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100. 1)10	Controlling Payroll Expense
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May 1972	What Would Happen if Marriott Operated Stores?
	Usury and Equal Protection of the Law
	Fundamentals of Consumerism First You Tell The Truth
	TILD TOU TO I TOUR THE TENDENT TOUR TOUR THE TENDENT

Month/Year	TITLE
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RETAILING TODAY

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JANUARY 1970

VOL. 5, NO. 1

ERRATA

Lee Bergstrom, CPA, of Reno, Nevada, was the first to draw my attention to a mistake in the item "A New Per Diem Is Dawning" on the second page of the December 1969 issue. The letter "t" instead of "w" changed "now" to "not" and reversed the entire meaning of the sentence that should have read, in regard to the new maximum per diem rate of \$31.25, "which will now be accepted in areas like New York City without constituting income to the employee even if not supported by expense records."

There is a reason for most mistakes. In this case I made the mistake in the original copy, missed the error in the final copy sent for typesetting, and when the type-set copy took 7 days to travel 14 miles by first class mail from San Francisco to Lafayette I was in such a rush to get the copy to the printer (so that I wouldn't be caught in the Christmas closings) that I didn't proofread the final copy. My apologies.

SHEILA, THE STRONG LADY

It is amazing how some laws can be the great equalizer. Sometimes it is hard for retailers to forget the ground rules that have been drummed into them for many years. One of these problems is the matter of protective rules and regulations covering women and minors. rules that limit the weight a woman can lift, require cots in a quiet room, and set minimum coffee breaks.

I checked recently with the Equal Employment Opportunity Commission (EEOC) on the latest status of such rules — and they politely pointed out that the rules don't apply any more. In August 1969 in the Federal Register the EEOC printed the following notice:

"Many states have enacted laws or promulgated administrative regulations with respect to the employment of females. Among these laws are those which prohibit or limit the employment of females, e.g., the employment of females in certain occupations, in jobs requiring the lifting or carrying of weights exceeding certain prescribed limits, during certain hours of the night, or for more than a specified number of hours per day or per week.

"The Commission believes that such State laws and regulations, although originally promulgated for the purpose of protecting females, have ceased to be relevant to our technology or to the expanding rule of the female worker in our economy. The Commission has found that such laws and regulations do not take into account the capacities, preferences, and abilities of individual females and tend to discriminate rather than protect. Accordingly, as Commission has concluded that such laws and regulations conflict with Title VII of the Civil Rights Act of 1964 and will not be considered a defense to an otherwise established unlawful employment practice or as a basis for the application of the bona fide occupations qualification exception."

WHAT ABOUT SUNDAY OPENINGS?

Just the other Sunday evening a fellow retailer and I were leaving his hotel, waiting for the cab to take us to dinner after which we would attend the theater and drop into a bar for a nightcap, when he said to me, "These Sunday openings are terrible. All people ought to be able to enjoy the Sabbath."

We aren't concerned about what days people work in taxi cabs, on airlines, in hotels, at restaurants and theaters, for the telephone company, in professional sports — and many other occupations. We want them available when it is convenient for us to call a cab, take an airplane, go to a show, go out for dinner. What's more, we want that service available at 5 in the morning or at 10 at night.

Despite the fact that every retailer expects (and finds) thousands of people available to serve him at all hours, he forgets that retailing depends upon serving other people. We are, unfortunately, several generations away from the great merchants like Marshall Field and John Wanamaker who spent many hours of each day on the selling floors of their stores, talking to their customers, and personally "feeling" the desires that the customers expressed.

The very retailers who complacently accept Sunday openings for food stores, drug stores, gas stations, restaurants and other retail outlets feel, for some reason, that department and apparel stores are something different. Yet the customer is likely to say, "I guess the discounter likes me better than the guy at the department store — because the discounter makes it easy for me to shop by being open Sunday."

Retailing went through the same analysis when, right after World War II, most towns faced up to the question of night openings (remember the same points being raised?). And I can recall the head-in-the-sand approach of one major store where they put people on their selling floor Monday thru Friday asking the *existing* customers if they wanted the store open nights. When the majority said "NO," they stayed closed, but they forgot about all the customers who couldn't shop during the day — and who shopped nights at the competitors that stayed open.

There is one final benefit from Sunday openings that may appeal to conservationists. With the extra selling day our physical plant capacity is expanded by about 15% — which may ultimately reduce the number of shopping centers necessary to serve our urban populations — and may mean fewer acres of ground covered with asphalt. It may also mean less capital expense for store expansion as fewer centers are built.

The Fifth Circuit Court of Appeals was positively ungallant and ungentlemanly when they ruled on a restriction against women carrying weights above a prescribed amount. It said, "... Title VII rejects just this type of romantic paternalism as unduly Victorian and instead vests individual women with the power to decide whether or not to take on unromantic tasks."

The EEOC is narrowly defining those jobs which have a "bona fide occupational qualification" that excludes one sex. Basically they allow three reasons: authenticity (actress, actor, model); community standards of morality or propriety (restroom attendant, lingerie sales clerk), and the entertainment industry when sex appeal is an essential qualification.

The EEOC does not recognize such factors as preference of coworkers, employers, clients or customers; tradition (stenographer); jobs involving heavy labor, manual dexterity, late-night hours, overtime, isolated locations or unpleasant surroundings; involving travel or travel with members of the opposite sex (when will we have the first female major league shortstop?); lack of physical facilities (except where the cost of providing additional facilities is prohibitive); and jobs requiring personal characteristics such as tact, charm or aggressiveness which is not exclusive to either sex.

The EEOC has further indicated that as a general rule females are entitled to maternity leave with the employer to make reasonable efforts to assure reinstatement to the job at no loss of seniority or any other benefits. EEOC feels that a leave of 5 to 6 months is usually adequate and that the employer may require pregnant employees to take leave 90 days before delivery.

Unless sex is a "bona fide occupational qualification," help-wanted ads may not specify preference.

Everybody laughed when the ranch in Montana advertised for a cowperson to share bunkhouse with 7 cowboys!

But don't forget – the laws still apply to minors.

LEASED EQUIPMENT AND PROPERTY TAXES

In those parts of the United States where the local governments are so unenlightened that they still levy a property tax on personal property, you may wish to take a look at the property tax savings to be obtained by buying out a lease.

The point came to light when reviewing operations of a new client. They had a piece of equipment that cost in the neighborhood of \$20,000 on which the basic lease had expired and they were paying the "cheap" residual amount of 1% of the original cost. They also paid property taxes.

The property taxes came to more than the rent — because the taxing authority was still using the original cost as the starting point for assessment, and then applying factors which never allowed equipment while still in use to be assessed at a market value of less than 40% of the original price.

If this equipment had been bought-out of the lease at the end of 6 years on a 8-year lease, the residual value would have been about 35% of the original cost. The assessor would now start his assessment process on the basis of a \$7,000 cost (35% of \$20,000) for used equipment. The annual tax savings would be on the order of 55% or more.

Be certain to check with your accountant on whether your purchase will require the return of any investment credit taken — normally it will not but in some multiple corporation set-ups a technical disposition might result.

2 - RETAILING TODAY - JANUARY 1970

BE READY FOR THE BLACKOUTS THAT ARE COMING

Our use of electricity is doubling every 10 years; unfortunately, our supply is not growing as fast. The result is that our electrical power industry is short of capacity — and this will not be solved immediately.

There are many causes for the problem — well set out in the Special Report in *Business Week* for November 29th. There is a shortage of money, there are delays on delivery of atomic generating plants (G.E. is on strike — they are 1 of the major suppliers) and there are fights with conservation groups on the plant sites selected.

The area of greatest shortage is still the North East – the site of the massive blackout several years ago. The next most critical areas, in order, are the Southeast and the Midwest.

Despite this shortage of power — which will probably lead to "brownouts" during the coming year (a "brownout" is when the voltage is lowered) — some of the utilities continue to advertise and finance the sale of heavy power-using equipment such as air conditioners.

But what does this mean to the retailer?

It means equipment damage because of lower voltages during brownouts. In blackouts — that come suddenly — it means problems of store evacuation, injured customers, increased store theft.

Do you have an evaucation plan? What happens if it comes at night? How do you protect yourself against theft? During the day, what happens to the temperature in a windowless air-conditioned mall? Does your use and occupancy cover such costs?

But there are also some new problems. How does your computer operate on a reduced voltage? Will it operate? Will it make errors? Can a blackout or a brownout cause permanent damage to your computer — and if it could, does your insurance cover the damage?

Would a standby power supply solve some of these problems?

It would seem prudent to spend a little time with your local utility to determine just what the situation is. Check on their inter-ties with other companies and generator plants — and check on the total excess capacity in the system. Ask their advice on security procedures and standby equipment.

THE FUTURE IS FURTHER AWAY THAN WE THOUGHT

Perhaps TRADAR, the G.E.-J.C. Penney contribution to the future of retailing should have been called "March" because it came in like a lion and went out like a lamb.

It was just a few months ago that the two giants announced a multi-million dollar deal to install TRADAR magic point-of-sale recorders in all the Penney stores in the Los Angeles area. One could hardly turn around without seeing the announcement — local newspapers, retail press, computer press, business magazines and perhaps even in skywriting. The announcement of the termination of the program was much quieter.

The rest of retailing can now go back to the same old equipment they have been using for years — and wait patiently for the next announcement of the final solution of our point-of-sale recording problems.

THE F.T.C. AND INDUCING DISCRIMINATORY ALLOWANCES

RT has reported for years, as a warning to retailers, the progress that the F.T.C. is making when bringing action against the buyer or inducing discriminatory allowances as well as against the seller who often has the defense of meeting a competitive proposal). One of the first such cases involved Macy's and their 100th Anniversary promotion. In that case, Macy's prevailed.

Now we have an initial decision (D.8768) against Colonial Stores, Inc., a 430-store \$500,000,000 supermarket chain. The order says to stop knowingly inducing or receiving discriminatory promotional allowances from suppliers.

The points mentioned in the News Summary are of interest. In 1964 Colonial ran a special promotion. The payments made by two suppliers were over those provided in their regular cooperative advertising agreements and the suppliers did not require Colonial to purchase extra amounts. In fact, the extra payments, according to the FTC, were so disproportionately large that the only explanation possible was that they were discriminatory, and it would have been financially impossible to have offered the same provisions to all competing firms.

Colonial based their defense on a form they required each supplier to sign that stated, "It is understood that this same agreement (note: the special terms) is made available by the Vendor on a proportionately equal basis to all dealers in the competitive area who purchase products as herein specified."

The adverse ruling is based on the fact that the Vendors agreed to participate in the promotion as early as January 4, 1964, whereas the forms were not signed until January 31st and February 11th. The FTC ruled that the form was self-serving, the facts were obvious, and that Colonial had "failed to follow the advice of its torneys by not obtaining suppliers' signatures on its own form at the proper time — when the original statements were made."

The day may soon come when merchandise managers will no longer advise buyers to "Get an extra 5% advertising allowance" as the buyer goes off to do battle in the market. The ultimate cost in publicity and fines may be too much.

NO HELP FROM THE PUBLIC

Recently a major newspaper had their wandering reporter ask the question, "What would you do if you saw shoplifting?" The seven replies give an insight to our younger Americans.

Said an artist and former social worker, "I wouldn't do anything. Most people wouldn't because they have either shoplifted themselves or have thought about doing it. You just identify with a shoplifter." A ceramics worker said, "Nothing. Everyone shoplifts . . . It's none of my business." One student said, "I'd stop them or tell the store manager about it. I'd tell somebody." Another student said, "I wouldn't do anything. It's none of my business." A third student said, "I'd stop them or tell the owner of the store." A postal clerk said, "I saw three girls shoplifting in a big shop and the security guard was helping them. He knew them. They were outside putting stuff in shopping bags. My sister and I ould hardly believe it. Who would we tell?" And the final stuent said, "I'd mention it to the store manager."

It looks like the vote is only 4 to 3 against the shoplifter. We are rapidly approaching the time when we will no longer talk about our moral standards declining — they will have disappeared.

THE ETHICS OF DATA ACCUMULATION - REVISITED

In RT for December 1969 the Feature Supplement dealt in detail with the ethics of data accumulation.

The seriousness of the problem was underlined by an article in the December 24, 1969, issue of COMPUTERWORLD which reported on the original plans of the bankrupt Merchants Reporting Agency of Boston, Massachusetts, to sell to the highest bidder their files on THREE MILLION PEOPLE.

A state representative became concerned about the matter, especially when he learned that there were no laws governing the disposition of such material. When the state legislator toured the premises an agency official said laughingly, "Wouldn't you like to be a blackmailer and have access to these files?" In fact, the files would have been sold to the Mafia if they were the highest bidder — without any questions being asked. The state legislator was also concerned about the quality of the files — one of the files he inspected said, "does not seem to be very well known in the community" — of a man who was 27 years old and all 27 years he had lived at the same address!

Think for a minute what could happen in your community if the Mafia took over your local credit files. You would have done your customers a terrible disservice with your contribution to this data bank.

As a matter of fact, just what do you really know about the people who control the credit files in your community? Did you ever check them out as thoroughly as you do your new accounts?

WHAT ATTRACTS A CLERICAL WORKER?

This was the subject covered in a study of 60 high school graduates and 178 business school graduates who went into clerical work.

On most points covered the two samples agreed. For both groups the No. 1 attraction, at 29% of the mentions, was "type of work" — followed by "pay" at 20% and comfort and attractiveness of working conditions at 12%. Beyond that, the high school graduates placed a higher value on nearness of the work to home, and hours; while the business college grads placed a higher value on opportunity for promotion, working companions or associates, and fringe benefits.

But the main point comes through again — money is not the first factor. This is likely to remain true just as long as we have a tight labor market among skilled and trained people.

CONSTITUTIONAL RIGHTS WHEN THERE IS A CITIZEN'S ARREST

Current TV police departments have kept us current on the rights of an arrested person — we see the officer pull a card out of his pocket and carefully advise the arrestee of his rights. But does this apply when arrests are made by store personnel — technically a citizen's arrest when not made by sworn law enforcement officers?

Courts appear to be interpreting the Escobedo-Dorado rule as applying only to questioning by "authorities" and not when made by a private citizen.

A NEW WAY TO HELP THE HANDICAPPED

My resident reporter in Geneva (Switzerland) reports that one of the big department stores in that city set aside two hours prior to Christmas just for the handicapped and elderly to do their shopping, shopping they could not get done when the store had its customary crowds.

The stores there normally open at 8:15. On this special day they opened at 8:00 a.m. and set aside the time between 8:00 and 10:00 just for the handicapped and elderly. Identification of the elderly was by cards issued by welfare associations, old peoples' homes and other organizations. They had a supply of wheelchairs on hand plus special assistants to help the handicapped do their shopping for their loved ones.

Here in America we have many special shopping events for charge customers, a special night for men in the women's shops, style shows for teen-agers, and more. We might not make as much money — but we could make a lot more friends — by importing a Swiss idea and having a special time for the handicapped and the aged.

IS OUR TELEPHONE SYSTEM COLLAPSING?

Recently American Tel and Tel has been running radio advertisements of people with foreign accents stating that one of the things that impresses them most about America is the wonderful telephone service.

There is no doubt that our telephone system is a marvel—but the question today is whether it is getting better or worse. If it is getting worse, then it shares a problem common to many services — our ability to demand and absorb services faster than industry can produce the facilities. Part of this is an increase in per capita demand, part is a reflection of population growth, and part is the fantastic mobility of our society where we can concentrate 100,000 people within a few years on what was open range land and thus completely without service.

This was brought to mind forcefully when my telephone answering service enclosed a card marked as "A public relations project of the Telephone Answering System of California, Inc." which reads "Stymied Electronics — Despite the best equipment, the best engineers, the best repairmen and the best brains, 5% of all telephone calls don't get through! The telephone company strives mightily to keep every phone operating efficiently at all times — but something is bound to break down sometime. So, if we fail to answer your line on any occasion, or we seem to delay answering it, remember the reason may be spelled T-R-O-U-B-L-E."

Most of us make 20 calls within a 1- or 2-day period — do you find one of them not getting through? As I contemplated the matter I remembered the many times I have dialed a number and waited for it to ring — and waited and waited and waited. Finally I hang up and dial again. I know I dial correctly — but the call was lost somewhere as it was transferred electronically through a series of switches.

Then there is the billing problem — reported previously in RT — where my bill shows two calls at the same minute to the same number, one charged at the minimum and the other usually for more than the minimum. I have brought this to the attention of the local telephone company — and my bill is being checked each month (adjustments have run from a few cents to a couple of dollars) and I have been told the many possible causes. Yet it all adds up to "break down."

WHY THE APOLLO METHODS WON'T SOLVE GHETTO PROBLEMS

One of the popular observations made these days is, "If we can put a man on the moon, why can't we apply the same method to solving the problems of the ghetto?" This comparison migh make more sense if we talk about solving the problems of pollution of our environment — but it is not valid in the areas of poverty, the ghetto and other social problems

Putting a man on the moon was essentially an engineering problem — more so than a scientific problem. The equipment became more precise as we accumulated more empirical data. A burn on the main rockets of a given length of time produced the same amount of speed acceleration or deceleration each time. The astronauts could count on it. If it didn't happen it was not a failure of the physical law — but a failure of the equipment.

Social problems don't react the same way — and we never can have the same results occur every time in a controlled experiment. If a Negro is addressed as a "black" you might get one reaction from one man, another reaction from a different person. You might get a different reaction from the same person at different times or under different circumstances.

As long as we are people and don't react uniformly within ourselves, the massive scientific effort that produced an Apollo mission won't solve a major social problem.

WHETHER THE WEATHER WILL BE GOOD OR BAD?

Every year when buying plans are made for Easter — and these vary in lead time from 2 to 10 or more months — the big question must be — what kind of weather will we have?

Although the question is asked, it is left unanswered — and the plan is made assuming that "we will have average weather," whatever that is. Actually, we make our plans with the hope that we will have perfect weather.

Yet it is possible to get an answer. For years Irving P. Krick Associates, Inc., of Palm Springs, California, have been making such special forecasts — to solve such problems as when to advertise new car batteries (most die during extreme cold waves). But few stores use this service.

It seems to me that local stores could share the cost of a long-range forecast of Easter and Christmas weather — with a good possibility that the financial benefit will far exceed their portion of the shared cost. If you want more information about Krick Associates, Write RT.

SUGGESTED PAY ENVELOPE STUFFERS

Earthquakes are occurring in more parts of the country — some in places where the people are probably scared more than those in California and Alaska who take them in stride. You might consider a booklet called "Safety and Survival in an Earthquake" published by the Department of the Interior and selling for \$5 per 100 through the U.S. Government Printing Office, Washington, D.C. 20402. Give the name and identification as "GPO: 1969 0-339-542."

RETAILING TODAY always welcomes letters from readers — whether they damn or praise.

CREDIT OFFICE RATING

APOLOGIA: Holman's expressed unhappiness when I moved their store from Pacific Grove to Monterey, thinking that more people might know the name of Monterey. This month you will find it back in its proper place.

The Honor Roll is up from 7 to 10 – but really should be much higher. But the average for all stores is down – probably due to increased activity as Christmas approaches

increased activity as cinistin	as approactics.				
Robert Kirk, Ltd.	1.0	Abercrombie & Fitch	4.0	Gertz	5.0
Roos/Atkins	3.0	Ross Dept. Store	4.8	Pauson's	5.0
J. Magnin's	3.5	Holman's	4.9	Smiths	5.0
Rhodes	3.5				

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		OCT-NOV 1969			AUG-SEPT 1969		
		NO. OF	DAYS T		NO. OF	DAYS TO	
Abaranarkia & Fisch (CF)		REPORTS	AVERAGE	RANGE	REPORTS	AVERAGE 8.5	RANGE 8-9
Abercrombie & Fitch (SF) B. Altman (NYC)		18	4.0	8	2	8.5	8-9
Breuners (Oakland)		2	5.5	5-6	0.2	, b • • • • • • • • • • • • • • • • • •	
Brooks Bros. (SF)		1	8.0	8	8.0	A tuni	
Brown-Mahin (Stockton)		3	9.3	7-12	4	4.0	5-11
Capwell's (Oakland) City of Paris (SF)		9	8.1 7.8	7-12 5-9	8	8.6 8.2	6-13 6-10
Emporium		6	11.0	9-12	2	11-5	11-12
Gertz Dept. Store (NYC)		1	5.0	5	2	5.5	5-6
Grodins (Oakland)		2	11.0	10-12		make -	
Gump's (SF)		4	8.3	7-10	1	11.0	11
Hink's (Berkeley) Holman's (Pacific Grove)*		2 10	8.0 4.9	8 4-5	2 12	8.0 4.6	7-9 3-9
Robert Kirk Ltd. (SF)		1	1.0	1	12	4.0	3-9
S. Klein (NYC)		2	9.5	8-11	2	9.5	8-11
Levy Bros. (San Mateo)		30	12.3	7-17	32	10.4	7-14
Livingston Bros. (SF)		2	19.5	16-23	2	18.5	18-19
Macy's (NYC) Macy's (SF)		1 13	7.0 7.2	7 7-9	5	7.4	5-9
I. Magnin (SF)		8	5.8	4-13	8	5.9	4-10
J. Magnin (SF)		2	3.5	3-4	1	4.0	4
Masters (NYC)		1	9.0	9	141	2.0	2
Milen's (Oakland)		1 4	30.0 7.8	30 7-9	2	7.0	6-8
Montgomery Ward (Oakland) Pauson's (SF)		1	5.0	5		7.0	0-0
Penney's (Oakland)		3	7.7	7-9	2	7.0	7
Podesta Baldocchi (SF)		1	9.0	9	(this	7.0	
Ransohoff's (SF)		2	6.5	6-7			
Rhodes (Oakland) Roos/Atkins (SF)		6 2	3.5 3.0	3-4	2	3.0	3
Management (Carriero							
Ross Dept. Store (San Bruno) Saks Fifth Avenue (SF)		4 2	4.8 10.0	4-5 9-11	7	3.9 12.0	2-5 12
Sears (SF-Oak)		5	6.2	6-7	3	5.3	5-6
Shreve & Co. (SF)		2	33.0	32-34	***	31 II ook	
Simon's (Oakland)		2	6.5	6-7	2	6.0	6
Smith's (Oakland)		1	5.0	5	0.01	10.0	10
A. Sulka (NYC) Wallach's (NYC)		1 2	18.0 5.5	18 5-6	1 2	24.0 5.5	24 5-6
Wineman's (Monrovia)		4	8.8	8-9		. N	
Wineman's (L.A.)		2	7.0	5-9	4	7.3	6-8
TOTAL		155	8.7	1-34	116	8.0	2-24
*On Beautiful Mont	erey Peninsu	la					

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED - THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride - both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

BALANCE AT RISK

Starting with the reports for 1970 stores B, C and F will be dropped and one new store is reporting.

I would be interested in hearing from (1) readers that desire this report to continue and (2) new stores that might contribute their performance figures.

BALANCE AT RISK

		A ⁽¹⁾			B ⁽³⁾			C ⁽³⁾	
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan. Feb. Mar.	5.5 5.6 5.3	4.8 4.8 4.6	6.1 4.5 5.4	11.3 11.1 10.6	12.4 13.1 13.2	8.9 9.4 8.7	5.2 8.0 6.0	6.2 6.5 6.5	4.9 6.3 4.3
Apr. May June	4.2 3.6 3.8	3.3 3.6 4.9	5.1 5.0 4.9	8.9 8.4 8.9	10.5 9.4 9.2	8.4 8.3 8.0	5.9 7.3 6.5	5.2 5.5 5.0	5.4 5.8 5.3
July Aug. Sept.	4.2 4.5 4.3	5.7 6.0 6.4	3.9 4.0 3.5	9.1 9.5 9.5	8.7 8.7 9.1	8.5 9.0 9.4	6.8 7.0 5.7	4.9 5.7 5.8	7.4
Oct. Nov. Dec.	4.4 3.8 4.3	5.8 4.7 4.9	3.5 3.8	12.1 13.4 13.2	9.0 8.6 8.1		6.2 5.7 5.6	6.8 4.5 4.5	
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MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan. Feb. Mar.	7.8 6.0 6.8	4.2 5.1 5.0	4.6 4.6 5.7	8.9 8.3 8.9	6.4 7.0 6.7		6.7 7.6 6.6	7.1 6.9 5.7	7.9 7.2 6.6
Apr. May June	7.2 4.3 4.1	5.4 5.4 6.4	3.7 4.2 3.9	8.3 8.7 7.9	7.1 5.5 4.8		5.9 4.1 5.2	6.0 5.3 4.4	7.1 7.0 6.4
July Aug. Sept.	4.9 4.6 4.3	5.6 5.8 6.3	4.3 2.8 3.2	8.7 6.1 5.4	7.6 6.5 7.7		6.6 5.1 5.5	5.5 5.8 6.0	6.5 6.1 4.7
Oct. Nov. Dec.	4.1 6.1 6.1	5.6 5.2 5.4 H ⁽¹⁾	2.9 3.2	5.9 6.0 4.4	7.5 5.5 4.7 I ⁽¹⁾		5.4 4.2 4.2	N.A. 5.3 4.7	4.8 4.5
MONTH	1967	1968	1969	1967	1968	1969	NOTES		
Jan. Feb. Mar.	13.7 11.7 11.8	13.7 8.6 8.8	10.5 5.9 8.9	4.2 5.4 4.7	2.1 3.6 3.9	2.3 2.5 2.9	(1) (2) (3)	Annual wri Quarterly w Monthly wr	vrite-off
Apr. May June	11.0 12.4 11.6	8.7 11.2 10.6	8.8 8.6 8.9	4.6 4.2 4.7	3.1 3.0 3.1	2.7 3.0 3.4			
July Aug. Sept.	10.9 14.3 14.4	10.2 8.9 10.7	9.8 10.1 7.8	4.7 4.3 3.7	3.2 3.4 4.1	3.8 3.6 4.0			
Oct. Nov. Dec.	15.6 13.2 11.9	7.0 7.6 7.8	8.1 7.0	4.0 3.2 2.4	3.6 3.2 2.7	4.9 5.0			

WHAT IS "BALANCE AT RISK"? "Balance at Risk" is the PERCENTAGE representing the relationship of the outstanding accounts receivable balances ON WHICH NO PAYMENT HAS BEEN RECEIVED FOR TWO CYCLES to the total of outstanding account balances.

WHY USE "BALANCE AT RISK"? With the development of revolving accounts conventional aging procedures proved unworkable. Stores attempted, often by hand, to age cycles at least once a year. Even the aging formula proved unworkable. At the same time customers, when charged additional service charge for the month in which payments were skipped, were not prone to catch up. Since most stores using a billing machine — cycle posting system "flagged" accounts with two or more payments missed, it was simple to run an adding machine tape of "flagged" accounts for each tray on each billing date. Thus it was possible to have a complete QUALITY report every month, with considerably less cost than sampling each cycle once a year.

ARE THERE PROCEDURE RULES? Yes, the amount paid is disregarded (tests show that few customers make token payments). A single payment of ANY AMOUNT classifies the account as current (since it indicates acceptance of the amount billed and confirms the creditor's address). If no payment is made for two cycles the ENTIRE BALANCE (rather than the skipped payments) is considered at risk. Since no judgment is involved, any two clerks should get exactly the same total.

HOW CAN ONE INTERPRET THESE FIGURES? First, recognize that there is a seasonal pattern. Second, there is a build-up between write-off periods. Third, store with 6-month revolving terms should have a lower "balance at risk" percentage than one offering 24-month revolving terms. Finally, variations between years, ON A COLLECTIVE BASIS, is a sensitive measure of changing credit climate.

HOW ARE REPORTS OBTAINED? Volunteer stores (largely clients) submit a SINGLE PERCENTAGE FIGURE once a month on a post card. YOU CAN VOLUNTEER.

mailed 2-28-70

RETAILING TODAY

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FEBRUARY 1970

VOL. 5, NO. 2

CONTROLLING PAYROLL EXPENSE

One of the *unquestioned principles* of retailing is that payroll should be planned as a percentage of sales. So let's question this principle.

I don't have any real objection to percentages — except that they tend to be rather worthless figures in many cases. Just recently I heard a speaker claim we were falling behind Russia in intercontinental ballistic missiles — when Eisenhower was President we had 100% more IBM's than Russia and today we have only 15% more. Later an analyst pointed out that in the earlier period we had 10 and Russia had 5; whereas today we have 1200 and they have slightly over 1,000. In the earlier period we could hurt each other pretty badly; today each country could destroy the planet several times over and still have enough destructive power remaining to destroy the moon and several of the planets.

We all know the facts about payroll. But we forget the facts.

The real problem in controlling payroll is to find out how few people you can get along with when you open Tuesday morning — the slowest time of the week. This is the irreducible minimum — or at least it should be. And it is probably the least productive period by any standards.

But back to the problem of payroll and percentages. For some reason the entire retail industry has assumed that the lower the payroll percentage, the better. If two merchants get together and discuss a department, and one reports an 8% direct selling payroll and the other has only 6%, the immediate question to the 6% store is "How do you do it?"

The answer that is never given — but which might be the truth — is "We get a low payroll percent because we are prepared to lose a great many sales and give substandard service." If asked whether the objective of the 6% store is increased profits he would have to say "No" — because the objective is really to beat the MOR figures which purportedly tell us that the lower the payroll percentage the better the operation.

In today's retailing, with high (and climbing) wage rates and 8-hour minimum and maximum days and 40-hour weeks, our personnel scheduling is for minimum crews a great part of the time. We have a few days when extra help is needed — perhaps Saturday, Monday and Thursday night, depending on the store. If the payroll is too high, when compared with some magic figure, and a cut must be made, the only place where a cut can be made is on the good selling days — Saturday, Monday and Thursday night — when the staff is in excess of the minimum required just to open the store.

With the poorer service on the peak days, sales volume is likely to decline — but the magic payroll figure is being brought into line.

WHERE HAVE OUR PRINCIPLES GONE?

Every retailer with a family wonders how his kids are going to turn out — will they be good Americans, carrying on the traditions that their father has valued so highly?

We of the older generation may value many retail traditions — honest advertising, ethical conduct, fair prices, fair values — but we certainly have forgotten, in too many cases, how to practice them.

Within the last few weeks I listened to a radio ad for a movie that ended with "This picture was made by Transamerica Corporation and is rated X". How low must a major corporation stoop to make some money? Must it sink to the level that they produce and distribute movies that I am certain the Chairman of the Board would not allow his children to attend?

Then there was the radio ad "Emporium and Capwell's join together to bring you this great sale of American Tourister luggage at 25% off." It was most unusual that these two stores join together in a promotion — after years of going their own way. I thought they must have purchased the entire 1969 inventory from the factory to warrant such an effort. That is, I thought this until I looked at the newspaper and saw Macy's and City of Paris were running ads on the very same items.

And I knew that the whole thing was a gimmick, including cooperative advertising, when the San Francisco Luggage Company took the first ad I can ever recall in the morning paper.

Recently Roos/Atkins ran ad after ad at one-third off and 50% off on men's clothing. I'm not bothered about the comments of those in the trade concerning the values involved — but I am concerned when an engineer or an accountant or others outside the industry ask me, as they have, "Is it true that they mark their clothing higher than they ever expect to get so that they can advertise sales at lower prices?" What do I answer? And would the questioner believe any answer?

I could go on indefinitely to document the problem. I could pick examples from a dozen towns. None of the items mentioned are illegal. None constitutes immorality if we consider that immorality must be at least a felony.

But certainly — this is not what most of us have in mind when we say that we hope our children will value the traditions we hold so high. Yet this is the conduct by which we shall be judged.

Virtually every retailer is aware of the customer complaints about the poor service. We can all relate tales of the gals chatting at the cash register about a party the night before — while the customer does a slow burn. We can all laugh at the story of the waiter who, when asked what time it was, replied: "I'm sorry, that is not my table." But can any of us laugh when we are told of the clerk who was asked, "Can you help me with this \$100 gold fountain pen?" to which the clerk replied, "I'm sorry, that is not my department."?

Is there a retailer who has not heard of studies that indicate that more than half the people who enter a store with a specific item in mind that they wanted to buy leave the store without making a purchase? And a frequent reason for leaving was either inadequate or incompetent service.

Sales coverage is largely a function of transactions — more so than dollar sales. The coverage requirement is much different for a men's department when the response is to an ad for \$1.00 hose at 66 cents than when it is for \$100 suits at \$66.

Payroll should be considered as a fixed cost — one set with a plan in order to give an established standard of service during those selling periods when management does have an option — because the sales volume is greater than that which can be handled by the minimum staff. In fact, payroll is a fixed cost in most selling departments — even if management thinks otherwise.

You can test this theory in your own store. Take a series of departments and list for 13 weeks (perhaps May, June and July) the dollar payroll, the dollar sales and the payroll percentage. You will find that the payroll percentage varies widely — because the sales vary widely. The weekly dollar payroll tends to remain constant.

Since the dollar payroll stays constant, this is the figure that should be budgeted. The percentage falls wherever simple arithmetic places it — but it is not the key figure against which results should be measured.

Checking performance

With payroll running 60% of store expense (and this is generally true regardless of the type of store or level of gross margin), payroll can be considered under control when a management decision is made that there will be "X dollars" of payroll for a given period of time — and the actual payroll is within 3%, plus or minus, of the scheduled amount.

In many cases, with union contract requirements or personnel policy that schedules be posted a week in advance or that a person who is put to work has to be paid for a minimum of 4 or 5 hours, the payroll cost is fixed before the week starts.

When payrolls are controlled in this manner it forces management to look very closely at the man-hours required — and to study how to reduce number of man-hours needed on Tuesday mornings. People are assigned to departments — and if you have 15 departments (particularly if you also have 15 buyers or department managers) you are almost compelled to have a minimum of 15 people to open the store.

The smallest department and the largest department, neither one of which is going to do much business on Tuesday morning, each need one sales person. If a way could be found to combine the 15 departments into 10, there is a good chance that the store could be opened with just 10 people. This might leave some room for scheduling more people in the store on Saturday when the big volume is done.

What happens when sales volume increases?

It is at this point that thinking of payroll in terms of a percentage of sales really cuts profits! Let us consider a department that is doing \$10,000 per week and is allowed, under conventional thinking, to have a payroll expense of 8% or \$800. If sales increase to \$11,000 everybody considers it all right to allow 8% or \$800 – and so another 5 or 6 hour a day person is added to the department.

Accepting percentages as a basis for planning sales help automatically precludes asking the question: "Do we need any additional people at all with just a 10% sales increase?" In most stores the answer should be that a 10% increase in sales won't require any additional people. Look at your table prepared earlier and see what a wide range of sales volume you have actually handled with the same dollar payroll.

If a department does get a 10% increase and more payroll is allowed, then Tuesday morning, when the minimum staff is capable of handling 10 times the sales actually written, the staff is, unfortunately, likely to be increased.

In a few cases where I have persuaded management to follow this policy, including some in the food field which involves handling significant tonnage, the results have been most interesting. First, the regular employees understand what is expected of them — and they find they can get their work done. Second, because the number of people working (both full-time and part-time) remains level, the people are not having their assignments constantly changed and therefore gradually improve their skills. Finally, service to customers improves, because the people know their job better.

A procedure to follow

In order to control payroll in a manner to maximize profits (rather than to minimize a percentage figure) it is necessary, first, to have transaction data and man-hour data. Neither transactions or man-hours are subject to inflation.

For the "Tuesday" in your sales pattern, the schedule has to be set at the minimum number of man hours. For the peak periods, however, it is necessary for a trained observer to exercise considerable judgment. Each peak period must be observed several times to determine whether the coverage is producing the maximum number of sales without having clerks standing around idle for lengthy periods of time. After establishing a concept of whether coverage is right, heavy or light, the transactions per man hours (and perhaps transactions per clock hour against the number of clerk hours available) will have to be determined. Once it is known that a department can handle (with merchandise advertised in normal price ranges) a certain level of transactions per hour, then transactions can be projected and sales help planned.

Experience will show that in peak selling periods, transactions per man hour can go much higher than in non-peak periods without producing customer complaints. Part of the explanation is that customers during peak periods come in prepared to make up their minds faster (the gal looking for a pipe for a Valentine's gift often takes less time to make a decision than the man buying his own pipe); and during such peak periods most customers tend to be a bit more understanding.

Once the basic permanent schedule is established, job responsibilities must be set permanently so that departmental employees can increase productivity as they repeat the same assignments.

After all of this has been done, management has to determine the upper volume limit that can be handled on various days (whe' there are varying man hours available) through actual experimen and experience. This again requires regular observation of the department in operation — and comparison of the observed service level with the recorded level of transactions per man hour. It is surprising how much volume can be handled without increasing the available personnel.

THE 1970 CENSUS were street entire of whitein boats

Shortly, the decennial census will be taken - and statistics will be accumulated that will guide much of the social action during the oming 10 years.

This is also the first year a census will be taken by mail - a census that is longer and more detailed than ever before.

Taking a census by mail certainly indicates a great deal of confidence on the part of the Census Bureau that people can — and will — read. Their brave press releases tell a wonderful story of the steps they have taken to be certain that everyone is counted — including admission that they have badly understated population in prior censuses, particularly in central city and ghetto areas.

The Census Bureau started with mailing lists and had them corrected by Post Office Department personnel. The questionnaire has been field-tested. In areas where languages other than English are common, interpreters are to be provided. Followups will be made in person.

But the basic factors that contribute to an under-count continue to exist and to them have been added the problem of being able to (or willing to) read. The past problems are ones that relate to fear of the government in core area ghettos — people who have no reason to believe that anyone from the government has approached their dwelling with just a friendly interest in knowing how many live there, their age, where they lived 5 years ago, how much money they made last year, who they share the bathroom with, whether they have a refrigerator and TV set, how much education they have had, what nationality their parents were — and on and on.

t is strange that these are often the same kind of questions that the friendly police officer asks — or the man from the department of building permits — or the social worker from the welfare department — or the investigators from the Department of Employment.

It is at census time that the poor person's fear of his government works to the disadvantage of the poor person and his government.

The residents of the ghetto are afraid to answer questions about the people in their family — because if there is a man in the house and they are on welfare, they are certain the information will be sent back to the Welfare Department. If two families are living in a single dwelling unit they are afraid to report the facts because they don't want someone from the Health Department forcing one family to leave because of violation of the building code.

What can the retailer do?

Most retailers today are vitally interested in the problems of their cities — and one of the ways to insure that the city gets adequate support for programs dealing with the core city problems is to see that the 1970 census is accurate. Many laws of the past decade have taken as their starting point the number of minority group members, the number of families with incomes under a set point, or other such data derived by the 1960 census, as the basis of allocation of funds to cities. If your community was badly undercounted, then it got less money.

But even worse — the undercount in the 1960 census resulted in n understatement of the magnitude of the problem. An estimated national undercount of 3% in 1960 probably means an undercount in the core area on the order of 20%!

You can help your cities. First, you must make them understand the urgency of the problem. Many cities have divorced themselves from the problems of enumeration, feeling that (1) it is a Federal problem and (2) the experts are doing a good job.

But the city should perform an audit on the work of the Bureau of Census. Each major city should pick a sampling of blocks in the heart of their ghetto area and should independently, as of April 1, 1970, conduct their own census. Census data for major cities is available on a block basis — as well as on a tract basis; for smaller cities arrangements can be made for data on a block basis.

The city can then compare their own census data with that developed by the Bureau of Census to determine for themselves the accuracy of the job done in their community — and I suspect that this accuracy will vary widely from city to city, just as the problems vary widely from city to city. It is entirely possible, where the Bureau of Census consistently undercounts with their new methods, that suits will be filed to force the Bureau of Census to correct the population data for a city in order to protect the revenues for that city.

Time is short - this subject should be reviewed with your city government promptly.

THE CREDIT CUSTOMER STRIKES BACK

A bill has been introduced in California seeking to clarify the state law on finance charges on revolving accounts — and to clarify it in favor of the customer.

The bill, prompted by the initiative of a lone consumer, would change the law from an imprecise statement that a service charge of 1½ percent may be added monthly to the outstanding balance by clarifying the words "outstanding balance." The change would require that the outstanding balance on which the finance charge is based always be reduced by any payment made during the month.

This is essentially the J. C. Penney System — which most other retailers do *not* follow. But it seems certain that (1) this proposed legislation will have broad appeal to legislators and (2) if adopted in one state, it will be spread to others.

F.T.C. IN ACTION

Recent news releases indicate that it is "big name" season at the F.T.C. Chrysler Motors Corporation has been charged with violation of the Truth-in-Lending Act. Shell Oil Company has been charged with failure to meet disclosure rules on game contests in their TV advertising and failing to distribute the winners strictly by random chance. Firestone Tire and Rubber Company has been charged with misrepresentations in their tire advertising ranging from claiming that sales prices represented a savings that was not correct to failure to prove by scientific test that the claimed 25% shorter stopping distance for their tire was actually a true statement.

The F.T.C. appears to be taking aim at tire advertising — and hopefully they will succeed in introducing a rational basis for such ads. To date, volunteer efforts have not proven successful. Tire advertising is one of the really weak areas in retailing.

Tire dealers have a certain kind of psychological protection. Most people don't read tire ads until they are ready to buy tires. And usually they buy tires within a few days of when they first discover that the tread is gone from their old tires — or when they have a blowout. After the new tire or tires are on the car, the buyer quits thinking about tires and stops reading ads. Only a few kids are thinking about tires all of the time — and so have a chance to determine what the "going prices" are for tires.

This is the reason why many of you may have noticed that it seems like Sears and Wards are advertising tires all the time – because they are.

RETAILING TODAY - FEBRUARY 1970 - 3

IS TRUTH-IN-LENDING WORKING?

Remember the pressure last July when every store was pushing to comply with Truth-in-Lending? According to the proponents, this would set the background by which consumers could measure the cost of credit — and it would introduce competition between retailers through the credit terms offered.

