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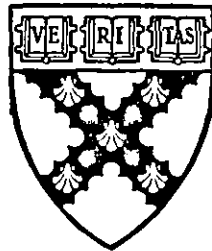
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**EXPENSES AND PROFITS OF
LIMITED PRICE VARIETY STORES
IN 1943**

CHAINS AND INDEPENDENTS

**BY
EDWARD C. BURSK**



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**HARVARD UNIVERSITY
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
BUREAU OF BUSINESS RESEARCH
SOLDIERS FIELD, BOSTON 63, MASSACHUSETTS**

DIGEST

EXPENSES AND PROFITS OF LIMITED PRICE VARIETY STORES IN 1943

CHAINS AND INDEPENDENTS

For the thirteenth consecutive year the Harvard Bureau of Business Research has collected and analyzed sales, margin, expense, and earnings data for limited price variety chains in North America. This year for the first time a study of figures for independent variety stores has been added to the survey. The research was sponsored by members of the Limited Price Variety Stores Association, and the bulletin was written by Edward C. Bursk, Assistant Professor of Business Administration.

A digest of the findings follows:

In spite of the many and varied new situations presented to store managements by war conditions, variety stores, both the independents and those operated by chains, were able to show satisfactory operating results in 1943. Salient characteristics of the picture presented by these reports were as follows:

Chains

(1) Sales per store continued to advance in the face of merchandise difficulties, at a typical rate of 14% over 1942.

(2) The number of stores operated remained practically unchanged.

(3) Consequently, total sales volume per chain typically increased at the same rate as sales per store (14%). Aggregate sales showed an increase of 6% over 1942 for all comparable reporting firms.

(4) Earnings before income taxes remained on the average at the same high level as in 1942 — 10% of sales.

(5) Gross margin and total expenses, at 36% and 29% of net sales respectively (based on the combined results for all reporting firms), exhibited fractional decreases over the results for 1942.

(6) The decline in the expense rate, less marked than for the previous two years, was the net result of fractional decreases

in tenancy costs and the lesser items of expense, partially offset by a rise in salaries and wages of $\frac{1}{2}$ of 1% of the sales dollar.

(7) The rate of stock-turn exceeded that for 1942, because of the lower average value of dollar inventories carried and the increase in sales.

Independents

(1) Sales per store averaged \$51,000 based on the combined results for all reporting stores. The median figure based on the results of all firms taken individually was \$43,000.

(2) The rate of sales increase over 1942 was typically 18%, which was higher than that experienced by the chains as a whole but remarkably suggestive of the smaller chains. This was the only comparison with 1942 results that was possible.

(3) Earnings before income taxes amounted to slightly less than $9\frac{1}{2}$ % of sales, a record which compares favorably with that of the chains as a whole.

(4) Both the typical gross margin of 33% and the typical expense rate of 26% were lower than the comparable figures for chains as a whole.

(5) The net comparative result for the independent variety stores was higher earnings on the whole than for the small variety chain organizations.

(6) The rate of stock-turn tended to be higher for the independents than for the small chains.

The decline in gross margin of the variety chains in 1943, although small, marked at least a temporary reversal in the upward trend which began in 1939. Sales and expense rates, for their part, did not show a reversal in direction, but the degree of change slackened off; sales did not increase so rapidly in 1943 as they had in 1942, and the expense rate was not reduced so much.

The significance of the tightening up in the operating picture of the variety chains, as reflected in the decline in rate of sales increase and rate of expense reduction, with gross margin remaining virtually unchanged, cannot be appraised with assurance as yet. It is interesting to observe, however, that in 1943 department stores showed an acceleration in rate of sales advance and also were able to make a substantial reduction in the expense rate.

This contrasting experience is particularly suggestive because of the fact that in earlier years results of variety chains have tended to anticipate those of department stores.

That rate of sales increase in itself, and entirely apart from the volume reached, has a definite and discernible influence on operating results has been demonstrated repeatedly in Bureau studies. A firm relation appears to prevail between rapid increases in sales and decreases in expense rates. Department store results in 1943 emphasized this situation, and the experience of the variety chains again reflects the relationship. As store managements approach a period in which rate of sales increase may be expected to change, particularly if the change is to be a downward one, it becomes important to anticipate, so as to allow for, the probable effects upon operating factors. Already in 1943 the larger variety chains appear to have entered a period, not of decline in volume, but of decline in rate of increases.

One of the noteworthy showings of the 1943 figures is the difference in rate of sales advance for the large and the small chains. In 1942 the rate of sales growth was fairly uniform for both groups, but in 1943, while the smaller chains were able to maintain the rate of advance, the larger chains were not.

The expense rate in 1943 was generally higher for the larger chains than for the smaller chains, although expense percentages for salaries and wages in the former group were lower. Nevertheless, it was the smaller chains which were able to make a reduction in this item as compared with the previous year; this reduction thus appears to be definitely related to the relatively rapid rate of sales increase of the smaller chains. Higher tenancy expense for the larger chains more than offset their advantage in expense for salaries and wages.

In general, the net profit figure was similar for all size categories. The only significant exception was the definitely lower profit of the smallest chains, which had a disproportionately narrow gross margin.

A separate analysis of long-term trends revealed the following significant facts:

- (1) Gross margin showed a rising trend until 1943.

(2) Total expense rate has declined since 1938 to slightly below the 1931 level.

(3) Net profit has fluctuated widely, but has increased steadily since 1938. Increasing income and excess profits taxes, however, have more than offset this increase, and net gain after taxes has declined.

(4) Average sales per store have been nearly doubled since 1932.

These long-term trends in the operations of variety chains accord in general with those for department stores, with the variety chains showing the greater stability. There is a suggestion, from both expense and gross margin figures, that variety chains have become in many respects low-price department stores.

Changes shown in the importance of the various merchandise lines carried by variety chains are considered in detail in the Bulletin. These changes are particularly interesting in that they appear to reflect not only wartime shortages but also definite trends in the character of the chains themselves.

Operating results for the 33 independent stores which reported to the Bureau in 1943 compared favorably with those for the chains. There was a decided similarity between the figures for small department stores and the independent variety stores. Independent variety stores apparently experienced no competitive disadvantage in comparison with either small department stores or small chain organizations. Advantage in gross margin, expense, and earnings, as a matter of fact, was with the independents in 1943 rather than with the small chains. The favorable gross margin of the independent stores suggests a tribute to the services of the buying groups with which most of the stores reporting were voluntarily associated.

Soldiers Field
Boston 63, Massachusetts
August, 1944

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GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
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MELVIN T. COPELAND, *Director of Research*

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FOREWORD

For the thirteenth consecutive year the Harvard Bureau of Business Research has collected and analyzed sales, margin, expense, and earnings data for limited price variety chains in North America. This year for the first time a study of figures for independent variety stores has been added to the survey.

The research has been made possible by the members of the Limited Price Variety Stores Association who for many years have given the program financial support. The Bureau is grateful for the continued interest of the association and for the efforts of the chain controllers and their staffs and the proprietors of individual stores who prepared the essential basic reports. It is gratifying to know that the executives of 45 chains and 31 independent stores were willing, in a period of acute personnel shortages, to allocate time to the project.

The accounting and statistical work was supervised by Miss Esther M. Love under the direction of Professor Elizabeth A. Burnham. The program benefited greatly from the practical advice of Professor Malcolm P. McNair who has long taken an active part in the retail cost research. The bulletin was written by Professor Edward C. Bursk.

MELVIN T. COPELAND
Director of Research

BOSTON, MASSACHUSETTS
August, 1944

CONTENTS

	PAGE
Summary for Chains	I
1943 Results in Detail	3
Slackening in Sales per Store	3
Price Level	3
Gross Margin Lower	4
Expenses Lower	4
Profit Down Slightly	5
Rate of Stock-turn Higher	6
Tables: Detailed Operating Figures for All Chains Reporting	2, 5
Distribution of Stores According to Sales per Store:	
1943	3
1943 and 1942 Compared	4
Effect of Size on Operating Results	7
Lower Gross Margin for Small Chains	7
Higher Expense Rate for Large Chains	7
Earnings	11
Rate of Stock-turn	11
Location of Stores	12
Breakdown of Expenses for 17 Large Variety Chains	12
Counteracting Forces at Work	12
Tax Expenses	14
Tables: Detailed Operating Figures for Chains Classified According to:	
Sales per Chain	8, 13
Number of Stores Operated	9
Average Sales per Store	10
Tax Expense	14
Effect of Degree of Change in Sales per Store	15
High Sales Increase for Small Stores	15
Salaries and Wages	16
Table: Operating Data for 1942 and 1943 for 30 Variety Chains Classified According to Degree of Change in Sales per Store	15
Inventories	17
Decline in Stock-Sales Ratios	17
Inventory Trends over Ten-Year Period	18
Tables: Stock-Sales Ratios and End-of-Month Inventories:	
Classified According to Sales per Chain	17
Trend: 1934-1943	18

	PAGE
Merchandise Lines	19
Relative Importance of Lines in 1943	19
Long-term Trends	19
Changes Within Merchandise Lines	23
Tables: Sales by Merchandise Lines for:	
1943	19
1940-1943	20
1933-1943	21
Operating Results for Regular Merchandise Departments (Soda Fountains, Luncheonettes, and Restaurants Excluded)	24
Results for Large Stores Substantially Changed	25
Stock-turn	25
Tables: Operating Results for 1943	24
Stock-Sales Ratios	25
Long-term Trends in Operating Results	26
Sales, Margin, and Expense for Variety Chains and Department Stores Compared	26
Sales at New High in 1943	26
Trends for Different Volume Groups	26
Favorable Long-term Outlook	31
Charts: Summary Statistics: 1929-1943	27
1924-1943	31
Tables: Operating Results for 15 Chains: 1929, 1931-1943	28, 29
Operating Results Classified by Volume: 1935-1943	30
Selected Balance Sheet Items Classified by Volume: 1935-1943	31
Results for Independent Variety Stores	32
Similarities to Small Chains and Small Department Stores	32
The Effect on Independents of Differences in Sales Volume	35
Other Characteristics of Independents	36
Conclusions	36
Tables: Detailed Operating Figures for:	
All Stores Reporting	33
Stores Classified According to Sales per Store	34
Selected Operating Results for Variety Chains, Independent Variety, and Small Department Stores	35
Appendix	
Definitions and Explanatory Notes	37

Chart I. Limited Price Variety Chain Expenses and Profits: 1943

(with 1942 percentages for comparison)

Items	1943		1942 ¹
	Aggregate Dollar Figures (in thousands) for 43 Chains Operat- ing 5,291 Stores	1943 Net Sales =100%	1942 Net Sales =100%
<i>The chief source of revenue for these chains, of course, was</i> Net Sales	\$1,284,636	100.00%	100.00%
<i>A primary charge against this revenue, and the largest single expenditure, was represented by,</i> Net Cost of Merchandise Sold	\$818,061	63.68%	63.34%
<i>Which included the cost of merchandise purchased for resale delivered at the stores, less trade and cash discounts, plus or minus the amounts taken from, or added to, inventories during the year.</i>			
<i>Other costs which had to be met were those for operating the chains, as follows:</i> Salaries and Wages	\$192,629	15.00%	14.54%
<i>Comprising salaries, wages, and bonuses of all employees including executives, but excluding pensions and payroll taxes;</i>			
Tenancy Costs	\$91,067	7.09%	7.49%
<i>Including rentals, taxes, and insurance paid on leased real estate; taxes, insurance, depreciation, repairs, and interest on owned real estate; and heat;</i>			
Light, Water, and Power	\$9,791	0.76%	0.85%
Depreciation on Fixtures and Equipment	\$8,129	0.63%	0.67%
Supplies	\$9,902	0.77%	0.85%
Taxes	\$13,335	1.04%	1.07%
<i>Not including taxes on real estate, or on income, but comprising other taxes imposed by national, state, and local governments;</i>			
All Other Expense (including interest)	\$42,528	3.31%	3.35%
<i>The charge for interest included interest paid on borrowed capital and, in addition, an imputed charge for interest at the rate of 6% on net worth except real estate, leaseholds, and goodwill. Interest at 6% on the real estate equity and mortgage interest were included in Tenancy Costs. Interest received was credited to the Interest account.</i>			
<i>Thus, for merchandise and chain operation combined, these firms experienced a</i> Total Cost of	\$1,185,442	92.28%	92.16%
<i>After meeting these costs, there remained a</i> Net Profit of	\$99,194	7.72%	7.84%
<i>Which constituted the net profit from merchandising operations.</i>			
<i>The chains, however, received</i> Sundry or Other Revenue, Net	\$31,217	2.43%	2.39%
<i>Including any profit or loss on real estate operations; the amount charged in expense for interest on net worth; dividends from manufacturing or foreign subsidiaries; and other miscellaneous revenue.</i>			
<i>And, therefore,</i> Total Net Business Profit Amounted to	\$130,411	10.15%	10.23%
<i>This was the earnings of these firms before income taxes.</i>			
<i>Taxes on income and excess profits, after credits for debt retirement and postwar refunds, amounted to</i> ² .....	.....	6.20%	6.20%
<i>Thus leaving available for dividends, withdrawals, and surplus</i> .....	.....	3.92%	4.03%

¹Data for 1942 are based on aggregate dollar figures for 39 chains with net sales of \$1,210,485 and operating 5,285 stores.

²For each year a total of 30 firms, representing nearly 99% of the aggregate sales volume, reported information on income taxes. The averages for these taxes and net gain after taxes are therefore based on a smaller number of reports than the other data in the chart and will not necessarily add exactly to the net gain before taxes.

EXPENSES AND PROFITS OF LIMITED PRICE VARIETY STORES IN 1943

CHAINS AND INDEPENDENTS

SUMMARY FOR CHAINS

Over-all Picture

More than 40 limited price variety chains reported their operating figures for 1943 to the Harvard Bureau of Business Research. Salient characteristics of the picture presented by those reports (see Chart I and Table 1, pages vi and 2) are as follows:

(1) Sales per store continued to advance in the face of merchandise difficulties. The number of stores operated did not decrease. Consequently, total sales volume rose.

(2) Earnings before taxes remained at a high level, amounting to 10.15% of sales. Although this figure is fractionally less than the corresponding figure for 39 chains in 1942, most of the difference is accounted for by the record of one large chain and the records of several small firms reporting for the first time. As a practical matter, therefore, earnings as a percentage of sales were unchanged from the previous year. Dollar earnings were higher.

(3) Federal taxes on income and excess profits, net of postwar rebates, amounted to 6.20% of sales. This figure agrees exactly with the figure for 1942, recomputed to allow for postwar rebates or credits currently taken because of debt cancellation.

New Trends

(1) The earnings figure, although it remained virtually the same as in 1942, was made up of factors which differed from 1942. Gross margin for all reporting chains declined from 36.66% to 36.32% of sales, and total expenses declined from 28.82% to 28.60%.

(2) The drop in gross margin, although not large, was significant because it marked a halt in the rising trend which began in 1939. Price ceilings no doubt contributed to this change.

(3) The decline in the expense rate for all reporting chains was not so marked as in the previous two years. Salaries and wages took 0.45% more of the sales dollar than in 1942; tenancy costs took 0.36% less. Fractional declines in the other less important items of expense were enough to bring the total expense percentage a shade under 1942.

(4) Explaining the failure of the expense rate to drop as fast as it did in 1942 is the fact that the rapidity of the sales advance tapered off in 1943.

This tapering off is in direct contrast to the accelerated rate of advance experienced by department stores in 1943 and, indeed, by several other types of retail business.

(5) The rate of stock-turn increased over that typical for 1942. To put it another way, stocks in relation to sales were lower. This suggests that a deficiency of merchandise (actual shortages, quality deterioration, and perhaps fewer lines than consumers wanted of merchandise of higher unit value) may have contributed to a transfer of sales from variety chains to other types of retail stores and thus slowed down the variety chains' rate of sales advance.

Forecast

In view of the slackening trend in sales, it is highly possible that 1944 may witness a less comfortable sales record. If this is carried to the point where the sales gain not only loses momentum but actually turns into a loss, the inability to cut expenses proportionately may undermine the level of earnings.

Adequacy of the Bureau Sample

Forty-five chains submitted operating data for 1943. The reports of 43 of the 45 were in sufficient detail to assure comparability of the data to be averaged. Hence, the figures in this bulletin are based on statements of 43 chains, operating a total of 5,291 stores. Aggregate sales for these chains amounted to \$1,284,636,000, probably more than 85% of the total sales of all limited price variety chains in the country. The sample of firms in the low volume range has been strengthened by the net addition of four more firms.

Tables 2 and 3, pages 3 and 4, reveal the distribution of stores by sales per store for chains accounting for about two-thirds of the total sales volume covered by the 43 reports. It will be noted from Table 3 that there have been changes in the make-up of the various volume groups since 1942. These changes, and also other similar changes which can be noticed in subsequent exhibits, do not mean that the identity of the stores reported in 1943 is to any substantial degree different from that of 1942. Most of the changes are accounted for by the fact that many stores have, with increasing sales volume, moved up from one size category to another.

Table I. Operating Results for 43 Variety Chains: 1943

(Net Sales = 100%, except where noted)

Items	Aggregate Figures		Median ¹ and Range Figures		
	Amounts (Dollar figures given in thousands)	Percentages Computed from the Combined Dollar Figures of the 43 Chains	Percentages Computed from the Figures in Each Chain Taken Individually		
			Median ¹ Figures	One-half the Reported Figures, Centered on the Median, Lay between the Limits Listed Below	
Aggregate Number of Stores.....	5,291	.....	5,291	.....	.....
Aggregate Net Sales.....	\$1,284,636	100.00%	\$1,284,636	.....	.....
Average Net Sales per Chain.....	\$29,875	.....	.....	.....	.....
Average Sales per Store.....	\$243	.....	.....	.....	.....
Index of Change (1943/1942):					
Number of Stores per Chain.....	.....	.....	100.00	100.00	100.00
Net Sales per Chain.....	.....	.....	114.29	106.34	127.93
Average Sales per Store.....	.....	.....	114.03	106.61	125.83
Net Sales in Identical Stores ².....	.....	.....	114.23	106.48	124.82
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	\$818,061	63.68%	63.63%	62.20%	66.20%
GROSS MARGIN.....	466,575	36.32	36.37	33.80	37.80
Salaries and Wages.....	\$192,629	14.99%	16.26%	14.44%	18.23%
Tenancy Costs.....	91,067	7.09	3.92	3.05	5.30
Light, Water, and Power.....	9,791	0.76	0.73	0.59	0.85
Depreciation of Fixtures and Equipment.....	8,129	0.63	0.60	0.51	0.71
Supplies.....	9,902	0.77	0.83	0.64	1.09
Advertising.....	2,390	0.19	0.12	0.06	0.29
Insurance (except on real estate).....	4,460	0.35	0.40	0.28	0.52
Taxes (except on real estate or income):					
Sales.....	830	0.07	0.00	0.00	0.05
Other.....	12,505	0.97	0.99	0.77	1.17
Miscellaneous Expense.....	17,630	1.37	1.59	1.04	2.04
Total Expense before Interest.....	\$349,333	27.19%	27.20%	24.01%	28.96%
Total Interest.....	18,048	1.41	1.29	1.15	1.52
TOTAL EXPENSE including Interest.....	\$367,381	28.60%	28.48%	25.30%	30.72%
NET PROFIT.....	\$99,194	7.72%	7.97%	5.25%	9.70%
Net Profit from Real Estate Operations.....	\$12,945	1.01%	0.11%	0.00%	0.33%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	17,627	1.37	1.24	1.07	1.45
Other Revenue, Net.....	645	0.05	0.03	0.00	0.19
Total Net Other Income.....	\$31,217	2.43%	1.55%	1.20%	2.11%
NET GAIN before Income Taxes.....	\$130,411	.....	.....	.....	.....
Percentage of Net Sales.....	.....	10.15%	9.62%	6.91%	10.04%
Percentage of Net Worth ³.....	.....	25.43	37.15	26.03	48.67
Provision for Taxes on Income and Excess Profits ⁴	*	6.66%	7.04%	4.50%	7.91%
Total Excess Profits Tax Credits (Postwar Refund and Debt Retirement Credit) ⁴	*	0.46	0.53	0.28	0.65
Net Taxes on Income and Excess Profits ⁴	*	6.20%	6.61%	4.01%	7.21%
NET GAIN after Income Taxes.....	*	.....	.....	.....	.....
Percentage of Net Sales ⁴.....	.....	3.92%	3.34%	2.60%	4.03%
Percentage of Net Worth ⁴.....	.....	9.78	12.15	10.54	15.71
Rate of Stock-turn (times a year):					
Based on Beginning and Ending Inventories.....	.....	4.49	4.17	3.48	4.83
Based on Monthly Inventories ⁵.....	.....	4.42	3.67	3.03	4.32
Total Markdowns and Shortages.....	*	*	2.47%	1.71%	3.04%
Freight, Express, Postage, and Truckage.....	*	*	1.80%	1.32%	2.38%
Distribution of Stores among Cities with Populations of: ⁶					
Less than 10,000.....	1,492	29.09%	.....	.....	.....
10,000-25,000.....	1,186	23.12	.....	.....	.....
25,000-100,000.....	1,027	20.02	.....	.....	.....
100,000-500,000.....	583	11.37	.....	.....	.....
500,000-1,000,000.....	310	6.05	.....	.....	.....
1,000,000 or More.....	531	10.35	.....	.....	.....

