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**OPERATING RESULTS  
OF DEPARTMENT AND SPECIALTY STORES  
IN 1943**

**BY  
STANLEY F. TEELE**



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

## DIGEST

### OPERATING RESULTS OF DEPARTMENT AND SPECIALTY STORES IN 1943

*The following is a résumé of the report by Professor Stanley F. Teele, the twenty-fourth annual survey in a series prepared by the Harvard Bureau of Business Research.*

Store managements with a scientific approach cannot arrange at will the more ponderable inconstants in their operating environment in order to study the results. The war, however, arbitrarily has established a panorama of conditions which, while they cannot be shifted to suit the needs of the student, nevertheless fortuitously provide a vivid new set up for comparative study. The Bureau's department and specialty store figures for 1943, offered as they are with corresponding figures for previous years, thus make it possible to observe effects which before merely could be speculated about.

The impact of full war conditions was felt by department and specialty stores in 1943: high taxes; help shortages; merchandise shortages; deterioration in merchandise quality; customer transportation difficulties; increased and more widely distributed purchasing power; wide geographic differences in extent of war production activity; and government controls over expansion, collections, and pricing.

One notable showing of the 1943 figures is that department stores were able to pay the very heavy federal income and excess profits taxes while still slightly increasing their net profit rates. Most of the specialty stores included in the survey did not report on federal taxes on income. The indications, however, are that they too were able to carry the tax burden without reducing the net profit rate.

Federal income and excess profits taxes for the 367 department stores covered in 1943 were 7.7% of sales as against a figure of 5.95% for the stores reporting in 1942. The figure of 7.7%, providing the federal treasury with roughly \$155,000,000 from these stores alone, represents, of course, an unprecedented slice of sales for this purpose.

It is interesting then, both for store management and for tax specialists to consider the 1943 tax and profit figures in connection with the problem of retail sales taxes as an alternative to income taxes.

For managements themselves, acute interest must lie in consideration of the factors which made possible relatively favorable operating results

in spite of the tax burden and also in spite of other operating difficulties, such as merchandise shortages and rationing restrictions.

The explanation of the favorable net profits rates is not to be found in increased gross margins. The department stores actually showed a slight decrease in gross margin percentage in 1943: 38.4% of sales as against 38.7% in 1942. Though specialty stores showed an increase in gross margin rate in 1943, it was not large. In 1942, substantial price increases were evident but, in 1943, there was evidence of little such increase. The average gross sales for department stores in 1942 was \$2.81, and in 1943 it was \$2.85.

Thus the factor which protected net profit rate in 1943 was chiefly a decrease in the operating expense percentage. The total expense rate for department stores fell from 32.05% of sales in 1942 to 29.4% in 1943. For specialty stores, the total expense rate was 33.75% in 1942, falling to 31.15% in 1943.

In this area a potent question rises as to whether the decreases in expense percentages are of a nature which will allow their continuance, or partial continuance, in following years.

From the evidence, continued low expense rates would seem to be dependent on continuing sales increases. The Bureau's figures make it clear that there was, as shown also in previous studies, a firm relation between increases in dollar sales and the decreases in operating expense ratios. Department stores which had sales increases of 30% or more in 1943 over 1942, for example, showed a drop of 4.6% of sales in total expense rate; whereas stores with sales increases of less than 10% showed a drop in total expense rate of but 1.1% of sales. In fact, without exception, the larger the sales increase in 1943 over 1942, the greater was the reduction in total expense rate and in the principal items of expense; that is, payroll, real estate cost, and advertising.

The effect of sales increases upon expense ratios is emphasized in the experience of the smaller stores. As in the past, the total expense rate was lower for the small department stores. Unlike previous years, however, in 1943 net profit of the small stores was as favorable as that shown for the large stores. And the immediate answer lies in the fact that the small stores had distinctly higher rates of sales increase than did the larger stores. The very largest department stores, those with sales of \$30,000,000 or more, had the lowest rate of sales increase of any group, the highest total expense rate, and the lowest net profit rate. Among specialty stores likewise, highest sales increase percentages and lowest expense rates were experienced by the small stores.

As in bulletins for earlier years, the 1943 bulletin gives detailed operating comparisons of stores in different size groups.

