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OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY STORES
IN 1940

BY

MALCOLM P. McNAIR



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OPERATING RESULTS OF
DEPARTMENT AND SPECIALTY STORES IN 1940

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

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FOREWORD

The problems of the retailer during these months of National Emergency are many and difficult. Probably the most important is that in which the government is seeking cooperation — the prevention or control of inflation. Control of retail prices in a period of rising national income and curtailed merchandise output calls for wisdom and foresight.

It is essential that the basic facts of retailing be understood not only by merchants but by the general public. So far as the price structure is related to cost it rests on two bases, the cost incurred to produce the merchandise and the cost incurred to distribute it. Planning price policy, therefore, presupposes a knowledge of production and distribution costs.

For the past twenty-one years the Harvard Bureau of Business Research has compiled average operating data for department and specialty stores of various sizes. The report herewith presented summarizes briefly the typical operating results for the period 1929 to date and provides in addition detailed figures for ten groups of department stores and seven groups of specialty stores covering the year 1940. The present-day operating advantages and disadvantages associated with small and large volume are discussed. Continuing the program established in prior studies, expenses are broken down by natural and functional categories and control figures such as mark-downs and stock-turn are included.

The operating statistics have been selected and arranged chiefly with a view to facilitating their use for purposes of comparison and control by the executives of individual concerns. While this is the primary use to which the bulletin is devoted, its potential value to the trade as a whole is probably of greater importance. The figures provide a clear and authoritative statement of the costs of the complex service that the stores render to the public, and they measure the efficiency with which the task is performed. In a period of economic and political tension it is particularly desirable that such definite standards should be available.

The original data for the bulletin were received from 519 companies operating 696 stores, with a total net sales of \$1,802,600,000. It is estimated that this figure represents approximately 38% of the total sales of all department stores and departmentized specialty apparel stores in the United States in 1940.

This study was made possible both by the generous cooperation of the executives of numerous individual concerns and by the financial support of the National Retail Dry Goods Association, which has met the cost of these surveys for the past 21 years. As usual, the advice and assistance of the officers of the Controllers' Congress were most helpful.

The accounting and statistical work on the 1940 survey was supervised by Miss Rose Winisky under the direction of Miss Elizabeth A. Burnham. The bulletin was written by Professor Malcolm P. McNair.

CLYDE O. RUGGLES,
Director of Research.

BOSTON, MASSACHUSETTS
May, 1941

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Chart 1. Department Store Expenses and Profit: 1940
(with 1939 and 1938 percentages for comparison)

Items	1940		1939 ¹	1938 ¹
	Aggregate Dollar Figures for 429 Firms Operating 554 Stores	1940 Net Sales = 100%	1939 Net Sales = 100%	1938 Net Sales = 100%
<i>The chief source of revenue for the stores, of course, was</i> Net Sales	\$1,542,885,483	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	\$973,150,998	63.1%	63.2%	63.75%
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	\$271,491,069	17.6%	17.8%	18.25%
Comprising salaries, wages, and bonuses of all employees, including executives, but excluding pensions and pay roll taxes;				
Real Estate Costs	\$68,906,692	4.45%	4.7%	4.95%
Including rentals, taxes, and insurance paid on leased real estate; as well as taxes, insurance, depreciation, and interest on owned real estate;				
Advertising	\$53,356,056	3.45%	3.6%	3.75%
Taxes	\$18,424,672	1.2%	1.25%	1.3%
Not including taxes on real estate, or Federal income taxes, but embracing other taxes imposed by national, state, and local governments;				
Supplies and Service Purchased	\$49,872,085	3.25%	3.2%	3.1%
Including electric power, steam, and delivery service bought;				
All Other Expense (including interest)	\$89,006,459	5.75%	5.85%	6.05%
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	\$1,524,208,031	98.8%	99.6%	101.15%
After meeting these costs, there remained a				
Net Profit	\$18,677,452	1.2%	0.4%	L. 1.15%
Which constituted the net profit from merchandising operations.				
<i>In addition, the stores received</i> Sundry or Other Revenue, Net	\$56,664,039	3.7%	3.5%	3.8%
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	\$75,341,491	4.9%	3.9%	2.65%
This was the earnings of these firms before Federal income taxes.				

¹ Data for 1939 are based on aggregate dollar figures for 428 firms with net sales of \$1,490,776,107, and operating 512 stores; data for 1938 are based on aggregate dollar figures for 430 firms with net sales of \$1,459,595,863, and operating 547 stores. There is always some change from year to year in the identity of the reporting firms. In making comparisons of the data for 1939 and 1940, it will be well to note that 377, or 88%, of the 429 firms reporting for 1940 also submitted figures for the preceding year.

OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1940

SECTION I

SUMMARY OF 1940 AND CURRENT TRENDS

Further Increases in Sales and Profits in 1940

Department store sales and profits again improved in 1940. Although the first half of the year saw little advance, in the second half, business spending in anticipation of the defense program sent consumer expenditures to higher levels. For the full year net sales of the 429 department store firms reporting to the Bureau were 6.4% higher than in 1939.

The net business profits of the department stores, as shown by Chart 1 on the opposite page, rose to a level only a little short of 5% of sales. The earnings for 1940 before Federal taxes thus mounted over 25% above 1939 and nearly 85% above 1938. Since each of the years 1939 and 1940 witnessed only moderate sales increases, in each case approximately 6% over the preceding year, these figures afford further evidence of the important bearing which small changes in sales volume have on profits. It would be a mistake, nevertheless, to attribute any automatic character to this relationship. On the contrary, there is evidence that the endeavors of management to preserve the gross margin percentage and to keep expenses in line in the face of numerous new developments made an indispensable contribution to the improved profit showing.

Gross Margin Little Changed, Expense Rate Down

On the face of the operating statement, the improved earnings in 1940 stemmed directly from the lower percentage cost of doing business, since between 1939 and 1940 the gross margin percentage remained practically unchanged at a point just short of 37% of sales. Evidently the wise policy of department stores in holding back retail price advances did not cause any damage to the gross margin percentage up to the end of the fiscal year 1940. Of course, the wholesale price level did not advance greatly during that year. It is only now, in the middle of 1941, that the stage seems to be set for price pressures that may prove troublesome. Despite the cushioning effect of price-line merchandising with its tendency to substitute quality changes for price changes, it is

possible that 1941 will show more pressure on the gross margin percentage. Thus, the 1940 figure of 36.9% may well stand as the peak of gross margin for this period.

As suggested by Chart 1, opposite, expense percentages in 1940 tended to retreat in all principal categories, a conclusion amply supported by the more detailed figures shown later in this bulletin. The classifications for pay roll, real estate costs, and advertising were lower not only than in 1939 and in 1938 but even than in 1937.¹ Taxes (exclusive of taxes on real estate and the Federal income and excess profits tax) were very slightly below 1939 and 1938 in relation to sales but still above the 1937 level. The combination of supplies and service purchased was the only category of expense which advanced percentage-wise over the earlier period, a development which may well be a reflection of the increased tendency for stores to contract for such services as heat and delivery instead of providing them independently. To the extent that this hypothesis is valid, rising tendencies in the pay roll percentage perhaps are being obscured. But it is also true that the cost of supplies was higher in 1940 for a majority of the reporting stores.

For 1940, in comparison with 1939, decreases in the expense percentages appeared both for costs ordinarily considered fixed in dollar amounts (real estate costs, for instance) and for costs ordinarily considered variable in relation to sales volume (advertising, for instance). As suggested in last year's report, it is possible to argue on the basis of such evidence that in relation to relatively small changes in sales volume a great majority of department store expenses remain relatively fixed in dollar amount. Even if such an argument be partly true, however, the result is not likely to follow automatically. On the contrary, it requires unremitting vigilance on the part of management to hold down those costs of doing business which otherwise tend to go up hand in hand with increasing sales activity. There is good evidence to show that management exercised such vigilance in 1940.

¹Data for 1937 are not presented in Chart 1. See Table 1, page 3.

Expense Percentages Lower in Most Size Groups of Stores

Comparison with the 1939 report shows that in all but two of the ten classifications of stores according to size (that is, volume of sales), expense ratios were lower in 1940 than in 1939 (see Tables 4 and 6, pages 12 and 17). Sales volume increased fairly uniformly among all these groups except that composed of the smallest stores, but there was no specially clear correlation between changes in sales volume and changes in expense percentages, an indication that expense reductions do not automatically accompany sales increases.

The characteristic differences between large stores and small stores appeared in 1940, small stores having lower margins, lower expenses, lower earnings, and slower rates of stock-turn; while large stores had higher margins, higher expenses, higher profits, and faster stock-turn. Comparisons between 1940 and 1939, nevertheless, indicate that only one size group of stores, namely the smallest, showed retrogression in the rate of earnings prior to Federal income taxes. This was also the group which made the least improvement in sales volume between the two years. Some evidence seems to be accumulating, therefore, that these small concerns, with sales of less than \$150,000 a year, are falling somewhat behind in the procession. This impression was strengthened by examination of the figures for identical firms reporting for both 1939 and 1940. Outside of this smallest volume group the improvement in the ratio of earnings (before Federal income taxes) to net worth was quite marked.

In most of the groups retail reductions were lower in 1940, a factor contributing to the very slightly higher gross margin. There were no uniform changes in initial mark-up percentages. Returns and allowances, always higher for the larger stores, exhibited some increases in those stores. Installment sales climbed to a higher proportion of the total in the large stores. It is no news, of course, that the amounts set aside to meet the Federal tax on income and excess profits were sharply higher for 1940.

The foregoing comments summarize briefly the highlights of department store performance in 1940.

Improved Earnings in Specialty Stores Fail to Match Department Store Showing

Although specialty stores, generally speaking, made slightly better profits in 1940 than in 1939,

the fact remained true, as in several preceding years, that the profit performance of these types of merchandising enterprise was less satisfactory than the figures shown by department stores of comparable sales volume. As indicated in the lower part of Table 1, opposite, gross margin, which continued to run a little higher for specialty stores than for department stores, nevertheless fell off slightly in 1940 as compared with 1939. Total expense likewise decreased for specialty stores; but the decline in expense was only a little greater than the drop in the gross margin figure, with the result that final net business profits for specialty stores were increased by only a small fraction over 1939. Many factors probably entered into this situation; but, as discussed in Section IV, the difficulty seems to lie partly in the failure to achieve a better increase in sales volume, possibly caused by the heightened competition from apparel chains and small specialty shops, and partly in the inherent problems of the moderate-size store situated in the large city. Summary total figures for specialty stores in 1940 as compared with the 11 preceding years, are given in the lower section of Table 1. More detailed figures for seven volume groups of specialty stores appear in Tables 18 through 23, pages 31 to 36.

General Trends in the Major Operating Ratios, 1929-1940

As an extension of the comparison which has appeared in all the Bureau bulletins in recent years, Table 1 shows trends in the major department store operating ratios over the 12-year period extending from 1929 to 1940, inclusive. Although the firms reporting for each year have not been strictly identical, the groups are sufficiently large and there has been sufficient continuity of reporting to make the figures for each year a thoroughly reliable index of changing trends.

For 1940 gross margin stood at the highest point for the entire period, a bare fraction above 1939 but nearly 4% of sales above the low point of 1931 and 1932. Total expense, on the other hand, stood at the lowest point since 1936 which, in turn, was the lowest point since 1930. Real estate costs as a percentage of sales were lower than at any time since 1930, and the advertising space cost ratio also stood at a low for the 10-year period beginning with 1931. Only once in the entire 12 years covered by Table 1 was the net business profit or net gain ratio at so high a point,

Table 1. General Averages for Department and Specialty Stores: 1929-1940

Groups and Items	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940
DEPARTMENT STORES:												
Number of Reports	527	564	451	428	450	458	459	394	458	430	428	429
Net Sales.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Change in Sales....	101.2	93.7	88.2	76.9	97.3	111.0	105.0	111.8	104.4	92.9	105.4	106.4
Gross Margin.....	33.5%	33.3%	33.1%	33.1%	36.0%	35.6%	35.9%	36.5%	36.4%	36.4%	36.9%	36.95%
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%	17.55%
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	4.45
Advertising.....	3.3	3.5	3.8	4.0	4.0	3.8	3.8	3.65	3.65	3.75	3.6	3.5
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	10.2
Total Expense....	32.3%	33.9%	35.9%	39.5%	38.1%	36.5%	35.9%	34.9%	36.0%	37.4%	36.4%	35.7%
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%	1.25%
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	3.5
Net Gain or Loss ...	4.3%	2.6%	1.0%	L. 2.4%	1.8%	2.6%	3.4%	4.9%	3.9%	2.6%	4.0%	4.75%
Returns and Allowances.....	11.15%	11.85%	11.45%	11.85%	11.7%	11.3%	11.25%	11.8%	11.75%	11.45%	11.4%	11.75%
Total Retail Reductions.....	*	10.0%	10.8%	11.95%	8.9%	8.6%	8.0%	7.05%	7.35%	7.7%	7.1%	6.85%
SPECIALTY STORES:												
Number of Reports	85	85	70	73	75	86	122	93	113	99	93	90
Net Sales.....	100.0%	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%	37.5%
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%	17.8%
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	4.8
Advertising.....	4.0	4.3	4.4	4.8	4.4	4.4	4.25	4.1	4.2	4.4	4.4	4.2
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	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%	37.1%
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%	0.4%
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	2.8
Net Gain or Loss ...	4.7%	2.0%	0.1%	L. 3.1%	2.1%	2.3%	2.9%	4.25%	3.2%	2.35%	3.0%	3.2%

* Comparable data not available.

and that was in 1936. In both the years, 1940 and 1936, this ratio was higher than in the year 1929. Total retail reductions (mark-downs, shortages, and employee discounts, combined) in 1940 stood at distinctly the lowest point reached over the entire period.

A similar perspective on the trend of the major operating ratios for specialty stores is offered by the data in the lower part of Table 1. In a general way, the same broad tendencies are in evidence, although the picture is not so clear-cut as in the case of department stores. Figures for margins and expenses in specialty stores run regularly a little higher than the corresponding ratios for department stores. In 1940, however, the

gross margin ratio for specialty stores receded a little from its 1939 peak and moved back to a point closer to the department store figure. The specialty store expense rate, on the other hand, did not decline very much from the peak reached in 1938. Final net business profits, therefore, were only fractionally improved over 1939. For ten of the past twelve years the earnings of specialty stores have not been so favorable as in the case of department stores.

Movement of Department Store Sales, Stocks, and Prices: 1929-1940

To serve as a background for these changing trends in the major department store operating

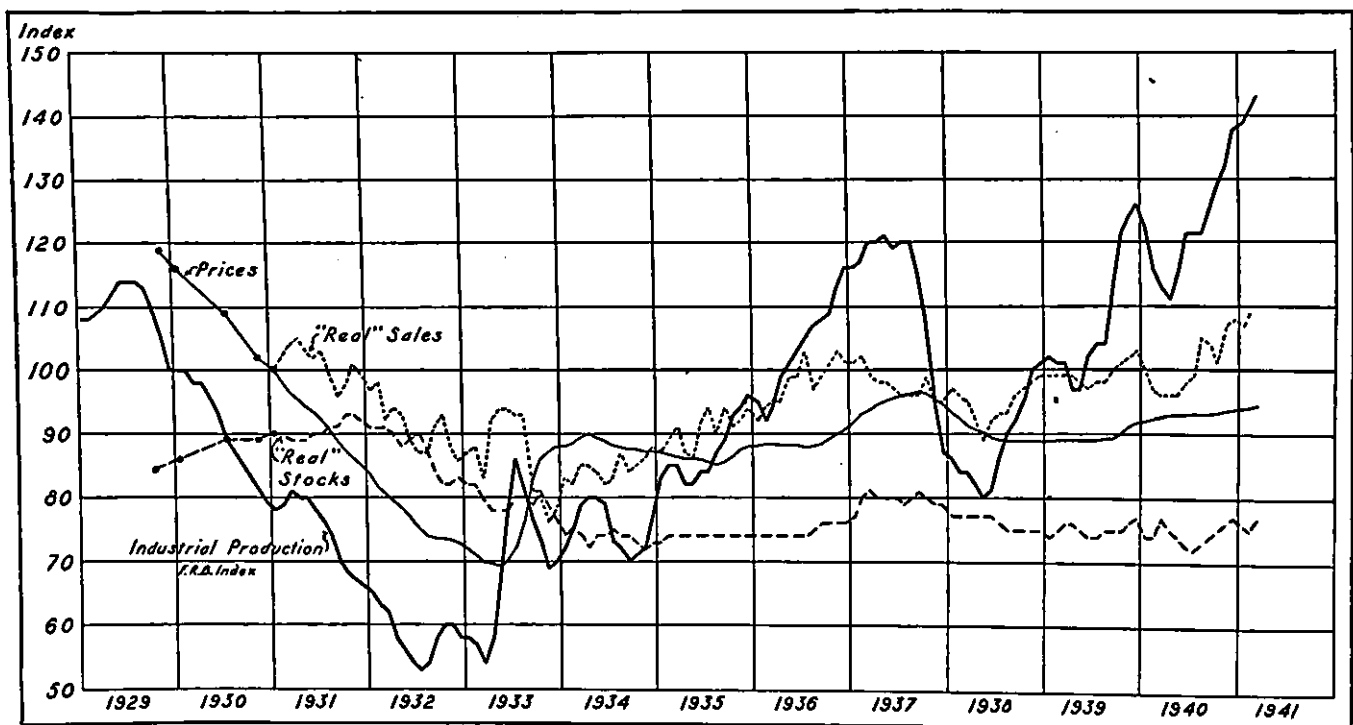
ratios, Chart 2, below, traces the movement of department store "real" sales, "real" stocks, and prices over the same 12-year period.¹ There are four lines on this chart: the Index of Industrial Production is the new Federal Reserve index as revised in 1939; the price index comprises department store prices as reported by the Fairchild index; the "real" sales consists of the Federal Reserve department store dollar sales index divided by the Fairchild retail price index; and, the "real" stocks curve represents the Federal Reserve index of department store dollar stocks divided by the price index.

The production index advanced to a new high in 1940, the acceleration of output being particularly marked after the middle of the year. Also in 1940 the index of "real" sales in department stores for the first time during the period of recovery, which began in 1933, surpassed the previous high point shown in the chart for 1931. Department store "real" sales in 1940 thus eclipsed their previous recovery high attained in 1936 and the early months of 1937. Department

store prices, although higher at the end of 1940 than at the end of 1936, were not yet up to the point which they reached in 1937; and department store "real" stocks, in the meantime, though slightly higher than at the end of 1936, had not yet reached a point so high as their 1937 peak.

In 1937 the peaks in the movements of retail prices and "real" stocks very clearly came at a time well after a downturn appeared in "real" sales. Perhaps this relationship is the one to be expected under normal business conditions, but in the existing situation in 1941 there is every reason to expect that retail prices will continue to move higher and that a decline in "real" sales, when and if it comes, will be caused by various types of governmental measures to restrict consumption rather than by the fact of a further price advance. Had it not been for the restraining influence of the policies so wisely advocated by the National Retail Dry Goods Association and the American Retail Federation during 1940, no doubt the present level of retail prices would be substantially higher than it is.

Chart 2. Department Store Real Sales, Real Stocks, and Retail Prices Compared with Industrial Production: 1929-1941



¹The 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 of each month (compiled by Fairchild Publishing Company and issued in the *Survey of Current Business* and in *Women's Wear Daily*).

"Real" Sales: Dollar sales index, adjusted for seasonal varia-

tion (*Federal Reserve Bulletin*), divided by average of prices for beginning and end of month.

"Real" Stocks (Inventories): Dollar stocks for beginning of month, adjusted for seasonal variation (*Federal Reserve Bulletin*), divided by price for beginning of month.

New Index of Industrial Production: Federal Reserve index, based on physical volume, adjusted for seasonal variation. (*Federal Reserve Bulletin*.)

