STARTS SEPT 1968

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ROUTE TO INITIAL

RETAILING TODAY

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RE-INVENTING THE WHEEL

Retailers are particularly adept at re-inventing the wheel. The most recent announcement of this accomplishment involved Strawbridge & Clothier (S&C) when Peter Strawbridge announced that the Clover Stores (the S&C discount arm) would, as **Women's Wear Daily** put it, "abandon its noble experiment of cash across-the-board, and institute a credit policy."

The re-inventing process included statements by Strawbridge that "we felt we weren't generating enough business on a cash-only basis" and the statement attributed to "an important area discounter" saying "Clover apparently has found out something we are all learning–that you have to have credit. Frankly, I didn't think that BankAmericard or Master Charge would have much impact on discount shoppers out for small appliances or a $40 coat."

S&C was present when the wheel was invented last time. Founded in 1862 as a wholesale and retail dry goods firm by Justus Clayton Strawbridge and later joined by Isaac Hallowell Clothier, it later expanded into a department store, just as did Wanamaker's, founded a year earlier. As H. Pasdermadjian said in his great book, "The Department Store–Its Origins, Evolution and Economics," "In most countries the first department stores (or former specialty shops, when they reached the state of a department store) adopted the practice of selling only for cash, and this ensured them a corresponding saving of expenses or an additional price advantage in comparison with most of the remainder of the dry goods business, which used to grant credit to its customers."

A study of Emile Zola ("Notes de travail sur les grands magasins") disclosed these early stores had a 20% gross margin, 15% expenses and 5% net profits (with no taxes!). Competing specialty stores worked on a 40% gross margin, much slower stock turn, and the high cost of credit which was often settled only once or twice a year.

Department stores eventually got up to the same 40% gross margin, the same expense rate, the same slow stock turnover and the same high-cost credit operations–but they did not get there because they wanted to; they got there because the customer's preferences forced them into this pattern. They learned what Peter S. has learned–"We weren't generating enough business on a cash-only basis."

R.H. Macy & Co became the world's largest store on a cash-only basis with such slogans as "Save 6%" and "Pay cash, pay less." Time and government regulations forced Macy's to restate the "Save 6%" to "It is our endeavor to have our prices reflect a savings of 6% when buying for cash when compared with other stores offering similar services and credit."

In 1940 Percy Straus was stimulated by the imagination of a University of Chicago professor named Beardsley Ruml (who later "invented" the withholding tax). Straus was depressed by the fact that Macy's could not develop volume in major appliances, radio-phonographs, pianos, furniture, fur coats, and many other big ticket items even when their cash price was much more than 6% below that of competing credit stores. So Straus asked Ruml to give the matter some thought–and Ruml came up with the "Cash-Time" plan whereby customers paid $1.00 for each 94¢ of merchandise purchased. Then–and only then–did Macy's start to sell big-ticket merchandise in volume.

IRS IN POWER GRAB

Under the Nixon Administration the Internal Revenue Service is undertaking a power grab such as was never attempted before. Retailers will recall the resistance of the Internal Revenue Service in the 1940s to efforts of retailers to use LIFO as a method of inventory valuation–a method that was clearly permitted by the Internal Revenue Code. Resistance came from the I.R.S. solely because of their mistaken conception of their duty. The I.R.S. felt that they had no obligation to administer the tax laws fairly–they only took the position that would raise the maximum dollars for the United States.

In 1971 the I.R.S. issued their release IR-1125 under which, without authority in law, they stated that in the future the I.R.S. would grant permission for **changes in accounting procedures** only if the taxpayer agreed to use the same method for reporting for all other purposes–to partners, shareholders, for credit purposes, etc. There is nothing in the Internal Revenue Code that gives the I.R.S. this power, although it does state that **changes in accounting procedure** must be approved by the Commissioner.

On the other hand, **a new corporation** remains free to adopt one method of accounting for tax purposes and another for reporting to stockholders or for credit purposes because no change is involved. Thus, except for LIFO which is directly controlled by the Code, a store can adopt installment reporting of receivables and accelerated depreciation for tax purposes; or accrual reporting of receivables and straight-line depreciation for stockholder reporting. The I.R.S. does not have the authority to regulate the accounting procedures of a **new** corporation.

RThought: Rather than fool around with this restriction in the regulations of the I.R.S., now that it has totally abandoned any thoughts of fairness (with the $50 billion deficit being incurred by the Nixon Administration, one can understand the temptation to resort to unfair tax methods in an attempt to maintain revenues), RT would suggest that retailers consider forming a new corporation, adopting accounting procedures for that corporation, acquiring the old corporation, and liquidating the old corporation, thus avoiding the heavy hand of the I.R.S. Check your attorney and CPA–since there are many other factors involved which must be evaluated.

Despite building the world's largest store on the basis of "cash-only" sales (including Deposit Accounts, where you put the money into Macy's Private Bank in advance), the Straus family was smart enough to continue credit facilities at Bamberger's, LaSalle-Koch, Davison & Paxton, O'Connor-Moffitt and the other stores they purchased around the country. They reverted to cash-only just one other time—in their ill-fated Macy's Red Star Store in Syracuse, New York (one of the classics in retailing, where the final loss exceeded the total sales for the time the store was open).

Mr. Strawbridge has uttered words of wisdom—reincarnated for the umpteenth time. And he will not be the last to reinvent this wisdom. There is ahead of us—as more and more discount stores increase their services, their expenses, their gross margins, their national brands, their inventory in relation to sales, and their inflexibility—the spector of a new type of general merchandise stores—offering no service, no fancy buildings, no credit, only fast-turning items and low-low prices. After a decade or two some of the participants in this wave of "retailing of the future," after creating their own trade association because of resistance by the aged and fading Mass Retailers Institute, will suddenly discover that "we aren't generating enough business on a cash-only basis."

A PRIVATE MATTER BECOMES PUBLIC

It was not too far in the past that a regional shopping center was a kingdom of its own. Pickets were kept away from the stores—they could parade up and down the sidewalks hundreds of feet away—but subject to a court order not to block the entrances. After all, private property **is** private property.

Or is it? More and more states have come to the conclusion that when a shopping center provides space to park thousands of cars and then invites any person, without qualification, onto the premises, they cannot stand behind the "This is private property" concept on the matter of pickets. Or demonstrators. Or persons seeking a signature on petitions. Or any of the many other things done on a public sidewalk in any city.

Next came the Federal Trade Commission to question the right of major department stores, in combination with or with the tacit support of shopping center owners, to control co-residency in the center. Such control was based on the right of private property ownership, "We can lease to anyone we want—we just happen to agree with the ABC Department Store that there should not be any discount stores and with the GHI and the XYZ men's stores that two men's stores are enough." The FTC has taken a different view—they have expressed the opinion that such actions are illegal—conspiracies in restraint of trade.

Now that most of the major department store groups derive more than half of their volume from suburban stores or branches, most of which are in shopping centers, it seems only proper that they should not have any more control over potential competition than they do in downtown areas where a discount store—or anyone—can locate in any building they can rent. Certainly, no merchant ever had to get the consent of Sears, Wards, Penney's, Federated, Allied, Kresge, Woolworth or any other competitor in order to open a store downtown.

The next step is now being taken. The Plum Tree, Inc., a gift shop franchisee, has brought a class action against one of the largest shopping center developers—Rouse Development Co—alleging restraint of trade. They are seeking to make this a class action for all tenants of all Rouse centers that have any restrictions in their lease. The damages sought is a nice round number—one billion dollars.

They allege that the following types of restrictive covenants in shopping center leases—fairly common in most shopping center leases—represent illegal restraints of trade: limit the type and/or price level of merchandise that can be carried, requiring membership in the Merchants Association, establishing hours and days that the store must be open (or even allowing the major department stores to set the pattern and then requiring the other tenants to follow), radius clauses that limit how close you can locate another outlet—or even how close another store can be in which you have a financial interest, and even questioning the right of the landlord to rent stores of equal size, at different rates per square foot, depending upon the type of merchandise carried.

RThought: Someone may even go to a basic "custom" that should be challenged—the sweetheart deals made with major department stores in order to get them into shopping centers. The cost of these bargain deals with the giant retailers is passed on to the small retailers. The result, of course, has been that with increasing frequency the only small store tenants that can afford the rich rents are the ones that are part of the chain giants—like Genesco, Melville, Lerners, Interco, Hart-Schaffner-Marx, Woolworth, and Petrie.

Of course, before bringing any of these firms into court for collusion or anti-competitive conduct, one might go back and read the many speeches of their principal officers about the great benefits that the **competitive** retail system has brought to the people of the United States. After reading the comments of the head of Federated Department Store on ethical responsibilities, one might read the case "Federated Department Stores, Inc. v Commissioner of Internal Revenue," 426 F.(2d) 417, wherein it was ruled that a contribution (valued in the millions) by a land developer to a department store corporation to build and operate a store in the developer's new shopping center was not income! The cost of this contribution, of course, was spread over the other tenants in the shopping center. Federated received **without paying any income tax** more money than most of the small independent tenants will make during their entire business career.

This is, of course, the land of opportunity—for those with the economic power to extract it from those who are weaker.

PRICE AS AN INDICATOR OF QUALITY

The Summer 1971 issue of MSU BUSINESS TOPICS (published by the Graduate School of Business Administration, Michigan State University) contained an article by Arthur G. Bedeian entitled "Consumer Perception of Price as an Indicator of Product Quality." The article summarized the studies made in this field. Surprisingly, the first such study did not occur until 1954. There was a 10-year lag until the second study.

It appears that a substantial portion of the consuming public, for a substantial portion of the products sold, believe "you get what you pay for." Consumers apparently classify products as to whether or not they can **perceive** differences between brands. The better they know the product, the **less** they are likely to feel that price is an indicator of quality; and the greater the **quality** reputation of the vendor, the more likely the consumer is to accept price as an indicator of quality.

This, of course, goes against all of the accepted Adam Smith economics which argues that demand will increase as price drops. With some products, demand is likely to be greater when price is high!

The identification of products for which the consumer accepts price as an indicator of quality, does, to a degree, validate Adam Smith's observations. Adam Smith wrote when brands were unknown and products were simple. The consumer could tell whether the wool or cotton or linen was of good quality or the wheat properly ground. There were no high-technology consumer durables like color TV or automobiles or dishwashers.

CREDIT OFFICE RATING

The Honor Roll this month is very interesting—because it contains both Abercrombie and Fitch and A. Sulka. It was not too many months ago that the problems of A&F's credit department were being chronicled by Sylvia Porter in her national column—there have been no mentions of the improvement. And at one time A. Sulka was more likely to be 15 days than 5.

HONOR ROLL

Wineman's–Huntington Park, CA	2.8	Miller Bros–Chatanooga	3.6	Hink's–Berkeley, CA	4.8
A. Sulka–NYC	3.0	Abercrombie & Fitch–NYC	4.0	Harris & Frank–LA	5.0
Roos/Atkins–San Francisco	3.0	B. Altman–NYC	4.0	Joseph Magnin–SF	5.0
Wineman's–Monrovia, CA	3.1	Podesta & Baldocchi–SF	4.0	Wallach's–NYC	5.0
Mervyn's–San Lorenzo, CA	3.2	I. Magnin–SF	4.4		

RT would welcome additional reporters from major cities. If you are interested, drop a note to P.O. Box 343, Lafayette CA 94549.

CREDIT OFFICE RATING

	OCT-NOV 1971			AUG-SEPT 1971		
		DAYS TO BILL			DAYS TO BILL	
INFORMATION FROM REPORTERS	NO. OF REPORTS	AVERAGE	RANGE	NO. OF REPORTS	AVERAGE	RANGE
Abercrombie & Fitch (NY)	1	4.0	4	--	--	--
B. Altman (NY)	1	4.0	4	--	--	--
Brooks Bros. (NY)	1	6.0	6	1	6.0	6
Brown-Mahin (Stockton)	4	7.0	5-9	5	5.8	3-7
Bullock & Jones	1	8.0	8	--	--	--
Capwell's	7	10.1	6-14	10	11.7	8-14
City of Paris	2	6.5	6-7	2	5.5	5-6
Daytons (Minn.)	2	6.5	6-7	2	5.5	5-6
Donaldson's (Minn.)	1	9.0	9	1	8.0	8
Emporium (SF)	1	13.0	13	4	8.8	7-11
Grodins	1	7.0	1	--	--	--
Gump's	3	8.3	6-12	5	6.4	5-7
Harris & Frank (LA)	1	5.0	5	1	5.0	5
Hastings	1	6.0	6	--	--	--
Hink's	4	4.8	2-7	1	6.0	6
S. Klein (NY)	1	8.0	8	--	--	--
Lord & Taylor (NY)	2	7.0	6-8	--	--	--
Macy's (NY)	1	7.0	7	--	--	--
Macy's (SF)	7	7.1	7-8	11	5.7	5-8
I. Magnin	7	4.4	4-6	8	4.0	4
Joseph Magnin	1	5.0	5	2	4.0	4
Marc Cross (NY)	1	7.0	7	--	--	--
Montgomery Ward	1	6.0	6	1	6.0	6
Penney's (SF)	4	5.5	4-6	3	5.0	3-6
Penney's (Minn.)	1	6.0	6	1	6.0	6
Podesta Baldocchi (SF)	1	4.0	4	1	6.0	6
Roos/Atkins	1	3.0	3	2	4.0	4
Saks Fifth Avenue (SF)	8	6.9	6-8	3	6.7	6-7
Sears (N. Calif.)	4	5.8	5-7	4	7.0	7
A. Sulka (NY)	1	3.0	3	1	7.0	7
Wallach's (NY)	2	5.0	4-6	2	5.0	5
TOTAL	74	6.6	2-14	71	6.7	3-14
INFORMATION DIRECT FROM STORES						
Brock's - Bakersfield	40	5.8	4-8	40	6.7	4-11
Holman's - Pacific Grove	10	6.8	6-9	--	--	--
Levee's - Vallejo	22	6.2	4-9	22	4.7	2-8
Levy Bros. - San Mateo	16	6.1	3-9	32	4.2	2-7
Mervyn's - San Lorenzo	11	3.2	3-4	11	3.5	3-4
Miller Bros. - Chatanooga	15	3.6	2-5	7	3.3	2-4
Oshman's - Houston	23	8.7	7-10	31	10.3	8-13
Walker Scott - San Diego	12	10.9	10-13	--	--	--
Wineman's - Monrovia	8	3.1	3-4	7	4.1	3-5
Wineman's - Huntington Park	8	2.8	2-3	7	4.4	4-6
Worth's - Burton's - Conn.	15	7.9	6-10	**	8.0	7-14
TOTAL	180	6.2	2-13	157	6.0	2-13

**(Initial report not computed by RT)

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.

PRODUCTIVITY INCREASE? NOT MUCH IN DEPARTMENT STORES

5.5% is the magic figure for pay rate increases. It was arrived at by adding a 3% per annum productivity increase to an "acceptable" 2½% cost of living increase. In theory, a 5.5% increase in total payroll is not inflationary—**assuming** that the 3% and 2.5% figures are correct.

Department stores are probably the largest industry in the United States that does not concern itself with productivity measures. Stores talk a great deal about productivity—ask the head of a store and he will explain that his new store layout or new computer system or new pay system will significantly increase productivity. Nobody can prove the speaker right or wrong—he doesn't give out the actual figures. And nobody really cares enough to go back 3 or 4 years later and check out the claim.

But the department store productivity story has been told for some years, first in the Harvard Reports, and more recently in the NRMA F.O.R. (Financial and Operating Reports). (Note: Mass Retailers are not yet sufficiently advanced in their standardized statistics, to offer valid productivity figures; while the Supermarket Industry continues to use "dollars per man hour" as their measure of productivity).

The Harvard Reports and the F.O.R. are not always consistent—and RT's library is not complete prior to the middle 1930s. But from available data such as average gross sale, sales per sq ft of selling and total store space, and sales per salesperson and per employee, it is possible to construct some measure of physical producticity in terms of transactions.

Let's look first at the number of transactions handled per **employee** per year and per **salesperson** per year. RT would have preferred to have used 1930 instead of 1931 but the Harvard Report was not available. The table below shows the number of transactions per year.

Year	Transactions Per Employee	Transactions Per Salesperson
1931	2,600	NA
1940	3,019	7,850
1950	3,000	8,400
1960	3,728	8,220
1968	3,705	7,101
1969	3,567	7,035
1970	3,468	6,837

By 1950 the median work week was down to 2,050 hours or slightly less than 40 hours per week for a full-time equivalent. 1960 was probably the same. There may have been some decline in the work week since that time, particularly with the extension of the Minimum Wage Law to retailing. However, the number of transactions handled per **employee** has dropped by 7% from 1960 to 1970. If the typical work week dropped from 39½ hours to under 37 hours, then the overall productivity remained constant over a decade—when it should have increased by 34% (3% per year compounded for 10 years) to 5,000 transactions per employee to equal the "goal" increase.

Transactions per **salesperson** dropped from 8,400 to 6,837 or 19% over 2 decades, when it should have increased by 75% (3% per year compounded for 10 years)!

The utilization of space is even worse, when measured in terms of transactions per year per square foot of selling space or total store space:

Year	Transactions per sq ft of total space	Transactions per sq ft of selling space
1931	6.9	NA
1940	8.5	19.8
1950	9.0	23.6
1960	8.1	16.6
1968	6.2	11.3
1969	6.4	10.6
1970	6.0	10.1

In the 20 years since 1950 transactions per square foot of **total space** has dropped by 33% and per square foot of **selling space** by 57% This has happened even though many department stores are now open 5 or 6 nights, and Sunday all or part of the year. One of the frequent arguments offered for extending stores hours is to increase the productivity of the fixed plant—that would otherwise be unused.

There are several factors which must be kept in mind. First, we give our salespeople less training and thus they are less proficient. The counter argument is that salespeople stay such a short time that it does not pay to train them, even if training would increase their productivity.

Second, our products are more complex and thus it takes more clerk time to make a sale. There are now a dozen toasters to pick from, or 97 different colors of men's shirts, or 16 skirt lengths to be analyzed. All of this takes more clerk time—and thus has reduced productivity. The counter argument is that more and more of the department store merchandise is national brands that are pre-sold.

Third, our store procedures are more complex. We have more types of charge accounts and more people have charge accounts. With cash registers being used as point-of-sale recorders, it takes more time to record a sale. The counter argument is that using the cash register as a point-of-sale device reduces the requirement for stock record clerks, and the charge procedures at the register permit the use of computers that reduce personnel requirements in the sales audit and credit departments.

Fourth, we have eliminated a lot of our small ticket merchandise—the average salescheck has increased over the years and thus the larger transactions require more time. With more inter-selling permitted, as we get more flexible POS recorders, the number of transactions is not a valid measure. To some extent this argument is sound. The average salescheck has increased from $5.90 in 1960 to $8.25 in 1970, or by 40%, while the LIFO price index specially developed for department stores has increased by only 30% since 1960.

In recent years an increased percentage of space has been devoted to selling and an increased percentage of employees have been salespersons—but this does not mean that the salespersons increased their efficiency (or that the quality of store service improved). The table below shows this trend:

	Selling space as % of total space	Salespersons as % of total employees
1927	54%	44%
1931	NA	NA
1940	43	39
1950	38	37
1960	49	45
1968	55	53
1969	57	51
1970	59	52

Most of the change in changed space and employee utilization is the result of building new branches on single floors with better layouts. The increased percentage of salespersons to total employees also reflects the fact that back-office and warehouse functions can be mechanized (or eliminated through computers) but no corresponding productivity gain is possible on the selling floor.

RThought: Little or no attention is really given to improving productivity on the selling floor. There have been few scientific studies of the impact of training on selling (such as the percentage of persons entering the department sold, the change in average sales check in dollars or the number of times), the design of cashiering stations, the layout of merchandise classifications in relation to each other, the productivity of departmental displays and signing, the use of Tel-tags (other than by Federated Department Store), reduction of out-of-stocks and the impact on sales made, and other area where logic or intuition indicates that department stores could do better.

Today a novice in the field of photography is likely to accept the higher priced item as the better product; the expert-amateur is likely to know enough to differentiate products on factors other than price.

As early as 1949 Oswald Knauth reported, in the **Journal of Marketing**, a situation where a store purchased a large supply of regular $2 hosiery and had an unsuccessful sale at $1; but a successful sale when offered a short time later at $1.14. An analysis of consumers indicated that the price of $1 was accepted as a stronger indicator of quality than was the claimed comparison price.

This same situation may be developing with retailers who find that continuous "sale-ing" at progressively greater "claimed savings" produce diminishing results; the consumer begins to equate the advertised price with the quality normally available at that price, rather than at the claimed original or comparison price.

Finally, it was 1899 when Thorstein Veblen wrote his "Theory of the Leisure Class" in which he first spoke for "conspicuous consumption"–today this is illustrated by those who always have to buy the highest priced brand.

What does this mean to the retailer today?

It means that there are several underlying trends that might well be re-evaluated in order to adopt sound policies for the coming decade.

First, most private brand merchandise is priced below that of comparable national brands. For many consumers this may be an indication that the product is of lower quality–despite the protestations of the private-branders that the quality is identical. It is interesting that the greatest private-brander in the United States, Sears Roebuck (Coldspot, Kenmore, All-State, Die-Hard, Craftsman, Ted Williams) prices very close to the price at which national brands are **sold** (not to be confused with their "list price").

Second, as real income increases for the middle-class in America, with discretionary income increasing even faster, more and more consumers are beginning to purchase products with which they are not familiar. Lacking the ability to descern product differences, and being unfamiliar with the brands, they tend to purchase the higher price item from the higher price store. This may not give them better value for their money–but it may give them greater enjoyment of the consumption permitted by their rising income.

Third, it indicates some limitations on the growth of discount stores, where primary emphasis is on price. In their market more and more of their potential consumers are channeling an increasing percentage of their expenditures into products about which they cannot form an independent valuation.

Fourth, the corrective action is coming in the form of the rapidly increased readership of **Consumer Reports** (Consumers Union of the U.S.) and **Consumer** Bulletins (Consumer Research). More and more new middle class families are unhappy about the basis on which they are making their purchase decisions (that is, by assuming that the higher price product is better quality) and are turning to testing organizations for information before making larger purchases (total subscriptions are now well beyond 2,500,000 families–and copies are "loaned" to many more families).

Finally, most retailers don't have the slightest idea of the quality of the technical products that they are selling–the decision on what brand the store will carry is made infrequently, on limited information, and seldom reviewed.

SELLING EDP PACKAGES THAT STEAL

Some months ago a "Letter to the Editor" appeared in COMPUTERWORLD that described the experience of a young and naive fledgling who attended a lecture at the Honeywell Institute of Information Sciences when a system rep was explaining their accounts-receivable software package.

Several students noticed that under some circumstances customer overpayments were not provided for–so they asked, "What happens to that extra amount?". The reply was, "Oh, that's not a very significant figure . . . it's just written off."

When the "young and naive" said, "But you don't write-off someone else's money, you only write-off your own money" there was cynical laughter from the class.

Thus $2 billion a year Honeywell gets down into the gutter to act as a Fagin and train your computers to steal.

INTEGRITY–NEWSWEEK STYLE

Remember when the Washington Post was printing the Pentagon Papers? Recall all the words about freedom of the press and protecting America and fundamental integrity?

This apparently applies only to their editorial columns–because the same company displays gutter ethics in their efforts to build circulation for their own publication, **Newsweek.**

It seems strange that **Newsweek** can operate without ethics on the circulation side. Specifically, I am referring to the renewal offers they keep sending me. Their regular price is $14.00 a year–although I suspect that the only people who pay this price are those well-to-do people who automatically approve for payment the very first renewal notice (perhaps 3 months prior to expiration).

RT, for years, has played the waiting game–looking for the progressively better offers from the non-ethical persons in the circulation department. Finally Newsweek's arrived–instead of 1 year for $14 I could have 65 issues for $9.95. Just 15.3¢ a copy!

Or I could take advantage of their special 3-year rate of only $28.00. The fact that 156 issues (3 years) for $28.00 works out to 17.9¢ or 17% **more** per copy doesn't bother them a bit. RT took the 65 issue offer and smirked–while writing to the circulation manager calling him a charlatan. While waiting for a reply, RT received another "final" notice–65 issues for $8.99!

RThought: There is no question about it. The ethics of magazine subscription renewal procedures is one of the lowest in American business. Most popular magazines are not renewed at published rate–everyone gets a discount–as a student, faculty member, clergy, or introductory offer. It was a pleasure to see **Look** go broke and **Life** experiencing hard times; both were leaders in low ethics. Unfortunately, the Federal Trade Commission has shown no interest at all in this field–which is the only reason **Newsweek** can continue their policy of "More expensive by the 3 years."

SHORT SHORTS

The Directory of Corporate Urban Affairs Officers–lists the following retailers:

Carson Pirie Scott
Dayton-Hudson
Federated Department Stores
W.T. Grant
The Higbee Company
Jewel Companies
The Kroeger Company
R.H. Macy & Co.

Miller and Rhoads
J.C. Penney Co.
Sears, Roebuck and Company

Thus 11 out of 238 corporations are retailers—yet the retailers are the most prominent companies in urban areas.

The list is interesting—Sears and Penney's but no Wards; Kroger and Jewel but no A&P or Safeway; Federated but not Allied or Associated; Macy's but no Gimbels; Grants but no Kresge.

The companies who did not make the directory probably reflect a great cause for concern about the future of business responsibility.

RT has previously commented on the fact that pension costs will rise greatly during coming years as government legislation makes pensions portable—that is, funds applicable to an individual will follow him from job to job. Thus employers will no longer incur lower pension costs because of assumed termination rates—funding on the basis that current participating employees will not remain with the company until pension-collection time.

President Nixon, at a December White House Conference on Aging, said that in 1972 he will "recommend new laws to require the vesting of pensions so that an individual who works in a job, has money invested in a pension, and then moves from that job, doesn't lose what he has put in. He is entitled to that and he should get it." Nixon may have prefaced his remark with his customary, "I want to make this very clear"—but he is obviously confused when he talks about vesting and "money invested in a pension" when the bulk of employees are covered by non-contributory (paid entirely by the employer) plans.

Where are the minority owned firms? In 1969 there were 322,000 such firms doing an annual volume of $10.6 billion. 97,000 were in retailing (primarily food stores and service stations) with an annual volume of $5.2 billion. The table below shows where they were located:

State	No. of Firms	Volume (000,000)
California	64,165	$2,451
Texas	37,284	1,080
New York	17,677	511
Illinois	13,844	504
Hawaii	13,706	765
Florida	12,557	366
Ohio	10,117	258

Most such businesses are in the metropolitan areas. Thus, each of us, living in a different part of the United States, have a different concept of the success of minority groups in operating their own businesses. But only 100 such firms had more than 100 employees, of which 26 were in the retail field.

RT has, for a long time, pointed out that the Better Business Bureaus are not doing the job they profess to do. Now Congress has a report to that effect—introduced by Rep. Benjamin S. Rosenthal (Dem-NY). Time may prove that the $27,000 report, prepared at Rep. Rosenthal's own expense, is not complete. But the report does emphasize that Bureau membership rosters in Chicago and Washington, D.C. "contain a disproportionately high number of firms which have been subject of disciplinary action by the Federal Trade Commission." The report also states that there is "substantial evidence that the BBBs frequently oppose the enactment of new consumer protection laws and that they often work behind the scenes to defeat such legislation."

RThought: Retailers are major backers of local BBBs. These, and other defects, will remain just as long as retailers are complacent about the conduct of their local bureau.

FOR YOUR EXPANDING LIBRARY

RT recommends that you write CONSUMER PRODUCT INFORMATION, Washington, D.C. 20407 and ask for a copy of the publication "Consumer Product Information." This lists many of the Federal publications on the use and care of consumer products and a large number of publications on how to buy consumer products.

Titles range from "Buying your home sewing machine" and "Facts about microwave oven radiation" and "What every Parent should know about Minibikes" to "Family Food Budgeting" and "Fibers and Fabrics" and "How to buy beef steaks."

The uses of these publications can fall into several areas:

a. Training your sales people, so that they will know the features to stress.
b. Distribution to your employees for their own information (RT has long recommended this type of publication for distribution with their pay checks to all employees).
c. Distribution to your own customers—assuming your products stand up under the analysis outlined in the publication.
d. To train your buyers, so they will know what to look for in purchasing new items.

POEMS TO MANAGE BY

In 1895 Rudyard Kipling, in his rhythmic style, set forth one of the great truths of management—there is no single "right" way to do a job. We spend much too much time arguing among several "right" ways—and the sign of a poor manager is when he forces his "right way" on a subordinate, instead of letting the subordinate do it his own "right way."

IN THE NEOLITHIC AGE
by Rudyard Kipling

In the Neolithic Age savage warfare did I wage
For food and fame and woolly horses' pelt.
I was singer to my clan in that dim, red Dawn of Man,
And I sang of all we fought and feared and felt.

Yea, I sang as now I sing, when the Prehistoric spring
Made the piled Biscayan ice-pack split and shove;
And the troll and gnome and dwerg, and the Gods of Cliff and Berg
Were about me and beneath me and above.

But a rival, of Solutré, told the tribe my style was outré—
'Neath a tomahawk, of diorite, he fell.
And I left my views on Art, barbed and tanged, below the heart
Of a mammothistic etcher at Grenelle.

Then I stripped them, scalp from skull, and my hunting-dogs fed full,
And their teeth I threaded neatly on a thong;
And I wiped my mouth and said, "It is well that they are dead,
"For I know my work is right and theirs was wrong."

But my Totem saw the shame; from his ridgepole-shrine he came,
And he told me in a vision of the night:—
"There are nine and sixty ways of constructing tribal lays,
"And every single one of them is right!"

• • • • •

Then the silence closed upon me till They put new clothing on me
Of whiter, weaker flesh and bone more frail;
And I stepped beneath Time's finger, once again a tribal singer,
And a minor poet certified by Traill!

Still they skirmish to and fro, men my messmates on the snow,
When we headed off the aurochs turn for turn;
When the rich Allobrogenses never kept amanuenses,
And our only plots were piled in lakes at Berne.

Still a cultured Christian age sees us scuffle, squeak, and rage,
Still we pinch and slap and jabber, scratch and dirk;
Still we let our business slide—as we dropped the half-dressed hide—
To show a fellow-savage how to work.

Still the world is wondrous large, —seven seas from marge to marge—
And it holds a vast of various kinds of man;
And the wildest dreams of Kew are the facts of Khatmandhu,
And the crimes of Clapham chaste in Martaban.

Here's my wisdom for your use, as I learned it when the moose
And the reindeer roamed where Paris roars to-night:—
"There are nine and sixty ways of constructing tribal lays,
"And—every—single—one—of—them—is—right!"

WOMEN'S WEAR DAILY, TUESDAY, FEBRUARY 8, 1972

From Where I Sit

by Samuel Feinberg

2-8-72

Management is preoccupied with the problem of how to raise productivity—of people, of goods, of selling and non-selling space — as the key to the higher net profit that remains elusive as expenses continue going up. Labor has its own ideas on the subject.

A case in point is the Vega plant of General Motors where workers have voted to strike because management is insisting on a speeded-up assembly line. The issue could have a widespread impact on the automobile industry in general.

Closer to home, Macy's New York and Local 1-S will soon engage in negotiations whose results serve as guidelines for Bloomingdale's Local 3 and Gimbels' Local 2 on demands for hourly minimums, workweeks, cost-of-living updating, pension payments, and job security. Non-union stores have to meet or beat going rates and fringe benefits to obtain and retain the best people possible and keep out the union. All stores agree that a company without a labor contract is better off psychologically than one under union restraints. For example, non-union retailers shudder to think that, under the labor agreement of at least one major store, an assistant buyer may not be able to enter a stockroom to take needed merchandise to the selling floor but have to wait until this is done by a union member. So far as management is concerned, this is an instance of impaired productivity.

Gordon F. Bloom, senior lecturer, Sloan School of Management, Massachusetts Institute of Technology, is convinced major breakthroughs in productivity improvement will be made only if managerial techniques are brought to bear on "the vast wasteland of uncoordinated activity" within each company. To illustrate, he takes a retail organization with a central warehouse and a number of stores. Bloom points out that, if the warehouse manager cuts down on the frequency of delivery to the stores, prohibits all special orders, lays out the warehouse on a movement rather than a family commodity basis, and restricts hours for shipping to suit the convenience of the warehouse, he will raise tons shipped per man-hour and may win a bonus. But productivity at the store level will suffer as a result of his action.

Robert Kahn, retail consultant based in Lafayette, Calif., charges "department stores are probably the largest industry in the United States that does not concern itself with productivity measures. Stores talk a great deal about productivity — ask the head of a store and he will explain that his new store layout or new computer system or new pay system will significantly increase productivity. Nobody can prove the speaker right or wrong — he doesn't give out the actual figures. And nobody really cares enough to go back three or four years later and check out the claim."

Kahn explains that, by 1950, the median work-week was down to slightly less than 40 hours and that 1960 was probably the same. With extension of the Minimum Wage Law to retailing, there may have been some decline in the workweek since that time. However, the number of transactions handled per employe has dropped by 7 per cent from 1960 to 1970. If the typical work-week declined from 39½ to under 37 hours, then overall productivity remained constant over a decade although it should have increased by 34 per cent (3 per cent compounded for 10 years) to 5,000 transactions per employe to equal the "goal" rise. In the two decades from 1950 to 1970, transactions per employe dropped from 8,400 to 6,837 or 19 per cent when it should have risen by 75 per cent (3 per cent per year compounded for 10 years).

Utilization of space in terms of transactions per square foot of selling space or total store space is even worse, Kahn continues. Since 1950, transactions per square foot

Management, labor differ on raising productivity

of total space have dropped by 33 per cent, and per square foot of selling space by 57 per cent. This has happened even though many department stores are now open five or six nights and even on Sunday all or part of the year.

His reasons for lowered productivity: Salespeople are given less training. Products are more complex. Store procedures are complicated. A lot of small-ticket merchandise has been eliminated, thus increasing the average sales check and requiring more time per transaction. Back-office and warehouse functions can be mechanized (or eliminated through computers) but no corresponding productivity gain is possible on the selling floor.

Summing up, Kahn says: "There have been few scientific studies of the impact of training on selling (such as the percentage of persons entering the department who buy something, the change in average sales check in dollars), design of cashiering stations, layout of merchandise classifications in relation to each other, productivity of departmental displays and signing use of product information fact tags supplied by the vendor and reduction of out-of-stocks."

From labor's viewpoint, Irving Bluestone, of the United Auto Workers Union, notes — "Rising rates of absenteeism, worker disinterest in quality and quantity of production, job alienation, insistence on unit cost reduction, are motivating some employers to reevaluate current practices and customs governing management-worker relationships. Concurrently, the worker rebels against the authoritarian atmosphere of the work place, the subordination of his personal dignity, desires, and aspirations to the drive for more production at lower cost: he finds little challenge, satisfaction, or interest in his work. While his rate of pay may predominate his relationship to his job, he can be responsive to the opportunity for playing an innovative, creative and imaginative role in the productive and decision-making process . . . 'humanizing the work place'."

Writing in the February issue of Fortune, associate editor Sanford Rose insists "the news about productivity is better than you think." As he sees it, the productivity gain of only 2.1 per cent a year from 1965 to 1970, as compared with 3 per cent or more gains annually from 1945 to 1965, does not presage a long-term decline in efficiency. Fortune projects a gain of over 4 per cent in 1972. Rose admits the quality of the work force declined all through the later 1960s as a greater proportion of women and teenagers were added to the mix. Women in general and teenagers in particular, he believes are less productive than other members of the labor force — teenagers, because they lack experience and training; women because they enter mostly clerical jobs in which the level of productivity is quite low.

In the 1970s, the author goes on, teenagers' growth in the labor force will be less than half as fast as in the 1960s. The sharpest growth, he thinks, will be in the more productive 25-to-34 age group. And the continuously rising proportion of women in the labor force will be better educated and presumably less content with routine work. Also, automation and tighter labor standards will wipe out a large number of low-productivity clerical jobs.

Rose cites "the growing proportion of young people who seem not to respond to monetary incentives because they are no longer interested in increasing their consumption of material goods." It may be necessary, he advises, for companies to devise incentive systems that reward superior performance by giving employes opportunities to teach the underprivileged. Or companies may have to undertake socially useful tasks themselves to attract members of the new generation benefiting society but presumably acting as a drag on productivity.

In the short run, he concludes, productivity rise or fall depends less on the attitudes of the work force than on the state of the business cycle. In the late 1960s, he explains, "management was prepared to tolerate incredibly sloppy performance so long as rising costs could be translated into higher prices. Now, management has found it can't pass on costs so easily and it has started to crack down. So, attitudes may very well improve."

FROM JAN 72 ~~SE~~ FEATURE REPORT

Request sent to:

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Figure number

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Source: Retailing Today, January 1972

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FEBRUARY 1972 VOL. 7, NO. 2

NO REFUNDS HERE

The old song said "You get no bread with one meat ball" but at Gucci Shops, Incorporated (of Florence, Rome, Milan, Montecatini, Paris, London, New York, Palm Beach and Beverly Hills) you get *no refund* on a $160 purse. That is, until RT wrote to inquire about the transaction.

The story of Gucci should cause readers to reflect on their own refund procedure.

The friend of an old RT reader was asked by his wife to purchase a particular purse she had seen at Gucci's in Beverly Hills. The husband visited the shop and gave the description to the clerk who immediately said "I know just the purse your wife had in mind"—and brought out one for $160. The wife, unfortunately, had not indicated the price. The cautious husband asked if he could return it if the purse was not the right one, and the clerk assured the husband that he could.

He asked if they took American Express or BankAmericard and was told that they did not. He asked about a charge account and was told that it would take three weeks to open one. So he gave a check for the purse.

You probably are ahead of me. The purse turned out to be the wrong one—the one his wife had seen was only about $50. And so the purse was shipped back to Gucci just 4 days after it was purchased and a request made for a refund.

The reply read "Enclosed herewith you will find your copy of the credit that has been issued . . . This credit may be used in any of our shops in the United States. As you will note on the salescheck, it is a strict policy of Gucci Shops, Inc. that no refunds are allowed." Sure enough, there are two boxes that read "NO REFUNDS. When subject to exchange or credit, merchandise must be returned in original condition within 10 days accompanied by salescheck."

Gucci intended to stand on their printed salescheck despite admitting that (1) the clerk said that it could be returned, (2) there are no signs in the store that indicate the "no refund" policy, (3) the salescheck is not signed in a cash transaction and (4) the salescheck was put into the package that was mailed to the husband's residence—and not seen until it was discovered that the purse was the wrong one!

On the next trip to Beverly Hills the husband talked to the manager—who remained adamant—but who agreed that if the husband had had a charge account they would have credited his account so that he would have owed nothing. There followed a much stronger and angrier letter, including a threat to refer the matter to an attorney. The manager replied in part, "May I respectfully point out that your threats to give this matter to the hands of a lawyer do not intimidate us, since we are well aware of our legal rights to refuse refunds if we so choose to have such a policy."

ANOTHER VIEW

RT has long stressed that business leadership should be working to solve the problems of the community and society in which their business operates. Now a long-time RT reader responds with a completely different view of the situation.

"Most business leaders today have accepted the idea of social accountability, which, of course, you have been advocating stoutly for some time. Even those whom you feel are concerned only with maximizing profits do not go about advocating further aggravation of our social ills. . . .

"My concern with your point of view . . . is of a more philosophic . . . nature. . . . I do not believe that business leaders are any more likely to make socially enlightened decisions (whatever these may be) than any other group in our society . . . it is quite obvious that many of our problems will require resolution by actions not within the jurisdiction of a board of directors.

"Obviously there are some relatively easy decisions that a board can make such as not putting poisonous effluent into a river or noxious fumes into the air. But if businessmen are required to make decisions on race, employment levels, pricing for social purposes rather than maximum profit, we will rapidly be approaching the syndicalist state.

"In my judgment the critical decisions on social policy should be made by the electorate through their elected officials, and business leaders should carry out these mandates as effectively and honestly as they can. They should also, as individuals, be active in the political process. But I suggest that enlightened business decisions on social policy may well be seen as unenlightened by others; or may, at a later date, be proven to have been unenlightened.

"I have no objection to businessmen making the small decisions; it is the big ones that disturb me, and how do you tell when the big decisions are being made.

"Obviously there needs to be change. We cannot continue to ruin our air, our water, and ourselves. But I seriously doubt that the solution will come through the voluntary assumption of social responsibility by the business community."

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

An even stronger letter was dispatched in reply, with copies to the husband's attorney, Mr. Gucci, the City Attorney, the Better Business Bureau and a local radio station that works on consumer problems.

And it was at this point that the matter came to RT. A letter was sent to the Beverly Hills store manager on December 27th and on January 3rd an attorney in New York called the husband to say a refund check was being mailed that day! RT's letter was never answered. In response to a follow-up letter the New York attorney did call and stressed that Gucci has a terrible class of customers–many of them "buy" a bag one day and use it and then return it the next day, and he named nationally known names where Gucci had to write off thousands of dollars because the alimony was not enough to cover the bills . . . and on and on. RT reminded the attorney that Mr. Gucci must have been aware of this problem when he decided to go into the business of $160 handbags. The attorney fully agreed that if the husband had had a charge account, the return would have been credited to his account and nothing said.

To the question of whether Gucci escheated to the State of California the value of any unused credit slips, the lawyer replied that he was not afraid of any attorney general. Since the lawyer said he would not waste his secretary's time typing a reply to RT's letter, we let the matter drop there. For the moment.

RThought: Perhaps you do not sell $160 handbags and perhaps you do not have a serious problem with customers that abuse you–but you should think through your policy on cash refunds. Do you make it difficult for a customer to get a cash refund? Many old-time retailers, who unhesitatingly issue credits on accounts receivable, reject the idea of giving cash back to the cash customer.

It is interesting that this is an additional abuse heaped on the cash customer by some of the same stores that argue that because the finance charges do not cover the full cost of credit, the cash customer is subsidizing the credit customer! So the cash customer not only subsidizes the credit customer–but he can't get his money back when he returns merchandise.

Most stores "write the balance off" when the credit slip is not used within a year or two. Again, we have a marked resemblance to stealing. And again, in most larger states, the money is stolen twice, first from the customer; and then, when the store fails to report the unused amount at the end of the escheat period, from the State.

The costs of handling credit slips is high; and the likelihood of making a loyal customer out of the person who is denied his cash refund is low. And so it appears that stores that follow this policy enjoy hitting **both** thumbs with a hammer–because it feels so good when the customer quits.

FOLLOW THE LEADER

Spiegel, Inc., the big Chicago mail-order house, recently answered a complaint filed against them by the F.T.C. with the assertion that their advertisements "follow the custom, usage and language of the trade." This highlights a basic problem–the standards that create the "custom, usage and language of the trade" are not high enough–and they will never be raised when major retailers refuse to determine for themselves, independently, what is right and proper, what is honest and forthright.

NON-NEWSPAPER ADVERTISING

Advertising Age regularly publishes the 100 leading national advertisers (this excludes newspapers, but includes magazine, newspaper supplements, network and spot TV, network radio and outdoor). Proctor and Gamble (soap and soap operas) was the leader–almost double 2nd place G.M. Sears was 12th! In addition to their dominance of newspaper space in many markets! The only other retailer to make the top 100 was Woolworth in 86th place, with about 20% of the amount spent by Sears.

RESPONDING TO CONSUMERISM

The Department of Commerce has formed the National Business Council on Consumer Affairs. The purpose is to get voluntary response to consumer problems. They started with letters to the chief executive officer (CEO) of the Fortune List companies (1,000 industrials, 50 banks, 50 retailers, etc.).

CEO James McFarland of General Mills saw the situation clearly, when, in addressing the top 300 executives of that company, he said "If we agree that consumer laws are essentially an accumulation of what the consumer constituency wants, then what action the government takes is less important in the long run than determining what the consumer wants in the first place and giving it to her."

Phase II is likely to force the posting of prescription drug prices in stores doing more than $200,000 a year, despite the restraints imposed by state laws. Apparently the desire of pharmacists to restrain trade by getting laws prohibiting the posting or advertising of prices for prescription drugs is not a peculiarity of Americans. In Switzerland there is a bitter effort by the Swiss Pharmacist Association to stop the Migros Cooperative, Switzerland's largest retailer, from selling cut-price vitamin C tablets. But the pharmacists may be at a disadvantage–because Migros, 40 years ago, formed their own political party and today their party represents the largest opposition party in the legislature.

REACTIVATING CHARGE ACCOUNTS

I wonder if retailers really think through the idea of a special gift for the inactive charge customer if he reactivates his account. I recall years ago when my brother was notified by a men's store that he no longer patronized–but which I did–that he would get $2 off on his next charge purchase of $5 or more. So he went down, bought a tie and some socks, and never went back again.

In the meantime, I had an active account and owed that store money every month–and they never gave me anything free.

This seems to be a case of upside-down loyalties. A special gift to the guy who is not supporting you; nothing but the right time of day to the old regular who helps produce your volume year after year.

NEW APPROACHES TO OLD PROBLEMS

(1) Taking a cue from the cost cutting suggestions of the New York Telephone Company that residential users cut the telephone line and take their old phone instrument with them, Alberoy, Inc. (and related firms–Beldoch Pepper, Proknits and Honey B) have advised selected established accounts of a new procedure for handling returns of defective merchandise.

After pointing out that the company makes every effort to produce top quality garments and inspects all garments before shipment, some will slip out. For years the company has followed the expensive practice of "request return authorization, send sticker, ship merchandise back, issue credit." Then they give or throw the garment away.

But now they do a much simpler thing. The store is instructed to accumulate the garments for a period of a month, notify the vendor of the quantity and style numbers involved (for which a credit will be issued) and then give the garments to a local charity in the name of the store.

(2) This brings to mind another area of savings–based on the experience that RT has with $10 subscription orders (at our end, we could handle many more–it is the work involved at the other end that attracted our attention). Some firms still send multi-copy typed purchase orders with detailed billing instructions–after which they have to process the invoice, check against the purchase order and then issue the check.

THE DISAPPEARING DIFFERENCE

There used to be a story about the younger generation—that there was less and less difference between the boys and girls—but thank goodness for that small difference. The day is approaching when objective observers will see little difference between department stores and discount stores—yet both parties may well say "thank goodness for that little difference."

RT has discussed this disappearing difference frequently over the years. In February 1970 there was a Special Feature ("The Discount Store vs The Department Store). In July 1970 there was a short item headed "Decadence in the Discount Store Industry." This latter item brought an angry letter from a very senior vice president of a very major discount chain accusing RT of being biased.

There is every possibility that RT could be biased—but we think not. History is on RT's side. Once there was a great difference between department stores and specialty stores—differences like a 20% gross margin in department stores vs 40% in specialty stores, and all-cash in department stores vs extended credit in specialty stores, and limited assortment in department stores vs extensive selection in specialty stores. Today there is very little difference.

The measuring sticks

For many years the department stores have had their financial measuring stick—first the Harvard Report and now the F.O.R. (Financial and Operating Results of Department and Specialty Stores) published by the National Retail Merchants Association. The Mass Retail Institute has sponsored the publication of "Operating Results of Self-Service Discount Department Stores" by Cornell University. Although RT has long felt that such publications hurt their industry by concentrating the attention of businesses on being "average," they do provide a basis of comparison.

The largest size category in the department store report is "over $50,000,000." In the most recent F.O.R. report 34 such firms with a combined annual volume in excess of $4½ billion sales provided figures. The largest size category in the discount store report is "over $100,000,000." In the most recent report 18 such firms were in this category.

Comparing the figures for these two groups of large companies for the past 5 years produces strong evidence that some of the differences are disappearing.

Before looking at the figures it is necessary to point out some limitations of this comparison:

1. Some of the differences reported arise from varying definitions used in developing the reports—but since the definitions remained constant through the 5 years, significance can be drawn from the **relative changes** rather than the absolute differences.
2. The size of the reporting group of department stores has remained relatively stable through the 5 years but the number of discount store firms has grown materially (from 11 firms to 18 in just the most recent year) with the result that some of the figures for discount stores in the earlier years may be less reliable.
3. The reporting stores are not known—so it may well be that only poor operators are reporting and the data is not typical; or it may be that only good operators are reporting and the data is not typical.

With these caveats clearly set forth, let us now proceed to an analysis of the disappearing difference.

Gross Margin

The major emphasis of the discount store is lower price, for the same quality. Assuming that each group has the economic power to buy on an equal basis, the gross margin is a good measure of the relative pricing.

TABLE I
Comparison of Gross Margins

Year	Discount	Department	Discount Advantage
1966	25.31%	37.76%	12.45%
1967	24.39	38.40	14.01
1968	26.93	38.85	11.92
1969	27.76	39.30	11.54
1970	27.98	39.54	11.56
Increase	2.67%	1.78%	

Although the spread in percentage points has declined only slightly, discount stores are showing a faster increase in gross margin than are department stores.

Total expenses

This is what usually forces a firm to increase gross margins. Here the pressure has been even greater on the discount stores.

TABLE II
Comparison of Total Expense Rates

Year	Discount	Department	Discount Advantage
1966	19.32%	29.96%	10.64%
1967	18.24	31.35	13.11
1968	21.32	30.53	9.21
1969	20.72	31.69	10.97
1970	22.28	31.97	9.69
Increase	2.96%	2.01%	

Net Profit on Sales

To many people, the proof is in the profit. The most frequent profit figure cited is that in relation to sales—as a percentage of sales. This is what the reports show:

TABLE III
Comparison of Net Profits as % of Sales

Year	Discount	Department	Discount Advantage
1966	1.87%	3.16%	(1.29%)
1967	2.32	2.81	(0.49)
1968	1.68	3.04	(1.36)
1969	1.27	2.74	(1.47)
1970	0.61	2.72	(2.11)
Decrease	(1.26)	(0.44)	

Here the department store is clearly showing a better performance. Profit rates for the large discount firms have been declining steadily for the past 5 years.

Net Profit on Net Worth

This is the true test of profitability. How much money did the business make in relation to the money made available by the stockholders? For years department stores have been relatively poor performers—when compared with food, promotional drug, and discount chains. But times do change.

TABLE IV
Comparison of Net Profit on Net Worth

Year	Discount	Department	Discount Advantage
1966	19.47%	9.82%	9.65%
1967	14.84	10.17	4.67
1968	15.84	8.99	6.85
1969	11.58	7.74	3.84
1970	5.61	7.64	(2.03)
Decrease	(13.86)	(2.18)	

1970 may have been an usually disasterous year for discounters doing over $100,000,000—but it may also represent swallowing some over-optimistic profit figures reported in prior years. Not until 1975 will be able to put 1970 into perspective. One of the reasons discounters have been able to show a much higher return on net worth is that they do not have to provide capital to support accounts receivable (which, in larger department stores, involves more dollars than does inventory, and which is never partially funded by the vendors through the accounts payable). The number of discounters experimenting with credit is increasing.

Stockturns

Because of limited assortments of fast selling items, the original discounters were reputed to get fantastic turnover rates. In the early 1950s many discounters were operating with no working capital! But all of that has changed—remove the column headings and it is hard to tell a discount figure from a department store figure.

TABLE V
Stockturns

Year	Discount	Department	Discount Advantage
1966	4.0 X	3.4 X	0.6
1967	3.9	3.6	0.3
1968	3.7	3.3	0.4
1969	3.6	3.3	0.3
1970	3.4	3.2	0.2
Decrease	(0.6)	(0.2)	

Shortage

The department stores are the ones who have worked longest with the retail method and should know best how to control it; but it appears that the cost of shortages became unbearably high sooner for discounters, and they have made great progress limiting the problem.

TABLE VI
Inventory Shortage

Year	Discount	Department	Discount Advantage
1966	3.0%	1.8%	(1.2%)
1967	3.1	1.8	(1.3)
1968	4.1	1.8	(2.3)
1969	3.5	2.5	(1.0)
1970	3.1	2.4	(0.7)
Increase	0.1	0.6	

Occupancy Cost

One of the cost savings that the early discounters had was that they used abandoned factories or remote locations, not requiring heavy foot traffic to produce volume. Now discounters are looking to shopping centers as the location of future stores. And with the passage of time, their occupancy cost per square foot has been rising rapidly: (Note: do not place too much emphasis on the absolute dollar amounts since the two definitions differ.)

TABLE VII
Occupancy Cost per Sq. Ft. of Selling Space

Year	Discount	Department	Discount Advantage
1966	$2.39	$3.20	$0.81
1967	3.18	3.81	0.63
1968	3.61	3.26	(0.35)
1969	3.51	3.32	(0.19)
1970	3.92	3.78	(0.14)
Increase	$1.53	$0.58	

Sales per square foot of selling space

One of the reasons that occupancy costs per square foot of selling space have been rising so rapidly is that neither type of store has been able to improve their sales productivity, despite inflation. The relatively level productivity of sales per square foot of selling space indicates a declining physical volume of goods in relation to space.

TABLE VIII
Sales per Square Foot of Selling Space

Year	Discount	Department	Discount Advantage
1966	$64.98	$86.00	$(21.02)
1967	71.62	90.00	(18.38)
1968	71.28	84.00	(12.72)
1969	66.42	82.51	(16.09)
1970	63.72	83.17	(19.45)
Decrease	$(1.26)	$(2.83)	

It should be pointed out that when discounters opt for self-service, they are, in effect, trading selling floor space for clerk payroll and should be expected to produce lower sales per square foot.

Advertising

Originally one of the cardinal rules of discount store operation, as told to me by a leading pioneer, was "We will never spend over 1% of sales on advertising." He is now out of the discount business.

TABLE IX
Advertising Cost as a Percentage of Sales

Year	Discount	Department	Discount Advantage
1966	2.10%	3.46%	1.36
1967	2.20	3.65	1.45
1968	2.07	3.59	1.52
1969	2.25	3.40	1.15
1970	2.59	3.30	0.71
Increase	0.49%	(0.16)%	

Net worth to total assets

This figure represents the percentage of the assets that are owned or financed by the stockholders as opposed to other creditors (vendors, loans, accrued expenses, etc.). Traditionally, a figure of 50% or higher indicates a strong companny. The further the figure is below 50%, the weaker the company.

Both types of stores are using greater leverage—but one is getting weaker while the other still represents a sound (formerly over-capitalized) position.

TABLE X
Net Worth as Percentage of Total Assets

Year	Discount	Department	Discount Advantage
1966	42.50%	63.27%	(20.77)%
1967	39.24	59.27	(20.03)
1968	39.75	71.52	(31.77)
1969	38.95	73.29	(34.34)
1970	37.88	58.57	(20.69)
Decrease	(4.62)	(4.70)	

RThought: In an inexorable manner, the figures for discount stores move closer to those of department stores. The turnover figures are almost the same. With a little more improvement by the discount stores, their stock shortage figures may approximate those of department stores—despite their self-service format.

Expenses are rising significantly faster for discounters—which is forcing upward their gross margins—but not fast enough. Expenses are rising greatly because discounters are more and more often seeking the same type of store location as the department store—an undertaking the same kind and volume of advertising. The days of 1% for advertising and a low-cost, off-beat location are gone.

The impact on profits as a return on net worth has been particularly great—although 1970 must be classified as an unusual year for larger discounters. Even with a recovery in 1971 and later years, the days when these large discounters can earn double the return on net worth that is earned by large department stores will never come again.

The growing emphasis by retailers on credit (see RT January 1972 "Re-inventing the Wheel) will be the final straw that will force the capital structure of discounters to become similar to department stores (Table X) which, in turn, will require a higher profit as a percentage of sales (Table III) just in order to produce a return on net worth equal to department stores (Table IV); and to do this will require a gross margin very close to that of a department store (Table I) because of a very similar expense rate (Table II).

It must be two decades since Kaiser started attaching a blank check to the bottom of purchase orders where the estimated cost would be under $500. The instructions called for the recipient to confirm to Kaiser that they would ship the items ordered and the price at which shipment would be made. When the shipment was actually made, the vendor entered the amount on the blank Kaiser bank check and deposited it in his own account. He was paid on the day of shipment—with no cost (and practically no risk) to Kaiser.

A book store client has long used this procedure for special ordering of books—but using a bank draft (limited to $25.00). The drafts are repurchased weekly from the bank, and accounted for when repurchased.

(3) RT has observed very few cases where retailers have not scheduled the maximum finance charge allowed. In the exceptions it sometimes involves applying, on an area basis, the lowest rate permitted in one of several states.

In general, states permit periodic rates of 1½% (18% annual) on somewhere in the $500 to $1000 range, and then 1% (12% annual) for amounts above. Opponents of retail credit make much of hypothetical examples utilizing the largest possible accounts at the highest possible annual rate.

It would seem wise for more retailers to consider using the maximum periodic rate to a lower cut-off point. For example, charging 1½% to $300 and 1% above would have a negligible effect on finance charge revenues of many stores, and yet would have a positive effect on store image. Retailers, by automatically availing themselves of the maximum permitted under their respective state laws merely confirm the point made by consumer groups that retailers are out to take the consumer every way they can.