Perhaps 7 or 8 months is too short a period of time over which to measure the results. But the immediate result has been to remove credit information from most advertisements — because the requirements for advertising are so complex that most stores would rather devote the words and space to merchandise, their primary business. I don't think this was exactly what the proponents had in mind when they passed the bill.

Today the prudent purchaser, who intends to shop between stores for major items such as appliances or furniture, can determine prices from advertising — but hasn't the slightest idea whether or not the vending store offers 24 months or 36 months or 48 months terms. It is only after inquiring at the store, and often being placed in the position where they have to withdraw gracefully because that particular store doesn't offer long enough terms, that the customer becomes aware of a primary fact that used to be contained in many ads.

The Federal Reserve Board has been reluctant to bring logic into the advertising regulations — and so the public will continue to be uninformed.

But the Board did recently take a survey of consumers to determine whether they knew what rates they were paying for money.

THE ETHICS OF DATA ACCUMULATION — Revisited II

RT (December 1969) dealt with this question in some detail. But the question cannot be discussed just once and then forgotten.

The problem with such ethics, in this day of computers, is that it calls for constant vigilance. And such vigilance at RT now brings forth the story of the Juliette Low (she was the founder of Girl Scouts in the United States) Elementary School in Elk Grove Village, Illinois.

This school of 350 children, kindergarten thru fifth grade, is about to experiment with a computer profile on each child. This information will, according to plan, be available to every teacher, hopefully with the result that such knowledge will permit the teacher to plan individual programs to fit the problems of the child.

To develop the profile, information will be taken from tests, school records and questionnaires sent to parents. In all, 120 personal, socio-economic and learning characteristics will be recorded.

Now listen to Principal R. Earl Woodley: "It is going to be a little bit touchy on the personal data. What the parents leave blank (on the questionnaire) we will get." He explained that a good teacher quickly learns from the child about fights at home, when a parent loses a job, and presumably if Mommy or Daddy are not faithful to each other. And he also noted that parents could not object to the contents of the file (available to any staff member with a terminal unit) because the file contents would not be made available to the parents!

It looks like 1984 is arriving ahead of schedule.

I am certain that the Board must have wondered whether they had labored mightily to bring forth a mouse. Only 44% of the people surveyed knew that there was a law requiring that customers be given certain information when making a credit purchase and only 1 out of 5 knew the name of the law.

The basis of the sample is now indicated in the reports to the press — so perhaps they concentrated on areas where people do not enjoy the benefits of credit. Two-thirds of those surveyed reported that they knew what they were paying for money on their auto contracts — and most of them quoted figures well below the current prime rate! They appear to have been somewhat more accurate in reporting the interest paid on their house loans.

It is hoped that one of these days the Federal Reserve Board will get together with representatives of the responsible members of the retail trade — the firms that were never the target of T-in-L—and write some realistic rules on credit advertising. If the Board was truly interested in seeing that consumers were informed of credit terms and facilities concurrently with viewing the advertisements placed to induce them to make purchases, they would come up with some relatively simple rules.

Basically, the information needed to be disclosed is relatively minor. A store should be allowed to make a simple statement "Goods advertised are available with no down payment on various plans extending to 36 months, all of which provide for FINANCE CHARGES of about 1½% per month or approximately 18% ANNUAL PERCENTAGE RATE. Complete details are provided as part of your credit application."

PAY-DAY STUFFERS

Continuing RT's program of suggesting economical items for inclusion with pay checks, as a channel of communication from management to employee, we offer three new Federal publications.

"Smoking and Illness" (Publication 0-353-015, Public Health Service Publication 1662, \$6.75 per 100) and "If You Must Smoke" (Publication 0-347-979, Public Health Service Publication No. 1786, \$6.75 per 100) deal with current questions of great interest to all employees and employers. "Keep Food Safe to Eat," (Department of Agriculture, Home and Garden Bulletin No. 162 — \$10.00 per 100) both instructs one on safe food storage procedures and encourages savings that can come from such practices.

These publications can be obtained from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. RT has a few copies of each which we will be glad to send to you on request.

AND NOW FOR THE COMPUTER IN DEPARTMENT STORES

Department stores continue to provide choice items for The New Yorker. Consider this paragraph from the January 3rd issue: "The following form letter was received by a friend in the Middle West, from a large department store with which he has been doing business for years: 'We have just changed our accounting syster Monthly statements will be produced by a friendly computer in an effort to keep our system as personal as possible and to prevent our customers from becoming mere numbers, we have designed our accounting system around your social security number.'"

THE DISCOUNT STORE vs. THE DEPARTMENT STORE

of the 1960's and see if we can learn from our own experience.

In 1961, The National Cash Register Company sent Ira Hayes, Jr., one of the great spellbinders in retailing, on a tour of the country telling the story of "The Revolution in Retailing." More retailers heard Ira Hayes give his talk than even listened to any other single speaker. By the time Mr. Hayes reached San Francisco, where I heard his talk, he had his timing down perfectly.

In case you don't remember — his basic themes were (1) the modern American is pre-sold when he walks into the store (he wanted a Thunderbird, Marlboros, and hi-fi, as I recall) and so there was no room left for selling at the store level, (2) the modern American had been so trained by supermarkets that he would gladly trade all salespeople for a good L-shaped checkout (preferably with an NCR cash register) and (3) the modern American talked to merchandise on the shelf — saying "I want you — and you — and YOU."

If Mr. Hayes had been correct all retailing today would be done by stores with checkouts and self-service. But that didn't happen — and I didn't think then that it was going to happen. I asked for a chance to reply to Mr. Hayes before the same audience — unfortunately, hundreds heard Mr. Hayes while dozens heard Bob Kahn. I titled my talk "How the Department Store will beat the Discount House." I think history has proven my analysis, heard by so few, was the correct analysis. But I must admit that Mr. Hayes was an adversary with a wonderful sense of humor. Shortly after his talk, which stressed that everyone wanted to own a Thunderbird, I sent him a clipping reporting that the sales of Y-birds were declining. He replied by saying 'You have paid me the highest compliment you can pay any speaker — you remembered what I said." But it was apparent right then in early 1962 that something had gone wrong with the fickle, pre-sold public.

Without going back too much into history, let's see what has happened in the past 9 years — and why the department store has defeated the discount store — even though firms such as Dayton's, Allied, Federated, Rich's, Ayres, Penney's and other department store operators are opening discount stores.

Remember the secret of the success of such stores as Ann and Hope – their low-cost often poorly outfitted premises? In 1968 property rentals ran 3.24% of owned sales (2.60% of total sales) – with 25% of the firms paying over 3.93% of owned (3.06% of total sales). This hardly indicates that underselling is due to low property rentals.

In looking at their departmental operations, many of their figures are beginning to look like conventional retailers. Note the figures in Table I.

Certainly the figures shown aren't the type of figures that will frighten conventional retailers, especially since little of the merchandise is in identifiable branded goods.

"Those who cannot remember the past are condemned to repeating it."

If retailers knew the history of their industry they would have been less concerned about the discount store when it arose most recently in the 1950's — and they will be less concerned when it arises again in the 1980's. But since it is futile to expect that retailers will really take an interest in their history, they will continue to move from fright to fright.

Perhaps what I am writing today is in the same vein as that which prompted the historian, Thucydides, to say some 2400 years ago, "I shall be content if those shall pronounce my history useful who desire to give a view of events as they did really happen, and as they are very likely, in accordance with human nature, to repeat themselves at some future time, if not exactly the same, yet very similar."

When department stores first began to evolve, independently but simultaneously, in France and the United States during the 1860's and 1870's, specialty stores were well established. Specialty stores suffered from some very common retail ailments — large assortments and slow turnover, heavy cost of credit (often settled semi-annually in Europe or on a crop-year basis in the United States), heavy personal service costs, and all supported by a high gross margin (40%).

TABLE I (Median figures shown)

DEPARTMENT	GROSS MARGIN (%)	STOCK SHORTAGE (%)	STOCK TURNS (X)
Women's Apparel	28.83%	3.59%	5.96X
Women's Accessories	32.17	2.98	4.38
Men's Furnishing	30.84	2.51	3.70
Children's	29.69	2.19	4.12
Household Textiles	31.90	3.53	3.14

The equivalent of the "Harvard Report" or "FOR" for discounters is a publication by Cornell University called "Operating Results of Self-Service Discount Department Stores." The report is based on information from 38 firms representing \$3.6 billion in sales — a sample somewhat over half the size of the FOR sample.

Remember in the early days of discounting when one of the magic "principles" was that a discount store should never spend more than 1% on advertising? They forgot that in the days when here were relatively few discount houses, often just one in a own, that most of the advertising they got was word-of-mouth. The 1% was the paid advertising — probably the least effective portion of their advertising. In 1968 advertising space costs ran 2.68% of owned sales (2.16% of total sales) — a figure not unfamiliar to conventional retailers.

In fact, 25% of the stores spent over 3.46% of owned sales (2.64% of total sales)!

Department stores obtained their position by adopting the policy of selling for cash, carrying merchandise from many specialty store categories but only the fastest-moving items, and selling at prices 15% to 20% below the prices of specialty stores. The entire growth was sufficiently fascinating to attract the attention of Emile Zola who wrote a book on department stores. He was one of the ones who recorded an estimate of their original operation — in which they had a gross margin of about 20%, payroll of 10%, other expenses of 5% and profits of 5%. This is strangely like the figures cited in the late 1950's and early 1960's by discount stores.

By 1896 the Specialty Store Association of America was petitioning Congress to declare department stores illegal as monopolies because (1) department stores could selectively cut prices in a single specialty to the point where independent stores would be

driven out of business, and then raise their prices while cutting prices in another specialty and (2) the capital required to operate a department store was so great that it would deny to American young men the opportunity to go into business for themselves.

Congress, with great wisdom, failed to pass the requested legislation.

By 1914 department store gross margins were up to 30% and the advantage over the specialty stores was being reduced. By the time discount stores appeared on the scene the cost advantages of the department store over the specialty store were negligible.

Now we see the same pattern repeating itself with the discount store. Cash sales are giving way to credit. Turnover is dropping as assortments increase. Occupancy costs are rising as fancier buildings are used. Advertising costs are increasing as more advertising is needed to attract customers. Payroll costs are rising as more services are being added and stores are unionized. And gross margins are rising to cover the increased costs.

Why does this cycle take place?

The answer is simple. Common sense and the customer pre-ordain that the cycle will occur.

Let's examine the interaction of common sense and the customer in the case of the discount store — since so few RT readers were alive when exactly the same thing was happening in the department store field.

In a typical city a discount store opened, in an old factory, with virtually no occupancy cost. They threw everything on simple fixtures and put a cash register at the single exit. You served yourself and saved. You saved so much that you told all your friends — and your word-of-mouth brought in more customers. So our original discounter was happy — with a 20% gross margin, 10% payroll, 5% other expenses and 5% profit.

His success did not go unnoticed – and in our free competitive economy we soon saw a second discount store appear on the scene. But the second store had a problem to solve - how to break into the market. The management discussed using another old factory and pricing their goods at a 19% gross margin but they realized that the price differential would be so small the customers wouldn't notice it. Group two decided, instead, to use a fancier building - they would spend 1% more on occupancy and compete visually. They opened - and they attracted business. In fact, the two stores attracted so much business that a third group decided to open a discount store. They, too, had to make a decision - how to break into the market. They knew they had to have a store as attractive as the No. 2 store - and they also considered operating on a 19% gross margin. They, too, realized that the price saving would be so slight that the customer could not detect the difference. So No. 3 decided to spend an extra 1% on advertising.

No. 3 was successful — and by this time No. 1 and No. 2 were being affected. Being logical, No. 1 and No. 2 took defensive steps. No. 1 announced a great remodelling sale — vinyl tile floor, a dropped ceiling and new lights. No. 2 started to step up their advertising. No. 1 then had to step up their advertising.

At this point the "principles" of discounting proved to be something other than principles. Advertising could not be kept under 1%. Occupancy could not be kept to spartan accommodations.

But even worse things were happening. In the sporting goods department they learned that they could no longer make sales by telling the customer to go to some service store, try the various guns there, select the model he wanted, and then come back and buy it "self-service" at the discount store. No. 1, with the poorer quarters, started to compete by putting some salesmen in the sporting goods department — there was too much risk that when the customer did learn the model he wanted that he would go to No. 2 or No. 3 to buy the gun.

In the sheet department the stock clerk would carefully explain to the customer who wanted pink sheets, "Madame, the principle on which a discount store saves you money is that they carry only the fast-moving items. In this case it is white sheets — you know that pink sheets tie up much more inventory investment and if we carried them we would have to raise our prices." The customer said, "I did so want some pink sheets — I think I'll try another discount store." The next day another lady comes in and asks for pink sheets and our stock clerk starts, "Madame, the principle on which a . . ." but the customer interrupts and says, "I think I'll go down to discount store No. 3, I understand they have pink sheets."

The next day another customer asks for pink sheets, the clerk starts again to say, "Madame, the principle..." when the customer says, "I think I'll go down to discount store No. 2 — they advertised pink sheets yesterday." In panic our stock clerk says, "Wait a minute, let me check." He disappears a moment and returns to proudly announce, "Our pink sheets will be in tomorrow."

I believe that every decision outlined so far has been a logical decision. The conduct of the customer has been logical. Yet logic destroyed the concept on which discount department stores were created. And the logical decisions proved that discounting is not a stable form of business, just as department stores were not a stable form of business, and just as some of the chemical elements produced artificially in laboratories and enjoying a half-life of a few minutes are not a stable element.

Even today, the introduction by discount stores of better interior displays and more extensive credit facilities, the addition of style shows, the extension of store hours — all of these "logical decisions" in response to "logical conduct by the customer" are bringing the discount department store closer to the convention department store.

What does the future hold?

The future holds more of the same. This cycle is not unique to the general merchandise field — the same cycle can be shown for the food stores — from the corner store to the supermarket to high costs to discount supermarkets to rising margins and costs once again.

Within the next decade the margins of discount operators will continue to rise faster than those in conventional stores — just as the margins in department stores rose relative to those in specialty stores.

The department stores are expanding their range of merchandisate come closer to that carried by discount stores — more department stores have automotive centers than ever before. The talk of eliminating major appliances is gone. A few are experimenting with building materials. Health and beauty aids have been expanded, records are carried in greater depth and often at discount prices.

In the early 1980's some guys are going to be sitting around some evening and thinking about the empty factory on the edge of town. Some of them are buyers from the local discount store. One of them says, "I know we could rent that factory for almost nothing — it has 150,000 square feet and we could probably get a 3-year lease with options. We could pick up some cheap fixtures, some old Model 5 registers and a good used computer and be in business for practically nothing. I have been doing some figuring. The way I see it we should be able to get by on a 20% gross margin. Payroll should run 10% and all other expenses 5% leavin us a 5% profit." And their only problem will be figuring out what to call it — because the names "department store" and "discount house" are already used.

RETAILING TODAY always welcomes communications from readers whether they damn or praise.

RETAILING TODAY

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MARCH 1970

VOL. 5, NO. 3

OUR BRIGHT YOUNG PEOPLE

The Bureau of the Census has just released a major study on the "Characteristics of American Youth" (Series P-23, No. 30, Feb. 6, 1970, 35 cents, Government Printing Office) that contains a great deal of information about the 39,000,000 young people 14 to 24 years old.

These are the people who, in 10 years, when the shortage of executives in the 40-50 age bracket becomes critical, will be the key people in your organization. Many of these young people are being categorized as hip or straight, effete intellectual snobs or conservatives, drug addicts or reactionaries.

The attempts to categorize these young people must fail — because this group of 14- to 24-year-olds is probably more diverse than any such group in the history of our country.

First, they are a more important group, representing 19.2% of our total population, up from 15.1% just 9 years ago — but still below the 19.6% - 21.7% range that prevailed from 1910 to 1940.

The drive for education — partially generated by parents who keenly felt the handicaps of limited education, partially generated by attempts to avoid the draft, partially due to a greatly expanded educational system but largely due to a desire for more knowledge — clearly shows up.

Looking at the age group that has just completed their education (25 to 29 inclusive) we find that in the three decades from 1940 to 1969 the percentage of whites who completed high school almost doubled – from 41% to 77%! To the reader who finished high school in the 1940's, it probably seemed the natural thing to do; it is difficult to realize that less than half the kids in the 1930's did graduate. The percentage of whites who completed college has almost tripled – from 6.4% to 17% over the same three decades.

But this pattern is not true just for whites. In 1940 only 12% of the Negro and other races from 25 to 29 had completed high school - and only 1.6% had completed college. By 1969 the figures increased five-fold - to 58% and 9%!

Minority groups are catching up.

The educational attainment of the Negro and other races has progressed in just 29 years from 29% of the white attainment at high school level to 75% attainment; and from 25% to 54% at college level. Much of this is due to the migration of blacks out of the South during and after World War II into areas where greater educational facilities existed.

More kids are staying in school. Of the 14- to 24-year-olds, we find that the percentage not in school has dropped from the 60% level in 1945 and 1950 to 42% in 1969.

WHO IS RESPONSIBLE FOR EMPLOYEE HONESTY?

As fourth quarter reports are being released one of the common excuses for reduced profits is the existence of inventory shrinkage in excess of accrued reserves. Each store seems compelled to explain that this is due to increased shoplifting.

There must be some point at which the retailer admits that much of his shortage is due to employee theft. This is not likely to be done — since such an admission would seem to indict the management. Yet the fact remains that much of our increased shrinkage problem is "due to" employees.

The "due to" should really be applied to management — because management has a basic responsibility that is being shirked in many cases.

I can remember my years under an old-time merchant, Sherwood Swan of Oakland, who has run his own stores for more than 60 years. Mr. Swan always stressed that management was responsible for seeing that temptation was not placed in the way of employees. This was his objection to such practices as leaving change funds in cash registers overnight. This would create a temptation for the employee — and he felt that if the employee succumbed, the resultant loss should be attributed to management rather than to the employee.

Higher labor costs and more complex procedures have forced many firms to follow an indiscriminant practice of "calculated risks."

It is acceptable to take a "calculated risk" and not check the extension of invoices under \$500 because the loss, if any, which might occur is not one that results from a temptation placed in the way of one of your own employees.

On the other hand, a "calculated risk" that involves poor control of employee entrance to and departure from the store, employee purchases and employee packages all create a temptation for your own employees — and create the situation in which otherwise honest people become dishonest.

If you are suffering from high inventory shrinkage, ask yourself: "Am I the cause because I create temptations that my employees cannot resist?"

The result of this trend is that the median years of schooling received by people in the 25-44-year-old group is becoming fairly uniform in various sections of the country — in the 12.3-12.8-year range for men and 12.2-12.5 range for women.

Looking at the age groups in smaller brackets, the percentage of 14- to 17-year-olds enrolled in school increased from 79% in 1940 to 94% in 1968. For 18- and 19-year-olds the increase was from 29% to 50% and for 20- to 24-year-olds it was from 7% to 21%.

Students are taken out of the job market.

Most taxpayers and parents are aware of the direct economic costs of this increased enrollment, both the family costs of sustaining children in school and the tax costs of providing public schools for an increasing percentage of the young people enrolled, especially in higher education (and for some college graduates, there has also been increased pressure for alumni contributions).

But there is another economic factor that is usually overlooked. If the same percentage of 14- to 24-year-olds had remained in school in 1968 as in 1940 the economy would now have to provide an additional 5,715,000 jobs. Even if we only stayed with the percentages enrolled in 1960 (immediately prior to the Vietnam build-up) we would now have to provide an additional 2,533,000 jobs.

If the economy had not provided more jobs, we would be reporting unemployment rates in the 7% to 9% range — and perhaps would not now be suffering from inflation.

Despite the high percentage remaining in school, the problem of obtaining a job was serious for the 16 to 24 age group who are not in school. In October 1968 unemployment stood at 6.8% for whites and 17.0% for Negro and other races. This problem is greatly aggravated by the Minimum Wage Law which has eliminated many of the jobs formerly held by this group of people—jobs that were essentially short-hour, relatively unskilled jobs such as package boys in a supermarket.

College students come from all levels.

The 4,700,000 dependent family members who are in college (this eliminates non-dependents who are in college) shows that the desire for a college education has reached all segments of our society. 27% of these students come from families where the head of the family did not complete high school while another 35% come from families where the head completed just 4 years. Some 37% come from blue collar, service and farm worker families while another 36% come from families where the head is in clerical or sales work.

Some 28% (more than 1 in 4) come from families with a total income of \$7,500 or less while another 19% come from families in the \$7,500-\$10,000 range.

The background of many of our college students indicates that they are providing most, if not all, of the funds for their own college education. We can begin to realize the adverse effect on the ability to attain a college education produced by continually increasing tuition and fees.

Despite the increased school attendance, there was a slight drop in voter participation of persons 18 to 24 in the 1968 election when compared with 1964. The white participation (about 52%) remained level while the Negro and other races dropped slightly (43% to 38%). This decline is partially due to the increased mobility of students over the years, particularly in the 20-24 age group, which often results in disenfranchisement because of local residence requirements.

What does this all mean to retailers?

The bright high school kid, that so many retail organizations sought as the basis of their executive development program, is no longer available — he is going to college. With a college degree he seeks entry employment at a level and with a responsibility much higher than did the bright high school kid of 30 years ago. All the wishing in the world won't bring back the conditions of the 1940's or even the early 1950's.

The growing size of the 14 to 24 market, the higher incomes earned by college graduates (and even those who take more than a year of college after high school), and the exposure of people from lower income families to art, culture and other tangible and intangible consumables creates a growing demand for consumer goods through retailers. Better educated people mean greater demand for better quality — and greater product knowledge on the part of the consumer. This accounts for the apparently illogical condition whereby a substantial number of retailers can claim that they are "trading up" and virtually all claim to be successful in the effort. They are just trying, belatedly, to catch up with the demands of the consumer.

And finally, the increased mobility of the young people (43% of people 14 to 24 move in a single 12-month period) means decreased loyalty to individual merchants — and increased patronage of nationally or regionally recognized names as opposed to local merchants. Certainly the new student in town is more likely to recognize the name of Sears or Penney's than Joske's or Ayre's; they are more likely to recognize Safeway or Kroger than King Kullen or Vons.

WISE GIVING

Giving is not enough – it is necessary that donors give wisely.

One of the annual guides that I always look forward to is the "WISE GIVING BULLETIN" published by the National Information Bureau (NIB). The NIB is supported by donors and regularly provides information to the subscribers. But in addition they publish in the spring of each year a summary of the results of major health and welfare campaigns plus supplementary data.

The Spring 1970 issue reveals, for example, that American Heart Association spent about \$14 million out of the \$45 million fiscal 1969 revenues for research, while American Cancer spent \$22 million out of \$65 million.

However, the \$14 million of American Heart Association research funds is minimal compared with the \$167 million spent by the Federal Government through the National Heart Institute (up from \$46 million 10 years ago) and even the \$22 million spent by American Cancer Society is small compared with the \$185 million spent by the National Cancer Institute (up from \$75 million 10 years ago).

Unfortunately, the publicity of some of the private health and welfare drives, combined with the constant flow of research discoveries causes an uninformed person to assume that the contributions to the private welfare funds produce the research successes. The private agencies do the publicity work — but Federal money does most of the research. For the Fiscal Year 1969 (ending June 30, 1969) the Federal Government spent \$1.750 billions through the various institutes of health with the largest single segment (\$355 million) spent on mental health. This is almost 6 times the budget of \$324 million just 10 years ago and more than 30 times the budget 20 years ago.

For the past several years expenditures for the National Healt'-Institutes have run just under \$1 out of the \$100 of gross revenue to the Federal Government.

The NIB estimates that of the \$60.3 billion spent for health, some \$24.4 billion comes from government and voluntary philanthropy. But most of this - \$22.6 billions - comes from government.

ment (Federal, State and local), with only \$.3 billion from some 33 National Health Agencies and \$1.4 million from other voluntary agencies including local hospitals, visiting nurses, medical education campaigns and the like.

ur health problems are tremendous. The "guesstimates" of the stal number of people in the United States suffering from various diseases tends to show that we hear most about the disease suffered by the fewest. We are all conscious of the publicity about cancer (900,000 cases), cerebral palsy (700,000), multiple sclerosis (500,000), muscular dystrophy (200,000) and TB (100,000).

But what about cardio-vascular diseases (14,600,000-7%) of the population), serious mental illness (9,200,000), alcoholism (6,500,000), mental retardation (6,000,000), rheumatoid arthritis (5,000,000), urinary tract infections (3,300,000), diabetes (2,900,000) and venereal diseases requiring treatment (2,000,000)!

Our problems are becoming greater — but our solutions are dragging. To keep informed, send a check for \$2.00 to National Information Bureau, 305 East 45th Street, New York, N.Y. 10017 and ask for a copy of "Wise Giving Bulletin" and the 1970 "Tabulation V."

HOW PRIVATE IS PRIVATE PROPERTY?

Over the years shopping centers have lost much of their status as "private property," and rightfully so. It is hard to provide parking space for thousands of cars, attract tens of thousands of people every day, and then try to say that certain people are not "invitees" of the landlord. Some years ago courts started granting union pickets the right to picket individual stores in a shopping center (landlords attempted to keep them at the "curb" as is done in central city properties where the store is placed right at he property line).

Recently there was a problem with gangs of kids — up to 500 at a time — in Northland Shopping Center outside of Portland, Oregon. To prevent such actions at Lloyd Shopping Center, also in the Portland, Oregon area, they posted signs reading "Private property — no loitering." Then they instructed the private guards to break up groups that formed.

This system worked — right up to the time it was challenged. Three people were distributing anti-draft literature and were asked to leave. They went to the local courts and asked for a court order to get them back in. The court learned that the owner invited groups to conduct their activities in the Mall, even if the event did not produce "customer motivation." There was a confusing policy — they allowed the American Legion and Salvation Army to use the Mall but denied use to the March of Dimes and Hadassah. The judge concluded, "In my view an owner who opens his land to the general public for business purposes to the extent that the land becomes the equivalent of a public business district, gives up the right to prohibit the distribution of literature or to decide what literature may be distributed."

This is going to be interesting. Many leases bar tenants from distributing literature in the parking lot (such a contractual restriction is legal) but non-tenants may have the right to distribute their literature!

ETHICS IN ADVERTISING

Recent questionable advertising includes a major publisher and a)randed pen manufacturer.

The Dartnell Corporation recently sent me an announcement of their new monthly "Office Administration Service." I searched and searched to find how much this modern miracle might cost me. There was nothing in the cover letter or description — but

buried in the return postcard was the following statement, "at the low rate of \$7 a month payable annually." Who do they think they are fooling? Does their publication have so little value that they are afraid to say that it costs \$84 a year?

Then there is *Scripto*. Their Graffiti fiber tip pens are supposed to be worth 98 cents each — yet they offer a special deal for an extended period of time. Twelve dozen pens with a retail value of \$141.12 cost the dealer just \$43.20. Certainly nobody knows the value of their pens better than *Scripto* and if they elect to sell them at 30 cents each they are probably worth no more than 49 cents to the customer. Perhaps *Scripto* wonders why everyone "discounts" their merchandise.

MOBILE HOMES - Revisited

In recent issues of RT there have been reports emphasizing the growing importance of mobile homes — and the fact that most retailers don't aim any promotional or merchandising effort toward the peculiar requirements of such homes and of the people who live in them.

In the quarterly report of Consumer Buying Prospects issued by Commercial Credit Corporation, a subsidiary of Control Data Corporation, the feature institutional ad stresses the fact that ComCredit saw the need for financing such homes some years ago and after becoming a leading financer of mobile homes (a field where savings and loan associations can now lend) ComCredit went on to the financing of mobile home parks.

Mobile homes (defined by the Federal Home Loan Bank as at least 40 feet long and 10 feet wide and containing year-round accommodations) now house 5,500,000 people. Many of these people are retired — but a quarter have incomes over \$9,000 a year.

And at least one retailer has recognized the market. Alden's, through their mail order division, plans to move more heavily into furnishings for mobile homes. Perhaps an easy way to review your own position is to review the merchandise Alden's is aiming at mobile homes and see if your store can compete.

Building Supply News is aiming their readers at the 5,000,000 people who live in mobile homes, with a special article outlining the types of merchandising that can be directed at this group, things like front porches, sunshades, pre-fab fences, benches, outdoor furniture, air conditioning and many other items.

ARE YOU AN EDUCATED MAN?

Consider this test, laid down some years ago by Dr. Walter M. Taylor when he was President of the Regional Community College in Greenfield, Mass. — and recently printed by COMPUTERS AND AUTOMATION.

An educated man:

- ... is able to read, write and do arithmetic;
- ... has a basic knowledge of the history and geography of the world and of man;
- ... understands the scientific method, and has an elementary knowledge of at least one science;
- ... has an elementary knowledge of mathematics and logic, what they are and how to use them;
- ... knows at least one other language besides his own well enough to read and talk a little in it;
- ... can say what he means in suitable words, both speaking and writing;
- ... is able to listen, knows how to learn, and enjoys learning;
- ... never forgets that his views and opinions may be wrong, and is always ready to change them on good evidence.

RETAILING TODAY - MARCH 1970 - 3

HAVE YOU EVER BEEN ARRESTED? Revisited

In several recent issues of RT (October, November, December 1969) we challenged the question, "Have you ever been arrested?" that appears on so many employment applications. A check of government agencies (U.S. Civil Service Commission, California State Personnel Board, San Francisco Civil Service Commission) indicated that they were able to operate with just the question, "Have you ever been convicted?" They also excluded all convictions where (1) the penalty was a fine of \$30 or less and (2) offenses which were sealed or could have been sealed because of juvenile laws.

Several readers challenged our position. In general they raised two points: first, arrests are a good indication that the person was doing something wrong even if he wasn't convicted (thus introducing a concept of guilty until proven innocent) and second, arrest records were necessary for bonding companies to operate properly and for stores to maintain security.

I checked with two major insurance companies that write a substantial amount of employee bonds and Representative Jerome Waldie checked with the U.S. Civil Service Commission. The results are interesting.

A letter from Robert Hampton, Chairman of the U.S. Civil Service Commission contains these statements, "Quite naturally we in the Civil Service Commission consider the policy (note: asking for convictions instead of arrests) a good one; we would not have abandoned the arrest question otherwise. However, our reason for adopting the policy was to prevent the indiscriminate nonselection of applicants on the basis of an *unevaluated* arrest record. Within the Federal service we have the means to properly evaluate arrests after selection. Whether or not private business concerns would be able to do this is a matter about which we have no information."

"Federal legislation would not be inappropriate if it were limited to firms engaged in interstate commerce. However, we are not aware that the problem is of sufficient magnitude that Federal legislation is required."

One bonding company replied, "In our judgment, this information (note: arrest record) is important and, since the individual concerned is the one who is responsible for his prior record, we see no reason why such information should not be revealed to a prospective bonding company . . . I would assume that if you were employing an individual who might well have access to your records, your funds, and your resources, that you would want to know quite a bit about that person. The same applies in our situation — when we are asked to bond a person . . . Admittedly, if he has been arrested on a speeding charge, that is of no particular import. On the other hand, if he has been arrested for a serious crime or felony, and especially if he has a record of a number of arrests, this, in our judgment, does tend to give us some insight into the character of the person . . . If I, for example, had been arrested numerous times for things such as burglary, robbery, violation of narcotics laws, and even murder, I would not feel that my rights were being violated if some prospective employer wanted to know about these things before putting me on his payroll and trusting me with the keys to his front door."

From the other bonding company, "To my knowledge, it has never been a requirement of the bonding companies that an employment application bear either question "Have you ever been arrested?" or "Have you ever been convicted of a felony?" It is highly probable that some employers have questions of this nature in their applications. However, as a matter of fact, we do not have one in our biographical sketch, which we require each employee to complete, nor do we have one in the individual fidelity bond application which we require from the employees of an insured. ... Therefore, any Federal or state legislation banning

these questions would be immaterial to the bond underwriters. I might also add that I think the question would be irrelevant because the average person would be evasive in this area, knowing that there wouldn't be any penalty other than losing his job if he were discovered. Thus, faced with answering the question honestly and possibly not getting a job, he would probabably answe "No" and hope his peccadillo was not uncovered."

I'm not sure that we can score these and say that the results are 2 to 1 in support of the position taken by RT — since the sample is not a scientific one. But certainly the two alternate positions are well expressed.

RT again suggests that all employers give careful consideration to whether or not they believe for themselves — and thus hopefully for their employees — in the concept of "innocent until proven guilty." If they do so believe, then they must recognize that an arrest does not raise any presumption of guilt; whereas a conviction does.

RT has expressed itself on the matter of employer responsibility in preventing opportunities for dishonesty (see Box, page 1); RT feels that there is also a responsibility to carry out the concepts of constitutional justice and the presumption of innocent until proven guilty in forms and questionnaires used in the business.

EVEN COMPARISON SHOPPERS HAVE RIGHTS

I can recall my days on the training squad at Macy's when it was my turn to be a comparison shopper. One assignment was to shop Goldsmith's Stationery — this was in 1940 when they had just one store. I was about half way through my shopping, on about the 3rd floor, when the music on the PA system was turned off and a voice came on saying, "There is a Macy's shopper in the store, there is a Macy's shopper in the store," and then they proceeded to describe me. I felt trapped. I couldn't get out of the store fast enough.

This came to mind when I read a recent article about a store that took another approach — at a cost of \$107,500! It seems that the Baza'r Discount Stores (part of the chain out of Portland) have a policy against price recording by comparative shoppers. On opening day an employee of a competing store was checking prices.

The newspaper story tells it all: "The dispute arose over a Baza'r rule against price recording by comparative shoppers. (The shopper) was jotting down prices on November 27, 1967 when (the district sales manager) ordered him to leave. (The district sales manager) was on hand for the store opening. The incident ended when the (shopper) was forcefully ejected from the store, he charged in his suit. He testified that (the district sales manager) had accused him of exposing himself during the argument. (The district sales manager) claimed he had only told (the shopper) that if he didn't leave, (the district sales manager) would have him arrested or accused of exposing himself."

The shopper sued for \$100,000 general damages and \$100,000 exemplary damages; the jury awarded \$20,000 and \$87,500.

Goldsmith's had a better system.

CAVEAT EMPTOR LIVES!

I was amused recently to visit an aggressive, promotional importatore, Cost Plus, one of the leaders in the field, and see mar signs reading "Caveat Emptor. Please select goods carefully. Absolutely no returns or exchanges."

Yet I guess the very principle of "caveat emptor" has been violated when the seller warns the buyer to beware!

RETAILING TODAY - STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

The Christmas rush was handled better this year by the stores on which reports have been received — with the over-all average number of working days between cycle closing date and postmark date dropping from 10.3 days to 9.2 days.

For the first time the Honor Roll contains two stores with their bills out in 2 days.

Gray Shop	Ross Dept. Store 4.6
W & J Sloane	
J. Magnin	B. Altman 5.0
I. Magnin	

CREDIT OFFICE RATING DECEMBER-JANUARY 1970

OCTOBER-NOVEMBER 1969

	NO. OF DAYS TO BILL		NO. OF	DAYS	DAYS TO BILL	
	REPORTS	AVERAGE	RANGE	REPORTS		RANGE
B. Altman (NYC)	7.5	5.0	5	F 1 F	8.0	8
Bloomingdale's (NYC)	1	13.0	13			
Breuners (Oakland)	î	7.0	7	2	5.5	- 5-6
Brown-Mahin (Stockton, Cal.)	2	11.5	.11-12	3	9.3	7-12
Bullock & Jones (S.F.)	3	9.0	5-13	1,5		- Lyait
	10	44.0	0.14	9	8.1	7-12
Capwell's (Oakland)	10	11.9	9-14		7.8	5-9
City of Paris (S.F.)	9	14.1	11-19	8	11.0	9-12
Emporium (S.F.)	1	14.0	14	6		
Gray Shop (Oakland)	1	2.0	2	1	22.0	22
Goldman's (Oakland)	2	11.0	9-13			
Grodin's (Oakland)	2	11.5	10-13	2	11.0	10-12
Gump's (S.F.)	1	14.0	14	4	8.3	7-10
Hastings (S.F.)	1	15.0	15			
Hinks (Berkeley)	5	9.0	5-12	2	8.0	8
Holman's (Pacific Grove)	11	8.4	6-11	10	4.9	4-5
Robert Kirk (S.F.)	1	11.0	11	1 1	1.0	1
Levy Bros. (San Mateo)	14	11.7	8-14	30	12.3	7-17
Livingston Bros. (S.F.)	3	17.0	16-18	2	19.5	16-23
Macy's (NYC)	í	7.0	7	1	7.0	7
Macy's (S.F.)	9	11.4	9-12	13	7.2	7-9
				9.8		200
I. Magnin (S.F.)	16	4.1	4-8	8	5.8	4-13
J. Magnin (S.F.)	3	3.3	3-4	2	3.5	3-4
Milen's (Oakland)	1	24.0	24	1	30.0	30
Montgomery Ward (Oakland)	4	7.5	7-8	4	7.8	7-9
Penney's (California)	5	5.8	2-7	3	7.7	7-9
Podesta Baldocchi (S.F.)	2	8.5	7-10	1 03	9.0	9
Ransohoffs (S.F.)	2	9.0	8-10	2	6.5	6-7
Rhodes (Oakland)	9	4.7	3-7	6	3.5	3-4
Ross Dept. Store (San Bruno)	7	4.6	4-5	4	4.8	4-5
Saks Fifth Avenue (S.F.)	2	14.0	13-15	2	10.0	9-11
Sears (California)	7	7.4	5-8	5	6.2	6-7
Simon's (Oakland)	1	8.0	8	2	6.5	6-7
W & J Sloane (S.F.)	1	2.0	2		6.3	0-7
	1	19.0	19	1	18.0	18
A. Sulka (NYC)	2	6.0	5-7	2	5.5	5-6
Wallach's (NYC)	6	12.3	7-19	4	8.8	8-9
Wineman's (Monrovia)	0	12.3	7-19	4	0.0	0-9
TOTAL	148	9.2	2-24	142	8.7	1-30

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED - THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride - both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

mailed 4-30-70

RETAILING TODAY

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APRIL 1970

VOL. 5, NO. 4

ALL OF THE LITTLE STORES WILL BE DRIVEN OUT OF BUSINESS

We constantly hear small businessmen complaining that large businesses will drive them out of business. These impressions are reinforced by the studies that show that the number of retail businesses is declining while the population continues to grow. And most of the persons who hear this story feel great empathy toward the small businessman.

So let's examine the situation.

First, let's look at the facts about the declining number of retailers. The greatest factor in the decline of retailers has been the evolution of the supermarket, growing larger as a result of car ownership and travel habits, replacing the small neighborhood food store. The other factor is the increased urbanization of the pulation — where adding 10% to the population of a densely pulated metropolitan area does not require 10% more stores.

Second, let's consider the "rights" of the small merchant. Our free economy gives any person, with guts and a bit of capital (often too much guts and too little capital), the right to gamble with bankruptcy while trying to please a fickle shopping public. Just because a merchant is willing to gamble his time, his money (or someone else's money) and sign a lease on a store is no reason why the community (or anyone else) owes him a living. If he can't provide something that will attract enough customers to permit him to make a living, he doesn't have any right to stay in business. The local campaigns to "shop at home" when that "shop at home" is not based on the quality and performance of the merchants, is probably the worst sin possible under our competitive society.

Third, one of the reasons why we have a misconception of the ability of small businesses to survive is that a good number of small businesses become big businesses — and then we forget that they were ever small business. Most of us accept that Sears, Wards, A & P, Safeway, Krogers, Penneys and a few others have always been big — from the beginning of time. But we overlook the post-war medium-size giants that started with little or nothing — a Unishop or Morse Shoe or White Front or Lucky or Korvette or many more. As soon as the guy who started out with just himself and one or two other people reaches the point where he does a half million a year, other business at the 1 and 2 man stage tend to consider that he was always "big enough to take care of himself."

e truth is — the chronic complainers about the problems of all business are the marginal small businesses — the ones that satisfy just enough customers to keep them alive but not enough to grow. There is a real question as to whether some are viable — and even more question about whether other merchants should listen carefuly to their complaints.

MORALITY IN BUSINESS

"Morality" is a good, old word, handed down from Middle English. One definition is "the quality of being in accord with the principles or standards of right conduct."

I just don't understand why business men are afraid to talk about morality.

All the surveys I have seen indicate that more than twothirds of the business men feel that they are more ethical than others in business. Despite this feeling by the majority of businessmen, they just don't talk about it. You can get more discussion at a lunch table on how to cheat on your income tax (outlining ideas that 99% of the braggarts never use) than you can on the subject of "I did so-and-so because it was the honest thing to do."

How can our fellow executives or our subordinates know that we have ethical standards if we are unwilling to lay them out for review, discuss them with others, or incorporate them in policy and employee manuals? How is your wife to know that when you leave home each morning that you are taking with you — into daily practice — the moral concepts that she knew and liked when she said "Yes" many years ago?

And most of all, how are your teenagers going to know that you do want to live a good and true life?

Of course, there are businessmen who are immoral. But they exist and prosper only because you and I are afraid to talk more often about morality — and thus expose them. Their great protection is the claim that they are doing just what every other business man does — and we let them get away with it by not yelling — "Not me! I don't do things like that!"

But even ethical businessmen often have a problem deciding what to do in a given situation. Because they think they are alone, they never talk it over with someone else. Have you ever thought of inviting a dozen or so of your friends—businessmen, attorneys, accountants, engineers—to get together, perhaps with the help of a local professor, to discuss actual business situations to determine the ethics involved? There is a growing amount of case material available to help you get started—but the best case material is that which you are willing to disclose from your own operations.

All businessmen are going to be considered unethical and immoral by the public, by the students, by the educators, by their children, by their employees, and by their fellow business executives — until we learn to talk about morality, preach morality — and thus spread an acceptance and understanding of the moral responsibilities of business.

Small business offers an infinite number of opportunities today—and a fantastic payoff if successful. First, the public is looking for new ideas and special concepts. The boutiques were successful as small shops long before the big stores started to imitate them. The specialty sporting goods store or camera shop or gift shop or greeting card shop or candy shop is continuing to flourish amidst the giants who carry the same merchandise but which miss on the charisma.

