December 1973

F - Improved Disclosure of Leases?
B - Resolutions for the New Year
A - We Should Be Able to Go Public at 15 Times Earnings
The Price of Thinking You Are The Master of All Retailing
Take a New Look At Women Borrowers
The Miracle of a 21 Times P/E Ratio and 12.43% Interest
The West is Different - Still
Names in the FTC News
No Ethics in the Encyclopedia Business

January 1974

F - When Does An Industry Association Move to Improve Integrity?
B - What Will Happen to Apparel and General Merchandise Stores in 1974?
A - And Still the Shoppers Shop!
Are Congressmen Really Stupid?
Women Are the Cause of Divorce!
Automated Retailing - Will It Arrive?
When You Design That New Store
A Clear Cut Guarantee
In The Same Mail - About Tandy Corporation
Which Types of Retailing Will Grow Fastest?

February 1974

(F Do Enough Stores Use Rack Jobbers?
(F - The Hypermarche In The U.S.A.?
B - A Matter of Ethics (dishonest energy statements by oil industry)
A - How to Plan Payroll In An Inflationary Recession
Retail Merchants - The Energy Savers
Correction (Montgomery Ward item from 9/73 RT)
Clarification (RT offer of additional report)
The Growing Military Retail Market
Does Retail Advertising Ever Change?
No Energy Crisis At Sears
The Plumbers and Our Protection Departments
The Disappearing Difference
Interested in Carpooling? Use CARPOL!
More Retailers Think Legislators Are Stupid
A Word about the Dow-Jones Average
Names in the F.T.C. News

March 1974

F - The Standard of Living and Cost Of Living: Fact Or Fancy?
B - None this issue
A - Is Stanley Goodman Retailing's Leading Hypocrite?
The Varying Impact of Inflation
Federal Reserve Board Heeds RT Warning!
Appliance Departments Will Have to Watch Their "EERs"
Phony Chief Executive Officers
Standards in Retailing - Offered Without Comment
Responsible Action On Abolishing "Holder-In-Due Course"

March 1974 (continued)

Names Out of the FTC News
Equality of Sexes
Franchisees Do 30% of Retail Sales!

April 1974

F - Understanding the Unemployment Figures
B - A Matter of Conscience (Gulf Oil Corp. annual rept)
A - Distortion in LIFO Adjustment
Growing Integrity
Withholding Is Illegal - For Quakers
Inflationary Profits
The Gap In Accounting Service
A Changed Position
Does Retailing Understand Research?
Who Are The "Schlock" Credit Outlets?

May 1974

F - Short Shorts
B - A Matter of Ethics (ltr. thanking retailer for his honesty/ethics)
A - Report on Annual Reports
More "Schlock" Credit Outlets
Matching Gifts for Education
Consumer Credit Counseling Services
The Dangers of 100%
The Future of Cheap Imported Goods
How Not To Establish Credibility
When Retail Executives Talk
Comments From Readers re Stanley Goodman
Recognizing Equal Opportunity
Broader F.T.C. Decisions
Orders from the Consumer Product Safety Commission - Who Pays?

June 1974

F - Interstate In Retrospect
B - A Matter of Concern (open reply to ltr. of complaint)
A - The Editor Speaks (talk on retail accounting v. talk on sex at NACS annual convention)
Shortages and Gasoline Marketing
How Can Top Management Tolerate Not Responding To Customers?
Where are Retailers in this Age of Consumerism?
What Is The Proper Role of Ethics in Business?
All Gall is Deposited in Bankamericard
How Well Do You Know Your Company?
The Problems of Incentives
Patterns of Business Within The May Company
A Matter of Relative Importance (Clyde Bedell's column on damage claims v. good or bad ads)

July 1974

F - May Company Revisited
B - How Good Are Credit Office Reports?
A - A Good Guarantee
Should Credit Be Granted to Men?
Whether The Weather Will Be Right
What Miracle of Hypermarkets?
How To Handle 90 Day Accounts
New Process Doesn't Change
Price Comparisons at Catalog/Showrooms
Would This Report Be True in the United States
Automatic Markdown Attic?
Unsafe Products - Federal Action Coming

July (continued)

Semi-Monthly Humor
The Cost of Equal Pay
The "Not-So-Descriptive" Billing
The Economics of Selling Flammable Garments
Double Standards at United Merchants and Manufacturing

August 1974

F - What Gives With Trade Associations?
B - None this issue
A - Naked Economic Power
Is Chapter XI Fair?
The Sky is Falling, Said Chicken Little
Progress in Computers
Who Benefitted From the 1973 Prosperity?
The Recession
Can There Be More Hypermarches in France
How Bad is Business Credibility?
When the Bank Tells You Your Account is Unprofitable, then What?
Force-Counter Force

September 1974

F - None this issue
B - None this issue
A - A Look At Annual Reports
If You Have To Close An Unprofitable Store...

October 1974

F - The Environment Is The Thin Skin...
B - A Matter of Ethics (V. Royster article on morality)
A - Erratum - A Look At Annual Reports
Naked Economic Power - Revisited
Where Did RT Fail? (re. stealing credit balances)
Now Is The Time To Establish Policy Against Christmas Gifts
Be Sure You Say What You Mean
How Does Retailing Stand as a Long-Term Investment?
Reading Between the Ads
Can Cash Registers Be Rigged?
The Peripatetic Shopper
Ward's Needed Mobil Long Ago!
Do We Need General Motors' Thoughts?
Mail Order or Catalog Sales?
Selling Refrigerators and Color TVs During An Energy Crisis

November 1974

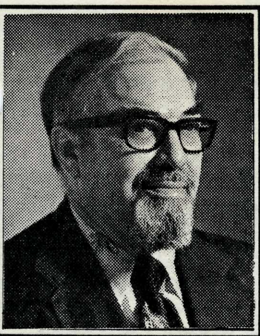
F - Announcing A Policy vs. Instituting a Policy
F - Bank of America Adopts Policy of Restraint on Loans
B - Cleaning Up The Catalog/Showroom Advertising Ethics
A - Major New York Stores Will Honor Bankamericard!
How to Control Trade Practices
Rain Checks Required!
What's in the Future?
Is There Competition in the Supermarket Industry?
When Results Are Bad, What Can You Say?
Listening to Mary Wells Lawrence
Honoring American Express

November 1974 (continued)

Legal Action By Equal Employment Opportunity Commission
The Industry Report
New York Employees to Get Payment in Cash
Why Unit Pricing Doesn't Help
House of Fabrics Recedes From Record
Envy in the Eyes of the Bankers
A Study of Catalog/Showroom Pricing

December 1974

F - How Big Is Your Future Market?
B - This Is The Season - To Think of Ethics
A - We Said Nice Things About Tiffany Too Fast
Understanding Public Relations
What Do You Do When a Deadbeat Pays?
American Express Gives Computers a Bad Name
W. T. Grant Makes Some Frank Statements
Why Doesn't Philip Hawley Tell the Truth?
The Sorry State of the Dept. Store Industry
Recession Shows Odd Pattern
Pitty the Underprivileged Military Reservists!
What are the 15 Fastest Growing States?
How Furniture Retailers Rate Manufacturers
The Changing Status of the Black Population and Retailing
Do All Retailers Under-Plan New Stores?
Names in the F.T.C. News



RETAILING TODAY

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

ROUTE TO

Published Monthly. $12 per year.

JANUARY, 1974 VOL. 9, NO. 1

AND STILL THE SHOPPERS SHOP!

Woolworth gave one of the first insights into retailing in Great Britain under the tremendous restrictions imposed by a combination of labor disputes and the oil import restrictions. Christmas offered little in the way of good cheer–yet Woolworth's British stores set a new sales record. **And this was despite the fact that the stores were operating without light or heat!**

RThought: As United States retailers make their plans to reduce energy consumption by 15% or 20%, they might well consider what it would be like to reduce use by 100%. We might remember the old saying "I felt sorry for myself because I had no shoes, until I met a man who had no feet."

ARE CONGRESSMEN REALLY STUPID?

I suppose that there are people who still think of Congressmen as bumblers who don't know anything about the business world and therefore one can make any kind of statement before a Congressional committee and expect the simple souls conducting the hearing to nod their head in assent and vote for business's ideas.

But that is not the opinion I have of the various national and California legislators with whom I have regular contact. And it is not the impression I have of Representative Leonor K. Sullivan when she is dealing with consumer affairs.

It was surprising, therefore, to learn from NRMA that Harry N. Jackson, Director of Credit, Dayton-Hudson Corporation, had made the following statements:

"Although retailers, at present, are at best breaking even in their credit operations, such operations are generally beneficial to retailers–they help to develop a continuing relationship with customers and provide the means by which retailers can communicate periodically with their customers–with the onslaught of new legislation and the continued barrage of litigation, credit programs may ultimately become unproductive and improvident to maintain."

(**RThought:** This statement is a completely dishonest statement and Mrs. Sullivan knows it. Major department stores were doing 50% of their volume on credit in 1932–without any finance charge income on regular accounts. If Dayton-Hudson eliminated credit in all their stores because it became a nuisance to "communicate periodically with their customers," Dayton-Hudson stock would drop 75% and they would soon be reporting losses. Mrs. Sullivan is aware that retailers offer credit because of the gross margin on sales that would not be made if cash was required–and not because they want to "communicate with their customers while they break even" on credit operations.)

Jackson said: "Marital status has a direct bearing on an applicant's ability and willingness to pay." RT does not know how Jackson measures "willingness" although his frivolous use of the word here and elsewhere in his statement warrants RT's conclusion that being a director of credit has a direct bearing on the speaker's "willingness" to speak honestly about the motivations of people who properly handle credit obligations that they undertake.

Jackson said "... NRMA would like to point out that retailing, being such a highly competitive business and one entirely dependent upon customer satisfaction for its survival, has acted on its own, without proding, to assure that credit billing errors are swiftly, fairly and efficiently resolved." If this statement was true, then the "Action Line" columns in major newspapers could run every other day instead of daily. RT has, in the past, reported the billing errors of major retailers until it was tired of printing the stories.

Jackson said: "It is imperative that the credit grantor use the marital status and number of dependents of an applicant so that he can comply with state laws respecting garnishment, attachment and repossession of goods." Mrs. Sullivan knows that no major retailer updates such information in their file after taking the credit application and the laws to which Jackson refers apply to the condition at the time of legal action and not as of the date of applying for the account some 1 to 30 years earlier.

WHAT WILL HAPPEN TO APPAREL AND GENERAL MERCHANDISE STORES IN 1974?

This question has been of concern to many of my clients and so I prepared a 13-page discussion and projection. This seemed necessary in view of the constant talk of recession, depression and even panic. It is dated January 7, 1974, and so it recognized the status and problems of the energy crisis up to that time.

My conclusions are as follows:

1. Retail dollar volume, for apparel and general merchandise stores will be very good, thank you. In fact, the national figures will show another new record.

2. Profit levels may not be at record levels for all stores; but will be for many, if not most, well-managed businesses or businesses now on a significant growth pattern.

The proof of conclusions is in the detailed statistics. The impact of the 1970 recession on retailing is based on the excellent information available in California on taxable retail sales; other data, however, goes back to 1929.

If you would like a copy of the full report, please send check for $2.00.

RThought: NRMA and/or Harry Jackson, as First Vice Chairman of the Credit Management Division, not only did retailing a disservice by making such statements to an informed legislative committee, they further perpetuate the impression that businessmen are nothing but a bunch of liars out to persuade legislators to pass legislation that will permit some retailers to rip-off people. It would seem that NRMA could adopt a fundamental principle—whenever anyone speaks in the name of NRMA they will speak "the truth, the whole truth, and nothing but the truth." Then a retailer might take pride in belonging to NRMA.

WOMEN ARE THE CAUSE OF DIVORCE!

At least that is what the International Consumer Credit Association (ICCA) appears to be saying when submitting a statement to the House Subcommittee on Consumer Credit; and ICCA did not do any better than NRMA.

The following quote is extracted in full, with emphasis added by RT:

"From the unsecured creditor's standpoint, character or willingness to pay is the most important factor in considering an applicant. And it is a factor to which the secured creditor gives as much or more consideration than collateral. Credit is a contract. **And so is marriage, which is also usually a sacred one. Divorces and separations in the vast majority of cases are initiated by the wives.** Usually divorce and separation agreements leave the husband responsible for any existing consumer debts. In most cases the wives attempt to force these agreements on creditors, even in those cases where a wife has contracted in her own name and on her own credit or where both spouses have cosigned the credit contract. As a result, where a wife is unwilling to at least take any responsibility for existing debts after a divorce or separation, she is a poor risk for new debt for which she will be solely responsible. By contrast, where divorced or separated spouses continue to be individually or jointly responsible for their own existing debts, or where there is a reasonable division of responsibility acceptable to creditors, both spouses emerge with good credit."

RThought: This is a product of the Executive Committee of ICCA. One must presume that this is an all-male group. Let us look at a few points.

1. "Divorces are initiated by wives." This implies that the wives are at fault, especially after pointing out that marriage is usually a sacred as well as civil contract. By the same logic, since most suits for collecting unpaid bills are "initiated" by credit grantors, credit grantors must be the ones at fault!

2. When courts determine that a husband is responsible for certain obligations, wives "attempt to force these agreements on creditors." Coming from organizations that attach wages without proof of indebtedness, write contracts that provide repossession by deception and confession of judgment, all of which depend upon court procedures, it is most surprising that an organization like ICCA is unwilling to accept the determination of a properly qualified court. Since no credit grantor pays judgments to persons who sue for money and lose, why should a wife pay an obligation that a judge, after hearing the matter, determines should be paid by the husband?

It is amazing that a group of people, the Executive Committee, representing 50,000 members, can prepare, utter and publish such nonsense. It shows a contempt for judgments of the courts, and the legal presumption that the plaintiff is the aggrieved party. Since most of the Executive Committee members are also Certified Consumer Credit Executives it causes one to wonder about the concepts of credit practiced by a C.C.C.E.

AUTOMATED RETAILING—WILL IT ARRIVE?

Retailers who do not understand the computer and computer managers who do not understand retailing seem to have recurring dreams of the completely automated retailer. But this is not a new dream.

One of the great innovators in food retailing was a man named Clarence Saunders—who originally developed the Piggly-Wiggly Stores. In that concept you entered the store through a turnstyle, proceeded through every aisle past every item of merchandise and then left the store—complete exposure. This was one of the first self-service techniques—and at one time there were almost 2,700 Piggly-Wiggly stores. (The present Piggly-Wiggly Association represents firms that operate conventional supermarkets—but which had their origin in the serpentine idea). And there is more than a touch of Piggly-Wiggly ancestry in Safeway, Kroger and other leading food chains.

Saunders, in his later years, developed the Keedoozle Store—the customer would carry a "key" which, when inserted in a lock in a display and turned, would punch a paper tape—one item for each turn. The "key" would be taken to a check-out where the paper tape would be removed and run through a machine which would (1) print a cash register tape and total the sale and (2) activate automatic stock shelves that would drop the selected merchandise onto a conveyor that would bring all the items to the checkout for bagging. At the time of his death in 1953, he was working on the "Foodelectric" store which would have replaced the mechanical system of "Keedoozle" with an electronic system—at much lower cost.