The general trends of the production index and the "real" sales index as shown in Chart 2 for the years following 1934 still lend support to the hypothesis advanced in last year's bulletin, that the rate of growth in department store "real" sales is somewhat less than the rate of growth in production. That is to say, the production curve, after allowance is made for cyclical fluctuations, apparently climbs on a steeper trend than does the curve which represents department store physical sales volume. Of course, for a period beginning sometime in the latter part of 1940 and extending certainly through 1941, and how much further no one knows, the relationships between the index of production and any indexes of distribution of consumers' goods no longer have any significance, because of the diversion of effort to the manufacture of armament. But for the period up to the beginning of the defense undertaking, the relative slopes indicated on the chart for the production index and the department store "real" sales index certainly suggest that the department store has not been fully maintaining its relative importance as a type of retail distribution. Even though department stores today are probably handling a larger physical volume of merchandise than at any previous time in their history, nevertheless in the period which lies ahead, with inevitably lower standards of living and a greatly increased burden of taxes on middle-class incomes, it is plausible that these stores on a relative basis will continue to lose ground, possibly even at an accelerated pace, unless many of them are able to effect reductions in their characteristic margins and expenses.

Changes in Department Store Transaction Data; 1930-1940

For control purposes, the Bureau frequently has emphasized the importance of watching data on the movement of sales transactions, size of average transaction, cost per transaction, number of transactions per employee, and so on, in preference to depending principally on the scrutiny of expenses in the form of percentages of sales. When price changes are causing the dollar sales volume to fluctuate, data in the form of percentages of sales, unless supplemented by comparative data in other forms, may prove to be misleading.

Chart 3, page 6, shows for the 11-year period, 1930 to 1940, changes in four indexes based upon number of sales transactions. In contrast to Chart 2, all the data in Chart 3 are derived from

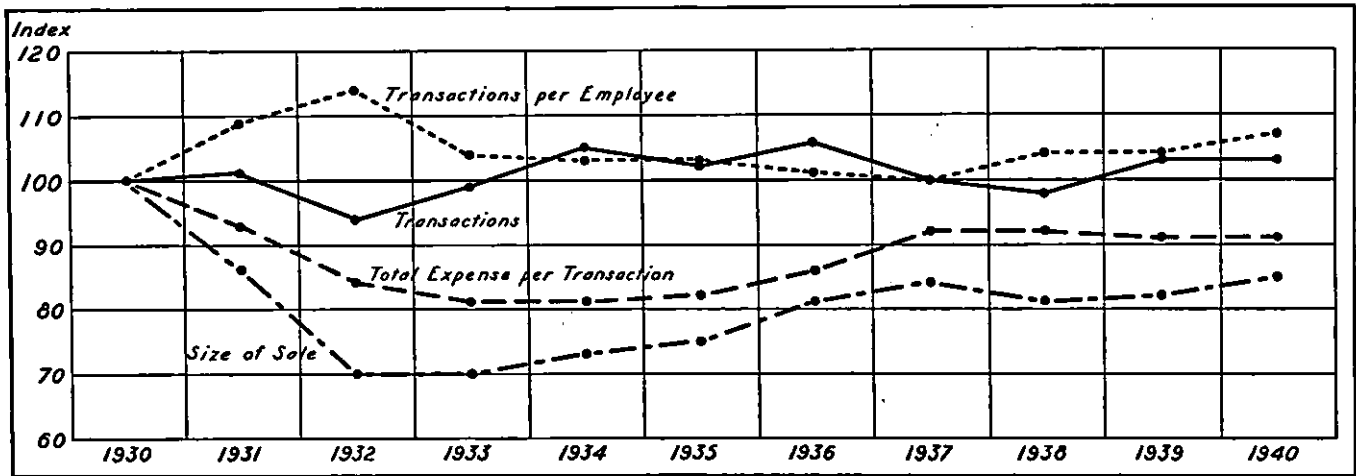
reports submitted by department stores to the Bureau. The lines in this chart show the movement of indexes for size of the average gross sale transaction, number of gross sales transactions, average number of transactions per employee, and typical cost per transaction. The base year was taken as 1930 simply because this was the point at which the Bureau began obtaining reports on the number of transactions. Over the 11 years covered by this chart one may distinguish roughly four periods.

In 1931 and 1932 depression influences were dominant. The size of the average gross sale declined very sharply because of the severe drop in the price level. At the same time the number of transactions actually increased a little in 1931 and then dropped only moderately in 1932. That economy measures were quite promptly inaugurated is indicated by the fact that the number of transactions per employee rose sharply. (This index is based on the total number of employees and not merely on the number of selling employees; hence, changes in this index are a measure of the changing effectiveness of the organization as a whole in quantitatively serving consumer demand.) Directly correlated with this advance in average number of transactions per employee, of course, was the marked decline in the cost per transaction; no doubt, wage reductions, as well as curtailment of labor force, also played some part in reducing this average cost per transaction.

In the next period, consisting of the years 1933 and 1934, NRA influences were superimposed upon the pattern of a normal business recovery. The size of the average transaction increased somewhat, and there was a sharp increase in the number of transactions. Prices were rising and people were buying more freely, but evidently they were not increasing their purchases of higher price goods. The notable falling off in the number of transactions per employee in these years reflects the regulation of hours inaugurated by the NRA in the effort to spread employment. Under these circumstances, it is perhaps surprising that the cost per transaction did not advance. Evidently stores continued their search for economies in order to offset the cost-raising tendencies of the NRA regime, and expense per transaction actually declined.

The years 1935 and 1936 and the early part of 1937 were years of more or less normal business recovery, freed from the artificial restraints of the NRA, and culminating in something like a

Chart 3. Transactions, Cost per Transaction, and Size of Sale for Department Stores:
1930-1940



business boom. The size of the average transaction increased, indicating that prices were rising and that consumers were trading up in quality. The number of transactions increased, but some further moderate decline in the number of transactions per employee took place. The rise in the average cost per transaction reflected this last factor as well as the heavier taxes necessitated by social security legislation.

The following year, 1938, was definitely one of business depression. The size of the average transaction fell off somewhat because of the drop in prices. At the same time the number of transactions continued the decline begun in 1937. Economy measures, however, increased the number of transactions per employee. As a consequence, the cost per transaction remained constant. Actually, however, since the decline in the size of the average sales transaction was not accompanied by a decline in the average cost per transaction, the result was an impairment of profit.

In the two most recent years, 1939 and 1940, the size of the average transaction advanced with the rising price level and a probably increasing tendency of consumers to buy better qualities of goods. The number of transactions increased in 1939 and remained constant in 1940, but the average number of transactions handled per employee, after remaining unchanged in 1939, advanced in 1940. Changes in the average cost per transaction were small for these two years.

In general, the trends manifested in this chart over these last two years may be classed as the desirable ones, an increase in the number of transactions accompanied by some advance in the size of the average transaction, and simultaneously an increase in the productivity of employees, as evi-

denced by the larger number of transactions handled per employee, with a resulting effective control of the cost per transaction. It seems evident that management, faced with the problems of a rising wage scale, is directing increased attention to the fundamental problems of employee productivity.

The foregoing discussion indicates the importance for management of watching the significant trends based on sales transactions. Most important for each concern is comparison with its own previous experience. Since the size of the average transaction varies so much from store to store, little comparability is afforded as between the stores. This same concept of measuring efficiency in terms of number of transactions in relation to the number of people and the time involved is, of course, applicable to many other phases of department store management.

Use of These Figures in Appraisal of Results and Preparation of Expense Budgets

It has been customary for many department store executives to use the figures in these annual reports both for the purpose of appraising the results achieved by their own stores and for the purpose of developing and checking the expense estimates budgeted for ensuing periods. In order to facilitate the most effective use of the figures in this bulletin for such purposes a few suggestions may be offered.

Obviously, comparisons should be made not with such general over-all summary figures as are shown in Chart 1, page vi, but rather with the more detailed figures for each volume group. In making such comparisons it is desirable to look

both at the natural expense classifications and also at the functional divisions. To permit detailed comparison of the natural expenses subdivided according to functions and subfunctions is the particular purpose of Tables 10, 11, and 12, pages 21-23, and of Table 22, page 35. Looking at the figures in these tables, however, it must be remembered that the functional classification of expenses in some of the reporting stores does not always conform fully to the Expense Manual of the Controllers' Congress. Therefore, the use of the totals for the natural expense divisions in conjunction with the functional breakdowns is necessary. At the same time, due recognition should be given to the fact that the natural expense totals may lack full comparability in some instances. Thus, as between a store operating its own delivery equipment and one buying delivery service from an outside organization, the natural expense totals for pay roll, supplies, and service purchased will not be strictly comparable. In such a situation it is, of course, necessary to have recourse to the functional classification to see what is the total cost of the delivery function.

It should always be remembered that the figures presented in these tables are "common figures" designed to reflect the representative performance.¹ Sometimes the total range of percentage figures reported by the various firms for a particular item is quite wide; for instance, in the volume group of stores with sales between \$1,000,000 and \$2,000,000 in 1940 total pay roll percentages spread from 13.45% to 23.11%. The middle half of the figures, however, lay between 16.04% and 19.04%, and the common figure was finally determined as 17.55%. Therefore, since conditions in individual stores vary quite widely, too great significance should not be attached in making appraisal of performance to small departures from the common figures reported in this bulletin.

Many stores, of course, wish to make comparisons not merely with the average performance but with a better-than-average performance. To permit such comparisons is the purpose of the "goal figures" (see Tables 5, 9, 13, and 23 in this bulletin). The so-called goal figures are common figures based on the performance of the most profitable stores in each of the volume groups. Thus, for example, out of 61 firms in the volume group between \$1,000,000 and \$2,000,000, 16 were selected as making typically the best profit showing, and for these companies the common

figure for total pay roll, for example, was 16.0%. In making comparisons with goal figures, however, or in using goal figures as an aid in expense budgeting, certain facts need to be kept in mind.

By the accident of location some stores in 1940 benefited more from consumer spending than did others, and therefore their managements had a better opportunity to make a good profit showing (see Table 5). There was also another respect in which the location factor was important, as developed in Tables 15, 16, and 17, pages 27 to 29: the population of the city in which a store happens to be located constitutes an important factor affecting the cost of operation and, consequently, the profit showing. Allowance for these situations should be made in using the figures in this bulletin for the purpose of appraising performance or budgeting outlays for a future period. Finally, a minor point that may be mentioned is that the Bureau's present method of figuring interest as a cost, as explained on page 14, has some tendency to overstate the total operating expense of the large stores.

Modified Form of Operating Statement

Several years ago the Board of Directors of the National Retail Dry Goods Association suggested that for certain purposes a modified form of operating statement would be useful in classifying the economic costs of retailing and reminding consumers that many of the retailer's costs of doing business are essentially in the nature of production costs. Goods as they are produced by manufacturers are not yet ready for final consumption by consumers; before the consumer can even contemplate their purchase certain additional costs must be incurred. The goods must be bought, they must be transported to the retailer's place of business, they must bear the costs of maintaining that place of business, they must be received, marked, placed in stock, and advertised, — all before it is possible for the consumer to consider purchasing the specific merchandise. To bring out the facts more forcibly the modified form of operating statement approved by the Board of Directors of the National Retail Dry Goods Association allocates the costs of certain functions to the cost of merchandise rather than to operating expenses. Thus, Table 2, page 8, presents 1940 figures, for seven groups of department stores and four groups of specialty stores, with the costs for three functional classifications, occupancy, buying, receiving, and marking, and

¹ See Appendix, page 37.

Table 2. Operating Results of Department and Specialty Stores in 1940
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	\$500-1,000	\$1,000-2,000	\$2,000-4,000	\$4,000- or more
Number of Reports:											
Giving Functional Data	28†	24†	53†	56†	60†	26†	13†	10†	8†	16†	10†
Giving Other Data	47†	32†	61†	58†	62†	26†	13†	14†	10†	16†	10†
Change in Sales (1940/1939)	106.3	106.7	105.0	106.5	106.0	107.0	106.5	105.3	104.3	102.5	104.6
SALES	107.1%†	106.9%†	107.2%†	108.0%	110.7%	112.9%	114.5%	108.0%†	114.0%†	116.0%	118.5%
Less Returns (and allowances)	7.1†	6.9†	7.2†	8.0	10.7	12.9	14.5	8.0†	14.0†	16.0	18.5
NET SALES	100.0%	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	15.2%	15.0%	14.7%	13.7%	13.0%	11.6%	10.8%	12.0%	9.4%	9.4%	8.7%
Purchases (including inward freight, express, and truckage)	67.75	67.6	66.85	66.2	65.65	65.9	66.2	65.85	67.2	66.7	67.15
	82.95%	82.6%	81.55%	79.9%	78.65%	77.5%	77.0%	77.85%	76.6%	76.1%	75.85%
Less Cash Discounts	2.8	2.9	2.75	2.7	3.05	3.25	3.65	4.2	4.1	4.3	4.3
	80.15%	79.7%	78.8%	77.2%	75.6%	74.25%	73.35%	73.65%	72.5%	71.8%	71.55%
Workroom (and alteration costs)	0.35†	0.3	0.5	0.5	0.7	0.55	0.75	1.25	0.6	0.6	0.55
Occupancy	7.65	7.9	7.05	7.25	7.6	7.95	8.45	7.9	7.75	8.15	8.2
Buying, Receiving, and Marking	3.55	4.25	4.3	4.3	4.5	4.4	4.05	4.25	4.9	5.45	4.5
Publicity	3.85	4.4	4.7	4.7	5.0	4.9	4.6	5.5	5.7	6.15	5.75
	95.55%	96.55%	95.35%	93.95%	93.4%	92.05%	91.2%	92.55%	91.45%	92.15%	90.55%
Less Inventory — End of Period	15.9	15.5	15.0	14.0	13.3	12.4	11.5	12.0	10.5	9.9	9.8
	79.65%	81.05%	80.35%	79.95%	80.1%	79.65%	79.7%	80.55%	80.95%	82.25%	80.75%
Net Sales less Merchandise Costs	20.35%	18.95%	19.65%	20.05%	19.9%	20.35%	20.3%	19.45%	19.05%	17.75%	19.25%
OPERATING COSTS											
Administrative	8.6%	8.25%	8.55%	8.05%	7.9%	7.85%	7.45%	9.8%	8.95%	8.55%	7.7%
Selling	9.6	9.2	8.95	8.7	8.95	9.4	9.4	8.3	8.65	8.3	9.2
Delivery	0.65	1.0	1.15	1.3	1.55	1.9	2.45	0.95	1.05	1.1	1.65
	18.85%	18.45%	18.65%	18.05%	18.4%	19.15%	19.3%	19.05%	18.65%	17.95%	18.55%
OPERATING INCOME OR LOSS	1.5%	0.5%	1.0%	2.0%	1.5%	1.2%	1.0%	0.4%	0.4%	L. 0.2%	0.7%
OTHER INCOME	3.0	3.1	3.2	3.0	3.5	3.4	3.9	2.7	2.2	2.7	3.0
NET PROFIT OR LOSS (before Federal tax on income)	4.5%	3.6%	4.2%	5.0%	5.0%	4.6%	4.9%	3.1%	2.6%	2.5%	3.7%

† 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.

publicity, included in the total cost of the merchandise sold. The addition of these costs to the bare cost of purchases (including inward transportation) brings the total cost of merchandise, according to this form of statement, up to figures ranging from 79.65% to 82.25% of sales. The deduction of such merchandise costs from net

sales leaves spreads varying from 17.75% to 20.35%. From these figures are deducted operating costs, including administrative, selling, and delivery, ranging from 18.05% to 19.3% of sales. Needless to say, this form of presentation does not change the profit and loss figures in any respect.

SECTION II

DEPARTMENT STORES

For many years in these annual reports the important bearing of sales volume on department store operating results has been recognized. In accordance with the established policy, detailed tables of common figures and goal figures are herewith presented classified according to ten volume groups. Typical profit and loss and expense data are provided for groups of firms with annual total net sales ranging from less than \$150,000 to \$20,000,000 or more. Net sales of both owned and leased departments have been used in measuring the size of the 429 reporting firms.

Increase in Transactions as Well as Dollar Sales

Throughout the country, department store volume increased in 1940 as compared with 1939. The rise in "real" sales, that is, dollar sales corrected for price changes, has been pictured in Chart 2, page 4. Improvement in actual dollar sales, without reference to prices, was even more marked. Sales of the department stores reporting to the Bureau for 1940 exceeded the 1939 level by more than 6%. Moreover, this increase was general for stores of all sizes over and above \$500,000. The better dollar volume reflects not only the slight upward trend in prices but also a growth in the number of transactions. Table 3, opposite, discloses that, for stores reporting the data, the number of transactions increased from 0.0% to 4.0% over 1939. To some extent, also, the additional receipts may have resulted from a shift in merchandise emphasis to commodities of higher unit value or from an increase in multiple sales. From the data submitted, however, it is not possible to test the influence of merchandise policy or change in customer demand.

Little Change in Sales by Merchandise Lines

The distribution of 1940 main store sales by merchandise lines was very similar to that found for 1939. Important among the classes of merchandise sold by small stores were ready-to-wear merchandise, piece goods and domestics, accessories, and men's furnishings, which accounted for roughly three-quarters of the business. Sales in such merchandise departments accounted for only one-half the volume of large metropolitan firms. In the largest stores, on the other hand, sales of

smallwares, notions, and novelties contributed more to total volume than was the case in the small stores. Of greater significance, however, are the household furnishings sales, which made up about one-quarter of the large store nonbasement volume as contrasted with approximately one-tenth in the case of the small stores.

Detailed comparison of the 1939 and 1940 data reveals a slight tendency for an increase in the proportion of ready-to-wear sales in the stores with total net sales of over \$750,000. This rise may be one of the factors underlying the larger average sales typical of 1940. To some extent the greater percentage volume in ready-to-wear merchandise may represent a shift in patronage from the basement apparel departments, or a general trading up throughout the store; or it may have resulted from the sale of a larger number of items. There was no significant trend to be noted in the sales of household furnishings.

Term Credit Sales Up; Returns and Allowances Higher

Large stores reported somewhat more extensive installment sales in 1940 than in the preceding year. Ten per cent of sales, or over \$1,300,000 of sales made on a term basis, out of typical sales of \$13,800,000, were reported by stores in the \$10,000,000 to \$20,000,000 sales group. Of the 26 firms in this group, 25 definitely indicated that they sold merchandise on the installment plan. Similarly, 12 of the 13 very large stores and 60 of the 62 moderately large (\$4,000,000-10,000,000) reported some installment business.

Returns and allowances amounted to a slightly larger proportion of net sales in 1940 than in 1939 for 4 out of 7 groups of stores. There is some possibility, of course, that this condition may have been associated with increased volume in ready-to-wear departments, since high returns are known to be characteristic of these departments.

Typical Differences between Small and Large Stores

Any interpretation of the effects of volume on department store operating results must be based on a realization that such volume is the result of

a multiplicity of small transactions involving a large number of individuals. Since volume depends on customer patronage, the population of the shopping area in which a firm is located has an important bearing on the sales achieved. Like-

wise, the population of the shopping center itself has an important effect on operating costs.