The payoff can be reached when the company is large enough to go public — or when it is acquired by a big firm. There have been several companies under \$5,000,000 volume that have gone public recently — at big premiums over their book value because of the earning power they have shown. Many of these are specialty firms such as Buning the Florist (\$1,300,000 sales), Continental Drug (\$2,900,000), Motherhood Maternity Shops (\$3,100,000), Pages (\$3,000,000) and others.

But even the big firms often find it cheaper to get into a new field by buying a small, but experienced, company. Penney's got into the mail order, discount and drug store field by acquisitions. Interstate got into the discount field and now the toy field by acquisition. Newberry's is looking for a partner from the discount field. Interco, Zales, Dayton-Hudson, Lucky Stores, Beck Industries, Melville Shoes, and many others have purchased literally hundreds of companies that were considered small business (2 or 3 employees) not too many years ago.

To paraphrase, "God must have loved the small merchant, he made so many of them." Most will stay small, some will go broke — but a surprising number have become outstanding successes — successes that have so blinded us that we forget that just a short while ago they were also "small businesses."

WHAT DOES THE FUTURE HOLD?

Remember when everyone could afford to pooh-pooh Rachel Carson's book "Silent Spring"? Obviously she was trying to frighten us about what was happening in our surroundings (ecology wasn't a popular word then — in fact, few people would have recognized it).

Many people feel that the book "Perils of the Peaceful Atom" is in the same position today in relation to possible nuclear pollution and safety.

THE BLURRED STORE IMAGE

RT RECENTLY (February 1970) had a feature supplement on "The Discount Store vs The Department Store." One of RT's readers sent in a recent article from $Editor\ \&\ Publisher$ reporting on the same blur showing up in a survey made by the Bureau of Advertising. Based on 750 interviews in Baltimore, Denver and St. Louis, they reported that —

- 1. 7 out of 10 housewives felt they could do better at the department store's special sales than at discount houses.
- 2. 6 out of 10 said that many major brands cost the same at both places.
- Half said that discount stores were becoming more like department stores.

Department stores still had an edge on soft goods, on better styling, and on appeal to better educated women. A surprising number of women showed a great interest in better quality, and they felt they got it mainly at the department stores.

MEDIA AGAINST THE TUBE

When TV came on the scene in the 1950's, the printed and spoken word was, according to many, doomed to disappear. didn't happen that way. Since 1950, the number of daily ne papers has remained about the same — but the circulation of dabpapers has increased only about 16%. In fact, the newspaper circulation per family has dropped about 20% — but we still distribute slightly more than one daily paper per family. But the newspaper changed — in the same period of time the average number of pages in a daily issue increased from 36 to 55, and on Sundays from 112 to 186.

Magazines were not far behind. In 1940, before the War, there were 224 general and farm publications with just about one subscription per adult. By 1968 there were 285 magazines with about 1.7 subscriptions per adult.

From 1954 (Census of Business) to 1963, the sales of books increased from \$665 million to \$1,548 million — and the 1968 results will show even more.

Even in the electronic field, competition didn't take the turn expected. Since 1950 the number of AM and AM-FM combination stations increased from 2,143 to 4,076 while independent FM stations increased from 86 to 405.

When you put it all together, we are proving an almost limitless capacity to consume — visually and audibly. The retailer has a growing problem — how to penetrate the mass of media.

1970 CENSUS DATA

Perhaps it is an omen for retailers — who will use the 1970 cens data more intensively than they have ever used such data beform planning their growth and development — that the processing will be done in the town of *Suitland*, Maryland.

The Census Bureau hopes to have some data flowing by May, official figures for cities, towns and villages by fall, final state totals by December 1, 1970 and the complete reports by early 1971.

To accomplish this, an entirely new method of processing has been developed. Since the Census Bureau led the way in developing the Hollerith system (forerunner of the punch card) for the 1890 Census and was one of the early developers of computers, perhaps we should watch the new system being used in 1970.

Most of you have already filled out your own form and mailed it back. Remember the instructions to mark the dots with a black pencil? These forms will be microfilmed at the rate of 2 per second while being reduced to about ½" size on negatives. Now the black dots become white. Census estimates that all the data can be filmed in 100 days. Then the film will be scanned by a light beam that will convert the white dots onto magnetic computer tape. This will take about 120 days — the magnetic tape will record the relative position of the dots on the precisely registered forms.

With the dots now in computer readable form, 4 computers (again UNIVACS, a pair of 1108's and a pair of 1107's) will accumulate the data for the various reports on mag tape and these tapes will, in turn, be used through a computer, to prepare fin reports ready for printing at 5 pages a minute while, in so cases, producing accompanying charts and graphs.

The only question to ask yourself — did you put all the right dots in the right place? What about the guy who sneezed, with pencil in hand, and punched an extra black dot on the census form? How will that show up in the final report?

THE ETHICS OF DATA ACCUMULATION—III

Perhaps you missed the story of the data bank being maintained 'y the United States Army on civilians engaging in lawful politil activity. Hundreds, even thousands, of Army intelligence agents were feeding data in through local Intelligence Units on such civilians — and from this data monthly and weekly reports were issued nationally.

Now come the memos from Secretary of the Army Resor and Under Secretary Beal which indicate that the data bank has been destroyed. On closer checking it appears that "destroyed" doesn't mean what one would think it means. The data is still being collected. The originating files still exist. The master deck of IBM cards containing the information is believed to remain. The computer programs remain available.

What did this produce? Reports to all Army posts that there was an anti-draft meeting in Philadelphia and that there was a speech at the Emmanuel Methodist Church in Detroit.

Senator Sam Irvin of North Carolina suggested that the Army re-identify the enemy. He pointed out, "Under our Constitution, that enemy is not the American citizen."

California has moved quickly against the firms that prepare your income tax return with the expectation that from the confidential data provided by the client the firm will be able to reap a harvest of insurance, stock and mutual fund sales plus selling off the list to others seeking certain categories of people (by income, occupation, home owners, stock owners, etc.). Beneficial Finance (Benevest) with their instant refund program, was among those that announced they intended to make the data available to others of their subsidiaries. A specific example was put into the record of a local H & R Block representative using the information on the tax return to try to set up an investment program (H & R Block indicated that this was against their policy - but apparently their control over franchisees is not complete). I talked with a top executive of a local bank that saw in the tax return service the basis of future loans, new accounts and other banking services.

The urgency bill was passed so as to become effective prior to the April 15th tax date. It bans any violation of the confidentiality of information provided for the purpose of preparing an income tax return.

THE F.T.C. IN ACTION

The first action to be reported — and one that had escaped me — is that the FTC has finally decided that stores can use the term "fake fur" without violating the Fur Products Identification Act. This came to light when I questioned the use of the term in one of their own publications — and was told that it was now OK. It is amazing! Logic has finally conquered a small bit of red tape.

No more mailings of unsolicited credit cards after May 18, 1970. A "credit card" has been defined to mean any card, plate, coupon, book, or other credit device existing for the purpose of establishing identity and credit in connection with the acquisition of money, property, labor or services or credit. "Unsolicited" means mailing to a party without the prior expressed request or expressed consent (as when they use an existing card — which may have previously been mailed out without request) to the mailing of such card by the recipient. The FTC has also announced their intention to extend this regulation to banks and other organizations when they distribute cards for the purpose of obtaining merchandise on credit.

The FTC is starting to move in very hard on violations of the Flammable Fabrics Act. Their main problem appears to be with

imported goods that are not properly tested. Included in this is publicity on the attempts being made to notify purchasers (who rely on the representations of the distributor — who in turn often relies on the manufacturer) of the danger inherent in the products they purchased.

Kroger Company was ordered to stop inducing or receiving discriminatory prices from competing suppliers of fluid milk and other dairy products — but charges against Beatrice Foods in the same matter were dismissed. As RT has reported for many years, the FTC is moving slowly but steadily after the buyer who knowingly induces or receives a preferential price, advertising allowance or other thing of value. It seems strange that so many of the major corporations find themselves involved in this area of activity. I suspect that the heads of Kroger classify themselves among the most ethical businessmen in America — as do many other businessmen who daily seek preferential prices and allowances — and who would be the most distressed people in the world if they received a prison sentence for their actions. Our failure to meet these situations head-on is the reason for the article in the box on page 1.

FTC has taken on Vornado (who accepted a consent order) challenging their practices in advertising tires. Unfortunately, most of the claims seem to me very much like those made by most of the tire distributors. The ads claimed 30-day free replacement, lifetime quality guarantee, lifetime road hazard guarantee, wear-out guarantee and nationwide guarantee — while FTC stated that the guarantee representations are limited and are not disclosed until a purchase is made. The FTC also objected to the comparative prices and reported savings on many items.

Everyone has, we are sure, seen the announcement of the first action filed by the FTC under Truth-in-Lending against Zales.

CONTROLLING THE CREDIT BUREAUS

With Ralph Nader charging into the arena, the House started to consider the proposed credit bureau bills. Nader feels that the Senate-passed bill (S-823) is too weak.

Once again, as in the case of Truth-in-Lending, we find a Proxmire bill in the House being challenged by a Sullivan (Rep Lenonor Sullivan) bill in the same area and much stronger. Last time Representative Sullivan won - and the same thing is likely to happen again.

The Sullivan bill would apply to reports used for insurance and employment as well as for credit. This would require that a reporting agency show the individual his file (not just tell him the contents), provide a list of persons who have received information from the file in the last five years, identify the source of information, allow the individual to add statements disputing the accuracy or completeness of information and send such statements to all the past and future recipients of facts from the file.

Bureaus would have to record the disposition of suits — as well as the filings. They could not request immunity as a condition of showing the file. If credit is turned down because of a credit report the retailer would have to tell the customer of this and indicate the agency providing the information. When gathering data, investigators would have to disclose their purpose before collecting the data. The Federal Reserve Board would regulate the forms used for data accumulation and the scope of information that could be collected.

Amendments have been offered seeking to ban or regulate computer-generated dunning letters and development of "profiles" for sale to outsiders.

GOING PAY RATES FOR B-SCHOOL GRADS

Harvard Business School recently released the range of and median salaries for some 414 1969 graduates by type of industry. Here it is for your information:

INDUSTRY	MEDIAN	RANGE
Medical Supplies/Equip.	\$18,000	\$15,000-20,000
Data Processing Services	15,800	12,000-20,000
Chemical and Drug Mfg.	15,000	12,720-18,000
Steel/Metals	15,000	11,500-20,000
Consulting	15,000	10,500-20,000
Miscellaneous Finance	15,000	12,000-24,000
Investment	14,500	7,200-22,000
Forest Products/Packaging	14,450	12,500-18,000
Automotive	14,200	13,200-16,675
Data Processing Equipment	14,000	13,200-18,000
Electrical/Electronic Mfg.	14,000	12,000-22,000
Food and Beverages	14,000	12,000-20,000
Misc., Consumer Goods	14,000	10,640-17,500
Accounting	14,000	12,000-15,000
Real Estate	14,000	12,000-20,000
All Others	13,900	8,400-25,000
Aerospace	13,830	12,500-17,000
Petroleum	13,800	12,600-19,000
Misc. Industrial Goods	13,500	7,800-20,000
Banking	13,500	11,500-20,000
RETAILING	13,500	12,000-20,000
Government	13,000	11,500-14,500
Education	9,500	8,000-13,332

When I left Harvard Business School I had a job with Macy's in New York at \$35 a week - \$5 a week more than they offered to graduates with just a B.A. Times have changed.

WISE GIVING

In the March RT we reported on the publications of the National Information Bureau and suggested that you send for their publications - 1970 Spring Wise Giving Bulletin and the 1970 Tabulation V. Single copies will be sent free - although I asked recently if they would turn down a dollar or so to cover handling and they said they wouldn't.

However, they do suggest that many more corporations might like to become members at just \$25 per year. As a member you will be entitled to receive confidential reports on some 500 organizations soliciting contributions, regular newsletters and bulletins, special consultative services, and the continuing analysis of the major fund drives.

The address again is National Information Bureau, 305 East 45th Street, New York, N.Y. 10017.

HELP AT INVENTORY TIME

For some years, many retailers have been using the services of older people obtained through church organizations. Basically, the stores obtain people with better skills than they could get from state employment offices or other sources.

The firm makes a contribution to the church at a fixed rate for each hour of time donated by the church members. Normally this is at or above the minimum wage requirements.

Recently Wineman's in Huntington Park used the same approach with the local YMCA. Through the Hi-Y clubs they got a mix of 50% boys and 50% girls, including a good number of Mexican-

American students. Pre-inventory training was done a week in advance at the "Y". Teams consisted of 1 store employee and 1 Hi-Y member. The funds were donated to the YMCA branch and then allocated by the YMCA to the Hi-Y club treasuries.

Wineman's reported good results and a good savings on cost.

REGULATING STORE HOURS

On January 1, 1970, the Province of Quebec passed a law called "The Commercial Establishments Business Hours Act" which said that stores could open after 8:30 a.m. Monday to Saturday and close by 5 p.m. on Saturday, 6 p.m. on Monday, Tuesday and Wednesday and 9 p.m. on Thursday and Friday. Fines could run to \$1,000.

Holidays are Christmas and New Year's plus the half days following, Easter, the 24th of June, the 1st of July, the 1st Monday in September and the 2nd Monday in October — plus any other day proclaimed by the Lieutenant Governor in Council.

The exclusions from hour control are interesting: any establishment whose sole activity is newspapers or periodicals; tobacco or related items; meals; commodities to be consumed on the premises; pastries or confectionery; pharmaceutical or sanitary products; autos, trailers or boats; gasoline, motor oil or fuel oil, agricultural machines; or flowers.

Nor shall it apply to any establishment that operates during a 24-hour period with a total of not more than 3 persons including the employers and providing that such an establishment shall not join with another in an association.

Regulation is great — much of Quebec is within comfortable driving distance of stores in the United States.

CATASTROPHE INSURANCE

Individuals and businesses in many areas of the country face tremendous catastrophe losses without a dollar of insurance. If earthquakes, floods, tornadoes or hurricanes are common in your area, you can't buy insurance to protect you. It is only if such events are likely not to ever occur that the insurance companies will write the policies.

There is a simple solution to this — one that has been developed and proven over the years by New Zealand. Levy an assessment against every fire and extended coverage endorsement policy (or the equivalent portion of a block policy) and automatically add these four coverages — earthquake, flood, tornado and hurricane — to all existing policies. The override or assessment would go to the Federal government to fund settlements handled through the insurance company writing the original policy. The override would be established to operate the plan on an actuarially sound basis.

New Zealand started this form of insurance during World War II to provide protection from war risks. Losses did not occur and at the end of the war there was a substantial fund on hand. This led to continuing the plan but extending the range of risks covered.

Unfortunately, it does not appear to be sound to include protection from riots in the original concept (although this might ladded at a later date when the plan is operating soundly — but hopefully we will have solved the problems that cause riots before that time). No one yet knows how to cause an earthquake, tornado, hurricane or flood — but many people know how to start a riot.

PUBLICLY HELD COMPANIES, ANNUAL REPORTS AND AUDITORS

Each year we read many dozens of annual reports of publiclyheld business, both in and outside of retailing. We have a growing oncern about the integrity of these reports.

It was the dishonesty on the part of reputedly honorable men in publicly-traded companies prior to the 1929 Stock Market Crash that culminated in the Securities and Exchange Act in the mid-1930's. In the years since then the SEC and the organized stock markets have attempted to impose higher standards of integrity and disclosure, often over the resistance (frequently with proper cause) of business.

The accounting profession had its darkest hours right after the McKesson-Robbins fiasco in the late 1930's. The American Institute of Certified Public Accountants has and is attempting to impose higher standards and better defined reporting procedures on the members of that profession.

The accounting profession purports to accept a responsibility to the individual stockholders in addition to their responsibility to the Board of Directors to whom the actual report is submitted. Most auditors are now confirmed in their appointment by the stockholders at the annual meeting.

Yet the abuses that are apparent to the experienced reader of annual reports are, at times, shocking. Although the points covered in the cases cited below do not in any way represent actual dishonesty, actual illegality, or violation of any accounting or SEC regulation or standard, they do, as the disclosures indicate, appear to present something less than the complete picture to the stockholders.

RT is concerned that reputable companies indulge in such pracces; and that reputable accounting firms permit their name and certificate to be used in juxtaposition to such reports.

Inadequately disclosed accounting changes

The Signal Companies (Haskins and Sells): Forrest Shumway, President and Chief Executive Officer, and William E. Walkup, Chairman of the Board, start their letter to the shareholders with the following statement: "In 1969 Signal increased its sales 8% to \$1.5 billion and reported earnings higher than in 1968. The results were accomplished in the face of difficult economic conditions." The earnings per share, computed by the auditors, shows an increase before extraordinary items from \$2.50 to \$2.52, and the reported profit from \$51,525,000 to \$52,310,000. The figures on earnings per share do not make reference to footnote 2 which is the footnote which discloses three changes in accounting procedures (applicable solely to 1969 and not adjusted in the 1968 figures), totalling exactly \$15,000,000 or 73 cents per share. The statement of the President and the Chairman of the Board makes no mention of this accounting change. It is a matter that is not entirely unknown to Mr. Shumway inasmuch as we wrote to Mr. Shumway during the year when this situation was first identified in their quarterly reports. It is obvious that this situation raises serious questions - and particularly for the auditing firm that may not have known the full content of the officer's letter when permitting their certificate to be used.

Genesco (Peat, Marwick, Mitchell & Co.): In this report the capital section in the balance sheet is unusual. No breakdown is given by stock classes — there is merely a figure identified as "Stockholders' Equity." On pages 30-31 there are figures showing the ated value for each series of preferred stock, for the common stock, and for both paid-in capital and retained earnings. Normally the common stockholder can determine the book value of his stock by combining the stated value of the common stock with the paid-in surplus and the retained earnings. However, a careful reading of the lengthy statement following each series of pre-

ferred stock indicates a wide variation between the stated value and the liquidating and redemption values — for example, in one case the stated value is \$1.61 per share but the liquidating value is \$100 per share and the redemption value is \$104. In total, the liquidating value of the preferred stock exceeds the stated value by more than \$88,000,000. This means that about one-third of the \$267,000,000 retained earnings is actually covering the excess of the liquidating value over the stated value of preferred stock and thus is not available to the common stockholders. It appears that some publications that utilize this information do not understand this situation. For example, Fairchild's Financial Manual of Retail Stores for 1969 does not disclose this point in their published extract.

Standard Oil Company of California (Price Waterhouse & Co.): Here, again, we have a questionable increase in earnings. The reported increase in profits after taxes is \$2,000,000. The pre-tax profit cannot be determined because the various taxes are merged in the report. The letter from the President states, "Standard Oil Company of California's net income for 1969 totalled \$453,786,000, compared with \$451,831,000 in the previous year. Although worldwide sales and other revenues of the Company gained 6%, earnings growth was restricted generally by increased costs and by adverse prices in Europe, which made it difficult to translate revenue gains into profits." The footnotes indicate that \$14,464,000 was charged against income in 1969 for retirement plans. The 1968 amount is not mentioned - but by checking the 1968 report it was determined to be \$17,432,000. Thus we have a \$3,000,000 drop in retirement plan costs - without indicating the formula for computation in either year - which we must relate to a \$2,000,000 increase in after taxes profits. A further comment on this company will be made in regard to handling LIFO.

General Motors (Haskins and Sells): Contrary to the generally accepted position in the retail industry, General Motors elected not to consolidate its financing and insurance subsidiaries, or its retail operating company. Looking at the unconsolidated balance sheet, as certified and published, GM shows a current ratio of 2.3 to 1 and a debt to net worth ratio of .45 to 1. A rough consolidation shows that the debt to net worth ratio drops from a very fine .45 to 1 to a somewhat below standard 1.3 to 1. It was not possible to recompute the current ratio.

CONILL CORPORATION (Ernst and Ernst): This is the onebank holding company that controls Continental Bank in Chicago. The audit statement at the end of the portion covering only Conill Corporation looks like all others – except for the following sentence, "As we have not examined the statements of the subsidiary Bank, we did not satisfy ourselves as to the amounts stated for investment in Common Stock of Bank subsidiary, equity in net assets of Bank subsidiary in excess of par value of the Bank's Common Stock acquired, and equity in net income of Bank subsidiary. Accordingly, since these amounts enter materially into the determination of financial position, results of operations, and changes in shareholders' equity, we do not express an opinion on the accompanying financial statements taken as a whole." In other words - and in grammatically confusing and obscuring phrases – an auditor's certificate that looks like a full certificate - but isn't. This is not mentioned in the report from the President and the Chairman. But even worse, immediately following the certificate are 4 pages of financials on the subsidiary - the Continental Bank - without a single word to indicate that the Continental Bank figures are not audited!

Disclosure of impact of LIFO on earnings

The Internal Revenue Code contains a peculiar provision on LIFO — the result of the intense feeling of the IRS against allowing this method of inventory valuation. The law says that if a taxpayer elects to report his inventory valuation on the basis of LIFO, then

he must use the LIFO value in reporting assets and earnings to stockholders and when seeking credit. This has been in the code for several decades — and the American Institute of Certified Public Accountants, despite their statements of responsibility to the stockholders, has never established an Accounting Principles statement requiring full disclosure of the impact of LIFO on stated operating results in order that comparison can be made between companies.

United States Steel (Price Waterhouse & Co.): The balance sheet shows an inventory of \$869,000,000. On page 25 of the report, in what purports to be the detailed statement of the inventory, there is the following: "For the most part, inventories are carried at cost as determined under the LIFO method, and the remainder is carried at cost or market, whichever is lower. The LIFO method was adopted in 1941 and extended in 1942 and 1947." Using government indices on the prices of ferrous metals products, iron, steel and others, it appears that this inventory, on a LIFO basis, is stated at from \$250 to \$500 millions less than it would be on LIFO. If this estimate is correct, then since 1941 earnings have been understated by a like amount. The accountants, despite their responsibility to the stockholders, have never given any indication of the importance of the LIFO election in their certified report. The company, in the statement of the President, protests that a return of 4.5% on sales is inadequate "in the interest of stockholders, employees, customers and the economy of the Nation" but does not indicate in any way how the tremendous inflation of 1969, all charged to the current year under LIFO, affected the reported profits - both dollars and percentage of

Standard Oil Company of California (Price Waterhouse & Co.): There is even less disclosure here about the \$360,000,000 inventory figure reported. The footnote reads, "Crude oil products and other merchandise are stated at cost (about 64% on the LIFO method and the remainder generally on the FIFO method) which in the aggregate is below market." The accountants, in their responsibility to the stockholders, did not feel that it was pertinent to disclose even the dates when LIFO was adopted. Thus the most inquiring stockholder has no way of estimating the degree to which reported earnings have been affected.

R. H. Macy & Co., Inc. (Touche, Ross & Co.): Here is a company that led the court fight to obtain LIFO procedures for the retail industry. The published report discloses the amount of the LIFO reserve at the end of the most recent fiscal year without disclosing the amount at the end of the prior year, for which comparative figures are included in the report. In the 10-year statistical summary no mention is made of the LIFO reserve. Following the General Motors plan, Macy Credit Corp is not consolidated so that some \$96,000,000 of current liabilities and \$27,000,000 of long-term debt are excluded from the combined balance sheet. The additional \$123,000,000 in debt would have a serious effect on the debt-to-net-worth ratio, which is already below the traditional standard of 1 to 1, and the current ratio, which likewise is below the traditional level of 2 to 1.

Woodward & Lothrop, Inc. (Lybrand, Ross Bros. & Montgomery): Contrary to the Macy procedure, this firm does set forth in the footnotes the LIFO reserve as of the end of both years. The Chairman and President, in their report to stockholders, makes the following very clear statement of the impact of LIFO: "The LIFO basis of inventory accounting permits us to withhold Federal income taxes on these earnings (note: referring to the amounts for each year) which taxes otherwise would be due and payable. We feel the LIFO method of evaluating merchandise inventories, while it reduces profits during the time of inflation, serves the purpose of a long-term, interest-free loan." Certainly this is a clear statement; analysts do not have to dig to find out how to compare Woodies with companies not using LIFO, and the stockholder is benefited.

Other retail firms: We do not have the current (January 31, 1970) reports on the following companies but we presume that they will continue their past practices. Carson, Pirie, Scott & Co. (Arthur Anderson & Co.) has the most complete LIFO disclosure that we RETAILING TODAY — APRIL 1970

have seen. The 10-year summary shows for each year (1) the amount of the LIFO reserve, (2) the amount of the adjustment in the reserve made during the year, and (3) the net effect of the LIFO reserve adjustment on per share earnings for the year. Certainly this is not too much to expect from reputable companies and leading accounting firms. Emporium-Capwell Company (Ernst and Ernst) has, in the past, in their 10-year summary clearly set forth the balance in the LIFO reserve at the end of each year. The more sophisticated stockholder, faced with a merger with Broadway-Hale can readily take the increase in the amount of the reserve, reduce it by half to allow for taxes, and then divide by the shares outstanding to determine the "per share" impact - because such a comparison is necessary when looking at the proposed stock exchange between the two companies. In recent years Emporium-Capwell Company has been hurt, relative to Broadway-Hale, because of their election to report inventory on LIFO but have gained in excess of \$2,000,000 interest-free capital. To date, no published report that I have seen on the proposed stock exchange has clearly set forth this difference between the companies in their accounting procedures.

A final thought on accounting changes and LIFO:

Perhaps it is apparent to you that RT feels strongly that if integrity is truly a factor in big business — whether that business be one of the companies reported or one of the auditing firms — that there is only one way to report a major change in accounting procedures. That way is loud and clear — so that no stockholder ever misunderstands; so that no analyst ever misunderstands. One of the reasons for having the auditor selected by the stockholders is to insure that the Company clearly presents such changes. If the auditor is not able to convince the company that a clear disclosure must be made in the portion of the annual report not under the control of the auditor, then the auditor should, it seems to me, disassociate themselves from the Company. I would emphasize again that everything I know about the above situations was obtained by reading the material published by the Company.

And then there is the responsibility of the American Institute of Certified Public Accountants. For several years we have written to the Institute urging that something be done on the manner of disclosing LIFO valuations of inventory. I have not had a reply from the Institute that would indicate that any action is likely in the near future. It would seem that this ruling would be one of the simpler ones that could be put out — considering that the Institute has already learned how to classify an estimated, indefinite liability as a current liability of precise amount (referring to deferred income taxes on receivables reported on an installment basis).

A word about officers, directors and stockholdings

In the process of reading so many annual reports, we also read a great many proxy statements which set forth the compensation of officers, and the shareholdings of officers and directors. We often wonder whether the thousands of shareholders are really being bamboozled when we see officers with substantial salaries who hold only a few shares of stock in the company (although in some cases they have options at prices far below current values) and when we see some directors who, we know from proxy statement of their own company to have incomes in the \$100,000, \$200,000 or higher range, but who hold investments of only \$2,000 or \$3,000 in the companies they direct. I know that an argument, in regard to outside directors, can be made that the value of the director's counsel is what is sought — not his investment. But the nagging thought remains — do these officers and directors know something that we don't know?

Studying other annual reports: RT intends to continue this survey of annual reports, with emphasis on retailing. Any comments you may wish to make, for or against this program, would be appreciated.

RETAILING TODAY always welcomes communications from readers whether they damn or praise.

RETAILING TODAY

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THE ETHICS OF COLLECTION WORK

I was pleased to be asked to address the National Convention of the Credit Management Division of NRMA when they met recently in San Francisco — and doubly pleased to be the first speaker in the long history of this organization to speak to the subject of ethics in collections. The following is a summary of some of the points raised — points which you might contemplate and apply to your own firm.

If we can agree that society took the right step when it eliminated debtors' prisons long ago, on the basis that putting a man in jail doesn't produce the means of paying the debt, then can we justify a collection procedure that involves wage attachments or garnishments at plants where it is known that employees will be discharged after two or three such actions?

'f such actions as attachments or suits are left solely to the ollection agency to whom accounts are assigned, are we right in judging such agencies only on the percentage recovered without a thorough review of the methods they use?

Is it ethical to use "attorney letters" signed by the attorney but mailed by the store, particularly if the threat of suit is an empty one?

Is it ethical to expect customers to meet their payment obligations when a store mails out statements so as to arrive only 5 to 7 days prior to the end of the next cycle?

Is it ethical to establish computer procedures, including computer dun letters, when we are not prepared to answer letters from customers promptly nor are we programmed to stop dunning procedures until such differences are resolved?

Is it ethical to establish account history print-outs that cannot be corrected retroactively to eliminate indications of a bad payment record when the real cause was a company error in charging the customer, failing to record a credit or failing to reflect a payment? And what about when we design systems that correct only the principal amount without simultaneously correcting the additional finance charges erroneously levied but now concealed in the balance?

Is it ethical to dump data from computer to computer as a means of creating data banks for credit investigation purposes without (1) an industry-wide agreement as to what constitutes "slow pay" and other classifications, (2) without human editing to be sure all f our own errors have been corrected before we slander our most aluable asset, our customers; and (3) without having a thorough knowledge of owners of the reporting agency? (Could they be from the Mafia? Would you know?)

Is it ethical to provide data on your customers (remembering that most of the data provided is favorable because most of your

THE URBAN LEAGUE AND RETAILING

Our cities are quiet at the moment — the students and the War in Vietnam are the generators of the unrest in our communities. But with the limited success in controlling inflation, despite the rising unemployment rates, it is obvious that unemployment is going to go considerably higher than the 5% that the Administration has set as the highest acceptable level. The May figure could reach 5%.

Unemployment strikes first and hardest at the lower skill levels — and this means the young people, the poor and the minority groups. Job retention based on seniority will force the layoff of many of the minority employees added to payrolls as a result of the programs of the National Alliance of Businessmen and the Urban Coalition.

This will bring added pressures in our communities — and major retailers will be among the first to feel these pressures. Before the pressure comes, consider whom you might turn to for advice.

Whitney Young, Jr., when addressing the Robert Morris Associates (a banking group) in 1968, made this observation: "An organization like the Urban League that has been in business 58 years deserves better than what banks are doing for them now. Overnight, banks have given \$100,000 to the Urban Coalition and then given the Urban League \$5,000. Any kind of new idea that comes along they take off and say, "Let's invest in that."

As a member of the National Budget and Consultation Committee it has been my privilege for the past three years to review the budget of the National Urban League. With local leagues in 95 metropolitan areas (and service available in other areas) the Urban League offers a wide variety of programs that can be helpful to retailers. These include Labor Education Advancement Program (LEAP), On-the-job Training, and secretarial training. In San Francisco, the local league conducted a one-year program in cooperation with the San Francisco Retailers Community Relations Group resulting in the hiring of 71 hard-core unemployed. Special cooperative programs are underway with two major men's clothing chains — Smith's and Grodin's.

The best plans are those that are made in advance of the crisis. If you aren't doing your share in providing opportunities for minority groups in your community, if you do not have a black or a chicano or other minority member that you know is headed toward a full executive position in your store (substitute bank, accounting firm, investment house, etc. for other readers), starting now is too late — but still it is better than not starting at all.

accounts pay satisfactorily) to data banks without knowing and agreeing with that agency's policy on disclosing data to government agencies, as part of personnel reports, or even for specialized mailing lists?

My concluding remarks were: "I don't have the answer to many of these questions — and I find difficulty in reaching an answer because so few people are talking about these facets of collection. But if you want to walk with your head up — as a citizen-member of a moral society, you had better start thinking and talking about some of these questions."

WHERE IS OUR ETHICS COMMITTEE?

I was interested in talking to a long-time reader, Frank Chambers, President of Continental Capital Corporation, to find that he is the Chairman of the Ethics Committee of the National Association of Small Business Investment Companies. This got me to wondering. Where are the ethics committees in the retail trade associations? Perhaps that is why there is so little dialogue on ethics, perhaps that is why our children wonder what our motives are when we spend each day at the store or office?

Yesterday was the right day to start such a committee; the day before would have been even better; but since we only have today and tomorrow, let's move in on this subject now.

WHICH EMPLOYEE DESERVES YOUR LOYALTY?

In my consulting practice I find a common problem in many firms — a condition that is slowly strangling the operation. This is the old, loyal employee who is no longer (perhaps never was) capable of performing his job. Very often this is the oldest employee and he is in the number 2 position.

When I discuss with the principal the qualifications of the man and the problem caused to the organization, the principal is usually inclined to stress the company's responsibility to the employee. I must then inquire about the responsibility of the company to the other 49 or 99 or 499 employees whose future security depends upon the growth and soundness of the company.

This puts the problem in perspective - and draws the principal's attention to the area of greatest responsibility. After this, it is usually possible (with some guidance from the Peter Principle) to find solutions that recognize the obligations to the old employee as well as to the other employees.

EMPLOYMENT APPLICATIONS - REVISITED

New York passed a law requiring every employee of a stock exchange house to have their fingerprints processed. New York's Attorney General reported that only 1.5% of the people checked had ever been arrested — compared with an average of 4% found in industry generally. There were 14 principals or partners who had been arrested — the news media erroneously reported that they had a criminal record — of which only one had ever been convicted.

The one man who had been convicted is now 34 and when he was 21 he was convicted of petty larceny. For those who argue that we should ask about arrests on employment applications, please note that this man is now a partner in a small investment firm and he had never disclosed his record to his partners. Ask yourself whether he should have been required to disclose these details from 13 years ago when he was a very young man.

DO AS I SAY, NOT AS I DO

This seems to be the position of our major banks. When they are lending money to retailers they are very much concerned about the "strength" ratios — and particularly the ratio of total debt net worth. Traditionally the desired ratio has been 1 to 1. Is "traditionally" because every year reveals more major "gimmicks" used by retailers to artificially produce a good current ratio and a good debt to net worth ratio. This point is dealt with in detail elsewhere in this issue.

When testing banks, the ratio used is stockholders' equity or total capital (the latter including some forms of capital notes that meet the requirements of capital) compared with total deposits. In the table below, for each bank, there are three figures:

- 1. 1965 Ratio (%) of equity to deposits as published.
- 2. 1969 Ratio (%) of equity to deposits as published.
- 3. 1969 Ratio (%) if no dividends had been paid during 1965-1969

BANK		2	3 1969 % if no
	1965 %	1969 %	Dividends
Bank of America	5.7%	5.1%	6.5%
Chase Manhattan	7.9%	6.1%	7.4%
Continental Illinois	9.9%	8.4%	n.a.
Crocker-Citizens	6.3%	6.0%	7.8%
Mellon National	15.2%	12.4%	15.4%
J. P. Morgan	13.4%	9.1%	11.5%
Security Pacific	8.0%	7.9%	9.4%
United California	8.1%	6.2%	7.8%
Wells Fargo	9.6%	8.3%	9.5%

The pattern is one of shrinking stockholder security behind the deposits in our major banks. Much of this is due to the demand of borrowers in the face of tightened control on the money supply; but a significant part is the management pressure for greater leverage for the equity holders so as to increase their per-share earnings.

Despite the decreasing equity protection, the banks have increased their per-share dividends as shown by the table below:

	DIVIDEND RATE	
	1965	1969
Bank of America	\$ 2.00	\$ 2.20
Chase Manhattan	1.33	1.75
Mellon National	1.73	2.20
J. P. Morgan	2.00	2.40
Security Pacific	.90	1.17
United California	1.90	2.30
Wells Fargo	1.00	1.60

The next time your banker suggests that as a condition of the loan that you eliminate or restrict dividends, you might, if the figures above are typical of your bank, suggest that if he did the same thing then (1) the bank would have more money to lend and (2) the security on your "compensating balance" would be greater.

RAPID GROWTH

Scanning the reports of special censuses usually is boring — untago you come across something like Glendale Heights village in Du Page County, Illinois. In 1960 the population was 173 and on December 10, 1969 it was 11,001 — an increase of 6,258.9% (note: the Census Bureau NEVER drops the figure to the right of the decimal point).

THE BATTLE AGAINST BANKRUPTCIES

Several years ago it was common to read in our retail literature long articles about how the moral fiber of our customers was sappearing, how consumer credit was in danger, and how the ourts had made it so easy for customers to avoid their debts.

I was interested recently to see the figures on non-business bankruptcies. They increased every year from 89,000 in 1959 to 192,000 in 1967. But then a change took place — the total number declined by 10,000 in 1968 and by another 12,000 in 1969, a decline of 12% over the 2 years.

In some areas, of course, the decline has been even greater than 12%. Why? One of the reasons is that the credit fraternity met the challenge. Counseling service, supported by credit grantors, is available in more and more cities. More and more high schools are giving courses that include instruction on how to use credit without being destroyed by credit. In some areas there has been an increase in the use of the Wage Earner Plans — although there is still much to do to maximize the benefits from this program.

Perhaps there is a lesson to be learned — particularly for those who projected that bankruptcy would soon become a way of life. The lesson is simple — people are still basically honest. They get into credit difficulties more through ignorance or personal situations than through intent. Given a helping hand, fewer will go through bankruptcy.

But there is still a big job to be done. Some attorneys still recommend bankruptcy rather than wage-earner plan because the allowable fees to the attorney are higher. Some people fail to complete the wage earner plan because part of the credit industry considers this a "bankruptcy" just because it is included in the Bankruptcy Act.

THE LEGAL PROBLEMS OF TIME-SHARING

Time-sharing is boosted as the way of living with computers in the future. We regularly read of the day when every little store will have their own terminal hooked into some computer utility where they have all the benefits of the biggest computer and best programs available without the cost or the technical staff.

Attorney Robert P. Bigelow wrote about "Some Legal Aspects of Commercial Remote Access Computer Services" for *Datamation* (August 1969) and raised many interesting points, to which I have added some of my own.

Who owns the program? If you switch from one firm to another, in what form do you have your records returned? Where do you stand if the service fails to perform the services contracted for? Is it different if the failure is due to incompetency, to strike, or to mechanical failure?

If all data is stored in magnetic form, will the print-outs serve a legal purpose? Will the documentation on disc procedures (without grandfather and father tapes) meet audit requirements of the Internal Revenue Service?

Are your records secure? Could an employee of the computer company cause improper checks to be issued, selected charge accounts to be improperly credited, duplicate payroll checks to be issued?

\f an industry joins together to operate a central computer system are there problems with the anti-trust laws?

Remember — the computer companies design machines that do things; and the salesmen sell benefits and economies; but you, as a principal, carry all the liability and take most of the punishment.

THE DEATH OF THE CURRENT RATIO

There was a day when all retailers recognized that a current ratio of 2 to 1 reflected a sound company and when a debt to net worth ratio of 1 to 1 confirmed that soundness. But as Gilbert and Sullivan wrote, "Things are seldom what they seem, skim milk masquerades as cream." And so it is with our major retailers and their cooperative accounting firms. Here are a few examples, that are a bit different, after carefully reading, than they appeared to be at first glance.

Strawbridge & Clothier (Ernst and Ernst): Approximately \$7,800,000 of flexible accounts were sold as of January 31, 1969 and 1970, improving both ratios.

J. C. Penney Company, Inc. (Peat, Marwick, Mitchell & Co.): The presentation of the financial data is about as confused as it is possible to be — perhaps a result of attempting to provide more information. The income statement and balance sheet are in their conventional position at the back of the report — and follow the accountant's report which contains the following unusual sentence, "In our opinion, the accompanying financial statements together with the 1969 Review of Operations and Financial Information on page 22 to 28 (note: these pages precede the statements which are on pages 30-31) present fairly the financial position of . . ."

The statements are headed "J. C. Penney Company, Inc. and Consolidated Subsidiaries." On page 26, in a format difficult to read, one could learn that the statements on pages 30 and 31 include only the merchandising and real estate subsidiaries — with the financial, insurance and European subsidiaries reflected only at equity plus net income since formation or acquisition.

The published report reflects not quite a 1 to 1 debt to net worth ratio and 1.5 to 1 current ratio – despite the fact that the balance sheet does not include \$559 million of net additional debt in J. C. Penney Financial and \$78 million in J. C. Penney Europe, Inc.

The introductory statement to the stockholders indicates that management was "(d)isappointed, because net income, while a record \$110.9 million, or \$2.15 per share, increased only 1.5% over 1968." At this point they do not disclose that the increase is only \$1.7 million — while the impact of a *policy decision to reduce* the reserve for bad debt from 3% to 2% (resulting in an improvement in after-tax profits of \$3.5 million) is casually disclosed on page 24! Would the stockholders report have been less difficult to read if profits had increased by 20% without resorting to policy changes in bad debts?

Mercantile Stores Company, Inc. (Arthur Anderson & Co.): This company is quite proud of their current ratio — in the financial highlights they indicate that it increased for the year ending January 31, 1970 to 2.76 to 1 from 2.67 to 1. But the balance sheet indicates clearly that a substantial portion of their accounts receivable are sold at year end (\$17 million out of \$34 million at year ending January 31, 1970 and \$12 million out of \$32 million the prior year). If we adjust the balance sheet for both years by increasing receivables to the uncollected balance and reflecting a like amount as a current liability, we find that the current ratio did increase — but only from 2.06 to 1 to 2.16 to 1! The debt to net worth ratio, even with this adjustment, still shows substantially better than 1 to 1.

Broadway-Hale Stores, Inc. (Price, Waterhouse & Co.): This balance sheet is sort of a hodge-podge since Emporium-Capwell (50.3% owned) follows one policy (LIFO and owned receivables reported on an installment basis) while Broadway-Hale follows another (FIFO and sold receivables). A quick glance at the published balance sheet indicates a current ratio of 2.16 to 1; but if the sale of the receivables is reversed and current liabilities increased by the same amount, the current ratio is reduced to 1.82 to 1.

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Again, this is a report that is difficult to study because the notes are not referenced to the statements. However, considering as an asset the \$40 million excess cost over the net assets of acquiring the stock of Emporium (supported by the current market price of E-C stock) and considering the minority interest in E-C as part of capital, this company falls short of the traditional debt to net worth ratio of 1:1 and it falls even shorter if the accounts receivable are fully stated.