THE CONSUMER AND ECONOMIC FORECASTING

Recently President Nixon announced that he had become a Keynesian economist. Since that date he has presented his budgets with the theme that "this deficit is good for you—there would be a surplus if the economy was operating at full employment." The deficits are now approaching the level of $250 per person per year!

Yet the fiscal policies are not producing the desired results—and more and more economists are admitting that there must have been something that John Maynard Keynes missed when he studied "The Great Depression" and came forth with his "General Theory of Employment, Interest and Money."

The weakness of the "General Theory" bears on a fact well known by retailers—in our affluent society a smaller and smaller portion of each family's income is going to necessities (food, housing, clothing) and an increasing percentage into the general area called "discretionary expenditures." This is the money that buys the second home, provides a vacation in Europe, adds $50,000 in life insurance, gets a car for the kid in high school, puts the 3rd and 4th color TV set in the home—and so forth.

It is just because these expenditures are "discretionary" that they are making economic forecasting difficult. In an increasing number of cases, the consumer's decision on the expenditure relates less to his ability to make the purchase—than it does to his psychological outlook. During the recent periods of high unemployment in Seattle, for example, which was primarily related to the lack of contracts for Boeing, expenditures remained at an unexpectedly high level. This apparently reflected the feeling of people employed in industries other than the aerospace industry that their jobs were secure. In other areas, where unemployment represented a more basic problem, such as the closing of the sole industry, pessimism prevailed.

One of the reasons that the moves of the Nixon Administration to stimulate the economy have failed to attain their objectives—and may continue to fall short in the months to come—is that there is no confidence. People apparently feel that the sales pitch does not ring true—and continue to have a higher desire for liquidity (the rate of savings accumulation is much above historic proportions) than they do for immediate enjoyment of "discretionary purchases."

Certainly there is less incremental satisfaction from the 2nd car then from the 1st, in the 2nd colored TV than from the 1st, in the dryer than from the washing machine, in the freezer than from the refrigerator, and so there is less pressure to make expenditures.

Although retailers are prone to argue that the luxuries of yesterday are the necessities of today, they know that these new necessities are much more postponable than are the true necessities of food, housing and clothing.

It is likely that the new economic theories will come from those who study people—where and how they decided to make their discretionary expenditures—rather than from traditional economists such as Friedman and Samuelson and Heller.

The leaders in this effort, at the moment, are at the Survey Research Center established at the University of Michigan by Professor George Katona—and their continuing studies of the "expectations" of consumers.

HOW DID THOSE CHECKS CLEAR SO FAST?

The November 1971 issue of BANKING reported the progress the Federal Reserve System is making toward a 1972 objective of clearing all checks overnight. This certainly makes for a better banking system—but it also requires some re-think on the part of retail fiscal officers.

It was not too long ago that the Post Office started to reduce the time between mailing checks and having them clear the issuer's account. This was accomplished when all first class mail over 500 miles started to be moved by air. However, there still were delays in the mechanical processing of checks (despite MICR coding) through the payee's bank, the clearing house, Federal Reserve and the clearing house on the payor's end. This is the area in which the "overnight clearing" is expected to be in effect by the end of 1972.

Thus it soon will be possible that when you mail a check to a supplier on the opposite coast Monday evening before 5 pm, it will be delivered Tuesday to the supplier—and perhaps deposited that Tuesday night at his bank and cleared through the Federal Reserve System bank wire during the night so that the money is removed from your account on Wednesday!

The example applies to a business check—but the system can't tell your business check from your personal check—so the same thing will happen in your own account.

SEEKING THE CONSUMER'S FAVORABLE OPINION

The Air Conditioning and Refrigeration Institute, at their annual meeting, will spend one full day on "Consumers Make Our Industry." The Direct Selling Association has reduced their "Code of Ethics" to simple language—and will run a test program in Wisconsin to make consumers aware of its provisions. The industry is also providing a Code Administrator to resolve complaints involving door-to-door and party-plan selling.

The insurance industry is rapidly moving behind no-fault insurance, largely in response to active consumer demand, but partially because the old rules brought only higher judgments, more legal costs and no underwriting profit. The food industry is slowly moving toward open dating and unit pricing. Some in the drug field are challenging the monopoly controls on prescription price advertising established by pharmacist trade groups.

Even the Council of Better Business Bureaus is "hinting" (which is far short of acting), that they are planning to make public criticism of a national company which is a BBB member. (There is an unusually large group of such companies which would merit such attention).

In the meantime, the general merchandise and apparel sections of retailing continue on their program of "consumer concern" which consists largely of stealing credit balances on charge accounts, stealing unused credit memos issued when cash refunds are refused, permitting computers to abuse customers (and refusing to answer letters of complaint), refraining from pushing for product care instructions on the merchandise they sell, indulging in misrepresentation and/or dishonesty in advertising claims, violating Product Fiber Identification Act, Wool Products Identification Act and Fur Product Act rules—and then complaining because, within this fertile field, consumer organizations grow so rapidly and are led by such belligerent people!

SHORT SHORTS

Worried about the college students by-passing business? Stanford University recently conducted a study of their June 1971 graduates and found that 11% of the men and 4% of the women planned to seek a Masters of Business Administration. This compared favorably with the 23% of the men and 13% of the women who planned to go into law and the 15% of the men and 4% of the women planning to go into medicine.

Recently Fred P. Murphy, Chairman of the Executive Committee of Grolier, Inc. wrote, in a letter in the **Wall Street Journal**, "The fundamental question to be answered is this: Is it the proper role of government to take the consumer by the hand and lead him through every commercial transaction in which he may find himself involved?" What is not so obvious is the reason Mr. Murphy protests. The main business of Grolier is selling encyclopedias and reference books (Encyclopedia Americana, New Book of Knowledge, Encyclopedia Internation and America Peoples Encyclopedia). The only protection that the American consumer has had against the unethical sales practices of almost all encyclopedia companies, including Grolier, has been the Federal Trade Commission. Yet the FTC has not been completely successful in restraining the high pressure salesmanship and the pitch "we are making a survey of your neighborhood" or "this special price is offered to just a few in your community." **Mr. Murphy knows he could make more money**—if the FTC would just forget the consumer and stop restraining Grolier from deceiving the consumer.

Credit terms do vary. A recent walk through New York stores showed a wide variation in the minimum payment schedules. On a balance of +300, Bergdorf Goodman asks 1/5th or $60, Macy's asks $25 and Korvette's asks $20. Minimum monthly payments are $10 at Macy's and Korvette's, and $25 at B-G.

Computers are on the rise. The annual survey made by THE OFFICE of companies with computers and companies using service bureaus shows the same continued growth—but at a slightly slower rate. In both cases, the number reported as using each has increased by 58% during the past 5 years (Jan. 1967 to Jan. 1972) and by 4% during the past year. The annual growth rate is down substantially from the 15-20% rate in the late 1960s.

The personnel manager of the year would be the man who could succeed in saving enough salesclerk money by being understaffed on a Tuesday so that he could be overstaffed on Saturday!

A word on magazine subscriptions. I don't know whether or not retailers can derive any satisfaction from knowing that the ethics of many magazine subscription departments are far below anything yet found in the retail field. But certainly retailers can learn to save money by waiting for the "last offer" before renewing their own subscriptions. RT has subscribed to **House & Home**, a McGraw-Hill publication for more than a decade. The 19[illegible] subscription was 3 years for $10. The 1969 renewal was 3 years for $9.00. But in 1971 the only notices were 1 year for $15.00, a rather startling jump. So it was decided not to renew—until an evening WATS telephone call from Pennsylvania offering 3 years for $18.00. If any of the 4 or 5 prior notices had been accepted, as is the case with many businesses, RT would have been overcharged by 150%! (Note: RT has only one subscription arrangement—$10.00 per year. On sample mailings where a check accompanies the original subscription and no billing is required, the initial term is 14 months.)

Annual fee for bank credit cards? This is what the February 1972 **Changing Times** indicates is in the offing. For the retailers who have opposed the bank credit cards, and who may consider this a sign of their own victory, we suggest that you do not come to this conclusion too fast. The report indicates that the banks will continue to increase the services offered to the card holder so that the card will be more useful to the holder—and thus worth the annual fee. For example, some bank cards are using the back to contain "no bounce" check provisions, a service that the retailer can not provide. Others are including photographic identification—helpful under many circumstances. Some banks are offering preferential auto car financing rates (which really just eliminates the rebate to the car dealer that occurs under many arrangements). When it comes of offering plus values to the card holders, the retailer is limited. About the most he can offer is advance notice of major sales and some in-store check cashing privileges (although few offer the latter).

POEMS TO MANAGE BY

The event that prompted Rudyard Kipling to write a **"Study of an Elevation, in Indian Ink"** has occured in many a store—and many may have wondered about it.

Potiphar Gubbins, C.E.,
Stands at the top of the tree;
And I muse in my bed on the reasons that led
To the hoisting of Potiphar G.

Potiphar Gubbins, C.E.,
Is seven years junior to me;
Each bridge that he makes either buckles or breaks,
And his work is as rough as he.

Potiphar Gubbins, C.E.,
Is coarse as a chimpanzee;
And I can't understand why you gave him your hand,
Lovely Mehitabel Lee.

Potiphar Gubbins, C.E.,
Is dear to the Powers that Be;
For They bow and They smile in an affable style,
Which is seldom according to Me.

Potiphar Gubbins, C.E.,
Is certain as certain can be
Of a highly paid post which is claimed by a host
Of seniors—including Me.

Careless and Lazy is he,
Greatly inferior to Me.
What is the spell that you manage so well,
Commonplace Potiphar G.?

Lovely Mehitabel Lee,
Let me inquire of thee,
Should I have riz to where Potiphar is,
Hadst thou been mated to Me?

May 19, 1972

Ms. Leda Sanford, Editor
TEENS & BOYS MAGAZINE
71 W. 35th Street,
New York, New York 10011

Dear Ms. Sanford:

My apologies for the delay in answering your letter of May 4th but the copy of the magazine did not arrive until May 17th.

I am very much impressed that you are in your 96th volume. I am just 89 behind you.

I am pleased to grant permission to reprint the article "The Disappearing Difference" which appeared with a slightly different title in MODERN RETAILER.

Put w/ Feb 1972 issue

I am enclosing a copy of the February issue which contained the article, together with the current April issue.

There will be no fee for the reprinting but I would appreciate it very much if you would give the same type of reference to RETAILING TODAY, including the address and subscription price, as appeared in MODERN RETAILERS.

You may find that this is a publication that will stimulate your thinking and you may find future articles of interest.

I would appreciate receiving a copy of the issue when it appears.

Sincerely,

Robert Kahn

TEENS & BOYS MAGAZINE
71 WEST 35 STREET NEW YORK NY 10001
(212) 594 0880

May 4, 1972

Mr. Robert Kahn
P.O. Box 343
Lafayette, Calif. 94549

Dear Mr. Kahn:

I was very interested in the article entitled "Narrowing Gap? - A Comparison of Top Discount and Conventional Store Operating Statistics," that was reprinted in the Modern Retailer.

I think the information contained in it would be of great interest to our readers, who are retailers of boys and young men's apparel. For that reason, I am writing to ask permission to reprint the article. (If there is a fee please let us know what it would be.)

Under separate cover I am sending you a copy of TEENS & BOYS magazine just in case you are not familiar with it.

Sincerely,

Leda Sanford

LS/hl

Ms. Leda Sanford
Editor

	ROUTE TO	INITIAL

RETAILING TODAY

Prepared by Robert Kahn and Associates, Business Counselors.
P.O. Box 343, Lafayette, California 94549 (415) 254-4434

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WE CAN ALL LEARN THE LESSON GIMBEL'S LEARNED

The Federal Trade Commission (FTC) has announced that they have provisionally accepted the consent order of Acme Quilting and Gimbel Brothers, Inc. which bars both firms from false advertising and packaging claims in regard to the flame retardant characteristics of mattress pads.

The FTC charges that the advertising and/or packages did not disclose that the flame retardant will wash out under certain conditions, that the entire pad had not been treated, that the filler was not flame retardant, that the pads did not provide security and complete protection and that the skirt on the fitted style offers no protection at all.

The announcement implies that the representations made by Gimbels were based upon the information provided by Acme—but Gimbels still (1) had to enter into a consent decree, (2) had the unfavorable publicity and (3) in regard to agreements made by Gimbels as to disclosure of flame retardant products made by other suppliers than Acme, is now in the position where a future violation could result in a civil penalty of up to $5,000 per day!

RThought: Most retailers do not have the facilities to check on the claims of suppliers as to flame retardant treatment, fiber content of materials, shrinkability, country of origin, and many other "facts" that find their way into our advertising and on to our labels. Retailers are under pressure to find better values at lower prices—which can lead your buyer (who often is on an incentive compensation plan that is not related to the long-run reputation of your firm but to the short-run department results) to the marginal supplier who is more than willing, in order to make his short-run profits, to make unsubstantiated claims for his product.

The retailer is going to be held responsible for the irresponsible acts of his suppliers—as well as those of his agents who purchased the goods. This does not make an argument for brand-name goods—but it does make an argument for proven, dependable suppliers. When in doubt, require the supplier to pay the cost of an independent laboratory examination.

NEW PROCESS COMPANY – HOT STOCK, COLD ADVERTISING

New Process Company, hidden away in Warren, Pennsylvania, is one of the darlings of the American Stock Exchange. It sells at a stratospheric Price Earnings ratio—usually in the 60 to 70 times range.

The market loves the stock because of its rapid growth of earnings—from 27¢ to over $1.00 per share in 4 years!

But RT sees the other side of New Process—which is really just "old process" advertising, using techniques that many retailers either never adopted or abandoned years ago.

WHAT DO YOU TELL YOUR KIDS?

The higher the level of work performed by a man, the less likely his family and his children are to understand what he does and how he spends his day. It is this lack of understanding that produces much of the "generation gap" in the executive's family.

The son of a grocery clerk only has to see his father at work one time—and he immediately identifies him with all of the other grocery clerks he has seen all of his life. The same is true of the skilled craftsmen—the carpenter and the brick mason and the plumber and even the jeweler.

The children of the top executive, the accountant, the banker see Dad go off to work, perhaps with a briefcase full of papers. They know that he goes to an office where he spends the day writing or reading or talking to people. Perhaps he goes out to a store and looks and talks and listens. And at night he returns home. His children cannot ask him, "Did you put the roof on today?" or "Did you finish that special wedding ring?" or even "How many customers did you check out today?"

Perhaps a bit of personal experience will help you to bridge the gap with your children. It happens that my profession is management consulting and my office is maintained in my home. In a discussion one day, my son indicated that he knew I did "my thing" but it sure didn't seem interesting to him. I realized that he did not know anything about what I did. Further questioning brought out that he thought my main efforts were directed toward making money. The implication was clear—he felt my concern must be centered on materialism, not on the good of people around me.

We sat down together and went through my pile of "open correspondence" and particularly my continuing correspondence with legislators (on issues of no benefit to me), activities related to community organizations in which I serve (such as being one of the few bearded Girl Scout officers in the United States), and the projects on which I am working (hoping to change the world).

We also reviewed some moral issues that were in process of discussion with clients—and the fact that my clients were greatly concerned about doing the right thing—right by their customers and right by their employees, not just the minimum to meet the law. I'm not sure that I persuaded him that he should be a management consultant, but he certainly got a new, and more accurate, view of his old man.

RT recently received a letter with a full color picture of John L. Blair, President, in the upper left-hand corner. One could hardly resist his opening paragraphs:

'I am taking it upon myself to mail 2 pair of "Blair-press" Permanent Press Flannel Slacks to you within the next few days.

"I'd count it a personal favor, if, when they arrive, you put a pair on and wear them a full week absolutely free!"

Of course, I wondered how John knew that I was 44-28 or which of the 8 swatches appealed to me most.

The letter assured RT of their quality, of the return privileges and that the "50% Acrilan acrylic, 35% Avril rayon and 15% acetate" will give the "look" of $20 slacks for under $8 per pair. **Please note that they do not claim a $20 value; just a $20 "look,"** for whatever that might mean (perhaps because each pair has 2 legs, assorted pockets, and belt loops, it "looks" just like $20 slacks).

The idea, of course, is to leave the impression that John Blair is offering a $20 value for under $8. In actuality, there are a good number of regular slacks in your own store selling at about $8 that are directly competitive–and which also give your customers a "$20 look."

New Process really puts an investor to an ethical test–if you are happy with the profits on their stock, perhaps you had better forget what you learned about their advertising. And you can hold their stock until that next "new" glamour merchandising stock comes along–I think it may be called "Pot, Speed and Bennies, Unlimited." It will offer even better profit growth–if you really don't care what is sold or how.

UNFORGIVING BUSINESS, PROSECUTING DEANS

You probably have forgotten Robert Choate, the Cornell professor who testified before Congress on the emptiness of breakfast foods–despite the fullness of their TV advertising aimed at tiny tots.

But Dr. Dean Malott has not forgotten. Dr. Malott, in case you don't recall, was a top professor at Harvard Business School and then moved to Cornell as President and is now retired. In one of his letters Dr. Malott wrote, "Professor Latham need not worry about protecting his access to corporate funds. He will not receive any from cereal manufacturing corporations. But I regret that the reaction on the part of the industry to these generalizations outside Professor Latham's field of competence will make industrial grants more difficult from corporations to Cornell itself."

Forgetting, for the time, the structure of the last sentence (after all, Dr. Malott was a college president, not a professor), two thoughts come through clearly. First, business will set out to punish all who criticize it. (Apparently Dr. Malott, wearing his hat as a director of General Foods, approves of this situation). Second, educational institutions such as Cornell should prostitute themselves to corporate donors.

RThought: There are two thoughts that bear emphasis. First, business is going to have to learn that critics will disappear faster if business responds constructively than if they respond combatively. Even General Motors is learning this–and they have always been in the "slow learner" class. Second, I hope that RT readers show more judgment than did Dr. Malott in what he committed to a letter. His letter did not make the Jack Anderson column in 800 newspapers, but it is being circulated widely through the consumer activities press.

THE COMPUTER AND BIG BROTHER

RT has long been concerned about the development of uncontrolled and unrestricted computer data banks at state and Federal level. Many sincere people pooh-pooh this danger. They say that the government would never follow such practices.

The danger involved in the data banks is that most of them (income tax, driver's license, unemployment insurance and social security records, and more) use the Social Security number as the identification number. In all files using such identification, anyone can query the computer for information on you, if they know your social security number. And though there is no centr[al] public file from which someone can learn your number, there a[re] many sources of this information.

The California Superior Court in Sacramento has issued an injunction against the California Welfare Department to block extracting information from the unemployment insurance computer files, using the social security number for identification. What the Welfare Department was seeking to learn was whether or not the welfare recipient was receiving unreported income (in this case, unemployment insurance).

The Court held that the Welfare Department could not undertake automatic "blanket searches" although they could inquire about individual recipients if the Welfare Department had "probable cause" to believe that the law was being violated.

Let's imagine, for a moment, that the police department has cited you for a driving offense and you are in a state where your driver's license shows your social security number. Now they want to harass you. They inquire of the state income tax computer for information on your income. Then they check the income tax records to see what income and deductions you have previously reported. Next, an inquiry goes to the FBI. They find you were picked up in college for celebrating after a big game–and let go with a warning.

If this happened in New York, where there have been recent reports of wide-spread dishonesty among police officers, the slightest embarrassing item in your history could be used for blackmail.

The possibility is tremendous; the temptation is always prese[nt] within governmental agencies; and some of the reactionary state governments seem to encourage departments to undertake such widespread abuse of personal privacy.

D & B WILL NOT PRINT ALL IT KNOWS

Dun and Bradstreet has announced that effective January 1972 they will follow a new policy on reporting criminal proceedings relative to firms or persons connected with firms. The matter has been under study for several years but action was prompted by the provisions of the Fair Credit Reporting Act–which applies only to consumer reports, and does not cover reports on businesses–such as D&B publishes.

1. Criminal proceedings known to D&B will be reported as long as the proceedings are pending.
2. Proceedings resulting in a conviction will be reported indefinitely.
3. Proceedings which do not result in a conviction, or where a conviction is reversed or set aside, will be excluded from the reports 3 years after the date of indictment, or the date of the arrest if there was no indictment.
4. Proceedings which ultimately result in a pardon or an expunging of a record will be excluded from reports starting with the time D&B learns of the pardon or expunging.

THE COMING CONTROL ON ADVERTISING

Recently FTC Commissioner Mary Gardiner Jones gave a talk to the Austin (Texas) Ad Club summarizing her impressions of t[he] hearings that the FTC had held on "modern" advertisi[ng] practices.

There was surprise on both sides. The industry was surprised that the Commissioners did not already know that the advertising

CORPORATE RESPONSIBILITY – A VIEW FROM THE TOP

T will continue to bring the thoughts of others on corporate responsibility in this changing world. The following summarizes, by selective direct excerpts, a paper called "Rewriting the Social Contract" presented by Gabriel Hauge, President of Manufacturers Hanover Trust Co., at the Aspen Institute of Humanistic Studies. This was reprinted in the Congressional Record (Oct. 7, 1971, page S16022, 25¢ Goverment Printing Office, Washington, D.C. 20402).

"The roots of social instability in the United States are many and complex but two will concern us here: a new awareness of the side effects of unprecedented economic growth of the last generation; and the awakening of a new emphasis on the quality of life which in turn results from the affuence that has been achieved for most, although not yet by any means by all . . . Since 1950 real Gross National Product . . . has doubled, the median education of the adult population has risen by one-third, and the proportion of the labor force in professional and technical jobs has almost doubled.

"There are those–not dissident youth alone–who fear that economic growth is creating problems faster than it is solving them.

"Our struggle against want is well on the way to being won . . . The values that have oriented our economy and society for so long, are now so near achievement that they no longer can serve as guides in any simple way.

"We know what a city should not be, and are proceeding to eliminate its glaring flaws. But we have not yet learned, or come to agree, as to what a city should be or should accomplish. We know what a corporation should not do: discriminate, pollute, exploit. But what should it do, beside producing a product or service the public wants, and doing it well?

"President Coolidge's dictum of the 1920's that the business of America is business, sounds strange today. Henry Luce brought that view up to date in 1968 with his revision that the business of business is America . . . Milton Friedman still aruges that the only duty of business is to make profits for stockholders . . . Friedman's doctrine finds fewer supporters today. What some businessmen have always done by personal choice is now increasingly accepted as a civic duty.

"Belief in the power of organized society to set and reach goals has, in turn, escalated expectations . . . The owner-founder [of a business] has mostly been replaced by relays of management teams . . . Lacking a founder's identification with one firm, they are mobile and increasingly view their functions as partaking of trusteeship . . . Most leaders of the 500 largest industrial corporations in the U.S. share middle class origins, nearly all have college training.

"The large modern corporation, run by professional managers, supervised by a board . . . chosen by stockholders, and constrained by creditors, government, employees and customers, is as complex as many governments and typically more dynamic . . . The emergence of the corporation as the change-agency of society reflects a questioning of the judgment of government. Back in the 1930's when the self-regulatory functioning of the economy broke down, government stepped in . . . Now, after a generation of nearly uninterrupted economic growth, business has re-established its credentials.

" . . . a growing group has begun to doubt the ability and power of government to carry out the great remaining domestic missions and is turning hopefully to business as the only feasible alternative. . . . Without the income and wealth creating power of business in our society, we could not afford the tomorrow that our people aspire to.

"In redefining its social responsibilities today, business faces two main challenges: to broaden its system of accounting to include the full social and economic costs of production and growth, so as to better harmonize the incentives of business and the welfare of society; and to utilize its special competence to deal with priority problems of the day.

"You will recall the sixth labor of Hercules was to clean the Augean stables where the stalls of 3,000 oxen had been untended for 30 years. While it is reported that he did the job in a single day by diverting the waters of two rivers through the stables, the account makes no reference to the consequences downstream.

"Environmental issues have commanded little attention until recently because few people were aware of some problems until they hit the headlines . . . In some manifestations, opinion is shifting sharply from apathy to overkill. It is widely agreed now that business is accountable for the social costs of its production.

"There are special costs of economic growth, such as declining industries, distressed communities, displaced people and obsolete skills. The innovative firm that often contributes to these problems does not pay for most of these costs. . . . Only recently has society begun to accept responsibility for [this] and the allocation of this responsibility between government and business is still open.

"New forms of business-government partnership will develop. . . . The first priority in institutional reform might well be that of local governments in metropolitan areas. . . . In this process the dividing line between the private and the public sections becomes more obscure.

"There remains a difficult aspect to all this: business management is confronted with the need to make value judgments concerning its activities beyond the criterion of legality.

"There are many approaches to enforce the new Social Contract . . . There is a pair of rules, however, that should guide the choice of methods. First, whatever approach government selects should fit the framework of incentives for productive efficiency. . . . The second rule is that, whatever government does, it should not penalize compliers and allow a competitive advantage to violators.

"Most businessmen are risk-takers; it is an occupational attraction and hazard . . . What management cannot do, however, is assume open-end commitments such as to employ the entire disadvantaged group or to renew central cities.

"Business provides the tools and the alternatives and therefore should have a voice. It is the whole citizenry, however, that must choose and govern.

"Looking back at the panorama of material achievement and at the exponential growth of knowledge, it is certain that tomorrow will be unlike yesterday, or even today . . . We cannot predict the future, but we can do our best to hang on to a strong, productive economy and a mechanism of social choice in good working order, so that the succeeding generations may fulfil ' . . . man's responsibility to bring the world, that ought to be, into being.' "

CREDIT OFFICE RATING

The Honor Roll continues to grow. Some of the names now appearing represent new areas–reporting for the first time. RT welcomes reporters–either for your own store or on the bills your wife collects around town. The procedure is simple–write RT if you are interested.

HONOR ROLL

Bonwit-Teller	3.0	Wineman's Monrovia	4.3	Roos/Atkins	5.0
Miller Bros	3.4	I. Magnin	4.4	Sears (N. Calif.)	5.0
Mervyn's	3.5	B. Altman	4.5	Stix, Baer & Fuller	5.0
J. Magnin's	3.7	Abercrombie & Fitch	5.0		
Wineman's (Huntington Park)	3.8	Famous Barr	5.0		
Montgomery Ward (N. Calif.)	4.0	Podesta Baldocchi	5.0		

RT would welcome additional reporters from major cities. If you are interested, drop a note to P.O. Box 343, Lafayette CA 94549.

CREDIT OFFICE RATING

INFORMATION FROM REPORTERS	DEC-JAN 1972 NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE	OCT-NOV 1971 NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE
Abercrombie & Fitch (NY)	1	5.0	5	1	4.0	4
B. Altman (NY)	2	4.5	4-5	1	4.0	4
Bonwit Teller (NY)	1	3.0	3	--	--	--
Brooks Bros. (NY)	1	13.0	13	1	6.0	6
Brown-Mahin (Stockton)	4	10.5	9-12	4	7.0	5-9
Bullock & Jones (SF)	1	10.0	10	1	8.0	8
Capwell's (Oakland)	9	7.3	7-10	7	10.1	6-14
Dayton (Minn)	1	6.0	6	2	6.5	6-7
Donaldson's (Minn)	2	8.0	7-9	1	9.0	9
Emporium (SF)	5	13.0	11-15	1	13.0	13
Famous Barr (St. Louis)	1	5.0	5	--	--	--
Grodins (N. Calif.)	1	12.0	12	1	7.0	7
Gumps (SF)	4	17.3	16-19	3	8.3	6-12
Hastings (N. Calif.)	2	8.5	8-9	1	6.0	6
Hink's (Berkeley)	1	9.0	9	4	4.8	2-7
Livingston Bros. (SF)	2	15.5	15-16	--	--	--
Lord & Taylor (NY)	3	6.0	5-8	2	7.0	6-8
Macy's (NY)	2	6.0	6	1	7.0	7
Macy's (SF)	12	7.3	6-9	7	7.1	7-8
I. Magnin (SF)	5	4.4	4-5	7	4.4	4-6
J. Magnin (Calif.)	6	3.7	3-4	1	5.0	5
Montgomery Ward (N. Calif.)	1	4.0	4	1	6.0	6
Neiman-Marcus (Dallas)	1	8.0	8	--	--	--
Parkview Gem (N. Calif.)	2	10.5	9-12	--	--	--
Peck & Peck (SF)	1	10.0	10	--	--	--
Penney's (SF)	2	6.0	5-7	4	5.5	4-6
Penney's (Minn)	2	6.5	6-7	1	6.0	6
Podesto Baldocchi (SF)	1	5.0	5	1	4.0	4
Rhodes (N. Calif.)	1	9.0	9	--	--	--
Roos/Atkins (Calif.)	2	5.0	5	1	3.0	3
Saks Fifth Avenue (SF)	5	6.6	6-7	8	6.9	6-8
Saks Fifth Avenue (NY)	1	12.0	12	--	--	--
Sears (N. Calif.)	4	5.0	4-6	4	5.8	5-7
Stix Baer & Fuller (St. Louis)	1	5.0	5	--	--	--
Wolff's (St. Louis)	2	8.0	7-9	--	--	--
TOTAL	92	8.01	3-19	66	6.7	2-14
INFORMATION DIRECT FROM STORES						
Brock's - Bakersfield, CA	31	9.2	6-12	40	5.8	4-8
Holman's - Pacific Grove, CA	10	11.4	8-12	10	6.8	6-9
Levee's - Vallejo, CA	22	11.1	6-17	22	6.2	4-9
Levy Bros. - San Mateo, CA	16	9.5	7-13	16	6.1	3-9
Mervyn's - San Lorenzo, CA	10	3.5	3-4	11	3.2	3-4
Miller Bros. - Chatanooga, Tenn.	14	3.4	3-4	15	3.6	2-5
Oshman's - Houston, Texas	23	9.7	7-12	23	8.7	7-10
Walker Scott - San Diego, CA	12	6.8	5.9	12	10.9	10-13
Wineman's - Monrovia, CA	8	4.3	3-6	8	3.1	3-4
Wineman's - Huntington Park, CA	8	3.8	3-5	8	2.8	2-3
Worth's-Burton's - Conn.	32	11.9	9-16	15	7.9	6-10
TOTAL	186	8.6	3-17	180	6.1	2-13

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.

industry (profession, trade?) was spending billions of dollars without knowing whether their themes were unfairly or deceptively exploiting the readers. The Commissioners were surprised to learn how little the advertising industry knew about what they were doing.

Ms. Jones observed that the obligation of truthfulness, uniformly recognized and agreed with by all the industry witnesses, seemed to most of them to extend only to flat declarative statements about the efficacy, ingredients or description of the product. They had no feeling that truthfulness even belonged in the puffery—and were rather indefinite about where puffery ended and product description started!

There did not seem to be an compunction to be fair in advertising nor was there a feeling that accepting the obligations of truthfulness carried with it any obligation to be fair. This was particularly evident when questions were asked about the advertising done on children's TV.

Ms. Jones said, "The Commission's concern is solely with ensuring that consumers have solid product information available to them and that they have a realistic opportunity to know about and use this information if they so desire. Whether they choose to use it or not is their business and is of no concern to government."

RThought: Much retailing advertising is really catalog-type presentation, often incomplete. For example, much of the advertising is limited to presenting an illustration of an item, listing the price (with a comparison, if it is a sale), and a brief description. That description frequently omits information that might be important such as the size range available, the colors available, the quantity on hand, the specific style number, any guarantee, etc. For this type of advertising, about the only thing that is likely to be required in the future by the Commission is a minimum description.

On the other hand, when retailers use vendor's mats, they start to put their approval of the standards of the vendor's advertising, such as the claim that a particular hair dressing will get sexy young girls to hang around a boy's neck, or that a particular girdle can be worn without even being noticed. It is at this point that retailers will run into severe FTC restrictions—even the vendors find themselves restricted.

GIANT FOOD TAKES A GIANT STEP

The dreams of Esther Peterson, LBJ's Special Advisor on Consumer Affairs, and now a consultant to Giant Food, Inc., Washington, D.C., are beginning to become reality. Three programs are now under way.

First, there is open-dating of almost all of the dated products. For years food retailers argued that if the "pull date" was not concealed customers would constantly take the freshest product with the result that losses from out-of-date merchandise would be increased. These same retailers recognized that many customers were already convinced that the freshest milk or eggs were at the back or bottom of the case, and habitually picked their package from the back or bottom or other remote corner. But in actual practice, Giant Food reports that their loss from out-of-date products declined because the open dating permitted their own clerks to do a better job of product rotation.

Second, there is unit pricing. As in open-dating, Giant is not the first—but their program has been one of the most complete ones—and has had about the most complete top management support among the major chains in the industry.

Third, Giant has started to test nutritional labeling on 10 of their private label products plus providing shelf labeling on 48 other products. A circular symbol with 5 segments indicates whether the product has protein, vitamins, minerals, carbohydrates or fats. The package label gives the number of units of protein, Vitamins A, B_1 and B_2, C, Niacin, Calcium and Iron (on a scale of 10 units = a normal day's consumption). The label also gives the calories per portion and the grams of protein, carbohydrates and fat.

Headquartered on the opposite coast, Safeway, which will soon replace A&P as our largest food retailer and become the second largest retailer of any kind, is proceeding with open dating (they have used non-coded dating on their products since the mid-1930s but have not publicized the fact until recently) and unit pricing.

In addition, Safeway has started an "affirmative action program for women," starting with equal pay in all positions and an aggressive program to expand the upper-management opportunities for women.

PHONY BOOK DEMAND

Synthetic pressure on bookstores and book departments is the new tool of the extreme right. RT has for some time read "The Pink Sheet on the New Left" published by one Phillip Abbott Luce. The following quotation is repeated as warning to all booksellers.

> "I need your help. My new book **"The New Left Today: America's Trojan Horse"** is now being distributed by the Nash Publishing Company. This means that it will soon be possible for people to purchase the book in bookstores. But, and here the "but" is very important, bookstore managers will only stock the book if they think there will be a demand for it.
>
> "For years now the New Left has created an artificial demand for radical books by having people visiting or calling local bookstores to request the latest leftist release. The bookstore owner then assumes that a "hit" item is on hand and he promotes the book.
>
> **"It's time we tried the same tactic.** Will you help? Many thanks."

RThought: It is amazing the people who will crawl into the gutter together hoping to make a few dollars from the sale of a book—here we have the New Left and the New Right both pushing the New Dishonesty. An admirable admission of the moral standards of Mr. Luce.

THE SUPER-DISCOUNT FOOD STORE

The Jan-Feb 1972 issue of CO-OP REPORT tells about a growing concept—"direct charge co-ops." The article particularly describes the **Trumart** store operated by Mid-Island Consumer Services Cooperative on Vancouver Island in Canada.

In order to shop at **Trumart** the member must make an initial investment of $80 (only $40 to those who are already members of the gasoline service), plus $1.75 per week (only $1.00 per week for members over 60 who are not regularly employed and have no more than 2 persons in the household).

This gives the member the right to shop for herself and all members of her family. The shopping takes place in a warehouse-type store—where cases are opened for item selection. Each member has a large card that identifies her and contains her current status. When she enters the warehouse she gathers up this card, a marking pencil, a shopping cart and goes on her way. As she picks individual items from the open cases she marks the price on the item from a price card above the bulk display.

At the checkout, the items are run up at the actual cost to the co-op, then 2% is added. Some 600 families had joined at the time the report was written—with new sign-ups running 100 a month.

Present volume is running $15,000 a week and the 600 families served by the store have to cover about $1,300 a week in expenses. In addition, members drop their food coupons in a box and **Trumart** collects on them.

The co-op claims that families are saving about 18% on the cost of items purchased through **Trumart**. And that they are covering all operating costs with their present membership.

THE CHANGING DEMAND FOR HARVARD BUSINESS SCHOOL GRADUATES

The master union card—at the apprentice level—is an MBA from Harvard. The last time RT reported the going "price" (median starting salary) for the current model was based on the 1969 product. The "prices" paid for the 1972 product are now available and the table below shows the current array, starting with the highest bidding industries, and also the change in "price" from the Class of 1969.

Type of Industry	1971 Median Starting Salary	Change From 1969
Medical Supplies Mfging	$19,500	+1,500
Miscellaneous Industrial Mfging	18,000	+4,500
Leisure Time	17,000	NSS*
Consulting/Research	16,650	+1,650
Automotive Mfging	16,500	+1,300
Finance, Miscellaneous	16,500	+1,500
Petroleum	16,200	+2,400
Chemical/Pharmaceutical Mfging	16,000	+1,000
Communications	16,000	NSS*
Data Processing Software	15,500	-300
Investments	15,500	+1,000
Food & Beverage Mfging	1,5260	+1,260
Miscellaneous Consumer Mfging	15,000	+1,000
Government	15,000	+2,000
Insurance	15,000	NSS*
Real Estate/Construction	15,000	+1,000
RETAILING	**15,000**	**+1,500**
All others – non-manufacturing	15,000	+1,100
Non-profit Institutions	14,500	NSS*
Transportation	14,500	NSS*
Accounting Firms	14,000	No Change
Military	14,000	NSS*
EDP Equipment Mfging	13,850	-150
Education	10,000	+500

*NSS = No Salary Shown

In most cases the increase in the median runs about 4% per year (less than inflation). The increase in RETAILING is above average—perhaps recognition that retailing is not all art.

But the change is dramatic since your editor left the B-School in 1940 to start at Macy's for $1,820 per year—less than an eighth of the current scale.

SHORT SHORTS

Men's Lib. The Oregon Wage and Hour Commission ordered 10 minute rest periods for men every 4 hours, except for those men under union contracts. This matches the requirement for women and workers under 18. Why exclude union workers? Because "We felt that negotiators for labor and management are in a better position to understand their problems than we are."

Sex discrimination is expensive. Here are some of the awards made as a result of suits charging discrimination under the Equal Pay Act: 10 women matrons at a western university received $15,682; 137 at a California insurance company received $40,291; 18 at a Nevada wholesaler received $4,357; 265 nurses at a Pennsylvania hospital received $71,000; 202 working for a paper cup manufacturer received $150,000; 2100 women working for a glass factory received $900,000.

Ungracious lady? Irvin Penner, President of The Gracious Lady Service, Inc., is quoted as saying, ". . . to make absolutely sure that responsbile consumerism is more the rule than the exception, we must challenge and hold up to the light every proposal made by consumer advocates and law makers with regard to consumers." He proposed the formation of a "Center for Responsible Consumer Legislation." Please note that Mr. Penner, knowing the nature of the stores that use his service, is not quoted as suggesting that anyone hold up to any light the conduct of his customers.

Seven-Down on Consumers. Ben H. Wells, President of the Seven-Up Co., is reported as having told a Sacramento club that American businessmen know more about consumerism than advocates such as Nader. To demonstrate his keen perception on consumers—and perhaps reflect his view on business responsiblity—he is quoted as saying, "What does a Mother care about the ranking of a cereal on some pseudo-scientific nutrition scale if the kids won't eat it? Maybe they don't like the taste or it doesn't have a picture of a tiger on the box or they never see it on the Saturday morning cartoons. These things are more important than price because they determine what people really want for their money. They want romance as well as calories." By unanimous vote, Seven-Up has been voted down at our house.

Some months ago the Federal Trade Commission (FTC) issued rules for grocery stores about backing their ads with adequate quantities to meet reasonable expectations of sales, and properly marked at the advertised price. Many non-food retailers may have felt that food stores needed this type of "guidance"— but the FTC now reports that the big volume of complaints on inadequate quantities relate to non-food retailers! FTC is studying the matter. RT reported at the time of the original guide-line (Aug 71) "But a word of warning to the people who run stores other than 'food stores.' The FTC has also said '. . . although the rule applies only to retail food stores, the Commission in future enforcement actions will regard the legal principle inherent in the rules as applicable to the advertising of the other commodities.' "

POEMS TO MANAGE BY

In this day of concern for our fellow man, increasing demands for public responsibility on the part of businesses, equal rights and civil rights, it might be well for all of us to recall . . .

ABOU BEN ADHEM
by
James Henry Leigh Hunt

Abou Ben Adhem (may his tribe increase!)
Awoke one night from a deep dream of peace,
And saw within the moonlight in his room,
Making it rich and like a lily in bloom,
An angel writing in a book of gold:
Exceeding peace had made Ben Adhem bold,
And to the presence in the room he said,
"What writest thou?" The vision raised its head,
And, with a look made of all sweet accord,
Answered, "The names of those who love the Lord."
"And is mine one?" said Abou. "Nay, not so,"
Replied the angel. Abou spoke more low,
But cheerily still; and said, "I pray thee, then,
Write me as one that loves his fellow-men."

The angel wrote, and vanished. The next night
It came again, with a great wakening light,
And showed the names who love of God had blessed,—
And, lo! Ben Adhem's name led all the rest!

TEENS & BOYS

JUNE 1972 • VOL. 96, NO. 6

Editorial

Fashion Features

Campus Section

Other Features

Departments

COVER: Jean power! For teens, and boys, and the rest of the world, too! On the young man, corduroy "bike-jeans" with zippered side pocket, and a suede trimmed chambray work shirt. Both from Wrangler Sportswear. The girl wears a properly aged pair of Levi's and an equally abused faded blue jacket from Spatz. Photo by Jim Hadley.

ADDRESS ALL CORRESPONDENCE TO: Teens & Boys Outfitter Editorial and Executive Offices: 71 West 35th Street, New York, N. Y. 10001. Phone: 594-0880.

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Winner of BABA's Fashion Merit Award

THE DISAPPEARING DIFFERENCE

There used to be a story about the younger generation—that there was less and less difference between the boys and girls—but thank goodness for that small difference. The day is approaching when objective observers will see little difference between department stores and discount stores—yet both parties may well say "thank goodness for that little difference."

RT has discussed this disappearing difference frequently over the years. In February 1970 there was a Special Feature ("The Discount Store vs The Department Store). In July 1970 there was a short item headed "Decadence in the Discount Store Industry." This latter item brought an angry letter from a very senior vice president of a very major discount chain accusing RT of being biased.

There is every possibility that RT could be biased—but we think not. History is on RT's side. Once there was a great difference between department stores and specialty stores—differences like a 20% gross margin in department stores vs 40% in specialty stores, and all-cash in department stores vs extended credit in specialty stores, and limited assortment in department stores vs extensive selection in specialty stores. Today there is very little difference.

The measuring sticks

For many years the department stores have had their financial measuring stick—first the Harvard Report and now the F.O.R. (Financial and Operating Results of Department and Specialty Stores) published by the National Retail Merchants Association. The Mass Retail Institute has sponsored the publication of "Operating Results of Self-Service Discount Department Stores" by Cornell University. Although RT has long felt that such publications hurt their industry by concentrating the attention of businesses on being "average," they do provide a basis of comparison.

The largest size category in the department store report is "over $50,000,000." In the most recent F.O.R. report 34 such firms with a combined annual volume in excess of $4½ billion sales provided figures. The largest size category in the discount store report is "over $100,000,000." In the most recent report 18 such firms were in this category.

Comparing the figures for these two groups of large companies for the past 5 years produces strong evidence that some of the differences are disappearing.

Before looking at the figures it is necessary to point out some limitations of this comparison:

1. Some of the differences reported arise from varying definitions used in developing the reports—but since the definitions remained constant through the 5 years, significance can be drawn from the **relative changes** rather than the absolute differences.
2. The size of the reporting group of department stores has remained relatively stable through the 5 years but the number of discount store firms has grown materially (from 11 firms to 18 in just the most recent year) with the result that some of the figures for discount stores in the earlier years may be less reliable.
3. The reporting stores are not known—so it may well be that only poor operators are reporting and the data is not typical; or it may be that only good operators are reporting and the data is not typical.

With these caveats clearly set forth, let us now proceed to an analysis of the disappearing difference.

Gross Margin

The major emphasis of the discount store is lower price, for the same quality. Assuming that each group has the economic power to buy on an equal basis, the gross margin is a good measure of the relative pricing.

TABLE I
Comparison of Gross Margins

Year	Discount	Department	Discount Advantage
1966	25.31%	37.76%	12.45%
1967	24.39	38.40	14.01
1968	26.93	38.85	11.92
1969	27.76	39.30	11.54
1970	27.98	39.54	11.56
Increase	2.67%	1.78%	

Although the spread in percentage points has declined only slightly, discount stores are showing a faster increase in gross margin than are department stores.

Total expenses

This is what usually forces a firm to increase gross margins. Here the pressure has been even greater on the discount stores.

TABLE II
Comparison of Total Expense Rates

Year	Discount	Department	Discount Advantage
1966	19.32%	29.96%	10.64%
1967	18.24	31.35	13.11
1968	21.32	30.53	9.21
1969	20.72	31.69	10.97
1970	22.28	31.97	9.69
Increase	2.96%	2.01%	

Net Profit on Sales

To many people, the proof is in the profit. The most frequent profit figure cited is that in relation to sales—as a percentage of sales. This is what the reports show:

TABLE III
Comparison of Net Profits as % of Sales

Year	Discount	Department	Discount Advantage
1966	1.87%	3.16%	(1.29%)
1967	2.32	2.81	(0.49)
1968	1.68	3.04	(1.36)
1969	1.27	2.74	(1.47)
1970	0.61	2.72	(2.11)
Decrease	(1.26)	(0.44)	

Here the department store is clearly showing a better performance. Profit rates for the large discount firms have been declining steadily for the past 5 years.

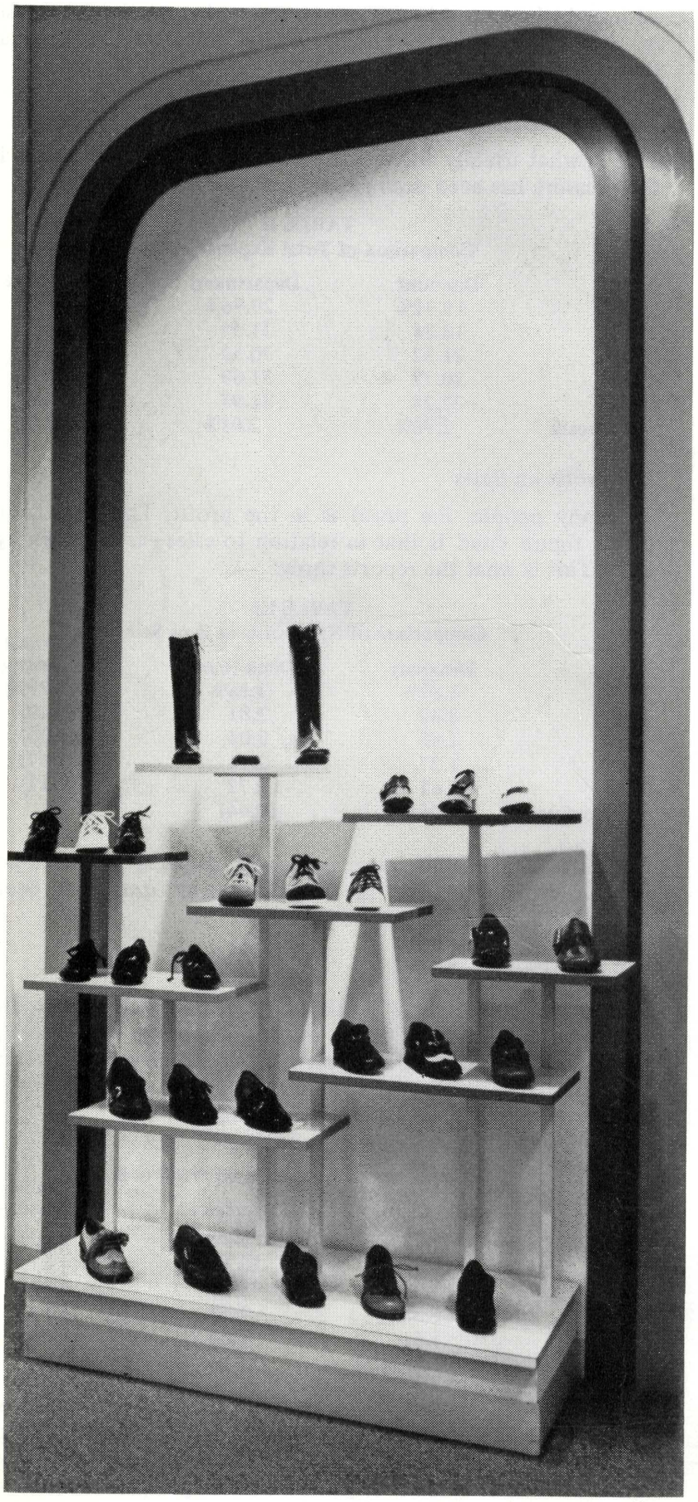
Net Profit on Net Worth

This is the true test of profitability. How much money did the business make in relation to the money made available by the stockholders? For years department stores have been relatively poor performers—when compared with food, promotional drug, and discount chains. But times do change.

TABLE IV
Comparison of Net Profit on Net Worth

Year	Discount	Department	Discount Advantage
1966	19.47%	9.82%	9.65%
1967	14.84	10.17	4.67
1968	15.84	8.99	6.85
1969	11.58	7.74	3.84
1970	5.61	7.64	(2.03)
Decrease	(13.86)	(2.18)	

1970 may have been unusually disastrous for discounters doing over $100,000,000—but it may also represent swallowing some over-optimistic profit figures reported in prior years. Not until 1975 will be able to put 1970 into perspective. One of the reasons discounters have been able to show a much higher return on net worth is that they do not have to provide capital to support accounts receivable (which, in larger department stores, involves more dollars than does inventory, and which is never partially funded by the vendors through the accounts payable). The number of discounters experimenting with credit is increasing.



Modern graphics and contemporary lettering are incorporated in every aspect of the department. The overall effectiveness of presentation is enhanced by theatrical track lighting, which spotlights areas, as in the above photo of the shoes.

(Reprinted by special permission from "Retailing Today", a monthly newsletter and journal of opinion relating to the current retail scene, edited and published by Robert Kahn. Annual subscription at $10 a year may be obtained by writing to "Retailing Today", P.O. Box 343, Lafayette, Cal. 94549.)

Stockturns

Because of limited assortments of fast selling items, the original discounters were reputed to get fantastic turnover rates. In the early 1950s many discounters were operating with no working capital! But all of that has changed—remove the column headings and it is hard to tell a discount figure from a department store figure.

TABLE V
Stockturns

Year	Discount	Department	Discount Advantage
1966	4.0 X	3.4 X	0.6
1967	3.9	3.6	0.3
1968	3.7	3.3	0.4
1969	3.6	3.3	0.3
1970	3.4	3.2	0.2
Decrease	(0.6)	(0.2)	

Shortage

The department stores are the ones who have worked longest with the retail method and should know best how to control it; but it appears that the cost of shortages became unbearably high sooner for discounters, and they have made great progress limiting the problem.

TABLE VI
Inventory Shortage

Year	Discount	Department	Discount Advantage
1966	3.0%	1.8%	(1.2%)
1967	3.1	1.8	(1.3)
1968	4.1	1.8	(2.3)
1969	3.5	2.5	(1.0)
1970	3.1	2.4	(0.7)
Increase	0.1	0.6	

Occupancy Cost

One of the cost savings that the early discounters had was that they used abandoned factories or remote locations, not requiring heavy foot traffic to produce volume. Now discounters are looking to shopping centers as the location of future stores. And with the passage of time, their occupancy cost per square foot has been rising rapidly: (Note: do not place too much emphasis on the absolute dollar amounts since the two definitions differ.)

TABLE VII
Occupancy Cost per Sq. Ft. of Selling Space

Year	Discount	Department	Discount Advantage
1966	$2.39	$3.20	$0.81
1967	3.18	3.81	0.63
1968	3.61	3.26	(0.35)
1969	3.51	3.32	(0.19)
1970	3.92	3.78	(0.14)
Increase	$1.53	$0.58	

Sales per square foot of selling space

One of the reasons that occupancy costs per square foot of selling space have been rising so rapidly is that neither type of store has been able to improve their sales productivity, despite inflation. The relatively level productivity of sales per square foot of selling space indicates a declining physical volume of goods in relation to space.

TABLE VIII
Sales per Square Foot of Selling Space

Year	Discount	Department	Discount Advantage
1966	$64.98	$86.00	$(21.02)
1967	71.62	90.00	(18.38)
1968	71.28	84.00	(12.72)
1969	66.42	82.51	(16.09)
1970	63.72	83.17	(19.45)
Decrease	$(1.26)	$(2.83)	

It should be pointed out that when discounters opt for self-service, they are, in effect, trading selling floor space for clerk payroll and should be expected to produce lower sales per square foot.

Advertising

Originally one of the cardinal rules of discount store operation, as told to me by a leading pioneer, was "We will never spend over 1% of sales on advertising." He is now out of the discount business.

TABLE IX
Advertising Cost as a Percentage of Sales

Year	Discount	Department	Discount Advantage
1966	2.10%	3.46%	1.36
1967	2.20	3.65	1.45
1968	2.07	3.59	1.52
1969	2.25	3.40	1.15
1970	2.59	3.30	0.71
Increase	0.49%	(0.16)%	

Net worth to total assets

This figure represents the percentage of the assets that are owned or financed by the stockholders as opposed to other creditors (vendors, loans, accrued expenses, etc.). Traditionally, a figure of 50% or higher indicates a strong compannny. The further the figure is below 50%, the weaker the company.

Both types of stores are using greater leverage—but one is getting weaker while the other still represents a sound (formerly over-capitalized) position.

TABLE X
Net Worth as Percentage of Total Assets

Year	Discount	Department	Discount Advantage
1966	42.50%	63.27%	(20.77)%
1967	39.24	59.27	(20.03)
1968	39.75	71.52	(31.77)
1969	38.95	73.29	(34.34)
1970	37.88	58.57	(20.69)
Decrease	(4.62)	(4.70)	

RThought: In an inexorable manner, the figures for discount stores move closer to those of department stores. The turnover figures are almost the same. With a little more improvement by the discount stores, their stock shortage figures may approximate those of department stores—despite their self-service format.

Expenses are rising significantly faster for discounters—which is forcing upward their gross margins—but not fast enough. Expenses are rising greatly because discounters are more and more often seeking the same type of store location as the department store—an undertaking the same kind and volume of advertising. The days of 1% for advertising and a low-cost, off-beat location are gone.

The impact on profits as a return on net worth has been particularly great—although 1970 must be classified as an unusual year for larger discounters. Even with a recovery in 1971 and later years, the days when these large discounters can earn double the return on net worth that is earned by large department stores will never come again.

The growing emphasis by retailers on credit (see RT January 1972 "Re-inventing the Wheel) will be the final straw that will force the capital structure of discounters to become similar to department stores (Table X) which, in turn, will require a higher profit as a percentage of sales (Table III) just in order to produce a return on net worth equal to department stores (Table IV); and to do this will require a gross margin very close to that of a department store (Table I) because of a very similar expense rate (Table II).

A Bargain Ad Doesn't Have to Look Cheap

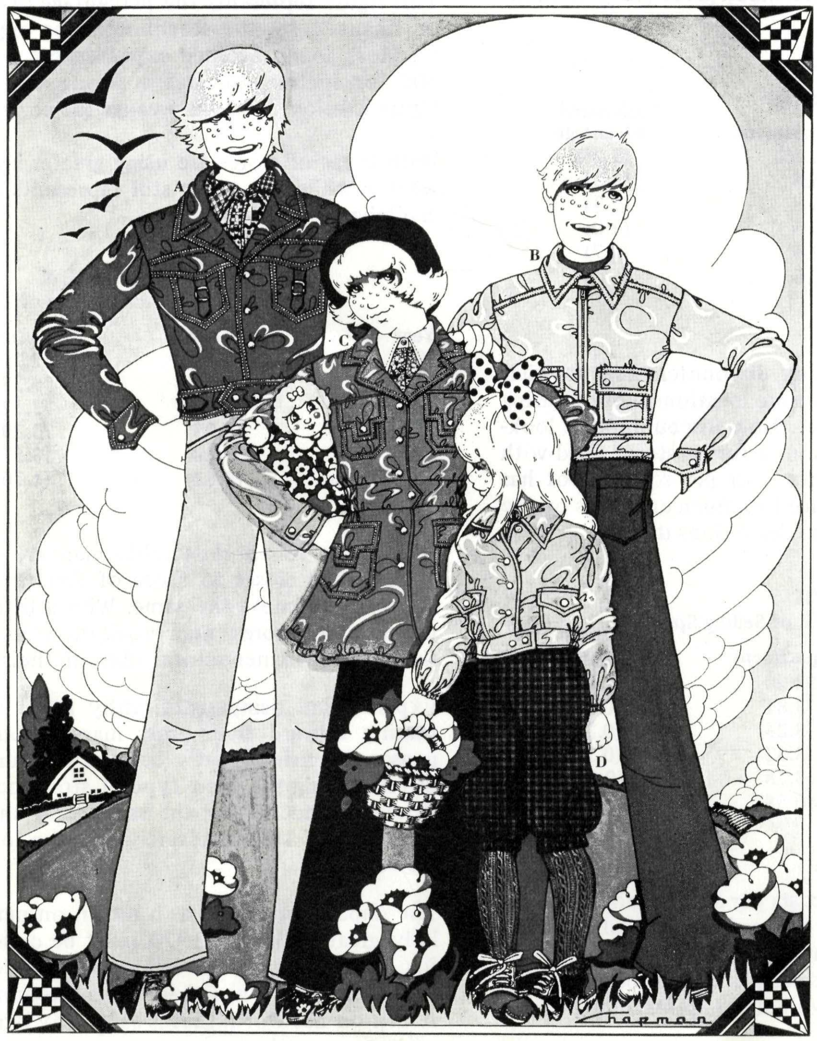
The worst thing about most price-oriented ads is that they look like price was the major consideration in preparing the ad. Where does it say that if you're advertising a bargain your ad has to look like it cost next to nothing.