The most striking difference in performance between large and small stores lies in the lower gross margin percentages characteristic of the

Table 3. Common Figures for Sales Data for Department Stores: 1940

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	3	3	2	16†	13†	33†	35†	50†	25†	12†
Giving Data for Sales by Merchandise Lines	8	24†	22†	33†	25†	54†	50†	57†	26†	13†
Giving Other Data	48†	43†	39†	47†	32†	61†	58†	62†	26†	13†
Aggregate Sales (in thousands)	\$5,995	\$10,467	\$14,294	\$49,310	\$25,265	\$78,783	\$146,165	\$389,702	\$361,435	\$461,470
Typical Net Sales (in thousands)	\$85	\$235	\$360	\$545	\$785	\$1,270	\$2,400	\$5,600	\$13,800	\$27,000
Population of City (in thousands)	10	20	30	45	60	85	185	400	950	2,100
Population (interquartile range ¹ in thousands)	5-15	13-26	19-40	31-67	44-68	54-156	106-308	264-663	453-2,698	1,497-3,385
Change in Sales (1940/1939):										
Main Store	*	*	*	*	*	105.3	106.5	106.4	106.6	107.0
Basement	*	*	*	*	*	104.5†	105.5†	105.0†	108.3	105.0
Total Owned Departments	102.0	105.5	104.0	106.3	106.7	105.0	106.5	106.0	107.0	106.5
Average Gross Sale	*	*	*	\$1.93	\$1.69	\$2.02	\$2.00	\$1.99	\$2.50	\$2.65
Change in Transactions (1940/1939)	*	*	*	102.0	100.0	102.0	102.6	103.0	104.0	101.7
Total Basement Sales (percentage of total net sales in owned departments)	*	§	§	§	§	7.0%	9.5%	12.5%	16.8%	20.0%
Leased Department Sales ² (percentage of total store sales including leased department sales)	0.0%	2.75%	6.0%	9.0%	8.0%	9.0%	9.5%	5.5%	4.0%	1.7%
Sales by Merchandise Lines—										
Main Store Owned Depts.:										
Piece Goods and Domestics	*	14.0%	12.4%	9.6%	9.0%	8.7%	8.5%	7.5%	6.2%	6.4%
Smallwares, Toilet Goods, Notions, and Novelties	*	9.3	12.0	8.3	9.0	10.6	10.7	12.1	13.6	14.8
Women's, Misses', and Juniors' Ready-to-Wear	*	24.1	26.6	21.7	21.1	20.0	18.2	17.8	18.9	15.3
Ready-to-Wear Accessories	*	25.6	25.6	29.0	28.2	24.0	22.9	21.0	19.3	18.1
Men's and Boys' Clothing and Furnishings	*	13.2	10.0	11.8	10.5	11.0	11.8	10.6	11.6	11.4
Home Furnishings	*	11.6	9.4	14.3	15.9	20.2	18.4	22.0	22.0	26.0
Regular Cost Departments	*	0.0	0.0	1.0	2.0	1.0	2.5	3.5	3.5	3.0
Miscellaneous	*	2.2	4.0	4.3	4.3	4.5	7.0	5.5	4.9	5.0
Total Main Store Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cash Sales	51.0%†	50.0%†	48.0%†	48.5%†	48.0%†	41.5%	39.0%	35.0%	33.0%	34.0%
C. O. D. Sales				2.5†	3.5†	4.5†	5.0	6.5	9.0	10.5
Regular Charge Sales	49.0†	50.0†	52.0†	46.0†	43.0†	46.0†	50.0	49.5	48.0	47.0
Installment Sales				3.0†	5.5†	8.0†	6.0	9.0	10.0	8.5
Returns and Allowances:										
Percentage of Gross Sales	*	*	*	6.6%†	6.5%†	6.7%†	7.4%	9.65%	11.4%	12.65%
Percentage of Net Sales	*	*	*	7.1†	6.9†	7.2†	8.0	10.7	12.9	14.5
Transactions Delivered (percentage of total transactions)	*	*	*	*	*	*	21.0%†	24.0%†	27.0%†	36.0%†

* 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. In such cases, the population of the city in which the main store was located was used in preparing the figures for population.
 § 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: \$150,000-300,000, 3.1%; \$300,000-500,000, 5.45%; \$500,000-750,000, 2.95%; and \$750,000-1,000,000, 6.0%.
 1 See definition in the Appendix. 2 For a discussion of the treatment of leased department sales, see the Appendix, page 40.

small concerns. In 1940, for instance, as shown in Table 4, page 12, the gross margin ratios of the largest stores were typically more than one-fifth greater than the gross margins of the smallest stores, 37.4% as compared with 30.6%. A considerable part of this difference was attributable to the lower mark-downs of the large stores. The remaining part of the variation, as needs often to

be reiterated, measures not merely differences in buying power, but differences in functions, differences in position in the marketing structure, differences between a substantial degree of integration and almost no integration.

Most of the expense advantages commonly experienced by the small stores result primarily from the fact that the stores are in small cities

Table 4. Common Figures for Merchandising Operations and Profits for Department Stores: 1940
(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.....	48†	43†	39†	47†	32†	61†	58†	62†	26†	13†
Aggregate Sales (in thousands) ..	\$5,995	\$10,467	\$14,294	\$49,310	\$25,265	\$78,783	\$146,165	\$389,702	\$361,435	\$461,470
Typical Net Sales (in thousands) .	\$85	\$235	\$360	\$545	\$785	\$1,270	\$2,400	\$5,600	\$13,800	\$27,000
Change in Sales (1940/1939)	102.0	105.5	104.0	106.3	106.7	105.0	106.5	106.0	107.0	106.5
Population of City (in thousands)	10	20	30	45	60	85	185	400	950	2,100
Population (interquartile range ¹ in thousands)	5-15	13-26	19-40	31-67	44-68	54-156	106-308	264-663	453-2,698	1,497-3,385
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹	*	36.4%†	37.3%†	37.6%	37.3%	38.0%	38.2%	39.0%	39.2%	38.3%
Mark-downs.....	*	*	*	5.9%†	5.7%†	5.85%†	5.3%†	5.65%	5.3%	4.6%
Discounts to Employees and Others	*	*	*	0.6†	0.45†	0.6†	0.6†	0.65	0.75	0.6
Stock Shortages.....	*	*	*	0.9†	0.85	0.85	0.8	0.85	1.0	1.0
Total Retail Reductions.....	*	9.5%†	9.6%†	7.4%	7.0%	7.3%	6.7%	7.15%	7.05%	6.2%
Inward Freight, Express, and Truckage	1.5%	1.35%	1.35%	1.15%	1.0%	1.1%	1.2%	1.05%	0.8%†	0.6%
Alteration and Workroom Costs (Net).....	0.25†	0.4†	0.4†	0.35†	0.3	0.5	0.5	0.7	0.55	0.75
Cash Discounts Received on Purchases (percentage of sales)....	2.65	2.45	2.9	2.8	2.9	2.75	2.7	3.05	3.25	3.65
Gross Margin.....	30.6	32.4	33.8	35.4	35.5	35.7	36.3	37.0	37.6	37.4
Total Merchandise Costs (Net) ..	69.4%	67.6%	66.2%	64.6%	64.5%	64.3%	63.7%	63.0%	62.4%	62.6%
Total Expense.....	32.3	32.4	33.0	33.9	35.0	34.7	34.3	35.5	36.4	36.4
TOTAL COST	101.7%	100.0%	99.2%	98.5%	99.5%	99.0%	98.0%	98.5%	98.8%	99.0%
NET PROFIT OR LOSS.....	L. 1.7%	0.0%	0.8%	1.5%	0.5%	1.0%	2.0%	1.5%	1.2%	1.0%
Net Other Income (including interest on capital owned).....	2.9	3.2	2.6	3.0	3.1	3.2	3.0	3.5	3.4	3.9
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales.....	1.2%	3.2%	3.4%	4.5%	3.6%	4.2%	5.0%	5.0%	4.6%	4.9%
Percentage of Net Worth.....	2.8	7.0	7.3	11.3	9.3	9.5	12.4	11.0†	12.1	9.6†
Federal Tax on Income.....	0.2%	0.5%	0.6%	0.9%	0.7%	0.9%	1.3%	1.3%	1.0%	1.1%
Percentage of Firms:										
Earning Some Net Profit.....	31.3%	53.5%	64.1%	74.5%	53.1%	63.9%	70.7%	72.6%	65.4%	61.5%
Earning Some Net Gain.....	68.8	88.4	94.9	95.7	100.0	95.1	96.6	93.5	92.3	100.0
Rate of Stock-turn (times a year):										
Based on Beginning and Ending Inventories.....	2.3	2.85	3.4	4.2	4.25	4.35	4.6	4.8	5.2	5.6
Based on Monthly Inventories	2.25†	2.5†	2.8	3.5	3.8	3.75	3.95	4.2	4.7	4.9

* 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. † See definition in the Appendix.

where rental and advertising costs are low. Disadvantages of such stores are associated with lack of volume. For example, in order to offer cus-

tomers a fair choice of merchandise, small stores have to carry relatively heavy inventories. This entails tying up capital, with consequent high

Table 5. Goal Figures for Merchandising Operations and Profits for Department Stores: 1940
(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	11†	13	10‡	16‡	10	16‡	16‡	14‡	8‡	5‡
Aggregate Sales (in thousands)	\$1,507	\$3,271	\$3,688	\$9,110	\$7,721	\$18,845	\$40,816	\$85,072	\$120,449	\$194,472
Typical Net Sales (in thous.)	\$75	\$255	\$365	\$550	\$770	\$1,150	\$2,400	\$6,000	\$15,000	\$35,000
Change in Sales (1940/1939)	108.0	108.0	105.0	108.0	107.0	107.0	108.0	108.5	108.5	107.5
Population of City (in thous.)	6	21	23	44	55	70	120	275	550	1,900
Population (interquartile range ¹ —in thousands)	4-8	15-26	15-37	31-62	45-61	38-97	88-160	171-325	380-663	1,497-2,560
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹	*	*	*	37.85%†	38.35%†	38.0%	38.3%	39.4%	39.55%	39.75%
Mark-downs	*	*	*	5.65%†	} 7.0%†	6.0%	5.2%	5.25%	5.1%	5.0%
Discounts to Employees and Others	*	*	*	0.55†		0.5	0.6	0.7	0.75	0.8
Stock Shortages	*	*	*	1.0†		0.8†	0.8	0.7	0.85	0.65	0.9
Total Retail Reductions	*	*	*	7.2%†	7.8%†	7.3%	6.5%	6.8%	6.5%	6.7%
Inward Freight, Express, and Truckage	1.7%	1.35%†	1.35%	1.25%	1.15%	1.0%	1.2%	1.25%	0.85%	0.7%
Alteration and Workroom Costs (Net)	0.0	0.4†	0.3†	0.4	0.2†	0.45	0.45	0.65	0.3	0.95
Cash Discounts Received on Purchases (percentage of sales)	2.5	2.45	3.1	2.9	2.85	2.85	2.55	3.15	3.25	3.55
Gross Margin	31.1	32.6	35.5	35.9	36.2	35.9	36.4	37.8	38.6	38.3
Total Merchandise Costs (Net)	68.9%	67.4%	64.5%	64.1%	63.8%	64.1%	63.6%	62.2%	61.4%	61.7%
Total Expense	27.3	29.2	31.6	30.9	32.7	31.5	30.5	32.7	34.2	34.9
TOTAL COST	96.2%	96.6%	96.1%	95.0%	96.5%	95.6%	94.1%	94.9%	95.6%	96.6%
NET PROFIT OR LOSS	3.8%	3.4%	3.9%	5.0%	3.5%	4.4%	5.9%	5.1%	4.4%	3.4%
Net Other Income (including interest on capital owned)	2.1	3.2	2.6	2.4	2.9	3.2	2.9	3.2	3.4	3.6
NET GAIN before Federal Tax on Income:										
Percentage of Net Sales	5.9%	6.6%	6.5%	7.4%	6.4%	7.6%	8.8%	8.3%	7.8%	7.0%
Percentage of Net Worth	14.8	15.5	*	17.5	14.0	18.0	18.5†	*	17.5	12.5
Federal Tax on Income	*	0.9%	1.2%	1.9%	1.6%	1.8%	2.2%	2.0%†	2.0%	1.7%
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	2.75	2.9	4.25	4.6	3.85	4.9	4.7	5.1	5.65	5.3
Based on Monthly Inventories	*	2.5†	3.5†	3.8	3.6	4.0	4.05	4.55	5.0	5.0
Returns and Allowances:										
Percentage of Gross Sales	*	*	*	7.5%†	6.5%†	6.1%	6.2%	9.3%	10.3%	13.8%
Percentage of Net Sales	*	*	*	8.1†	7.0†	6.5	6.6	10.3	11.5	16.0

* 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. 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.

interest charges and heavy costs for taxes and insurance on merchandise. But, as regards expense, the advantages of the small stores outweigh their disadvantages.

Any expense advantages of large stores, on the other hand, which arose from their large volume were found in the administrative function. The expense disadvantages which these large firms suffer result both from a wider integration of functions and from location in large cities where costs are high; but these disadvantages more than counterbalance the advantages.

Hence, we find that small stores characteristically have low margins, low total expense, and slow merchandise turnover, while large stores usually have high margins, high expenses, and rapid merchandise turnover rates. These conditions were true for 1940 as they have been in the past.

Lower Interest Costs of Large Stores Not Shown in Common Figures

Large stores have an additional advantage in the procurement of capital, which is not reflected by the Bureau operating expense figures for 1940. Table A in the Appendix presents information on the interest rates which stores of various sizes were obliged to pay on short-term and long-term borrowing. The data clearly show that in 1940 large firms were able to procure their short-term loans at considerably less expense than the small and medium-size stores incurred. The rates on long-term loans also were lower for large than for small firms, suggesting that large firms not only are arranging new loans at favorable rates but have been able to refund past loans at relatively low rates of interest.

This particular advantage of the large companies is not shown by the common figures for expense. Since 1929 the Bureau has excluded actual interest charges from operating expense and substituted an imputed charge of 6% on selected assets, a figure which, of course, is credited to net other income, while interest actually paid is debited, in order to arrive at net gain, or final net business profit. This practice is in conformity with the recommendations of the Controllers' Congress of the National Retail Dry Goods Association in the Expense Manual of 1928. The reason underlying the imputed charge can be justified readily. All firms, whether they borrow money or use their own capital in the business, have experienced a cost in the form

either of actual outlay, on the one hand, or of failure to secure income from funds potentially available for investment, on the other. In 1928, the 6% rate appeared to be a fair one to establish for department stores throughout the country as a whole. Since that time, however, interest rates have declined notably.

From time to time there has been discussion with the officers of the Controllers' Congress in regard to the possible desirability of scaling down the standard rate to be used in arriving at imputed interest on investment. Thus far, however, in order to maintain comparability with the past, as well as with the departmental operating data published by the Controllers' Congress, it has been thought desirable to maintain the 6% rate, clearly indicating the nature of the charge. Nevertheless, from the data in Table A, meagre though they are, it is quite apparent that large users of capital can secure funds at rates considerably lower than 6%. Hence, in view of the way in which this imputed interest charge is handled by the Bureau, the total expense figures presented may be progressively overstated for stores in successive volume groups.

Net Earnings Favorable for All except the Smallest Stores

Net profit or loss, in the narrow sense of the difference between gross margin and total expense including interest, ranged from a loss of 1.7% of sales, typical for the smallest stores, to a profit of 2.0%, typical for stores with sales of \$2,000,000 to \$4,000,000. Final net gains, or business profits, were common for all stores, the highest earnings, 5% of sales, being reported for stores with sales of from \$2,000,000 to \$10,000,000. These earnings, both in dollars and in percentages of sales, were higher than those characteristic of 1939, since the rise in dollar gross margin exceeded the increases in dollar operating costs. Percentage-wise, the improvement in profit showing was almost wholly attributable to the lowered expense ratios.

Although, broadly speaking, the earnings ratios of large stores tended to be somewhat more favorable than those of small stores, there were no significant regularities in the relationship at any point beyond the \$500,000 mark in sales; in fact, the net gain percentages for the \$500,000 to \$750,000 group were only a shade inferior to those of the stores with sales over \$10,000,000, and the best profit performance of any group was that of the \$2,000,000 to \$4,000,000 stores.

There was evidence that the stores in the smallest volume group lost ground to some extent in 1940. This was the only volume group to suffer a decline in the earnings ratio in comparison with 1939. Further confirmation of this unfavorable trend was found in a special tabulation of the figures for the 35 identical firms in this group reporting for both 1939 and 1940. For these concerns the increase in sales was slightly less than the common figure; gross margin was a trifle lower in 1940 than in 1939; and total expense was a little higher.

Benefits of Unusual Sales Increases

Current reports covering the first half of 1941 indicate expanding department store sales in many cities, particularly those where numerous manufacturers have government defense contracts. While the 1940 operating data do not appear to have been greatly influenced by this defense spending, throughout the volume range there were 93 companies which experienced sales increases equalling more than 10% of their 1939 business. Figures for these 93 firms were surveyed and the following tendencies noted: these firms were likely to have lower pay rolls, lower real estate costs, lower advertising outlays, and consequently lower total expense rates than were normal for firms of corresponding sizes; notable, also, was a well-defined tendency for relatively rapid stock-turn rates and low mark-downs; associated with these advantages were slightly lower-than-normal gross margin ratios and higher-than-normal profits.

Goal Figures Show Better Profits Resulting from Lower Costs

In conformity with the practice of previous years, goal figures showing the typical operating percentages of firms having unusually high profits are presented in Tables 5, 9, and 13, pages 13, 20, and 24. The original purpose of the Bureau in initiating the presentation of figures of this type was to set up a sort of par score or attainable standard of performance. For 1940, as has commonly been true in the past, the more satisfactory profit showing of the firms represented in these goal groups was primarily a consequence of their lower expense percentages.

Ideally, of course, the goal figures should represent standards of efficiency attainable by good management without reference to differences in external conditions; but differences in external conditions beyond the control of management

always exist, and for 1940 it seemed to the Bureau that external factors might well provide the explanation for some of the differences observed in the goal figures as compared with the common figures for the corresponding volume groups. For instance, where were these more successful firms located? Did they benefit from increasing consumer incomes to a greater extent than concerns situated elsewhere? As a basis for examination of this question, reference was made to twelve regional income indexes published by *Business Week*.¹ These indexes disclosed that, since the end of 1936, income in Federal Reserve Districts 1, 2, and 3 (Boston, New York, and Philadelphia) has been less than was normal for the entire United States. In contrast, income for Districts 5, 6, 11, and 12 (Richmond, Atlanta, Dallas, and San Francisco) was better than for the entire United States. Four districts had income trends which were fairly similar to the nationwide average. These were Districts 4, 7, 8, and 9 (Cleveland, Chicago, St. Louis, and Minneapolis). For District 10 (Kansas City) income was consistently low in 1939 and 1940. These data suggested that four regions should be distinguished: (1) the Northeast, (2) the South and Far West, (3) the North Central section, and (4) the Kansas City farm area. Next, the location of goal firms and all reporting firms was tabulated for these four regions.

This tabulation revealed that the 119 goal firms were somewhat more predominantly located in the South and Far West than was true for the entire group of 429 concerns represented in the study. In the North Central, or normal income region, the distribution of the high-profit or goal firms was proportionately the same as the distribution of all the reporting stores. In the Northeast, however, and again in the Kansas City region, representation in the goal group was proportionately lower than for all the reporting stores.² Although there were some exceptions to this general rule,

¹ November 23, 1940, and current issues.

² The distribution of the firms by regions was as follows:

Federal Reserve District	All Firms Reporting		Goal Firms	
	Number	% of Total	Number	% of Total
Boston, New York, Philadelphia	128	29.8%	28	23.5%
Richmond, Atlanta, Dallas, San Francisco	125	29.1	41	34.5
Cleveland, Chicago, St. Louis, Minneapolis	139	32.4	39	32.8
Kansas City	26	6.1	5	4.2
Outside United States	11	2.6	6	5.0
	429	100.0%	119	100.0%

especially in the groups of stores with sales between \$1,000,000 and \$4,000,000, the general conclusion seems warranted that favorable external conditions are partly responsible for the better profit performance of some of the goal firms in 1940.

In view of the comparisons made in a later section of the bulletin (see Tables 14, 15, 16, and 17, pages 25 to 29), a second important contributory factor to the better profit performance of the goal firms may have been the size of city in which they were located. It may be noted from the population data in the goal tables (Tables 5 and 9, pages 13 and 20) that in almost every instance the typical size of city was somewhat smaller for the goal firms than that common for the entire volume group. This does not mean that the goal firms were in extraordinarily small cities in relation to their volume but rather that they were outstanding stores in their particular communities and were securing the advantages of fairly large volume for such centers.

Comparison of the figures in Tables 4 and 5 shows that, for the most successful companies, sales for 1940 usually were 7% or 8% above the 1939 level, whereas for the respective general volume groups the corresponding rise commonly was between 5% and 7%. Relatively large increases in the number of gross sales transactions also were reported by firms in the goal groups. These data, of course, are related to the factor of location previously mentioned. Nevertheless, the fact that such gains were not shared by all the stores in these localities suggests that skill in management continued to be an important differentiating factor.

