

The general conclusion that emerges from data contained in table II-4 is that the low-income market is a very expensive place to buy durable goods. On television sets (most of which are the popular 19" black and white portables) the general market retailer price is about \$130. In the low-income market a customer can pay up to \$250 for similar sets. Other comparisons include a dryer selling for \$149.95 from a general market retailer and for \$299.95 from a low-income market retailer; and a vacuum cleaner selling for \$59.95 in the general market and \$79.95 in the low-income market.

These comparisons indicate that the poor often do pay more when they buy durable goods from retailers catering to the low-income market. Why would anyone pay such high prices? The most probable reason is that the poor often cannot pay cash for such items and are attracted by the more liberal credit policies. General market retailers offering low prices have tighter credit policies. Low-income market retailers, on the other hand, feature "easy credit," but the customer pays a great deal for this privilege in the form of grossly higher prices. Table II-4 does not take into consideration the finance charges.¹ As shown in Chapter III, finance charges of low-income market retailers are generally somewhat higher than those of general market retailers.

Low-income market retailers often can recover the wholesale costs of merchandise when less than half the payments have been made. For example, suppose a customer buys the Motorola television listed in table II-4 from a low-income market retailer. He pays \$219.95 plus finance charges. Assume the customer pays one-tenth or \$22.00 down. This leaves a balance of \$197.95. At a 13.5 percent add-on rate,² his finance charges would be \$26.72 for one year. The total amount owed would be \$197.95 + \$25.72 or \$224.67. If the customer makes 12 monthly payments, the amount of each payment would be \$18.72.

In this circumstance, were the customer to default after making only 6 of his scheduled 12 payments, the low-income market retailer would already have recovered more than his wholesale cost. The six payments plus the original amount down equals \$134.32—compared to the wholesale cost of \$109.00 for the TV. Even if the low-income market retailer were to make no additional charges for financing, six months of payments would be more than sufficient to cover the original wholesale cost.³

A general market retailer would be in a much different position if a customer defaulted after making only half his payments. Assume that he sold the same TV set for \$129.95, also with one-tenth, or \$13.00 down. Using the 12 percent add-on rate,⁴ the balance including finance charges would be \$130.98. Monthly payments would be \$10.92 for 12 months. If the customer defaulted after six payments, the general market retailer would have received only \$78.52—compared to the wholesale cost of \$109.50. Thus, he (or the finance company that held the contract) would suffer a substantial loss.

Operating Expenses and Net Profits

Not all of the low-income market retailers covered in this survey maintained and submitted financial statements adequate for detailed analysis of expenses and net profit. Likewise, most of the small-volume general market retailers did not submit detailed financial statements. Of the 18 low-income market retailers, however, 10 submitted statements permitting some analysis of specific expense items. These 10 low-income market retailers were matched with 10 general market retailers of comparable size and mix of merchandise who submitted statements permitting a comparative analysis of expenses and profits.

A comparison of expenses and profits as a percent of sales for the matched samples of 10 low-income market retailers and 10 general market retailers of furniture and appliances is shown in table II-5. The 10 low-income market retailers paid only 37.8 percent of their sales revenue for the merchandise they sold, while the cost of goods sold by the general market retailers was 64.5 percent of their sales revenue. As previously noted, low-income market retailers sell comparable merchandise at much higher retail prices, which accounts for this wide difference in cost of merchandise as a percentage of sales. The remaining gross margin for the 10 low-income market retailers was 62.2 percent and

¹ Finance charges refer to any extra charges imposed by the retailer when merchandise is sold under installment contract. These charges do not necessarily reflect the true cost to the retailer of granting credit.

² This add-on rate of 13.5 percent per year is equivalent to an effective annual rate of finance charges of 25 percent, calculated by the actuarial method (United States Rule).

³ If no additional charges were made for financing, payments would be \$16.50 per month. The six payments plus the original amount down equals \$111.00—compared to the wholesale cost of \$109.00.

⁴ This add-on rate is equivalent to an effective annual finance charge of 22 percent.