Ohrbach's, the New York store that has successfully maintained both its fashion image and its bargain image, has long approached newspaper advertising in an inventive and realistic way. Realistically because they appeal to a customer who may be bargain hungry but whom they recognize also as sophisticated enough to be turned off by ugly layouts and design.

The ads reproduced here were prepared by Doyle, Dane, Bernbach. They are in keeping with Ohrbach's unconventional viewpoint.

"Dear Ohrbach's: How can I put new jackets on my kids' backs without losing the shirt off mine?"

—Budget Minded Mama



Dear Budget Minded: Dress up your kids without leaving your wallet bare in our wet-look spring jackets. They're washable 100% nylon, sportily stitched in a contrasting color. **(A)** Snap front with notched lapels. Buckled pockets and waist. Navy, royal, brown or black. Sizes 8-18, **$2.99. (B)** Zipper front with snap pockets. Navy, royal, brown or black. Sizes 8-18, **$2.99. (C)** Snap front, snap pocketed Drizzler. Navy, red, blue or purple. Sizes 7-14, **$3.99.** Young jr. sizes, **$5.49. (D)** Snap front, elasticized waist. Navy, blue, white or red. Sizes 4-14. **$1.99.** So bring the kids to Ohrbach's. Our prices can give even a budget minded Mama, peace of mind.

Love, Ohrbach's.

P.S. It's what you get for the low price that counts.

Narrowing Gap?—A Comparison of Top Discount And Conventional Store Operating Statistics

(Reprinted by special permission from "Retailing Today," edited by Robert Kahn, a monthly newsletter and journal of opinion relating to the current retail scene. Annual subscriptions at $10 the year may be secured by writing to "Retailing Today," P.O. Box 343, Lafayette, Cal. 94549.)

There used to be a story about the younger generation—that there was less and less difference between the boys and girls—but thank goodness for that small difference. The day is approaching when objective observers will see little difference between department stores and discount stores, yet both parties may well say "thank goodness for that little difference."

For many years the department stores have had their financial measuring stick; first the Harvard Report and now the F.O.R. (Financial and Operating Results of Department and Specialty Stores) published by the National Retail Merchants Association. The Mass Retail Institute has sponsored the publication of "Operating Results of Self-Service Discount Department Stores" by Cornell University. Although "Retailing Today" has long felt that such publications hurt their industry by concentrating the attention of businesses on being average, they do provide a basis of comparison.

The largest size category in the department-store report is over $50,000,000. In the most recent F.O.R. report, 34 such firms with a combined annual volume in excess of $4½-billion sales provided figures. The largest size category in the discount-store report is over $100,000,000. In the most recent report, 18 such firms were in this category.

Comparing the figures for these two groups of large companies for the past five years produces strong evidence that some of the differences between them are disappearing. But before looking at the figures, it is necessary to point out some limitations of this comparison:

1. Some of the differences reported arise from varying definitions used in developing the reports; but since the definitions remained constant through the five years, significance can be drawn from the relative changes rather than the absolute differences.
2. The size of the reporting group of department stores has remained relatively stable through the five years, but the number of discount-store firms has grown materially (from 11 firms to 18 in just the last year alone) with the result that some of the figures for discount stores in the earlier years may be less reliable.
3. The reporting stores are not known, so it may well be that only poor operators are reporting and the data is not typical; or it may be that only good operators are reporting and the data is also not typical.

With these caveats clearly set forth, let us now proceed to an analysis of the disappearing difference.

Gross Margin

The major emphasis of the discount stores is lower price for the same quality. Assuming that each group has the economic power to buy on an equal basis, the gross margin is a good measure of the relative pricing.

TABLE 1
Comparison of Gross Margins

Year	Discount	Department	Advantage
1966	25.31%	37.76%	12.45%
1967	24.39	38.40	14.01
1968	26.93	38.85	11.92
1969	27.76	39.30	11.54
1970	27.98	39.54	11.56
Increase	2.67	1.78%	

Although the spread in percentage points has declined only slightly, discount stores are showing a faster increase in gross margin than are department stores.

Total Expenses

This is what usually forces a firm to increase gross margins. Here the pressure has been even greater on the discount stores.

TABLE II
Comparison of Total Expense Rates

Year	Discount	Department	Advantage
1966	19.32%	29.96%	10.64%
1967	18.24	31.35	13.11
1968	21.32	30.53	9.21
1969	20.72	31.69	10.97
1970	22.28	31.97	9.69
Increase	2.96%	2.01%	

Net Profit on Sales

To many people, the proof is in the profit. The most frequent profit figure cited is that in relation to sales—as a percentage of sales. This is what the reports show:

TABLE III
Comparison of Net Profits as % of Sales

Year	Discount	Department	Advantage
1966	1.87%	3.16%	(1.29%)
1967	2.32	2.81	(0.49)
1968	1.68	3.04	(1.36)
1969	1.27	2.74	(1.47)
1970	0.61	2.72	(2.11)
Decrease	(1.26)	(0.44)	

Here the department store is clearly showing a better performance. Profit rates for the large discount firms have been declining steadily for the past five years.

Net Profit on Net Worth

This is the true test of profitability. How much money did the business make in relation to the money made available by the stockholders? For years, department stores have been relatively poor performers, when compared with food, promotional drug, and discount chains. But times do change.

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Year	Discount	Department	Advantage
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The year 1970 may have been a disastrous year for discounters doing over $100,000,000, but it may also represent swallowing some overoptimistic profit figures reported in prior years. Not until 1975 will we be able to put 1970 into perspective.

One of the reasons discounters have been able to show a much higher return on net worth is that they do not have to provide capital to support accounts receivable (which, in larger department stores, involves more dollars than does inventory, and which is never partially funded by the vendors through the accounts payable). The number of discounters experimenting with credit is increasing.

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Stockturns

Year	Discount	Department	Advantage
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1968	3.7	3.3	0.4
1969	3.6	3.3	0.3
1970	3.4	3.2	0.2
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Shortage

The department stores are the ones who have worked longest with the retail method and should know best how to control it; but it appears that the cost of shortages became unbearably high sooner for discounters, and they have made great progress limiting the problem.

TABLE VI
Inventory Shortage

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1968	4.1	1.8	(2.3)
1969	3.5	2.5	(1.0)
1970	3.1	2.4	(0.7)
Increase	0.1	0.6	

Occupancy Cost

One of the cost savings that the early discounters had was that they used abandoned factories or remote locations, not requiring heavy foot traffic to produce volume. Now discounters are looking to shopping centers as the location of future stores. And with the passage of time, their occupancy cost per square foot has been rising rapidly: (Note: Do not place too much emphasis on the absolute dollar amounts since the two definitions differ.)

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1970	3.92	3.78	(0.14)
Increase	1.53	$0.58	

Sales Per Square Foot of Selling Space

One of the reasons that occupancy costs per square foot of selling space have been rising so rapidly is that neither type of store has been able to improve their sales productivity despite inflation. The relatively level productivity of sales per square foot of selling space indicates a declining physical volume of goods in relation to space.

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It should be pointed out that, when discounters opt for self-service, they are, in effect, trading selling floor space for clerk payroll and should be expected to produce lower sales per square foot.

(continued on page 19)

FINANCIAL

Times Square Stores to Float 1st Public Issue

BROOKLYN, N.Y.—Times Square Stores, Inc., now floating its first public issue, had sales of $150,371,424 last year, the prospectus reveals. The chain, headed by George Seedman, has nine very large discount stores, two bicycle distributing companies, and seven specialty stores offering automotives, hardware, sporting goods, and other hardlines.

The 1970 total compares with $86,494,916 grossed during the preceding year. The 1970 figures include the results of three stores in Puerto Rico and two on Long Island, N.Y., it acquired in February, 1970, with the purchase of all outstanding stock in Retail Center of America from National Industries, Inc.

All of the TSS department stores, with the exception of a 60,000-square-foot unit in Puerto Rico, are more than 130,000 square feet in area. The largest, in Hempstead, Long Island, has an area of 240,000 square feet. It operates most of the departments selling hardgoods, including automotive supplies, housewares, major and traffic appliances, home entertainment products, juvenile furniture, hardware sporting goods, toys, paint, giftware, lighting fixtures, and plumbing supplies.

The company also operates the children's wear departments in six stores. Women's apparel departments are operated by the Lady Rose division of Masters, Inc. Erie Clothing operates the men's and boys' wear department. Rosenbaum Handbags is the licensee for the handbag and fashion accessories departments. Cosmetic and drug departments are operated by William Wolf. Shoe departments are shared by the Berland division of Genesco and Kinney's Stylco division.

In the home goods areas not run by TSS, Dean floor covering, New Jersey, operates the floor covering departments, and Highway Textiles has the domestics and piece goods departments.

George J. Seedman, 75, founder of the chain, is president, treasurer, and a director. In 1970, he was paid a salary of $90,000, according to the prospectus. Harold R. Dietz, 53, an executive vice president and the founder's son-in-law, was paid $50,000 in 1970. Another executive vice president (the company has two), Edward Ross, received $37,000.

Bear, Stearns and Company is the underwriter for the offering.

Neisner Adds To Bank Line

ROCHESTER, N.Y.—Neisner Brothers, Inc., has increased its line of credit with eight banks from $12 to $15,000,000 at lower rates of interest, Melvin B. Neisner, president, announces.

Under an earlier arrangement Neisner received funds through the revolving credit agreements at .5 per cent above the banks' prime rates, and paid .5 per cent commitment fee on unused available credit.

Under the new agreements, the loans will be made at the banks' prime rates without the commitment fee on the unused portion of the line of credit.

A New Board At Atlantic

NEW YORK, N.Y.—A restructuring of the board of directors and management of Atlantic Department Stores, Inc. (OTC), was announced following the successful Exchange offer, which gave Heck's, Inc. (ASE), a West Virginia, Kentucky and Ohio discounter, 66 2/3 per cent of Atlantic's outstanding shares.

Elected as president and chief executive officer was Ray O. Darnall, vice president of Heck's. Darnall replaces Sidney Mittleman, who resigned as president, chief executive officer, and as Atlantic director. Mittleman, however, will remain an employee of the company.

Ronald deFusco was re-elected executive vice president of Atlantic, assistant to the president, and was re-elected a director, positions he previously held.

Also elected as new directors of the company, whose board was expanded from six to eight, were Ray Darnall; Fred Haddad, president of Heck's, Inc.; Russell Isaacs, treasurer of Heck's; Douglas R. Cook, vice president-merchandising for Heck's; H.G. Shaffer, Jr., secretary of Heck's; and Gerald Eppner of the law firm of Reavis & McGrath, Esqs. Gordon E. Cadwgan, of the investment banking firm of G.H. Walker & Company, was re-elected an Atlantic director.

Resignations as Atlantic directors were accepted from Sidney Mittleman; Harold Fein; Paul Bonynge, Jr.; and Theodore Ellsworth. Fein, though having resigned as a director, will remain a vice president of the company.

Wal-Mart Offers 720,000 Shares

BENTONVILLE, Ark.—Wal-Mart Stores, Inc., announced filing of a registration statement with the Securities and Exchange Commission covering the proposed public offering of 720,000 shares of common stock. White, Weld & Company and Stephens, Inc., were named managers of the underwriting group.

Of the shares offered, 400,000 are being sold by the underwriters upon the purchase and exercise by them of a warrant held by a warrant-holder.

The net proceeds to the company will be used to retire short-term debt and to augment working capital for general corporate purposes, including the opening of additional stores.

Wal-Mart Stores, Inc., with principal offices in Bentonville, operates 53 retail stores in Arkansas, Kansas, Louisiana, Missouri, and Oklahoma. Of these, 41 are discount department stores operated under the name Wal-Mart Discount City; 6 are expanded variety stores under the names of Walton's Family Center or Ben Franklin Family Center; and 6 are variety stores under the Ben Franklin name.

Annual Report Roundup ...

(continued from page 16)

M.H. Fishman

NEW YORK, N.Y.—The M.H. Fishman Company (AMEX) operators of 56 discount department stores and variety stores doing business under the names of Mason's, Fishman and Centers, reported sales of $70,198,360 for the year ending December 31, 1971, compared with $66,479,168 for the same period last year, showing an increase of 5.5 per cent.

Net earnings for the year amounted to $1,277,881 or $1.10 per share on 1,165,144 average number of shares, as compared with $1,269,972 or $1.09 per share on 1,161,816 shares outstanding in the previous year, adjusted for a 5 per cent stock dividend paid on July 12, 1971.

Mammoth Mart

NEW YORK, N.Y.—Despite some economic soft spots in New England where Mammoth Mart has most of its discount stores, that chain looks to a good 1972, Chairman Max Coffman told New York analysts. The growing Boston Baby division has certain costs of absorption and also does not make significant contribution until the second half, with its big lines of toys and leisure goods, Coffman says.

According to Max Coffman, subject to final audit sales for the year ending January 29, 1972, were $130,000,000, up $20,000,000 from the $110,000,000 of the prior year. Net income after taxes is estimated at $3,800,000, which compares with $3,400,000 a year earlier.

Fully diluted earnings a common share are estimated at $1.01 for 1971-72 equivalent to the $1.01 a share earned the prior year. Per share earnings in 1971-72 are based on a larger average number of shares outstanding than was the case in 1970-71, 3,763,000 shares versus 3,319,000 shares.

King's

NEWTON, Mass.—King's Department Stores, Inc., said operating income for the year ending January 29, climbed to $8,200,000, or 96 cents a share, from $7,300,000, or 85 cents a share, in the prior year.

The company expects operating income to increase during the current fiscal year "somewhere in the range of 12 per cent" from last year, according to Nathan Greenberg, financial vice president and secretary.

The chain recorded net income for the year of $8,900,000, or $1.03 a share, after extraordinary income of $639,000 from utilization of a tax carry-forward. Greenberg expects "about the same" tax carry-forward in the current fiscal year.

He had predicted sales would increase about 10 per cent from last year's $223,200,000. Last year's sales were up from the previous year's $216,900,000.

Pulse of the Market

Discount Stocks in Review- April, 1972

• New York Stock Exchange

	Date Pulse April 13, 1972	Done High	Low
Allied Dept. Stores (Almart, J.B. Hunter)	36 1/8	36 1/8	30 1/2
Arlans Department Stores	5 3/8	7 1/2	4 3/4
Arlen Realty and Development	23 5/8	24 3/4	15 7/8
Cook United (Uncle Bill, Ontario)	21 5/8	23 7/8	18 7/8
Daylin, Inc.	21 5/8	25 1/8	19 1/8
Dayton Hudson (Target Stores, Lechmere Sales)	35 3/4	37 7/8	33 1/8
Diversified Ind. (Am. Leisure, Cons. Home Prod.)	5 1/4	9 7/8	4 3/8
Federated Dept. Stores (Gold Triangle, Gold Circle)	57	57	47 5/8
Food Fair (J.M. Fields)	14	17 1/4	13 7/8
Franklin Stores (Barker's, Frandisco)	18 1/4	19 7/8	16 1/8
Gamble Skogmo (Tempo, Buckeye Marts)	39 1/2	44	38 1/2
Grand Union (Grandway)	19	22	18 1/2
Gray Drug Stores (Rink's Bargain City)	39 1/4	41 1/4	33 1/2
Interstate Stores (Topps, White Front)	12 7/8	16 1/8	10 1/4
Jewel Tea Company (Turnstyle)	63	64 3/4	58 1/2
King's Dept. Stores	18 7/8	20 1/4	16 5/8
S.S. Kresge (K-Mart)	117 1/4	117 1/4	94 1/2
Krogers (Thriftmart)	28 1/2	33 3/4	28 1/4
Lane Bryant (Town and Country)	32 3/8	35 1/4	31
Lucky Stores (Gemco)	19 5/8	22 1/8	19
May Dept. Stores (Venture)	54 1/8	54 1/8	47 5/8
J.W. Mays	25 3/4	26 3/4	17 1/4
Melville Shoe Co. (Meldisco, Inc.)	77	77	58 1/2
Morse Shoe Company	17	19 7/8	15
Penn Fruit (Renels)	14 1/8	17 7/8	13
J.C. Penney (Treasury)	79 3/4	79 7/8	67 1/8
Revco Drug Stores	53 3/8	55	38 7/8
Sav)A-Stop	15 3/4	19 1/8	12 7/8
SCOA Industries (Mill's)	16 3/8	18 3/4	14
Skaggs Co.	28 7/8	30 1/2	23 1/4
Unishops, Inc.	26 3/4	29 3/4	22 1/2
Vornado (Two Guys, Unimarts)	34 1/2	34 1/2	25 1/2
Walgreen's (Globes Shoppers City)	23 7/8	28	23
White Cross	36	35 1/2	24 3/8
Woolworth (Woolco)	43 5/8	47 1/4	39 5/8
Zale Corp. (J.T.S.)	43 1/4	46 3/4	40 5/8
Zayre Corp.	39 3/8	39 3/8	31

• American Stock Exchange

Ames Department Stores	38 1/2	39 3/4	26 1/2
Barbara Lynn Stores	7 5/8	9 1/8	6 1/4
Belscot	6 1/2	10 1/8	6 1/8
Big Bear (Hart's Family Centers)	38 1/2	41 7/8	31 1/2
Caldor, Inc.	38 1/4	40 3/4	34 1/2
Cohen-Hatfield	6 3/4	8	4 3/4
Epko Shoe	14 5/8	18 1/2	14
Fabri Centers	26 3/4	27	19
Fabrics National (Garwood Mills)	3 7/8	5 1/4	3 5/8
Fedmart	17 1/2	19 3/8	13 3/8
Felsway	23 3/4	26 1/4	22
M.H. Fishman (Mason's)	11 7/8	13 1/8	11 1/4
Forest City	31 3/8	33 1/4	24 3/4
Frank Nurseries	37 3/8	38	27 5/8
Gateway Sporting Goods	6 1/2	7 1/8	4 3/8
Gaylord's National Corp. (Giant Tiger)	9 3/4	13	9 7/8
Giant Food (Super Giant)	31 3/4	35 3/4	26 1/2
Giant Stores	24 1/8	26 1/4	18
Gilbert Co.	2 7/8	4 3/8	2 3/4
Greenman Bros.	33 1/2	34 7/8	27 1/8
Hartfield-Zodys	14 3/4	17 3/8	12 3/4
Hecks	32 1/8	37 3/4	26 3/4
Jamesway	25 1/2	26 7/8	23
Jefferson Stores	7 1/4	9 1/8	6 1/2
Kenton Corp. (Family Bargain Centers)	9 3/4	13 1/2	9 3/4
Kuhn's (Big K)	27 7/8	41	26 1/2
Mammoth Mart	18 3/8	23 1/4	16 5/8
Mangel's (Shopper's Fair)	10 7/8	11 1/4	7 5/8
Masters	11	12 1/2	10 1/4
Medco Jewelry	12 5/8	12 5/8	5
Miller Wohl (Welles)	8 5/8	10 3/4	8 1/4
Morton Shoe Stores	8 1/2	9 3/8	7 5/8
National Bellas Hess (GEX Superstores)	4	4 5/8	3
Neisner Bros. (Big N.)	15	18 3/4	13 5/8
Pamida, Inc.	49	49 3/8	36 3/4
Parkway Dist.	28 1/4	29 1/4	12 5/8
Sky City	16 5/8	16 5/8	10 3/8
Spencer Companies	9 3/4	13 1/4	9 1/2
Stop & Shop (Bradlee's)	23 1/8	27	22 3/4
Stratton Group	4 3/4	6 1/4	4 1/2
Unexcelled, Inc. (Twin Fair, Fashion Fair)	16 1/4	17 3/8	10 1/8
United Dollar Stores	15 1/4	17 1/4	9
Volume Merchandiser	7 1/8	8 3/8	5 3/8
Wards Co.	12 5/8	14 3/8	8 1/8

• Over-the-Counter

	Bid	Asked
L.S. Ayres & Co. (Ayr-Way)	47 1/2	50 1/2
Bazar, Inc. (Big C Stores)	8 3/4	8 7/8
Clinton	1 13/16	1 15/16
Dollar General	28 1/8	28 5/8
Howard-Gibco	4 7/8	5 3/8
K-B Marketing Systems (Kobacker Shoe)	9 3/4	10 1/2
Mars	4 1/4	4 5/8
Fred Meyer, Inc.	49	50
National Hardgoods	3 5/8	4 1/8
National Shoe	14 1/2	16
Parkview-GEM	12 3/8	12 3/4
Pay Less Drug	21 1/8	21 5/8
Petcoa	5 7/8	6 1/8
Rich's, Inc. (Richway)	43 3/4	44 3/4
Rix, Inc. (Carter Overton)	3 1/2	4
Sage International	8 1/2	9 1/2
Silo, Inc.	37 1/4	38 1/4
Topsy's International	3 3/4	4 1/8
United Overton	3	3 1/2
Wal-Mart	25 3/4	26 3/4
Weisfield's, Inc. (Valumart)	15 1/4	16 1/4

Advertising

Originally one of the cardinal rules of discount-store operation, as told to me by a leading pioneer, was, "We will never spend over 1 per cent of sales on advertising." He is now out of the discount business.

TABLE IX
Advertising Cost as a Percentage of Sales

Year	Discount	Department	Advantage
1966	2.10%	3.46%	1.36%
1967	2.20	3.65	1.45
1968	2.07	3.59	1.52
1969	2.25	3.40	1.15
1970	2.59	3.30	0.71
Increase	0.49%	(0.16%)	

Net Worth to Total Assets

This figure represents the percentage of the assets that are owned or financed by the stockholders as opposed to other creditors (vendors, loans, accrued expenses, etc.). Traditionally, a figure of 50 per cent or higher indicates a strong company. The further the figure is below 50 per cent, the weaker the company.

Both types of stores are using greater leverage, but one is getting weaker while the other still represents a sound (formerly overcapitalized) position.

TABLE X
Net Worth as Percentage of Total Assets

Year	Discount	Department	Advantage
1966	42.50%	63.27%	(20.77%)
1967	39.24	59.27	(20.03)
1968	39.75	71.52	(31.77)
1969	38.95	73.29	(34.34)
1970	37.88	58.57	(20.69)
Decrease	(4.62)	(4.70)	

Conclusions

In an inexorable manner, the figures for discount stores move closer to those of department stores. The turnover figures are almost the same. With a little more improvement by the discount stores, their stock shortage figures may approximate those department stores, despite their self-service format.

Expenses are rising significantly faster for discounters, which is forcing upward their gross margins, but not fast enough. Expenses are rising greatly because discounters are more and more seeking the same type of store location as the department store, an undertaking requiring the same kind and volume of advertising. The days of 1 per cent for advertising and a low-cost, offbeat location are gone.

The impact on profits as a return on net worth has been particularly great, although 1970 must be classified as an unusual year for larger discounters. Even with a recovery in 1971 and later years, the days when these large discounters can earn double the return on net worth that is earned by large department stores will never come again.

The growing emphasis by retailers on credit will be the final straw that will force the capital structure of discounters to become similar to department stores (Table X) which, in turn, will require a higher profit as a percentage of sales (Table III) in order to produce a return on net worth equal to department stores (Table IV); and to do this will require a gross margin very close to that of a department store (Table I) because of a very similar expense rate (Table II).

ROBERT KAHN, C.M.C., is a widely known retail consultant and member of an old-line San Francisco area merchant family. He is publisher of "Retailing Today," a widely circulated newsletter which often makes observations relating to the discount-store scene. Kahn received a B.A. cum laude from Stanford University and an M.B.A. from the Harvard School of Business Administration. From 1940 to 1956, he worked his way up the executive ladder in the department-store field and, in 1956, he founded the consulting organization Robert Kahn & Associates, Lafayette, Cal. He is a consultant to fifteen major clients, most of whom are in the department-store field. In addition to "Retailing Today," he also writes a column on consumer economics for West Coast newspapers called "Pro and Kahn." He is a founding member of Institute of Management Consultants and currently serves as vice president and trustee of the Association of Management Consultants.

Quick Openers

CHICAGO, Ill.—Venture Department Stores is reportedly planning to open five outlets here in 1972. Sites have not yet been disclosed, but two of the locations are expected to be in Chicago's western suburbs. Venture opened its 11th store recently in Kansas City, Mo. The three-state chain is a division of May Company, St. Louis.

JACKSON, Mich.—An eleven-acre site has been chosen by K-Mart for its second store here, to be opened late this year or early in 1973. This will be the company's second store in Jackson and will house an 84,000-square-foot discount unit and a 21,000-square-foot grocery area. The site chosen is West Argle and North Wisner Streets.

ITHACA, N.Y.—Mammoth Mart's 50th discount store was opened in Ithaca recently on Triphammer Road. It marks another step outside the company's traditional New England trading area. The 60,000-square-foot unit, part of a 125,000-square-foot mall, is Mammoth Mart's first venture into New York State.

TOTOWA, N.J.—Another Shoe-Town store, this one a 7,500-square-footer on Route 35 at Eatonville Circle, has been opened by the Felsway Corporation. The new unit brings to six the number of Shoe-Towns that have been opened in this fiscal year. Current plans call for 22-25 more units durings fiscal 1972-73.

ROCHESTER, N.Y.—Neisner Brothers, Inc., has signed a lease for a 55,000-square-foot Big N department store to be constructed in the Big N Plaza, Route 19 and Buffalo Road Warsaw. A Big N food market and other facilities will be included in the site, which is scheduled to start building soon.

BRICK TOWNSHIP, N.J.—This New Jersey Shore community will be the site of the largest home-improvement center the Rickel Company has yet constructed—a 90,000-square-footer.

The center, on a nine-acre site on Chambers Ridge Road, is scheduled to open late this summer. Developer is the Alexander Summer Company of Newark.

NASHVILLE, Tenn.—Plans for four more Kuhn's-Big K Stores were unveiled recently. They will be located in Springfield and Cleveland, Tenn.; Selma, Ala.; and Owensboro, Ky. Twenty-one new stores in the next two years are planned, according to company officials, twelve this year and nine more in 1973. These represent a 90 per cent increase in discounting space by the company. Big K now has 32 units in operation.

BUTLER, Pa.—The major occupant of the new shopping center to be constructed here will be a Zayre, it was announced. The center will be on Route 422 and Alameda Park Road and will be developed by the M&M Investments Company in Greensberg. The Zayre unit will be built to company specifications and will be the eighth Zayre outlet in the state. Other company locations in Pennsylvania are the Pittsburgh area (5), Philadelphia, and Wilkes-Barre.

GOLDSBORO, N.C.—If the Planning Commission gives its approval, a new 22.6-acre shopping complex with a Nichols' Discount Department Store as its chief tenant will be constructed here. The site chosen is property on Wayne Memorial Drive adjoining the Wayne Medical Complex. Realtor George Vann, the site's developer, has said that the site is tentatively scheduled to include a restaurant-motel, a bank, a supermarket, and other retail outlets.

BAYAMON, Puerto Rico—A 70,000-square-foot Barker Department Store is one of the units to be constructed here as part of a new shopping complex. Forty stores in all, including a Pueblo Supermarket and an 8,000-square-foot Western Auto, will be part of the center being developed by the Commercial Properties Development Corporation, Baton Rouge, La. Construction is scheduled to start in October of 1972 and be completed by August of 1973.

CHARLOTTE, N.C.—Family Dollar Stores, Inc., has opened five new stores in this area since the beginning of this year. They are located in Sumter, S.C.; Richmond, Va.; and Wallace, Monroe, and Elizabeth City, N.C. The company now has 114 stores in operation and plans to have 11 more open by the end of the year.

WHIPPANY, N.J.—Hamilton, Bermuda, has been selected to be the next site for a Channel Home Center. The size of the new unit has not yet been announced, but Channel officials say the move will give a Bermuda slant to merchandising in several of their other outlets. Some of their mainland stores will soon be featuring Bermuda Boutiques that sell island giftware. In addition to the Channel in Bermuda, the company plans to open three additional units this year, bringing the chain to 21 outlets.

NEW YORK, N.Y.—The Jamesway Corporation will open a 50,000-square-foot unit in Greensville, Pa., early next fall. The ultramodern structure will be sited on Route 358, east of Greenville, and will be the anchor store of a new shopping center.

Giant's Back-to-School Promo Sings 'Happy Days Are Almost Here, Mom!'

CHELMSFORD, Mass.—August through the middle of September is a peak season for discount apparel sales. "Back-to-school sales run at least 10 to 15 per cent ahead of Christmas, with girls and boys generating the greatest volume," expresses Dick Lesser, merchandise manager of softgoods at Giant Stores.

All departments, not just apparel, fair well during the back-to-school season. Explains Lesser: "Sales in stationery; sporting goods; small appliances such as radios and electric coffee pots; and domestics, where we sell sheets and towels to kids going off to prep schools and colleges, are all substantially increased." But the major thrust of Giant's back-to-school promotion centers around campus apparel and children's fashions. "The other departments receive the spin-off from these promotions as a matter of course," says Lesser.

Dick Lesser

Wes McDonough

PROMO DETAILED

In a conversation with Wes McDonough, director of advertising, Giant's back-to-school promotion was explained as consisting of point-of-purchases, print, and radio advertising. Direct mail receives the major emphasis, beginning with a circular in early August, which is, according to McDonough, "a ten-page cross-breed of summer clearances and pre-back-to-school apparel commingled with hardlines."

This initial circular is only one-third back-to-school, while Giant's major back-to-school promotional piece—a ten-page circular that appears the first week of September—devotes over 60 per cent. "That first week of September is when it's time for the hard sell. If we don't catch them then, we never will," emphasizes McDonough.

Though the format and layout is similar to other Giant circulars, the back-to-school concept has been altered to appeal to mothers instead of the kids. "Many chains try to appeal to the youngsters, but they're not the ones reading the circulars. They may make their own decisions when they get in the store, but you need mother's help to get them that far," says McDonough. In Giant's back-to-school campaign last year, new emphasis was placed on appealing to the parents with such slogans as "Happy Days Are Almost Here Again" and "No More Eight Kids, One Dog, No TV, and a Rainy Summer Day!"

Though Giant does not frequent the local newspapers as often as some chains (placing their major emphasis on direct-mail circulars instead), they do highlight back-to-school for fourteen days scattered throughout the month-and-a-half long promotion in all local papers. The ads, which generally run one-half page and more, have been strictly black and white until this year. "We have recently begun playing with some color and I expect that we'll use it frequently in our back-to-school ads," comments McDonough.

Where the chain attempts to saturate the back-to-school market is in radio. For a month-long period, beginning the second week of August, McDonough takes thirty to fifty spots per station, with a total of about forty per week. "When we use radio, we go no holds barred. It's either total saturation or nothing." Depending on the decision of the local store managers, the radio spots are either institutional or institutional with a bridge for items. Again, all advertising is aimed at the mother of the house.

Last year, Giant Stores initiated a merchandise presentation and display department. "They have a workshop upstairs where they put together elaborate displays for major promotions, photograph them and write up how-to instructions to be sent out as kits to the stores," describes McDonough. For the back-to-school promotion, McDonough places strong emphasis on only one or two vocal points, steering clear of the little dribs and drabs many chains scatter throughout their stores.

"Last year, we had major displays for the little kids and campus age youth, strong elaborate displays centered in prime locations of the various departments." The displays were an accumulation of stationery, accessories, footwear, and apparel to accentuate all areas of back-to-school. "In our more modern stores, which have been designed to accommodate window displays, we tied in the back-to-school fashions," mentions McDonough.

For Fall 1972, considerable adjustment is being made to Giant's back-to-school promotion. "The campus and high school fashions have become so basic in the past couple of years that our '72 back-to-school promotion will probably revolve around jeans and skinny-rib tops," says Lesser. What direction this promotion will actually take is still undecided, "but we'll definitely need some kind of a gimmick to get the kids involved in back-to-school this year."

Fortunately, in the children's market there is still a call for the dressier fashions. "But the campus crowd doesn't even buy two or three pairs of jeans each fall. They wear what they have until they get holes in the knees and then that makes the jeans even more valuable," says McDonough. Lesser anticipates making up for the lack of sales in dress-up items with tops, accessories, and big-ticket items such as coats.

Continues McDonough: "We've recently hired a special events director who will be planning special programs to attract and entice the back-to-school customer and his parents. And you can bet that special attention will be given to the blue jean campus crowd."

Value House Enters N.J.

PARAMUS, N.J.—Value House, said to be currently the largest discount catalog showroom in New England, is moving into New Jersey. The Garden State is the home of its parent, diversified Supermarket General Corporation.

In addition to opening a large catalog showroom here in early 1973, the Lewiston, Me.-based chain also announces a 40,000-square-foot location this fall in the Essex Green Shopping Center. A Portland, Me., unit, now at 20,000 square feet, will expand to 26,000 square feet.

In Walla Walla, A Replacement

PORTLAND, Ore.—A recent new store opening announcement by President E. Hart of Pay Less Drug Stores, Inc., illustrates the radical change that has taken place in the drugstore field in recent years.

Hart announced that his company will open four new stores this year. These stores, all averaging around 45,000 square feet, will be located in Redding, Cal., and in Longview, Port Angeles, and Walla Walla, Wash. The 46,000-square-foot Walla Walla suburban parking-lot store will replace a 5,000-square-foot Downtown Pay Less unit.

And when you replace other units with store plants nine times their predecessor's size, you are talking about a full-fledged self-service discount central checkout store of which the drugs-prescriptions is only a part.

Shopping Carts Tested as Ad Medium

NEW YORK, N.Y.—An unusual point-of-purchase advertising program that is a potential revenue raiser for discounters is being tested now in selected supermarkets in Upstate New York. The program, which uses conventional shopping carts to beam ad messages to customers, was started February in twenty P & C supermarkets in Syracuse, Ithaca, Geneva, and other cities.

"We should be doing some exploratory testing in discount stores before the end of the year," relates Bruce Failing, president of marketing firm ActMedia of Westhampton, N.Y., which initiated the program. Failing maintains that supermarkets and discount chains have nothing to lose and everything to gain by leasing the air space above their shopping carts.

He estimates that a 100-store supermarket chain doing about $35,000 per store a week could earn between $50,000 and $60,000 a year in ad revenue. "It's found money for them basically," says Failing. "There's no investment on their part except the few minutes it takes a clerk to change the advertising message every thirteen weeks. There is no maintenance and no expenses are involved."

This is how the system works: ActMedia leases the space from the chain and sells it, in turn, to companies such as Reynolds Metal or General Foods through the ad agencies. The agencies supply the artwork and ActMedia handles printing and distribution of cards to the stores. Payment to a chain is determined by number of cash-register transactions per week ($7 per thousand transactions for space on the inside of the cart facing the customer; $5.50 for outside space).

The ad message itself is fitted into a polypropylene displayer which attaches to the top of a conventional shopping cart. Each displayer pops into vertical position when the shopper takes her cart from the nesting rack and retracts automatically when it is returned. The displayer holds two four-color ad messages of half-page magazine size, one facing the customer and one facing her fellow shoppers.

AN EXAMPLE

For example, a woman shopping a P&C store recently in Syracuse, N.Y., shopping center might have found herself eyeball to eyeball with a Johnson & Johnson ad for its Shower to Shower woman's body powder, advising her that: "You Stay Fresh Longer."

All together, twelve products from different manufacturers, ranging from body powder to apple pie, are being tested by a team of graduate students directed by Dr. Wendell Earle, professor of marketing, New York State College of Agriculture, at Cornell University. Dr. Earle is a director of P&C and a consultant to the National Association of Food Chains.

Recently, Earle and a group of his students conducted 500 on-the-spot interviews with supermarket customers to find out their reactions to this particular form of advertising. "They wanted to find out if customers would resent it," Failing relates. "They reported that out of the 500 interviews, there was not a single complaint."

Failing sees this brand of advertising as an essential part of a total advertising package, including newsprint and radio. "It's not intended to be a replacement; it's a supplement. There's always been a gap in advertising from the time a woman turns off her car radio until the time she gets to the checkout. Now advertisers will have a last shot at her while she does her shopping."

5th Gee Bee at Natrona

***WALL DECORS,** as well as supergraphics, are utilized extensively to identify departments in the new 100,000-square-foot Gee Bee Discount Department Store in Natrona Heights, Pa. Note backgrounds for records and men's clothing and also supergraphics in the Action Alley, young people's apparel section. The Gee Bee store is the first phase of the new Highland Mall, first enclosed shopping facility for the Allegheny Valley. A sixth Gee Bee is to open in Uniontown, Pa., this coming July.*

	12/31/71	12/31/72	12/31/73
Cap Notes	76	226	325
Equity	1351	1454	1551
TOTAL	1427	1680	1876
Resources	33986	40888	49405
EQ %	3.98	3.56	3.14
TOT %	4.20	4.11	3.80

RETAILING TODAY

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CAN'T THE BETTER BUSINESS BUREAU FIND HONEST FIRMS?

RT has maintained for many years that if the Council of Better Business Bureaus is to establish any credability with consumers at large it is going to have to restrict representation on their Board to firms that have a clean record. President H. Bruce Palmer disagrees with this concept–he thinks that because a company is "dinged" for violating the law that should not prevent it from posing as a staunch advocate of the self-discipline of business–and garnering the glory of high position within the BBB.

RT has made a partial check to determine the quality of the present representation among the directors of the Council of BBBs.

R.C.A. has agreed with the F.T.C. to drop some of the claims they made for their "Non-Smear Color TV" and to discontinue the TV ads which misrepresented the capability of the sets.

Sears Roebuck has sold "Made in Hong Kong" sweat shirts that did not meet the standards of the Flammable Fabric Acts. Their All-State Insurance subsidiary was found guilty by the Maryland Insurance Commissioner of discriminating against inner city residents in the sale of auto insurance and was fined $12,000. In Delaware All-State was fined $1,000 when a policy was cancelled because an investigator reported an insured as a "moral risk" and as having a "bar" in his home, on the basis of finding him drinking beer and watching TV when the investigator called, and because of a single drunken driving arrest 12 years earlier.

General Foods has changed their advertising of "Toast'em Pop-Ups" as a result of the FTC disclosure that two pop-ups did not have the nutritional value of 2 eggs, 2 slices of bacon and 2 slices of toast. Earlier General Foods had signed a "voluntary compliance" agreement with the FTC to honestly disclose that "Orange Plus" was a frozen concentrate of **imitation** orange juice.

King-Seeley Thermos Co. (subsidiary of **Household Finance** which is represented on the Board) signed a consent order that they would discontinue their practice of creating catalogs with ficticious retail prices on camping products–which they then distributed to retailers helping the retailers to mislead the public.

Coca-Cola has been charged by the FTC with making false nutritional claims for "Hi-C." The FTC considers the very name "Hi-C" to be misleading.

General Motors (Parent of General Motors Acceptance Corporation which is represented) paid a $50,000 fine for producing 350,000 1970 Chevrolets that did not comply with legal requirements for backup lights. RT feels that this fine of 14¢ a car, plus the cost of the recall and the correction of the small percentage of cars that will come in, may have been less than complying with the law in the first place.

Young & Rubican Co. had the honor (jointly shared with

ANOTHER VIEW

American doctors are studying accupuncture–an ancient Chinese medical procedure. There are more things about China that Americans could study–and a starting point might be Confucius. During World War I, a man met a great many chinese while working on the Liberty Bond campaigns. After becoming friends, they introduced him to the teachings of Confucius. As a New Year Greeting for 1922 he printed his favorite quotations–and RT hopes to pass them on for another 50 years.

"When we see men of worth we should think of equalling them; when we see men of contrary character we should turn inwards and examine ourselves."

"Fine words and an insinuating appearance are seldom associated with true virtue."

"Do not neglect to rectify an evil because it may seem small, for, though small at first, it may continue to grow until it overwhelms you."

"Those who are without virtue cannot abide long either in a condition of poverty and hardship, or in a condition of enjoyment. The virtuous rest in virtue; the wise deserve virtue."

"The superior man does not even for the space of a single meal act contrary to virtue. In moments of haste he cleaves to it. In seasons of danger he cleaves to it."

"What you do not want done to yourself do not do to others."

"Let a man's labor be proportionate to his needs. For he who works beyond his strength does but add to his cares and disappointments. A man should be moderate even in his efforts."

"As riches adorn a house, so does an expanded mind adorn and tranquilize the body. Hence it is that the superior man will seek to establish his motives on correct principles."

"Be slow in speech but prompt in action."

"The superior man thinks of virtue; the small man thinks of comfort. The superior man thinks of the sanctions of law; the small man thinks of favors which he may receive."

"The cultivator of the soil may have his fill of good things but the cultivator of the mind will enjoy a continual feast."

"I will not be afflicted at men not knowing me; I will be afflicted that I do not know men."

Chrysler Corporation) of being party to the first FTC consent order for violating Truth-in-Lending. Their national advertising offered purchase terms that were not customarily available through Chrysler dealers.

New York Telephone Company (a subsidiary of American Telephone and Telegraph, the parent company, which is represented) was publicly censured by the New York State Public Service Commission for their failure to comply with an order to improve the pay phone service in New York City. An investigation disclosed that 13% of the outdoor pay phones and 6% of the indoor phones were out of order.

Macy's leased space to a concession, Vigilant Protective Systems, Inc., who was forced by the New York City Department of Consumer Affairs to refund $125,000 on contracts because Vigilant took advantage of non-English speaking purchasers and did not advise purchasers of the right to cancel door-to-door sales during the 3 days following signing.

Consolidated Foods (represented through a subsidiary—Electro-Lux) has had serious problems with their Hollywood Brands candy bars. The FDA found rodent hairs in some of the candy—but because of administrative delays (no voluntary recall was made by Hollywood Brands) much of the contaminated product was sold before being recalled. In California 1,250,000 Pay Day candy bars were found to be short weight—as much as ½ oz. in a 2 oz. bar—or 25%.

RT should point out that the following firms are represented on the Board of the Council of BBB—and RT did not, in the limited check of the past 2 years, find corresponding situations in which they were involved: **Whirlpool, Parker Pen, Bank of America, Hearst Magazine, Zenith Radio, CBS, Johnson and Johnson, Cowles Communications, Goodyear Tires, Kraftco, General Mills, New York Life Insurance Co., General Development Corporation, Los Angeles Times, Gannet Co.**, and **Union Carbide.**

It seems that the larger number of firms for which no violations were found indicates that there are companies that, for extended periods of time, can operate within the law. Common sense would seem to indicate that the Council of BBB would pick their directors from among such firms.

BUSINESSMEN IN PANIC

The following is quoted from a bulletin prepared by an association of collection agencies, for distribution by the agencies to their clients. It is based on HR 10835 (Holifield) and S1177 (Javits-Ribicoff) that would create a Consumer Protection Agency (which the writer of the bulletin has dubbed "Big Brother super-Agency").

"This Big Brother super-Agency could, through its powers, its subpoena rights, publicity ability, by virtue of its sheer strength and unlimited government funding—this tremendous bureaucracy, on top of all existing bureaucracies, could control every facet of business lift. Confusion, fear, uncertainty—a Big Brother Government.

"Consumer activists probably now have the strongest lobby in the country. One reason for its strength is the fact that the average business man has shrugged his shoulders. He has not been aroused to be alarmed as to what is happening to him.

"NOW IS THE TIME TO ACT. Write to your Senators—the two of them. You can tell them that you are not a party of the Business-Government Conspiracy against the Consumer; that you want your right to stay in business; as a consumer, you don't want to be killed by over-protection.

"You, too, are a citizen and are entitled to the protection of the Constitution."

ARE YOU MAKING PHOTOCOPIES OF RT?

You will be interested in a recent decision handed down in a suit brought by a Baltimore publishing house, Williams & Wilkins, against the Department of Health, Education and Welfare. It seems that HEW had subscribed to several W & W publications for their libraries—and then their libraries made photocopies of articles for distribution to the persons concerned with that subject matter or requesting the articles.

Williams & Wilkins took a practical approach and suggested that each of the HEW libraries should pay a reasonable, annual license fee for the right to make single copies of articles. The Commissioner hearing the case for the U.S. Court of Claims upheld the argument that the photocopies constituted an infringement of the copyright of the publisher.

RThought: At the price charged for RT, it is silly to spend time and materials making photocopies—when several people should have their own subscription. Just recently I was in a major bank talking to one of the Vice Presidents when he commented on an article he had just read in RT. I knew he was not a subscriber—which explained the fact that the issue that had just been passed on to him was over 2 months old! He could have had the same stimulus 2 months earlier—with his own subscription.

NEW PROCESS—AGAIN

In March, RT reported on the advertising of New Process Company under the title "New Process Company—Hot Stock, Cold Advertising." The complaint about the advertising of mail-order slacks was the cheerful letter reading "I am taking it upon myself to mail 2 pair . . ." and the claim that the slacks "look like $20 a pair slacks" (RT commented that they did appear to have 2 legs, one waist, etc.).

RT has again heard from Mr. Blair—as follows "Within the next few days I'm going to send 2 pair of our miracle new "JB" shoes to your home—yours to try FREE—with my compliments." The second time around I knew what was coming—like paying too much attention to the "FREE" and too little attention to the word "try."

On the back of the page comes the hooker—"Now, there's just one thing. **I can't** send your shoes until you tell me your size, which of the 5 handsome new styles you prefer and whether you favor brown or black or some of each."

And in between we find that ". . . best of all; even though they look like $30 a pair, our price is only $15.95! That's not for one pair, but for TWO PAIRS!"

And I agree with Mr. Blair that they do look like $30 a pair shoes—they have soles and heels and lasts and uppers and insoles. And since Mr. Blair says they are $7.97½ a pair shoes I'm willing to admit that he must know his merchandise better than I do. I think this is confirmed by their policy of not doing mail order advertising within 50 miles of their home town.

THE QUALITY OF CORNELL RESEARCH

In the March 1972 issue (*Unforgiving Business, Prosecuting Deans*) RT reported the comments of retired Cornell President, Dr. Dean Malott, about the effect on industrial grants to Cornell as a result of statements made by Cornell Professor Michael Latham supporting the analysis made by Robert Choate of the non-nutritional nature of prepared breakfast foods. Dr. Malott, of course, is a director of General Foods—so his objectivity on the matter is subject to close scrutiny.

Now we have an example of Cornell research that probably pleases Dr. Malott. Internationally known Cornell Aeronautical

FINANCING THE 1970's

Where will retailers go when the banks run out of money?
Many retailers have decreased their liquidity over the past 10 years. Current ratios have dropped. The ratio of quick assets (cash, temporary investments and receivables) to current liabilities has dropped. And the ratio of total liabilities to net worth has increased.

This is possible only because of reliance on funds from other sources—and the big "other sources" is the banking system.

But what happens when the banking system itself goes for better performance of their stock? This requires high dividends—and increased leverage.

If inadequate capital funds endanger a retail business, won't it also endanger a banking system? The answer is yes—and the future problems are reflected in the number of talks now being given on the subject of meeting the banking needs through the Seventies.

The bankers are often in the position of dictating to a business the steps that should be taken to protect the business. The banks, on the other hand, have a great deal to say about the Federal Reserve Bank which is their major regulator.

RT would like to suggest that one of the ways in which banks could help insure the availability of funds during the Seventies is by protecting their lending capacity and safety—by maintaining their ratio to total resources.

And this could be done by the simple expedient of eliminating cash dividends!

Let us, as an example, use the figures for the Bank of America for the past 10 years, as shown in their 1971 annual report. This is not done to criticize the Bank of America—but because they represent the largest single segment of our banking system. In addition, they exert great leadership among all banks—if our analysis is persuasive, a change in policy on their part would be followed by major banks.

The table below shows the change in capital funds in relation to total resources, and what capital funds would have been if the Bank of America had not paid any cash dividends during the past 10 years:

	Capital Funds as Reported		Cumulative	Adjusted Capital Funds	
Year Ending	Total (000,000)	% of Total Resources	Dividends (000,000)	Total (000,000)	% of Total Resources
12/31/62	$ 804	5.99%	$ 48	$ 852	6.35%
12/31/63	852	5.53	96	948	6.15
12/31/64	885	5.43	144	1,029	6.31
12/31/65	921	5.24	192	1,113	6.34
12/31/66	971	4.92	240	1,211	6.14
12/31/67	1,030	4.80	292	1,322	6.16
12/31/68	1,097	5.11	355	1,452	6.01
12/31/69	1,145	4.74	431	1,576	6.16
12/31/70	1,247	4.19	507	1,754	5.90
12/31/71	1,351	3.98	583	1,934	5.69

Looking at the figures, one would be inclined to say that the Bank of America had done an excellent job during the past decade by increasing their capital funds by 68%—from $804 million to $1,351 million. But if they had not paid any dividends at all, the increase would have been 127% from $852 million to $1,934 million.

But more important, had the Bank of America maintained their ratio of capital funds to total resources at about 6% (this is true except for the most recent year) it could face the accelerating demand for bank funds with far greater peace of mind (theirs and the economy's) than is the case when the ratio of capital funds had dropped from 6% to 4%!

One might raise the argument that the Bank of America had to continue to pay out a substantial portion of their earnings each year in order to maintain the market value of their common stock—so that they could, if necessary, be in a position to obtain additional capital through the sale of common stock at a price that was not prejudicial to the existing stockholders. Yet the very fact that so much was paid out in cash over the decade increased the probability that new capital would be required.

The pattern of declining relative capital funds is shown in the table below which shows a 50 year history by decades:

Year Ending	Capital Funds as % of Total Resources
12/31/21	7.73%
12/31/31	11.46
12/31/41	7.63
12/31/51	5.47
12/31/61	6.16
12/31/71	3.98

What can banks do?
It does little good for RT to suggest that something that has been done in the past is wrong—unless there is an alternative that might have solved the problem.

RT feels that the alternative, just as for other growth companies, is to eliminate the cash dividend. If some form of return to the stockholder is necessary, then it could be accomplished through the form of a stock dividend. In the case of individual stockholders, the sale of the stock dividends would have produced capital gains income, at a lower tax rate.

Stock dividends, from the Bank's position, has a minor disadvantage in that some of the costs attendant to a stock dividend are not deductible as ordinary and necessary expenses; on the other hand, all of the costs of a cash dividend are currently deductible. Yet a thorough analysis would probably indicate that the unfavorable tax treatment of these costs does not have any greater impact on the bank than does the cost of underwriting (also not currently deductible) the sale of additional stock.

A free enterprise system is based on a sound, independent banking system. A sound independent banking system is based on adequate capital funds in the banking system. And it appears today that adequate capital funds are not consistent with a continued and rising dividend payout by banks.

Some retailers won't have a problem—they don't stretch.
Federated Department Stores falls in this category. For years they have enjoyed tremendous stature—because of their size and their consistently high earnings on net worth. But they do this with the most conservative accounting practices—reporting their inventory values on LIFO, using conservative asset life, and maintaining the highest ratio of net worth to total assets of any billion dollar retailer.

Federated has come through the past decade with an excellent record, as the table below shows:

Year Ending January	Shareholders Equity (000,000)	Equity % to Assets	Dividends (000,000)
1971	$ 692	59.4%	$ 43.5
1970	653	59.7	42.4
1969	612	63.0	40.2
1968	574	64.0	36.9
1967	526	63.4	36.3
1966	487	68.3	33.6
1965	449	70.5	31.5
1964 (1)	391	73.3	22.1
1963	290	70.2	20.3
1962	274	69.1	19.0

(1) Acquired Bullocks (including I. Magnins) and Ralph's Supermarkets on a pooling basis.

Had Federated paid no dividends over the past 10 years, the net worth would have approximated the total assets of the Company! Over a 12 or 13 year period, the net worth would have exceeded the amount of assets required to operate the business!

Federated has two major advantages. First, because of their great balance sheet strength, they will always remain a sought-after customer—and when money is tight, the strongest firms have the easiest time finding money (even though they may have to pay a higher price than they think is reasonable).

Second, Federated could reduce or eliminate their dividends. Over any of the 5 year periods shown, after the increase in net worth and assets resulting from the acquisition (by pooling) of Bullocks and Ralphs, the amount of the total earnings has greatly exceeded the **increase** in total assets, with the result that all of the increased assets required in the business, for their present rate of growth, could have been provided out of earnings.

Sears will get their financing through tax deferral!
Sears, with the largest deck of accounts receivables in the industry, gets a great deal of their financing, interest free, through use of installment reporting on their receivables.

For every $10 of capital provided by a Sears stockholder, there is another $2 provided interest-free, because of reporting their receivables as installment sales, by the United States government.

The table below shows that while the ratio of deferred taxes plus stock equity to total assets has dropped over the years, the deferred taxes has risen from 10% to 19% of Sears' net worth. And this has been accomplished even though the percentage of their sales done on credit has continually declined.

Year Ending January	Deferred Taxes (000,000)	Net Worth (000,000)	Combined Capital (000,000)	% to Total Assets
1971	$ 690	$ 3,708	$ 4,398	57.7%
1970	658	3,440	4,098	57.9
1969	598	3,173	3,771	57.5
1968 (1)	523	2,939	3,462	57.6
1967	574	2,732	3,306	62.6
1966	527	2,531	3,058	62.3
1965	453	2,339	2,792	65.4
1964	360	2,152	2,512	68.5
1963	289	1,999	2,288	81.9
1962	178	1,860	2,038	83.1

(1) accounting principles changed and starting in 1968 the value of non-consolidated subsidiaries reflects Sears' equity in their undistributed earnings; in 1967 and prior years the unconsolidated subsidiaries were carried at cost.

The differences in the level of equity to total assets between the 1968-71 years and the 1964-67 years basically reflects the difference in reporting unconsolidated subsidiaries.

Had Sears retained all of their dividends for the years shown, the combined capital would have increased $6,074,000,000 and would have then represented 76.8% of the total assets—probably higher, on a consistent accounting basis, than was true at January 1962.

RThought: many businesses continue, intuitively, to seek greater leverage. There is always the temptation to borrow more money because you can earn more than the interest cost—and if you don't increase the number of shares, then the earnings are not diluted.

There is a growing emphasis on earnings per share—rather than sound growth. The files of the bankruptcy courts are clogged with companies that were going to wait just a little while longer until the price was higher—so that the dilution was less—before getting more capital; or who borrowed at increasingly high—even uneconomic—interest rates hoping that everything would work out favorably.

The two periods of tight money during the 1960's should have taught retailers to place a higher value on a favorable debt to net worth ratio (more net worth than debt). And also the wisdom of those companies who got large amounts of money when an opportunity presented itself—as far in excess of the current need—just to insure that it was there for the plans that were already underway.

Laboratory accepted a $30,000 payment from Volkswagon to analyse the safety of the VW Bug. In reporting on damage resulting from seat displacement (when the seat comes loose), Cornell said "**When** damage occurred . . . differences were not statistically significant" when comparing the Volkswagon seat with the seat in other cars. But Cornell did not see fit to mention, as was pointed out by Ralph Nader, that the seats in VWs were damaged twice as often as any American car!

I presume that this is the type of research that Dr. Malott had in mind to attract grants to Cornell.

RThought: RT has studied many reports of nationally known firms projecting the volume that a given shopping center will attract. Most research firms seem to have a pre-printed format into which they drop assumptions and figures. The results tend to be valid for any piece of property of suitable size within a 10 mile radius.

Some of the concealments in these reports—such as failing to differentiate large clusters of population that are non-customers, yet including that groups' gross disposable income as part of the potential market—appear to be intellectually, if not actually, dishonest. Yet one would expect, from the name on the cover of the report, the highest integrity.

RT knows of no attempt to study the projections for shopping centers that have been in operation for 2 to 5 years in order to determine the reliability of the market studies of each of these marketing research firms. A study of this nature might well drive some of the unqualified firms from the field. Until it is done, retailers will be solicited on the basis of these "pre-determined conclusion" reports.

RT is pleased that in studies it has made of potential shopping center locations, recommendations have been made that (1) because of the geography, the community will not have a regional center within the next 20-30 years, (2) a center can not be successful unless it can be disassociated from the name of the town in which the land is located, and, (3) a proposed shopping center would be better suited for development as a motel-transient eating-fast food center.

BLACK DIRECTORS

Business and Society (870 Seventh Ave., NY, NY 10019—$75 per year) has just completed their second survey of the number of blacks serving as directors of major public corporations. In the past year the number of such firms has increased from 16 to 48. But there are still just two retail firms on the list—W. T. Grant, Jewel Companies.