One interesting point did come out of reading the fine print — B-H is writing equipment leases for periods up to 15 years. I sometimes wonder whether patterns of retailing will stand still long enough to find out whether or not the fixture manufacturers are making fixtures that will last for 15 years.

City Stores Company (S. D. Leidesdorf & Co.): City Stores Credit Corporation is the only subsidiary that is NOT consolidated and thus \$39 million in liabilities are excluded from the "most consolidated" of the two balance sheets reported (one includes all subsidiaries except real estate and credit while the most consolidated one includes all subsidiaries except credit). In addition, excess of acquisition cost over assets is included under the name "Sundry investments and other items." An apparently strange mix of inventory left the LIFO reserve unchanged between February 1, 1969 and January 31, 1970 despite the inflation that occurred nationally.

Associated Dry Goods Corporation (Touche Ross & Co.): Again, the notes are not keyed to the statements with the result that the reader must dig to learn that the "Consolidated Balance Sheet" does not include the Associated Dry Goods Corporation with some \$25 million additional debt. In this case the additional debt would not bring the current ratio below 2 to 1 nor the debt to net worth ratio below 1 to 1. But in future years it probably will.

Federated Department Stores, Inc. (Touche Ross & Co.): Here is the tower of strength and conservatism. Despite reporting their inventory on LIFO (after a LIFO reserve of \$38 million) and including ALL accounts receivable (they quit selling them in 1964), this company reports a current ratio of 2.1 to 1 and a debt to net worth ratio of only 0.7 to 1. Even with ratios, Federated reported a return on ending net worth of 13.2%!

CREDIT FOR WELFARE RECIPIENTS

It is interesting to follow the announcements of major retailers as they experiment with limited credit accounts for the poor. It is interesting because the major firms start without searching the field to discover what has been done before.

In 1954 when I was Vice President and Treasurer of Sherwood Swan and Company in Oakland we started extending credit to welfare recipients, most of whom came from minority groups. We made some mistakes — and lost some money — but we learned what other stores will learn. Welfare recipients are just like other people — most of them make every effort to pay their bills. And like other people, they find themselves with fixed income and fluctuating needs.

Do you think that welfare recipients are different from other people when their children go back to school in the fall and have to be outfitted? Or at Christmas time when needs again peak?

At Swan's we found that our credit system — using only coupon books — had many advantages in this area (to supplement the advantages of avoiding writing saleschecks on the floor — keeping the system a "cash" system). Many retailers have forgotten the benefits of pre-controlled credit through coupon books. Just think of the wonders of a credit system that doesn't require a written salescheck, doesn't require any authorization, doesn't involve floor limits, doesn't involve customer identification, and

is completed when the cash register is rung. Coupon books with \$1 and \$5 coupons, with change given up to \$1, provide all of those benefits.

AND NOW FOR YOUR OWN HEALTH

Here are the changing odds on you — assuming you have life insurance. A comparison of the causes of death based on holders of life insurance for the years 1950 and 1967 show the changing odds.

You are more likely to die from cancer (up 2.5% to 19.8%), pneumonia (up .9% to 2.8%), motor vehicle accidents (up .5% to 3.6%), homicide (up .1% to .4%) and "miscellaneous causes" (up 1.6% to 13.6%).

And now for the good news. You are less likely to die from TB (down 1.1% to 0.2%), heart dieseases (down 1.6% to 40.2%), nephritis and nephrosis (down 1.1% to 0.7%), cerebral hemorrhage (down .7% to 8.1%), suicide (down .6% to 1.6%), and diabetes (down .2% to 1.1%).

BLACKOUTS ARE COMING

In the January RT we warned that power failures are likely to increase this summer. Consumption of electricity is growing much faster than capacity is coming on line. The GE strike caused a delay on many plants. Fights over locations of atomic power plants have delayed many plants by years — just as have slow delivery of equipment and failure of plants to reach designed capacity.

Recently Consolidated Edison indicated that there would by brown-outs again this summer in the area it serves.

The prudent store operator, especially in northeast United States, should have some form of plan to deal with the problems that arise when there is a power failure. What to do about people on upper floors, caught in elevators, air conditioning equipment on a time clock, areas where there is no natural light and many more problems. Stores with freezer equipment — either for food or for restaurant purposes — should have emergency plans. A power failure at night could be even worse — imagine a dark parking lot and people trying to find exits — assuming they can find their cars in the lot after they find their way out of the store.

MISSING MERGER INFORMATION

The Boards of Broadway-Hale and Emporium-Capwell (which is 50.3% owned by B-H) continue to try to work out acceptable merger terms.

It is most interesting that no one is making the earnings history of the two firms comparable. Emporium-Capwell's uses LIFO for valuing their inventory with the result that the earnings for the years ending January 31, 1969 and January 31, 1970 were materially affected. Broadway-Hale uses conventional FIFO with the result that inflation has assisted their reported earnings.

It would seem to me that before the Emporium-Capwell stockholders can clearly understand the relative value of the stocks they must have a comparison that shows what E-C would hav reported if they had used FIFO. The fact that the Internakevenue Code requires that firms using LIFO present their financial statement to stockholders and for credit purposes on a LIFO basis does not mean that management cannot also show what earnings would have been on a FIFO basis (See RT April 1970 and comments on the Carson-Pirie-Scott presentation).

RETAILING TODAY – STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

A new record for late billing was set by A. Sulka's – 41 working days from cycle closing to postmark. Such abnormal delays cause problems for the entire retail industry. The problem was apparent from the ratings in October and November.

The Honor Roll is up 1 – and more of the smaller stores (often not on computer) are getting their billing procedure in hand.

J. Magnin	Ross Dept. Store
Marshall Field's4.0	I. Magnin
Rhodes 4.0	Breuner's
Ransohoff's4.5	Sears (So. Calif.) 5.0

CREDIT OFFICE RATING Feb – Mar. 1970

Dec. - Jan. 1970

		reb – Mar. 1970		L	Dec. – Jan. 1970			
STORE	9-8 5-8 1-8	NO. OF REPORTS	DAYS T AVERAGE	O BILL RANGE	NO. OF REPORTS	DAYS T AVERAGE	O BILL RANGE	
Abraham & Straus (NYC) Breuners (Oakland) Brown-Mahin (Stockton) Capwell's (Oakland) City of Paris (S.F.)		1 1 3 14 4	9.0 5.0 8.0 11.0 10.5	9 5 6-9 6-20 8-15	1 2 10 9	7.0 11.5 11.9 14.1	7 11-12 9-14 11-19	
Dunhills (NYC) Emporium (S.F.) Ford's (Watsonville) Grodins (No. Calif.) Gump's (S.F.)	2776 s. 1	2 5 2 2 2 2	17.5 9.6 5.5 8.0 11.0	13-22 3-12 4-7 6-10 10-11	1 2	14.0 11.5 14.0	14 10-13 14	
Hink's (Berkeley) Holman's (Pacific Grove) Kauffman's (Sacramento) Levy Bros. (San Mateo) H. Liebes (S.F.)		4 10 1 16 2	9.5 5.5 9.0 11.6 17.0	7-12 4-7 9 7-17 10-24	(F) _(F) 5 11 0301 14	9.0 8.4 11.7	5-12 6-11 8-14	
Livingston Bros. (S.F.) Macy's (NYC) Macy's (S.F.) I. Magnin (S.F.) J. Magnin (S.F.)		2 2 11 7 1	14.5 8.5 13.0 4.9 3.0	14-15 7-10 11-18 4-5 3	3 1 9 16 3	17.0 7.0 11.4 4.1 3.3	16-18 7 9-12 4-8 3-4	
Marshall Field (Chicago) Mervyn's (San Lorenzo) Montgomery Ward (No. Cal.) Peck & Peck (S.F.) Penney's (No. Cal.)		1 2 5 2 6	4.0 8.0 6.8 15.0 6.7	4 6-10 5-8 13-17 5-8	4 5	7.5	7-8 2-7	
Podesta Baldocchi (S.F.)		1	7.0	7	2 10	8.5	7-10	
Ransohoff's (Ś.F.) Rhodes (No. Cal.) Ross Dept. Store (San Bruno Saks Fifth Ave. (S.F.) Sears (So. Cal.))	4 8 4 3 1	4.5 4.0 4.5 10.0 5.0	3-6 3-5 4-5 9-11 5	2 9 7 2	9.0 4.7 4.6 14.0	8-10 3-7 4-5 13-15	
Sears (No. Cal.) Shreve & Co. (S.F.) Smiths (No. Calif. A. Sulka (NYC) Wallach's (NYC)		6 1 2 2 2	6.7 34.0 11.0 37.0 6.5	4-11 34 11 33-41 6-7	7 1 2	7.4 19.0 6.0	5-8 19 5-7	
TOTAL	S1) na24 (E)	142	9.36	3-41	129	8.96	2-19	

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED - THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride - both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

BALANCE AT RISK

		5.A	A ⁽¹⁾	31012 30	eCl 300/E	E ⁽¹⁾		ningal)	G ⁽³⁾	
MONTH		1968	1969	1970	1968	1969	1970	1968	1969	1970
Jan.		4.8	6.1	4.6	4.2	4.6	3.3	7.1	7.9	7.0
Feb. Mar.		4.8 4.6	4.5 5.4		5.1 5.0	4.6 5.7		6.9 5.7	7.2 6.6	7.9 8.1
Apr.	DAYS TO	3.3	5.1			3.7 4.2		6.0 5.3	7.1 7.0	
May June		3.6 4.9	5.0		5.4 6.4	3.9		4.4	6.4	
July		5.7	3.9		5.6	4.3		5.5 5.8	6.5 6.1	
Aug. Sept.		6.0 6.4	4.0 3.5		5.8 6.3	2.8 3.2		6.0	4.7	
sept.		0.4	3.3		0.3	3.2		0.0		
Oct.		5.8	3.5		5.6	2.9		N.A.	4.8 4.5	
Nov.		4.7	3.8	40.51	5.2	3.2		5.3 4.7	4.5	
Dec.		4.9	4.0		5.4	4.6		4.7	4.8	
			H ⁽¹⁾	经	33	I ⁽¹⁾			J ⁽¹⁾	off Charles
MONTH		1968	1969	1970	1968	1969	1970	1968	1969	1970
Jan.		13.7	10.5	11.0	2.1	2.3	3.5			4.9
Feb.		8.6	5.9	11.4	3.6	2.3 2.5	2.1			3.3
Mar.		8.8	8.9		3.9	2.9	2.8			4.0
Apr.		8.7	8.8		3.1	2.7				
May		11.2	8.6		3.0	3.0				
June		10.6	8.9		3.1	3.4				
July		10.2	9.8		3.2	3.8				
Aug.		8.9	10.1		3.4	3.6				
Sept.		10.7	7.8		4.1	4.0				
Oct.		7.0	8.1		3.6	4.9				
Nov.		7.6	7.0		3.2	5.0			7.0	
Dec.		7.8	6.6		2.7	4.8			6.4	

NOTES:

- (1) Annual write-off
- (2) Quarterly write-off
- (3) Monthly write-off

WHAT IS "BALANCE AT RISK"? "Balance at Risk" is the PERCENTAGE representing the relationship of the outstanding accounts receivable balances ON WHICH NO PAYMENT HAS BEEN RECEIVED FOR TWO CYCLES to the total of outstanding account balances.

WHY USE "BALANCE AT RISK"? With the development of revolving accounts conventional aging procedures proved unworkable. Stores attempted, often by hand, to age cycles at least once a year. Even the aging formula proved unworkable. At the same time customers, when charged additional service charge for the month in which payments were skipped, were not prone to catch up. Since most stores using a billing machine — cycle posting system "flagged" accounts with two or more payments missed, it was simple to run an adding machine tape of "flagged" accounts for each tray on each billing date. Thus it was possible to have a complete QUALITY report every month, with considerably less cost than sampling each cycle once a year.

ARE THERE PROCEDURE RULES? Yes, the amount paid is disregarded (tests show that few customers make token payments). A single payment of ANY AMOUNT classifies the account as current (since it indicates acceptance of the amount billed and confirms the creditor's address). If no payment is made for two cycles the ENTIRE BALANCE (rather than the skipped payments) is considered at risk. Since no judgment is involved, any two clerks should get exactly the same total.

HOW CAN ONE INTERPRET THESE FIGURES? First, recognize that there is a seasonal pattern. Second, there is a build-up between write-off periods. Third, a store with 6-month revolving terms should have a lower "balance at risk" percentage than one offering 24-month revolving terms. Finally, variations between years, ON A COLLECTIVE BASIS, is a sensitive measure of changing credit climate.

HOW ARE REPORTS OBTAINED? Volunteer stores (largely clients) submit a SINGLE PERCENTAGE FIGURE once a month on a post card. YOU CAN VOLUNTEER.

RETAILING TODAY

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VOL. 5, NO. 6

ROUTE TO INITIAL

JUNE 1970

DO YOU REMEMBER 1929?

In recent weeks there has been a great deal of talk about being on the brink of another 1929. This makes a great talking point — but I suspect that most of the people doing the talking don't really recall the 1929-1937 depression; at least, they don't recall it from an executive position. If you are one of those who thinks we are headed for "another 1929" (or even if you don't think so), here is a review of what happened. Much of this has been taken from Federal statistics, old Harvard Reports (Financial and Operating Results of Department and Specialty Stores) and a Research Bulletin (No.166) published in 1963 by Professor McNair and his assistant, Mrs. May, entitled "The American Department Stores 1920-1960" which included a special analysis of 76 department stores that had reported every year from 1929 to 1953.

This latter study may be a much more valid measure of the impact of the depression than are the individual annual figures reflecting a changing sample each year. On the other hand, the 76 tores that reported every year for 25 years must be a special group — a financially strong and well managed group of stores — because all of them, obviously, survived the depression.

The first question is: "What happened to sales?" This is set forth in Table I. (The floor area was reported by only 41 stores). Although the number of stores remained about constant (several department stores were multiple operators even in 1929), there was a moderated physical expansion of stores as reflected in the increased square footage.

TABLE I

Year	Sales	No. Stores	Floor Area*
1929	100	100	100
1930	96	101	104
1931	82	101	106
1932	64	98	111
1933	62	100	110
1934	71	99	109
1935	74	99	108
1936	83	100	110
1937	87	102	112

* Floor area was reported by only 41 firms for all years

In Table II the sales pattern is compared with the B.L.S. Cost of Living Index for the apparel and the home furnishings components. It is apparent from Table II that with prices in 1933 down about 25% from 1929 and sales down 38% that unit volume was off only 15%. Most of the decline in dollar sales volume was a result of price decline. There is a question whether such a price decline could occur today. (It should be noted here — and will be set forth later — that other types of retailing showed a greater drop than department stores). This drop in unit volume of 15% occurred when unemployment, on an average annual basis, increased from 3.2% in 1929 to 24.9% in 1933, and recovered to only 14.3% in 1937.

CONTROLLING SHRINKAGE

The first step toward controlling shrinkage is to forget the term "shrinkage" and start calling it something irritating like "loss due to failure of management control."

The most popular sessions at the recent Controllers Congress Convention were those related to this loss. Annual reports have placed great emphasis on the reduced profits related to this loss of control. Specialists report that a substantial portion of the loss is due to employee dishonesty.

Most of the suggested solutions are what I call "other people actions" like better pre-employment clearance, installing closed circuit TV systems, more intensive test shopping, modified store layouts, and better training of sales-people. All of these steps are necessary and probably helpful -but they are not the key step that has to be taken.

Norval Prugh, now of Manchester's in Madison, Wisconsin, a long-time specialist in this area, has stressed for years that the first step must be management's attitude. Management must be concerned. Then it must understand their own approved procedures and see that they are followed. How many times when you walk through your store are you aware of merchandise without price tickets, employees not ringing sales before wrapping, a "No Sale" rung on a register, or what the salesclerk does with an incorrect cash register entry? A high percentage of your buyers and store executives don't even notice these details — and when a problem is drawn to their attention may even resent having the matter raised.

The first step, then, is not just concern but alertness at the top — which will soon be followed by alertness in the middle. Each time you go through a store make it a point to detect and call attention to at least one improper procedure. (If you wonder what can go wrong, send for our list of "58 Causes of Inventory Shortage" — subsequent issues may be called "58 Areas of Management Failure").

The second problem is more serious — is the retail method of inventory really adequate to handle the tremendous paper-work problem involved in recording price changes as stores become more promotional? The retail method was developed when price changes were infrequent — and thus were a small part of the method. Today the burden of price change recording is approaching the burden of original purchase recording. The industry should have a special study committee to determine if a new procedure can be developed that will serve for the balance of this century.

TABLE II

Year	Sales	Apparel	Home Furnishings
1929	100	100	100
1930	96	98	98
1931	82	89	88
1932	64	79	76
1933	62	76	75
1934	71	83	83
1935	74	84	85
1936	83	85	86
1937	87	89	93

The next question — which may have been the first question — is "What happened to profits?" Table III shows the net gain after federal income taxes by years for the 76 stores reporting. It is interesting that, as a group, 1932 was the only loss year. It is true that many stores lost money during the Great Depression — but it is also true that a great many made money every year, or every year except 1932.

TABLE III

Year	Net Gain After Federal Taxes
1929	3.8%
1930	2.1
1931	0.1
1932	(3.6%) Loss
1933	1.4
1934	2.6
1935	3.2
1936	4.2
1937	3.7

The 76 reporting stores were analyzed in various groupings — by size of store, size of community in which located, region of the country, etc. One of the points brought out was that in the larger cities (over 500,000 population) the sales dropped somewhat more, there was a significant drop in the number of stores, but a greater increase in store floor space.

Profit is the result of many factors — the most important being the gross margin. Table IV shows a comparison of gross margin and the profit — and it shows a remarkably stable gross margin percentage considering the 25% decline in prices that occurred in the 1929-33 period.

TABLE IV

Year	Gross Margin Percentage	Net Gain After Federal Taxes
1919	35.0%	5.3%
1930	33.9	2.4
1931	33.7	0.9
1932	33.5	(3.5%) Loss
1933	36.9%*	1.4
1934	36.5	2.5
1935	36.4	3.1
1936	37.1	5.0
1937	37.3	4.2

*Roosevelt was inaugurated in March 1933 and in June 1933 the National Industrial Recovery Act was passed which had the effect of suspending competition. This was ultimately declared unconstitutional in 1935 and the National Recovery Administration was disbanded in 1936.

Gross margin is largely the result of the original markon percentage and the markdown percentage (the shrinkage and employee discount factors did not change greatly) which is shown in Table

V. Here we find a fascinating pattern — with the original markon percentage increasing every year except 1934 and 1935! Again, we see the impact of the National Industrial Recovery Act — the old "Blue Eagle" program.

TABLE V

	Markon	Markdown
Year	Percentage	Percentage
1929	38.9%	6.7%
1930	39.5	7.8
1931	39.6	8.4
1932	40.2	9.4
1933	41.2	6.9%*
1934	40.7	6.6
1935	40.6	6.2
1936	40.7	5.5
1937	40.8	5.7

*This drastic drop from 1932 in markdown reflects the passage of the National Industrial Recovery Act — see notes above.

The summary of the major expense components shown in Table VI highlights several important factors. First, with many stores owning their physical plants, most of the real estate cost was fixed - so as volume declined the percentage factor went up. Measured as a percentage of sales, real estate costs showed the greatest increase. Second, without the restrictions of union contracts and minimum wage laws, wage rates dropped materially. In wholesale and retail trade the average annual earnings per fulltime employee dropped from \$1,594 in 1929 to \$869 in 1933 (45%) - and people probably worked longer hours. When the first Wage and Hour Law was passed it provided for a minimum of 40 cents per hour except in the South where it was 25 cents Under these circumstances payroll costs could be kept in line with sales volume much better than was the case of real estate costs. Finally, a moderate increase in advertising expenses occurred even in the face of declining space costs in newspapers.

TABLE VI

		Real Estate		All Other	Total
Year	Costs	Costs	Advertising	Expenses	Expenses
1929	16.8%	3.8%	3.3%	8.4%	32.3%
1930	17.3	4.3	3.5	8.8	33.9
1931	17.9	5.1	3.8	9.1	35.9
1932	18.7	6.5	4.0	10.3	39.5
1933	18.3	5.85	4.0	9.95	38.1
1934	18.0	5.4%	3.8	9.3	36.5
1935	17.95	5.05	3.8	9.1	35.9
1936	17.4	4.65	3.65	9.2	34.9
1937	17.9	4.55	3.65	9.9	36.0

One might have expected that during this period of declining sales that inventory turnover would decline — but this was not the case, as Table VII shows. When the turnover was measured by the average of the month-end inventories it increased every year except 1937. Even when measuring by the average of the opening and ending inventory for the year, the turnover showed a fairly regular pattern of increase.

Everyone remembers the tremendous credit losses of the depression — bankrupt railroads and other companies, foreclosed mortgages, margin stock holdings closed out. But this pattern didn't show up in retail credit granted by department stores as is shown in Table VIII below. Although the worst year — 1932 — was almost 3 times the level of bad debt losses experience during 1924-28, it doesn't seem so high to us today.

TABLE VIII

	Loss on Bad Debts -
Year	Percentage of OWNED Sales
1923	0.2%
1924	0.25
1925	0.25
1926	0.25
1927	0.25
1928	0.25
1929	0.3
1930	0.35
1931	0.45
1932	0.7
1933	Not Available
1934	0.3

Using the 1932 Harvard Report, it is possible to report credit osses, as a percentage of credit sales, by the size of the store. This is shown in Table IX — together with the very interesting measure of how important credit was in 1932 — more than 50% of sales in stores above \$500,000 a year (if we exclude the impact of Macy's in the largest category).

TABLE IX

No. Reporting	% Credit Sales	Loss On Bad Debts	Loss as % of Credit Sales
78	38.0%	0.4%	1.1%
70	45.0	0.55	1.2
45	42.0	0.45	1.1
33	50.5	0.5	1.0
24	49.7	0.6	1.2
65	53.5	0.65	1.2
45	51.6	0.7	1.4
47	53.3	0.65	1.2
15	51.5	0.7	1.4
6	43.7*	0.85	1.9
	78 70 45 33 24 65 45 47	78 38.0% 70 45.0 45 42.0 33 50.5 24 49.7 65 53.5 45 51.6 47 53.3 15 51.5	Reporting Sales Bad Debts 78 38.0% 0.4% 70 45.0 0.55 45 42.0 0.45 33 50.5 0.5 24 49.7 0.6 65 53.5 0.65 45 51.6 0.7 47 53.3 0.65 15 51.5 0.7

*This figure includes Macy's which was a cash store and this tends to distort the figures since they did have bad debts through overdrawing their Deposit Accounts.

Finally, we are able, by using the Censuses of Business conducted in 1929, 1933, 1935 and 1939, to measure the impact of the depression on different types of retail outlets. This is shown in Table X. The strength of the department store, particularly when compared with the apparel group, probably reflects three factors. First, the department stores normally had greater financial strength (particularly related to credit plans) than the specialty stores. Second, in 1929 many department stores were selling at prices below those charged by specialty stores. Third, most department stores had 100% locations whereas apparel stores could be scattered anyplace in the community.

TABLE X

Type of Store	1929	1933	1935	1939
Department & Dry Goods	100	82	60	118
Variety Stores	100	75	87	109
General Stores*	100	43	43	31
Apparel Group	100	45	63	77
Furniture & Appliances	100	35	47	63
Automobile Group	100	34	60	79
Service Stations	100	85	110	160

*General stores disappeared as a result of changing patterns and the introduction of the automobile — note the sales volume pattern for service stations.

In summary we can say the following things about department stores during the 1929-1937 depression, with comments on what might happen today.

- 1. The sales decline in department stores was substantially less than for other kinds of retail outlets. This was a function of such factors as assortment, pricing, advertising, location and financial strength. It is likely that the same pattern would repeat itself today.
- 2. Real estate costs went up rapidly but payroll costs were held pretty well under control. Today, with more stores leasing property (and particularly for stores paying a percentage rent materially above their minimums) we are not as likely to see such a rise in occupancy costs. Further, with the built-in factors that will probably prevent a 25% decline in prices while unit sales are likely to hold up as well as in 1929-37, even the present fixed rents are not likely to climb greatly as a percentage of sales. On the other hand, it is doubtful if hourly or annual payroll costs are going to drop by 45%. It is much more likely that our payroll costs, as a percentage of sales, will increase substantially.
- 3. Prices are likely to drop much less than in 1929-33 (25%) even if unemployment does approach 1932-33 levels.
- 4. It is probable that initial markup will hold or even increase slightly (although stores will not have the help of wholesale prices dropping faster and further than retail prices). However, markdowns are already at a much higher level, and they probably will (have already?) increase even more when combined with aggressive advertising campaigns to move merchandise.
- 5. Credit losses are likely to be significantly heavier because of the large amounts per account involved in revolving credit, although not to three times the 1960-69 level. In 1929-33 most credit was either 30 days or what was known as "30-60 day accounts" (half of the balance paid each month). Attitudes have changed toward paying bills but I would still expect that credit losses in retail stores will be substantially less than in many other forms of credit (such as automobile contracts).
- 6. Inventory turnover is likely to maintain the present levels fairly well, and may even increase as a cash crisis causes management to be even tougher in eliminating slower moving sizes, colors and styles.

If another 1929-37 does come, the department store business will still, in all probability, be one of the better performing industries. This might make up to those in the field for some of the lack of glamour of department store stocks in the present market.

ACCOUNTANTS AND THE RUBBER YARDSTICK

The Accounting Principles Board is currently considering the responses from the profession (and from interested people like me) to their proposed opinion on "Business Combinations and Intangible Assets." In the exposure draft the American Institute of

RETAILING TODAY - JUNE 1970

Certified Public Accountants is trying to create a more uniform method of handling mergers and acquisitions involving an exchange of securities. Two basic procedures are used at the present time — "pooling of interest" wherein the balance sheets of the two corporations are merely "added" together; and "purchase" treatment whereby a value is assigned to the securities exchanged for the acquired company, that total value is allocated to individual assets of the acquired company, and any excess amount is set up as goodwill on the new balance sheet, sometimes to be amortized on a regular schedule and sometimes to be amortized only when the directors feel the premium value of the acquired company has declined.

The proposed procedure represents, in my opinion, the firm adoption of a rubber yardstick and can only cause serious problems. Except in the case when the merging firms are relatively the same size, which is a minority of the mergers, the draft statement would require treatment as a purchase. It requires that the shares offered by the acquiring corporation be valued at the closing market price on the date the acquisition becomes effective, rounded to the closest \$1.

Any person familiar with acquisitions knows that they require a long period of time to consummate. Usually a proposed closing date is set by which time all paper work is to be accomplished, agreements reached, board actions taken, leases assigned, etc. Normally the closing date is moved back week by week as such actions take longer than anticipated or as attorneys for both sides discover new problems. Finally everything is accomplished and the merger becomes effective. Now someone is supposed to look at the stock market for that single particular day and determine how much was paid for the acquired company and how much the purchased assets are really worth.

Let's assume for a moment that the original closing date for a transaction was April 12, 1970, but that delays postponed it to May 15th — not an abnormal situation. Now let's look at Table A which shows, for some mercantile companies that have some history of acquisition, the change in closing prices between April 12 and May 15, 1970.

TABLE A

Name of Company	April 12th Closing	May 15th Closing	Decline
(Listed on New York Stock	Exchange)		
AMFAC	44 1/2	31 3/8	32%
Associated Dry Goods	42 1/4	35 1/4	16%
Broadway-Hale	38 1/4	32	16%
Cook United	39 3/8	25 7/8	34%
Dayton-Hudson	34 3/4	25 5/8	26%
Gamble-Skogmo	25 1/4	19 1/8	24%
Genesco	28	24 3/8	13%
Gimbel Brothers	40	28 1/2	29%
Hart Shaffner & Marx	25	21	16%
Interco	31 1/2	25 3/4	16%
Marshall Field	27 7/8	19 3/4	29%
May Department Stores	24	19 1/2	19%
Melville Shoes*	36 3/4	29 1/2	20%
SCOA	16 3/8	12 3/4	21%
Unishops	40 5/8	29 7/8	27%
Zale	37	28 1/2	23%
(Listed on American Stock	Exchange)		
Beck Industries	15 1/4	8 1/4	46%
Daylin	19 1/8	12	37%
Hartfield Zody	14	9 1/4	34%
Hecks	28	23 3/8	20%
Lerner Stores	33 1/8	21 1/2	35%

The declines range from 13% (Genesco) to 46% (Beck Industries). Is there any accountant who is willing to stake his professional reputation on the fact that the assets of a major retailer have declined by from 13% to 46% in a 5-week period! And who is also willing to stake his professional reputation on the fact that the best measure of the value of an acquired company's assets the market price fluctuations of the stock of the acquiring company?

It seems that the prestigious American Institute of Certified Public Accountants is prepared to turn out, by fiat, wisdom that has not yet been attained by individual members of the profession, Solomon, the Courts, certified appraisers, the sum total of investment bankers and the Internal Revenue Service — since if such wisdom was available there would not be the constant problem of valuing companies and assets for estate tax, gift tax, property tax, insurance, buy-out and other purposes.

The proposed opinion completely disregards many factors. In many cases the shares offered by the acquiring company are received subject to restrictions (letter stock) which stock is normally valued at considerably less than the market price. Yet the Accounting Practices Board is perfectly willing to ascribe to the acquired assets a value considerably in excess of the value of the stock exchanged for the assets! This is also true when the block of stock is so large that the market could not have absorbed it if the block had been offered on the market on the closing day (for example, when typical market activity is 1,000 or 2,000 shares a day — for which the market has set the price — and the merger involves 100,000 or 200,000 shares).

Despite all of these problems, the Accounting Principles Board, supposedly the most learned and best informed men in the profession, says in the proposed draft, "The Board concludes that the arguments in favor of the purchase method of accounting are persuasive for most business combinations but that they are less persuasive if voting common stock is issued to effect a combination of companies of relatively the same size." The report, itself, is certainly NOT persuasive; so the statement above, which is the key to the ultimate recommendation, must indicate a strong, preconceived bias on the part of the members of the Board.

SELLING MAILING LISTS

I have always felt that a store that sold their charge account mailing list, regardless of whether or not they ever let the master file get out of their control, was breaking faith with their customers just to make a few bucks. Unethical conduct is hard to understand when the rewards are small — and it was always small for those stores.

But it may now be more than unethical — now that the Federal Trade Commission has initiated action against Metromedia, Inc., who solicited information from some 4,000,000 members of the public offering "an opportunity to win fabulous gifts" and saying, "All you have to do is to send in this questionnaire in the enclosed postage-paid envelope — nothing else is needed. The questionnaire is short and easy to fill out. There is nothing to buy, and we assure you that no salesman will call on you."

But Metromedia failed to advise addressees of the true purpose for which they were obtaining the list — so that the respondees would be flooded with direct mail advertising. Since most stores, when obtaining the name and address of their customers on a charge account form, failed to advise the customer that it migh be for the purpose of selling the name to others, stores would seem to be subject to the same kind of action as that brought against Metromedia.

NEGOTIATING A SHOPPING CENTER LEASE

In May I had the pleasure of addressing the Controllers Congress f the National Retail Merchants Association on the terms one should seek in a shopping center lease. Perhaps the most important thing to come out of the talk was the discussion afterwards between some of the audience, panel members (two of them are active in the International Council of Shopping Centers) and Sam Flanel of the Controllers Congress. We discussed the need for a trade effort to develop more standardized, and in many cases more fair, shopping center lease terms so as to simplify the problems of lease negotiations. A joint effort between NRMA and ICSC should be productive and Sam Flanel promised to follow through. With the conclusion out of the way, let's get on with the guide on lease negotiations developed by me through many years of reading the fine print while keeping in mind both operating problems and the objective of fairness, and then corresponding with the attorneys on both sides.

Beginning and ending of the lease period

Too often leases are written for a 10-year period starting from that indefinite date when the premises are made available. It may be great to open a store on November 1st but that doesn't make October 31st a good day to vacate. To avoid this I have usually gotten acceptance of wording to the effect that the lease shall run for "X" years after the January 31st following the delivery of the premises. This makes the ending independent of the beginning. (January 31st assumes that this is a reasonable date for vacating the type of store involved).

When the occupancy date is indefinite, we spell out the period during which we will not be required to open — in many cases this is between November 1st (or 15th) and January 31st. We then work back to restrict the delivery date by the length of time allowed to set up the store before the rent starts. If this period is 30 days, then the lease would provide that delivery would not be made between October 1st (or 15th) and December 31st.

Minimum rents

This, of course, is a question of relative bargaining power. In many cases, however, strong and desirable stores can get a lease with either no minimum rent or a nominal minimum rent. Here, however, a question of fairness enters the picture. Even the most cooperative shopping center developer is not likely to own the center forever — and the tenant must recognize that in the event of a sale, the capitalized value of a dollar of minimum rent is worth at least twice as much as a dollar of percentage rent. In such cases we have found that we can establish a minimum rent based on 80% of the rent paid during the 3rd, 4th or even the 5th year of the lease, to be applied to subsequent years. In other cases, a minimum has been made applicable to the option period only.

Radius clause

The radius clause automatically starts people thinking in terms of 5 miles or 3 miles or 10 miles. Geography, unfortunately, isn't a series of circles. There have been times when another location, which is clearly non-competitive, falls within or without the radius clause depending on whether the measurement is between the exact store locations or between the closest portions of each shopping center. I have found it much more logical to restrict additional stores by use of a street map exhibit on which the exact restricted area is marked.

Pro-rating common area costs

Over the years these expenses have grown - and will continue to grow - in proportion to the basic rent. Landlords have, in suc-

ceeding leases, been adding first 5% and then 10% and now 15% to the direct costs for management supervision. Fairness seems to dictate that (1) a report of common area costs must be prepared by a certified public accountant in accordance with generally accepted accounting principles and should be available to the various tenants or through the merchants association and (2) a clear definition must be established as to what constitutes capital expenditures. This clause is a problem in almost every lease that I examine — and yet the landlord and the tenant normally have a much clearer understanding of what they are seeking than does the attorney-draftsman. This is a good area where an NRMA-ICSC clause would be most helpful.

Tax clause

I have intentionally omitted the word "increase" from the title above because it is time that tenants began to write leases recognizing that within the next 10, 20 or 30 years we may (must?) have massive shifts of tax burden from the ad valorem property tax to other sources. Landlords are already protecting themselves by clauses passing on to the tenant any additional tax levied on the occupancy or the rental paid — yet, under the standard tax increase clause, should the property tax drop below the base year, no benefit will accrue to the tenant, while the tenant is required to pay as additional rent the taxes levied on the occupancy or rental. Fairness dictates that these factors should be equated so that the tenant is responsible for only the NET increase in tax cost resulting from a redistribution of the property tax burden to other types of taxes.

A serious problem exists in establishing the "base year," particularly when a shopping center will be built in stages. In some cases the local assessor will agree to appraise the property by parcels or by building. Many leases are carelessly drawn to set the base year as that year in which the lease starts. If the lease starts at the end of the lien year, the property at the lien date may have consisted only of land. This means that the tax for the following year includes, for the first time, the value of the building. This tax is passed back to the tenant as a "tax increase." The desired terms should set the base year as that year when taxes are levied for the first time after completion of the particular building or premises. This may cause problems for centers that open with 20% of the space still just a shell but provisions for handling this can be fairly resolved.

Some leases still refer only to taxes and do not include assessments. Normally the parties intend to include assessments but there is one type of assessment that should NOT be included — and that is when the assessment is for a special district intended solely or primarily for the benefit of the landlord. There have been several cases already where the landlord, with the cooperation of the city, has formed a parking district consisting solely of the parking area of the shopping center. The district then double-decks the parking area or makes major improvements and the full cost of this capital expenditure is passed back on to the tenants through the tax increase clause.

Merchandise range

In this age when new consumer items appear suddenly and blossom rapidly, traditional definitions are often too narrow. Ten years ago most leases didn't mention wigs. Therefore many existing stores that carried millinery could be blocked from carrying wigs. What about a man's pant operation that sells more than 50% of their pants to girls? Are they violating their lease? There are two approaches to take in the merchandise range clause. First, permit anything to be sold in this store that the tenant sells in any of his other stores. As you work new items into your merchandise range at your other stores, it would become permitted

for this particular store. Second, make reference to merchandise generally carried by stores of a certain type such as variety stores, credit jewelry stores, etc.

Alterations after occupancy

The tenant should be allowed to make minor alterations (the amount established by a dollar limit, related to the size of the store) for which written permission is not required so long as no structural change is made. On termination of the lease the tenant should NOT be required to remove any improvements that have been approved by the landlord in writing or that were put in under the minor alterations clause. This clause must be watched carefully in "shell plus allowance" leases because some lease, as written, could require the tenant to restore the premises to a shell. Don't forget that when you leave you will probably be on unhappy terms with the landlord — either you waited years to get out of a bad lease, or you wanted to renew and the landlord leased to someone else.

Assignment of the lease

Start with the assumption that you are going to be a great success and that at some time during the lease you are going to be acquired by Mr. Big. Suddenly you discover that the assignment clause requires the consent of your landlord. At a minimum, the clause should state that the consent will not be unreasonably withheld. More desirable is a clause that permits the lease to be assigned to a company that has a net worth of more than "X" million dollars AND is listed on either the New York or the American Stock Exchange. This covers most of the acquisition prospects that you would be interested in selling to — and eliminates landlord approval of your transaction.

Insurance provision

Attorneys keep putting in plate glass insurance requirements and tenants keep knocking them out. Landlords keep asking for duplicate policies when, with multiple store operators, a certificate of insurance is all that is necessary or practical. Landlords keep asking for 15 or 20 days notice before cancellation and most insurance companies are only set up to give 10. Violations of these terms are defaults — so the terms should be clear.

But there is an insurance requirement that should be placed on the landlord. Since most landlords, at least at the start of your lease, do carry such insurance, they normally will not object to including a provision requiring them to carry fire and extended coverage endorsement insurance to at least 90% of the current replacement value of the center. This is necessary to assure the tenant that the landlord can perform under the destruction clause.

Notice of default

Leases are still being written by landlords that make non-receipt of rent an immediate default under which the lease can be terminated. With mail strikes more likely in the future, and with errors and problems in offices, the only fair and workable default provision is one that requires a written notice by either party (delivered to your headquarters, not to the demised premises) and which allows 10 days after receipt during which to cure a rent default and in the case of any other default allows 30 days in which to cure or in which to start curing, with the default postponed as long as diligent effort is being made.

In one special type of default 60 days should be allowed – those cases in which an involuntary bankruptcy petition (which can be filed by any 3 creditors who are past due) has been filed. This allows you time to eliminate the petition.

Destruction and condemnation clauses

Destruction clauses in shopping center leases are often useless. If you are in Building A and the department store in Building D is closed for 6 months because of a fire you have had a partial

destruction not covered by most leases. Or if no damage is caused to your premises but the mall access is blocked because of damage elsewhere in the center or the parking lot is flooded for two weeks, there should be provision for adjustment of your fixed minimum rent under such circumstances, with an arbitration clause in case agreement cannot be reached.

Condemnation is more likely to take the parking areas of shaping centers than the buildings. In a recent single-occupant lease we were able to work out an arrangement whereby, in the event of a partial taking, the minimum rent would be based on that space supported by the remaining parking area. As an example, assume a building of 100,000 square feet and an original parking area of 275,000 square feet. The minimum rent would be reduced to that store area sustained by applying a parking ratio of $2\frac{1}{2}$ to 1 to the remaining parking area. If 75,000 square feet of parking was taken as a result of condemnation, reducing the parking area to 200,000 square feet, which would support 80,000 square feet of store, then the minimum rent would be reduced by 20%. The percentage rent and other terms would remain the same.

There should be certain points relating to the length of time that access to the premises is restricted or the degree to which the supported selling area is reduced at which the tenant would have the right to terminate the lease.

Definition of gross sales

Normally the definition of gross sales excludes such items as taxes collected on sales, transfers between stores, returned merchandise (eliminate reference to the number of elapsed days permitted), and sale of non-merchandise items (such as excess fixtures). Other items that should be eliminated are (1) gift certificates (but the ultimate sale paid for by the gift certificate is included); (2) sales to employees at a discount (in some cases this applies only to sales at 20% or more discount or may even have a limit based on an annual dollar or a percentage of store sales exclusion); (3) items on which there is no markup (alterations done outsid parcel post, delivery charge, gift wrap); (4) finance charges (arthough not the discount on bank credit card transactions); (5) vending machines (employees' lunch room, pay-toilets, pay-telephones); (6) C.O.D. charges and (7) forfeited deposits (which offset markdowns related to merchandise returned from layaway).

General provisions

There is no reason to provide the landlord with a copy of a certified audit of the business if one is made but it is reasonable to require proper certification of sales. If the lease termination dates and your fiscal year end fall on January 31st, your auditor can make such certificates easily.

In the event that the landlord audits your sales (you should only be required to retain records for 2 full years), you should not have to pay for the audit unless the understatement is more than 2%. You should be able to keep your records at your headquarters and the records should be limited to those necessary to satisfy a sales tax audit.

Compliance with government regulations should relate only to those regulations that pertain to your occupancy — and not those relating to the building.

The liability for attorney's fees should go both ways — loser pays. Some leases are still coming through where the tenant is responsible for the landlord's attorney's fees even if the landlord loses! Arbitration should include use of the American Arbitration Association.

Provide that your lease will be recognized by the mortgage holder as long as you are not in default; this eliminates problems on whether the lease is senior or subordinated to the mortgage.

RETAILING TODAY

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JULY 1970

VOL. 5, NO. 7

ERRATA

Bright-eyed Al Wineman of Wineman's in Huntington Park, California wrote, "Your June 1970 RETAILING TODAY is a masterpiece!" and then proceeded to draw attention to an error in one of the tables. In Table X the correct sales level for Department Stores in 1935 should be 68, not 60 as published.