*Data not available. See the paragraph on methods, Appendix, page 38.

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²Data on stores operated continuously for 24 consecutive months were provided by 32 of the 43 chains.

³The figures for this item were based on the reports of the 41 chains giving balance sheet data.

⁴The figures for this item were based on the reports of 30 chains representing 98.8% of the sales volume. Since the data for income taxes and earnings after taxes are based on a reduced sample, exact arithmetical relationships cannot be expected between these percentages and those for net gain before taxes based on information from 43 reports.

⁵The figures for this item were based on the reports of the 23 chains giving monthly data.

⁶Information concerning the location of some of the stores was not available.

1943 RESULTS IN DETAIL

In Table 1, page 2, there are given for the 43 chains aggregate figures in both dollars and percentages, median figures in percentages, and interquartile range figures in percentages. Since the aggregate figures are heavily influenced by the records of the large chains, the median and the range figures are more likely to indicate the typical performance.

Slackening in Sales per Store

Year-to-year changes in the average sales per store are important because they have a direct influence on operating results. The median index figure denoting 1943 sales per store in relation to 1942 sales per store was 114.03. The soundness of this figure for comparative purposes is indicated by the experience of 32 chains reporting data for identical stores in both 1942 and 1943; in this case the median index was 114.23.

It must be remembered, however, that these figures, being medians, do not represent the average for all stores considered as a group. Indeed, classifications by sales volume and number of stores (Tables 5 and 6, pages 8 and 9) show that the larger chains, accounting for a major portion of the total sales volume, had a decidedly less rapid rate of increase in 1943.

The Bureau's median figure for change in sales per store in 1942 as compared with 1941 was 117.37, only about 3 points higher than the median of 114.03 for 1943 as compared with 1942. But in 1942 the advance in sales was fairly uniform for large and small chains, instead of being heavier in the small chains as in 1943. In other words, the advance in sales slackened much more drastically than is indicated by the 3 point drop in the median percentages.

Moreover, a glance at the interquartile range

figures shows that the sales gain, which had been fairly consistent in 1942, became markedly erratic in 1943. The range of the middle half of the increase from 1942 to 1943 lay between 106.61 and 125.83, whereas the previous year the corresponding range had been from 113.49 to 122.59, a much narrower spread.

In view of the differences in sales tendencies among large and small chains, it is desirable to examine what the over-all aggregate sales increase was for all chains reporting to the Bureau for both 1942 and 1943. For the 37 chains providing data the index of change shows that the volume level in 1943 was 6.05% above that in 1942. Since the number of stores was substantially the same in both years the figure is essentially comparable with the medians noted above. Confirmation for this result is available from outside sources: computation on the basis of figures reported by the *Chain Store Age* (with three department store chains eliminated) shows 1943 total sales volume at 6.26% above that of 1942; and the *Survey of Current Business* gives an index figure of 106.3 (monthly average for 1943 divided by monthly average for 1942).

Price Level

There is some doubt about how much of the 1943 sales advance was directly due to a higher price level. The Fairchild Combined Price Index for department stores, which has hitherto been considered as fair an indicator of price trends in the general merchandise field as could be obtained, shows virtually no gain for 1943 over 1942. An index of changes in department store prices constructed by the National Industrial Conference Board¹ shows a rise of 4.7% from January 31, 1943,

¹The Conference Board Business Record, April, 1944.

**Table 2. Distribution of Stores Operated by 31 Variety Chains
Classified According to Sales per Store: 1943**

(Aggregate Figures)

Annual Net Sales per Store	Number of Chains Operating Stores of the Size Indicated	Stores Operated for the Entire Fiscal Year		Net Sales in Stores Operated for the Entire Fiscal Year		Average Sales per Store
		Number	Percentage of Total Number of Stores	Dollars	Percentage of Total Net Sales	
Less than \$30,000.....	10	47	1.52%	\$1,205,042	0.15%	\$25,639
\$30,000-75,000.....	27	495	15.96	26,600,835	3.20	53,739
\$75,000-150,000.....	24	832	26.83	93,232,843	11.23	112,059
\$150,000-250,000.....	19	706	22.77	137,002,901	16.50	194,055
\$250,000-500,000.....	13	643	20.73	226,113,731	27.24	351,654
\$500,000-1,000,000.....	9	272	8.77	182,332,050	21.96	670,338
\$1,000,000-2,000,000.....	8	92	2.97	124,319,202	14.98	1,351,296
\$2,000,000 or More.....	4	14	0.45	39,342,807	4.74	2,810,201
Total.....	31	3,101	100.00%	\$830,149,411	100.00%	\$267,704

to January 31, 1944. And no price indexes, of course, can adequately measure the deterioration in quality which has taken place. Any attempt to gauge changes in the physical volume of merchandise handled by the chains is further complicated by the fact that some of the dollar increases may be due simply to the carrying of higher price lines.

It seems safe to assume, however, that the chains as a whole did experience some increase in physical volume; the fact that the median gain in sales was 14.03% indicates that this was true for the majority of the firms reporting. Gains in physical volume, no doubt, were greatest in regions where there were substantial increases in purchasing power. The data suggest that the large chains with units widely scattered had relatively smaller increases in total transactions than some of the chains with stores more concentrated in districts where demand for merchandise was brisk.

Gross Margin Lower

The average gross margin figure, based on aggregates, was 36.32% of sales for 1943 compared with 36.66% in 1942. As indicated earlier, the significant thing is that there was any drop at all. The effect of price ceilings, which was anticipated but scarcely realized in 1942, has apparently, at last, dented the gross margin. The lowering of the gross margin may have also been in part the result of difficulties in obtaining merchandise to sell at such established price lines as 5¢, 10¢, and 25¢ (which are still likely to account for a large share of the merchandise items in variety stores), the determination to maintain those price lines as far as possible, and the necessity to use substitutes which did not allow the customary markup. Rather meager data for markdowns and shortages¹ show an increase in the percentage of such reduc-

¹Seven of eight chains reporting markdowns and shortages for both 1942 and 1943 recorded increases in the percentage of such markdowns and shortages to net sales.

tions to sales from 1942 to 1943. The higher figure for 1943, arising perhaps from increased pilferage, indicates other forces which may have had a depressing effect on gross margin.

As was the case in 1942, the median and the aggregate figure for gross margin were almost the same. To correct the possible impression that the operating results of variety chains show any decided uniformity from firm to firm, the percentage figures for gross margin, total expense, net profit, net gain, and salaries and wages for all 43 chains are presented in Table 4. It is obvious, if only from the fact that the range in net profit is greater than the range in either gross margin or total expense, that the figures in each horizontal row are not figures for the same firm. But despite the differences from chain to chain, definite patterns of relationship emerge, particularly in classifications made according to volume of sales, and these patterns persist from year to year.

In general, of course, gross margin is likely to depend more on over-all merchandise policies and the buying position of chains in relation to competitors than on rises and falls in sales volume. Consequently, gross margin taken as a whole does not fluctuate so widely as do expenses. The rather minor drop in gross margin in 1943 is not likely to cause much alarm.

Expenses Lower

The question of expenses is much more immediate. Because total expense is made up of many factors which respond differently to changes in the volume of sales, it is necessary to look at its constituents separately.

Salaries and Wages

The largest item in total expense is, of course, salaries and wages. The fact that in 1943 salaries and wages took approximately ½ of 1% more of the sales dollar than in 1942 is not surprising. It is probable that sales personnel had been used to

Table 3. Distribution of Stores Operated by 27 Variety Chains According to Sales per Store: 1942-1943

Annual Net Sales per Store	Number of Chains		Number of Stores Operated for Entire Fiscal Year		Percentage 1943 to 1942
	1942	1943	1942	1943	
Less than \$30,000.....	14	7	70	35	50.00%
\$30,000-75,000.....	24	24	551	488	88.57
\$75,000-150,000.....	23	23	838	831	99.16
\$150,000-250,000.....	17	19	692	706	102.02
\$250,000-500,000.....	10	13	588	643	109.35
\$500,000-1,000,000.....	10	9	242	272	112.40
\$1,000,000 or More.....	7	8	93	106	113.98
Total.....	27	27	3,074	3,081	100.23%

**Table 4. Operating Percentages for
43 Variety Chains: 1943**

(Net Sales=100%; medians in bold type)

NOTE: The percentages in each column are arranged in order of size and hence the percentages in each horizontal row are not figures for the same firm.

Gross Margin	Total Expense including Interest ¹	Net Profit ¹	Net Gain ¹	Salaries and Wages ¹
26.73%	20.35%	1.73%	3.62%	10.91%
28.19	21.06	1.81	3.78	12.56
28.87	21.84	2.43	3.99	12.67
29.97	22.01	2.54	4.33	13.12
30.56	22.04	2.89	4.34	13.58
30.64	23.79	3.06	4.73	13.81
31.56	24.48	4.39	5.40	13.96
32.53	24.63	4.58	6.13	14.05
32.54	24.66	4.82	6.50	14.23
33.73	24.79	4.97	6.52	14.27
33.78	25.12	4.97	6.56	14.28
33.80	25.30	5.25	6.91	14.44
34.12	25.57	5.73	6.93	14.60
34.26	26.12	5.78	7.19	14.69
34.67	26.17	5.95	7.40	15.23
34.72	26.33	6.22	7.56	15.26
34.77	27.31	6.38	7.60	15.33
35.23	27.56	6.51	9.10	15.44
35.24	27.79	7.30	9.29	15.82
35.91	28.01	7.52	9.41	15.93
36.17	28.36	7.94	9.54	16.05
36.37	28.48	7.97	9.62	16.26
36.38	28.65	8.13	9.71	16.75
36.41	28.72	8.26	9.77	16.79
36.64	28.72	8.37	9.93	17.55
37.05	28.98	8.63	10.05	17.60
37.14	29.11	8.65	10.08	17.74
37.36	29.21	8.66	10.31	17.75
37.55	29.73	8.67	10.57	17.85
37.63	30.25	9.50	10.58	18.11
37.67	30.45	9.52	10.84	18.13
37.80	30.72	9.70	10.94	18.23
37.88	30.73	9.82	10.99	18.49
37.88	30.91	9.84	11.47	18.83
38.02	31.06	9.93	12.01	18.85
38.18	31.89	10.24	12.18	18.91
38.22	32.53	10.24	12.42	19.10
38.71	32.70	10.80	12.49	19.36
40.15	32.78	11.28	13.32	19.69
40.16	33.41	11.45	13.87	19.98
40.96	33.74	12.02	14.29	20.98
41.75	33.94	13.22	14.66	21.08
42.78	34.71	18.30	20.65	23.25
36.37%	28.48%	7.97%	9.62%	16.26%
Median	Median	Median	Median	Median

¹Two figures included in the arrays for Total Expense including Interest and for Net Profit have been adjusted so as to be more nearly comparable with the data reported by the other firms. Similarly, one figure included in the array for Net Gain and one in the array for Salaries and Wages have been adjusted.

full advantage even before this year's rise in sales. Consequently, increased sales brought a direct need for increased personnel. This fact, plus a tighter labor market and plus the need to break in new and unqualified personnel, is enough to account for the change in salaries and wages.¹

¹The tendency toward increased salary expense in relation to sales is substantiated by reports to the Bureau of Labor Statistics which indicate that by January, 1944, employment in variety stores generally had increased by about a third over the January, 1939 level, an increase which apparently was not accompanied by a corresponding rise in number of stores operated. U.S. Bureau of Labor Statistics, *Monthly Labor Review*, "Wage Rates in Limited-Price Variety Stores, Spring and Summer of 1943," p. 1265, June 1944.

It will be noted that the median figure for salaries and wages, 16.26%, is considerably higher than the average figure based on aggregate amounts, 14.99%. In other words, the larger chains were making better use of their personnel. The ability of the larger chains to hold their salaries and wages at a lower percentage of sales will be discussed later in the study. For the present, it need be mentioned only that this ability manifested itself also in the figures for previous years and cannot therefore be ascribed to differences in the rate of sales advance which were characteristic specifically of 1943.

Tenancy Costs

Expenses incurred in connection with tenancy were down a little bit less than 1/2 of 1% in relation to sales. Apparently, the chains were able to handle their sales volume without any appreciable expense of physical capacities. For this item, too, there was an appreciable difference between the median and aggregate figures. In this case, however, it was the median, discounting the weight of the larger chains, that was the lower of the two. Moreover, the drop in the median from 1942 to 1943 was greater than the drop in the aggregate figure. These results are to be expected. The median percentage was lower because the smaller chains have plainer, simpler stores, located in towns and cities where rents and real estate prices are lower; and the percentage dropped farther because, with tenancy costs more or less fixed in dollar amounts, the smaller chains realized on the average more sales increase than the larger chains.

Other Expenses

All other minor items showed lower percentage figures for 1943.

Total Expense

The net result of all these changes was a drop in total expense before interest from 27.44% to 27.19% of sales. Adding charges for interest, which for 1943 were 1.41% compared with 1.38% for 1942, did not appreciably alter the relative position of the 1943 and 1942 figures.

Profit Down Slightly

Net operating profit for 1943 was 7.72%, compared to 7.84% for 1942. Net other income was slightly higher than in 1942, thus narrowing the difference between the earnings figures for the two years. As remarked earlier, for all practical purposes the 1943 earnings figure (net gain before taxes), 10.15%, is no different from the 1942 figure, 10.23%. The figures just cited are based on aggregates; the above-mentioned factors, con-

nected with size of firms, of course affected the median figures. The median for 1943 was 9.62% compared with 8.72% for 1942. The moderate-size chains, with earnings lower than the larger chains, nevertheless, did better relative to their own performance of the previous year.

Rate of Stock-turn Higher

The chains carried out these operations with a smaller average stock of merchandise than in 1942. As a consequence of this smaller average dollar investment in merchandise and an increase in the dollar value of merchandise sold, the rate of stock-turn based on beginning and ending inventories was 4.49, compared with 4.16 for the previous year. The rate of stock-turn based on monthly inventories was 4.42, compared with 3.50 in 1942; there is an indication here, although the data are not identical, that the relative decline in stocks carried throughout the year was even more marked than in the stocks on hand at the beginning and end of the year. This tendency is borne out by analysis both of monthly inventory data submitted to the Bureau and of data recently published in the *Survey of Current Business*.¹

Unless other factors enter the picture, stocks will tend to decline relative to sales, and stock-turn will increase, as sales volume rises. In the four years previous to 1943, however, sales had in-

creased, but the stock-to-sales ratio failed to decline. The chains were accumulating merchandise faster than sales were increasing, perhaps partly in expectation of shortages which were threatening in many regular types of merchandise, particularly toward the end of the period. In 1943, however, sales began to rise faster than replenishment of inventories. The chains were able to purchase substitutes for many of the items which they could no longer obtain, but apparently were not anxious to carry heavy supplies of merchandise which would be of doubtful sales value if and when regular supplies again became available. Furthermore, W.P.B.'s Inventory Limitation Order L-219, which went into effect at the beginning of the second quarter of 1943, would have discouraged the chains from accumulating stocks even if they had wanted to; although the order allows for a rising trend in sales, its control of inventories is based on the average relationship of stocks to sales in 1939, 1940, and 1941. As a result of these factors, the ratio of stocks to sales decreased and the rate of stock-turn rose.

The relative increase in the stock-turn rate may be even more significant than is indicated by its magnitude. If, as seems entirely possible, the reason sales failed to increase as rapidly for the variety chains as for the department stores is that stocks were marked by shortages and deficiencies in many of the items customers expected to find there, then the smaller size of inventories may have been responsible for a lower sales volume than would have otherwise been the case.

¹U.S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, "Retail Inventories in The War Period," by Louis J. Paradiso, March 1944.

EFFECT OF SIZE ON OPERATING RESULTS

In Tables 5, 6, and 7, pages 8, 9, and 10, the chains are classified according to volume of sales per chain, number of stores, and average sales per store. All three classifications give somewhat the same results, since the smaller chains usually have fewer stores and lower sales per store than do the larger chains. There are only a few chains reporting to the Bureau which combine the opposite extremes in number of stores and sales per store—far too few to draw any conclusions from their operating results.

Lower Gross Margin for Small Chains

The margin figure was low for the small chains and progressively higher for the medium-size and moderately large chains. This did not show uniformly on all three of the classifications, particularly the classifications by sales per store, but in the classification according to net sales volume per chain its regularity was quite marked. It is natural to expect that higher net sales volume should bring a higher gross margin since such a high margin rate would reflect in part the ability of large-scale enterprises to buy merchandise to better advantage. It should be noted that inward freight, express, and truckage costs have been included with merchandise cost in arriving at the gross margin figure.

Nevertheless, even on the classification by net sales volume there was a slight drop in the gross margin percentage for the very largest chains. This may be a reflection of the fact that past a certain point large-size purchases do not bring additional price differentials or savings in freight, or it may be simply that in expanding their sales the very largest chains have taken on lines which do not carry so large a markup. Any or all of these explanations may be correct. It is entirely possible, for example, that even before a chain achieves very large volume, it may have added lines which are essentially less profitable. Perhaps, however, the better buying of the chain has compensated for disadvantageous markups in a few lines. It may be that it is only when extremely large sales are realized that the drop in the markup occasioned by offering new lines is not compensated for by further buying advantages.

The gross margin, being the difference between cost of goods sold and the retail value of sales, might also be influenced by differences in retail prices. It seems likely, however, that in the limited price variety chain business, with competition strong, the pressure to sell at more or less identical

prices in order to abide by fixed price lines would keep retail prices closely similar.

Another factor which would have an influence on gross margin is the extent of markdowns and shortages. Unfortunately, data were not complete enough to assess the importance of this factor among stores or chains of different sales volume. All that can be said is that because of the shortage of merchandise the smaller chains were probably not being penalized for injudicious buying any more than the larger chains, and that in any event the range of percentages reported for markdowns and shortages was hardly great enough to account for the differences in gross margin.

Higher Expense Rate for Large Chains

Differences in gross margin were matched roughly with corresponding differences in expense. As a general thing, the smaller chains had lower expense rates than the larger chains. In the classification by net sales volume the median expense percentages for the four volume categories in ascending order were 27.53%, 27.79%, 28.36%, and 29.05%.

The fact that a lower expense rate did not accompany an expanded scale of operations deserves some comment. Net sales volume depends, of course, on the number of stores and the sales volume per store. There are, therefore, two possible sources of economy for large chains: (1) the fuller use of sales personnel and physical facilities in each store as sales per store are raised; (2) the centralized organization of administration and buying as number of stores is augmented. It seems logical, since the larger chains both operate more stores and experience larger sales per store, that both these economies might accompany high sales volume.

Salaries and Wages

The effect of these two factors on salaries and wages is about as would be expected. The percentage costs for the largest chains were definitely lowest in all three types of classification. Since the cost for sales personnel was more important than that for administration and general personnel, the effect is clearest on the two classifications which are most likely to reflect the item, namely, the classification by net sales volume and classification by sales per store.