Whether the favorable expense rates experienced in 1943 can be continued if the sales volumes reached in that year are maintained needs to be considered. The question is: are favorable expense ratios dependent on the factor of rapid sales increases or are they related to sales volume in itself? The Bureau's studies of earlier years have emphasized that expense and profit rates are influenced favorably by substantial sales increases over a short period of time.

Although the 1943 figures continue to show the major decreases in expense rates to be associated with rapid sales increases, they also show that in that year even the department stores with sales increases of less than 10% experienced a drop in total expense rate. There were, for these stores with small sales increases, declines in Payroll, Real Estate, and Advertising expense percentages, and actual dollar decreases in Advertising, Interest, Supplies, Service Purchased, Losses from Bad Debts, Communication, Repairs, and Depreciation. Number of transactions for these particular department stores actually decreased 2% in 1943 over 1942, whereas the overall picture for all stores reporting showed a marked increase in number of transactions in 1943.

Special conditions produced by the war unquestionably helped the store managements to hold down dollar expenditures; notably, help shortages, restrictions on plant expansion, and the willingness of customers to accede to a lowering of delivery and other service standards. Increased purchasing power occasioned by war production activity, of course, found its reflection in the increased sales volumes reported. The overall sales increase for 366 department stores reporting in 1943 was 16.3% over 1942.

Because war production activity was geographically spotty, the rate of sales increase varied considerably for the various groups of stores. All groups, however, whether in areas of high war production activity or not, and in spite of merchandise shortages, showed sales increases. Part of such increases can be ascribed to the ability of store managements to shift emphasis from one merchandise line or department to another.

Department stores giving figures to the Bureau in 1943 were asked to report on departments closed and new departments established. One hundred sixty seven stores answered as to departments closed. Of these, 46 had closed a total of 75 departments. Of 156 stores answering the question as to departments opened, 48 had opened during the year a total of 91 new departments. Both the departments opened and those closed varied greatly in type.

Sales by merchandise lines are reported for 1943 in detail and show, as was to be expected, a decided increase in the importance of ready-to-wear and a marked decrease in sales of home furnishings.

Basement sales of department stores, while increasing 8.9% in 1943 over 1942, lagged far behind the increase in main store sales, which was 17.8%. These figures provide an interesting contrast to the 1942 situation, when basement store sales increased at a slightly higher rate than did main store sales.

It was thought that war conditions, which led to shifts in emphasis on merchandise lines, might also have led to increased experimentation with forms of self service. Data on this aspect of department store operation are included in the 1943 bulletin. They indicate that even under the stimulus of help shortages, self service and self selection methods have not been widely used.

The marked increase shown in 1942 in percentage of total department sales made for cash continued in 1943. In that year, 58.1% of total sales were on a cash and C.O.D. basis.

The Bureau in 1943 continued its detailed comparison, begun in 1939, of operating results by size of store and size of city. It is interesting to find that the 1943 results accord with those for the earlier years. The most favorable profit position for a department store remains the one in which the store does a relatively large volume of business in a relatively small community.

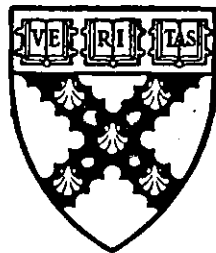
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**BY**

**STANLEY F. TEELE**

*Professor of Business Administration*



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

HARVARD UNIVERSITY  
GRADUATE SCHOOL OF BUSINESS ADMINISTRATION  
GEORGE F. BAKER FOUNDATION  
DONALD K. DAVID, *Dean*  
MELVIN T. COPELAND, *Director of Research*

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## FOREWORD

For the twenty-fourth consecutive year the Harvard Bureau of Business Research has collected and analyzed sales, margin, expense, and earnings data for North American department and departmentized specialty stores.

This study has been made possible by the members of the National Retail Dry Goods 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 individual store controllers and their staffs who prepared the essential basic reports. It is gratifying to know that the executives of 495 firms were willing in a period of acute personnel shortages to allocate time to the project.

The accounting phases of the work were supervised by Miss Grace Lindfors under the direction of Professor Elizabeth A. Burnham who was in charge of the study. The program benefited greatly from the practical advice of Professor Malcolm P. McNair who has long taken an active part in the department store research. The bulletin was written by Professor Stanley F. Teele, Associate Director of Research.

