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MARKETING AND MANUFACTURING MARGINS FOR TOBACCO
HOWELL, L. D. YOUNG, N. P.

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UNITED STATES
DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

MARKETING AND MANUFACTURING MARGINS FOR TOBACCO¹

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INTRODUCTION

Prospective postwar adjustments emphasize a long-existing need for additional information relating to marketing and manufacturing margins for tobacco and its products. Such information is needed as a basis for determining appropriate relative prices at different stages of the marketing and manufacturing procedure, and for making adjustments in margins, which may be necessary in dealing with problems of price control. The significance of such information is further emphasized by the appointment by both the Senate and House of Representatives in the second session of the 78th Congress of committees to investigate marketing margins and costs for agricultural products.

Information relating to marketing and manufacturing margins or costs is of even greater long-time importance, as it is basic to the most effective treatment of the problems of increasing the efficiency

¹ Submitted for publication October 19, 1945.

² Credit is due Orvel H. Cockrel for contributions to this study in its beginning.

and of reducing the costs of the services involved. These margins or costs for tobacco and its products influence returns to growers, on the one hand, and cost to consumers, on the other. The relative importance of these costs is indicated by the fact that on the average during the 10 years 1934-43 returns to growers for the leaf tobacco used accounted for less than one-eighth; marketing and manufacturing margins, exclusive of excise taxes, accounted for more than one-half; and Federal and State excise taxes accounted for about 36 percent of the price paid by the consumer for the finished tobacco products.

The margins or spread between prices to growers for leaf tobacco and prices paid by consumers for the finished tobacco products usually cover costs of rendering such services as assembling, selling, storing, financing, manufacturing, transporting, wholesaling, and retailing, as well as Federal, State and local excise taxes. Detailed data are presented in this report to show the margins or costs for the various groups of services and the items of costs included. These data along with other information are used as a basis for indicating the means by which, and the extent to which, it would be feasible to increase the efficiency and to reduce the costs of rendering these services, and the relative importance of such reductions.

MARKETING CHANNELS AND DIVISION OF CONSUMER'S DOLLAR

Most of the leaf tobacco that enters marketing channels in the United States is produced in this country, but some foreign-grown tobacco, used mainly in the manufacture of cigarettes and cigars, is imported. Most of the tobacco produced is used by domestic manufacturers, but considerable proportions are exported as leaf tobacco or as semiprocessed tobacco. Exports of manufactured tobacco products are relatively small in peacetime, inasmuch as all of the chief tobacco-consuming countries have their own manufacturing establishments, many of which are operated as state monopolies for revenue purposes.

MARKETING CHANNELS

Taking leaf tobacco from farms and delivering the finished tobacco products to ultimate consumers involves the services of many types of middlemen. These services begin with the hauling of tobacco from the farm to warehouses, factories, or packing houses or with the sale of tobacco on farms. More than 90 percent of the crop grown in the United States is delivered by the growers to warehouses where it is sold at auction. Most of the cigar tobacco and a small proportion of the fire-cured tobacco are sold on farms and delivered to factories, or to packing houses of the purchasers (2).^a

Most of the leaf tobacco sold at auction is purchased by tobacco manufacturing companies or their subsidiaries, but considerable proportions are bought by dealers, brokers, commission merchants, and others. Immediately after the tobacco is sold at auction, it is removed from the auction floor and prepared for storage (2). Most

^a Italic numbers in parentheses refer to Literature Cited, p. 56.

of it is then packed in hogsheads and put in storage. Cigar tobacco, as a rule, is fermented by the process of bulk sweating and is taken directly from the curing barn to a building especially constructed for this purpose. After the fermentation is completed the tobacco is resorted, sized, retied, and packed in bales. Then it is stored for a month or more before it is ready for sale or for other disposition (2). Most of the tobacco exported is purchased by foreign buyers or their representatives directly from growers on auction floors and handled in much the same way as that used by domestic manufacturers. Then it is packed for shipment abroad where it is stored.

The aging of tobacco before it is manufactured and the practice by manufacturers of keeping enough leaf tobacco on hand to protect themselves against crop failures or excessive prices for any individual type, result in the accumulation of considerable stocks. On January 1, 1939, for example, stocks of leaf tobacco owned by dealers and manufacturers in the United States totaled about 2,604 million pounds (17). Taking into account the losses in weight from drying, cleaning, handling, fermenting, and stemming, these stocks were substantially greater than the unusually large domestic crop in 1939, and were more than twice as much as was consumed by domestic manufacturers that year.

During the 5 years 1935-39, production of all types of tobacco in this country averaged about 1,460 million pounds (farm-sales weight) annually, and imports of foreign-grown tobacco averaged 76 million pounds on a declared-weight basis. These data on production and on imports are not strictly comparable but it would appear that of the total additions to the supply of leaf tobacco handled in the United States during this 5-year period, about 95 percent came from farms in this country and about 5 percent was imported (fig. 1).

Exports of tobacco from the United States, during the same 5 years averaged about 32 percent of the leaf tobacco produced in this country during this period. Following the outbreak of the war in 1939, exports were greatly reduced. Of the total additions to the supply of leaf tobacco entering marketing channels in the United States during this 5-year period, including imports and that produced in this country, about 30 percent was exported and the remaining 70 percent was consumed by domestic manufacturers or retained here as stocks.

Data showing the uses made of leaf tobacco by domestic manufacturers, based on annual reports of the Commissioner of Internal Revenue, indicate that during the 5 years 1935-39 about 55 percent of the total went into the manufacture of cigarettes, 14 percent into cigars, and 31 percent into chewing tobacco, smoking tobacco and snuff. When applied to the 70 percent of the total additions to the supply of leaf tobacco that was retained for domestic use these percentages show that, disregarding changes in size of stocks over a period of years, the proportion of the total disappearance accounted for by these products averaged about 38 percent for cigarettes, 10 percent for cigars, and 22 percent for manufactured tobacco (fig. 1).

In the preparation of leaf tobacco for manufacture there is considerable loss of weight, particularly through drying and in the removal of stems. This process, together with manufacturing, re-

sults in some waste in the form of scrap tobacco, cuttings, and siftings. These stems and other waste products, along with low-grade leaf tobacco, are used in the manufacture of tobacco byproducts, principally nicotine, tobacco extracts, and fertilizers (16). In 1939, according to census reports, the value of these byproducts at the tobacco manufacturers' plants averaged less than 0.2 percent of the value of the tobacco products.

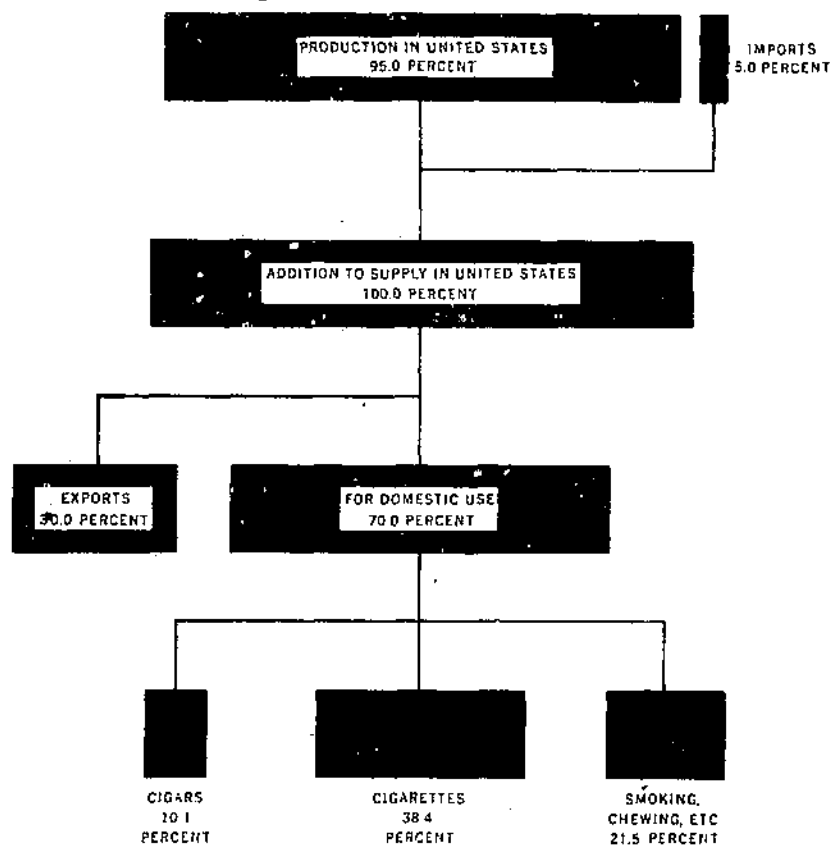


Fig. 1.—Approximate distribution of tobacco in the United States, 1935-39.

Most of the additions to the supply of tobacco in the United States is produced in this country but about 5 percent is imported. During the 5 years 1935-39, about 30 percent of this tobacco was exported and the remaining 70 percent was retained for domestic use. About 55 percent of the leaf tobacco used by domestic manufacturers went into cigarettes, 14 percent into cigars, and 31 percent into chewing tobacco, smoking tobacco, and snuff.

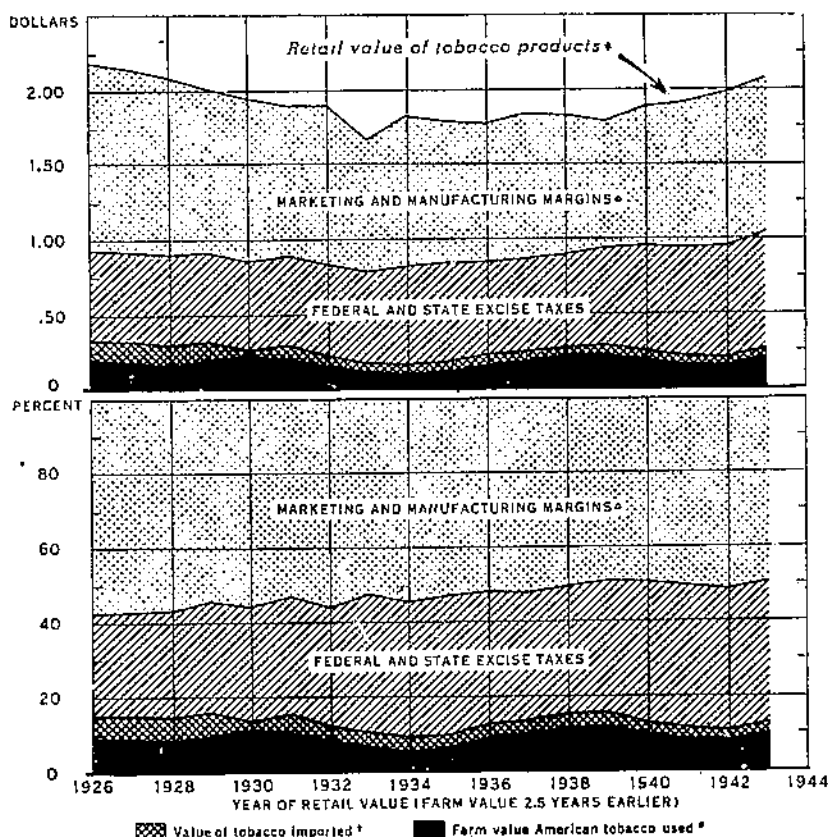
Consumption of materials other than leaf tobacco by tobacco manufacturers includes sugar, licorice, sirup, molasses, and cigarette paper. The costs of these additional materials in 1939 totaled about 14 million dollars, or about 5 percent of the costs of the leaf tobacco used, according to census reports. In addition, costs to manufacturers of other supplies and containers amounted to more than one-fifth of the costs of the leaf tobacco.

Most of the tobacco products go directly or indirectly from manufacturers to wholesalers and jobbers, then to retailers. In 1939, according to census reports, products valued at almost 7 percent of the total were distributed from manufacturers directly to retailers, including chains. Small proportions were sold by manufacturers to consumers at retail and to exporters.

DIVISION OF CONSUMER'S DOLLAR

Prices paid by consumers for tobacco products are largely accounted for by costs of marketing, manufacturing, and other services and by Federal and State excise taxes. Returns to growers for the leaf tobacco used account for only a relatively small proportion. Data relating to the average retail value per unit of tobacco products and to the average value of the leaf tobacco used per unit of finished products show that, during the 18 years 1926-43, returns to growers for the United States tobacco used averaged about 9 percent and costs to manufacturers of the foreign-grown tobacco used averaged about 4 percent of the retail value of the finished products. The combined amounts of the returns to growers for the United States tobacco used and the costs to manufacturers of the foreign tobacco averaged about 13 percent of the retail prices of the finished products during this 18-year period and 15 percent in 1939. The combined proportions varied directly with prices of leaf tobacco and ranged from less than 9 percent in 1934 to almost 16 percent in 1929 (fig. 2) (15).⁴

⁴ PARR, K., and BEEN, R. O. PRICE SPREADS BETWEEN FARMERS AND CONSUMERS—TOBACCO PRODUCTS. [Unpublished manuscript.] The prices and margins shown are weighted averages for cigarettes, cigars, smoking tobacco, and plug chewing tobacco. The weights used are percentages of tax-paid withdrawals based on data reported by the Bureau of Internal Revenue. The composite average retail value of the 4 tobacco products was obtained by multiplying the retail prices per unit of each product, as reported by the Bureau of Labor Statistics, by the estimated average number of units of each product derived from 1-pound of tobacco (farm-sales weight), then by combining the products on the basis of leaf weights representing percentages of tax-paid withdrawals. The average farm value per pound of United States tobacco used by domestic manufacturers in the products of each of the 4 tobacco products was obtained by weighting the seasonal average farm price of each of the various types of the United States tobacco by the proportion of the total quantity used in each product that was accounted for by each type. The average farm value per pound of United States tobacco used in all 4 tobacco products combined was obtained by weighting the average for each product by percentages of tax-paid withdrawals as already indicated for quantity retail values. Imported tobacco made up from 5 to 11 percent of the total quantity consumed by domestic manufacturers during the period 1926-43 and the average value per pound of the imported tobacco used was substantially greater than that for American-grown tobacco. The average farm value of the United States tobacco included in a pound of leaf tobacco used was obtained by reducing the average farm value per pound by the average proportion of foreign-grown tobacco included. The average value of the foreign-grown tobacco included in a pound of leaf tobacco used was obtained by multiplying the average value per pound of the tobacco imported by the average proportion of foreign-grown tobacco included. Weighted average farm values of United States tobacco 2.5 years earlier, obtained by taking the simple mean of the farm value 2 and 3 years earlier, and concurrent values of imported tobacco were used in calculating the margin or spread between the composite average retail value of the tobacco products obtainable from a pound of leaf tobacco and the value of the leaf tobacco used. Retail prices of plug tobacco in the years 1910-43, inclusive, were estimated from prices of pipe tobacco.



* VALUES FOR PAPER OF CIGARETTES, CIGARS, SMOKING TOBACCO AND PLECE CHewing TOBACCO REPORTED BY THE U.S. BUREAU OF LABOR STATISTICS, DATA COLLECTED BY THE BUREAU OF PRICES DERIVED FROM A POUND OF TOBACCO (FARM-SELLER RETAIL) AND CALCULATED TO BE 10.17% AT 1926-1927 STANDARDS CONVERTED TO PAPER-SALES BASIS OF LEAF TOBACCO.
 * INCLUDES LOCAL EXCISE TAXES.
 * ESTIMATED VALUE AS OF YEAR OF RETAIL AND INCLUDES FREIGHT DUTY.
 * FARM PRICES PER POUND OF TOBACCO FOR EACH OF THE FIVE PRODUCTS ARE WEIGHTED AVERAGES OF PRICES RECEIVED BY FARMERS FOR THE TYPES OF AMERICAN TOBACCO USED IN EACH PRODUCT. THESE AVERAGES ARE FURNISHED TOGETHER AS THE LEAF STANDARDS AS INDICATED FOR RETAIL VALUES.

Fig. 2.—Average retail value of tobacco products obtainable from a pound of tobacco, average value of the tobacco used, and margins, United States, 1926-43.

Retail values of tobacco products are largely accounted for by marketing and manufacturing margins and by Federal and State excise taxes. During the 18 years 1926-43 costs of the leaf tobacco used averaged about 13 percent of the retail value of the products and ranged from almost 16 percent in 1929 to less than 10 percent in 1935. During this period Federal and State excise taxes have increased. Marketing and manufacturing margins and costs of imported tobacco decreased.

Federal and State excise taxes are noteworthy items in the costs of tobacco products. The proportions of the consumer's dollar paid for finished tobacco products that were accounted for by these taxes averaged about 34 percent during the 18 years 1926-43, and the proportions by years ranged from 27.5 percent in 1926 to 38 percent in 1941. In recent years a few cities have levied excise taxes on tobacco products, mostly on cigarettes, but the proportion of the consumer's dollar, for the country as a whole, accounted for by these local taxes is relatively small.

Marketing and manufacturing margins, including local excise taxes, but not including Federal and State excise taxes, accounted for about 53 percent of the consumer's dollar during the 18 years 1926-43, and the proportions by years decreased from almost 58 percent in 1926 to less than 50 percent in 1939, 1940, and 1943. The size of these margins emphasizes the desirability of a break-down to show the items included and their relative importance. Estimates, based on official data and on other information, were made to show the average distribution of the consumer's dollar paid for tobacco products in 1939, the last "normal" prewar year. Data available for this purpose are not complete. In some instances they are not strictly comparable. Consequently, some liberties were taken in approximating the distribution of the consumer's dollar on this basis. Furthermore, the estimated margins were adjusted to approximate the farm-to-retail price spreads for tobacco products, as calculated by the Bureau of Agricultural Economics.

Estimates were made to show the average distribution of the consumer's dollar for all tobacco products combined, on the basis of the agency making the conversions or rendering the services. The results show that, on the average, in 1939, about 11.6 percent of the consumer's dollar went to tobacco growers in the United States for farm production, 3.6 percent for tobacco imported, 1.2 percent to dealers in leaf tobacco, 25.2 percent to manufacturers, 36 percent for Federal and State excise taxes, 4 percent to wholesalers of tobacco products, and 18.4 percent to retailers (fig. 3).