PUBLICLY-HELD COMPANIES, ANNUAL REPORTS AND AUDITORS — Revisited

We continue with our comments on reports of publicly-held companies highlighting the information they disclose and that which they conceal. It is our opinion that reports which tend to confuse or mislead stockholders (such as complicated presentaions in fine-print footnotes which refute self-praise statements in an narrative section) reflect unfavorably on both the management of the company concerned and the certified public account who has a direct responsibility to the stockholders, usually having been elected at the annual meeting of the stockholders.

The May Department Stores Company (Arthur Andersen & Co.): The President's report partially disclosed the impact of LIFO inventory valuation on earnings per share but only to the extent of a comparison with prior years (favorable adjustment of 7 cents because 1969 inflation was less) but does not give the full impact of LIFO so that comparison can be made with companies using FIFO valuation. The total amount of the LIFO reserve and the estimated tax deferral resulting therefrom is disclosed.

May Company has fully consolidated their finance subsidiary, a practice that is to be commended solely because it is the most honest presentation. It is interesting to note that tax deferrals total some \$63 million or 15% of net worth. Such tax deferrals are, of course, interest-free and require no annual dividends to keep them happy. In 1969 they increased by \$6 million against an increase in net worth of only \$2.5 million.

McCrory Corporation (Haskins & Sells): The consolidated balance sheet does not include the wholly-owned credit subsidiary with the result that some \$60 million of bank debt is not disclosed. The footnotes include a brief balance sheet for the credit subsidiary but only for the current year. McCrory has a current ratio of slightly less than 2:1 even after including investment in some of the debentures of their parent company as a current asset.

erner Stores Corporation (S. D. Leidesdorf & Co.): Reading this annual report in conjunction with the controlling company, McCrory Corporation (who use a different accountant, Haskins and Sells) illustrates how games can be played with numbers. Lerner Stores shows the sale of some \$16 million in accounts receivable to McCrory Credit Corporation, the unconsolidated

NEEDED: A BETTER B.B.B.

It seems to me that our Better Business Bureau system is in trouble — trouble on two fronts.

First, the BBB's have always had difficulty obtaining adequate funds. Many are destined forever to a feast or famine cycle, with relatively greater emphasis on the famine. Just when it appears that a Bureau will have to take a suicide route — reduce staff, shorten hours, provide less information to the public and take longer to deliver the information — a few stalwarts in the community come forward with a special effort.

But as we enter the Nixon cycle of adjustment to peace, which only the disloyal vocal minority are calling a recession or even a depression, we find that more and more retailers are tightening their belts, eliminating non-essential expenses, reducing local participation. And the BBB is one of the many services a business can do without — in the short run.

On the other side, consumer organizations are starting to develop on a more permanent structure — local groups affiliated into state associations (which, in turn, sponsor more local groups) and all under an emerging national banner. This is a far more sophisticated structure than existed a few years ago when a handful of Denver housewives started a protest movement against high food prices. It would seem to me that most local retailers would join such local groups just to keep informed — and perhaps even to help them at times. But, strangely, most local retailers consider consumer organizations to be their enemies — a view that is hard to reconcile with their dependency on consumer patronage.

Consumer groups are forcing the introduction of more legislation — legislation largely aimed at requiring business to do the things that good businesses say they "always" do.

This trend is finding more and more BBB's appearing before legislative bodies opposing the goals of the consumer groups and defending their business members. This positioning is not going unnoticed by consumers.

The days of the BBB may be numbered — unless retailers can work out an improved format, perhaps including some of the policing power held by professional societies such as the Bar Association, Medical Association or National Association of Security Dealers. Can you imagine suspending the right of a department store to do business for 3 days because of misleading advertising? It might improve business standards overnight.

wholly-owned subsidiary of the parent company, as a sale without recourse but with a 10% holdback.

Morse Shoe, Inc. (Peat Marwick, Mitchell & Co.): Morse has shown fantastic growth - largely from new units. The number of units has increased from 133 at the end of 1960 to 655 at the end of 1969. But the volume per unit has not changed materially. As a rough measure I computed the volume per unit by averaging the number at the start and end of the year. On this basis the volume per unit has remained the same - \$256,000 in 1961 and \$257,000 in 1969 although the 1969 figure represents a recovery from the \$225,000-\$240,000 level maintained during 1963-1967. Nothing in the narrative section tells the stockholder what is in store for him as a result of a change in the law eliminating the benefit of using multiple corporations. The accountants in their footnotes do indicate the dollar impact for the two current years but do not convert it to a per-share basis. Perhaps this was overlooked because it would result in a decline in earnings from \$2.78 to \$2.30 per share or more than 17%.

Interstate Stores, Inc. (S. D. Leidesdorf & Co.): This corporation has shown tremendous growth. Over a 10-year period sales have increased from \$114 million to \$702 million. Stockholders' Equity has increased spectacularly, partially as a result of the sale of additional shares, from \$19 million to \$98 million. But at the same time long term debt has increased even faster — from \$3.3 million to \$50 million — and this does not include some \$44 million on long-term debt of 50% owned corporations and 50% joint ventures which do not have to be consolidated under current accounting procedures. Although the Company is not directly liable for much of the \$44 million, it has signed leases in an amount required to service this debt and as a result is liable through their lease obligation.

Volume Merchandise, Inc. (Westheimer, Fine, Berger & Co.): The footnotes to this report are particularly clearly written. This seems to be the hallmark of some of the local or regional accounting firms; they have not fallen into the trap of cryptic obfuscating phraseology. The full disclosure of the sale of 25,000 shares at 10 cents per share, subject to restrictions, to the Executive Vice President is unusual (and commendable) in an annual report, normally being disclosed only in the proxy statement.

Associated Dry Goods Corporation (Touche Ross & Co.): The wholly-owned credit subsidiary is not consolidated. The balance sheet of the credit subsidiary is disclosed in the footnotes — the only one without a boldface heading to identify it. There appears to be a desire to divert attention from the fact that some \$25 million in liabilities have not been consolidated. The current ratio is discussed in the stockholders report (but no comment is made of the decline from 2.95:1 in the prior year to 2.36:1). In the current year, the first with a credit subsidiary, the consolidated current ratio would be about the same — but in future years this is not likely to be true.

Carson, Pirie, Scott & Co. (Arthur Andersen & Co.): This continues to be the only company brought to our attention that, in their 10-year review, shows for each year the amount of the LIFO reserve, the annual change in the reserve, and the impact on earnings per share. When this matter was discussed earlier (RT April 1970) some comments were received that this could not be disclosed under IRS regulations. This is incorrect. The Code requires that a company using LIFO must use the same basis when reporting their income and balance sheet to their stockholders and when seeking credit - but it does not mean that the amount of the LIFO adjustment has to be concealed. The practical result is that disclosing the LIFO reserve is no more complicated than disclosing the allowance taken for bad debt and the reserve for bad debt. If more companies would be more open in their disclosure, we would probably see an increase in the use of this accounting method, with a resultant tax saving to stores, as stockholders and financial analysts understand the facts better.

Dayton Hudson Corporation (Ernst & Ernst): This corporation is to be commended for a particularly frank disclosure in a series of charts entitled "Financial Review." Dayton Hudson has the reputation for being a glamour stock in a relatively unglamourous industry. Yet they tarnish all of their own glamour. A series of three charts compare historical and pooled figures for sales, f net income and for earnings per share. From 1965 to 1969 (196to 1970 fiscal years) historical sales increased from \$200 million to \$888 million although the pooled figures (reflecting all companies acquired during the period) indicate a less spectacular growth - from \$600 million to \$888 million. The picture is less spectacular when looking at net income. Reported historical earnings show an increase from \$7 million to \$24 million - but on a pooled basis earnings have been flat at about \$24 million for the past 5 years. This flat earnings history is also reflected in the earnings per share where the historic earnings have risen from 75 cents to \$1.49, yet on a pooled basis the earnings per share were higher than \$1.49 in every year from 1965 to 1968.

Eventually Dayton Hudson will have to show improvements in the existing operations — the Federal Trade Commission is studying the Hudson acquisition and in due course Dayton's will be subject to the same kind of restrictions that have been imposed on most other retailers their size.

Gamble-Skogmo, Inc. (Peat, Marwick, Mitchell & Co.): The footnotes to this report disclose a transaction that is likely to be more and more common in the future - the sale of accounts receivable which have previously been reported on an installment basis in order to save taxes. When receivables grow rapidly the unreported income (gross margin on the increase in installment receivables) is often greater than the income reported on an accrual basis. This results in reporting a loss for income tax purposes and this loss can be carried forward for just a limited time. Gamble apparently reached that limit so in January 1970 they sold \$42 million of such receivables in order to accelerate the income. Since th income went against operating loss carryforwards in excess of \$4 million there was no current tax liability created. Gamble is the only major company to include subordinated income notes in their capital structure and despite the fact that they represent roughly one-quarter of the capital funds, Peat Marwick apparently feels no compulsion to disclose the full terms. By definition, income notes pay interest only if earned in a particular year - yet this is not clearly disclosed nor is the accounting basis on which income is determined (the report indicates that there have been substantial operating losses as reported for tax purposes).

The capital structure of Gamble is unusually complex, reflecting the complexities of the company. I find objectionable the reporting of the \$5 par value \$1.60 per share dividend preferred at the par value or \$6.7 million when the liquidation preference is \$46.7 million.

CAR OPERATING COSTS

The Automobile Legal Association (1047 Commonwealth Ave., Boston, Mass. 02215) published a report in March 1970 on the cost of operating an automobile in some 28 different cities throughout the country. Based on operating a \$4500, 4170-pound, V-8 with automatic transmission and air conditioning for 15,000 miles per year, the cost per mile would vary from 15.06 cents (Boston) to 11.77 cents (Portland, Oregon). However, the report, itself, suggests a better method of compensation than a flat mileage rate for people who regularly use their car their business. Total fixed costs (insurance, depreciation, taxe maintenance and repair) range from \$1264 to \$1757 per year. This could be reimbursed at a monthly rate of \$105 to \$145 per month. Then the mileage could be reimbursed at the rate for variable expenses of from 3.1 cents to 3.8 cents per mile (based on 14 miles per gallon).

AN EXAMPLE OF PURCHASE ACCOUNTING

In the June RT we wrote of accountants and their rubber yardstick. Since then we have glimpsed the perfect example of "purhase accounting" as evidenced in the annual report of Kenton prporation (Arthur Young and Company). Kenton is a diversided retailer doing \$100,000,000 a year, the largest volume being in their Family Bargain Stores but also including Ben Kahn Furs, Georges Kaplan Furs, Mark Cross leather goods, Cartier jewelers, Kenneth Jay Lane fashion jewelry, Valentino Couture, and even Handy Associates executive recruiting.

As a result of a "purchase" during 1969, the item "Excess of cost of purchased companies" increased from \$3,881,000 to \$14,316,000. This transaction increased long term debt (including current portion) and notes payable from \$4,872,000 to \$24,155,000. This increase in intangibles (reflecting the "purchase accounting" concept) and debt took place while the "Total Shareholders' Equity" increased slightly – from \$14,788,000 to \$16,323,000.

Dun and Bradstreet, in analyzing such companies, eliminates all intangibles when reporting "Tangible Net Worth." As a result of the 1969 acquisitions, the tangible net worth dropped from \$10,906,000 to \$1,972.000. Since the two classes of preferred stock have a combined liquidation preference of \$2,110,000 and a redemption price of \$8,764,000 (both substantially above the tangible net worth of the Company), we must conclude that there is no tangible values supporting the Common Stock.

Yet the 1,472,298 outstanding shares are, at this writing, each valued at \$9.50 (down from their high of \$58 in 1968 and \$46 in 1969) for a total market valuation of \$13,987,000!

The proposed accounting principle would require the write-off of the \$14,352,000 of "excess paid over tangible assets" at the rate of \$358,000 a year for 40 years!

SELF-PERSPECTIVE

The following advertisement ran in the London Sunday Times under the heading "Room at the Top." "Assistant to the Executive Vice President in London. First year - £3,000, second year - £5,000, third year - You name it.

"Over the past eight years we have built the North American Group from scratch - a complex of companies in investment management, banking and insurance.

"Having reached the age of 48, I find it no longer physically possible for me to perform at top efficiency all my functions and responsibilities without the assistance of a personal right hand.

"I am, therefore, looking for a bright, detail-oriented young graduate of a British, European, or American University, with some business seasoning... Although he should possess all the self-assurance that comes naturally to a well-trained man, it would be nice if he still preserved a modicum of intellectual humility so that he can learn the tricks of the trade before he tries to institute drastic changes in the business.

"The applicant should have a voracious appetite for working long hours and should show sufficient initiative to solve many of the day-to-day problems on his own.

"There is plenty of room at the top here and the job should bring out the full potential of the right man."

If I were just a couple of decades younger . . .

I.R.S. CUTS RESERVE FOR BAD DEBT

The Internal Revenue Service recently issued Revenue Rule 70-139 which will serve to reduce the allowance for bad debt that can be taken by retailers reporting their receivables under the installment method. The ruling is quite logical. It says that if you have not yet taken the gross margin on credit sales into your income, you cannot set up a reserve for possible loss on the gross margin portion of the receivables.

The problem arises in the record-keeping. If the taxpayer reports part of his accounts (all the eligible ones) on the installment basis, then the remainder of his accounts are being reported on the accrual basis. If the reserve method is adopted for both types of account, then separate reserves must be established. The reserve on non-installment accounts can be related to the total amount owed while the reserve for installment accounts must relate solely to the cost of merchandise portion of the uncollected receivable. At the moment I doubt that there are any retailers who can compute the loss ratios independently for each category of account. But in some future audit the agent will have the benefit of hindsight.

Unless protective steps are taken now it is entirely possible that the agent will disallow a portion of the allowance taken on non-installment accounts (these accounts normally have a lower loss ratio) while not allowing you to increase your reserve (even though admitting that it might be warranted) on the installment accounts because the statute of limitations has foreclosed amending the return for the year in question.

The prudent step would be to use different rates for each type of account, using the best information available, and then adding a bit extra to be sure that the full allowance is not lost on subsequent audit.

MOBILE HOMES REVISITED

I am grateful to Jack Kneass (of Huntington Beach, California) who is a consultant in the field of mobile homes. A copy of RT discussing mobile homes found its way to him — and he was kind enough to advise me that the majority of the larger mobiles — the 24-foot-wide ones (which represent 54% of the sales in California) — as well as a substantial number of 12-foot-wides leave the factory without any furnishings. Naked. Good prospects for furniture.

If you are interested in how to get more information or how to reach Jack Kneass, write RT.

WHERE IS BUSINESS INTEGRITY?

The most recent case was Coca-Cola — with a trick contest, one where most careful readers of the rules would never guess that you had to put two pictures in one box in order to win. This follows evidence that Shell Oil Company, one of the largest corporations in the world, had controlled the location of the big-winning coins in several gas station games. And this also followed restraining orders against every encyclopedia company and many of the leading magazines because of shady practices.

There was a day when management of companies such as Coca-Cola or Shell or Readers' Digest or Encyclopedia Britannica would never permit their company to be involved in any way with an activity or course of conduct that was not exemplary. Today there are just a few — like George Scott — who ask first, "Is it honest, is it ethical?" rather than "How much can we make?"

THE NON-RESPONDING COMPUTER

The delays in getting out monthly statements (watch The Credit Office Rating every odd-numbered month) is getting out of hand. The FTC is attacking it, Kiplinger makes a note of it, and the Federal Reserve Board wonders aloud whether this is a violation of Truth-in-Lending. But RT started worrying 10 years ago.

Thus I was amused at the article telling of attempts to straighten out a billing error at American Express overseas while receiving computer dunning statements saying, "Your account is seriously overdue." Someone told the customer that if the bill was stapled, bent and mutilated it could not be put through the machine — and a human would have to look at it. He stapled, bent and mutilated. Eventually there was a human-written reply and correction — but 44 staples had to be removed before it could be unfolded and read.

DECADENCE IN THE DISCOUNT STORE INDUSTRY

The early signs of decadence are springing up all over the place. Ossification of the original thought process is bound to follow the adoption of a standard accounting manual — the entire birth of the discount industry could be traced to worship by traditional retailers of the Standard Accounting Manual, the MOR and the FOR, plus measuring everything as a percentage of sales.

High overhead is in the offing as more and more discounters add bank credit cards and then their own credit card systems.

But the most recent symptom of decay is that identified in the trade as "verticalizing" — the process of acquiring all the departments in your store so that you can prove how smart the specialists were who previously operated as concessionaires. In fact, we have already seen symptoms of "de-verticalizing" (a much more euphonious term than regurgitation) as a growing number of disenchanted "verticalizers" sell off the departments that they acquired just a few years ago from their concessionaires.

SELF-PUSH INFLATION

The economists, in attempting to explain why we are having a recession and inflation concurrently, often use terms such as "cost-push inflation" and "wage-push inflation."

But Congressman John Dent, a Democrat from Pennsylvania, had come up with the idea of "self-push inflation." He has proposed (HR17596) that the minimum wage rate be tied to the Consumer Price Index. As prices go up the minimum wage will go up so that costs will go up so that prices will go up so that minimum wages will go up.

It is interesting that the Patent Office will not accept any patent application involving perpetual motion — but such restraint does not apply to the House of Representatives.

IS IBM ALWAYS THE BEST EQUIPMENT?

I was interested to note that Lybrand, Ross Bros. and Montgomery, in their January 1970 Lybrand Newsletter, reported on a study by their firm which indicated that non-IBM tape units and disk storage drives when used with IBM systems produced moderate expense savings. Often the alternate equipment improved the performance of the system. In general, Lybrand found no serious problems when such equipment was used.

REALITY HITS A GLAMOUR STOCK

I was amused at the statements of Len Palmer, the President of a remote terminal computer company called Computerminal when they cancelled a \$60 million order for Burroughs equipment (when the order was placed the total revenues of the Company were under \$650,000 - or 1% of the proposed purchase price).

He said in part, "Fellows like me have to take the profit attitude now. You just can't 'project' profits. If the industry can't make profits and stand on its own two feet, you wonder if it's necessary. Tight money can impose a discipline that can be very beneficial to making this industry perform like a business."

SOME RANDOM THOUGHTS

COMMENTS FROM READERS

It is always good to hear from readers of RT and I would like to pass on a few, preserving anonymity where appropriate.

On the EDITORIAL SUPPLEMENT in the April RT on "Publicly-Held Companies, Annual Reports, and Auditors," a partner in one national accounting firm wrote, "I also thought that your last issue of RT, where you took on the CPA's, was a good one. There is a lot that is wrong with public accounting, and I think it is very helpful and stimulating for outsiders to put the spotlight on current abuses." A partner in another national firm, one that was mentioned in the report, told me that he had sent RT on to their firm's accounting principles committee for review of the item raised.

When the Federal Trade Commission warned retailers about the lateness of their billing and a possible problem under the provisions of Truth-in-Lending, I heard from two people reminding me that this problem was the one that prompted the original Credit Office Rating (which appears each odd-numbered month). One such letter came from Al Klaber of Wallach's in New York who, when he was in San Francisco, was a co-founder of the Credit Office Rating (then called the Klaber-Kahn Kredit Office Rating) which was based on our own experience with store billing. The other came from a man who has reported his wife's accounts for many, many years.

From Tim Marcus Clark at Waltons in Australia, "I read RT with great interest and was very pleased after referring several copies to the Chairman, that he is now a regular reader." From Bill Burston at NRMA, "I thought your June issue exceptional . . . I'm one of your fans." From Dean Nathan Baily at the American University School of Business, "Congratulations on the June issue. You have turned out many outstanding ones, but this belongs among your finest."

The requests for "58 Causes of Inventory Shrinkage" continue to come in daily.

And finally a belated acknowledgment of a note from Mrs. Betty Webb of Moss Key-Rec in response to the item in the January 1970 RT on "Sunday Openings." "To a working gal (and Mother), Saturday is the day you clean the house, buy groceries, do the laundry, etc. So, what a blessing to have shopping center stores open on Sunday so that you might . . . take the 'kids' for shoes . . . get things for the house, etc." Mrs. Webb, as an observing customer, reported that in the Rike's branch they were switching from check-out registers (remember when NCR said everyone would be using check-outs by 1970?) to area registers — and indicated that she found it more convenient and a time saver.

AN OLD-FASHIONED STORE PRINCIPAL

One of the growing rarities in retailing is the principled store principal. I can remember my Father telling me stories of my Grandfather and Great Grandfather. I have seen the ad that the store ran when two more ambitious employees decided to go into business for themselves. The advertisement congratulated the young men and added their names to the list of over 15 independent merchants in Oakland who had gotten their start at Kahn's.

I have read the stories of John Wanamaker and Marshall Field and others — their contributions to their communities and their employees.

Today we judge too quickly by how fast the store grows and how much money the principal made — and we don't look at what was built. Perhaps this is because we can judge growth and profit anywhere that Women's Wear Daily or the Wall Street Journal can reach — but we have to get into the guts of communities and stores to find out what a man has really built.

Over the years I have had a chance to hear George Scott of Walker-Scott in San Diego talk and I have known of him through people who worked for him. I have watched him sell stock at below book value in order to get funds to build a home-owned store and help prevent his home town from becoming another branch town (where the local managers are always looking at the next town, the next step, and neglecting San Diego). He has included me on the mailing list for their employees' publication.

So it was in keeping with George Scott's principles that I found the following item in a recent issue: "We regret to advise that an employee who had sought special help from our Company, and, yes, Mr. Scott, has failed to be faithful and took hundreds of dollars from your Company and was apprehended and arrested."

Just as it was in keeping to read the points covered at a Company-wide meeting. The Job Fair for disadvantaged youths would operate all summer even if it meant some employees would have shorter hours. The points raised in an employee opinion survey were being instituted — sick pay to be received automatically on return to work, executives to get an extra day off in a holiday week, and commissions to be paid earlier. And finally, an employee, on a rotating basis, will sit with the Board of Directors at their regular meetings.

RT is always happy for words of criticism from readers, whether they damn or praise!

BALANCE AT RISK – This report has been discontinued for lack of participation.

CREDIT OFFICE RATING

There has been general improvement. A. Sulka has improved from 37 to 13 days. Roos/Atkins is back on the Honor Roll. Penney's has cut that 1 day out that was necessary to make the Honor Roll. Podesta's was once over 30 calendar days.

J. Magnin	3.0	I. Magnin	4.8
Podesta Baldocchi	3.0	Montgomery Ward	5.0
Roos/Atkins	3.0	J. C. Penney's	5.0
Levees	3.9	Wallachs	5.0
Holman's	4.2		

CREDIT OFFICE RATING

APRIL-MAY 1970

FEB.-MARCH 1970

quickly by how last the store grows:	NO. OF	DAYS T	O BILL	NO. OF	DAYS T	O BILL
STORE'	REPORTS	AVERAGE	RANGE	REPORTS	AVERAGE	RANGE
Brown-Mahin (Stockton)	5	7.8	6-9	3	8.0	6-9
Capwell's (Oakland)	8	9.4	7-12	14	11.0	6-20
City of Paris (S.F.)	4	11.0	7-14	4	10.5	8-15
Emporium (S.F.)	4	10.3	7-15	ldow and 5 miles	9.6	3-12
Ford's (Watsonville)	2 100	6.0	6	soft mi2 In	5.5	4-7
Grodin's (S.F.)	2	9.5	8-11	O (dinora bere	8.0	6-10
Hink's (Berkeley)	3	6.3	4-8	Managha Alsk	9.5	7-12
Holman's (Pacific Grove)	10	4.2	3-5	10	5.5	4-7
Levee's (Vallejo)	16	3.9	2-6			
Levy Bros. (San Mateo)	32	5.4	2-9	16	11.6	7-17
Livingston Bros. (S.F.)	2	15.0	15	2	14.5	14-15
Macy's (S.F.)	6	13.8	12-16	11	13.0	11-18
I. Magnin (L.A.)	8	4.8	3-7	THE REPORT OF THE PARTY OF THE	4.9	4-5
J. Magnin (S.F.)	2	3.0	3	1	3.0	3
Montgomery Ward (Oakland)	30 011	5.0	4-6	A mi maco 5 W to	6.8	5-8
Pauson's (S.F.)	one no 1 m la	7.0	7	ad was very piea	u konsini iso	ng ating Ti
Penney's (Oakland)	2	5.0	5 1	411 - 150 - 150 - 150	6.7	5-8
Podesta Baldocchi (S.F.)	1	3.0	2 1 3	nothing 1 (E)	7.0	7
Ransohoff's (S.F.)	1	6.0	6	4	4.5	3-6
Rhodes (Oakland)	2	5.5	5-6	8	4.0	5-6
Roos/Atkins (S.F.)	1	3.0	3	uri sen in tima i mitelialmina l	evenished to	incultate yet
Saks Fifth Avenue (S.F.)	1	6.0	6	3	10.0	9-11
Sears Roebuck (S.F.)	7	5.4	5-7	6	6.7	4-11
Simon Bros. (S.F.)	ng dood 1 mg 1	9.0	9	teami	THOU SHORE	maiss an
A. Sulka & Sons (NYC)	udswape less be	13.0	13	• •	• •	
U.S.E. (S.F.)	1	7.0	white 7	auses of inventy	3 86° 161 u	ne reques
Wallach's (N.Y.)	2	5.0	5	2	6.5	6-7
Wineman's (Huntington Park)	6	5.8	4-7			
TOTAL	134	6.3	2-16	116	8.6	3-20

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED - THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride - both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

RETAILING TODAY

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AUGUST 1970

VOL. 5, NO. 8

THE F.T.C. IN ACTION

It used to be that the reports from the Federal Trade Commission contained a plethora of action against smaller merchants in the District of Columbia. When there was nothing else to do they apparently went out to clobber a dishonest local appliance dealer, sewing machine operator, or the like.

But things are changing. Now you find nothing but the finest names becoming the target of action by the staff. I understand that one of these months their goal will be to issue complaints only against companies listed on the New York Stock Exchange.

On July 20th they objected to McDonald Hamburgers' \$500,000 Sweepstake. Why was the FTC unhappy? McDonald's announced \$500,000 in prizes and gave away only \$13,000.

Jith the help of D'Arcy Advertising Co. in St. Louis and D. L. 3lair Corp. in New York City the contest consisted of putting 18,900,000 coupons in the June 1968 Reader's Digest (who, themselves, have had problems keeping their policies within the standards of the FTC but who apparently were satisfied with the plan for the contest). These coupons bore 1 of 11 numbers – 5 numbers were winners and 6 were losers. But they put in over 18,800,000 losing numbers and only 15,610 winning numbers. But the reader had to take his coupon down to the nearest McDonald's to determine whether or not his number was a winner.

Only 227 people won. But then, with the odds against them of more than 1,000 to 1 – plus the fact that McDonald has not yet reached every town that Reader's Digest has reached – what could the public expect?

(A word of caution: stores using a "Lucky Number" promotion might wish to think through the implications of this action.)

The FTC has issued proposed regulations to control the use of "cents off" labels on packages. Essentially the rules are as follows. The savings must be more than 8% off the recent regular price. The package must show both the regular price and the "you pay" price. The offer cannot run more than 1 month, not more often than 3 times a year, and must have at least 2 months between offers. But watch out for too much success — because the "cents off" offers cannot represent more than 40% of the physical volume in any year.

Finally, the FTC has moved against 4 leading magazine firms ecause of the manner in which they solicit long-term subscriptions. The 4 are Cowles Communications, Inc., Perfect Film & Chemical Corp., The Hearst Corp., and Time Incorporated. The Cowles group includes Look, and Perfect Film at one time controlled Curtis and Saturday Evening Post.

THE GREAT "MISS" PARADE

As the volume done by discount stores approaches or passes that done by department stores, it is time to look at the great "MISS" parade. This lists the merchandise categories that department stores have missed entirely. In some cases they never carried it; in others they dropped it years ago.

The result of this "Miss" Parade (opposite of "Hit" Parade) is that department stores today are primarily female oriented — whereas discount stores (plus Sears and Wards — with Penney's trying hard) are family oriented.

The automobile-airplane market came along after department stores hit their peak — but department stores never found the handle. I recall Macy's selling Crosley cars in 1940 and Joske's selling airplanes in 1946 but these were exceptions. Today the bulk of TBA operations in department stores are concessions.

Hardware departments were common in 1900-1918 but they departed long before the do-it-yourself pattern took them into big volume. Out of hardware operations have grown even larger potentials in building materials and home improvements. Sears and Wards are big here and Penney's is growing. A few independents such as Leonard Bros. in Fort Worth never lost track of their customer's demands.

Sporting goods have always been related to hardware stores — and so it was natural for department stores to miss this market, except for a few such as Marshall Fields. As our society has a major problem on how to use leisure time, it is only natural that camping and boating departments should grow out of sporting goods departments — two more on the "Miss" Parade.

Major appliances were the backbone of many a discount store operation, such as Masters. The discounters were always enamored with the "dollar margin" per transaction while department stores were being appalled by the gross margin "percentage." If your own hot water heater went out today, the *last place* you would call would be a department store.

What can we see in the future for the "Miss" Parade? There is the entire housing market — including mobile, not-so-mobile and stationary homes. The rapidly growing "services" are more likely to find an outlet through Sears-Wards and the discount stores than thru department stores — look at what has been done in casualty and life insurance, auto clubs, auto repair and diagnostic services, ski rentals, and travel agencies. As our populaton becomes more mobile there are going to be national retailers who tackle the moving problem (an industry that could be captured by firms with a reputation for high integrity) — and the package may include selling the old home and buying the new one, including decorating services and furniture sales.

LET'S CALL A CRIME A CRIME

The Australian Council of Retailers is doing just that. They are discouraging the use of the term "shop lifting," which really doesn't have any criminal implication, and are substituting for it the term "shop stealing." In the United States the term "shoplifting" is probably frozen in many, if not most, of our state and local laws. Perhaps the first step in your community should be to have the term changed, with appropriate publicity.

Think of the additional impact if the NRMA had a special program on "Teenage Shop STEALING." That would certainly put the message over that theft is a crime.

We should then go a step further and see that all newspaper reports refer to those apprehended (and convicted) as a thief. Internally, management should report to their employees that they prosecuted so many people as thieves.

THANK YOU, MR. KAHN

Most stores assume that their salespeople — at the point of contact with the customer — try to improve the contact by using the customer's name. This is easy to do on charge sales — and was often done in the days before plastic charge plates. In those days one had to ask the customer his name before they could complete the sales check. Today a clerk says, "Is this charge or cash?" I reply, "Charge" and hand over my card. The clerk imprints the form, returns my card without even reading it, and so we pass the time of day.

Check for yourself — whether you are using a store credit card, a bank card, an oil company card or a travel card. Since the boss apparently doesn't care about this little touch, the salespeople don't either.

Recently I noticed that at all Standard of California service stations the employee was circling the expiration date on the imprint — apparently an additional procedural step introduced by the credit manager to help cut losses from sales on expired cards.

But I realized that if they wanted to improve sales — probably offering a greater profit potential than cutting losses on sales on expired cards — that the procedure should require the attendant to circle the customer's name to insure that the attendant at least looked at the name. Perhaps he will use it. And like every person who comes into a service station, I like it when the transaction is completed and someone says, "Thank you, Mr. Kahn, come back again."

Now for the application to retailing.

Why not require your clerks, on all charge transactions, to circle the name when the salescheck is imprinted from a plastic card? It is easy for sales audit to partially or completely check compliance. And there is a much greater chance that a clerk will address your customer by his or her name if he has had to take a look at it. There is no guarantee, of course, but the odds are improved.

You might even wish to go a step further. Some years ago I used to patronize a bakery chain that had a sign on the back of each cash register — "Your purchase free if the clerk fails to give you a receipt." They gave away darned few purchases. And bakeries have lots of even change transactions. What would happen if your registers had a small sign "On charge sales, your purchase free if the clerk fails to thank you by name"? Wouldn't this make you the friendliest store in town almost overnight?

PRESENTING DEFERRED TAXES

RT has long objected to classifying deferred taxes, related to reporting receivables on the installment basis, as a current liabilit—but that battle has been lost for many years. But that does no mean that retailers must continue to mislead their stockholders a to the nature of the liability.

Typically the income statement makes a disclosure that says:

Federal Income Taxes:

 Current
 \$150x

 Deferred
 100x

 \$250x

Under Current Liabilities there will be an entry:

Federal Income Taxes:

Current \$87xDeferred 240x \$327x

There will be an appropriate reference to small-print foot notes and the rules for concealment have been met.

I was very much impressed with the imagination shown either by the staff of Santa Fe Industries, Inc. or their accountants, Price Waterhouse Co., in the 1969 report. I am sure that their stockholders understand the situation better.

Under the income statement it reads:

Federal Income Tax (Note 5)

Currently payable

\$ 6.65

Provision representing tax reductions deferred as credit to future income for financial statement purposes — resulting principally from use of accelerated depreciation methods for tax purposes only, for which no liability to the Federal Government exists

20,992

Under the liability section there is the following:

Deferred Credit Representing Tax Reductions

\$211,292

Resulting principally from use of accelerated depreciation methods for federal income tax purposes only, and does not represent liability to the Federal Government (Note 5).

Whether privately or publicly held, it is my conviction that any financial statement disclosing deferred income taxes related to either installment reporting of receivables or accelerated depreciation should clearly state that the amount shown does not represent a liability to the Federal Government.

HOW'S BUSINESS?

That's the question that was asked to one grain broker in the midwest recently. He replied, "Monday I sold a carload. Tuesday I didn't do anything. Wednesday I got a telegram cancelling the carload sale. I guess Tuesday was my best day."

REVIEWING YOUR COLLECTION FORMS

RT has dealt with this subject before — but it bears repeating. Scently I accidentally came across a new form just being created one of my clients. Someone had a great idea — combine a lot 1 or 2 sentence form collection letters into a postcard where the appropriate statement could be checked off. I would suspect that the most frequent message used would be, "The service charge you questioned has been adjusted" or "Your account has been credited in the amount of \$.......".

What stopped me was the two that read, "If your account is not paid current before we will have to contact your employer," and "Please contact this office prior to Otherwise your account will be transferred to our legal department for appropriate action."

Dismissing for the moment the fact that by using this form you tell every customer whose service charge is adjusted that you might contact their employer, a store has no right to attempt to interfere with an employee's job as a means of collecting an account. Within limits established by state and/or federal law the creditor has the right to attach wages — but that is something different from "contact your employer." I would suspect that many juries would award damages to an employee who lost his job because a credit department "contacted" his employer.

As to referring the matter to your "legal department," be darned sure that you have a legal department — and that the threat is not an idle one. Reader's Digest and many others have been publicly embarrassed because they made this threat when they had no intention of carrying it out. The best rule is to say the date by which certain action will be taken — and then be certain the action is taken.

fter you are certain that all of your collection forms honestly state what you will or won't do, then follow the suggestion of Dean C. Cushing, Executive Vice President of Massachusetts Merchants, Inc. who advised his members to be certain that they would be satisfied if that form was received by their own wife. That's a pretty good test — will your forms pass?

TIME CATCHES UP WITH SIGNAL OIL

I realize that no one considers The Signal Companies as a retail firm — but in the April RT we used their 1969 annual report as an example of an inadequately disclosed change in accounting procedures that accounted for \$15,000,000 of their \$52,000,000 profits — and permitted the chief officers to point out how they reached record earnings despite the difficult economic conditions.

There is always a "second chapter" of such tales and it is showing up right now in the first half earnings reported by Signal. They reported \$2.4 million before special items compared with \$12.4 million for the second quarter and only \$10.9 million against \$28.2 million for the first half.

The company attributed the drop to external factors — such as high interest rates, rising labor and materials cost, reduced government spending and stretch-outs of commercial programs. There is no mention of running out of accounting principles to change.

They also announced they had begun a stringent cost-reduction rogram, a reduction in work force, and a temporary postponement or stretch-out of major capital expenditures. But the need for all of these was obvious to management a year ago — and would have been obvious to the stockholders and public had the full significance of the changes in accounting methods made in 1969 not been concealed in footnotes of quarterly and annual reports.

HOW DO EARNINGS AFFECT MARKET VALUE?

I was interested when the FORBES 500 Largest Firms were listed and extracted my own list of companies showing a comparison, for retail firms, of their market value with their earnings — just to prove to myself that there was no magic relationship. The list below includes all retail firms that were valued by the market on December 31, 1969 at more than \$300,000,000.

COMPANY	MARKET VALUE OF COMMON (MILLIONS)	NET AFTER TAXES (Millions)
Sears, Roebuck & Co.	\$ 10,176	\$ 441
Avon Products	4,930	84
J. C. Penney	2,544	111
S. S. Kresge	1,887	54
Federated Department Store	es 1,609	86
Woolworth	1,087	71
Household Finance	872	83
Great Atlantic and Pacific	668	45
W. T. Grant	645	42
Safeway	631	55
Marcor	577	67
Dayton-Hudson	546	24
Beneficial Finance	542	58
Associated Dry Goods	511	30
Zale's	470	20
May Department Stores	405	29
Lucky Stores	383	21
Kroger	374	39
R. H. Macy	341	24

The following retailers, with profits over \$20,000,000, were not valued at over \$300,000,000:

Jewel Co.	292	21
Genesco	289	30
Intero	193	25
Spartan Industries	181	24

SOME LAW CASES OF INTEREST

In a Mississippi case a store manager saw a lady handling a bar of soap but failed to see that she returned it and purchased another brand. The manager, when the checkout was complete, asked if the customer had paid for the brand he saw and when told "no" chased the customer outside and accused her in a loud and rude voice of stealing. The lower court gave the lady \$8,000 damages.

On appeal, the Supreme Court ruled that the state shoplifting law did not create a privilege that covered the manager's unreasonable manner, lack of reasonable inquiry, and malice indicated by his actions. The jury decision stood.

In an old Ohio case, an employee of a jewelry store sold a reconditioned watch while letting the customer think it was new. The store regularly advertised that it handled "only quality merchandise." When the customer found out that the watch was reconditioned, the store owner claimed that he had told the employee to advise the customer that the watch had been "reconditioned" and further argued that "reconditioned" was different from second hand and thus could be "quality merchandise." The failure of the owner to discharge the employee on discovering that his instructions had not been followed, indicates that the owner sanctioned the acts of his agent. The customer was awarded damages.

ADVICE TO THE COOPERATIVE MOVEMENT

At the 1970 Cooperative Management Development Seminar in Minneapolis, a management consultant, described as puckish, a ham actor-comedian, author and waggish critic, by the name of Bill Oncken, dispensed some sound advice.

Dealing with the problems of accomplishing work through others — and using the theme "get the monkey off your back," he started out by pointing out that "the work you would have done had you not been here you probably should not have been doing in the first place."

His main theme is that when subordinates keep dumping problems and decisions back on you, you have become their employee rather than they being your employee. He rejects the concept of "plan your work and work your plan" as being appropriate only for engineers and accountants, but not for managers. The concept of getting work done through others doesn't lend itself to planning the work — but is a constant resolution of problems involving an attempt by subordinates to put work back on the supervisor.

He summarized this portion of his talk with, "The more you get rid of subordinate-imposed time the more time you have for your subordinates, and the less time they'll demand of you. They'll be too busy."

And then he offered a mangled poem concerning an observation on all of us:

We REspect Not all that the boss EXpects But just what he INspects.

I'll be looking for his book "Managing Management Time."

PAYROLL STUFFERS

It has been some time since RT listed some inexpensive government publications that you could include with paychecks as a service to your employees. Representative Jerome Waldie (D-California) took an interest in this subject and obtained for me a good assortment, primarily available from the Department of Health, Education and Welfare. They even have a booklet to assist in ordering — "A List of Health Information Leaflets, Pamphlets and Publications of the Public Health Service" (PHS Publication 323) available from any HEW field office.

At \$2.00 per 100 they cover Hepatitis, Constipation, Pedestrian Safety and Cigarette Smoking — Chronic Bronchitis and Emphysema. For just \$2.25 a 100 you can offer "Hot Weather Comfort." \$2.50 per 100 brings Home Care of the Sick, Septic Tank Care, or About Syphilis and Gonorrhea (now at epidemic proportions).

At \$2.75 per 100 there is Cancer of the Mouth, Cancer of the Larynx, or Cancer of the Breast. At \$3.25 per 100 there is Hay Fever, Cancer of the Skin, Facts about Cystic Fibrosis, Glaucoma, Cancer, Heart Disease, Arthritis, and Smoking and Health.

At \$5.00 per 100 there is Breast Self Examination, Cancer of the Lungs, and How Doctors Diagnose Heart Disease. \$5.50 per 100 brings information on Cerebral Palsy. \$6.50 brings more complete information on Emphysema, \$6.75 brings "Answers to questions that are often asked about Diabetic diets" and for \$7.50 per 100 there is The Food You Eat and Heart Disease, or Headache—Hope through Research.

Considering that just about 1 cent out of every dollar of federal

taxes paid — personal and corporate income plus excise, etc., goes to research on health problems (through the National Health Institutes), isn't it worth a nickel an employee, on the average, to bring this information to them? For some years we have had unnecessary deaths from many diseases because the people didn't know how to recognize them and what can be done. The Ame can Cancer Society has stressed that early discovery greatly creases the chances for a cure — and yet people continue to missthe signs of cancer.

THE PARADE OF THE PICKUP CAMPERS

On a recent trip to Jackson Hole, south of Yellowstone and Grand Teton National Parks, I was interested in a report that during June, pickup camper traffic increased more than 60% from June 1969 — to a new record of 13,614. Towed trailers were also up — by 28% to 10,432. When you look at the size of these figures you have to observe that there were "only" 125,382 ordinary cars. Roughly 1 in 6 vehicles going through Yellowstone was either a pickup camper or was towing a trailer.

Reading a Salt Lake City paper at the airport between planes on the return trip I was interested to see that Sears described one of their smaller portable TV sets as suitable for a trailer-camper.

Camping equipment is one of the categories listed on the "Miss" Parade (see box on page 1). The importance of camping is shown by some figures developed by W. R. Simmons & Associates Research, Inc. and published in the SUNSET Newsletter for July 15, 1970. In the past year 19% of the adult men and 13% of the adult women went on an overnight camping trip! In fact 5.7% and 3.1%, respectively, went on 5 or more such trips. 10% of the men and 6% of the women included fishing on a camping trip.