Figures were not complete enough to show the relative effect of the expenditures for the two types of personnel, but the saving on administrative personnel apparently mounts faster than the

Table 5. Operating Results for 42 Variety Chains Classified According to Volume of Sales: 1943

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures				Aggregate Figures			
	Percentages Computed from the Figures of Each Chain Taken Individually				Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales Volume Group			
	Net Sales Volume (in thousands)				Net Sales Volume (in thousands)			
	Less than \$500	\$500-2,000	\$2,000-25,000	\$25,000-200,000	Less than \$500	\$500-2,000	\$2,000-25,000	\$25,000-200,000
Number of Chains.....	12	9	13	8	12	9	13	8
Average Sales per Store.....	\$42,193	\$79,723	\$99,812	\$335,731	\$50,407	\$71,006	\$94,183	\$331,718
Index of Change (1943/1942):								
Number of Stores per Chain.....	100.00	100.00	100.00	99.76	....	....	....	....
Net Sales per Chain.....	125.83	120.66	115.39	107.09	....	....	....	....
Average Sales per Store.....	129.94	120.66	114.01	107.36	....	....	....	....
Net Sales in Identical Stores ²	129.96	118.84	113.81	107.36	....	....	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage)....	67.95%	64.76%	62.12%	63.29%	66.10%	64.33%	61.91%	63.21%
GROSS MARGIN.....	32.05	35.24	37.88	36.71	33.90	35.67	38.09	36.79
Salaries and Wages.....	15.90%	17.74%	16.26%	15.25%	16.62%	17.71%	17.11%	15.16%
Tenancy Costs.....	2.88	2.98	4.21	6.50	2.98	3.27	4.76	6.63
Light, Water, and Power.....	0.78	0.68	0.67	0.76	0.74	0.73	0.75	0.75
Depreciation of Fixtures and Equipment.....	0.50	0.51	0.69	0.61	0.65	0.53	0.87	0.61
Supplies.....	0.92	0.68	0.88	0.89	1.02	0.79	0.85	0.91
Advertising.....	0.18	0.18	0.14	0.15	0.20	0.15	0.16	0.29
Insurance (except on real estate).....	0.46	0.28	0.41	0.40	0.63	0.32	0.42	0.34
Taxes (except on real estate or income):								
Sales.....	0.00	0.00	0.00	0.04	0.01	0.26	0.00	0.06
Other.....	1.00	1.00	1.03	0.89	1.06	1.03	0.99	0.88
Miscellaneous Expense.....	1.98	1.31	1.13	1.75	2.62	1.59	1.26	1.57
Total Expense before Interest.....	26.23%	26.66%	26.90%	27.89%	26.53%	26.38%	27.17%	27.20%
Total Interest.....	1.35	1.20	1.28	1.19	1.54	1.16	1.25	1.36
TOTAL EXPENSE including Interest.....	27.53%	27.79%	28.36%	29.05%	28.07%	27.54%	28.42%	28.56%
NET PROFIT.....	5.87%	8.37%	8.65%	8.31%	5.83%	8.13%	9.67%	8.23%
Net Profit from Real Estate Operations.....	0.00%	0.06%	0.15%	0.64%	0.05%	0.10%	0.24%	0.99%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	1.26	1.10	1.27	1.20	1.35	1.12	1.22	1.38
Other Revenue, Net.....	0.00	0.01	0.08	0.21	0.13	0.01	0.16	0.06
Total Net Other Income.....	1.41%	1.20%	1.44%	2.18%	1.53%	1.23%	1.62%	2.43%
NET GAIN before Income Taxes:								
Percentage of Net Sales.....	7.30%	9.71%	10.31%	10.58%	7.36%	9.36%	11.29%	10.66%
Percentage of Net Worth ⁴	30.53	52.80	42.09	29.61	30.41	48.21	41.78	25.90
Taxes on Income and Excess Profits ⁴	*	6.42%	7.74%	7.53%	*	6.28%	8.33%	7.41%
Total Excess Profits Tax Credits ⁴	*	0.28	0.68	0.56	*	0.33	0.77	0.54
Net Taxes on Income and Excess Profits ⁴	*	6.26%	7.14%	6.93%	*	5.95%	7.56%	6.87%
NET GAIN after Income Taxes:								
Percentage of Net Sales ⁴	*	2.89%	2.94%	3.65%	*	3.12%	3.22%	3.79%
Percentage of Net Worth ⁴	*	14.75	11.72	10.88	*	15.00	11.85	9.26
Rate of Stock-turn (times a year):								
Based on Beginning and Ending Inventories.....	3.40	4.61	3.96	4.50	3.44	4.76	3.89	4.38
Based on Monthly Inventories ⁵	*	*	3.03	4.32	*	*	3.18	4.56
Total Markdowns and Shortages.....	*	*	*	*	*	*	*	*
Freight, Express, Postage, and Truckage.....	2.38%	1.51%	2.07%	1.59%	*	*	*	1.75%
Distribution of Stores among Cities with Populations of: ⁶								
Less than 10,000.....	....	....	....	....	73.59%	79.55%	67.07%	16.90%
10,000-25,000.....	....	....	....	....	1.89	8.33	15.42	24.96
25,000-100,000.....	....	....	....	....	3.77	2.27	6.24	29.67
100,000-500,000.....	....	....	....	....	16.98	9.85	6.49	12.94
500,000-1,000,000.....	....	....	....	....	3.77	0.00	2.82	5.98
1,000,000 or More.....	....	....	....	....	0.00	0.00	1.96	9.55

*Data not available. See the paragraph on methods, Appendix, page 38.

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²Data on stores operated continuously for 24 consecutive months were provided by 6 chains in the first group, 7 in the second, 10 in the third, and by all chains in the fourth group.

³The figures for net gain as a percentage of net worth were based on the reports of the 11 chains in the first group, 8 chains in the second group providing balance sheet data, and the reports of all chains in the third and fourth groups.

⁴The figures for this item were based on data for 6 chains in the second group.

⁵The figures for this item for the chains in the third group were based on reports of the 9 chains giving monthly data.

⁶Data on store locations were provided by 11 firms in the first group.

Table 6. Operating Results for 42 Variety Chains (Classified According to Number of Stores: 1943

(Net Sales= 100%, except where noted)

Items	Median Figures				Aggregate Figures			
	Percentages Computed from the Figures of Each Chain Taken Individually				Percentages Computed from the Combined Dollar Figures of the Chains in Each Number-of-Stores Group			
	Number of Stores				Number of Stores			
	Less than 10 Stores	10-50 Stores	50-150 Stores	150-750 Stores	Less than 10 Stores	10-50 Stores	50-150 Stores	150-750 Stores
Number of Chains.....	15	13	7	7	15	13	7	7
Average Sales per Store.....	\$52,630	\$78,057	\$102,558	\$332,623	\$60,480	\$92,582	\$200,500	\$305,759
Index of Change (1943/1942):								
Number of Stores per Chain.....	100.00	100.00	100.00	100.00	....	....	....	....
Net Sales per Chain.....	119.77	123.05	112.11	106.61	....	....	....	....
Average Sales per Store.....	127.26	120.66	112.16	106.61	....	....	....	....
Net Sales in Identical Stores ²	121.85	120.66	111.10	107.36	....	....	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage)....	67.46%	63.59%	62.12%	62.95%	66.74%	63.76%	62.67%	63.15%
GROSS MARGIN.....	32.54	36.41	37.88	37.05	33.26	36.24	37.33	36.85
Salaries and Wages.....	17.75%	16.79%	17.60%	15.23%	17.07%	16.42%	16.64%	15.06%
Tenancy Costs.....	3.04	3.32	5.73	6.36	3.57	4.01	6.45	6.53
Light, Water, and Power.....	0.75	0.73	0.80	0.71	0.68	0.81	0.79	0.74
Depreciation of Fixtures and Equipment.....	0.54	0.58	0.69	0.60	0.61	0.65	0.77	0.59
Supplies.....	0.82	0.76	0.98	0.86	0.91	0.95	1.01	0.89
Advertising.....	0.18	0.17	0.09	0.14	0.20	0.23	0.06	0.33
Insurance (except on real estate).....	0.46	0.34	0.34	0.41	0.57	0.47	0.35	0.34
Taxes (except on real estate or income):								
Sales.....	0.00	0.00	0.01	0.05	0.01†	0.09	0.05	0.05
Other.....	0.91	1.00	1.03	0.89	0.97	1.01	0.94	0.88
Miscellaneous Expense.....	2.04	1.16	1.28	1.17	2.61	1.26	1.84	1.49
Total Expense before Interest.....	27.37%	26.66%	27.61%	28.00%	27.18%	25.90%	28.90%	26.90%
Total Interest.....	1.40	1.29	1.15	1.45	1.52	1.31	1.10	1.40
TOTAL EXPENSE including Interest.....	28.72%	27.56%	28.65%	29.11%	28.70%	27.21%	30.00%	28.30%
NET PROFIT.....	4.97%	8.65%	8.26%	9.70%	4.56%	9.03%	7.33%	8.55%
Net Profit from Real Estate Operations.....	0.00%	0.11%	0.24%	0.59%	0.03%	0.13%	0.52%	1.03%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	1.34	1.12	1.05	1.27	1.39	1.26	1.03	1.42
Other Revenue, Net.....	0.00	0.03	0.07	0.06	0.04	0.18	0.77	L. 0.06
Total Net Other Income.....	1.45%	1.23%	1.44%	1.90%	1.46%	1.57%	2.32%	2.39%
NET GAIN before Income Taxes:								
Percentage of Net Sales.....	6.56%	10.05%	10.58%	12.18%	6.02%	10.60%	9.65%	10.94%
Percentage of Net Worth ²	30.47	42.91	40.02	33.18	25.28	45.61	38.04	25.30
Taxes on Income and Excess Profits ⁴	2.54%	7.31%	7.33%	8.28%	*	7.29%	6.68%	7.65%
Total Excess Profits Tax Credits ⁴	0.00	0.50	0.55	0.63	*	0.58	0.56	0.56
Net Taxes on Income and Excess Profits ⁴	2.27%	7.03%	6.79%	7.72%	*	6.71%	6.12%	7.09%
NET GAIN after Income Taxes:								
Percentage of Net Sales ⁴	3.39%	3.09%	2.95%	3.48%	*	3.00%	3.31%	3.85%
Percentage of Net Worth ⁴	14.15	13.53	10.90	11.73	*	13.54	12.98	8.89
Rate of Stock-turn (times a year)								
Based on Beginning and Ending Inventories	3.49	4.19	4.74	4.41	3.80	4.01	4.25	4.36
Based on Monthly Inventories ⁵	*	3.49	4.08	4.32	*	3.20	3.87	4.59
Total Markdowns and Shortages.....	*	*	*	2.94%	*	*	*	*
Freight, Express, Postage, and Truckage....	2.29%	1.85%	1.84%	1.69%	*	*	*	*
Distribution of Stores among Cities with Populations of: ⁶								
Less than 10,000.....	....	....	....	....	68.49%	69.82%	40.93%	23.75%
10,000-25,000.....	....	....	....	....	8.22	15.24	13.94	25.20
25,000-100,000.....	....	....	....	....	2.74	4.88	18.44	26.70
100,000-500,000.....	....	....	....	....	17.81	6.71	11.69	11.61
500,000-1,000,000.....	....	....	....	....	2.74	3.35	3.60	5.62
1,000,000 or More.....	....	....	....	....	0.00	0.00	11.40	7.12

*Data not available. See the paragraph on methods, Appendix, page 38. †Collections in excess of payments.

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²Data on stores operated continuously for 24 consecutive months were provided by 8 chains in the first group, 11 chains in the second group, and 6 chains in the third and fourth groups.

³The figures for net gain before income taxes as a percentage of net worth for firms in the first group were based on the reports of the 13 chains which provided complete balance sheet data.

⁴The figures for this item were based on data for 9 chains in the second group, 6 chains in the third group, and all chains in the fourth group.

⁵The figures for this item were based on monthly data reported by 8 firms in the second group, 5 firms in the third group, and all firms in the fourth group.

⁶Data on store locations were provided by 14 firms in the first group and by all firms in the three larger groups.

Table 7. Selected Operating Results for 41¹ Variety Chains Classified According to Average Sales per Store: 1943

(Net Sales = 100%, except where noted)

Items	Median ² Figures					Aggregate Figures				
	Percentages Computed from the Figures of Each Chain Taken Individually					Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales-per-Store Group				
	Sales per Store (in thousands)					Sales per Store (in thousands)				
	Less than \$50	\$50-75	\$75-100	\$100-250	\$250 or More	Less than \$50	\$50-75	\$75-100	\$100-250	\$250 or More
Number of Chains ³	8	8	9	9	7	8	8	9	9	7
Av. Sales per Store (in thou.)	\$32	\$63	\$87	\$130	\$338	\$40	\$66	\$91	\$149	\$350
GROSS MARGIN.....	34.35%	35.66%	36.38%	35.91%	36.37%	36.37%	38.67%	37.27%	37.33%	36.73%
Salaries and Wages:										
Store Managers.....	*	*	*	2.72%	1.65%	*	*	*	*	*
Salespeople and Other Store.....	*	*	*	9.79	12.00	*	*	*	*	*
Total Store Salaries and Wages (subtotal).....	*	*	14.15%	13.12	13.23	*	*	*	*	13.19%
Total Admin. and General	*	*	4.30	2.70	2.00	*	*	*	*	1.93
Total Salaries and Wages	15.68%	17.94%	18.11	15.93	15.23	17.31%	18.56%	17.64%	16.03%	(15.12)
Tenancy Costs:										
Store.....	*	*	2.76	*	6.52	*	*	*	*	6.49
Administrative and Gen.	*	*	0.29	*	0.12	*	*	*	*	0.15
Total Tenancy Costs.....	3.09	3.04	3.10	4.53	6.63	3.35	3.61	3.67	5.88	(6.64)
Light, Water, and Power...	0.88	0.71	0.59	0.73	0.80	0.90	0.80	0.66	0.76	0.76
Depreciation of Fixtures and Equipment.....	0.60	0.64	0.51	0.58	0.62	0.78	0.65	0.56	0.80	0.60
Taxes: Sales.....	0.00	0.00	0.00	0.00	0.05	0.04	0.18	0.05†	0.02	0.06
Other.....	1.04	1.14	1.03	0.77	0.88	1.12	1.05	1.10	0.97	0.87
All Other Expense.....	3.58	2.59	2.58	3.35	3.38	3.32	2.47	2.46	3.24	3.11
Total Expense before Interest	25.65%	27.09%	26.66%	26.90%	27.77%	26.82%	27.32%	26.04%	27.70%	27.16%
Total Store Expense.....	*	*	19.92%	23.22%	24.81%	*	*	*	*	24.01%
Total Administrative and General Expense.....	*	*	5.76	4.11	2.94	*	*	*	*	3.15
Total Expense before Interest	25.65%	27.09%	26.66%	26.90%	27.77%	26.82%	27.32%	26.04%	27.70%	27.16%
Total Interest.....	1.24	1.32	1.32	1.27	1.21	1.32	1.31	1.14	1.21	1.37
TOTAL EXPENSE inc. Interest	26.82%	28.26%	28.01%	28.48%	28.98%	28.14%	28.63%	27.18%	28.91%	28.53%
NET PROFIT.....	5.68%	8.46%	8.37%	7.30%	7.94%	8.23%	10.04%	10.09%	8.42%	8.20%
Net Other Income.....	1.24	1.27	1.44	1.66	2.25	1.34	1.44	1.35	1.88	2.47
NET GAIN before Inc. Taxes:										
Percentage of Net Sales...	7.06%	9.56%	9.77%	9.29%	10.58%	9.57%	11.48%	11.44%	10.30%	10.67%
Percentage of Net Worth ⁴	30.47	44.19	44.75	42.09	26.03	43.87	49.31	52.98	36.77	25.38
Net Taxes on Income and Excess Profits ⁵	*	6.81%	6.26%	6.53%	6.76%	*	6.26%	7.32%	6.98%	6.87%
NET GAIN after Inc. Taxes:										
Percentage of Net Sales ⁶	*	3.11%	3.19%	3.37%	3.82%	*	2.81%	3.30%	3.43%	3.80%
Percentage of Net Worth ⁶	*	14.15	13.09	12.71	10.03	*	13.63	15.12	12.21	9.05
Annual Rate of Stock-turn Based on Beginning and Ending Inventories.....	3.44	3.49	4.89	4.17	4.58	3.82	3.67	5.04	4.02	4.39
Based on Monthly Inven. ⁶	*	3.60	*	2.82	4.32	*	3.84	*	3.42	4.62
Distribution of Stores among Cities with Population of: ⁷										
Less than 10,000.....	....	....	....	....	....	78.26%	81.13%	83.27%	35.35%	15.03%
10,000-25,000.....	....	....	....	....	....	4.35	9.18	9.46	32.62	23.46
25,000-100,000.....	....	....	....	....	....	2.90	1.53	1.45	17.38	30.71
100,000-500,000.....	....	....	....	....	....	11.59	8.16	5.82	6.45	13.91
500,000-1,000,000.....	....	....	....	....	....	2.90	0.00	0.00	4.88	6.46
1,000,000 or More.....	....	....	....	....	....	0.00	0.00	0.00	3.32	10.43

*Data not available. See the paragraph on methods, Appendix, page 38.

¹In preparing this table, figures for two reporting chains, comprising one very large chain and another with more than 50 small stores, were excluded.

²All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

³Separate data for store and administrative costs were given by none of the chains with sales per store of less than \$50,000, and by only 4 of the chains with 5 chains in each of the third and fourth groups provided this functional breakdown of expense; hence the medians given for those groups are based on a very limited sample. All the chains in the last group provided detailed data by functions.

⁴The figures for this item for the chains in the first and third groups were based on the reports of the 7 and 8 firms, respectively, giving complete balance sheet data.

⁵The figures for this item were based on data for 7 chains in the second group, 6 chains in the third group, 8 chains in the fourth group, and all chains in the last group. None of the chains in the first group reported data on income taxes and net gain after taxes.

⁶The figures for this item were based on monthly data reported by 5 chains in the second group, 7 chains in the fourth group, and all chains in the last group.

⁷Data on store locations were provided by 8 firms in the fourth group.

saving on store personnel. In the classification by sales per store, for example, in the three top categories the median figures for total store salaries and wages ran 14.15%, 13.12%, and 13.23%, whereas total administration and general salaries ran 4.30%, 2.70%, and 2.00%. Detailed figures for the two bottom categories are not available, but assumptions can be made from the behavior of the total salaries and wages figures. The store salary and wage figure probably decreases fairly rapidly at the first stages of growth and then flattens out as sales per store reach the point where personnel are fully utilized (this point would probably come fairly early in the case of variety chains, in contrast to department stores).¹ The administrative and general salary figure would probably rise as the number of stores is first increased (as management passes from the stage where it is handled by proprietors who give most of their time to sales in the stores) and from that point on, decline fairly rapidly. The combination of the two would give the largest chains the lowest total salary figure and the smaller stores a progressively higher figure, with the possible exception of the very smallest chains with informal administrative routine.

Tenancy Costs

With tenancy costs, however, the economy of large-scale operation was not realized. On the contrary, tenancy costs were substantially higher for large than for small chains. As shown in past studies the rise from one size group to another was progressive, with a particularly sharp jump in the case of the largest chains. Rents and real estate costs were higher in the large cities; also the larger chains in competition with department stores in large cities not only diversified their merchandise offerings but also modernized and enlarged their store facilities. Indeed, extra expenditure for tenancy costs was large enough to wipe out the economy achieved in salary and wage expenses and thus to make total expenses higher for the larger firms. The fact that higher gross margins can be secured by firms with large sales volume has made it possible for the larger chains to stand these higher tenancy costs.

¹A significant factor influencing store salaries is the variation in wage rates found for different sections of the country. According to the Bureau of Labor Statistics, hourly wage rates in the summer of 1943 were lowest in the southern cities and highest in the mountain and Pacific cities. Since the Harvard reports for individual chains cover all stores operated by each chain, the influence of geographical differences cannot be traced accurately in the averages. However, in the groups of small and moderate-size stores given in Table 7, this factor may be exerting some influence through the statistics of regional or local chains included in these groups. For details on regional wage rates in variety stores, see U. S. Bureau of Labor Statistics, *Monthly Labor Review*, op. cit., pp 1265-1271.

Other Expenses

Differences in the other items of expense seemed to form no definite pattern in response to differences in the scale of operations; moreover, they were of so small a magnitude that they had no appreciable effect on differences in total expense.

Earnings

The fact that an increasing expense rate accompanied increasing gross margin, as we move from the lower sales volume categories to the higher, means that in general the net profit figure was similar for all categories. The only significant exception was the definitely lower profit of the smallest chains, which had a disproportionately narrow margin. When other income was added to net profit, however, the advantage of the larger chains became more apparent and, according to all three types of classification, net gain tended to rise with an expanding scale of operations. Figured as a percentage of net worth rather than a percentage of net sales, net gain was most favorable for chains in the medium categories.

Income taxes fell more heavily on the larger chains, of course, than on the smaller chains. Here the smaller chains came into their own. Nevertheless there was a tendency for net gain after income taxes to be highest for the large chains and progressively lower for the smaller chains.

Rate of Stock-Turn

The rate of stock-turn was higher for large chains than for the very small chains. Although the differences did not follow a very regular pattern, apparently the smallest chains had the lowest stock-turn. Higher sales levels tend to be accompanied by higher stock-turn rates; this, of course, is the expected reaction. In the table for firms classified by total volume, however, the figures indicate that the stock-turn rate was relatively low for firms with sales of \$2,000,000 to \$25,000,000. Perhaps the chains in this higher-volume category had broadened their lines of merchandise to include items which require a larger variety of stocks from which to select, thus counteracting the effect of increased sales; this would be consistent with the fact that among the very largest chains the stock-turn rate again climbed. One other explanation, however, is possible. Nine of the 13 chains in the third volume group reported on their warehousing activities. For these chains the median percentage of goods sold which passed through the chain warehouses was 25%. For the eight chains in the fourth volume group the corresponding

figure was 6.0%. Thus the slower stock-turn rates of the chains in the third volume group may have reflected more extensive warehouse stocks.