I suspect that the message is obvious. Firms like Sears, A&P, Safeway, Penney's, Kresge, Wards, Woolworth and others—as one goes down the volume list—don't have black customers or black employees. If that is not the message, perhaps the message is that these skilled retailers, who survive by serving the consumer, are such expert and sensitive people that know all the answers—and that no benefit would be gained from the input from a black board member who just might see the corporation's conduct in the areas of consumer service, employee relations and community responsibility in a somewhat different light.

SPEAKING OUT

An editor should be allowed a few personal privileges. I have selected as mine the mention of my public speaking endeavors—on the subject of morality in the midst of retailings "beat last year" frenzy.

In Febraury I addressed the Golden Gate Retail Controllers Group on the subject of "Morality in Retailing." In March I took part in two retail newspaper advertising seminars, one put on by the Fairfield (California) *Republic* and the other by the Woodland (California) *Daily Democrat,* where, in the summary, I was able to deal with success through ethics. In April I addressed the Valleys Chapter (Pleasanton, California) of the Data Processing Management Association on the subject "Does Ethics have a place in Data Processing"; the annual meeting of the store principals of the Independent Retailers Syndicate at Scottsdale, Arizona on the subject "Legislation, Consumers and Ethics"; and the Western College Bookstore Association's annual meeting at South Shore, Lake Tahoe, on the subject of "Operating a College General Store in 1972"—and this will involve the subject of ethics.

RIF?

Reduction in Force?

Not this time. RIF stands for "Reading is Fundamental," the program started some years ago by Mrs. Robert McNamara in Washington, D.C.—and which is now spreading throughout the country.

Perhaps you have seen or heard Pinocchio plugging this program—and know that "Reading is Fun, Reading is Fundamental."

The problem is that 25% or more of the people in the United States are functional illiterates (TIME'S estimate). And the number appears to be growing—rather than declining.

In retailing we need people who can read—as well as write and do arithmetic. As retailers we are in the forefront of our community. As retailers we sell books—most of which are sold to readers (a few are carefully placed on living room tables to impress visitors).

RIF is based on the premise that if young people own their own books—books that they picked—they will become more interested in reading. The more interested they become, the more they read; the more they read, the more books they want to acquire. And the more they read, the happier they become, because they can live up to the capacity of their mind.

RIF grows only through sponsorship. Few retailers have joined the rapidly growing list of sponsors—and RT feels that this is only because retailers don't know about the program. If you want more information, write to READING IS FUNDAMENTAL, Smithsonian Institution, Arts and Industries Building, Washington, D.C. 20560, and say RT sent you.

What difference does a book make? RT is aware of what happened in a 6th grade class in a San Francisco School in the edge of the ghetto when the teacher received an unabridged dictionary as a present.

The teacher used the dictionary as a reward. If a child was good he or she would get 10 minutes at the dictionary **all by themselves**—looking up any words they wanted to!

The school your kids go to has a dictionary in every room—and you probably have 1 or 2 at home. But many school districts provide a dictionary for each room only when the school opens—and this San Francisco school has been open for 70 years.

The thirst for knowledge runs deep—unfortunately, we manage to dry it up in many people long before they get out of grammar school.

Thinking P.O.S.? If so, RT suggests that you write to Mr. L. Duane Kirkpatrick, G.A. Saxton & Co., Inc., 100 Wall Street, NY, NY 10005, and ask for a copy of his report "Retail Point-of-Sale Systems." Mr. Kirkpatrick had produced an outstanding summary of the present situation–including analyses of American Regitel, Documentor Sciences, Friden, Information Machines, NCR, Nuclear Data, Olivetti, Pitney Bowes-Alpex, Sweda and Uni-Tote. He carefully separates opinion and fact–and his report indicates considerable contact with many facets of both the retail industry and the POS industry.

The measure of consumerism. The Businessman & The Law (Man & Manager, Inc., 87 Terminal Drive, Plainview, NY 11803, $42 per year) in their April 1, 1972 issue attempted to measure the urge of state legislatures to protect the consumer: 57 bills in 19 states to ban false advertising; 67 bills in 24 states to regulate games and contests; 46 bills in 17 states to control package labelling; 39 bills in 15 states to regulate trading stamps and 113 bills in 23 states to create or expand consumer protection agencies.

Cutting the risks of high risk retailing. A special group insurance policy has been developed for protection against "felonious assault," especially for firms engaged in the liquor industry–including retail stores, suppliers or servicing firms. The policy pays owners, partners and executives $250 weekly indemnity for up to 52 weeks if disabled as the result of a felonious assault during or in consequence of the commission of a robbery, common law or statutory larceny, theft, holdup or attempt thereat or hijacking. It also pays $25,000 in case of death as well as for loss of both feet, both eyes, etc. For all other employees the coverage is $100 per week and $10,000 in case of death or disability. And at a cost of just $3.30 and $1.32 per month, respectively.

Moneysworth coaches the customer. This very aggressive publication, which calls itself "The Consumer Newsletter," is going further and further into rating products–and in the process is urging their readers to fight the one-price system. For example, in the April 14, 1972 issue they reported on lawnmowers–and after some very sound user advice, ended up with a list of models that they recommended. On all models, except Sears and Sunbeam, they listed both the normal price and the price the reader should try to get–for example "Normal price: $119.95. Try for $100." One of these days we may need another Rowland H. Macy to re-establish the one-price system.

A replacement for Elbert Hubbard? Perhaps. For years I have kept a supply of small booklets containing "A Message to Garcia" by Elbert Hubbard. All through World War II and Korea, when I was required to read the Articles of War to men under my command, I took a few minutes extra and read them "A Message to Garcia." Do you remember the name of the Lieutenant who carried the message? In any case, I had the same response to "Bits & Pieces" published by The Economics Press, Inc., 12 Daniel Road, Fairfield, New Jersey 07006. The Economics Press publishes material for employee reading–or for distribution to customers. "Bits & Pieces" fits both categories. And it reminds me of Elbert Hubbard. Write for a sample copy and rates. Oh! The Lieutenant's name was Rowan. He died in Oakland, California–in the 1930's.

Stealing is the name. Pennsylvania Retailers Association is to be congratulated on their poster which says, "What's another word for shoplifting? STEALING." It shows a young girl wearing a new serial number. 30" x 46" posters are available at $2 each–request from 234 State Street, Harrisburg, PA 17101.

There are other cash registers. A recent issue of UPDATE, a newsletter for subscribers to Buyers Laboratory Incorporated (the "Consumers Union" for business equipment) quoted a letter from the State of Wisconsin's Purchasing Office as follows:

> "The Sweda and Anker cash registers have found good acceptance with state agencies. They provide good service and reliability at much lower cost with NCR machines. We have had no problems with service, as trained servicemen are available through dealers."

Union Oil Company improves. Mr. Fred Hartley, President of Union Oil Company of California, may still be annoyed with RT (see December 1971), but his accounts receivable computer is now well trained. On a recent over-payment test, the word "Credit" appears in one of the "Minimum due" boxes, and the other is overprinted "Refund on Request." Now that I can trust the computer, there is no need for a refund–I will just buy some more gasoline from them.

Bank credit cards are preferred. This is confirmed by a question in the *"Consumer Buying Patterns in Self-Service General Merchandise Stores"* study conducted in 1971 by Mass Retailing Institute. 26% of 3,035 shoppers interviewed had credit card privileges (this low percentage reflects the fact that the customers are predominantly blue-collar (49%) and with incomes below $10,000 (55%) and thus many are not eligible for bank credit cards). However, of those with credit card privileges, 55% said they preferred bank credit cards, 42% preferred the store's own card, and 3% had other credit preferences.

And more people will use bank cards. A long-time RT reader forwarded the Nov-Dec 1971 *Bulletin* of Arthur D. Little, Inc., containing a brief observation on bank credit cards. Pointing to the 1965-70 increase in issuing banks from 79 to 9100, cardholders from 5 to 30 million, participating merchants from 14,000 to 1,000,000 and annual volume from $330 million to $6.5 billion, they forecast that by 1975 users will be charging between $12 and $20 billion. A key point of interest is that banks see credit cards as a key step in their future "direct fund transfer system" (the moneyless society). But the consumers and businesses do not! The users and participants in bank cards are satisfied with the present system. So bankers probably will try to convince users that instant withdrawals are what they really want–like chrome on GM cars and new hemlines every year.

POEMS TO MANAGE BY

Often an executive is lost in reveries–dreams of what will come in the future, or recollections of great days in the past. But the great past is wasted if nothing is done today; and the future will never arrive, if nothing is done today.

The poem that follows was sent to me by a reader–who says it has no name and the author is unknown. So RT will call it . . .

TODAY IS HERE

by Anon

Live life today, as though today were all,
As though this very morning you were born.
Your yesterdays are days beyond recall.
Tomorrow does not come until the morn.

Rest not upon the victories you have won.
If you have lost, surrender not to fear.
Your yesterdays were ended with the sun.
Tomorrow has not come, today is here.

ROUTE TO INITIAL

RETAILING TODAY

Prepared by Robert Kahn and Associates, Business Counselors.
P.O. Box 343, Lafayette, California 94549 (415) 254-4434

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A MATTER OF ETHICS

A new situation is developing in retailing (and other companies) where management has not thought through the ethical implications.

Most large employers have company-paid group insurance plans. In many cases these policies are written on a participating basis. If benefits paid are below a certain level the insurance company pays a dividend after the end of the year. And in some cases these dividends can run as high as 60% of the premium. If the book rate is 40¢ per $1,000 of insurance per month, it could be reduced to a new cost of 16¢. The employer welcomes the dividend.

But these same employers have been expanding their group plans so that employees can purchase a matching amount of insurance at the same rate. And at the end of the year the employer receives a larger dividend check—which includes the dividend on the coverage paid for by the employees.

The employer, in cases that RT has checked, pockets the entire premium—and could end up with no net cost for the insurance provided by the Company.

But what about the employee who took out $10,000 worth of insurance and paid $4.00 per month? If the dividend is 50% and the employer keeps it hasn't the employer stolen $2.00 per month from that employee? $24.00 per year? Is this the way we have to operate to make money—sell life insurance to our employees and then steal the dividend they did not know existed?

RThought: Here are two possible solutions that meet the test of ethical conduct. Advise the employees at the time they take out their individual coverage that the policy is a participating policy. Explain that the expense of tracing individuals and allocating the dividend to them, some 4 to 8 months after the anniversary date, is prohibitive and the Company therefore will retain any dividend. Or, where this is an active employee association with wide-spread participation, contribute the portion of the dividend applicable to employee-paid insurance to the employee association.

DO YOU KNOW OSHA?

OSHA is "someone" that everyone is going to know better, sooner or later. OSHA is the Occupational Safety and Health Act which became effective July 1, 1971 (See RT Sep 71).

One purpose in mentioning it now is to disclose what has happened to companies that didn't bother to comply. There are a large number of firms that feel that they can safely disregard such legislation—"nobody is going to make me do all that work" is the brave expression voiced **before** the inspector arrives.

Q.: WHAT WOULD HAPPEN IF MARRIOTT OPERATED STORES?

A.: All other retailers would have to raise their standard of service.

I have stayed a dozen times at some 5 or 6 different Marriotts—and have never had a bad experience. Recently, I was in Chicago at their hotel near the airport. The pleasures of good service were immediately apparent. When I announced that I had a reservation, the clerk pulled a partially completed form from a file at the center of the desk—and within 15 seconds I was signing my name on the form and she was imprinting my credit card. None of the shuffling and questioning that happens in almost every other hotel. And no extra forms to fill out at the desk—which always seemed foolish when reservations are made days in advance.

As the bellman was taking me to my room, he asked where I came from and when I said "San Francisco" he immediately asked, "Have you visited our new hotel that we just opened in Berkeley?" I was startled—a bellman, 2000 miles away, working in 1 of a chain of 14 hotels being sufficiently informed to know that (1) the Berkeley hotel had opened 3 weeks earlier, (2) that Berkeley was near San Francisco, and (3) wanting me to know about it.

Knowing a bit about the Marriott organization, I asked if he was in their profit-sharing plan and he immediately, and proudly, showed me the pin on his lapel and announced "Four years!" He then told me about their training program, describing facets from the college students during the summer (no envy), to the lad in the kitchen who had been coached in English by others on the hotel staff and who was now "Manager of Dishes."

At lunch the next day my waitress asked, when I ordered pie, "Would you like some ice cream on it?" I said yes—following a multi-decade old rule of always buying something when there is suggestive selling. (I buy something extra about twice a year). When serving the man next to me, who asked, "Is the corned beef lean?" she replied, "I served one portion and it was, but why don't I bring you some and if you don't like it I can take it back."

Three contacts—a desk clerk, a bellman, and waitress—and all of them producing good vibes. But that has happened every time I have stayed at a Marriott.

If any retailer could accomplish the same results with his staff that the Marriott organization has accomplished with theirs, even firms the size of Sears and Penneys and Safeway would have to watch out.

During the July-December 1971 period, the U.S. Department of Labor–

Inspected 9,300 establishments
Found 20% in full compliance
Followed up on 686 employee complaints
Issued 5,636 citations
Covering 19,578 violations (3.5 per citation)
Proposed $361,692 in penalties ($64 per citation, $18 per violation)

Things like this can add up–and they don't include the cost of meeting with the inspector–and explaining to the local newspaper/radio/TV station why they received notice of your citation.

But this is not the entire story. Regulations under OSHA are in the process of being released and include such choice items as the following:

"Toilet facilities shall be provided as to be readily accessible to all employees. Toilet facilities so located that employees must use more than one floor-to-floor flight of stairs to or from them are **not** considered as readily accessible. As far as is practicable, toilet facilities should be located within 200 feet of all locations at which workers are regularly employed." – (try that last sentence on your warehouse!).

"Lunchrooms–general: in all places of employment where employees are permitted to lunch on the premises, an adequate space suitable for that purpose shall be provided for the maximum number of employees who may use such space at one time." (A simple solution is to ban eating on the premises but this hardly helps the employees).

The result of such unrealistic rules, plus the arrogant manner in which some inspectors are operating, has prompted a flow of letters of complaint, mainly from small businessmen, to their Senators and Representative who, in turn, are printing the stories in the **Congressional Record**. Most Congressmen indicate that this is not what they intended when they passed the act.

RThought: It appears that the inspectors are starting with construction companies and factories, leaving retailers for later. But it would be wise to insure that top management is kept informed of all contacts made by OSHA inspectors, including a report on the attitude and reasonableness of the inspector and the authority behind the rules and regulations he is seeking to impose.

FUNDAMENTALS OF CONSUMERISM – FIRST YOU TELL THE TRUTH

In the past RT has complimented the programs started at Giant Foods under Esther Peterson, the first Consumer Advisor to a President (LBJ) and now to a major food chain. Much of what has been reported here–as elsewhere in the press–has been based upon what Giant Foods said they are doing.

Of course, if what Giant Foods says is not the truth–then much of the praise has been unearned. And Giant Foods has raised serious question about the accuracy of their statements.

Let's quote Senator Bennett (from a retailing family in Utah) in the April 7, 1972 Congressional Record, when he said "The Giant Food chain received much publicity recently when its consumer adviser . . . took full-page ads urging housewives not to buy meat and implying that the strengthening of farm beef prices was to blame for higher over-the-counter prices. Mrs. Peterson . . . neglected to point out that Giant Food and other retailers could actually purchase beef carcasses cheaper in March of this year than in August last year, when the price freeze was imposed."

Senator Curtis, on the same day, provided the following data: on Friday, August 13, 1971, the average price of Midwest choice beef carcasses, 500 to 800 lbs., was $54 per hundred weight and on March 21, 1972, when the Peterson ad ran, the price was $53.25; "When they (Mrs. Peterson and Giant Food President Danzansky) told Mr. (Assistant Secretary of Agriculture Dick) Lyng that they did not believe his information was correct, he suggested that Mr. Danzansky call in the company's beef buyer and ask him. I understand that Mr. Danzansky did this, and Giant's buyer confirmed this information in the presence of Mr. Lyng, Mrs. Peterson and Mr. Danzansky."

Senator Curtis then proceeded to quote from Giant Food's current annual report in which emphasis was placed on higher costs–followed by increasing margins.

Congressman Skubitz of Kansas put on the record the following: "The ultimate in gall, in chutzpah, came when the Giant superchain lifted, with permission, of course, a commendatory editorial from the **Washington Post**. That editorial made the Giant and its consumer adviser out to be saints, whose primary devotion is to the public weal." Mr. Skubitz pointed out that the Post had neither printed nor replied to his letter correcting the facts.

On April 13th Congressman Rarick of Louisiana entered some extended remarks including his observation, "Mrs. Peterson's Giant Food store ad was not only false and fraudulent but was in reality exactly opposite from the existing facts and conditions readily available to any economist or true friend of the consumer . . . Farmers and consumers alike are entitled to know just who Mrs. Peterson is–this woman who served as an advisor to two Democratic Presidents and is being promoted by the left-wing news media as Ralph Nader in the grocery store." Mr. Rarick then continued into one of the classic "guilt by association" indictments that occur so often under the protection provided to the floor of Congress, including quotations from Congressional testimony as far back as 1948.

RThought: There is no place for dishonesty in retailing–whether expressed by a consumer advisor or a retail executive. It is even worse when the dishonesty is perpetrated by a person holding the position of "Consumer Advisory." Mrs. Peterson may have been unaware of the facts when she wrote the ad. If that is true, she had no right to write the ad. To excuse every inaccurate retail ad because the writer did not have the facts is to condone and encourage **incompetency and disregard for the truth.**

It is even worse when such incompetency is evidenced by a person wise in the ways of the political administrations in Washington. Surely Mrs. Peterson must have been aware that there were Senators and Congressmen who would protect their cattle-raising constituents from such an attack as she mounted.

The result is that retailing, at least in Washington, has a black eye and Mrs. Peterson has two black eyes. And RT is likely to question closely future statements by, about, or involving Mrs. Peterson or the Giant Food organization. It will take a long time to earn back the position forfeited, even though it may have been forfeited through ignorance; and the reaction of RT is probably similar to that of many Giant Food customers.

ANOTHER APPROACH TO PER DIEM

Even the "junk mail" can contain thought starters. This happened with a sample mailing of UPDATE, the monthly supplement to equipment reports issued by BUYERS LABORATORY. The April 1972 issue contains a suggestion from RayMcNeill of the Association of Internal Management Consultants on per diem:

> "We use a per diem rate to cover food and laundry only. This rate is established at $10 per day or $5 per half day with noon and midnight being the cut-off points. Actual expenses are reimbursed for items where you would normally get a receipt, such as hotels, air travel, and rented cars. We find this per diem rate for the meal allowance to be very easy to administer and it minimizes any questions regarding expense reporting."

USURY AND EQUAL PROTECTION OF THE LAW

During the past year or so there has been a spate of suits charging that the finance charge on revolving credit accounts constitutes an interest charge in excess of that allowed by the state's usury limit established either by law or constitutional provision.

The first defense of retailers is that the finance charge is a form of time-price differential and thus is protected from classification as interest—but merely represents an alternative pricing system, with one price for cash and the other for credit. Some states have accepted this argument; others, such as Wisconsin, rejected the argument.

There are two additional arguments that RT has not seen raised—and which appear to be significant.

First, in view of the typical (average or median) balance on revolving accounts, there is serious question as to whether the lending of money is actually involved. Moderate price specialty stores tend to have typical balances below $100 per account; family clothing and junior department stores probably average about $100 and full-line department stores might average up to $200. One would be hard put to find lending institutions with such small average loan balances outstanding—and who regularly make additional advances in amounts averaging about $20-$25 per advance. Most of the small lenders (small loan companies, pawn-brokers) are already exempt from usury limitations.

Second, and more important, is the fact that retailers are subject to the "equal protection of the law" provisions of the 14th Amendment, the same as all other residents of the United States. One case on usury, under the 14th Amendment, did get to the U.S. Supreme Court—and that was **Griffith v Connecticut,** (218 US 563 (1910)), where Giffith argued that the usury law in Connecticut was unconstitutional because it exempted from the limitations "Any national bank, or any bank or trust company duly incorporated under the laws of Connecticut," and "a pawn broker." Mr. Justice White, in his decision, said that States could establish exemptions from the usury rate limit "so long as such classification has a reasonable basis and is not merely arbitrary selection without real difference between the subjects included and those omitted from the law, and does not deny to the citizens the equal protection of the laws."

Mr. Justice White then went on to find that national banks, state banks and trust companies, and pawn brokers were, under Connecticut law, adequately regulated in other ways (although the defense of the pawn broker, on the basis that entry into the field is restricted to persons of suitable character, seems weak).

With this background, let's look at the rate limitations allowed under Wisconsin Law—the state that found Penney's in violation of the usury provisions with a 1½% per month finance charge computed on the adjusted balance. The general limitation is expressed as $12 per $100 on the declining balance (12%) or $6 per $100 add-on (10.85% (Note: all percentage rates in brackets have been computed by RT on an actuarial basis so as to produce comparability).

One is allowed $14 per $100 (14%) on secured loans under the Collateral Loan Law (this includes debts secured by mortgages, bill of sale, pledge, assignment of wages, etc.).

Licensed companies making discount loans that are payable in less than 36½ months and for not exceeding $3,000 were allowed, prior to July 1, 1971 9% per year discount (17.75%) on the first $300 and 8% (17.25%) on the balance; and after July 1, 1971, 8% (17.25%) and 7% (15.6%) respectively. In addition, lenders are allowed a service fee that is the lesser of 2% of the original amount or $20, plus a late payment fee of 1% of any default amount for each 10 days to a maximum of 5%. (36%).

Pawn brokers may make loans not to exceed $150 at rates of 3% per month (36%) with a minimum charge of $1 the first month and 50¢ per month thereafter.

Rates for small loans ($300 or less) are set by the Office of Commissioner of Banking, with no maximum set in the law; and the same is true for Savings and Loan Associations.

Finance companies are allowed, when lending on cars, to vary the rate according to the age of the car. The maximum for new vehicles if $7 per $100 (12.7%); for up to 2 years old $9 per $100 (16.2%); for 3 to 5 year old cars $12 per $100 (21.5%) and for cars over 5 years old $15 per $100 (26.6%). It is hard to understand why the interest rate should vary with the age of the car.

Mobile home dealers have a special exemption allowing them 15% per annum, (15%). Motor vehicle auction dealers have the same limit. It appears to RT that Wisconsin has created so many exemptions to their usury law that they have denied the equal protection of the law to all businessmen (including Penney's) operating in the State of Wisconsin. Thus, the present situation in Wisconsin appears to run contrary to the criteria established in **Griffith v Connecticut** and the usury law of Wisconsin should be struck down.

It won't be struck down if no one introduces this argument. This approach has been brought to the attention of firms involved in suits. RT presumes that there are good reasons not to argue this point although they have not been communicated to RT.

Wisconsin, in the opinoin of RT, violates equal protection in several ways:

1. Certain common secured tranactions are allowed a higher interest rate (14%) than that applicable to unsecured transactions (12%).

2. Certain lenders have no limit other than that set by an official of the executive branch of government (savings and loan and small loans).

3. The variation of the interest rate allowed based on the age of the motor vehicle being financed certainly cannot meet the test of "is not merely, arbitrary selection without real difference" set forth by Mr. Justice White.

Most states have these myriad exemptions from the usury limit. RT hopes that one of the current cases being argued will raise this point; perhaps all usury restrictions are already unconstitutional.

CREDIT OFFICE RATING

This is a land-mark month for the Credit Office Rating–not because of the improvement in performance but because it is the first month when we had to run two columns to accommodate the reporting stores. There is room for even more (if you wish to report your store, write to RT).

HONOR ROLL

Gus Mayer (Beaumont)	2.0	Mervyn's (N. Calif.)	3.9	Sears (N. Calif.)	4.6
Berkeley's (Fresno CA)	2.5	Wineman's (Huntington Park)	3.9	Holman's (Pacific Grove)	4.9
A. Sulka (NYC)	3.0	B. Altman (NYC)	4.0	Dayton's (Minneapolis)	5.0
Harzfeld's (Kansas City)	3.3	I. Magnin (Calif.)	4.0	Hink's (Berkeley)	5.0
Miller Bros (Chattanooga)	3.4	Maison Mendessolle (SF)	4.0	Lord and Taylor (NYC)	5.0
Gus Mayer (Louisville)	3.5	W & J Sloane (SF)	4.0	Podesta & Baldocchi (SF)	5.0
Gus Mayer (Memphis)	3.5	Wineman's (Monrovia)	4.0	Gus Mayer (Jacksonville)	5.0
Gus Mayer (New Orleans)	3.5	Roos/Atkins (N. Calif.)	4.5		

RT would welcome additional reporters from major cities. If you are interested, drop a note to P.O. Box 343, Lafayette CA 94549.

CREDIT OFFICE RATING

Information From Reporters	FEB-MAR 1972 No. of Reports	FEB-MAR 1972 Days to Bill Average	FEB-MAR 1972 Days to Bill Range	DEC-JAN 1972 No. of Reports	DEC-JAN 1972 Days to Bill Average	DEC-JAN 1972 Days to Bill Range
B. Altman (NY)	1	4.0	4	2	4.5	4-5
Brooks Bros. (NY)	1	11.0	11	1	13.0	13
Brown-Mahin (Stockton)	3	8.3	7-10	4	10.5	9-12
Capwell's (Oakland)	9	5.6	3-7	9	7.3	4-10
Daytons (Minn.)	1	5.0	5	1	6.0	6
Donaldson's (Minn.)	1	7.0	7	2	8.0	7-9
Emporium (SF)	6	10.5	7-18	5	13.0	11-15
Famous Barr (St. Louis)	2	6.0	6	1	5.0	5
Grodins (N. Calif.)	1	7.0	7	1	12.0	12
Gump's (SF)	3	9.3	7-12	4	17.3	16-19
Hastings (N. Calif.)	2	5.5	5-6	2	8.5	8-9
Hink's (Berkeley)	3	7.0	6-8	1	9.0	9
Liberty House/Rhodes (N. Calif.)	1	5.0	5	1	9.0	9
Livingston Bros. (SF)	1	15.0	15	2	15.5	15-16
Lord & Taylor (NYC)	1	5.0	5	3	6.0	6-8
Macy's (SF)	7	6.3	5-8	12	7.3	6-9
I. Magnin (N. Calif.)	5	4.0	4	5	4.4	4-5
Maison Mendessolle (SF)	1	4.0	4	--	--	--
Penney's (Oakland)	2	5.5	5-6	2	6.0	5-7
Penney's (Minn.)	1	6.0	6	2	6.5	6-7
Penney's (Phil)	1	6.0	6	--	--	--
Penney's (St. Louis)	1	7.0	7	--	--	--
Podesta Baldocchi (SF)	1	5.0	5	1	5.0	5
Roos/Atkins (N. Calif.)	2	4.5	4-5	2	5.0	5
Saks (NY)	1	10.0	10	1	12.0	12
Saks (SF)	2	5.5	5-6	5	6.6	6-7
Sears (N. Calif.)	5	4.6	3-5	4	5.0	4-6
W & J Sloane (SF)	1	4.0	4	--	--	--
Smiths (N. Calif.)	1	7.0	7	--	--	--
Stix Baer & Fuller (St. Louis)	2	7.0	5-9	1	5.0	5
A. Sulka (NY)	1	3.0	3	--	--	--
James K. Wilson (Dallas)	1	13.0	13	--	--	--
Wolff's (St. Louis)	2	6.0	5-7	2	8.0	7-9
TOTAL	73	6.5	3-18	76	8.1	4-19

Information Direct From Stores ·	FEB-MAR 1972 No. of Reports	FEB-MAR 1972 Days to Bill Average	FEB-MAR 1972 Days to Bill Range	DEC-JAN 1972 No. of Reports	DEC-JAN 1972 Days to Bill Average	DEC-JAN 1972 Days to Bill Range
Berkeley's (Fresno)	2	2.5	2-3	2	3.0	1-5
The Blum Store (Philadelphia)	2	8.5	4-13	2	13.0	12-14
Brock's (Bakersfield)	40	7.1	5-11	31	9.2	6-12
*Harzfeld's (Kansas City)		3.3	2-4	--	--	--
Holman's (Pacific Grove)	10	4.9	4-6	8	11.4	8-12
Levee's (Vallejo)	22	5.7	4-7	22	11.1	6-17
Levy Bros. (San Mateo)	32	7.2	2-13	16	9.5	7-13
Gus Mayer (Nashville)	2	9.0	4-14	2	11.5	8-15
Gus Mayer (Beaumont)	2	2.0	2	2	3.5	2-5
Gus Mayer (Louisville)	2	3.5	3-4	2	8.0	3-13
Gus Mayer (New Orleans)	2	3.5	3-4	2	8.0	3-13
Gus Mayer (Oklahoma)	2	9.5	8-11	2	7.5	7-8
Gus Mayer (Jacksonville)	2	5.0	5	2	8.0	5-11
Gus Mayer (Memphis)	2	3.5	3-4	2	5.5	4-7
Gus Mayer (Baton Rouge)	1	7.0	7	2	6.0	5-7
Mervyn's (San Lorenzo)	7	3.9	3-4	10	3.5	3-4
Miller Bros. (Chattanooga)	13	3.4	3-4	14	3.4	3-4
** Oshman's (Houston)	8	9.0	8-11	23	9.7	7-12
Walker Scott (San Diego)	12	6.9	6-8	12	6.8	5-9
Wineman's (Monrovia)	8	4.0	3-5	8	4.3	3-6
Wineman's (Huntington Park)	8	3.9	3-5	8	3.8	3-5
Worth's-Burton's (Conn.)	32	9.5	5-15	32	11.9	9-16
TOTAL	211	6.5	2-15	204	8.6	1-17

*Initial report not computed by RT

**First computer statements

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.

RThought: The hotel room rate has always been the big problem in establishing fair per diem rates for buyers and others when traveling. Airline tickets, car rentals, and the like have never been included in per diems. Hotel room expenditures can be controlled in many other manners—such as specifying the hotel at which the people are to stay or the general level of room to be taken. In some cases the company can enter into contracts with hotel chains giving a fixed corporate rate—often at a reduction from the standard rate. If the hotel has to fill a confirmed reservation with a higher rate room, the agreed rate is charged; if with a lower rate room, the lower rate is charged. Limiting per diem to meals and laundry will greatly simplify the task of keeping the rate equitable.

"SUE THE BASTARDS"

Carl Hawver, Washington representative for The National Consumer Finance Association, said on his editorial page, "Pipe Lines from Washington" (Consumer Credit Leader, April 1972, 1000-16th Street NW, Washington, D.C. 20036, $6.00 per year) that everybody knows Ralph Nader—but that a brash law professor at George Washington University Law School is more to be feared.

The man is John Banzhaf III—and even with this knowledge, most people will not recognize the name. An MIT electrical engineering graduate who turned to law because he saw the possibility of solving problems through aggressive law practice; he has a large "law staff" to work with. These are his students. He divides them into teams and lets them follow through on reform programs.

So far he has produced ASH (Action on Smoking and Health) which got the Federal Communications Commission to require free time for anti-cigarette commercials. His students formed SOUP (Students Opposed to Unfair Practices) which took on Cambell Soup for putting marbles in the TV demonstrations to make the soup thick; PUMP (Protesting Unfair Marketing Practices) which is going after the gasoline industry; CAP (Collection Agency Practices), and LABEL (Law Students Association for Buyer's Education and Labeling).

When an unfair situation is discovered, he often advises "Sue the Bastards."

MARKET PENETRATION THROUGH EXCESSIVE UNION CONTRACTS

An experienced observer of the labor situation on the West Coast points out that GEMCO, the discount arm of giant Lucky Stores, is attempting to break much of their discount store competition by the practice of giving the union increases that are substantially more than the union really wants. This procedure worked in the food field when Lucky and Safeway led the way in giving the grocery store unions (clerks and butchers) one-year increases of almost 20%—and then delaying their price increases. The pressure on independents was almost unbearable. Their loss statements are not published—so much of the impact was concealed.

The success in the discount field has been somewhat less—but it may force out at least one major chain and many of the independents. RT's expert observer feels that the gap will be filled with such operations as Payless and K-Mart which operate non-union stores. This loop-hole did not exist in the supermarket field where non-union supers are many miles apart.

But this may well kick back on GEMCO—Lucky. Because the union can not get 100% unionization of GEMCO's competition, GEMCO may end up the loser because of their high wage rate.

VAT IS V.A.T.?

"V.A.T." stands for "Value Added Tax," sometimes called a national sales tax. This is what is being proposed by the Nixon Administration as the source of money subvention to state and local governments to provide relief from local property taxes.

RT will leave to the economists the analysis of the impact on the economy as a whole—although, to date, most economists are projecting a negative impact (higher prices, increased unemployment, reduced exports) during the first few years, with a neutral or slightly positive impact in the later years.

VAT is usually explained as a serial application of a sales tax. In retail terms, you will collect the VAT on your net sales, and you will then determine the total VAT that you paid on your purchases (merchandise, supplies, services purchased, new fixtures, building rent, etc.) and remit the **net** difference to the Federal government.

Let's look for a moment at the impact of a 3% VAT on two competing stores, and for further comparison we will structure one as a discount store and the other as a conventional department store.

	Discount Store	Department Store
Cost of goods sold	$ 6,000,000	$ 6,000,000
Gross margin	25%	40%
Net Sales	8,000,000	10,000,000

Assumption No. 1: No change in inventory level, no plant expansion or replacement.

	Discount Store	Department Store
Net Value added	$ 2,000,000	$10,000,000
VAT @ 3%	60,000	120,000
Pre-tax profits before VAT %	1½%	4½%
	$ 120,00	450,000
50% Income Tax	60,000	225,000
Impact of VAT:		
Pre-Tax profits	$ 120,000	$ 450,000
Less VAT	60,000	120,000
Tax subject to Income Tax	60,000	320,000
50% Income Tax	30,000	160,000
Combined Income and VAT	90,000	280,000
Former Income Tax	60,000	225,000
Net additional Tax	$ 30,000	$ 55,000

Note: It should be pointed out that the VAT tax is payable even if the store operates at a loss, whereas income tax is not.

Assumption No. 2: Both stores increase inventory by $1,000,000 and both buy $1,000,000 of fixtures for a new store.

	Discount Store	Department Store
Gross Sales subject to VAT	$ 8,000,000	$10,000,000
Deductions on which VAT paid:		
Cost of Goods Sold	6,000,000	6,000,000
Net inventory increase	1,000,000	1,000,000
Fixtures on which VAT	1,000,000	1,000,000
TOTAL	$ 8,000,000	$ 8,000,000
Net subject to VAT	- 0 -	2,000,000
VAT tax at 3%	$ None	$ 60,000

There are several points that retailers should keep in mind when considering the impact of VAT on their relative position in the retailing spectrum.

First, the tax will have less impact as a percentage of sales (both basic and net of income tax savings) on the lower margin stores. To the extent that parity is developing between the large chains in each camp (and within the split-personality retailers who operate both types of stores), the imposition of VAT will assist the discounters in protecting their price advantage (based on reduced "value added") over conventional stores.

Second, there is a marked tax advantage to growing organizations (in the case of explosive growth like Levitz, it might be possible for them to pay out more VAT than they collect). The secret is that there is an immediate benefit from the increase in assets (inventory, fixtures, buildings, supplies) that have been purchased subject to VAT.

Third, since VAT is a one-time payment on the purchase of fixed assets, while the reduction of local property tax rate will repeat every year (at least, the theory states this), the property tax savings works to the benefit of the rapidly growing firm who would be adding large amounts of fixed assets at current prices (the old stores will continue to get some advantage from their old fixtures which are usually assessed at lower values with increasing age).

Fourth, future equipment leases are going to find the lessees arguing with lessors over who gets the VAT credit, and I would suspect that the VAT credit, if permitted by law, would be transferred to the lessee as is done with the investment credit.

Fifth, the small firms are going to be hurt. The VAT that they collect–based on net sales, is easy to determine; the credit they get for VAT paid is more difficult to document (other than on goods purchased) and to the extent that documentation is not done, excess net VAT will be remitted to the Federal government.

Since VAT is essentially a tax paid by the consumer, at the end of the distribution cycle; and since the retailer represents the last step in that process–it would seem that retailers would be more interested, and would be doing some research, to attempt to estimate the impact of VAT in re-distributing customers among competing types of stores.

FEDERATED BETTER KEEP AN EYE ON RALPH'S

Federated Department Stores had better do some indoctrinating at Ralph's, their supermarket arm in Los Angeles (who, incidentally, are moving into the San Francisco area through acquisition of the Lo-Ray chain). The Lazuri clan have been leaders in the relative small consumer protection activity going on in the retail field.

RT would suspect that Federated headquarters would be surprised to learn that, in response to a Bill in the California legislature (SB 234) mandating that certain milk and dairy products be marked with the date upon which such products are normally removed from the shelf, Martha Randall, Ralph's Consumer Affairs Manager, has written: "If national, state, and local governments set up dating codes, stores will be faced with a tremendously increased overhead, for government codes have rarely been consistent. Many stores already have open dating, and others will undoubtedly follow their lead. The open coding issue could make stores which resist it appear guilty of hiding something from an already suspicious public. Just remember that open dating has nothing to do with health and safety of consumers, only with freshness of products. If temperature is not properly controlled, putting an open date on the item has no value whatever. Temperature is seven times as important as time in maintaining freshness."

Let's look at what Ralph's "consumer's friend" is saying. Stores and suppliers do have consistent dating codes. No grocery has anything to hide. Spoiled dairy foods won't make you sick or cost you money. Ralph's does not acknowledge that laws already control the storage temperature for dairy cases.

A few more "Consumer Affairs Managers" like this in multi-billion dollar Federated Department Stores and there will be open consumer revolt.

NAMES IN THE FTC FILES

Spiegel, Inc., because of their subsidiary, Fairfax Family Fund, a mail-order loan firm operating out of Louisville, Ky. Charge: violation of Truth-in-Lending. Specific misrepresentations alleged: loan application form is as nogotiable check; that consumer's credit has been pre-checked when it has not been; that borrower can select own credit life insurer when form has no place for selection.

Standard Oil Company of California and **Union Oil Company of California** on a proposed complaint alleging restraint of competition as a result of their arrangement with new car dealers whereby SOCal and Union agree to pay the BankAmericard and Master Charge discounts (ranging up to 5%) when the new car dealers purchase all or most of their petroleum products from either company.

Associated Dry Goods Corp., for marketing products which do not meet the requirements of the Flammable Fabrics Act, but since the complaint is joined with one against Fujisawa International Corporation, this may represent a case where the problem arose because of an inability on the part of the buyer to determine independently the flammable qualities. (See RT March 1972 "We Can All Learn The Lesson Gimbel's Learned").

POEMS TO MANAGE BY

For several years I have closed out a packaged advertising seminar, conducted for small local merchants by the local newspaper, with a presentation on "If I had a store in . . ." This went beyond newspaper advertising to the basics of retailing, particularly emphasizing how the small store could so easily take advantage of the big store through better service. And the closing portion of the talk is the following poem, which has been circulated among retailers for years, but which is still new to many.

IF I POSSESSED A STORE

If I possessed a shop or store
I'd drive the grouchers off my floor.
I'd never let some gloomy guy
Offend the folks who come to buy.

I'd never keep the boy or clerk
With mental toothache at his work.
Nor let the man who draws my pay
Drive customers of mine away.

I'd treat the man who takes my time
And spends a nickel or a dime
With courtesy and make him feel
That I was glad to close the deal.

Because tomorrow (who can tell?)
He may want the things I have to sell.
And in that case how glad he'll be
To spend his dollars all with me.

The reason people pass one door
To patronize another store,
Is not because the busier place
Has better shoes, or gloves, or lace

Or lower prices, but it lies
In pleasant words or smiling eyes.
The greatest difference, I believe,
Is in the treatment folks receive.

June 12, 1972

Put with May 1972 RT

Mr. Harlan Swain, Vice President
TANDY CORPORATION
2727 West Seventh Street,
Fort Worth, Texas 76107

Dear Mr. Swain:

I am most pleased that you shared my appreciation of the poem "If I Possessed A Store" and I am sorry that I failed to make clear that the author is unknown. I intended to do that with the phrase "which has been circulated among retailers for years". I should have indicated "Anon" below the title.

I assure you that I would not be embarrassed if you did mention RETAILING TODAY in connection with distributing this poem -- but certainly I claim no title to it.

Sincerely,

Robert Kahn

TANDY CORPORATION
EXECUTIVE OFFICES
2727 West Seventh Street • Telephone (817) 335-2551 • Fort Worth, Texas 76107

Harlan Swain
VICE PRESIDENT

June 8, 1972

Robert Kahn & Associates
P. O. Box 343
Lafayette, California

Dear Sirs:

Your poem "If I Possessed A Store" contained in the May issue of "Retailing Today" we think, very well capsulizes the secret of running a successful store.

As an operator of more than 2,000 retail establishments across the country we would like to be able to imbue all our people with the philosophy contained in your poem. Accordingly, we would appreciate your permission to reproduce your poem and distribute it to our stores.

Very truly yours,

TANDY CORPORATION

Harlan Swain
Vice President

HS:h

ROUTE TO INITIAL

RETAILING TODAY

Prepared by Robert Kahn and Associates, Business Counselors.
P.O. Box 343, Lafayette, California 94549 (415) 254-4434

Published Monthly. $10 per year.

JUNE 1972 VOL. 7, NO. 6

APOLOGY AND CORRECTION

Several readers have written for permission to reproduce, "If I Possessed a Store," from the May 72 RT. No permission is necessary. The author is unknown–not me. I found it on a sheet of paper, without reference to printer or source, author or date. I intended to convey this thought with the words "The following poem, which has been circulated among retailers for years. . . "

And to the more than several readers who have written about my arithmetic in the article "VAT is V.A.T.?" in the same issue, let me explain that there are many steps in preparing RT. There is the initial draft which I prepare, the corrected draft, the final clean-typed copy from which the final copy is set, and, of course, the final copy. In tracing backwards I found that the typesetting was true to the clean-typed copy which was true to the corrected draft which was true to the initial draft–which puts the blame on me.

In "Assumption No. 1," in the column headed "Department Store," the **corrected** figure should read:

Net Value Added	**$4,000,000**
Income subject to income tax	**330,000**
50% income tax	**165,000**
Combined Income and VAT	**285,000**
Net additional tax	**60,000**

MEASURING THE QUALITY OF YOUR ACCOUNTS RECEIVABLE

That's the title of a talk I gave recently to the 52nd Financial Executives' Division National Convention in Beverly Hills. In case you don't recognize the name, it used to be called Controllers' Congress–and is still part of the National Retail Merchants Association (which used to be the National Retail Dry Goods Association–and which does not represent all retail merchants).

I tried to make several specific points. First, the present "aging reports" coming out of credit offices are worthless–like measuring your height with a rubber band. Second, that most credit managers and controllers–pardon, financial executives–don't have the slightest idea of how valuable their receivables are. Third, there is a simple way to present the condition of accounts in a single figure. Fourth, with all the computer information available, why doesn't some one use it to say "thank you" to the good accounts. And finally, a financing plan for growth can be built on your accounts receivable.

Let's look at each of these points.

Aging reports are worthless.

Aging is based on the assumption that accounts will be paid off–a concept that fit the old 30 day account, the conditional sales contract, and even the Colonial times crop-year plans. But when most stores (the exceptions are usually the higher price specialty

STEALING AGAIN

RT has fought a long battle against the practice of stealing credit balances on charge accounts. Some of the finest names in retailing formerly indulged in this practice.

In the months since this campaign started, many stores have reviewed and changed their policy–some after being caught by RT and others hoping not to be caught.

In the meantime, there was a certain degree of smugness on the part of discounters and food retailers–because they did not have charge accounts.

So let's look at an area **where all forms of retailing indulge in stealing**–stealing from their suppliers. The question that senior executives should be asking themselves is a simple one: do I apply the same standards in seeking to pay vendors for overshipments as I do in claiming shortages on undershipments? RT would venture the guess that in more than 50% of the cases–for all types of retailers–the answer is that management makes little or no effort to make payment for overshipments.

RT recently listened to a discussion by a store controller who explained that all overshipments were properly recorded as received so as to insure the accuracy of computing inventory shortage under the retail method–but that no contact was made with the supplier to indicate that an over-shipment had been received. If the supplier did discover the overshipment (a most unlikely event when not notified) the record of the receipt would authorize the additional payment. If the supplier did not discover his mistake, the open items became additional income to the store at the end of the year.

RThought: check your own receiving department and controller's office to see what happens in the case of overshipments. Insist that all vendors be advised of overshipments–in detail (number, style, quantity). Follow up the original notification at least twice to force the vendor to bill you for the overshipment. If the value of the overshipment is relatively small (measured against the size of the vendor), RT would not criticize clearing such items at the end of the year; but if the amount is significant, additional efforts should be made to accomplish payment.

If an annual analysis of overshipments indicates a recurring problem with a particular resource, RT feels that the store management has an obligation to bring the matter to the attention of a top official of the vendor firm.

stores) have most of their accounts receivable dollars tied up in revolving accounts, the one thing the merchant does **not want** is to have his accounts pay off. It would seem, therefore, that his report should be structured to tell how likely the customer is to keep paying (and thus keep buying).

The problem starts with the terms used in monthly accounts receivable status reports—terms that seem simple, like "30 days past due." Let's look at what a typical comparison might show in an aging report of revolving accounts:

Status	January 1972	January 1971	December 1971
Current	60.3%	59.4%	65.3%
30 days	25.1	26.1	23.0
60 days	7.2	7.3	5.4
90 days	2.7	2.6	2.1
120 days	1.1	1.4	1.0
150 days	0.7	0.8	0.8
180 days	0.6	0.6	0.5
Over 180 days	2.3	1.8	1.9

I will now ask you, as a reader, just as I asked the collected financial executives: were these accounts worth closer to face value in January 1972 than in January 1971? Than in December 1971? The current group appears to be better—but the over 180 days appears to be worse. There is no single figure that represents the status or value of all of the accounts. This type of report is worthless to the supervisor of credit, to the supervisor of that supervisor—and to the top executive who worries about the fact that he has more dollars tied up in accounts receivable than in any other asset.

If the columns headed January 1972 and January 1971 were figures for the same month—but for different stores—any comparison would be completely worthless. Because no one agrees on what constitutes a 30 day or a 90 day past due account. The variation of standards is worse than the situation facing retailers 50 years ago when Professor McNair went to work on the question of standardizing the definition of gross margin.

Let's use an "x" to indicate a skipped payment, "10" to indicate a full payment and "7" to indicate a 70% payment. With these symbols we can illustrate a variety of payment patterns which, in different stores, cause a customer to be rated as 90 days slow.

10	10	10	x	x	x
10	10	10	7	7	7
10	x	10	x	10	x
x	x	10	x	10	10
7	7	10	7	10	10

Anyone who can take the above combination of payment patterns (and the many more possible ones) and classify all of them as accounts "90 days past due," a classification that conjures up almost complete worthlessness, must take real satisfaction in producing obfuscation rather than information.

The only value in the present consistent aging reports is that they can, perhaps, be compared with the piles of old reports. I can recall when my daughter measured me one day as I lay sunning myself on the beach and said to me with surprise, "Daddy, you are more than 3 strings long!" Such is the information we now have on the value of our biggest asset.

How valuable are your accounts receivable?

I wrote on the blackboard the figures 70%, 80%, 90%, and 95%. I then asked the collected financial executive a question. If your firm went out of business today and your accounts were turned over to someone with a regular billing department (another store or a bank), what percentage of your accounts would you expect them to collect?

The answers ran approximately as follows:

% Ultimately Collected	% of Votes
70%	50%
80%	40%
90%	10%
95%	none

What was your estimate? Was it the one for which no one voted? If it was, you are correct. In the past several years the San Francisco area has witnessed the demise of the White House (department store, San Francisco and Oakland, $20,000,000 volume), Simon Stores, Inc. (Hardware, 3 stores, $20,000,000), and H. Liebes (7-unit women's better quality specialty chain, $10,000,000). In all cases the collection ran close to 95%.

In the case of the accounts collected by the bank in bankruptcy, no allowance is made for interest on indebtedness during the collection period. The bank could not cost-justify the amount collected as finance charges and about 40% of the finance charges were added to the approximately 95% collected. And finally, there is the value to be obtained from the sale of names, files, and credit information.

All told, one should be able to realize 100% of the face value of accounts receivable in a reasonably run retail establishment—a far higher realization than can ever be obtained from inventory or fixtures.

This fact—which is rapidly being recognized by major banks—should come as no surprise. Studies of credit losses during the 1930-32 depression showed that department store charge accounts had the lowest percentage of loss among all types of credit. People still pay their obligations—as shown by the fact that most stores collect over 90% of all their credit sales with either no nudging or a slight nudge when a single monthly payment is skipped.

Now that we have rediscovered this fact, it is possible to construct an entire financing plan for an expanding business on the basis of accounts receivable financing.

Measuring your accounts with a single figure.

If we forget the concept of "paying off an account" and think in terms of "keeping an account open," we can then change our thinking about how to evaluate an account. Under these circumstances, the most important record is the most recent; whereas under aging, the oldest information is considered the most important.

And the most important information is, "Did the customer make a payment during the last cycle?" By payment, I mean any payment—not a full payment or an 80% payment or any other artificial criteria. When a payment is made three important things are confirmed: (1) the address is current, (2) the amount owed is confirmed, (3) the customer intends to pay.

When a payment has been made, the retailer can assume that the balance is not at risk.

When is the balance at risk? Not until there are two consecutive cycles without payment. It is not until the end of the first cycle without a payment that we are even aware there is no payment—and with some billing programs there is only a "gentle reminder" included with that statement. At the end of the second consecutive cycle we know we have a problem. Now I would classify the entire balance as "at risk."

This is a simple figure to compute every month for every cycle, even when on a manual billing system. There is a flasher card in front of any account where 2 or more cycles have passed without a payment. It is placed there by the biller. As each tray or cycle is completed, someone runs an adding machine tape of the balances on all cards behind "Collect" flashers. It takes a matter of 5 minutes or less per tray.

DISCOUNTERS IN CONVENTION

The annoucement said, "**Mass Retailing Institute**" but the people there talked about themselves as "discounters" and spoke of their industry as "discounting." In prepared talks someone might refer to "self-service mass retailing stores"—but they were in the minority, particularly when the speaker was not one of the national officers, directors or staff.

RT feels that "discounting" is not a nasty word—usage has given it a relatively precise meaning. Actually, it is much more descriptive than are the terms "department store" and "specialty store." Who cares whether a store is divided in departments, divisions, boutiques or regiments—and aren't many specialty stores as minutely divided as are the so-called "department stores"? If the "other type" of store can be identified on the basis of their internal organization structure (which offers no benefit to the customers), why are not the discounters happy being called discounters (a term with far more implication of benefit for the customer)?

General Comments

Times are changing, but retailers are not. MRI (Mass Retail Institute) is predominantly male, predominantly white. There are a few women—but no blacks, browns, or yellows. To this extent they are no different from the other retail organizations. But time is marching on and one hopes that ultimately the management of retailing will be more representative of the people that make up the United States—all of whom are customers of our stores and many of whom are our employees (usually at a low level).

MRI tends to follow more closely the industry cooperation pattern of the supermarket operators than the department stores. The banner at the head of the room said, "Progress through dedication to shopper and community." It may sound corny—but I don't recall that the National Retail Merchants Association says anything close to this. Supermarket Institute (SMI) has long had a slogan "More For All."

The delegates present kept telling themselves that they are doing innovative marketing, that they are leading a retail revolution. It was George Santayana who said, "Those who cannot remember the past are condemned to repeating it"—and since most retailers don't know that 80 years ago the department stores held the position now held by discounters (see RT Jan 1972 "Re-inventing the Wheel"), the discounters have succeeded in re-inventing the original department store.

Why people shop at discount stores.

As in 1971, the convention started out with the presentation of an industry study—this year entitled, "Personal Activities and Related Purchases of Self-Service General Merchandise Shoppers." As it was last year, this MRI study was supported by the DuPont Company and the actual survey was conducted by Ralph Head and Affiliates, Ltd. The presentation was made jointly by John Swajeski of DuPont and Jim Head of Ralph Head & Affiliates.

The same team, at the 1971 convention, presented "Consumer Buying Patterns in Self-Service General Merchandise Stores" in which they supplied why people bought where they did—and concluded the general order of importance was quality, assortment and price.

This year Swajeski and Head tried to show that price was really most important—because the most frequent reason given for buying at a discount store was price.

The study covered a wide variety of products and in each case the report shows what percentage of customers purchased certain categories of merchandise at discount stores, at other stores or not at all—and in the first two groups, the reasons for purchase.

For example, on the question of baseball merchandise, 65% purchased their needs at a discount store, 29% elsewhere and 6% did not purchase baseball items.

For those who purchased at a discount store, 69% gave price as their reason and 12% gave convenient location. For those who purchased elsewhere, 36% indicated they did so because of good quality, 21% because of a preferred brand, 15% because of better variety and 10% because of convenient location (11% also reported a better price elsewhere).

The impression gathered from the report was summed up by the article in the "Daily Convention Reporter": "Price appears to be the major factor causing shoppers to buy at discount stores, John Swajeski of DuPont and Jim Head noted in their presentation, 'However, shoppers feel they can find better variety and quality in other type stores.' " The same impression was conveyed by newspaper items and trade paper reports.

RT says that this interpretation is wrong. It is fortunate, perhaps, for conventional retailers that this report is being so widely mis-interpreted. There can be no better boost for conventional stores—and disservice to discount stores—than to believe that customers go to discount stores for price and to other stores for quality and assortment.

Those who have accepted this interpretation have failed to apply to this report what they already know about the consumer—and which was confirmed in the MRI report released in 1971.

Ask a man who has just bought a Chevrolet Impala why he purchased it from a certain dealer and he will tell you, "I got a good price." If price was the only factor involved, he would not have been looking at an Impala in the first place—he would have looked at a Datsun pickup. In this situation we all understand what happened—the man decided that the quality that he wanted was an Impala with air conditioning, automatic transmission, power-disc brakes, power-steering, AM-FM stereo radio with 8-channel tape and cassette player, power antenna, white-wall radial tires, power doorlocks, 6-way power seat, a three-tone paint job, and the deluxe trim package. Having decided on this quality, he then went out to get the best price.

And this Impala buyer—who didn't want a Buick or Mercury or Chrysler (even though they may have cost less)—is exactly like the discount store customer who wanted some baseball equipment and went down to the convenient neighborhood discount store to buy it. On the way out the interviewer asked him why he purchased it at the discount store and he said "price."

But he implied—and the interviewer and the interpreter were not smart enough to understand—that he would not have purchased at a discount store if he had not been satisfied with the quality and assortment offered. Having accepted that quality and assortment, the final evaluation before parting with his money was "price"—and when that was acceptable, the transaction was closed.

Other sessions of interest.

Although drugs are undoubtedly a major problem among retail employees, they are not as bad as Dr. David Sohn indicated when he said that in the 1970 New York State Labor Force, "Sales workers had the highest rate of regular users." Dr. Sohn was talking to retailers—and he assumed that "sales workers" were "retail employees."

"Sales workers" is a major division (1 of 12) in the Dictionary of Occupational Titles and covers about 7% of the work force. Less than 40% of the "sales workers" are in fields considered to be retailing. The largest portion include people who sell to other than consumers (the traveling salesmen), insurance, stocks and mutual funds, real estate, telephone order clerks at a wholesaler or manufacturer, traveling magazine salesmen and hot dog vendors at the ball park. Even when one considers salesmen in retailing, they forget that this includes restaurants and eating places, automobile dealers and gas service stations—as well as department stores, discount stores and apparel stores.

With this understanding of the word "sales worker," we realize that the pattern for "sales workers" may not apply to "retail employees." We have long known that alcohol (a drug) has been a problem for outside salesmen of all types—and much less of a problem for the sales workers in our retail stores. Since the major drug among "sales workers" is barbiturates, the concern is much less.

Perhaps New York State will one-day report on employees by industry rather than occupation—and then we might find out just how serious the drug problem is among our retail employees. Most studies indicate that the problem is less serious among females than males—and the discounting industry is a very heavy employer of women.

This is not intended to down-grade the seriousness of the drug problem (RT has written on it often) but it is intended to put it in proper perspective for the retail industry.

Discounters are concerned about the quality of their building. It evidences itself in concern about signing 25 year leases on buildings that will last 15 years. And the question about how to handle the midlease remodeling that will be necessary. Some of the profits in the early years of the location are going to be overstated because the occupancy costs are understated. It is easy to depreciate a car over a 15 year life; it is hard to get the car to last 15 years. The same problem arises with buildings.

There is concern about irresponsible discounters—and the way they reflect on the industry—but there is no movement to expose them or counteract them (discounters have learned this from other retailers who enjoy having their image impugned by association with undesirable fellow retailers).