The pattern, of course, varies in different parts of the countiwith highest activity in the West, followed by the Central portion and lowest activity in the Northeast and South.

The heads of retail businesses are likely to be out of touch with this pattern. It is my impression that relatively few retailers are campers. Test yourself and your friends. If you live in the West, did 1 out of 3 of your friends go on 1 or more overnight camping trips in 1959? If in the Central area, did 1 out of 5 go? If in the Northeast, did 1 out of 6 go? If in the South, did 1 out of 8? If the answer is NO, then your friends are not typical — and thus probably not representative of the public you are attempting to serve.

HAS YOUR PENSION PLAN ADVISOR READ YOUR EMPLOYEE HANDBOOK?

If he hasn't, you'd better have him take a look at it. Recently the excellent newsletter "The Businessman & the Law" highlighted a case where the employee handbook description of one of the benefit plans was at variance with the detailed plan — and the employee won a suit against the company because he never got anything but the handbook.

This is true of all the benefits you summarize in your employee handbook. Obviously it is necessary to summarize the plans. But too often the summary is done by someone in the personnel department who is not an expert on the plan and who fails to see the legal implications of an inadequate synopsis.

The alternative is not one of loading down new employees wit. volumes of fine print; the answer is one of doing a proper job of summarizing the benefits offered. Where YOU have to create the benefit yourself, such as the vacation or sick leave plan, you are always certain that the benefit is accurately stated.

WHAT IS CONSUMERISM?

Retailing lives and dies by the actions of the consumer. Today consumers are undertaking joint action. It is surprising that retailing does not understand the nature of the new consumer movement.

Business and individuals have paid dearly many times in the past for social and political movements that they did not understand — the rise of Hitler prior to World War II, the attitudes of students in our colleges today, the desires of people for a good small car.

This is why I was particularly interested in an article by Professor Ralph M. Gaedeke of the School of Business Administration at Sacramento (California) State College in the Summer 1970 issue of The Journal of Consumer Affairs. Professor Gaedeke obtained three well-informed panels — business, consumer and government representatives — to whom he addressed the same series of questions and asked whether they agreed, disagreed or were uncertain. Although the panel members are not identified, it appears that they were well selected. The source of the business and consumer panels was a review of witnesses before six major hearings on consumer legislation during the 89th and 90th Congresses. The government panel was selected with the help of Senate Committee staff counsels.

wo things are apparent from the study: first, the business representatives completely misunderstand the present consumer movement; second, the government spokesmen come close to understanding it. Unless business understands the consumer better, it will ultimately feel that it is being put upon unduly by an alliance of consumer organizations and government. Perhaps many businessmen feel this way already.

Some very fundamental differences show up in the report. The percentages shown below indicate the percentage of the particular panel who agree with the statement quoted.

The combative position of business is clearly shown in response to the question of whether consumerism is an attempt to preserve the free enterprise economy by making the market work better. Only 12% of the business panel agree compared with 82% of the consumer and 76% of the government panels.

It might be well to stop and think a moment. When you have read of consumer activity in your community, perhaps even aimed at your organization, has your initial reaction been that the leaders are a bunch of trouble-makers? Perhaps, with the present unrest on the campuses, and if the consumer leaders are young and educated, you find yourself thinking of them as communists or members of the S.D.S. Yet the people in the consumer movement and in government see themselves as protecting your system.

Next is the tendency of business to consider the movement as one of gadflies who really want a few company-prepared handbooks and fact sheets. 64% of the business panel feel that consumerism a misnomer and that all the people are talking about is the need or more and better information. But only 13% of the consumer panel and 8% of the government panel agree. Perhaps it isn't just a question of putting "how to wash" instructions on the garment label; but is really a question of whether a garment called washable will stand up under 15 or 20 washings. Or perhaps it is a sincere desire for an automobile that will survive a 5-mile-per-

hour crash without incurring \$500 worth of damage.

On the question of whether consumerism is a natural outgrowth of our present sophisticated and affluent society, the differences continue. Only 40% of the business panel agreed that this is a natural outgrowth compared with 82% of the consumer panel and 70% of the government panel. I suspect that behind the business position is the thought that our competitive economic system has brought us to our present high standard of living — and that people should have implicit faith in that system. Yet any student of business recognizes that the "laissez faire" economy disappeared a long time ago.

A century ago banks and railroads were the *least* responsible forms of business. Commodore Vanderbilt could say and mean, "The public be damned." Later, Insull could build a utility empire on watered stock. But these are all gone. We have new devices for taking advantage of people — increasingly sophisticated — that are bringing new responses. The problem of the non-warranty warranty, where the small type takes away all that the advertisement appeared to give you, didn't even exist 100 years ago — because nobody even thought of giving a warranty. (There were, of course, a good number of responsible retailers who meticulously stood behind the products they sold — but they were the exception.)

Business feels that it can sweep aside the consumer movement because it tends to rationalize the movement as primarily political. If it is political, then business does not really have to change methods until the political power is proven. (Remember that Senator McCarthy proved the existence of "Student Power" before student activism warranted political recognition.)

On the other hand, the consumer panel considers itself to be about 3 parts political, 3 parts economic, 2 parts social with the remaining 2 parts being a combination of all three or a combination with primary emphasis on economic.

Government considers consumerism to be about 5 parts political and 4 parts economic — and apparently has missed the social "vibes" that run through the movement (although all three panels clearly recognized that the consumer movement was moving into the ecology field with great strength).

It may well be that the consumer movement fails to understand its own political power. If 2/3rds of the business panel and half of the government panel think that political power is the predominant characteristic, perhaps the consumer movement might well consider greater emphasis on their political activities.

When asked specifically why the consumer movement has grown, it is quite clear that business fails to understand the motivation.

Retailers might ponder the fact that only 39% of the business panel thought that it was from a sense of frustration on the part of shoppers (no businessman ever admits that a substantial number of shoppers could feel frustrated — but sometime ask your wife about her frustrations with the present status of skirt lengths) while 87% of the consumer and 84% of the government panel agreed. This may well highlight the fact that the letters of frustration sent to many businesses never reach the head of that business.

It would seem to me that the head of any retail organization, including those who head store groups doing over \$100,000,000 in a single metropolitan area, should insist on seeing every letter of complaint, a copy of the reply, and a summary of any action taken. Hopefully the principal executive would also strive to get a record of the verbal complaints — although these are less likely to filter through to him.

Even more serious is the response to the question of whether the movement's growth relates to a deterioration of business ethics. Here business and government agreed completely — none of either panel's members thought that this was a cause. Yet 61% of the consumer panel felt that this was a cause!

No businessman considers (or, in any case, is willing to admit) that he has less than the standard of ethics required to assure the opening of the Pearly Gates well in advance of his arrival, with perhaps a special party arranged by the overseer. The fact that every year we learn of many businessmen being convicted for many offenses, including ethical as well as technical offenses, seems to have little bearing on the businessman's evaluation of the ethical climate of business today.

In looking through just one issue of the Wall Street Journal (August 3rd) I find the following articles. On the first page there is a story about the grocery industry's unwillingness to disclose age codes, and the headline mentions rewrapping an old turkey. Nineteen House and Senate members admit to renting Continental cars at \$750 per year. The Food and Drug Administration tells 8 producers of mouthwashes that their advertising claims are not true.

Now let's look at the articles inside the paper. An SEC examiner recommended that a long list of stockbroker firms be censured for using inside information from Merrill Lynch in 1966 when they sold Douglas Aircraft holdings. Dupont won a favorable ruling in a landmark case dealing with industrial espionage. Chicken Delight franchise holders won a case against franchiser parent Consolidated Foods charging restraint of trade.

The National Association of Women's and Children's Apparel Salesmen, Inc. is ruled by the FTC to be illegally restraining trade, Armco Steel Corporation is named by the Justice Department in a civil antitrust suit. A Federal Grand Jury indicted 6 officials of First Western State Bank of Minot, N.D. for conspiring to make political contributions from bank funds between 1964 and 1969. The Secretary of the Interstate Commerce Commission quits after disclosing that he hid a payment from a trade association. And finally another stockholder filed suit against Penn Central's accountants, 28 current and former directors and 39 current and former officers.

Yet there are those who would say that our ethics were never higher. And apparently none of the business or government panel felt that this type and quantity of daily news had anything to do with the growth of the consumer movement.

Some other questions fall into the same vein.

Only 8% of the business panel related the growth of consumerism to the spread of big business although 57% of the consumer panel and 40% of the government panel agreed. Only 13% of the business panel related the growth to the failure of business to meet social needs of our current society although 72% of the consumer panel and 42% of the government panel agreed.

Big business has meant less contact between those who control the business and those who patronize it. Most major retail executives never complete a floor transaction. I suspect that some can go through an entire year in a headquarters and never talk to an honest-to-goodness, typical, customer. And if they do talk to them, they seldom say, "I am the head of this outfit and I would appreciate it very much if you would tell me all the things you

think we are doing wrong so that I can make them better."

The heads of major businesses, with branches throughout the country, just do not understand the remoteness of many of their local branch managers. A substantial number of the branch managers don't even live in the community in which their store located (the same problem exists with many store owners — but they have a greater economic attachment to the community in which they do business) and a substantial number of branch managers are more concerned about getting transferred to a bigger store in another community than they are in making their present community a better one.

Another series of questions inter-relate. Only 17% of the business panel related the growth of consumerism to more opportunities for deception while 87% of the consumer and 77% of the government panel agreed. Only 29% of the business panel felt that consumers were motivated by an awareness of their rights and responsibilities while 93% of the consumer and 92% of the government panel agreed. Only 22% of the business panel felt that the growth related to the problems of product guarantees and warranties while 79% of the consumer and 77% of the government panels agreed. And only 25% of the business panel, compared with 74% of the consumer and 85% of the government panels felt that the growth related to the consumer information gap.

Put all of these together and you again see a pattern where business feels that they have done no wrong (nothing wrong with warranties, no increase in deception, no awareness by consumers of their rights and responsibilities, and no shortage of consumer information).

Let's put this on a personalized basis. Did you really understand the warranty on the last car you purchased? Did you get what you expected in the form of follow-up service (I was appalled to learn that Ford does not warrant that they will deliver their new cars with the wheels aligned — although they did replace one wheel that was not round!). Did the computer you bought live up to the sales pitch of the salesman — and if it did not, did you learn anything about the warranty of the computer vendor as to the amount of money you would save? Or even as to the amount of money it would cost to run your EDP department?

The list could be longer – but aren't the car dealer and the computer manufacturer with whom you deal "businessmen"?

And now for a conclusion.

As long as business — and especially retailers — don't understand the nature of the consumer movement, they are going to end up being hurt by it. The very fact that (1) they see it as a political movement and (2) they feel that business doesn't do anything particularly wrong, is likely to lead to the development of the consumer movement as a political movement.

To paraphrase a bit, God must have loved the consumer because he made so many of them. Once before a group with a relatively narrow outlook accomplished a major change — and we adopted Prohibition. Ultimately this was repealed — leaving behind the organized crime that had developed to supply the substantial minority (perhaps even a majority) with their booze. Many trace the Mafia to this origin.

We are now watching unions imposing, by force, many substantia' inflationary wage settlements that will work against most of the other members of our society. Can you imagine an all-powerful, but immoderate, consumer movement?

The consumer movement is made up of your customers — I suggest that you get out and meet him. They have a great many ideas about how you can make your business a better business.

RETAILING TODAY

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A COMMON STOCK WITH NO TANGIBLE VALUE

Recently I was studying the balance sheet of Glen Alden Corporation and Subsidiaries (which include BVD, National Shirt Shops, and others well known in the retail field) and I suddenly realized that Meshulam Riklis has finally reached a new peak — a company with common stock completely devoid of tangible values.

This was rather surprising for a company that reported revenues of \$1.2 billion for the year ending December 31,1970, net profit of more than \$21 million, total assets (?) of \$1½ billion and an apparent net worth of a quarter of a billion dollars!

So let's look at the record.

Normally the value of the common stock is the total of the items hown on the balance sheet for Common Stock, Capital Surplus, and Retained Earnings less the cost of Treasury Stock. In the case of Glen Alden the Haskins-Sells audited statement shows \$243 million.

The first point that stands out is right in the equity section of the balance sheet — the preferred and preference stock has a stated value of \$15 million but a redemption and liquidation value of \$124 million — so the apparent \$243 million must be reduced \$109 million, the amount available to the common stock now is only \$134 million.

A glance at the "Other Assets" section discloses that a good part of the \$1½ billion in assets isn't completely tangible. First, there is an item identified as "Intangibles" of \$123 million. This is described in the footnotes as "the excess of unallocated cost of investments over equity in net assets of Schenley and other subsidiaries." In other words, Glen Alden paid \$123 million more than the value of the assets.

Deducting this intangible from the \$134 million of equity attributable to the common, we arrive at an \$11 million value for the common.

But there is more. Glen Alden has \$86 million of "unamortized debt expense." This means the expense of incurring debt (like a fee to an investment banker for placing a long term note) which has not yet been recognized, for reporting purposes, as an expense. How much is this worth as an asset? Not a single dollar can be realized from this "asset."

Recognizing this \$86 million as being worth nothing — our \$11 million value of the common stock becomes a minus \$75 million! Based on about 20,000,000 shares, that means the tangible book value of a share of common stock in Glen Alden is about minus \$3.75. (Fortunately the stock is not assessable.) Yet at this writing the stock is selling for about \$7 per share and has been as high as \$9 this year and \$20 in 1969.

THE FALLACY OF CASH FLOW

"Cash flow" has become one of the magic phrases developed during the "Soaring Sixties" — let's hope that it disappears during the "Stupendous Seventies."

The concept of cash flow was developed by financial analysts in their early years — as investors became enamoured with real estate investments that constantly showed (1) a loss for tax purposes, (2) great amounts of tax-free cash available, and (3) an ability to be sold after a holding period at a capital gains. The analysts were hard-pressed to explain why one should invest in a losing proposition — so they developed the concept of cash flow.

In its simplest form cash flow represents the arithmetic sum of the profit and all non-cash items on the income statement (depreciation, amortization, etc.). It is often expressed in the form of "cash flow per share," with the idea that a price/earnings ratio of 30 or 40 of 1 is not so unrealistic if the price/cash-flow ratio is around 10 or 15.

This is typical of the shallowness of security analysis — because it concentrates solely on the income statement. One wonderful side-effect of the collapse of the Pennsylvania Railroad is that people are again looking at balance sheets. The Wall Street Journal even had an article commenting on the reduced liquidity of J. C. Penney — a company that just a dozen years ago was entirely debt-free.

The next time someone discusses cash flow ask him how that figure accounts for the cash flow to finance increased receivables or increased inventory or new fixtures — or how it recognizes whether or not you had a large or small debt payment to make during the year. This is where the cash really flows.

What good does it do a company to have a profit of \$1,000,000 and depreciation of \$2,000,000 for a cash flow of \$3,000,000 if the inventory and receivables increased by \$4,000,000 and a \$5,000,000 payment must be made on long-term debt?

There is much current discussion of the liquidity crisis in business today — but in many cases a study of balance sheets reveals that the problems of today are the result of many years of increasing debt faster than net worth — until the day of reckoning inevitably arrives.

Let's hope that the current concept of "cash flow" is quickly forgotten — and that every major retailer obtains a detailed "balance sheet analysis" of his own business.

WHAT OUR CUSTOMERS ARE LIKE

Most retailers get up at conventions and tell other retailers what the customers do and want. They gather their information, it seems, by osmosis or perhaps by breathing the same air that customers breathe. Unfortunately, many of these pronouncements are just a reflection of what the speaker would like the truth to be.

Other businesses that are interested in customers go out and measure the facts. Sometimes they put the report together in a form that is extremely helpful to retailers. Usually, when they have done that, the retailers won't take the time to read the report.

I suspect that such is the case with the 17th annual study of the Greater Phoenix Market – the 1970 Arizona Republic and Phoenix Gazette Consumer Survey. Yet this report, measuring a market of almost 1,000,000 people, conducted on a sound basis (the methodology is completely documented), tells a great deal about retail customers.

Because I feel that much of this information is valid in other geographic areas, I have asked the publishers of the report for permission to include my analysis of certain points in RT- and they have agreed.

The Credit Card Myth

The department stores keep talking to themselves about how the bank credit card will go away. This report shows that 60% of the Phoenix families have department store credit cards, 55% have bank credit cards, and 58% have gas and other cards. Just to drive home the relative importance of department store and bank cards, let me intermix the lists:

CREDIT CARD	% OF HOUSEHOLDS
Penney's	37%
Master Charge - Valley National Bank	34%
Sears	28%
Diamonds (Dayton-Hudson)	25%
Broadway (Broadway-Hale)	24%
Wards	22%
BankAmericard - 1st National Bank	19%
Goldwater's (Associated Dry Goods)	14%
BankAmericard - Arizona Bank	11%
Rhodes (AMFAC)	10%
Woolco (Woolworth)	6%
Master Charge (4 other banks)	4%

But I hear someone in the back saying that lots of people have bank credit cards but they don't use them as often as they use our card.

Let's look at the use of the cards in the 90 days prior to the interview:

Diamond's	74%
Penney's	69%
Master Charge - Pioneer Bank	62%
Master Charge - Valley National Bank	61%
Master Charge - Southern Bank	60%
Goldwater's	55%
Bank Americard - Arizona Bank	49%
Master Charge - United Bank	49%
Sears	49%
Woolco	49%
Broadway	48%
Bank Americard - 1st National	47%
Master Charge — Continental	44%
Wards	43%
Rhodes	39%

Now I hear someone saying that the people who use the bank cards are not the upper income families that patronize our store.

So let's look at the ownership of credit cards by income levels:

Income Level	Percentage Own	ning These Typ	Types of Card		
	Department Store	Bank	Gasoline, Others		
Under \$3,000	33%	27%	25%		
\$3,000-\$4,999	43	35	41		
\$5,000-\$7,999	54	50	52		
\$8,000-\$9,999	64	57	64		
\$10,000-\$14,999	74	67	75		
\$15,000-\$24,999	79	79	80		
\$25,000 and more	85	83	88		
Total Area	60	55	59		
Median Income of Holder	\$10,263	\$10,538	\$10,565		

It looks pretty much as though the person who uses a department store credit card also uses a bank credit card and a gasoline credit card.

The Regular Customer Myth

The study asked about patronage at some 37 shopping locations. The typical number of locations visited in the 90 days prior to the interview was 5.1 and for the prior year it was 9.1. Thus the typical customer, in Phoenix, at least once during the year visits more than a quarter of the shopping locations! I suspect that this mobility is true in many other cities.

Four of the 37 locations were visited at least once by half th families (ranging from 59% to 65% each). Another 7 location were visited by more than a quarter of the population.

Why do they have a preference for a particular center?

Convenient location	75%
Merchandise selection	49
Parking	28
Prices	25
Service	12
Credit facilities	10
Store personnel	9
Other	12

And the reasons for shopping more than one area are also important:

Merchandise selection	51%
To compare prices	40
To compare values	32
Enjoy shopping	29
Credit facilities	56
Other	14

How many retailers today would be willing to state that 29% — more than a quarter of their customers — "enjoy shopping" and that this affects their shopping pattern? Do you recall any recent institutional ads on the pleasures of shopping in your store?

The following table shows the percentage of customers who shopped the various stores at least once during the past year. Where there are several figures under the percentage column it means that the company had more than one store and the figures are for separate stores:

STORE

PERCENTAGES

Sears	61%, 6%, 3%
Yellow Front (11 stores)	56%
Denney's	46%, 30%, 33%, 20%, 12%, 7%
Globe	26%, 21%
Diamond's	42%, 38%, 15%
Broadway	43%, 27%, 22%
Wards	35%, 29%, 11%, 2%
Woolco	30%, 24%
Goldwater's	29%, 17%
Rhodes	27%
*K-Mart	22%, 22%
*Smitty's	18%
*Fed-Mart	17%, 10%, 10%, 8%
*Totem	17%, 8%, 7%, 6%, 5%

The Carry-everything Myth

Department stores once professed to be the purchasing agent for the consumer. Let's see how the stores you know fill the "purchasing agent" challenge for the following groups of customers. While you are doing this, think of whether Sears-Penney's-Wards or the major discount chains fill the bill.

The table below indicates the percentage of families buying certain types of merchandise during the prior year:

Hardware	46%
Floor tile	9
Trees and shrubs	24
Fertilizer and soil	
additives	41
Garden tools	25
Camping Equipment	15
Fishing gear	19
Hunting equipment	12
Golf equipment	8
Water sports equipment	7
Swimming pool chemicals	9

In the 90 days prior to the interview 28% camped out (see RT July 1970 for similar figures — on an annual basis — published by SUNSET magazine), 27% went fishing, 15% went hunting, and 15% went boating. Admitting that they could not get equipment for most of these activities in a local department store, could they even get the appropriate clothing?

37% of the families made home improvements during the year, 68% of the families did it by themselves plus 12% who did part and had professionals do part. The median expenditure for the year was \$153 per household. 25% did some inside painting and 10% did some outside painting — and these jobs certainly were largely performed by the homeowner, his family and his friends.

The Summary

Today's customer is like yesterday's — looking for better value, lower prices. She carried her own credit card with her — so she is less reliant on the department store account. Her car gives her mobility. The limited assortment in department stores forces her to look at other outlets. The challenge to retailing is the same as it was 100 years ago — please the customer.

CAPITALISM VS. A BETTER WORLD

There is considerable concern on the part of many business men that our competitive capitalism is not being properly sold and explained to our young people. On the conservative side of our society, there are those who feel that competitive capitalism can be best developed when government is least.

Spokesmen for government, at both the National and State level, are, at the same time, calling upon free enterprise businesses to do their part in making this a better world in which to live (survive?).

More business executives should be considering the inherent basic conflict — the conflict between their own acknowledgment that we must have a better world — a cleaner world — a safer world — if we are to survive; and their desire for a continuance of a competitive capitalism with a minimum of governmental regulation. Each executive must ask himself: Can these two exist side by side?

The essence of capitalism — which executives constantly flaunt in the face of government — is that the competition is measured by a brutal yardstick — the presence or absence of a profit. If a company does not make a profit, it disappears; if it makes a small profit it may survive for a while; if it makes a big profit it will grow.

So the executives that run businesses are measured by their ability to make a profit. You and I go even further and invest our money in stock of companies that make a profit — the bigger the profit, the more we are likely to invest.

As an executive you recognize that your personal advancement — higher income, key to the executive men's room, stock options and deferred compensation — is tied closely to your ability to produce an increased profit for your company.

Yet we all recognize that improving our atmosphere and reclaiming our contaminated streams and lakes involves extra costs. Operating a safer plant, providing better medical benefits for our executives, designing a safer product also involves extra costs. Sometimes these costs can be gigantic.

Few are the executives and companies that can "go it alone." Even in an industry as small as the auto industry — an oligopoly of just 4 firms — can you imagine what would happen if a single manufacturer unilaterally installed all of the safety devices now required by law and provided a smog-free power plant, with a 25% higher price for their car?

Sales would decline rapidly. Dealers would go bankrupt all over the country. Factory employment would be down. Financial analysts would daily be revising upwards the estimate of the loss. The stock price would plummet. Banks would restrict credit lines.

Most of the things being demanded today on autos, by law and by government regulation, could have been done without such regulation — but they are not and were not and will not be done in a competitive, free enterprise system.

We ought to look carefully at our desires for a free enterprise system and a government that makes minimum demands on business — and see if the price of such a combination is not the loss of our environment.

HOW'S YOUR SNOWMOBILE DEPARTMENT?

The Department of Commerce has put out a report on Snowmobiles that indicates that sales have increased from about 15,000 units in the 1963-64 season to 285,000 in the 1968-69 season and a preliminary estimate of 350,000 for 1969-70. At a median retail price of about \$900 a unit (without counting accessories and trailers) that comes to about \$315,000,000.

The bulk come from Canada with 34,000 being imported in 1966, 82,000 in 1967 and 112,000 in 1968.

In case you are interested in customers that are buying snowmobiles, the major brands are Ski-Doo, Polaris, Arctic Cat, Evinrude 60-Johnson 50, and Moto-sko, with Ski-Doo, in 1968, accounting for 37% of the market according to a survey by Snow Goer magazine.

THE WISH IS FATHER OF THE FACT

Recently considerable publicity was given in newspapers and the trade press to a report released by the National Federation of Small Businesses indicating a decline in both the acceptance of bank credit cards by independent retailers and also the volume of business transacted on such cards.

This, of course, is exactly what many retailers with their own credit cards want to see happen. Much time and effort by the larger retailers is being spent explaining how terrible the bank cards are, how the banks are being monopolistic, and how legislation must be passed banning banks from going into the credit card business.

Of course, the underlying objection remains as an objection to increased competition — the competition that comes from a credit plan that allows a small neighborhood retailer to offer revolving account terms at his store.

But let's return to the articles on the report. They indicated that in June 1970 33% of the independent retailers (not defined) were accepting cards compared with 36% in April 1970 and that these retailers did only 18% of their volume on cards in June as compared to 19% in April.

It surprised me that *Creditalk* issued by the Credit Management Division of NRMA published this information without ever wondering about the seasonal pattern of credit. When credit is measured as a percentage of sales there is a definite seasonal pattern. Credit sales percentages are highest during peak selling periods—when the customers need it the most; and lowest in the smallest volume months. Most retail results are measured by comparison with the corresponding period in the prior year—in order to compensate for any seasonal pattern—but such was not the case at NRMA.

Second, the variations are so small that it might well be a sampling error. You will recall that President Nixon officially declared the end of the current recession when unemployment dropped (without logic or explanation) from 5.0% in May to 4.7% in June — only to be completely silent when it returned to 5.0% in July and even higher in August. In retrospect, June probably represented a sampling variation.

Yet NRMA is willing to put out words of wishful thinking like, "Disenchantment with bank credit cards by independent retailers could be a reason . . ."

Do you know any disenchanted retailers who are giving up bank cards so that they can go back to a cash business? Or who are enlarging their own charge plans because money is so readily available to small retailers these days?

ON THE CONSUMER FRONT

As the consumer front organizes, and as information is exchanged on a variety of activities, retailers can get a good idea of the ingenuity of the consumer.

For example, one couple, in order to make their food dollar go as far as possible, made up duplicate shopping lists and then each invaded a different supermarket with a walkie-talkie. As they shop the list, they compare prices by radio, and always make the best buy!

Speaking of supermarkets, the recent trend toward discount food stores raised a question in the mind of one consumer — who is also a reporter for RT's Credit Office Rating. She wrote, "Now

most grocery chains are called 'discount.' It puzzles me. Isn't this just a new 'gimmick', a 'come-on'? If everybody is 'discount,' what is so special about them?"

This questioning of the integrity of billion-dollar food chains just part of the continuing skepticism among consumers. A Pu due opinion panel reported that in 1949 only 41% of the respondents felt they could say "yes" to the question, "Do you feel that you can believe what you read in the newspaper?" By 1959 this had dropped to 39% and by 1969 to 33%.

Consumer pressure has led to the introduction in the House of Representatives of a bill that requires that a store must acknowledge within ten days the receipt of a complaint about a billing statement that if a correction or full explanation is not made within sixty days the amount billed becomes unenforceable:

Maryland is considering a bill to require the seller to refund cash immediately when merchandise is returned.

There is an easy way to keep informed on what is happening in the consumer field — subscribe to the *Newsletter* of the American Council on Consumer Interests — send \$6 to 238 Stanley Hall, University of Missouri, Columbia, Missouri 65201.

OPEN TO BUY?

Perhaps not as much as you have planned.

The pencil pushing being done now in retail stores can make or break the year. The big question is: How will sales be throughthristmas?

Many stores brag that they "never plan a decrease." How many times has it been said, "You can't do business without merchandise"? All of this reminds me of the woman as she looks at her 10-foot-long clothes rack and says, "I haven't a thing to wear."

Most persons working with open-to-buy, whether they be merchandise managers, buyers or controllers, don't understand the true function of inventory. This is a buffer — a flexible asset that absorbs variations between planned and actual sales. It means, particularly in departments with stock turn rates of 4 or less, that you can indulge in the luxury of planning to small an inventory — or too low a sales level. Both end up with the same results.

Let's look at some figures for a minute. Suppose you had sales last year for October, November and December of \$10,000, \$12,000 and \$20,000 and should have had a December ending inventory of \$20,000 in order to do \$8,000 in January. If you use the same plan this year — and sales are off 10% or \$4,000 for the 3 months — your inventory will be over plan by 20% just when you are going into lower sales activity. The excess is also 50% of expected January sales, so January cannot pull you out.

Your excess stock position comes just when it will take mark-downs of 50% or more to move the old season merchandise.

On the other hand, if you plan sales at \$38,000 instead of \$42,000- or about 10% less — and then do have sales equal to last year, you will have \$4,000 less inventory than planned — or only some \$16,000 which is 2 times (rather than $2\frac{1}{2}$ times) the expected January sales level of \$8,000. To hear some merchar dise people talk, when planning of this type is done, you would think that if they didn't have a plan based on equaling or exceeding last year that when January arrives every shelf in their department will be bare.

CREDIT OFFICE RATING

Starting this month the report separates the information reported directly by the store and the information obtained for reporters who report the actual dates on all the bills they receive each month. IF MORE STORES WISH TO SUBMIT DATA, PLEASE WRITE FOR INFORMATION.

The Honor Roll continues to grow:

J. Magnin	3.0	Levee's-Vallejo	4.5
Holman's	3.9	Levy Bros-San Mateo	4.5
Macy's NYC	4.0	Simon's-Oakland	5.0
I. Magnin	4.0	Wallach's-NYC	5.0

CREDIT OFFICE RATING

	JUNE-JULY 1970		APR-MAY 1970			
INFORMATION FROM REPORTERS	NO. OF REPORTS	DAYS T AVERAGE	TO BILL RANGE	NO. OF REPORTS	DAYS T AVERAGE	O BILL RANGE
Brown-Mahin-Stockton Bullock & Jones-S.F. Capwell's-Oakland City of Paris-S.F. Emporium-S.F.	4 1 5 3 4	7.5 6.0 10.2 10.0 7.0	5-9 6 8-12 8-12 6-8	5 - 8 4 4	7.8 - 9.4 11.0 10.3	6-9 - 7-12 7-14 7-15
G.E.T.—S.F. Gertz Dept. Store (NYC) Grodins—California Gump's—S.F. Hastings—S.F.	1 2 2 4 1	7.0 9.0 10.5 9.0 14.0	7 8-10 10-11 7-10 14		9.5	8-11 - -
Hink's-Berkeley H. Liebes-S.F. Livingston BrosS.F. Macy's (NYC) Macy's (SF)	2 1 1 1 6	6.0 13.0 14.0 4.0 6.7	4-8 13 14 4 3-11	$\frac{3}{2}$	6.3 15.0 13.8	4-8 - 15 - 12-16
I. Magnin—Calif. J. Magnin—S.F. Penney's—Calif. Podesta Baldocchi—S.F. Saks Fifth Avenue—S.F.	6 1 1 1 1	4.0 3.0 9.0 7.0 6.0	4 3 9 7 6	8 2 2 1 1	4.8 3.0 5.0 3.0 6.0	3-7 3 5 3 6
Sears—S.F. Simon Bros.—S.F. Simon's—Oakland U.S.E.—S.F. Wallach's (NYC) TOTAL	7 2 1 1 2 61	6.3 6.5 5.0 7.0 5.0	5-12 6-7 5 7 5 3-13	7 1 - 1 2 - 59	5.4 9.0 -7.0 5.0 8.1	5-7 9 - 7 5 - 3-16
INFORMATION DIRECT FROM STORES						
Holman's-Pacific Grove Levee's -Vallejo Levy BrosSan Mateo Wineman's-Monrovia Wineman's-H.P. Walker Scott-San Diego	11 20 16 7 7 32	3.9 4.5 4.5 9.1 8.7 18.4	3-5 2-7 2-7 5-13 5-11 15-22 2-22	10 16 32 - 6 - - 64	4.2 3.9 5.4 5.8 - 4.9	3-5 2-6 2-9 - 4-7
TOTAL	93	9.9	2-22	04	4.9	2-9

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED – THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride — both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

ANNUAL REPORTS AND AUDITORS - REVISITED III

ZALE CORPORATION (Touche Ross & Co.): The balance sheet reflects 1,331,828 shares of preferred stock (Series A) at \$1 par value although they receive a dividend of 80 cents per year and have a liquidation value of \$30 per share. As a result, the common stock appears to the casual reader to be over-stated by some \$38 million dollars. More serious is the fact that Zale enjoys a considerable tax benefit through the use of multiple corporations. The effective tax rate as reflected in the report is about 40%. Increasing this to 50% would reduce earnings and earnings per share by some 27%. Footnote 2, covering Income Taxes, makes reference to the Tax Reform Act of 1969 to the extent of the reduction of the tax surcharge but completely fails to disclose to even the most careful reader the size change that will come about as a result of eliminating the multiple surcharge exemptions. Certainly this is more important to the stockholder than is the disclosure that the Corporation is constructing a new general office at a cost of \$12,000,000.

THE EMPORIUM CAPWELL COMPANY (Ernst and Ernst): The narrative section of the report does disclose for the first time the per-share impact of using LIFO during the past 3 years (8 cents or a 5% difference - \$1.70 under LIFO and \$1.78 under FIFO). Unfortunately this was distributed long after the bulk of the negotiations on the merger with Broadway-Hale. Such a disclosure was not made in prior year reports. But there is a more serious item. The report for the year ending January 31, 1969 contains in the accountant's certificate the statement "in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year." The report for the year ending January 31, 1970 shows exactly the same figures for the year ending January 31, 1969 as was shown in the prior year report. Yet Note D implies that the accounting for depreciation was changed in the prior year, "Approximately one-half of depreciation and amortization expense for the year ended January 31, 1970, has been computed on the sum-of-years-digits method (primarily with respect to furniture and fixtures acquired prior to February 1, 1968) with the balance computed on the straight-line method." This change is mentioned with approval in the accountant's certificate. But it does not disclose the impact on earnings for the year ending January 31, 1970, and it leaves in complete confusion how depreciation was handled for the year ending January 31, 1969 for those assets acquired between February 1, 1968 and January 31, 1969.

MARCOR, INC. (Arthur Anderson & Co.): This report makes fascinating reading - representing the type of challenge that a mouse must find in a maze. The letter to the stockholders reports that earnings were up \$10 million, or 16% from the 1968 proforma figures, or from \$57.7 to \$67 millions. According to page 40 of the report, this was accomplished with a \$6.3 million increase in Montgomery Ward and Co. profits and a \$2.9 million decrease in Container Corporation profits - or a net profit improvement of \$3.4 million. The magic is in the handling of that portion of Container Corp (41%) that was acquired for debentures and treated as a purchase (which created \$167 million of water, blue sky, or goodwill, call it what you wish, that, in turn, is equal to 19% of the purported stockholders' equity). It is interesting to note that Marcor would have substantially better than a 2:1 current ratio (rather than less than 2:1) had they not objected to Sears' treatment of deferred taxes related to installment reporting of receivables as a deferred liability. Wards is now in a position to use this tax savings and has deferred \$124 million in taxes.

Once again I object to the accepted practice of recording preferred stock at absurd figures. Marcor reflects their preferred at a stated value of \$6.50 (up from \$6 in the prior year) when the stock is (1) convertible share-for-share into common, (2) is callable in the future at \$45 per share and (3) the treasury stock entry indicates that Marcor repurchased some stock at an average of \$56 per share. No matter how one analyzes the equity section (allowing for calling or liquidating the preferred), it appears that the common stock value is substantially overstated. Perhaps all of this explains why Marcor is one of the few companies that can report a 20% drop in the number of stockholders over a 5-year period.

A BIG COMPUTER FOR THE SMALLER STORES?

Retailers are the past-masters of getting full use out of business machinery. I still see major retailers displaying odd pieces of cash register equipment — like NCR 2000 and 6000 machines, out of production for years, or even some non-itemizing registers. I would estimate that more than half of the cash registers in retail stores doing between \$250,000 and \$3,000,000 a year can't validate a salescheck.

With that background, imaginative retailers should be looking into the used computer market. COMPUTERWORLD (July 29, 70) reports that IBM 1401 series computers, of which more than 8,000 were manufactured, are selling today for 4% to 5% of original cost — and are excellent machines to use for tape-oriented routines. Obviously you don't get this price from IBM — since IBM is still renting many of these machines at prices based on their original prices. (If you are using a 1400 series on lease from IBM you might investigate (1) buying your own computer, (2) putting it on contract maintenance with IBM and (3) returning their leased computer.)

One firm using some 70 computers reported that their price-performance analysis between a second generation IBM 7074 and a third generation 360/65 indicated that the 360 would cost 10 times as much to turn out less than twice as much work.

Not only are the second generation computers selling for a small fraction of their original price, there is a great quantity of accessory equipment made by other manufacturers that is cheaper — and often faster or more effective — than the accessories made by the mainframe manufacturer.

In order to get into this approach the small to medium size retailer needs to have a qualified computer man in his organization — since he cannot count on the assistance provided by the computer manufacturer's salesman. This computer executive has to be able to identify the legitimate and competent firms in the used computer field. This step is more important than programming — because a great deal of the software for retail routines on the IBM 1401 are available through purchase.

And IBM will even give you a hand — through the Purchased Equipment Service Centers they intend to start establishing this year. Los Angeles and New York City will be the first locations.

RETAILING TODAY

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OCTOBER 1970

VOL. 5, NO. 10

TOWARD A BETTER B.B.B.

The Editorial in the July 1970 RT (Needed: A Better B.B.B.) reached John O'Brien, the head of the St. Louis BBB who has undertaken to travel to New York City two days of each week (a grueling schedule) to serve as Acting Executive Director of the Council of Better Business Bureaus until their reorganization can be completed and a permanent executive director located.

His letter to me started, "Your July commentary on the need for an improved Better Business Bureau structure is before me and as unhappy as these conclusions of yours are to me, I fear I must agree in large measure on these observations on the Bureaus' weaknesses in recent years."

He then brought me up to date on the merger of three organizations, the Association of BBB's International, the National BBB and the BBB Research and Education Foundation, into a new rganization known as the Council of BBB's, Inc., whose board is headed by Mr. Elisha Gray II of Whirlpool Corporation, effective in May 1970.

Mr. O'Brien has also sent me material flowing from his St. Louis BBB indicating that in that city, at least, dialogues are being set up by the BBB between consumer groups and retailers. It is his hope that these will produce some of the mutual support and alignment that RT had envisioned.

However, as I reviewed the list of people active in the various national BBB organizations, I realized that there is another area where the BBB has a job to do - in establishing its credentials with the public.

For example, when I see an executive from Coca-Cola listed, my immediate thoughts turn to the recent contest where they were cited by the Federal Trade Commission for deceit in setting forth the rules. When I see the name Reader's Digest Association, Inc., I think of the consent order signed by Reader's Digest in regard to some collection procedures used against subscribers. The name "Grolier" immediately brings to mind that every major encyclopedia publisher is under consent order to stop misleading and dishonest representations made by their door-to-door salesmen.

The point can be raised that virtually every business has had some set-to at some point with some arm of the government. Should such problems be a bar to their participation in a good effort such as the BBB? I think the answer to that is another question: If members of the public see representatives of such businesses filling a large number of the BBB positions, are they reinforced in heir thought that the BBB is nothing but a cover-up for businesses that are going to continue to take advantage of the public?

It is unfortunate that it is true that so many major companies have been challenged as to the ethics of some of their practices —

ETHICS AND THE FINANCE CHARGE

"Finance Charge" is a relatively new term to many retailers — imposed by law on most monthly statements since the passage of Truth-in-Lending.

"Ethics" is an old word — one on which our finest retail establishments were founded when men like Wanamaker, Marshall Field, Filene, Macy, and others were running their own store.

However, the matter of handling finance charges is raising the question of ethics in a broad portion of the retail field — and in a large number of courts throughout the United States. It is impossible to list all of the court actions challenging the procedure by which the finance charge is applied to the previous balance on a monthly statement without first reducing that balance by partial payments and credits.

The entire industry has been aware of the split that exists—with the minority using the Penney's system (under which payments and credits are deducted in order to determine the balance on which to compute the finance charge) and the majority using the so-called "conventional" system. The National Retail Merchants Association and various state associations have been called upon to defend the "conventional" system.

Yet it does not take an advanced degree to wonder how, on an account with a \$100 previous balance and a \$50 payment, two merchants, both professing to use a "periodic rate of 1½% which is an annual percentage rate of 18%," can arrive at different finance charges. In one case the finance charge is \$1.50 and in the other it is 75 cents!

Certainly, any judge faced with the problem is going to have to rule that one or the other computation is misleading — and perhaps illegal. I would guess that most are going to throw their support to the Penney's system — and consider the "conventional" system misleading, misrepresentation or illegal, regardless of the wording in Truth-in-Lending which permits both.

Legislators, consumer organizations, credit unions, and many other groups are having a field day with this situation, all to the detriment of the reputation of retailers.

The matter is strictly one of money. If you have a collection rate of 15% on your revolving accounts, then the Penney's method means an annual loss of revenue of \$27,000 for each \$1,000,000 in outstanding revolving accounts. Thus the ethics in this situation is solely related to money.

I am reminded of the story of the man who asked a beautiful woman if she would go to bed with him for \$10,000 and she said, "Yes." He then asked if she would do so for \$50 and she replied, "What do you think I am?" To which the man replied: "That has already been settled. Now we are bargaining about the price."

including practices that clearly violate the law. It is also true that in many cases top management did not know and would not have condoned the acts that led to governmental action. On the other hand, one suspects that executives pretty close to the top of Coca-Cola or Shell Oil were familiar with the plans for contests that were short of acceptable ethical standards.