Location of Stores

The data on distribution of stores among cities of different population show that the variety store is still predominantly a small-town store. It is true, of course, that the larger chains with their larger stores have had to place more reliance on cities of more than 10,000 population. Nevertheless, nearly 75% of all the stores represented in the study were in cities of less than 100,000 and the figures suggest that the smaller chains apparently drew the bulk of their total business from towns of less than 10,000. The Census for 1939 similarly indicated that 75.14% of all the variety chain stores in the United States were located in cities with population of less than 100,000 and of these one-half were in cities of less than 10,000.¹

On the other hand, stores located in cities with populations of 500,000 or more represented only 16.40% of the 1943 Harvard sample and 14.66% of all variety chain stores in the country in 1939. It is interesting to note that in 1939 these chain stores in the largest cities achieved 23.27% of total variety chain store sales, according to the Census, and employed 21% of total chain store workers, according to the Bureau of Labor Statistics.²

Breakdown of Expenses for 17 Large Variety Chains

In Table 8, page 13, the expenses for 17 large variety chains are given in more detail. The chains were divided into two net sales volume groups, those with net sales of \$2,000,000 to \$25,000,000 and those with net sales of \$25,000,000 to \$200,000,000. Differences between the two groups are fundamental enough to bring out very strongly the effect on expenses of increased scale of operations at the upper end of the range. Again, as in the previous discussion of expenses, salaries and wages and tenancy costs were the two large items which in effect determined the level of expense.

Store Expense

In the case of total store expense, considered separately from administrative and general expense, the group of larger chains showed the higher percentage figure. The difference in ten-

ancy costs, which were higher for the larger chains, minus the difference in the salaries and wages, which were lower for the larger chains, was almost identical with the difference in total store expense. As might be expected, the larger chains with average sales per store of some \$330,000 spent less percentagewise for store managers' salaries than did the smaller stores with average sales per store of about \$93,000. At the same time, the larger chains apparently spent proportionately more for salespeople and all other store personnel—by an amount even greater than their saving on store managers. In other words, as far as sales personnel is concerned, no economies were realized beyond the point of sales volume reached by the group of smaller chains covered in this table.

Administrative and General Expense

In administrative and general expense, the group of larger chains showed a definite economy in administrative salaries and wages, that is, salaries and wages for officers and chief executives, buyers and district managers—more economy, indeed, than in salary expenditures for office and other general employees who handle the control procedures and the clerical work which that involves. All in all, the group of larger chains showed an economy in total administrative and general expense of about 1½% of sales.

Since this economy in administrative and general expense was matched against a heavier store expense, the two groups came out with total expenses almost even.

Counteracting Forces at Work

Throughout this classification and the three classifications discussed above it becomes very clear that in the variety chain, as in so many other types of retail organization, there are two counteracting forces at work as the scale of operations is expanded, one leading to economies and the other to higher levels of expenditures. The second of these two forces seems to spring fundamentally from the desire to push sales volume beyond the optimum point or at least beyond the point to which it can go without meeting increasingly stubborn sales resistance, that resistance in turn calling for more aggressive and therefore more expensive selling. Nevertheless, as data for large-scale retail operations show, both in the variety chain field and in others, it is possible to go beyond this point profitably; the increased buying power gained from the added sales can be utilized to widen the gross margin and thus compensate for the climb in expense rates.

¹U. S. Bureau of the Census, Sixteenth Census of the United States: 1940, *Census of Business*, Volume I, *Retail Trade: 1939*, Part I, pp. 130, 131.

²Op. cit., p. 1266.

Table 8. Store Expense, General Overhead Expense, and Total Expense for 17 Variety Chains Classified According to Volume of Sales* 1943

(Net Sales = 100%, except where noted)

Items	Median Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Chain Taken Individually		Percentages Computed from the Combined Dollar Figures of the Chains in Each Sales Volume Group	
	Net Sales Volume (in thousands)		Net Sales Volume (in thousands)	
	\$2,000-25,000	\$25,000-200,000	\$2,000-25,000	\$25,000-200,000
Number of Chains.....	9	8	9	8
Average Sales per Store.....	\$93,944	\$335,731	\$92,605	\$331,718
Store Expense:				
Salaries, Wages, and Bonuses:				
Store Managers.....	4.07%	1.85%	3.97%	*
Salespeople.....	*	7.83	*	8.31%
All Other Store.....	*	3.28	*	*
Total Salespeople and All Other Store.....	9.58%	11.79%	9.94%	*
Total Store Salaries and Wages.....	14.17%	13.38%	13.91%	13.21%
Tenancy Costs.....	4.55	6.39	4.92	6.48
Light, Water, and Power.....	0.66	0.75	0.72	0.74
Depreciation of Fixtures and Equipment.....	0.69	0.58	0.86	0.58
Supplies.....	0.72	0.80	0.71	0.82
Advertising.....	0.11	0.15	0.14	0.29
Insurance (except on real estate).....	0.40	0.39	0.34	0.32
Taxes (except on real estate or income):				
Sales.....	0.00	0.04	0.00	0.06
Other.....	0.77	0.63	0.75	0.65
Miscellaneous Expense.....	0.73	0.82	0.85	0.85
Total Store Expense before Interest.....	23.22%	24.41%	23.20%	24.00%
Administrative and General:				
Salaries and Wages:				
Officers and Chief Executives.....	0.93%	0.31%	*	*
Buyers.....	0.62	0.46	*	*
District Managers.....	0.53	0.28	*	*
Total Administrative.....	2.27%	1.10%	*	*
Office.....	*	0.77%	*	*
All Other.....	*	0.20	*	*
Total General.....	1.03%	0.97%	*	*
Total Administrative and General Salaries and Wages.....	3.47%	2.02%	3.36%	1.95%
Tenancy Costs.....	0.17	0.14	0.14	0.15
Light, Water, and Power.....	0.02	0.01	0.01	0.01
Depreciation of Fixtures and Equipment.....	0.05	0.03	0.05	0.03
Supplies.....	0.10	0.09	0.11	0.09
Insurance (except on real estate).....	0.07	0.02	0.09	0.02
Taxes (except on real estate or income).....	0.27	0.21	0.24	0.23
Miscellaneous Expense.....	0.51	0.71	0.43	0.72
Total Administrative and General Expense.....	4.65%	3.08%	4.43%	3.20%
Total Expense (Store and Admin. and Gen. Combined):				
Salaries and Wages.....	18.23%	15.25%	17.27%	15.16%
Tenancy Costs.....	4.72	6.50	5.06	6.63
Light, Water, and Power.....	0.67	0.76	0.73	0.75
Depreciation of Fixtures and Equipment.....	0.72	0.61	0.91	0.61
Supplies.....	0.88	0.89	0.82	0.91
Advertising.....	0.11	0.15	0.14	0.29
Insurance (except on real estate).....	0.41	0.40	0.43	0.34
Taxes (except on real estate or income):				
Sales.....	0.00	0.04	0.00	0.06
Other.....	1.10	0.89	0.99	0.88
Miscellaneous Expense.....	1.13	1.75	1.28	1.57
Total Expense before Interest.....	27.41%	27.89%	27.63%	27.20%
Rate of Stock-turn (times a year):				
Based on Beginning and Ending Inventories.....	3.96	4.50	3.84	4.38
Based on Monthly Inventories ²	3.35	4.32	3.23	4.56

*Data not available. See the paragraph on methods, Appendix, page 38.
¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.
²The figures for this item in the first group were based on the reports of the 8 chains giving monthly data.

Tax Expenses

In Table 9, below, the tax expenses of 17 large variety chains are broken down in detail. Interestingly enough, it becomes clear that at this high level of volume the very largest chains paid less of their 1943 sales dollar out in taxes

(excluding real estate and income levies) than the next-to-largest chains. This shows up not only in property taxes, which reflect the investment in inventory in relation to sales, but also in social security taxes and miscellaneous taxes. Net taxes on income and excess profits were also lower for the largest chains.

**Table 9. Breakdown of Tax Expense for 17 Variety Chains¹
Classified According to Volume of Sales: 1943**

(Median * Figures: Net Sales=100%)

Items	Net Sales Volume (in thousands)	
	\$2,000- 25,000	\$25,000- 200,000
Number of Chains.....	9	8
Sales Taxes.....	0.02%	0.04%
Other Store Taxes (except on real estate):		
Social Security Taxes.....	0.42%	0.41%
Property Taxes (except on real estate).....	0.29	0.19
Miscellaneous Taxes (including occupational licenses and state chain store taxes).....	0.10	0.09
Total Other Store Taxes.....	0.81%	0.63%
Administrative and General Taxes (except on real estate and income):		
Social Security Taxes.....	0.07%	0.04%
Property Taxes (except on real estate).....	0.01	0.00
Capital Stock Taxes.....	0.15	0.15
Miscellaneous Taxes (including occupational licenses).....	0.01	0.00
Total Administrative and General Taxes.....	0.27%	0.21%
Total Taxes (except on sales, real estate, and income):		
Social Security Taxes.....	0.51%	0.46%
Property Taxes (except on real estate).....	0.30	0.19
Capital Stock Taxes.....	0.15	0.15
Miscellaneous Taxes (including occupational licenses and state chain store taxes).....	0.14	0.09
Total Taxes (except on sales, real estate, and income).....	1.16%	0.89%
Provision for Taxes on Income and Excess Profits.....	7.74%	7.53%
Total Excess Profits Tax Credits (Postwar Refund and Debt Retirement Credit).....	0.61	0.56
Net Taxes on Income and Excess Profits.....	7.14%	6.93%

¹Not all reporting chains provided the details necessary for this table. Moreover, figures reported by Canadian firms were omitted.
*All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

EFFECT OF DEGREE OF CHANGE IN SALES PER STORE

For 1943, as for previous years, a classification has been made to bring out the effects on operating results of different degrees of change in sales. In Table 10, below, figures for chains with sales-per-store increases from 1942 to 1943 of less than 15% have been set up separately from those for firms with increases of 15% or more.

High Sales Increase for Small Stores

The table makes it clear immediately that chains with small sales per store realized a higher rate of sales gain than did chains with large sales per store—the average amount of sales per store

for the chains with the higher rate of increase being \$53,472 in 1942 and for chains with the lower rate of increase, \$290,604. This is quite different from the similar comparison based on the rate of sales change from 1941 to 1942. In that analysis, included in the report for 1942, the average sales per store for each group were about the same. Also, as mentioned earlier, the sales increase in 1943 was much more erratic than in 1942.

The larger variety stores have as a general thing gained much less volume than the smaller stores, perhaps because, with more of them located in the larger cities, they came up more strongly

Table 10. Comparison of Operating Data for 1942 and 1943 for 30 Variety Chains¹ Classified According to Degree of Change in Sales per Store from 1942 to 1943

(Based on Aggregate Figures Divided by the Number of Stores Operated)

Items	Chains with Sales-per-Store Increases from 1942 to 1943 of					
	Less than 15.0% (16 chains)			15.0% or More (14 chains)		
	Average Amount or Percentage ² 1942	Index of Change in Dollar Amount per Store 1943/1942	Average Amount or Percentage ² 1943	Average Amount or Percentage ² 1942	Index of Change in Dollar Amount per Store 1943/1942	Average Amount or Percentage ² 1943
Average Number of Stores.....	2,456	99	2,440	432	100	432
Average Sales per Store.....	\$290,604	107	\$311,169	\$53,472	125	\$66,591
Inventory—Beginning of Year.....	14.96%	104	14.53%	21.43%	93	15.93%
Net Purchases plus Freight, Express, Postage, and Trackage.....	63.15	107	63.15	59.68	128	61.54
Inventory—End of Year.....	15.30	101	14.46	19.88	102	16.33
Net Cost of Merchandise Sold.....	62.81	108	63.22	61.23	124	61.14
GROSS MARGIN.....	37.19	106	36.78	38.77	125	38.86
Salaries and Wages.....	15.00%	109	15.28%	17.65%	119	16.89%
Tenancy Costs.....	6.96	101	6.55	4.25	110	3.74
Light, Water, and Power.....	0.84	96	0.76	0.89	105	0.75
Depreciation of Fixtures and Equipment.....	0.66	101	0.62	1.11	92	0.82
Supplies.....	1.02	96	0.93	1.10	97	0.85
Advertising.....	0.37	88	0.30	0.22	92	0.17
Insurance (except on real estate).....	0.37	96	0.33	0.54	96	0.42
Taxes (except on real estate or income):						
Sales.....	0.06	88	0.05	0.09	66	0.05
Other.....	0.92	103	0.88	1.42	94	1.08
Miscellaneous Expense.....	1.56	107	1.55	1.18	121	1.15
Total Expense before Interest.....	27.76%	105	27.25%	28.45%	113	25.92%
Total Interest.....	1.34	109	1.36	1.75	97	1.37
TOTAL EXPENSE including Interest.....	29.10%	105	28.61%	30.20%	113	27.29%
NET PROFIT.....	8.09%	108	8.17%	8.57%	168	11.57%
Net Other Income.....	2.36	109	2.40	1.75	105	1.47
NET GAIN before Income Taxes.....	10.45%	108	10.57%	10.32%	157	13.04%
Net Taxes on Income and Profits ³	6.72	109	6.85	6.64	159	8.89
NET GAIN after Income Taxes ³	3.74%	107	3.74%	3.03%	123	3.11%
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	4.15	....	4.36	2.96	....	3.79

¹The firms considered in this table include those which experienced a change in number of stores of not more than 5% from 1942 to 1943. One large chain was omitted from each classification in order that the results would be more representative of the groups as a whole.

²Percentages of average sales per store, except where noted. ³Income tax data were based on the reports of 14 chains in the first group and 6 chains in the second group.

against the competition of department stores, apparel chain stores, and so forth, which were able to capitalize on consumers' desires to trade up in quality. There is little doubt of the tendency on the part of the consumers to buy merchandise of better quality; the sales of department store basements, for example, failed to advance as fast in 1943 as did main store sales. The smaller variety stores, which are concentrated in towns of 10,000 or less, did not face the same degree of competition, since towns of that size do not often have department stores or apparel chain stores.

In this kind of a situation, merchandise difficulties—shortages and quality deterioration—would be most likely to lead to a slackening of sales advance in the larger variety stores (and hence the larger variety chains). It is certainly part of the explanation, too, that increases in income have been later in coming to the smaller towns and that the smaller chains show regional gains whereas the larger chains spread over the whole country have had such regional increases cancelled out by stores in other parts of the country where purchasing power was relatively low. Examination of the data shows that the regional or local chains represented in the group with small increases were located in sections of the country where variety chain stores have recorded small sales gains according to the Chain Store Age Index, notably the Atlantic Seaboard and the Rocky Mountain states. In contrast, several of the chains with large increases were on the Pacific Coast where sales potentials have been extremely high in 1943. But whatever the explanation, the pattern is quite marked: the sales advance did slacken in the larger stores—and did not in the smaller stores.

Each of the two sales increase groups can be taken separately and a comparison of its 1943 and 1942 figures made. Comparison between the two groups is less significant because the data reflect primarily differences between the operations of large stores and the operations of small stores. The figures for stock-turn are a case in point.

The stock-turn rate for chains with 15% or more sales gain was 3.79 for 1943. For the chains with less than 15% gain the corresponding figure was 4.36. We might have looked for a higher rate of stock-turn for the firms with the highest sales gains; instead of that, we have a figure which is lower—a characteristic of small chains. But if we look at the separate groups, we see that the gain in stock-turn rate over 1942 was greater for the chains with the larger increase in sales (from 2.96 to 3.79) than for the chains with the smaller increase in sales (from 4.15 to 4.36), and this is exactly what should be expected. The same effect shows up in other figures.

Salaries and Wages

For the chains with lower sales increases salaries and wages rose from 15.00% of sales to 15.28% of sales in 1943. But for the chains with the higher increases in sales there was a drop in salaries and wages as a percentage of sales from 17.65% to 16.89%. In tenancy costs for the former category, there was a fractional drop from 6.96% in 1942 to 6.55%, but for the latter category the drop was greater, from 4.25% to 3.74%. We have seen from previous classifications that the larger chains tended to have lower figures for salaries and wages and higher figures for tenancy costs than did the smaller chains. The same kind of relation is again evident in this classification which, although made according to differences in sales increase, also arranges the chains roughly by size. The effect of the different degree of increase in sales is evident in the rate of change in the expense figures for each group taken separately. It is particularly interesting that the chains with 15% or more gain in sales actually made a percentage saving on salaries and wages compared with last year. This was also true in the previous classification (Tables 5, 6, and 7) of the smaller chains and smaller stores. It is apparently the higher rate of sales gain that was responsible for this performance.

INVENTORIES

Attention has already been called to the behavior of the stock-turn figures. Additional information on this subject is given in Tables 11, 12, 13, and 14, presenting monthly inventory figures and stock-sales ratios. Detailed data of this nature could not be obtained for all the smaller chains. In Table 11 are given the dollar average end-of-month retail inventories per store for 17 variety chains with sales of \$2,000,000 or more. It is clear, of course, that the chains with net sales volume of from \$25,000,000 to \$200,000,000 carried larger inventories per store than did the chains with net sales volume from \$2,000,000 to \$25,000,000. This is directly related to the fact, previously mentioned, that the larger chains customarily also had larger sales per store. The dollar inventory figures, however, despite their significance, are not so important for management purposes as the relation of inventory to sales.

Decline in Stock-Sales Ratios

In Table 12, for the same 17 chains, are given monthly figures for the stock-sales ratio, that is, the ratio of retail inventory for the end of the preceding month to the sales for the month. It will be immediately noted that, as mentioned earlier in connection with rate of stock-turn, the relation of stocks to sales was higher for chains next

Table 11. Average End-of-Month Retail Inventory per Store for 17 Variety Chains Classified According to Volume of Sales: 1943

Month	Net Sales Volume ¹ (in thousands)	
	\$2,000-25,000	\$25,000-200,000
Number of Chains.....	9	8
December, 1942.....	\$22,797	\$65,068
January, 1943.....	23,204	66,974
February.....	25,410	64,691
March.....	27,262	67,949
April.....	28,764	70,991
May.....	30,030	70,623
June.....	30,438	71,429
July.....	31,336	73,268
August.....	31,990	75,934
September.....	33,014	79,706
October.....	33,303	82,150
November.....	33,538	82,420
December.....	25,343	67,498
January, 1944.....	26,784†	69,542

†Based on data for 8 chains. The December, 1943, average for the same 8 firms was \$26,059.
¹Only 3 chains in each of the two groups of firms with net sales of less than \$2,000,000 for the fiscal year 1943 reported data on monthly inventories; hence, it was not possible to establish averages for the small stores.

Table 12. Stock-Sales Ratios¹ for 17 Variety Chains Classified According to Volume of Sales: 1943

Month	Net Sales Volume ² (in thousands)	
	\$2,000-25,000	\$25,000-200,000
Number of Chains.....	9	8
January, 1943.....	4.33	3.17
February.....	4.05	3.04
March.....	4.11	2.65
April.....	3.53	2.46
May.....	3.93	2.69
June.....	4.08	2.65
July.....	4.16	2.81
August.....	4.46	2.94
September.....	4.52	2.88
October.....	3.91	2.74
November.....	3.93	2.73
December.....	2.19	1.71
January, 1944.....	4.68	3.18

¹Ratio of retail inventory for end of preceding month to sales for month.
²Only three chains in each of the two groups of firms with net sales of less than \$2,000,000 in the fiscal year 1943 reported data on monthly sales and inventories; hence, it was not possible to establish stock-sales ratios for the small chains.

to the largest in size—not only that, but this table shows that it was higher every month of the year.

Comparison of Table 12 with the corresponding table in last year's report brings out several additional facts. For both volume groups stocks in relation to sales during the first six months of 1943 were lower than during the first six months of 1942. For the largest of the chains, that is, those with net sales volume of from \$25,000,000 to \$200,000,000, the stock-sales ratios remained lower for the balance of the year. But for the chains in the \$2,000,000 to \$25,000,000 category the 1943 ratios began to go ahead of 1942 ratios during the last six months of the year. The July ratio was exactly the same as in 1942, and for each succeeding month except November the 1943 ratio was considerably higher than the corresponding figure for 1942. It will be interesting to see how this difference between the two groups affects their sales in 1944. It may well be that the larger stocks carried will result in the \$2,000,000 to \$25,000,000 chains being able to turn in a relatively better sales performance in 1944, if the trend continues and we are correct in our conclusion that a deficiency of merchandise is responsible for loss of sales momentum in 1943. An alternative possibility of course is that the medium-size chains accumulated larger stocks than was justified in the light of the volume realized in the final months of 1943. If so, then extensive markdowns might be expected as a consequence.

Inventory Trends over Ten-Year Period

In Tables 13 and 14 are given average end-of-month inventories per store and stock-sales ratios for the ten years beginning with 1934. Table 13 reflects, of course, a growth in average sales per store. Table 14, which is probably the more revealing of the two, shows over the years a marked degree of stability in the stock-sales ratio for given seasons. The year 1942, to be sure, was an exceptional one, and most retailers were then accumulating inventories against expected shortages.