MELVIN T. COPELAND  
*Director of Research*

BOSTON, MASSACHUSETTS  
August, 1944



# CONTENTS

## Operating Results of Department and Specialty Stores in 1943

<b>Section I. Summary</b>	<b>PAGE</b>
Chart 1. Department Store Expenses and Profits: 1943 . . . . .	VI
Chart 2. Transactions, Cost per Transaction, and Size of Sale for Department Stores: 1930-1943 . . . . .	2
<b>Section II. Department Stores</b>	
Table 1. General Averages for Department and Specialty Stores: 1929-1943 . . . . .	5
Table 2. General Averages for Sales Data for Department Stores: 1936-1943 . . . . .	6
Table 3. Common Figures for Sales Data for Department Stores: 1943 . . . . .	7
Table 4. Common Figures for Merchandising Operations and Profits for Department Stores: 1943 . . . . .	9
Table 5. Common Figures for Expense by Natural and Functional Divisions for De- partment Stores: 1943 . . . . .	10
Table 6. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$750,000 to \$2,000,000: 1943 . . . . .	11
Table 7. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$2,000,000 to \$10,000,000: 1943 . . . . .	12
Table 8. Detailed Expenses by Natural and Functional Divisions for Department Stores with Net Sales of \$10,000,000 or More: 1943 . . . . .	13
Table 9. Common Figures for Merchandising Operations and Profits for Department Stores with Net Sales of \$20,000,000 or More: 1943 . . . . .	15
Table 10. Common Figures for Expense by Natural Divisions, Productivity of Space, and of Personnel, and Other Data for Department Stores with Net Sales of \$20,000,000 or More: 1943 . . . . .	15
Table 11. Common Figures for Payroll and Total Expense by Functions for Depart- ment Stores with Net Sales of \$20,000,000 or More: 1943 . . . . .	16
Table 12. Common Figures for Payroll, Productivity of Personnel, Real Estate Costs, and Productivity of Space for Department Stores: 1943 . . . . .	17

Table 13.	Common Figures for Credit Data for Department Stores: 1943 . . . . .	17
Table 14.	Operating Results for 1942 and 1943 for 55 Department Stores with Net Sales of \$4,000,000 to \$10,000,000 in 1942 Classified According to the Degree of Change in Sales from 1942 to 1943 . . . . .	18 and 19
Table 15.	Operating Results for Department and Specialty Stores in 1943 According to the Form of Income Statement Approved by the Board of Directors of the National Retail Dry Goods Association: 1943 . . . . .	20
<b>Section III. Operating Results of Department Stores as Affected by Size of Store and Size of City</b>		
Table 16.	Common Figures for Margin, Expense, and Profit for Department Stores with Net Sales of \$1,000,000 or More Classified According to Net Sales Volume and Size of City: 1943 . . . . .	23
Table 17.	Common Figures for Selected Expenses for Department Stores with Net Sales of \$1,000,000 or More Classified According to Net Sales Volume and Size of City: 1943 . . . . .	24
<b>Section IV. Specialty Stores</b>		
Table 18.	Common Figures for Merchandising Operations and Profits for Specialty Stores: 1943 . . . . .	26
Table 19.	Common Figures for Expense by Natural and Functional Divisions for Specialty Stores: 1943 . . . . .	27
Table 20.	Detailed Expenses by Natural and Functional Divisions for Specialty Stores with Net Sales of \$2,000,000 or More: 1943 . . . . .	28
Appendix	. . . . .	31