The new FTC rules, orders and utterances on advertising will have a great impact in years to come. Can the term "discount" be used? Discount from what? When is a "Sale" a sale? How can comparative prices be used on unbranded merchandise? How does the industry provide the independent testing facilities to match those of Sears or Penney's—or even of Macy's?

Additionally, discounters are concerned about the poor quality of the salespeople. Customers are asking more questions—and untrained salespeople can not answer them. And finally discounters complain about the cost (3% discount) of bank credit cards.

All of which confirm that discounters of today are the department stores of tomorrow—as their occupancy cost, advertising cost, credit cost, and payroll costs rise to the level of present department stores.

The department stores had better watch out. Discounters are moving ahead of conventional stores in their use of EDP. Not being burdened down with a stock of fully depreciated NCR Model 1500, 21, 22, and 6000 registers, discounters are taking a serious look at their equipment and systems—because they have to buy it now, for the first time.

A number of discounters are making double pass entries at the checkout registers—while conventional retailers hypothesize about the cue-up problem at area registers. The discounter's answer is simple—If I have a cue-up problem, I will open more checkouts.

But the double-pass gives the discounter information the conventional retailer is still talking about getting. Many discounters are in the process of assigning SKUs to substantially all merchandise in their stores and some are already using point-of-sale input by SKU to prepare staple stock replacement orders from their central warehouse.

The advance installation of point-of-sale equipment in discount stores, combined with the fact that fewer such machines are needed when most of the sales are handled at a checkout, and with the declining relative cost of on-line computer hookups, will probably lead to further review of the question of offering credit, particularly since firms like General Electric Credit Corporation stand ready to finance receivables and operate credit departments for volume retailers.

The disappearing difference disappears faster.

The "balance at risk" then represents the total on such accounts expressed as a percentage of the total billings for all cycles. A **significant** management report might look like this:

MONTHLY BALANCE AT RISK REPORT

	1970	1971	1972
February	4.9%	4.9%	4.5%
March	5.3	5.0	5.4
April	4.2	3.3	5.1
May	3.6	3.6	5.0
June	3.8	4.7	
July	3.2	5.7	
August	4.5	6.0	
September	4.3	6.4	
October	4.4	5.8	
November	3.8	4.7	
December	4.5	4.9	
January	4.8	6.1	

Report preparation is simple. Each month add a single figure, make new photocopies, and forward to top management. Top management will throw out the prior report and keep the current report. And in a single figure they will be able to interpret whether the quality of their investment in receivables has increased or decreased—they don't even have to look at any dollar figures. **It seems to me that top management would demand such a report.**

Why not say "Thank You"?

A much better use for all this payment record manipulation would be to identify those accounts who didn't miss more then 2 scheduled payments—so that at the end of the year you can send them a nice thank-you note. These are the customers you depend on for your volume each year. You spend a great deal of time dunning the slow pay—and in the process make new enemies and drive some customers to other stores; why not say "thank you" to the fast pay and perhaps he will be a bit happier to spend his ...ey with you.

And finally, there is a financing plan.

Most financial analysts have forgotten one of Roy Foulke's key ratios—the quick ratio or "acid test." This is the ratio of cash, cash equivalants and accounts receivable to total current liabilities. A 1 to 1 ratio here, despite any other ratios, shows the liquidity necessary to properly handle your trade activites.

When accounts receivable become substantially larger than inventory, it is very possible that a firm that does not have a 2 to 1 current ratio can still have a 1 to 1 quick ratio.

RT feels that some new standards can be established for sound financing of an expanding retail business. All credit raters have long since abandoned the idea that a retailer is weak if he does not own his building—and now more and more finance institutions and analysts accept the fact that the retailer does not own his fixtures (there is a much smaller claim on the assets of the business under an equipment lease than there is under an equipment contract).

That leaves just inventory and receivables to be financed. Inventory is partially financed by interest-free current payables and accruals—often to the extent of more than 50%. Receivables, since we have shown that they have a value close to face value, are properly bank business. Thus the use of an accounts receivable line of up to 80% of receivables (with 20%-plus of the receivables being financed through equity) represents sound ...ancing. Under the Uniform Commercial Code, receivables can ...re both a long-term or a short-term obligation, with the combined total being the limit of the advance by the bank. That limit, incidentally, can be higher than one would expect. We have negotiated agreements where the permitted advance for a period of 90 days each year is set at 110% of eligible receivables!

Under an accounts receivable financing plan, the interest rate is higher than that charged on short-term notes. But since an accounts receivable line does not require a compensating balance and since payments and borrowings can be made daily, so that the average amount borrowed during the year is less, the total interest expense at the end of the year is normally less under an accounts receivable line.

With the amount available under an accounts receivable line growing as the business grows, the retailer can grow much faster than when borrowing on a note basis and then making paybacks out of earnings—while struggling to handle the increasing accounts receivable that arise from the expansion.

THE SECRET OF SUCCESS AT LEVITZ

Levitz Furniture Corporation is certainly the glamour stock of the retail industry, having reached and passed a price/earnings ratio of 100 (before S.E.C. accusations). The first great impression one gets comes from their sales growth—49% for the year ending January 31, 1969, followed by successive increases of 70%, 49% and 84%! In a 4 year period their sales increased by 593%

Others are more impressed by the growth in earnings per share, which show successive increases of 62%, 46%, 53%, and 93%. In 4 years they increased by 600%!

But RT is impressed most with the following tables which show the gross margin, sales per sq. ft. (new stores weighted based on opening month) and cost value of inventory per square foot at year end:

	Gross Profit	Income Before Taxes	Sales per Sq. Ft.	Inventory per Sq. Ft.
January 31, 1968	32.95%	6.54%	$70.69	$11.28
January 31, 1969	34.68%	8.78%	68.90	13.97
January 31, 1970	36.21	8.43%	58.78	9.26
January 31, 1971	38.14%	8.98%	54.39	8.06
January 31, 1972	38.91	9.47	54.49	8.93

The pattern for success appears to be increased gross profit to cover increasing expenses (gross profit increased by 5.96 percentage points while profit before taxes increased by only 2.93) while adding space faster—space that produces less in sales per square foot of gross space—and reducing selection by providing less inventory per square foot.

RT recognizes that there are purchasing economies to be gained with volume—so that part of the increased gross profit may be the result of buying at lower prices rather than increasing relative selling prices; and RT recognizes that building new buildings may mean higher occupancy costs than taking over existing buildings that are in trouble or have a lower cost basis to the lessor; and RT recognizes that better computer control can improve turnover so that less inventory per square foot is required to support the sales.

But none of these trends suggest that Levitz is the same type of operation that it was when it appeared on the scene. RT has previously projected that by December 31, 2025, **House of Fabrics**, if they continue their present trend, would have to produce a gross profit of more than 100%. Levitz will apparently reach that point by the year 2013!

But Levitz has much better control of their inventory—the opening inventory at cost as a percentage of cost of goods sold for the **following** year was 18.37% as of January 31, 1968, and 18.92% as of January 31, 1972, a much better performance than **House of Fabrics**.

PREGNANT BRIDES AND JUMPING GROSS PROFITS

We all read reports that a high percentage of today's brides are pregnant at the time of their wedding. And for years we have been aware of the unusual statistical situation–that so many of the first babies are "premature." I can recall a case of a true premature arrival whose parents said they were going to name the child "Fingers" because either in front of them or behind them, everyone (when told the birth date) started counting.

RT has noticed some similar unusual occurances when companies, particularly in a glamour field, go public. It seems that their gross profit takes a sudden jump the last year before being offered to all of us waiting eagerly on the outside. Of course, we have always recognized (with the full approval of our fine accounting friends) that there are two generally accepted accounting valuations of inventory: private and public.

Sometimes one of the old stable companies goes public–and one of the reasons they show nothing of the glamour of retailing is that they don't have a jumping gross profit. In recent underwritings, this showed up in both Leath and Company (founded 1903) and Sage-Allen & Co., Inc. (founded in 1889). For the past 5 years they showed the following gross profit percentages:

Year	Sage-Allen*	Leath
1971	37.2%	46.0%
1970	36.5%	46.0%
1969	36.7%	45.7%
1968	36.0%	45.5%
1967	35.4%	45.4%

*Year ending January following

Now let's look at some younger companies–Danneman Fabrics (apparently 1 store until 1967), Piece Goods Shops, Inc. (1 store until 1963), and Naum Bros. (1 store until 1964). For their 1971 fiscal year these companies did $4 million, $10 million, and $12 million, respectively.

Fiscal Year	Dannemann (1)	Piece Goods (2)	Naum (1)
1971	44.6%	35.8%	23.6%
1970 (3)	43.7%	33.4%	22.7%
1969	39.5%	34.0%	22.3%
1968	40.2%	28.9% (4)	21.4% (4)
1967	40.2%	27.6% (4)	22.7% (4)

(1) June 30th fiscal year
(2) July 31st fiscal year
(3) Because of a weakening market, many new issues planned for late 1970 or early 1971 were delayed to 1972.
(4) Unaudited income statements

No special significance should be given to the selection of the sample firms reported–a list of 50 or more "new issue" retail firms could be documented. A few keep it up after going public (see RT Dec 1971, "Fascinating Patterns" re. House of Fabrics, and this issue for "The Secret of Success at Levitz"). But by far the most common pattern is a level or declining gross profit the year after public issue.

COMPETITION ON THE WASH-DAY FRONT

Starting July 3, 1972, all articles of wearing apparel leaving a manufacturing plant must have permanent labels clearly disclosing instructions for care and maintenance. The only exclusion are footwear (other than hosiery) and articles used exclusively as headwear or handwear. The FTC will consider requests for exemption for items that will be sold at retail for $3 or less and which are completely washable under all normal circumstances.

After 18 months (that would be about January 1974) the FTC will review the experience under these first rules–and, in all probability, expand the range of products covered (throw rugs, curtains, drapes, etc.).

The action by the FTC cuts off a long-planned project by the J. C. PENNEY CO. to get a lap ahead of their competition. Penney started two years ago to develop such a program for their privat label merchandise. Their plan is broader than the present FT order. The Penney program will cover 90% of all Penney soft good items and by June 15th approximately 70% of the items in the stores will have labels.

Thus, Penney will have such products on their floor long before other stores–who rely on the manufacturer starting, as usual, at the latest possible date (or even being late meeting the July 3, 1972 deadline). Penney will also offer their customers a home laundry reference chart to post near their washing machines.

RThought: Is it possible that retailers will now start competing for customers by stressing the availability of this new information? Will ads now mention that garments offered for sale have complete care and maintenance instructions permanently attached to the garment? Will retailers (and brand manufacturers) start progressing along this line with merchandise not yet subject to mandatory labelling? Or will retailing, as it usually does, wait until the government acts on behalf of the consumer and compels action through FTC regulation? At which time all of those retailers who profess to be responsive to the consumer will band together and cuss the "big brother attitude" of government.

NAMES WITH THE F.T.C.

The Southland Corporation is approaching $1 billion in sales–and also a complaint by the F.T.C. Most of their stores are small–thousands of 7-Eleven concenience stores–but their combined power is great. And the FTC charges their top officials, Chairman Thompson/President Hartfelder, with pressuring suppliers to The Southland Corporation to purchase supplies from Southland's Chemical Division.

THOUGHTS TO MANAGE BY

This month's thoughts, of which only one is a poem, come from the personal collection of a loyal RT reader (my Mother)–each carries a thought for all major executives.

Let me live in a house by the side of the road
Where the race of men go by–
The men who are good and the men who are bad,
As good and as bad as I.

I would not sit in the scorner's seat
Or hurl the cynic's ban–
Let me live in a house by the side of the road
And be a friend to man

Sam Walter Foss 1858-1911

Some misguided enthusiasts have believed that by lengthening the span of life they would confer a priceless boon on the human race; forgetting that it is not the length of the day which makes us love the summer, but the brightness of the sun, the beauty of the flowers, the singing of the birds.

Johan Heinrich Cohansen 1665-1750

The most lovable quality that any human can possess is tolerance. It is the vision that enables one to see things from another's viewpoint. It is the generosity that concedes to others the right to their own opinions and their own peculiarities. It is the bignes that enables us to let people be happy in their own way instead of our way.

From a Rotary Bulletin about 1930.

Montelarion 7-12-72

TOLERANCE

From Bob Kahn's newsletter called Retailing Today I gleaned a bit of wisdom that he had obtained from his mother. The item was saved from a Rotary club bulletin published about 1930 and it read as follows:

"The most lovable quality any human can possess is tolerance. It is the vision that enables one to see things from another's viewpoint. It is the generosity that concedes to others the right to their own opinions and their own peculiarities. It is the bigness that enables us to let people be happy in their own way instead of our way."

Now that happens to have been what I have sought to achieve. However, as you might guess, this kind of tolerance is very difficult to keep in mind. Especially in these days when there are so many things and changes that challenge our long accepted values.

Just for a sample: How are you on long hair for men?

Take a tip from Marriott

Marriott Corporation was the only motel-hotel operator in the Dreyfus Third Century "Quality of Life" portfolio (*B & S*, July 18, 1972). The following excerpt from *Retailing Today*, published by Robert Kahn and Associates, may give some indication why Marriott deserves to be there – both as a responsible company and as a good investment.

Q.: WHAT WOULD HAPPEN IF MARRIOTT OPERATED STORES?

A.: All other retailers would have to raise their standard of service.

I have stayed a dozen times at some 5 or 6 different Marriotts – and have never had a bad experience. Recently, I was in Chicago at their hotel near the airport. The pleasures of good service were immediately apparent. When I announced that I had a reservation, the clerk pulled a partially completed form from a file at the center of the desk – and within 15 seconds I was signing my name on the form and she was imprinting my credit card. None of the shuffling and questioning that happens in almost every other hotel. And no extra forms to fill out at the desk – which always seemed foolish when reservations are made days in advance.

As the bellman was taking me to my room, he asked where I came from and when I said "San Francisco" he immediately asked, "Have you visited our new hotel that we just opened in Berkeley?" I was startled – a bellman, 2000 miles away, working in 1 of a chain of 14 hotels being sufficiently informed to know that (1) the Berkeley hotel had opened 3 weeks earlier, (2) That Berkeley was near San Francisco, and (3) wanting me to know about it.

Knowing a bit about the Marriott organization, I asked if he was in their profit-sharing plan and he immediately, and proudly, showed me the pin on his lapel and announced "Four years!" He then told me about their training program, describing facets from the college students during the summer (no envy), to the lad in the kitchen who had been coached in English by others on the hotel staff and who was now "Manager of Dishes."

At lunch the next day my waitress asked, when I ordered pie, "Would you like some ice cream on it?" I said yes – following a multi-decade old rule of always buying something when there is suggestive selling. (I buy something extra about twice a year.) When serving the man next to me, who asked, "Is the corned beef lean?" she replied, "I served one portion and it was, but why don't I bring you some and if you don't like it I can take it back."

Three contacts – a desk clerk, a bellman, and waitress – and all of them producing good vibes. But that has happened every time I have stayed at a Marriott.

If any retailer could accomplish the same results with his staff that the Marriott organization has accomplished with theirs, even firms the size of Sears and Penneys and Safeway would have to watch out.

Business & Society

Editor: Milton Moskowitz

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Recruiting and responsibility

In our July 4 issue we printed results of a survey by the National Affiliation of Concerned Business Students in which 50 corporations were rated on their social responsibility by selected MBA students. It would be interesting to determine whether companies which were ranked low are having any more difficulty in recruiting top talent at business schools these days. It's impossible to make a conclusive statement, but *Business & Society* did a quick check of those Stanford MBAs graduating in 1972 who have informed the Stanford Placement Office that they have accepted jobs. Of the approximately 200 MBAs listed, five are going to work for Bank of America, four for IBM, four for Cummins Engine and its related companies, two for Xerox, one each for First Pennsylvania Bank, Prudential Insurance and Chase Manhattan – all of which are ranked among the top 10 companies on the survey. Only three MBAs are listed as working for companies ranked from 17th to 50th.

Although not on the survey, Levi Strauss, another company with a strong reputation, picked up two MBAs. Walter Haas Jr., chairman and chief executive officer of Levi Strauss, has no doubt that his company's performance has helped to give them the pick of the crop. "Ten years ago," he says, "we had difficulty finding more than six MBAs who wanted to talk to us at the Harvard Business School. Today we have trouble fitting everybody into an appointments schedule."

These data may not be very significant, and they may only mean that MBAs rank highly those companies shrewd enough to give them jobs. On the other hand this might be an indication that MBAs take a company's social responsibility into account when choosing a place to work.

Other interesting facts from the list: McKinsey & Co. and Hewlett-Packard (which has its headquarters near Stanford) are named most often, with seven MBAs apiece; and of those MBAs listed as not going to work for corporations, four are going to the Environmental Protection Agency.

The other FPL

(continued from page 3)

longer can be tolerated. In cases where damage to the environment has occurred, EPA has been tough.

"A foremost example is our enforcement action against Florida Power and Light, Inc., concerning its plant at Turkey point. We estimate that the Federal Government has spent between $1 million and $2 million and at one time had as many as 60 persons working on that case, which was in litigation for a year and a half before being settled last September. The abatement program approved by the Court requires expenditures of roughly $35 million by the company to mitigate environmental damage, though such damage even then will not be completely eliminated."

In fact, FPL is so proud of its record in the environmental area that it was one of only two utilities that refused to cooperate with the Council on Economic Priorities in its study of the environmental performance of the utility industry *(B & S*, May 23, 1972). And its ranking in that study? Fourth from last.

We're not sure whether Mr. McDonald's and Mr. Autrey's presentation was convincing to any of the assembled security analysts, but if FPL's environmental performance is any tip-off about its performance in other areas . . . we'd recommend a sell order.

Ben Gordon
V.P./Editorial Director

Whaddya Read?

□ *In the New York Times:* Isadore Barmash reports that a legal specialist in business fraud warns that some $10 billion will "pass through" this year from suppliers to buyers in a wave of payoffs.

Of course the payoff in retailing is not new. It is just larger because the economy is larger. But more than that, increased centralized purchasing for a flock of stores tends to cut down the number of buyers who can control a supplier's life line. When a factory's distribution is spread over hundreds of accounts, two scalped tickets to a Broadway hit is an innocent social amenity. But when an assembly line moves at the beck of a handful of central office buyers, there is a whole new order of things. The pressure on a manufacturer of non-brand lines, is overwhelming. So much so that an offer of a piece of the action may be the only way he can get through a cardiac examination with a passing grade.

My own feeling, however, is that the $10 billion figure is grossly exaggerated. I doubt that so much cash flows under the table. The payoff takes more subtle forms: "Jack, my kid is getting out of college this spring. I want to line him up with a strong firm, like your XYZ Industries. Do you have any ideas where he might fit?"

"Sure, Joe, what about right here at XYZ, I have a terrific spot for him in our marketing department. And say, if he is anything like his Dad, he can move, and move fast."

And so it goes. After all, cash becomes an IRS problem and subjects the taker to the underlying threat of blackmail. Hiring his kid, leaves him in the clear, except that the kid is hostage.

What's the answer? Vigilance, of course. A plain-spoken attitude on the part of top management, regarding not only cash, but more especially "favors" between suppliers and buyers. Very few retail firms spell out a code on conflict of interest. Most who express themselves at all, do so in an annual pre-Christmas letter to the trade, explaining the company's policy against major gift-giving. Most retailers treat the question of payoff as if it were VD, not to be talked about in polite society.

From RT

In "Retailing Today": Bob Kahn poses the question, what would happen if Marriott operated stores? And his answer is, all other retailers would have to raise their standards of service. But let Bob, tell it in his own way: "I have stayed a dozen times at some 5 or 6 different Marriotts—and have never had a bad experience. Recently, I was in Chicago at their hotel near the airport. When I announced that I had a reservation, the clerk pulled a partially completed form from a file at the center of the desk—and within 15 seconds I was signing my name on the form and she was imprinting my credit card. None of the shuffling and questioning that happens in almost every other hotel. And no extra forms to fill out at the desk—which always seemed foolish when reservations are made in advance.

"As the bellman was taking me to my room, he asked where I came from and when I said 'San Francisco' he immediately asked 'Have you visited our new hotel that we just opened in Berkeley?' I was startled—a bellman, 2,000 miles away, working in 1 of a chain of 14 hotels being sufficiently informed to know that (1) the Berkeley hotel had opened 3 weeks earlier, (2) that Berkeley was near San Francisco, and (3) wanting me to know of it."

"At lunch the next day my waitress asked, when I ordered pie, "Would you like some ice cream on it?" I said yes—following a multi-decade old rule of always buying something when there is suggestive selling (I buy something extra about twice a year). When serving the man next to me, who asked, 'Is the corned beef lean?' she replied, 'I served one portion and it was, but why don't I bring you some and if you don't like it I can take it back.'

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"If any retailer could accomplish the same results with his staff that the Marriott organization has accomplished with theirs, even firms the size of Sears and Penneys and Safeway would have to watch out."

My own experience at Marriotts' matches those of Bob Kahn. What makes the whole question interesting is that the food and lodging industry has had a tougher time recruiting capable personnel than retailers. How then does one explain Marriott? Simple: two generations of *founders* are still at the helm. The Marriotts are so hung up on the importance of the human values, that it takes top priority in the conduct of their business. I think they feel that if you can motivate your people, nearly every other element in the business moves smoothly.

Most large retailers have to get along without the presence of dedicated founders. The challenge is, how does professional management hold on to the personal ingredient. I don't think they teach *that* course at Harvard or Wharton. ■

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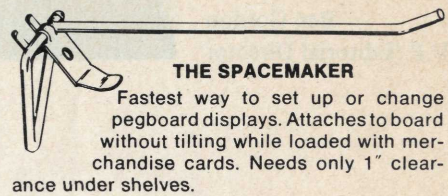

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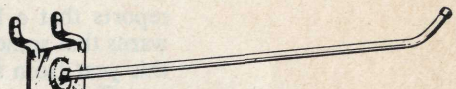

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'The Most Frequent Reason Is Not Necessarily the Most Important'—Price and the Discounter

HAROLD S. LARKIN

Fifteen years ago, when the discount department store really started to make its impact felt upon the marketing pattern, price was surely the runaway reason why it diverted hordes of shoppers away from the high-markup conventional stores. Yet, it is hard to believe that now, in 1972, price is still the overpowering reason why shoppers still go to discount stores. Has nothing changed?

Ask shoppers who go to supermarkets why they buy their food there and they will tell you, "Good price." But if they did not buy their food in a supermarket, where the devil else could they go? Today, forty years after the birth of the supermarket, the question is no longer why people go to supermarkets. Rather, the question that confronts the highly competitive supermarket industry is why do the shoppers go to which markets?

I would like to pursue the point of price and the passage of time in relation to the discount field because a number of discount executives are not satisfied with the central conclusion of the 1972 Mass Retailing Institute-DuPont study of discount-store customers. This reaction was noted when we interviewed quite a number of discount presidents about their companies' fixture-buying and store-decor programs.

HOW CAN YOU MISS THEM?

They are part of an industry that grows at an annual rate of 10 per cent, compared to 2.9 per cent for the conventional department stores. Even if the discount store has not gotten there yet, it is evolving to the same ultimate stage as the supermarket. Already well ahead of the conventional department stores in total volume, with each passing year there are many, many more discount stores within very easy access to many, many more potential shoppers. It is now difficult to avoid shopping in discount stores! Because in 1972 a shopper, standing on the discount-store sales floor, says she is there because of "good price," that is not necessarily the reason why she is there.

Some discount executives are disturbed about the no-ifs-or-buts conclusion of the MRI-DuPont survey for substantially this reason: "If price is unqualifiedly why shoppers come to discount stores (69 per cent), and if all other appeals don't seem to matter, why are we knocking ourselves out for better locations, better quality, and better decor and fixturing?" On the other hand, if two thirds of shoppers come to discount stores because of price, then why aren't the largest and most profitable discount chains also the cheapest priced?

There is a faulty premise to the 1972 survey when it presents a 1955 conclusion to the reason why shoppers go more and more to discount stores. The discount chain president knows that in 1972 more people shop in discount stores than in conventional department stores. What he wants and needs to know is how to make people come to his discount store instead of to those myriad other discount and conventional store competitors.

To get at the heart of why I believe that price can't possibly be the stark answer anymore, I will put the argument in the hands of one far more capable than I at pointing out the essential flaw of the 1972 report. He is Bob Kahn, the bearded squire of Lafayette, Cal., and publisher of that lively monthly newsletter, "Retailing Today."

Says Bob Kahn: "As in 1971, the MRI Convention started out with the presentation of an industry study—this year entitled, 'Personal Activities and Related Purchases of Self-Service General Merchandise Shoppers.' As it was last year, this MRI study was supported by the DuPont Company, and the actual survey was conducted by Ralph Head and Affiliates, Ltd. The presentation was made jointly by John Swajeski of DuPont and Jim Head of Ralph Head and Affiliates.

"The same team at the 1971 Convention presented 'Consumer Buying Patterns in Self-Service General Merchandise Stores,' in which they supplied why people bought where they did, and concluded the general order of importance was quality, assortment and price. This year, Swajeski and Head tried to show that price was really more important because the most frequent reason given for buying at a discount store was price.

"The study covered a wide variety of products and, in each case, the report shows what percentage of customers purchased certain categories of merchandise at discount stores, at other stores, or not at all, and in the first two groups, the reasons for purchase. For example, on the question of baseball merchandise, 65 per cent purchased their needs at a discount store, 29 per cent elsewhere, and 6 per cent did not purchase baseball items. For those who purchased in a discount store, 69 per cent gave price as their reason, and 12 per cent said convenient location. For those who shopped at other types of stores, the principal reasons were better quality, better brands, and better variety (10 per cent even said that they found better prices elsewhere).

"The impression gathered from the report was summed up by the article in the 'Daily Convention Reporter': 'Price appears to be the major factor causing shoppers to buy at discount stores,' John Swajeski of DuPont and Jim Head noted in their presentation, 'However, shoppers feel they can find better variety and quality in other type stores.' The same impression was conveyed by newspaper items and trade paper reports.

"'Retailing Today' says that this interpretation is wrong. It is fortunate, perhaps, for conventional retailers that this report is being so widely misinterpreted. There can be no better boost for conventional stores, and disservice to discount stores, than to believe that customers go to discount stores for price and to other stores for quality and assortment."

PROBE A LITTLE DEEPER

Those who have accepted this interpretation have failed to apply what they already know about the consumer, which was confirmed in the MRI Report released in 1971. Ask a man who has just bought a Chevrolet Impala why he purchased it from a certain dealer and he will tell you, "I got a good price." If price were the only factor involved, he would not have been looking at an Impala in the first place, he would have looked at a Datsun pickup.

In this situation, we all understand what happened: The man decided that the quality he wanted was an Impala with air conditioning, automatic transmission, power brakes, power steering, AM-FM stereo radio with eight-channel tape and cassette player, power antenna, white-wall radial tires, power door locks, six-way power seat, a three-tone paint job, and the deluxe trim package. Having decided on this quality, he then went out to get the best price.

And this Impala buyer, who didn't want a Buick or a Mercury or a Chrysler (even though they may have cost less), is exactly like the discount-store customer who wants some baseball equipment and goes down to the convenient neighborhood discount store to buy it. On the way out, the interviewer asks him why he purchased it at the discount store and he says, "Price."

"But the implication—what the interviewer and the interpreter were not smart enough to understand—is that he would not have purchased at a discount store if he had not been satisfied with the quality and assortment offered. Having accepted that quality and assortment, the final evaluation before parting with his money was price, and when that was acceptable, the transaction was closed."

Certainly, it is extremely valuable to know how much of each merchandising category the consumer buys in discount stores, as the 1972 study revealed to us. But at a time of overcompetition, which has forced all prices down for all types of retailing, it is difficult to accept a conclusion that negates the upgrading values of good location, easy highway access, easy and convenient shopping, good fixturing, and pleasant decor and atmosphere as powerful considerations which have brought more and more shoppers to discount stores rather than "good price" alone.

I am certain that the researchers did not mean to suggest that discount stores exist only because they offer the cheapest prices. But it does seem to sound that way.

Some Ways to Cut Costs...

(continued from page 1)

to original cost estimates.

2. Divide your fixture business unless you really plan to pay more to the package house for an overall expertise that you feel you may lack. However, an ability to break down fixture needs in order to deal directly with specialists for a particular need can save a chain quite a bit on a consistent basis. It is a capacity that must be developed.

3. Flexibility is a natural concern of fixture buyers, but flexibility costs a great deal of extra money. And surveys will show that most discount chains don't use the flexibility features that they have bought to anywhere near a 100 per cent degree. How much flexibility do you really need? Take a check of what you order in certain special features and to what degree they are being utilized on the sales floor. If you don't need it, don't buy it and save money.

4. Is that custom-made fixture really necessary? Would a standard fixture with a custom-made look do just as well at less money? If so, save the money and buy the standard fixture, because if you look around the fixture market enough, you find that what is one company's high-cost custom fixture is another company's in-stock low-cost standard number.

5. Consider that, in a very real sense, your choice of fixturing is also a method of either controlling your stock or losing control of it. The wider the shelf, the more inventory is needed to fill it. Failure to check space requirements accurately on a shelf area need basis can lead to unconscious overbuying, especially on small-ticket items.

6. Don't attempt to carry out a fixture installation job on your own unless your staff is really geared for it. And if you have to choose between the fixture vendor and the local contractor to handle the installation, you'll find that the vendor is invariably cheaper on the bill.

7. Try to assess your own store-planning department and its capacities and facilities in relation to that of the fixture-maker's services. The discount planning people may be particularly weak in the drafting areas, where misconceptions and miscalculations on specific size of areas and fixtures can lead to major overspending and costly corrections.

8. Long-term contracts with fixture companies can save a chain money in these inflationary times, since contract prices hold firm even though costs of labor and materials may go up during the life of the agreement. Ordering, as many chains now do, on a per store basis, leads to steadily escalating fixture costs. You might give up a little more earlier, but the fixture-maker will be glad to give up the more later for the security of guaranteed orders.

9. Look more thoroughly into the concept of knock-down fixturing. It costs far less to buy than the set-up variety, and the expense of installation is so low that it brings the total cost for the fixture down most dramatically.

In the following pages, you will read expanded views on these various points, all designed through the words of leading chains and fixture-makers to give you some directions where you can save money on your fixturing during this era of apparently unabated inflation.

New Larkin Publications Exhibit:

First National Volume Buyers Show At Hotel McAlpin, N.Y.C., Feb. 25-28

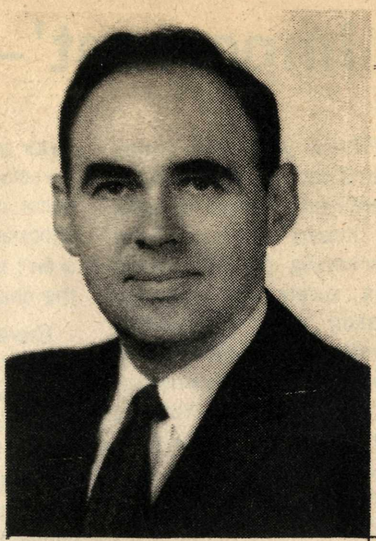
NEW YORK, N.Y.—The first edition of the National Volume Buyers Show will make its debut at the Hotel McAlpin, Sunday through Wednesday, February 25-28, 1973. This new market, geared to fill an important merchandising gap for volume buyers, will take place the same week of the Gift Show at the Coliseum and the New York Toy Fair. This new trade presentation is, therefore, timed for one of the largest buyer invasions of the year in New York.

The new exhibition is managed by Larkin Publications, which also publishes MODERN RETAILER, BOUTIQUE FASHIONS, APPAREL RETAILER, and the new four-color national business magazine MUSIC RETAILER. It also presents conferences and seminars, and is well seasoned in trade-show merchandising activities.

The National Volume Buyers Show will present about thirty-five categories of merchandise in the hard and softgoods field, geared for the mass-retailing operation. For the first time, private-label vendors will appear in large numbers reflecting the sharp vendors will make their first appearance at a national trade-show market. Recently, Dolph Zapfel, managing director of the National Housewares Exhibit, noted that it is becoming increasingly difficult to find large enough accommodations to hold a major market under one roof. He suggested that even gigantic McCormick Place is not really sufficient to take on all the resources who would like to appear at these semiannual markets.

Buyer attendance will cut across

Oranges and Pineapples



WOLCHOK VIEWS THE LABOR SCENE

Sidney S. Wolchok

1972 is the year of oranges and pineapples. That is, if you are a member of the power structure in the Retail Clerks International Association, AFL-CIO. You would have been on your way, in mid-July, to the pineapple islands of Hawaii, to the RCIA Constitutional Convention, which met there the week of July 24.

Had you been in the power structure of another union with many retail workers, the Amalgamated Clothing Workers of America, you would have been, earlier this year, in Miami Beach to attend the national convention of that union. You might have to look very hard for oranges in the Miami area, and would have, instead, found politicians and fellow delegates in this national election year walking the concrete paths of Collins Avenue.

There are only minor changes in the national top leadership makeup of the Retail Clerks Union. The president of the union, James T. Housewright, notwithstanding some intense internal union politicking, was easily reelected the head of the 650,000-member union. The deep wounds and cleavage that greeted his first election some four years ago, by way of a challenge from California's powerful union leader, Joseph T. DeSilva, was not a major factor at this year's Convention.

The Hawaii Convention was to be the jewel in the crown of the Housewright administration, with preliminary meetings a week before and some great trips available to those able to go on to the Orient or back to the West Coast mainland for vacations after the business of the meeting was completed. Much of union leadership today is taken up with attending meetings in both stuffy negotiating rooms and beautiful resort areas. It is one of the fringe benefits of climbing to the top of today's trade union power.

However, there is plenty of gloom hovering in the clouds that hang over the azure skies of the warm Mid-Pacific. The Union leaders are deeply concerned with the power of the Nixon Administration and the effects that the Pay Board had upon the Retail Clerks food unions and discount-store unions.

Only some weeks before, the Pay Board slashed a 19.5 per cent wage increase in the Mid-Atlantic states, negotiated between the Retail Clerks Union and food merchants all the way down to 5.5 per cent. This stunning cut in a settlement, unprecedented for the Clerks Unions in almost twenty years of bargaining, has caused dissension in the Union's ranks and consternation to Union leadership.

Earlier this year, at the Amalgamated Union Convention, there was a serious note as a wise but aging leadership stepped aside to allow for younger men to take over the two top posts of the Union. The Amalgamated Clothing Workers of America has a broad base of retail clerks in California and the Northeast United States. It is a rival, in some ways, to the RCIA.

The two leaders stepping down in the Amalgamated, Jacob S. Potofsky and Frank Rosenblum, literally have generations of service to the labor movement. They yielded their posts to two lawyers with records of many years of their own within the labor movement. Replacing Potofsky as president will be Chicago's Amalgamated leader, Murray Findley, once a practicing attorney, but now a full-time labor leader. Replacing Frank Rosenblum, as secretary-treasurer, will be Jack Shankman, distinguished

RETAILING TODAY

Prepared by Robert Kahn and Associates, Business Counselors.
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ROUTE TO INITIAL

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SOME THOUGHTS ON FINANCE CHARGES – I

Michigan started the trend permitting finance charges to be computed on the average balance rather than the previous balance. This had the obvious appeal of fairness–since most true interest (mortgages, bank loans, etc.) is computed on the basis of the average balance outstanding. Now other states are putting such a provision into their laws–while at the same time banning the use of the previous balance. Most studies that RT has heard about indicate that over a period of a year the typical revolving account in a department store will pay more finance charge when computed on the average balance than when computed on the previous balance.

A logical analysis of the nature of revolving accounts makes the reason obvious. Purchases tend to be rather evenly spread through the billing cycles with a slight bias toward the first half of the cycle (those people who postpone a purchase just before their cycle closing date in order to get an extra month's credit). Payments clearly tend to cluster in the last half of the cycle, particularly in the case of firms that do not get statements into hands of customers until the middle of the cycle.

In its simplest form we can look at an account with a previous balance of $100 on which there was a $10 purchase on the 11th day and a $10 payment on the 21st day. Using the previous balance method the finance charge at 1½% would be $1.50. Using the average daily balance of $103.33 the finance charge would be $1.55.

If the amount owed on a revolving account increases during the period of a year the additional finance charge paid under the average daily balance method will be significantly higher. Even when the balance declines nominally over the period of a year, the finance charge on the average daily balance basis can be equal to or higher than the finance charge computed on the previous balance method. Only when the account is paid out without further purchases (as when the customer moves) will the finance charge be less on the average daily balance method than on the previous balance method.

The alternative of using the adjusted balance (where the payment is credited against the previous balance regardless of when paid) has many obvious unfairnesses involved. The customer is paying a finance charge on an amount substantially different from the average amount of credit extended. In our example, the finance charge would be 1½% on $90 or $1.35.

Sears has taken a mid-point position, using the average balance without regard to current purchases. In our example, with the payment on the 21st day, the average balance would be $96.67 and the finance charge at 1½% would be $1.45.

In the long run, using either the average-daily balance or the average adjusted balance will accelerate the installation of computers, with the cost of the computer paid out of the additional finance charges collected over the adjusted balance. It is hard to see how customers have benefited from such a law or court decision.

A MATTER OF ETHICS

In looking at "miscellaneous income," one is likely to find an item representing "uncashed pay checks."

And if one looks in the big safe in almost any retailer's office, one is likely to find an envelope containing checks made out to former employees that have been returned to the company because the address was wrong.

Many of these represent final pay, vacation pay, or retroactive pay mailed after the employee left. The most recent address in the payroll office (after all, the payroll office usually has no reason to correspond with an employee) may have been the one given when the employee was hired! Or the employee may not have left a forwarding address, not yet knowing what his new address will be.

RT has observed that many of these checks are for amounts between $50 and $200, an amount important to the former employee. Good ethics should prompt the employer to make as diligent a search for the employee as if the employee had owed the same amount.

RThought: Check your credit office–they do send mail to the employee and may have a current address on his account. Check fellow employees in his former department –someone may know where he went. And finally, let the skip-tracers in your credit department take a crack at finding him.

RThought: The fact that in many states the right to claim or sue for back wages expires before the time for escheating to the state of unclaimed monies, does not make it morally right not to try to pay your employee the money that is rightfully his.

SOME THOUGHTS ON FINANCE CHARGES – II

Much of the objection to the finance charge is based on the concept that it is interest and that an annual percentage rate of 18% represents usury. In 1967, we issued an occasional paper entitled "Do Customers Pay Interest on Revolving Accounts?" (a few copies are still available) in which a comparison was made of charges to a customer who had a bank credit card and a bank account at the same bank.

If we assume that the minimum balance in the checking account during the month was under $100, although the average was above $100, and that 3 checks per month are written on the account, the bank service charge would vary between 89¢ and 99¢. Nobody has ever thought of calling a charge for leaving your own money in the bank "usurious." In fact, everyone feels that this is a reasonable charge for processing 3 checks and mailing a monthly statement.

Since the bank may have earned 20¢ on the average money deposited during the month, they really gained $1.10 to $1.20 without anyone raising the question of usury.

On the bank credit card, with a previous balance of $80 (the average amount owed on a department store revolving account according to a then current Touche, Ross study), regardless of the number of transactions handled, the finance charge at 1½% per month would be $1.20. Everyone calls it usurious–yet the customer **owes** money rather than **lends** money to the bank, the bank may handle more than three transactions, and must spend the same on mailing a statement.

There are some other differences that should be pointed out. On the checking account, you pay for the cost of your checks; but on the bank credit card you do not pay for the sales drafts or other forms used. The finance charge on the bank credit card is, in most states, regulated, whereas there is no limitation on the amount that a bank can charge a checking account (flat monthly charges of $3.00 are not uncommon).

SOME THOUGHTS ON FINANCE CHARGES – III

The answer to methods of computing finance charges may be simple–allow different periodic rates for different methods of computing the finance charge and let the individual store use the method that is most appropriate to his available record-keeping equipment.

For example, since most consumer groups accept the average daily balance as a fair method, allow the store to charge the full 1.5% per month. The next fairest method would be the adjusted balance and the rate here might be 1.4%. The least fair method might be the previous balance method on which the periodic rate might be 1.3%. This particular array of rates would obviously encourage the use of average daily balance method as pointed out in "Thought I" above.

However, a state or a group of states might well determine statistically the difference between the three methods. Then, using the average daily balance method as the fair method–for which a rate of 1.5% would be applied, set the rate at slightly below that (perhaps 1.45%) for the previous balance and substantially above that (perhaps 1.65%) for the adjusted balance method. Under this arrangement, the store would collect the same compensation for a given average amount outstanding, regardless of computation method. We have a precedent in this when we equate a "10% per year add-on" in our retail installment contracts with 1½% per month periodic rate on revolving accounts–both methods produce close to the same annual percentage rate.

HOW DO CONCERNED STUDENTS RATE RETAILERS?

The National Association of Concerned Business Students (NACBS) surveyed 300 students from the 23 major graduate schools of business about their attitude toward 50 major corporations. They were asked to rate each corporation on its social responsibility–as outstanding, good, fair, poor, very poor, or no opinion. The list included 5 retailers–who came in as follows: Sears Roebuck, 6th; J. C. Penney, 11th; Safeway, 26th; Kroger, 33rd; and A&P, 43rd.

The top 5 firms were, in order, Xerox, IBM, First Pennsylvania Bank, Cummins Engine, and Prudential Insurance. The last 5, in declining order, were, Commonwealth Edison, LTV, Union Carbide, Standard Oil (Calif.), and Consolidated Edison (NY).

THE NEXT MAJOR APPLIANCE

Department stores (but not discount stores) managed to neatly side-step the advent of the automobile. The billions of dollars that go to new car dealers, tire and battery dealers, repair shops and service stations elude the original mass retailer who profess to be "the purchasing agent for the public." If the purchasing agent for General Motors was as careless, you would have cars delivere[d] without minor things like tires or engines.

Department stores did manage to get a substantial portion of the major appliance booms–the stove, refrigerator, washing machine, dryers, deep freeze, radio, TV, and now hi-fi (Note: they missed out when any installation was required–like dishwashers). But all except hi-fi are now either replacement markets or growing very slowly.

If our standard of living is going to increase (after all, our income will so our spending should), we will need something in the major appliance field to sop up the income.

Japan is working on it.

Japan, through their Computerization Commission, has outlined the steps that will be necessary for "the Information Society of the '80s." National goals that have been proposed include computer-familiarity courses in the schools, a national time-sharing network, and a variety of home terminals. People would use computers like they use electricity or the telephone or TV.

RThought: Conventional retailers have the credit facilities and the billing setup to accommodate such a program. Although discount retailers have a higher degree of computer utilization, the big conventional retailers also have advanced systems. Both have the advertising means of reaching entire communities and entire metropolitan areas.

Other firms will set up the master-files–the entire Encyclopedia Britannica, a summary of the contents of the library of Congress all the statistics on baseball back to Abner Doubleday, plus 100,001 recipes. But, RT suspects that others will sell the terminals–not the conventional retailers nor the discounters.

RETAILERS IN THE F.T.C. NEWS

Big retail names continue to grace the news releases of the FTC. Here are some of the recent cases.

Spiegel, Inc.: a hearing examiner has issued an order that would prohibit catalog advertising of "free trial" or "amount off" offers without clearly and conspicuously disclosing the credit restrictions involved. The offers were only available to credit customers if the value of the item was within their credit limit, their account was up-to-date, monthly payments had been made regularly, and the account had been active within the prior 12 months–all of which was disclosed in sections of the catalogue far removed from the offer. The ruling can be appealed to the Commission.

Spiegel, Inc.: has signed a provisionally accepted consent order in regard to their mail-order loan subsidiary, Fairfax Family Fund, Inc., agreeing to discontinue violations of Truth-in-Lending. The complaint alleges misrepresentation that the loan application form was a negotiable check, that the consumer's credit had already been approved and the loan authorized, that the consumer could select a credit life insurer of his own choice, and of the cost and benefits of making a debt consolidating loan with Fairfax.

Food Fair Stores, Inc. and **H. C. Bohack Co.**: a hearing examiner ruled that both firms would have to stop receiving illeg[al] brokerage on food purchases (services were rendered to an[d] controlled by these two firms but the commission was paid by the sellers). Further, the examiner held both firms in default because they did not file answers on time as provided by FTC rules.

Goldblatt Bros., Inc.: a proposed complaint alleges violation of T-in-L because "finance charge" is not printed more conspicuously, when customer's homes were taken as security they were not advised of their right to rescind the contract within three business days, annual percentage rates were inaccurately disclosed, and installment contracts failed to disclose "total of payments" and the number and amount of monthly payments.

GREAT EXAMPLES FROM THE BETTER BUSINESS BUREAU

My latest listing of the directors of the Council of Better Business Bureaus includes Gardner Cowles, Chairman of Cowles Communications, Inc. Council President H. Bruce Palmer has indicated personally to RT that he approves of his service on the Board.

The Federal Trade Commission, however, announced June 21st, that Cowles Communications has accepted a consent order forbidding it and five of its subsidiaries from selling magazine subscriptions and collecting accounts through deceptive and unfair means.

From his lofty position on the Board of the Council of BBBs, Cowles apparently has watched his company's salesmen misrepresent the terms and conditions of contracts, collect higher monthly payments than represented by salesmen, obtain signatures through claims by salesmen that the customer is signing something other than a contract, and then harass customers by telephoning at unreasonable hours and falsely claiming that their credit rating will be adversely affected or that legal action will be taken.

Of course, Cowles will claim an out—his firm signed a consent order which states it is for settlement purposes and does not constitute an admission that the firm has violated the law. The above citations are what the FTC reported as being in evidence at the time Cowles decided to sign the consent.

One wonders where Elisha Gray II and H. Bruce Palmer dig up their directors? They must attend all the FTC hearings.

RThought: How can local BBBs be effective when the national organization undermines their efforts by allowing persons such as Gardiner Cowles to participate in the policy-making decisions? The better (translate that: braver) BBBs take on the big names of retailing, albiet slowly and reluctantly. The San Francisco BBB is to be commended for the campaign to correct the advertising of Roos/Atkins, giant men's subsidiary of billion dollar-plus Genesco, that stretches along the entire West Coast. For years the advertising of Roos/Atkins has been both suspect by the consumer, and more than suspect by the competiiton (who, in too many cases, stooped to meet the competition).

But let's use the words of the SF BBB in their June 1972 newsletter, (with permission) "**Venerable Clothing Store Puts New Style in Advertising**. Roos/Atkins, known for some time as the store that announced a special sale at the drop of a hat (or a doubleknit), has changed its advertising policies markedly during the past two months. In October, 1971, Better Business Bureau personnel instituted a concentrated advisory program directed toward key people in the Roos/Atkins organization. The program continued for six months as advertisements were discussed with the company on a point by point basis. The Bureau commends Roos/Atkins, which has recently reorganized its internal structure, for making an advertising policy change. This positive step can only strengthen consumer confidence in Roos/Atkins advertising and serve as an example to other firms."

RT now hopes that those who formerly stooped to compete will now rise to compete.

DO YOU INDUCE DISCRIMINATORY PROMOTIONAL ALLOWANCES?

For some years the FTC has been attempting to extend the provisions of Section 5 of the Federal Trade Commission Act to place a financial penalty on purchasers who induce special prices or advertising allowances or other items of value out of their suppliers. They are starting again—with somewhat better success—in a provisionally accepted consent order against Buy-Rite Foods, Inc., a New Hampshire grocery wholesaler servicing 7 chains and 65 supermarkets, and doing a volume under $50,000,000.

The offense allegedly involved the opening by Buy-Rite of a freezer unit. To announce the opening they solicited—and their suppliers bought—advertising in a brochure at $700 for a full page and $400 for a half page. The FTC argues that the amount of advertising was disproportionate and discriminatory. Some suppliers refused to participate (and probably one of them complained to the FTC).

RThought: This is one area in retailing where the finest names in the industry are not above using their economic power to take advantage of (1) their weaker suppliers, and (2) their competition. The "great names" pride themselves on being "hard bargainers." There is hardly a retailer today in a company doing $5,000,000 or more who is not doing this—extract discriminatory prices from some small supplier. The argument used (all the other suppliers allow us to do this) is often dishonest.

RT recently heard described, with admiration, the story of a small store owner who claimed that for years he had taken 1% on all net bills, 2% when 1% was allowed, 3% when 2% was allowed, and so forth. The polite term for this is chiseling; the more accurate term is stealing.

THE DEMANDS ON TOP MANAGEMENT

There seems to be a favorite explanation, on the part of many people, for the failure of almost anything. I was struck by this thought when reading an article about establishing a "total integrated common data base" for a company. The writer, in establishing an alibi for expected failure, wrote "Top management backing is the most important factor in gaining acceptance of any data base proposal and implementation."

This is the same thing that writers say about reducing inventory shrinkage, installing an EDP system, maintaining inventory in line with sales, maintaining employee morale, developing credit sales, and on and on and on.

If one accepts the theory that "management backing" is the key factor in the success of any corporate activity, then one must argue that middle management is unnecessary. Apparently it is unable to accomplish anything significant on its own. Yet to listen to middle management, even at times when they are not suggesting a salary increase, the company could not operate without them.

RT would thoroughly enjoy reading more stories about how middle management established a "total integrated common data base" or cut inventory shortage without bothering top management.

RThought: perhaps someone in top management should, twice a year, assemble all of middle management and read to them "A Message to Garcia" by Elbert Hubbard. Before World War I, George H. Daniels ordered 100,000 copies and distributed them to every employee of the New York Central Railroad. It would be an effective middle-management piece today. And it might end the crutch of "Top management backing . . . is essential."

AND NOW THE HOME ECONOMISTS ARE ANTI-CONSUMER

One of the speakers at the recent annual convention of the **Home Economists in Business** (held in Detroit, June 1972) passed on his impression of the home economists' (HEs) impression of the consumer.

Our speaker was from a consumer organization–and a very learned man. When the HEs accosted him after his talk they, to use his words, "harrangued me about how **dumb** consumers are!"

For many years many of us have assumed that one of the functions of the home economist was to educate the consumer. If after all of these years of having home economists the consumer is not educated, then this should be tacit proof that some, or even many, of the home economists are failures. If these are failures, then one can understand why they resent the consumers–because their current state of ignorance is constant proof of the HEs own ineffectiveness.

This is very much like the argument of educators that use the product of our poorest ghetto schools (which have the poorest teachers, the poorest facilities, the poorest language communications) as proof that the people in the ghetto are dumb and not capable of absorbing an education. So why alter it?

There are many companies that have given publicity to their home economists–and yet her guidance apparently never gets down to such documents as instructions on how to assemble a product, use it, make adjustments or minor repairs, or even return it for service. Only in the field of mix-it-yourself foods does one frequently find concise, clear instructions (I even made cookies, once!).

One would think that a once-a-year gathering of home economists would be the place at which to exchange success stories–stories of how they educated consumers–rather than blaming their own shortcomings on the "dumb consumer."

THE HIGH COST OF DISCRIMINATION

The U.S. Labor Department filed an action against a Sears, Roebuck store in Kentucky for failing to pay women the same rates as was paid to men. The complaint covered people from salespeople to division managers. Sears settled the suit out of court–by agreeing to pay more than $50,000 back pay to 9 salespeople and 5 division managers covering back to 1967 (more than $3,000 per person).

In addition, Sears is sending a special audit team through their 900 stores to see that pay rates are brought in line. If some of your ladies leave to go with Sears, you might check your own pay rates. Most of the reasons that RT hears to support discriminatory wages (women can't measure the inseam on men's pants, women can't lift the heavy items, etc.) are great–until the chief executive tries to explain them to the Department of Labor, and finds that all of these arguments have been raised long ago–and found to be lacking.

Perhaps Sears is learning–they ran an item in **SPOKESWOMAN – An Independent Monthly Newsletter of Women's News** (5464 South Shore Drive, Chicago, Ill. 60615, $12/yr.), seeking "technicians for auto engine tune-ups, appliance, TV and other electronic repairs, small engine overhaul, etc." for the Chicago area.

WHO MAKES THE BEST IN THE WORLD?

RT is always amazed at the number of people who will make very positive statements such as "The United States makes the best . . . in the world," or "We have greater freedom than any other country," or, "Everybody wants to live in the United States."

If one happens to disagree with such statements, they are likely to be castigated by their associates; if they disagree in the public press, the Administration takes them to task. The Administration may even call such people (those, for example, who think manufacturers like Volvo, Mercedes and Rover make safer automobiles) disloyal!

It might help us to look at an English poll asking about products sold in England.

Which country makes the best cars? Britian 34%, West Germany 26%, U.S., France and Japan 5% each. Which country makes the best transistor radios? Japan 43%, Britain 30%. Which country makes the best butter? Denmark 38%, Britain 29%. Cameras? Japan 29%, West Germany 27%. Watches? Switzerland 73%.

As to other thoughts, consider these questions and answers.

British workmanship is the best in the world? 43% agree, 46% disagree, 11% undecided. British manufacturers are more concerned than foreign manufacturers about the consumer? 44% agree, 34% disagree, 22% no answer.

Perhaps, as retail executives, we should attempt to be completely objective.

The United States makes the "best in the world" in some categories–but not all. We have long recognized Switzerland for watches, Germany and Japan for optics, Japan, Hong Kong and Taiwan for electronics. Plus many other classifications. We would be better merchants if we could see all products impartially.

SHORT SHORTS

Audit fees high? Perhaps competition will help. The American Institute of Certified Public Accountants (AICPA) has long had an ethical ban on members submitting cost bids to clients. Despite the "ban," it was always done to a greater or lesser degree (that is, if the firm did not have the account, they found a way to "estimate-bid" while the firm that did have the account found a way to put a "maximum" on the fee). The Justice Department challenged this rule–and the AICPA has consented not to enforce this portion of the code. In October there will be a new code of ethics–which will be mum on the subject. The final battle on this subject will be fought out in state legislatures–some 40 states now prohibit bidding–by law!

Whose second in advertising? The United States is the heaviest advertiser in the world. Or is it? Based on the percentage of gross national product spent on advertising we are not! We come in 3rd, with an expenditure of 2.11%. In Ireland they spend 2.2% and in Switzerland 2.18%. But we do lead on a per-capita basis at $95.72 per year followed by Switzerland at $68.15 and Bermuda at $52.83. The distinguishing characteristics of the United States are becoming less distinguishing.

POEMS TO MANAGE BY

There are many times when a top executive knows what he should do–but knowing that no others know that he knows what to do, he does nothing. Or does what he should not do.

We all know what is right–but for many reasons we do not do it. Ralph Waldo Emerson expressed it this way.

SACRIFICE

Though love repine, and reason chafe,
There came a voice without reply, –
" 'Tis man's perdition to be safe,
When for the truth he ought to die."

RETAIL METHOD OF INVENTORY – THE PROFIT-MAKER

RT has, for many years, decried the dishonesty of the AICPA (American Institute of Certified Public Accountants) who, with disregard for the truth, continue to call the retail method of inventory a "cost or market" method. In July, 1947, (we did not trace earlier), the predecessor of the AICPA adopted Accounting Research Bulletin 29 on **"Inventory Pricing,"** which was restated in 1961 into the final edition of the "Accounting Research and Terminology Bulletins," and in 1971, was included in **Accounting Principles** as Section 5121: **Inventory Pricing.**

Statement 3, therein, says in part, "The primary basis of accounting for inventory is cost, which has been defined generally as the price paid . . . to acquire an asset." Statement 6 says, in part, "As used in the phrase **lower of cost or market** the term **market** means current replacement cost . . . . ." and then, under "Discussion .10" the statement that exposes their ignorance of the tool with which they work: "The committee considers, for example, that the retail inventory method, if adequate markdowns are currently taken, accomplishes the objectives described herein."

This "discussion" explains why so many annual reports contain a dishonest statement–for example: "Merchandise inventories are stated at the lower of cost (first-in, first-out basis) or market, determined principally by the retail method." (Touche, Ross & Co., March 30, 1972, Atlanta, Georgia, in the annual report of Rich's, Inc.).

RT has discussed and exposed the weakness of the retail method for many years (see RT Nov. 1969, "The Inner Workings of the Retail Method"). RT has discussed this point with top partners in the major accounting firms who deal primarily with retail clients and they all agree that the retail method overstates inventory cost (and thus profits, assets, and property tax liability). But they appear to be unable to bring truth into accounting at this level.

Most retailers, placing reliance on their certified public accountants and on standard accounting textbooks (all of which are wrong), think that the retail method does what the "Accounting Principles" say it does. However, RT has been able to get one annual report correctly stated as follows: "Inventories are determined principally by the retail inventory method" (Touche, Ross & Co., March 15, 1972, San Francisco, in the annual report of Mervyn's).

It is not generally known, although RT suspects that each major accounting firm has at least one example, that the IRS has accepted the fact that the retail method of inventory overstates the value of the inventory and has allowed retailers to report their income on the **basis of a reduction of the value determined under the retail method!**

There is one group of retailers who are particularly pleased with the retail method–and that is the fast-growth companies. Use of the retail method boosts their profits–although it hurts when inventories level off.