The data for all 10 years show seasonal fluctuations in the ratio. The ratio for December, for example, has been consistently the lowest. This is only natural because so large a portion of sales are concentrated in that month. The usual pattern shown by stock-sales ratios is: (1) high in January and February as sales fall off, (2) lower in March, April, May, and June as sales pick up, (3) higher again in July, (4) gradually dropping

from August on, with a slight temporary increase in stocks as merchandise is bought in anticipation of holiday sales, and then a sudden drop to a point considerably below the level for January. Although the year 1943 followed this pattern fairly generally, the drop at the beginning of the year was a little more drastic than it had been for the past few years, and both August and September were higher than July, October, or November. These departures from the usual pattern may be in response first to the Inventory Limitation Order L-219 and then to a tighter buying situation in merchandise in general and to a slackening in sales momentum during August and September. That the surmise in regard to slackening sales is reasonable is shown by 1943/1942 sales indexes for variety chains and department stores: during the latter months of the year sales volumes for the variety chains failed to go ahead as rapidly as did the sales of department stores.

Table 13. Average End-of-Month Retail Inventory per Store: 1934-1943

Month	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Number of Chains.....	17	18	19	20	22	29	29	28	25	23
January ¹	\$29,143	\$34,532	\$34,451	\$36,427	\$35,657	\$32,367	\$36,542	\$39,349	\$58,804	\$57,141
February.....	35,539	35,382	35,314	38,865	36,694	34,953	39,579	41,532	62,469	55,833
March.....	37,220	38,280	37,274	41,586	39,482	38,900	41,031	44,468	68,593	58,733
April.....	40,199	38,532	37,494	44,180	38,551	38,326	42,807	45,096	71,000	60,965
May.....	40,296	38,395	36,980	43,592	38,306	37,483	41,828	44,049	70,377	61,437
June.....	38,528	37,219	36,445	42,840	37,015	36,874	38,974	44,616	71,231	62,177
July.....	31,758	36,044	36,355	41,571	35,066	36,627	33,866	47,204	73,131	63,800
August.....	37,052	36,509	40,002	43,538	36,322	39,686	40,306	49,083	72,902	65,861
September.....	38,816	40,003	42,714	46,814	39,200	41,891	44,916	55,103	75,408	69,032
October.....	41,009	43,978	46,324	50,122	42,747	46,076	49,747	62,074	76,914	70,988
November.....	42,946	45,593	48,061	50,930	45,616	48,579	52,153	64,882	75,406	71,253
December.....	33,377	31,688	35,783	35,085	30,995	33,721	37,380	52,651	56,847	57,936

¹Inventory per store for January, 1944, averaged \$60,356 for the 21 firms reporting such data, as compared with \$58,698 for the same firms for December, 1943.

Table 14. Stock-Sales Ratios: 1934-1943

Month	Ratio of Retail Inventory for End of Preceding Month to Sales for Month									
	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Number of Chains.....	17	18	19	20	22	29	29	28	25	23
January ¹	3.31	3.29	3.30	3.43	3.47	3.06	3.22	3.31	3.54	3.25
February.....	3.30	3.34	3.26	3.26	3.46	3.15	3.31	3.31	3.86	3.10
March.....	2.54	3.09	3.08	2.62	3.11	2.87	2.77	3.00	3.43	2.75
April.....	3.10	2.92	2.71	3.16	2.76	2.77	3.23	2.75	3.51	2.54
May.....	2.93	3.10	2.69	2.90	3.03	2.75	2.97	2.69	3.55	2.78
June.....	2.97	3.04	2.56	2.92	2.91	2.74	2.93	2.87	3.46	2.75
July.....	3.36	3.15	2.73	2.95	2.96	2.89	2.95	2.96	3.78	2.91
August.....	2.95	2.89	2.72	3.10	2.81	2.86	2.68	2.84	3.56	3.05
September.....	2.98	3.45	2.94	3.06	2.74	2.86	2.96	3.02	3.46	3.00
October.....	2.85	2.95	2.74	3.02	2.63	2.88	2.86	3.10	3.10	2.82
November.....	3.08	3.13	3.23	3.43	2.99	3.08	3.03	3.39	3.26	2.82
December.....	1.69	1.75	1.65	1.75	1.52	1.60	1.66	1.80	1.81	1.75

¹The ratio of stocks for December 31, 1943, to sales for January, 1944, was 3.29 for 23 firms.

MERCHANDISE LINES

In Table 15 sales by merchandise lines for 19 variety chains (data were not available for the balance of the reporting chains) are given both in medians and aggregates.

Relative Importance of Lines in 1943

Apparel and accessories accounted for one-fourth of total sales, with ready-to-wear accessories the largest single item. This is scarcely different from the preceding year as it shows up in the median—28.34% for total apparel and accessories in 1943; 28.02% in 1942. The percentages based on aggregates, however, were higher in 1943 than in 1942, indicating that the chains with largest sales had a substantial increase. It should be noted, too, that sales of men's and boys' clothing and furnishings dropped and that ready-to-wear accessories more than made up for the drop.

Other important changes over 1942 disclosed by the median figures show notions and small wares taking second place in the list of important lines, although a decidedly weak second place, with 9.12% of total sales in 1943 (8.47% in 1942); and confectionery and nuts third place with 8.88% (7.97% in 1942). The drugs and toiletries line dropped from second place, which it had occupied in 1942, to fourth place—from 9.44% of total volume in 1942 to 8.15% in 1943.

These observations are made on the basis of the medians, and the aggregates give a slightly differ-

ent picture. For the stores with large volume, apparently stationery was in second place, dry goods and domestics in third place, drugs and toiletries in fourth place, and notions and confectionery followed in order. Since one of the very large chains is known to carry relatively small lines of dry goods and domestics, it is apparent that the aggregate figure for dry goods, 8.68%, would have been considerably higher with the exclusion of this chain and that, therefore, for most of the large chains dry goods and domestics have become very clearly the most important line next to ready-to-wear accessories.

Long-term Trends

These changes are not developments merely of 1943; they are the continuation of tendencies which showed up strongly also in 1942. The most pertinent question which arises is whether they are the result of merchandise shortages and other wartime factors, and therefore temporary, or the result of fundamental shifts in consumers' buying habits and in merchandise policies adapted thereto. A glance at the specific lines may throw light on the question.

Hardware

It is clear, of course, that hardware, paint, electrical supplies, and appliances have not been readily available, and this is reason enough for a drop in their sales in 1943. Table 16 shows, however, a decrease in the relative importance of that merchandise line from 1940 on—quite sharp in 1942, when supplies had not yet reached anywhere near the low point. Furthermore, a glance at Table 17, which indicates the course of sales by merchandise lines over a longer period for a smaller sample of identical variety chains, shows the same tendency as far back as 1937. Consequently, it looks as if the present shortages had merely accentuated a trend which was already operating. If this is the case, it may be difficult for the variety chains to recapture their former share of the market when supplies are again available after the war. It must be noted, however, that in terms of dollars there were no important declines in the sales of hardware, paint, and electrical supplies in variety chains until 1943.

Home Furnishings

Sales of home furnishings, included with hardware in Table 17 but listed separately in the more detailed breakdown of Table 16, also have been of diminishing importance in variety chains. In contrast to hardware sales, however, there was a

Table 15. Sales by Merchandise Lines for 19 Variety Chains: 1943

(Net Sales = 100%)

Merchandise Lines	Medians ¹	Aggregates ²
Women's, Misses', and Juniors' Ready-to-Wear.....	6.60%	*
Ready-to-Wear Accessories.....	20.16	*
Men's and Boys' Clothing and Furnishings.....	5.00	*
Total Apparel and Accessories.....	28.34	24.34%
Notions and Smallwares.....	9.12	7.59
Dry Goods and Domestics.....	7.78	8.68
Drugs and Toiletries.....	8.15	8.61
Hardware, Paint, Etc.....	4.18	5.98
Electrical Supplies and Appliances.....	1.74	
Home Furnishings.....	6.81	7.17
Stationery.....	7.09	8.85
Toys, Games, and Books.....	5.91	5.99
Jewelry.....	1.70	2.03
Confectionery and Nuts.....	8.88	7.51
Soda Fountains, Luncheonettes, and Restaurants.....	3.44	7.38
Miscellaneous (including groceries)....	6.15	6.47
Total	100.00%	100.00%

*Data not available.

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal 100.

²The total net sales used in arriving at these figures amounted to \$1,200,427,477, or approximately 93.5% of the total volume of sales represented in this study.

slight resurgence in 1941 and a less sharp drop in 1943. These conclusions are strengthened by comparing the figures for the 10 identical chains of Table 17 with figures for total consumer expenditures given in the *Survey of Current Business*.¹ Total consumer expenditures for household operation were classified in some detail in the *Survey*. In order to enable worth-while comparisons with the variety chain figures, data for selected lines which approximated the goods sold in variety chains have been used here. The proportion of total United States expenditures on such home furnishings realized by the 10 chains showed a gradual decline beginning as far back as 1935—and this during a period when total sales of the chains advanced at least as rapidly as did consumer expenditures for all types of goods and services.

Drugs and Toiletries

Somewhat the same phenomenon took place in drugs and toiletries. As shown in Table 16, this line in 1940 and again in 1941 accounted for a larger share of total annual sales than any other single line except apparel and accessories. But it showed a slackening trend from 1940 on. And although it came up in 1943 (probably as a result of shortages in hardware), it had slipped down the scale of importance, both the dry goods and domestics line and stationery having risen above it. Table 17, which gives the longer range picture, shows that, in comparison with drugs and toiletries, dry goods and domestics began to show a consistently faster rate of increase as far back as 1934, and books, toys, and stationery began to show a faster rate of increase as far back as 1938.

¹U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, "Consumption Expenditures, 1929-43" by William H. Shaw, June, 1944.

Comparisons with the *Survey of Current Business* figures on consumer expenditures for toilet articles and preparations, drugs, and drug sundries for the whole United States show that the proportion of business taken by the 10 chains began to decrease in 1937. Drugs and toiletries constitute a line in which the chains have been very strong; although there are differences in classification between the *Survey of Current Business* and the Bureau reporting form, sales of drugs and toiletries reported to the Bureau for 1942 by 22 variety chains seem to have accounted for about 6.5% of all the drug preparations, drug sundries, and toilet articles and preparations sold in the United States in 1942. It is quite probable that the proportion of toiletries alone sold in chains was substantially greater. The chains, of course, can still count on having a comfortable share of this business, but here again, as in the case of hardware and home furnishings, the slackening trend seems to be an established one, not the result of special wartime circumstances.

Notions

Notions and small wares have been separated from dry goods and domestics in the reports received by the Bureau from 1940 on, and it now becomes apparent that this line, one of the standbys of the chains and the line perhaps most associated in the public's mind with limited price variety chains, is exhibiting less strength as far as the importance of its sales to total sales is concerned. The share of total annual business accounted for by this line has not declined sharply since 1940; the significant fact is, rather, that it has stood still while such lines as dry goods and stationery have gone ahead. This does not show up, of course, on Table 17 because prior to 1940 notions and small wares had been combined with

Table 16. Sales by Merchandise Lines for 18 Identical Variety Chains: 1940-1943

Items	Aggregate Dollar Sales (in thousands)				Index of Change in Aggregate Dollar Sales			
	1940	1941	1942	1943	1940	1941	1942	1943
Apparel and Accessories.....	\$184,292	\$214,977	\$271,624	\$292,098	100.00	116.65	147.39	158.50
Dry Goods and Domestics.....	64,803	73,295	93,167	104,225	100.00	113.10	143.77	160.83
Notions and Smallwares.....	68,044	77,758	88,964	91,082	100.00	114.28	130.75	133.86
Hardware, Paint, Electrical Supplies, and Appliances.....	75,620	85,332	92,224	71,823	100.00	112.84	121.96	94.98
Home Furnishings.....	71,183	81,889	89,616	86,081	100.00	115.04	125.89	120.93
Confectionery and Nuts.....	61,312	64,626	76,179	90,197	100.00	105.40	124.25	147.11
Drugs and Toiletries.....	82,259	90,037	97,462	103,306	100.00	109.46	118.48	125.59
Toys, Games, and Books.....	43,733	51,358	60,601	64,717	100.00	117.43	138.57	147.98
Stationery.....	66,325	76,500	91,694	106,168	100.00	115.34	138.25	160.07
Soda Fountains, Luncheonettes, and Restaurants.....	58,339	67,741	78,701	88,580	100.00	116.12	134.90	151.84
Jewelry.....	17,881	21,809	23,083	24,359	100.00	121.97	129.09	136.23
Other (including groceries).....	62,688	68,667	77,525	77,684	100.00	109.54	123.67	123.92
Total.....	\$856,479	\$973,989	\$1,140,840	\$1,200,320	100.00	113.72	133.20	140.15

Table 17. Sales by Merchandise Lines for 10 Identical Variety Chains: 1933-1943

Items	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Aggregate Dollar Sales (in thousands):											
Apparel and Accessories.....	\$86,433	\$97,128	\$99,831	\$111,979	\$112,709	\$106,741	\$113,049	\$119,630	\$139,568	\$178,434	\$193,866
Dry Goods, Notions, and Domestics.....	50,165	62,257	63,690	69,744	72,334	68,396	70,203	63,878†	74,451†	92,835†	101,606†
Hardware, Electrical Supplies, Crockery, Glassware, and Other Home Furnishings....	47,332	54,809	57,598	62,157	60,790	57,494	59,809	73,237†	83,281†	91,001†	82,105†
Confectionery and Nuts.....	21,844	24,202	25,738	27,186	27,618	27,016	27,370	28,874	30,879	36,825	45,576
Drugs and Toiletries.....	24,157	27,835	28,298	30,766	31,920	31,382	33,173	33,940	37,554	41,314	44,092
Toys, Games, Books, and Stationery.....	32,809	35,746	37,521	41,635	43,622	43,200	46,584	48,720	56,207	68,002	77,202
Soda Fountains, Luncheonettes, and Restaurants.....	18,493	20,321	21,876	24,217	25,618	24,888	26,022	24,015	28,332	32,873	35,837
Jewelry.....	6,458	7,036	6,887	7,138	7,465	7,508	7,971	8,431	10,295	11,357	11,450
Other (including groceries).....	19,760	15,610	16,660	17,757	23,092	23,466	25,693	34,559†	38,128†	46,933†	43,888†
Total.....	\$307,451	\$344,944	\$358,099	\$392,579	\$405,168	\$390,091	\$409,814	\$435,284	\$498,695	\$599,574	\$635,622
Index of Change in Aggregate Dollar Sales:											
Apparel and Accessories.....	100.00	112.37	115.50	129.56	130.40	123.50	130.79	138.41	161.48	206.44	224.30
Dry Goods, Notions, and Domestics.....	100.00	124.10	126.96	139.03	144.19	136.34	139.94	....	....	....	....
Hardware, Electrical Supplies, Crockery, Glassware, and Other Home Furnishings....	100.00	115.80	121.69	131.32	128.43	121.47	126.36	....	....	....	....
Confectionery and Nuts.....	100.00	110.79	117.83	124.45	126.43	123.68	125.02	132.18	141.36	168.58	208.64
Drugs and Toiletries.....	100.00	115.23	117.14	127.36	132.14	129.91	137.32	140.50	155.46	171.02	182.52
Toys, Games, Books, and Stationery.....	100.00	108.95	114.36	126.90	132.95	131.67	141.98	148.50	171.92	207.27	235.31
Soda Fountains, Luncheonettes, and Restaurants.....	100.00	109.89	118.30	130.95	138.53	134.58	140.71	129.86	153.20	177.76	193.79
Jewelry.....	100.00	108.95	106.63	110.53	115.58	116.25	123.42	130.55	159.41	175.86	177.30
Other (including groceries).....	100.00	79.00	84.31	89.87	116.87	118.75	130.03	....	....	....	....
Total.....	100.00	112.19	116.47	127.69	131.78	126.88	133.29	141.58	162.20	195.01	206.74

†Beginning with the 1940 study, the classification used for the collection of data on sales by merchandise lines was changed to afford greater detail. (See Table 15.) Since the definitions of some of the groups were altered, figures for 1940-1943 are not strictly comparable to those for 1933-1939 for the groups designated. The data for the years 1940 through 1943, however, are entirely comparable for each category.

dry goods and domestics. According to data in Table 17, for example, dry goods and notions show a strong rate of growth from 1934 on, particularly marked in 1937 and 1939. It is impossible to tell how much of this growth was accounted for by dry goods and how much by notions, but it can be presumed from the figures in Table 16 that the slackening in growth of importance of notions may have begun as far back as 1938 and that the quickening in growth of importance of dry goods probably did not gather full force until 1942.

Dry Goods

As it is, the growth in the line designated dry goods and domestics amounted to 60.83% from 1940 to 1943, the greatest increase exhibited by any line for the period. If one very large chain, which devotes less attention to dry goods and domestics than do most of the large chains, is excluded from the 18 identical firms covered by Table 16, the gain is very much greater. It is hard to see how the supply situation of merchandise is responsible for this high rate of growth, except to the extent that variety chains may have increased the size and variety of their stocks in this line to fill up gaps left by shortages in lines hit by the war. It seems very clear, whatever the explanation, that consumers showed a preference to buy these items in variety chain stores.

Toys, Games, and Books

Another line which has shown great strength is toys, games, and books, with a gain of almost 48% since 1940, particularly marked in 1943. This may be largely the result of adroitness on the part of the chains' buying staffs in securing substitutes for the many kinds of toys which are no longer available because of W.P.B. restrictions on use of materials. *Chain Store Age*¹ reports, for example, that games and toys, particularly war games and war toys, made of wood and cardboard have been offered by the chains; for instance, a wooden anti-aircraft gun 36 in. high, offered by Woolworth's in Denver at \$2.09 proved to be a strong seller in that district; commando rifles in exact wooden models of those used in the army, were sold by Kresge's in Kansas City at \$1.69; and during the year free-wheeling tanks, jeeps, and planes of hard-pressed cardboard, sand pails of waterproof cardboard, and other items like small wheelbarrows and pre-school educational toys have been highlighted by stores variously located.

¹"They are Showing" *Chain Store Age*, General Merchandise Variety Store Executives Edition, Vol. 19, Nos. 1-12, 1943.

Stationery

At the same time stationery (with which toys, games, and books were combined on Bureau reports prior to 1940) has gone ahead even faster, and the gain over 1940 is slightly more than 60%. This line in 1943 was the most important of all the lines handled and in aggregate sales was second in importance only to apparel and accessories. Indeed, in 1942, sales of 20 variety chains reporting on the matter accounted for virtually 50% of entire non-commercial sales of stationery and writing supplies in the United States.

Jewelry

Dollar sales of jewelry have shown a steadily increasing growth. The rise, however, has not been as great as that for total store sales, and hence the proportion of jewelry sales to total sales in 1943 was less than in 1933 for the ten chains. Although it can be supposed that wartime shortages and consumers' tendencies to trade-up may have prevented this line from responding to war purchasing power as much as some of the other lines mentioned above, its long-term trend in dollars is probably an increase. Plastic jewelry, for example, is becoming more important.

Confectionery and Nuts

Perhaps most surprising is the increase in 1943 sales of confectionery and nuts, 47% over 1940. One would suppose that the chains would have been adversely affected both by short supplies of candy and consumers' tendency to buy more expensive candy. Indications are that some chains were able to compensate for short supplies of candy by heavily increased sales of nuts; in general, also, the chains may have been more successful than competitors in uncovering new sources of supply. At any rate, it is clear that consumers have increased their patronage of variety chains for confectionery and nuts and that those who had acquired this buying habit previously have not been shaken loose from it by the war. Not only from a long run standpoint has the growth in sales of confectionery and nuts been rapid (next only to growth in sales of apparel and accessories, and toys, games, books, and stationery, as revealed in Table 17), but for 1943 compared with 1942 the line showed the greatest relative gain of all lines.

Apparel and Accessories

As for apparel and accessories, which still constituted the largest chain store line, the trend continued to be up in 1943. Sales of such goods showed the next to the highest rate of gain over

1933 and accounted for an increasing percentage of total annual business. Compared with a few of the lines already mentioned, however, the gain since 1940, particularly in 1942 and 1943, was not so dramatic. It is unfortunate that for this important line more of a breakdown could not be obtained.¹ From Table 15, however, and the similar table for the three previous years, median figures are available; these suggest that the rise in sales of women's, misses' and junior ready-to-wear and ready-to-wear accessories accounted for most of the gain, with men's and boys' clothing and furnishings remaining static. It is also possible to surmise that, if men's and boys' clothing and furnishings were taken out of the figures, the growth in ready-to-wear and ready-to-wear accessories would appear even more striking. This growth is, of course, an important part of the variety chains' drive to upgrade lines and compete with the department stores on their own ground. In 1942 the sales of apparel and accessories made by the 10 variety chains remained about the same proportion of total consumer expenditures on clothing and accessories as in 1935. The fact that sales of apparel and accessories in variety chains rose in 1943, in the face of a normal tendency of consumers to trade-up and buy more expensive merchandise, augurs well for the continued importance of the line.

