on Income:					
Percentage of Net Sales.....	6.2%	6.3%	5.3%	4.6%	5.5%
Percentage of Net Worth.....	*	*	12.8	*	17.0
Federal Tax on Income.....	*	0.8†	1.0	0.9	1.0
Percentage of Firms:					
Earning Some Net Profit.....	100.0%	100.0%	100.0%	100.0%	100.0%
Earning Some Net Gain.....	100.0	100.0	100.0	100.0	100.0
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories.....	5.2	6.3	5.4	4.5	7.3
Based on Monthly Inventories.....	*	*	5.1	4.0	6.3
Returns and Allowances:					
Percentage of Gross Sales.....	*	*	*	*	11.9%
Percentage of Net Sales.....	*	*	*	*	13.5
Total Pay Roll.....	16.7%	17.2%	17.0%	16.8%	17.2%
Real Estate Costs ³	3.7	4.1	4.25	5.6	3.4
Total Advertising.....	2.4	2.9	4.6	4.2	4.45
Taxes ⁴	0.7	1.05	1.25	1.1	1.05
Interest ⁵	1.6	1.5	2.0	1.9	1.75
Supplies.....	1.15	1.2	1.4	1.95	1.55
Service Purchased.....	1.55	1.3	1.4	1.35	1.1
Losses from Bad Debts.....	0.1	0.4	0.3	0.65	0.25
Other Unclassified.....	1.0†	0.7	0.75	1.3	0.8
Travelling.....	0.7	0.6	0.5	0.6	0.6
Communication.....	0.6	0.5	0.8	0.7	0.5
Repairs.....	0.2†	0.1†	0.3	0.4	0.45
Insurance ⁶	0.5	0.6	0.5	0.5	0.35
Depreciation ⁷	0.9	0.75	0.65	0.8	0.7
Professional Services ⁸	0.2†	0.5	0.6	0.65	0.95
TOTAL EXPENSE.....	32.0%	33.4%	36.3%	38.5%	35.1%
Cash and C.O.D. Sales.....	*	*	*	*	28.8%
Regular Charge and Installment Sales.....	*	*	*	*	71.2
Net Credit Sales = 100%:					
Pay Roll: Accts. Receivable and Credit.....	*	*	*	*	1.25%
Losses from Bad Debts.....	*	*	*	*	0.35
Interest on Accounts Receivable.....	*	*	*	*	1.3
Average Accts. Receivable Outstanding ⁹	*	*	*	*	21.6

* 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.

§ Common figures corresponding to these goal figures will be found in Tables 15, 16, 17, and 18. It was not possible to prepare goal figures for stores with sales of

\$300,000-500,000 or \$4,000,000 or more.

¶ See definition in the Appendix.

‡ Except on real estate.

APPENDIX

Materials

The information and conclusions contained in this bulletin are based on profit and loss statements, balance sheets, and other materials received on 549 separate schedules covering the operations of more than 726 stores in 1939. Of these 549 schedules, 18 arrived too late to be used, and 10 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 521 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 19 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 store sales volume of the 549 firms which sent reports was slightly less than \$1,787,000,000, and the total store sales (including leased department sales) of the 521 firms for which data were actually used in setting common figures was \$1,725,150,000.

It is estimated that this latter amount is more than 38% of the total sales of department and specialty stores in the United States in 1939. 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 1939 amounted to roughly 115.5% of their sales in 1935, so that the figure for 1939 corresponding to the total above was about \$4,475,000,000. The sales of the 521 firms for which data actually were used in this study amount to somewhat more than 38% of \$4,475,000,000.

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 furnishings. As a rule, these stores were subdivided into departments for operating purposes. Specialty stores were defined as stores specializing in women's

wearing apparel, often handling such accessories as costume jewelry, bags, and toilet goods, but generally not handling either yard goods or home furnishings, and for the most part operated by means of a departmental form of organization similar to that 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 total store net 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. Of course, there has been considerable change in the firms assigned to the several groups in recent years owing to changes in sales. Moreover, since the groups were established this year on the basis of total store net sales rather than on the basis of net sales in owned departments only, as in earlier years, the classification of some firms has been affected.

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 lowest and highest figures, respectively, of those occurring in the middle half of the series mark the interquartile range. The common figure is selected partly by judgment based on inspection of the data and partly by means of computed averages. It is

designed to reflect the typical 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 firm regardless of size. In preparing the department store figures for Table 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.

For the past three years it has been possible to prepare, also, average percentages for all reporting department stores based directly on the aggregate dollar amounts entered by these firms for several of the items in the profit and loss statement. These figures are presented in Chart 1.

Goal Figures

Goal figures depict the typical results for a number of the most profitable firms in the respective volume 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 the figures for average sale, 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: 1939". 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 on owned capital* 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 index of operating efficiency than 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, and revised in 1937. 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 plus depreciation on leasehold valuation; in addition it includes 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.

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, average asset figures 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 Controllers' Congress classifications and, as a result, introduced some lack of comparability between the figures for

¹There 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.

pay roll and classified for 1936 through 1939, on the one hand, and those for 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 32 by the average inventory as shown by the profit and loss statement; that is, at cost. The stock-turn figures based on average monthly inventories were computed through the use of cost or retail inventory figures, whichever were furnished, total merchandise costs or net sales being used as dividends.

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

Initial Mark-up

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

In calculating the percentage of mark-up, of course, the original retail value before retail reductions had to be secured. For this purpose the figure 100%, representing net sales, plus the common figure for total retail reductions as a percentage of net sales, was taken as original retail value expressed in terms of net sales. To secure the percentage of initial mark-up on invoice cost delivered, this original retail value was divided into the sum of the common figures for gross margin, alteration and workroom costs, and total retail reductions, less the amount of cash discounts received, all expressed as percentages of net sales. This dividend represented

the difference between original retail price of merchandise sold and delivered 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 \$4,000,000 to \$10,000,000 sales from Table 4, the computation of the rate of initial mark-up based on invoice cost delivered is as follows:

$$\frac{36.8 + 0.8 + 7.3 - 3.1}{100.0 + 7.3} = \frac{41.8}{107.3} = 39.0$$

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.

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