Information relating to specific items of costs is not complete and in some instances the data for the various agencies are not comparable, but rough approximations based on such data as are available indicate that Federal and State excise taxes accounted for about 36 percent of the retail price for all tobacco products combined (fig. 3). Salaries and wages, except farm, accounted on the average for about 17.8 percent of the retail price; costs of advertising, 4.2 percent; operation profits for all agencies, except farmers, 10.3 percent; and other expenses of manufacturing and distributing the products averaged about 16.5 percent of the retail price. The relative importance of these items is indicated by the fact that Federal and State excise taxes were more than 3 times as great, and salaries and wages for manufacturing and distributing the products amounted to about one and one-half times as much, as the returns to growers in the United States for the American-grown tobacco used. The combined operating profits for all agencies, except farmers, amounted to almost 90 percent, and costs of advertising amounted to about a third of the returns to growers in the United States for farm production of the American-grown tobacco used.

The approximate proportions of the consumer's dollar that went to growers in the United States for the American-grown tobacco used, as shown for 1939, was based on the average retail price of the products in 1939, on the simple average of farm prices of American-grown tobacco in 1926 and 1937, and on costs of foreign-grown tobacco in 1939. Farm prices of tobacco in 1936 and in 1937 were much higher than in 1939. If farm prices in 1939 had been used in these calculations instead of the average of 1936 and 1937, the proportion

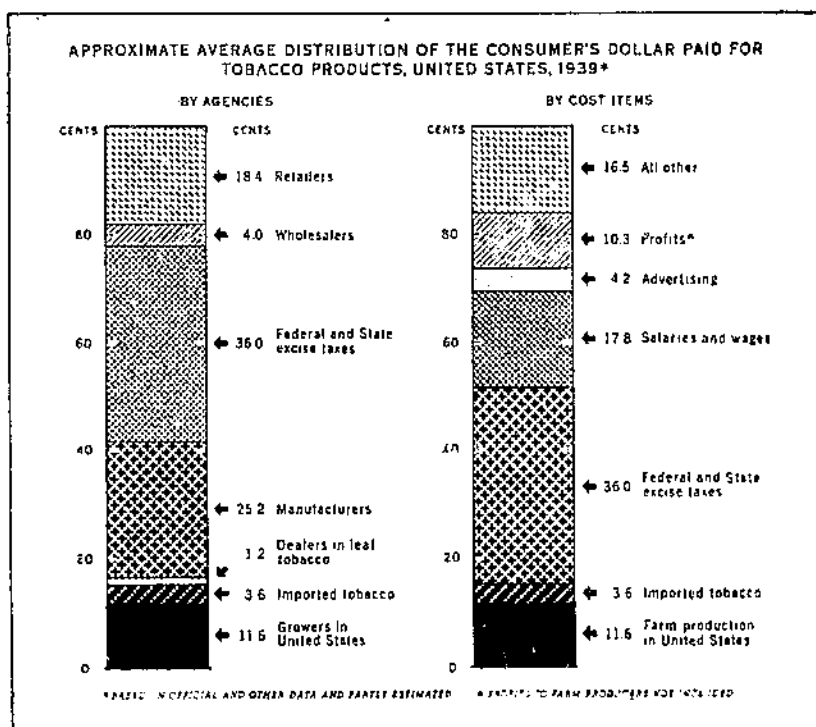


Fig. 3.—Estimates of the distribution of the consumer's dollar paid for tobacco products indicate that in 1939 about 22.4 cents went to wholesalers and retailers, 36 cents for Federal and State excise taxes, 26.4 cents went to manufacturers and dealers in leaf tobacco, and 15.2 cents went for leaf tobacco. Salaries and wages, other than farm, accounted for about 18 cents; profits, other than farm, 10.3 cents; advertising, 4.2 cents; imported tobacco, 3.6 cents; and returns to farmers in the United States, 11.6 cents.

of the retail prices of the products in 1939 accounted for by returns to growers in the United States for the American-grown tobacco used would have averaged about 8.8 percent and manufacturers' margins would have averaged about 28 percent. Costs of tobacco as reported by manufacturers usually represent the average inventory value of the tobacco accumulated over a period of years.

These data supply a basis for indicating the relative importance of bringing about both increased efficiency and reductions in the costs for the various agencies and functions involved. According to these data the margins for manufacturing tobacco products, exclusive of excise taxes, or for distributing them through wholesale and retail channels each averaged more than twice the returns to growers in the United States for the American-grown tobacco used. But such differences may not reflect accurately the relative opportunities for making savings in costs that could be passed back to growers or on to consumers of the tobacco products. Some indications of the extent to which it would be feasible to reduce these margins may be obtained from an examination of detailed information for the various agencies involved. Such information is presented in this report in about the order in

which the services are rendered, beginning with the marketing of leaf tobacco.

MARKETING MARGINS FOR LEAF TOBACCO

These margins include the charges made for taking leaf tobacco from farms or from local markets and delivering it to manufacturers. But before it is offered in the markets, the tobacco is cured on the farm in barns especially constructed for use with or without facilities for heating, depending upon the type of tobacco—whether flue-cured, fire-cured, or air-cured. The purposes of this curing on the farm are (1) to reduce the moisture content of the leaf, and (2) to obtain the desired color, texture, and aroma through chemical action which takes place during the process.

USUAL PRACTICES

Growers sell leaf tobacco through the loose-leaf auction market, in the hogshhead market, at the farm, or through cooperative marketing associations.¹ The loose-leaf auction is the prevailing system of marketing tobacco in all tobacco-growing territory, except in the cigar-leaf districts. At least 90 percent of all the tobacco produced in the United States is sold by this method. The sales are made at especially constructed warehouses where growers may deliver their tobacco and have it auctioned off to the highest bidder. The bidders include those employed by manufacturers, those employed by independent leaf dealers, and small speculators who buy and resell within relatively short periods.

After the tobacco is cured on the farm it is sorted according to quality and tied into hands containing from 5 to 20 leaves, in preparation for the auction market. These hands are delivered in wagons or trucks by the grower to the warehouse where the tobacco is weighed, labeled, and placed in baskets on the warehouse floor. The baskets are arranged in long rows with each grower's baskets together and with space between the rows for buyers to walk. A ticket is placed on each basket showing the owner's name, the number of pounds contained, and the consecutive number given to the basket. In markets where the tobacco is federally graded, the official grade of the lot is also shown. The tobacco is then ready for sale.

Sales are made by baskets as the auctioneer goes down the side of the row. A representative of the warehouse usually precedes the auctioneer and indicates a starting bid for each basket. The buyers frequently draw out hands of tobacco from the basket and inspect them as a basis for their bidding. Sales are made at very rapid rates, ranging in normal times from 250 lots an hour in the fire-cured districts to 500 lots an hour in the flue-cured and burley districts. After a basket is auctioned off, the grower has a limited time within which to accept or reject the bid. A rejection is indicated by placing the ticket out of sight or by tearing off the price recorded. The tobacco for which the bid is rejected is offered for sale at a later date. If the bid is accepted, the sale is booked and the grower receives a check from the warehouse for the amount of the sale minus warehouse charges.

¹ For a detailed description of tobacco marketing methods see GAGE, C. E., (2).

Immediately after the sale, the buyer removes the tobacco from the warehouse to packing houses or redrying plants where it is redried, sorted, and packed in hogsheads for shipment or storage. A large percentage of the tobacco is bought by manufacturers and, after being processed and packed in their plants, usually is shipped to their private warehouses for storage. Tobacco purchased for export usually is conditioned in this country and shipped abroad for storage. That bought by independent buyers generally is conditioned and stored in hogsheads in public storage warehouses for resale at a later date, on sample. Other buyers include dealers who sell to manufacturers or exporters. Some of these dealers carry on some redrying operations and some resell the tobacco in the same condition in which it was bought.

Before the development of loose-leaf sales, it was customary for traders and growers in some areas to pack their tobacco in hogsheads for convenience in shipping or hauling. But the only hogshead market in operation in recent years is the closed-bid auction at Baltimore, Md. Tobacco for this market is packed in a cask or hogshead, the dimensions of which are approximately 44 inches in diameter and 54 inches in length. Usually the tobacco is sorted or graded before or as it is hand-packed in the hogshead. The hands are arranged so that the butts extend toward the outside of the cask and the tobacco is compressed into the hogshead by means of a prize.

After the tobacco is packed it is shipped to market under consignment to a broker or to some cooperative shipping association. In either case the hogsheads are sampled by State inspectors and the samples are sealed and turned over to the consignee for display at his place of business. The buyers make the rounds of these brokerage offices and submit sealed bids on the tobacco that suits them. The bids are opened at the close of the day and the sales are announced.

In most of the cigar-leaf tobacco districts, the sale of the leaf tobacco is made at the farm. The sales contracts may be made during the growing season or the sale may take place after the tobacco is cured or while it is in the process of curing. The buyers include independent packers and cigar manufacturers who ride over the tobacco-growing districts periodically during the growing season to obtain information on changes in acreage, the location of desirable crops, and the progress of these crops. Purchases of tobacco in the barn may be at a price for all grades alike or on the basis of grades. Some of the cigar-leaf tobacco, especially in the shade-tobacco districts, is placed in the hands of packers for sorting, sweating, and packing before it is sold by growers.

Some tobacco is sold through cooperative marketing associations, most of which employ the facilities of the auction-market system. Usually these associations are financed from Government sources. This tobacco is inspected by official graders of the United States Department of Agriculture, and the appropriate grade symbol is entered on the basket or lot ticket before it is offered for public sale on the auction floor. Lots that fail to sell at prescribed minimum prices according to grade are retained by the association for disposition later at private sales.

CHARGES OR COSTS

Data available on margins or costs for marketing leaf tobacco are confined chiefly to fees charged by warehousemen for their services in selling the tobacco in loose-leaf auction markets. Most of the hauling of tobacco from farms to these markets is done by growers or by local truckers. Little information as to costs of this transportation is available. Most of the cigar-leaf tobacco is sold at the farm, and the costs of buying, transporting, processing, and handling are included in the manufacturers' margins. Only a relatively small quantity of tobacco is sold in the hogshhead market. The costs of marketing this tobacco in Maryland in 1931 were reported as 30 cents per 100 pounds for hauling, 26 cents for casks, 47 cents for selling, 1 cent for all other costs; and \$1.04 for all costs combined (4). In the 1944 season and for several earlier years, the sales commission at the Baltimore market was \$3.00 per hogshhead. (Hogshheads range in weight from 400 to 800 pounds net and average about 600 pounds.) In addition to the selling commission, which is paid by the grower, a fee of \$3.00 per hogshhead, which constitutes a payment for inspection and storage, is paid by the purchaser when the tobacco is withdrawn.

Data relating to warehouse charges on auction sales in effect during the 1943-44 season show that maximum charges for selling flue-cured tobacco in North Carolina, South Carolina, Georgia, and Florida, as fixed by statute were: Auction fee, 15 cents on all piles of 100 pounds or less, and 25 cents per pile in excess of that weight; weighing and handling fees, 10 cents per pile up to 100 pounds, and 10 cents for each additional 100 pounds; and for commissions, 2.5 percent of gross sales. In Virginia, flue-cured auction fees were 25 cents per pile; weighing charges, 10 cents per 100 pounds; and commissions, 2.5 percent of gross sales.⁶

Similar data for other types show that for burley tobacco auction charges ranged from 25 to 35 cents per 100 pounds and commissions from 2.5 to 4 percent. For fire-cured tobacco, auction charges usually were 40 to 45 cents per 100 pounds and commission charges usually were 3 percent. In some States a charge of 2.5 cents per 100 pounds was made for insurance. A comparison of these charges and commissions with those reported by the Federal Trade Commission in 1937 indicates no very great changes in these charges in recent years (18 p. 408). A "repack" fee of 10 cents per 100 pounds on reofferings after a second rejection is occasionally made. On sales rejected by cooperative associations and the tobacco sent to the prizery, agreed charges of 20 cents per 100 pounds, 45 cents per 100 pounds, and 30 cents per 100 pounds, and 2 percent of the association advance, were reported in 1937.

Data on warehouse charges for selling tobacco in 16 markets in Virginia in 1929-30 and 1930-31 show some variations from one market to another. But in most instances these charges were about the same as those already indicated for more recent years (table 1) (1). Weighing charges in most markets were 10 cents, especially for piles up to 100 pounds, and 2.5 percent was the usual commission, but charges for auctioning varied considerably from one market to another.

⁶ UNITED STATES DEPARTMENT OF AGRICULTURE. ANNUAL REPORT ON TOBACCO STATISTICS, 1944. 95 pp. [Processed.]

ITEMS INCLUDED IN MARGINS

Information as to the items of cost involved in the operation of tobacco warehouses is incomplete. Adequate data relating to these costs in recent years are greatly needed, but some indication of the relative importance of the various items involved may be obtained from data showing the amounts and distribution of the costs of operating tobacco warehouses in Virginia in 1929-30 and 1930-31 when charges were about the same as in more recent years (table 2) (1). Because of the advances in wage rates without offsetting advances in technological developments, labor costs may now represent a somewhat larger proportion of total costs than in earlier years. Data on costs of operating 18 flue-cured tobacco warehouses in 1930-31 show that salaries and labor costs averaged nearly four-fifths of a cent per 100 pounds of tobacco or about 61 percent of the total. Building costs—including depreciation, repairs, insurance, taxes and rent—amounted to almost one-tenth of a cent per 100 pounds, or to about 15 percent of total costs. Other costs include interest on investment, losses on leaf account, equipment, supplies, and miscellaneous expenses which, combined, averaged about 0.15 cent per 100 pounds of tobacco or about 24 percent of total costs. Data for 11 flue-cured tobacco warehouses in 1929-30 show that items of costs and the proportion of the total accounted for by salaries and wages were somewhat greater than were indicated for 1930-31, but on the whole the distribution of costs for the 2 years was about the same (table 2).

TABLE 1.—Weighing, auction, and commission charges levied for selling tobacco on different markets, 1929-30 and 1930-31

Market	Weighing (per 100 pounds)	Auctioning (per pile)	Commission
	Cents	Cents	Percent
Danville	10	25	2.5
South Boston	10	25	2.5
South Hill	10	15	2.5
Chase City	10	25	2.5
Lawrenceville	10	15	2.5
Brookneal	10	25	2.5
Clarksville	10	25	2.5
Rocky Mount	10	15	2.5
Lynchburg	10	15	2.5
Farmville	(9)	—	—
Blackstone ²	15	25	2.5
Bedford	(7)	—	3.0
Drakes Branch	10	15	2.5
Amelia ³	15	25	2.5
Richmond	15	25	3.0
Abingdon	20	80	—

¹ A weighing charge of 10 cents is made up to 100 pounds, regardless of weight. The charges for piles in excess of 100 pounds were 1 cent additional charge for each 10 pounds over 100 pounds.

² One warehouse makes a 25-cent straight charge for piles weighing in excess of 100 pounds.

³ Piles weighing in excess of 500 pounds are charged an auction fee of 50 cents per pile.

⁴ Auction fees are 15 cents per pile up to 100 pounds, over 100 pounds 25 cents per pile.

⁵ Weighing and auctioning charges are combined on a graduated scale for all piles in excess of 100 pounds by one warehouse in this market.

⁶ Auction charges are 15 cents up to 100 pounds, 25 cents for 100 to 200 pounds, and 50 cents for over 200 pounds.

⁷ Weighing and auction charges combined, classed as weighing charges, 10 cents for piles under 40 pounds, 25 cents for piles over 40 pounds.

⁸ If piles weigh less than 100 pounds, weighing charges are 10 cents and auction fee is 15 cents per pile.

⁹ This market in 1930 had a weighing and auction charge of 50 cents per 100 pounds, which was changed in 1931 to 25 cents per 100 pounds for piles selling below \$1.00 a hundred and 50 cents per 100 pounds for piles selling above \$1.00 per 100 pounds.

¹⁰ Charges are 20 cents a basket for weighing and 80 cents a hundred pounds for auctioning with no commission charge.

Reproduced from BALLINGER, R. A., and MAXTON, J. L. *Marketing Virginia Tobacco* (1, p. 36).

Similar data relating to costs of operating 8 fire-cured tobacco warehouses in Virginia in 1930-31 show that salaries and labor costs averaged about a third of a cent per 100 pounds of tobacco or about 65 percent of the total costs (table 2). Building costs—including depreciation, repairs, insurance, taxes and rent—averaged about one-tenth of a cent per 100 pounds of tobacco or about 19 percent of the total. All other costs including interest on investment, losses on leaf account, equipment, supplies, and miscellaneous averaged about 0.08 cent per 100 pounds of tobacco or about 16 percent of the total costs. Total costs of operating fire-cured tobacco warehouses in 1929-30 averaged somewhat greater than in 1930-31, but the distribution on the whole was about the same.