For instance, the goal firms with sales of \$1,000,000 to \$20,000,000 apparently were able to achieve a higher scale of employee productivity. The figures for dollar sales per employee and number of transactions per employee were relatively high. Consequently, these goal firms had lower pay roll percentages. It also is clear that the medium-size and large goal firms achieved higher-than-normal sales per square foot. With this more effective use of space, percentage real estate costs for these stores were in most cases below the common figures. This advantage, however, was not entirely attributable to greater space productivity, since lower-than-usual real estate costs per square foot were indicated for the firms in several of the goal groups where the data were available. Quite possibly these favorable occupancy cost conditions were associated with the

size of the cities in which the goal firms tended to be situated.

The successful firms of all sizes incurred lower-than-average expense percentages for advertising, service purchased, and insurance. Other expense classifications for which the goal figures were likely to be lower than the common figures included interest, supplies, communication, unclassified, and professional services. An explanation of the lower interest costs was obviously afforded by the relatively rapid rates of stock-turn characteristic of the goal firms, a further indication of superior management. In general, then, the goal firms secured their favorable earnings primarily through economical operation. Their total expense rates were lower than normal by from 1.4% to 5.0% of net sales. At the same time they were able to attain somewhat higher-than-typical rates of gross margin.

Functional Classification of Expense

The lower part of Table 6 and Tables 10, 11, 12, and 13, pages 17, and 21 to 24, show expense data classified according to the functional and subfunctional divisions. These figures are available only for the moderate-size and large stores, those with sales of \$500,000 or more. The smaller stores usually do not classify their expenses by functions.

As in other years, the most marked difference among the several volume groups appeared for the delivery function, the cost of which was approximately four times as great in percentage of sales for the stores with sales over \$20,000,000 as for the stores with sales between \$500,000 and \$750,000. Above the \$750,000 sales mark, variations in the buying, merchandising, and publicity expense were relatively small. Nevertheless, the largest stores incurred somewhat lower percentage expense for both these functions than did the other stores with sales of \$1,000,000 to \$20,000,000. Occupancy expense tended to be slightly higher for the large concerns reflecting the higher rental rates in relation to achieved sales and the heavier operating and housekeeping charges which were associated with large plants.

Outlays in the administrative and general division, however, were lower percentage-wise for the large stores. One of the reasons for this situation may be noted in tracing the item of executive compensation through Tables 10, 11, and 12 (which present a more detailed breakdown of expenses according to natural and functional divisions).

Table 6. Common Figures for Expense by Natural and Functional Divisions for Department Stores: 1940
(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.....	1	12†	14	28†	24†	53†	56†	60†	26†	13†
Giving Other Data.....	48†	43†	39†	47†	32†	61†	58†	62†	26†	13†
Aggregate Sales (in thousands) ..	\$5,995	\$10,467	\$14,294	\$49,310	\$25,265	\$78,783	\$146,165	\$389,702	\$361,435	\$461,470
Typical Net Sales (in thousands) ..	\$85	\$235	\$360	\$545	\$785	\$1,270	\$2,400	\$5,600	\$13,800	\$27,000
Change in Sales (1940/1939).....	102.0	105.5	104.0	106.3	106.7	105.0	106.5	106.0	107.0	106.5
Population of City (in thousands) ..	10	20	30	45	60	85	185	400	950	2,100
Population (interquartile range— in thousands).....	5-15	13-26	19-40	31-67	44-68	54-156	106-308	264-663	453-2,698	1,497-3,385
NATURAL DIVISIONS										
Total Pay Roll.....	16.8%	17.0%	17.5%	17.35%	17.35%	17.55%	16.8%	17.25%	18.15%	17.7%
Real Estate Costs ¹	3.9	3.8	3.1	3.85	4.3	3.75	4.1	4.25	4.3	5.1
Newspaper Advertising.....	*	*	2.2†	2.2†	2.8	2.9	3.05	3.2	3.2	3.0
Direct Advertising.....	*	*	0.15†	0.1†	0.1†	0.2†	0.15	0.2	0.25	0.25
Other Advertising.....	*	*	0.35†	0.3†	0.3	0.3	0.25	0.25	0.2	0.2
Total Advertising (subtotal)	1.9	2.5	(2.7)	(2.6)	(3.2)	(3.4)	(3.45)	(3.65)	(3.65)	(3.45)
Taxes ¹	1.25	1.05	1.15	1.15	1.1	1.15	1.2	1.15	1.2	1.15
Interest ²	2.8	2.35	2.3	2.0	2.0	2.0	2.0	2.0	1.9	1.7
Supplies.....	1.05	1.15	1.4	1.65	1.75	1.75	1.8	1.95	1.95	1.8
Service Purchased.....	1.15	1.1	1.05	1.15	1.25	1.2	1.15	1.3	1.45	1.6
Losses from Bad Debts.....	0.25	0.3	0.3	0.2	0.25	0.25	0.15	0.15	0.2	0.2
Other Unclassified.....	0.8†	0.7	0.8	0.9	0.8	0.8	0.85	0.85	0.9	1.1
Travelling.....	0.35	0.3	0.45	0.4	0.35	0.4	0.4	0.4	0.3	0.15
Communication.....	0.55	0.5	0.55	0.55	0.55	0.5	0.5	0.55	0.55	0.55
Repairs.....	0.2†	0.25	0.3	0.4	0.5	0.45	0.4	0.45	0.45	0.5
Insurance ²	0.5	0.5	0.45	0.4	0.35	0.35	0.3	0.3	0.25	0.2
Depreciation ²	0.45	0.5	0.5	0.8	0.7	0.65	0.65	0.7	0.7	0.7
Professional Services ¹	0.35†	0.4	0.45	0.5	0.55	0.5	0.55	0.55	0.45	0.5
Total Expense.....	32.3%	32.4%	33.0%	33.9%	35.0%	34.7%	34.3%	35.5%	36.4%	36.4%
FUNCTIONAL DIVISIONS										
Administrative and General										
Acctg. Office, Accts. Rec., and Credit.....	*	*	*	2.5%†	2.7%	2.6%	2.35%	2.25%	2.3%	2.1%
Exec. and Other Admin. and General.....	*	*	*	6.1†	5.55	5.95	5.7	5.65	5.55	5.35
Total Admin. and General....	*	*	*	8.6%	8.25%	8.55%	8.05%	7.9%	7.85%	7.45%
Occupancy										
Operating and Housekeeping ..	*	*	*	1.55%	1.6%	1.55%	1.45%	1.65%	2.0%	1.9%
Real Estate Costs ¹	*	*	*	3.85	4.3	3.75	4.1	4.25	4.3	5.1
Fixtures and Equip. Costs....	*	*	*	1.2	1.0	0.85	0.9	0.95	0.95	0.85
Heat, Light, and Power.....	*	*	*	1.05	1.0	0.9	0.8	0.75	0.7	0.6
Total Occupancy.....	*	*	*	7.65%	7.9%	7.05%	7.25%	7.6%	7.95%	8.45%
Publicity										
Sales Prom. and Gen. Adv.....	*	*	*	3.2%	3.7%	4.05%	4.15%	4.45%	4.35%	4.1%
Display.....	*	*	*	0.65	0.7	0.65	0.55	0.55	0.55	0.5
Total Publicity.....	*	*	*	3.85%	4.4%	4.7%	4.7%	5.0%	4.9%	4.6%
Buying and Merchandising										
Mdse. Management & Buying ..	*	*	*	3.2%	3.75%	3.8%	3.8%	4.0%	3.85%	3.5%
Receiving and Marking.....	*	*	*	0.35	0.5	0.5	0.5	0.5	0.55	0.55
Total Buying and Mdsing.	*	*	*	3.55%	4.25%	4.3%	4.3%	4.5%	4.4%	4.05%
Direct and General Selling.....	*	*	*	9.6%	9.2%	8.95%	8.7%	8.95%	9.4%	9.4%
Delivery.....	*	*	*	0.65	1.0	1.15	1.3	1.55	1.9	2.45
Total Expense.....	32.3%	32.4%	33.0%	33.9%	35.0%	34.7%	34.3%	35.5%	36.4%	36.4%

* 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.

Table 7. Common Figures for Pay Roll, Productivity of Personnel, Real Estate Costs, and Productivity of Space for Department Stores: 1940

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.....	3	3	2	16†	13†	33†	35†	50†	25†	12†
Giving Other Data.....	48†	43†	39†	47†	32†	61†	58†	62†	26†	13†
Aggregate Sales (in thousands) ..	\$5,995	\$10,467	\$14,294	\$49,310	\$25,265	\$78,783	\$146,165	\$389,702	\$361,435	\$461,470
Typical Net Sales (in thousands) ..	\$85	\$235	\$360	\$545	\$785	\$1,270	\$2,400	\$5,600	\$13,800	\$27,000
Change in Sales (1940/1939)....	102.0	105.5	104.0	106.3	106.7	105.0	106.5	106.0	107.0	106.5
Population of City (in thousands)	10	20	30	45	60	85	185	400	950	2,100
Population (interquartile range ¹ in thousands).....	5-15	13-26	19-40	31-67	44-68	54-156	106-308	264-663	453-2,698	1,497-3,385
Total Pay Roll ²	16.8%	17.0%	17.5%	17.35%	17.35%	17.55%	16.8%	17.25%	18.15%	17.7%
Pay Roll of Salespeople ²	*	*	*	7.8	7.4	7.1	6.5	6.35	6.1	5.75
Sales/Total Employees.....	*	\$6,300†	\$6,000†	\$5,900†	\$5,800†	\$5,800†	\$6,300†	\$6,700	\$6,900	\$8,000
Sales/Number of Salespeople....	*	\$9,300†	\$8,400†	\$9,200†	\$9,400†	\$10,800†	\$12,200†	\$15,200	\$17,500	\$20,800
Salespeople/Total Employees....	*	68.0%†	71.5%†	64.0%†	62.0%†	54.0%†	51.5%†	44.0%	39.5%	38.5%
Trans./Total Employees.....	*	*	*	3,500†	4,000†	3,000	3,450	3,800	3,150	3,450
Trans./Number of Salespeople..	*	*	*	5,500†	6,500†	5,600	6,700	8,650	8,000	9,000
Average Gross Sale.....	*	*	*	\$1.93	\$1.69	\$2.02	\$2.00	\$1.99	\$2.50	\$2.65
Pay Roll Cost per Transaction ...	*	*	*	31.25¢	27.4¢	33.0¢	31.1¢	31.1¢	39.9¢	40.7¢
Real Estate Costs ^{1, 2}	3.9%	3.8%	3.1%	3.85%	4.3%	3.75%	4.1%	4.25%	4.3%	5.1%
Real Estate Costs/Square Feet of Total Space.....	\$0.37†	*	\$0.44†	\$0.54†	\$0.62†	\$0.57†	\$0.74†	\$0.74	\$0.82	\$1.10
Sales/Sq. Ft. of Total Space....	\$9.50†	*	\$14.00†	\$14.00†	\$14.50†	\$15.20†	\$18.00†	\$17.40	\$19.20	\$21.60
Sales/Sq. Ft. of Selling Space....	*	*	\$20.00†	\$19.50†	\$20.00†	\$23.00†	\$28.50†	\$32.00	\$41.50	\$55.00
Selling Space/Total Space.....	*	*	70.0%†	71.5%†	71.5%†	66.0%†	63.0%†	54.5%	46.5%	39.0%
Trans./Sq. Ft. of Total Space...	*	*	*	8†	*	8†	10†	10	9	9
Trans./Sq. Ft. of Selling Space..	*	*	*	11†	*	12†	16†	18	20	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%.

Whereas executive salaries amounted to 1.7% for stores in the volume group \$500,000 to \$750,000, they required only 0.6% of net sales in the group with sales of \$20,000,000 or more. Other factors contributing to the lower administrative costs incurred by large stores included savings in accounting office pay roll, insurance, and interest charges. As was noted on page 14, the interest expense for large firms may be overstated; hence, the advantage in administrative expense shown for the large firms tends to be understated.

Comparison of the functionally classified common figures in Table 6 with the corresponding goal figures in Table 13 shows that the advantages of the goal firms extended rather generally throughout all the functions, with the exception of the merchandise management and buying and direct and general selling divisions, where these advantages were somewhat less conspicuous.

Both Personnel and Space Productivity Higher in Large Stores

In 1940, as in most of the previous years for which these comparisons have been made, large stores, as indicated in Table 7, above, obtained higher sales per selling employee than did the small stores. Although these large companies had an advantage in the lower salesforce pay roll percentage, nevertheless, their total pay roll cost per transaction was higher than that of the smaller concerns, a reflection, presumably, of more elaborate organization, higher percentage of nonselling employees, and possibly of higher wage rates. Hence, in the expenditure for total pay roll as a percentage of net sales, the large concerns enjoyed no particular advantage over their smaller competitors. Similarly, the large stores, though obtaining much more effective utilization of space

Table 8. Common Figures for Credit Data for Department Stores: 1940
(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.....	3	3	2	16†	13†	33†	35†	50†	25†	12†
Giving Other Data.....	48†	43†	39†	47†	32†	61†	58†	62†	26†	13†
Aggregate Sales (in thousands) ..	\$5,995	\$10,467	\$14,294	\$49,310	\$25,265	\$78,783	\$146,165	\$389,702	\$361,435	\$461,470
Typical Net Sales (in thousands).	\$85	\$235	\$360	\$545	\$785	\$1,270	\$2,400	\$5,600	\$13,800	\$27,000
Change in Sales (1940/1939).....	102.0	105.5	104.0	106.3	106.7	105.0	106.5	106.0	107.0	106.5
Population of City (in thousands).	10	20	30	45	60	85	185	400	950	2,100
Population (interquartile range ¹ in thousands)	5-15	13-26	19-40	31-67	44-68	54-156	106-308	264-663	453-2,698	1,497-3,385
Cash Sales.....										
C. O. D. Sales.....	51.0%†	50.0%†	48.0%†	48.5%†	48.0%†	41.5%	39.0%	35.0%	33.0%	34.0%
Regular Charge Sales.....				2.5†	3.5†	4.5†	5.0	6.5	9.0	10.5
Installment Sales.....	49.0†	50.0†	52.0†	46.0†	43.0†	46.0†	50.0	49.5	48.0	47.0
				3.0†	5.5†	8.0†	6.0	9.0	10.0	8.5
Net Credit Sales = 100%:										
Pay Roll: Accts. Rec. & Cr....	*	*	*	*	*	1.4%†	1.3%	1.2%	1.15%	1.15%
Losses from Bad Debts.....	*	*	*	0.45%†	0.45%†	0.45	0.3	0.3	0.3	0.4
Int. on Accts. Receivable.....	*	*	1.45%†	1.45†	1.5†	1.45	1.5	1.55	1.45	1.45
Average Accts. Rec. Outst. § ..	*	*	24.0†	24.0†	25.0†	24.0	25.0	26.0	24.0	24.0
Returns and Allowances:										
• Percentage of Gross Sales.....	*	*	*	6.6%†	6.5%†	6.7%†	7.4%	9.65%	11.4%	12.65%
Percentage of Net Sales.....	*	*	*	7.1†	6.9†	7.2†	8.0	10.7	12.9	14.5
Average Gross Sale.....	*	*	*	\$1.93	\$1.69	\$2.02	\$2.00	\$1.99	\$2.50	\$2.65

* 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.

in the form of higher sales per square foot than could be obtained by small concerns, nevertheless incurred so much higher real estate costs per square foot that their real estate costs in percentage of net sales were notably higher than those of the small concerns.

Thus, although large-scale operation in the distribution of merchandise at retail affords various opportunities for greater efficiency, it also carries with it certain penalties. If it were possible for a large retail enterprise of the department store type to carry on its activities without an elaborate organization of personnel and a highly specialized division of labor, and if it were also possible for such an enterprise to be located elsewhere than in a congested metropolitan area, some very significant economies would easily be achieved.

Credit Costs Show Little Change

Comparison of the figures in Table 8, above, with the corresponding data in the 1939 report indicates no very significant change in the credit

situation. Installment sales increased somewhat in percentage of total sales as well as in dollars. Nevertheless, the average accounts receivable for the beginning and end of the year (including regular 30-day accounts as well as installment accounts) still continued to amount to roughly a quarter of the annual credit sales for nearly all the volume groups.

The tangible costs of granting credit (including the imputed cost of interest on accounts receivable) still amounted to approximately 3%, or a little more, of net credit sales with some slight advantage evident for the large stores by reason of a lower pay roll percentage for the credit office.

Although the 1940 figures do not show any great increase in the amount of consumer credit being extended by department stores, current trade reports suggest that greater expansion of this form of credit may be taking place in 1941. If and when the need of reducing consumer expenditures in the present emergency becomes more clear-cut, restriction of the stores' present freedom in granting credit may be one of the measures adopted.

Table 9. Goal Figures¹ for Expense by Natural Divisions, Productivity of Space and of Personnel, and Other Data for Department Stores: 1940

(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	1	0	0	7†	3	10†	9†	14†	8†	5†
Giving Other Data	11†	13	10†	16†	10	16†	16†	14†	8†	5†
Aggregate Sales (in thousands) . . .	\$1,507	\$3,271	\$3,688	\$9,110	\$7,721	\$18,845	\$40,816	\$85,072	\$120,449	\$194,472
Typical Net Sales (in thousands) . .	\$75	\$255	\$365	\$550	\$770	\$1,150	\$2,400	\$6,000	\$15,000	\$35,000
Change in Sales (1940/1939)	108.0	108.0	105.0	108.0	107.0	107.0	108.0	108.5	108.5	107.5
Population of City (in thousands) . .	6	21	23	44	55	70	120	275	550	1,900
Population (interquartile range) ² . .	4-8	15-26	15-37	31-62	45-61	38-97	88-160	171-325	380-663	1,497-2,560
Total Pay Roll	15.1%	14.6%	16.9%	15.85%	16.8%	16.0%	15.5%	16.3%	18.1%	17.65%
Real Estate Costs ³	3.2	3.25	2.9	3.5	3.6	3.15	3.7	3.7	3.55	5.1
Newspaper Advertising	*	*	*	2.2†	2.2	2.65	2.4	2.55	2.1	2.2
Direct Advertising	*	*	*	0.0†	0.15†	0.2	0.05†	0.15	0.35	0.2
Other Advertising	*	*	*	0.25†	0.35	0.4	0.15	0.25	0.2	0.2
Total Advertising (subtotal)	1.35	2.35	2.35	(2.45)	(2.7)	(3.25)	(2.6)	(2.95)	(2.65)	(2.6)
Taxes ²	1.1	0.95	1.05	1.0	1.05	1.15	1.25	1.15	1.3	1.25
Interest ⁴	2.05	2.5	2.3	1.85	2.0	1.75	1.8	1.9	1.9	1.6
Supplies	1.0	1.15	1.4	1.4	1.65	1.65	1.65	1.75	1.8	1.85
Service Purchased	1.0	1.05	0.9	0.95	1.05	1.1	0.95	1.2	0.95	1.2
Losses from Bad Debts	0.15†	0.4	0.3	0.25	0.3	0.25	0.15	0.15	0.25	0.05
Other Unclassified	0.7†	0.65†	0.8	0.7	0.75†	0.7	0.55	0.7	1.0	1.05
Travelling	0.3	0.35	0.4	0.35	0.4	0.35	0.35	0.35	0.3	0.25
Communication	0.35	0.55	0.6	0.55	0.5	0.45	0.4	0.5	0.5	0.45
Repairs	0.1†	0.1	0.2†	0.4	0.45	0.4	0.4	0.45	0.6	0.6
Insurance ²	0.45	0.45	0.4	0.35	0.3	0.3	0.25	0.2	0.2	0.15
Depreciation ²	0.3	0.5	0.7	0.8	0.65	0.55	0.5	0.8	0.7	0.65
Professional Services ²	0.15†	0.35†	0.4	0.5	0.5	0.45	0.45	0.6	0.4	0.45
TOTAL EXPENSE	27.3%	29.2%	31.6%	30.9%	32.7%	31.5%	30.5%	32.7%	34.2%	34.9%
Sales/Total Employees	*	*	*	\$6,000†	*	\$6,200†	\$7,300	\$7,100	\$7,200	\$8,000
Sales/Number of Salespeople	*	*	*	\$9,200†	*	\$12,000†	\$14,200	\$17,000	\$19,200	\$20,800
Salespeople/Total Employees	*	*	*	65.0%†	*	52.0%†	51.5%	42.0%	37.5%	38.5%
Trans./Total Employees	*	*	*	*	*	3,700†	4,000	4,100	3,200	3,100
Trans./Number of Salespeople	*	*	*	*	*	7,100†	7,800	9,800	8,500	8,000
Real Estate Costs/Sq. Ft. of Total Space	*	*	*	*	*	\$0.52†	\$0.72	\$0.63	\$0.73	\$1.15
Sales/Sq. Ft. of Total Space	*	*	*	*	*	\$16.50†	\$19.50	\$17.00	\$20.50	\$22.50
Sales/Sq. Ft. of Selling Space	*	*	*	*	*	\$25.00	\$30.00	\$31.00	\$52.00	\$52.50
Selling Space/Total Space	*	*	*	*	*	66.0%†	65.0%	54.5%	39.5%	43.0%
Trans./Sq. Ft. of Total Space	*	*	*	*	*	9	10	10	10	9
Trans./Sq. Ft. of Selling Space	*	*	*	*	*	14	16	18	24	20
Cash Sales	*	*	48.0%†	}50.0%	}48.0%	42.0%	40.0%	35.5%	29.0%	32.0%
C. O. D. Sales	*	*	0.0†							
Regular Charge Sales	*	*	52.0†							
Installment Sales	*	*	*	50.0	52.0	45.0†	52.0	50.5	50.0	52.0
Net Credit Sales = 100%:										
Pay Roll: Accts. Rec. and Cr.	*	*	*	*	*	1.3%†	1.15%	1.05%	0.95%	1.0%
Losses from Bad Debts	*	*	*	*	*	0.45	0.3	0.3	0.35	0.05
Int. on Accts. Receivable	*	*	*	*	1.25%†	1.35	1.4	1.4	1.35	1.15
Average Accts. Rec. Outst. \$	*	*	*	*	20.5†	22.5	23.5	23.5	23.0	19.5
Average Gross Sale	*	*	*	*	*	\$1.87	\$2.03	\$2.05	\$2.45	\$2.96
Change in Trans. (1940/1939)	*	*	*	*	*	103.0	105.0	104.0	106.5	104.0

* 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. † Common figures corresponding to these goal figures will be found in Tables 6, 7, and 8.
 2 See definition in the Appendix. 3 Except on real estate.