Saunders died—but not the idea.

Datamation (October 1973), summarized some of the more recent ventures in this area. Telemart Enterprises, Inc., of San Diego, lasted 11 days in 1970—it received 3,000 orders a day by telephone and the computer worked well—but the warehouse could not order-pick fast enough. In Sacramento, Store-to-Door lasted 2 months—and ended up with a $21 million suit against Univac which purportedly contracted to provide a system that would handle 3,400 orders each day, averaging $25—but never handled more than 500. Store-to-Door was headed by E. J. Crofoot, who had once headed Lucky Stores and had been an early participant in the convenience store field.

Call-a-Mart was started in Louisville Ky in September 1973—on a more limited basis—$5 membership fee from 300 families in a restricted geographic area. Telephones operate from 7 a.m. to 9 p.m. Monday to Friday with free delivery over $20; $1 delivery charge if under.

Computer Shopping, Inc., is scheduled to start in Washington, D.C., in 1974, using a different approach. This operation would not have any inventory but the computer would list information on merchandise carried by subscribing retailers. The member (who must have a touch-tone phone) would call the computer, code in the member ID number and product code, and a computer-generated voice response would tell him the 5 lowest prices from 5 different merchants and the name of the merchants. If the item is over $10, a punch of the asterisk button will bring on a human operator who can complete the sale. The merchant would be charged 5% of the sale. The system is not yet working—but they have plans to franchise it and expect 100 to be in operation by the end of 1975!

RThought: Retailers who do not understand the computer and computer managers who do not understand retailing. . . .

WHEN DOES AN INDUSTRY ASSOCIATION MOVE TO IMPROVE INTEGRITY?

The January 1974 issue of NHFA Reports, published by the 'ational Home Furnishings Association, contained an article Announcing New NHFA Advertising Guidelines."

The subheading says "To strengthen consumer confidence in the retailing segment of the industry, NHFA is in the process of issuing guidelines for preserving truth and accuracy in advertising." The article contains the following self-serving statements: "The need for self-regulation is evident"; "It is NHFA's firm belief that industry can police itself better than the government could possibly do"; "The purpose of the NHFA guidelines is actually twofold: 1) to advise members about what they can and cannot do, and 2) to upgrade the level of advertising in the industry as a whole"; and ". . . the NHFA Board will consider in the near future a proposal to set up an Advertising Review Board consisting of three representatives from industry, one from advertising and one from the public sector."

This certainly sounds wonderful. But why is it happening at this time? There were some other statements in the article.

"In 1973, the FTC dramatically shifted gears in its Ad Substantiation Program by singling out home furnishings retailers for the first time ever"; "In Congress, interest in this issue is growing and Truth-in-Advertising legislation may well become the wave of the future"; Unless the industry can successfully upgrade the level of advertising, it will be caught between the hammer and the anvil"; "In a nutshell, the purpose of the government's watchdog activity is to ensure that advertising is informative and not misleading"; and "To deal with this, [FTC Commissioner] Thompson calls for new rules which require certain deceptive-prone industries to affirmatively disclose the major performance characteristics of 'heir products on a routine bases. Regretably, the FTC includes the home furnishings industry in this category."

What does the article disclose about the attitude of NHFA? "Recognizing its responsibility to protect members from unnecessary government harassment, NHFA has long been aware of the increasing activity of federal agencies to regulate and investigate the accuracy of retail advertising. Consequently, the association is carrying out its responsibilities by keeping members informed of the federal advertising program and providing the much needed industry leadership to deal with the problem."

RThought: NHFA does not argue with the FTC's conclusion that the furniture industry's advertising is "deceptive-prone." They know this—and it cannot have been a recent discovery. NHFA argues that the industry can police itself better than government—but makes it obvious that it had no interest in self-policing until government took an interest in their "deceptive-prone" ads. NHFA watched the Washington scene closely and did not do anything until it was obvious that (1) FTC was going to perform the duty established for it by law and (2) Congress might get interested in a "Truth-in-Advertising" law.

If an Advertising Review Board is formed, NHFA intends to thoroughly stack it—3 from the industry and 1 from advertising (which is also industry) vs 1 from the public sector! This is the ideal concept of "self-regulation" in the context of the "Watergate syndrome"—this might be called a matter of "national (furniture industry) security."

RThought: (for individual stores)—Big business is getting into the 'omsumerism business—as evidenced by Time's new magazine, **Money**, which is just starting its 3rd volume. In the December issue there was an article on the unscrupulous practices of furniture salesmen, whether in a schlock store or one of the finest in the country. And the "finest department store" was represented by a quotation from a salesman at Lord and Taylor. RT readers may be interested in the letter to the editor that appeared in the January issue of **Money**:

> "Your Angry Consumer item 'The Furniture Follies,' is terrific reporting. What research! Congratulations to you.
>
> "Just for the record, I know it will interest you that as of November 29, I am no longer in furniture sales with Lord & Taylor. They didn't appreciate my telling you that people in the furniture business are whores and will promise anything to make a sale, so they fired me. I can assure you I have no regrets about being quoted.
>
> "Actually, Lord & Taylor's reaction has already gained new business for our own interior design company."

RT is certain that neither Lord & Taylor, nor parent Associated Dry Goods, condones having salesmen who make commitments to customers that cannot be kept—but L & T and other fine stores continue to place heavy emphasis on commission or incentive compensation systems that induce salesmen to make such commitments for their own short-term benefit. An industry that continues to use commissions instead of management supervision must bear the blanket criticisms for the results that flow from such a compensation system.

RThought (for all segments of retailing): There are thousands of honest retailers—and honest retail advertisers. Many of them are leaders in their trade associations. But all of them carry from their grammar school days the belief that it is un-American to be a squealer. They are willing to let somebody else do it. But when the consumer is the one who is being "ripped-off" and he goes to his protector, the FTC, then the trade association for the industry containing the offenders suddenly feels called upon to (1) proclaim that self-policing is better and (2) defend the scum that is destroying the good name of retailing.

The home furnishings industry is responding to a direct threat—but where is the industry association that failed to define the term "hi-fi," that tolerates retail divisions of billion dollar corporations that for years advertised $69 suits as $150 values, that permits completely fabricated comparative prices in sales catalogs, that tolerates 2 or 3 or 4 major supermarket firms to concurrently advertise in the same community "lowest prices in town?"

SHORT SHORTS

Do your trade magazines tell you only half of what they know? RT has long been annoyed by the growing trend of trade magazines who sell a supplementary newsletter. Probably the outstanding example of this lack of ethics is McGraw Hill—who claim they use their Business Week (BW) staff (supported for years by the subscribers of BW) to publish a special **Business Week Newsletter**—for which the BW subscriber is expected to pay extra. As a quarter-century subscriber to BW, I expected to get all the information their staff had—right in my weekly copy. Now, **Sporting Goods Dealers**, which has been happy since 1899 to provide all the news they know through the pages of their magazine, wants $10 extra to tell you some of it—forcing you to subscribe to their **Sporting Goods Dealer Newsletter**. If you subscribe to Sporting Goods Dealer you might wish to inquire by what right they figure they can short change you—after being supported by you for 74 years!

CREDIT OFFICE RATING

It is good to see Abercrombie & Fitch so high on the Credit Office Rating—it was not too many years ago that A&F was featured in Sylvia Porter's column for a something-less-than-perfect billing system—in the days when they were converting to EDP. And the October-November listing of 16 firms on the 4-day Honor Roll is outstanding.

HONOR ROLL

Berkeley's	1.0	J. Magnin (San Francisco)	3.0	Gus Mayer (Oklahoma City)	3.2
Rubenstein's	2.0	Maison Mendesolle	3.0	Gus Mayer (Baton Rouge)	3.2
Gus Mayer (Nashville)	2.4	M. Ward (Houston)	3.0	Livingston Bros.	4.0
Abercrombie & Fitch	3.0	Roos/Atkins	3.0	Ransohoff's	4.0
Bullock & Jones	3.0	Mervyn's	3.1	Sears (Dallas)	4.0
				I. Magnin	4.0

CREDIT OFFICE RATING

Information From Reporters	OCT-NOV 1973 No. of Reports	OCT-NOV 1973 Days to Bill Average	OCT-NOV 1973 Days to Bill Range	AUG-SEPT 1973 No. of Reports	AUG-SEPT 1973 Days to Bill Average	AUG-SEPT 1973 Days to Bill Range
Abercrombie & Fitch (NY)	1	3.0	3	1	4.0	4
The Broadway (LA)	1	5.0	5	--	--	--
Brooks Bros. (NY)	5	8.4	6-12	2	7.5	6-9
Bullock's (LA)	3	4.7	4-5	2	5.5	4-7
Bullock's (N. Calif.)	3	5.0	4-6	--	--	--
Bullock & Jones (SF)	1	3.0	3	1	4.0	4
Capwell's (Oakland)	8	7.6	5-10	4	7.3	7-8
Desmonds (LA)	2	4.5	4-5	2	4.5	2-7
Emporium (SF)	4	10.3	9-11	2	10.0	9-11
Foley's (Houston)	1	9.0	9	2	7.5	7-8
Gump's (SF)	4	9.3	8-10	3	8.3	7-10
Hastings (SF)	2	5.5	5-6	2	20.0	20
Hink's (Berkeley)	2	8.5	8-9	2	8.0	8
Kushins (Oakland)	1	9.0	9	1	9.0	9
Liberty House (Oakland)	5	6.8	5-10	3	6.7	6-7
Livingston Bros. (SF)	3	4.0	3-5	2	3.5	3-4
Macy's (SF)	11	6.7	6-7	6	6.0	6
I. Magnin (SF)	4	4.0	4	9	4.3	4-6
Joseph Magnin (SF)	2	3.0	3	2	4.5	4-5
Maison Mendessolle (SF)	2	3.0	3	2	2.5	2-3
Montgomery Ward (Houston)	1	3.0	3	2	3.0	3
Peck & Peck (NY)	1	14.0	14	1	25.0	25
Penney's (Oakland)	2	5.0	5	2	5.0	5
Penney's (Buena Park)	2	4.5	4-5	--	--	--
Podesta Baldocchi (SF)	1	6.0	6	--	--	--
Ransohoffs (SF)	1	4.0	4	--	--	--
Roos/Atkins (SF)	2	3.0	3	2	3.0	3
Routzahn's (Maryland)	1	6.0	6	3	5.0	4-6
Saks (SF)	1	6.0	6	3	9.0	7-10
Sears (Oakland)	5	6.2	3-10	2	4.5	4-5
Sears (Dallas)	2	4.0	4	1	4.0	4
Shreve & Co. (SF)	1	.14.0	14	1	16.0	16
Al Sulka (NY)	2	8.5	7-10	2	7.5	7-8
TOTAL	90	6.4	3-14	69	6.6	2-25

Information From Stores	OCT-NOV 1973 No. of Reports	OCT-NOV 1973 Days to Bill Average	OCT-NOV 1973 Days to Bill Range	AUG-SEPT 1973 No. of Reports	AUG-SEPT 1973 Days to Bill Average	AUG-SEPT 1973 Days to Bill Range
Berkeley's (Fresno)	4	1.0	--	8	2.5	--
Blum Store (Phila.)	8	6.6	--	8	6.6	--
Brock's (Bakersfield)	16	7.7	5-9	40	9.2	6-12
Holman's (Pacific Grove)	10	6.7	4-11	10	8.8	7-11
Levee's (Vallejo)	20	5.3	4-7	20	3.8	3-7
Levy Bros. (San Mateo)	32	4.7	3-8	32	5.1	3-8
Gus Mayer (Nashville)	8	2.4	--	8	2.4	--
Gus Mayer (Beaumont)	8	5.0	--	8	2.9	--
Gus Mayer (Louisville)	8	4.2	--	8	4.0	--
Gus Mayer (New Orleans)	8	7.6	--	8	11.0	--
Gus Mayer (Oklahoma City)	8	3.2	--	8	3.5	--
Gus Mayer (Jackson)	8	8.7	--	8	6.7	--
Gus Mayer (Memphis)	8	11.1	--	8	9.0	--
Gus Mayer (Baton Rouge)	8	3.2	--	8	3.5	--
Mervyn's (San Lorenzo)	8	3.1	3-4	9	3.6	3-
Oshman's (Houston)	8	9.0	8-11	4	7.3	7-8
Rubenstein's (Shreveport)	3	2.0	2	6	2.0	2
Walker Scott (San Diego)	12	7.8	5-11	12	5.7	4-8
TOTAL	185	5.7	2-11	213	5.9	3-11

WHY A CREDIT OFFICE RATING? The Unruth 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 HAPPEN—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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride—both to management and credit and data processing personnel in being listed on the Honor Roll.

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

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

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

WHEN YOU DESIGN THAT NEW STORE

Architectural Forum for July/August 1973 ($2, 130 E 59th St., NY 10022) is devoted to **"Architecture and Energy."** A particularly important article is by Richard Stein. It might make it difficult for a retailer to ever again have confidence in the advisors on whom he relies in designing new buildings, including his own staff specialists.

Let's consider the matter of lighting. Lighting accounts for about a quarter of electricity usage. Without any change in our eyes—and without any significant amount of research, the Illuminating Engineering Society (IES) has about tripled the recommended light level! Of course, the IES is backed by all the people who make more money by selling more intense lighting. It has been reported over Canadian radio that a Canadian school found that when they **reduced** the lighting level there was a noticeable reduction in psychosomatic headaches and fatigue.

The new Kresge headquarters is an example of the trade-offs that advisors make—and which they represent to owners to be "progress" and "economic." An ad appeared in the IES magazine after the Kresge HQ was completed reporting that the 25,000 Sylvania lamps would never be turned off (as an economy move!)—and that the heat from the lamps and ballast was being recirculated to save costs. Lighting was at 100 footcandles or more.

Mr. Stein analysed the situation as follows. As originally designed the building would consume 8,760,000 kwh per year—but if one assumes that the office is used only 10 hours a day, 5 days a week, then 6,136,000 kwh (70%) is wasted. On the question of saving lighting costs—if flourescent lights are left on continuously (as opposed to being turned off after 10 hours) the bulbs will last 33% longer—but a bulb that burns 13,300 hours without interruption will last only 1½ years while the same bulb, turned on 10 hours a day, 5 days a week, with a reduced bulb life of 10,000 hours, will last about 4 years! So the cost of replacement lamps drops materially (60%) on a per-year of cost basis.

100 footcandles were maintained in aisles, over banks of files, etc.—this is enough light to be able to read a 5th carbon (who, in the days of photo-reproduction uses a 5th carbon anymore?), or 10 times the light required to read an original. A further 55% reduction appeared possible through reducing the lighting level to 50 footcandles, with spot lighting added as required—or a savings of another 1,561,000 kwh. If selecting switches are added for infrequently used areas, another 605,000 kwh could be saved.

In the end, Mr. Stein estimates that 7,800,000 of the original 8,760,000 or 89% of the proposed electrical usage was unnecessary. At 2¢ a kwh that comes to a potential $156,000 cost savings—not counting the savings on bulbs which will last 4 years instead of 1½. (In fairness to Kresge—who must have been aghast when they received their first power bills—they subsequently eliminated the 24 hour-a-day lighting and added selective switches.