MEANS OF REDUCING COSTS

Results of analyses of records for individual warehouses in Virginia for the seasons 1929-30 and 1930-31, when charges were about the same as in recent years, indicated that costs of operating tobacco

TABLE 2.—Distribution of costs of tobacco-warehouse operation in Virginia, 1929-30 and 1930-31

FIRE-CURED TOBACCO WAREHOUSE OPERATION COSTS

Items of Cost	Operation costs		Percentage of total		Cost per 100 pounds	
	1929-30	1930-31	1929-30	1930-31	1929-30	1930-31
	Dollars	Dollars	Percent	Percent	Cents	Cents
Labor costs total	251,268.00	233,262.74	66.52	61.34	0.472	0.392
Building costs total	52,235.00	56,352.00	13.83	14.82	.098	.098
Depreciation ^a	11,600.00	13,522.00	3.07	3.48	.022	.022
Repairs	4,550.00	3,462.00	1.20	.91	.009	.006
Insurance	8,605.00	14,494.00	2.28	3.81	.016	.024
Taxes	8,180.00	10,504.00	2.17	2.76	.015	.018
Rent ^b	19,300.00	14,676.00	5.11	3.86	.030	.025
Equipment costs total	5,089.00	5,180.00	1.34	1.36	.010	.009
Baskets	290.00	25.00	.08	.01	.001	
Trucks	315.00	530.00	.08	.14	.001	.001
Scales	229.00	565.00	.06	.15	.001	.001
Office equipment	4,235.00	3,821.00	1.12	1.00	.008	.006
Other equipment		230.00		.06		.001
Supplies costs total	3,747.00	6,929.46	.90	1.82	.007	.012
Fuel, light, water, and power	1,436.00	3,636.25	.38	.96	.003	.006
Other supplies	2,317.00	3,293.21	.61	.87	.004	.006
Miscellaneous costs total	22,390.00	29,369.13	5.93	7.71	.042	.049
Dues to board of trade	310.00	415.00	.08	.10	.001	.001
Advertising	5,425.00	6,991.01	1.44	1.84	.016	.012
Bank exchange	10,205.00	4,146.00	2.70	1.09	.019	.007
Errors and corrections		457.00		.12		.001
Other costs	6,460.00	17,300.12	1.71	4.55	.012	.029
Loss on leaf account total	8,579.00	11,218.95	2.27	2.95	.016	.019
Interest ^c on investment, total	34,442.00	38,012.06	9.12	10.00	.065	.064
Total	377,728.00	380,265.24	100.00	100.00	.709	.640

(Continued)

TABLE 2.—Distribution of costs of tobacco-warehouse operation in Virginia, 1929-30 and 1930-31—(continued)

FIRE-CURED² TOBACCO WAREHOUSE OPERATION COSTS

Items of Cost	Operation costs		Percentage of total		Cost per 100 pounds	
	1929-30	1930-31	1929-30	1930-31	1929-30	1930-31
	Dollars	Dollars	Percent	Percent	Cents	Cents
Labor costs total	36,289.00	39,552.46	56.80	64.99	0.393	0.333
Building costs total	11,631.00	11,473.79	18.22	18.85	.126	.096
Depreciation ³	2,320.00	1,285.00	3.63	2.11	.025	.011
Repairs	900.00	675.00	1.41	1.71	.010	.009
Insurance	938.00	644.50	1.55	1.66	.011	.005
Taxes	923.90	769.20	1.45	1.26	.010	.006
Rent ⁴	6,500.00	8,100.00	10.18	13.31	.070	.068
Equipment costs total	2,108.00	1,509.00	3.30	2.48	.023	.013
Baskets	550.00	90.00	.86	.15	.006	.001
Trucks	213.00	69.50	.33	.11	.002	.001
Scales	45.00	189.50	.07	.31	.....	.002
Office equipment	1,300.00	1,150.00	2.04	1.89	.014	.010
Other equipment .....	.....	10.00	.....	.02	.....	.....
Supplies costs total	1,430.00	1,497.00	2.24	2.46	.016	.013
Fuel, light, water, and power	665.00	1,134.00	1.04	1.95	.007	.010
Other supplies	765.00	313.00	1.20	.51	.008	.003
Miscellaneous costs total	4,500.00	2,594.79	7.05	4.26	.049	.022
Dues to board of trade	130.00	140.00	.20	.23	.001	.001
Advertising	1,700.00	1,071.00	2.66	1.76	.018	.009
Bank exchange	2,170.00	590.00	3.40	.97	.024	.005
Errors and corrections	500.00	.....	.78	.....	.005	.....
Other costs .....	.....	793.79	.....	1.30	.....	.007
Loss on leaf account total	2,400.00	556.00	3.76	.91	.026	.005
Interest ⁵ on investment, total	5,520.00	3,680.00	8.64	6.05	.060	.031
Total	63,869.00	60,862.86	100.00	100.00	.693	.512

¹ Included 11 warehouses in 1929-30 and 18 warehouses in 1930-31.² Included 7 warehouses in 1929-30 and 8 warehouses in 1930-31.³ Depreciation calculated at 2 percent on investment.⁴ Rent calculated as actual amounts paid.⁵ Interest calculated at 5½ percent on investment.Reproduced from Ballinger, R. A., and Maxton, J. L., *Marketing Virginia Tobacco* (1, pp. 38-39).

warehouses could be reduced considerably by using labor more efficiently, by reducing overhead costs per unit of product through more complete utilization of capacity for a longer period during the year, and by reducing losses of leaf account through care in handling (1). These are problems of individual management to be solved gradually through demonstration and development rather than by legislation or other controls.

Undue hazards in marketing tobacco result from rapid sales without adequate information on quality. Sales made under such conditions may result in unduly low prices, to the detriment of individual growers, or may mean rejections and resale (2). Such hazards might be reduced and the costs of marketing lowered by selling the tobacco on the basis of grades in accordance with United States standards. All burley and dark-tobacco markets and about three-fifths of all

flue-cured markets now make use of these standards and of the classification services of the United States Department of Agriculture. This service, with a dependable price-reporting service, should improve the bargaining ability of growers and tend to reduce marketing margins or costs.

IMPORTANCE OF REDUCTIONS IN COSTS

Charges for selling flue-cured tobacco at auction leaf warehouses in 1939 usually averaged less than 5 percent of the farm value of the leaf, but similar charges for some other types of tobacco averaged 6 or 8 percent of the farm value. Increases in efficiency and reductions in these costs of marketing leaf tobacco are important considerations but a substantial reduction in these costs would amount to only a small proportion of the farm value of the tobacco and to a much smaller proportion of the retail value of tobacco products.

MANUFACTURERS' MARGINS

These margins include the charges made for the services incident to taking leaf tobacco and converting it into finished tobacco products. In addition, costs of Federal excise taxes on tobacco products usually are included in the margins, or the spread between the cost of the leaf tobacco and other materials used and the value of the finished products. Leaf tobacco used by domestic manufacturers in 1939 totaled about 885 million pounds (unstemmed processing-weight equivalent) of which about 9 percent was imported. Other materials used included 48 million pounds of sugar and 24 million pounds of licorice along with cigarette paper and other supplies and containers, according to census reports. Exports of American tobacco in that year on a declared-weight basis totaled about 342 million pounds.

USUAL PRACTICES

A large proportion of the domestic leaf tobacco used was bought by tobacco products manufacturing companies from tobacco growers, either through auction warehouses or at the farm. Data on purchases of leaf tobacco by 13 companies manufacturing tobacco products (which in 1934 purchased about two-thirds of the domestic crop) show that 73.6 percent of the leaf tobacco used was bought from growers, 19.4 percent from wholesale merchants and dealers, 2.8 percent from brokers and commission merchants, 1.7 percent from cooperative marketing associations, and 2.5 percent from other sources (table 3) (18).

These proportions varied considerably with the kinds of tobacco products manufactured. The proportions obtained from growers through auction warehouses averaged 67.1 percent for all companies combined and ranged from 1.1 percent for cigar-manufacturing companies to 71.6 percent for companies that manufactured cigarettes and smoking and chewing tobacco. Purchases from growers at the farm direct through the company's own buyers averaged about 6.6 percent for all companies combined and ranged from 4.5 percent for companies that manufactured cigarettes and smoking and chewing tobacco to 27.7 percent for companies manufacturing snuff. Purchases from tobacco merchants and dealers ranged from about 5.1

TABLE 3.—*Leaf-tobacco purchases, including tobacco grown on the companies' own farms, of 13 tobacco products manufacturing companies, by sources of supply, calendar year 1934¹*

Sources of supply	Leaf-tobacco purchases, including tobacco grown on the companies' own farms ²							
	6 cigarette, smoking, and chewing-tobacco companies ³		1 cigar-manufacturing companies ⁴		3 snuff-manufacturing companies ⁵		Total 13 companies	
	Pounds	Percent of total	Pounds	Percent of total	Pounds	Percent of total	Pounds	Percent of total
Grown on companies' own farms ⁶	2,630,037	0.38	952,872	2.91	.....	.....	3,582,909	0.46
Purchased from—								
Tobacco growers:								
Direct through companies' own buyers	731,249,944	4.47	8,299,615	25.30	10,985,499	27.68	750,535,058	6.55
Through auction warehouses ..	500,963,120	71.59	360,375	1.10	16,568,699	41.75	517,892,194	67.08
Total	532,213,064	76.06	8,659,990	26.49	27,554,198	69.43	568,427,252	73.63
Cooperative tobacco marketing associations:								
Direct through companies' own buyers	5,968,666	.85	502,253	1.54	2,943,070	7.42	9,413,989	1.22
Through auction warehouses ..	.....	.....	.....	.....	3,653,091	9.20	3,653,091	.47
Total	5,968,666	.85	502,253	1.54	6,596,161	16.62	13,067,080	1.69
Leaf merchants and dealers	127,993,666	18.29	¹⁰ 19,621,553	60.02	2,011,580	5.07	¹¹ 149,626,799	19.38
Brokers and commission merchants	15,477,540	2.21	¹² 766,630	8.46	3,523,915	8.88	¹³ 21,768,094	2.82
All other sources	¹⁴ 15,419,430	2.21	¹⁵ 190,044	.58	.....	.....	15,609,474	2.02
Grand total	699,702,403	100.00	32,693,351	100.00	¹⁶ 39,685,854	100.00	772,081,608	100.00

¹ Purchases of 1 of the 13 companies were reported for the fiscal year ended June 30, 1935.² Includes 55,219,324 pounds of imported and 716,862,284 pounds of domestic leaf tobacco. Does not include stems, cigar scrap, or other tobacco scrap, except as indicated in footnote ¹².³ Includes the following 6 companies and their subsidiaries: The American Tobacco Co.; Liggett & Myers Tobacco Co.; R. J. Reynolds Tobacco Co.; P. Lorillard Co., Inc.; Brown & Williamson Tobacco Co.; and Axton-Fisher Tobacco Co.⁴ Includes the following 4 companies and their subsidiaries: General Cigar Co., Inc.; Consolidated Cigar Corporation; Puerto-Rican American Tobacco Co.; and Bayuk Cigars, Inc.⁵ Includes the following 3 companies: United States Tobacco Co.; American Snuff Co.; and George W. Holmes Co.⁶ Grown on companies' own farms in the United States.⁷ Includes 8,701,345 pounds purchased direct from tobacco growers in foreign countries.⁸ Includes 4,711,742 pounds of imported leaf tobacco.⁹ Includes 1,176,798 pounds of imported leaf tobacco.¹⁰ Includes 15,353,620 pounds of imported leaf tobacco, and 60,810 pounds of domestic leaf tobacco purchased through miscellaneous sources.¹¹ Purchased from tobacco manufacturing companies.¹² Includes a small but undetermined quantity of tobacco stems.

Reproduced from Federal Trade Commission, Agricultural Income Inquiry, Part I—Principal Farm Products (18, p. 1941).

percent for snuff manufacturers to 60 percent for cigar manufacturers. The proportion obtained through cooperative marketing associations ranged from less than 1 percent for manufacturers of cigarettes and smoking and chewing tobacco to 16.6 percent for manufacturers of snuff.

Leaf tobacco purchased from growers ordinarily is redried and aged before it is manufactured. The types of tobacco sold at auction usually are redried, sorted, and packed in hogsheads for storage and curing. Many of the large manufacturing companies maintain their own leaf departments which are charged with the responsibility of buying, redrying, sorting, and storing the tobacco. Other manufacturers place a part or all of their buying orders in the hands of dealers who buy the tobacco, redry and sort it, and prize it in hogsheads for storage.

Cigar types of tobacco, as a rule, are fermented by bulk sweating and the tobacco is taken directly from the curing barn to a building especially constructed for this purpose. After the fermentation is completed, the tobacco is resorted, sized, retied, and packed for storage. Some of this processing is done by the larger cigar-manufacturing companies while some of it is processed by independent packers who in turn sell to manufacturers or to exporters.

Tobacco loses considerable weight from drying, through the removal of particles of dirt and tobacco in cleaning and packing, from chemical and physical changes incident to aging, and from the removal of stems or midribs in preparation for manufacture (2). These losses vary considerably from one type to another. For southern types (flue-cured, burley, and dark tobacco) the losses range from about 0.5 to 2 percent for cleaning, 1 to 14 percent for handling and packing, about 1 to 7 percent for sweating and drying in storage for 3 years, and 19 to 26.4 percent for stemming (table 4) (7). Similar data for cigar-leaf types show that losses ranged from 2.7 to 17.5 percent for handling and bulk sweating, about 1 to 13 percent for sweating and spoilage in package, 4.6 to 6.7 percent for sweating and drying in storage for 3 years, and 13.6 to 23.5 percent for stemming (table 5). A small proportion of the stems is used in the manufacture of snuff and other tobacco products, but most of them are used in byproducts industries.

Tobacco products manufactured in 1939 totaled about 180,671 million cigarettes, 5,354 million cigars, 103 million pounds of chewing tobacco, 202 million pounds of smoking tobacco, and 38 million pounds of snuff (table 6). The number of cigarettes manufactured has continued to increase and in 1943 totaled 296,179 millions. The number of cigars increased somewhat in the late 1930's and early 1940's, but continued considerably below the levels reached before the depression in the early 1930's. The combined total quantity of chewing and smoking tobacco and snuff manufactured in 1939 was fairly typical of other recent years. The value at the factory of the tobacco products manufactured in the United States in 1939, according to census reports, totaled about 1,322 million dollars, of which about 78 percent was accounted for by cigarettes, about 12 percent by cigars, about 9 percent by tobacco (chewing and smoking) and snuff, and about 1 percent by other products including scraps and salable refuse.

TABLE 4.—*Southern types of tobacco: Average percentage of loss in weight from different causes and percentages of weight remaining¹*

Type	U. S. type	Farm weight	Losses from—				Total loss	Net yield
			Cleaning ²	Handling and packing ³	Sweating and drying in storage ⁴	Stemming ⁵		
	Number	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Flue-cured	11-14	100.0	2.0	8.0	1.3	19.7	31.0	69.0
Virginia fire-cured	21	100.0	1.0	14.0	2.0	19.0	36.0	64.0
Kentucky and Tennessee fire-cured	22-23	100.0	.5	1.0	6.7	22.3	30.5	69.5
Henderson stemming	24	100.0	1.0	9.0	4.9	20.6	35.5	64.5
Burley	31	100.0	1.0	9.0	3.6	22.4	36.0	64.0
Southern Maryland	32	100.0	(⁶)	(⁶)	6.8	24.2	31.0	69.0
One sucker	35	100.0	1.0	7.0	4.1	26.4	38.5	61.5
Green River	36	100.0	1.0	9.0	4.9	20.6	35.5	64.5
Virginia sun-cured	37	100.0	1.0	10.0	2.2	20.8	34.0	66.0

¹ Losses and remainders under cleaning, handling and packing, and sweating and drying in storage are percentages of farm-sales weight. Net yield is the stemmed processing weight.

² Removal of sand, dirt, etc.

³ Includes sand and dirt loss and loss of moisture from redrying or air-drying.

⁴ Storage losses calculated progressively, based on packed weight, domestic order.

⁵ Percentages in removal of stem or midrib are based upon weight of leaf put into stemming process irrespective of time of operation.

⁶ Maryland tobacco is packed in hogsheds at the farm; therefore losses prior to packing are borne by the grower.

Adapted from MORROW, J. V. and SMITH, D. (7).

TABLE 5.—Cigar-leaf types of tobacco: Average percentages of loss in weight from different causes and percentages of weight remaining¹

Type	U. S. type	Farm weight	Losses from—				Total loss	Net yield
			Handling and bulk sweating ²	Sweating and spoilage in package ³	Sweating and drying in storage ⁴	Stemming ⁵		
	Number	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Filler types:								
Pennsylvania Seedleaf	41	100.0	2.7	11.3	5.4	22.6	42.0	58.0
Gebhardt	42	100.0	2.9	11.5	6.3	21.3	42.0	58.0
Zimmer	43	100.0	4.1	10.5	6.5	22.4	43.5	56.5
Dutch	44	100.0	3.3	10.2	6.5	23.5	43.5	56.5
Georgia and Florida sun-grown	45	100.0	17.5	1.7	5.1	16.7	41.0	59.0
Puerto Rican	46	100.0	12.0	.9	5.1	17.5	35.5	64.5
Binder types:								
Connecticut Broadleaf	51	100.0	3.0	9.6	6.3	18.6	37.5	62.5
Connecticut Havana Seed	52	100.0	3.0	9.6	6.2	18.7	37.5	62.5
New York and Pennsylvania Havana Seed....	53	100.0	9.0	6.4	4.9	21.2	41.5	58.5
Southern Wisconsin	54	100.0	3.7	13.2	5.2	18.4	40.5	59.5
Northern Wisconsin	55	100.0	6.3	9.9	4.6	20.2	41.0	59.0
Wrapper types:								
Connecticut shade-grown	61	100.0	8.9	2.4	5.7	15.5	32.5	67.5
Georgia and Florida shade-grown	62	100.0	10.9	1.8	6.7	13.6	33.0	67.0

¹ Losses and remainders under handling and bulk sweating, sweating and spoilage in package, and sweating and drying in storage are percentages of farm-sales weight. Net yield is the stemmed processing weight.

² Prior to packing.

³ Prior to sampling time.

⁴ This refers to end of first year after packing and not to end of first year after sampling.

⁵ Percentages in removal of stem or midrib are based upon weight of leaf put into stemming process irrespective of time of operation.

Adapted from MORROW, J. V. and SMITH, D. (7).

TABLE 6.—*Cigarettes, cigars, and other tobacco products manufactured in the United States, 1920-43*

Year	Cigarettes ¹	Cigars ¹	Other tobacco products			
			Total	Chewing ²	Smoking	Snuff
	Millions	Millions	Million pounds	Million pounds	Million pounds	Million pounds
1920	47,458	8,730	412	359	219	34
1921	52,100	7,397	387	329	223	35
1922	55,780	7,355	419	338	243	38
1923	60,734	7,456	413	339	235	39
1924	72,725	7,128	414	328	247	39
1925	82,264	6,910	414	328	218	38
1926	92,110	6,911	410	326	246	38
1927	99,820	6,958	399	318	238	40
1928	108,718	6,789	386	315	231	40
1929	122,402	6,938	381	310	230	41
1930	123,810	6,277	372	99	232	41
1931	117,068	5,687	371	148	183	40
1932	106,630	4,661	347	120	191	36
1933	114,877	4,510	342	114	192	36
1934	130,064	4,748	346	116	193	37
1935	139,969	4,863	343	115	192	36
1936	158,897	5,352	348	116	194	38
1937	169,972	5,802	341	116	183	37
1938	171,689	5,168	345	108	200	37
1939	180,671	5,354	343	103	202	38
1940	189,374	5,370	344	101	205	38
1941	217,937	5,757	342	104	198	40
1942	257,523	5,074	330	113	176	41
1943	296,179	5,488	327	121	163	43

¹ Includes large and small.² Includes plug, twist, fine-cut, and scrap. Before 1931 scrap was included in smoking.

Compiled from report of the Bureau of Internal Revenue. See Footnote G, p. 11.

CHARGES OR COSTS

Information relating to costs of leaf tobacco used and to the value of the tobacco products manufactured indicates that gross margins, or the spread between the costs of the materials used and the value of the finished products, vary considerably with the kind of product and with the amount of revenue stamps required. These margins usually include costs of Federal revenue stamps as well as operating costs and profits of manufacturers. Census reports on tobacco manufactures in 1939 show that these margins, including Federal revenue stamps, averaged 78.3 percent of the factory value of cigarettes, 66.2 percent of the value of cigars, 74.4 percent of the value of tobacco (chewing and smoking) and snuff, and 76.4 percent of the value of all tobacco products combined. Excluding the costs of Federal revenue stamps, the margins averaged 26 percent of the value of cigarettes, 58.6 percent of the value of cigars, 46.4 percent of the value of tobacco (smoking and chewing) and snuff, and 31.9 percent of the value of all tobacco products combined. Costs of leaf tobacco accounted for about 95 percent of the total costs of materials consumed by tobacco manufacturers, as reported by the Census of Manufactures for 1939.