Perhaps the BBB could place themselves on the side of continued good conduct by a rule that would require firms (1) found guilty in court or (2) who enter into a consent order relating to an unethical practice not be eligible to have employees occupy publicly identified positions with the local or national bureaus — and this ban would run for 5 years from the final decision or date of the consent order.

This might be considered harsh — and undoubtedly it could be unfair if one considers that the unblemished employee of the company in one area of the country is punished for the acts of someone in another area; on the other hand, the success of the BBB's, whether old style or reorganized, depends upon public confidence. And public confidence cannot be built when guilty firms or ones entering consent orders are represented on their boards.

ADVERTISING TERMS UNDER TRUTH-IN-LENDING

When Truth-in-Lending was passed, one of the hopes of the drafters was that advertising would include more information on credit terms than previously. Since advertisers had the option of including all of the credit terms — or none — most made the choice of none. This could hardly be considered a benefit to the consumer.

But recently one of the major department stores apparently decided that the time had come to find a way, within a revolving charge account, to compete with men's clothing stores who were still pushing accounts payable 30-60-90 days with no finance charge. The wording evolved is of interest — and is quoted below in full.

The price portion of the ad, next to the garment, reads:

\$79 Reg. \$110 & \$115

Pay 1/3 Sept., 1/3 Oct., 1/3 Nov.*

In smaller type face, below the descriptive copy was the following:

*IMPORTANT INFORMATION: Payment of your purchase in full within 25 days after the closing date on your statement will avoid a FINANCE CHARGE. FINANCE CHARGES will be based on the previous balance before deducting any payments or credits. Periodic rates are 1½% per month on balances under \$1,000 and 1% on balances in excess of \$1,000 which are ANNUAL PERCENTAGE RATES of 18% and 12% respectively. Payment of the account in full within 85 days of the first closing date after the purchase cancels the FINANCE CHARGE on the purchase.

Thus the item was advertised. And presumably the ad meets the law. But it raises some question of how it can be administered if there are other items purchased during the same month. Suppose that the balance requires a monthly payment of \$30, including the \$79 suit purchase, and \$30 is paid each month. Since the account has not been paid in full (presumably applying to all items on the account) no finance charge would be cancelled. This would be true even if the customer paid an additional \$26.33 a month on top of the \$30 per month normally required.

However, this ad does represent the start of some experimenting with special credit promotions designed to meet the requirements of Truth-in-Lending.

GETTING MORE PEOPLE TO VOTE

I was appalled recently to note the results of a local newspaper poll where the question asked was, "Do you believe more people would register to vote if jury lists were not taken from vot registration rolls?"

First, I was amazed to think that anyone would consider this question relevant. Then I was deeply concerned to find that 67% felt that more people would vote if registration did not expose them to jury duty.

What is your reaction to people who say, "We know more than one man who simply couldn't afford to be off work for jury duty and they just don't register," or "My husband served honorably in the Korean War. He is 36 years of age and has never registered to vote, by the same token, never voted, because of the financial stress placed upon us. A lengthy trial might cost us our home and everything we've acquired over the past 15 years. I wish that his union, which I've contacted, would go after benefits for people serving on jury duty, so that he might be allowed to vote," or "Definitely — as a deputy registrar I had many refuse and when asked why they all said that they didn't want to serve on jury duty."

I suspect such reaction is unexpected by many readers of RT. Yet with the great increase in jury cases that run for months and months — and the publicity given to jurors being locked up every night and not allowed to read local newspapers or maintain contact with family or friends, it is easy to see how this fear can arise. And it can arise most strongly with that very large portion of our population that is always wavering on the border of financial chaos.

But what does this mean to the retailer?

I think it means two things. First, one of the contributions that aretailer can make to preserving a justice system based upon a jury of peers is to ease the financial burden of jury duty by establishing a policy of making up the difference between jury pay and the employee's regular pay. Regular pay should be defined as what the man would have made if he had worked (which would include overtime or commissions or other earnings) since the objective would be to avoid a financial penalty as a result of jury duty. The employer should expect that this might be a burden to the company if an employee did get caught in a case that ran 4 or 5 months. And the retailers might discuss with their appropriate legislators the question of establishing a reasonable level of pay for jurors.

Second, retailers should take an interest in whether or not their employees are registered. Retailers employ a high proportion of young high school graduates and are the employer at the time many of these people become of voting age. It is reasonable that a personnel department could check with such young people to urge them to register—and to be sure that they know where and how to register. Too many local high schools completely fail in telling how to vote, while constantly stressing the duty to vote.

ETHICS - QUOTED WITHOUT COMMENT

I was interested in an article in the March 1970 issue of *Incentive Marketing* headed "Private Fliers are High on Trading Stamps." I was particularly interested in the following quotation:

"For example: A plane takes 50 gallons of fuel at 50 cents per gallon. That's 250 trading stamps at one fill — about ten times a many as the normal fill-up at the service station. The company-pilot — with multi-engine or jet — can really pile up the stamp books."

One of the fringe benefits not mentioned in the employee hand-book?

ACCOUNTANTS REVISITED

Recent articles in professional journals indicate that some writers feel that recent court decisions, holding against accounting firms, d in some cases involving criminal charges, are not the proper approach since the cases require a lay jury to make determinations of technical issues.

On the other hand, accounting may just be starting through the same kind of convulsion that followed the McKesson-Robbins disclosure of the late 1930's. The President of McKesson-Robbins raided the company through manipulation of non-existing foreign assets through an overseas division responsible directly to the president. Price Waterhouse, in accordance with the custom at the time, accepted the certificate of the President as to the existence of the assets. Harvard Business School used the organization chart as an example of special adjustments to adapt to the interests and capabilities of the key officers.

And the stockholders lost millions.

But the accounting profession appears to be lost in its own procedures. The profession, one one hand, claims to have a responsibility to the stockholder — who must be conceived as being a lay person; and then objects to being judged by a lay jury. Many accounting firms do not demand that their appointment be confirmed by the stockholders — although this procedure is mandatory in England.

This weakness puts the accounting firms at the mercy of management — who retain the right to terminate accounting engagements (often involving dozens of people and hundreds of thousands of dollars in annual fees) should the accountant not "certify" the statement as proposed by management.

seems to me that several corrective actions could be taken—and taken quickly. The Big Eight could agree that they would not, after December 31, 1971, accept any more assignments of publicly-held companies where they were not approved a year in advance by the stockholders. Their assignments would include issuing their report to the stockholders and being present at all stockholders' meetings to answer questions about the statement. This could be followed quickly by a new Accounting Principle that would apply to all members of the American Institute of CPA's which would read "Thou shalt not take an assignment without appointment by and reporting to the stockholders."

Having thus gained some degree of independence, an independence necessary if they are to progress as a profession, they might then consider another Accounting Principle which would change the stylized certificate to read: "I certify that in the financial statements attached we have disclosed all information in a simple and complete manner that I would deem necessary for my Mother, a non-accountant, if she was considering investment in this company."

Having adopted these two Accounting Principles, the profession might find it possible to cancel many of the existing principles that have been expounded.

Such action would certainly have prevented the type of small-type "disclosure" discussed below:

FRANKLIN STORES CORPORATION (I. J. Skolnick & Co.). This corporation and their CPA have a very interesting concept of responsibility to their stockholders. First, because of the use of lultiple corporations, the 1969 changes in the Internal Revenue Code will be significant. For example, the incidence of Federal Income Taxes increased from 33.2% for the year ending June 30, 1969 to 37.7% for the year ending June 30, 1970 — and it will continue to increase materially for the next five years. Yet the certified public accountant, responsible to the shareholders, saw

no reason to include any comment on this in the notes to the statement.

Further, the report includes as income \$136,778 as gain on the sale of a capital asset. This represents the profit on land bought at \$65,000 and resold at \$200,000 just 20 months later. Had this been a sale and leaseback, accounting rules would not have permitted the profit to be reported. In this case, however, the land was sold for a shopping center development and the footnote indicates that Franklin "plans to open a Barker discount store" in the center. It is doubtful that the purchase price of the land could have been obtained without such a "plan."

MORE ON THE "MISSED" MARKET

RT (August 1970) discussed "The Great MISS' Parade" dealing with consumer wants not serviced by conventional department stores.

In August 1970 Building Supply News ran an article on "The New Re-Do Market" summarizing a survey made by R. H. Bruskin Associates of New Brunswick, N.J., based on a nation-wide sample of 2500 adults.

They identified the home modernization market at \$17 billion per year. And they indicated that among adults of both sexes, all income levels, and all age groups (except males 18 to 24), the first preference for discretionary spending was for home improvements. (Note: the males 18 to 24 opted 45% for a new car and only 29% for home improvements).

There is a message here that is being missed in many retail executive offices. Wickes goes national with building supply stores. Lowe's is growing. Penney's is adding building supplies to most of their new stores. Most major discount chains have building supply departments. Regional chains like Forest City and Scotty's and Channel Companies continue to show fast growth — and relatively strong patterns in their stocks. Conventional stores miss the market.

REPORTS FROM OVERSEAS

England is switching to the International Road Signs (symbols — not words). There is a challenge for the retailers to do their part in educating the public. Many stores are helping by ordering their personalized paper bags imprinted with all of the standard road signs so that customers will become familiar with them.

The United States is about to start the same program although during the early years our signs will have both the International Sign and the standard wording (the words in reduced size) with an ultimate switch to just the sign. Retailers could help indoctrinate customers as these signs come on the scene.

England is also following Australia in converting from pounds-shillings-pences to dollars and cents. The back of the cash register tapes are being imprinted with instructions and explanations. In the United States we may one day be converting our measurements to the metric system (kilograms for pounds, centimeters for inches, litres for quarts) and the back of the cash register tapes could be a helpful assistant.

The closing of Best & Co.'s store on Fifth Avenue in New York because the property is too valuable to use for a store (instead there will be a 40-floor office building) is no different than the problem in Sydney, Australia where McDowells has sold their downtown property for an office building site and Lowe's is expected to follow. When land values reach \$200 and \$300 per square foot, high rises become an economic necessity.

RECOGNITION

We all know that people working for and around us want more than anything else to be recognized for their efforts and work.

While "Flying United" recently I noticed on the bottom of the menu card, "This menu prepared in United Air Lines Flight Kitchen at Seattle-Tacoma, BRUNO GOOD, CHEF. Member, Pacific Northwest Chef's Association; Member, American Culinary Federation; Member, American Academy of Chefs."

Do you think that Chef Good is going to leave this job for one paying 10% or 15% more — but not giving him the recognition that United Airlines is giving him? I don't think he will.

But what is the application to retailers?

An increasing number of people in your credit offices have earned the designation "Certified Consumer Credit Executive," indicated by the use of "CCCE" after their name. I see this designation in their professional journals when they are talking to themselves; I don't see it after their name when they are dealing with your public.

A good many people in retailing are Certified Public Accountants. I don't see this designation after their signatures. Larger firms may have employees in their insurance departments who have earned their CPCU — Certified Property and Casualty Underwriter.

Beyond that, Mr. Good was identified as "Chef." In this day of in-house offset pringint (or even out-house offset printing at Goodway or Sir Speedy), which make short printing runs feasible, why not let executives from buyers and department managers up, where correspondence is a part of their work, have their own letterheads? Imprinted on the left could be "John Jones, Credit Manager" or "William Murphy, Divisional Merchandise Manager" or "Miss Mary Martinez, Office Manager." We do this on their calling cards — which they use less often than they use a letterhead. We do it with name plaques on their desks and doors — and with name badges on their garments.

But we can still do a better job - in giving recognition to the executives that really make our business work.

IS EVERYBODY HEALTHY?

If someone asked you that question about your employees — or even just your executives upon whom you depend so heavily — could you answer the question?

More and more companies can — because using something called "multiphasic screening," a procedure that combines medical knowledge with a computer to produce the first major breakthrough in individual preventative medicine.

When you read about people who have glaucoma or cancer and don't know it, you are reading about information that is available through current testing procedures — if people would just take the tests.

By analyzing blood and urine samples in some 35 tests, and then processing the results through an IBM 360 computer, significant information can be provided to the individual's physician. In a recent screening of 8,000 in Chicago, 15% of the individuals showed a positive reaction on one or more of the tests. When advised of the results, 75% of these people did go to see their doctor and in 90% of the cases the doctor used the data supplied through the screening process. More important, in 91% of the cases the patient's condition was not previously known to the doctor.

Proper advance information on the physical condition of your employees can prolong their useful life (to you, themselves and their family), reduce absenteeism, and even reduce your health insurance cost if you are on a self-insured or self-rated program. The cost for this service, depending on the scope, will run from \$12 to \$25 per employee per year. For further information wri' Preventi-Med Consultants, Inc., 1820 Ogden Drive, Suite 20 Burlingame, California 94010. Facilities are available nationally.

THE HIGH COST OF SMALL PAYMENTS

RT is not big business, not by a long shot, but I have been fortunate enough to have some of the largest firms in the country among my subscribers. A few times I have been appalled by the amount of paper work involved in entering a subscription to a \$10 a year publication. I am certain that they spend \$20 to \$25 before they are finished — and I sometimes wonder whether my subscription price should not be higher so that the administrative costs won't seem so excessive.

All of this is to the point that there is a simpler way. The book trade developed a plan called "SCOP" or Single Copy Order Plan some years ago where the store, in effect, sends an order for a single book, to be shipped or cancelled with no backorder, accompanied by a blank check since the store often does not know the exact price that will be charged. About that time I developed for one of my clients a Bank Draft Form that is really a special print-over of a stock voucher check form. The voucher portion contains the information for our order. The upper portion, which is marked "Bank Draft," does not have a bank account number but a special account number imprinted. It is clearly marked "Not good for more than \$25.00" but the actual amount is left blank. The book publisher, when filling our order on a "ship or cancel" basis, fills in the amount of the draft and deposits it just like a check.

We buy back the drafts when received by our bank and do ou purchase accounting from the repurchased draft.

After starting this system I learned that Kaiser Industries (now followed by many other major companies) includes a blank check as part of the purchase order forms (up to \$5,000 as I recall) when ordering from established resources. When the vendor has completed his part of the transaction he fills in the check portion and pays himself. The losses have been a fraction of the administrative savings to Kaiser.

There undoubtedly is a place for this type of procedure in many retail stores.

THE IRS INTRODUCES COMMON SENSE

One of the essentials of a self-assessing tax system (which works better in the United States than in any other country in the world) is that the rules are logical, fair and uniformly applied. Many people have been concerned over the past two decades with the increased complexity of taxes, the increased level of taxes, and the manner taxes have been administered.

One of the irksome illogical series of court decisions (brought about only because the IRS contested accepted accounting practices) and of IRS rulings relate to the handling by accrual method tax payers of advance payments — such as deposits on special orders and gift certificates purchased.

The IRS is finally changing their position (at least, they have circulated proposed regulations as of this date) that would permit accrual method taxpayers to defer income on such pre-payments until the year in which the sale is completed and the expenses incurred. This applies only to the sale of goods, not of services.

WHY USE RETAIL METHOD FOR TAX PURPOSES?

The sign of a "big" retailer is that they use the retail method to determine the cost value of their inventory. I have worked with many retailers who have converted from "cost or market" to "retail method." More than a decade ago the last of the big stores that used a cost method, Meier and Frank in Portland, converted to retail method. I can recall discussing the conversion and the reason for changing with Joe Thursh, who was then the controller.

Joe made two points. First, he said that Meier and Frank could no longer find or train top quality buyers who could operate on a cost basis and control their gross margin accurately in the days of constant promotion and price change. Second, he was appalled at the additional record-keeping costs involved in switching a store the size of Meier and Frank over to the retail method.

RT has long been unhappy with the retail method

For years RT has maintained the philosophy that when everyone agrees on something it must be wrong.

The rationale underlying this conclusion is that people can only reach complete unanimity if nobody is thinking critically about the subject. And since all retailers, of almost every type, agree that the retail method of inventory is proper for larger retail stores, this conclusion must be wrong.

RT has been thinking about the retail method for some years. In January 1969 we did an article on "California Property Tax" in which we showed how retail inventories were being over-taxed under a quality audit program. In November 1969 we dealt with "The Inner Workings of the Retail Method." In June 1970, in an article on "Controlling Shrinkage" we concluded with the question, "Is the retail method of inventory really adequate to handle the tremendous paperwork problem involved in recording price changes as stores become more promotional?"

Since July I have been looking at an unanswered letter on my desk, from a friend and client on the east coast who says, "You certainly hit a responsive note in this Company in the last paragraph of you ... editorial about the need to find some replacement for the retail method. We believe we have the model retail system in operation in this Company and have had it for over 10 years. Yet we cannot keep up ... Do you have any suggestions ... as to a viable alternative ...?"

The history of the retail method

The earliest evidence of a system approaching the retail inventory method is an agreement between the then owners of Macy's in 1877. By the time the 16th (Income Tax) Amendment became part of the Constitution and income taxes a permanent part of our life, a good many of the larger stores were using some method close to the present retail method.

But the first Revenue Acts only allowed inventory valuation by cost or by cost-or-market, whichever was lower. Thus started the fight by the National Retail Dry Goods Association (now NRMA) to change the law. Their argument was based more on the question of accepting the accounting procedure than on the tax cost of alternative valuation methods since the original income tax was 1% with surtaxes of from 1% at \$20,000 to 6% over \$500,000. Though the tax peaked during World War II, by the time the NRDGA was fighting the battle for the retail method, corporate taxes were 10% (and ranged from 10% to 13¾% between 1919 and 1936).

In the end, the retailers appearing before Congress compromised. They accepted a rigid regulation on the application of the retail method as a condition of using the method. This rigidity remains today in IRS Regulation 1.478-8(e) which reads: "In no event shall markdowns not based on actual reductions of retail sale prices, such as markdowns based on depreciation or obsolescence, be recognized in determining the retail selling prices of the goods on hand at the end of the taxable year."

Accountants distort retail method

To further confuse the picture, most certified public accountants don't understand the retail method, a situation created by the even more limited knowledge of the people who write accounting textbooks.

The lack of knowledge of the retail method is illustrated by what national accounting firms put on their published statements. For example, Arthur Andersen & Co. on the 1969 Annual Report of Mercantile Stores Company says "priced at the lower of cost or market determined by the retail method of inventory." Price Waterhouse & Co. in the 1969 Broadway-Hale reports says "generally stated at the lower of cost or market as determined by the retail method applied on a first-in, first-out basis." Peat, Marwick, Mitchell & Co. in the 1969 Penney's report does not have a footnote but the report says "at the lower of cost or market and determined primarily by the retail method."

The retail method is an averaging method. Relationships to cost or market are pure happenstance. The failure to apply retail method solely to departments having uniform initial markups results, because of the variations in turnover rates, in substantial overstatement of *cost*.

The term "cost or market as determined under the retail method" probably finds its origin in the fact that for years corporate income tax returns gave a choice of two boxes to check to indicate how any inventory was valued. One box said "cost"; the other said "cost or market, whichever is lower." Since neither was correct, but one had to be checked, the accountant would check "cost or market" whichever is lower" and then add the words "as determined under the retail method." From this expediency the phrase was carried to textbooks and perpetuated.

Effect on income taxes

To the extent that inventory valuations are overstated, each firm has paid more state and federal income taxes than they should have paid had a proper valuation been used. But if the inventory change from year to year is not too great, the impact on any single year is very slight and the income determination is reasonably accurate.

Effect on property taxes

Since the inventory valuation is overstated every year, the property taxes (especially for those firms that are either audited or who honestly report their inventory) are overstated every year.

Summary effect

If a \$10,000,000 inventory is overstated by 5% (a conservative factor) then the corporation has paid, over the years since inception, total state and federal income taxes on \$500,000 more profit than actually earned. However, they are paying property taxes

every year on \$500,000 more property value than they actually have.

And this makes for confused executives

When addressing a Society of Security Analysts, the President of a billion-dollar retail firm, according to the published report distributed to members, said, "As a (Company) policy decision, our instructions to our stores prohibit the inventorying of any seasonal merchandise." Their Annual Report for 1969, merely says, "Merchandise inventories at lower of cost (approximately first-in, first-out) or market." I wrote to the President asking (1) is the quotation correct? (he said yes); and (2) are you on the retail method for tax purposes (he said yes).

Thus a reasonable and prudent operating policy is in violation of the IRS Regulations and puts this Company on a different basis than other retailers using the retail method when property taxes are assessed against inventory.

Why adopt retail method?

As stores grow to \$1,000,000 or more, they find increasing problems living with a cost-method inventory valuation. Each year they face with fear the taking of inventory, not knowing how close the physical inventory will come to the book figures used during the year which, in turn, are based on assumed gross margin.

With increasing problems of *shop-stealing*, the merchant is concerned that he doesn't know how large or small his thefts are, and he particularly worries about whether employees, knowing the firm is not on the retail method, are taking advantage of this fact.

When hiring buyers and executives for the growing store, the owner finds few who are trained to work on a cost method.

When planning open-to-buy for buyers, the owner finds himself working with sales figures at retail and other figures at $\cos t$ and the entire batch of figures never tie together.

And so the merchant, knowing that all of the big stores are on the retail method, decides that he is going to have to switch. His accountant tells him that he will have to use it for tax purposes — a point we will deal with later.

The cost of changing to retail method

The big cost is not the new bookkeeping machine and the extra clericals needed to extend invoices at retail, count and recount, ticket and re-ticket merchandise, or the delay in producing a monthly operating statement. The big cost of conversion usually comes when the store finds, for the first time, how much higher his inventory is valued than it would be under his old cost-ormarket valuation where he had the right (even the responsibility) to clearly value merchandise as of the date of the inventory rather than relate the value, by an arithmetic formula, to a price at which the public had refused the buy the merchandise!

A frequent comment of the owners of these stores is that nobody would buy my inventory at the value developed under the retail method; the frequent disappointment of a merchant selling a store after being on the retail method for years, after taking and valuing an inventory with the new owner, is how much less his inventory was worth than he thought it would be.

A preliminary summary

At this point a reader must conclude that the retail method of inventory has more bad things than good things. The only good thing is the daily-weekly-monthly *operating control* than the re-

tail method allows. But does this require that the retail method be adopted for tax purposes?

Why use retail method for tax purposes?

We return now to the question asked in the title of this Feat Report. The answer has become almost self-evident. For mose retailers there is no reason whatsoever to adopt the retail method of inventory for tax purposes — stores should probably stay on or revert to the "cost-or-market, whichever is lower" used by most small merchants.

Section 471 of the Code says, "... inventories shall be taken... on such basis as the Secretary... may prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting income."

Regulations require such factors as uniform valuation of opening and closing inventory, maintenance of records and other restrictions.

A large portion of the retail industry does *not* use the retail method, a factor often overlooked by those who are on the retail method. Most small merchants do not use it. Most of the food industry does not use it (forward stocks in retail food stores are taken at retail and reduced to cost by applying an historic cost complement). Many of the furniture, jewelry, fur and appliance stores are on historic item cost reduced by allowances for age and for model and style changes.

The regulations clearly state (1.471-2[c]): "Any goods in an inventory which are unsalable at normal prices or unusuable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange, should be valued at bona fide selling prices less direct cost of disposition, whethe (cost) or (cost or market, whichever is lower) is used." It seen that the regulations are telling us what to do.

A plan to consider

Adopt, for tax purposes, valuation on cost-or-market, whichever is lower. Maintain all the records, required by the retail method for use in control and operating reports, estimates of theft and shrinkage, open-to-buy, monthly insurance values, etc.

At the end of each year, just prior to inventory, have a designated executive review all merchandise on hand with the department manager or buyer, and identify merchandise meeting the description of IRS Reg. 1.471-2(c) quoted above. This merchandise will be inventoried in detail.

Take all inventory at retail. For merchandise not meeting the terms of 1.471-2(c), determine cost or market by using the cost complement developed under the retail method computations (thus paralleling the "gross profit" method used in supermarkets for stocks on the shelf). For merchandise meeting the requirements of IRS Reg. 1.471-2(c), specifically value each item. Add the two valuations in order to determine inventory for tax and general ledger purposes.

On an application to the IRS, the proposed valuation method could well produce a reduction in inventory valuation on the order of 10%-15%. The IRS would require the resulting tax saving to be spread over 10 years. Property tax savings would be immediate.

For publicly-held companies, the published report, subject to further footnote disclosure, could continue to be reported on the retail method with the income tax savings shown as deferred taxes and the property tax savings increasing annual earnings.

RETAILING TODAY

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NOVEMBER, 1970

VOL. 5, NO. 11

NRMA ANNUAL CONVENTION

The 60th Annual Convention of the National Retail Merchants Association will be held January 10-13, 1971, at the New York Hilton. In reviewing the program two thoughts came to mind.

First, most stores that send representatives to that meeting, which will involve 4 or 5 days (including travel) and a cost of several hundred dollars, spend little or no time planning their attendance. I would suggest that such stores should work out an "Open to Learn" Plan. This should start with a careful analysis of the problems presently facing the store, a comparison of those problems with the program, and a determination of the sessions that will be attended.

For each session there should be a specific objective to be gained for the store. This should be developed in cooperation with the operating heads of that department in the store.

Having determined in advance the objective, the participant, on his return, should submit a report of not more than one page on each subject or problem. This might even be dictated at the convention.

But it appears that there is one subject that is not really considered important enough to discuss at the Diamond Jubilee convention — and that is the question of ethics and moral conduct.

It seems important to discuss "Increasing Non-Selling Payroll Productivity" or "How to Make a Buck in Food Service Operations" or "The Impact of Packaging on Store Profits."

But nobody is discussing the honesty of taking into income small credit balances on charge accounts rather than sending a check to the customer (see the Special Feature on the insert page).

The program descriptions may not be complete summaries of what will be covered at the session. Many subjects offer an opportunity to discuss moral issues — and perhaps a few will do so. Here are some areas where such discussions might be raised by attendees, if not raised by the speakers.

"Advertising to Consumers of the New Era" could properly include a discussion of honesty in advertising, such as when is a "sale" a "sale" — or are our price comparisons accurate — or do we actually believe the superlatives we put in our ads every day.

"Marketing Controls to Protect the Consumer" appears to be oriented to explaining how the retailer adapts to the new regulations with a minimum change in life style. The subject "Bridging the Multi-Store Communications Gap" emphasizes that the convention does *not* have a session on "Bridging the Establishment-Minority Communications Gap."

UNEMPLOYMENT AND RECESSION

Despite the proud claims made by the Administration, when unemployment drops by 1/10th of 1% (a change that cannot be considered significant) which are followed by silence when unemployment increases by 5/10ths of 1% (a significant change), the pattern of unemployment in the current business recession is not following other post-World War II recession patterns. The table below shows the peak rates of unemployment — both total unemployment and long-term (over 15 weeks) unemployment for the four recessions since World War II and the figures through September 1970.

PEAK OF RECESSION	TOTAL	LONG TERM
REACHED DURING: U	JNEMPLOYMENT %	UNEMPLOYMENT %

1949	7.6%	1.7%
1954		
	6.0%	1.6%
1958	7.3%	2.8%
1961	7.0%	2.6%
Sent 1970	5.5%	1 0%

It appears likely that total unemployment will reach the 6.0%-plus level attained in prior recession periods — but it appears *unlikely* that long-term unemployment will come up to the levels reached in 1958 and 1961, and perhaps will not even reach the levels of 1949 and 1954.

It is a high level of long-term unemployment that has the greatest impact on retailers through reduced volume and heavy credit losses — and increased taxes to pay welfare costs.

The lower level of long-term unemployment will also mean a lesser impact of "unemployment psychology" on those who keep their jobs. If people watch others who are unemployed find new jobs relatively quickly (which is the implication of the current low level of long-term unemployment) then they will be less concerned than when they see friends who go months without finding a new job.

ERRATA

I don't like to admit mistakes — because I don't like to make them. But I do make them, and I have to correct them.

In the September 1970 issue of RT, on page 2, right hand column, I listed, from a Phoenix Market Survey made by the Arizona Republic and Phoenix Gazette, the reasons for shopping in more than one trading area. The table shows that 56% of the respondents indicated "Credit Facilities" as a reason — which startled several readers. In fact, it startled me when I looked at what I had printed. The correct figure should have been 5%.

"Retailing's Changing Environment" asks, "How will these changes affect the retailer? When the basic question should be, "How will the retailer affect his environment?" There was a day when retailers were not afraid to speak out on controversial issues and to work openly to make their community a better community — but few of this type of retailer are left. Most retailers, on even major local issues, demonstrate the spine of a jellyfish. For every merchant in your community who will take a public stand, there are 20 who will say, "We have a firm policy not to take a position on controversial issues. We might offend a few customers."

There appears to be just one session out of the 61 listed that does aim at touching the soul and the conscience of the retailer. That session is "Techniques of Positive Urban Action." The description starts with a good statement: "It is obvious to the sophisticated retailer that rhetorical pronouncements concerning the stake of retailing in solving the urban crisis do not do much by way of solving specific problems." But NRMA scheduled 11 other sessions in the same time slot on that Wednesday morning, and I suspect that only a small portion of attendees will hear this discussion.

It is interesting to note one of the speakers at this session carries one of the great retail names — Fred Lazarus — but he has left retailing for a job more important than selling rags. He is working with the National Council for Equal Business Opportunity.

HOW ACCURATE WAS YOUR CENSUS?

Almost every central city is concerned about the results of the 1970 census — a concern that is based upon such diverse reasons as the allocation of Congressional Districts or the quantifying of federal and state subventions. RT in February 1970 suggested that concerned retailers should urge their city to conduct independent enumeration of sample tracts in the center of the urban core in order to determine, to the city's satisfaction, the accuracy of the census total. As so often happens, no one bothered to follow the sage advice of RT.

But one city did not have to resort to this technique — Manchester, New Hampshire. Their imaginative computer department has maintained, for several years, a computer listing of all local citizens. The data has been accumulated from voter registration, school records, tax records, and marriage, birth and death records.

As a result of this documentation the city was able to run off a list of 96,722 names and addresses to prove their contention. Their adversary, the Census Bureau, had announced a population of only 87,152. The Census Bureau is now reviewing their count.

(NOTE: For those who wonder why RT, after criticizing data banks appears to applaud the data bank at Manchester, it should be noted that the listing only includes name and address — much of which is already available in the local telephone directory.)

MARK YOUR 1971 CALENDAR

1971 is the year of the 3-day weekends. In addition to the traditional Labor Day Weekend, we will celebrate Washington's Birthday on Monday, February 15th; Memorial Day on Monday, May 31st; Columbus Day on Monday, October 11th, and Veterans Day on Monday, October 25th. It happens that the 4th of July falls on a Sunday so it, too, will be observed on a Monday – giving six 3-day weekends during 1971.

EQUALITY?

I think that most readers of RT accept the basic philosophy expressed in so many of our historic writings. Who argues with the statement made to King George, "We hold these truths to' self-evident, that all men are created equal." Or with the statement in our Constitution that says, "We the people of the United States, in order to form a more perfect union, establish justice ..."?

It is easy to express concurrence with these ideas. It is difficult to try to apply the principles.

In recent years there has been an increasing number of complaints about the extent and cost of welfare programs. There is resentment of assistance given to able-bodied men (even though there may not be any business willing to hire those able, but untrained, bodies). But most of all there is resentment of the slightest suspicion that some welfare recipient is abusing the system.

Every day I read letters to the editor and newspaper reports complaining that a user of food stamps bought a New York cut steak or that a guy cashing a welfare check is driving a new Cadillac.

But I wonder about the legitimacy of these complaints when they are made by a person driving home in a company car (your sales clerks cannot deduct the cost of driving to and from work) or on his way to a "business lunch" where the Company pays the bill (but your secretary cannot deduct as business expense the sandwich and glass of milk that she consumes).

I have assisted many clients in establishing the maximum free or low-cost fringe benefits permitted under the completely artificial criteria of the Internal Revenue Code. These programs are of great monetary value to those who participate; but they are albased on taking advantage of the technicalities of the Internal Revenue Code.

If business executives are to continue to seek every special benefit permitted under the Internal Revenue Code, despite the fact that the benefit provided may not represent the difference between having enough to eat or starving, they should not object to the poor seeking the same advantages under the laws that apply to them.

To those who argue that the poor should not be allowed to seek such advantages because the cost of food stamps or welfare benefits is paid by the taxes collected from the worker and the property owner, I would point out that the onerous regressive tax load imposed on the poor by local sales tax laws or the inadequate income tax exemption of \$625-650 per person is the result of the rich receiving significant "fringe benefits" without having to pay income tax on the cost of these benefits.

GOOD SERVICE

Good service is so rare that it is worthy of comment. I recently ordered a foot switch for a Panasonic Cassette Tape Recorder and when I received it I found that the switch had a male plug and my recorder required a female plug. On August 19th I wrote to the Matsushita Service Division in Los Angeles setting forth my problem. They received my letter on August 21st and on August 24th sent me a replacement plug with instructions to take it to a designated local service representative to be installed. I received the part on August 25th and on August 27th I received a telephone call from the repairman telling me that he was expecting me and how to get to his shop.

I just wish that the hero of this story could have been an American firm.

JOB APPLICATION FORMS, ARREST RECORDS AND DATA BANKS

RT has long urged that retailers review their employment applition forms to insure that no question is asked about a prior ecord of arrests — only a record of convictions. The Federal Government and many state and local governments ask only for convictions with the prior 2 or 3 years and exclude from the response any offense committed as a minor where the individual has the right to seal the records, whether or not they have been sealed.

It would seem that any person who is willing to accept the principle that a man is innocent until he is proven guilty would see the logic of disregarding arrests, and looking only at convictions.

Unfortunately, the record of arrests is becoming more and more readily available. The Federal Bureau of Investigation is in the process of computerizing the "rap sheets" of some 19,000 people. This will include all convictions anywhere in the country plus all arrests whether or not he was acquitted. Obviously, these 19,000,000 include millions who are not currently sought for any offense. They will include the man who was arrested because of mistaken identification 30 years ago — as well as the people on the current "10 Most Wanted" list.

All of this information will be available to any local police agency with a terminal having access to the computer. There will not be any system of positive identification at the time of inquiry, no proof required that the information sought is needed for a legitimate purpose, and no record of who has inquired of the computer.

The stance given by the FBI is that it is up to the agency ontrolling the terminal to assure that the information is properly used and that only authorized persons can gain access to the terminal unit. There is a partial justification for this lack of controls because many inquiries will come from police officers about to make an arrest and they will be seeking information as guidance as to what kind of reaction they may expect from the person confronting them.

While we argue in vain in the halls of Congress about the ethics and morality of data banks, the FBI proceeds to establish such a file on just about 1 out of every 6 adults in the United States.

Once the data is available, I am certain that many people (including the protection and personnel departments of retailers, as well as their bonding companies) will establish a "friendly relationship" with a terminal operator so that they can "check out" new employees. I can even envision these people checking out their bosses, the guy they don't like at the store, and many others — perhaps you!

In a recent Federal case the Judge cited a survey by the New York Civil Liberties Union that indicated that 75% of New York area employment agencies would not accept for referral an applicant with an arrest record, and that 66 out of 75 large employers queried would not consider employment of a man who had been arrested for assault but who had been acquitted! Then we wonder about the high rate of recidivism among convicts, and the increase of actual crime in ghetto areas where jobs are difficult enough to get without being handicapped by record of arrests made without subsequent conviction.

his is not an apology for crime committed by anyone in our society. But if we are to believe that a man is innocent until proven guilty, then we must see that he is treated as innocent if the only record is that of an arrest.

J. Edgar Hoover objected to the discussion of the FBI file system

by COMPUTERWORLD weekly, but the same article elicited a story that is worth quoting. "Consider the case of a 15-year-old boy; no previous record, is picked up at high school with others, questioned, fingerprinted, and released without any charge, probation, etc. The year was 1945, the place was LeGrange, Illinois, near Chicago. The incident was connected with locker thefts at the school.

"The above individual — who is also the writer — never had another brush with the law except a few minor traffic violations. He subsequently served 10 years in the Air Force, attaining the rank of Master Sergeant and holding a Top Secret clearance. He then completed college under the G.I. Bill and has held a number of positions in data processing, etc.

"He never knew the above incident was even in the FBI files until apprised of the record by a 'would-be' employer."

ALL HAIL WOMEN'S LIB

There is no doubt that the Women's Liberation Movement will be with us for a long time. Regardless of the action on the proposed constitutional amendment or a prospective Supreme Court decision on whether women should be drafted (which Israel is already doing), Women's Lib is certainly going to be vocal for many years to come.

If you have not yet rapped with a representative of this movement, you have a surprise coming. A substantial number of the activists are extremely well qualified people who for a variety of reasons are not being used by our economy at their highest skill level. Although most have not been subjected to personal discrimination — they have been discriminated against by a system.

Retailing is the perfect example. Check with your own personnel department. Ask them to provide you with four percentages: first, the percentage of women among the sales force; second, the percentage of women in your receiving and marking operation (where many are required to "woman-handle" heavy packages); third, the percentage of women among your buyers; and finally, the percentage of women in your executive positions from merchandise manager, and equivalent, up.

If opportunities were equal, the four figures would be about the same. But right now I am willing to guess that your personnel department reported four figures that read someting like 90%, 80%, 50%, and 2%!

Women's Lib is going to have an effect in another area — merchandising. I am thinking of a subscribing store that recently held their Annual Coat Promotion — and mailed two coupons to all of their charge customers. One coupon offered \$15 off on any man's coat — the other \$10 off on any woman's coat!

THE MARKS OF PROFESSIONAL DIGNITY — Part II

In the October 1970 RT we commented upon the recognition that business should give employees who possess certificates of qualification in their occupational field.

We constantly come across new programs awarding certification. This month we can add "R.B.P." for Registered Business Programmer, administered by the Data Processing Management Association. They also offer the "C.D.P." — Certified Data Processor. And there is the "C.P.S." — Certified Professional Secretary — awarded by the Institute for Certifying Secretaries of the National Secretaries Association.

THE SOURCE OF PROFITS IN RETAILING

I am always amused at retailers who talk about making a profit on a \$10 sale and losing money on a 10 cent sale, just like they were able to prove such a fact.

It wasn't too many years ago that NRMA was publishing data about the cost of various expenses in "cents per transaction." After that NRMA and Arthur Andersen Company pushed a management accounting system for retailers that would show the retailer how to make more money — stop selling lower price blouses because they had so many fixed costs (cost per item sold rather than cost as a percentage of price) that the stores always lost money on the lower price lines.

If I could put just one point over to young retailers it would be this: "No retailer ever made a profit on a transaction. He makes a profit on a customer." There are only a few exceptions to this rule — where retailers can be profitable without repeat business. Such exceptions are automobile and airplane dealers, trailer dealers, and some furniture or major appliance stores.

But a food store, to make a profit, needs many customers that will come back 52 times a year. A department store needs a customer that will return 12 to 24 times a year. A women's apparel store can survive with a corps of customers that come in 8 to 12 times a year while a man's store can survive with customers they see 4 to 6 times a year.

In a discussion with the store managers of a small supermarket chain I posed the following situation. "You are standing at the check-out stand when Mrs. Williams, a regular customer that you have known for some time, says to you — 'That roast we served at our party last night was tough.' "And then I stop.

This was always followed by questions wanting more background and I tell the managers there is no more background. Mrs. Williams has spoken to you and now you have to say something to her.

Finally a manager will say, "Do you mean we should give her back her money?" This is usually said in disbelief because a supermarket is not noted for refunding money.

But this disbelief permits me to point out that Mrs. Williams shops each week — and usually buys about \$40 worth of groceries or \$2,000 per year. Since we use a common expression that people move every 5 years (a transformation of the statistic that about 20% of the population moves each year), this means that Mrs. Williams could represent about \$10,000 in business to that supermarket.

Mrs. Williams is like most women shoppers — she is not aggressive about adjustments. In fact, she is frightened by the management of the store. Millions of women each year throw away items for which they should have received a refund because they are afraid to confront the store manager; but they get their retaliation by transferring their shopping patronage to another store.

Our Mrs. Williams is on the border of such a change. But because she ran into the manager she decided to give him one more chance — if he is sufficiently sensitive to recognize that chance. Mrs. Williams has set forth her unhappiness.

If a roast is worth \$8 and a customer is worth \$10,000, it seems to me that the instantaneous answer from the Manager is obvious — "Mrs. Williams, here is the money you paid for your roast. The next time you are going to have a party, won't you let me know and I will have the head of our meat department pick out the choicest roast in the house."

TAKE A GUESS!

Suppose you surveyed the top management and directors of the 6 largest retailers, the 23 largest industrial corporations, the 6 largest banks, the 6 largest life insurers, the 6 largest transportion companies and 4 largest utilities, how many blacks would you find?

BUSINESS & SOCIETY edited by Milton Moskowitz (write to 235 East 72nd St., N.Y., N.Y. 10021 for subscription information and a sample copy) reported on such a survey made by Community News Service of New York and the Race Relations Information Center of Nashville, Tennessee. Omitting General Electric and International Telephone and Telegraph, who refused to respond (allowing one to guess how many blacks they have among their top employees), the survey covered 3,182 positions (about 63 per company) and found a total of just 3 blacks — one director each at Chase Manhattan Bank, Metropolitan Life Insurance, and Equitable Life Insurance!

THE NOT-SO-KNOWING CENSUS BUREAU

I was amused recently to read a report issued by the Census Bureau entitled "Probabilities of Marriage, Divorce, and Remarriage" — and particularly the unusual remarriage pattern of divorced men. The unusual factor was that a significantly larger number of divorced men remarried during the 10th year following divorce than during the 9th or 11th year. This phenomena did not occur among women.

It seemed like I was introducing long separated fraternal twins when I wrote to the Census Bureau to draw their attention to the provisions of the Internal Revenue Code that requires that alimony must be periodic payments for 10 years or more in order to qualify for tax deduction by the husband. Therefore many alimony requirements run only 10 years, after which the divorced man can afford to marry again.

As the Chief of the Population Division, apparently a happily married man, wrote: "We had not previously been aware that the Internal Revenue Code requires alimony payments over a period of 10 years in order for them to be tax deductible."