In addition to the savings in electricity for the lights, each 2 watts of lights requires about 1 watt of electricity for cooling. Thus added to the estimated savings of 7,800,000 kwh, there could be an additional 3,900,000 kwh savings (at 2¢ this would equal to $78,000) in electricity for cooling—plus a savings in original investment in air conditioning.

If someone suggests that you use electric heating, Mr. Stein points out that it takes twice as much fuel oil to produce the electricity for heating—as it would to heat with fuel oil in the first place. But electrical heating is often suggested by the tremendous advertising of utilities—and encouraged because of lower initial cost.

Energy usage could be cut materially if buildings were better insulated (and part of that might come from reduced glass surfaces or use of shades, double glazing, and/or protective walls), or allowing windows to open (reducing the need for air-conditioning in cool seasons just to offset body and lighting heat). Grouping of lights on a single switch can be changed from the cheapest layout (a row the length of the building) to permit selective use of lights. In the case of stores with backless display windows, there may not be need for lights during daylight hours in the 30' - 40' area behind the windows.

RThought: Mr. Stein points out little things we retailers should know. The overhead reading lights in airplanes we travel in or on the sewing machines we sell are perfect examples of "spot lighting," using much less electricity. The ice house that Eskimos use, despite being built of ice, is kept comfortably warm with a small wick of reindeer moss burning in a little melted blubber.

A number of sources of energy existing in a store can be utilized rather than wasted. Some shopping centers have installed plants that generated electricity locally, with the public utility power being used on a standby-basis. Such systems could use the waste products generated in the store or shopping center. The waste could be used for heating or for operating electrical generating equipment. Heat extracted from the buildings in warm weather or just from body heat could also be used to produce electricity.

Not all air-conditioning or heating equipment is equally efficient in converting input (gas, oil, coal, electricity) into output (tons of cooling, btu's of heating, kwh of electricity). The manufacturing associations—under pressure from the government and others—are developing guidelines for disclosure of this information on more and more products, both consumer durables and commercial products.

RTip: If you are interested in identifying people seriously interested in the analysis of what architects can do to reduce energy use (like designing a store with lower energy requirements) the same issue has an excellent list of energy research organizations.

A CLEAR CUT GUARANTEE

An RT reader has been kind enough to send in the guarantee issued by Pacific Stereo, a division of CBS. It is quoted here in its entirety:

"Pacific Stereo does herein give its word of honor to whomsoever possesses this music system guarantee that they shall be treated very nicely and that for five full years from the date of purchase of a music system, they will pay not a cent for parts found by Pacific Stereo to be defective, and for three years from the date of purchase they will not pay a cent for repairs done at Pacific Stereo. For exclusion, see the fine print below.

"FINE PRINT

"Pacific Stereo's guarantee does not cover the diamond needle in a record player, or the heads in a tape recorder except for 90 days, and it doesn't cover equipment that has been kicked, beaten, violated, or otherwise misused."

(Note: the words "FINE PRINT" were printed in all-caps and bold-face, and words following "FINE PRINT" are in the same type size as the first statement.)

IN THE SAME MAIL—ABOUT TANDY CORPORATION

Tandy Corporation distributed a talk given by Charles D. Tandy, Chairman and CEO of Tandy Corporation, before the Tokyo Security Analysts. The talk mentions the history of the company, starting with Tandy Leather shops—which reached 260 outlets in 1973, and Radio Shack, which exceeded 2,600. Stress was placed on accounting controls, multiple expense centers, daily reports, 3,000 individual P & L statements; and on management people and training. Not a single word was mentioned about activities such as Leonards Department Store or Mitchell's junior department stores.

In the same mail RT received a copy of the Kidder, Peabody Research report on Tandy, giving the details of the sale of "deficit-ridden Leonards Department Stores" to Dillard Department Stores—and the ultimate liquidation of the Mitchell's junior department store group. Leonard's posted a pretax loss before parent overhead of $2.1 million and Mitchell's one of $2.3 million for the year ending June 30, 1973.

Now put all of this with what Tandy disclosed in their annual report for the year ending June 30, 1973. Tandy disclosed "general retailing" as one of four major marketing groups with annual sales of $63.2 million and a loss of $4.1 million "before income taxes, interest costs, and certain general administrative expenses." Neither Mr. Tandy nor Mr. West, the President, saw fit to make any special mention of this in the letter to shareholders.

In the body of the report the following key comments are made:

"General Retailing Group: ... consist of four divisions ... 99 retail outlets ... 12% of consolidated Company sales ... progress was made toward restoring profitability of the Group following its rapid addition of outlets over the past 3 years."

"Leonards Department Stores ... 4 full-line department stores ... (r)etail grocery sales were discontinued ... Auto Centers ... now administered separately. ..."

"Mitchell's ... junior department store operation ... neighborhood shopping centers ... 74 stores at year end, an increase of 63 units in the past 48 months ... expansion was slowed during the past year, while management emphasis was placed on development of profitability."

Kidder Peabody reports that as of December 20, 1973, all but 9 of the 74 Mitchell units have been sold and remaining stores will be sold or closed. (Note: this action must have been underway as of September 5, 1973, when Price Waterhouse signed off the annual report but nothing was disclosed. The pre-opening expenses of the Mitchell stores had been deferred and amortized over 60 months—**the stores did not last long enough to amortize the pre-opening expense!)**

RThought: When all of this is put together, one understands why investors are staying away from the stock market. The annual report, and even the statement made to the analysts in Tokyo, are hardly a model of openness and complete disclosure.

The failure of Price Waterhouse to comment on any steps being taken to liquidate the Mitchell's store group as of September 5, 1973 creates the impression that all of this was accomplished between September 6, 1973, and December 20, 1973, the date of the Kidder Peabody report. We can borrow from the Wall Street Journal their statement on Nixon and Watergate "... makes it hard **not** to believe a coverup is still in progress."

RThought: In the middle 1950's I had the opportunity to visit Leonard's in the days when they dominated Fort Worth. As a privately-held company they used to smile when Rich's proclaimed that they were the largest store in the Southeast—because Leonard's did more than Rich's. I was impressed with several cardinal rules. First, the buyer was king—his incentive compensation plan was never changed unless he was promoted. There were several buyers who made $40-50,000 a year, consisting of $5,000 salary and the balance in incentive pay. Second, they kept a single copy of the MOR in a safe in the general manager's office and claimed they would fire any buyer they found looking at or using the MOR figures.

WHICH TYPE OF RETAILING WILL GROW FASTEST?

The U. S. Department of Commerce has recently released their annual publication "U.S. Industrial Outlook—1974—with projections to 1980." Included in these projections are minimum and maximum compounded annual growth rates for the period 1971-1980 by type of retail outlet!

Type of Outlet	Compounded Growth Rate 1971-1980 Minimum	Maximum
Total retail trade	6.5%	7.0%
Department stores (includes discount stores)	8.9	9.7
Variety stores	6.6	7.0
Grocery stores	6.3	6.5
Men's and Boy's apparel	2.9	3.3
Women's apparel and accessories	3.5	3.8
Furniture stores	6.0	6.5
Household appliances	6.0	6.5
Drug stores	6.0	6.3
Restaurants and bars	6.3	6.9

SHORT SHORTS

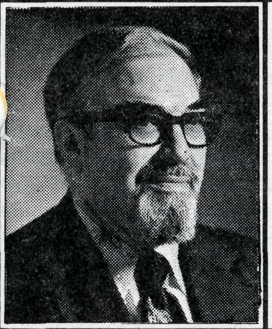
Digging up consumer complaints. The City of Cleveland's Office of Consumer Affairs has converted a bus into a Mobile Complaint Unit, transporting a professional staff boasting fluency in 18 languages. The brilliantly painted (11 "vibrant flourescent colors") bus must stand out in any neighborhood.

When to forget inflation? When talking to financial analysts. At least, that is what Marcor President Edward Donnell did when talking to the New York Merchandising Analysts Group on November 20, 1973. Marcor was so pleased with the following statement that they printed it in the Third Quarter report: "When Wards started its expansion program in 1958, store selling space was producing $55 sales per square foot. Even though sales have increased to $100 per square foot in 1973, we have added additional capacity potential yet to be realized in existing stores." RT does not have the product-line breakdown of Ward's sales but a rough approximation of price increases since 1958 would be 40% to 50%—which means that the $55 in 1958 would be the equivalent of $77-$82 in 1973. Thus, 15 years of effort produced on the order of 23%-30% improvement in actual space productivity, and not the 82% implied.

Many retailers are concerned about the rising number of personal bankruptcies. This is often attributed to unwise buying—people buying things that they don't need. But is there any retailer who tries to sell only those things that people actually need? Is there any retailer who asks the purchaser of a colored TV set if they couldn't get along just as well with a black-and-white one? Is there a car salesperson who suggests the lower-priced model? Is there a fur coat salesperson who asks "Do you really need this?" It seems to RT that retailers are the one segment of business that should not object to people buying what they don't need—their profits may well depend upon the sales to people who buy what they don't need but still manage to pay for it.

WORDS TO MANAGE BY

Sam Kline of the Kline-Kinsler buying office in Los Angeles was kind enough to pass on a brochure from Target Stores (Dayton-Hudson) which clearly sets forth their policy: "If you are not satisfied with something you bought here, please return it, and we will fit it, exchange it or cheerfully refund your money. We want you to be satisfied."



RETAILING TODAY

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

ROUTE TO

Published Monthly. $12 per year.

FEBRUARY, 1974 VOL. 9 NO. 2

HOW TO PLAN PAYROLL IN AN INFLATIONARY RECESSION

The secret to improving profits in the face of rapidly rising prices is to change the method of controlling payroll costs.

Too many stores plan for a payroll percentage that is based on some historic relationship or published trade average or a "gut feeling" by management. This magic percentage is used for two purposes: to compute the amount of payroll allowed; and to see if performance is according to plan.

This works fairly well when prices are increasing by 2% a year and pay rates are increasing by 5% a year (cost-of-living plus a 3% productivity increase). But it won't work when prices are increasing by 15% (as suggested by the retail experts at Lehman Bros. in a recent interview) and pay rates are increased by 8%–the general increase in the cost-of-living.

Let's look at what happens. If we assume that a store historically has operated on a 10% payroll and it did $100,000 volume last year, what will that store allow if they plan for $110,000 volume this year and 8% higher pay rates?

The normal plan would be $11,000, which when deflated by the 8% ($11,000/1.08), shows a real dollar increase from $10,000 to $10,185. However, the $110,000 volume when deflated for the price rise ($110,000/1.15) shows a real dollar volume of $95,652 or 4.3% less! Thus, the traditional methods will produce a 1.85% increase in man hours to handle 4.3% less physical volume–hardly the way to increased profits.

There are several better approaches. For example, deflate the projected sales volume by the price rate increase (published information lags a bit but your merchandising division should have a current feel for what is happening) before applying the traditional payroll percentage.

If this seems too complicated, take the great short-cut method that will work fairly well. If you formerly used 10% as the allowable payroll and you now expect a 15% increase in prices but have only an 8% increase in pay rates, then take the difference of 7% (15%-8%) and reduce the 10% rate by this amount–thus ending up with an allowed payroll percentage of 9.3% [10%-(.07 x 10%)].

These are the facts–it is just a question of whether or not you are going to recognize the facts when planning payroll.

RETAIL MERCHANTS–THE ENERGY SAVERS

In California, the Broadway Shopping Center (Walnut Creek) seized the energy crisis to push a program limiting store openings at night and on Sunday. The Menswear Retailers of America went even further and proposed "that all retail stores, except food and drug outlets selling less than 5% non-food and non-drug items, be limited to 9 opening hours daily and be required to remain closed on Sundays." Both have a large number of supporters.

It seems that everyone is willing to cut hours out of the other guy's natural business pattern–in the name of energy saving.

No one has asked the key question–in view of the heavy Sunday shopping within a shorter than normal day–shouldn't we really suggest a Tuesday closing and a mandatory Sunday opening from noon to 5 p.m. if we really want to save energy?

A MATTER OF ETHICS

Retailers are making every effort to reduce their consumption of energy so that the economy of the United States can adjust, with a minimum of disruption, to the reduced supply available. Under such circumstances it must grate many people to listen to the well rehearsed chorus of the oil industry which, on a number of points is less than honest.

RT would like to comment on three points–two on which there are dishonest statements: and one where there is silence.

First, the "chorus" says the reason why supplies of heating oil are above those of last year is that this winter has been unusually mild. Our checking with long-range forecasters indicates that the mild weather is no surprise. This information was offered to the energy czars long ago–but rejected.

Second, the "chorus" expounds that during the past decade their return on investment has lagged behind manufacturing companies. They fail to mention that "generally accepted accounting principles" for oil companies are not comparable with those for manufacturing firms. All costs of exploring for oil are expensed when incurred; and no balance sheet asset is created. For a retailer or manufacturer to be in a comparable position they would have to expense all expenditures for the acquisition of inventory–and show no inventory on their balance sheet. This would reduce the return on investment for manufacturers substantially below that of oil companies.

And finally, the point on which the "chorus" is silent most oil companies report all or most inventories on LIFO instead of FIFO (this is not true of most manufacturing companies). The 4th quarter and 1973 year jumps in profits were despite writing-off higher current prices paid for oil.

No one appears concerned about businesses that depend upon being open when others are closed–such as the convenience stores. The conventional stores are perfectly willing to sacrifice all other retailers except themselves. One must realize that there are practically no food stores left that sell less than 5% non-foods. When 90% of the homes have refrigerators, why does any food store have to stay open? Incidentally, closing food stores won't materially change the energy need for frozen food cases and coolers–without which food will spoil (called waste).

RThought: if we believe at all in competition, why not specify the amount of energy each retailer must save–and let him figure out how he wants to do it? If he has to cut energy by 30%, he may want to open at 11 a.m. or close on Tuesday or turn off almost all the lights. If someone else wants to leave their lights on and close on Sunday, that should be his privilege. It doesn't seem to make any difference to an energy-short country as long as each merchant comes up with his set share of the energy reduction.

CORRECTION

RT wants to thank W. J. Thompson of the Legal Division of Montgomery Ward for drawing our attention to an error in the September 1973 RT. We said, "Finance charge rates were cut in a number of states (Alabama, Iowa, New Hampshire, Tennessee), usually to 12% but some to 10% (1% or .83% per month)." We should have said "Legislation is in process to cut finance charges in a number of states . . ." Mr. Thompson points out that this legislation did not pass–and that in 1973 "**no** state enacted a law cutting retail finance charge rates."

The industry probably does not fully appreciate the work done in this area by the 3 national department store chains–Wards, Sears and Penneys. All three have a special task-force that moniters all states, responds to all actions, and strongly presents the position of all retailers. There has seldom been a class action suit that did not involve 1, 2 or all 3 of these firms. The local firms caught up in such actions benefit greatly from the skill and experience of these three firms.