Costs of tobacco as reported by manufacturers may differ considerably from the average market price for any given years. In addition to storing the tobacco for aging, manufacturers usually keep large enough stocks on hand to protect themselves against crop failures or excessive prices of individual types in any one year. Manufacturers usually have in stock varying quantities of the different

types of tobacco representing the crops of 2 or more years. Leaf going into manufacture usually is charged by manufacturers at the average cost of the entire inventory of each type (8).

Data for 6 corporations manufacturing cigarettes and other tobacco products in 1939 and for 28 corporations manufacturing cigarettes, cigars, and other tobacco products in 1940 were reported by the Federal Trade Commission¹. The total value of sales reported for these corporations approximated 80 and 98 percent, respectively, of the total reported by the Census for the tobacco industry in 1939. Gross margins, including costs of Federal revenue stamps, reported for these corporations averaged 75.9 percent of total sales in 1939 and 76.1 percent in 1940. Excluding costs of Federal revenue stamps, the margins averaged 26.2 percent of total sales in 1939 and 28.1 percent in 1940. In 1940 gross margins, including costs of Federal revenue stamps, averaged 77.1 percent of total sales for cigarettes, 60.7 percent for cigars, and 75.1 percent for other tobacco products. Excluding costs of Federal revenue stamps, the margins averaged 25.7, 51.4, and 49.5 percent, respectively, of total sales.

Data for five principal tobacco manufacturing companies for 1934 show that net sales of cigarettes totaled 461 million dollars, costs of the leaf tobacco used totaled 68 million dollars, and costs of other materials used totaled 16 million dollars (78). Gross margins, or the spread between total material costs and net sales, averaged 82 percent of net sales. The spread between costs of the leaf tobacco used and net sales averaged 85 percent of net sales.

A break-down of the costs of cigarettes, cigars, and other tobacco products as estimated by Standard and Poor's Corporation from Federal Trade Commission and census data supplies a basis for indicating gross margins for tobacco products. These estimates, published in 1943, indicate that these margins, including costs of Federal revenue stamps, averaged 77.5 percent of net sales for cigarettes, 71.9 percent for cigars, and 83 percent for manufactured tobacco (8). Excluding costs of revenue stamps, these margins averaged about 19, 62, and 67 percent, respectively, of net sales.

Gross margins, when expressed as proportions of the value of the products, have declined somewhat in recent years. This may be attributed, in part, to the failure of the margins to increase as much as the advances in selling prices of the products and, in part, to actual reductions in some margins. Data made available by the Office of Price Administration show that these margins, including costs of Federal revenue stamps, for standard and economy brands of cigarettes were reduced from an average of 81.8 percent of the value of the cigarettes in 1941 to 80.1 percent in 1942. Similar data for six price classes of cigars show that the margins were reduced from an average of 66.4 percent of the value of the products in 1941 to 65.1 percent in 1942. Combined margins for chewing and smoking tobacco were reduced from 80.3 percent of net sales in 1936, to 76.3 percent in 1939, and to 67.2 percent in 1943.

¹ UNITED STATES FEDERAL TRADE COMMISSION. INDUSTRIAL CORPORATION REPORTS: CIGARETTES, CIGARS, AND OTHER TOBACCO MANUFACTURING CORPORATIONS. 27 pp. 1943. [Processed.]

ITEMS INCLUDED IN MARGINS

Information relating to the items included in the margin, or spread between the costs of raw materials used and the selling price of the tobacco products, shows that the cost of Federal revenue stamps was by far the largest item. According to census reports, costs of these stamps in 1939 accounted, on the average, for 44.5 percent of the total value of all products of tobacco manufacturers combined and to 58.2 percent of gross margins (table 7). The proportion of the value of the products accounted for by costs of Federal revenue stamps ranged from 7.6 percent for cigars to 52.3 percent for cigarettes. The proportions of gross margins accounted for by costs of these stamps ranged from 11.5 percent for cigars to 66.8 percent for cigarettes.

TABLE 7. *Values, costs, and margins for tobacco manufactures, United States, 1939*

Item	Cigarettes	Cigars	Tobacco (chewing and smoking) and snuff	Total
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Value of products	1,037,748	100,754	123,087	1,322,189
Material costs—total	225,525	54,408	31,659	312,071
Leaf tobacco	214,304	54,390	29,213	297,913
Other materials ¹	11,221	52	2,446	14,158
Gross margins	812,223	100,346	92,028	1,010,118
Salaries and wages	33,668	41,141	11,863	86,772
Salaried officers	496	1,491	697	2,687
Manufacturing salaries	3,232	3,581	1,854	8,668
Manufacturing wages	29,068	36,140	8,193	68,501
Distribution	3,413	1,857	961	6,231
Other	458	169	258	885
Fuel	690	247	332	1,239
Purchased electric energy	379	494	151	1,024
Contract work	129	294	543	966
Supplies and containers ²	42,691	11,676	14,333	67,621
Revenue stamps	542,254	12,163	31,698	589,115
Other ³	193,612	40,364	30,007	263,381
Proportion of value of product				
	Percent	Percent	Percent	Percent
Value of products	100.0	100.0	100.0	100.0
Material costs—total	21.7	53.8	25.6	23.6
Leaf tobacco	20.6	53.8	23.6	22.5
Other materials ¹	1.1	(*)	2.0	1.1
Gross margins	78.3	66.2	74.4	76.1
Salaries and wages	3.2	25.0	9.7	8.6
Salaried officers	.1	.9	.6	.2
Manufacturing salaries	.3	2.2	1.5	.6
Manufacturing wages	2.6	21.3	6.6	5.2
Distribution	.3	1.1	.8	.5
Other	(*)	.1	.2	.1
Fuel	.1	.1	.3	.1
Purchased electric energy	(*)	.3	.1	.1
Contract work	(*)	.2	.5	.1
Supplies and containers ²	4.1	7.3	11.6	5.1
Revenue stamps	52.3	7.6	28.0	44.5
Other ³	18.6	25.1	24.3	19.0

¹ Includes sugar, licorice, corn syrup, cane syrup and molasses, and cigarette and cigar paper.

² Data for some items withheld to avoid disclosing, exactly or approximately, identity of individual establishments.

³ Derived by subtracting costs of leaf tobacco and other materials from costs of materials, supplies, and containers.

⁴ Includes depreciation, interest, insurance, rent, taxes, profits, and other expenses.

⁵ Less than 0.05 percent.

Adapted from Census of Manufactures: 1939 (14).

Salaries and wages in 1939, as reported in the Census of Manufactures, accounted for 6.6 percent of the value of all tobacco products combined and ranged from 3.2 percent for cigarettes to 25.6 percent for cigars (table 7). The proportion of the gross margins, including costs of Federal revenue stamps, accounted for by salaries and wages averaged about 8.6 percent for all products combined, and ranged from 4.1 percent for cigarettes to 33.7 percent for cigars. The proportions, excluding costs of Federal revenue stamps, accounted for by salaries and wages averaged 20.7 percent for all products combined and ranged from 12.3 percent for cigarettes to about 43.7 percent for cigars. Manufacturing wages made up, on the average, about 79 percent of total salaries and wages for all products combined and the proportions ranged from 68 percent for tobacco (chewing and smoking) and snuff to 83.2 percent for cigars.

Fuel, purchased electric energy, and contract work each accounted for only a small proportion of the gross margins in 1939 (table 7). Other items, not shown separately in census reports—including depreciation, interest, insurance, rent, taxes, profits, and other expenses—accounted for 26 percent of these margins, including costs of Federal revenue stamps, and 62.4 percent of the margins exclusive of costs of Federal revenue stamps.

Reports of the Federal Trade Commission on corporations manufacturing cigarettes, cigars, and other tobacco products for 1939 and 1940 show a more nearly complete break-down of the items included in gross margins than that shown in census reports. Data reported by the Federal Trade Commission show that the proportions of these margins accounted for by costs of Federal revenue stamps averaged somewhat more, and the proportions accounted for by salaries and wages averaged somewhat less, than those indicated by census reports. These differences may be explained in part by a somewhat larger proportion of cigarettes included in the reports by the Federal Trade Commission than in census reports.

Data reported by the Federal Trade Commission indicate that, except for Federal revenue stamps, net operating profit was the largest item included in tobacco margins in 1939 and in 1940 (table 8). These profits averaged about 11 percent of total sales and ranged from 9.9 percent for cigars to 16.7 percent for tobacco products other than cigarettes and cigars. The proportions of the gross margins, including costs of Federal revenue stamps, accounted for by net profits in 1940, averaged 14.8 percent for all products combined and ranged from 14.4 percent for cigarettes to 22.2 percent for tobacco products other than cigarettes and cigars. Excluding costs of Federal revenue stamps, net profits accounted for 40.2 percent of gross margins for all products combined, and ranged from 18.2 percent for cigars to 43.2 percent for cigarettes. These profits averaged more than three times the costs of production wages and salaries in 1939 and almost three times these costs in 1940.

Tobacco manufacturers' profits in 1939 were fairly typical of those reported for earlier and for more recent years. Data for 13 principal tobacco manufacturing companies show that for the 6-year period 1929-34 net profits on sales averaged 11.8 percent of net sales and

TABLE 8.—Sales, costs, and margins for corporations manufacturing cigarettes, cigars, and other tobacco products, United States, 1939 and 1940

Item	1939	1940			
	Cigarettes and other tobacco products	Cigarettes	Cigars	Other tobacco products	Total
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Total sales	1,017,391	1,185,941	71,833	46,037	1,301,811
Material cost—direct	252,889	271,627	28,236	11,446	311,300
Gross margin	794,502	912,314	43,597	34,591	990,502
Production wages and salaries ¹	33,814	43,069	15,102	3,730	62,501
Depreciation and obsolescence	4,766	4,964	611	388	5,993
Taxes and social security	12,410	9,837	1,270	919	12,020
Other operating expenses	22,026	11,887	3,527	1,264	16,678
Sales tax revenue	520,832	608,373	4,562	11,802	624,737
Goods purchased for resale	1,838	1,850	600	250	2,700
Selling expenses	25,873	20,605	4,954	3,630	35,189
Advertising	51,905	65,101	3,655	2,804	71,560
Administrative and general office expense	5,670	8,273	1,926	2,095	12,207
Provisions for uncollectable accounts	236	368	148	3	519
Net profits	115,321	131,387	7,113	7,706	140,206
Proportion of total sales					
	Percent	Percent	Percent	Percent	Percent
Total sales	100.0	100.0	100.0	100.0	100.0
Material cost—direct	24.1	22.9	39.3	21.0	23.9
Gross margin	75.0	77.1	60.7	75.1	76.1
Production wages and salaries ¹	3.2	3.7	21.0	8.1	4.8
Depreciation and obsolescence .....	.6	.4	.8	.9	.5
Taxes and social security	1.2	.9	1.8	2.0	.9
Other operating expenses	2.1	1.0	4.9	2.7	1.3
Sales tax revenue	49.7	51.4	6.3	25.6	48.0
Goods purchased for resale .....	.2	.2	1.0	.6	.2
Selling expenses	2.5	2.2	6.9	7.9	2.7
Advertising	6.0	5.5	5.1	6.1	5.5
Administrative and general office expense .....	.5	.7	2.7	4.5	.9
Provisions for uncollectable accounts	(¹)	(²)	(³)	(³)	(³)
Net profits	11.0	11.1	9.9	16.7	11.3
Number of manufacturers included	6	10	12	6	28

¹ Data for 1940 include production, labor, and other pay-roll costs other than for repair and maintenance and for research development.

² Less than 0.05 percent.

Adapted from reports of the United States Federal Trade Commission, on *Corporations Manufacturing Cigarette, Cigar, and Other Tobacco Products*, published in 1940 and in 1943. 2v. [Processed.]

ranged from 8.3 percent in 1933 to 15.1 percent in 1932.³ Similar data for 20 tobacco manufacturing companies, which in 1939 accounted for about four-fifths of total sales reported by the Census

³ United States Federal Trade Commission. See footnote 7, p. 21.

of Manufactures, show that the proportions of net sales accounted for by profits before income tax averaged, during the 4 years 1936-39, the same as the 11.2 percent in 1939. Those for 1940, 1941 and 1942 averaged somewhat greater than in 1939 (table 9).⁶ These profits averaged 16.2 percent of net worth during the 4 years 1936-39 and increased from 16.4 percent of net worth in 1939 to 22.3 percent of

TABLE 9.—*Profits of tobacco products manufacturing companies as proportion of net sales and of net worth, United States, average 1936-39 annual 1939-42*

Kind of product	Profits before income tax as proportion of net sales				
	Average 1936-39	1939	1940	1941	1942
	Percent	Percent	Percent	Percent	Percent
All tobacco products.....	11.2	11.2	12.0	11.8	11.4
Cigarettes	11.0	11.2	11.8	11.7	12.2
Cigars	7.8	7.8	10.5	10.1	9.5
Other tobacco products	16.7	15.1	18.0	16.3	17.4
	Profits after income tax as proportion of net sales				
	0.2	9.1	8.9	0.8	5.4
	Percent	Percent	Percent	Percent	Percent
All tobacco products.....	0.2	9.1	8.9	0.8	5.4
Cigarettes	0.1	9.1	8.6	6.5	5.1
Cigars	0.4	6.2	7.6	6.9	5.3
Other tobacco products	14.2	12.7	14.9	11.7	10.3
	Profits before income tax as proportion of net worth				
	16.2	16.4	18.3	20.4	22.3
	Percent	Percent	Percent	Percent	Percent
All tobacco products.....	16.2	16.4	18.3	20.4	22.3
Cigarettes	17.6	17.9	19.6	22.2	24.2
Cigars	7.9	8.1	11.8	12.3	13.1
Other tobacco products	12.4	11.6	14.0	12.4	14.3
	Profits after income tax as proportion of net worth				
	13.3	13.3	13.6	11.7	10.5
	Percent	Percent	Percent	Percent	Percent
All tobacco products.....	13.3	13.3	13.6	11.7	10.5
Cigarettes	14.5	14.5	14.3	12.4	11.1
Cigars	6.4	6.5	8.9	8.4	7.2
Other tobacco products	10.6	9.7	11.6	8.9	8.3

⁶ Calculations are based on profits before minority interest and contingency reserves, but renegotiation reserves were allowed as an expense and deducted from profits in every case where the amount set aside was shown as a current liability. Net sales for the 20 companies reported averaged \$1,027,973,000 annually during the period 1936-39 and totaled \$1,048,872,000 in 1939 (almost four-fifths of the total reported by Census of Manufactures), \$1,120,862,000 in 1940, \$1,296,112,000 in 1941, and \$1,502,528,000 in 1942.

Adapted from CORPORATE PROFITS, 1936-42, PART I. See footnote 9, p. 25.

net worth in 1942. Profits after income tax as proportions of net sales and of net worth have decreased somewhat in recent years.

Advertising costs, as reported by the Federal Trade Commission, averaged 5 percent of total sales in 1939 and 5.3 percent in 1940 (table 8). The proportions of the gross margins, excluding costs of internal revenue stamps, accounted for by costs of advertising averaged about 19.1 percent in 1939 and 19.5 percent in 1940. Advertising costs

⁷ UNITED STATES OFFICE OF PRICE ADMINISTRATION. CORPORATE PROFITS, 1936-42, PART I WAR PROFITS STUDY 10, 170 pp., illus. 1945. [Processed.] The basic data in this report are from Moody's Industrials, New York. (Semiweekly); Standard and Poor's Corporation Records; and Office of Price Administration Financial Reports.

averaged 56 percent more than costs of production wages and salaries in 1939 and 29 percent more than these costs in 1940. They were 30 per cent greater than the combined costs of depreciation and obsolescence, taxes and social security payments, and other operating expenses in 1939 and almost 70 percent greater than these combined costs in 1940.

Selling expenses as reported by the Federal Trade Commission averaged 2.5 percent of total sales in 1939 and 2.6 percent in 1940. These expenses were relatively least for cigarettes and relatively greatest for tobacco products other than cigarettes and cigars. Selling expenses averaged 78.1 percent of the costs of production wages and salaries in 1939 and 68.4 percent in 1940. Other items of cost included in manufacturers' margins were relatively small, as indicated in table 8 (p. 24).

Data as to costs and margins for cigarettes in 1941 and 1942, show some decreases in the proportions of the selling price accounted for by profits margins and by advertising costs (table 10). For standard and economy brands combined, the profits margins (including net profits, income taxes, and some interest) decreased from 10.2 percent of the net selling price in 1941, to 9.9 percent in 1942. But these profits margins continued to exceed 40 percent of the gross margins, excluding costs of Federal revenue stamps. Profits margins for standard brands were much greater than were those for economy brands.

Advertising costs for standard and economy brands combined averaged 5.2 percent of net sales in 1941 and 4.1 percent in 1942. The proportion of the gross margins, exclusive of costs of Federal revenue stamps, accounted for by advertising costs averaged 21.9 percent in 1941 and 18.6 percent in 1942. Advertising costs usually accounted for a larger proportion of the net selling price for standard than for economy brands. The total for items other than costs of internal revenue stamps, profits margins, and advertising costs, included in manufacturers' margins for cigarettes, averaged 9.1 percent of the selling price in 1940, 8.3 percent in 1941, and 8.0 percent in 1942.