THE GREAT SALARY CUT

Robert Morris Associates is an association of bank executives that, among other activities, publishes each year the RMA Annual Statement Studies summarizing, for about one-fifth of the gross national product, the composite income statements and balance sheets by industry grouping. When I received the 1970 edition I filed it because I did not have a current need for any data.

A few days later I received a notice, and a self-adhesive sticker to place on my 1970 issue. The ERRATA NOTICE read, "Due to a missing sub-routine instruction in the computer program which produced this 1970 Statement Studies, there is a persistent error starting on page 133. In this section all columns except the one for "All Sizes" show Officers' Salaries as "0" which is obviously incorrect.

Since the other figures in these columns are correct, Officers' Salaries can be determined by finding the value which, added (all of the other expenses and profit before taxes) equals the value given for Gross Profits."

Please note that the implication is that the computer misplaced a sub-routine — not that a programmer or other human being made an error.

F.T.C. CONTROL OF BILLING PRACTICES

he Federal Trade Commission has announced that they will hold dearings on January 25 and 26, 1971, at their headquarters in Washington, D.C. on the proposed *Trade Regulation Rule* governing the billing of customer accounts.

Before discussing, and commenting on, the proposed rule, it would be well to point out that RT has been greatly concerned about the bad billing procedures that have been approved to exist in major retail stores for many, many years. This concern led to the establishment of the *Credit Office Rating* which appears every other month on the other side of this page.

RT is aware of many success stories — stories of firms that were prodded by the publication of this data to the point where they gave attention to their billing procedures and solved their problems. The fact that they also saved money by being current was secondary; the fact that more prompt billing produces more prompt payment and reduces the amount of borrowed funds is also secondary. The prime benefit was, in all cases, that they were fair to their customers.

How can any retail store, regardless of national prominence, feel that they are being fair to their customers when their monthly statement arrives so late that the customer has only 5 or 6 days in which to send in a payment in order to avoid a finance charge—or in order to appear as a regular-paying account. In some cases firms have issued statements so late that they were received by their customers after the cycle closing date for the following month.

RT has long maintained that any store can — if management wishes — and without great extra cost — put their statements in the mail not later than the 5th working day following the close of the cycle. The *Credit Office Rating Honor Roll* is established on that premise.

In computing the number of working days between the cycle closing date and the postmark date, Sundays and major holidays (Christmas, Thanksgiving, etc.) are disregarded.

RT is embarrassed by such reports during the past year as 14 days for Abraham and Straus, 13 for Bloomingdale, 20 for Capwell's, 22 for Dunhills, 15 for Emporium (San Francisco), 14 for Gump's, 17 for Peck and Peck, 15 for Sak's Fifth Avenue, and on and on. Yet at the same time, dozens of stores consistently issue their statements in 3, 4 or 5 working days.

The proposed rules

Under the proposed rules all of the stores cited above, for the month and cycle from which the report was taken, would be barred from adding a finance charge.

The proposed rule states that it will be an unfair trade practice (and thus banned) to levy a finance or late charge unless the statements are mailed 21 calendar days before the date by which payment must be made in order to avoid the imposition of such a charge. This means that in a 28-day February, the bills must be in the mail on the 7th day, if payments are accepted up to the next closing date; and on the 4th day if payments must be received not later than 25 days following the current cycle closing (typical of several major bank credit cards). The rule will further provide that it is an unfair trade practice to fail to post payments to a customer's account based on the date of actual receipt by the creditor or his agent (and note that your branch location is your agent even if the terms of your agreement call for the payment to be received at a specified central address).

It will be an unfair trade practice to hold monies collected from a credit customer who has paid more than his total balance due unless the store discloses on a periodic statement that the customer has an opportunity to request that the excess monies either be refunded or credited to his account. This will end the practice of some of our finest, most reputable stores, who follow a practice of not sending out credit balance statements — and after a certain period of inactivity writing them off to income. In the most common vernacular, this is stealing.

It will be an unfair trade practice not to include on a billing statement the name, address and telephone number of a person authorized to act as a contact between the customer and the retail establishment for the purpose of receiving requests by the customer to correct mistakes or make adjustments to the customer's billing statement. This is not such a difficult thing to do; on one of my bank statements, each month, there is printed at the top of the first page, "Your Account Executive Is..." and gives his name. It would be simple for the computer to add his address and phone. So this is now being done by a bank that cares (Security National Bank — a bank that gained national prominence when its President, Fortney Stark, publicly told his customers that savings bonds were not a prudent investment — and the Treasury Department promptly banned the bank from selling such bonds).

The FTC has established four additional unfair or deceptive practices. First, to fail upon receipt of notification in writing by the customer to hold in abeyance further billing statements for the charge or charges questioned or disputed until an individual inquiry into the facts has been conducted and an explanatory response in clear and definite terms is furnished, which response may be sent simultaneously with a succeeding billing.

Second, to fail to credit a customer with all finance or other charges accruing on disputed billing charges when such disputes are subsequently resolved in the customer's favor.

Third, (applicable mainly to central credit cards) to fail to specify the vendor, the amount and the dates of each extension of credit or the dates when such extension was entered on the customer's account, together with a brief identification, either by statement or on an accompanying slip or by symbol, of any goods or services purchased or any other extension of credit.

Finally, to convey to third parties, including credit bureaus, credit reporting agencies and retail establishments, adverse credit information concerning a disputed amount allegedly owed without first notifying the customer of the parties to whom the information will be conveyed, together with a copy of the report to be conveyed.

In summary, retailers and credit card companies must now (1) give customers a reasonable time to pay, (2) stop stealing credit balances, (3) indicate a person to contact with a complaint and withhold billing until the complaint has been investigated and reported, and (4) stop dumping adverse information from computer to computer without giving the customer a chance to know what is being reported whenever there is a current dispute between the customer and the creditor.

No retailer who retains any belief in the rights and dignity of the individual can seriously criticize these objectives; even though major retailers are violating one or more of the actions that will be banned.

CREDIT OFFICE RATING

Several stores have written inquiring about the procedure for reporting their billing performance. We hope to have their results start next month and to expand this report.

On the back side of this report is a special summary of the Federal Trade Commission's proposed regulations on billing practices.

The HONOR ROLL remains at 8 stores:

J. Magnin	month sure to amore 3.0	I. Magnin	4.0
Podesta Baldocchi	3.0	Roos/Atkins	4.0
Mervyn's	3.5	Holman's	4.5
Bullock & Jones	4.0	Emporium (SF)	5.0*

^{*} First-time appearance.

CREDIT OFFICE RATING

	AUGU	ST-SEPTEMBE	R 1970	bus semboosical	UNE-JULY 197	Outrelle said
INFORMATION FROM REPORTERS	NO. OF REPORTS	DAYS T AVERAGE	O BILL RANGE	NO. OF REPORTS	DAYS TO	O BILL RANGE
Bullock & Jones Capwell's City of Paris Emporium Gertz Dept. Store (NYC)	1 3 4 1 2	4.0 11.7 14.0 5.0 5.5	4 14-17 7-14 5 6	1 5 3 4 2	6.0 10.2 10.0 7.0 9.0	6 8-12 8-12 6-8 8-10
Grodins Gump's Hastings Hink's S. Klein (NYC)	1 1 2 4 1	11.0 9.0 10.5 6.0 7.0	11 9 10-11 3-8 7	2 4 1 2	10.5 9.0 14.0 6.0	10-11 7-10 14 4-8
Livingston Bros. Macy's (NYC) Macy's (SF) I. Magnin Joseph Magnin	2 1 7 5 2	14.0 7.0 6.8 4.0 3.0	12-16 7 5-10 4 3	1 1 6 6 1	14.0 4.0 6.7 4.0 3.0	14 4 3-11 4 3
Mervyn's Podesta Baldocchi Rhodes Roos/Atkins Saks Fifth Avenue	2 1 1 1 2	3.5 3.0 6.0 4.0 12.5	3-4 3 6 4 11-14	1	7.0 6.0	7
Sears Shreve & Co. Sherman & Clay A. Sulka & Sons (SF) Wallach's (NYC)	6 1 1 1 1	5.8 19.0 9.0 6.0 6.0	5-6 19 9 6 6	7	6.3	5-12
TOTAL INFORMATION FROM STORES	54	7.6	3-19	50	7.4	3-14
Holman's-Pacific Grove Levee's-Vallejo Levy BrosSan Mateo Walker-Scott-San Diego Wineman's-Monrovia Wineman's-H.P. TOTAL	10 20 16 22 9 7	4.5 5.2 5.3 14.0 5.3 6.4	3-5 3-7 2-8 11-18 4-7 5-8	11 20 16 32 7 7 7	3.9 4.5 4.5 18.4 9.1 8.7	3-5 2-7 2-7 15-22 5-13 5-11

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.

WHAT HAPPENED – THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride – both to management and credit and data processing personnel in being listed on the Honor Roll.

HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.

HOW ARE THE FIGURES COLLECTED? Volunteer reporters send in form postcards reporting their own bills showing store name, closing date and postmark date. On receipt of one report, another form is forwarded. YOU CAN VOLUNTEER TO SERVE AS A REPORTER.

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.

From Where Samuel Feinberg

S MORE AND MORE BIGTIME DEPARTMENT stores enter the specialty store field, what will be the

likely effect on smaller independents?

The question gains increasing pertinence and poignancy as the list of chains engaged in such ventures steadily lengthens. Last week, Dayton Hudson Corp. announced it will open the first of a projected series of cosmetic and accessories stores in 3,200 square feet in a Milwaukee shopping center April 3. Week before last, Associated Dry Goods' Lord & Taylor said it will open a 17,400-square-foot store, offering "edited versions of full stocks," in a Burlington, Mass., shopping center in April. Jewelry and book stores already are Dayton Hudson subsidiaries. Other chains have begun specialization in practically every merchandising category.

LET'S UNDERSTAND each other at the outset. Bluntly stated, the American system of free enterprise makes it just as possible for a store to barely get along or go bust as to be successful. "There's a broken heart for every name in lights on Broadway" applies as much to retail-

ing as to the theatre.

The beginner has to make it, initially on his own, and with increasing dependence on others as his business grows. The government, the community, owe him nothing

except opportunity. All the leading retail organizations were started by one or two men in tiny quarters. Few have escaped the problems that invariably haunt neophyte and experienced merchant alike.

Nobody Owes **Small Stores** A Living

WEST COAST RETAIL consultant Robert Kahn puts the problem and the solution in these words:

"Our free economy gives any person, with guts and a bit of captial (often too much guts and too little capital) the right to gamble with bankruptcy while trying to please a fickle shopping public. Just because a merchant is willing to gamble his time, his money (or someone else's money) and sign a lease on a store is no reason why the community (or anyone else) owes him a living. If he can't provide something that will attract enough customers to permit him to make a living, he doesn't have any right to stay in business. The local campaigns to 'shop at home', when that 'shop at home' is not based on the quality and performance of the merchants, is probably the worst sin possible under our competitive society.

"Small business offers an infinite number of opportunities today — and a fantastic payoff if successful. First, the public is looking for new ideas and special concepts. The boutiques were successful as small shops long before the big stores started to imitate them. The specialty sporting goods store or camera shop, or gift shop or greeting card shop or candy shop, is continuing to flourish amidst the giants that carry the same merchandise but miss on the

charisma.

"To paraphrase, 'God must have loved the small merchant, he made so many of them.' Most will stay small, some will go broke — but a surprising number have become outstanding successes — successes that have so blinded us that we forgot that just a short while ago they were also 'small businesses'.'

AS THE GOLIATHS penetrate suburban regions and outer perimeters of both metropolitan and smaller centers of population, they are competing ever more closely with pioneers in those areas. Too many of the latter are old-

timers in spirit as well as by the calendar.

The heads of such stores often show a smugness and shortsightedness that close their pursestrings to any expenditures remotely resembling personal risk. Where the company is controlled by absentee ownership, it frequently is milked for their benefit at the expense of essential improvement in physical appearance, individuality of stocks, expansion, and obtaining, training, and retaining betterthan-average management and other personnel. If they seem to be slow-thinking and slow-moving, it is only because the charge is well substantiated.

INDIVIDUALITY IS A RARE AVIS in retailing as in all walks of life. Most often, stores cast themselves in somebody else's image. They sell practically the same goods, provide the same services the same tired way. Conformity and mediocrity are the rule, whether in large or small stores. And as a result, loyalty to any particular stores, with widely spaced exceptions, is conspicuous by its absence. Only the occasional retailer demonstrates in action and results it has achieved some mastery of the problem of transforming passers by into shoppers and, most important, shoppers into customers paidots

Take it from Stanley J. Goodman, president of May department stores: "The unforgiveable sin is to be boring."

RETAILING TODAY

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DECEMBER 1970

VOL. 5, NO. 12

HOW DO PRICES RISE?

Everybody knows that the consumer price index is up. It was a major issue in many races in the November elections. But the widely varying pattern of price changes is less well known.

The Bureau of Labor Statistics publishes a monthly report called "The Consumer Price Index" in which the details of the components are given. Looking at the September 1970 data released in November, we find the major and sub-major components showing the following changes from September of 1969:

All items	+ 5.6%
Food	+ 4.5
Food at home	+ 3.7
Food away from home	+ 7.3
Housing	+ 7.2
Shelter	+ 9.0
Rent	+ 4.1
Home ownership	+10.7
Fuel and utilities	+ 4.3
Household furnishings	+ 3.9
Apparel and upkeep	+ 3.8
Men's and boys'	+ 3.7
Women's and girls'	+ 3.9
Footwear	+ 4.4
Transportation	+ 6.0
Private	+ 5.1
Public	+15.3
Health and recreation	+ 5.3
Medical care	+ 6.3
Personal care	+ 3.5
Reading and recreation	+ 4.6
Other goods and services	+ 5.7

There are several interesting points in this pattern. For some years we have heard that much of the price inflation has come from the medical component and the services — yet this category (Health and recreation) is up 5.3% compared with the over-all index rise of 5.6%. Medical care is up only slightly more than the over-all rate increase (6.3% vs 5.8%).

The major pressure on the consumer price index today is coming from the Housing (up 7.2%) and Transportation (up 6.0%) components. The pressure on the Home ownership category (up 10.7%) is largely due to the high interest rates. Although short-term money rates, as indicated by the rates paid by the Federal government and the prime rate, are declining rapidly, the decline in long-term (mortgage) money rates has been far less and far slower. The increase in Home Ownership also reflects the great increase in wages granted to the building trades which is reflected in both the purchase and the maintenance of a home.

THE OTHER SIDE

(In this box in the October 1970 issue there appeared a statement headed "ETHICS AND THE FINANCE CHARGE" in which RT maintained that the question of whether payments and credits should be applied to the old balance before computing the finance charge involved an ethical consideration. Long-time reader Sol Freed of The Popular Dry Goods Company in El Paso responded with the following points which are summarized with his permission).

Anyone is entitled to like or dislike a practice. Disliking by some, or many, of a practice which is applied by a majority does not, in itself, make the practice unethical.

If applying the finance charge to the opening balance is in violation of the law, ethics aren't involved. Only legality is involved. A court would determine the legality, assuming that all provisions of the law have been observed.

Truth in Lending and Regulation Z recognize both methods. There would be no "can of worms" about the annual percentage rate in the first place if it were not for the law and the regulation, both of which have the purpose of requiring disclosure and preventing misrepresentation (therefore ensuring ethical action). The law and Regulation Z, when properly applied, make either method "ethical". A federal judge, therefore would be limited in this connection to deciding whether or not the statements required by the Regulation had been made by the seller — still a question of abiding by the law, not ethics.

One judge may apply a heavier sentence than another under similar circumstances or one accountant charge a higher fee or one store charge a higher price for identical merchandise—is one unethical and the other ethical?

Your essay misleadingly oversimplified the situtation by eliminating references to Regulation Z. Is the pot calling the kettle black?

Regards and best wishes for the New Year.

IS THE COMPUTER PROGRESS?

A monster Control Data Corporation 6600 computer has just been installed by the Coast and Geodetic Survey in Rockville, Maryland where it will replace a device called "The Great Brass Brain" in computing the time and height of the tides.

The Great Brass Brain was built between 1905 and 1910 by two employees of the department. It stands 7 feet high, measures 11 feet long, and weighs over 2,500 pounds. It operates through a hand crank. If the operator wants the results faster, he cranks faster; and if he wants to go out for a cup of coffee, no program is lost. With the help of a flashlight to read the outputs, it will work right through a power failure. It will handle 37 variables and, as output, produces a graph of the tides for a month showing the tide level at all hours (to the nearest 1/10th of a foot). It stops automatically at the high and low tide times so that they can be read and recorded, accurate to the minute.

Prior to the use of a computer this hand method was being used to predict (and publish in tide tables) the data for some 8,000 stations.

Now everything is done by a computer — except that the multimillion dollar CDC 6600 cannot do as good a job. No longer does the C&GS produce a wave chart showing the tide pattern — merely a print out showing the times and levels of the high and low tides, plus a few readings on either side of the peak.

This is the same kind of progress that prompted a columnist in the London Sunday Telegraph to report that when a reader of the London Times, who had always received his copy the next morning by mail, complained that it was now arriving the morning of the second day following publication, The Times replied, "The use of modern techniques have caused production difficulties, and as explained previously, this results in the slow running of presses and in consequence failure to connect with the over-night Travelling Post Office we would suggest that if you are able to arrange a more satisfactory method of delivery, it would be to your advantage, and of course result in the saving of postage."

Progress – on both sides of the Atlantic!

OUR DECLINING CREDIT PERCENTAGE

As each year rolls by we note that the percentage of charge business continues to decline. The decline as a percentage of the total sales is relatively slight from year to year — and because of the high interest costs of the past two years many stores have found this trend to be preferable to one of rapid increase.

But the trend may be of longer duration than originally expected. Some have attributed it to the impact of Truth-in-Lending; others have felt that bank credit cards have taken charge customers to other sources of buying.

But the University of Michigan made a study of credit patterns among young adults (18-24) and found three interesting trends:

- 1. The young adults have a less favorable attitude toward credit than do their elders even those just a generation older.
- 2. Although they have a less favorable attitude toward credit, more of them are using it.
- 3. Although using it, a much smaller proportion of the 18 to 24 year olds have obligations as high as 20% of their prior year income.

This all combines to indicate the start of a life pattern of trying to avoid the use of credit - and it will reflect in retailer figures for years to come.

WHO MAKES ANTI-PERSONNEL WEAPONS?

The Council of Economic Priorities (1028 Connecticut Avenue, Washington, D. C. 20036) has published a report identifying the firms involved in manufacturing fragmentation bombs and 2.75 inch rockets with fragmentation warheads. These are weapo developed solely to kill and maim people — not to destroy aircraft flying overhead or to pound down buildings or destroy tanks and other vehicles.

The surprising thing about the list is the number of firms well known to retailers who, through other parts of their activities, make a profit (presumably) by contributing their know-how and facilities to this purpose.

Brunswick Corp (pool tables, bowling balls) Bulova Watch Co. duPont General Motors (Frigidaire) General Time Hamilton Watch Co Hammond Corp (organs) King-Seeley Thermos (thermos bottles) Motorola Republic Corp (hot water heaters) Rubbermaid, Inc Uniroyal Victor Comptometer Westinghouse Electric Whirlpool Corp Wurlitzer Corp Zenith Radio Corp

A BRIDAL REGISTRY-FOR CHARITABLE ORGANIZATIONS

RT's Geneva reporter tells of a local adaptation of the "bridal registry" system to help equip a new home for the handicapped. The original source of funds was enough for the bare building. The major department and specialty stores used a "bridal registry" system to let the public know what they could buy and contribute to the home — what the home actually needed. The list ranged from face cloths at 25 cents to major items of furniture that cost several hundred dollars.

Newspapers, TV and radio gave publicity to the project. Since the event was at the end of October, a theme of "buy your first Christmas present to help someone else" was used.

The target was about \$8,500 worth of goods and at the end of the first week they had obtained more than \$3,000.

In addition to being successful, the plan brought a better feeling of involvement than was possible with just money gifts ("I gave a half-dozen towels to the new home for the handicapped").

INSURING COMPUTER FILES

A recent survey disclosed a major gap in insurance coverage for computer users, especially those who are using leased computers where the insurance on the computer is provided by the leasing company. The leasing company assumes no responsibility for insuring media and records.

Insurance is available to cover the cost of reconstructing records if there is a physical loss. Coverage actually can be obtained for four types of problem: extra expenses incurred as a result of loss of records; business interruption to replace lost profits; valuable paper coverage that will cover the cost of replacement of the documents, and accounts receivable insurance to cover loss of collections in case of record destruction.

WHOOPS! THERE WENT THE CASH REGISTER

The cash register picture is changing. At the end of World War II Ohmer took orders but never got back into production — leaving "t NCR with a few small competitors like Federal and Victor. In late 1940's Sweda, then part of Erickson and now part of ton, made its move, concentrating originally on the supermarket field where installations did not require systems work (grocers knew what they wanted).

The 1950's saw the attempts to develop a replacement for the cash register in the form of data capture devices. There were black boxes followed by optical scanning with other variants along the way. Most systems were failures — either procedurally or economically.

But today the pattern is changing. Computerworld recently made a comparison of most of the systems available (omitting only Information Machines of Santee, California) and a condensation of their summary might well help the busy retail executive who is doing some last minute shopping for data recorders.

Ricca Data Systems has terminals that can stand alone or be on line. The unit can check credit, update inventory merchandise, read tags and credit cards, and costs about \$4,000 per terminal, plus \$50,000 to \$70,000 for the mini-computer.

American Regitel has essentially the same capabilities. A 100 terminal system rents for \$139,000 per year.

The NCR 280 system is designed for on-line use and includes, in addition to the capabilities above, their magic wand to read color coded information on garment tickets. A 144 register (with wands) system and with transmission capability will run the better part of \$750,000.

iger-Friden's MDTS system comes in several different sizes and is designed as a building block arrangement that can progress from free-standing units to on-line systems. A 100 terminal installation will cost over \$280,000.

Pitney Bowes in conjunction with Alpex Computer is offering their SPICE system at about \$430,000 for a 144 register system. However, this system will not read a credit card.

The Varitab 720 can be used as a computer terminal for some retail applications — but only as a data recorder. A single terminal runs about \$3,000.

Olivetti-Underwood, already being used in Europe, is offering a 100 terminal system for about \$320,000.

The big computer firms – IBM, Univac, GE, Control Data, Burroughs, Honeywell – have pretty much stayed out of the retail field. GE did try some experiments with Penney's (remembers TRADAR?) and retired with burned finger tips.

Cassettes are the new data collectors — replacing punch paper tape and optical font. The high cost of an optical font reader, plus the problems of maintaining legibility on many registers, has defeated the simple adaptation of existing equipment.

KEEPING UP WITH THE FEDERAL TRADE COMMISSION

In addition to guide lines for billing and bill adjustment proceres, the FTC has been busy on several fronts.

Guides for sale, advertising and labeling of wigs and hairpieces have been issued. The many men's stores that are getting into wigs for the first time may not be aware of these rules — prudence would indicate a letter to the FTC asking for a copy.

Weiman Co., a major manufacturer of furniture, was prohibited by a consent order, from misrepresenting that veneer coverings are solid wood and misrepresenting the type of wood used. In addition they were banned from calling molded portions "carvings" and from using terms like "Spanish" and "Italian" when the furniture was not imported from those countries.

The banning of "negative option plans" continued although there has been great resistance from book and record clubs who claim that their members clearly understand the procedure.

Zales was rapped on the knuckles through a consent order and agreed not to misrepresent regular prices during their diamond and watch sales and not to use fictitious suggested retail prices.

American Home Products and their advertising agency, Cunningham & Walsh, were served with a complaint that in demonstrating "Easy-Off Window Cleaner" against a competitive brand that they did not follow the directions on the use of the competitive brand.

INVENTORY SHORTAGE

Within the next two months most retailers will be finding out just how large their inventory shrinkage was in 1970. And if the past is any guide to the future, the following two months will be spent cracking the whip over buyers, receiving departments, accounting departments and anyone else who might be connected with figures or merchandise.

It might help to have a check list. There are two that might help you find the true culprit in your systems and procedures.

Write to Jack Moss, Key-Rec Systems, Inc., P. O. Box 40, Dayton, Ohio 45406 for their Key-Recommendations 30-66 "Over 75 Ways to Control Shortages from Backdoor to Salesfloor". Tell him that Bob Kahn sent you.

And from RT we again offer our check list on causes of inventory shortage entitled "58 Areas of Management Failure".

WHO'S FAILING?

Dun and Bradstreet has issued "The Failure Record through 1969" which tells the story of failure — but with the hope that from this record others can learn.

The failure rate is expressed as the number of failures per 10,000 operating concerns in a particular field. Generally, retailing has a lower failure rate than manufacturing.

The top failure rates among retailers are women's ready-to-wear (57 per 10,000 firms), furniture (57) and gift shops (52). In the "above 50 per 10,000 firm" category among manufacturers we find furniture (116), transportation equipment (107), textiles (80), apparel (64), electrical machinery (59), primary and fabricated metals (57), leather and shoes (52) and machinery (50).

At the less risky end of retailing we find auto supply stores (20), hardware (20), jewelry (19), drug (19), dry goods and general merchandise (18), grocery stores (16), shoes (15) and women's accessories (12).

The early years are dangerous in retailing -40.1% of the failures occuring after 3 years or less in business, which compares with 29.9% in service businesses, 25.7% in manufacturing, 22.4% in wholesale and 21.8% in construction. Obviously, a much smaller percentage of retailers over 10 years old fail than is true in the other categories (with only 100% available, retailing can't be tops in everything).

ACTION IN THE STATES

1970 saw 4 more states cancel their fair trade act — or the non-signer clause. The first law requiring unit pricing was established by Massachusetts. More states permitted a grace period during which sales in the home could be cancelled.

Maryland prohibited covering up cash registers so that customers cannot see the price that is being rung up (I understand that "Cap" Patterson, who started NCR, stood up in his grave and cheered — having established the visible price indicators to keep bartenders honest).

DRUGS

There isn't a retailer in the United States today who is not aware that drugs, drug use and drug abuse are one of the major problems with which he must cope.

This problem is raising its head on many fronts — the drug addicts that have been responsible for a large part of the increase in shoplifting, the youthful user who is not yet hooked but who shoplifts to get money for pot or pills, the employee who is stealing to support a habit, or members of the retailer's own family who are on the fringe of, or even in the action center of, our drug society.

Although many retailers are justifying their cooperating in antidrug programs on the basis of economic self-interest (reduce shoplifting, reduce taxes needed to arrest and confine offenders, etc.), their true interest is undoubtedly much greater.

We have always known that the easiest thing to give and the hardest thing to take is — advice. This is particularly true when the person to whom the advice is given doesn't think that the party offering the advice is qualified to give that advice — and this is the attitude of the young drug users toward their elders, whether that elder be parent, police officer, teacher or boss.

Some of the problems we are facing today were brought about by our own past actions. We know more about LSD, which is a relatively new hallucinogenic drug, than we do about age-old marijuana. LSD, before being banned, was available for laboratory test and study; whereas pot had been outlawed years ago, by misclassification as a narcotic, so that even research labs were not able to get a supply for research purposes. It is just within the past two or three years, long after the problem reached a crisis stage, that serious laboratory work was undertaken.

This failure left open the argument that I first heard during World War II, that pot is really little different from the alcohol that the older generation has used in such large quantity. (It is interesting to note that the same states that press for law and order control of drugs and narcotics become concerned when the consumption of alcohol declines — because that decline cuts the state revenue).

Our present widespread use of drugs is a measure of our high standard of living. It is only when there is a surplus of plenty that it is possible for a large number of people to survive without performing productive work — to survive by stealing and begging. The amounts stolen are so small that even the salespeople who are guardians of the store's property feel little concern about catching shoplifters. Courts tend to let shoplifters off with light sentence for a variety of reasons. Normally they are not violent so putting them in jail isn't necessary to protect the public. The value of items possessed by most, when caught, is so small that long term sentences don't seem appropriate. And so many stores don't want to spend \$30 or \$40 of executive time to attempt to prosecute a shoplifter who took \$10 worth of merchandise.

So the drug users can manage to survive on the fringe of the productive society — with the help of stealing and begging, wel-

fare funds, food stamps, and a general attitude within their own drug community of helping each other. Their objective is self-gratification — and this is obtained easier through drugs.

But this does not solve the problem for the retailer. The retailer is in the forefront. He finds most of the young people in the comunity going through his store. He employs many of these yo people as salespeople or office workers or receiving and marking personnel; he employs them while they are still in school, and after they are out; and many times he employed their mother before them.

But the pendulum is about to swing the other way. The offense always has the advantage — the defense cannot be developed until the offense comes into existence. And the resistance to our drug pattern is growing with each passing month.

First, the young people themselves are seeing some things they don't like and are reacting to those bad scenes. The appeal of speed has dropped — as the younger kids saw older friends strung out or freaked. There are more bumper stickers today that say "Don't METH around, SPEED kills". The same is true of the hard narcotics. Even in the ghettos, where the problem has been the worst, reports indicate that the young people are organizing to fight the pusher and to break the cycle. LSD is on the down trend — although this could change if the fears of chromosomic changes prove to be incorrect.

But this still leaves pot - with little running against it.

The argument that most heroin addicts started with pot doesn't cut much weight with the young people; they know that every alcoholic started with milk and water.

But the problem is still the message — how to say it, who to say it to, when to say it. An old friend of retailers — Grey Advertising. Inc. — is getting into the battle. They are already in the battl They feel that as professional marketing people they can influence the drug market just as they do the market for other products. There were requests for 20,000,000 kits of the drugabuse literature Grey developed for the National Institute of Mental Health in Bethesda.

And now they have offered their service on an international basis through the International Institute of Advertising.

SHORT SHORTS

Quality Park Products, 2520 Como Ave., St. Paul, Minn. 55108 is making an Employee Record Jacket (Form 69-999) that will fill the needs of most business. Check your local stationers or write direct.

Leasehold insurance is available to cover the special problems of leasehold improvements — at replacement costs, or for replacement if the improvements have reverted to landlord.

Montgomery Ward has agreed to refund up to \$6,300,000 to credit card holders who were charged for credit life insurance at 10 cents per \$100 of unpaid balance during the period Ward's experimented with a negative authorization procedure (the customer had to tell Ward's not to provide coverage or else the charge was automatic).

Never use a postcard for dun notices; nor put threats on the outside of collection envelopes. Courts have held that this can be libel and invasion of privacy.

Check your personal Social Security account — get Form OAP 7004 from the local office and mail to the Social Security Administration, P. O. Box 57, Baltimore MD 21203. This should be done at least every 5 years in order to be certain that when you want to draw on your account that you are not penalized because of undetected errors in prior years.

THE LOST ART OF RATIO ANALYSIS

Ratio analysis is the use of certain standard relationships derived from the balance sheet and/or the financial statement of a company for purposes of evaluating the company. Several of the ratios used are ones that are commonly used within a business in their day-to-day operations or discussed regularly with their bank while others are less commonly used outside of credit-granting fields.

Ratio analysis was probably given its greatest boost because of the work of Roy A. Faulke, now retired but formerly a Vice President of Dun & Bradstreet, Inc. Much of his work is summarized in detail in his book "Practical Financial Statement Analysis" published by McGraw-Hill Book Company. Originally published in 1945 it has been revised at least four times.

In addition, Dun & Bradstreet annually publishes the key business ratios for a large number of businesses.

The table below shows the 13 ratios that they use in analyzing retailing (the 14th standard ratio - which is not used in most retailing - is the collection period of accounts receivable expressed in average day sales), together with typical ratios for 264 departments stores in 1969.

RATIO	MEDIAN FIGURE	INTERQUARTILE RANGE (1)
Current Assests to Current Debt	2.76 x (2)	4.28-2.07 x (2)
Net Profits on Net Sales	2.12%	3.27-1.19%
Net Profits on Tangible Net Worth	6.46%	10.71-3.49%
Net Profits on Net Working Capital	8.06%	13.78-4.46%
Net Sales to Tangible Net Worth	3.15 x (2)	4.59-2.44 x (2)
Net Sales to Net Working Capital	4.16 x (2)	5.84-3.07 x (2)
Net Sales to Inventory	5.5 x (2)	6.8-4.2 x (2)
Fixed Assets to Tangible Net Worth	24.7%	10.7-46.5%
Current Debt to Tangible Net Worth	41.9%	23.4-69.4%
Total Debt to Tangible Net Worth	75.7%	46.1-130.1%
Inventory to Net Working Capital	76.9%	60.9-106.3%
Current Debt to Inventory	72.1%	48.8-100.0%
Funded Debt to Net Working Capital	33.4%	13.5-57.9%

(1) The term "interquartile range" means that 50% of the stores fall between the two figures shown in this column with 25% beyond the two figures shown.

(2) "x" indicates "times"

Current assets to current debt

Current liabilities is synonymous with current debt. Current assets are those one would anticipate would be converted into cash within one year. It includes cash, marketable securities, accounts receivable, inventory, and some prepaid expenses. Current debt involved all liabilities falling due within one year. With the passage of time current assets have been permitted to include all receivables even though they may not be due within one year (such as 2-year and 3-year installment accounts on major appliances) as well as certain inventory items that turn over less than once a year (such as jewerly). The argument for leaving these items in current assets is that they are readily saleable whereas fixed assets and deferred assets normally are much less marketable. Current debt remained relatively pure by definition until the SEC required the inclusion in current debt of that portion of deferred income tax related to the installment reporting of accounts receivable carried as current assets.

Current assets are understated in companies that report inventory on a LIFO basis since the Internal Revenue Code requires that firms using LIFO must use it for reporting the valuation of their inventory for credit purposes. Given these weaknesses of the figures, this ratio is one of the common ones used to test the solvency of a company. Essentially this shows that the higher the current ratio the less the current assets have to be liquidated in order to meet the liabilities due within one year. Typical current ratios vary widely. In 1969 the typical current ratio for discount stores (215 reporting) was 1.82 to 1 while grocery stores (135 reporting) was 1.69 times. At the other extreme were hardware stores with a typical ratio of 3.52. Although we talk of a 2 to 1 current ratio as being a common minimum, discount stores and supermarkets can operate soundly with substantially below a 2 to 1 current ratio because they have no receivables. In addition, they benefit from high inventory turnover so that they can still generate enough cash flow to meet all of their obligations as due. On the other hand, the firms that typically have a high current ratio such as hardware stores either have very slow inventory turnover or substantial accounts receivable.

There is no blessing in too high a current ratio. One that is substantially above the inter-quartile range indicates that the company is accumulating more current assets (usually cash and securities) than they need in the business and have failed to find profitable investment for these assets.

Net profits on net sales

Every retailer considers this to be the main operating figure. It is necessary, however, to point out that there can be many variables because of difference in accounting technique. Closely held companies frequently write off assets much more rapidly than publicly held companies, thus increasing the depreciation and amortization charges. Companies operating on LIFO will, during rapid inflationary periods, report a substantially lower net profit than will a store operating on FIFO.

It should be pointed out that a high profit as a percentage of sales does not necessarily mean a good return on the stockholder's investment. As shown above, department stores had a typical net profit on net sales of 2.12% but only earned 6.46% on the net worth. On the other hand, grocery stores who showed a net profit of only 1.06% on sales showed 10.34% on net worth.

The obvious use of this ratio is to determine whether or not the business is operating profitably and by use of typical figures from like stores to find out whether it operates more profitably or less profitably than similar stores. However, the many variables that can affect this are seldom taken into account. Wage rates vary considerably throughout the country whereas much pre-priced merchandise remains the same regardless of area. Some companies that own their own building carry them on their books at substantially below market value and because the buildings are fully depreciated show an artificially low occupancy cost. Many stores are using fixtures that were first installed 20 years ago and are fully depreciated.

Net profits on tangible net worth

Tangible net worth in a corporation normally consists of the total amount shown for all classes of stock (common and preferred) and all types of surplus (earned, contributed, and capital). This represents the investment that the stockholders have either made in the company or permitted to be retained. Many times companies will show a high return on net worth because their assets are grossly undervalued. This frequently is true in retail stores where they own their own building. Other than that, the major factors that can artificially reduce tangible net worth (separate from any consideration of dividend policy) would be use of LIFO for valuation of inventory, accelerated depreciation, and high salaries (in lieu of dividends).

One other factor should be recognized. A high return on net worth may reflect the use of "leverage" which means substituting borrowed money in any form (bonds, debentures, extended dating from creditors, late payment of bills, etc.) in lieu of capital. Other ratios such as net sales to tangible net worth, current debt to tangible net worth, and total debt to tangible net worth will reveal any leverage that exists.

Probably the greatest problem in retailing is that too few retailers concentrate on generating an adequate return on the invested capital. The figures that I have quoted above were for the year 1969 (usually ending January 31, 1970). If we look at savings and loan associations paying 5% to 7½% return on insured savings accounts and AA bonds paying 8%, with no management skill required, it would seem, for the typical department store, that the stockholders would benefit if they could get their book value out of the company.

Net profit on working capital

Net working capital is defined as the dollar difference between current assets and current debt. This figure is not substantially affected by whether or not a company has a great deal of fixed assets or has virtually none. Therefore this eliminates the variance in figures resulting because of policy decisions in relation to ownership or leasing of the major fixed assets of the company. The difference between current assets and current liabilities represents that portion of the stockholders' investment used in the daily operations of the business and the profits related to working capital measure the effectiveness of the use of working capital. (The excess of fixed assets over long-term debt would represent the stockholders' investment in the fixed assets of the business since long-term debt is presumed to be related to fixed assets and short-term debt is presumed to be related to current assets).

It should be pointed out that one of the big things that affects both working capital and the ratio of current assets to current debt is the policy on handling accounts receivable.

There are two factors to look at here. If a company decides that they are going to finance their accounts receivable to the maximum they would assign their receivables as security for a revolving line of credit. The entire amount owed would be reported as a current debt and would perhaps represent 75% to 80% of the receivables. If, however, part of this is handled by their long-term fiancing the amount transferred to long-term debt would cause an artificial inflation in the working capital of the company. Companies that do use a revolving line of credit are unduly penalized in ratio analysis because the entire amount is made to appear as though due within one year whereas there may be a commitment for longer than one year.

If a company has accounts receivable and a revolving line of credit, they also have the option, in many cases, of selling their receivables at the end of the year and eliminating the debt. Since the current assets and current liabilities would be reduced by the same amount, there would be no change in the working capital dollars, but there may be a substantial change in the current ratio.

Net sales to inventory

Working from a balance sheet, we arrive at a much higher figure than normally is considered when retailers talk of "turn-over" since net sales are a retail figure and the inventory figure used in this case is at cost. However, by using this ratio uniformly for different firms it does give a usable measure of the relative turn-over of the inventory. A store that has a substantially higher rate of turn as measured by this formula is using its assets more effectively or may be undervaluing their inventory.

Fixed assets to tangible net worth

Fixed assets may be low for two reasons: the historic cost may be low and the assets may be fully depreciated; or, the company may have elected to lease their building and/or fixtures rather than own them. In any case, this ratio tends to show how much the stockholders' investment is represented by assets that are often hard to move. Any time you find a company with fixed assets approximating the tangible net worth you know that that company is in a serious financial position. Normally, the lower the fixed assets are to tangible net worth the more "liquid" the company is considered.

Current debt to tangible net worth – total debt to tangible net worth

Both of these ratios attempt to measure the degree of "leverage" that the company is using. They also express, especially the latteratio, who has the biggest investment in the business (and the the greatest stake in its continuance): the stockholders or the suppliers of credit to the company. Most persons granting credit like to see the stockholders own at least a half of the company.

Once again we have a problem in defining total debt - particularly such items as deferred income taxes. Total debt and current debt can be materially reduced by such factors as sale of accounts receivable, sale and leaseback of fixed assets, and utilization of excess cash for advance payment of liabilities.

Convertible debentures subordinated to all creditors really provide financial strength for the other creditors of the business while technically constituting debt.

Some credit offices are sufficiently sophisticated that they add subordinated debt to the net worth of the business in trying to calculate the risk that they, as a creditor, would have.

Inventory to net working capital

Since inventory can be paid for either through increased working capital, additional equity investment, or long-term debt, it is important to have some measure of the relationship between inventory and net working capital. In a rapidly growing company which is not earning high profits because of expansion costs the pressure frequently shows up in this ratio as inventory grows in proportion to sales but net working capital grows considerably slower than sales. Under such circumstances this ratio - which is relatively sensitive - discloses the strain. The value of this ratio has been reduced materially over the years as accounts receivable have replaced inventory as the major investment in a retail firm.

Current debt to inventory

This ratio again is an attempt to measure how inventory is financed. If current debt is substantially less than inventory it means that working funds are available to provide inventory.

Funded debts to net working capital

Funded debt means all types of long-term obligations such as mortgages, bonds, debentures, and deals only with that portion maturing more than one year after the balance sheet. Since long-term debt has a degree of permanence this ratio is another measure of the degree of leverage used in the business.

The basic problems with ratio analysis

The problems that arise with ratio analysis are these:

- 1. Typical ratios are often obtained by using as a sample those firms that are unaggressive or over-capitalized.
- 2. As the years pass there are variances in accounting procedure. The ratios can be materially affected by changes in accepted accounting practices.
- 3. It is difficult comparing closely held companies and publicly held companies because many of their objectives are completely opposite and it reflects in the accounting practices of the company. Closely held companies normally want to pay the minimum tax possible and therefore follow those practices which tend to reduce their taxable income whereas publicly held companies, wanting to enhance the value of their stock, report the maximum profit possible despite the penalty of having to pay additional taxes.
- 4. The greatest problem existing today in ratio analysis is that the world is changing, business is changing, accounting practices are changing, and governmental regulations are changing. All of this calls for a constant updating or ratio analysis the dropping of certain old ratios that are no longer helpful and the introduction of new ratios. Unfortunately, Mr. Faulke is dead and it is doubtful that the "Bible" will be revised. Thus the art of ratio analysis appears to be entering a period of stagnation which will probably continue until somebody new comes forth to take the place of Mr. Faulke.