Table 10. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$500,000 to \$2,000,000: 1940

(Common Figures; Net Sales = 100%)

Items	28§ Firms with Net Sales of \$500,000 to \$750,000			24§ Firms with Net Sales of \$750,000 to \$1,000,000			53§ Firms with Net Sales of \$1,000,000 to \$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	0.65†	....		0.85†	....		0.75†	....			
Executive . . . . .	....	1.70%		....	1.25%		....	1.60%	
Executive Office . . . . .	....	0.05†		....	0.05†		....	0.10†	
Superintendency & Gen. Store . . . . .	....	0.40	3.90%	....	0.45	3.60%	....	0.45	3.85%
Taxes ¹ . . . . .	....	1.05	1.05	....	1.07	1.07	....	1.07	1.07
Interest on Mdse. and Accts. Rec. . . . .	....	1.70	1.70	....	1.68	1.68	....	1.70	1.70
Supplies	*	*	0.19	*	*	0.19	*	*	0.18			
Losses from Bad Debts	0.20	....	0.20	0.25	....	0.25	0.25	....	0.25
Other Unclassified	*	*	0.41	*	*	0.38	*	*	0.40			
Travelling	*	*	0.04	*	*	0.02†	*	*	0.04			
Communication	*	*	0.52	*	*	0.50	*	*	0.45			
Insurance . . . . .	....	0.34	0.34	....	0.29	0.29	....	0.30	0.30
Professional Services . . . . .	....	*	0.23	....	*	0.26	....	*	0.23
Total	2.50%†	6.10%†	8.60%†	2.70%	5.55%	8.25%†	2.60%	5.95%	8.55%†			
OCCUPANCY:												
	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total
Pay Roll	0.90%	0.00%	0.90%	0.85%	0.00%	0.85%	0.85%	0.05%†	0.90%
Real Estate Costs ¹	3.85%	3.85	4.30	4.30	3.75%	3.75
Taxes on Fixtures and Equip.	0.10†	0.10†	0.02†	0.02†	0.05†	0.05†
Interest on Fixtures and Equip.	0.30	0.30	0.30	0.30	0.20	0.20
Supplies	*	*	*	0.28	*	*	*	0.31	*	*	*	0.26
Service Purchased	*	*	*	1.00	*	*	*	0.90	*	*	*	0.80
Unclassified	*	*	*	0.10	*	*	*	0.08	*	*	*	0.06
Travelling	0.00	0.00	0.00	0.00	0.00	0.00
Repairs	0.35	0.35	0.48	0.48	0.40	0.40
Insurance on Fixt. and Equip.	0.05	0.05	0.03†	0.03†	0.02	0.02
Depreciation on Fixt. and Equip.	0.73	0.73	0.65	0.65	0.60	0.60
Total	1.55%	5.05%†	1.05%	7.65%†	1.60%	5.30%	1.00%	7.90%†	1.55%	4.60%†	0.90%	7.05%†
PUBLICITY:												
	Sales Prom. & Gen. Advtg.	Display	Total	Sales Prom. & Gen. Advtg.	Display	Total	Sales Prom. & Gen. Advtg.	Display	Total			
Pay Roll	0.40%	0.40%	0.80%	0.35%	0.45%	0.80%	0.40%	0.35%	0.75%			
Total Advertising	2.60	....	2.60	3.20	....	3.20	3.40	....	3.40
Supplies	*	*	0.32	*	*	0.35	*	*	0.39			
Unclassified	*	*	0.10†	*	*	0.04	*	*	0.06			
Travelling	*	*	0.00	*	*	0.00	*	*	0.01†			
Communication	0.02†	....	0.02†	0.02†	....	0.02†	0.03†	....	0.03†
Professional Services	0.00	....	0.00	0.00	....	0.00	0.05†	....	0.05†
Total	3.20%	0.65%	3.85%†	3.70%	0.70%	4.40%†	4.05%	0.65%	4.70%†			
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.	2.50%	....		0.65%†	....		0.55%†	....			
Buyers and Assistants . . . . .		....		2.25†	....		2.35†	....			
Other . . . . .		....		0.10†	....		0.25†	....			
Receiving and Marking . . . . .	....	0.30%	2.80%	....	0.40%	3.40%	....	0.45%	3.60%
Supplies	0.02†	0.04	0.06	0.03	0.07	0.10	0.02†	0.06	0.08			
Unclassified	0.01†	0.00	0.01†	0.04†	0.01†	0.05†	0.06†	0.01†	0.07†			
Travelling	0.36	0.00	0.36	0.34	0.00	0.34	0.33	0.00	0.33			
Communication	0.03†	....	0.03†	0.03	....	0.03	0.02	....	0.02
Professional Services ¹	0.29	....	0.29	0.31	....	0.31	0.22	....	0.22
Total	3.20%†	0.35%†	3.55%	3.75%	0.50%†	4.25%†	3.80%	0.50%†	4.30%†			
SELLING:												
	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total			
Pay Roll: Salespeople	7.80%	....		7.40%†	....		7.10%	....			
Floor Supts. and Sec. Mgrs.	0.35†	....		0.30†	....		0.25	....			
Other	0.50†	....		0.65†	....		0.65	....			
Delivery . . . . .	....	0.30%	8.95%	....	0.35%	8.70%	....	0.45%	8.45%
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	0.70	0.11	0.81	0.66	0.13	0.79	0.73	0.13	0.86			
Service Purchased . . . . .	....	0.15	0.15	....	0.35	0.35	....	0.40	0.40
Unclassified	0.25	0.01†	0.26	0.21	0.03†	0.24	0.20	0.02†	0.22			
Travelling	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Repairs . . . . .	....	0.03	0.03	....	0.03	0.03	....	0.05	0.05
Insurance . . . . .	....	0.02	0.02	....	0.02	0.02	....	0.02†	0.02†
Depreciation . . . . .	....	0.05	0.05	....	0.05	0.05	....	0.07	0.07
Total	9.60%	0.65%†	10.25%†	9.20%†	1.00%†	10.20%	8.95%†	1.15%†	10.10%†			
TOTAL EXPENSE	33.9%			35.0%			34.7%					

* 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 11. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$2,000,000 to \$10,000,000: 1940

(Common Figures; Net Sales = 100%)

Items	55 Firms with Net Sales of \$2,000,000 to \$4,000,000			60 Firms with Net Sales of \$4,000,000 to \$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%	.....		0.80%	.....		
Accts. Rec. and Credit.....	0.75	.....		0.70	.....		
Executive.....	.....	1.15%		.....	0.85%	
Executive Office.....	.....	0.05†		.....	0.05	
Superintendency and Gen. Store.....	.....	0.55	3.40%	.....	0.80	3.20%
Taxes ¹.....	.....	1.14	1.14	.....	1.09	1.09
Interest on Mdse. and Accts. Rec.....	.....	1.76	1.76	.....	1.75	1.75
Supplies.....	0.13	0.04	0.17	0.13	0.04	0.17		
Losses from Bad Debts.....	0.15	.....	0.15	0.15	.....	0.15
Other Unclassified.....	0.06	0.35	0.41	0.08	0.39	0.47		
Travelling.....	0.00	0.03	0.03	0.00	0.03	0.03		
Communication.....	0.24	0.21	0.45	0.23	0.25	0.48		
Insurance.....	.....	0.27	0.27	.....	0.25	0.25
Professional Services.....	0.14	0.13	0.27	0.16	0.14	0.30		
Total.....	2.35%†	5.70%†	8.05%	2.25%	5.65%†	7.90%†		
OCCUPANCY:								
	Operating and House-keeping	Fixed Plant and Equipment Costs	Heat, Light, and Power	Total	Operating and House-keeping	Fixed Plant and Equipment Costs	Heat, Light, and Power	Total
Pay Roll.....	0.85%	0.05%	0.90%	0.95%	0.10%†	1.05%
Real Estate Costs ¹	4.10%	4.10	4.25%	4.25
Taxes on Fixtures and Equipment.....	0.04†	0.04†	0.04†	0.04†
Interest on Fixtures and Equipment.....	0.23	0.23	0.26	0.26
Supplies.....	0.14	0.13	0.27	0.14	0.13	0.27
Service Purchased.....	0.03†	0.64	0.67	0.04	0.53	0.57
Unclassified.....	0.06	0.00	0.06	0.06	0.00	0.06
Travelling.....	0.00	0.00	0.00	0.00
Repairs.....	0.37	0.37	0.44	0.44
Insurance on Fixtures and Equipment.....	0.01†	0.01†	0.01	0.01
Depreciation on Fixtures and Equipment.....	0.62	0.62	0.66	0.66
Total.....	1.45%	5.00%	0.80%†	7.25%†	1.65%†	5.20%†	0.75%†	7.60%†
PUBLICITY:								
	Sales Promotion and Gen. Advtg.	Display	Total	Sales Promotion and Gen. Advtg.	Display	Total		
Pay Roll.....	0.40%	0.30%	0.70%	0.40%	0.30%	0.70%		
Advertising.....	3.45	.....	3.45	3.65	.....	3.65
Supplies.....	0.17	0.24	0.41	0.27	0.24	0.51		
Unclassified.....	0.07	0.01†	0.08	0.07	0.01	0.08		
Travelling.....	0.01†	0.00	0.01	0.01	0.00	0.01		
Communication.....	0.03†	.....	0.03†	0.05	.....	0.05
Professional Services.....	0.02†	.....	0.02†	0.01†	.....	0.01†
Total.....	4.15%	0.55%	4.70%	4.45%†	0.55%	5.00%†		
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.....	0.40%	.....		0.55%	.....		
Buyers and Assistants.....	2.50	.....		2.45	.....		
Other.....	0.20†	.....		0.30	.....		
Receiving and Marking.....	.....	0.45%	3.55%	.....	0.45%	3.75%
Supplies.....	0.02	0.06	0.08	0.02	0.05	0.07		
Unclassified.....	0.03	0.00	0.03	0.04	0.00	0.04		
Travelling.....	0.34	0.00	0.34	0.35	0.00	0.35		
Communication.....	0.02	.....	0.02	0.02	.....	0.02
Professional Services ¹	0.28	.....	0.28	0.26	.....	0.26
Total.....	3.80%†	0.50%†	4.30%	4.00%†	0.50%	4.50%†		
SELLING:								
	Direct and General Selling	Delivery	Total	Direct and General Selling	Delivery	Total		
Pay Roll: Salespeople.....	6.50%	.....		6.35%	.....		
Floor Supts. and Sec. Mgrs.....	0.15	.....		0.25	.....		
Other.....	1.05	.....		1.40	.....		
Delivery.....	.....	0.55%	8.25%	.....	0.55%	8.55%
Taxes.....	.....	0.01†	0.01†	.....	0.01	0.01
Interest on Equipment.....	.....	0.01†	0.01†	.....	0.01†	0.01†
Supplies.....	0.77	0.09	0.86	0.82	0.09	0.91		
Service Purchased.....	.....	0.50	0.50	.....	0.75	0.75
Unclassified.....	0.22	0.03	0.25	0.15	0.03	0.18		
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	.....	0.02	0.02
Depreciation.....	.....	0.05†	0.05†	.....	0.04†	0.04†
Total.....	8.70%†	1.30%†	10.00%†	8.95%†	1.55%†	10.50%		
TOTAL EXPENSE.....			34.3%			35.5%		

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

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

‡ 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 12. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$10,000,000 or More: 1940

(Common Figures; Net Sales = 100%)

Items	268 Firms with Net Sales of \$10,000,000 to \$20,000,000			138 Firms with Net Sales of \$20,000,000 or more				
	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.....	0.85%	....		0.75%	....		
Accts. Rec. and Credit.....	0.70	....		0.60	....		
Executive.....	....	0.75%		....	0.60%	
Executive Office.....	....	0.05		....	0.05	
Superintendency and Gen. Store.....	....	0.85	3.20%	....	0.90	2.90%
Taxes ¹.....	....	1.15	1.15	....	1.12	1.12
Interest on Mdse. and Accts. Rec.....	....	1.64	1.64	....	1.50	1.50
Supplies.....	0.12	0.05	0.17	0.11	0.03	0.14		
Losses from Bad Debts.....	0.20	....	0.20	0.20	....	0.20
Other Unclassified.....	0.09	0.44	0.53	0.09	0.55	0.64		
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.....	....	0.20	0.20	....	0.15	0.15
Professional Services.....	0.13	0.12	0.25	0.14	0.17	0.31		
Total.....	2.30%†	5.55%†	7.85%†	2.10%†	5.35%†	7.45%†		
OCCUPANCY:								
	Operating and House-keeping	Fixed Plant and Equipment Costs	Heat, Light, and Power	Total	Operating and House-keeping	Fixed Plant and Equipment Costs	Heat, Light, and Power	Total
Pay Roll.....	1.25%	0.10%	1.35%	1.20%	0.10%	1.30%
Real Estate Costs ¹	4.30%	4.30	5.10%	5.10
Taxes on Fixtures and Equipment.....	0.05†	0.05†	0.02†	0.02†
Interest on Fixtures and Equipment.....	0.24	0.24	0.19	0.19
Supplies.....	0.17	0.09	0.26	0.13	0.13	0.26
Service Purchased.....	0.03	0.53	0.56	0.02	0.36	0.38
Unclassified.....	0.09	0.00	0.09	0.08	0.00	0.08
Travelling.....	0.00	0.00	0.00	0.00
Repairs.....	0.44	0.44	0.47	0.47
Insurance on Fixtures and Equipment.....	0.02	0.02	0.01	0.01
Depreciation on Fixtures and Equipment.....	0.65	0.65	0.64	0.64
Total.....	2.00%†	5.25%†	0.70%†	7.95%†	1.90%	5.95%†	0.60%†	8.45%
PUBLICITY:								
	Sales Promotion and Gen. Advtg.	Display	Total	Sales Promotion and Gen. Advtg.	Display	Total		
Pay Roll.....	0.40%	0.25%	0.65%	0.40%	0.25%	0.65%		
Advertising.....	3.65	....	3.65	3.45	....	3.45
Supplies.....	0.20	0.26	0.46	0.16	0.23	0.39		
Unclassified.....	0.05	0.02	0.07	0.05	0.02	0.07		
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00		
Communication.....	0.06	....	0.06	0.06†	....	0.06†
Professional Services.....	0.01†	....	0.01†	0.00	....	0.00
Total.....	4.35%†	0.55%†	4.90%	4.10%†	0.50%	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%	....		0.70%	....		
Buyers and Assistants.....	2.25	....		2.00	....		
Other.....	0.40	....		0.40	....		
Receiving and Marking.....	....	0.50%	3.80%	....	0.50%	3.60%
Supplies.....	0.02	0.06	0.08	0.02	0.05	0.07		
Unclassified.....	0.03	0.01	0.04	0.03	0.00	0.03		
Travelling.....	0.28	0.00	0.28	0.15	0.00	0.15		
Communication.....	0.02	....	0.02	0.01	....	0.01
Professional Services ¹	0.18	....	0.18	0.20	....	0.20
Total.....	3.85%†	0.55%†	4.40%	3.50%†	0.55%	4.05%†		
SELLING:								
	Direct and General Selling	Delivery	Total	Direct and General Selling	Delivery	Total		
Pay Roll: Salespeople.....	6.10%	....		5.75%	....		
Floor Supts. and Sec. Mgrs.....	0.40	....		0.40	....		
Other.....	1.90	....		2.10	....		
Delivery.....	....	0.75%	9.15%	....	1.00%	9.25%
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	0.87	0.08	0.95		
Service Purchased.....	....	0.90	0.90	....	1.22	1.22
Unclassified.....	0.14	0.02	0.16	0.26	0.04	0.30		
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00		
Repairs.....	....	0.03	0.03	....	0.02	0.02
Insurance.....	....	0.02	0.02	....	0.02	0.02
Depreciation.....	....	0.05	0.05	....	0.05	0.05
Total.....	9.40%†	1.90%†	11.30%†	9.40%†	2.45%	11.85%†		
TOTAL EXPENSE			36.4%			36.4%		

† 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 13. Goal Figures for Pay Roll and Total Expense by Functions for Department Stores: 1940
(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.....	10	8	16†	15†	14†	8†	5†
PAY ROLL							
Administrative and General							
Executive.....	1.0%	1.1%	1.25%	1.05%	0.9%	0.95%	0.55%
Accounting Office.....			0.85	0.8	0.75	0.85	0.75
Accounts Receivable and Credit.....	2.0	2.3	0.7	0.65	0.6	0.65	0.6
Executive Office.....			0.05†	0.45	0.05	0.05	0.05
Superintendency and General Store.....			0.35		0.7	0.8	0.65
Total Administrative and General.....	3.0%	3.4%	3.2%	2.95%	3.0%	3.3%	2.6%
Occupancy							
Operating and Housekeeping.....	0.7%	0.75%	0.8%	0.8%	0.9%	1.25%	1.0%
Heat, Light, and Power.....	0.0	0.0	0.0	0.05†	0.05†	0.1	0.1
Total Occupancy.....	0.7%	0.75%	0.8%	0.85%	0.95%	1.35%	1.1%
Publicity							
Sales Promotion and General Advertising.....	0.35%	0.45%	0.35%	0.3%	0.35%	0.4%	0.4%
Display.....	0.45	0.4	0.35	0.3	0.3	0.25	0.25
Total Publicity.....	0.8%	0.85%	0.7%	0.6%	0.65%	0.65%	0.65%
Buying and Merchandising							
Merchandise Managers and Assistants.....	*	*	0.5%	0.4%	0.65%	0.9%	0.85%
Buyers and Assistants.....	*	*	2.4	2.4	2.4	2.25	1.85
Other Merchandise Management and Buying.....	*	*	0.2†	0.1†	0.35	0.4	0.35
Total Merchandise Management and Buying.....	1.9%	2.5%	3.1%	2.9%	3.4%	3.55%	3.05%
Receiving and Marking.....	0.3	0.3	0.5	0.4	0.4	0.5	0.45
Total Buying and Merchandising.....	2.2%	2.8%	3.6%	3.3%	3.8%	4.05%	3.5%
Direct and General Selling							
Salespeople.....	*	7.65%	6.6%	6.3%	6.1%	5.75%	6.2%
Floor Superintendents and Section Managers.....	*	0.55†	0.2	0.15†	0.2	0.4	0.4
Other.....	*	0.45	0.5	0.85	1.2	1.8	2.25
Total Direct and General Selling.....	8.9%	8.65%	7.3%	7.3%	7.5%	7.95%	8.85%
Delivery.....	0.25	0.35	0.4	0.5	0.4	0.8	0.95
Total Pay Roll.....	15.85%	16.8%	16.0%	15.5%	16.3%	18.1%	17.65%
TOTAL EXPENSE							
Administrative and General							
Accounting Office, Accts. Rec., and Credit.....	*	2.8%†	2.3%	2.2%	2.05%	2.25%	1.75%
Executive and Other Admin. and General.....	*	5.1†	5.4	5.05	5.45	5.7	5.1
Total Administrative and General.....	7.5%	7.9%	7.7%	7.25%	7.5%	7.95%	6.85%
Occupancy							
Operating and Housekeeping.....	1.4%	1.45%	1.4%	1.4%	1.55%	2.1%	1.8%
Real Estate Costs ¹	3.5	3.6	3.15	3.7	3.7	3.55	5.1
Fixtures and Equipment Costs.....	1.15	1.05	0.65	0.75	1.0	0.95	0.75
Heat, Light, and Power.....	1.0†	0.85†	0.85	0.7	0.75	0.65	0.6
Total Occupancy.....	7.05%	6.95%	6.05%	6.55%	7.0%	7.25%	8.25%
Publicity							
Sales Promotion and General Advertising.....	2.8%	3.3%	3.65%	3.05%	3.7%	3.25%	3.3%
Display.....	0.65	0.7	0.65	0.55	0.55	0.55	0.5
Total Publicity.....	3.45%	4.0%	4.3%	3.6%	4.25%	3.8%	3.8%
Buying and Merchandising							
Merchandise Management and Buying.....	2.7%	3.2%	3.8%	3.55%	4.1%	4.15%	3.5%
Receiving and Marking.....	0.3	0.35	0.55	0.45	0.45	0.55	0.5
Total Buying and Merchandising.....	3.0%	3.55%	4.35%	4.0%	4.55%	4.7%	4.0%
Direct and General Selling							
Delivery.....	9.4%	9.4%	8.1%	8.0%	8.25%	9.0%	10.0%
Total Expense.....	30.9%	32.7%	31.5%	30.5%	32.7%	34.2%	34.9%

* 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.

