

Other expenses accounted for more than one-third (37.8 percent) of the higher gross margin of low-income market retailers. The remaining items of expense amounted to 21.3 percent of sales for the 10 low-income market retailers and to 11.2 percent of sales for the 10 general market retailers. Items of occupancy, delivery, and administrative expense were included among the other expenses, but a comparative analysis of these items could not be made because of inconsistency in expense account classifications and accounting methods. Nevertheless, there were certain items of expense that appeared more often and in larger proportionate amounts on the low-income market retailers' statements, which account for part of their higher ratio of other expenses to sales. Since most of the low-income market retailers financed their own installment sales, the expense of processing this credit and interest on borrowed funds appeared as substantial items on their statements. Legal and professional fees were larger items of expense among low-income market retailers, reflecting cost of suits filed for the collection of delinquent accounts. Insurance costs were generally higher as a percentage of sales for these retailers.

Net profit as a percentage of sales for the 10 low-income market retailers was 3.9 percent, as compared to 2.3 percent for the 10 general market retailers. This difference of 1.6 percentage points in higher net profit for the low-income market retailers amounted to less than one-tenth (6 percent) of the total difference in gross margins. The business methods employed by low-income market retailers involved substantially higher costs which offset the higher prices charged, leaving no markedly higher net profit as a percentage of sales.¹

Net profit after taxes as a percent of owner equity was also determined for these two groups of retailers. This average net profit was 12.7 percent for the 10 low-income market retailers and 8.1 percent for nine out of the 10 general market retailers.² The variation in rates of return on owner's equity within each group of retailers was so great as not to warrant a conclusion that rates for one group were different from those of the other.

Overall Net Profit Comparisons

The previous section compared profits for a selected sample of 10 low-income market and 10 general market retailers. Less extensive data on income and profits were obtained from other retailers. Almost half the retailers surveyed submitted profit and loss statements and balance sheets. The companies included corporations, partnerships, and proprietorships. There was a considerable amount of variation in the accounting methods used and in individual firm returns. Nevertheless, it is possible to make some overall comparisons of net profits for each group of retailers. Low-income market retailers reported the highest net profit after taxes on net sales, 4.7 percent (table II-6). Among the general market retailers, department stores were highest with 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 last in order of profitability with 2.1 percent profit after taxes on sales.

TABLE II-6.—NET PROFIT AFTER TAXES AS A PERCENT OF SALES AND RATES OF RETURN AFTER TAXES FOR DISTRICT OF COLUMBIA RETAILERS SURVEYED, 1966

Type of retailers	Net profit after taxes as a percent of sales	Percent rate of return after taxes on stockholders' equity
Low-income market retailers.....	4.7	10.1
General market retailers:		
Appliance, radio, and television stores.....	2.1	20.3
Furniture and home furnishings stores.....	3.9	17.6
Department stores.....	4.6	13.0

Source: FTC survey.

¹ Statistical tests were applied to analyze differences in profit and cost elements for the 10 low-income and 10 general market retailers compared in this section. These tests have limited validity because of the small number of observations and the non-random method by which the retailers were selected. They suggest, however, that the differences in profit rates indicated do not justify rejecting the hypothesis that profits are actually similar for both groups of retailers. Similar tests applied to gross margins and other elements of expense, notably salaries, bad debts, and other expenses, appear to justify accepting the hypothesis that expense experience for the two groups of retailers is different.

² One of the 10 small-volume general market retailers had to be omitted from the net return on owners' equity analysis because of incomplete financial statement information.