The two tables below demonstrate what happens under two circumstances:

Year I: Comparison of gross profit between a single store operation and an operation that buys inventory for a store opened the first day of the following year.

Year II: Comparison of second year, showing difference between buying inventory for a 3rd store to open first of the following year and just for the two stores from Year I.

The facts assumed are as follows:

1. The inventory at all times consists of
   $100 Item A, cost $60, and turnover of 3 times a year.
   $100 Item B, cost $80, and turnover of 6 times a year.
2. Sales of each store, each year, are
   $300 Item A (3 x $100)
   $600 Item B (6 x $100)
3. There are no markdowns and no shortage (proving that all of this is imaginary)

In summary, the inventory method that the AICPA certifies as a "cost of market" method provided these benefits to the retailers in the example shown above:

1. In Year I, if he elected to stock a new store without selling anything from that store, he could improve his gross profit by .45 of 1%!
2. If the second year he stocked a third store, he could improve his gross profit by .22 of 1% over not opening another store (if he stocked 2 stores, thus doubling his rate of expansion, he could have improved his gross profit by .45 of 1%).
3. If he opens one store and stops, then his gross profit drops by .78 of 1% from the year when the second store was stocked.
4. In all cases, the true gross profit should have been 26.67%– and it is overstated in every single example.

		YEAR I				YEAR II			
		Only 1 Store		Stock 2nd Store		Only 2 Stores		Stock 3rd Store	
		Cost	Sell	Cost	Sell	Cost	Sell	Cost	Sell
Opening Inventory:	Item A	60	100	60	100		200		200
	Item B	80	100	80	100		200		200
		140	200	140	200	289	400	289	400
Purchases: For Sales –	Item A	180	300	180	300	360	600	360	600
	Item B	480	600	480	600	960	1200	960	1200
New Store –	Item A	–	–	60	100	–	–	60	100
	Item B	–	–	80	100	–	–	80	100
Total Purchases		660	900	800	1100	1320	1800	1460	2000
Goods Available for Sale		800	1100	940	1300	1609	2200	1749	2400
Cost %		72.73%		72.31%		73.14%		72.88%	
LESS: Sales			900		900		1800		1800
Ending Inventory:	Sell		200		400		400		600
	Cost	145		289		293		437	
Cost of Goods Sold		655		651		1316		1312	
GROSS PROFIT	$		245		249		484		488
	%		27.22%		27.67%		26.89%		27.11%

CREDIT OFFICE RATING

This month 24 stores are listed on the Honor Roll—an all-time high. It appears that the standards for the Honor Roll will have to be increased—just as the standards for the Olympic Games Tryouts are increased each 4 years.

RT is pleased with his result—and realizes that both competition and recognition have contributed to this performance.

HONOR ROLL

Berkeley's	2.0	Gus Mayer (Beaumont)	3.4	Levee's	4.6
Maison Mendesolle	2.8	Gus Mayer (Nashville)	3.6	I. Magnin	4.6
Gus Mayer (Memphis)	2.8	Wineman's (Highland Park)	3.8	Sears (N. Calif.)	4.8
Mervyn's	3.0	Montgomery Ward	4.0	Dayton's	5.0
Roos/Atkins	3.0	Singer (NY)	4.0	Gus Mayer (Louisville)	5.0
Miller Bros	3.3	A. Sulka (NY)	4.0	Joseph Magnin's	5.0
W & J Sloane	3.3	Sears (St. Louis)	4.0	Penney's (Minneapolis)	5.0
Wineman's (Monrovia)	3.4	Holman's	4.2	Stix, Baer, Fuller	5.0

CREDIT OFFICE RATING

	APR-MAY 1972			FEB-MAR 1972		
Information From Reporters	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
Breuner's	1	7.0	7	–	–	–
Brown-Mahin	5	6.8	5-9	3	8.3	7-10
Capwell's	10	5.5	4-10	9	5.6	3-7
Dayton's (Minn.)	1	5.0	5	1	5.0	5
Donaldson's (Minn.)	2	7.0	7	1	7.0	7
Emporium	7	6.3	7-17	6	10.5	7-18
Famous Barr (St. Louis)	2	5.5	5-6	2	6.0	6
G.E.T.	1	7.0	7	–	–	–
Goldman's	2	15.5	10-21	–	–	–
Gump's	4	7.0	6-9	3	9.3	7-12
Hastings	1	6.0	6	2	5.5	5-6
S.S. Kresge (Chat.)	1	6.0	6	–	–	–
S.S. Kresge (Mich.)	1	9.0	9	–	–	–
Livingston Bros.	1	18.0	18	1	15.0	15
Lord & Taylor	3	10.0	5-20	1	5.0	5
Macy's (S.F.)	10	6.3	6-8	7	6.3	5-8
I. Magnin	10	4.6	4-6	5	4.0	5
J. Magnin	5	5.0	3-12	–	–	–
Maison Mendessolle	2	2.5	2-3	1	4.0	4
Montgomery Ward	1	4.0	4	–	–	–
Parkview Gem (Kans. City)	1	6.0	6	–	–	–
Penney's (Oakland)	2	5.5	5-6	2	5.5	5-6
Penney's (Minn.)	2	5.0	5	1	6.0	6
Peoples (Kans. City)	1	6.0	6	–	–	–
Podesta Baldocchi	1	8.0	8	1	5.0	5
Liberty House/Rhodes	5	7.8	6-11	1	5.0	5
Roos/Atkins	2	3.0	3	2	4.5	4-5
Saks Fifth Avenue (SF)	1	6.0	6	2	5.5	5-6
Sears (N. Calif.)	4	4.8	4-5	5	4.6	3-5
Sears (St. Louis)	1	4.0	4	–	–	–
Shreve & Co.	2	9.0	9	–	–	–
Singer (NY)	1	4.0	4	–	–	–
W & J Sloane	3	3.3	3-4	1	4.0	4
Smiths	1	8.0	8	1	7.0	7
Stix Baer & Fuller (St.L)	1	5.0	5	2	7.0	5-9
A Sulka (NY)	1	4.0	4	1	3.0	3
Wolff's (St. Louis)	2	5.5	5-6	2	6.0	5-7
TOTAL	101	6.2	2-21	63	6.3	3-18

Information From Stores						
Berkeley's (Fresno)	8	2.0	–	2	2.5	–
The Blum Store (Phil)	8	7.5	–	2	8.5	–
Brock's (Bakersfield)	40	7.3	3-10	40	7.1	5-11
Holman's (Pacific Grove)	11	4.2	3-6	10	4.9	4-6
Levee's (Vallejo)	22	4.6	1-8	22	5.7	4-7
Levy Bros. (San Mateo)	28	5.2	3-7	32	7.2	2-13
Gus Mayer (Nashville)	8	3.6	–	2	9.0	–
Gus Mayer (Beaumont)	8	3.4	–	2	2.0	–
Gus Mayer (Louisville)	8	5.0	-	2	3.5	–
Gus Mayer (New Orleans)	8	9.9	–	2	8.5	–
Gus Mayer (Oklahoma)	8	7.5	–	2	7.5	–
Gus Mayer (Jackson)	8	5.8	–	2	5.0	–
Gus Mayer (Memphis)	8	2.8	–	2	3.5	–
Gus Mayer (Baton Rouge)	8	5.9	-	1	7.0	–
Mervyn's (San Lorenzo)	10	3.0	3	7	3.9	3-4
Miller Bros. (Chat.)	6	3.3	3-4	13	3.4	3-4
Oshman's (Houston)	8	7.9	6-9	8	9.0	8-11
Walker Scott (San Diego)	12	6.5	4-11	12	6.9	6-8
Wineman's (Monrovia)	5	3.4	3-4	8	4.0	3-5
Wineman's (Huntington Park)	5	3.8	3-5	8	3.9	3-5
Worth's-Burton's (Conn.)	32	8.0	6-10	32	9.5	5-15
TOTAL	259	5.8	1-11	211	6.6	2-15

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.

RETAILING TODAY

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ROUTE TO	INITIAL

AUGUST 1972 VOL. 7, NO. 8

LEADING AND FOLLOWING

The United States both leads and follows the rest of the world in matters of consumer interest. The major British newspapers have regular consumer columns that are much more frank than those in American papers. These columns have been exposing such items as failures in warranty service on home appliances, naming the company and office, and revealing the codes for canned baby foods, revealing that some cans currently on the shelves were manufactured more than 4 years ago! No wonder the Grocery Manufacturers Association does not want open dating—they haven't even learned how to rotate their warehouse stock, a fundamental procedure long ago adopted (and hopefully carried out) by the U.S. Army Quartermaster Corps.

Great Britain is mulling over the Crowther Committee's recommendations on disclosing interest rates on Hire-Purchase contracts—Truth-in-Lending in a different vernacular. (The caption on an Australian cartoon, showing a loan office, reads, "In compliance with the Truth-in-Lending Act, I'm required to tell you that if you miss over two payments you'll wind up in the hospital".)

Professor Gordon Wills, professor of marketing at Bradford University, is suggesting that British universities establish a Professor of Customer Relations whose teaching would be "an important starting-off point towards helping companies cope with the growing power of consumerism." He reasons that "Today manufacturers and retailers think of their customers as purchasing units—tomorrow they will need to treat them much more as human beings." (RT Note: We already have professors of Computer Science at M.I.T.!)

Do you sometimes think, "If I could just get away from all this consumerism?" It looks like there are fewer and fewer places to go. Ralph Nader has already sojourned to Great Britain, the Continent and Australia.

ECOLOGY IS WORLD WIDE

And in some countries the retailers are getting involved. Grace Bros. Pty. Ltd., one of Australia's major retail organizations, has become the first to involve themselves as a bottle re-cycling agent.

Grace Bros., at their Bondi Junction branch, established a re-cycling center on the rooftop level of their Car Park—accepting glass bottles, jars and aluminum cans. Branded bottles are returned to their owners for reuse. Unbranded bottles are crushed for recycling. The money paid to the center for the contributed materials is given to hospitals and charities. One organization, the A.G.M. Hospital, through their Bottle Collection Scheme, has raised more than $250,000 for their members hospitals!

The center was dedicated by the New South Wales Minister for Environment control, the Mayor of Waverly and other dignitaries—and with appropriate newspaper publicity.

Perhaps "Down Under" they do better!

A MATTER OF ETHICS

Not every "matter of ethics" is bad.

A reporter for RT recently told us a story—and as soon as we can pass it on to Diogenes, he can douse his lantern and take a long-earned rest.

Our reporter has been a widow for many years—and has no knowledge of the technical points of house construction or maintenance. Several years ago she noted some blisters on her roof and after consulting friends, she called Star Roofing Company of Oakland and asked them to come and check her roof. This brought Mr. Sullivan into her life.

Mr. Sullivan looked at the roof and said she did not need a new roof. Each year she called Mr. Sullivan and each year Mr. Sullivan assured her she did not need a new roof—until this year, when he said that the time had come.

He gave an estimate and she signed a contract for $650. A few days later, when returning to her home at 8:30 in the morning, after taking her car in for service, she found the roofers hard at work. She was distressed—because this was the very day she was entertaining at lunch and Star Roofing had not called in advance. The girl in the office was most apologetic—but with the hot tar pouring, there was nothing to do. About 1 p.m. the workers left.

A few days later she received her bill—not for $650 but for $515—with a note saying, "It took less time to do your roof than we had estimated so we have adjusted your bill—The Girl Who Forgot To Call You."

My reporter has told dozens and dozens of people. And I have called Mr. Sullivan and asked him to give me an estimate on some repairs to my roof.

You see, this kind of advertising doesn't need paid space in a newspaper or on the airwaves. It is transmitted directly—free.

DEPARTMENT STORES, SHOPPING CENTERS, AND COMPETITION

Gimbel's has responded to the charges of the Federal Trade Commission (FTC) that their shopping center leases are anticompetitive. Actually, Gimbel's is only one of several companies involved in a major campaign by the FTC to end many of the anti-competitive provisions of shopping center leases such as restrictions on tenants, restrictions on merchandise range or assortment, mandatory store hours, and other terms that are, with increasing variety and frequency, being mandated through shopping center leases.

Most of the retail industry is aware of the special terms offered by shopping centers to major department stores–or extracted by major department stores, depending on one's point of view. As it has become necessary to subsidize, progressively, two, and then three and now four or five department stores, the compensatory rent demanded from the smaller stores has become stiffer and stiffer.

Let's look at the response of Gimbel's to the FTC charges, as summarized by the FTC.

Gimbel's protested that the action was not in the public interest, because if successful (that is, if Gimbel's could not get tenancy restrictions, radius clauses, etc.),

1. Gimbel's would channel future expansion to free standing stores without adjacent competitive establishments.
2. Gimbel's and other department stores would be deterred from making the enormous investment essential to the creation and development of retail shopping centers.
3. Shopping center developers would be impeded from obtaining financing essential to the development of shopping centers.
4. Local independent retailers and national chain store organizations would be deprived of the opportunity to compete with Gimbel's and other large department stores for the sales now generated by shopping centers.
5. Consumers would be deprived of the convenience, economy and benefits of competition resulting from shopping centers.
6. The investment of all tenants in shopping centers, which investments were made in reliance on the success of the center being based on a broad mix of competing tenants, would be destroyed.
7. And as a result of these reactions, it would restrict, restrain, lessen and prevent competition in the retail distribution of goods and services in trading areas across the country, rather than enhance, improve and encourage such competition (Bernard and Adam, you can now stop waiving the flag from the grave.)

RThought: there are some obvious responses. One is hard pressed to accept that competition and the future of retailing is dependent upon Gimbel's and others having special lease terms. One would suspect that Gimbel's does not believe that they could do better with free-standing unsubsidized stores than they could in a shopping center without restrictive clauses. Department stores, after all, have done well in downtown areas without the protection of such clauses and RT seems to recall that Gimbel's just built a new and expensive store on the Upper East Side in New York City without the protection of these clauses; and some years ago Alexanders and Korvette's moved into Manhattan without such benefit.

In response to points 2 and 3, the time might come when shopping center developers might have to invest some of their own money. That has, after all, been done in the past and might be done again in the future. There is no special 11th Commandment that says that shopping centers have to be financed by hypothecating leases of major tenants (leases which contain bargain rates) rather than using the money and/or credit of the developers. On the 4th point, local retailers have long been discriminated against by shopping centers. As the major stores extract greater bargains through their leases, more of the leases for smaller stores were given to chain organizations whose credit permitted the leases to be hypothecated.

As rents have risen in shopping centers and assortments offered have been restricted by lease terms; and as free- standing stores (including discount stores) have developed around the shopping center, many customers are finding their greatest benefits at stores outside the center. There certainly is convenience (if you can avoid the trampling of the crowds) at successful 1,000,000-plus square foot air conditioned centers (if you don't mind the half mile hike from the empty space in the parking lot)–but "economy" is another matter, and purely subjective.

As to the 7th point, prophecies of doom have never been the stock-in-trade of wise men. Of course, one may wonder about the wisdom of the Gimbel organization which built a tremendous original store in New York City thinking that because the people of Vincennes loved Gimbel's, that New Yorkers could not get along without a Gimbel's! If my memory is correct, this store made its first profit in 1929 and its second profit in 1939 or 1940, partially as a result of selling off an art collection on the 6th floor. But then there have been hundreds of home town merchants who learned that the people in the next town could get along without them very well.

I suspect that if, as a result of pique and pout, Gimbel's and all of the other department stores decided that they would teach the United States a lesson by not building any more department stores, that (1), there would not be one additional ill-clothed person in the United States because of lack of a retail store to patronize, and (2), competition might be even more healthy.

RThought: department stores might begin to wonder how long it will be before the FTC investigates the quantity discounts offered by metropolitan newspapers–which constitutes another subsidization of the big stores. **It appears to RT that without tremendous subsidies (bargain rents, bargain advertising rates, special deals from suppliers) department stores could not be self-supporting.**

IS ENTHUSIASM FOR POLITICAL GIFT LOOPHOLE IN GOOD TASTE?

A major accounting firm's newsletter for July 1972, under a headline, "IRS Provides Rules Under Which Large Political Contributions Can Escape Gift Tax" points out that political contributions of more than $3,000 to one political party or candidate are subject to Federal Gift Tax. It then explains that this can be avoided by channeling them through different committees or organizations and now we quote, "However, the practical problem of determining the circumstances under which political organizations will be recognized as separate donees by the IRS has caused some concern. The Service has just issued a very timely ruling that reveals its position in this connection."

The newsletter then proceeds to explain the obviously unsound ruling that uses the IRS rule-making authority to make a farce of the "separate gift" concept–a ruling issued in an election year, when money is flowing from big donors to the party in power.

Our national accounting firm, in their glee about the good news, apparently did not wonder whether their ethical obligation as members of a professional society might suggest that instead of jumping to have their clients take advantage of this ruling they should, instead, be publicly objecting to the ruling as being a gross distortion of the law.

RT suspects that many other accounting firms have been spreading the same good news–instead of protesting the unsoundness.

Because the tax experts of the accounting profession have an ethical code–but apparently no political morality; and because it appears they would rather curry praise from big political donors by publicizing this loophole, rather than act for the public by challenging the ruling; we find that the common man, not concerned about making multi-$3,000 gifts without paying gift tax, must turn to the uncommon man, John Gardner, who heads Common Cause.

In due course, Common Cause will challenge this ruling–and probably defeat it, just as they have recently been favored by a

Washington, D.C., District Court stipulation of dismissal of their suit against TRW, Inc., requiring TRW to dissolve their TRW Good Government Fund, a device designed to defeat the Federal laws that ban political contributions by corporations (a similar scheme is used by labor unions whose contributions are also barred). Common Cause has been contacted by more than 100 corporations who wondered about their similar funds—and ·bly all will have to discontinue them.

Those firms that were advised by their accountants that the procedure was "perfectly proper" may now ask why they received bad advice. And the accountants are likely to say such things as "so-and-so did it and got away", or "how did I know the courts would throw this out?"—but what RT really fears is the accountant who says, "Here is another idea on how you can defeat the direct statements of the law that corporations, and particularly those involved in defense, can not make political contributions." Those members of the accounting profession are the ones who would destroy democracy in order to make a few bucks for themselves.

POSTAL SERVICE NEVER CHANGES

Even changing the country does not bring happiness with the postal service. RT's European reporter sent the following two stories which appeared as a letter in **The Times** (London).

1. "What do you think of the state of the British postal services? I don't know what innovations they've introduced, but all organization is at an end and you simply can't place any reliance on it. An Englishman had one or two of his letters in English go astray. He spoke to the post office here about it and when nobody paid any attention to him, he addressed a complaint to the head postmaster. He got a reply saying that they accepted no responsibility; he had handed in his letter and they had sent it off; it was not up to them whether or not it reached its destination."

2. "The post office department has gone all to pieces . . . In short, sending off a letter is a headache; it's asking for trouble. I've written this letter on 10th Muharram. Tomorrow I'll send for the necessary stamps, stick them on the envelope, and send it off. It's like shooting an arrow in a dark room; if it hits, it hits, and if it misses, it misses."

When was this? The first quote is from June 4, 1854 and the second from October 3, 1854. Both appeared in the book "Ghalib: Life and Letters (Harvard Press 1969).

It is 118 years later and these letters could be mass produced and sold at 5¢ a copy to unhappy postal service customers.

AN INCENTIVE TO GOOD PERFORMANCE

Gus Mayer Stores have been contributing their data for the bi-monthly Credit Office Rating since the first of 1972. However, for a number of years they have been distributing a monthly comparison of billing performance to each of their stores throughout the country.

Management recognizes that their largest single investment is in accounts receivable—and the proper management of that investment is vital. The report on billing also goes to its top officers, starting with the President.

Management considers four days between cycle closing date and mailing date is "par for the course"—but the stores did not reach it too often. However, since they have been reinforced by RETAILING TODAY's Credit Office Rating, which shows what other stores are doing throughout the United States, they have shown the following record:

	Last Yr.	This Yr.	Improvement (decline)
December 1971	9.2	9.2	no change
January 1972	5.0	6.2	(–1.2)
February	6.0	7.1	(–1.1)
March	6.1	4.4	1.7
April	6.1	5.3	.8
May	6.3	5.3	1.0
June	6.8	4.5	1.8
July	7.7	5.0	2.7

Many people complain that today's office worker isn't interested in doing a good job; but the real problem is that many executives don't know how to set an attainable standard and stimulate a desire to attain that standard.

SWEDEN FINDS A NEW TAX SOURCE

Most Americans when they think of Sweden, think of sun-tanned blonde beauties, cars that last 11 years, and the heaviest coffee drinkers in the world.

But retailers might be concerned about their innovations in tax sources—a tax on advertising.

The Environment Monthly, (420 Lexington Avenue, NY, NY 10017. $35 a year) reports that Sweden has started to tax daily newspaper advertising at 6% and all other ads at 10%—and will use the money to give production grants to shaky dailies, stimulating competition with the press monopoly.

The Royal Commission on Advertising made a study of Swedish advertising and found many things that are probably true in the United States:

1. A wide range of advertising percentages (the advertising expense rate for toothpaste is 133 times the rate for eggs).
2. Half of all advertising was concentrated in 10 commodities—among them were tobacco, spirits, autos, cosmetics, detergents, coffee, chocolate and gasoline.
3. The only ads Swedes watch systematically are the weekend supermarket ads.
4. The major companies seldom make any analysis of their advertising needs or productivity.

The Commision concluded that there was no "consumer demand" for advertising. In addition, one-fifth of the advertising was misleading. Therefore, no penalty would be placed on the consumer (who was not demanding the advertising) and there would be a benefit to the government (which needed the revenue) from placing a tax on the cost of ads placed!

THE "OUTSTANDING" COMPANIES REPRESENTED ON THE BBB

RT has long maintained the position that the Council of Better Business Bureaus can never, in the minds of the consumer, be other than a cover-up for deceit as long as they permit heads of corporations to sit on their Board while their firms are being battered by the Federal Trade Commisssion and various state agencies for unethical conduct.

In the July 1972 RT we commented on the fact that Gardiner Cowles is a director of the Council of BBBs and that his firm announced June 21st the acceptance of an FTC Consent Order banning conduct alleged by the FTC.

It is almost impossible to keep up with the many actions against Cowles Communications and their subsidiaries—but RT has just become aware that on October 22, 1971, in State of California v Cowles Communications, et al (Superior Court, Monterey County No. 67350) the Final Judgement shows that Cowles entered into a consent order permanently enjoining Cowles, their subsidiaries and franchised dealers from misrepresenting the purpose of their calls, representing that the agent is performing a service other than the sale of magazines ("I am in a contest to win a scholarship"), and on and on—for 6 pages (items "a" to "p").

It further requires that Cowles' subsidiaries enforce the terms, and supervise and monitor their agents and franchisees, that all promotional material be submitted to the California Attorney General in advance, and that the Cowles' subsidiaries pay $45,000 to the State of California!

I would not trust the Council of Better Business Bureaus any more than I would trust a magazine salesman—as long as they permit people like Gardiner Cowles to help formulate their policy. It hardly takes any skill to project that one of these days some Cowles door-to-door magazine salesmen will start using the fact that Gardiner Cowles is a director of the Council of Better Business Bureaus as proof that Cowles' is an ethical operation. The statement that Cowles is a director is certainly more honest than many of the statements alleged by the FTC and the State of California—statements which Cowles Communications has agreed to discontinue while claiming they never made them.

DID SHOPPING CENTERS WIN OR LOSE?

In a recent 5 to 4 Supreme Court decision it was ruled that the giant Lloyd Shopping Center in Portland, Oregon, could ban from the center people who were distributing anti-war propaganda. This was hailed as one of the great steps toward restoring the rights of private property. The decision said, in effect, that just because the shopping center invited everyone to come on the property—they did not really mean everyone.

Thus, the Supreme Court defined one limit of the mixed private-nonprivate property status of a shopping center. Many years ago they defined the other limit—that unions can picket in front of a store in a center and that they do not have to stay out on the sidewalk thousands of feet away.

But knowing the extreme limits does not clarify the status of all of those categories that are in between.

For example, we know that the people who work in the center have a clear right to be there. So do the customers who make purchases.

But what about people who say they came to buy, and have not bought, and so are not yet a customer—it is not so clear. Especially if, while not buying but looking, they may be doing things that displease the center's management. In this category would be roving groups (gangs?) of kids, particularly ones that might be called hippies.

And what is the status of all the community organizations that have our permission to use the parking lot or the mall for their particular "thing"? If we are going to let the Boy Scouts do their knot-tieing and the local Coast Guard Squadron put on a display of water safety and the hospital auxiliary solicit funds, we are guilty of discrimination if we exclude people who wish to advance their objections to the war or a bond issue or a candidate?

Since the Lloyd Center decision there have been suggestions that in order to come under the protection of that decision (that is, retain the right to keep out anti-war and similar groups) you may also have to refuse the requests of the Girl Scouts, Heart Association, hospital auxiliary, United Fund, and many other groups that you have a moral obligation to support.

Shopping Center owners may have gained some property rights under the Lloyd decision, but RT is not certain that exercising those rights will make for a better community—or will make the shopping center a better citizen.

SHORT SHORTS

Barriers to the 4 day week. The Department of Labor has rejected an appeal to allow firms working 4 days of 10 hours each to pay straight time for the entire 10 hours. The public hearings found small firms and the U.S. Chamber of Commerce asking for it—and the unions opposing. Labor Secretary Hodgson said, "A very tin[y] part of industry may be enthusiastic about the shorter daily w[ork] week, (but) almost all the rest have grave doubts."

The Automat is dead—but lives. Horn and Hardart is in bankruptcy in the United States—and they were the operators of the Automats in New York City. Not too many years ago both kids and adults looked forward to the wonderful selection of a wall full of cubby-holes from which one could select from among dozens of dishes. Many a kid, when not watched too closely, made an entire meal of desserts. But the Automat is newly appearing in shopping malls in Zurich and Frankfurt. The merchandise goes far beyond the New York Automats—to include chilled displays of wines and spirits, ready-to-drink hot coffee, the assortment of a convenience food store and even a bit of apparel. The wall of offerings is controlled by a central coin slot with dial-a-number item identification. A first cousin to the Keedoozle!

Day care centers, anyone? Dayton-Hudson is one of the few—if not the only—retail firm to experiment with a privately operated day care center for their employees. Actually, D-H operates a center in Minneapolis in cooperation with Control Data and the Federal Reserve Bank. It is part of a program to provide long-term employment opportunities for Mothers residing in the inner city area. If you are interested in the problems, D-H may be able to advise you—but if you are interested in the idea, including some case histories, write Joan Hutchinson, Social and Rehabilitation Center, HEW, 330 Independence Avenue, S.W. Washington, D.C., and ask for the report "Employer-Subsidized Child Care," by Don Ogilvie.

On American Airlines the concessionaire comes to you. A firm called Rathcon is handling the "Best of Everything" catalogs on American Airlines, expects to do $1,000,000 in 1972, and pays American a flat commission. One of these days you may find your local shoe concessionaire serving you while safety-belted in your seat.

Profit in "gripe" forms. Infact Systems, Inc., (80 Boylston Street, Boston, Mass 02116) has developed a new paper back—called "Telegripe Complaint Kit." The first 29 pages tell you how to make a complaint—and then there are 28 2-color, self-mailing complaint forms (they recommend making 4 copies—for follow up to the typical government-manufacturer-retailer who does not reply). This will cover 7 specific complaints. The form is excellent —in fact, it might give some stores ideas on how to improve the customer suggestion slips that one formerly saw in stores. If you want to see for yourself, send $1.29, the same price at which it will soon be selling in stationery departments.

POEMS TO MANAGE BY

Before one can manage another, one must be able to control himself. Let us consider for a moment .

MY PRAYER
by
Henry David Thoreau

Great God, I ask thee for no meaner pelf
Than that I may not disappoint myself;
That in my action I may soar as high
As I can now discern with this clear eye.

JUMPING GROSS PROFITS

The June 1972 RT carried an item, "Pregnant Brides and Jumping Gross Profits," that dealt with the pattern of greatly improved gross margins in the last year before an initial public underwriting. A comparison was made between two oldline companies, Sage-Allen and Leath & Co., where this pattern did not appear; and three potential glamour companies, Dannemann Fabrics, The Piece Goods Shops, and Naum Bros., where this pattern did appear.

Even though the article closed with the comment, "No special significance should be given to the selection of the sample firms reported—a list of 50 or more 'new issue' retail firms could be documented," RT feels this is not enough of a disclaimer to remove Dannemann Fabrics, The Piece Goods Shops, and Naum Bros., from what appears to be a special category.

RT attempts to obtain the prospectus on every public underwriting of a retail company, and estimates that it does get about 75% or 80%. The tabulation on the opposite side of this page covers the new underwriting during the year July 1971 to June 1972 for which RT had the prospectus on file. Forty firms are listed.

The tabulation gives the following information:

1. The name of the retailer
2. The certified public accountant
3. The gross profit percentage—or the closest figure to gross profit (the footnotes indicate that some firms, attempting to conceal the gross profit, combine buying and/or warehousing and/or occupancy cost with the cost of goods).
4. Whether the statement was audited or unaudited; and if audited, whether by a firm other than the most recent firm.
5. If there was a short period (usually 3 or 6 months), the gross profit percentage for the short period, if disclosed.
6. The gross profit percentage for the last full fiscal year prior to the underwriting (shown in the column headed "last") and for the prior 4 years (in columns headed -4, -3, -2, and -1).

One quarter of the firms (10 out of 40) showed a lower gross profit percentage in the last fiscal year than in the next to last—with the largest drops being Pic "N" Save at 2.20 percentage points and Service Merchandise at 1.67 points.

On the other hand, we had such dramatic improvements as C&R Clothiers which increased 12.70 points in the last year compared with a net increase of 2.07 in the 3 prior years! Judy's showed a 3.28 point increase in the last year compared with a 1.86 point net drop in the prior four years (this is probably accounted for, in part, by the problems of Beck Industries and in part by the impact of the midi skirt length).

The table below shows some more of the "unusual" performers:

Firm	Net Change −4 to −1	Change −1 to last
Pic'N Pay	0.95 points	2.96 points
Barry's Jewelers	(5.51)	2.80
Wolohan	1.39	2.49
Fredericks	.06	2.43
Weston's	2.14	2.03
Grand Central	.08	1.47
Piece Goods Shops	5.81	1.39
Bruno's	(.26)	1.35

Firms	Net Change −4 to −1	Change − 1 to last
Eastern Newsstands	4.27 points	1.35 points
Heilig—Meyers	1.89	1.34
Combine Cameras	4.22	1.30
E&B Supermarkets	2.05	1.15
Laneco	2.10	1.15
Empire Apparel	(.19)	1.15
Danners	1.32	1.14

It would appear to RT that unusual factors exist when firms show such dramatic changes of pattern. Frederick's showed a net increase over 4 years of .06 points (although they hit a peak the first time they registered, but later withdrew the registration) and then in the last year they were able to improve their margin by 2.43 points. The same is true with Grand Central which showed a net improvement of .08 points over 4 years, but 1.47 points in the year preceding the public underwriting.

The Securities and Exchange Commission (SEC) has recently evidenced interest in finding means to avoid the losses that stockholders have taken with increasing frequency when "high flyers" quit flying so high. They are also concerned about the glamour stocks that come out at normal price/earnings multiples and them immediately jump to very high ones.

RT has indicated to the SEC that there are several things that they could do—at least in the case of retail companies—that might avoid this situation:

1. Require the Company to fully explain unusual changes in Gross Profit percentages, particularly when there is no pattern of steadily improving gross profits. Examples of this situation are C&R Clothiers, Judy's, Frederick's and Grand Central.

2. Require that the pure gross profit figure be shown in every prospectus, in every annual report, and in every quarterly report. This is probably the most important information that is not now regularly disclosed by publicly traded retail firms. The actual figure, for any retailer, discloses little or no information; the changes, both as to direction and amount, constitute key information that the stockholder is entitled to have.

3. The SEC should require a special statement from the accounting firm giving, in detail, the accountant's analysis of abnormal gross profit fluctuations; and based on the report of the accountant to the SEC, the SEC should determine whether or not the Company is making adequate disclosure to the stockholders and the investing public.

The American Institute of Certified Public Accountants (AICPA) is not completely blameless. As pointed out in the June article, there are two generally accepted accounting valuations of inventory—private and public. There are many philosophies for valuing inventory—particularly when there is obsolete merchandise on hand. Since many companies no longer age their inventory, the CPA does not have available a detailed analysis and measurement of the inventory. Lacking it, most CPA's, including many of the Big 8 offices, accepted a "conservative" valuation when privately held and a "realistic" valuation when publicly held or about to go public.

GROSS PROFIT PATTERN FOR NEW-ISSUE RETAIL STOCKS
JULY 1971–JUNE 1972

	GROSS PROFIT PERCENTAGE FOR						
	Full Years Ending With Last Before Offering					Short Periods	
Company and (Accountant)	–4	–3	–2	–1	Last	Last Yr.	This Yr.
Atlantic Dept. Stores (Eisner & Lubin)	27.13%	27.16%	28.17%	29.92%	30.11%	29.15%	31.20%
Baker Bros. (Haskin & Sells)	23.72	24.24	24.25	24.09	24.48		
Barry's Jewelers, Inc. (Alexander Grant)	(1) 59.38*	54.81*	54.25	53.87	56.67	57.45	57.34
Basco Inc. (Laventhol, Krekstein, Horwath & Horwath)	22.53*	22.51*	23.72	23.10	25.79		
W. Bell & Co., Inc. (M. B. Hariton & Co.)	26.43	26.33	25.70	26.74	27.50		
Bruno's Inc. (Price, Waterhouse)	(2) 20.07	20.32	20.15	19.81	21.16	20.82	19.90
C&R Clothiers, Inc. (Seidman & Seidman)	none	35.89*	36.41	37.96	50.66	31.80	55.33
Charming Shoppe's (Touche, Ross)	(1) 27.03	27.99	29.29	30.19	30.61	26.80	28.99
Combine Camera Stores (Martin Rosen & Co.)	23.41	26.20	27.45	27.63	28.93	28.85	29.63
Courtesy Drug Stores (Brout Isaacs & Co.)	28.09	29.56	29.14	26.41	26.90	27.20	29.43
Danners, Inc. (Ernst & Ernst)	(1) 32.97	34.39	34.89	34.29	35.43		
Duckwall Stores (Peat, Marwick, Mitchell)	33.51*	33.93	33.72	34.24	33.60		
Dannemann Fabrics (Samuel J. Londu)	38.41	40.22	39.50	43.67	44.62		
E&B Supermarkets, Inc. (Liss & Knee)	21.36	21.43	22.33	23.41	24.56	24.72	24.69
Eastern Newsstands Corp. (Margolin, Winer & Evans)	28.27	29.57	31.30	32.54	33.89	32.60	34.69
Empire Apparel Stores (Robert Mirsky & Co.)	30.97*	30.03*	32.65	30.78	31.93	31.90	38.14
Evans & Mathis Furniture (Peat, Marwick, Mitchell**)	40.67**	43.93**	43.78**	44.95**	43.91		
Flah's of Albany (Kessler, Bernstein & Jaffee)	33.46*	33.91*	34.21	35.18	34.00	34.22	36.78
Fredericks of Hollywood (Peat, Marwick, Mitchell)	51.19	51.86	52.31***	51.25	53.68	52.38	52.90
Glosser Bros., Inc. (Alexander Grant)	23.75	24.14	24.99	24.51	24.62		
Grand Central, Inc. (Lybrand, Ross Bros., and Montgomery)	26.66*	27.01	26.49	26.74	28.21		
Helix Marketing Corp. (Lybrand, Ross Bros., and Montgomery)	34.49*	36.41*	37.38	38.49	37.59		
Heilig–Meyers (Lybrand, Ross Bros., and Montgomery)	(5) 32.85*	34.03*	34.10	34.74	36.08		
Judy's Inc. (Seidman & Seidman)	45.00	44.25	45.76	43.14	46.42		
Jacobson Stores (Arthur Andersen)	(3) 37.13	37.45	38.41	38.81	38.98	39.99	40.55
Kennedy & Cohen (Peat, Marwick, Mitchell)	21.31	22.23**	26.98**	30.15	30.83		
Laneco (Ernst & Ernst)	11.20*	10.81**	12.86	13.30	14.45	14.75	14.44
Leath & Co. (Price, Waterhouse)	45.42	45.49	45.66	46.01	45.98	46.53	46.05
Land O'Fabrics, Inc. (Haskins & Sells)	38.57*	41.18*	42.26	45.90	44.93	45.05	46.82
Naum Bros. (Evans & Bennett)	22.68	21.39	22.27	22.69	23.64	23.67	24.12
S. E. Nichols, Inc. (Laventhol, Krekstein, Horwath, Horwath)	(1) 21.73*	21.76	21.62	21.86	21.99		
Nordstrom–Best (Touche, Ross)	(1) 27.34	30.96	32.31	32.69	31.58	31.80	34.09
Pic'N Pay Stores (Laventhol, Krekstein, Horwath, Horwath)	(1) 31.77	33.81	33.30	32.72	35.68		
Pic "N" Save (Touche, Ross)	41.04*	41.86*	49.21	50.47	48.27	48.30	49.03
The Piecegoods Shop (Price, Waterhouse)	27.63*	28.87*	33.97	33.44	35.83	34.62	36.60
Sage–Allen & Co. (Alexander Grant)	(4) 35.39	35.96	36.66	36.48	37.21		
Service Merchandise Co. (Hirsberg & Byrd)	(1) 19.56*	24.52*	23.82**	23.80**	22.13	20.49	18.76
Sunshine–Jr. Stores (Ernst & Ernst)	23.66*	24.80*	25.12	25.81	25.80	25.20	26.69
Weston's Shoppers City (Touche, Ross)	26.32*	27.63*	28.12**	28.46**	30.49		
Wolohan Lumber Co. (Ernst & Ernst)	17.30*	18.47*	18.67**	18.69**	21.18	21.10	20.91

Source: All figures computed by RT from either "Red Herring" or final prospectus.

* Not audited
** Audited by CPA other than shown
*** Filed prospectus but withdrew

(1) Includes buying and occupancy with cost of goods sold
(2) Includes warehouse expense with cost of goods sold
(3) Includes buying and distribution with cost of goods sold
(4) Sales included concessions and cost of goods sold included concession sales less license fee
(5) Includes occupancy and delivery with cost of goods sold

RETAILING TODAY

ROUTE TO | INITIAL

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THE ABSURDITY OF POINT SCORING

Wells Fargo Bank has a "Rate Yourself" application form for a Master Charge Account. It is so absurd it must make them look like idiots to many of their customers.

I picked up a form at their Lafayette Branch—after standing in front of 5 desks (3 were occupied) for slightly more than 10 minutes without being acknowledged. In fact, the assistant manager seemed able to "not see me" at a distance of about 20 feet, despite my 200 lb.-plus bulk.

Let me tell you about Layafette, as the 1970 census reported it. The median family income was $17,635 and the average $19,823. Of the 8,253 employed persons, both male and female, 2,441 were professional or technical, and 1640 were managers, proprietors, or administrators. Some 14% of the women over 14 are widowed, divorced or separated. The average persons per household, including a substantial apartment area, was 3.60.

Wells Fargo suggested that these people self-rate themselves, on a scale of 1 to 5, using 7 factors. Let's look at the factors and "points" as one of the largest banks in the United States figures them.

Age—1 point if under 21, and 5 if over 60. This completely overlooks the fact that a substantial portion of the "poor," particularly in suburban areas, are over 60—and the highest income period is below 60, which is rated only 4!

Marital status—rated 1 to 5, with 1 being separated and proceeding through divorced, single, widowed, and married. They overlook the fact that in suburbia some of the most stable incomes are those enjoyed by separated (1 point) or divorced (2 points).

Dependents (including spouse)—1 point for 7 or more (which sort of insults the fine Catholic and Morman families in the area) rising to 5 if none (which, perhaps, corrects the stupidity of the marital status points because many who are separated, divorced and widowed have no other dependents).

Present employment—1 for under 1 year, rising to 5 for over 10 years. There is nothing obviously illogical here.

Monthly salary—from 1 for under $500 to 5 for over $1500. This hardly distinguishes between applicants in this particular community.

Housing expense—rising for 1 if over $250 (presumably per month) to 5 if under $75. This sort of insults the applicants since the census tract in which the branch is located has an average value per occupied dwelling unit of $47,600, and in the adjacent blocks it runs from $52,000 to $60,000! Taxes alone, without maintenance costs, repairs or insurance, and forgetting completely all mortgage payments, puts many of the people in the 1 point category—and they thought that with their income and accumulated wealth, their housing expense of $250 per month would not be held against them!

Living facilities—rises from 1 for living with parents through 2 for rent/furnished, 3 for rent/unfurnished, 4 for own/mortgaged, and 5 for own/free and clear. Of course, many banks recommend that a person can better use his money, in view of the relatively low cost of mortgages and the deductibility of the interest, by not paying off the mortgage.

A MATTER OF ETHICS

There are many retailers who are willing to say to others—although we doubt they actually believe it—that when a manufacturer offers cooperative advertising in the form of 50% of the cost of the ad, the manufacturer is not entitled to benefit from the retailer's volume of advertising that produces an earned rate lower than the open retail rate. They justify their position on the grounds that by having the advertisement run as retail advertising, the vendor already benefits from a lower rate than is applicable to national advertising. This, they claim, is what the manufacturer is seeking and can obtain only through the cooperation of the local retailer.

This sounds good—until one gets into the practices needed to support the conclusion.

First, the newspaper must be willing to render, on their form, representing it to be a billing, a statement for the space involved at the open retail rate. At this point the retail firm has induced the newspaper to conspire to commit a fraud and the newspaper, whose editorial columns beseech us to aspire to higher standards in life, goes down into the gutter to please the economic strength of the retail advertiser.

Second, someone in the retail store must file a claim against the vendor, seeking credit for 50% of a false amount. The store principal or policymaker seldom, if ever, puts his signature on the actual claim; it is the advertising manager or a subordinate who signs the claim. Now the store principal has required, as a condition of continued employment, than an employee regularly execute fraudulent documents.

Third, the store principal, by policy, urges buyers to seek additional cooperative advertising, authorizing the buyer to represent that the company only seeks reimbursement of 50% of the cost of the ad. Now the store principal is requiring the buyer, as a condition of the buyer's job, to actively solicit for purposes of fraud.

And finally, the store principal, in meetings with his peers in the business or retail community, and often when interviewed by the press, will report the terrible increase in shoplifting and internal theft and deplore the declining standards of the present generation.

In Wells Fargo's eyes, I lose 1 point because of my youthful age, 2 points because of my family size, 4 points because of high housing expense and 1 point because the house is not clear. And probably 4 points because I am a proprietor rather than on salary. All of which puts me down in the middle group for credit!

RThought: The danger here is not just the psuedo-sophisticated method by which a multi-billion dollar bank, headed by a former dean of an outstanding business school, chooses to insult potential customers. There is the additional damage done because small businesses think Wells Fargo knows what they are doing and emulates them. In fact, RT discovered this "Rate Yourself" chart on the application form of the man selected as the "Small Businessman of the Year for 1972"—and when the stupidity of the rating was pointed out to him, his defense was, "I just copied it from the Wells Fargo Bank Master Charge application."

Wells Fargo must be doing something right to have lasted more than 100 years; perhaps they are selling stage coaches on the side.

WHO IS RESPONSIBLE FOR SHOP LIFTING?

Retailers are concerned about the tremendous increase in inventory shrinkage, much of which is attributed to shoplifting. It is easy to get any major retailer to publicly speak out about the decline in American morality as evidenced by the increasing number of people arrested for shoplifting.

The United Kingdom Law Society's GAZETTE wonders whether or not there is a direct connection between the increase in known shoplifting offenses from 66,000 in 1965, to 120,000 in 1971, and the parallel increase of supermarkets from 2,250 to 4,800. One of those who raises this question points out that the shoplifters break the law, but the supermarket owners put on a display of easily-reached goods **and carry no legal responsibility for their actions**. The displays are not unlawful but it is a matter of plain common sense that some of the sales-building techniques are an inducement to crime.

The problem is further aggravated by the tremendous emphasis of advertising—creating in many people the feeling they are poor or deprived if they don't have all the hair tonics, TV sets, fancy foods, etc., glamourized in the various advertising media. The **Gazette** points to "the woman who may jettison years of rigorous honesty and succumb to the impulse theft rather than the impulse buy. And in assessing impulse, it is only fair to remember that in many cases of shoplifting there is an element of need."

Rather than continue to pile up crime statistics, the article suggests that when there is something approaching contributory negligence on the part of the retailer (his open displays and lack of store staff), the retailer who wishes to prosecute should be required to show a greater proof of the criminal intent. The Society is particularly concerned about retailers who "make an example" of every person caught with goods in his possession—and suggests this is a poor substitute for adequate staff and less enticing displays.

RThought: There is much here for American retailers to contemplate. We all object to entrapment, whether it is the IRS agent who fails to disclose he is contemplating criminal action against us when examining our returns (the court has ruled this must be disclosed), or the motorcycle policeman, who hides behind the billboard. Perhaps we should put ourselves in the position of those who are sorely tempted by the careless manner in which we display our property—without taking any step to protect it—and consider the ethics of our own conduct.

THE HERD INSTINCT IN RETAILING

Once upon a time there were retailers who had knowledge of a particular type of merchandise and a particular method of retailing. Based upon this they proceeded to develop a sound business—and worked to make that business grow.

They would watch other merchants using other techniques to sell other types of merchandise, and would realize they knew nothing about that merchant's operation. So they went their own way—and let the other guy go his way.

Of course, there were times when they did try to copy each other. For years merchants came from far and wide to Filene's Automatic Markdown Basement and the kind Filene's people would explain how they ran the operation. These ambitious store owners would hasten back to their own stores, convinced they had received the gift of youth, and immediately install their own automatic markdown basements.

Over the past 50 or 60 years, dozens, perhaps even hundreds, of automatic markdown operations have been attempted—and all have failed—except Filene's, the originator. And Filene's goes on and on.

But this was only the midpoint in copying. Most department stores started as something else—and grew into department stores as the way was shown by others. The first department store was the Bon Marche in Paris—and it was some 15 years or so before Gimbel Bros. in Vincennes, Indiana took the same path.

Rowland Macy led the way with a single price store—although he went broke twice in trying to prove his point.

But few retailers created department stores or introduced fixed price merchandising as a move to boost the price of their stock. It is doubtful, with the limitations on capital and management, that we could have overstored a growing country with department stores in the 1860-80 period.

But something has changed since the 1950's.

Retailers have developed both a herd instinct and a conviction they can run any kind of business (even in cases where they are not really successful in their basic business).

Think back over the headlong rush to get into certain types of merchandising—the list is very long.

Those who saw the future of discounting could hardly wait to get started—and almost any empty factory was a temptation to some retailer. In recording the fantastic success of discounters as a type of retailing, no one bothered to stop and count the failures and the bankruptcies.

Conventional department stores disdained discounting—except for a few like Ayres and Allied. Now others can't seem to get into the field fast enough. The same is true of the supermarket chains.

When wigs came on the horizon the rush was positively undignified. Chains developed. Nooks and crannies in shopping centers filled up with wig salons. Every store had a wig department. This did save the life of the millinery business—for a while.

At the present moment there are three or four fantastic "futures"—that every mass retailer (and RT includes all volume retailers in this phrase) see as his own private future domain.

I don't know how many furniture warehouses the United States can stand—but I am certain recent announcements of proposed openings are approximately double what the market can take. (Remember when discount stores had furniture departments?)

There seems to be no end of companies that are going to show everyone else how "do-it-yourself" merchandising should be done.

Catalog stores are perhaps the most amusing—everyone is getting into the business in a big rush. They are all buying the same catalog from the very limited number that are already available. It looks like the big profit will be in printing the catalogs (and perhaps building the buildings).

I don't know how many "pant" chains are possible—but I suspect one of these days either one or the other of the sexes supporting these chains will stop wearing pants! And then what will they sell?

For most of the United States, the success of "going discount" by supermarket chains was achieved by taking business away from A&P or Safeway. When Safeway—and now A&P— went discount and got back some of the volume they had lost—all the super-bright early leaders did not look so smart. Their miracle merchandising proved to be a temporary diversion.

Very few people pay much attention to the merchants who just go their own way, doing their own thing. How long since you took a look at the performance of Petrie Stores or Lerners or Rite Aid or Southland? And there are many others who know how to do their thing—and do it better every year.

RTip: If you want to detect the next big write-off (after phony profits) watch for the build-up of intangibles on the balance sheet. The entry "Excess cost over value of assets of consolidated subsidiaries" has become fairly common—as is the traditional comment that this is not being written off because there has not been any reduction in value.

Many discount and other rapidly expanding chains hide current costs in the form of capitalized pre-opening expenses. First, such expenses were written off over 1 year, then over 2 years, and now, in some cases, even longer.

With the catalog houses there is always the capitalized expense for catalogs. But Seidman & Seidman, CPA's, has introduced a new one—"deferred advertising expenses." This comes from the prospectus of C&R Clothiers, Inc., of Southern California. This is a firm that attained a volume of $2.3 million for the year ending January 31, 1972, and showed an increase for the first quarter of fiscal 1973 from $316,000 to $1,620,000! For the first quarter they showed a pre-tax profit of $436,000, largely accomplished by deferring $240,000 of advertising and store opening expenses, plus increasing gross profits from 31.80% to 55.33%!

All of this was certified by Seidman and Seidman as "in conformity with generally accepted accounting principles applied on a consistent basis!"

As to the financial statements in the prospectus, there is a **negative tangible net worth of $125,000 (minus 28¢ per share)!** They sold 175,000 shares at $10 per share with the founding shareholders collecting $225,000 for 25,000 of their 450,000 shares!

Somebody was able to convince security investors—relying on the certificate of Seidman and Seidman, to invest $10 a share in a company with a negative tangible net worth! Soon other retailers will adopt this practice and it will then become a "generally accepted practice."

One can easily understand why the public is losing confidence in accountants. Consider an accountant who certifies the following footnote as being in accordance with "generally accepted accounting principles": "In July, 1971, the Company launched a new program to develop sales from locations under long-term leases. At the same time the Company adopted the policy to defer pre-opening costs and to amortize these costs over two years commencing from the date of store opening."

As well as "Commencing in July 1971, under the Company's new sales promotion program, the Company has greatly increased its advertising through television and newspaper media. These advertising costs are deferred and amortized over two years from the date the costs are incurred. The goal of the Company's present advertising efforts is primarily to provide for future rather than current sales. These advertising efforts, which are concentrated in Southern California, cover areas in which existing stores operate and are intended to include areas in which future stores will be opened."

Aren't accounting principles great? Spend tremendous amounts on advertising and get immediate sales response which is reflected in income—but postpone charging off the cost for two years! ! ! ! !

The prospectus does not, of course, indicate the amount of the audit fee or whether it, too, is being deferred over the next two years.

RThought: Public ownership brings pressures to succeed beyond the capability of the management. The pressure to "copy" is great—and your underwriters keep assuring you the pot of gold is within reach.

Anybody can copy—most of the true "originators" in retailing are long dead. Even the firms that originate are not guaranteed success—so why should success come to the copy cats?

And "copying" extends from unsound retail outlets to unsound accounting practices.

WHY REQUIRE NON-FLAMMABLE FABRICS FOR CHILDREN'S SLEEPWEAR?

To many retailers this is a further intrusion by government into business—and in an area where the intervention isn't necessary. To others, it is an example of the unproductive result of organized consumer pressure.

But to the busy retailer who is among the first to demand that he be notified of dangerous defects in his new car, but who did not have time to read the "3rd Annual Report on Deaths, Injuries and Economic Losses Resulting From Flammable Fabrics," the following summary may give purpose to efforts to see that his store carries only non-flammable children's sleepwear.

Let's define the scope of the problem. Flammable fabrics are responsible for from 3,000 to 5,000 deaths a year, 150,000 to 250,000 injuries, and financial losses in excess of $250 million.

The greatest danger is to people under 15 (34%) and over 65 (15%). Among the children the danger is greater to boys than girls, and the prime cause is still "playing with matches" (which indicates the need for better parental control and education of parents). For most age groups (all except 6 to 14) the home or other residence is the place of danger. In 25% to 50% of the accidents involving people over 55, physical handicaps are reported—and these handicaps contribute to a much more severe injury and a higher death rate.

Accidents are more common during cold weather (resulting from heat sources used during winter) and are more common among low income families where their quarters more often have open-fire space heaters, hot plates, and other sources of danger.

Sleepwear for children was chosen as the first garment to be controlled because it was the major problem area for children 0 to 4, although involved in only 40% of their accidents. Of the total accidents studied, only 3% involved sleepwear for children 0 to 4. But what can be developed in standards—and availability of fabrics—for this group will simplify the extension of the standards to other fabrics.

The most telling argument for non-flammable fabrics is shown by an analysis of 4,600 cases by the National Burn Information Exchange—which showed that when the clothing caught fire (as compared with burn accidents not involving burning clothing) the victim was 4 times more likely to die, the burns covered twice as much of the body surface, more than 6 times as much skin was burned the full thickness, 21 more days were spent in the hospital and the medical cost ran $5,000 higher.

We all know we are careful, our wives are careful, and our children are well trained–so that we are not exposed to great danger in this area. But that is not true for our customers–who include parents of small children, parents who are not as careful of their children (0 to 4) as they might be, parents who live in poor living quarters with greater risks–and so we must support the development of standards for non-flammable fabrics for wearing apparel.

For those that complain about the fabrics developed so far, let us not forget all the scientists tell us–that the 21st Century garments will be semi-metallic, insulating materials with built-in heating systems. Perhaps the 21st Century will arrive a few years early.

EQUAL RIGHTS FOR WOMEN

Retailers probably think because they employ so many women (often more than half of the employees) they are providing equal rights. Yet, any review of top management highlights that the rights are most equal at the bottom of the ladder and least equal at the top.

Retailers would be wise to read **The Spokeswoman** (5464 South Shore Drive, Chicago, Illinois 60615, $12/yr.). A recent issue covered the following points that emphasize the increased degree of organization by women which will inevitably be applied against the major private employers of women such as retailers, banks and insurance companies.

New York City, and others, are being successfully challenged on pregnancy and maternity benefits, as being in violation of the Equal Employment Opportunities Commission guidelines because of regulations that require a woman to leave her job at an arbitrary time before delivery, and which deny use of sick leave and medical insurance benefits.

More cases are piling up before the Equal Employment Opportunity Commission–frequently joining both the employer and the union in the same charge. Big names now being investigated are General Motors, Container Corporation, Continental Trailways, and Liberty Mutual Life Insurance. EEOC is adding 200 to the current staff of 55 attorneys!

Maids at the University of Columbia are demanding the same pay as janitors. Several universities are being challenged because of pay differences for men and women holding the same academic grade–and because of claimed preference in promotions. The Office and Professional Employees Union is winning some new representation elections–largely reflecting reaction to dead-end jobs, limited promotion opportunities and wage differentials for women or women-dominated job classifications. Taking a hint, the American Federation of State, County, and Municipal Employees Unions, in their national convention, voted to provide greater involvement for women on the job and within the union and to press for a federal government affirmative action program to erase sex discrimination.

RTip: Start your own affirmative action program. Make certain that it is (1) known to your employees, and (2) fully monitored. The weakness of most such top-management plans is that middle-management doesn't like them (such programs become a threat to less competent middle-management males). It takes a long time to sell top management–and until that is done, nothing can happen. But even after it is done, sometimes nothing happens because middle-management vetoes the action.

RThought: Most retailers will not take any action in this area until they are compelled to do so by legislation. Legislation will result because voluntary action is not taken. And the legislation will include many unduly restrictive and unworkable provisions–against which retailers and retailer organizations will rant and rave. But today, no major retail association is pushing for their members to institute affirmative action programs.

NAMES IN THE FTC

E.J. Korvette, Inc., and Arlen Realty and Development Corp: the proposed complaint charges Korvette uses false quality, pricing and guarantee claims and other misrepresentations to sell home improvements through a controlled subsidiary, Mannix Industries. Some of the points covered are: claiming to sell jobs at reduced prices when there is no regular selling price; claiming lifetime or unconditional or 20 year guarantees, while actually offering only 1 year guarantees and even refusing to honor that; products delivered are not those specified; misrepresenting that basement waterproofing is permanent; and on and on.

Eastman Kodak Co.: signed consent order agreeing to discontinue practice of reconditioning returned photo equipment and then selling again as new. It is alleged that Kodak has done this on request for certain wholesale and retail customers, thus giving them the means to mislead the public.

Buy-Rite Foods, Inc.: Provisionally accepted consent order prohibiting knowlingly inducing discriminatory promotional allowances.