¹ See definition in the Appendix.

SECTION III

OPERATING RESULTS OF DEPARTMENT STORES AS AFFECTED BY SIZE OF CITY

The importance of size of city as a factor both contributing to store volume and exerting a potent influence on operating costs has been suggested in Section II. Table 14, below, summarizes the location of reporting firms of the ten volume groups according to eight population classes. Clearly, the volume achieved depends on the potential number of customers to be served; stores with sales of more than \$4,000,000 were found only in cities with population of 100,000 or more, while the smallest reporting stores usually were located in cities with population of 15,000 or less.

In each volume group there were one or more size-of-city classes in which enough firms were situated to make it possible to prepare common figures. (The figures in parentheses in Table 14 indicate the groups which were too small for tabulation.) Thus, the influence of the sales volume and size-of-city factor could be segregated. These data, presented in Tables 15 to 17, pages 27 to 29, are common figures developed for stores classified by sales volume groups within size-of-city groups. They are based, it is true, on small samples; but it is believed that the figures are nevertheless significant, particularly for stores with sales of \$1,000,000 or more. Lack of well-defined tendencies in the figures for smaller stores suggests that the effect of variations in size of city may not be pronounced among stores located in cities with population of less than 50,000.

Table 15 deals with selected merchandising statistics, while the two following tables provide

typical natural and functional expense totals. The merchandising figures are a continuation of the series introduced in Bulletin No. 111, covering 1939,¹ while the tabulation of selected expense data on this size-of-city basis is new to these cost reports this year.

In examining these tables it is to be noted that the same ten volume groups used throughout the bulletin run from top to bottom at the left-hand side of each table, while eight size-of-city groups appear across the top of the table, ranging from cities with population under 15,000 to cities with population of 1,000,000 or more. Thus, the effects exclusively associated with the sales-volume factor can be observed by reading down each column from top to bottom, whereas the effects exclusively associated with the size-of-city factor can be ascertained by reading across from left to right.

Large Stores in Smaller Cities Make Best Profits

The most striking story in Table 15, page 27, is told by the net gain percentages. The firms in the 25 groups typically obtained net gains, or net business profits, ranging from 1.1% of net sales to 7.0%. Usually the most favorable results were achieved by the relatively large volume firms in each population class, while the poor records were turned in by firms which were small in relation to the size of the community served.

¹Harvard Business School, Bureau of Business Research, Bulletin No. 111, *Operating Results of Department and Specialty Stores in 1939*, by Malcolm P. McNair, p. 15.

Table 14. Distribution of 427¹ Department Store Reports According to Net Sales Volume and Size of City

Net Sales (in thousands)	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.....	32	7	(1)	(2)	(2)	(2)	..	(1)
\$150-300.....	16	14	7	(2)	(2)	..	..	(2)
\$300-500.....	(5)	11	17	(3)	(1)	(2)	..	..
\$500-750.....	(4)	(3)	21	10	(5)	(1)	(1)	(1)
\$750-1,000.....	(1)	(2)	8	17	..	..	(1)	(1)
\$1,000-2,000.....	(1)	(2)	9	24	15	(5)	(2)	(3)
\$2,000-4,000.....	..	..	(2)	11	23	13	6	(3)
\$4,000-10,000.....	..	..	..	..	12	27	19	(4)
\$10,000-20,000.....	..	..	..	..	..	8	9	9
\$20,000 or more.....	..	..	..	..	..	(1)	(2)	10

¹ The difference between the total of reporting firms listed above and the total reporting data for the study is due to the omission of two consolidated reports covering stores operating in different size-of-city groups.

For instance, the two groups of stores commonly earning 7.0% on net sales were the firms with sales of \$4,000,000 to \$10,000,000 located in cities of 100,000 to 250,000, and the firms with sales of \$2,000,000 to \$4,000,000 operating in cities of 50,000 to 100,000. In each of these situations the firms were the largest stores to be found commonly in cities of these sizes. At the other end of the range were stores with sales of less than \$150,000 located in cities of 15,000 to 25,000 and reporting gains amounting to 1.1% of sales. The next lowest earning rates, 1.5% of sales, were secured by two groups of firms: the stores with sales of less than \$150,000 in cities of less than 15,000 population; and the large stores, obtaining annual volumes of \$10,000,000 to \$20,000,000, in cities with population of 1,000,000 or more. In contrast to the poor results of the latter group of stores was the 4.9% net gain typical for stores similarly located but securing sales of \$20,000,000 or more.

The favorable earnings for firms with relatively large volumes in the four city classifications with population of 100,000 or more were a result partly of the higher rates of margin commonly associated with large dollar volume. From Table 15 it will be noted, in following down the fifth column, that for cities of 100,000 to 250,000 gross margins were 35.5% for stores with sales of \$1,000,000 to \$2,000,000 but were in the vicinity of 37% for stores with sales above \$2,000,000. Similarly, in cities of 500,000 to 1,000,000, summarized in the seventh column, margins typically ranged from 35.9% for the smallest stores in such cities to 38.4% for the largest.

Gross margin appears definitely to be more closely associated with the volume-of-sales factor than it is with the size-of-city factor. On the other hand, the total expense ratio seems to be somewhat more closely associated with the size-of-city factor. Reading across Table 15 from left to right for stores with sales of \$1,000,000 or more, one finds a clear tendency for the total expense percentages to rise progressively from one population class to another. Thus, a firm securing large volume in a moderate-size city may have a double advantage, favorable margin rates arising from large volume and low expenses made possible by location.

For the concerns with sales over \$2,000,000, returns and allowances in percentage of sales manifested some positive correlation with size of city, but it is also true that in all stores with sales above \$1,000,000 in cities of more than 100,000

population there was likewise some positive correlation between the ratio of returns and the volume of sales. Thus, in each population class the highest percentage returns were reported by the largest stores. Whether this situation results from efforts to maintain competitive position, from the diversification of merchandise lines to include more furniture and other home furnishings,¹ from variety within departments leading to customer confusion, or from faulty selling, the problem of returns is a very real one for these large stores.

The rate of stock-turn, also shown in Table 15, appeared to have some positive correlation with sales volume and to be only slightly, if at all, related to the size-of-city factor.

Real Estate Costs, Advertising, and Delivery Higher for Stores in Large Cities

Table 16, page 28, shows common figures by sales volume groups within population groups for total pay roll, real estate costs, advertising, and all other expense. From this table it appears that real estate cost percentages for large stores in 1940 tended to be lower in moderate-size cities than in densely populated districts, where high tax and insurance rates and intense demand for space force up the cost per square foot. This positive correlation between real estate costs and size of city was particularly marked for stores with sales above \$1,000,000. For instance, stores with sales of \$10,000,000 to \$20,000,000 commonly incurred 3.7% for real estate costs in cities of 250,000 to 500,000 population, whereas stores of the same sales volume incurred real estate costs of 5.3% in cities of 1,000,000 or more. There was also evidence of some advantages in real estate costs arising out of location in smaller cities in the case of firms with sales of \$500,000 to \$750,000, \$1,000,000 to \$2,000,000, and \$2,000,000 to \$4,000,000.

The other expenditure which showed the closest relationship with size of city was advertising. In eight of the ten volume groups advertising outlays called for a higher percentage of sales for the firms in the larger cities. For instance, in the \$2,000,000 to \$4,000,000 group the advertising expense ratio was practically twice as high for the stores in cities between 500,000 and 1,000,000 as it was for the stores in the 50,000 to 100,000 population group. On the other hand, reading down the columns, no consistent relation appeared

¹ Departmental figures published by the Controllers' Congress in past years have shown percentage returns on furniture to be high.

between advertising expense and sales volume until the 100,000 population mark was reached; and then in the remaining four large city classes

advertising expenses in 1940 were a lower percentage of sales for the larger stores. Although it rests with store executives to decide the quantity

Table 15. Common Figures for Margin, Expense, and Profit for Department Stores Classified According to Net Sales Volume and Size of City: 1940

(Net Sales = 100%, except where noted)

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	Gross Margin.....	30.4%	31.1%	.....	.....	.....	.....	.....	.....
	Total Expense.....	31.8	32.3	.....	.....	.....	.....	.....	.....
	Net Gain.....	1.5	1.1	.....	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	2.25	2.6	.....	.....	.....	.....	.....	.....
\$150- 300	Gross Margin.....	31.6%	33.2%	33.4%	.....	.....	.....	.....	.....
	Total Expense.....	32.4	31.8	34.4	.....	.....	.....	.....	.....
	Net Gain.....	2.6	4.0	2.9	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	2.6	3.15	2.8	.....	.....	.....	.....	.....
\$300- 500	Gross Margin.....	.....	34.0%	34.3%	.....	.....	.....	.....	.....
	Total Expense.....	.....	33.6	32.9	.....	.....	.....	.....	.....
	Net Gain.....	.....	3.5	3.7	.....	.....	.....	.....	.....
	Rate of Stock-turn.....	.....	3.7	3.4	.....	.....	.....	.....	.....
\$500- 750	Gross Margin.....	.....	.....	35.5%	36.8%	.....	.....	.....	.....
	Total Expense.....	.....	.....	34.1	33.9	.....	.....	.....	.....
	Net Gain.....	.....	.....	4.7	6.5	.....	.....	.....	.....
	Rate of Stock-turn.....	.....	.....	4.0	3.9	.....	.....	.....	.....
	Returns and Allowances.....	.....	.....	7.0%†	7.9%†	.....	.....	.....	.....
\$750- 1,000	Gross Margin.....	.....	.....	35.2%	35.6%	.....	.....	.....	.....
	Total Expense.....	.....	.....	36.2	34.3	.....	.....	.....	.....
	Net Gain.....	.....	.....	4.0	3.8	.....	.....	.....	.....
	Rate of Stock-turn.....	.....	.....	3.95	4.25	.....	.....	.....	.....
	Returns and Allowances.....	.....	.....	*	6.7%†	.....	.....	.....	.....
\$1,000- 2,000	Gross Margin.....	.....	.....	37.1%	36.1%	35.5%	.....	.....	.....
	Total Expense.....	.....	.....	34.4	34.6	35.0	.....	.....	.....
	Net Gain.....	.....	.....	5.1	4.9	3.7	.....	.....	.....
	Rate of Stock-turn.....	.....	.....	4.05	4.3	4.4	.....	.....	.....
	Returns and Allowances.....	.....	.....	8.8%†	6.6%†	6.0%†	.....	.....	.....
	Size of Sale.....	.....	.....	*	\$1.87†	\$1.92†	.....	.....	.....
\$2,000- 4,000	Gross Margin.....	.....	.....	.....	35.6%	37.1%	36.9%	35.9%	.....
	Total Expense.....	.....	.....	.....	32.0	34.0	35.9	35.8	.....
	Net Gain.....	.....	.....	.....	7.0	5.7	3.9	3.3	.....
	Rate of Stock-turn.....	.....	.....	.....	4.4	4.55	4.4	5.6	.....
	Returns and Allowances.....	.....	.....	.....	7.0%*	7.2%†	8.7%	11.0%	.....
	Size of Sale.....	.....	.....	.....	*	\$2.00†	\$2.10†	\$2.00	.....
\$4,000- 10,000	Gross Margin.....	.....	.....	.....	.....	37.0%	37.0%	37.3%	.....
	Total Expense.....	.....	.....	.....	.....	33.1	34.9	37.3	.....
	Net Gain.....	.....	.....	.....	.....	7.0	5.7	3.8	.....
	Rate of Stock-turn.....	.....	.....	.....	.....	5.05	4.7	4.75	.....
	Returns and Allowances.....	.....	.....	.....	.....	9.4%	10.3%	12.3%	.....
	Size of Sale.....	.....	.....	.....	.....	\$1.94	\$1.94	\$2.32	.....
\$10,000- 20,000	Gross Margin.....	.....	.....	.....	.....	.....	37.0%	38.4%	36.9%
	Total Expense.....	.....	.....	.....	.....	.....	35.2	35.6	38.7
	Net Gain.....	.....	.....	.....	.....	.....	6.0	6.5	1.5
	Rate of Stock-turn.....	.....	.....	.....	.....	.....	5.15	5.55	5.0
	Returns and Allowances.....	.....	.....	.....	.....	.....	11.5%	12.5%	14.5%
	Size of Sale.....	.....	.....	.....	.....	.....	\$2.25	\$2.65	\$2.55
\$20,000 or more	Gross Margin.....	.....	.....	.....	.....	.....	.....	.....	37.6%
	Total Expense.....	.....	.....	.....	.....	.....	.....	.....	36.4
	Net Gain.....	.....	.....	.....	.....	.....	.....	.....	4.9
	Rate of Stock-turn.....	.....	.....	.....	.....	.....	.....	.....	5.8
	Returns and Allowances.....	.....	.....	.....	.....	.....	.....	.....	14.5%
	Size of Sale.....	.....	.....	.....	.....	.....	.....	.....	\$2.70

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

Note: Data for returns and allowances were not available for stores with sales of less than \$500,000, and information concerning the size of sale was lacking for firms with sales of less than \$1,000,000.

of advertising to be used and the media to be employed, advertising rates vary with circulation, and circulation depends directly on population. Hence, for the same quantity of advertising a store of stated sales volume pays a lower per-

centage in a small city than does a store of identical sales volume in a large city. As a corollary, in a large city a store with a large volume of sales incurs a lower advertising expense ratio than does a competitor with smaller sales volume.

Table 16. Common Figures for Selected Expenses for Department Stores Classified According to Net Sales Volume and Size of City: 1940
(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	Total Pay Roll.....	16.9%	16.0%	.....	.....	.....	.....	.....	.....
	Real Estate Costs ¹	3.7	4.0	.....	.....	.....	.....	.....	.....
	Advertising.....	1.9	2.1	.....	.....	.....	.....	.....	.....
	All Other Expense ²	9.3	10.2	.....	.....	.....	.....	.....	.....
	Total Expense.....	31.8%	32.3%	.....	.....	.....	.....	.....	.....
\$150- 300	Total Pay Roll.....	16.8%	16.85%	18.6%	.....	.....	.....	.....	.....
	Real Estate Costs ¹	3.55	4.0	3.75	.....	.....	.....	.....	.....
	Advertising.....	2.0	2.2	3.2	.....	.....	.....	.....	.....
	All Other Expense ²	10.05	8.75	8.85	.....	.....	.....	.....	.....
	Total Expense.....	32.4%	31.8%	34.4%	.....	.....	.....	.....	.....
\$300- 500	Total Pay Roll.....	.....	17.7%	17.3%	.....	.....	.....	.....	.....
	Real Estate Costs ¹.....	.....	3.25	3.15	.....	.....	.....	.....	.....
	Advertising.....	.....	2.7	2.75	.....	.....	.....	.....	.....
	All Other Expense ².....	.....	9.95	9.7	.....	.....	.....	.....	.....
	Total Expense.....	.....	33.6%	32.9%	.....	.....	.....	.....	.....
\$500- 750	Total Pay Roll.....	.....	.....	17.5%	17.6%	.....	.....	.....	.....
	Real Estate Costs ¹.....	.....	.....	3.6	4.1	.....	.....	.....	.....
	Advertising.....	.....	.....	2.5	2.5	.....	.....	.....	.....
	All Other Expense ².....	.....	.....	10.5	9.7	.....	.....	.....	.....
	Total Expense.....	.....	.....	34.1%	33.9%	.....	.....	.....	.....
\$750- 1,000	Total Pay Roll.....	.....	.....	17.7%	16.9%	.....	.....	.....	.....
	Real Estate Costs ¹.....	.....	.....	4.2	4.15	.....	.....	.....	.....
	Advertising.....	.....	.....	2.85	3.15	.....	.....	.....	.....
	All Other Expense ².....	.....	.....	11.45	10.1	.....	.....	.....	.....
	Total Expense.....	.....	.....	36.2%	34.3%	.....	.....	.....	.....
\$1,000- 2,000	Total Pay Roll.....	.....	.....	19.0%	17.7%	16.8%	.....	.....	.....
	Real Estate Costs ¹.....	.....	.....	3.1	3.7	4.2	.....	.....	.....
	Advertising.....	.....	.....	2.85	3.25	3.5	.....	.....	.....
	All Other Expense ².....	.....	.....	9.45	9.95	10.5	.....	.....	.....
	Total Expense.....	.....	.....	34.4%	34.6%	35.0%	.....	.....	.....
\$2,000- 4,000	Total Pay Roll.....	.....	.....	.....	16.4%	16.9%	17.1%	16.4%	.....
	Real Estate Costs ¹.....	.....	.....	.....	4.0	4.0	4.2	4.3	.....
	Advertising.....	.....	.....	.....	2.7	3.2	4.0	5.1	.....
	All Other Expense ².....	.....	.....	.....	8.9	9.9	10.6	10.0	.....
	Total Expense.....	.....	.....	.....	32.0%	34.0%	35.9%	35.8%	.....
\$4,000- 10,000	Total Pay Roll.....	.....	.....	.....	.....	16.5%	17.0%	17.95%	.....
	Real Estate Costs ¹.....	.....	.....	.....	.....	4.3	3.95	4.4	.....
	Advertising.....	.....	.....	.....	.....	2.85	3.65	4.15	.....
	All Other Expense ².....	.....	.....	.....	.....	9.45	10.3	10.8	.....
	Total Expense.....	.....	.....	.....	.....	33.1%	34.9%	37.3%	.....
\$10,000- 20,000	Total Pay Roll.....	.....	.....	.....	.....	.....	18.0%	18.3%	17.95%
	Real Estate Costs ¹.....	.....	.....	.....	.....	.....	3.7	3.9	5.3
	Advertising.....	.....	.....	.....	.....	.....	2.95	3.45	4.6
	All Other Expense ².....	.....	.....	.....	.....	.....	10.55	9.95	10.85
	Total Expense.....	.....	.....	.....	.....	.....	35.2%	35.6%	38.7%
\$20,000 or more	Total Pay Roll.....	.....	.....	.....	.....	.....	.....	.....	17.7%
	Real Estate Costs ¹.....	.....	.....	.....	.....	.....	.....	.....	5.05
	Advertising.....	.....	.....	.....	.....	.....	.....	.....	3.5
	All Other Expense ².....	.....	.....	.....	.....	.....	.....	.....	10.15
	Total Expense.....	.....	.....	.....	.....	.....	.....	.....	36.4%

¹ See definition in the Appendix.