RThought: 1973 was successful. But the pressure to use legislative means to reduce finance charges continues. RT has long thought that in states where a rate of 1½% is allowed on balances about $400 (a good number of states) retailers should look carefully at the revenue lost if a lower rate is allowed above $400. $400 exceeds the average balance on revolving accounts in practically every store. A structure of 1½% to $400 and 1% above is much easier to defend that 1½% to $1,000 and 1% above. Why fight for the right to collect charges you are never going to have the opportunity to bill?

CLARIFICATION

A reader pointed out that the January 1974 RT contained an offer by RT (the first such offer) of an additional report–an analysis of the 1974 outlook for apparel and department stores prepared for California clients, and in the same issue RT criticized magazines that are now using their staff to prepare special newsletters with information not published in the magazine and thus not available to the subscribers whose support made the staff possible in the first place. He felt RT was inconsistant.

There are three points to make in my defense. First, I criticized 80 to 120 page magazines for not making a 4 to 8 page newsletter available within the magazine; in the case of RT, it was a 13+ page report that could not be included in a 6 page newsletter. Second, the RT report was offered openly and equally to all readers. Third, the report was a product of service rendered as a business counselor to retail clients, and not as a product of the newsletter.

THE GROWING MILITARY RETAIL MARKET

In 1973, we were in our first months of peace in more than a decade and were trying to establish an all-volunteer army. The number of people in the military services was declining.

But you could not tell that from the sales of the military's retail establishments. For the first 8 months of 1973, exchange sales were even (there was a decline in the Army and Air Force exchanges, offset by significant increases in the Navy, Marine and Coast Guard) and the commisary sales (equivalent to supermarkets) were ahead 14.9%! The grand total was $3.7 billion for an increase of 5.8%.

The operators of these establishments are just as oriented toward "beat last year" as are any other merchants. They get help from organizations like the Reserve Officers Association of the United States who have a formal policy of seeking legislative authorization for unlimited exchange privileges for reservists!

In case you think the merchandise offered is limited to convenience goods and minor items, try to arrange a visit to the Andrews Air Force Base Exchange (in Maryland, near Washington, D.C.) which has a music center with the top hi-fi lines, a complete sporting goods department, hardware, paint, automotive supplies, yardage, patterns, and more, all in some 38,600 square feet of space.

RThought: it is unfortunate that Maryland lacks civilian retail facilities capable of serving the military.

DOES RETAIL ADVERTISING EVER CHANGE?

RT has recently received a reprint of the first issue of **The News** published in Adelaide, Australia on July 24, 1923 (the middle of winter). Let's check a few of the retailers and see how much has changed with 50 years and 8-10,000 miles.

Craven's Drapers of the Moment: "We want to tell you that Mr. J. Craven has completed his immense London Purchase of New Goods £70,000 WORTH. Shipments have started to arrive and to provide room for them we must CLEAR ALL STOCKS. Therefore, in your own interests, WATCH THIS SPACE."

Dunlop Golf Balls: "The **Blue Dunlop** Golf Ball combines all the essential features–Distance, Durability, Control, Steadiness, Responsiveness and Impact Comfort."

Lever Bros.: "LUX–Famous blanket manufacturers recommend Lux because the thin Satin-like flakes dissolve instantly and so thoroughly that no particle of soap remains to stick to the wool and yellow or rot it."

Eyes & Crowle Ltd.: "BUICK The Standard of Comparison."

Moore's: "Far Ahead For Value. GREAT WINTER SALE. Prices set a new low level record."

John Martin & Co., Limited: "Where Your Money Goes Farthest"

Birks–The Good Value Store: "Nearly 60 years ago Mr. Charles Birks laid the foundations of this business in Hindley Street. He realized that to be an enduring institution it must be based on a definite plan, that plan one of QUALITY, VALUE AND SERVICE."

Mann's Motors, Limited: "Chevrolet–The New Superior Chevrolet has become the world's standard of economical transportation."

THE HYPERMARCHE IN THE U.S.A.?

It is time for every retailer to place on his wall the following quote from philosopher George Santayana:

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

For retailers, the past does not have to be very far past—because a retailer's memory is very short.

Retailers should be interested in the following footnote taken from the 1972 Annual Report for Steinberg's Limited: "Sundry investments include a minority interest (49%) amounting to $973,000 in Supermarchés Montreal, a French company which currently operates four stores in the Paris area. Steinberg's . . . has also guaranteed loans . . . up to a total amount of . . . approximate equivalent of $1,720,000. To February 28, 1972, this company has incurred gross cumulative losses of $4,155,000 . . . (Steinberg's) share . . . amounts to $2,036,000 exclusive of future tax reductions. **No reduction in the book value of the investments has been made to reflect these losses.** Subsequent to July 29, 1972, the company made arrangements for the sale of its interest . . . at approximate cost . . . and for removal of its guarantees . . ."

The narrative section of the 1972 report which is not subject to review by the auditors, tells a different story: "Sales of these units have been exceptional from the beginning; however, profitability has not kept pace with sales . . ." (Note: can $4,155,000 in losses be described as "profitability"?) The 1973 Annual Report is silent on the entire matter and the section of the balance sheet reflecting investments has changed so that it is not possible to trace what did happen on the final disposition.

Enough of the sad story of Steinberg's encounter with hypermarchés. Let us look at the present situation. The first hypermarché has been opened by The Oshawa Group in a suburb of Montreal—some 267,000 square feet consisting of 42,000 in foods, 105,000 in general merchandise, and 120,000 backroom space. Paris-based Carrefour is now scouting for locations in the United States but plans to start with 150,000 square feet instead of 250,000 square feet they are operating in Europe. Operators of other types of retail outlets are being asked their opinion of hypermarchés and their impact on the American scene.

Carrefour professes to operate on a gross margin of 11% to 12% (compared to a reported typical margin in small stores in France of about 25%). Food is a very large part of the volume—so it is difficult to interpret this figure.

The principles behind the hypermarché are:

1. Low cost physical plant
2. Large inventory
3. Assortment limited to fast turning merchandise
4. Great buying strength
5. Limited sales service
6. Low margin or profits

But these are the very same principles upon which the following types of business were originally established:

1. Department stores in 1880-1900 in France and the United States.
2. Big Bear, Big Wolf and other supermarkets in empty textile factories in New England in the 1930s.
3. Ann and Hope and other discount stores in the 1950s.
4. Discount food departments in discount stores in the 1960s.
5. Levitz Furniture warehouse salesrooms in the 1960s.

Yet all of these "concept" types of retailing have run into problems—and the glamour has disappeared from most of them.

It is only fair to ask of these faded "concept" retailers, "Why?"; and it is relatively easy to answer "Competition under the free enterprise system."

There are no proprietary formats in retailing.
You cannot keep your method of operating a retail business a secret. If you are successful and thousands of customers flock to your stores, your competition will come to look, right along with your customers.

When department stores first started they operated on a 20% gross margin vs 40% for specialty stores, they offered less service, they carried only the fast moving items, and they sold only for cash. 60 years later, the discount stores used the very same concept to challenge the department stores, which then had changed to match the specialty store's-service-cost-assortment-credit pattern.

The problem is not how to make a success of the first store of a new type; it is what to do when the second and third new "concept" stores arrive. Because the evolution of discount stores is within the recollection of many now in retailing, let us use it as an example.

The first discount store in town did not have to advertise—it got all the advertising it could use through word-of-mouth. Much of the publicity was contributed by the conventional stores proclaiming that discount stores would go broke because their prices were so low and they didn't know their costs. The more rustic the discounter's physical plant, the greater the image of savings.

Let us assume that the first discounter worked on a 20% gross. When the 2nd discounter opened (excited by the success of the first) it had to figure out how to attract customers from the first store. The second knew that cutting its gross to 19% would not do the job—so it decided to spend 2% instead of 1% on advertising. It got some business from the first store . . . but if it located away from the first store it probably got more of its customers from conventional stores.

The third operator knew he was going to have to spend 2% into advertising—but he, too, knew that cutting his gross from 20% to 19% was not going to pull business from the other two—so he decided to appeal to the women shoppers by providing a better physical plant. He decided to spend 3% instead of 2% on occupancy!

By now the first store was feeling the pinch—growth may have been cut from 50% to 20% a year! To meet this new competition it must now start advertising more and must spend money to fix up his plant. Number 2 has to fix his plant. And soon some of the bloom was off the discount business.

In the meantime, the competition (i.e., pressure from customers) was working in another way. The domestics department originally carried only white sheets because this was the fastest moving color. One day a customer asked for pink sheets and the manager carefully explains: "Lady, the principle of a discount store is that we save you money by bringing you only the fast selling items, at the lowest possible price." But when the lady answered "Well, I think I'll go visit the Number 2 discount store because I heard they were carrying pink sheets," the manager suddenly remembers "My pink sheets will be in tomorrow!" As this cycle rolled on and on, the discounter was forced by competition (i.e., consumer demand) to carry more and more slow moving merchandise. Suddenly the discounter could not operate with an inventory that turns within his payment terms, thus ending the days of negative working capital and "the more you sell, the more cash you have." The financial pinch had begun.

But this is not the only form of competition. In the first discount sporting goods departments there were no clerks–just people who said "go down to the full-price sporting goods store, check out all the shotguns you are interested in, then come back and tell us the model number and we will save you a bundle of money." That is, they said this until the time a customer said, "I think I'll go over to discounter Number 3–I understand he has a salesclerk who really knows shotguns and he can explain it to me right there."

Soon the "everyday low prices" were not so very low. They looked even higher because the "conventional" stores were not completely stupid. They selectively cut prices on key items to meet discount competition. On one of the increasing number of slow days the merchandise manager and advertising manager of the discount store suddenly had an inspiration–"Why not run a sale this week-end and boost business?" So they cut some of the "low everyday prices" to get traffic away from the conventional stores who regularly have sales pulling lots of people to cuts from their "high everyday prices." The discounter now knows that many customers love a savings, even if the "sale price" is still not the lowest price in town.

As we look back on the original "concepts" (of department stores, supermarkets, discount stores, furniture warehouses, hypermarchés) we see fancier stores replacing simple ones, greater assortments replacing limited ones, increased clerk service, more credit available, more advertising–about the only fundamental principle remaining is "low margin of profits" and in too many cases the profits have turned to losses. And these losses are experienced despite increases in gross margins–in many cases approaching that of the retailer they profess to undersell.

RThought: RT can see no reason to predict any other pattern for the hypermarché. The first such outlet in any area is likely to be successful, given competent management. This will be particularly true if the press continues to print articles fantasizing the potential savings offered by hypermarchés. But the same publicity will also bring competition–and with the tremendous number of publicly held retailers trying to boost their price-multiple, one can anticipate fast entry into the field of enough firms to guarantee failure for the majority. The final agony will come when the capitalized pre-opening expenses have to be faced up to–and that will be followed by a new series of entries on annual reports called "Loss on discounted operations."

A FEATURE REPORT

DO ENOUGH STORES USE RACK JOBBERS?

"Rack Jobbers" is probably a better recognized name than "Service Merchandising." The confusion in this field is underlined by the name of a publication that serves these businesses–it calls itself "Non-Food Merchandising"!

Yet, there is much information about this source of supply that could benefit retailers. "Service Merchandising" (their choice of trade name) is a $2.5 billion business consisting of about 800 firms each doing about $3.2 million, and serving about 400 outlets. Most of the $2.5 billion–about 75%–goes to food stores (either supermarkets or convenience stores).

But the industry also reaches thousands of drug, student, and discount stores.

A special report prepared by **Non-Foods Merchandising** shows dollar sales by type of outlet:

Type of Outlet	Volume (000,000 omitted)
Supermarkets	$1,244
Convenience Stores	233
Other food outlets	455
Drug stores	127
Student stores	19
Discount stores	281
Miscellaneous	8
Owned outlets	196

From another report one can see the importance of service merchandisers by types of merchandise:

Type of Merchandise	Annual Volume (000,000 omitted)
Health and Beauty Aids	$1,006
Notions	15
School supplies	111
Soft goods	112
Housewares	334
Hardware	8
Toys	38
Pantyhose	44
Ladies hose	16
Pet supplies	230

Most retailers in the GAF (General merchandise, apparel and furniture) segment, plus many who fall in the specialty category (book stores, jewelers, camera shops, sporting goods, etc.) operate on the premise that they have "buyers" who do all of the buying, usually direct from the manufacturer, though in some cases through jobbers or wholesalers. This pattern is the result of habit and custom, not of analytical thought.

Many retailers who could make more money by using wholesalers despite the lower initial markon (but less inventory investment, faster turnover, more complete stocks, guaranteed return, training assistance for salespersons), do not even consider such sources because they automatically equate "higher initial markon" with "higher dollar profits." It is astonishing how fast those extra markon percentage points can disappear when money costs more than 10% per annum, and all markdowns are your own rather than that of a rack jobber who offers return privileges.

Yet, the same merchants who operate in the GAF and Specialty store classifications recognize the advantages of specialization. They lease out to "specialists" their shoe, jewelry, book, and other merchandise departments, and their beauty shop, optician department, travel agencies and other services.

RThought: there are a number of other merchandise areas that lend themselves to the "rack jobber" approach. For example, consider such categories as camera film combined with same-day development service, limited assortment greeting cards, quality and/or imported gifts, posters and giant pictures and adult games.

There are many retailers who could allocate moderate amounts of space to such ventures–with an improvement in overall store profit: department, apparel, furniture, hardware and building supply stores, and even such unexpected outlets as chain restaurants and fast food operations (who often let someone else handle the cigarette machine).

T.M. Burke, The Real Estate Salesman: "920 acres of Adelaide and Suburban Land subdivided into 3,570 Building Allotments. Terms: £10 Deposit per Allotment and balance at rate of £1 per month."

A. Simpson & Son, Limited: "Simpson's 'Economic' Steel Ranges mean perfection in cooking and are the greatest fuel savers ever introduced into the Australian kitchen."

NO ENERGY CRISIS AT SEARS

One wonders about the common sense of even the largest retailers. The same week that California's Governor implored the citizens to voluntarily reduce their use of electricity, Sears went on the radio with extensive spot announcements of their great pre-summer layaway sale of air-conditioning units. "Save $11 to $50," "Layaway to April 15th with no payment at these pre-season prices."

RThought: Certainly retailers will continue to carry energy using items and certainly customers will continue to buy them. But one wonders about special promotions in the midst of the greatest energy crisis in modern times—and in a relatively moderate climate where air-conditioning is not required or used in most homes. RT is certain that with just a little research one could find public statements attributable to the top management of Sears extolling their cooperation with the President in reducing the use of energy.

THE PLUMBERS AND OUR PROTECTION DEPARTMENTS

RT suspects that protection departments in retail establishments are subjected to the same kinds of pressures as those placed on "the plumbers" in the White House. The department is basically charged with the responsibility of protecting the assets of the company—and all losses are held against them; yet, the department is subject to many restraints as to the procedures they can use.

More and more protection departments are using sophisticated equipment—two-way radio, hidden cameras, TV scanning—in addition to the old techniques of plainclothes operators, outside shopping services and undercover staff.

