

Customer Characteristics of Low-income Market Retailers

A sample of installment sales contracts and credit applications was analyzed to identify the customer characteristics of low-income market retailers. The analysis revealed substantial differences between customers of the low-income market retailers and all residents of the District of Columbia. The average family size was larger—4.3 persons compared to an average of 3.5 persons for the District of Columbia. Almost half of the families of customers in the sample had five or more members. The median family income during 1966 of the sample customers was \$348 per month. This is very low considering the larger than average size of the families. The Bureau of Labor Statistics recently estimated that the maintenance of a moderate standard of living for four in Washington, D.C., requires a monthly income of \$730.

Most customers were engaged in low-paying jobs. The largest proportion, 28 percent, were Service Workers, such as waitresses and janitors. Second in importance were Operatives (including such occupations as taxi drivers and laundry workers). Laborers and Domestic Workers also represented a significant share of the sample. Together, these four major occupational groups accounted for 75 percent of the customer sample. In comparison, only 36 percent of the general population in the District was classified in these low-paying occupational groups. There were 31 welfare recipients in the sample, accounting for 6 percent of all customers in the sample. There were also a number of customers in the sample dependent on social security, alimony, support payments, and income received from relatives.

A review of credit references noted in the 486 contracts subjected to detailed analysis revealed that 70 percent indicated no credit references or references with low-income market retailers only. Only 30 percent of the customers of this retailer, therefore, had established credit with general market retailers.

Gross Margins and Prices of Low-income Market Retailers

The survey disclosed that without exception low-income market retailers had high average markups and prices. On the average, goods purchased for \$100 at wholesale sold for \$255 in the low-income market stores, compared with \$159 in general market stores.

Contrasts between the markup policies of low-income and general market retailers are most apparent when specific products are compared. Retailers surveyed were asked to give the wholesale and retail prices for their two best-selling models in each product line. These price data are typical of the large volume of products sold by each class of retailer.

For every product specified, low-income market retailers had the highest average gross margins reported. When similar makes and models are compared, the differences are striking. For example, the wholesale cost of a portable TV set was about \$109 to both a low-income market and a general market retailer. The general market retailer sold the set for \$129.95, whereas the low-income market retailer charged \$219.95 for the same set. Another example is a dryer, wholesaling at about \$115, which was sold for \$150 by a general market retailer and for \$300 by a low-income market retailer.

Operating Expenses and Net Profits of Retailers Surveyed

Despite their substantially higher prices, net profit on sales for low-income market retailers was only slightly higher and net profit return on net worth was considerably lower when compared to general market retailers. It appears that salaries and commissions, bad debt losses, and other expenses are substantially higher for low-income market retailers. Profit and expense comparisons are, of course, affected by differences in type of operation and accounting procedures. However, a detailed analysis was made for retailers of comparable size and merchandise mix to minimize such differences.

Low-income market retailers reported the highest return after taxes on net sales, 4.7 percent. Among the general market retailers, department stores had the highest return on net sales, 4.6 percent. Furniture and home furnishings stores earned a net profit after taxes of 3.9 percent; and appliance, radio, and television retailers were the least profitable with a net profit of only 2.1 percent on sales.

Low-income market retailers reported an average rate of return on *net worth* after taxes of 10.1 percent. Rates of return on net worth varied considerably among various kinds of general market retailers. Appliance, radio, and television