There is some question about the effect of the "highest price line limitations" forbidding retailers to go beyond the price lines they had in the 1942 base period. The suit of the OPA against W. T. Grant Company has called attention to alleged violations of the limitations. Apparently there has been some trading-up by the variety chains in women's wear lines, and this may help to explain the continued growth in the importance of those lines. Although the OPA has decided to go ahead with the case against Grant, for the rest of the war period the chains will not be bothered by this limitation since it was eliminated by an amendment in the new price control act signed by President Roosevelt on June 30, 1944. Attempts are being made currently (mid-1944) by WPB and OPA to increase the production and distribution of lower-end fabrics and garments. We may, therefore, see a greater growth in the variety chains' apparel line in 1944 and 1945. Items of news in the *Chain Store Age* indicate, for example,

¹ Census data for 1939 for 2695 variety stores with annual sales per store in excess of \$20,000 reveal that of 20% of total sales in apparel and accessories, nearly one-third were in hosiery. Other important lines (in order of sales) were: men's clothing and furnishings (including boys'); silk and muslin underwear and slippers; neckwear, scarfs, and handkerchiefs; girls' and infants' wear; dresses; and millinery. U. S. Bureau of the Census, op. cit., p. 161.

that the sales volume of women's work clothes has been emphasized in stores of many of the chains.

Changes Within Merchandise Lines

Evidences of the wider scope of chain store offerings are the following descriptions by *Chain Store Age* of merchandise sold in individual stores of various chains: H. L. Green, damask draperies, \$2.98 to \$7.98 a pair; rocking chairs for children in simulated maple, \$3.29, \$4.59 and \$6.49; chest of drawers, \$7.00; McCrory, umbrellas, \$2.69, \$3.29 to \$3.79; Kress, ready-to-hang wall paper, \$2.19 a box; and Woolworth, baby's layette, \$11.37; new line of glazed-surface pottery cooking utensils, up to \$6.95 for a double boiler, \$3.45 to \$4.45 for casseroles.

On the questionnaire sent out by the Bureau, it was asked: "What major line or lines of merchandise did you find it necessary to discontinue selling in 1943?" Sixteen firms answered, 11 with "none" and 5 with positive answers. Virtually all of the lines dropped were in the hardware and home furnishings category. In all other lines the chains apparently felt that they had been able to make adequate substitutions. The following comment of one progressive chain is typical: "A few scattered items were not available and discontinued, but in most cases these items were replaced with substitutions. However, these irregularities have made no appreciable difference in any major line." Only one chain, of moderate size, reported discontinuance of a major line because of low gross margin—\$1 house dresses.

To the question "Can you tell us the major lines of new merchandise you added to your inventory in 1943?" 15 answers were reported. Only two answers were positive. One firm reported adding cookies and enlarging the dry goods offerings, another added ladies' ready-to-wear and boys' wear. Several of the negative answers were qualified, for instance as follows: "No major lines were added, but many items were added to different lines," and "Nothing outstanding; merely increased and spread available merchandise."

It can be said without flattery that the chains have shown great resourcefulness in keeping their stores stocked. The trend toward widening lines and trading-up has been pronounced. The public has shown it was willing to take advantage of this trend. Indeed, in view of the signs of a transfer of business to the department stores, it may be true that the limited price variety chain managements either did not wish or have not been able to go quite so far in this direction as the public might have desired.

OPERATING RESULTS FOR REGULAR MERCHANDISE DEPTS. (Soda fountains, Luncheonettes, and Restaurants Excluded)

As indicated in Tables 15, 16, and 17 soda fountains, luncheonettes, and restaurants have contributed heavily to the sales of the larger chains. The growth in dollar sales of these departments has been steady. In 1942 and 1943, however, sales in soda fountains and restaurants have not gone ahead so fast as the sales of some of the merchandise lines—no doubt partly because some

customers were patronizing more expensive eating establishments and partly, perhaps even principally, because the chains were unable to expand far enough the use of their physical facilities for serving food and refreshments.

As in previous years, a table has been prepared to remove the influence of soda fountains, luncheonettes, and restaurants from the operating

Table 18. Operating Results for 21 Variety Chains for Regular Merchandise Departments: 1943
Soda Fountains, Luncheonettes, or Restaurants Either Not Operated or Excluded

(Net Sales in Regular Merchandise Departments = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Chain Taken Individually		Percentages Computed from the Combined Dollar Figures of the Chains in Each Number-of-Stores Group	
	Number of Stores		Number of Stores	
	Less than 50 Stores	50-750 Stores	Less than 50 Stores	50-750 Stores
Number of Chains.....	12	9	12	9
Average Sales per Store:				
Total (including Soda Fountains, Luncheonettes, and Restaurants) ².....	.....	\$333,421	\$93,004	\$325,447
Regular Merchandise Departments Only.....	\$78,890	307,283	90,947	310,450
Percentage of Stores Having Soda Fountains, Luncheonettes, or Restaurants ².....	.....	.....	11.11%	27.71%
Operating Data for Regular Merchandise Departments:				
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	63.69%	64.70%	64.84%	65.27%
GROSS MARGIN.....	36.31	35.30	35.16	34.73
Expense ³ :				
Salaries and Wages.....	17.94%	14.62%	17.16%	14.49%
Tenancy Costs.....	3.02	6.31	3.91	6.12
Light, Water, and Power.....	0.65	0.70	0.62	0.71
Supplies.....	0.76	0.85	1.03	0.84
Other Expense.....	3.93	4.12	3.76	4.02
Total Expense before Interest.....	27.14%	27.15%	26.48%	26.18%
Total Interest.....	1.35	1.25	1.32	1.34
TOTAL EXPENSE including Interest.....	28.60%	28.28%	27.80%	27.52%
NET PROFIT.....	6.03%	6.97%	7.36%	7.21%
Rate of Stock-turn (times a year):				
Based on Beginning and Ending Inventories.....	4.10	4.40	4.35	4.23
Based on Monthly Inventories ⁴	3.32	4.02	3.64	4.15
Distribution of Stores among Cities with Populations of:				
Less than 10,000.....	.....	.....	71.26%	24.53%
10,000-25,000.....	.....	.....	12.07	25.53
25,000-100,000.....	.....	.....	5.75	25.58
100,000-500,000.....	.....	.....	4.60	12.24
500,000-1,000,000.....	.....	.....	6.32	4.76
1,000,000 or More.....	.....	.....	0.00	7.36

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²With two exceptions, none of the chains in the first group operated soda fountains, luncheonettes, or restaurants. All the chains in the second group operated such departments in one or more of their stores.

³In deducting figures for soda fountains, luncheonettes, or restaurants from the consolidated figures for chains operating such departments, no allocation of administrative expense or interest to these departments was possible; consequently, the expense items here given are overstated by the amounts of such indirect charges.

⁴The figures for stock-turn based on monthly inventories are based on data for 8 firms in the small chain group.

NOTE: All the 9 chains in the second group and 11 of the 12 chains in the first group were identical with those included in the corresponding classifications shown in Table 17, Bulletin No. 118, Expenses and Profits of Limited Price Variety Chains in 1942.

results, since such departments are not typical of the balance of variety chain store operations and are not operated at all by many of the chains, particularly the smaller ones. In Table 18, opposite, chains have been classified in two groups, those with less than 50 stores and those with from 50 to 750 stores, and figures prepared excluding sales, margins, and expenses for soda fountains, luncheonettes, and restaurants.

Results for Large Stores Substantially Changed

The effect of eliminating the department was immediately to show a reduced gross margin percentage in the case of chains with more than 50 stores, which is the group comprising most of the chains operating these departments. The drop was from a median of roughly 36% (a special tabulation of gross margin data for the 9 large chains, prior to excluding soda fountain figures resulted in a median of 36.37%) to a median of 35.30% with soda fountains and restaurants excluded.

At the same time, the expense rate was lower: 28.28% with the department excluded, and 28.98% for the same nine chains before excluding soda fountain results. Moreover, because it was impossible to allocate administrative expense or interest to the department when its figures were deducted from the consolidated figures, the expense items in Table 18 are if anything overstated.

Figures for chains with less than 50 stores, only 11.11% of which had soda fountains, luncheonettes, or restaurants, were of course not affected so much by the exclusion of those departments. The net result was to bring the figures for both categories, chains with less than 50 stores and chains with from 50 to 750 stores, much closer together.

Stock-turn

The rate of stock-turn was somewhat lower when the figures for soda fountains and restaurants were excluded. Many of the supplies for such a department are perishable and, therefore, are not normally carried in very large stock. In Table 19 are set up stock-sales ratios for 17 variety chains with figures for soda fountains and restaurants excluded. Comparison of Table 19 with the right hand column of Table 12, which was presented earlier, shows that the higher relation of stocks to sales, which showed up when figures for soda fountains and restaurants were excluded, persisted throughout the whole year.

Table 19. Stock-Sales Ratios¹ for 17 Variety Chains for Regular Merchandise Departments: 1943

Soda Fountains, Luncheonettes, or Restaurants Either Not Operated or Excluded

Month	Number of Stores	
	Less than 50 Stores	50-750 Stores
Number of Chains.....	8	9
January, 1943.....	3.71	3.49
February.....	3.49	3.38
March.....	3.73	2.93
April.....	3.23	2.70
May.....	3.52	2.95
June.....	3.67	2.96
July.....	3.75	3.15
August.....	3.71	3.36
September.....	3.64	3.24
October.....	3.45	3.02
November.....	3.41	3.00
December.....	2.01	1.82
January, 1944.....	3.87†	3.40

¹This ratio is based on data for 7 chains.

²Ratio of retail inventory for end of preceding month to sales for the month.

NOTE: All the 9 chains in the second group and 7 of the 8 chains in the first group were identical with those included in the corresponding classifications shown in Table 18, Bulletin No. 118, Expenses and Profits of Limited Price Variety Chains in 1942.

LONG-TERM TRENDS IN OPERATING RESULTS

In Tables 20 and 21 are portrayed the operating results for 15 identical variety chains, in 1929 and from 1931 to 1943. The behavior of the gross margin percentage, expense rate, and sales per store are reproduced graphically in Chart 2, with comparable figures for department stores taken from the Bureau's department store studies. This brings out clearly several significant facts.

Sales, Margin, and Expense for Variety Chains and Department Stores Compared

The rising trend in variety chain gross margin matches closely the same trend in department stores. Both show about the same slight degree of drop in 1943. Indeed, since 1938, the ratio between department store margin and the variety chain margin has remained surprisingly constant. The variety chain margin, although at a slightly lower level than department store margin, has over a long period grown closer to the department store margin.

The variety chain expense rate has also shown the same general fluctuations as has the department store expense rate, although its fluctuations have been less violent. From 1932 on, moreover, the variety chain expense rate and the department store expense rate have grown closer together. There is a suggestion, both from expense and gross margin, that variety chains have become in many respects low-price department stores.

In sales per store, variety chains again showed the same general tendencies as department stores. Variety chains, however, showed slightly more stability, their sales not dropping off so far in depressions and not climbing up so steeply in recovery periods. The failure of variety chains to go ahead as fast in 1943 shows up very clearly—a tendency completely at odds, not only with the movement of department stores sales, but also with the trend of consumer expenditures reported by the Bureau of Foreign and Domestic Commerce.

It will be noted that changes in the curve for variety chain sales anticipate changes in direction for the department store curve. The downward trend for the chains accelerated a year before that for department stores; the upturn in sales also was a year ahead of that for department stores; the upward climb picked up first; and in 1937 the sales began to slacken before the sales for department stores. This raises the query of whether the behavior of the curve in 1943 presages a slackening in department store and other retail sales for 1944.

It might be fun to play with answers to this question, but the plain fact is that shortages of merchandise may have much to do with the 1943 behavior and, since that is a new factor, there can be little basis for prophecy.

Sales at New High in 1943

In Chart 3, statistics for average sales per store, aggregate net sales, and aggregate number of stores are pictured for 7 variety chains from 1924 to 1943. In the 20's the aggregate number of stores was increasing, and with average sales per store first rising gently and then falling gently aggregate net sales climbed steadily. But beginning in 1929 aggregate net sales fell, despite a still increasing number of stores. In 1933 average sales per store began to rise again and, with the number of stores from then on about stationary, carried aggregate net sales up to a new high in 1943.

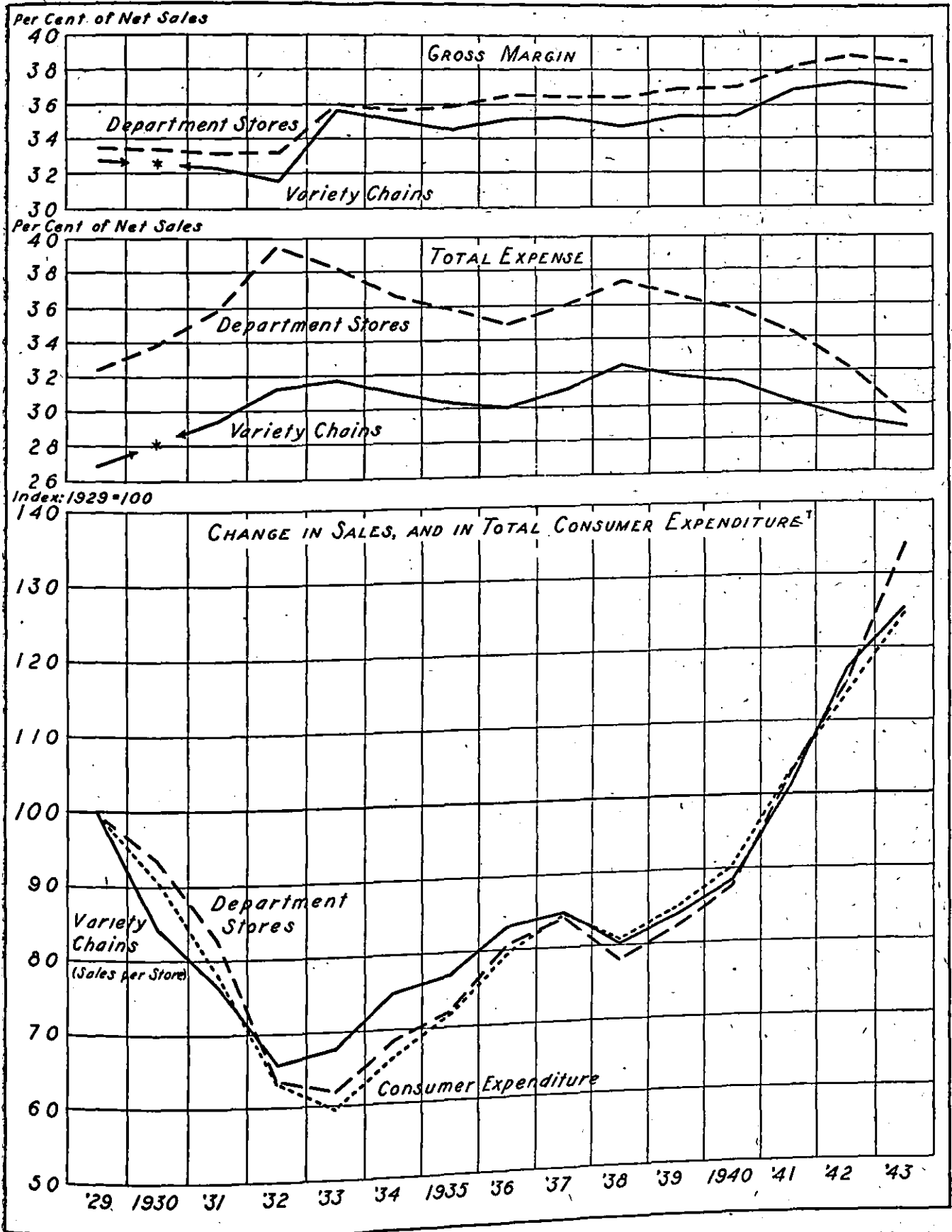
Trends for Different Volume Groups

In Table 22 are given the operating results for two sales volume groups, chains with total net sales of \$500,000 to \$10,000,000 and chains with total net sales of \$10,000,000 to \$150,000,000¹, over the period 1935 to 1943. This table reveals the same trends that have been discussed above; but here the trends are at different levels—the group of smaller chains showing higher gross margin and higher total expense percentages. It is worth noting, in particular, that the group of smaller chains, although showing a leveling off in gross margin in 1943, did not carry it to the point where it actually was lower than in 1942.

In Table 23 are given selected balance sheet items of 7 large variety chains from 1935 to 1943. The rise in average dollar amounts per store for inventory, plant and equipment, and net worth is marked. As shown by the index, net worth in dollars per store increased steadily and reached a level in 1943 more than 30% higher than in 1935. For plant and equipment, the rise was steady until 1942; indications are that a drop occurred in 1943 from the immediately preceding years. It is in inventory that the change was most sensational, with the rise from 1935 on at an accelerating rate, amounting in 1943 to 193.4% of the 1935 figure.

¹The basis for classification was sales in 1935.

Chart 2. Margin, Expense, and Sales Data for Variety Chains and Independent Department Stores:¹ 1929-1943



*Data not available.
¹Source: General Averages—Harvard Business School, Bureau of Business Research, Bulletin No. 119, *Operating Results of Department and Specialty Stores in 1943*, by Stanley F. Teale. Consumer Expenditure—U. S. Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, "Consumption Expenditures, 1929-42", by William H. Shaw. June 1944. U. S. Government Printing Office, Washington, D. C.

Table 20. Operating Results per Store for 15 Identical Variety Chains: 1929, 1931-1943

Items	1929	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Average Sales per Store.....	\$227,578	\$173,482	\$149,063	\$153,607	\$170,362	\$175,077	\$188,811	\$192,412	\$182,352	\$190,544	\$200,789	\$229,479	\$266,431	\$285,386
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	\$153,198	\$117,647	\$102,139	\$98,920	\$110,811	\$114,760	\$122,725	\$124,809	\$119,338	\$123,473	\$130,051	\$145,336	\$167,344	\$180,158
GROSS MARGIN.....	74,380	55,835	46,924	54,687	59,551	60,317	66,086	67,603	63,014	67,071	70,738	84,143	99,087	105,228
Salaries and Wages.....	\$29,465	\$22,701	\$19,389	\$21,284	\$24,418	\$24,758	\$26,587	\$28,320	\$27,067	\$28,086	\$29,536	\$34,011	\$40,054	\$43,664
Tenancy Costs.....				15,790	15,929	15,952	16,515	16,791	17,143	17,511	17,810	18,116	18,537	18,650
Light, Water, and Power.....	20,076	19,789	19,573	1,711	1,782	1,814	1,886	1,960	2,043	2,058	2,129	2,191	2,163	2,076
Depreciation of Fixtures and Equipment.....				1,625	1,570	1,389	1,457	1,501	1,579	1,600	1,606	1,686	1,756	1,755
Supplies.....	3,687	2,523	1,929	2,072	2,284	2,463	2,557	2,678	1,938	1,944	2,088	2,431	2,557	2,506
Advertising.....	480	424	463	436	478	541	513	690	698	743	904	875	1,037	907
Insurance (except on real estate).....	819	559	650	630	710	730	688	731	718	743	783	796	913	892
Taxes (except on real estate or income):														
Sales.....				387	593	327	331	282	282	286	281	257	191	165
Other.....	665	624	637	680	791	887	1,144	1,775	2,074	2,001	2,028	2,200	2,415	2,464
Miscellaneous.....	2,491	1,790	1,671	1,422	1,387	1,436	2,062	2,116	2,223	2,401	2,570	3,206	4,037	4,317
Total Expense before Interest.....	\$57,683	\$48,410	\$44,312	\$46,037	\$49,942	\$50,297	\$53,740	\$56,844	\$55,765	\$57,373	\$59,735	\$65,769	\$73,660	\$77,396
Total Interest.....	3,198	2,613	2,414	2,644	2,748	2,820	2,813	2,847	2,922	2,953	3,092	3,364	3,638	3,982
TOTAL EXPENSE including Interest.....	\$60,881	\$51,023	\$46,726	\$48,681	\$52,690	\$53,117	\$56,553	\$59,691	\$58,687	\$60,326	\$62,827	\$69,133	\$77,298	\$81,378
NET PROFIT.....	\$13,499	\$4,812	\$198	\$6,006	\$6,861	\$7,200	\$9,533	\$7,912	\$4,327	\$6,745	\$7,911	\$15,010	\$21,789	\$23,850
Net Profit from Real Estate Operation.....	....	....	....	\$2,130	\$2,027	\$2,032	\$2,567	\$2,975	\$2,831	\$2,858	\$2,912	\$2,770	\$2,846	\$2,894
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	....	....	....	2,539	2,813	2,889	2,819	2,840	2,884	2,954	3,092	3,352	3,622	4,071
Other Revenue, Net.....	....	....	....	L. 123	167	412	207	212	247	362	361	350	L. 143	L. 110
Total Net Other Income.....	\$6,095	\$4,961	\$4,820	\$4,546	\$5,007	\$5,333	\$5,593	\$6,027	\$5,962	\$6,174	\$6,365	\$6,472	\$6,325	\$6,855
NET GAIN before Income Taxes.....	\$19,594	\$9,773	\$5,018	\$10,552	\$11,868	\$12,533	\$15,126	\$13,939	\$10,289	\$12,919	\$14,276	\$21,482	\$28,114	\$30,705
Net Taxes on Income and Excess Profits ¹.....	....	....	....	....	....	....	....	....	....	2,509	3,957	10,375	18,181	20,071
NET GAIN after Income Taxes ¹.....	....	....	....	....	....	....	....	....	....	\$10,526	\$10,453	\$11,309	\$10,199	\$10,910

¹Figures for this item are based on data for 13 firms having 99.5% of the total sales volume of the 15 chains in each of the years 1939 through 1943. Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942 and 1943.