² Including interest on selected assets.

Table 17. Common Figures for Functional Divisions of Expense for Department Stores Classified According to Net Sales Volume and Size of City: 1940
(Net Sales = 100%)

Net Sales (in thousands)	Items	Population Groups (in thousands)				
		50- 100	100- 250	250- 500	500- 1,000	1,000 or more
\$2,000- 4,000	Total Administrative and General.....	7.9%	8.05%	8.4%	8.5%	.....
	Total Occupancy.....	6.8	7.0	7.4	7.4	.....
	Total Publicity.....	3.9	4.55	5.2	6.2	.....
	Total Buying and Merchandising.....	4.0	4.2	4.7	3.7	.....
	Total Selling.....	8.5	9.0	8.8	8.3	.....
	Total Delivery.....	0.9	1.2	1.4	1.7	.....
\$4,000- 10,000	Total Administrative and General.....	.....	7.6%	7.7%	8.4%	.....
	Total Occupancy.....	.....	7.5	7.7	7.9	.....
	Total Publicity.....	.....	4.0	5.0	5.5	.....
	Total Buying and Merchandising.....	.....	4.55	4.45	4.3	.....
	Total Selling.....	.....	8.35	8.6	9.2	.....
	Total Delivery.....	.....	1.1	1.45	2.0	.....
\$10,000- 20,000	Total Administrative and General.....	.....	.....	8.05%	8.0%	7.8%
	Total Occupancy.....	.....	.....	7.6	7.2	9.0
	Total Publicity.....	.....	.....	4.1	4.5	6.2
	Total Buying and Merchandising.....	.....	.....	4.5	4.6	4.1
	Total Selling.....	.....	.....	9.45	9.45	9.3
	Total Delivery.....	.....	.....	1.5	1.85	2.3
\$20,000 or more	Total Administrative and General.....	.....	.....	.....	.....	7.25%
	Total Occupancy.....	.....	.....	.....	.....	8.4
	Total Publicity.....	.....	.....	.....	.....	4.6
	Total Buying and Merchandising.....	.....	.....	.....	.....	4.0
	Total Selling.....	.....	.....	.....	.....	9.65
	Total Delivery.....	.....	.....	.....	.....	2.5

It is interesting to observe from Table 16 that total pay roll, which is by all odds the most important type of outlay in a retail business, apparently displayed no consistent variations in 1940 either in relation to sales volume or in relation to size of city.

Table 17, above, shows the functional expense totals grouped according to the same cross classification by sales volume and size of city, figures being available only for stores with sales above \$2,000,000 situated in cities with population over 50,000. Naturally, the total occupancy and total publicity figures followed the same patterns as described in the preceding paragraphs for real estate costs and advertising. An additional advantage of a small city location appeared, as might be expected, in the delivery function. Total delivery costs showed a positive correlation with size of city but exhibited no definite relation to volume of sales. In the \$2,000,000 to \$4,000,000 group, for instance, and again in the \$4,000,000 to \$10,000,000 group, total delivery expense was nearly twice as high a percentage in the large cities as in the smaller communities.

In this connection it should be recalled that returns and allowances, as shown in Table 15, also varied directly with size of city for all firms

with sales of \$2,000,000 or more. Thus, an expense already made high in large cities by difficulties inherent in slow transportation in thickly settled districts and by extensive suburban coverage doubtless was magnified by the duplication of service required by returned goods.

The foregoing discussion of the 1940 figures, based on the effort to segregate the effects of volume of sales and the effects of size of city, corroborates the conclusions drawn by Miss Elizabeth A. Burnham, who initiated this analysis in an article in the *Harvard Business Review*.¹

Department store operating expense, an important basic factor in the final retail price of department store merchandise, tends to vary directly with the population of the city in which the store is located.

There is apparently a minimum sales level within each size of city below which it is difficult for a firm to operate effectively. Firms which fail to secure this minimum requisite volume have little chance for business profits for themselves or for savings which they can pass on to customers in the form of lowered merchandise markup.

In each size of city it is the firms with the largest sales volumes which have the most favorable operating expense percentages and the greatest opportunity for reasonable profits.

¹ Burnham, Elizabeth A., "The Department Store in Its Community," *Harvard Business Review*, Vol. XVIII, No. 4, Summer, 1940, pp. 470-471.

SECTION IV

SPECIALTY STORES

There were 90 specialty stores reporting to the Bureau for 1940. Figures for these stores are presented in this section of the bulletin. These stores conformed generally to the definition of departmentized specialty stores, that is, stores with a departmental form of organization specializing in the sale of women's wearing apparel and related accessories; this definition essentially excludes apparel chains and small nondepartmentized apparel shops. Tables 18 through 23, pages 31 to 36, present common and goal figures for specialty stores in seven volume groups running from sales of less than \$150,000 to sales of \$4,000,000 or more. It is obvious, of course, that since the number of stores in each of these groups is relatively small the figures do not have the same reliability for comparative purposes as do the corresponding figures for department stores.

Margins and Expenses Higher Than in Department Stores, but Earnings Lower

Although specialty store profits improved in 1940 as compared with 1939, this type of enterprise did not make so good a profit showing as did department stores. Comparison of Table 18 with Table 4, page 12, shows that gross margins were generally higher in specialty stores than in department stores, by reason of such factors as higher initial mark-up, lower rate of transportation costs, larger cash discounts, and lower stock shortages. Weighting the balance in the opposite direction were higher mark-downs. As between small and large specialty stores there was decidedly less variation in the gross margin figure than characteristically appears for department stores of different sales volumes. The rate of stock-turn, as might be expected, was substantially more rapid for specialty stores than for department stores.

Comparison of the expense figures in Table 19 with the corresponding figures for department stores in Table 6, page 17, reveals generally higher percentages for specialty stores with differences particularly observable in real estate costs, advertising, service purchased, and traveling. Among the functional divisions of expense (figures were available for specialty stores with sales of \$500,000 and up only), administrative and general, occupancy, publicity, and buying and merchandising all tended to be higher for specialty

stores than for department stores. On the other hand, direct and general selling and delivery were lower. There were few variations in specialty store expense rates in relation to sales volume; the percentage cost of doing business for a store with sales of \$370,000 was only slightly lower than that for a store with sales over \$6,000,000. Such a small variation is in distinct contrast to the situation among department stores.

Possible Explanations of Poorer Comparative Showing of Specialty Stores

Reasons why specialty stores did not equal the performance of department stores in 1940 may perhaps lie in two categories, competition and location.

It is noticeable that specialty stores with sales of \$500,000 or more did not obtain so large sales increases in 1940 over the preceding year as did department stores. Also, among specialty stores, the greatest sales increases were those exhibited by firms with sales under \$500,000. Larger specialty stores evidently found the going more difficult. Quite plausibly the explanation lies in increased competition. The retail census for 1939 reveals an increase in the proportion of ready-to-wear business handled by chains. It also reveals, for certain localities at any rate, an increase in the number of ready-to-wear stores in suburban and outlying cities. Specialty stores, with their dependence on a limited line of merchandise, are perhaps somewhat more vulnerable to this form of competition than are department stores with their much greater variety of goods under one roof. This chain and suburban shop competition has been rising during the past decade, and it is perhaps significant that for a substantial number of specialty stores, particularly in the \$2,000,000 to \$4,000,000 group, which have been reporting regularly to the Bureau over the last 11 years or more, sales for 1940 were still very considerably below the 1930 level, in several instances by as much as 20% to 30%. This showing could not be attributed primarily to lower prices, for the Fairchild ready-to-wear price index, on the basis of January, 1931, as 100, averaged 91.2 for the year 1940.

With respect to expense, specialty stores may be expected to have higher outlays for some items

than do department stores. For example, the greater need of frequent trips to market in the case of specialty stores augments their travelling expense. Likewise, specialty stores have higher merchandise returns, a circumstance which increases operating expenses in many ways, both tangible and intangible. On the other hand, specialty stores have lower delivery expense, and their faster rate of stock-turn reduces the incidence of merchandise carrying charges. Accompanying a considerably higher average gross sale in specialty stores, the number of transactions per employee naturally is much smaller than in department stores, with the result that the general

over-all productivity of the personnel is much the same.

Perhaps the most significant points at which specialty store expenses are higher than those of department stores are real estate costs and advertising. Here the explanation lies not so much in the nature of the business as in the relative sizes of cities in which specialty stores predominantly are located. Comparing the population data in Table 18 with the corresponding figures in Table 4, page 12, for department stores, the reader will note that, size for size, specialty stores are located in very considerably larger cities than are department stores. The departmentized spe-

Table 18. Common Figures for Merchandising Operations and Profits for Specialty Stores: 1940
(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.....	14†	15†	11	14†	10†	16†	10†
Aggregate Sales (in thousands).....	\$1,010	\$3,361	\$4,176	\$15,192	\$14,342	\$38,122	\$88,643
Typical Net Sales (in thousands).....	\$70	\$195	\$370	\$640	\$1,350	\$2,300	\$6,300
Change in Sales (1940/1939).....	104.0	110.6	107.8	105.3	104.3	102.5	104.6
Population (interquartile range ¹ — in thousands).....	13-68	49-101	61-101	105-770	206-854	490-1,619	770-7,380
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ¹	*	*	*	39.2%	39.45%	39.4%	39.2%
Mark-downs.....	*	*	*	7.9%	8.65%	7.8%	6.9%
Discounts to Employees and Others.....	*	*	*				
Stock Shortages.....	*	*	*	0.4	0.55	0.6	0.65
Total Retail Reductions.....	*	*	*	8.3%	9.2%	9.2%	8.6%
Inward Freight, Express, and Truckage.....	1.15%	0.9%†	0.75%	0.85%	0.6%†	0.4%†	0.45%†
Alteration and Workroom Costs (Net).....	1.0†	0.9†	0.7	1.25	0.6	0.6	0.55
Cash Discounts Received on Purchases (percentage of sales).....	4.6	4.5	4.05	4.2	4.1	4.3	4.3
Gross Margin.....	34.2	35.6	36.7	37.1	37.4	37.5	37.7
Total Merchandise Costs (Net).....	65.8%	64.4%	63.3%	62.9%	62.6%	62.5%	62.3%
Total Expense.....	33.0	35.6	36.0	36.7	37.0	37.7	37.0
TOTAL COST.....	98.8%	100.0%	99.3%	99.6%	99.6%	100.2%	99.3%
NET PROFIT OR LOSS.....	1.2%	0.0%	0.7%	0.4%	0.4%	L. 0.2%	0.7%
Net Other Income (including interest on capital owned).....	2.3	2.0	2.9	2.7	2.2	2.7	3.0
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales.....	3.5%	2.0%	3.6%	3.1%	2.6%	2.5%	3.7%
Percentage of Net Worth.....	11.0	7.5	8.0	7.0	11.5	8.5	9.6
Federal Tax on Income.....	*	0.3%	*	0.5%	0.7%†	0.6%	1.0%
Percentage of Firms:							
Earning Some Net Profit.....	64.3%	53.3%	45.5%	57.1%	60.0%	37.5%	70.0%
Earning Some Net Gain.....	92.9	73.3	100.0	85.7	100.0	81.3	80.0
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories.....	4.5	6.7	6.0	5.25	6.3	6.5	6.75
Based on Monthly Inventories.....	*	4.8†	4.4†	4.1	5.35	5.7	5.3

* 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.

cialty apparel store is essentially a metropolitan institution. In large metropolitan centers such a store encounters high real estate costs and high advertising rates, and yet it commonly does not

Table 19. Common Figures for Expense by Natural and Functional Divisions for Specialty Stores: 1940
(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.....	1	0	1	10†	8†	16†	10†
Giving Other Data.....	14†	15†	11	14†	10†	16†	10†
Aggregate Sales (in thousands).....	\$1,010	\$3,361	\$4,176	\$15,192	\$14,342	\$38,122	\$88,643
Typical Net Sales (in thousands).....	\$70	\$195	\$370	\$640	\$1,350	\$2,300	\$6,300
Change in Sales (1940/1939).....	104.0	110.6	107.8	105.3	104.3	102.5	104.6
Population (interquartile range ¹ — in thousands).	13-68	49-101	61-101	105-770	206-854	490-1,619	770-7,380
NATURAL DIVISIONS							
Total Pay Roll.....	16.5%	16.6%	17.5%	17.55%	17.9%	17.8%	17.9%
Real Estate Costs ¹	4.5	5.4	4.5	4.7	4.6	5.0	4.8
Newspaper Advertising.....	2.45†	2.7†	*	3.3	3.2	4.1	3.3
Direct Advertising.....	0.15†	0.15†	*	0.4†	0.3†	0.45	0.35
Other Advertising.....	0.3†	0.25†	*	0.5†	0.7	0.2	0.4
Total Advertising (subtotal).....	(2.9)	(3.1)	3.65	(4.2)	(4.2)	(4.75)	(4.05)
Taxes ¹	0.85	1.05	1.15	1.2	1.0	1.05	1.0
Interest ²	2.3	1.85	1.95	2.0	1.7	1.7	1.65
Supplies.....	1.05	1.4	1.2	1.5	1.9	1.75	2.15
Service Purchased.....	1.4	1.45	1.45	1.3	1.2	1.4	1.45
Losses from Bad Debts.....	0.3	0.25	0.35	0.35	0.2	0.2	0.15
Other Unclassified.....	0.8†	0.7	1.1	0.9	1.0	0.85	1.15
Travelling.....	0.65	0.75	0.75	0.55	0.55	0.65	0.3
Communication.....	0.4	0.6	0.65	0.6	0.6	0.6	0.6
Repairs.....	0.15†	0.3†	0.2	0.3	0.5	0.4	0.4
Insurance ³	0.45	0.5	0.5	0.45	0.35	0.3	0.2
Depreciation ²	0.45	0.85	0.7	0.6	0.65	0.55	0.7
Professional Services ¹	0.3†	0.8	0.35†	0.5	0.65	0.7	0.5
Total Expense.....	33.0%	35.6%	36.0%	36.7%	37.0%	37.7%	37.0%
FUNCTIONAL DIVISIONS							
Administrative and General							
Accounting Office, Accounts Receivable, and Credit.....	*	*	*	2.9%†	*	2.5%	2.3%
Executive and Other Administrative and General.....	*	*	*	6.9†	*	6.05	5.4
Total Administrative and General.....	*	*	*	9.8%	8.95%	8.55%	7.7%
Occupancy							
Operating and Housekeeping.....	*	*	*	1.4%	1.55%	1.7%	1.8%
Real Estate Costs ¹	*	*	*	4.7	4.6	5.0	4.8
Fixtures and Equipment Costs.....	*	*	*	0.85	0.85	0.8	0.95
Heat, Light, and Power.....	*	*	*	0.95	0.75	0.65	0.65
Total Occupancy.....	*	*	*	7.9%	7.75%	8.15%	8.2%
Publicity							
Sales Promotion and General Advertising.....	*	*	*	4.75%	5.0%	5.5%	5.1%
Display.....	*	*	*	0.75	0.7	0.65	0.65
Total Publicity.....	*	*	*	5.5%	5.7%	6.15%	5.75%
Buying and Merchandising							
Merchandise Management and Buying.....	*	*	*	3.95%†	4.4%	5.0%	4.05%
Receiving and Marking.....	*	*	*	0.3†	0.5	0.45	0.45
Total Buying and Merchandising.....	*	*	*	4.25%	4.9%	5.45%	4.5%
Direct and General Selling.....	*	*	*	8.3%	8.65%	8.3%	9.2%
Delivery.....	*	*	*	0.95	1.05	1.1	1.65
Total Expense.....	33.0%	35.6%	36.0%	36.7%	37.0%	37.7%	37.0%

* 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. 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.

have so great a sales volume to bear those costs as do most of the department stores with which it is in competition.

Partial confirmation of this hypothesis regarding the disadvantages of specialty stores located in large cities is available from the 1940 figures. Taking cities of several different sizes, a comparison was made of the operating results of specialty stores and department stores situated in those cities. On the favorable side, as compared with department stores, these specialty stores had higher initial mark-up, higher gross margin, a faster rate of stock-turn, a larger average sales transaction, a lower salesforce expense rate, and lower delivery costs. On the other side of the ledger, however, these specialty stores, as compared with department stores in cities of the same size, had a higher total expense rate, a lower total volume of sales, and a lower rate of sales increase over the preceding year. Apparently because of their lower total volume of sales, these

specialty stores exhibited higher percentages for administrative and general expense, advertising, and buying and merchandising. They also had higher real estate costs, higher returns of merchandise for credit, and higher retail reductions. While these comparisons are by no means conclusive, they certainly strengthen the view that under present-day conditions any advantages accruing from specialization in the sale of women's ready-to-wear apparel, particularly by small or medium-size specialty stores in fairly large cities, are considerably outweighed by the advantages which their larger department store competitors enjoy.

Other Comparisons

Because of the small number of specialty stores reporting data on number of transactions and on square feet of space used, the comparisons in Table 20, below, are not of great importance, except as indicating a somewhat higher rate of

Table 20. Common Figures for Pay Roll, Productivity of Personnel, Real Estate Costs, and Productivity of Space for Specialty Stores: 1940

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.....	1	1	2	6†	3	14†	9†
Giving Other Data.....	14†	15†	11	14†	10†	16†	10†
Aggregate Sales (in thousands).....	\$1,010	\$3,361	\$4,176	\$15,192	\$14,342	\$38,122	\$88,643
Typical Net Sales (in thousands).....	\$70	\$195	\$370	\$640	\$1,350	\$2,300	\$6,300
Change in Sales (1940/1939).....	104.0	110.6	107.8	105.3	104.3	102.5	104.6
Population (interquartile range ¹ — in thousands) .	13-68	49-101	61-101	105-770	206-854	490-1,619	770-7,380
Total Pay Roll ²	16.5%	16.6%	17.5%	17.55%	17.9%	17.8%	17.9%
Pay Roll of Salespeople ²	*	*	*	6.4†	6.2	5.95	6.0
Sales/Total Employees.....	*	\$7,000†	\$7,500†	\$6,300†	*	\$6,750	\$7,800
Sales/Number of Salespeople.....	*	\$11,500†	\$13,700†	\$13,400†	*	\$18,300	\$19,000
Salespeople/Total Employees.....	*	61.0%†	55.0%†	47.0%†	*	37.0%	41.0%
Transactions/Total Employees.....	*	*	*	*	*	1,500†	2,000
Transactions/Number of Salespeople.....	*	*	*	*	*	4,000†	4,900
Average Gross Sale.....	*	*	*	\$5.70	*	\$5.38	\$5.00
Pay Roll Cost per Transaction.....	*	*	*	93.0¢	*	82.6¢	75.2¢
Real Estate Costs ^{1, 2}	4.5%	5.4%	4.5%	4.7%	4.6%	5.0%	4.8%
Real Estate Costs/Square Feet of Total Space....	*	*	*	*	*	\$1.83	\$1.65
Sales/Square Feet of Total Space.....	*	*	*	*	*	\$36.50	\$34.50
Sales/Square Feet of Selling Space.....	*	*	*	*	*	\$64.00†	\$62.00
Selling Space/Total Space.....	*	*	*	*	*	57.0%†	56.0%
Transactions/Square Feet of Total Space.....	*	*	*	*	*	7†	10
Transactions/Square Feet of Selling Space.....	*	*	*	*	*	13†	18

* 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. ‡ Net Sales = 100%.

personnel productivity in the largest specialty stores, an advantage apparently offset by higher wage payments. It is also interesting to note that the productivity of space was no greater for the largest specialty stores than for those with sales between \$2,000,000 and \$4,000,000.