But a warning went up in San Francisco in January when the Director of Security for Macy's of California was indicted by a Federal Grand Jury for illegal interception of telephone communications, a violation of the Omnibus Crime Control Bill. The offense carries a penalty of up to 5 years in prison and/or a $10,000 fine.

RThought: The U. S. Attorney said that an indictment was not brought against the corporation because you cannot put a corporation in jail (indicating his thoughts about the outcome of the prosecution). But one should remember that officers of a corporation can be held responsible for approving illegal acts. And, of course, the pending civil suits against Macy's would be greatly helped by a conviction on the criminal charges arising from the same event.

THE DISAPPEARING DIFFERENCE

In February 1970, RT had a Feature Report entitled "The Discount Store vs The Department Store" in which it pointed out that when looked at department by department, the discount store figures, as reported in the Cornell report, were beginning to look like the MOR figures for department stores. At that time RT wrote: "Within the next decade the margins of discount operators will continue to rise faster than those of conventional stores—just as the margins of department stores rose relative to those in specialty stores (in the period following the department store's major growth in the 1920s)." RT also predicted that someday someone would find an empty 150,000 sq. ft. building at a low rent, and decide to go into business on a 20% gross margin for general merchandise, but his problem would be picking a name—since department and discount store had already been used! (It looks like the name will by "hypermarches").

In July 1970, under the heading "Decadence in the Discount Store Industry," RT said, "The early signs of decadence are springing up all over the place. Ossification of the original thought process is bound to follow the adoption of a standard accounting manual—the entire birth of the discount industry could be traced to worship by traditional retailers of the Standard Accounting Manual, the MOR, and the FOR, plus measuring everything as a percentage of sale." The point that RT was stressing was that Standard Accounting Manuals start everyone thinking about a problem in the same way—while early discounters had analysed their retailing efforts without such restraints and thus had come up with better methods of retailing—moving merchandise at a lower cost and thus enabling a lower price.

In February 1972, RT published a Feature Report—"The Disappearing Difference"—which made a detailed 5-year (1966-1970) study of the figures for department stores as shown by the FOR (Financial and Operating Results of Department and Specialty Stores) published by the National Retail Merchants Association and the Cornell Report (Operating Results of Self-Service Discount Stores) sponsored by the Mass Retailing Institute.

Thus it was satisfying to read the **Discount Store News** headline of January 14, 1974, "'Markup Gap' Is Narrowed 'twixt Discounters, Old-liners" and to report the continuing trend which RT first chronicled.

RTwit: RT would not want anyone to think that it had any particular predictive power. RT has always recognized the truth of George Santayan's admonition "Those who cannot remember the past are condemned to repeating it." RT is aware of retailing history and there is absolutely nothing new in what is happening to the disappearing difference between conventional and discount department stores. It was all laid out and documented in the February 1970 RT—as it had been documented a number of times in talks during the prior 10 years (See this month's "Feature Report").

INTERESTED IN CARPOOLING? USE CARPOL!

The Federal Highway Administration working with the Southern California Regional Information Study of Los Angeles County has developed a computer program "CARPOL: An Approach to Large-Scale Carpooling Using DIME Technology." The program is suitable for large-scale programs and will fit the GBF/DIME files existing for most major metropolitan areas. The program is written in FORTRAN IV and can be implemented on an IBM 360 with 80K bytes of core storage under IBM OS. The program is available on a single reel tape for $70 from the Users' Service Staff, Data User Services Office, Bureau of the Census, Washington, D.C. 20233. The documentation is available separately for $3.00. For information call (301) 763-7533.

MORE RETAILERS THINK LEGISLATORS ARE STUPID

Convenience Store News (1/11/74), reported that the Retail Grocers Association of Arizona (RGAA) is supporting a proposal that residents receive either a credit against their income tax or a rebate (if no state income tax is owed) rather than having food items exempt from sales tax. The article quotes the Association as warning "separating tax-nontax items would increase checkout time by more than 30%, which could also add as much cost to your bill as you save on taxes."

RThought: Let's look for a minute at the two parts of this statement–that checkout time will increase by 30% and that the extra cost incurred (and added to prices) to cover this time will equal the savings on taxes. RGAA must assume that Arizona legislators have never been through a checkout line. There is also the assumption that no legislator has ever visited a nearby state, such as California, where such items have been separated at checkouts for years. And finally RGAA must assume that there is no interchange between various states on the problems of different methods of imposing taxes. Thus RGAA, in total disregard of obvious truth, asserted that sorting taxable and non-taxable merchandise will increase the length of time of checking out by 30%. The common understanding of "checkout time" is the time starting when the cashier starts to ring up a customer's merchandise and ending after the merchandise has been paid for and bagged. There is no way possible that the proposed differentiation of taxable and non-taxable merchandise can increase this time by 30%.

Next, there is the question of whether or not the actual increase in time, if any, would warrant an increase in prices enough to offset the tax savings to the customer. Arizona has a 3% tax rate and if this statement is true it means that roughly 1/7th of total cost of doing food business in a supermarket would be involved in this separation–since the Cornell Report shows food chains have an expense rate of about 21% for everything store rent, advertising, buying, warehousing, marketing, all salaries, supervision, property taxes, and on and on.

RTenet: If one business association tries to bamboozle a legislature, it causes problems for all business associations; if one retail association makes doubtful statements to a legislature, it casts doubt on the statements of all retailers; if businessmen are not forthright and honest with their government, how can they ever expect employees, students, consumers and citizens at large to be honest with them?

A WORD ABOUT THE DOW-JONES AVERAGE

I suppose that the most important measure of one's health these days, after assuring one's self of a body temperature reading of 98.6°, is the level of the Dow-Jones Industrial average (DJIA). Financial World recently published an interesting analysis of the DJIA. If all 30 stocks had hit their Post-WWII low point simultaneously the DJIA would have been 188–while if they had hit their high at the same time, the figure would have been 1,506. If one considers the lowest price for just the past 20 years the index would have been 316; and based on the past 10 years it would have been 514.

But the interesting point is that 6 of the 30 stocks in the index (20%) hit their post-WWII high in 1961 or earlier; Aluminum Company of America in 1956; Bethlehem and U.S. Steel in 1959; Allied Chemical, American Brands (formerly American Tobacco) and General Foods in 1961. At the end of 1973 these 6 stocks averaged 50% below their highs of 12 or more years ago!

RThought: One of the ways in which American psychological health could be improved would be to move the decimal on the DJIA one place to the left. Which headlines is the most frightening: "DJIA DROPS 29 POINTS!" or "DJIA DROPS 3 POINTS!"?

NAMES IN THE F.T.C. NEWS

Ancorp National Services (formerly American News Company): assessed civil penalties of $204,200 for violating an FTC order issued almost 10 years ago (April 13, 1964) prohibiting it from knowingly inducing and receiving discriminatory promotional allowances from the three leading New York newspapers–Times, Daily News and Post (note: when the original order was issued there were more than 3 leading newspapers).

RTip: you, too, may be caught in such fines someday. The amount of discriminatory promotional allowances extract by leading retailers is inexcusable–but each retailer defends the practice on the unproven allegation that "all the other companies are doing it." A Federated Department Store spokesman recently gave a talk to bank credit card executives and asked when they were going to develop special arrangements (presumably lower discounts) for national firms.

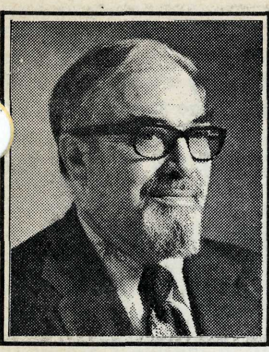
SHORT SHORTS

Carter Hawley Hale, Inc.? Sounds like an oversweetened pipe tobacco that appears regularly on TV commercials. It used to be Broadway-Hale. Let's hope this does not start a trend in retailing. The great names like Federated, Allied, Associated, Mercantile might disappear–and since founders Marshall Field, Wanamaker, Macy, Bloomingale and others are long dead, perhaps they could be replaced each month with a new corporate name drawn from the list of the Board of Directors.

WORDS TO LIVE BY

Geoff Bromfield of Levy Brothers Department Store in San Mateo, California, has been a sponsor and active member since 1968 in a local group called the "Business Leadership Council" (BLC). One of its major projects is the Retail Training Program, a summer program for 20 high school students (with emphasis on minority groups). At a recent BLC luncheon they heard black attorney Roland Porter of the Bank of America express the following credo–Porter said that it "has a very special meaning to me"–it could have a special meaning to you:

> "I do not choose to be the common man. It is my right to be uncommon if I can. I seek opportunity, not security. I do not wish to be a kept citizen, humbled and dulled by having the State look after me.
>
> "I want to take the calculated risk; to dream and to build, to fail and to succeed. I refuse to barter incentive for a dole. I prefer the challenges of life to the guaranteed existence: the thrill of fulfillment to the stale calm of utopia.
>
> "I will not trade my freedom for beneficence nor my dignity for a hand-out. I will never cower before my master nor bend to any threat.
>
> "It is my heritage to stand erect, proud, and unafraid: to think and act for myself, enjoy the benefit of my creation and to face the world and say 'this I have done.'
>
> "This is what it means to be an American."



RETAILING TODAY

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

ROUTE TO

Published Monthly. $12 per year.

MARCH 1974 VOL. 9, NO. 3

IS STANLEY GOODMAN RETAILING'S LEADING HYPOCRITE?

Hypocrite—one who plays a part, pretender, a person who pretends to be what he is not; one who pretends to be better than he really is, or pious, virtuous, etc., without really being so. (Webster's New World Dictionary, College Edition).

In January, Stanley J. Goodman, Chairman of the Board of The May Department Stores Company, addressed the National Retail Merchants Association on the subject, "Raising the Fallen Image of Business." From some of the press coverage, one would consider it the finest single address since Lincoln visited Gettysburg. Here was a leader telling those he leads in his industry that they have to change their ways.

In mid-February, Isadore Barmash of the prestigious New York TIMES followed-up and Goodman reported he was still digging out from under an avalanche of mail. Barmash reported Goodman's concern about the "flurry of recent surveys (that) ... underscored the low regard of the public" for business. In preparation for his talk Goodman "recharged his batteries" by returning to Harvard Business School (far more noted for producing money-making technicians than activists in the area of business ethics).

Goodman, in his talk, had urged retailers to, among other things, subject advertising to internal tests before releasing it for publication. He says that he has been attempting to practice in his own Company the things that he has suggested to others.

RT feels that there are major facets of the conduct of The May Company that are not representative of the standards that Mr. Goodman professes to follow—and suggests that others follow.

RT has previously commented on the misleading manner in which Goodman (and May Co. President David E. Babcock) told the stockholders about their entry into catalog/showrooms. In their signed letter to stockholders the following statement was made:

> "In August we completed arrangements for a 50/50 joint venture with Consumers Distributing Company Limited of Toronto, Canada; the joint-venture will be called Consumers Distributing Company and will make a major entry into the U.S. catalog-showroom field in the Fall of 1973, opening a total of 50 stores in the metropolitan areas of New York and San Francisco. By joining with one of the largest catalog-showroom companies in North America we are in a position to make our entry into this promising new field of distribution both professional and substantial."

Note the terms "50/50", "joint venture" (twice), and "joining with." Now let us see how Arthur Andersen & Co. viewed the same matter as set forth in Footnote 11:

> "A wholly-owned subsidiary of the Company is one of two general partners in Consumers Distributing Company, a general partnership. Subject to the occurrence of certain events which might increase the subsidiary's share of profits, profits and losses of the Partnership are to be shared equally by the partners except that, if the Partnership shall have accumulated losses at any time when profits or losses are allocable, all losses and, to the extent of any such accumulated losses, all profits are to be allocated to the subsidiary. If certain operating guides are met, the subsidiary may be required to lend up to $25,000,000 to the Partnership prior to April 3, 1976, and up to an additional $25,000,000 prior to March 31, 1979, to provide for the opening of catalog showrooms by the Partnership."

Note that no mention is made of any investment by the other partner—and May is obligated to risk $50,000,000 (11% of the company's net worth). In return, May Company gets the pleasure of absorbing all the losses. RT recalls at this time the story of the 50-50 rabbit sausage—1 rabbit to 1 horse. Or perhaps the story of betting "heads they win and tails we lose."

RThought: Does this disclosure dated April 25, 1973, meet the standards expounded by Goodman 9 months later? Does this substantiate Goodman's claim that he has been attempting to practice his suggestions in his own company?

This brings us to an analysis of the ethical standards of the catalog/showroom industry and particularly as practiced by Consumers Distributing (CD).

CD opened their stores in the San Francisco area with full page ads—showing how to read the price in the CD catalog. This included the following statement, "The price at the far right is NOT THE PRICE YOU PAY; it is a suggested manufacturer's list price or one computed under customary trade practices." Is there a reader of RT (other than catalog/showroom operators) who knows how to compute a price "under customary trade practices"? Particularly when price controls are in operation?

In the CD 1973/1974 Buying Guide, with complete disregard for the laws of the State of California, CD proclaims on page 1 "HOW DOES CD DO IT? Here's the inside story. CD's unsecret code shows you penny for penny, dollar for dollar how we can cut the price of buying the best." CD then explains the three sets of numbers—the buying guide number, the coded CD price, and what appears to be a price—but which is headed "This price at the far right IS NOT THE PRICE YOU PAY, it is a suggested manufacturer's list price or the customary trade price."

We then get to the fine print—closely packed, printed black on a blue background to reduce the contrast and increase the difficulty of reading. It is reproduced below in original size:

> **Information Regarding Prices Important Note Please Read Carefully**
>
> **The prices shown in the right-hand column on each page of this buying guide are for reference only, and no representation is made to the effect that any of these prices is the usual or ordinary price at which a particular item is sold.**
>
> **Most of the prices shown in the right-hand column are manufacturers' suggested retail prices supplied to Consumers Distributing. Where manufacturers do not supply suggested retail prices, Consumers Distributing has applied to its cost mark-up percentages based on trade customs (which commonly vary with respect to various types of items) to arrive at a price which it considers to be in accordance with customary trade practices.**

This important notice goes on and on—the length is three times what has been shown and deals with "these prices may vary in different trading areas," "no representation is made," "no user . . . should assume that a savings will be effected or realized," "we have clearly marked the fair traded items" and on and on. In the high ethical standards propounded by the Chairman of the 50% owner, any case where goods are sold by others for less are explained with this statement: "In some cases, other retailers may be selling goods at prices equal to or less than the Consumers Distributing price for the purpose of clearing goods which are end-of-line or stale merchandise, or by reason of their ordinary business practices."

RThought: CD is using the same catalog in California, New York, New Jersey and Connecticut although the laws are different. Panasonic is fairtraded in California but at a price below Panasonic's list price. CD does not disclose this—but shows the list price for comparison and the fair trade price as their selling price. California law requires that one can use a comparative price only when it can be shown that a substantial quantity of each item was sold at the comparative price within the area in which the advertiser is doing business.