Table 21. Operating Results for 15 Identical Variety Chains: 1929, 1931-1943
(Percentages Computed from the Aggregate Dollar Figures; Combined Net Sales = 100%, except where noted)

Items	1929	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942	1943
Aggregate Number of Stores.....	1,579	2,085	2,185	2,188	2,217	2,261	2,303	2,341	2,374	2,395	2,405	2,420	2,430	2,418
Aggregate Net Sales (in millions).....	\$359	\$362	\$326	\$336	\$378	\$396	\$435	\$450	\$433	\$456	\$483	\$555	\$647	\$690
Average Net Sales per Chain (in millions).....	\$24	\$24	\$22	\$22†	\$25†	\$26	\$29	\$30	\$29	\$30	\$32	\$37	\$43	\$46
Average Sales per Store (in thousands).....	\$228	\$173	\$149	\$154†	\$170†	\$175	\$189	\$192	\$182	\$191	\$201	\$229	\$266	\$285
Index of Change (1932 = 100):														
Number of Stores per Chain.....	72.3	95.4	100.0	100.1	101.5	103.5	105.4	107.1	108.7	109.6	110.1	110.8	111.2	110.7
Net Sales per Chain.....	110.3	111.1	100.0	103.3	115.9	121.5	133.5	138.3	132.9	140.1	148.3	170.5	198.8	211.9
Average Sales per Store.....	152.7	116.4	100.0	103.1	114.3	117.5	126.7	129.1	122.3	127.8	134.7	154.0	178.7	191.5
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	67.3%	67.8%	68.5%	64.4%	65.0%	65.6%	65.0%	64.9%	65.4%	64.8%	64.8%	63.3%	62.8%	63.1%
GROSS MARGIN.....	32.7	32.2	31.5	35.6	35.0	34.4	35.0	35.1	34.6	35.2	35.2	36.7	37.2	36.9
Salaries and Wages.....	13.0%	13.1%	13.0%	13.9%	14.3%	14.2%	14.1%	14.7%	14.9%	14.7%	14.7%	14.8%	15.0%	15.3%
Tenancy Costs.....	} 8.8	} 11.4	} 13.2	10.3	9.4	9.1	8.7	8.7	9.4	9.2	8.9	7.9	7.0	6.5
Light, Water, and Power.....				1.1	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	0.9	0.8	0.7
Depreciation of Fixtures and Equipment.....	} 1.6	} 1.5	} 1.3	1.1	0.9	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.7	0.6
Supplies.....				1.3	1.3	1.4	1.3	1.4	1.3	1.4	1.1	1.0	1.0	1.1	1.0	0.9
Advertising.....	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.3
Insurance (except on real estate).....	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Taxes (except on real estate or income):														
Sales.....	} 0.3	} 0.4	} 0.4	0.3	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other.....				0.4	0.5	0.6	0.9	1.1	1.1	1.0	1.0	1.0	1.0	0.9
Miscellaneous Expense.....	1.1	1.0	1.1	0.9	0.8	0.8	1.1	1.1	1.2	1.3	1.3	1.4	1.5	1.5
Total Expense before Interest.....	25.4%	27.9%	29.7%	30.0%	29.3%	28.7%	28.5%	29.5%	30.6%	30.1%	29.8%	28.6%	27.7%	27.1%
Total Interest.....	1.4	1.5	1.6	1.7	1.6	1.6	1.5	1.5	1.6	1.6	1.5	1.5	1.3	1.4
TOTAL EXPENSE including Interest.....	26.8%	29.4%	31.3%	31.7%	30.9%	30.3%	30.0%	31.0%	32.2%	31.7%	31.3%	30.1%	29.0%	28.5%
NET PROFIT.....	5.9%	2.8%	0.2%	3.9%	4.1%	4.1%	5.0%	4.1%	2.4%	3.5%	3.9%	6.6%	8.2%	8.4%
Net Profit from Real Estate Operations.....	.....	.....	.....	1.4%	1.2%	1.2%	1.4%	1.5%	1.5%	1.5%	1.5%	1.2%	1.1%	1.0%
Interest on Net Worth (except on real estate, leaseholds, and goodwill).....	.....	.....	.....	1.7	1.6	1.7	1.5	1.5	1.6	1.6	1.5	1.5	1.4	1.4
Other Revenue, Net.....	.....	.....	.....	L. 0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.1	L. 0.1	0.0
Total Net Other Income.....	2.7%	2.8%	3.2%	3.0%	2.9%	3.1%	3.0%	3.1%	3.2%	3.3%	3.2%	2.8%	2.4%	2.4%
NET GAIN before Income Taxes:														
Percentage of Net Sales.....	8.6%	5.6%	3.4%	6.9%	7.0%	7.2%	8.0%	7.2%	5.6%	6.8%	7.1%	9.4%	10.6%	10.8%
Percentage of Net Worth.....	20.1‡	10.7	5.7	11.6	12.5‡	12.8‡	15.0‡	13.9‡	10.1	12.1	13.0	19.0	24.1	25.1
Net Taxes on Income and Excess Profits¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	1.3%	1.9%	4.5%	6.8%	7.0%
NET GAIN after Income Taxes¹.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	5.5%	5.2%	4.9%	3.8%	3.8%
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	5.2	5.3	5.1	4.9	5.0	5.0	5.1	4.9	4.9	5.1	4.8	4.3	4.2	4.4

†The statement of one firm did not cover a full fiscal year. This average is adjusted to reflect the sales for the entire period.

‡Because of inadequate balance sheet data in the case of one chain, the figure for net gain as a percentage of net worth was not based on the reports of all the chains in the group.

§Figures for this item are based on data for 13 firms having 99.5% of the total sales volume of the 15 chains in each of the years 1939 through 1943. Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942 and 1943.

Table 22. Operating Results of Variety Chains with Net Sales of \$500,000 or More: 1935-1943

(Percentages Computed from the Aggregate Dollar Figures, Combined Net Sales = 100%)

Group and Items	1935	1936	1937	1938	1939	1940	1941	1942	1943
7 Identical Chains with Net Sales of \$500,000 to \$10,000,000†									
Aggregate Number of Stores.....	352	377	394	407	416	424	437	439	439
Average Sales per Store (in thousands).....	\$67	\$71	\$73	\$69	\$72	\$80	\$91	\$106	\$115
GROSS MARGIN.....	34.0%	34.5%	35.1%	35.0%	35.7%	35.4%	36.8%	37.4%	37.6%
Salaries and Wages.....	15.9%	15.8%	16.3%	16.7%	16.8%	16.3%	16.8%	16.8%	17.3%
Tenancy Costs and Light, Water, and Power.....	8.7	8.0	8.0	8.6	8.9	7.9	7.1	6.5	5.9
Depreciation of Fixtures and Equipment.....	1.1	1.1	1.0	1.2	1.1	1.0	1.1	1.0	0.9
Supplies.....	1.0	1.0	1.1	1.0	1.0	1.0	1.0	1.0	0.8
Taxes.....	0.7	0.7	1.0	1.1	1.1	1.0	1.0	0.9	0.9
Other Expense.....	2.2	2.5	2.5	2.6	2.3	2.4	2.0	2.0	1.9
Total Expense before Interest.....	29.6%	29.1%	29.9%	31.2%	30.6%	29.6%	29.0%	28.2%	27.7%
Total Interest.....	1.7	1.4	1.4	1.5	1.5	1.3	1.3	1.2	1.2
TOTAL EXPENSE including Interest.....	31.3%	30.5%	31.3%	32.7%	32.1%	30.9%	30.3%	29.4%	28.9%
NET PROFIT.....	2.7%	4.0%	3.8%	2.3%	3.6%	4.5%	6.5%	8.0%	8.7%
Total Net Other Income.....	1.6	1.5	1.9	2.1	1.9	1.9	1.9	1.8	1.7
NET GAIN before Income Taxes¹:									
Percentage of Net Sales.....	4.3%	5.5%	5.7%	4.4%	5.5%	6.4%	8.4%	9.8%	10.4%
Percentage of Net Worth.....	*	*	*	13.0	16.4	20.7	28.9	35.2	36.1
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	4.3	4.2	4.1	4.1	4.5	4.4	4.0	3.9	4.1
7† Identical Chains with Net Sales of \$10,000,000 to \$150,000,000†									
Aggregate Number of Stores.....	1,777	1,815	1,847	1,872	1,886	1,892	1,906	1,917	1,911
Average Sales per Store (in thousands).....	\$175	\$191	\$194	\$185	\$195	\$207	\$239	\$282	\$308
GROSS MARGIN.....	32.7%	33.4%	33.4%	32.9%	33.5%	33.6%	35.5%	35.8%†	35.4%†
Salaries and Wages.....	13.5%	13.5%	14.1%	14.2%	14.1%	14.1%	14.4%	14.4%†	14.8%†
Tenancy Costs and Light, Water, and Power.....	9.1	9.1	9.1	9.8	9.6	9.2	8.3	7.2†	6.8†
Depreciation of Fixtures and Equipment.....	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.7†	0.6†
Supplies.....	1.0	1.0	1.0	1.0	0.9	1.0	1.0	1.0†	0.9†
Taxes.....	0.6	0.7	1.0	1.2	1.1	1.1	1.0	1.0†	0.9†
Other Expense.....	2.2	2.2	2.4	2.2	2.3	2.4	2.2	2.4†	2.4†
Total Expense before Interest.....	27.2%	27.3%	28.4%	29.3%	28.9%	28.6%	27.7%	26.7%†	26.4%†
Total Interest.....	1.6	1.5	1.5	1.6	1.5	1.5	1.4	1.3†	1.3†
TOTAL EXPENSE including Interest.....	28.8%	28.8%	29.9%	30.9%	30.4%	30.1%	29.1%	28.0%†	27.7%†
NET PROFIT.....	3.9%	4.6%	3.5%	2.0%	3.1%	3.5%	6.4%	7.8%†	7.7%†
Total Net Other Income.....	2.6	2.8	3.0	3.0	2.9	2.8	2.6	2.4†	2.4†
NET GAIN before Income Taxes:									
Percentage of Net Sales.....	6.5%	7.4%	6.5%	5.0%	6.0%	6.3%	9.0%	10.2%†	10.1%†
Percentage of Net Worth.....	14.1	16.9	14.6	10.5	13.3	14.2	22.6	28.3†	28.8†
Net Taxes on Income and Profits ²	0.9%	1.6%	1.3%	1.0%	1.1%	1.8%	4.5%	6.7%†	6.6%†
NET GAIN after Income Taxes (percentage of net sales).....	5.6%	5.8%	5.2%	4.0%	4.9%	4.5%	4.5%	3.5%†	3.5%†
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories.....	5.1	5.1	5.0	5.0	5.1	4.7	4.1	4.1†	4.3†

*Data not available. See the paragraph on methods, Appendix, page 38.

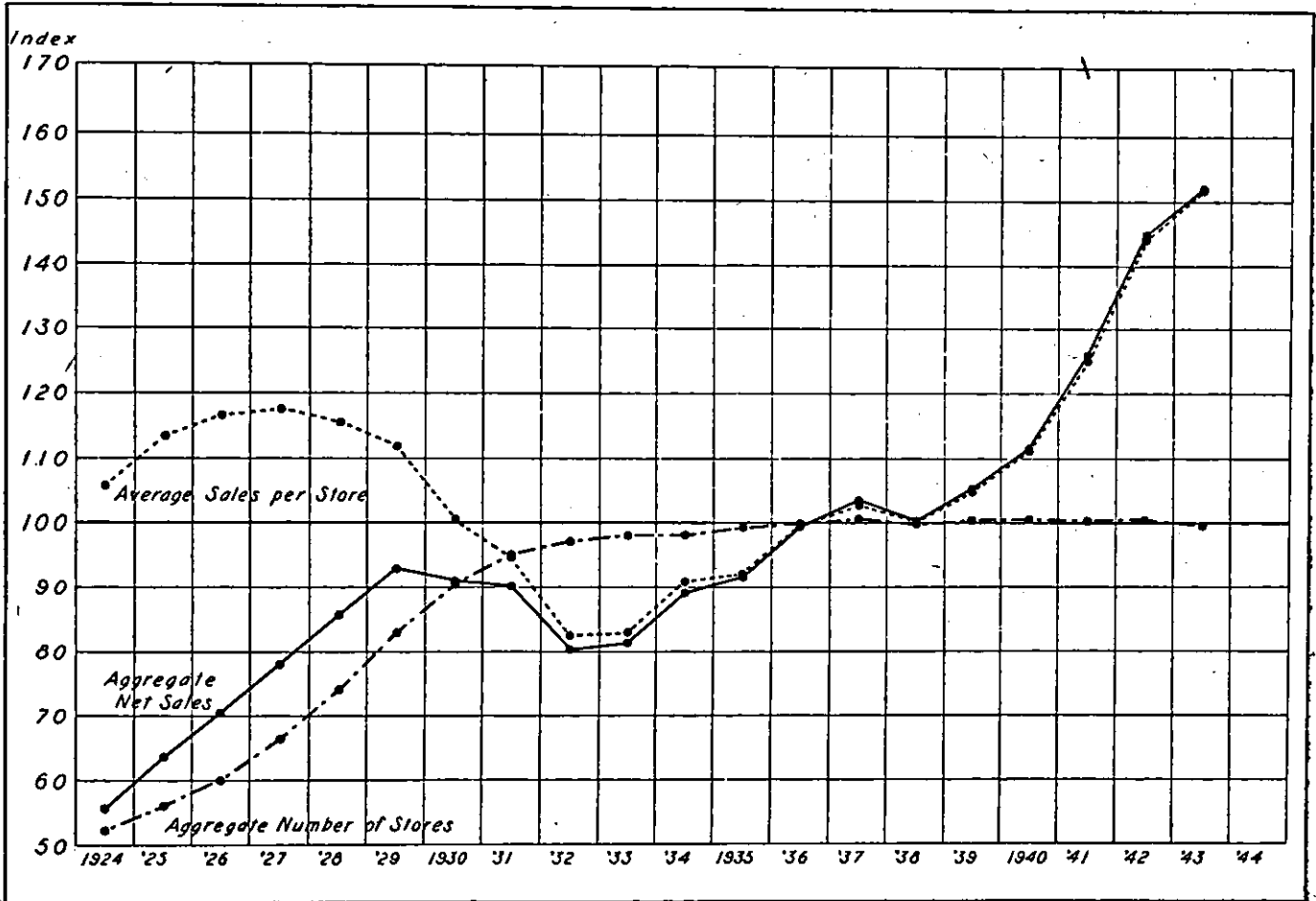
†The chains were classified according to their net sales volume in 1935.

‡For the years 1942 and 1943, one of the seven chains did not submit data to the Bureau. Information on number of stores, sales, earnings, and income taxes, however, was available from published sources. The sales-per-store and average-number-of-stores figures, therefore, are for the seven chains. The margin, expense, and profit data are the averages for six chains. The net gain before income taxes for the six firms, as indicated above, amounted to 10.2% of sales and 28.3% of net worth for 1942 and 10.1% of sales and 28.8% of net worth for 1943; for the seven, the corresponding figures were 10.2% and 28.9% for 1942 and 10.3% and 30.3% for 1943. For both years, net gain after taxes remained 3.5% after the inclusion of the data for the seventh firm. Study of the margin and expense data for the six and seven chains separately for the years 1935-1941 indicated that omission of data for 1942 and 1943 for the seventh chain would not invalidate year-to-year comparisons.

¹Income tax data were reported by too few chains in this group to make possible the preparation of averages.

²Excess profits tax credits (postwar refund and debt retirement credit) have been deducted from taxes for 1942 and 1943.

Chart 3. Summary Statistics for 7 Variety Chains: 1924-1943
(Average for 1935-1939 = 100)



Favorable Long-term Outlook

Despite the slackening in sales advance of 1943, the chains should be able to capitalize on the vitality and resourcefulness which they have shown in the past. During recent years the abandoning of

price limits has allowed for greater merchandise diversification and the stores have become more like department stores. Slackening of sales growth in 1943 does not suggest that the variety chain as a form of retailing has become old and stale.

Table 23. Selected Balance Sheet Items¹ of 7 Identical Variety Chains with Net Sales of \$10,000,000 to \$150,000,000†: 1935-1943

Items	1935	1936	1937	1938	1939	1940	1941	1942	1943
Average Dollar Amounts per Store for:									
Inventory.....	\$24,337	\$25,611	\$25,834	\$23,693	\$27,446	\$31,257	\$43,758	\$45,312	\$47,061
Plant and Equipment ²	51,283	52,347	55,125	55,404	55,766	56,417	56,940	*	*
Net Worth.....	82,119	84,324	87,787	87,716	90,263	92,694	96,531‡	102,419‡	107,444
Index of Change (1935 = 100) in Average Dollar Amounts per Store for:									
Inventory.....	100.0	105.2	106.2	97.4	112.8	128.4	179.8	186.2	193.4
Plant and Equipment ²	100.0	102.1	107.5	108.0	108.7	110.0	111.0	*	*
Net Worth.....	100.0	102.7	106.9	106.8	109.9	112.9	117.6‡	124.7‡	130.8

*Data not available for entire seven firms. For the six firms giving the data in 1942 and 1943, the investment per store in plant and equipment was \$64,682 in 1942 and \$62,245 in 1943 as compared with \$57,196 in 1935 and \$64,583 in 1941. Thus the index for the six chains would be 112.9 in 1941, 113.1 in 1942, and 108.8 in 1943.

†The chains were classified according to their net sales volume in 1935.

‡Revised data.

§End-of-year dollar aggregates divided by number of stores in operation at end of year.

*Less amortization or reserve for depreciation.

RESULTS FOR INDEPENDENT VARIETY STORES

This year the Bureau was fortunate in receiving 28 reports covering the operations of 33 independent variety stores. In addition the Bureau received three reports which were not sufficiently detailed for use in the study. The figures from the 28 reports are tabulated in Table 24. It has been possible, in Table 25, to classify the stores into two groups: 20 stores with net sales of less than \$50,000 per year and 13 stores with net sales of from \$50,000 to \$125,000. These 33 stores, with total net sales of \$1,687,040, had earnings of 9.42% before income taxes, a record which compares favorably with that of the chains.

The independent stores reporting to the Bureau for 1943 apparently were larger than the typical independent variety store. According to the Census, 5,922 or 56% of the independent variety stores in 1939 grossed less than \$10,000; none of the stores reporting to the Harvard Bureau for 1943, a year of considerably higher sales levels, to be sure, had sales of less than \$18,000.¹

Year-to-year comparisons were impossible because this is the first time such a group of stores has reported. The stores were asked, however, how their 1943 sales compared with 1942 sales. The median rate of increase was 18.73%, which was higher than that of the chains as a whole but remarkably suggestive of the smaller chains.

Similarities to Small Chains and Small Department Stores

On a number of points, fruitful comparison can be made with the small variety chains and small department stores. This comparison is presented in summary form in Table 26. The similarities are striking, whether comparison is made with chains with total sales volume of less than \$500,000, chains operating less than 10 stores, chains with average sales per store of less than \$75,000, or department stores with net sales of less than \$150,000. It is particularly interesting that, of all the comparisons, the figures for the small department stores showed the closest relation to the independents' figures.

Gross Margin

For the independents and the small department stores the typical gross margin was almost identical

¹For comparison, only 172 chain stores, or about 3% of all chain stores were in the less than \$10,000 sales group in 1939. At the other extreme, 4 independent stores had total sales in 1939 exceeding \$300,000, whereas 576 chain stores surpassed this figure. The chains, with 38% of stores and 89% of the employees, did 87% of the variety-store business in 1939. U.S. Bureau of the Census, *op. cit.*, pp. 112, 116, 120, and 121 and U.S. Bureau of Labor Statistics, *op. cit.*, p. 1266.

—and it was higher than the figures for either the chains with total net sales of less than \$500,000 or the chains operating less than 10 stores. Chains classified as having average sales per store of less than \$75,000 did have a higher gross margin, but this classification of chains is less likely to reflect the overall size of the chain organizations making it up and there may be a larger proportion of large chains included in it. Certainly the conclusion can be drawn that so far as the size of the gross margin measures buying advantages, the independents were better off than the smallest of the chain organizations. This may be in large part a tribute to the services of the buying groups with which 24 of the 28 independent firms have voluntarily associated themselves.