**Chart 1. Department Store Expenses and Profits: 1943**  
(with 1942 percentages for comparison)

Items	1943		1942 <sup>1</sup>
	Aggregate Dollar Figures for 367 Firms Operating 461 Stores	1943 Net Sales=100%	1942 Net Sales=100%
<i>The chief source of revenue for these stores, of course, was</i> <b>Net Sales</b> .....	\$2,049,895,550	100.0%	100.0%
<i>A primary charge against this revenue, and the largest single expenditure, was represented by</i> <b>Total Merchandise Costs</b> .....	\$1,261,647,523	61.5%	61.7%
Which included the cost of merchandise purchased for resale delivered at the stores, less trade and cash discounts; the production costs of goods manufactured by the store; alteration and workroom costs, net; plus or minus the amounts taken from, or added to, inventories during the year.			
<i>Other costs which had to be met were those for operating the stores, as follows:</i> <b>Total Payroll</b> .....	\$328,635,486	16.05%	16.7%
Comprising salaries, wages, and bonuses of all employees, including executives, but excluding pensions and payroll taxes;			
<b>Real Estate Costs</b> .....	\$65,927,318	3.25%	3.65%
Including rentals, taxes, and insurance paid on leased real estate; as well as taxes, insurance, depreciation, and interest on owned real estate;			
<b>Advertising</b> .....	\$49,357,222	2.4%	2.65%
<b>Taxes</b> .....	\$22,954,995	1.1%	1.1%
Not including taxes on real estate, or Federal income taxes, but embracing other taxes imposed by national, state, and local governments;			
<b>Supplies and Service Purchased</b> .....	\$44,623,160	2.2%	2.55%
Including electric power, steam, and delivery service bought;			
<b>All Other Expense (including interest)</b> .....	\$96,462,812	4.7%	5.5%
The charge for interest being 6% of the average value of accounts receivable, merchandise inventory, fixtures, and equipment. (A corresponding charge on real estate was included in real estate costs. These charges for interest were made whether the capital invested in the respective assets was owned or borrowed.)			
<i>Thus, for merchandise and store operation combined, these stores experienced a</i> <b>Total Cost of</b> .....	\$1,869,608,516	91.2%	93.85%
After meeting these costs, there remained as			
<b>Net Profit</b> .....	\$180,287,034	8.8%	6.15%
Which constituted the net profit from merchandising operations.			
<i>In addition, the stores received</i> <b>Sundry or Other Revenue, Net</b> .....	\$52,237,654	2.5%	3.2%
Including net profits from leased and manufacturing departments, carrying charges on instalment accounts, and other incidental receipts not part of merchandising revenues; any net profit or loss on real estate, whether used in the business or not; and an amount equivalent to the excess of interest charged as expense over interest actually paid (less interest received).			
<i>And, therefore,</i> <b>Total Net Business Profit Amounted to</b> .....	\$232,524,688	11.3%	9.35%
This was the earnings of these firms before Federal income taxes.			
<i>Income tax data were not reported by all firms but it is estimated that such taxes amounted to</i> .....	.....	7.7%	5.95%
<i>Thus leaving available for dividends, withdrawals, and surplus</i> .....	.....	3.6%	3.4%

<sup>1</sup>Data for 1942 are based on aggregate dollar figures for 374 firms with net sales of \$1,809,729,019, and operating 441 stores. There is always some change from year to year in the identity of the reporting firms. In making comparisons of the data for 1942 and 1943, it will be well to note that 304, or 82.8%, of the 367 firms reporting for 1943 also were included in the above data for 1942. The sales of these 304 firms accounted for 93.1% of the aggregate sales in 1943 and 90.0% in 1942. It should be noted that figures for 1 of the 367 firms were received too late for inclusion in tabulations other than Chart 1.

## APPENDIX

### Materials

The information and conclusions contained in this bulletin are based on profit and loss statements, balance sheets, and other materials received on 494 separate schedules covering the operations of 647 stores in 1943. Of these 494 schedules, 20 arrived too late to be used (1 of these 20 was used in Chart 1 only) and 17 were not complete or were in such form that they could not be made comparable with the data for the other stores. As a result, the common figures published in this bulletin are based on 457 statements.

The form on which the cooperating stores reported their figures and other information was developed by the Bureau out of its experience in conducting 23 preceding studies for this trade and from contact with store executives. Copies of the form may be secured by writing to the Bureau.

### Size of Sample

The total store sales volume of the 494 firms which sent reports was slightly more than \$2,400,000,000, and the total store sales (including leased department sales) of the 457 firms for which data were actually used in setting common figures was \$2,351,002,000.

It is estimated that this latter amount is more than 33.5% of the total sales of department and specialty stores in the United States in 1943. According to the Census of Business: 1939, Retail Distribution, Preliminary United States Summary, the sales of department stores and women's ready-to-wear specialty stores (including independents and chains) in 1939 were in excess of \$4,460,000,000. On the basis of the Federal Reserve Board's index, sales of department stores in 1943 amounted to roughly 156.5% of their sales in 1939, so that the figure for 1943 corresponding to the total above was about \$7,000,000,000. The sales of the 457 firms for which data actually were used in this study amount to somewhat more than 33.5% of \$7,000,000,000.