Data on margins and costs for cigar manufacturers' in 1941 and 1942 show that costs of internal revenue stamps averaged 7.3 percent of the net sales each year and ranged from 6 percent for 2-for-25-cent cigars to about 14 percent for 2-cent cigars (tables 11 and 12). Costs of operating labor in 1941 averaged 22.7 percent of net sales for all price classes combined and ranged from 20.7 percent for 2-for-5-cent cigars to 26.4 percent for 2-for-25-cent cigars. In 1942 these proportions averaged 23.4 percent for all classes combined and ranged from 22.1 percent for 2-for-5-cent cigars to 28.3 percent for 3-for-25-cent cigars. The proportions of the gross margins accounted for by operating labor costs averaged 34.2 percent in 1941 and 35.9 percent in 1942. These proportions varied considerably from one price class to another. Other labor and salary costs of cigar manufactures—including packing labor, shipping labor, officers' salaries, and clerical salaries—averaged 6.4 percent of net sales and 9.6 percent of the gross margins in 1941 and 6.6 percent and 10.1 percent, respectively, in 1942. Total labor and salary costs averaged 29.1 percent of net sales in 1941 and 30 percent in 1942. The proportions of these

TABLE 10.—Cigarettes: Standard and economy brands, net sales costs, and margin for manufacturers, United States, 1941 and 1942

Item	Standard brands		Economy brands		Total or average	
	1941	1942	1941	1942	1941	1942
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Net sales	1,008,563	1,104,553	101,642	84,715	1,110,205	1,279,268
Material costs—total	189,870	244,463	11,928	9,977	201,798	254,440
Leaf	184,515	238,040	11,170	9,349	195,685	247,389
Casing	5,355	6,423	758	628	6,113	7,051
Gross margin	818,693	950,090	89,714	74,738	908,407	1,024,828
Labor	13,317	17,096	1,524	1,610	14,841	18,706
Wrapping material	28,916	33,142	3,629	2,971	32,545	36,113
Factory overhead	9,535	10,221	1,478	1,381	11,013	11,602
Revenue stamps	571,222	682,387	73,515	60,820	644,737	743,213
Freight and shipping	9,213	12,047	1,395	1,186	10,608	13,233
Advertising	53,447	50,204	3,884	2,315	57,331	52,519
Selling and administrative expenses	21,265	20,467	3,052	2,605	24,317	23,072
Profit margins ¹	111,778	124,526	1,237	1,844	113,015	126,370
Proportions of net sales						
	Percent	Percent	Percent	Percent	Percent	Percent
Net sales	100.0	100.0	100.0	100.0	100.0	100.0
Material costs—total	18.8	20.5	11.7	11.8	18.2	19.9
Leaf	18.3	19.9	11.0	11.0	17.6	19.3
Casing .....	.5	.6	.7	.8	.6	.6
Gross margin	81.2	79.5	88.3	88.2	81.8	80.1
Labor	1.3	1.4	1.5	1.9	1.3	1.5
Wrapping material	2.9	2.8	3.6	3.5	2.9	2.8
Factory overhead	1.0	.9	1.5	1.6	1.0	.9
Revenue stamps	56.6	57.1	72.3	71.8	58.1	58.1
Freight and shipping .....	.9	1.0	1.4	1.4	1.0	1.0
Advertising	5.3	4.2	3.8	2.7	5.2	4.1
Selling and administrative expenses	2.1	1.7	3.0	3.1	2.2	1.8
Profit margins ¹	11.1	10.4	1.2	2.2	10.2	9.9

¹ Includes net profits, income taxes, and some interest.

Based on primary data assembled by the Office of Price Administration and made available for use only as industry summaries.

TABLE 11.—*Net sales, costs, and margins for manufacturers of 6 price classes of cigars, United States, 1941*

Item	Price classes						
	2-cent	2-for-5-cent	3-for-10-cent	5-cent	10-cent	2-for-25-cent	All
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Net sales	4,007	22,093	3,609	77,826	21,828	5,182	134,545
Cigar materials used	1,001	7,079	1,185	26,841	7,379	1,693	45,178
Gross margin	3,006	15,014	2,424	50,985	14,449	3,489	89,367
Operating labor	925	4,582	845	17,557	5,282	1,368	30,559
Other operating expenses	183	1,293	177	3,214	553	131	5,551
Fixed charges	102	589	68	1,641	383	101	2,884
Packing labor	161	781	122	2,225	500	123	3,912
Other packing costs	370	2,278	326	6,227	1,555	340	11,096
Shipping labor	17	77	14	225	63	12	408
Other shipping costs	39	256	41	540	133	38	1,047
Officers' salaries	68	435	43	1,911	486	128	3,071
Clerical salaries (general)	31	166	25	742	193	50	1,207
Other general and administrative costs	39	256	40	1,079	323	89	1,826
Advertising	144	576	136	3,035	866	195	4,952
Other selling expenses	228	1,306	205	4,631	1,325	334	8,029
Revenue stamps	564	2,560	316	4,496	1,665	310	9,911
Apparent margin ¹	^a 135	141	66	3,462	1,122	270	4,914
Proportion of net prices realized							
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Net sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cigar materials used	25.0	32.0	32.8	34.5	33.8	32.7	33.6
Gross margin	75.0	68.0	67.2	65.5	66.2	67.3	66.4
Operating labor	23.1	20.7	23.4	22.6	24.2	26.4	22.7
Other operating expenses	4.6	5.8	4.9	4.1	2.5	2.5	4.1
Fixed charges	2.5	2.7	1.9	2.1	1.8	2.0	2.1
Packing labor	4.0	3.5	3.4	2.9	2.3	2.4	2.9
Other packing costs	9.2	10.3	9.0	8.0	7.1	6.6	8.2
Shipping labor .....	.4	.3	.4	.3	.3	.2	.3
Other shipping costs	1.0	1.2	1.1	.7	.6	.7	.8
Officers' salaries	1.7	2.0	1.2	2.5	2.2	2.5	2.3
Clerical salaries (general) .....	.7	.8	.7	.9	.9	1.0	.9
Other general and administrative costs	1.0	1.2	1.1	1.4	1.5	1.7	1.4
Advertising	3.6	2.6	3.8	3.9	4.0	3.7	3.7
Other selling expenses	5.7	5.9	5.7	5.9	6.1	6.4	6.0
Revenue stamps	14.1	11.6	8.8	5.8	7.6	6.0	7.3
Apparent margin ¹	^a 3.4	.6	1.8	4.4	5.1	5.2	3.7

¹ Margin to cover income taxes, interest, and profits.² Loss.

Data obtained in field investigation by the United States Tariff Commission for the Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 12.—Average net prices realized, costs, and margins for manufacturers of 6 price classes of cigars, United States, first quarter of 1942

Item	Price classes						
	2-cent	2-for-5-cent	3-for-10-cent	5-cent	10-cent	2-for-25-cent	All
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Net sales	999	6,369	623	22,564	5,470	1,334	37,359
Cigar materials used.....	257	2,074	210	8,216	1,859	418	13,034
Gross margin	742	4,295	413	14,348	3,611	916	24,325
Operating labor	253	1,410	143	5,169	1,376	378	8,729
Other operating expenses.....	51	395	34	1,035	172	42	1,720
Fixed charges	25	173	11	508	105	28	850
Packing labor	44	244	23	625	147	30	1,113
Other packing costs.....	91	675	68	1,725	356	89	3,004
Shipping labor	5	26	4	72	20	5	132
Other shipping costs.....	11	74	9	176	41	13	324
Officers' salaries	17	118	7	553	139	41	875
Clerical salaries (general).....	9	55	4	221	59	16	364
Other general and administrative costs.....	18	114	6	378	85	24	624
Advertising	31	140	15	690	198	52	1,126
Other selling expenses.....	62	399	43	1,432	372	86	2,394
Revenue stamps	140	738	54	1,302	415	80	2,720
Apparent margin ¹	215	2,266	27	462	126	32	332
Proportion of net prices realized							
	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Net sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cigar materials used.....	25.7	32.6	33.7	36.4	34.0	31.4	34.9
Gross margin	74.3	67.4	66.3	63.6	66.0	68.6	65.1
Operating labor	25.4	22.1	22.8	22.9	25.2	28.3	23.4
Other operating expenses.....	5.1	6.2	5.5	4.6	3.1	3.1	4.6
Fixed charges	2.5	2.7	1.8	2.2	1.9	2.1	2.3
Packing labor	4.4	3.8	3.6	2.8	2.7	2.2	3.0
Other packing costs.....	9.1	10.6	11.0	7.6	6.5	6.7	8.0
Shipping labor .....	.5	.4	.7	.3	.4	.3	.3
Other shipping costs.....	1.1	1.2	1.5	.8	.8	1.0	.9
Officers' salaries	1.7	1.8	1.2	2.5	2.5	3.1	2.3
Clerical salaries (general).....	.9	.7	.7	1.0	1.1	1.2	1.0
Other general and administrative costs.....	1.3	1.8	.7	1.7	1.5	1.8	1.7
Advertising	3.1	2.2	2.3	3.1	3.6	3.9	3.0
Other selling expenses.....	6.2	6.3	6.9	6.3	6.8	6.5	6.4
Revenue stamps	14.0	11.6	8.7	5.8	7.6	6.0	7.3
Apparent margin ¹	21.5	24.2	21.1	2.0	2.3	2.4	.9

¹ Margin to cover income taxes, interest, and profits.

² Loss.

Data obtained in field investigation by the United States Tariff Commission for the Office of Price Administration and made available by the latter agency for use only as industry summaries.

margins accounted for by total labor and salary costs averaged 42.8 percent in 1941 and 46 percent in 1942.

Operating expenses of cigar manufacturers other than labor costs averaged 4.1 percent of net sales and about 6.2 percent of the gross margins in 1941 and 4.6 and 7.1 percent, respectively, in 1942 (tables 11 and 12). Fixed charges averaged 2.1 percent of net sales in 1941 and 2.3 percent in 1942. Packing and shipping costs, other than labor, averaged 9 percent of net sales in 1941 and 8.9 percent in 1942. Advertising costs averaged 3.7 percent of net sales in 1941 and 3 percent in 1942. Other selling expenses averaged 6 percent of net sales in 1941 and 6.4 percent in 1942. General and administrative costs, other than salaries, averaged 1.4 percent of net sales in 1941 and 1.7 percent in 1942. Margins to cover income taxes, interest, and profits averaged 3.7 percent of net sales in 1941 and 0.9 percent in 1942. The proportions for each of these items varied considerably from one price class to another, as shown in tables 11 and 12.

Information available on smoking and chewing tobacco include data relating to sales, costs of materials used, and items included in the manufacturers' margins, by years, from 1936 to 1943 (except 1940 and 1942), inclusive, (table 13). Costs of internal revenue stamps averaged 27.9 percent of net sales of smoking and chewing tobacco combined during this 6-year period and the yearly averages ranged from 26.2 percent in 1943 to 30.4 percent in 1936. The proportions of the gross margins, accounted for by costs of these stamps, averaged about 37 percent for the 6 years and ranged from 35 percent in 1939 to 39 percent in 1943.

Net operating profits, during this 6-year period, averaged 16.2 percent of net sales for smoking and chewing tobacco combined and ranged from 10 percent in 1943 to 18.3 percent in 1936. The proportions of the gross margins, including costs of Federal revenue stamps, accounted for by these profits averaged 21.4 percent for the 6 years and ranged from 14.9 percent in 1943 to 23.7 percent in 1939. The proportions of these margins, exclusive of costs of Federal revenue stamps, accounted for by net operating profits averaged 34 percent and ranged from 25 percent in 1943 to 36.7 percent in 1939 and in 1936.

Labor costs for smoking and chewing tobacco during the 6 years 1936-43 (except 1940 and 1942) averaged 7 percent of net sales and ranged from 6.3 percent in 1939 and 1941 to 8.4 percent in 1943. The proportions of the gross margins, exclusive of costs of Federal revenue stamps, accounted for by labor costs, averaged 14.7 percent for the 6 years and ranged from 12.8 percent in 1939 to 20 percent in 1943. Wrapping materials during this period accounted for about 9.2 percent of net sales and 19.3 percent of gross margins, excluding costs of Federal revenue stamps. These proportions varied irregularly from one year to another, but the proportion of net sales accounted for by costs of wrapping materials decreased somewhat in the early 1940's. Costs of advertising and free goods during the 6 years 1936-43 (except 1940 and 1942) accounted on the average for about 6.6 percent of net sales and 13.9 percent of the gross margins, exclusive of costs of Federal revenue stamps. Freight, shipping, and selling expenses combined, during the 6 years averaged about 6.0 percent of net sales and 12.6 percent of the margins, exclusive of costs

TABLE 13.—Tobacco: Chewing and smoking, net sales, costs, and margins for manufacturers, United States, 1936-39, 1941 and 1943

Item	1936	1937	1938	1939	1941	1943
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
Net sales	51,009	52,781	53,304	52,673	55,354	56,432
Material costs—total	10,086	10,718	13,360	12,483	13,842	18,489
Leaf	7,925	8,462	11,284	10,492	11,715	16,036
Casing	2,161	2,256	2,085	1,991	2,127	2,453
Gross margin	40,983	42,063	39,935	40,190	41,512	37,943
Labor	3,481	3,841	33,604	3,337	3,488	4,730
Wrapping material	4,984	5,222	5,086	4,852	5,047	4,301
Plant overhead	590	733	785	947	1,026	1,054
Revenue stamps	15,507	15,696	14,377	14,219	14,976	14,797
Advertising and free goods	3,410	3,599	3,336	3,357	3,786	3,821
Freight and shipping	1,857	1,922	1,971	1,961	2,062	2,072
Selling expenses	1,340	1,400	1,322	1,367	1,209	855
General and administrative expenses	465	527	575	613	712	663
Profit ¹	9,349	9,123	8,879	9,537	9,206	5,650
Proportion of net sales						
	Percent	Percent	Percent	Percent	Percent	Percent
Net sales	100.0	100.0	100.0	100.0	100.0	100.0
Material costs—total	19.7	20.3	25.1	23.7	25.0	32.8
Leaf	15.5	16.0	21.2	19.9	21.2	28.4
Casing	4.2	4.3	3.9	3.8	3.8	4.4
Gross margin	80.3	79.7	74.9	76.3	75.0	67.2
Labor	6.8	7.3	6.8	6.3	6.3	8.4
Wrapping material	9.8	9.9	9.5	9.2	9.1	7.6
Plant overhead	1.2	1.4	1.5	1.8	1.9	1.9
Revenue stamps	30.4	29.7	27.0	27.0	27.1	26.2
Advertising and free goods	6.7	6.8	6.2	6.4	6.8	6.8
Freight and shipping	3.6	3.6	3.7	3.7	3.7	3.7
Selling expenses	2.6	2.7	2.5	2.6	2.2	1.5
General and administrative expenses .....	.9	1.0	1.0	1.2	1.3	1.1
Profit ¹	18.3	17.3	16.7	18.1	16.6	10.0

¹ Operating profits before deduction of income tax and interest.

Based on primary data assembled by Office of Price Administration and made available for use only as industry summaries.

of internal revenue stamps. These proportions varied somewhat from year to year but no very definite trends were indicated. Other items of cost include plant overhead and general and administrative expenses, but usually these items made up relatively small proportions of the gross margins.

MEANS OF REDUCING COSTS

Means of reducing margins, or the spread between costs of the leaf tobacco used and the value of the finished products, may include reductions in the kinds and amounts of services rendered, increases in the efficiency and reductions in the costs of rendering the specific services, and reductions in excise taxes and profits. In the absence of sufficiently complete information on the various phases of the problems involved, no detailed suggestions regarding the specific means by which and the extent to which these margins or costs could feasibly be reduced can be offered at this time. Such suggestions would need to be based on much more complete information on the services rendered, the wishes or welfare of consumers, the particular processes involved, and the conditions under which the manufacturing establishments are operated. But it is possible to indicate in a general way some means for reducing these margins or costs.

Data presented by the Federal Trade Commission show that aggregate net profits before deduction of income taxes and interest on debts in 1940 averaged 3.5 percent of aggregate sales for cigarette manufacturers with assets of less than 54 million dollars and average annual sales of about 15 million dollars. These compare with profits of 11.7 percent for manufacturers with assets of over 54 million dollars and average annual sales of about 587 million dollars.¹⁰

Similar data for cigar manufacturers show average profits of 4.6 percent of aggregate sales for manufacturers with assets of under 4 million dollars and average annual sales of less than one million dollars compared with profits of 10.8 percent of aggregate sales for manufacturers with assets of over 4 million dollars and average annual sales of almost 13 million dollars. Although factors other than differences in size may also be involved, it would appear reasonable to assume that these differences in profits may be attributed in part, at least, to differences in efficiency arising from differences in the size of establishments. If this assumption is justified, it would appear that costs might be reduced by increasing the size of the smaller plants or by increasing the proportion of the total volume handled by the larger manufacturers. But these savings might not be reflected in proportionate reductions in margins.

The cost of Federal excise taxes is by far the largest item usually included in the margin or spread between the cost of the leaf tobacco used and the value of the finished tobacco products. A reduction in these taxes would appear to be the simplest and perhaps the most effective method of substantially reducing these margins. But the feasibility of such reductions depends on questions of public policy that go beyond the scope of this report. Excise taxes on tobacco products can be collected with relative ease and are effective in ob-

¹⁰ Federal Trade Commission. See footnote 7, p. 21.

taining revenues, but they are regressive in that the proportions of the total income used in paying these taxes are greater for the low than for the medium and higher income families.

Data as to average net money income and average expenditure for tobacco products by families and single consumers, by income groups in 1941, show that the average amounts spent for tobacco increased with income, but that the proportion of the annual money income spent for tobacco products was greater for the lower than for the higher income families (table 14). For all families and single consumers combined, the proportion of the money income spent for tobacco ranged from 3.1 percent for those with annual money incomes of less than \$500 to 0.8 percent for those with incomes of \$5,000 and over. The proportions for farm families and single individuals ranged from 4.1 percent for those with annual incomes of less than \$500 to 0.5 percent for those with incomes of \$3,000 or more. For nonfarm families the proportion of money income spent for tobacco ranged from 2.7 percent for those with annual money incomes of less than \$500 to 0.8 percent for those with incomes of \$5,000 and over. Data relating to family incomes and expenditures in 1935-36 also show that total expenditures for tobacco vary directly with income, but that the proportion of the family income used in the purchase of tobacco products varied inversely with the amount of the annual income (6).

TABLE 14.—Average net money income and average expenditure for tobacco by American families and single consumers, by income groups, 1941

All American families and single consumers			
Net money income	Average net money income	Average expenditure for tobacco	
		Amount	Proportion of money income
	Dollars	Dollars	Percent
\$0 to \$500	289	9	3.1
\$500 to \$1,000	741	18	2.4
\$1,000 to \$1,500	1,240	27	2.2
\$1,500 to \$2,000	1,732	35	2.0
\$2,000 to \$3,000	2,448	47	1.9
\$3,000 to \$5,000	3,730	65	1.7
\$5,000 and over	11,552	88	.8
Farm families and single consumers			
\$0 to \$500	270	11	4.1
\$500 to \$1,000	737	15	2.0
\$1,000 to \$1,500	1,226	17	1.4
\$1,500 to \$2,000	1,701	21	1.2
\$2,000 to \$3,000	2,439	28	1.1
\$3,000 and over	5,580	29	.5
Nonfarm families and single consumers			
\$0 to \$500	300	8	2.7
\$500 to \$1,000	742	19	2.6
\$1,000 to \$1,500	1,243	20	2.3
\$1,500 to \$2,000	1,737	37	2.1
\$2,000 to \$3,000	2,449	49	2.0
\$3,000 to \$5,000	3,728	63	1.8
\$5,000 and over	11,696	92	.8

Adapted from *Spending and Saving of the Nation's Families in Wartime* (3).