A & P: The FTC announced on July 27th, that it intended to issue a complaint against A&P alleging that in various areas of the United States A&P had represented various items in ads that would be readily available for sale at or below the advertised prices and that a substantial number of these items were not available in a number of stores. A&P has several defenses, but one of the interesting provisions of the proposed order (Note: such order may not be issued) is the requirement that A&P terminate the employment of store managers who knowingly violate the order.

THOUGHTS TO MANAGE BY

More than 30 years ago, as a young man, I read and marked this in a book. I was happy to find it again.

A DUTY TO CHILDREN

The parents of a child are but his enemies when they fail to educate him properly in his boyhood. An illiterate boy, like a heron amidst swans, cannot shine in the assembly of the learned. Learning imparts a heightened charm to a homely face. Knowledge is the best treasure that a man can secretly hoard up in life. Learning is the revered of the revered. Knowledge makes a man honest, virtuous, and endearing to the society. It is learning alone that enables a man to better the condition of his friends and relations. Knowledge is the holiest of the holies, the god of the gods, and commands the respect of crowned heads; shorn of it a man is but an animal. The fixtures and furniture of one's house may be stolen by thieves; but knowledge, the highest treasure, is above all stealing.

This thought took me across years, across hemispheres, to brotherhood with men of other cultures and colors and time–for this is from **The Garuda Purana**, one of the Hindu scriptures written during the first 10 centuries AD, as part of a religion dating back more than 10 centuries prior to the time of Christ.

CREDIT OFFICE RATING

RT is tremendously pleased with the increasing number of stores that are proving that they can get their bills in the mail in 5 days or less–and the Honor Roll this month numbers 25 stores. In fact, 5 stores are under 3 days!

Like the Olympic Games, which have sponsored excellence and produced improved performance–and, as a result, have to constantly raise their qualifying standards–**RT will, effective after this report, require 4 days or better for the Honor Roll.**

Roos/Atkins	2.0	Wineman's, H.P.	3.9	Gus Mayer–Oklahoma City	4.5
Maison Mendessolle	2.0	Wineman's Monrovia	4.0	Holman's	4.7
Gus Mayer–Nashville	2.3	I. Magnin	4.0	Sears, N. Calif.	4.7
Berkeley's	2.5	Sears–Columbus	4.0	Gus Mayer–Louisville	4.9
Harzfeld's	2.6	Singer	4.0	Famous Barr	5.0
Mervyn's	3.0	W&J Sloane	4.0	Lord and Taylor	5.0
Miller Bros	3.0	Stix, Baer & Fuller	4.0	Penney's, Oakland	5.0
Levee's	3.5	Gus Mayer–Memphis	4.4	Penney's, Minneapolis	5.0
Gus Mayer–Beaumont	3.8				

RT would welcome additional reporters from major cities.
If you are interested, drop a note to P.O. Box 343, Lafayette CA 94549.

CREDIT OFFICE RATING

Information From Reporters	JUNE-JULY 1972 No. of Reports	JUNE-JULY 1972 Days to Bill Average	JUNE-JULY 1972 Days to Bill Range	APRIL-MAY 1972 No. of Reports	APRIL-MAY 1972 Days to Bill Average	APRIL-MAY 1972 Days to Bill Range
Bullock & Jones (SF)	2	7.0	6-8	--	--	--
Capwell's (Oakland)	8	7.0	6-9	10	5.5	4-10
Dayton's (Minn)	2	5.5	5-6	1	5.0	5
Donaldson's (Minn)	2	6.5	6-7	2	7.0	7
Emporium (SF)	1	8.0	8	7	6.3	7-17
Famous Barr (St. Louis)	2	5.0	5	2	5.5	5-6
Gump's	7	8.4	7-10	4	7.0	6-9
Hastings (SF)	2	6.5	6-7	1	6.0	6
Fink's (Berkeley	1	8.0	8	--	--	--
S.S. Kresge (Chat)	1	12.0	12	1	6.0	6
Livingston Bros. (SF)	1	10.0	10	1	18.0	18
Lord & Taylor (NY)	2	5.0	4-6	3	10.0	5-20
Macy's (SF)	8	7.0	6-8	10	6.3	6-8
I. Magnin (SF)	6	4.0	4	10	4.6	4-6
Maison Mendessolle (SF)	1	2.0	2	2	2.5	2-3
Peck & Peck (NY)	1	24.0	24	--	--	--
Penney's (Oakland)	1	5.0	5	2	5.5	5-6
Penney's (Minn)	2	5.0	5	2	5.0	5
Penney's (Portland)	1	6.0	6	--	--	--
Rhodes (Calif)	7	7.6	6-10	5	7.8	6-11
Roos/Atkins (Calif)	1	2.0	2	--	--	--
Saks Fifth Avenue (NY)	1	12.0	12	--	--	--
Saks Fifth Avenue (SF)	1	6.0	6	1	6.0	6
Sears (N. Calif.)	3	4.7	4-5	4	4.8	4-5
Sears (Columbus	1	4.0	4	1	4.0	4
Shreve & Co. (SF)	3	8.7	8-9	2	9.0	9
Franklin Simon (NY)	2	15.0	7-23	--	--	--
Singer (NY)	1	4.0	4	1	4.0	4
W & J Sloane	2	4.0	4	3	3.3	3-4
Smiths (N. Calif.)	2	9.5	6-13	1	8.0	8
Stix Baer & Fuller (St. Louis)	1	4.0	4	1	5.0	5
Wolff's (St. Louis)	2	6.5	6-7	2	5.5	5-6
TOTAL	79	6.9	2-24	82	5.9	2-20

Information From Stores	JUNE-JULY 1972 No. of Reports	JUNE-JULY 1972 Days to Bill Average	JUNE-JULY 1972 Days to Bill Range	APRIL-MAY 1972 No. of Reports	APRIL-MAY 1972 Days to Bill Average	APRIL-MAY 1972 Days to Bill Range
Berkeley's (Fresno)	8	2.5	--	8	2.0	--
The Blum Store (Phila)	8	6.2	--	8	7.5	--
Brock's (Bakersfield)	40	7.0	4-10	40	7.3	3-10
Harzfeld's (Kansas City)	8	2.6	--	--	--	--
Holman's (Pacific Grove)	10	4.7	3-6	11	4.2	3-6
Levee's (Vallejo)	22	3.5	2-5	22	4.6	1-8
Levy Bros (San Mateo)	36	5.9	3-10	28	5.2	3-7
Gus Mayer (Nashville)	8	2.3	--	8	3.6	--
Gus Mayer (Beaumont)	8	3.8	--	8	3.4	--
Gus Mayer (Louisville)	8	4.9	--	8	5.0	--
Gus Mayer (New Orleans	8	8.9	--	8	9.0	--
Gus Mayer (Oklahoma Cty)	8	4.5	--	8	7.5	--
Gus Mayer (Jackson)	8	5.1	--	8	5.8	--
Gus Mayer (Memphis	8	4.4	--	8	2.8	--
Gus Mayer (Baton Rouge)	8	5.3	--	8	5.9	--
Mervyn's (San Lorenzo)	9	3.0	2-4	10	3.0	3
Miller Bros. (Chattanooga)	8	3.0	3	6	3.3	3-4
Oshman's (Houston)	8	7.3	6-8	8	7.9	6-9
Walker Scott (San Diego)	12	5.4	4-7	12	6.5	4-11
Wineman's (Monrovia)	7	4.0	3-5	5	3.4	3-4
Wineman's (Hunt.Pk.)	7	3.9	3-5	5	3.8	3-5
Worth's-Burton's (Conn.)	32	10.2	8-14	32	8.0	6-10
TOTAL	279	5.6	2-14	259	5.8	1-11

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.

THE EXPLANATION OF HIGH PRICE EARNINGS

Wall Street is full of mysticism. And one area occupied by mystics is the land of high price/earnings (P/E) ratios.

Forgetting those glamour stocks that sell for 40 and 50 times LOSSES, let's look at the typical situation of a high price/earnings ratio stock. This normally involves a company earning a high return on net worth and retaining most of the earnings for future growth.

A typical retail company might earn 10% on net worth and sell for 15.0 P/E ratio; while a growth retailer might earn 30% on net worth and sell for 25, 30, or even 40 times earnings. Let's use these figures and add one more assumption: that the typical retailer pays out 50% of his earnings as a dividend and the growth retailer pays none.

If both companies start with a book value per share of $10, then the typical company will earn $1.00 (10% on $10) during our base year and pay a dividend of 50¢. At a 15 P/E it will sell for $15.

Our growth retailer will earn $3.00 per share (30% on $10) and will sell for either $75, $90 or $120, depending upon whether we assume a 25, 30, or 40 P/E ratio.

Let's look at the table shown below. The left hand side of the table (the typical department store) shows that on the basis of compounding 10% per year and paying a 50% dividend, the book value of the stock will increase from $10 to $12.77 at the end of 5 years. The market price today is 11.7x earnings projected 5 years in the future.

Our high performance stock shows an increase in book value from $10 to $37.13 at the 5th year and, based on the 5th year's earnings, the current price represents only 6.7 to 10.8 times earnings projected 5 years into the future, which is lower than that for the typical department store.

Thus, we see the high current P/E ratio is really low, when related to earnings some 3 to 5 years hence.

If we assume the two firms continue to show the same P/E ratios, the typical store's market value will increase by 28% to $19.20 per share and in addition, the holder would receive $2.90 in dividends for a total of $22.10 income and appreciated value 47% return. In all cases for the high performance stock, the earnings per share and the market price both increase by 271%, assuming a constant P/E ratio.

Thus, in equating a high P/E stock the key factor to determine is how long you think the stock will continue to show the high return on net worth. If the stock is selling for 40 times earnings, then it is selling for 10.8 times the earnings 5 years in the future; while our typical department store stock is selling for 11.7 times earnings for the same year!

hen a stock such as IBM or Avon Products or 3M has shown, year after year, the ability to produce exceptional returns on the money left in the business by the stockholders, it is natural that investors will expect such yields to continue further and further into the future. Their bidding for the stock reflects this factor and the P/E stays high.

This is the reason why even a single flat quarter, such as IBM experienced a year or so ago, can cause a dramatic drop in the market price. What is being reflected is not a lack of confidence in the future of the company but a lack of confidence in the ability of the company to continue to produce the spectacular rate of return on net worth.

As a company continues to show compounded earnings per share of 20% or more per year, the market tends to react proportionately less to any given break in the steady pattern of growth.

The unfortunate situation is when the rate of earnings on net worth is more a reflection of accounting manipulation (as has happened in areas such as land sales, franchising, and computer leasing). The miracle is more one of pencil pushing and compliant CPAs than it is a case of outstanding management with a well developed business concept.

TYPICAL RETAILER

Year	Book Value Per Share	Earn/ Year @ 10% on Book	Dividend @ 50% of Earnings	P/E Ratio on Current Price Of $15.00
Base	$10.00	$ 1.00	$ .50	15.0x
+1	10.50	1.05	.52	14.3x
+2	11.03	1.10	.55	13.6x
+3	11.58	1.16	.58	12.9x
+4	12.16	1.22	.61	12.3x
+5	12.77	1.28	.64	11.7x

GROWTH RETAILER

Book Value Per Share	Earn/ Year @ 30% on Book	Price/Earnings Ratio on Current Price Of $75.00	$90.00	$120.00
$10.00	$ 3.00	25.0x	30.0x	40.0x
13.00	3.90	19.2x	23.1x	30.8x
16.90	5.07	14.8x	17.8x	23.7x
21.97	6.59	11.4x	13.7x	18.2x
28.56	8.57	8.8x	10.5x	14.0x
37.13	11.14	6.7x	8.1x	10.8x

SHORT SHORTS

Should retailers sell their mailing list? I once bought something from Fingerhut and now, according to Dan Rather, that accounts for a request for money from the Republican National Committee. Knowing this won't change my political affiliation; it will just change my buying habits. No more purchasing from Fingerhut.

Even Nader fudges. Nader's Center for the Study of Responsive Law ran a contest for the best paper on the theme of corporate responsibility, offering a $750 first prize. When USC student Donald Gordon did not receive an announcement of the winner, he checked and was told there were so few entrants the contest was cancelled. The USC law dean followed up and eventually found Gordon was the only entrant—and now Gordon has filed suit for the $750 prize (claiming he automatically won as the only entrant) plus $4,000 punitive damages.

What's new in brand names? The sign on the side of the building in Chicago said, "LOWENBRAU, **Brewed in Munich since 1383.**" That's 589 years new! That's 109 years before Columbus discovered America, home of the National Brands Foundation.

A comment on efficiency: M. Harvey Segall, Tacoma, Washington management consultant and specialist in computer and business systems, observes in his newsletter "Automation will never replace the wastebasket as a means of improving office efficiency." Words from a practical man.

Rise up early in St. Louis. Target Stores just announced new hours for their supermarkets—7 A.M. to 10 P.M. Monday to Friday; 7 A.M. to 9:30 P.M. Saturday.

From Where I Sit

10-3-72

by Samuel Feinberg

Robert Kahn, retail management consultant, typically pulls no punches in an article in "Retailing Today," his monthly viewsletter in which he contends big department stores are dependent for their support upon subsidisation by shopping center builders, newspaper advertising departments and suppliers.

Zeroing in on Gimbel Bros. and its response to FTC charges, Kahn says:

"One is hard-pressed to accept that competition and the future of retailing are dependent upon Gimbels and others having special lease terms. One would suspect that Gimbels does not believe it could do better with free-standing, unsubsidized stores than it could in a shopping center without restrictive clauses. Department stores, after all, have done well in downtown areas without the protection of such clauses. Gimbels has built a new and expensive store on the Upper East Side of New York without the protection of these clauses, and some years ago Alexander's and Korvettes moved into Manhattan without such benefit.

"The time might come when shopping center developers might have to invest some of their own money. There is no special 11th Commandment that says shopping centers have to be financed by hypothecating leases of major tenants (leases containing bargain rates) rather than using the money or credit of the developers. Local retailers have long been discriminated against by shopping centers. As the major stores extract greater bargains through their leases, more of the leases for smaller stores were given chain organizations whose credit permitted the leases to be hypothecated."

Kahn concludes on a particularly provocative note: "I suspect that if, as a result of pique and pout, Gimbels and all other department stores decided they would teach the United States a lesson by not building any more department stores: (1) there would not be one additional ill-clothed person in the United States because of lack of a retail store to patronize and (2) competition might be even more healthy."

RETAILING TODAY	ROUTE TO	INITIAL

RETAILING TODAY

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CORRECTION–AND ADDITIONAL INFORMATION

In the May 1972 RT there was an item entitled "Fundamentals of Consumerism–First You Tell the Truth." RT was critical of Giant Foods (GF), their advertising about the high meat prices, and their defense of their position in both the local press and before Congress.

Joseph B. Danzansky, President of GF, took exception in a letter dated July 3, 1972, and since then RT and Mr. Danzansky have been exchanging information and analyses.

Let us clear up the points on which Mr. Danzansky is either correct or on which RT has no basis of determining the full facts. First, RT quoted Senator Curtis, from the Congressional Record, as making certain statements about a meeting with people from GF–Mr. Danzansky was present at the meeting and states that the reported conversation did not take place.

Second, the gist of Senator Bennett's comments on the controversy was that GF urged housewives not to buy meat. Mr. Danzansky says they never urged a boycott of meat. He claims that their ad urged them to buy **less** meat. The largest words in the ad–"ABOUT MEAT PRICES" and "BUY SOMETHING ELSE"–convey the major message. There are the words, substantially smaller, saying "Buy less Meat." Chicken and turkey are suggested as alternatives to meat, not as substitute forms of meat. A typed copy of the ad, all done in the same size letters, would convey a much different message than it did to Senators Curtis and Bennett, several Congressmen, and Ralph Nader. RT accepts the statement of Mr. Danzansky that they did not intend to start a boycott of meat–or even of red meat.

Finally, the critical remarks in the Congressional record were based on the assumption that midwest beef prices were indicative of the prices paid by GF. Based on information provided by Mr. Danzansky, their actual prices were different.

But this leaves the basic issue of whether GF increased their retail prices more than was warranted under Price Commission rules by the increases in cost plus their "customary initial percentage markup." From the information provided by Mr. Danzansky, the average price paid for beef for the 4 weeks ending August 14, 1971 (the date of the price freeze), was 55¢ per pound. The week of the questioned ad, the price paid by GF was 57.1¢, an increase of 2.1¢. The average retail for the 4 weeks prior to August 15, 1971, was 63.6¢ and for the week of the ad was 67.6¢ or a 4¢ increase. Since the CIPM for beef indicated by GF's figures is 15.6%, an increase in beef prices of 2.1¢ at cost should have resulted in an increase in selling price of 2.43¢ rather than the 4¢ reported.

A MATTER OF ETHICS

Do you have the right to ask for Social Security Number on a charge account application?

More charge account applications are asking for the customer's social security number. Stores are doing this without realizing they are hastening the use of the social security number as a Universal Identification Number (UID), and a UID can be the first step toward state super-intelligence and control.

It can't happen here? It is happening right now! Congress recently passed legislation proposed by the Administration to control foreign fund transfers. The Treasury Department asked Congress to avoid legislating detailed rules and regulations but instead to delegate such authority to the Secretary.

When the regulations were issued, they required every bank to maintain the Social Security Number on every account and to retain for three years the microfilm records of every transaction. Further, the regulations permitted access to these records for any purpose determined necessary by the Treasury Department without requiring court approval or notification to the depositor.

For many years every Social Security Card has contained this statement, "For Social Security and Tax Purposes–Not for Identification." Unfortunately, there is no legal backing to this admonishment.

The danger exists that a mixture of computers, Social Security Numbers and data accumulators will lead to manipulation by those who would control our society. Then "Big Brother" will be with us.

For the readers of RT, who make the decision on the use of one's Social Security Number by retailers doing in excess of $70 billion a year, the question is an ethical one–and requires an ethical answer. You do not need this number for credit granting purposes. Using it may be a big step toward the UID–and state control of everyone.

RThought: Regardless of where you stand politically, remember that the other party might get into power. They could read your checking account transactions, your charge account transactions at the stores that asked your social security number, your driving record, your FBI record, your income tax returns–and on and on. If you don't want that for yourself, do something in your credit office.

RT AS A FINANCIAL ANALYST

In December 1971, RT analysed the inherent weakness appearing in the financial statements of House of Fabrics—increasing gross margin, declining sales per outlet, and greatly declining turnover. At that time House of Fabrics was selling at about $17 (adjusted for a 2 for 1 stock split in 1972) or about 34 times earnings. The stock subsequently increased to $30, but since then the problems RT identified have been reflected in the reported results and the price has dropped below $7.

In June 1972, when Levitz Furniture was selling at its peak of $60 or 96 times earnings, a similar analysis was made of Levitz showing abnormal increases in gross margins, declines in sales per square foot, and reduced depth of inventory. An announcement of problems related to a proposed underwriting—followed by an announcement of expected "disappointing" 3rd quarter results—caused a break to $30, and then to below $23. It is interesting to note that Mr. Ralph Levitz reported "Profit margins were adversely affected by a program which sharply increased advertising expenditures and reduced average markups." These are the traditional actions taken when progressive increases in gross margins reach the level where the customers recognize that the prices are no longer "discount" prices. Mr. Levitz reported the program has been discontinued and "average markups have already begun to improve." But he failed comment on the volume with higher prices and less advertising.

FIGHTING LEVITZ

Breuner's, a $50,000,000-plus Northern California furniture chain, is taking on Levitz—who have established 3 warehouse stores in the San Francisco area. Their weapons are interesting.

First, they have a new policy, "No one undersells Breuners"—"Prices are guaranteed to be the lowest obtainable. If any identical item can be purchased for less within 30 days after delivery .... the difference will be refunded. The only requirement needed to assure your refund is reasonable proof that the item is being offered to the general public for less."

Second, they stress their return-guaranty policy, "You can be sure it's right at Breuners," which says they grant ".... the privilege of returning any item of merchandise that you do not feel looks right when it is delivered to your home. It's never necessary that an item be damaged or defective for it to be returned ..... Customer satisfaction is thus guaranteed every Breuner customer in a meaningful way."

Third, by the use of credit terms. They are offering "Take 90 days to pay with no finance charge." Pay 1/3 at 30, 60, and 90 days and there will be no finance charge if payments are made when due. And they now offer a "Newlywed Account" .... "No finance charge will be added for 12 months from the date of first purchase, providing purchase is made within one year of marriage date and payments are prompt. Yes, Breuners loves newlyweds."

Who says competition doesn't produce benefits for the consumer? Show him this proof—it happened in the furniture field just as it happened when A&P finally got tired of having "discount supermarkets" take A&P customers away. Hopefully, this will not be as painful for Breuner stockholders at it is for A&P stockholders—but both are soundly financed companies.

OSHA FROM THE OTHER SIDE

RT has previously reported the complaints of small businesses about the nit-picking enforcement of OSHA (Occupational Safety and Health Act of 1970) and the almost impossible task of full compliance (i.e., any inspector can find enough small items of non-compliance to produce a fine that will pay his salary for the inspection).

But there is another side—and it is voiced by George H.R. Taylor, who is the Executive Secretary of the AFL-CIO Standing Committee on Occupational Safety and Health. Mr. Taylor complains that the exemption of employers of fewer than 25 people will prevent the accomplishment of the purpose of the act. He claims this will exempt, for example, most of the farms where some 3,000 of the 14,000 job related deaths occur. He also complains that most of the top policy appointments in the OSH Administration are management oriented (business management complains that the field underlings are worker oriented—so there must be a communications problem) who have evidenced a bias against workers.

THE NEW RETAIL ARITHMETIC

RT is quite familiar with arithmetic of successful women's shops operating Monday to Friday, 9 to 6, in downtown financial districts. You merely plan for a rental figure equal to your normal payroll figure—and a payroll figure equal to a normal rental figure—and you have a successful operation.

But duty-free shops in airports are a completely different matter. San Francisco International Airport recently called for bids for a 10 year lease on 400 square feet of space. The percentage was already set at 12%—so the bidding was on the minimum rent.

The third highest bid was $33,000 per year or $82.50 per square foot! The second highest bid was $238,043 per year or $595.11 per square foot! ! But the high bid, entered by Hong Kong-based Duty Free Shoppers Limited, which operates such shops in Hong Kong, Anchorage, Fairbanks and Honolulu, was $969,970 per year or $2,424.92 per square foot per year—for rent!

Based upon 12½% rent, they will have to do $19,399 sales per square foot before they pay any excess rent.

IN CASE OF DISASTER, WHAT DO YOU DO?

I don't mean "What do you do about your plant and your assets," I mean what do you do for your customers. The Second Quarter report for Lane Bryant contains the following statement, "As it has done for many years at the time of other disasters, the Mail Order division sent letters to customers in the affected areas offering up to $35 worth of wearing apparel to any customer who suffered substantial losses."

They went on to quote a letter that one customer sent to the local newspaper in Rapid City, South Dakota that sums up the feeling of RT: ".... I am prayerfully grateful that I do not need to accept their generosity, of course, and forever when anybody says to me that big business is inhuman and heartless, I will always quietly say, 'perhaps, but let me tell you about Lane Bryant . . .' "

MERCHANDISING TO THE CONSUMER MOVEMENT

A great opportunity exists for the aggressive consumer-oriented merchandiser that carries cosmetics. Ms. Virginia Knauer, Special Assistant for Consumer Affairs, has been pushing the major manufacturers of cosmetics to start indicating the ingredients on cosmetic labels. To date, Colgate-Palmolive has decided to list the ingredients voluntarily on products sold in the U.S. The Mennen Co., Revlon and Warner-Lambert have agreed to provide **more**, but not complete, information and 19 other companies have indicated they are considering such listings but will await passage of legislation or issuance of instructions by the Food and Drug Administration.

Why should you plug Colgate-Palmolive, Mennen, Revlon and Warner-Lambert (and thus put pressure on the other firms)? Because the drive for ingredient labeling will be backed by 13 major women's organizations with some 2,500,000 members.

That—and the fact that your customers are entitled to the information. They have a right to know whether the ingredients in a product are dangerous or might produce an allergic reaction—in fact, they have the general right to know what they or their family are buying.

EXPLAINING THE COST OF CREDIT

Several firms and associations are distributing employee training films explaining the reason why credit costs so much. They want to answer questions their own employees have. Many employees, for lack of proper information, share with the public a feeling that a Periodic Rate of 1½%, which is an Annual Percentage Rate of 18%, is too high.

As with the many articles and studies that preceeded the films, the direct costs are fairly well established. Work is proceeding toward agreement between major firms (Sears, Penneys, Federated), store groups (Associated Merchandising Corporation), trade groups (NRMA) and the major accounting firms as to what types of expenses should be charged directly to cost of providing credit. The SEC, which has the power to regulate disclosures made by public companies, is watching on the sideline.

RT feels these financial report disclosures are deficient on a major point. They fail to answer the logical question—which consumer advocates are certain to ask—"If you lose so much money on credit, why don't you eliminate credit?"

The reflex answer to this question is bad—it is, "If we eliminated credit we would not make as much money." To this the consumer advocate must then comment, "If you would make less money without credit than with it, you must be making money on credit."

The difficult factor for analysis, of course, is the gross margin (more properly, the contribution to overhead after deducting direct costs other than credit from the gross margin) derived from credit sales. Does one assume that if a store has no credit that all of the credit sales would become cash sales? This obviously would not occur with big ticket items. Lacking an assumption of 100% conversion to cash, the unanswered question is, "How much will transfer?"

We can all agree that without installment contracts we would not have the number of cars in the United States that we now have. One cannot assume that a certain percentage of credit buyers could come up with cash. Thus we would assume that a reduced number of cars would exist—becuase of a significant number of car purchasers could not be converted to cash buyers, the price of automobiles might be considerably higher. This would mean that the number of present cash purchasers who could not afford a car might be even greater than the number of credit purchasers that really could afford a cash purchase—with the result that the projected number of cars sold each year might well be below the present number of cash-purchased cars.

RThought: Retailers should approach, in a positive manner, the question "If you lose so much money on credit, why don't you eliminate credit?"

RT suggests the following kind of narrative:
"At our XYZ stores approximately 62% of our sales are made on credit. We recognize that in many instances, if we did not have credit, the same customers would make almost the same purchases for cash. But the small purchases are not the reason why we offer credit—it is for the large purchases. Sometimes large purchases are a concentration of small ones such as outfitting children when they return to school, or providing gifts for the family at Christmas. Other times it is a single large one such as furniture for a new home, or major time-saving and money saving appliances, such as a dishwasher or a deep freeze. Sometimes it can be a life-saving, unexpected purchase such as new tires for your car before they reach the danger point.

"It is easy to say that if there was no credit, everyone would have to save their money and in the end they would actually purchase more goods instead of less because they would not pay finance charges. Unfortunately, you and I know the problem of saving for future purchases. Few of us would be living in our own house if we had to save up all of the money in advance to buy a house.

"We feel that if there was no credit, most families would spend the same amount of money—but on different items. It would be spent for the small price items—such as entertainment and clothes and alcohol and eating out. Far fewer families would enjoy new cars, washing machines, dryers, refrigerators, TV, hi-fi systems, new furniture, air conditioning, and many other items that are part of what we consider our high standard of living.

"Our problem in running a retail store is to try to see that each category of customer—our cash customers and our charge customers (they may be the same people but at different times)—pay the cost of their particular transaction. All of the costs incurred in a cash sale are also incurred in a credit sale. The costs that we have shown you in this film are the **extra** costs in a credit sale—and it is these costs that we attempt to recover through finance charges.

"We feel this is a fair approach—if you made a cash purchase you would not want to have the costs applicable only to credit sales included in the price you paid; and we hope that when you buy on credit and incur the extra costs, you would not feel that someone not using credit facilities should bear part of your cost."

WONDER WHY YOU GOT THAT MAILING?

A careful review of any issue of *Direct Marketing* explains why you get so much direct mail material—almost anyone you deal with is prepared to sell your name as part of a mailing list. Of course, you never gave them permission to do this—but, as with most businesses, if one can make a buck without breaking the law, then why worry about whether or not one intrudes on the privacy of one's own customers. (**RTruth**: RT does not let anyone else use its mailing list).

Here are a few with mailing lists who don't worry about intruding—as long as they can get their price for the mailing list:

Sperry & Hutchinson, Ellery Queen's Mystery Magazine, Kenton Collection, American Express, McGraw-Hill magazines (Business Week, Chemical Engineering, etc.), Continental Airlines, Tandy Corporation, Alden's, Columbia House (Record Club), Data Processing and other North American Publishing Company magazines, Field & Stream, Fairchild Publications, Sports Illustrated, American Dental Association, RN (Registered Nurse) Magazine, Cahners and Chilton (and virtually all other magazine publishers), Dun & Bradstreet,—and then there is a long list of brokers who will go out and find the special list you need.

FALSE CONFIDENCE IN CPAs?

The Price Commission is requiring the profit reports (PC-51) of reporting and prenotification companies be reviewed by certified public accountants. Based upon the certification of the national accounting firms on new stock issues (RT August 1972—"Jumping Gross Profits"), all done in the name of "generally accepted accounting practices consistently applied", this additional requirement of the Price Commission should (1) increase the revenue for the accounting firms, (2) increase the costs for the retailer, and (3) not cause any serious restriction on the varieties of imaginative variations that are evident. After all, if a company can report a uniform gross profit for 4 years and then jump some 10 percentage points in the year prior to going public, is there any reason to suspect that the reported gross profit cannot be kept down just as easily?

UPHAPPY DAYS FOR COUPONS

It was amusing to read in Business Week of the problems arising in food coupons. The claim is made that fraudulent redemptions are running $100 million a year! The manufacturers are forming an association to attack the frauds—while they continue to load 10¢ newspaper with $10 worth of coupons, and wonder why people cut them out and use them fraudulently. One member of the association was quoted as saying, "This has become a dirty, rotten business, and it has to be cleaned up."

RT wonders who started it. Did the customers demand coupons? We think not. Did the stores demand coupons? We think not.

Then perhaps it started with the manufacturers—who unilaterally imposed coupons on the stores by sending them directly to the store's customer—and then agreeing to pay the store, in addition to the face amount he was required to honor, an inadequate fee for processing the coupon and lending money to the multi-billion dollar manufacturers.

When this all started there was one man in the food industry that stood up to the manufacturers—just as he fought trading stamps. To him, both were uneconomic to the consumer and so had no place in food retailing. That man was Lingan Warren, then President of Safeway Stores. But unfortunately for food retailers (and for consumers), fighting for principle often means a reduction in profits (although this should be temporary). This did happen and was not satisfactory to Safeway stockholders.

The fight against coupons is now being carried on—but by those who increase their own profits by fighting fraud procedures. It would be a cynical comment on our competitive society if the so-called "coupon bandits", plus a Postal rate increase, succeeded in doing what Warren and Safeway could not do—defeat coupons.

NOBODY ANSWERS COMPLAINTS

Buyers Laboratory (20 Railroad Avenue, Hackensack, NJ 07601) does testing of office equipment and supplies, maintenance equipment and supplies, and other items—ala Consumers Union. In fact, it was started by people out of CU.

And today they are finding industrial suppliers are no better in answering complaint letters than are suppliers of consumer goods.

They wrote to a series of companies about complaint procedures to be followed—but many failed to reply.

Of those who did reply, one said, "**usually** a letter addressed to the President will get a reply"; another said, letters should be sent to one of three men and gave their name and address; while IBM said, everything should be handled through the Sales and Customer Engineers.

Both retailers and manufacturers have a problem. But there is a simple solution. The one thing that every customer gets is a bill—and somewhere on that bill should be instructions on who to contact in case a problem is not satisfactorily resolved.

Manufacturers should print it on their invoices. Retailers should include it on every charge account statement (Senator Proxmire is about to require such a listing—by law). And the cash register companies should be able to print this and other information on the back of cash register tapes.

The abuse of the customer at all levels—retailers are not alone—indicates that consumer action groups are likely to force stores to have official complaint stations, with a cumbersome procedure, unless business works to solve the problem.

NAMES IN THE FTC

B. Altman & Co: Consent order C-2282 issued August 2, 1972, for violation of the Flammable Fabrics Act.

Orbach's, Inc.: Consent Order C-2283 issued August 2, 1972, for violation of the Flammable Fabrics Act.

THE NEW GROWTH PATTERN

With the rate of population growth declining (only 2.5% for the 2.2 years since census) a new pattern is appearing—something different from the California-Florida-Texas pattern that followed the war.

Here are the top growth states measured between April 1, 1970, and July 1, 1972:

Arizona	9.7%	Utah	6.3
Nevada	7.9	Idaho	6.0
Alaska	7.5	Hawaii	5.0
Florida	6.9	New Mexico	4.9
Colorado	6.8	New Hampshire	4.6

New Hampshire and Idaho as growth states? It's a new decade!

FACTS WITHOUT COMMENTS

Women's Wear Daily recently ran a summary of the first half sales and profits for Allied, Associated, Broadway-Hale, City Stores, Federated, Gamble-Skogmo, Gimbel's, Grants, Interstate, King's, Kresge, Lane Bryant, Lerner Stores, Marshall Field, May's McCrory, Mercantile, Ward's, Newberry, Penny's, Woolworth, and Zayre's. Oh yes—**and Sears.** However, they failed to point out Sears alone made 12% more money than the other 22 combined! And this was despite the fact that the other 22 did 273% more volume than Sears.

POEMS TO MANAGE BY

In a world full of acquaintances, many of us wonder why we have so few true friends, deep friends. And these friends may have come as a result of a very short contact. Other people appear to have so many friends that we wonder if something is wrong with us. Let us then consider . . . .

A GREETING
by
Austin Dobson

But once or twice we met, touched hands.
Today between us both expands
A waste of tumbling waters wide, –
A waste by me as yet untried,
Vague with the doubt of unknown lands.

Time like a despot speeds his sands:
A year he blots, a day he brands;
We walked, we talked by Thamis' side
But once or twice.

What makes a friend? What filmy strands
Are these that turn to iron bands?
What knot is this so firmly tied
That naught but fate can now divide? –
Ah, these are things one understands
But once or twice.

BALANCE SHEET PROJECTIONS – A TOOL FOR PROJECTING CASH NEEDS

In many cases one of the most wasteful and inaccurate planning procedures used by accountants and controllers of major retail firms is the "long-range cash flow projection." This normally results in compounding estimating errors since each factor is projected independently and "conservatively." In many cases, the projection is made by someone who is not competent, and then reviewed by a top executive who does not understand it–after which it becomes frozen into the planning, for better or for worse (usually the latter).

The reason this procedure is unnecessary is that retail firms enjoy two characteristics that make it possible to use an alternative procedure:

1. The balance sheet for a retail firm, with certain minor but appropriate adjustments, reflects great internal consistency from year to year.
2. The seasonal patterns of retailing remain the same from year to year, thus permitting one to project either forward or back from an audited year-end statement to the peak cash demand, which normally occurs on November 10th (for businesses having their major seasonal peak in December).

Let's work out an example.

For our purposes, RT has selected Broadway-Hale Stores, Inc. (B-H), partly because RT has long admired Ed Carter for his cash planning (for years he gave up the tax-saving benefits of reporting his receivables on an installment basis, preferring to sell several cycles on the last day of the year [and buy them back on the first day of the next year], thus cleaning up his bank indebtedness, reducing his ratio of debt to net worth, and greatly improving his current ratio–which he then proceeded to mention favorably in his letter to his stockholders).

On the opposite side of this page you will find a table–the left half of which represents adjusted figures from published annual reports of B-H for the 4 years ending each January from 1969 through 1972, and the RT projections for the 4 years ending January 1973 through 1976.

Balance sheet adjustments

For the 4 audited years, RT had to make several adjustments. For the years January 1969 and 1970, it was necessary to put back the sold receivables and the corresponding short term bank debt eliminated by the year-end sale of receivables. Next, it was necessary to consolidate the finance subsidiary used in the last two years (as another way of showing apparent improvement in financial ratios).

In addition, because of wide fluctuations in cash and equivalents, cash was standardized at $10,000,000. The excess over $10,000,000 was applied to the reported short term debt.

Sales and profit projections

Based on past performances (which have been restated for pooled acquisitions), sales are projected to increase 9% per year, profit is forecast at 3.4% of sales and dividends are computed at 50% of after-tax earnings. The remaining 50% represents increased net worth. The dividend projection permits computing the year-end liability for the declared but unpaid quarterly dividend.

"Factoring" the balance sheet

This is the process of establishing the internal ratios of the balance sheet. Accounts Receivable have, for the past 3 years, been declining as a percentage of total sales for the prior year (this is happening in practically all stores). For our purposes, this decline is projected into the future at the rate of 0.5% of sales per year. Inventory has fluctuated moderately–and properly should be related to **annualized** sales, but this could not be determined from published data. The apparent overstocked condition at the end of January 1972 was discounted and a normal ratio established at 18%. Fixed assets, except for January 1970, show a remarkably consistent pattern and are projected at 22% of sales (this is one area where a policy decision to lease more equipment –that is, use off-balance sheet financing–could improve balance sheet liquidity).

Accounts Payable and Accruals are primarily related to inventory (and for many of the accruals, the relationship of inventory to sales also relates accruals to sales rate) and again, except for January 1972, the pattern is consistent (if B-H was overstocked at January 1972, which would be consistent with the high inventory factor, and had been tightening up on their open-to-buy during December and January, then the low factor of payables and accurals to inventory is purely a temporary situation). Using a slightly lower percentage than is established by prior experience reflects a conservative position.

Deferred income taxes for B-H relates primarily to installment reporting of receivables and so the Factor is expressed in this manner. The increase in this factor over the past 4 years is consistent with other companies studied and is due largely to two factors: first a higher percentage of all receivables are installment accounts; and second, gross margin percentages are increasing.

Balance Sheet Projecting

The factored items are projected by use of the estimated factors. Prepaid current assets, other assets, current taxes, and pensions are projected on a stabilized or normal growth pattern, as the situation may indicate. Long term debt is projected in accordance with payment requirements as disclosed at January 1972 year-end.

The balancing figure is put into current notes payable (if cash earnings eliminate current notes payable, then the additional cash can be reflected as cash or as an early reduction of the long term debt).

What does the future hold for B-H?

With the new funds obtained in the years ending January 1971 and 1972, there is no need for additional capital through January 1976 to finance growth at 9% per year. The debt to net worth ratio will remain favorable. The low current ratio can be corrected by refinancing the long-term debt and moving some of the current debt below the line. Earnings per share should increase by 25% or 60¢ on a fully diluted basis. Based on the current (at the time this report was prepared) price-earnings ratio of 22, this would mean a price increase of $13.00-plus per share.

BROADWAY-HALE STORES, INC.—Balance Sheet Projections to Year Ending January 1976
(Based on Years Ending January 1969 thrugh January 1972 — 000's omitted)

	Based on audited reports				Projections			
	Jan 69	Jan 70	Jan 71	Jan 72	Jan 73	Jan 74	Jan 75	Jan 76
Sales	$ 588,132	$ 639,661	$ 680,475	$ 755,443	$ 823,000	$ 898,000	$ 978,000	$1,066,000
Net Profit $	21,131	22,148	23,087	28,654	28,000	30,500	33,300	362,000
% to sales	3.6%	3.5%	3.4%	3.8%	3.4%	3.4%	3.4%	3.4%
Dividends $	11,717	11,091	12,307	14,225	14,000	15,250	16,650	18,100
% to profits	55%	50%	58%	50%	50%	50%	50%	50%
Additions to Capital—net	–	–	30,203	32,997	–	–	–	–
Increase in Net Worth	9,414	11,057	40,983	47,428	14,000	15,250	16,650	18,100
Cash (Standardized—Note 1)	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000
Accounts Receivable (Note 2)	149,289	165,972	170,677	181,766	193,000	206,500	220,000	234,500
FACTOR: % of Sales	25.4%	25.9%	25.1%	24.1%	23.5%	23.0%	22.5%	22.0%
Inventory	107,062	109,065	123,387	146,051	149,000	161,600	176,000	192,000
FACTOR: % to Sales	18.2%	17.1%	18.1%	19.3%	18.0%	18.0%	18.0%	18.0%
Prepaid and other assets	6,293	6,985	6,206	8,462	7,000	7,000	7,000	7,000
TOTAL CURRENT ASSETS	272,654	292,022	310,270	346,279	359,000	385,100	413,000	443,500
Fixes assets—Net	127,761	126,673	149,853	168,714	181,000	197,600	215,200	234,500
FACTOR: % to Sales	21.7%	19.8%	22.0%	22.3%	22.0%	22.0%	22.0%	22.0%
Other Assets	4,098(3)	2,777	2,744	14,583	15,000	15,000	15,000	15,000
TOTAL ASSETS	404,513	421,472	462,867	529,576	555,000	597,700	643,200	693,000
Notes Payable (Note 1)	$ 68,946	$ 70,878	$ 46,639	$ 32,259	$ 41,600	$ 66,750	$ 88,100	$ 112,700
Accts. Payable and Accruals	56,286	56,792	63,283	64,495	74,500	80,800	88,000	96,000
FACTOR: % to inventory	52.6%	52.1%	51.3%	44.2%	50.0%	50.0%	50.0%	50.0%
Divdend Payable	2,295	2,789	3,509	3,697	3,500	3,800	4,200	4,500
Taxes: Current	7,781	8,988	7,166	7,387	8,000	8,000	8,000	8,000
Deferred	12,843	15,931	23,066	28,041	30,900	33,000	35,200	37,500
FACTOR: % of Accts. Rec.	8.6%	9.6%	13.5%	15.4%	16.0%	16.0%	16.0%	16.0%
TOTAL CURRENT LIABILITIES	148,151	155,378	143,663	135,879	158,500	193,350	223,500	258,700
Long Term Debt	87,943	84,128	95,919	120,688	109,500	101,600	97,800	92,800
Pensions and other liabilities	9,768	11,042	11,378	13,674	14,000	15,500	17,000	18,500
NET WORTH	158,650	170,924	211,907	259,335	273,000	288,250	304,900	323,000
TOTAL LIABILITIES & WORTH	404,512	421,472	462,867	529,576	555,000	597,700	643,200	693,000
Ratios:								
Working Capital	124,503	136,644	166,607	210,400	200,500	191.750	189,500	184,800
Current Ratio	1.8:1	1.7:1	2.2:1	2.5:1	2.3:1	2.0:1	1.8:1	1.7:1
Debt (disregarding deferred taxes & pensions) to N.W.	1.4:1	1.3:1	1.0:1	0.9:1	0.9:1	0.9:1	0.9:1	1.0:1
Short & Long Term Debt as % of Accts. Receivable	105.0%	93.3%	83.5%	84.1%	78.2%	81.5%	84.5%	87.6%

Notes:

(1) Cash has been standardized at $10,000,000. Excess cash has been deducted from short term debt. This is done so that debt to net worth, current and other ratios are not distorted by the unusual fluctuations of cash on hand at year end.

(2) Accounts receivable have been consolidated for the years when there was a credit subsidiary; and for the years ending January 1969 and 1970 the amount of receivables sold at the end of the year (in order to "clean up the balance sheet") have been added back and a like amount has been treated as short term debt.

(3) "Other Assets" for the year January 1969 represent an offset of excess cost of Emporium-Capwell stock over book value and the minority interest in Emporium-Capwell. This is not sound accounting—but it eliminates a distortion in presentation and does not affect the procedure being demonstrated.

January 4, 1977

Mr. Leon Fish
ALEXANDER GRANT & CO
1 California Street
San Francisco, CA 94111

Dear Leon---

Filing RT Binder

I am enclosing a copy of the October 1972 issue of RETAILING TODAY which contains the article on balance sheet projections.

If you wish to reproduce this, please do. I have typed on the bottom of the first page a disclosure of the copyright and my address should anyone wish to followup.

I have long thought that this tool should be used more.

You might like to work out an example for a smaller company, using figures for one of your clients under $5,000,000 sales,to show them that it works for small companies, too.

I hope you have a large audienece.

Sincerely,

Robert Kahn

ROUTE TO INITIAL

RETAILING TODAY

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A SEASON'S GREETINGS

This is the time of year when people are greeting friends with best wishes of the Season and for the coming year. And it's just after commemoration of our national feast of Thanksgiving.

RT wants to thank each of you—for just being a subscriber and for renewing. We get our feed-back like any merchant—from increasing volume and repeat business. In a newsletter—or, as Sam Feinberg calls us, "a viewsletter"—the score is read in total subscribers (up 35% among a most select executive group) and renewals (Continuing at 80%).

And so we extend to you our Season's Greetings. But more important, we send you a wish for the coming year.

We wish for you that every night during 1973, as you settle your head on your pillow and think back over the day just finished, reviewing each act against your own high standards, that you will be able to say to yourself "I am satisfied with the way I spent this day."

EVERYBODY TALKS ABOUT THE WEATHER

Mark Twain continued "But nobody does anything about the weather." That is no longer true—because today an increasing number of people are making long-range weather forecasts.

As this is being written, Northern California has just had the first major storm of the season and the ski reports are open. The only thing unusual about this storm is that the long-range forecaster on one of the local radio stations set the date some 13 months ago—in October 1971. I noted the prediction in my date book.

For some years RT has been aware of the work being done in long-range forecasting by one of the true pioneers in the field, Irving P. Krick Associates, Inc. (611 South Palm Canyon Drive, Suite 216, Palm Springs, CA 92262). Paul Caubin, their Vice President, sent me a copy of a letter from the President of INA Reinsurance Company that starts out, "Now that Hurricane Agnes has finally gone away, you are in the happy position of having told us that she was coming although you had not said what her name would be. In your forecast dated June 6, 1969, you alerted us that the Atlantic seaboard and the states adjacent thereto would be threatened in 1972 (Note: this was 3 years in advance. RT). You went on more specifically to say that 'more wet than usual weather is likely' and the potential wet periods were June 8 and June 17-23, 1972 . . . . When I visited with you . . . . last March (1972), you warned me that we can expect tropical storms to start moving into the Northeast Atlantic coastal area in this year and in the years immediately ahead."

Of course, INA Reinsurance Company used this information to avoid a concentration of water damage risks in the described area—but they didn't have to worry about claims from the many retailers who recently wrote off major losses, because retailers still don't believe that the weather can be predicted, and so did not take out insurance.

Retailers would rather curse the darkness as they mark down spring goods after a cold spring, or ski wear after a no-snow season, than turn on the lights through a long-range forecast.

A MATTER OF ETHICS

RT has long cautioned retailers that they must check carefully on what the local credit bureau does with the information the retailer provides to the bureau. In most cases, the information was obtained from the customer as part of a two-party agreement whereby the retailer agreed to extend credit.

There was a day when a substantial number of the credit bureaus were owned by the local retailers—and thus the major stores had representatives on their board. Through this relationship the major retailer had some control over what side benefits—fringe income—was dug out of the files entrusted to the bureaus. For a variety of reasons, some relating to the inability of retailer-owned bureaus to operate efficiently, ownership of bureaus is now largely in the hands of people who seek only a profit. And these people will go to almost any length—until stopped by legislation or the courts—to make money out of the information you supply on a confidential basis.

This appears to be the case with the Credit Bureau of Greater Charleston (South Carolina), Inc. (CB-GC). From the Federal Trade Commission release, it appears CB-GC had a great idea—provide attorneys with credit reports on people called for jury duty—just a few bits of information like "addresses, employment history, general credit standing and general character." By seeking a general order to be signed by the judges of the United States District Court for the District of South Carolina they hoped to have the reports exempted from the requirements imposed on consumer reporting agencies allowing release of such information only for a "business transaction involving the consumer."

Fortunately, the Federal Trade Commission said " . . . in view of the clear and specific statutory proscriptions and Congressional Policy declarations contained in the Act, the Commission feels constrained to reach a negative conclusion with respect to the course of action proposed . . . "

RThought: Did any retailer in Greater Charleston even care about how the information he provided CB-GC was going to be used?

RThought: It would seem appropriate for trade associations to do several things. First, they could define the reasonable time in which to determine and report non-conformance of merchandise received; and a minimum time for the vendor to provide the retailer with disposition instructions.

Further, there are a number of situations, particularly involving defective merchandise, where the entire process could be eliminated by printing return addresses on invoices and packing slips so that return could be made immediately and automatically. Such a notice should include, in addition to the address to which the goods should be shipped, instructions on forwarding a notice that such a return has been made.

THE FUTURE OF THE COMPUTER

Retailers are moving further and further into the computer world—fortunately confined to business applications. Those retailers who have harnessed the computer are grateful for the contributions to profit made by a good system.

But, they must also look at the bad that can be done with a computer. Nobel created the Peace Prize because he hated the thought of the damage that could be done by his invention, dynamite. We may some day have a Thomas J. Watson Peace Prize.

Key men in the U.S. Department of Housing and Urban Development recently raised the question of the application of computers to projecting the social conduct of individuals—and the impact that such a development could have on our justice system.

They point out that our justice system is based on the concept that the individual has will power, so that if deterred, punished and rehabilitated, he will no longer conduct himself as a criminal. But these two men, James W. Evans and Robert A. Knisely, claim that computer profiles will soon predict "with startling certainty" which criminals are unlikely to respond to any rehabilitation effort.

They say "By examining the records of many prisoners and habitual offenders, the computer may make it inescapably clear that although one cannot predict with total certainty the fact that an individual will remain a criminal, the probabilities are so high as to raise a presumption that he will."

Thus, they are pushing predictive analysis by computers to identify criminals before they commit the crime—and to identify those whose profile indicates that they cannot be rehabilitated. Society, they say, should isolate such people before they do anything wrong!

RThought: one of the generators of drug experimenters and addicts is the home of the successful hard-pushing executive—his kids rebel against him and his surroundings, and "dropout" to the drug culture. They become felons under our present laws. Many a retail executive has experienced this unhappiness. But the question you have to ask yourself, about computer applications to justice, is this: just because the surroundings I provide are the basis of a computer prediction that my child will be a non-reformable felony addict, am I willing to let the computer identify and incarcerate him **before** the offense? It is just that simple.

RTip: Be as fearful of the power of your computer as Nobel was of the power of dynamite.

EUROPEAN COMPUTERS ARE NO SMARTER THAN AMERICAN COMPUTERS

Our European reporter has advised us about the new computer at Bon Genie in Geneva—a J. Magnin type store. When introducing their computer to their charge customers, they took the "cute" approach. The letter started out, "In the last few months we have queried our computers about our clients" and concluded with, "As a result, following their advice, from the 1st of September all of our charge accounts will be handled by the computer. We regret that we must put you in the hands of Mr. Computer who, as we have said, has no sense of delicacy but is endowed with a sharp sense of precision."

To this letter they attached instructions which required that payment be made by "giro" which is a payment method through the Swiss Post Office. This means that cash must be taken to the Post Office since checks are not accepted.

Our reporter had always paid by personal check—and so, having been excluded from future transactions by "Mr. Computer," cut up the credit card and returned it with a letter of protest. On August 1st, Bon Genie replied that bank checks could, of course, be used—but to replace the now-destroyed credit card our reporter would have to make a trip to the downtown store, a matter of about 2 hours for the round-trip! And in late August, each account was advised that the original letter might have been misinterpreted (that is, read as it was written) and customers were assured they could continue to make payment by check or even in cash at the store.

RThought: It appears that European stores are copying American stores—they issue releases to thousands of customers without having a "thinking executive" read the material and try to see that it says just what management wants it to say. Everybody gets involved in the curative process—when a few minutes of reading would have caught the defect before the embarrassment.

THE ALTERNATE PRESS

One of the jobs being handled more effectively by the "alternate press" than by the traditional press is the matter of consumer information. This may well be due to the manner in which retailers have "purchased" the independence of the traditional press in the area of consumer affairs—an unfortunate situation.

In the San Francisco area the leading alternate publication is the **Bay Guardian** (1070 Bryant St., San Francisco CA 94103. $5/yr.). Their 3rd Annual Christmas Guide, in addition to highlighting the fact that for toys The Emporium (Broadway-Hale) undersells Macy's (but Capwell's [also Broadway-Hale] undersells both), also warns consumers about unsafe toys currently being sold—by such firms as Wards and Woolworth and F.A.O. Schwartz (!) or manufactured by such major suppliers as Ideal, Marx and Playskool.

But, the **Guide** goes even further. It tells the hours that Santa Claus will appear at 14 locations—something even the stores don't think is important enough to put in their ads. And where to get Christmas cards in Polish, Greek, Slovak, Croat and Braille, as well as more common languages. There are suggestions about the odd place for gifts—like the Museum of Art and the American Friends Service Committee, as well as listings of the unusual bookstores (metaphysical, woman's, oriental, etc.)

There is an objective listing of safe toys by types and age groups, such as Montesorri games, erector sets, pollution test kits, and zithers.

For entertainment they list the free events being held that relate to Chanukah and Christmas, the TV shows of interest to the kids ("Rudolph the Red-Nosed Reindeer," "Little Drummer Boy," "Charlie Brown's Christmas," and others), the source of special pastries as well as concerts, and even where you can reach street musicians if you want music for a party.

RThought: there is nothing to stop retailers from including such public information in their own advertising—rather than leaving it to the alternate press to show concern about the public (who are your customers). It may well be that modern, professional retail management provides only for direct-response advertising, which is based on short-run results, which usually is obtained by dead-end routes.

DISCOUNTS TO PUBLIC EMPLOYEES

For a number of years I have read the **Calaveras Prospect, Weekly-Citizen & Chronicle**, which has covered Calaveras County, California (population 13,585) from San Andreas (unincorporated) since 1851. And I have particularly admired the earthy, forthright editorials of John R. Peterson.

He recently addressed himself to a question that bothers stores of all size—his editorial started, "We have been given copies of a letter recently sent to a number of our friends and clients in the business world. It is from the County employee organization, and it asks for 10 cents off on a dollar of anything bought from our friends."

Peterson pointed out that the association did not promise that any firm would get any patronage at all, even at 10% off. The letter pointed out that the county employees were paid by taxes derived inside the county—which the merchants knew—and would like to spend their money inside the county!

"And between the lines, of course, is the threat of simple boycott if the merchant doesn't go along with this subsidy. One store owner called it blackmail, which isn't quite accurate. The proper term is extortion." (I said that John was earthy.)

Apparently Peterson or some of the merchants saw that the matter came up before the Board of Supervisors and at least 2 (of 5) objected—pointing out that the county employees were fairly paid (they had just received an increase when the letter was sent out) and did not have to "lean" on the merchants or go begging.

RThought: this problem exists with almost any organized group—college professors, labor unions, religious orders, students. It is always amusing to see paragons of virtue talk themselves into such low-level activities (and then use it as an argument for joining their organization). There are some counties 100 or 200 times the size of Calavaras who could use an outspoken editor like John Peterson—to let the public know what is happening, particularly when it is the growing number of public employees who are supported by the increasingly heavy taxes.

FAILURE OF A CPA PROMISE

William J. Casey, Chairman of the Securities and Exchange Commission, addressed the Conference on Financial Reporting in Paris, France, earlier this year. There is a portion of his remarks that bears repetition.

"In the hearings which preceded passage of the Securities Act of 1933, our first federal securities law, Congress considered the alternatives of creating a large force of government auditors to verify the financial statements or of requiring registrants to obtain audits by independent professional accountants. **The accounting profession testified to the Congress that they had the capability and, because of their Code of Ethics, the independence to represent the interests of investors. They said that if the financial statements of publicly owned companies were certified by independent public accountants employed in the private sector, the public interest would be protected**. Congress agreed with the contention in adopting the 1933 Act, and the other acts administered by the Commission include the authority to require certification of the financial statements." (Emphasis added).

There is much to indicate the failure of the accounting profession to fulfill this promise. There is no reason for retailers to be concerned about what happened in recreational land sale companies, franchising companies, or even the capitalization of development expenses or new research in technological companies. But there is great concern to the retail field when there are reports that Dayton's discovered, after acquisition of Hudson's, that it was carrying 5 to 10 year old merchandise or that discount firms are signing 25 year leases on buildings that will last only 15 years or where Seidman and Seidman certify, as part of "generally accepted accounting principles," the capitalization of TV advertising to be written off during the 24 months following the ad (while taking into current sales the entire volume resulting from the ads).

The accounting profession told Congress they would "represent the interest of investors"—but the profession now says that all it does is review the records of the Company to see that they are kept in compliance with some form of generally accepted accounting principles. RT cannot recall a single case where an accounting firm, disagreeing with the procedures practiced by a corporation, took their case directly to the public investors that, in 1933, the accountants claimed to represent.

COLORADO RAPS RAP SHEETS

RT has long criticized the favorite tool of police discrimination—the "rap sheet." The FBI has devoted almost as much effort to disseminating information about arrests that were **not** followed by convictions as they have to controlling the Mafia. In fact, for many years J. Edgar Hoover spent much more effort on automating the distribution of "rap sheets."

RT believes the term "Rap" came from a sheet originally designed to be a "Record of Apprehension and Prosecution" and that "taking the rap" meant that the individual who took the rap had the offense entered on his record.