### Classification of Reports by Kind of Store

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

home furnishings. Specialty stores were defined as stores specializing in women's wearing apparel, often handling such accessories as costume jewelry, bags, and toilet goods, but generally not handling either yard goods or home furnishings.

### By Sales Volume

After the division of the reports into two major groups by kind of store, the next step was to classify the reports in each group by total store net sales volume. In this work, consolidated reports for a main store and its branches were classified according to the main store's volume, but consolidated reports for groups of stores similar in volume and not strictly in the relationship of a main store and branches were classified according to sales per store.

This resulted in ten volume groups for department stores and seven volume groups for specialty stores. The limits of the volume groups for department stores have remained unchanged since the 1929 study, and they dovetail with the group limits used in earlier years. Since 1939, however, the groups have been established on the basis of total store net sales rather than on the basis of net sales in owned departments only, as in earlier years, and thus the classification of some firms has been affected. Moreover, from year to year there has been considerable change in the identity of the firms assigned to the several groups owing to changes in individual store volume.

As indicated in Table A, the changes between 1942 and 1943 were substantial. Partly this was because of increases in sales volume which moved some firms out of the lower groups and into the next higher groups, and partly it was because of a change in the identity of the reporting firms, the latter explanation applying particularly among the smaller volume groups. Furthermore, a number of reports were received from new cooperators. The changes in the make-up of the several volume groups which have occurred for these various reasons render year-to-year comparisons between corresponding volume groups somewhat hazardous. Especially is this true among the smaller volume groups; among the stores in the larger volume classifications there was a somewhat stronger tendency toward continuity in the same groups, and hence these groups afford a better basis for year-to-year comparisons.

## Common Figures

In this bulletin common figures are given for each of the several volume groups of department stores.

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

based on inspection of the data and partly by means of computed averages. It is designed to reflect the typical performance.

The common figures published in this bulletin and in earlier bulletins have represented the typical experience of a store in either a limited group of stores or the entire body of reporting stores. All the common figures for department and specialty stores published prior to 1932 were compiled by assigning equal influence or weight to the experience of each reporting firm regardless of size. In preparing the department store figures for Table 1, however, the Bureau has averaged the common figures established by the method described above for each of a number of sales volume groups by weighting them according to the aggregate sales of the stores reporting for the

**Table A. Distribution of Reporting Stores by Sales Volume Groups for 1942 and 1943—  
Changes in Sample**

DEPARTMENT STORES							
Volume Group (Net Sales in Thousands)	Number of Firms for Which Reports Were Available		Changes in Sample			In Same Group in Both 1942 and 1943	
	1942	1943	Number in Preceding Volume Groups in 1942	Number Available for 1943 but Not for 1942	Number Available for 1942 but not for 1943	Number	Percentage of Total Number of Firms Classified in This Group in 1943
Less than \$150.....	41	27	...	10	15	17	63.0%
\$150-300.....	33	30	9	9	11	12	40.0
\$300-500.....	41	33	10	9	12	14	42.4
\$500-750.....	28	30	15	5	4	10	33.3
\$750-1,000.....	20	27	12	6	4	9	33.3
\$1,000-2,000.....	47	54	9	10	6	35	64.8
\$2,000-4,000.....	49	46	6	9	7	31	67.4
\$4,000-10,000.....	63	58	11	4	6	43	74.1
\$10,000-20,000.....	27	32	14	1	2	17	53.1
\$20,000 or More.....	19	29	8	2	-	19	65.5
Total.....	368	366	94	65	67	207	56.6%
Total Number of Firms for Which Reports Were Available for Both 1942 and 1943.....						301	
Percentage of Firms Reporting for 1942 and 1943 to Total Firms Reporting for 1943.....							82.2%
SPECIALTY STORES							
Volume Group (Net Sales in Thousands)	1942	1943	Number in Preceding Volume Groups in 1942	Number Available for 1943 but Not for 1942	Number Available for 1942 but not for 1943	Number	Percentage of Total Number of Firms Classified in This Group in 1943
Less than \$150.....	31	11	...	4	21	7	63.6%
\$150-300.....	16	22	3	12	5	7	31.8
\$300-500.....	15	10	4	2	7	4	40.0
\$500-1,000.....	14	11	4	2	3	5	45.5
\$1,000-2,000.....	10	10	6	1	4	3	30.0
\$2,000-4,000.....	11	8	3	0	0	5	62.5
\$4,000 or More.....	12	19	6	2	1	11	57.9
Total.....	109	91	26	23	41	42	46.2%
Total Number of Firms for Which Reports Were Available for Both 1942 and 1943.....						68	
Percentage of Firms Reporting for 1942 and 1943 to Total Firms Reporting for 1943.....							74.7%