RThought: The Better Business Bureau of San Francisco appears to be afraid of The May Company. In their February 1974 "Spotlight" they commented on catalog showroom ads, saying "In our investigation (note: no operator was named) we find the "list" or "retail price" is often a false comparison because the item is not or has not for the preceding 90 days sold at the higher price . . . Such use of phony savings claims is in violation of truth in advertising laws and the FTC guide lines." Unfortunately, instead of indicating action that the BBB will take on behalf of consumers in their area, they warn the consumer to be careful!

The BBB may be right—because CD apparently has shown disdain for the Attorney General of California. When RT checked to see if any action was being taken against CD and other catalog/showroom operators, we were told that an attempt was started months ago but CD failed to reply and that stronger steps would be taken to protect the people of California.

RThought: This brings us to the final thought about CD and The May Company. The May Company, in Los Angeles, would never use the type of price comparisons that CD uses in the San Francisco area. Such advertising methods as CD uses represent unfair and illegal competition, and The May Company in Los Angeles would deplore the practice. But The May Company is smarter than to use these methods where they already have stores—so they picked the San Francisco Bay and the New York City areas, where they have no stores.

RThought: Mr. Goodman is 63 and indicated to the New York Times that he would probably retire at 65 at which time he would like to be a consultant on an international basis. RT will watch with interest how he "consults" with his joint venture where his stockholders have the pleasure of betting 100% of the losses against 50% of the profits—to the tune of $50,000,000.

When Goodman talks about "Raising the Fallen Image of Business" he might mention that The May Company and Consumers Distributing are among those who have pushed it down.

THE VARYING IMPACT OF INFLATION

The national reports show that the Cost of Living has increased by 8%-9% over the past year. Food prices have risen even more—and gasoline prices increases have exceeded those for food. But what was the impact on various lines of merchandise?

The Department of Labor has just released the department price indexes, (for use in LIFO inventory adjustments) covering the period from January 1973 to January 1974.

Merchandise Lines	% Increase
1. Piece goods	15.5%
2. Domestics and draperies	7.5
3. Women's and children's shoes	3.1
4. Men's and boys' shoes	8.2
5. Infants' wear	7.5
6. Women's underwear	3.8
7. Women's and girls' hosiery	2.6
8. Women's and girls' accessories	8.6
9. Women's outerwear and girls' wear	8.0
10. Men's clothing	1.7
11. Men's furnishings	6.1
12. Boys' clothing and furnishings	3.4
13. Jewelry	15.0
14. Notions	6.6
15. Toilet articles and drugs	4.3
16. Furniture and bedding	5.9
17. Floor covering	12.1
18. Housewares	5.2
19. Major appliances	0.7
20. Radio and TV	−0.4
Soft goods only (1 to 15)	6.4
Durable goods only (16 to 20)	4.9
All merchandise lines	6.0

This information should help each retailer to determine the truth of the often-made statement that if you didn't increase your sales by 9% in 1973, you actually lost ground. If you operate a men's store doing 50% clothing—a 3.9% increase held you even. On the other hand, if you operate a fabrics chain, you needed a 15.5% increase to maintain your physical volume.

CREDIT OFFICE RATING

The pressure of Christmas workloads took its toll among the stores covered by this report—although less of a toll from companies with advanced computer systems. There are only 7 stores on the Honor Roll compared with 9 last year.

HONOR ROLL

Gus Mayer (Nashville)	2.3	Montgomery Ward (Houston)	3.0	Joseph Magnin	3.5
Rubenstein's	2.3	Roos/Atkins	3.0	Gus Mayer (Oklahoma City)	3.7
Maison Mendessolle	3.0				

CREDIT OFFICE RATING

Information From Reporters	DEC-JAN 1974 No. of Reports	DEC-JAN 1974 Days to Bill Average	DEC-JAN 1974 Days to Bill Range	OCT-NOV 1973 No. of Reports	OCT-NOV 1973 Days to Bill Average	OCT-NOV 1973 Days to Bill Range
Elizabeth Arden (NY)	1	7.0	7	--	--	--
Bond's (Houston)	1	7.0	7	--	--	--
Breuner's (Oakland)	1	7.0	7	--	--	--
The Broadway (LA)	2	7.0	7	--	--	--
Brooks Bros. (NY)	3	9.7	7-12	5	8.4	6-12
Bullock's (LA)	3	6.3	5-8	3	4.7	4-5
Bullock's (North)	5	7.4	4-12	3	5.0	4-6
Capwell's (Oakland)	8	10.8	6-15	8	7.6	5-10
Desmond's (LA)	2	4.5	4-5	2	4.5	4-5
Dunhill (NY)	1	12.0	12	--	--	--
Emporium (SF)	6	12.2	10-15	4	10.3	9-11
Foley's (Houston)	2	8.5	8-9	1	9.0	9
Grodin's (Oakland)	2	7.0	7	--	--	--
Gump's (SF)	3	11.3	9-13	4	9.3	8-10
Hastings (SF)	1	7.0	7	2	5.5	5-6
Hink's (Berkeley)	3	11.0	9-13	2	8.5	8-9
Joske's (Houston)	2	5.5	5-6	--	--	--
Liberty House (Oakland)	6	7.8	6-9	5	6.8	5-10
Livingston Bros. (SF)	2	4.5	4-5	3	4.0	3-5
Lord & Taylor (NY)	1	7.0	7	--	--	--
Macy's (SF)	12	7.7	6-9	11	6.7	6-7
I. Magnin (SF)	9	4.3	4-5	4	4.0	4
Joseph Magnin (SF)	4	3.5	3-4	2	3.0	3
Maison Mendessolle (SF)	2	3.0	3-4	2	3.0	3
Montgomery Ward (Houston)	2	3.0	3	1	3.0	3
Peck & Peck (SF)	2	13.5	8-19	--	--	--
Penney's (Oakland)	3	5.0	5	2	5.0	5
Penney's (Buena Park)	1	7.0	7	2	4.5	4-5
Ransohoff's (SF)	1	8.0	8	1	4.0	4
Robinson's (LS)	1	5.0	5	3	4.7	4-5
Roos/Atkins (SF)	2	3.0	3	2	3.0	3
Routzahn's (Maryland)	3	6.3	4-10	1	6.0	6
Sakowitz (Houston)	1	11.0	11	--	--	--
Saks (SF)	4	9.0	8-10	1	6.0	6
Sears (Alhambra)	7	4.7	1-6	5	6.2	3-10
Sears (Dallas)	1	5.0	5	2	4.0	4
Shreve & Co. (SF)	3	13.7	11-15	1	14.0	14
A. Sulka (NY)	2	16.5	8-25	2	8.5	7-10
Talbot's (NY)	2	6.5	6-7	--	--	--
Tiffany & Co. (NY)	1	19.0	19	--	--	--
TOTAL	120	7.8	1-25	85	6.3	3-14

Information From Stores	DEC-JAN 1974 No. of Reports	DEC-JAN 1974 Days to Bill Average	DEC-JAN 1974 Days to Bill Range	OCT-NOV 1973 No. of Reports	OCT-NOV 1973 Days to Bill Average	OCT-NOV 1973 Days to Bill Range
Blum Store (Phila.)	8	7.5	--	8	6.6	--
Brock's (Bakersfield)	16	13.6	9-18	16	7.7	5-9
Holman's (Pacific Grove)	10	7.7	4-11	10	6.7	4-11
Levee's (Vallejo)	20	5.1	2-8	20	5.3	4-7
Levy Bros. (San Mateo)	32	7.7	3-12	32	4.7	3-8
Gus Mayer (Nashville)	8	2.3	--	8	2.4	--
Gus Mayer (Beaumont)	8	5.7	--	8	5.0	--
Gus Mayer (Louisville)	8	5.6	--	8	4.2	--
Gus Mayer (New Orleans)	8	8.8	--	8	7.6	--
Gus Mayer (Oklahoma City)	8	3.7	--	8	3.2	--
Gus Mayer (Jackson)	8	6.8	--	8	8.7	--
Gus Mayer (Memphis)	8	10.9	--	8	11.1	--
Gus Mayer (Baton Rouge)	8	4.3	--	8	3.2	--
Mervyn's (San Lorenzo)	8	4.5	4-6	8	3.1	3-4
Oshman's (Houston)	8	8.9	7-11	8	9.0	8-11
Rubenstein's (Shreveport)	3	2.3	2-3	3	2.0	2
Walker Scott (San Diego)	12	13.0	10-16	12	7.8	5-[illegible]
Wineman's (Huntington Park)	5	4.4	3-5	--	--	--
TOTAL	186	7.4	2-16	181	5.1	2-11

WHY A CREDIT OFFICE RATING? The Unruth 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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride—both to management and credit and data processing personnel in being listed on the Honor Roll.

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

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

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

RThought: what do the smart analysts mean when they insist a retailer must stay even? Most times analysts get lost in fancy numbers–that impress themselves (often to the detriment of the businesses they bounce into and out of favor). Assume that a fabrics chain is faced with the following facts:

1. Prices of fabrics increased 15%.
2. His own volume increased 12%.
3. Total volume in the industry increased 3%.

One can conclude that the chain handled a smaller physical volume of goods–but did a larger portion of the industry's total volume. To the analyst the firm is falling behind; to the merchant he is moving ahead.

FEDERAL RESERVE BOARD HEEDS RT WARNING!

The headline to this article may not be completely accurate–except that RT did, in its April 1972 Feature Report, *"Financing the 1970's,"* point out the danger inherent in the declining ratio of capital to assets in banks. RT used as an example the largest bank, Bank of America, where the capital funds declined in a decade from 5.99% of total assets at December 31, 1962, to 3.98% at December 31, 1971.

Today, many business publications are reporting the distress of the Federal Reserve Board with the declining capital ratio–something that the very same banks react to when it happens to their borrowing customers.

RT has forwarded the Feature Report to "the Fed"–because it contained a simple solution–one that banks have imposed on their customers for many, many years.

Eliminate dividends. Had the Bank of America (and this would be true for virtually all other major banks) eliminated dividends for the years 1962 through 1971 the capital funds would have remained relatively constant, dropping only from 6.3% to 5.69%.

Presumably Bank of America stock would have sold at a higher price as a result of increased value and increased earnings through reduced interest cost on borrowed or deposited funds (this increase in earnings was not included in the computations). Stockholders requiring current income could have sold enough to produce income equivalent to the dividends eliminated and this income would have been taxed as a capital gain rather than ordinary income. The remaining shares should approximate the value of those now held.

RTask: RT pointed out the same problem was evident in major retailers. In the case of Sears, RT considered "capital" to be net worth plus deferred income taxes (mainly related to installment reporting of receivables and not likely to be due until liquidation of the business). This measure of "combined capital" declined from 83.1% of total assets at January 31, 1962, to 57.7% (still extremely strong) at January 31, 1971. Had Sears paid no dividends the ratio would still have dropped only to about 77% to 80%.

Using Federated Department Stores as an example of major conventional stores, the shareholders equity to total assets dropped from 69.1% to 59.4% over the same decade. Had Federated paid no dividends, the net worth would have exceeded the assets in the Company!!!

APPLIANCE DEPARTMENTS WILL HAVE TO WATCH THEIR "EERs"

Retailing is an industry of initials. New ones pop up every time you turn around. If you are now thoroughly familiar with OSHA and OSHA Regs and OSHA Inspectors (OSHA stands for Occupational Safety and Health Act), you are now ready for EER. Because the Commerce Department is preparing proposals for voluntary test and label information on EERs to be placed on window airconditioners–and ultimately on other electric appliances. Congress may make EER information mandatory.

EER stands for "Energy Efficiency Ratio." The higher the ratio, the more efficient the appliance. In the case of window airconditioners it will measure the number of BTU's (British thermal units) produced for each watt of electricity used.

Consumer News (2/15/74 published by Office of Consumer Affairs $4/yr.) reports that their evaluation of airconditioners in the 8,000-8,999 Btu range have EERs ranging from 5.8 to 9.9. **Consumer Reports** (July 1973, 256 Washington St., Mt. Vernon, N.Y. 10550 $8/yr.) reports by individual brand names 21 units of about 5,500 BTU with an EER range of 5.4 to 8.8.

RThought: RT would recommend that any one selling airconditioners should check **Consumer Reports** and also the catalogs on all suppliers (the EER can be computed from catalog information). Sears (5.9) and Wards (5.8) are at the low end–and they cannot change models as fast as other dealers can change sources of supply. A high EER is what will sell one brand over another in the summer of 1974–assuming that there will not be local regulations or laws banning the installation of home airconditioning units.

PHONY CHIEF EXECUTIVE OFFICERS.

Too many CEOs fall for the kind of ad that ran recently in the Wall Street Journal: "FAME . . . Your corporation may gain greatly if you become famous, or at least much more widely known. How do you do it? Through feature articles under your by-line. And articles about you. For nearly a dozen years we've been doing this for CEO's of large corporations throughout the U.S. We develop the article ideas, obtain editor acceptance, write the articles, see that they're published. Learn about it, in complete confidence." No wonder the majority of Americans don't trust business executives–just a case of being able to spot a phony at 50 yards.

RThought: The fact that Wall Street Journal will accept such an ad is a clear indication of the ethical standards of that publication. Would they also accept an ad on how to defeat ADT burglar alarm systems or how to dispose of your Grandmother without a trace?

STANDARDS IN RETAILING–OFFERED WITHOUT COMMENT

From the National Home Furnishers Association REPORTS for March 1974, "Regional retail associates elect new officers. **Ron Fradkin**, Al Fradkin Co., Baltimore, MD., is the new president of the Furniture Retailers of Maryland."

From the Federal Trade Commission NEWS SUMMARY, February 1-15, 1974: "A department store in Baltimore, Md., is prohibited from violating the Truth-in-Lending Act under terms of a consent order provisionally accepted by the FTC . . . The agreed-to order is against The Al Fradkin Co. and its president

Ronald Fradkin . . . The complaint alleges that the firm in its conditional sales contracts has not:

– Disclosed the annual percentage rate of the finance charge accurately to the nearest quarter of percent.
– Used the required descriptive term "total of payments"
– Identified the amount of charges payable in the event of late payments, or how the amount is computed.
– Identified the method of computing any unearned portion of the finance charge if the obligation is prepaid."

RESPONSIBLE ACTION ON ABOLISHING "HOLDER-IN-DUE COURSE"

The Direct Selling Association has adopted the following position: "The member companies of the Direct Selling Association, recognizing their responsibility to offer quality products in a fair and ethical fashion in consonance with the principles of the Code of Ethics of the Association, supports legislation designed to modify or abolish the holder-in-due course doctrine to the extent necessary to preserve a purchaser's legal claims and defenses in a consumer credit transaction."

RThought: RT recognizes that the Direct Selling Association is unique in having a Code of Ethics–something that organizations such as National Retail Merchants Association, National Home Furnishings Association, Supermarket Institute, Menswear Retailers of America, Mass Retailing Institute and other trade associations have not seen fit to adopt. But that should not bar other retail associations from showing the same interest in ethical conduct and making similar statements of support of legislation "to modify or abolish" holder-in-due course.

NAMES OUT OF THE FTC NEWS

RT reports the names when complaints and consent orders are filed, and it also reports the names when the conduct of the firms is vindicated. This was the case with the following firms that had been alleged to have received illegal brokerage commissions on food purchase–the Administrative Law Judge found that the evidence submitted by the FTC counsel did not support the complaint:

Food Fair Stores, Inc.
H. C. Bohack Co.
Jewel Companies, Inc.
Borman Food Stores, Inc.
First National Stores, Inc.