With respect to credit business, Table 21, below, shows little change from the 1939 situation. Specialty stores have higher percentages of charge business than do department stores, turn over their accounts receivable with more rapidity, and incur lower credit costs as percentages of their net credit sales.

Functional Expense Breakdown

In Table 22, opposite, more detailed figures classified according to functions and subfunctions are shown for the three larger volume groups of specialty stores. This comparison shows, for example, that delivery costs were higher for the large specialty stores than for the small ones and that operating and housekeeping costs exhibited a similar pattern of relationship to sales volume. On the other hand, the percentages for executive salaries and for office expense were lower for the large stores. Professional services under the buying and merchandising function were higher for

the medium-size specialty stores than for the large ones.

Expense Advantages Predominate for Goal Firms

Table 23, page 36, shows goal figures for seven volume groups of specialty stores, that is, figures for the companies in each volume group which made the best profit showing. In five out of seven of the volume groups the goal companies had larger sales volume than did the less successful stores. In four out of seven cases the goal concerns enjoyed a higher rate of increase in sales over 1939 than was characteristic of the particular volume groups. In every one of these seven groups the goal firms had higher gross margins, partly because of lower retail reductions. Also, especially in the smaller volume groups, the goal firms incurred lower inward transportation costs on merchandise.

The expense advantages of the goal firms, however, bulked larger than their gross margin advantages. In all seven of the volume groups the goal firms exhibited lower total expense rates. They had lower pay roll percentages in six out of seven groups, and in five out of seven groups they achieved lower rates for real estate costs, advertising, and losses from bad debts.

Table 21. Common Figures for Credit Data for Specialty Stores: 1940

(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.....	1	1	2	6†	3	14†	9†		
Giving Other Data.....	14†	15†	11	14†	10†	16†	10†		
Aggregate Sales (in thousands).....	\$1,010	\$3,361	\$4,176	\$15,192	\$14,342	\$38,122	\$88,643		
Typical Net Sales (in thousands).....	\$70	\$195	\$370	\$640	\$1,350	\$2,300	\$6,300		
Change in Sales (1940/1939).....	104.0	110.6	107.8	105.3	104.3	102.5	104.6		
Population (interquartile range ¹ — in thousands) .	13-68	49-101	61-101	105-770	206-854	490-1,619	770-7,380		
Cash Sales.....	*	} 50.0%†	} 30.0%	} 30.0%	*	23.0%	29.0%		
C. O. D. Sales.....	*				*	*	*	5.5	8.0
Regular Charge and Installment Sales.....	*				50.0†	70.0	70.0	*	71.5	63.0
Net Credit Sales = 100%:									
Pay Roll: Accounts Receivable and Credit.....	*	*	*	*	*	1.1%	1.15%		
Losses from Bad Debts.....	*	*	0.5%†	0.5%	*	0.3	0.25		
Interest on Accounts Receivable.....	*	*	1.4†	1.4†	*	1.25	1.2		
Average Accounts Receivable Outstanding§.....	*	*	23.5†	23.5†	*	21.0	20.0		
Returns and Allowances:									
Percentage of Gross Sales.....	*	*	*	7.4%†	12.3%†	13.8%	15.6%		
Percentage of Net Sales.....	*	*	*	8.0†	14.0†	16.0	18.5		
Average Gross Sale.....	*	*	*	\$5.70	*	\$5.38	\$5.00		

* 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.

Table 22. Detailed Expenses by Natural and Functional Divisions for Specialty Stores with Net Sales of \$1,000,000 or More: 1940
(Common Figures; Net Sales = 100%)

Items	8½ Firms with Net Sales of \$1,000,000 to \$2,000,000			16½ Firms with Net Sales of \$2,000,000 to \$4,000,000			10½ Firms with Net Sales of \$4,000,000 or more					
	Accts. Office, Accts. Rec., and Credit	Exec. and Other Admin. and Gen.	Total	Accts. Office, Accts. Rec., and Credit	Exec. and Other Admin. and Gen.	Total	Accts. Office, Accts. Rec., and Credit	Exec. and Other Admin. and Gen.	Total			
ADMINISTRATIVE AND GENERAL:												
Pay Roll: Accounting Office.....	1.00%	.....		0.90%	.....		0.80%	.....			
Accts. Rec. and Credit.....	0.70	.....		0.80	.....		0.70	.....			
Executive.....	.....	1.85%		.....	1.60%		.....	0.95%	
Executive Office.....	.....	.....		.....	0.10		.....	0.05	
Superintendency and Gen. Store	.....	0.7	4.25%	.....	0.65	4.05%	.....	0.90	3.40%
Taxes ¹.....	.....	1.02	1.02	.....	1.01	1.01	.....	0.98	0.98
Interest on Mdse. and Accts. Rec.	.....	1.46	1.46	.....	1.52	1.52	.....	1.44	1.44
Supplies.....	*	*	0.20	0.15	0.03	0.18	0.10	0.06	0.16			
Losses from Bad Debts.....	0.20	.....	0.20	0.20	.....	0.20	0.15	.....	0.15
Other Unclassified.....	*	*	0.54	0.01	0.42	0.43	0.16	0.32	0.48			
Travelling.....	*	*	0.03	0.00	0.06	0.06	0.00	0.03†	0.03			
Communication.....	*	*	0.56	0.27	0.23	0.50	0.19	0.29	0.48			
Insurance.....	.....	0.33	0.33	.....	0.29	0.29	.....	0.20	0.20
Professional Services.....	*	*	0.35	0.18	0.14	0.32	0.18	0.19	0.37			
Total.....	*	*	8.95%†	2.50%†	6.05%	8.55%†	2.30%†	5.40%†	7.70%†			
OCCUPANCY:												
	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total	Oper. & House-keeping	Plant & Equip. Costs	Heat, Light, & Power	Total
Pay Roll.....	0.85%	0.00%	0.85%	0.95%	0.05%†	1.00%	1.15%	0.05%†	1.20%
Real Estate Costs ¹	4.60%	4.60	5.00%	5.00	4.80%	4.80
Taxes on Fixtures and Equip.....	0.00	0.00	0.02†	0.02†	0.03†	0.03†
Interest on Fixtures and Equip.....	0.22	0.22	0.18	0.18	0.21	0.21
Supplies.....	*	*	*	0.22	0.16	0.06	0.22	0.14	0.09	0.23
Service Purchased.....	*	*	*	0.70	0.04	0.56	0.60	0.02†	0.53	0.55
Unclassified.....	*	*	*	0.05	0.11	0.00	0.11	0.11	0.00	0.11
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00
Repairs.....	0.47	0.47	0.42	0.42	0.37	0.37
Insurance on Fixt. and Equip.....	0.00	0.00	0.01	0.01	0.01	0.01
Depreciation on Fixt. and Equip.....	0.63	0.63	0.57	0.57	0.70	0.70
Total.....	1.55%	5.45%	0.75%	7.75%†	1.70%†	5.80%†	0.65%†	8.15%†	1.80%†	5.75%†	0.65%†	8.20%†
PUBLICITY:												
	Sales Prom. & Gen. Advtg.	Display	Total	Sales Prom. & Gen. Advtg.	Display	Total	Sales Prom. & Gen. Advtg.	Display	Total			
Pay Roll.....	0.40%	0.35%	0.75%	0.55%	0.30%	0.85%	0.45%	0.25%	0.70%			
Total Advertising.....	4.20	.....	4.20	4.75	.....	4.75	4.05	.....	4.05
Supplies.....	*	*	0.55	0.12	0.32	0.44	0.40	0.35	0.75			
Unclassified.....	*	*	0.19	0.04	0.01	0.05	0.07	0.04	0.11			
Travelling.....	*	*	0.00	0.01	0.00	0.01	0.00	0.00	0.00			
Communication.....	0.01†	.....	0.01†	0.03†	.....	0.03†	0.11	.....	0.11
Professional Services.....	0.02†	.....	0.02†	0.00	.....	0.00	0.03†	.....	0.03†
Total.....	5.00%	0.70%	5.70%†	5.50%	0.65%†	6.15%†	5.10%†	0.65%†	5.75%			
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%†	.....		0.70%	.....			
Buyers and Assistants.....	3.50%	.....		2.55†	.....		2.55	.....			
Other.....	.....	.....		0.35	.....		0.35	.....			
Receiving and Marking.....	.....	0.45%	3.95%	.....	0.40%	4.25%	.....	0.40%	4.00%
Supplies.....	0.03	0.07	0.10	0.03	0.06	0.09	0.03	0.05	0.08			
Unclassified.....	0.02	0.00	0.02	0.07	0.01	0.08	0.07	0.01†	0.08			
Travelling.....	0.53	0.00	0.53	0.58	0.00	0.58	0.24	0.00	0.24			
Communication.....	0.03	.....	0.03	0.06	.....	0.06	0.03	.....	0.03
Professional Services.....	0.28	.....	0.28	0.40	.....	0.40	0.09†	.....	0.09†
Total.....	4.40%†	0.50%†	4.90%†	5.00%†	0.45%†	5.45%†	4.05%†	0.45%†	4.50%†			
SELLING:												
	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total	Direct and Gen. Selling	Delivery	Total			
Pay Roll: Salespeople.....	.....	.....		5.95%	.....		6.00%	.....			
Floor Supts. and Sec. Mgrs.....	7.70%	.....		0.30	.....		0.45	.....			
Other.....	.....	.....		1.15	.....		1.65	.....			
Delivery.....	.....	0.40%	8.10%	.....	0.25%	7.65%	.....	0.50%	8.60%
Taxes.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.00	0.00
Interest on Equipment.....	.....	0.00	0.00	.....	0.00	0.00	.....	0.08	0.93
Supplies.....	0.78	0.06	0.84	0.77	0.03	0.80	0.85	0.08	0.92			
Service Purchased.....	.....	0.52	0.52	.....	0.80	0.80	.....	0.92	0.92
Unclassified.....	0.18	0.01†	0.19	0.15	0.01	0.16	0.24	0.11	0.35			
Travelling.....	0.00	0.00	0.00	0.00	0.00	0.00	0.01†	0.00	0.01†			
Repairs.....	.....	0.01	0.01	.....	0.00	0.00	.....	0.01†	0.01†
Insurance.....	.....	0.01	0.01	.....	0.01†	0.01†	.....	0.01†	0.01†
Depreciation.....	.....	0.02	0.02	.....	0.00	0.00	.....	0.00	0.00
Total.....	8.65%†	1.05%†	9.70%†	8.30%†	1.10%	9.40%†	9.20%	1.65%†	10.85%†			
TOTAL EXPENSE.....			37.0%			37.7%			37.0%			

* 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. ‡ 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. ¶ See definition in the Appendix.

Table 23. Goal Figures¹ for Merchandising Operations, Profits, Expenses by Natural Divisions, and Other Data for Specialty Stores: 1940

(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.....	5	5	4	5†	4†	5	5†
Aggregate Sales (in thousands).....	\$307	\$1,065	\$1,532	\$8,943	\$6,456	\$12,013	\$61,673
Typical Net Sales (in thousands).....	\$60	\$215	\$390	\$700	\$1,450	\$2,300	\$8,500
Change in Sales (1940/1939).....	101.0	109.0	107.5	106.5	107.0	103.0	107.0
Initial Mark-up (percentage of original retail value) on Invoice Cost Delivered ²	*	*	*	40.2%	39.65%	39.25%	38.6%
Mark-downs.....	*	*	*	} 7.55%	*	7.0%	5.7%
Discounts to Employees and Others.....	*	*	*		*	0.6	0.9
Stock Shortages.....	*	*	*		0.45	0.7	0.7
Total Retail Reductions.....	*	*	*	8.0%	9.0%	8.3%	7.3%
Inward Freight, Express, and Truckage.....	0.6%	0.8%†	0.7%	*	0.5%	*	*
Alteration and Workroom Costs (Net).....	*	*	0.2	1.3%	0.6	0.5%	0.6%
Cash Discounts Received on Purchases (% of sales).....	*	4.5	4.15	3.9	4.3	4.2	4.4
Gross Margin.....	35.6	37.5	37.3	38.0	37.9	37.9	37.9
Total Merchandise Costs (Net).....	64.4%	62.5%	62.7%	62.0%	62.1%	62.1%	62.1%
Total Expense.....	31.2	33.5	33.0	34.8	36.2	35.3	35.4
TOTAL COST.....	95.6%	96.0%	95.7%	96.8%	98.3%	97.4%	97.5%
NET PROFIT OR LOSS.....	4.4%	4.0%	4.3%	3.2%	1.7%	2.6%	2.5%
Net Other Income (incl. int. on capital owned).....	3.0	2.0	1.7	3.2	2.0	3.6	3.5
NET GAIN before Federal Tax on Income:							
Percentage of Net Sales.....	7.4%	6.0%	6.0%	6.4%	3.7%	6.2%	6.0%
Percentage of Net Worth.....	17.0	21.5	20.0	13.0	16.5	18.0	14.0
Federal Tax on Income.....	*	1.0%	1.1%	1.1%	1.0%	1.4%	1.5%
Percentage of Firms:							
Earning Some Net Profit.....	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
Rate of Stock-turn (times a year):							
Based on Beginning and Ending Inventories.....	4.4	7.5	6.0	3.8	6.45	7.1	6.8
Based on Monthly Inventories.....	*	*	*	3.0	6.1	6.2	5.5
Returns and Allowances:							
Percentage of Gross Sales.....	*	*	*	*	9.9%	12.1%	16.65%
Percentage of Net Sales.....	*	*	*	*	11.0	13.8	20.0
Total Pay Roll.....	14.6%	17.5%	16.5%	17.2%	16.3%	17.0%	17.7%
Real Estate Costs ²	5.7	4.4	3.8	4.2	4.9	3.75	3.9
Total Advertising.....	2.3	2.65	3.7	3.2	5.2	4.5	3.95
Taxes ²	1.0	1.15	0.95	1.35	0.95	1.1	1.1
Interest ²	2.0	1.5	1.5	2.15	1.65	1.85	1.7
Supplies.....	0.75	1.45	1.35	1.6	1.9	1.65	1.9
Service Purchased.....	1.7	1.2	1.55	1.05	1.2	1.1	0.9
Losses from Bad Debts.....	0.15†	0.3	0.2	0.3	0.1	0.25	0.1
Other Unclassified.....	0.55†	0.35	0.75	0.8	0.9	0.9	1.3
Travelling.....	0.3	0.75	0.5	0.55	0.5	0.6	0.35
Communication.....	0.45	0.5	0.6	0.55	0.6	0.5	0.6
Repairs.....	0.2	0.15†	0.3	0.25	0.4	0.5	0.4
Insurance ²	0.6†	0.4	0.4	0.5	0.3	0.35	0.2
Depreciation ²	0.7	0.55	0.65	0.65	0.6	0.45	0.8
Professional Services ²	0.2†	0.65	0.25	0.45	0.7	0.8	0.5
TOTAL EXPENSE.....	31.2%	33.5%	33.0%	34.8%	36.2%	35.3%	35.4%
Cash and C. O. D. Sales.....	*	*	50.0%	30.0%	*	28.0%	35.0%
Regular Charge and Installment Sales.....	*	*	50.0	70.0	*	72.0	65.0
Net Credit Sales = 100%:							
Pay Roll: Accts. Receivable and Credit.....	*	*	*	*	*	1.25%	1.15%
Losses from Bad Debts.....	*	*	*	0.45%	*	0.35	0.2
Interest on Accounts Receivable.....	*	*	1.25%	*	*	1.4	1.35
Average Accts. Receivable Outstanding\$.....	*	*	20.5	*	*	23.0	22.5

* 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. § For the beginning and end of the year. ¶ Common figures corresponding to these goal figures will be found in Tables 18, 19, and 21. †† 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 558 separate schedules covering the operations of more than 736 stores in 1940. Of these 558 schedules, 17 arrived too late to be used, and 22 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 519 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 20 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 558 firms which sent reports was slightly more than \$1,890,000,000, and the total store sales (including leased department sales) of the 519 firms for which data were actually used in setting common figures was \$1,802,600,000.

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 1940. According to the Census of Business: 1939, Retail Distribution, Preliminary United States Summary, the sales of department stores and women's ready-to-wear specialty stores (including independents and chains) in 1939 were in excess of \$4,460,000,000. On the basis of the Federal Reserve Board's index, sales of department stores in 1940 amounted to roughly 104.9% of their sales in 1939, so that the figure for 1940 corresponding to the total above was about \$4,680,000,000. The sales of the 519 firms for which data actually were used in this study amount to somewhat more than 38% of \$4,680,000,000.

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. 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.

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 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 for 1939 and 1940 were established 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.

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

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 method described above 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 four 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 and expense statements. Figures for the past three years are presented in Chart 1.

Goal Figures

Goal figures depict the typical results for 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 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 gross 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. The average gross sale results from dividing gross sales by the total number of gross sales transactions.

Definitions of Major Items

Net sales, as used throughout this bulletin, represents the volume of business done in owned

departments only. This figure is computed by deducting from gross sales the amount of merchandise returned by customers and the allowances granted to customers.

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: 1940." 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 profitableness 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 interest at 6% on such part of the capital used in the business as represents 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 nonmerchandising operations.

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

Real Estate Costs

In order to secure as great a degree of comparability as possible between the figures for firms owning their real estate and the figures for firms leasing all or part of their real estate, the Bureau's classification includes no item for rentals but has, instead, an item called "real estate costs." *Real estate costs* includes (for properties used in the business *only*) rentals, taxes, and insurance paid on leased real estate plus depreciation on leasehold improvements and leasehold valuation; in addition, it includes taxes, interest, insurance, and depreciation on owned real estate.¹ Thus, the

¹ In the case of 34 firms with sales of \$2,000,000 or more in 1940, 90% of the real estate used was owned. Total real estate costs, amounting to 4.25% of net sales for these firms, com-

figures given in this bulletin for taxes, interest, insurance, and depreciation do not represent the *total* expenditures or charges for these items. They exclude all expenditures or charges related to real estate, but include expenditures or charges on equipment.

Interest

Interest includes interest at 6%² on the following assets: the average merchandise inventory, the average amount of accounts receivable outstanding, and the average investment in equipment. Interest on the average investment in real estate is included in real estate costs. 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 here.

Pay Roll

Largely as a result of the Federal and state social security legislation, the Controllers' Congress, in February, 1936, recommended that pensions and retirement allowances, unemployment insurance privately provided, and supper money be included in unclassified, rather than in pay roll. The Bureau adopted these revisions in the

prised: rent paid, 0.15%; taxes, 0.90%; interest, 2.35%; insurance, 0.05%; and depreciation, 0.80%.

² The use of the 6% rate in 1940 may have resulted in the overstatement of interest expense, particularly for large firms. Data on interest rates on borrowed capital reported by a few department stores serve as a basis for the median figures given below:

TABLE A. INTEREST RATES ON BORROWED CAPITAL: 1940

Department Stores with Net Sales (in thousands):	Short-Term Loans		Long-Term Loans	
	Number of Reporting Firms	Rate	Number of Reporting Firms	Rate
Less than \$150	13	6%	8	5½%
\$150-300	17	5	8	5
\$300-500	16	5	9	5
\$500-750	20	5	14	4½
\$750-1,000	12	4	9	5
\$1,000-2,000	23	3½	9	5
\$2,000-4,000	24	3	14	4
\$4,000-10,000	25	1½	20	4
\$10,000-20,000	10	1½	8	4
\$20,000 or more	8	1½	5	3

Controllers' Congress classifications and, as a result, introduced some lack of comparability between the figures for pay roll and unclassified for 1936 through 1940, 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.

Stock-turn

The stock-turn figures given in this report, based upon beginning and ending inventories, were computed by dividing total merchandise costs (net) as defined under gross margin on page 38 by the average inventory as shown by the profit and loss statement; that is, at cost. The stock-turn figures based on average monthly inventories were computed through the use of cost or retail inventory figures, whichever were furnished, total merchandise costs or net sales being used as dividends.

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

Initial 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:

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

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:

$$\frac{37.0 + 0.7 + 7.15 - 3.05}{100.0 + 7.15} = \frac{41.8}{107.15} = 39.0$$

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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