respective groups. This procedure has given results approaching those which would have been secured if it had been practicable to arrive at the aggregate dollar sales and the aggregate dollar figure for each other aspect of performance for all stores reporting and then to figure the various ratios and percentages from these aggregates. Thus, the department store figures in Table 1, instead of representing the experience of the typical or average store, represent the experience of the trade as a whole.

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

### Transactions

In arriving at the figures for average gross sale, the Bureau used only the reports for firms which gave the number of gross sales transactions, gross sales transactions being understood to mean the number of sales transactions or sales checks which produced total gross sales without additions or deductions for returns or credit transactions. The average gross sale results from dividing gross sales by the total number of gross sales transactions.

### Definitions of Major Items

*Net sales*, as used throughout this bulletin, represents the volume of business done in owned departments only. This figure is computed by deducting from gross sales the amount of merchandise returned by customers and the allowances granted to customers.

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

*Total expense*, according to the Bureau's definition, includes not only actual expenditures and regular charges, such as those for depreciation, but also charges for interest at 6% on investment in plant and equipment used, in merchandise inventory, and in accounts receivable, regardless of the source of the capital invested in these various

assets or the rates paid on any capital borrowed. Also, total expense includes charges for the salaries of proprietors, active partners, and chief executives, whether or not they actually were paid. Salaries of inactive partners are considered as deductions from net gain. Total expense, therefore, represents the true long-run economic cost of conducting the merchandising or trading operations of the reporting stores.

Some of the charges which are included in total expense according to the Bureau's classification are discussed later in this Appendix. Detailed definitions of all the items are included in the Bureau's pamphlet, "Explanation of Schedule for Department and Specialty Stores: 1943." Readers who wish more information should write to the Bureau.

*Net profit*, as the Bureau uses the term, is the amount which remains after deducting total expense from gross margin; or, stated differently, it is the amount which remains after deducting total cost, the sum of total merchandise costs (net), and total expense, as defined above, from net sales. Thus net profit is the profit after charges for capital, including that invested in real estate, and for management. It reflects the efficiency of a firm in the conduct of its merchandising operations and the profitableness of a concern as a merchandising enterprise. This figure, however, is *not* the net business profit *before interest on owned capital* which many businessmen customarily look upon as net profit and which the Bureau calls "net gain." Net profit, as defined by the Bureau, affords a better basis for comparing the results of different firms and a more accurate index of operating efficiency than net gain.

*Net other income* includes interest at 6% on such part of the capital used in the business as represents the firms' equity, including the equity in real estate; and, as regards borrowed capital used in the business, any difference between interest at 6% and interest actually paid. These interest credits are made to offset imputed interest charged as expense. In addition, net other income includes the amount of interest actually received, receipts from leased departments, and net income from any nonmerchandising operations.

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

for the desired rate of return on invested capital. The Bureau's treatment of cash discounts and interest in no way affects the net gain figure.

*Net federal tax on income and excess profits* is the provision for taxes on 1943 earnings, net of the 10% credit on the excess profits tax for the taxable year. For purposes of the study the full deduction is taken currently whether it is actually allowed as a postwar credit or taken for debt retirement during the taxable year.

### Classification of Expense

The Bureau's classification of expense agrees substantially with that set up by the Controllers' Congress of the National Retail Dry Goods Association in its Expense Manual published in 1928 and revised in 1937 and 1942. There are, however, three important differences: those in the handling of (a) rentals and related items, (b) interest, and (c) professional services. These are discussed below.

#### Real Estate Costs

In order to secure as great a degree of comparability as possible between the figures for firms owning their real estate and the figures for firms leasing all or part of their real estate, the Bureau's classification includes no item for rentals but has, instead, an item called "real estate costs." *Real estate costs* includes (for properties used in the business only) rentals, taxes, and insurance paid on leased real estate plus depreciation on leasehold improvements and leasehold valuation; in addition, it includes taxes, interest, insurance, and depreciation on owned real estate. Thus, the figures given in this bulletin for taxes, interest, insurance, and depreciation do not represent the total expenditures or charges for these items. They exclude all expenditures or charges related to real estate but include expenditures or charges on equipment.