EQUALITY OF SEXES

Not many retailing publications are willing to comment on one of the characteristics of retailing–the number of extramarital relationships that exist. Historically such liaisons were established between executives (usually male) and attractive young salespeople (in the old days–usually female). When management discovered–or became displeased with–such relationships, it was the girl who got fired.

This is being written in the past tense–on the presumption that, though such affairs may continue, management no longer fires the girl. At least, they better not–the correct answer today is fire both or none. Firing the girl is discrimination.

RThought: perhaps top management no longer cares about who is sleeping with whom as long as both parties perform their Company duties properly.

FRANCHISEES DO 30% OF RETAIL SALES!

You probably have seen this figure many times–and wondered about the accuracy of it. It is true–but most retailers don't believe it.

We forget who the really big franchisees are–the car and truck dealers and the gasoline service stations.

"Franchising in the Economy 1971-1973" published by the Bureau of Competitive Assessment and Business Policy, Department of Commerce (Government Printing Office, Washington, D.C. 20402 $1) confirms the figure of 30% for a total of $142 billion, broken down as follows:

Auto and Truck Dealers	$87,700,000,000
Gasoline stations	32,900,000,000
Fast foods	7,300,000,000
Auto products	2,900,000,000
Convenience food marts	2,700,000,000
Other retailing	8,500,000,000

The "Other Retailing" includes general merchandise, drug and cosmetic, gift, shoe, apparel, hardware, paint, floor covering, furniture, draperies and bedding, consumer electronics, specialty food shops, donut shops, ice cream stores and coffee services–an estimated 55,000 outlets!

The large (over $1 billion annual sales) non-retail franchise fields are, in order of importance, soft drink bottlers, hotels and motels, car and other rental services, and business services (employment agencies, tax preparation, copying, etc.).

WORDS TO MANAGE BY

In the February 1974 RT we published a "Credo" recited by Roland Porter, an attorney for the Bank of America, but gave no source. RT reader Tim McAllister, editor of the Lafayette, Orinda and Moraga (California) SUNS (which happen to carry a column called "Pro and Kahn") has the Credo posted on the wall of his office, with credit to Dean Alfange. But RT does not know who Dean Alfange is/was.

This month we offer a ditty from the February 1974 "Bits and Pieces" (a modern Elbert Hubbard's Scrapbook) published by The Economic Press, Inc., Fairfield, NJ 07006:

THE RUSH JOB

I am a rush job.
I belong to no age, for men have always hurried.
I prod all human endeavor. Men believe me
necessary–but falsely.
I rush today because I was not planned
yesterday.
I demand excessive energy and concentration.
I over-ride obstacles, but at great expense.
I illustrate the old saying "Haste makes waste."
My path is strewn with the evils of overtime,
mistakes and disappointment.
Accuracy and quality give way to speed.
Ruthlessly I rush on . . .
I am a rush job.

Anonymous

MODERN RETAILER - MARCH 74

Bob Kahn Puzzled by Report

Tandy Magic-Both Giant And Mitchell Chains Vanish

The quick dissolution of the thirty-nine Giant Stores chain would come as no surprise in hindsight after we read recently the comments about Tandy which appeared in the recent issue of "Retailing To-Day," published by West Coast oracle, Bob Kahn.

You may recall that Tandy was brought in by the institutions to straighten out the Giant Stores' bankruptcy. Tandy came and went and when it went there was no Giant Stores chain left. It was precipitately dismantled and the stores sold off.

Says Kahn: "We received a report from Kidder Peabody Research on Tandy, giving the details of the sale of 'deficit-ridden Leonard's Department Stores' to Dillard Department Stores, and the ultimate liquidation of the Mitchell's junior-department-store group. Leonard's posted a pre-tax loss before parent overhead of $2,100,000, and Mitchell's one of $2,300,000 for the year ending June 30, 1973.

"Now put all of this with what Tandy disclosed in its annual report for the year ending June 30, 1973. Tandy disclosed 'general retailing' as one of four major marketing groups with annual sales of $63,200,000, and a loss of $4,100,000 'before income taxes, interest costs, and certain units in the past forty-eight months...expansion was slowed during the past year, while management emphasis was placed on development of profitability.

SOMEONE WAS ASLEEP

"Kidder Peabody reports that as of December 20, 1973, all but nine of the seventy-four Mitchell units have been sold, and remaining stores will be sold or closed. (Note: this action must have been under way as of September 5, 1973, when Price Waterhouse signed off the annual report but nothing was disclosed. The preopening expenses of the Mitchell stores had been deferred and amortized over sixty months—the stores did not last long enough to amortize the preopening expense!)

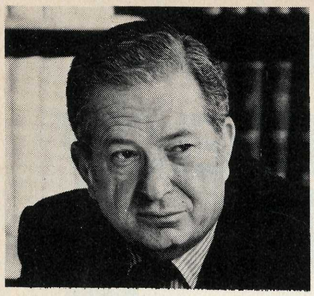
"**RThought:** When all of this is put together, one understands why investors are staying away from the stock market. The annual report, and even the statement made to the analysts in Tokyo, are hardly a model of openness and complete disclosure.

NO COMMENT

"The failure of Price Waterhouse to comment on any steps being taken to liquidate the buyers who made $40-50,000 a year, consisting of $5,000 salary and the balance in incentive pay. Second, they kept a single copy of the MOR in a safe in the general-manager's office and claimed they would fire any buyer they found looking at or using the MOR figures."

(EDITOR'S NOTE: Subscriptions to "Retailing To-Day" may be secured by sending a check of $12 annually to Robert Kahn Associates, P.O. Box 343, Lafayette, Cal. 94549.)

Ben Gordon/V.P./Editorial Director



PLAYING MUSICAL CHAIRS FOR THE CONSUMER BUCK.

Question: How much stretch is left in consumer spending power? Bigger question: As the belt tightens, how will *spending patterns* change?

We already know from the disastrous first-quarter reports what happened to the major auto makers. Yet, Jewel, the giant supermarket conglomerate, feels that the gas price crisis can only benefit their supermarkets, since more people will be eating their hamburgers at home. (Jewel also operates fast feederies, so they should be in a position to know.)

Put with MARCH RT

What we do know thus far: The consumer is beginning to scale down the "affluence" demands of the 1960s. Big, four-barreled gas guzzlers are gathering dust on auto dealer floors while the compacts are in tight supply. Hence the auto majors are converting assembly plants to lighter cars and selling miles-per-gallon instead of fast overtake acceleration.

Listen to astute Bob Kahn (publisher of Retailing Today) speak of the shift in spending patterns: Bob says, "Food prices have increased 15% (as of March) while food sales have increased only 8%. This does not necessarily mean that people are getting a poorer diet or less food—it may just mean that they are buying more of the cheaper item. Del Monte reports that their 1973 pack of peas will not last until the 1974 pack is in—because consumers have been shifting from the more expensive fresh and frozen peas."

To sharpen his profile of consumer downtrading, Bob goes on to report, "I recently compared my auto mileage and gasoline consumption for November 15, 1972 through February 15, 1973 with the corresponding period a year later. My miles driven dropped only 2%—but my gasoline usage dropped 19%. By observing the 55 mph limit, I boosted mileage from 15.1 to 18.25 miles per gallon."

Did this consumer's standard of living drop? No. He covered virtually the same ground. Did his cost of living go up? Not really. Actually his expenditure for gas, despite a 40% hike at the pumps, was only plus 2%. What he gave up was the "affluence" of tooling along the Freeway from Lafayette, California to San Francisco at 70 mph.

On the whole, most American consumers will exercise the same kind of spending flexibility as did Bob Kahn. The problem for retailing is in determining the price level that represents the upset point. What is the midnight point that turns Cinderalla's coach into a pumpkin?

In the New York market, sales of soft drinks have tilted away from canned six-packs to 32-ounce bottles. Evidently because the packaging cost of canned drinks has broken through the consumer tolerance ceiling.

In Boston, Grocers can't get their hands on enough baked beans to run a promotion, because of the switch to protein-heavy meat substitutes.

A whole new retail industry is burgeoning for home improvement supplies, based on the price tag resistance to new homes and the extravagant costs of professional repairs.

The point is that double-digit inflation, from shortages in fuel, food and fibers, is certain to trigger awesome changes in consumer spending patterns. I don't mean necessarily less spending, but *restructured* spending. In the shakeup, some retailers who have an acute sense of what's happening, will do better in the 1970s than they did in the 1960s. Others who continue to program on the basis of 1960's mind frames, will wonder what suddenly struck them down.

You'll also like it because it comes in one box, ready to install over one hole.

We were always big in rooftops. Now we're almost impossible to beat. On selection. On features. Delivery. Price. And cost efficiency.

Which is something for you to be happy about. We've added new filter options. Three times more efficient, they last four times longer than glass-fiber filters. That cuts down maintenance.

We've added more insulation. That cuts down on noise.

And we've included a pilot on gas heating models that relights itself automatically in 80 seconds. Plus chromized stainless steel heat exchangers.

But more important, we've designed our 7½ and 10 ton units so that they run on less power input than almost any other manufacturer's rooftop units. As much as 47% less.

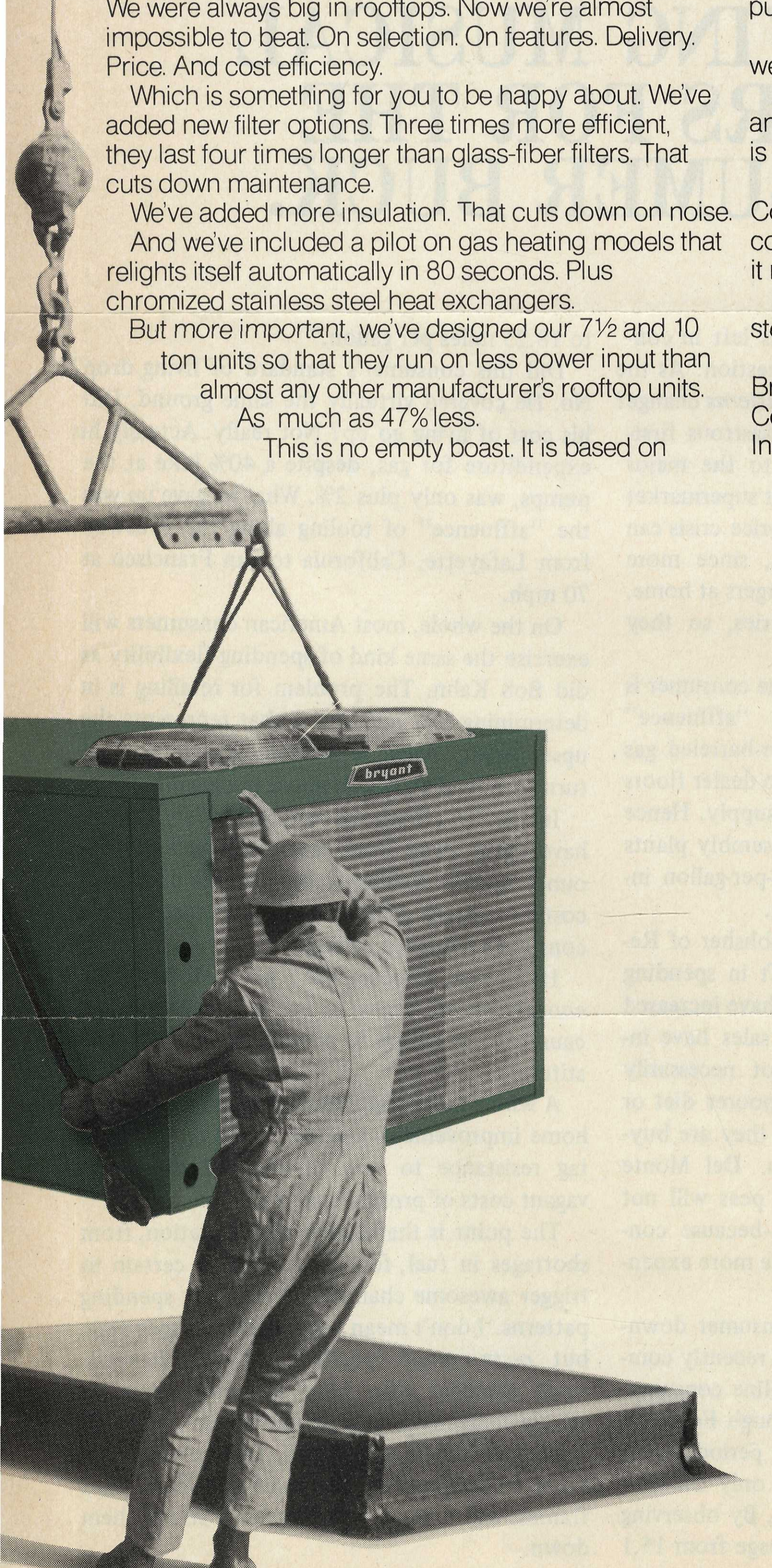
This is no empty boast. It is based on published data and confirmed ARI listings.

And while adding all these improvements, we haven't added more parts to slow down installation. All the contractor needs to do is cut a hole in the roof and put up the pre-finished curbing. Everything else is tucked into one simple, easy-to-install cabinet.

According to Neal Randolph, Vice-President of Air Conditioning Equipment Co., Inc., Indianapolis, a contractor can install three of these new units in the time it normally took to install one of the old types.

And he can do it sooner. Because we have them in stock.

If you would like to know more, just contact your Bryant distributor or branch. Or write Bryant Air Conditioning Company, 7310 West Morris Street, Indianapolis, Indiana 46231.



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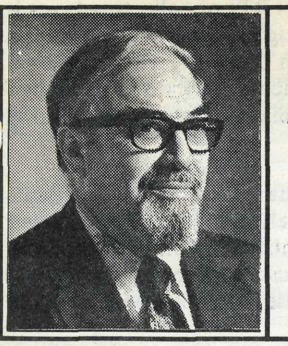

RETAILING TODAY

ROUTE TO

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

Published Monthly. $12 per year.

APRIL 1974 VOL. 9, N

DISTORTION IN LIFO ADJUSTMENT

Retail companies utilizing LIFO valuation of their inventory are likely to have unrealistically large adverse adjustments of their profits under the present pattern of rapidly inflating prices and changing consumer purchasing patterns.

First, one should understand that there is a great deal of difference between using LIFO to value a barrel of crude oil and LIFO to value the inventory of a grocery store (such as First National Stores) or a department store (Federated). A barrel of crude oil is the same product that it was 10 or 20 years ago. Retailers can not use a price on a single item but must use an index acceptable to the I.R.S.

This index is based on sampling prices for the same products over a period of years and then weighting the individual prices to arrive at a composite index covering a department or even a total store. The first problem arises as to whether or not the products are identical from year-to-year, especially when stretched over a decade or more. With style changes (such as length of skirts) the question of comparability must involve subjective judgment.