Tobacco manufacturers' margins could be reduced considerably if profits were reduced. Data for 28 tobacco manufacturing corporations in 1940 show that aggregate net profits before deducting debt interest and income taxes averaged 16.4 percent of aggregate total investment. Aggregate profits after income taxes are paid, but before deducting debt interest averaged 12.1 percent of aggregate total investment. Net profits from manufacturing and trading averaged about 11 percent of total sales, 14.6 percent of gross margins, including costs of Federal revenue stamps, and 40.8 percent of manufacturers' gross margins, exclusive of costs of Federal revenue stamps.¹¹

Advertising is generally recognized as an effective means of expending outlets for particular brands as well as the total for all tobacco products. Such increases in volume may make possible some reductions in average per unit cost. Perhaps the least effective advertising, for the industry as a whole, is that designed mainly to induce consumers to use one particular brand instead of another of about the same quality. If advertising were confined more to informative and less to strictly competitive features and were placed on a more efficient basis, margins or costs for tobacco manufacturers might be reduced somewhat. Reports indicate that tobacco manufacturers' advertising costs averaged 5 percent of total sales in 1939, and 5.3 percent in 1940.¹²

Costs of advertising exceeded production wages and salaries. They amounted to about 7 percent of gross margins including costs of Federal revenue stamps, and to about 19 percent of manufacturers' gross margins, exclusive of cost of Federal revenue stamps. However, as previously indicated, costs also are affected by size of plant operations, and advertising by companies manufacturing leading brands no doubt has been an important factor in concentrating operations in a relatively small number of large plants.

IMPORTANCE OF REDUCTIONS IN COSTS

Margins for tobacco manufacturers in 1939, plus costs of Federal revenue stamps, averaged about three-fifths of the retail price of the finished products and about five times as much as the returns to American growers for the leaf tobacco used. Manufacturers' margins, exclusive of costs of these stamps, averaged about 27 percent of the retail price of the finished products and more than twice as much as returns to American growers for the leaf tobacco used. Excise taxes alone averaged more than a third of the retail price and were about three times as great as the returns to growers for the United States tobacco used.

A reduction of 5 percent, for example, in the manufacturers' margin, plus costs of Federal revenue stamps, would amount to about as much as a reduction of around 3 percent in retail prices and to about as much as an increase of one-fourth in returns to growers in the United States for the leaf tobacco used. Such a reduction in manufacturers' margins, exclusive of Federal stamps, would amount to about as much as a reduction of 1.3 percent in retail prices and to more than an increase of 10 percent in returns to United States growers for the tobacco used.

¹¹ Federal Trade Commission. See footnote 7, p. 21.

¹² Federal Trade Commission. See footnote 7, p. 21.

WHOLESALE'S AND RETAILERS' MARGINS

These margins include the charges made by wholesalers and retailers for the services of taking tobacco products from manufacturers and delivering them to consumers at retail. Some State and local excise taxes are also included.

USUAL PRACTICES

Most of the manufactured tobacco products are sold by manufacturers directly or indirectly through wholesale branches or offices of the manufacturer, to wholesalers or jobbers, but considerable proportions are sold by manufacturers directly to retailers. In 1939, according to census reports, the proportion of tobacco manufacturers' sales distributed directly through wholesalers and jobbers averaged 61.5 percent for all products combined and ranged from about 59 percent for cigarettes to about 70 percent for cigars (table 15). The proportion distributed through manufacturer-owned and operated outlets—mostly wholesale branches or offices—averaged about 30 percent and ranged from about 16 percent for cigars to 33 percent for cigarettes. Most of the products handled in this way were in turn sold to wholesalers. The proportions sold by manufacturers to retailers, including chains, averaged about 7 percent and ranged from about 6 percent for cigarettes to 11 percent for cigars. Very small proportions were exported or sold directly to consumers.

Data showing sales of manufactured tobacco products, by channels of distribution, for 13 companies manufacturing tobacco products in 1934 were reported by the Federal Trade Commission (18). Total sales by these companies equaled more than 97 percent of the total quantity of cigarettes produced in the United States in 1934, about 89 percent of the smoking tobacco, more than 75 percent of the chewing tobacco, almost 41 percent of the cigars, and practically all of the snuff. Dollar sales, by channels of distribution from manufacturers, were not ascertained for each kind of tobacco product sold, but for all tobacco products combined about 62 percent were distributed through tobacco jobbers and wholesalers, 18.2 percent through wholesale grocers, 8.5 percent through chain grocery stores, 4.7 percent through chain tobacco stores, 2.5 percent through chain drug stores, 1.7 percent through independent retail tobacco and drug stores, and small proportions through wholesale drug companies, co-operative and voluntary chains, and other distributors (table 16).

The relative importance of the different channels of distribution varied considerably from one kind of tobacco product manufacturing company to another. The proportions of the total manufacturers' sales that were distributed through tobacco jobbers and wholesalers ranged from 22.2 percent for companies manufacturing snuff to about 64 percent for companies manufacturing cigarettes and smoking and chewing tobacco. About 2 percent of the sales by companies manufacturing cigars was distributed through wholesale groceries, compared with about 17.5 percent for companies manufacturing cigarettes, and almost 64 percent for companies manufacturing snuff. Manufacturers of cigars did not report any sales to chain grocery stores, but the proportions reported for other companies averaged about 9 percent. The proportion distributed through chain tobacco stores ranged from 5 percent for companies manufacturing snuff to

10 percent for cigar manufacturers. Sales to independent retail tobacco and drug stores accounted for 31 percent of the total outlets for cigar-manufacturing companies but other companies reported no sales through these channels.

Data presented by the Federal Trade Commission showed significant differences in the proportions of the products of individual companies of the same group that were sold through specified outlets. For individual companies in the cigarette and smoking and chewing tobacco group the proportions of the products sold to tobacco jobbers and wholesalers ranged from 32 to 83 percent; to wholesale grocers, from about 19 to 57 percent; to chain grocery stores, from 4.5 to 20 percent; and to chain tobacco stores, from about 2.5 to 6 percent. Sales of individual companies manufacturing cigars to tobacco job-

TABLE 15.—*Distribution of tobacco manufacturers' sales, by classes of customers and by industries, United States, 1939*

Item	Cigarettes <i>1,000 dollars</i>	Cigars <i>1,000 dollars</i>	Tobacco (chewing and smoking) and snuff <i>1,000 dollars</i>	Total <i>1,000 dollars</i>
Total distributed sales	1,035,744	160,775	132,720	1,329,239
Manufacturer-owned and operated outlets:				
Wholesale branches or offices	1,310,605 ⁽¹⁾	26,350	1,20,069 ⁽¹⁾	397,111 ⁽¹⁾
Retail stores		205		205
To other business concerns in United States for resale:				
Wholesalers and jobbers	2,615,235 ⁽²⁾	113,017	50,225	818,487
Export intermediaries		120	181	301
Retailers, including chains	63,643	17,852	9,977	91,472
Exports, direct to buyers or other countries	4,570	308	249	5,126
To users and consumers:				
Industrial etc. users ³	11,570 ⁽⁴⁾	2,121	1,891	15,592
Consumers at retail ⁵	22	792	115	929
Proportion of total sales				
	Percent	Percent	Percent	Percent
Total distributed sales	100.0	100.0	100.0	100.0
Manufacturer-owned and operated outlets:				
Wholesale branches or offices	132.0 ⁽¹⁾	16.1	122.7 ⁽¹⁾	29.9 ⁽¹⁾
Retail stores		.1		
To other business concerns in United States for resale:				
Wholesalers and jobbers	259.4 ⁽²⁾	70.3	68.0	61.5
Export intermediaries		0.1	.1	.1 ⁽¹⁾
Retailers, including chains	6.2	11.1	7.5	6.9
Exports, direct to buyers or other countries	.4	.2	.2	.4
To users and consumers:				
Industrial etc. users ³	1.1 ⁽⁴⁾	1.3	1.4	1.2
Consumers at retail ⁵		.5	.1	.1
Number of establishments	25	589	132	750

¹ Sales to or through own retail stores combined with sales to or through own wholesale branches or offices to avoid disclosure.

² Sales to export intermediaries combined with sales to wholesalers and jobbers to avoid disclosure.

³ Also includes commercial, professional, and institutional users (manufacturers, railroads, utilities, governmental bodies, hotels, contractors, etc.)

⁴ Interplant transfers included to avoid disclosure.

⁵ Includes farmers, household consumers, and employees at retail.

⁶ Less than 0.05 percent.

Data adapted from United States Bureau of the Census (11).

TABLE 16.—*Net dollar sales of manufactured tobacco products of 13 tobacco products manufacturing companies, by channels of distribution, calendar year 1934*

Channels of distribution	Net dollar sales of manufactured tobacco products ¹							
	6 cigarette, smoking and chewing tobacco companies ²		4 cigar-manufacturing companies ³		3 snuff-manufacturing companies ⁴		Total 13 companies	
	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total
Tobacco jobbers and wholesalers	\$ 539,292,005	63.93	27,438,638	54.52	6,833,076	22.20	\$ 573,563,719	62.03
Wholesale grocers	147,808,143	17.52	786,406	1.56	19,664,650	63.89	168,259,198	18.20
Wholesale drug companies	5,679,512	.67	48,022	.10	193,187	.64	5,923,722	.64
Chain grocery stores	75,825,700	8.99	.....	.....	2,899,920	9.42	78,725,709	8.51
Chain tobacco stores	37,685,192	4.47	5,064,134	10.06	468,070	1.52	43,217,396	4.67
Chain drug stores	21,719,398	2.57	1,605,344	3.19	93,354	.30	23,418,096	2.53
Independent retail tobacco and drug stores .....	.....	.....	15,386,752	30.57	.....	.....	15,386,752	1.66
Cooperative and voluntary chains	371,040	.04	.....	.....	49,451	.16	420,497	.05
All other distributors	\$ 15,258,745	1.81	\$ 1,044	.....	\$ 575,230	1.87	15,835,920	1.71
Total net sales of manufactured tobacco	\$43,639,831	100.00	50,331,240	100.00	30,779,938	100.00	924,751,009	100.00

¹ Does not include sales of tobacco stems, tobacco scrap, leaf tobacco, or any products not manufactured from tobacco.

² Includes the following 6 companies and their subsidiaries: The American Tobacco Co.; Liggett & Myers Tobacco Co.; R. J. Reynolds Tobacco Co.; P. Lorillard Co., Inc.; Brown & Williamson Tobacco Co.; and Axton-Fisher Tobacco Co.

³ Includes the following 4 companies and their subsidiaries: General Cigar Co., Inc.; Consolidated Cigar Corporation; Puerto-Rican American Tobacco Co.; and Bayuk Cigars, Inc.

⁴ Includes the following 3 companies: United States Tobacco Co.; American Snuff Co.; and George W. Helme Co.

⁵ Includes a small but indeterminable volume of sales to wholesale grocers, wholesale drug companies, and cooperative or voluntary chains.

⁶ Consists chiefly of sales to the U. S. Army and Navy, Federal and State institutions, commissaries, restaurants, camps, and social organizations.

⁷ Sales to chain restaurants.

⁸ Includes sales to commissaries and to miscellaneous distributors.

From Federal Trade Commission (18). (See p. 1044.)

bers and wholesalers ranged from 42 to 63 percent; to independent retail tobacco and drug stores, from about 29 to 35 percent; and to chain tobacco stores, from 7 to 37 percent. For individual companies manufacturing snuff the proportion of total sales made to wholesale grocers ranged from 44 to 70 percent and to chain grocery stores, from 2.5 to 27 percent.

Wholesale distributors of tobacco products apparently confine their purchases chiefly to those from manufacturers. Data relating to the purchases of seven wholesale tobacco-products distributors in 1934, as reported by the Federal Trade Commission, show that about 99 percent of the total purchases of more than 68 million dollars worth of tobacco products distributed came from tobacco manufacturing companies (table 17). Five of the distributors bought all their cigarettes from tobacco manufacturing companies and 99.7 percent of the cigarette purchases for all distributors combined was obtained from this source. Five of the six distributors that handled snuff bought all they handled from manufacturers and 99.2 percent of the snuff handled by the six distributors was obtained from manufacturers. Purchases of 98.5 percent of manufactured products other than cigarettes and snuff made by the seven distributors were obtained from manufacturers, and five of the distributors procured their total supply of these products from this source.

Sales outlets for wholesalers of tobacco products are chiefly retailers, although some sales are made to other wholesalers and others. Census reports on the wholesale trade in 1939 show that almost 90 percent of the sales of service and limited-function wholesalers was distributed to retailers, 9 percent to other wholesalers, and about 1 percent to consumers or others. The value of the sales of these service and limited-function wholesalers totaled more than four-fifths of the

TABLE 17.—Cigarette purchases of 7, snuff purchases of 6, and all other tobacco products purchases of 7 wholesale tobacco products distributors,¹ by sources of supply, calendar or fiscal year 1934²

Sources of supply	Purchases of cigarettes, snuff, and all other manufactured tobacco products					
	Cigarette		Snuff		All other manufactured tobacco products	
	Dollars	Percent of total	Dollars	Percent of total	Dollars	Percent of total
Tobacco manufacturing companies	54,653,222	99.72	509,512	99.23	12,649,596	98.46
All other sources	154,108	.28	3,934	.77	197,832	1.54
Total cigarette, snuff, and other tobacco-products purchases	54,807,420	100.00	513,446	100.00	12,847,428	100.00

¹ Includes cigarette purchases and purchases of all other tobacco products, except snuff, of the following companies and their subsidiaries: F. A. Davis & Sons; Glaser Bros.; H. E. Shaw Co.; Metropolitan Tobacco Co.; McKesson & Robbins, Inc.; New Jersey Tobacco Co.; and the Philadelphia Wholesale Drug Co. Includes snuff purchases of all of the above companies, except the Philadelphia Wholesale Drug Co.

² Of the 7 companies, 6 reported purchases for the calendar year 1934, and 1 for the fiscal year ended Oct. 31, 1934.

From Federal Trade Commission (18). (See p. 10-45.)

total value of distributed sales reported for manufacturers. Most of the sales made by manufacturers' sales branches and by agents and brokers went to wholesalers, according to census reports.

Reports of the Federal Trade Commission relating to net dollar sales of manufactured tobacco products by seven wholesale tobacco products distributors show that in 1934 about 72.5 percent of the sales went to independent retail tobacco and drug stores and 27 percent went to tobacco jobbers and wholesalers (table 18). Other outlets included chain drug stores, chain grocery stores, cooperatives, and voluntary chains, but the proportions of total sales accounted for by these outlets were small.

TABLE 18.—*Net dollar sales of manufactured tobacco products of seven wholesale tobacco products distributors,¹ by channels of distribution, calendar or fiscal year 1934²*

Channels of distribution	Net dollar sales of manufactured tobacco products	
	Dollars	Percent of total
Wholesale drug companies	593	.....
Wholesale grocers	1,692	.....
Tobacco jobbers and wholesalers	18,962,967	27.05
Cooperative and voluntary chains	7,034	.01
Chain grocery	42,690	.06
Chain drug stores	224,552	.32
Independent retail tobacco and drug stores	50,870,025	72.56
Total sales of manufactured tobacco products ..	70,109,553	100.00

¹ Includes cigarette purchases and purchases of all other tobacco products, except snuff, of the following companies and their subsidiaries: F. A. Davis & Sons; Glaser Bros.; H. E. Shaw Co.; Metropolitan Tobacco Co.; McKesson & Robbins, Inc.; New Jersey Tobacco Co.; and the Philadelphia Wholesale Drug Co. Includes snuff purchases of all of the above companies, except the Philadelphia Wholesale Drug Co.

² Of the 7 companies, 6 reported purchases for the calendar year 1934 and 1 for the fiscal year ended Oct. 31, 1934.

From Federal Trade Commission (18). (See p. 1047.)

Some wholesale grocery companies bought cigarettes mainly from companies manufacturing tobacco products and distributed them to various retailers. Data assembled by the Federal Trade Commission for 11 wholesale grocery companies for the calendar or fiscal year 1934 or 1935 show that more than 99 percent of the 691 million cigarettes purchased were obtained from tobacco products manufacturing companies (table 19). More than 76 percent of the dollar sales of these companies were made to independent retail grocery stores, almost 14 percent to cooperative and voluntary chains, and about 9 percent to independent drug stores (table 20). The proportions of total sales of individual companies accounted for by these outlets varied widely (18, p. 1048).

Some retail distributors obtain most of their supplies of tobacco products from tobacco manufacturing companies. Reports of the Federal Trade Commission as to purchases of six retail distributors of tobacco products for the calendar or fiscal year 1934 show that almost all of the cigarettes and snuff and about 88 percent of the other tobacco products handled were obtained from tobacco manufacturing companies (table 21).

TABLE 19.—Cigarette purchases of 11 wholesale grocers,¹ by sources of supply, calendar or fiscal year, 1934 or 1935²

Sources of supply	Cigarette purchases ³	
	Number	Percent of total
Tobacco products manufacturing companies	680,302,180	89.74
All other companies	1,785,000	.26
Total cigarette purchases	681,087,180	100.00

¹ Includes the following companies: Austin, Nichols & Co., Inc.; Davis-Mize & Co.; E. R. Godfrey & Sons Co.; Griggs, Cooper & Co.; King-Dobbs & Co.; Potter, McCune Co.; Lee & Cady; P. P. Williams Co.; Schwabacher Bros. & Co., Inc.; Wellman, Peck & Co.; and Western Grocer Co.

² Of the 11 companies, 3 reported purchases for the calendar year 1934, 3 for the calendar year 1935, and 5 for the fiscal year 1935. Fiscal years ended Jan. 1 for 1 company, Apr. 30 for 1 company, June 30 for 2 companies, and Dec. 26 for 1 company.

³ 1 company reported estimated purchases.

From Federal Trade Commission (18). (See p. 1047.)

TABLE 20.—Net dollar cigarette sales of 11 wholesale grocers,¹ by channels of distribution, calendar or fiscal year 1934 or 1935²

Channels of distribution	Net dollar cigarette sales ³	
	Dollars	Percent of total
Tobacco jobbers and wholesalers	8,023	0.23
Independent retail drug stores	356,610	9.35
Cooperative and voluntary grocery chains	520,470	13.67
Independent retail grocery stores	2,013,194	78.51
All other consumers and distributors ⁴	9,340	.24
Total net dollar sales	3,807,646	100.00

¹ Includes the following companies: Austin, Nichols & Co., Inc.; Davis-Mize & Co.; E. R. Godfrey & Sons Co.; Griggs, Cooper & Co.; King-Dobbs & Co.; Potter, McCune Co.; Lee & Cady; P. P. Williams Co.; Schwabacher Bros. & Co., Inc.; Wellman, Peck & Co.; and Western Grocer Co.