#### Interest

*Interest* includes interest at 6%<sup>1</sup> on the following assets: the average merchandise inventory, the average amount of accounts receivable outstanding, and the average investment in equipment. Interest on the average investment in real estate is included in real estate costs. Interest paid on borrowed capital and interest received are not

<sup>1</sup>The use of the 6% rate in 1943 may have resulted in the overstatement of interest expense, particularly for large firms. Data on interest rates on borrowed capital reported by a few department stores serve as a basis for the median figures given below. An insufficient number of firms with sales of less than \$500,000 reported data for 1943 to make the preparation of medians possible.

considered in arriving at the interest charges in the expense statement, but are considered in arriving at net other income.

### Professional Services

*Professional services* include expenses, memberships, dues, and fees for buying or research organizations, and for domestic and foreign buying offices. In order to secure comparability between firms that own their offices and those which use the services of other agencies, tenancy charges on buying offices are included in professional services rather than in real estate costs. The central office expense for stores in ownership groups also is included here.

### Payroll

Largely as a result of the federal and state social security legislation, the Controllers' Congress, in February, 1936, recommended that pensions and retirement allowances, unemployment insurance privately provided, and supper money be included in unclassified rather than in payroll. The Bureau adopted these revisions in the Controllers' Congress classifications and, as a result, introduced some lack of comparability between the figures for payroll and unclassified for 1936 through 1943, on the one hand, and those for earlier years.

### Taxes

*Taxes* do not include taxes on real estate, which are included in real estate costs, or federal income taxes but do include payroll taxes and such taxes on sales or gross income as the stores were unable to collect directly from their customers.

### Stock-turn

The stock-turn figures given in this report, based upon beginning and ending inventories, were computed by dividing total merchandise costs (net) as defined under gross margin on page 33 by the average inventory as shown by the profit and loss statement; that is, at cost. The stock-turn figures based on average monthly inventories were computed through the use of cost or retail

Interest Rates on Borrowed Capital: 1943

Department Stores with Net Sales (in thousands)	Short-Term Loans		Long-Term Loans	
	Number of Reporting Firms	Rate	Number of Reporting Firms	Rate
\$500-750.....	9	5	5	5
\$750-1,000.....	11	5	10	4½
\$1,000-2,000.....	16	4	14	4
\$2,000-4,000.....	11	3	11	4
\$4,000-10,000.....	16	1½	18	4
\$10,000-20,000.....	7	1½	12	4
\$20,000 or More.....	6	1½	13	2½

inventory figures, whichever were furnished, total merchandise costs or net sales being used as dividends.

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

### Initial Markup

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

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

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

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

Using figures for department stores with \$4,000,000 to \$10,000,000 sales from Table 4, the computation of the rate of initial markup based on invoice cost delivered is as follows:

$$\frac{39.0 + 0.4 + 5.0 - 2.85}{100 + 5.0} = \frac{41.55}{105.0} = 39.55$$

### Leased Departments

This year the Bureau continued its attempt to eliminate the effects of leased departments so that its common figures might reflect the operations of owned departments only and so that the figures for different stores would be essentially comparable regardless of differences in practice regarding leasing. The cooperating stores were asked to report the sales of their leased departments, the amount of commissions or rentals received from lessees, and the portion of the stores' indirect expenses properly chargeable to leased departments. It was indicated that the sales of leased departments should be excluded from sales; that direct expenses paid by the stores for the account of lessees should be excluded from expense; and that the indirect expenses chargeable to leased sections similarly should be excluded. The amounts of gain or loss from leased department operations were included in other income.

In many instances, the reporting firms made all these adjustments and thus practically eliminated the effects of their leased department operations. Where the firms themselves did not do this, and where the sales of leased departments amounted to 10% or more of total sales, the Bureau made the appropriate adjustments. Where this could not be done, and where leased department sales amounted to 10% or more of total sales, the percentages which were most likely to be distorted by leased section operations (real estate costs, supplies, service purchased, total expense, net profit, and other income) were considered not comparable and were not used in arriving at the common figures published in this bulletin. In the few cases where all expenses apparently were distorted as a result of leased department operations, the entire statement was omitted.