

Net Profits with Percentages on Gross Capital.

Company.	1914.		1918.		1919.	
	Net Profit.	Percentage.	Net Profit.	Percentage.	Net Profit.	Percentage.
	£		£		£	
A ..	17,256	5·6	48,395	11·0	52,449	10·3
B ..	42,305	6·1	135,470	15·3	108,013	9·9
C ..	10,495	5·5	23,662	12·6	24,903	12·3
D ..	7,013	5·9	16,109	13·9	14,621	13·1
E ..	6,242	12·3	21,476	25·9	27,436	30·3
F ..	4,638	6·8	9,555	11·1	16,221	17·8
G ..	2,147	4·7	12,488	22·5	9,296	14·2
H ..	3,053	7·3	7,620	12·3	9,944	17·3
I ..	1,373*	8·3*	2,304	17·2	3,302	17·5
Totals	91,776	6·0	277,079	14·4	266,185	11·9

* Loss.

SUMMARY AND REASONS FOR INCREASED PROFITS.

The profits earned by woollen manufacturing and distributing companies in New Zealand have to a material extent increased since 1914, (a) absolutely as to amount, (b) relatively to capital employed, and (c) relatively to sales made.

The question for decision is whether or not the profits taken, and inferentially the prices charged, have been excessively high. The investigation has shown that the net profits on sales for the industry as a whole were—in 1914, 5·5 per cent.; 1918, 6·7 per cent.; 1919, 7·9 per cent. In other words, if the prices at which the woollen companies sell their goods had been reduced in 1919 by 7·9 per cent., no profit whatever would have been earned by the “average” company.

The following reasons may be given in support of the reasonableness of profits taken and in explanation of the increased profits as between 1919 and 1914:—

(1.) Increased output (in quantity): The fact that the mills have increased their output of goods has already been referred to, and it is only reasonable that the increase—to some extent due to increased efficiency of organization—should receive recognition in the matter of profits.

(2.) Pre-war profits were too low, and several milling companies were at that time in financial difficulties. In 1914 the average rate of net profit on sales was 5·5 per cent., and the percentage of net profit on capital was 6 per cent. These averages in themselves must be regarded as insufficient in a manufacturing industry, and it is only the inclusion of the figures of one or two relatively successful companies which brings the averages to the figures mentioned.

(3.) Installation of new and improved plant and machinery: The companies generally have during recent years endeavoured to increase the efficiency of their plant and machinery. In spite of war conditions, this endeavour has met with some success, and a refusal to recognize this fact and to allow the companies an increased profit therefor would certainly not encourage progress in the industry.

There are other matters which must be taken into account in regard to the movement of the rate of net profits. It must be allowed that, in sympathy with general inflation of values, the decline in the exchange value of money, and the general increase in interest-rates, investors in woollen-manufacturing companies are entitled to some increase in the net profits earned by the capital so invested. In a report which has recently been made by the Fair Profits Commission of Victoria the following appears: “Where in an industry the more successful undertakings are making profits above the average by reason of their turnover being larger in proportion to capital, and for their overhead charges being less in proportion to turnover, the Commission’s view is that such greater profits are a proper reward for greater business efficiency. It is where the greater profits are the result of an appreciably higher than average percentage of gross profit to turnover, or where a whole trade is making too high net profits by virtue of too high gross profit on turnover, that the question of undue profits arises substantially.” There can be no doubt that this view is fundamentally sound.

In order to test the position of the several New Zealand woollen-manufacturing companies upon this basis, tables have been compiled to show for each company (1) the relation of capital to turnover, and (2) the relation of overhead expenses to sales.

The following table shows the percentage relation of sales to gross capital during the years 1914, 1918, and 1919:—

Company.		Percentage of Sales to Gross Capital.		
		1914.	1918.	1919.
A	...	55·46	130·25	112·09
B	...	63·21	83·05	108·51
C	...	83·59	155·65	123·75
D	...	77·91	102·56	88·84
E	...	135·55	197·25	157·57
F	...	76·53	155·00	147·93
G	...	63·47	137·78	136·00
H	...	94·59	147·24	146·00
I	...	64·03	119·68	122·73
Averages		102·20	157·09	135·54