Expenses

With expenses, too, the independents were closest to the small department stores, particularly on the item of salaries and wages. The chains, on the other hand, showed higher salaries and wages (this was perhaps the penalty of greater expenditure for management and control personnel without the compensation of large-scale operations), higher tenancy costs, and as a result higher total expense. It is very possible that the independents had more flexibility in adapting their expenses to day-to-day needs.

Earnings

The result of a slightly higher margin and a substantially lower total expense was, of course, a higher earnings figure for the independents compared with the small chains. The comparison with the small chains is more warranted than the comparison with the small department stores, since the small department stores had a much higher sales volume per store. Nevertheless, both comparisons testify to the fact that well-run small independent stores need not be at a competitive disadvantage, particularly in comparison with the small chain organizations.

The major competition faced by independent variety stores comes from chain store outlets, not from one another. It may have been in recognition of this fact that Butler Brothers, of Chicago, the largest supplier of independent variety stores, sought in mid-1943 to change the terms of the franchises held by approximately 3,000 Ben Franklin Stores which it sponsors. Features of the new franchise are (1) commitments on the part of the stores to buy all their merchandise with a few specific exceptions from Butler Brothers, and (2)

Table 24. Operating Results for 28 Firms Operating Independent Variety Stores: 1943

(Net Sales = 100 %, except where noted)

Items	Aggregate Figures	Median ¹ and Range Figures		
		Percentages Computed from the Figures for Each Firm Taken Individually		
		Median ¹ Figures	One-half the Reported Figures, Centered on the Median, Lay between the Limits Listed Below	
Aggregate Number of Stores.....	33	.....	.....	.....
Aggregate Net Sales.....	\$1,687,040	100.00%	.....	.....
Average Sales per Store.....	\$51,122	\$43,420	\$33,419	\$66,149
Change in Sales (1943/1942).....	.....	118.73	112.85	125.92
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	67.38%	66.84%	65.08%	69.29%
GROSS MARGIN.....	32.62	33.16	30.71	34.92
Salaries and Wages:				
Executive.....	5.78%	5.64%	4.19%	8.57%
Other.....	9.21	8.08	6.13	10.02
Total Salaries and Wages (subtotal).....	(14.99)	14.85	12.93	15.85
Tenancy Costs (including Heat).....	3.59	2.93	2.16	3.81
Light, Water, and Power.....	0.72	0.68†	0.46†	0.94†
Depreciation of Fixtures and Equipment.....	0.81	0.86	0.55	1.02
Supplies.....	0.45	0.90	0.61	1.01
Advertising.....	1.30	0.48	0.28	0.70
Insurance (except on real estate).....	1.84	0.44	0.32	0.56
Taxes (except on real estate or income):				
Sales.....	0.00	0.00	0.00	0.00
Other.....	0.69	0.55	0.55	0.85
Miscellaneous Expense.....	1.84	1.42	1.01	1.82
Total Expense before Interest.....	23.70%	23.70%	21.44%	25.79%
Total Interest.....	1.93	1.84	1.65	2.40
TOTAL EXPENSE including Interest.....	25.63%	25.70%	23.33%	27.51%
NET PROFIT.....	6.99%	6.32%	4.39%	8.91%
Net Other Income (including Interest on Net Worth).....	2.43	1.72	1.54	2.48
NET GAIN before Income Taxes:				
Percentage of Net Sales.....	9.42%	8.49%	5.88%	11.31%
Percentage of Net Worth ²	26.67	28.22	21.05	39.96
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories ³	3.70	3.64	3.24	4.41
Discounts and Allowances Received.....	*	1.10%†	0.98%†	1.19%†
Freight, Express, Postage, and Truckage.....	*	1.51†	1.26†	2.02†
Change in County Population (March 1, 1943/April 1, 1940) ⁴.....	.....	92.95	88.20	98.20
Population of City ⁵.....	.....	3,558	2,288	6,495
Distribution of Stores among Cities with Populations of: ⁶				
Less than 10,000.....	22	.....	.....	.....
10,000-25,000.....	1	.....	.....	.....
25,000-100,000.....	2	.....	.....	.....
100,000-500,000.....	2	.....	.....	.....
500,000-1,000,000.....	1	.....	.....	.....
1,000,000 or More.....	0	.....	.....	.....

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

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²The figures for this item were based on the reports of 25 firms giving balance sheet data.

³The figures for this item were based on the reports of 27 firms.

⁴Adapted from: *Estimates of the Civilian Population of the United States by Counties: March 1, 1943*, U. S. Department of Commerce, Bureau of the Census, Release, October 31, 1943.

⁵In the case of reports covering two stores, only the location of the principal one was indicated.

**Table 25. Operating Results for 28 Firms Operating Independent Variety Stores
Classified According to Volume of Sales per Store: 1943**

(Net Sales = 100%, except where noted)

Items	Median ¹ Figures		Aggregate Figures	
	Percentages Computed from the Figures of Each Firm Taken Individually		Percentages Computed from the Combined Dollar Figures of the Firms in Each Sales-per-Store Group	
	Sales per Store		Sales per Store	
	Less than \$50,000	\$50,000-125,000	Less than \$50,000	\$50,000-125,000
Number of Reports.....	18	10	18	10
Number of Stores.....	20	13	20	13
Number of Members of Voluntary Chains.....	15	9	15	9
Average Sales per Store.....	\$37,398	\$70,868	\$36,631	\$73,418
Change in Sales (1943/1942).....	117.23	120.33†	....	....
Net Cost of Merchandise Sold (including freight, express, postage, and truckage).....	66.84%	67.07%	68.44%	66.58%
GROSS MARGIN.....	33.16	32.93	31.56	33.42
Salaries and Wages:				
Executive.....	8.03%	4.29%	6.57%	5.17%
Other.....	6.20	10.45	7.55	10.49
Total Salaries and Wages (subtotal).....	14.39	15.05	(14.12)	(15.66)
Tenancy Costs (including Heat).....	2.93†	2.70	} 3.62	} 3.60
Light, Water, and Power.....	0.63†	0.81†		
Depreciation of Fixtures and Equipment.....	0.81	0.87	0.58	0.83
Supplies.....	0.91	0.84	0.89	0.74
Advertising.....	0.57	0.37	0.56	0.37
Insurance (except on real estate).....	0.44†	0.39	} 1.40	} 0.41
Taxes (except on real estate or income):				
Sales.....	0.00	0.00		
Other.....	0.62	0.74	0.77	0.04
Miscellaneous Expense.....	1.23	1.50	1.52	2.05
Total Expense before Interest.....	22.99%	24.75%	22.69%	24.47%
Total Interest.....	1.87	1.69	1.87	1.97
TOTAL EXPENSE including Interest.....	25.45%	26.59%	24.56%	26.44%
NET PROFIT.....	6.22%	6.32%	7.00%	6.98%
Net Other Income (including Interest on Net Worth).....	2.00	1.70	1.89	2.85
NET GAIN before Income Taxes:				
Percentage of Net Sales.....	8.33%	8.78%	8.89%	9.83%
Percentage of Net Worth ²	27.92	32.38	31.58	24.46
Rate of Stock-turn (times a year) Based on Beginning and Ending Inventories ³	3.52	4.04	3.52	3.86
Change in County Population (March 1, 1943/April 1, 1940) ⁴	92.15	97.70	....	....
Population of City ⁵	2,806	4,482	....	....
Distribution of Stores among Cities with Populations of: ⁵				
Less than 10,000.....	....	....	15	7
10,000-25,000.....	....	....	1	0
25,000-100,000.....	....	....	1	1
100,000-500,000.....	....	....	1	1
500,000-1,000,000.....	....	....	0	1
1,000,000 or More.....	....	....	0	0

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

¹All the medians were set independently; therefore the sum of the individual items does not necessarily equal the total.

²The figures for this item were based on the reports of 15 firms in the first group and all firms in the second group.

³The figures for this item were based on the reports of 17 firms in the first group and all firms in the second group.

⁴Adapted from: *Estimates on the Civilian Population of the United States by Counties: March 1, 1943*, U. S. Department of Commerce, Bureau of the Census. Release, October 31, 1943.

⁵In the case of reports covering two stores, only the location of the principal one was indicated.

Table 26. Selected Operating Results for Variety Chains and Independent Variety and Small Department Stores: 1943

(Median Figures)

Items	All Reporting Independent Variety Stores	Variety Chains			Department Stores with Net Sales of less than \$150,000 ²
		with Total Net Sales of less than \$500,000	Operating less than 10 Stores	with Average Sales per Store of less than \$75,000 ¹	
Average Sales per store.....	\$43,420	\$42,193	\$52,630	\$49,395	\$100,000
Gross Margin.....	33.16%	32.05%	32.54%	35.66%	33.1%
Salaries and Wages.....	14.85	15.90	17.75	17.65	14.3
Tenancy Costs.....	2.93	2.88	3.04	3.07	2.2
Total Expense, including interest.....	25.70	27.53	28.72	27.55	24.2
Net Gain before Taxes on Income and Excess Profits.....	8.49	7.30	6.56	8.49	10.2 $\frac{1}{2}$
Rate of Stock-turn.....	3.64	3.40	3.49	3.49	3.9

¹In the case of the department stores, state income taxes have been included in the total expense figure.

²Medians based on a combined series of data for chains with average sales per store of less than \$50,000 and \$50,000 to \$75,000. These figures seem to afford the fairest comparison with those for independents since virtually all the reporting independents had sales of less than \$100,000.

³Common figures. Source: Harvard Business School, Bureau of Business Research, Bulletin No. 119, *Operating Results of Department and Specialty Stores in 1943*, by Stanley F. Teele, pp. 9 and 10.

the provision for compulsory advisory services by Butler Brothers trained "service superintendents" on such matters as store management, bookkeeping, credit policies, advertising and inventory control.

The recent organization of the National Association of Variety Stores by 150 independent variety store operators is said to have been precipitated by Butler Brothers' action. The association already numbers about 2500 members. Those who do not sign the Butler Brothers' franchise may still buy from that wholesale house but must pay higher prices; hence the aim of the new association is to discover additional sources of merchandise for its members. Already three groups of independent variety store owners have joined together to form cooperatively owned jobbing houses. And the N.A.V.S. apparently envisions

a central buying organization, sponsored by the association but not operated by it, which would coordinate the buying of a number of such buying units.¹

These are interesting developments. Both the action by Butler Brothers and the form of the new association may presage increased competitive strength on the part of the independent variety stores.

The Effect on Independents of Differences in Sales Volume

In Table 27 a comparison is made between the two volume groups of independent stores and two volume groups of variety chains. The influence of higher sales volume on expense was in general much the same with the independents as it was

¹*Business Week*, August 5, 1944, p. 83.

Table 27. Selected Operating Results for Variety Chains and Independent Variety Stores: 1943
(Median Figures)

Items	Independent Variety Stores with Net Sales of		Variety Chains with Average Sales per Store of	
	Less than \$50,000	\$50,000 to \$125,000	Less than \$50,000	\$50,000 to \$100,000 ¹
Average Sales.....	\$37,398	\$70,868	\$31,643	\$75,763
Gross Margin.....	33.16%	32.93%	34.35%	36.38%
Salaries.....	14.39	15.05	15.68	18.11
Tenancy Costs.....	2.93	2.70	3.09	3.06
Total Expense, including Interest.....	25.45	26.59	26.82	28.01
Net Gain before Taxes on Income and Excess Profits.....	8.33	8.78	7.06	9.71
Rate of Stock-turn.....	3.52	4.04	3.44	4.14

¹Medians based on a combined series of data for chains with average sales per store of less than \$50,000 and \$50,000 to \$100,000.

with the chains, and therefore nothing new need be added to the observations made earlier in the study concerning the effect of size on operating results of chains. But it does serve as confirmation.

One point, however, may be of significance: the gross margin of the group of larger independents was slightly less than that of the smaller independents. The samples are too small to allow very much to be made of the difference. But the fact that the margins of the two groups in 1943 were so close may suggest that independent variety stores, buying through wholesale groups (voluntary or otherwise), do not have the same opportunity as do the chains to turn their higher sales volume to advantage in their buying—that is, of course, not until they reach the point where they are large enough to buy direct from manufacturers.

Other Characteristics of Independents

The rate of stock-turn tended to be higher for the independents than for the small chains—perhaps another evidence of flexibility.

The merchandise lines carried by the independent variety stores are not dissimilar from those carried by the chains. The sample is too small and the data are too spotty to say more than that, on the average, roughly one-third of sales were in apparel and accessories and dry goods and domestics; 15% in hardware, electrical appliances and supplies, and home furnishings; 7% in drugs and toiletries; 7% in toys, games, and books; 12% in confectionery and nuts; 10% in stationery; and

¹U. S. Bureau of the Census, op. cit., pp. 128, 129. The averages cited are based on aggregates.

slightly less than 10% in notions and small wares.

The independent variety stores were located predominantly in towns of less than 10,000 population, as were the small chains and the small department stores. In 1939, according to the Census, 60% of the 10,574 independent variety stores in the country were in towns of this size. The remaining 40% were distributed as follows: 10% in cities of 10,000 to 100,000; 13% in cities of 100,000 to 500,000; and 17% in cities of 500,000 or more.

The Census for 1939 also shows that the largest independent stores, contrary to the largest variety chain and department stores, tended to be located in the smaller cities and towns. Stores in cities with populations of 2,500 to 20,000 had sales per store averaging between \$18,000 and \$20,000. Stores in the largest cities experienced average sales of only \$10,000; this was the lowest average for the ten city classifications used in the Census breakdown with the exception of that for stores in towns of less than 2,500 population.¹ Clearly, the independent variety store is a more important retail outlet in the smaller cities than in the larger cities.

Conclusions

If any overall conclusions can be drawn from the 28 reports of the independent variety stores for 1943, considered along with the data of the chains, they are: (1) the limited price variety store is essentially a small-town store; (2) as such, the variety store shows great vitality; and (3) whether operated as a member of a chain or as an independent, the variety store shows the same responses to factors of demand and general economic conditions.

APPENDIX

Base of Percentages. All percentages in this bulletin, unless otherwise indicated, are based on net sales as 100%.

Gross Margin. Gross margin is the amount remaining after the deduction of net cost of goods sold from net sales. Net cost of goods sold is billed or invoice cost of goods sold, less cash discounts taken and allowances received, plus transportation charges, and plus proper charges for merchandise depreciation and stock shortages.

Transportation Charges. In this account are included all transportation charges on merchandise shipped either directly to individual stores by manufacturers or to chain warehouses. Any transportation costs incurred by the chains for transferring merchandise from warehouses to stores or between stores likewise is included in this item. The transportation charges are considered as a part of the cost of merchandise.

Salaries and Wages. The salary and wage classification embraces all items of payroll expense both in stores and in the central organizations, including the compensation of chief executives. One change in the definition of the account made for the 1936 study and continued in following years should be noted: pensions, formerly included in salaries and wages, are now considered as miscellaneous expense.

Tenancy Costs. Tenancy costs comprise all expenses on property used in the business. They therefore cover, in the case of leased property, not only rentals paid but other payments made in lieu of rent, such as taxes, insurance, repairs, and amortization of leaseholds. Charges on owned real estate included in this account comprise taxes, insurance, repairs, and depreciation on owned real estate, plus a fair charge for interest on equity in land, buildings, and improvements, as well as interest actually paid on mortgages. The definition of the tenancy cost account for 1943 differs in two respects from that for 1929, 1931, and 1932, but is the same as that obtaining in the years 1933 through 1942. Charges for amortization of major improvements on leased property, formerly combined with charges for depreciation on fixtures and equipment, have been allocated to the tenancy cost item. Also, since many of the firms lease stores for which heat is provided by the landlords, the cost of heat has been included with other real estate charges in order to assure comparability.

Interest. In order to obtain comparability between businesses using different methods of financ-

ing, interest at the rate of 6% on the average net worth exclusive of real estate, leaseholds, and goodwill is considered as an expense, as well as interest actually paid other than mortgage interest. Interest computed on real estate equity and mortgage interest are considered as tenancy expense. From the sum of the actual interest payments and the interest on owned capital is deducted the amount of interest and dividends received.

Total Expense including Interest. Total expense including interest is the complete cost of doing business, comprising, in addition to the usual outlays, salaries of executives, proprietors, and partners; rental charges for owned real estate; and interest on owned capital.

Net Profit. The above procedure with respect to interest leads to a narrow definition of net profit as a theoretically residual sum over and above a customary interest return on invested capital.

Net Other Income. Net other income has three component parts: profit or loss from real estate operations; interest on net worth other than real estate; and other revenue, net. In the first of these are included net profit or loss on owned real estate not used in the business, interest previously charged as expense on the investment in owned real estate used in the business, profit or loss on real estate which has been sublet, and profit or loss of any subsidiary real estate holding companies. Under interest on net worth is credited back the interest at 6% on the average net worth, excluding real estate, previously included as an operating expense in arriving at the net profit on merchandising operations. Miscellaneous revenue, including such receipts as dividends from manufacturing and/or foreign subsidiaries and income from weighing machines and telephones, is considered as sundry revenue, net. Commissions or net profits from leased or concession departments were included here by several chains.

Net Gain before Income Taxes. To arrive at the final net gain or net business profit, net other income is added to the net profit. Therefore the net gain figure, while not affording, from a statistical standpoint, so valid an interchain comparison as the net profit figure, may be taken as roughly approximate to net business profit in the commonly understood sense. Net gain is expressed both as a percentage of net sales and as a percentage of the average net worth. The use of the average net worth as a base for this figure introduces the complication of differing policies in regard to real es-

rate for a chain which, either directly or through a subsidiary real estate corporation, owns many of the stores operated, the total average net worth is large in proportion to the net sales volume; and as a result the rate of return on invested capital is low as compared with that for a chain owning little or no real estate.

Taxes on Income and Excess Profits. Taxes on income and excess profits have been considered as deductions from net gain. In this tax figure a deduction has been made for the 10% credit whether used currently for debt reduction or set up as a postwar rebate.

Taxes (except on real estate or income). This tax account includes all tax expense except real estate taxes, included under tenancy costs, and federal and state taxes on net income. Where state or municipal taxes on sales or gross income are not collected directly from customers but are absorbed by the chain as expense, such cost is included under sales taxes, a subdivision of the tax account. Other tax expense includes special chain taxes, licenses, taxes on equipment and merchandise inventory, corporate taxes, the federal capital stock tax, payments for unemployment and old age taxes made in compliance with the Social Security Act, and other taxes not specifically mentioned elsewhere.

Rate of Stock-turn. The rate of stock-turn, or rapidity of merchandise turnover, is calculated by dividing the cost of merchandise sold by the average inventory at cost. For chain enterprises the average inventory includes merchandise both in stores and in warehouses. Stock-turn figures of two types have been computed: the first rate, available for all chains, is based on the average of the beginning and ending inventories; and the second rate, available for part of the chains only, is based on the average of 12 monthly inventories.

Leased or Concession Departments. Eleven of the 43 chains indicated that leased departments or concessions were operated in some of their stores in 1943. Volume in such departments usually was small in relation to total sales, and the firms were requested to exclude the revenue from total sales and consider the commissions received under net other income.

For a few chains, however, leased department or concession sales amounted to more than 3.0% of the total volume. In such cases adjustments were made to insure comparability of the operating percentages. Two alternate methods were suggested to the firms as acceptable bases for the

adjustments. The first method was to exclude the leased department sales from total sales, estimate the indirect expenses incurred by the chain in behalf of the departments, and exclude these charges from expense; the difference between commissions and the estimated indirect expenses was to be considered under other revenue. The second method was to include the leased department sales in chain sales and add to chain operating expenses estimates of the expenses incurred directly by the leased or concession departments. An amount corresponding to these direct expenses was then added to the commissions and included in the gross margin with the difference between leased department sales and this figure charged to merchandise cost.

Methods. The statements used in the study were carefully examined for comparability and completeness of data. Whenever questions arose concerning the omission of or the interpretation of material, letters were written to the individual firms requesting additional information. Usually the necessary material was forthcoming. In other cases when it seemed probable that the omission of a figure by a firm was equivalent to a zero entry, zero figures were used in arriving at the averages presented. When it was evident that one reported expense figure covered two or more accounts, adjustments were made to allocate the amount to the proper accounts. In still other instances where material was not reported, the averages were based on a reduced sample; usually medians only are presented in this latter case, and asterisks in the tables indicate the lack of averages for such items.

Aggregates and Averages. Some of the figures included in this report are averages based on aggregate dollar figures. Such aggregate figures manifestly are weighted according to sales volume. These average figures based on dollar aggregates obviously do not afford a good year-to-year comparison unless only identical firms are used, since the averages are substantially affected by the omission or addition of one or two large firms.

Median Figures. Many of the other data presented in this report consist of median figures. These figures are based on percentages computed for each firm in the group individually. Such figures, therefore, give equal weight to each chain, irrespective of sales volume and number of stores. The median is the middle figure in an array of percentages listed in order from the smallest to the largest.