In recent years there has been more recording of apprehensions—and little concern about whether or not the apprehension was followed with a conviction. The very concept of "innocent until proven guilty" is rejected by the many executives, particularly personnel and security people, who consider that any record of arrest constitutes evidence of wrong-doing regardless of whether or not the offense was subsequently dropped or forgotten or an acquittal obtained.

Once a person has a record of an arrest, any later incident is more likely to lead to another arrest—with the result that there are many people, particularly from minority groups, who have several arrests on their record but who have never been convicted of any offense.

These records continue, even years later, to affect employment and promotion opportunities and even credit ratings.

But the Colorado Supreme Court has taken the first step toward correcting this. In a case brought by the American Civil Liberties Union, the Court held that it is illegal for the police to compile and disseminate records of arrests that are not followed by convictions. This means that the FBI's computerized National Criminal Information file will not flow out through uncontrolled terminals in Colorado—as it does in all other states.

The FBI has resisted every effort to make it remove records of arrest, even when the person named has won a suit for false arrest. It is virtually impossible for a juvenile to have a record expunged from the FBI files because his fingerprints are sent in from several sources, often including sources that are not known to that juvenile who does follow the state procedures to have his record sealed.

One would hope that with the passing of J. Edgar Hoover, the FBI would once again accept the common law assumption that a third is called Short Stop (Tm) which is a special cartridge for .38 and .357 caliber revolvers. The projectile, on leaving the barrel, expands, from the rotation, to the size of a quarter and spreads the energy over a wider area. It can kill at distances to 50 feet, but is non-fatal beyond 100 feet and will not ricochet (compared to solid bullets that are deadly at hundreds of yards and can ricochet in any direction).

SHORT SHORTS

There is always room for humor. The following ran in the London **Sunday Times**: "Last week, over-loyal to the Governments anti-inflation policy, an earnest decimal point wandered into the price of the Chilstone Longleat Urns. Actually the price of these reproductions in a limited edition of 250 numbered copies is £565, not £5.65. The Urns can be seen in Harrods Central Hall."

Business Week? Weak? McGraw-Hill is out to compete with the businesses that it serves–through a new service, **The Personal Business Shopper.** But it appears they have not read carefully their own articles. They honor only American Express and Diners Club cards, but not BankAmericard and Master Charge. The issue in which **The Personal Business Shopper** first appeared had an article extolling bank cards. In addition, McGraw-Hill sells all their subscription lists! What with your concessionnaire operating on the airlines, and your trade publication selling your merchandise to their readers and your address to other mail order houses, it will be hard to tell a retailer from a billboard. Next, they will be offering their own credit cards with each magazine renewal.

Do you sell safety-glazed doors? The National Association of Home Builders and the American Institute of Architects want to see that every home built or remodeled uses only safety glass or suitable plastic substitutes for storm doors, patio doors and bathtub or shower enclosures. The Architectural Aluminum Manufacturers Association, which includes the larger manufacturers of sliding doors, has urged its members to use only safety glazing. But Mrs. Virginia Knauer, in the September 1st **Consumer News** gave special praise to "Sears, Roebuck & Co., Montgomery Ward & Co., and J.C. Penney Co. for switching to safety glazing on their retail lines." Lots of other firms are in the D.I.Y. business–and they should know that the Sears, Wards or Penney salesman is probably selling against them by selling safety. Are you also selling safety? Do your ads tell the story?

The changing college enrollment. Retailers with "College Shops" are probably enthusiastic about the fact that the number of undergraduates in college increased 21% from 3,348,000 in 1966 to 4,062,000 in 1971. That is, until they learn the enrollment in 4 year colleges increased only 2% to 2,359,000, while the enrollment in 2 year (community or junior) colleges increased 63% to 1,703,000. I suspect that most "College Shops" are not aimed at the community college student.

What violations are OSHA (Occupational Safety and Health Act) Compliance Officers finding? #1 is record keeping and posting requirement, #2 is general housekeeping, and #3 is traffic aisles not properly marked. All 3 can apply to retailing. And the Department of Labor puts out a warning–check the credentials of persons claiming to be OSHA inspectors. If you are unsure, call the regional office. There have been reports of imposters who have claimed to be OSHA inspectors for the purpose of casing plants, stealing trade secrets, etc.

Mud from Dayton-Hudson: this is about the only way to describe the confusion in their 2nd quarter report. In order to determine that 2nd quarter earnings from operations are **down** 3¢ per share instead of **up** 10¢ as shown, and for the first half were up only 3¢ instead of the printed 8¢, it is necessary to carefully read the letter, plus Note 3, and work out your own chart. If Dayton-Hudson has enough "other assets" to sell, they should be able to manufacture a good year.

Penney's Political Power? Everyone talks about "talking to your Congrssman" but Penney's governmental relations staff has done something about it. They recently had one store manager from each state attend a special conference in Washington D.C. to instruct them on how to be effective in communicating with federal, state and local legislators. During the conference, Penney held a reception to which they invited the Members of Congress and 133 showed up! The 50 state representatives then returned to their states with (1) instructions for other store managers on how to be effective in presenting the Company's view, and (2) with the conviction that Members of Congress will listen–carefully–to Penny managers.

A substitute for Elbert Hubbard? RT has received a number of inquiries asking where to obtain a copy of Hubbard's "A Message to Garcia." The same people may be interested in a little Hubbardian publication called "Bits & Pieces," and described as "A monthly mixture of horse sense and common sense about working people," published as an employee booklet. Write to Economic Press, Inc., 12 Daniel Road, Fairfield, N.H. 07006. An annual subscription is $6.60, but the rates are dramatically reduced if ordered in quantity.

POEMS TO MANAGE BY

This little poem deals with a minor, but a constant, irritant. I am thankful that Abigail Van Buren had a reader who saved it from the Wall Street Journal some years ago.

When calling Mr. Jones
I find it most appalling
To have his secretary ask
"May I tell him who is calling?"
One of these days
When I find it all too taxing
I'll come right back to her and say
"May I ask you, WHO IS ASKING?"
–OFFENDED

DEAR OFFENDED:
A man with such ability
And obvious humility
Deserves some loud hosannas
(If he doesn't go bananas.)
–EDGAR ALLAN PO-PO

SHOPLIFTING FROM THE ASSOCIATIONS

RT sees a parallel between those employees and customers who take something of value from the retailer without paying for it—and we call them "shoplifters"—and the retailers who take something of value from the trade associations without paying for it.

Thus, it seems appropriate to address the "shoplifters from trade associations."

In 1835, Alex de Tocqueville, in his outstanding study "Democracy in America", made the following observations about associations. "Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing associations, in which all take part, but associations of a thousand other kinds . . . . Whenever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association . . . . The English often perform great things singly, whereas the Americans form associations for the smallest undertakings. It is evident that the former people consider association as a powerful means of action, but the latter seem to regard it as the only means they have of acting.

"The most democratic country on the face of the earth is that in which men have, in our time, carried to the highest perfection the art of pursuing in common the object of their common desires and have applied this new science to the greatest number of purposes."

De Tocqueville concluded his chapter on Associations with "Among the laws that rule human societies there is one which seems to be more precise and cleaner than all others. **If men are to remain civilized or to become so, the art of association together must grow and improve in the same ratio in which the equality of conditions is increased."**

RT is among the millions who have admired the perceptive powers of de Tocqueville—and feel that many of his observations are as sound in 1972 as they were in 1835.

RT is particularly concerned about local, state and national associations serving retailers. Allowance can be made for those firms that truly feel they cannot afford the cost of membership—but this does not account for the large number of unaffiliated firms. There are many smaller firms, where the owner may even have problems of excess liquidity or profits in excess of Price Commission standards, that still do not support their trade associations.

These firms are not bashful about complaining about the infringements on business—Occupational Safety and Health Act, Truth in Lending, Flammable Fabrics Act, Wage and Hour Legislation, Social Security changes and many more. Yet the only way for them to be represented properly is through their trade associations—who employ knowledgeable professionals who are heard with respect by the various committees of Congress that draft and pass on all new legislation.

This is one of the values that is regularly "shoplifted" by the non-member store. Although many retailers may look at associations in terms of publications and conventions and seminars—the heart of the national association is representation of their trade at the national level.

The state associations perform similar functions. In most cases the percentage of their budget spent on representation is even higher than for national associations.

At the local level, the major trade associations are the chambers of commerce and Better Business Bureaus—both of which perform functions essential to the economic climate.

Acceptance of responsibility by retailers varies. There are retailers who join national associations—but stay out of local associations. The motto of Supermarket Institute of "More for All" is really one that could be adopted by all trade associations.

Even when chain organizations belong to their national association and the state association in which they are headquartered, they may fail to support the associations of other states as their successful business expands. In some cases, there is major fault on the part of the state association—such as the rejection of discount stores by many of the state associations that include conventional department and specialty stores. And even those chain organizations that do make it a policy to support both national and state associations wherever they operate, often tend to skip the local associations.

But the shoplifting concept goes even further.

Many of the non-joiners try to get the benefits of even more of the association's products than just the legislative representation. Many trade associations, for example, have exchanges of operating information which is supposed to go solely to the contributors. But non-contributors, who apparently feel their success is so great that if they shared a single operating figure with someone else in the industry their own magic would disappear, still try to get copies of restricted reports—to run through their photocopying machines. Copyrights, rules of the exchanging group—nothing means anything to our virtuous non-joiner who regularly conducts his own little "Watergate" escapade.

In some cases, such as Macy's, their executives are under instructions not to talk publicly about anything that Macy's does. In many local groups Macy's is most outstanding because of their absence—but they really are not missed because it is very seldom that Macy's peers want to copy what Macy's is doing.

There are even more startling cases, however; take Jewel Companies—their stock is recommended by *Business & Society* in their Social Responsibility Portfolio. Jewel is one of the few retailers to have a black director on their board. The Public Affairs Council applauds the appointment of women to their board. And in the meantime, executives of their discount division, Turnstyle, who are not members of Mass Retail Institute, use every means to get the proprietary products of MRI, in addition to enjoying the benefits of MRI's legislative representation on behalf of Turnstyle's industry.

De Toqueville commented that "(i)f men are to remain civilized" they must participate in associations—but he never commented on men who can be highly civilized in one area—and uncivilized in another.

CREDIT OFFICE RATING

This is the first report using the new HONOR ROLL criteria of 4 working days between the cycle closing date and the postmark—and RT is pleased to see Abercrombie and Fitch listed. RT is certain there are many people still with A&F who remember when Sylvia Porter, the nationally syndicated columnist, told about her problems with her A&F bill. A&F reported "computer problems" for years, whether explaining slow pay reports or accounts receivable complaints. These problems now seem to be past.

HONOR ROLL

Berkeley's	2.0	Abercrombie & Fitch	3.0	Holman's	4.0
Gus Mayer—Beaumont	2.1	Levee's	3.1	I. Magnin	4.0
Harzfeld's	2.6	Mervyn's	3.4	Sears—Dallas	4.0
Gus Mayer—Nashville	2.9	Wineman's	3.8	Wolff's	4.0
Miller Bros	3.0				

RT would welcome additional reporters from major cities
If you are interested, drop a note to P.O. Box 343, Lafayette CA 94549.

CREDIT OFFICE RATING

Information From Reporters	AUG-SEPT 1972 No. of Reports	Days to Bill Average	Range	JUNE-JULY 1972 No. of Reports	Days to Bill Average	Range
Abercrombie & Fitch (NY)	1	3.0	3	--	--	--
Bullock's (N. Cal.)	2	8.5	7-10	--	--	--
Capwell's (N. Cal.)	6	8.0	6-9	8	7.0	6-9
Dayton's (Minn)	2	5.5	5-6	2	5.5	5-6
Donaldson's (Minn)	2	6.5	6-7	2	6.5	6-7
Emporium (N. Cal.)	5	11.2	9-13	1	8.0	8
Foley's (Houston)	2	7.5	7-8	--	--	--
GET (N. Cal.)	1	6.0	6	--	--	--
Gump's (N. Cal.)	2	7.0	6-8	7	8.4	7-10
Hasting's (N. Cal.)	2	7.5	6-9	2	6.5	6-7
Livingston Bros. (N. Cal.)	1	20.0	20	1	10.0	10
Lord & Taylor (NY)	2	6.0	5-7	2	5.0	4-6
Macy's (SF)	9	6.2	6-7	8	7.0	6-8
I. Magnin (N. Cal)	4	4.0	4	6	4.0	4
J. Magnin (N. Cal.)	1	6.0	6	--	--	--
Montgomery Ward (Houston)	1	5.0	5	--	--	--
J. C. Penney (Oakland)	3	5.7	5-7	2	5.0	5
J. C. Penney (Minn)	1	8.0	8	2	5.0	5
Sakowitz (Houston)	1	8.0	8	--	--	--
Saks Fifth Avenue (NY)	6	7.8	6-10	1	6.0	6
Sears (N. Cal.)	5	5.4	5-6	3	4.7	4-5
Sears (Dallas)	2	4.0	3-5	--	--	--
Shreve & Co. (SF)	1	11.0	11	3	8.7	8-9
Smiths (N. Cal.)	1	12.0	12	2	9.5	6-13
Stix Baer & Fuller (St. L)	2	4.5	4-5	1	4.0	4
A. Sulka (NY)	1	6.0	6	--	--	--
Wolff's (St. Louis)	1	4.0	4	2	6.5	6-7
TOTAL	67	7.0	3-20	55	6.1	4-13

Information From Stores	AUG-SEPT 1972 No. of Reports	Days to Bill Average	Range	JUNE-JULY 1972 No. of Reports	Days to Bill Average	Range
Berkeley's (Fresno)	8	2.0	--	8	2.5	--
The Blum Store (Phil)	8	5.9	--	8	6.2	--
Brock's (Bakersfield)	40	5.2	2-8	40	7.0	4-10
Buffum's (Long Beach)	9	6.7	6-7	--	--	--
Harzfeld's (Kansas City)	8	2.6	--	8	2.6	--
Holman's (Pacific Grove)	10	4.0	3-5	10	4.7	3-6
Levee's (Vallejo)	22	3.1	1-5	22	3.5	2-5
Levy Bros. (San Mateo)	32	4.5	2-7	36	5.9	3-10
Gus Meyer (Nashville)	8	2.9	--	8	2.3	--
Gus Meyer (Beaumont)	8	2.1	--	8	3.8	--
Gus Meyer (Louisville)	8	4.6	--	8	4.9	--
Gus Meyer (New Orleans)	8	7.2	--	8	8.9	[illegible]
Gus Meyer (Oaklahoma City)	8	4.8	--	8	4.5	--
Gus Meyer (Jackson)	8	5.9	--	8	5.1	--
Gus Meyer (Memphis)	8	4.1	--	8	4.4	--
Gus Meyer (Baton Rouge)	8	5.8	--	8	5.3	--
Mervyn's (San Lorenzo)	8	3.4	2-4	9	3.0	2-4
Miller Bros. (Chattanooga)	4	3.0	3	8	3.0	3
Oshman's (Houston)	9	7.1	6-8	8	7.3	6-8
Walker Scott (San Diego)	12	4.9	4-6	12	5.4	4-7
Wineman's (Monrovia)	8	5.0	3-5	7	4.0	3-5
Wineman's (Huntington Park)	8	3.8	3-5	7	3.9	3-5
Worth's—Burton's (Conn.)	16	7.7	6-11	32	10.2	8-14
TOTAL	266	4.9	1-11	279	5.7	2-14

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.

association management

JOURNAL OF AMERICAN SOCIETY OF ASSOCIATION EXECUTIVES

March 30, 1973

Mr. Kurt Barnard
Executive Vice President
Mass Retailing Institute
570 Seventh Ave.
New York, N. Y. 10018

Dear Kurt

Thank you for suggesting an article on "Shoplifting from the Associations." — November RT

We'll look it over for possible use in ASSOCIATION MANAGEMENT.

It's good of you to think of us.

Cordially,

Ken Medley

Kenneth W. Medley
Editor and Publisher

KWM/dfm

Bob - for your info.

Kurt.

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ROUTE TO INITIAL

RETAILING TODAY

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ATTACKING THE RETURN GOODS BOTTLENECK

Over the past 20 years, two conflicting trends have been apparent.

The first is the increased insistence by vendors that goods can be returned only with prior approval. This has imposed a heavy cost burden on stores as they must assemble the return goods, write for authorization to return the goods, store the return goods, often send a follow-up on the return request, and, in far less than 100% of the cases, ultimately receive return instructions at which time the goods are packed and shipped.

The second started in 1953 with the adoption by the State of Pennsylvania of the Uniform Commercial Code (UCC) which clearly sets out the rights of buyers and sellers.

Vendors have imposed restrictions on returns because so many returns were made to the address to which the purchase order was sent—which might be the 54th floor of an office building. The vendor does not set forth on his invoice or other material the address to which returns should be made. This problem is a serious one—but it certainly does not warrant the extra costs that are being imposed on the retailer.

From the retailer's point of view, the UCC gives him certain rights except where the contract of purchase has specific agreements to the contrary. The retailer is entitled to delivery by the agreed time. He is entitled to goods as specified (either by style number or in accordance with a sample shown at time of contract, or in the size and color distribution ordered), and in good condition. In many cases, non-performance by the vendor cannot be determined until after the shipment has been received and opened (at which point some firms have already incurred an expense for inward transportation).

The UCC requires that the purchaser give reasonably prompt notice (defined by trade custom) to the vendor if all or a portion of the goods are to be rejected, stating the reasons for rejection. The vendor is then required to give the retailer, within a reasonable time (again defined by trade custom), instructions on how to make disposition of the goods.

If the vendor does not give such instructions, then the retailer has the right to dispose of the goods in several ways. Out of this disposition the retailer can recover his costs (inward transportation, opening, inspecting, etc.). If sold without payment of a commission, the retailer has the right to an amount not to exceed 10% of the selling price as commission. The money remaining must be transmitted promptly to the vendor.

The retailer also has the right to collect damages attributable to the non-performance by the vendor. In some cases this includes the extra expense of buying "cover" goods at a higher price in order to fulfill obligations of the retailer.

TO FORECAST OR NOT TO FORECAST

The Securities and Exchange Commission is holding hearings on the question of whether or not publicly traded firms (1) should be required to forecast their annual earnings, (2) should be permitted to forecast them, or (3) should be prohibited from forecasting them. This hearing has expanded to include the question of who else should be permitted to make forecasts—and what rules they should follow.

To date, most corporations are expressing opposition to either mandatory or permissive forecasting. Permissive forecasting, with the approval of the SEC, would place heavy pressure on every firm to make such forecasts and thus would not really be permissive—except where extremely strong chief executives preside.

Few, if any, retail firms have publicly stated their position; RT feels that the entire industry should object to SEC-approved forecasting in any form. The most common (and the natural) year-end in retailing is January. For most of these firms, the 4th quarter, which includes Christmas, accounts for a disproportionate part of the profits for the year—and is subject to major fluctuations due to weather and economic conditions.

After the great rush at Christmas comes inventory-taking and even in the best-regulated retail stores there have often been major surprises after the figures are tallied.

It would seem that the Chief Executive Officer who wants to get up at each annual meeting and project sales, pre-tax profits, after tax profits, and earnings per share (perhaps thus disclosing information on projected financing) for the coming years, must, to use a popular expression, "have holes in his head." But, if the publicly-held segment of the retail industry does not make the SEC aware of their special problems, the SEC may oblige retailers by putting the holes there.

RThought: While taking action in this area, those retailers who employ the services of Peat, Marwick, Mitchell & Co. (which claims to be the accountant for more retailers than any other accounting firm) might ask PMM why deputy senior partner Joseph P. Cummings is supporting SEC-permitted forecasts.

There is no reason why the conflicting trend of more clearly defined rights of the retailer and the complex return situation of the vendor must be resolved in court action.

RThought: It would seem appropriate for trade associations to do several things. First, they could define the reasonable time in which to determine and report non-conformance of merchandise received; and a minimum time for the vendor to provide the retailer with disposition instructions.

Further, there are a number of situations, particularly involving defective merchandise, where the entire process could be eliminated by printing return addresses on invoices and packing slips so that return could be made immediately and automatically. Such a notice should include, in addition to the address to which the goods should be shipped, instructions on forwarding a notice that such a return has been made.

THE FUTURE OF THE COMPUTER

Retailers are moving further and further into the computer world–fortunately confined to business applications. Those retailers who have harnessed the computer are grateful for the contributions to profit made by a good system.

But, they must also look at the bad that can be done with a computer. Nobel created the Peace Prize because he hated the thought of the damage that could be done by his invention, dynamite. We may some day have a Thomas J. Watson Peace Prize.

Key men in the U.S. Department of Housing and Urban Development recently raised the question of the application of computers to projecting the social conduct of individuals–and the impact that such a development could have on our justice system.

They point out that our justice system is based on the concept that the individual has will power, so that if deterred, punished and rehabilitated, he will no longer conduct himself as a criminal. But these two men, James W. Evans and Robert A. Knisely, claim that computer profiles will soon predict "with startling certainty" which criminals are unlikely to respond to any rehabilitation effort.

They say "By examining the records of many prisoners and habitual offenders, the computer may make it inescapably clear that although one cannot predict with total certainty the fact that an individual will remain a criminal, the probabilities are so high as to raise a presumption that he will."

Thus, they are pushing predictive analysis by computers to identify criminals before they commit the crime–and to identify those whose profile indicates that they cannot be rehabilitated. Society, they say, should isolate such people before they do anything wrong!

RThought: one of the generators of drug experimenters and addicts is the home of the successful hard-pushing executive–his kids rebel against him and his surroundings, and "dropout" to the drug culture. They become felons under our present laws. Many a retail executive has experienced this unhappiness. But the question you have to ask yourself, about computer applications to justice, is this: just because the surroundings I provide are the basis of a computer prediction that my child will be a non-reformable felony addict, am I willing to let the computer identify and incarcerate him **before** the offense? It is just that simple.

RTip: Be as fearful of the power of your computer as Nobel was of the power of dynamite.

EUROPEAN COMPUTERS ARE NO SMARTER THAN AMERICAN COMPUTERS

Our European reporter has advised us about the new computer at Bon Genie in Geneva–a J. Magnin type store. When introducing their computer to their charge customers, they took the "cute" approach. The letter started out, "In the last few months we have queried our computers about our clients" and concluded with, "As a result, following their advice, from the 1st of September all of our charge accounts will be handled by the computer. We regret that we must put you in the hands of Mr. Computer who, as we have said, has no sense of delicacy but is endowed with a sharp sense of precision."

To this letter they attached instructions which required that payment be made by "giro" which is a payment method through the Swiss Post Office. This means that cash must be taken to the Post Office since checks are not accepted.

Our reporter had always paid by personal check–and so, having been excluded from future transactions by "Mr. Computer," cut up the credit card and returned it with a letter of protest. On August 1st, Bon Genie replied that bank checks could, of course, be used–but to replace the now-destroyed credit card our reporter would have to make a trip to the downtown store, a matter of about 2 hours for the round-trip! And in late August, each account was advised that the original letter might have been misinterpreted (that is, read as it was written) and customers were assured they could continue to make payment by check or even in cash at the store.

RThought: It appears that European stores are copying American stores–they issue releases to thousands of customers without having a "thinking executive" read the material and try to see that it says just what management wants it to say. Everybody gets involved in the curative process–when a few minutes of reading would have caught the defect before the embarrassment.

THE ALTERNATE PRESS

One of the jobs being handled more effectively by the "alternate press" than by the traditional press is the matter of consumer information. This may well be due to the manner in which retailers have "purchased" the independence of the traditional press in the area of consumer affairs–an unfortunate situation.

In the San Francisco area the leading alternate publication is the **Bay Guardian** (1070 Bryant St., San Francisco CA 94103. $5/yr.). Their 3rd Annual Christmas Guide, in addition to highlighting the fact that for toys The Emporium (Broadway-Hale) undersells Macy's (but Capwell's [also Broadway-Hale] undersells both), also warns consumers about unsafe toys currently being sold–by such firms as Wards and Woolworth and F.A.O. Schwartz (!) or manufactured by such major suppliers as Ideal, Marx and Playskool.

But, the **Guide** goes even further. It tells the hours that Santa Claus will appear at 14 locations–something even the stores don't think is important enough to put in their ads. And where to get Christmas cards in Polish, Greek, Slovak, Croat and Braille, as well as more common languages. There are suggestions about the odd place for gifts–like the Museum of Art and the American Friends Service Committee, as well as listings of the unusual bookstores (metaphysical, woman's, oriental, etc.)

There is an objective listing of safe toys by types and age groups, such as Montesorri games, erector sets, pollution test kits, and zithers.

For entertainment they list the free events being held that relate to Chanukah and Christmas, the TV shows of interest to the kids ("Rudolph the Red-Nosed Reindeer," "Little Drummer Boy," "Charlie Brown's Christmas," and others), the source of special pastries as well as concerts, and even where you can reach street musicians if you want music for a party.

RThought: there is nothing to stop retailers from including such public information in their own advertising–rather than leaving it

to the alternate press to show concern about the public (who are your customers). It may well be that modern, professional retail management provides only for direct-response advertising, which is based on short-run results, which usually is obtained by dead-end routes.

DISCOUNTS TO PUBLIC EMPLOYEES

For a number of years I have read the **Calaveras Prospect, Weekly-Citizen & Chronicle**, which has covered Calaveras County, California (population 13,585) from San Andreas (unincorporated) since 1851. And I have particularly admired the earthy, forthright editorials of John R. Peterson.

He recently addressed himself to a question that bothers stores of all size–his editorial started, "We have been given copies of a letter recently sent to a number of our friends and clients in the business world. It is from the County employee organization, and it asks for 10 cents off on a dollar of anything bought from our friends."

Peterson pointed out that the association did not promise that any firm would get any patronage at all, even at 10% off. The letter pointed out that the county employees were paid by taxes derived inside the county–which the merchants knew–and would like to spend their money inside the county!

"And between the lines, of course, is the threat of simple boycott if the merchant doesn't go along with this subsidy. One store owner called it blackmail, which isn't quite accurate. The proper term is extortion." (I said that John was earthy.)

Apparently Peterson or some of the merchants saw that the matter came up before the Board of Supervisors and at least 2 (of 5) objected–pointing out that the county employees were fairly paid (they had just received an increase when the letter was sent out) and did not have to "lean" on the merchants or go begging.

RThought: this problem exists with almost any organized group–college professors, labor unions, religious orders, students. It is always amusing to see paragons of virtue talk themselves into such low-level activities (and then use it as an argument for joining their organization). There are some counties 100 or 200 times the size of Calavaras who could use an outspoken editor like John Peterson–to let the public know what is happening, particularly when it is the growing number of public employees who are supported by the increasingly heavy taxes.

FAILURE OF A CPA PROMISE

William J. Casey, Chairman of the Securities and Exchange Commission, addressed the Conference on Financial Reporting in Paris, France, earlier this year. There is a portion of his remarks that bears repetition.

"In the hearings which preceded passage of the Securities Act of 1933, our first federal securities law, Congress considered the alternatives of creating a large force of government auditors to verify the financial statements or of requiring registrants to obtain audits by independent professional accountants. **The accounting profession testified to the Congress that they had the capability and, because of their Code of Ethics, the independence to represent the interests of investors. They said that if the financial statements of publicly owned companies were certified by independent public accountants employed in the private sector, the public interest would be protected.** Congress agreed with the contention in adopting the 1933 Act, and the other acts administered by the Commission include the authority to require certification of the financial statements." (Emphasis added).

There is much to indicate the failure of the accounting profession to fulfill this promise. There is no reason for retailers to be concerned about what happened in recreational land sale companies, franchising companies, or even the capitalization of development expenses or new research in technological companies. But there is great concern to the retail field when there are reports that Dayton's discovered, after acquisition of Hudson's, that it was carrying 5 to 10 year old merchandise or that discount firms are signing 25 year leases on buildings that will last only 15 years or where Seidman and Seidman certify, as part of "generally accepted accounting principles," the capitalization of TV advertising to be written off during the 24 months following the ad (while taking into current sales the entire volume resulting from the ads).

The accounting profession told Congress they would "represent the interest of investors"–but the profession now says that all it does is review the records of the Company to see that they are kept in compliance with some form of generally accepted accounting principles. RT cannot recall a single case where an accounting firm, disagreeing with the procedures practiced by a corporation, took their case directly to the public investors that, in 1933, the accountants claimed to represent.

COLORADO RAPS RAP SHEETS

RT has long criticized the favorite tool of police discrimination–the "rap sheet." The FBI has devoted almost as much effort to disseminating information about arrests that were **not** followed by convictions as they have to controlling the Mafia. In fact, for many years J. Edgar Hoover spent much more effort on automating the distribution of "rap sheets."

RT believes the term "Rap" came from a sheet originally designed to be a "Record of Apprehension and Prosecution" and that "taking the rap" meant that the individual who took the rap had the offense entered on his record.

In recent years there has been more recording of apprehensions–and little concern about whether or not the apprehension was followed with a conviction. The very concept of "innocent until proven guilty" is rejected by the many executives, particularly personnel and security people, who consider that any record of arrest constitutes evidence of wrong-doing regardless of whether or not the offense was subsequently dropped or forgotten or an acquittal obtained.

Once a person has a record of an arrest, any later incident is more likely to lead to another arrest–with the result that there are many people, particularly from minority groups, who have several arrests on their record but who have never been convicted of any offense.

These records continue, even years later, to affect employment and promotion opportunities and even credit ratings.

But the Colorado Supreme Court has taken the first step toward correcting this. In a case brought by the American Civil Liberties Union, the Court held that it is illegal for the police to compile and disseminate records of arrests that are not followed by convictions. This means that the FBI's computerized National Criminal Information file will not flow out through uncontrolled terminals in Colorado–as it does in all other states.

The FBI has resisted every effort to make it remove records of arrest, even when the person named has won a suit for false arrest. It is virtually impossible for a juvenile to have a record expunged from the FBI files because his fingerprints are sent in from several sources, often including sources that are not known to that juvenile who does follow the state procedures to have his record sealed.

One would hope that with the passing of J. Edgar Hoover, the FBI would once again accept the common law assumption that a man is innocent until proven guilty. And as the Colorado Supreme Court said, "There exists in the individual a fundamental right of privacy—the right to be left alone," and that is taken away just as soon as police and other authorities can make and distribute records of arrests that have so little basis that a conviction cannot be obtained.

RETIRE AT 60—BOON OR BANE?

There is a growing tendency in larger firms to make retirement mandatory at age 60. In most cases this applies only to executives—not to hourly workers.

RT is certain that when the 60 year age limit was first introduced that it was stressed as a major advantage to the executives. After some years of operation, however, these same employers ought to look at the actual results of such a mandatory program (RT has no objection to permitting voluntary retirement at age 60—applicable to all levels of employees).

About the only argument raised to support mandatory retirement of executives at 60 is that it clears the path for advancement of people at all levels below the position vacated. This, of course, is something less than a humanistic approach to the problems of business—transferring the problems of the business, which has unlimited resources, to the faithful executive, who has limited resources.

At 60 many executives are still in excellent health (at 60 a white male—there are few women and virtually no black executives affected by this program—has a life expectancy of 16 years). Many executives are still in the heavy expense period of their family cycle, often with 1 or more children still in college.

It doesn't help a bit if, when being presented with their engraved wrist-watch, they are told, "I am sure you will be happy doing nothing." Perhaps the terminator will say, "Now you have your pension—and you are still vigorous enough to take another job." Have you checked the employment market for 60 year old executives, especially when they may have had 10 to 30 years with a single employer? It isn't very large.

30 years ago the railroad unions knew that most of their members died within a year or so after retirement—mainly from boredom.

RThought: if your pension plan is intended to be a reward for long and faithful employment, then it is contradictory to require that healthy, effective executives retire at 60. Review your plan—and perhaps even make a study of what has happened to those faithful people you have forced out of work.

MACY'S COMBINES ALL GALL INTO ONE PART

Macy's of California recently sent out a form letter that started out "Dear Customer. It isn't often that I discuss one of our services with you **personally** . . . (emphasis added)."

This was a **printed** form—no salutation—pretending to be on executive stationery—with the **printed** signature of Edward Finkelstein, President—and was sent to hundreds of thousands of people!

This only proves that you can become President of a $200 million store group—and not even know the meaning of the word "personally."

COMMUNICATIONS TO THE TOP

The Bank of America has an in-house program that is intended to get complaints and unhappiness directly to the top. Throughout the employee area there are boxes with forms marked "OPEN LINE"—a self-mailer like a credit application, addressed to "Open Line Coordinator, Communications Department, B of A, P. O. Box 37005, San Francisco."

A few of the instructions and statements tell the story.

"Absolutely confidential. Only the coordinator of Open Line will know your name. It will not be released to anyone unless you choose to discuss the subject with a qualified person."

"Letters of general interest will be published in BankAmerican—without using names. If selected, may we use your letter? Yes____ No____.

Check here if, instead of a mailed reply, you prefer to discuss this matter with a qualified person in the Bank."

"Before your letter is referred to anyone, this part (Note: a perforated tear-off section with name, home address, branch and position. RT) will be coded and detached. Your letter will then be typed on plain paper to prevent anyone from identifying you. If you give your name and address, the reply will be sent directly to your home. Every Open Line form receives prompt attention, but unsigned letters can only be answered if chosen for publication."

DO YOU HAVE AN AFFIRMATIVE ACTION PROGRAM FOR WOMEN?

The "Equal Rights for Women" Amendment is still progressing in a manner that should make it a part of the Constitution in 1973. Provisions for equal employment opportunities are already in the law.

Most retailers are relaxed because they employ so many women—but most retailers who have women clerks and cashiers, but men executives, are headed for trouble.

There are little things like maternity leave policy—the woman must quit her job and cannot use her sick leave accumulation; the man has no impact at all. The typical maternity leave is so short that the woman has a hard time returning to work—because of lack of facilities to care for very young children (day care centers usually will not take children under 2 years old).

If you are not thinking about this situation, you should.

If you are thinking about this situation, you may find some help in a monograph published by the Public Affairs Council entitled "Affirmative Action Programs for Women." Copies cost $10 at Public Affairs Council, 1601 18th Street NW, Washington DC 20009. (At the same time you might consider subscribing to their newsletter "Corporation and Community" for $10 per year, and then you will find out about these things as fast as RT does).

WORDS TO MANAGE BY

We constantly complain about the burden of taxes—but a few moments of contemplation about the words of Ben Franklin, uttered some 200 years ago, will convince us that his observation is true even today:

> "The taxes are indeed very heavy, and if those laid by the government were the only ones we had to pay, we might more easily discharge them, but we have many others, and much more grievous to some of us. We are taxed twice as much by our idleness, three times as much by our pride, and four times as much by our folly, and from these taxes the commissioners cannot ease or deliver us by allowing an abatement."

JOBS, UNEMPLOYMENT, INTELLIGENCE, EDUCATION, WELFARE–AND DEMOCRACY

Six common words–that are the basis of our greatest continuing crisis.

Jobs–our economy is now providing more than ever before. This should be a good sign.

Unemployment–it remains sticky. The days of 3% unemployed are gone. 5% begins to look like a good figure–and 5 years from now 6% will look good.

Intelligence–this is the constant factor among people. If our intelligence tests are correct, half of the population have an IQ above 100 and half have an IQ below 100. This was true 200 years ago and it will be true 200 years from now. Knowledge may change but intelligence does not.

Education–this is the process by which we attempt to prepare people to make their way in our free competitive enterprises. If we do a poor job, people drop out. Dropouts can be people above 100 IQ who can absorb the education–and people below 100 who need the education and all the other help they can get, in order to make their way in our economy.

Welfare–this is the catch-all of our mistakes, where we attempt to provide for the people who won't or are unable to make their own way in our free competitive enterprise system.

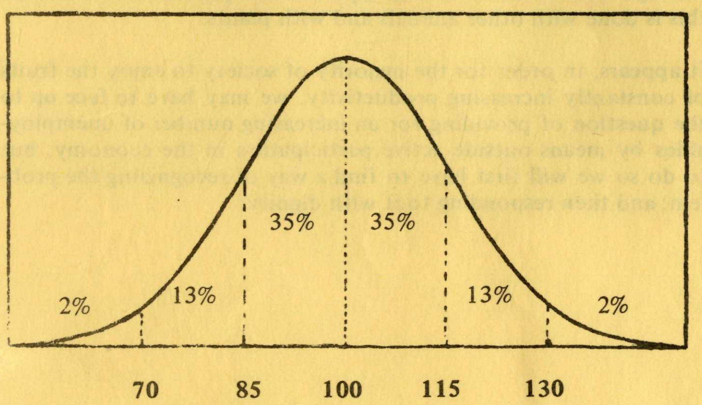
Democracy–this is the system under which we believe that everyone in the United States has his chance–just like you and me–and if he will just make a sufficient effort he will be able to become rich and successful.

But it isn't working out that way. College graduates find at mid-life that their life-time education is worthless. Those without skills find there are no more jobs for those without skills–and when they seek welfare they are denigrated by politicians and taxpayers. And our democracy is in danger.

The fundamental problem is never discussed.

There is a chart on this page and it must be understood to realize the depth of the problem that we face. The chart is the "bell shaped curve" that illustrates what statisticians call "normal distribution." In this case, it shows the normal distribution of intelligence–35% of the people have an IQ between 85 and 100, and another 35% are between 100-115. This might be considered the normal range. Then there are another 13% with an IQ between 70 and 85, and they are balanced by 13% with an IQ between 115 and 130. Finally, there are the 2% at the extremities–2% below 70 and 2% above 130.

DISTRIBUTION OF I.Q.



When you understand this chart, you begin to understand our problem.

First, we have the question of education. Most of education is based on trying to pour an equal amount of knowledge into containers that are unequal in size. We spend extra money trying to get the standard quantity into the smaller size container–with remedial programs and slow-learner classes; but we spend little or no time trying to pour extra amounts into the oversize containers.

Second, we have the problem of welfare. There is increasing emphasis on the good, old American "work ethic"–that found its roots in the days when we cleared rocks from the hillsides and cut trees to clear the land, between shooting buffalo and Indians as long as both lasted. The people on welfare don't show up on the unemployment rolls–but many of them are the totally unemployable.

Third, we have the problem of changing job requirements. In addition to changing training requirements, there are changing intelligence requirements. In looking at the changing job requirements, Table I shows a comparison between the job distribution in 1900 and 1970.

In 1900, 50% of the people employed in the United States were either laborers or farm workers. In both cases their primary task was to provide a portable form of energy–carry, lift, push, drag, move. The jobs, themselves, were relatively simple. The automobile, truck, tractor, electric motor, were either not yet invented or barely making their appearance. What mechanized farm equipment existed was fairly simple. The building process was fairly simple–and involved hundreds of millions of foot-pounds of human energy every year.

And in 1900 just as today, half of our population had an IQ of under 100 and half had an IQ above 100. That half with an IQ

TABLE I

	1900		1970	
	#(000)	%	#(000)	%
Total Employed	29,030	100.0	78,627	100.0
Jobs providing portable energy				
Laborers	3,620	12.5	3,724	4.7
Farm Workers	10,888	37.5	3,126	4.0
Sub Total	14,508	50.0	6,850	8.7
Other jobs				
Professional and Technical	1,234	4.3	11,141	14.2
Managers, officials, proprietors	1,696	5.8	8,289	10.5
Clerical	877	3.0	13,714	17.4
Sales workers	1,307	4.5	4,854	6.2
Craftsmen and foremen	3,062	10.6	10,158	12.9
Operatives and foremen	3,720	12.8	13,909	17.7
Service workers	2,626	9.0	9,712	12.4
Sub Total	14,523	50.0	71,777	91.3

below 100 could handle almost all of the 50% of the jobs in the laborer and farm worker category. True, a man with an IQ above 100 could also handle the job—and many who held such jobs did have an IQ above 100. Many of the jobs in the "other jobs" category could also be handled by people with an IQ below 100.

In fact, we had a situation where not more than 20% or 25% of all the jobs in the United States required an IQ above 100—and we had 50% of the population competing for these jobs. Those that failed to obtain one of these high-IQ jobs could always find a job at a lower level, even though over-qualified. These jobs were plentiful as we found we had more demand for energy in developing our underdeveloped country than we had arms and legs and backs available.

It was true in 1900 that the "work ethic" worked; except for periodic imbalances in our economy—which we call recessions. For those who could not find jobs in the cities, there was almost always some family member with a farm where a job could be had for room and board.

What is the situation today? Farm workers and laborers still have back-breaking jobs in many cases and so are still providing some mobile sources of energy—but in other cases employees in these categories are using highly sophisticated machinery and are required to be familiar with tools, materials, chemicals, processes, laws and regulations unknown to the laborer or farm worker of 1900. And despite the 171% increase in the size of the work force, the number of people employed in these two categories has dropped 53%.

If our society had not changed—and we still needed 50% of our workers to fill portable energy jobs, our work-force would have to be larger by 65,000,000 workers, all in jobs requiring IQ under 100. Under these circumstances we would no longer be worried about millions on welfare and 5% or 6% unemployment—because the "work ethic" would still be applicable to the entire society.

This brings us to democracy.

It is under our form of democracy, basically wedded to a free enterprise system, that we have continued to show our inventiveness. We constantly develop new and complex jobs. In the past two decades millions have found employment in the computer and electronic industries—and relatively few in jobs that can be filled by a person with an IQ below 85 (which includes 15% of our population). The fantastic growth of clerical jobs—from 3.0% to 17.4% and from under one million to almost 14 million—usually require a combination of intelligence and education.

The growth of professional and technical jobs from 4.3% to 14.2% and from 1¼ million to 11 million, obviously reflects our college-oriented economy; and people with an IQ under 100 don't get through college. Even in the craftsmen and operatives categories, where modern machines are subject to numeric control and automation, the intelligence and education required has increased dramatically.

We have compounded the problem with minimum wage laws.

Everytime we increase the minimum wage or bring a new industry under the law, we create new incentives for people to devise machinery to replace people; and we create economic incentives for business to buy such machinery. It was not too many years ago, in one of the early "War on Poverty" programs, in the Appalachian area, that we were training coal miners to work in laundries because the work did not require high intelligence—and the week the first class graduated, Congress passed a law bringing laundries under the minimum wage law—and the trend toward automation started. So from 1963 to 1967, the number of employees in family and commercial laundries dropped from 190,000 to 146,000!

The intelligence component of jobs brought integration.

Women and blacks became draftsmen and computer programers because we were creating jobs that required high intelligence faster than we could move whites and males out of other jobs. Intelligence is a raw material that is available in women and blacks—and the ultimate integration of that part of our society with an IQ above 100 will result from this growing demand.

But that leaves us with the basic problem.

What are we going to do with the 50% of our society that has an IQ under 100, the 15% below 85—when we no longer have jobs that can be filled with people with this intelligence level? It is not their fault that their IQ is low—any more than you and I can take credit because our IQ is above 100. And so it is foolish to say to these people, "If you just worked as hard as I do, you would have what I have and we would not have this horrible mess of welfare and unemployment—and high taxes on you and me."

There has been some respite with the growth of employment in service industries—and employment is up in motels and dry cleaning plants, beauty shops and funeral parlors, temporary help services and car leasing, guard services and professional sports. But many of these industries lend themselves to automation—and some are already pricing themselves out of business because of the rising labor costs.

Is there a solution?

It is easy to pose the problem—but RT cannot offer a solution. RT is certain that the solution will not be found in demands that all able-bodied welfare recipients work—because we would have to "make-work" of a low level. RT is certain that the solution cannot be found through intentionally making our economy less efficient by requiring maintenance of low-intelligence type jobs. RT is certain that as more and more Americans are excluded from the benefits of our economy, the name calling and accusations that place the blame on the people with low intelligence will not solve the problem; it will only cause antagonism and ultimately a new form of class warfare. RT is certain that the time is not yet here when we will attempt to control the intelligence level through state control of the reproductive process, even though this is done with other animals and with plants.

It appears, in order for the majority of society to enjoy the fruits of constantly increasing productivity, we may have to face up to the question of providing for an increasing number of unemployables by means outside active participation in the economy; but to do so we will first have to find a way of recognizing the problem; and then responding to it with dignity.

Is Court Law The Only Umpire?

Sellers Return Curbs Vs. the Buyers' Rights

BY ROBERT KAHN
Editor 'Retailing Today'

"Over the past twenty years, two conflicting trends have been apparent.

"The first is the increased insistence by vendors that goods be returned only with prior approval. This has imposed a heavy cost burden on stores as they must assemble the return goods, write for authorization to return the goods, store the return goods, often send a follow-up on the return request, and, in far less than 100 per cent of the cases, ultimately receive return instructions at which time the goods are packed and shipped.

"The second started in 1953 with the adoption by the State of Pennsylvania of the Uniform Commercial Code (UCC) which clearly sets out the rights of buyers and sellers.

"Vendors have imposed restrictions on returns because so many returns were made to the address to which the purchase order was sent, which might be the 54th floor of an office building. The vendor does not set forth on his invoice or other material the address to which returns should be made. This problem is a serious one, but it certainly does not warrant the extra costs that are being imposed on the retailer.

"From the retailer's point of view, the UCC gives him certain rights except where the contract of purchase has specific agreements to the contrary. The retailer is entitled to delivery by the agreed time. He is entitled to goods as specified (either by style number or in accordance with a sample shown at time of contract, or in the size and color distribution ordered), and in good condition. In many cases, nonperformance by the vendor cannot be determined until after the shipment has been received and opened (at which point some firms have already incurred an expense for inward transportation).

"The UCC requires that the purchaser give reasonably prompt notice (defined by trade custom) to the vendor if all or a portion of the goods are to be rejected, stating the reasons for rejection. The vendor is then required to give the retailer, within a reasonable time (again defined by trade custom), instructions on how to make disposition of the goods.

"If the vendor does not give such instructions, then the retailer has the right to dispose of the goods in several ways. Out of this disposition, the retailer can recover his costs (inward transportation, opening, inspecting, etc.). If sold without payment of a commission, the retailer has the right to an amount not to exceed ten per cent of the selling price as commission. The money remaining must be transmitted promptly to the vendor.

"The retailer also has the right to collect damages attributable to the nonperformance by the vendor. In some cases this includes the extra expense of buying 'cover' goods at a higher price in order to fulfill obligations of the retailer.

"There is no reason why the conflicting trend of more clearly defined rights of the retailer and the complex return situation of the vendor must be resolved in court action. It would seem appropriate for trade associations to do several things. First, they could define the reasonable time in which to determine and report nonconformance of merchandise received, and a minimum time for the vendor to provide the retailer with disposition instructions.

"Further, there are a number of situations, particularly involving defective merchandise, where the entire process could be eliminated by printing return addresses on invoices and packing slips so that return could be made immediately and automatically. Such a notice should include, in addition to the address to which the goods should be shipped, instructions on forwarding a notice that such a return has been made."

(The above article is reprinted from "Retailing Today," national monthly newsletter published by Robert Kahn Associates, Post Office Box 343, Lafayette, Cal., 94549. Annual subscription is $12.)

 COMPUTERWORLD

JAN 31, 1973

Editorials

Fearing the Computer

Retailers are moving further and further into the computer world – fortunately confined to business applications. Those retailers who have harnessed the computer are grateful for the contributions to profit made by a good system.

But, they must also look at the bad that can be done with a computer. Nobel created the Peace Prize because he hated the thought of the damage that could be done by his invention, dynamite. We may some day have a Thomas J. Watson Peace Prize.

Key men in the U.S. Department of Housing and Urban Development recently raised the question of the application of computers to projecting the social conduct of individuals – and the impact that such a development could have on our justice system.

They point out that our justice system is based on the concept that the individual has will power, so that if deterred, punished and rehabilitated, he will no longer conduct himself as a criminal. But these two men, James W. Evans and Robert A. Knisely, claim that computer profiles will soon predict "with startling certainty" which criminals are unlikely to respond to any rehabilitation effort.

They say: "By examining the records of many prisoners and habitual offenders, the computer may make it inescapably clear that although one cannot predict with total certainty the fact that any individual will remain a criminal, the probabilities are so high as to raise a presumption that he will."

Thus, they are pushing predictive analysis by computers to identify criminals before they commit the crime – and to identify those whose profiles indicate that they cannot be rehabilitated. Society, they say, should isolate such people before they do anything wrong!

(Reprinted by permission from Retailing Today, December 1972)

December 10, 1987

Today I talked to William (Bill) Dillard II, President and COO of Dillard Department Stores.

I said I was calling on behalf of Newman's in Joplin MO (I had left the same information earlier with his secretary.

V

Bill identified me immediately with RT, said he didn't know why he was no longer getting it, but commented that one of the most valuable things he had even gotten was the BALANCE PROJECTION TECHNIQUE---the Feature Report in the October 1972 RT.

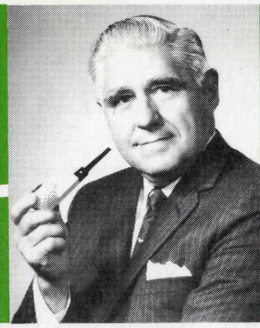
He asked to have his subscription reesatablish which was done.

We then started discussion on whether they wanted to proceed to discuss the Joplin store.

K

Pipe Lines FROM WASHINGTON

by Carl F. Hawver



When I wrote in a recent column that it was difficult to explain shortages in a land of plenty, Bob Kahn, a business counselor in Lafayette, California, wrote to congratulate me on the piece and to suggest that there were also shortages of jobs in this land of plenty, and he offered to explain just why this happens. Bob publishes a newsletter called *Retailing Today* and he sent me a part of one issue with charts and tables and some interesting explanations which I'll share with you.

First, Mr. Kahn starts with the Intelligence Quotient (IQ) and tells us that there is a sort of "average" range with 35 per cent of the population having IQs of between 85 and 100 and another 35 per cent between 100 and 115. This makes up 70 per cent of the population, and as a class they get along pretty well. Now let's look at the other 30 per cent. There are 13 per cent between 70 and 85 and a matching 13 per cent with an IQ between 115 and 130. Finally, there are the bottom 2 per cent (below 70) and the top 2 per cent (above 130). Now let's admit that those who are smart enough to read this column are likely to be in that top 2 per cent, and we can all be more comfortable talking about those poor devils down there somewhere below us on the IQ ladder.

In the schools we try to pour average-sized knowledge into average-sized IQ containers and we even spend extra money to try to squeeze the standard dose into the smaller IQ containers, but we don't try to do much by way of putting something extra into the big containers. As a result, these top IQs frequently are bored with the lack of challenge in the classrooms and play intellectual hookey with the lower IQs who are frustrated because they can't meet the challenge of keeping up with that middle 70 per cent.

Now we come to the hard part. We're living in a pretty technical age. Back in 1900 we had about half of our population with IQs of under 100, but we also had about 50 per cent of our nation's jobs that required "portable energy" (rather than brain power). By 1970 that figure had shrunk to 8.7 per cent, but there were still 15 per cent of the population below that 85 to 115 middle range. If we can accept the idea that those with IQs under 85 are likely to take "portable energy" jobs—to carry, lift, push, drag, or move something —and if only 8.7 per cent of the total job market requires these skills, then some 6.3 per cent of that 15 per cent are likely to be unemployed because there just isn't any job for them. There will, of course, be some who are able to make it to more skilled jobs, but they will be replaced by some from the middle range who didn't get their IQ containers filled up in school and are underachievers in the work market. From here on I'll let Bob Kahn tell it in his own words.

"It was true in 1900 that the 'work ethic' worked; except for periodic imbalances in our economy—which we call recessions. For those who could not find jobs in the cities, there was almost always some family member with a farm where a job could be had for room and board. . . .

"If our society had not changed—and we still needed 50 per cent of our workers to fill portable energy jobs, our work-force would have to be larger by 65,000,000 workers, all in jobs requiring IQ under 100. Under these circumstances we would no longer be worried about millions on welfare and 5% or 6% unemployment—because the 'work ethic' would still be applicable to the entire society.

"It is under our form of democracy, basically wedded to a free enterprise system, that we have continued to show our inventiveness. We constantly develop new and complex jobs. In the past two decades millions have found employment in the computer and electronic industries—and relatively few in jobs that can be filled by a person with an IQ below 85 (which includes 15% of our population). The fantastic growth of clerical jobs—from 3.0% to 17.4% and from under one million to almost 14 million—usually require a combination of intelligence and education.

"The growth of professional and technical jobs from 1.25 million to 11 million, obviously reflects our college-oriented economy. Even in the craftsmen and operatives categories, where modern machines are subject to numeric control and automation, the intelligence and education required has increased dramatically.

"Every time we increase the minimum wage or bring a new industry under the law, we create new incentives for people to devise machinery to replace people; and we create economic incentives for business to buy such machinery. . . .

"But what are we going to do with the 50% of our society that has an

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FOR YOUR READING

Federal Regulation of Bank Holding Companies. Charles G. Blaine; BNA Books; Washington, D.C.; 1973; 494pp; $45.00

An exhaustive analysis of the Bank Holding Company Act of 1956 (as amended), contained in *Federal Regulation of Bank Holding Companies,* will be useful to legal advisors, officers, and executives of banks and bank holding companies, and will be of interest and value to bankers and lawyers, and those involved in any way with bank holding companies.

Written by Charles G. Blaine, who is a member of the New York State Bar, a former chairman of the Banking, Corporation and Business Law Committee of the New York State Bar Association, a member of the American Bar Association's Banking Law Committee and the Lawyers' Committee of the Association of Registered Bank Holding Companies, and a director of a bank holding company, this book combines an examination of the meaning and effect of every provision of the Bank Holding Company Act with a commentary on the many important questions raised and the problems created by the Act's 1970 Amendments and the Federal Reserve Board's Regulation Y.

The introduction sketches the history of federal regulation of bank holding companies, from the relatively few requirements imposed by the Banking Act of 1933 to the enlarged restrictions of the Bank Holding Company Act of 1956, to the 1960 Amendments of that Act which widened its sweep, and finally to the 1970 Amendments which substantially revised the Act. There follows a chronology of the legislative proposals that led to the enactment of the 1970 Amendments, an assessment of the significance of the 1970 Amendments, and an outline of the structure of the Act as it stands today.

The body of the book offers an examination, section by section, of the provisions of the Act, of the 1970 Amendments of Regulation Y, as well as of related regulations and official interpretations.

Throughout the text, legislative and regulatory histories are cited.

The various sections of the Act are considered as they relate to the Act's definitions, to bank holding company formation and bank acquisitions, or to permissible nonbanking activities and to procedural or administrative matters. Special attention is given to international activities and to "conditional transactions" which are regulated by Section 106 of the 1970 Amendments.

The Appendices will be as significant to the reader as the text. Appendix I contains the official Board-printed text of Regulation Y, as amended effective December 1, 1971, including the full text of the Act and of Sections 105 and 106 of the 1970 Amendments; the Board's interpretations under the Act issued prior to 1971; and the Board's Rules of Procedure, Rules of Practice for Formal Hearings, and Rules Regarding Delegation of Authority.

Appendix II, which supplements Appendix I, contains a copy of each Board notice and order issued since January 1, 1971 proposing or adopting amendments to Regulation Y and Board Rules affecting bank holding companies, or interpreting them.

Appendix III completes the assemblage of the Act's legislative history with a complete index to the Congressional debates and committee reports relating to bank holding companies.

Federal Regulation of Bank Holding Companies has been prepared in loose-leaf format for ease of use and reference and to permit supplementation as developments warrant.

The Thorndike Encyclopedia Of Banking And Financial Tables, David Thorndike; Warren, Gorham & Lamont, Inc., Boston, Massachusetts; 1973; 440pp.; $47.50.

The Thorndike Encyclopedia Of Banking And Financial Tables incorporates all essential banking, financial and real estate tables in a single volume, including frequently used interest, investment, installment loan, mortgage and real estate tables. In addition, the text covers a wide range of rates and terms—in some cases, interest rates from one per cent to 25 per cent and terms extending to 40 years.

According to the publishers, the tables have been printed by a new process. Because the type has been completely set by computer, they contend that typesetting errors have been eliminated.

The volume is fully indexed for easy location of the proper table. It contains a glossary of important terms, general instructions for the use of the book, and each table gives specific instructions and examples for their use.

Author Thorndike is a Wall Street consultant and creator of numerous financial tables and is president of Thorndike and Company.

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Q under 100, the 15% below 85—when we no longer have jobs that can b... d with people with this intellig... evel? . . .

"It appears, in order for the majority of society to enjoy the fruits of constantly increasing productivity, we may have to face up to the question of providing for an increasing number of unemployables by means of outside active participation in the economy; but to do so we will first have to find a way of recognizing the problem; and then responding to it with dignity."

Well, that's Bob Kahn's solution and I want to give him full credit for it, although I'm not sure what he means by "outside active participation." Still, it seems to me that there may be another solution. Maybe we don't have to automatically consign all our lower IQs to the economic scrap heap. Perhaps instead business should take a careful look at our school systems and our job requirements and help our schools prepare these students for productive and necessary jobs. I'm not convinced that our modern technology necessarily requires a greater percentage among the higher IQs. Perhaps the real problem is that our businesses and our educational institutions have not yet adjusted to the real "people" needs of the electronic age.