for the 10 general market retailers, 35.5 percent of sales. The gross margin to cover expenses and net profit was 26.7 percentage points higher for the low-income market retailers.

TABLE II-5.—COMPARISON OF EXPENSES AND PROFITS AS PERCENT OF SALES FOR 10 LOW-INCOME MARKET RETAILERS AND 10 GENERAL MARKET RETAILERS OF FURNITURE AND APPLIANCES IN THE DISTRICT OF COLUMBIA, 1966

Revenue component	10 low-income market retailers	10 general market retailers	Difference in margins and ratios	
			Percentage points	Percent of total
1966 net sales	$5,146,395	$5,405,221		
Operating ratios as percent of sales	100.0	100.0		
Cost of goods sold	37.8	64.5		
Gross profit margin	62.2	35.5	+26.7	100.0
Salary and commission expense [1]	28.2	17.8	+10.4	38.9
Advertising expense	2.1	3.9	−1.8	−6.7
Bad debt losses [2]	6.7	0.3	+6.4	24.0
Other expenses [3]	21.3	11.2	+10.1	37.8
Total expenses	58.3	33.2	+25.1	94.0
Net profit return on sales	3.9	2.3	+1.6	6.0

[1] Includes officers' salaries.
[2] Includes amounts held back by finance companies to cover bad debt losses.
[3] Other expenses, including taxes, after deduction of other income.

Source: FTC survey.

Practically all of the substantially higher gross margin of the 10 low-income market retailers was offset by higher expenses and did not result in markedly higher net profit as a percentage of sales. As shown in the right-hand columns of table II-5, of the total difference in gross margin of 26.7 percentage points, 94 percent of the difference (25.1 percentage points) was accounted for by higher expenses and 6 percent of the difference (1.6 percentage points) was accounted for by higher net profits on sales of low-income market retailers.

More than one-third (38.9 percent) of the higher gross margin of the 10 low-income market retailers was spent on salary and commission expense. This expense item included all employees' compensation and officers' salaries and was 28.2 percent of sales for low-income market retailers, compared to 17.8 percent of sales for general market retailers. A major reason for low-income market retailers' higher personnel expense is believed to be their use of outside salesmen who canvass house-to-house or followup requests for home demonstrations and often make collections of installment payments at the home of the customer. Several of the 10 low-income market retailers pay their outside salesmen-collectors commissions on both sales and collections. Other reasons for higher personnel costs of low-income market retailers could be that they have more sales personnel and pay higher rates of compensation compared to small-volume general market retailers; and since they finance all or a larger proportion of their own installment contracts, thus requiring more employees to keep records of small payments on installment credit accounts.

The proportion of sales revenue spent on advertising was higher for the 10 general market retailers than for the 10 low-income market retailers. This is consistent with the lack of extensive citywide advertising among the low-income market retailers in the total sample. The difference in advertising ratios was 1.8 percentage points. The 10 general market retailers spent 3.9 percent of their sales revenue on advertising, while the advertising by the 10 low-income market retailers amounted to 2.1 percent of their sales revenue.

Higher bad debt losses of low-income market retailers accounted for about one-fourth (24 percent) of the total difference in gross margins. It was evident from analysis of financial statements, finance charges, and retail prices of low-income market retailers that they often charge higher prices anticipating that part of the increased revenue will cover higher collection expenses of their method of doing business. For the group of 10 low-income market retailers, bad-debt loss was 6.7 percent of sales, while comparable size general market retailers had bad-debt losses of less than one percent of sales.