² Of the 11 companies, 3 reported purchases for the calendar year 1934, 3 for the calendar year 1935, and 5 for the fiscal year 1935. Fiscal years ended Jan. 1 for 1 company, Apr. 30 for 1 company, June 30 for 2 companies, and Dec. 26 for 1 company.

³ Of the 11 companies reporting cigarette sales, 3 reported estimated dollar sales.

⁴ Includes sales to steamship lines amounting to \$600.

From Federal Trade Commission (18). (See p. 1048.)

TABLE 21.—Purchases of tobacco products of 6 retail tobacco products distributors,¹ by sources of supply, calendar or fiscal year 1934²

Sources of supply	Purchases of tobacco products					
	Cigarettes ³		Snuff ³		All other tobacco products	
	Number	Percent of total	Pounds	Percent of total	Dollars	Percent of total
Tobacco jobbers and wholesalers	1,085,533	0.02	49	0.02	2,050,809	12.28
Tobacco manufacturing companies	7,036,960,104	99.98	216,741	99.98	21,077,379	87.72
Total purchases of tobacco products	7,038,075,637	100.00	216,790	100.00	24,028,278	100.00

¹ Includes the following companies and their domestic subsidiaries: Peoples Drug Stores, Inc.; Schulte Retail Stores Corporation; Silver Rod Stores, Inc.; the Union News Co.; United Cigar Stores Co. of America; and the United Drug, Inc.

² Of the 6 companies, 5 reported purchases for the calendar year 1934 and 1 for the fiscal year ended Oct. 31, 1934.

³ 2 companies reported estimated purchases of cigarettes and snuff.

From Federal Trade Commission (18). (See p. 1049.)

CHARGES OR COSTS

The Bureau of Labor Statistics has assembled unpublished data on wholesale and retail prices of tobacco products. These data indicate that in 1939 the margin or spread between prices from manufacturers to wholesale jobbers and retail prices averaged 22.7 percent of the price to consumers for all products combined and ranged from 21.5 percent for cigarettes to 28.8 percent for pipe tobacco. Similar data for 1940 indicate that the margins averaged 23.6 percent of the retail price for all products combined and ranged from 22.7 percent for cigarettes to 28.8 percent for pipe tobacco.

Estimates made for popular brands of cigarettes in 1937 indicate that the spread between prices to jobbers and retail prices averaged 21.3 percent of prices to consumers (9). A report of the Federal Trade Commission on the distribution of the consumers' price for cigarettes shows that in 1934 the wholesale and retail margins combined averaged 21.2 percent of the retail price (18, p. 139).

Operating expenses of wholesale merchants for handling tobacco products (except leaf), as reported by the Bureau of Census, averaged 4.9 percent of the selling value of the products in 1939 (table 22). These expenses ranged from 4.2 percent of sales for wholesalers with annual volumes of sales of 1 to 2 million dollars to 7.4 percent for wholesalers with volume of sales of \$10,000 to \$50,000 and to 17.7 percent for wholesalers with volume of sales of less than \$10,000.

TABLE 22.—Number of establishments, volume of sales, and operating expenses for wholesalers of tobacco products (except leaf) by size group, 1939

Business-size group	Estab- lishments Number	Sales 1,000 dollars	Operating expenses—	
			Amount	Proportion of sales
			1,000 dollars	Percent
All	2,390	1,006,925	52,660	4.9
\$2,000,000 and over	79	263,163	12,634	4.8
\$1,000,000—\$1,999,999	175	239,807	10,065	4.2
\$500,000—\$999,999	370	256,306	13,012	5.1
\$300,000—\$499,999	338	131,400	6,780	5.2
\$200,000—\$299,999	308	75,416	4,216	5.6
\$100,000—\$199,999	460	67,820	3,767	5.6
\$50,000—\$99,999	315	23,554	1,458	6.2
\$10,000—\$49,999	206	9,180	679	7.4
Under — \$10,000	49	277	49	17.7

Adapted from Census of Business, Wholesale Trade (13).

Information relating to wholesale prices, costs, and gross margins for 4 principal wholesale and jobbing companies which handled cigarettes, as reported by the Federal Trade Commission, shows that in 1934 the wholesalers' margins for handling cigarettes averaged almost 6 percent of the receipts from sales of the products. The price received for the cigarettes averaged 10.68 cents per package of 20 cigarettes, the price paid averaged 10.04 cents per package, and the gross margin averaged 0.64 cent per package. These four companies sold in 1934 more than 4,256 million cigarettes for a little more than \$22,730,000 (18, p. 143).

Data on wholesalers' and on retailers' margins for cigarettes and for smoking tobacco in March 1943 were obtained as a result of a special survey made by the Bureau of Labor Statistics and the Office of Price Administration. In this survey information as to costs and selling prices of specific brands and sizes of the products was obtained by specially trained enumerators through personal interviews with wholesalers and retailers in 24 selected cities widely distributed throughout the United States.^{1a} The wholesalers interviewed totaled 258 and the number of margins reported totaled 1,762 for cigarettes and 4,124 for smoking tobacco. The retailers interviewed, including independents and chains of various types, totaled 1,188 and the number of margins reported totaled 17,961 for cigarettes and 16,415 for smoking tobacco (table 23).

TABLE 23.—Number of wholesalers and retailers of tobacco products interviewed and number of margins reported, by type of dealer, United States, March 1943

Type of dealer	Dealers interviewed	Margins reported for	
		Cigarettes	Smoking tobacco
	Number	Number	Number
Wholesalers—all	258	1,762	4,124
Credit and delivery	168	1,173	2,860
Cash and carry	42	286	673
Subjobber	48	303	591
Retailers, independents—all	997	14,030	13,334
Cigar stores	85	3,122	3,764
Drug stores	175	2,854	3,977
Grocery stores	282	3,810	2,868
Confectioneries	161	1,929	1,962
Restaurants	148	1,444	680
Hotels	48	625	658
Roadside stands	55	583	483
Other ¹	43	263	142
Chains all	191	3,331	3,081
Cigar stores	20	461	572
Drug stores	47	1,924	1,317
Grocery stores	66	1,098	1,042
Restaurants	23	254	163
Hotels	21	277	37
Railroad stations	14	217	10
All retailers	1,188	17,961	16,415

¹ Includes 9 railroad stations and 34 vending machines.

The data were assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

These data show that in March 1943 wholesalers' margins averaged about 4 percent of the selling price for cigarettes and about 5.5 percent of the selling price for smoking tobacco (tables 24 and 25). The

^{1a} The cities include Boston, Mass., Bridgeport, Conn., Manchester, N. H., New York, N. Y., Pittsburgh, Pa., Scranton, Pa., Cleveland, Ohio, Detroit, Mich., Columbus, Ohio; Atlanta, Ga., Norfolk, Va., Winston Salem, N. C., Dallas, Texas; Wichita, Kan., Little Rock, Ark., Chicago, Ill., Peoria, Ill., Springfield, Ill., Denver, Colo., Salt Lake City, Utah; Butte, Mont., San Francisco, Cal., Seattle, Wash., and Fresno, Cal.

margins for subjobber wholesalers averaged considerably less than did those for credit-and-delivery and for cash-and-carry wholesalers. The wider average margins shown for cash-and-carry than for credit-and-delivery wholesalers of 1-pound packages of smoking tobacco may be accounted for in part by the fact that the sample for cash-and-carry wholesalers is small and that the arithmetic means used is not typical of the margins included. The median margin for cash-and-carry wholesalers of these products is about the same as that for the credit-and-delivery wholesalers. Margins for individual wholesalers of the same type ranged from less than 1 to more than 8 percent of the selling price for cigarettes, and from less than 1 to more than 10 percent for smoking tobacco.

TABLE 24.—Wholesalers' margins for cigarettes, by type of wholesaler, in 24 selected cities, United States, March 9, 1943

Proportion of selling price (percent)	Credit and delivery	Cash and carry	Subjobber	Total
	Number	Number	Number	Number
7.87 and over	19	.....	2	21
6.87-7.86	41	4	.....	45
5.87-6.86	65	19	.....	84
4.87-5.86	195	39	10	244
3.87-4.86	396	141	35	572
2.87-3.86	271	54	96	421
1.87-2.86	147	19	125	291
0.87-1.86	29	6	31	66
0.86 and under	10	4	4	18
Total	1,173	280	303	1,762
Average margin	Percent 4.2	Percent 4.2	Percent 2.9	Percent 4.0

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 25.—Wholesalers' margins for smoking tobacco, by kind of package, and by type of wholesaler, in 24 selected cities, United States, March 9, 1943

Proportion of selling price (percent)	Type of wholesaler for 1-pound package			Type of wholesaler for small package			Total
	Credit and delivery	Cash and carry	Sub- jobber	Credit and delivery	Cash and carry	Sub- jobber	
	Number	Number	Number	Number	Number	Number	
11.87 and over	19	4	.....	17	3	.....	47
10.87-11.86	28	0	7	18	.....	4	46
9.87-10.86	48	27	4	67	10	3	159
8.87-9.86	24	12	3	5	.....	.....	146
7.87-8.86	64	17	1	49	4	.....	141
6.87-7.86	56	9	3	81	4	2	155
5.87-6.86	160	28	8	636	122	32	987
4.87-5.86	351	67	4	321	109	91	924
3.87-4.86	271	27	24	205	44	139	650
2.87-3.86	89	24	31	297	65	77	613
1.87-2.86	47	11	25	41	53	73	250
0.87-1.86	4	1	7	8	.....	26	46
0.86 and under	11	.....	2	3	.....	14	30
Total	1,112	236	123	1,748	437	468	4,124
Average margin	Percent 5.8	Percent 6.4	Percent 4.7	Percent 5.7	Percent 5.0	Percent 4.1	Percent 5.5

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

Retailers' operating margins for 43 cigar stores and cigar stands engaged primarily in retailing cigarettes, cigars, and tobacco, as reported by Dun & Bradstreet, Inc., averaged 23.9 percent of net sales in 1939 (5). According to census reports, operating expenses of cigar stores and cigar stands, including payroll but not including compensation for proprietors of unincorporated businesses, averaged 19.5 percent of sales in 1935, 23.0 percent in 1932, and 21.5 percent in 1929 (10, v. 1, p. 18). Many cigar stores and cigar stands also handle newspapers and magazines, candy, novelties, and soda-fountain products, and it may be that the margins or expenses shown for these stores do not reflect accurately the retailers' margins for handling tobacco products.

Data assembled by the Federal Trade Commission on sales, costs, and gross margins for 4 principal chains of retail tobacco and drug stores in 1934 show that the retailers' margins for cigarettes averaged about 12.9 percent of the retail price (18, p. 142). Retail prices of the cigarettes averaged 12.63 cents per package of 20, the costs to retailers averaged 11.05 cents, and the retailers' gross margins averaged 1.63 cents.

Information as to costs of tobacco products to retailers and on retail prices, assembled by the Bureau of Labor Statistics and the Office of Price Administration, shows that, in March 1943, retailers' margins for cigarettes sold by independent dealers averaged about 14 percent of the retail price for one-package sales, 13 percent for two-package sales, and 9 percent for carton sales (table 26). Similar data for chain dealers show average margins of 12 percent, 11 percent, and 9 percent, respectively (table 27).

Average margins for the different types of independent stores ranged from 13 to 18 percent of the retail price for one-package sales, 12 to 17 percent for two-package sales, and 7 to 15 percent for carton sales. Similar averages for chain stores show ranges from 9 to 18 percent for one-package sales, 8 to 20 percent for two-package sales, and 7 to 20 percent for carton sales. Retailers' margins reported by different stores of the same type ranged from less than 2 percent to more than 20 percent of the retail price of the cigarettes.

Retailers' margins for smoking tobacco, particularly for the smaller packages, usually were considerably greater than were those for cigarettes. Data relating to the costs of the tobacco products and to retail prices show that, in March 1943, retailers' margins for smoking tobacco sold in small packages at independent stores averaged 23 percent of the retail prices for one-package sales for all stores combined and the averages by type of store ranged from 22 percent for drug stores to 26 percent for restaurants (table 28). For two-package sales, retailers' margins averaged 22 percent of the retail prices for all stores combined and the averages by type of store ranged from 21 percent for cigar and drug stores to 25 percent for restaurants. The margins for smoking tobacco sold in small packages at chain drug stores averaged 18 percent of the retail prices for one-package sales and 14 percent for two-package sales. The margins reported for different stores of the same kind ranged from less than 2 percent to more than 35 percent of the retail price.

TABLE 26.—Retailers' margins for cigarettes sold by independent stores, by size of sale and by type of retailer in 24 selected cities, United States, March 9, 1943

One-package sales									
Proportion of selling price (percent)	Cigar stores	Drug stores	Grocery stores	Confectionery	Restaurants	Hotels	Roadside stands	Other ¹	All
	Number	Number	Number	Number	Number	Number	Number	Number	Number
24 and over	4	7	7	18	5	18	2	14	57
21-23	24	25	48	40	40	30	1	40	235
18-20	198	133	190	112	61	46	42	42	902
15-17	341	306	338	259	77	76	43	28	1,699
12-14	235	278	420	229	141	18	67	15	1,422
9-11	131	163	229	109	78	10	30	9	759
6-8	199	124	159	106	54	10	37	15	704
3-5	20	24	40	25	5	2	7	.....	131
2 and under	11	30	26	14	2	2	3	.....	88
Total	1,172	1,090	1,463	880	696	236	269	191	5,997
Average margin	Percent 13	Percent 13	Percent 13	Percent 13	Percent 15	Percent 17	Percent 13	Percent 18	Percent 14
Two-package sales									
	Number	Number	Number	Number	Number	Number	Number	Number	Number
24 and over .....	.....	4	1	.....	5	13	2	5	30
21-23	13	11	35	17	17	22	1	5	111
18-20	112	67	151	85	93	68	40	1	617
15-17	221	196	280	123	253	81	57	22	1,233
12-14	251	243	314	208	115	14	66	3	1,214
9-11	188	247	362	169	61	9	40	10	1,092
6-8	158	139	153	100	38	4	15	7	614
3-5	105	50	72	43	6	3	7	1	287
2 and under	22	26	37	18	2	3	3	.....	114
Total	1,070	983	1,405	753	590	220	237	54	5,312
Average margin	Percent 12	Percent 12	Percent 12	Percent 12	Percent 15	Percent 17	Percent 14	Percent 15	Percent 13
Carton sales									
	Number	Number	Number	Number	Number	Number	Number	Number	Number
24 and over	1	1	.....	.....	1	5	.....	.....	8
21-23	1	6	4	.....	4	12	.....	.....	27
18-20	31	19	21	7	11	36	5	.....	130
15-17	85	63	58	30	30	44	5	3	318
12-14	111	87	136	36	28	31	13	.....	442
9-11	208	164	292	42	44	23	10	3	792
6-8	204	254	283	110	23	5	24	4	997
3-5	140	114	94	48	13	6	13	3	431
2 and under	39	43	54	23	4	7	1	5	176
Total	880	781	942	296	158	169	77	18	3,321
Average margin	Percent 9	Percent 9	Percent 9	Percent 8	Percent 12	Percent 15	Percent 9	Percent 7	Percent 9

¹ Railroad stations and vending machines.

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 27.—Retailers' margins for cigarettes sold by chain stores, by size of sale and by kind of retailer in 24 selected cities, United States, March 9, 1943

One-package sales

Proportion of selling price (percent)	Cigar stores	Drug stores	Grocery stores	Hotels	Restaurants	Railroad stations	All
	Number	Number	Number	Number	Number	Number	Number
24 and over	10	2	3	36	2	2	50
21-23	15	7	3	19	3	12	59
18-20	30	23	14	15	10	10	107
15-17	20	68	73	16	35	24	236
12-14	33	46	54	20	16	19	188
9-11	34	95	64	8	13	8	222
6-8	10	60	73	8	34	9	203
3-5		27	82		1		110
2 and under		2	42				44
Total	101	344	405	122	112	84	1,228
Average margin	Percent 16	Percent 12	Percent 9	Percent 18	Percent 12	Percent 15	Percent 12

Two-package sales

	Number	Number	Number	Number	Number	Number	Number
24 and over	2	2	2	8	2	2	12
21-23	14	2	2	41	2	5	66
18-20	6	2	5	21	6	9	49
15-17	46	33	34	18	35	24	190
12-14	20	60	62	4	11	17	174
9-11	41	96	80		20	16	247
6-8	17	93	68		20	9	207
3-5		43	75		9		127
2 and under		17	58				75
Total	146	346	384	92	103	76	1,147
Average margin	Percent 14	Percent 9	Percent 8	Percent 20	Percent 12	Percent 14	Percent 11

Carton sales

	Number	Number	Number	Number	Number	Number	Number
24 and over	7			12			14
21-23	7			27		2	36
18-20	10	2	1	9		1	23
15-17	9	14	6	11	7	15	62
12-14	27	30	31		5	8	101
9-11	38	74	74	4	7	15	212
6-8	44	97	87		12	16	256
3-5	9	79	41		3		132
2 and under	8	38	60		5		120
Total	151	334	309	63	39	57	356
Average margin	Percent 11	Percent 7	Percent 7	Percent 20	Percent 9	Percent 12	Percent 9

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 28.—Retailers' margins for smoking tobacco sold in small packages by independent stores of specified kinds, in 24 selected cities, United States, March 9, 1943

One-package sales

Proportion of selling price (percent)	Cigar stores	Confectionery	Drug stores	Grocery stores	Restaurants	All
	Number	Number	Number	Number	Number	Number
39 and over	13	1	9	5	.....	14
36-38	10	15	.....	.....	.....	39
33-35	97	47	114	54	63	375
30-32	59	24	29	37	23	172
27-29	144	45	116	162	67	474
24-26	579	265	462	565	119	1,987
21-23	359	213	311	324	89	1,296
18-20	335	204	275	248	36	1,098
15-17	80	64	116	79	11	350
12-14	41	13	44	17	4	119
9-11	54	14	75	40	1	184
6-8	39	9	30	7	.....	85
3-5	10	.....	7	9	.....	26
2 and under	2	3	8	4	.....	17
Total	1,822	917	1,596	1,491	410	6,236
Average margin	Percent 23	Percent 23	Percent 22	Percent 23	Percent 26	Percent 23

Two-package sales

	Number	Number	Number	Number	Number	Number
39 and over	1	1	1	.....	.....	3
36-38	16	6	6	5	.....	33
33-35	45	25	77	41	25	210
30-32	51	23	18	30	16	138
27-29	95	35	68	91	41	330
24-26	329	184	251	396	69	1,229
21-23	255	122	226	263	47	913
18-20	270	176	231	306	34	1,017
15-17	67	70	65	77	8	287
12-14	61	12	53	36	4	166
9-11	48	20	68	42	.....	178
6-8	61	10	39	19	.....	129
3-5	19	.....	12	20	.....	51
2 and under	5	3	10	4	.....	22
Total	1,323	687	1,125	1,330	241	4,706
Average margin	Percent 21	Percent 22	Percent 21	Percent 22	Percent 25	Percent 22

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

The data for smoking tobacco sold in $2\frac{1}{4}$ ounce packages show that the margins for independent retailers averaged 25 percent of the retail price and ranged from less than 12 percent to more than 35 percent (table 29). Similar data for chain stores show that retailers' margins averaged about 19 percent of retail prices for all stores combined and the averages by kind of store ranged from 16 percent for grocery stores to 26 percent for hotels and railroad stations (table 30). Retailers' margins reported for stores of the same kind ranged from less than 5 to more than 35 percent of the retail price.

Data as to sale of smoking tobacco sold in 1-pound packages show that the retailers' margins, in March 1943, averaged 13 percent of the retail prices for independent and for chain stores (table 31). The averages by types of independent stores ranged from 12 percent for drug stores to 14 percent for cigar stores and confectioneries. Similar

averages for chain stores ranged from 12 percent for drug stores and grocery stores to 15 percent for cigar stores and to 17 percent for hotels and railroad stations. Retailers' margins reported for stores of the same kind ranged from less than 5 to more than 30 percent of the retail price.

TABLE 29.—*Retailers' margins for smoking tobacco sold by independent retailers of specified kinds in 2¼ ounce packages, in 24 selected cities, United States, March 9, 1943*

Proportion of selling price (percent)	Hotels	Railroad stations	Roadside stands	All
	Number	Number	Number	Number
36 and over	16	8	2	26
33-35	119	19	46	184
30-32	29	4	25	58
27-29	32	17	27	76
24-26	180	36	198	394
21-23	107	27	68	202
18-20	134	17	69	220
15-17	21	4	35	60
12-14	25	10	3	38
11 and under	3	.....	6	9
Total	646	142	479	1,267
Average margin	Percent 25	Percent 25	Percent 24	Percent 25

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 30.—*Retailers' margins for smoking tobacco sold by chains in 2¼ ounce packages, in 24 selected cities, United States, March 9, 1943*

Proportion of selling price (percent)	Cigar stores	Drug stores	Grocery stores	Hotels	Restaurants	Railroad stations	All
	Number	Number	Number	Number	Number	Number	Number
36 and over ..	3	12	3	34	12	14	78
33-35	4	6	0	22	7	.....	45
30-32	40	40	24	7	2	9	131
27-29	98	79	73	60	13	85	408
24-26	71	71	63	48	24	20	306
21-23	53	93	92	68	14	42	362
18-20	41	97	106	20	18	33	315
15-17	12	59	85	8	5	.....	179
12-14	31	200	164	.....	8	.....	403
9-11	13	155	122	.....	.....	.....	290
6-8	8	100	89	.....	.....	.....	197
3-5	2	26	34	.....	.....	.....	62
2 and under ..	21	9	24	4	.....	.....	58
Total ..	406	947	895	271	103	212	2,834
Average margin	Percent 22	Percent 17	Percent 16	Percent 26	Percent 25	Percent 26	Percent 19

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

TABLE 31.—Retailers' margins for 1-pound packages of smoking tobacco sold by independent and chain retailers of specified kinds, in 24 selected cities, United States, March 9, 1943

Independent retailers

Proportion of selling price (percent)	Cigar store	Confectionery	Drug store	Grocery store	Other stores	All
	Number	Number	Number	Number	Number ¹	Number
30 and over	21	.....	2	.....	.....	23
27-29	29	.....	4	.....	.....	33
24-26	41	1	7	2	2	53
21-23	42	3	20	2	2	69
18-20	52	7	34	8	11	112
15-17	70	11	53	0	3	148
12-14	90	21	42	9	15	177
9-11	115	8	67	6	3	199
6-8	94	5	60	6	8	173
3-5	48	2	28	8	.....	86
2 and under	17	.....	34	.....	1	52
Total	619	58	356	47	45	1,125
Average margin	Percent 14	Percent 14	Percent 12	Percent 13	Percent 13	Percent 13

Chain retailers

	Number	Number	Number	Number	Number ²	Number
30 and over	4	.....	2	.....	.....	8
27-29	14	.....	13	6	2	35
24-26	2	.....	10	1	4	17
21-23	20	.....	20	4	.....	44
18-20	19	.....	33	10	34	87
15-17	21	.....	43	17	1	82
12-14	40	.....	47	40	4	131
9-11	19	.....	74	28	2	123
6-8	21	.....	69	23	.....	113
3-5	9	.....	33	9	.....	51
2 and under	6	.....	26	9	.....	41
Total	166	.....	370	147	47	730
Average margin	Percent 15	Percent 12	Percent 12	Percent 12	Percent 17	Percent 13

¹ Includes hotels, restaurants, and roadside stands.² Includes hotels, and railroad stations.

Compiled from data assembled by the Bureau of Labor Statistics and Office of Price Administration and made available by the latter agency for use only as industry summaries.

ITEMS INCLUDED IN MARGINS

Census reports show that in 1939 total pay rolls, including paid executives of corporations but not the compensation of proprietors of unincorporated businesses, averaged about half of the total margin for wholesalers of tobacco products. Other individual items of expense are not shown separately in census reports but analysis of operating expenses of wholesale margins, including pay rolls, shows that the principal items of cost included in margins for wholesalers of tobacco products are selling and administrative expenses. Census reports indicate that in 1939 selling expenses averaged about 1.6 percent of the selling price and about 32.6 percent of the wholesalers' gross margins or costs (table 32). Cost of administration averaged about 1.3 percent of the selling price and about 26.5 percent of the gross margins or costs. Data for other items of cost show that delivery expenses averaged 0.7 percent of total sales and about 14.3 percent of the gross margins. Occupancy expenses averaged 0.6 percent of total sales and 12.2 percent of the margins. Warehousing

expenses averaged 0.4 percent of total sales and 8.2 percent of the margins. Other expenses averaged 0.3 percent of total sales and 6.1 percent of the margins.

The relative importance of some of the items of expense for wholesalers varied considerably with the volume of business (table 32). The proportion of the selling price accounted for by costs of administration, delivery expenses, and occupancy decreased considerably with increases in the volume of sales. Average administrative expenses decreased from 1.5 percent of the selling price for wholesalers with annual volumes of business of \$200,000 to \$300,000 to 1.2 percent for those with a volume of sales of \$1,000,000 or more. Average delivery expenses decreased from 1.1 percent of the selling price for wholesalers with annual volumes of business of \$100,000 to \$200,000 to 0.5 percent for those with a volume of sales of \$2,000,000 and over. Average costs of occupancy decreased from 1.2 percent of the selling price for wholesalers with annual volume of sales of \$100,000 to \$200,000 to 0.4 percent for those with a volume of sales of \$2,000,000 and over. Expenses of selling, warehousing, and other varied irregularly with volume of sales.

TABLE 32.—Operating expenses of wholesale merchants whose sales of tobacco products amounted to 100,000 dollars or more,
United States, 1939

Business-size group	Establishments	Volume of sales	Operating expenses including pay roll as proportion of sales ¹							Active proprietors of unincorporated businesses
			Total	Administrative	Selling	Delivery	Warehouse	Occupancy	Other	
	Number	1,000 Dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Numbers
All	1,090	723,441	4.9	1.3	1.6	0.7	0.4	0.6	0.3	837
\$2,000,000 and over	61	198,659	4.7	1.2	1.7	.5	.5	.4	.4	51
1,000,000-1,999,999	128	176,920	4.4	1.2	1.4	.6	.4	.5	.3	82
500,000- 999,999	266	184,274	5.1	1.3	1.6	.7	.4	.7	.4	174
300,000- 499,999	204	79,820	5.4	1.4	1.7	.8	.4	.7	.4	148
200,000- 299,999	202	49,964	6.0	1.5	1.9	.9	.4	.9	.4	188
100,000- 199,999	220	33,804	6.1	1.4	1.7	1.1	.3	1.2	.4	194

¹ Operating expenses include no compensation for active proprietors of unincorporated businesses.

Abstracted from *Census of Business: 1939, Wholesale Trade.* (13)

Census data for 18,504 cigar stores and cigar stands in 1939 show that total pay rolls, including salaries of paid executives of corporations but no compensation for active proprietors of unincorporated businesses, accounted for about 7 percent of total sales (12). But the number of active proprietors of unincorporated businesses exceeded the number of employees. Other data on items of costs included in retail margins for cigar stores and cigar stands show that in 1939 salaries and wages accounted for 14 percent of net sales and 58.6 percent of the gross margins (table 33). Occupancy expenses averaged 5.6 percent of net sales and 23.4 percent of the gross margins. Profits averaged 2.3 percent of net sales and 9.6 percent of the margins. The proportions of the retailers' margins accounted for by advertising, bad-debt losses, and other expenses were relatively small, as shown in table 33.

TABLE 33.—*Net sales, costs, and margins for cigar stores and cigar stands engaged primarily in retailing cigarettes, cigars, and other tobaccos, United States, 1939*

Item	Amount	Proportion of net sales
	1,000 dollars	Percent
Net Sales	1,206	100.0
Cost of goods sold	985	76.1
Gross margin	310	23.0
Total expenses	280	21.6
Salaries, owners and officers	119	9.2
Wages, all other employees	62	4.8
Occupancy expense ¹	73	5.6
Advertising	4	.3
Bad debt losses	4	.3
All other expense	18	1.4
Profit	30	2.3

¹ About 97 percent of the concerns were renting.

Abstracted from or based on *Mitchell's Standard Ratios for Retailing—Guides to Efficiency and Profits in Fifty Trades* (5).

MEANS OF REDUCING COSTS

Means of reducing wholesalers' and retailers' margins for the distribution of tobacco products include increases in general efficiency and reductions in the services rendered. Methods of increasing general efficiency involve problems of organization and operation, personnel selection and management, location of places of business, number and kinds of commodities handled, volume of operation, and purchase and sales policies, among others. But available information on the various elements involved is so limited that the extent to which it would be feasible to reduce these margins by improvements in general efficiency cannot be indicated very definitely.

Insofar as the relation of volume of business to wholesalers' margins is concerned, data indicate that these margins might be reduced somewhat if the volume of business for many wholesalers were increased. Margins for wholesalers with an annual volume of sales of \$100,000 to \$200,000 in 1939 averaged about 39 percent greater than those for wholesalers with an annual volume of sales of \$1,000,000 to \$2,000,000 (13). Occupancy, delivery, and administrative expenses show considerable decreases from the smaller to the larger groups.

Data on retailers' margins by kind of retailer indicate that some reductions in average retailers' margins could be effected if a larger

proportion of sales were concentrated in the lower cost outlets. But, obviously, convenience to the consumers, in many instances, may be a limiting factor. Retailers' margins for cigarettes sold one package at a time, as reported by retailers in 24 selected cities in March 1943, ranged from an average of 9 percent of the selling price for chain grocery stores to 18 percent for hotels. The average mark-up for smoking tobacco sold in 1-pound packages, as reported by retailers in 24 selected cities in March 1943, ranged from an average of 14 percent of the selling price for drug stores, chain grocery stores, and roadside stands, to 26 percent for hotels. Similar data on retail margins for smoking tobacco sold in 2 1/4 ounce packages show that in March 1943 retailers' margins ranged from an average 16 percent of the retail price for chain grocery stores to 27 percent for hotels.

Some reduction in retailers' margins might be made in many instances by increasing the size of the unit of sale. Here again the convenience of consumers may be a limiting factor. Retailers' margins for cigarettes sold by independent retailers of various kinds in March 1943 averaged 14 percent of the retail price for cigarettes sold one package at a time, 13 percent for cigarettes sold two packages at a time, and 9 percent for cigarettes sold in cartons. Data on retailers mark-up for smoking tobacco show that in March 1943 these mark-ups averaged 16 percent for tobacco sold in 1-pound packages and 31 percent for that sold in small packages. Retailers' margins for smoking tobacco in 24 selected cities in March 1943 averaged 13 percent of the retail price for tobacco sold in 1-pound packages and about 23 percent for that sold in small packages.

The feasibility of attempting to reduce retailers' margins for tobacco products by increasing the proportion distributed through the lower cost outlets and by increasing the size of the unit of sale would obviously depend to a considerable extent upon the demands of consumers and the conditions under which these demands were met. Where differences in convenience are great enough to make informed consumers willing to pay the necessary costs of the additional services, no net gain would result from shifts to the lower-cost outlets and to the larger units of sale. Although many consumers will wish to continue to buy in small lots at most convenient points, the availability of tobacco products in more low-cost types of outlets no doubt would promote some shifts in purchases. This is a part of a larger problem of encouraging such retail outlets in the sale of food products, as treated in another report to be issued by this Bureau.

IMPORTANCE OF REDUCTIONS IN COSTS

Margins for wholesaling and retailing tobacco products in 1939 averaged about 22.7 percent of the retail price and about twice as much as the returns to growers in the United States for the leaf tobacco used in their manufacture. Retailers' margins alone averaged about one-sixth of the retail price and about one and one-half times the return to farmers in this country for the leaf tobacco used. A reduction of 10 percent, for example, in wholesalers and retailers' margins combined would amount to about as much as a reduction of 2.3 percent in retail prices and 3.6 percent in manufacturers' margins, or to about 19.4 percent of the returns to growers in the United States for the leaf tobacco used. A reduction of 10 percent in retailers'

margins alone would about equal a reduction of almost 2 percent of retail prices and about 3 percent of manufacturers' margins, or about 16 percent of the returns to growers in the United States for the leaf tobacco used. This merely indicates that even small percentage reductions in retail margins could have a considerable effect on returns to growers.

SUMMARY AND CONCLUSIONS

Price-control programs carried on during the war and prospective readjustments to peacetime conditions emphasize a long standing need for more information on marketing margins and marketing costs regarding tobacco and tobacco products. Consequently data have been assembled on margins or costs for making the various conversions and for rendering the various services incident to taking leaf tobacco from farms and delivering the finished product to ultimate consumers.

Estimates, based on official and other data and on other information, have been made to show the average distribution of the consumer's dollar paid for tobacco products in 1939, the last "normal" prewar year. Data on margins for the various agencies and services available for this purpose are not complete and in some instances are not strictly comparable. Therefore, some liberties were taken in approximating margins on the basis of this material. Furthermore, the estimated margins were adjusted to approximate the farm-to-retail price spreads calculated by the Bureau of Agricultural Economics.

The results show that the margins or costs of making the various conversions and of rendering the various services incident to taking leaf-tobacco from farms and delivering the tobacco products to consumers along with Federal and State excise taxes were so great that in 1939 returns to growers for the American tobacco used averaged only about one-eighth of the consumer's dollar paid for the finished goods. The proportion of the consumer's dollar paid for tobacco products that goes to farmers for the American tobacco usually varies directly with changes in farm prices of tobacco.

Marketing and manufacturing margins usually cover costs of rendering such services as assembling, selling, storing, financing, manufacturing, transporting, wholesaling, and retailing. These services are rendered by a number of agencies. Estimates of the average distribution of the consumers' dollar for all tobacco products combined show that in 1939, about 11.6 percent went to growers for American tobacco, 3.6 percent for tobacco imported, 1.2 percent to wholesalers of leaf tobacco, 25.2 percent to manufacturers, 36 percent for Federal and State excise taxes, 4 percent to wholesalers of tobacco products, and 18.4 percent to retailers.

The margins for the various conversions and services were broken down to show the relative importance of the cost items included. The grouping of these items varied considerably from one agency to another and some liberties were taken in estimating and combining the cost items. The results indicate that Federal and State excise taxes accounted for about 36 percent of the retail price for all tobacco products combined; salaries and wages, 17.8 percent; advertising,

4.2 percent; operating profits for all agencies, except farmers, 10.3 percent; and all other expenses of manufacturing and distributing the products averaged about 16.5 percent.

These data on margins or costs for the various agencies, along with other information, were used as a basis for indicating the means by which and the extent to which it might be feasible to reduce these margins or costs and the relative importance of such reductions. The means suggested for making these reductions apply to specific agencies, functions, or items and, in a number of instances, possibilities for bringing about considerable reductions are indicated. It was pointed out, for example, that if substantial reductions were made in Federal and State excise taxes on tobacco products, in net operating profits of manufacturers, and in costs of advertising, the farm-to-retail price spread for tobacco products might be reduced considerably. These three items accounted, on the average, for about half of the retail price in 1939, and were more than 4 times as great as the returns to growers in the United States for the leaf tobacco used. A number of means were indicated for reducing margins for wholesalers and retailers. A reduction of 10 percent in their combined margin would amount to more than a decrease of 2 percent in the retail price and to almost as much as an increase of 20 percent in returns to growers for the American tobacco used. But it is not known to what extent such reductions in margins would be reflected in lower prices to consumers of the finished products, on the one hand, and in higher prices to growers of leaf tobacco, on the other.

Data showing distribution of the consumer's dollar paid for tobacco products may serve as a basis for indicating the relative importance of bringing about increased efficiency and reductions in margins or costs for the various agencies and functions involved. According to these data, margins for marketing leaf tobacco in 1939 amounted to less than 1 percent of the consumer's dollar. Manufacturers' margins amounted to about one-fourth; Federal and State excise taxes, 36 percent; and wholesalers' and retailers' margins combined amounted to more than one-fifth of the retail value of the finished products. A reduction of 10 percent in Federal and State excise taxes, for example, would amount to more than one-fourth of the returns to growers for the American tobacco used. A similar reduction in margins for manufacturers, wholesalers, and retailers would amount to more than one-third of the returns to growers and to almost 5 percent of the costs of the finished products to consumers.

Although differences in the size of the margins for the various agencies and functions are important considerations, they may not reflect accurately the relative opportunities for making savings in costs that can be passed back to growers or on to consumers. But data which show the distribution of the consumer's dollar for tobacco products may be used to good advantage in apportioning the efforts to increase efficiency and to reduce costs on the basis of the relative importance of the agencies or functions involved. Data on the items included in the margins for the various agencies may serve as a basis for dealing with the problems of increasing the efficiency and reducing the margins or costs of these agencies.

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