But most importantly, the widely varying impact of inflation has changed the mix of goods that customers buy and that stores stock–and these changes are reflected only when the indices are periodically reviewed for weighting. For example, the grocery chains know that prices have increased much more than sales because customers have switched to lower cost substitutes (canned peas instead of fresh peas).

But the index used for LIFO adjustments remains unchanged. Thus, the index will report a much higher figure at the end of 1973 than if it was weighted in accordance with the current inventory–and the LIFO-adjusted inventory will be unrealistically lowered. This unrealistic lowering will, of course, be directly reflected in lower pretax profits.

RThought: RT seldom sees financial analysis discuss the ramifications of LIFO inventory valuation, whether it involves major oil companies or steel companies where almost all firms use LIFO or the limited number of department or supermarket firms that use LIFO. Analysts compare the profit performance of Federated with Broadway-Hale (pardon, Carter, Hawley, Hale) and others without a single mention that the figures being compared are not comparable.

The accounting firms–and this is primarily a charge against the major national firms–are absolutely and totally derelict in their obligation to stockholders when, in the notes to the financial statement, which the accountants must approve, the firm fails to disclose the amount of the LIFO adjustment for both years covered by the annual report.

A MATTER OF CONSCIENCE

In February 1974, in this box, RT commented on unethical and/or dishonest statements that were being ma by the oil companies about their profits.

RT has just received the annual report for GULF C CORPORATION. As has been announced publicly, profits of this company (before extraordinary items) creased from $447 million to $800 million–some 79%– a 29% increase in sales.

What was not announced in previous releases was that this income they paid $23 million in U.S. Corpor Income taxes–under 3% (an additional $12 million v deferred). They claimed to have paid $1,341 million foreign income taxes but Congress is now pointing out t this was really a royalty payment, manipulated by the companies for their benefit and to the detriment of United States.

But even more interesting is the impact of LIFO on th profits–the LIFO reserve increased by $161 million dur the year. Inasmuch as this would not have produced a additional foreign tax and Gulf pays virtually no U.S. tax this represents 20% of their reported net income! On FI it appears they would have shown a profit increase to $9 million (or 115%) which would be almost 10% on sa after taxes!

And they have raised their prices even more in 1974.

There is a favorable point to LIFO adjustments that I have seen discussed in any annual report–or analysis–and that i after the stockholders have been deceived long enough to b substantial tax savings, the interest-free nature of this reserve may, in years of nominal inflation (a condition historians tell me existed in the recent past but which pro tell me may never come again) produce interest savings g than the negative impact of the annual increases in the reserve.

RTip: When current profits of well managed companies su Federated are adversely affected by the decision of their ma ment to use LIFO, and the uninformed investor is le unqualified financial analysts to abandon the company, one the market reflecting an even lower price/earnings mu applied to a deflated earnings figure. Such a time would se be the appropriate time to buy stock in such a firm for the pull (that is, until prices are more stable and the firm sud shows an "apparent" improvement in profits—a growth that would be entirely a reflection of carrying a higher percentage of FIFO-profits through to LIFO-profits).

RThought: The difference between LIFO and FIFO profits represents the "inventory profits" or inflationary profits that analysts frequently mention. RT is strongly inclined to the position that LIFO profits are a more accurate reflection of profits than FIFO, as long as we utilize an accounting system that is basically tied to historic cost. Unfortunately, there is no strong proof that basing accounting measures on historic cost is the correct way to measure the changes in a company.

As the accounting profession raises more people (both in operating management and auditing) who are unable to determine that 2+2=4 (they all say "What does the computer say about that?") and practically none who think in philosophic terms (Robert M. Trueblood, of Touche Ross, only 58 at the time of his death, will be sorely missed), there is less and less likelihood that we will evolve a better accounting system. If one does evolve, we are likely to see as few major accounting firms survive the transition as was the case with carriage makers (only Studebaker) or horse-drawn, multiple-route door-to-door grocery sales organizations (only The Great Atlantic & Pacific Company). Like the dinosaur, most of the gargantuan CPA firms will sink into the morass of their melting "generally accepted accounting principles."

RThought: First National Stores, for 13 weeks ended Dec. 20, 1973, reported the impact of LIFO, for 3 months, at 2.2% of sales—equal to $2.88 per share!

GROWING INTEGRITY

It was in January 1971, just over 3 years ago, that RT started the fight against the trade practice of (1) not sending statements to charge customers with credit balances and/or (2) writing off the credit balance into the store's income. In the intervening years a substantial number of major retailers have reviewed and changed their policy in this area.

Recently RT has received copies of two current credit-balance account statements. The one from Liberty House & Rhodes (Amfac) is clearly stamped "PLEASE DO NOT PAY! Your 'New Balance' represents an amount owed you. You may purchase additional merchandise to offset this credit balance or request a refund." Rhodes was one of the stores criticized earlier by RT. The statement from Macy's of California is stamped "Our records indicate that you have a credit balance on this statement which is an amount Macy's owes you. You may leave it on your account to purchase against, or request a refund. Please advise."

Both Macy's of California and Liberty House & Rhodes are to be complimented for their present procedures—as are the hundreds of firms who always did this—or are now doing it.

WITHHOLDING IS ILLEGAL—FOR QUAKERS

The U.S. District Court in Philadelphia has ruled that for Quakers (who have been on record against participation in all wars, offensive or defensive, since 1660) the withholding of that portion of income taxes proportionate to government expenditures on war denies the Quaker employee his religious right to bear witness, an integral part of his religious belief, and thus violates the First Amendment. The judge said "The government has failed to establish that its interest in the use of the withholding method (Note: it was not used to collect income tax between 1913 when personal income tax started and 1943 when Macy's Economist, Beardsley Ruml, devised "withholding." RT) of collecting tax so great and compelling that it outweighs the religious inte which the plaintiffs seek to protect in this case. The additi cost of collection, if any, is a small price to pay when comp with the possible frustration of the religious practice of bea witness . . ."

RThought: First, compliance with this ruling will be diffi because the decision was based largely on the demonstr strong belief and practice of the plaintiffs. Second, it is cer that under the Administration of Quaker Nixon, who has compunction against wars, that the case will be appealed, p ably up to the Supreme Court.

INFLATIONARY PROFITS

Considerable emphasis is being placed upon the overstatemen profits during periods of rapid inflation because of the adher of accountants to historical costs. The Securities and Exch Commission is asking that publicly held companies indicat their annual reports the impact of inflation on profits—and Financial Accounting Standards Board has made this an iter study and has distributed a paper for discussion.

How does this apply to retailing?

The first area that comes to mind is depreciation—because depreciation, whether accelerated or straight line, is base historic costs. Using some recent annual statements receive RT, together with the National Retail Merchants Associa Financial and Operating Results for 1972 among stores $50,000,000 we can construct the following table:

	Depreciation as a Percentag		
Firm	**Sales**	**Pre-Tax Profits**	**Net Wort**
United States Steel	5%	71%	9%
American Electric Power	11%	55%	6%
Typical $50 million department store	1%	17%	4%

It is apparent that depreciation is a much less important ite retailers than to other types of companies. This is particu true when real estate is leased—but this will be discussed sepa ly.

Second, the impact will vary on whether a company own stores, leases under a fixed cost lease, or leases under a percen lease. In the first two situations, cost reflected in the opera statement will be understated because both the depreciation the rent are based on historic costs rather than replacement c To the extent that the amount reflected will not replace the at current prices, profit has been overstated.

However, for stores that are primarily on percentage le (whether or not they are currently paying excess) the reflected for the use of the assets will tend to reflect replace cost (assuming that there is not too great a spread betwee inflation rate included in the sales on which the percentage re calculated and the increased cost of replacing the asset).

The major point where inflation has an impact on the profits retail firm is through increased value of the inventory wit increasing the physical quantity of merchandise available. T an extreme example, consider the men's store that in 1940 100 Arrow Shirts that retailed at $1.95 and cost $1.17 for a value of $117. Today he has 100 shirts that retail at $9.50 cost $4.75 for a total value of $475. In customary analys

UNDERSTANDING THE UNEMPLOYMENT FIGURES

One of the most frequently quoted and least understood figures is the figure published monthly for the national unemployment rate, seasonally corrected. If the announcement is made that the seasonally corrected rate remained the same as last month, the stock market jumps ahead–if it is reported that it increased from 5.2% to 5.3% the stock market drops a dozen or so points. Then all retailers look gloomy and explain how unemployment is hurting their business.

Before reading further–stop for a minute and consider exactly what you know, at this point, about this oft-cited figure. . . . The minute is up . . . so please proceed with the article.

Let us deal first with the kind of unemployment that is measured–it is only non-agricultural unemployment (this represents well over 90% of the total employment in the country). In metropolitan areas the amount of agricultural employment is low (flower growers, a few dairies) but in other areas the amount of agricultural unemployment has a great impact on much of the other employment (retail, wholesale, service, & non-durable manufacturing which includes canning).

Now let us deal with the phrase "seasonally adjusted." The figures below show information for the San Francisco-Oakland Metropolitan area (other areas might show slightly different patterns–but all would show the same kinds of variances).

	February 1974	January 1974	December 1973
Actual number unemployed	117,000	113,000	105,600
Actual unemployment rate	8.5%	8.2%	7.6%
Seasonally corrected unemployment rate	7.0%	7.6%	8.1%

Thus, we see that for 3 consecutive months the actual number of people unemployed **increased** (from 105,600 to 117,000 or 10.8%) and the unemployed **increased** from 7.6% to 8.5% of the workforce–but the seasonally corrected rate **declined** each month from 8.1% to 7.0%.

What this means is that the normal pattern of unemployment called for an even greater **increase** in the number unemployed in January and February for the seasonally corrected rate to remain at 8.1% (roughly the actual rate would have had to be about 9.6% in February and the number of unemployed about 132,500 or 13% more).

A seasonally corrected rate is a good tool to use–in fact, it is an absolutely necessary tool if we want to look at trends in unemployment; but it is only a good tool if the people using it understand it.

The next point that is misunderstood is the question of why people are unemployed. In the days before the energy crisis was declared to be over, we attributed a great deal of the current unemployment to the impact of that crisis. Let's switch now to national figures–here are the reasons why people were unemployed–for January 1974 and January 1973:

	January 1973	January 1974
Lost last job	40.3%	42.9%
Quit last job	12.9%	15.6%
Sub-total	53.2%	58.5%
Reentered labor force	31.7%	26.8%
Never worked before	15.1%	14.6%
Sub-total	46.8%	41.5%
TOTAL	100.0%	100.0%

It is apparent that "lost last job" was not a significantly gr contributor to January 1974 unemployment than it was in 1 In fact, "quit last job" accounted a greater increase in u ployed than "lost last job." The number trying to enter the l force increased by only 17,000 while the number tryin re-enter decreased by 141,000.

Next, we must remember that not everyone looking for a wants or can take a full-time job; and the unemployment rat one might expect, is higher among those seeking part-time w as the figures show below:

	January 1973	January 1
% labor force seeking part-time job	14.0%	14.5%
Unemployment rate seeking part-time jobs	7.7%	8.2%
Unemployment rate seeking full-time jobs	4.6%	4.7%

Thus the unemployment rate for persons seeking a full-time j less than the reported national figure at 5.0% or 5.2%.

Unemployment varies widely by sex and age–as the next fig show:

	January 1973	January 1
Total unemployment rate	5.0%	5.2%
Men 20 and over	3.4%	3.4%
Women 20 and over	5.2%	5.2%

COMMENT: not much change considering the "energy crisis."

Both sexes, 16 to 19	14.4%	15.6%
Male, 16 to 19	13.5	14.1
Female, 16 to 19	15.5	17.3

COMMENT: the unemployment is hitting those under 20 m than those over; and within the 16-19 group it is hitting women harder than the men.

White–all ages	4.6%	4.7%
Negro and other–all ages	8.9	9.4

COMMENT: so the non-white again bear the greater burden.

20-24, Vietnam Veterans	8.9%	10.6%
20-24, Non-Vietnam Veterans	7.4	7.2

COMMENT: we are still being rough on the returning although there has been a material improvement for Viet Vets between the ages of 25 and 34.

White collar workers	3.1%	3.2%
Sales workers	3.9	4.0
Clerical workers	4.5	4.5
Blue collar worker	5.6%	6.0%
Craft and kindred workers	3.7	3.8
Operatives (assembly line)	6.2	7.0
Nonfarm laborers	8.4	8.4

COMMENT: now we are seeing that the main impact has bee operatives–people who work on assembly lines (the cate "craft" includes skills like carpenters, plumbers, etc.). This lar reflects the drop in employment in the auto industry.

Construction industry	9.1%	9.1%
Durable goods manufacturing	4.7	5.0
Nondurable goods manufacturing	5.4	5.3
Transportation and public utilities	2.9	2.9
Wholesale and retail trade	5.7	6.1
Finance and service industry	4.4	4.5
Government wage and salary employees	2.3	2.5

COMMENT: it also makes a difference which industry one was in—and since the lowest rate is among government workers, this may explain why we sometimes feel that the government employees don't care what they do to the rest of us!

	January 1973	January 1974
Unemployed 15 weeks or over	1.1%	0.8%

COMMENT: though slightly more are unemployed, fewer are remaining unemployed for 15 weeks or more.

Average duration of unemployment	10.9 weeks	9.4 weeks

COMMENT: this figure ties in with the figure above. But don't forget that many a man has drowned in a river that averaged only 1 foot deep!

What conclusion can we draw?

First, there is no direct relationship between the actual percentage of people unemployed and the seasonally adjusted percentage. Always check to see that you know which term is being used (in some smaller communities there is no seasonally adjusted rate published). Those who want to emphasize the number of people out of a job are inclined, at many times of the year, to use the raw figure; while those seeking to discuss trends will always seasonally adjusted figure.

Second, keep in mind that less than half of the people out o were fired or laid-off and that more than 40% are likely people who have never had a job or who are trying to re-ent labor market. This is not to say that being out of a job easier for them—but it certainly puts them in a different po than those who lost their last job.

Third, unemployment is never going to be serious among friends (white, full-time, in professional or management pos married, over 30, male). In fact, you may be hard put to th a single acquaintance who is unemployed. This also mean you may not be able to deal significantly with questic unemployment because (1) you have never experienced it a you don't know, intimately, people who are experienc (young, black, unskilled Vietnam Veterans). It should be that this has seldom restrained any executive or economist discussing the question in detail (including the editor of RT

And finally, at the rate we are going it will be darned h reach unemployment figures in the 9% to 10% range that so people were discussing or predicting just a few months ago.

GOOD SERVICES—FROM AN UNUSUAL SOURCE

My daughter recently ordered a mirror from a mail-order house in Washington, D.C. by the name of **The Game Room.** It arrived broken. She was heartbroken for two reasons—there was only a few days until the birthday of her friend; and she thought she was out $5. But attached to the mirror was a slip with the statement "This shipment is insured against breakage and loss in transit. Please notify us as soon as possible if damage has occurred. Do not return package until you receive reply." She sent a letter by regular mail on February 1, 1974. On February 6th, she had a note "We are very sorry that the mirror arrived damaged. Just dispose of it. Refund is enclosed for $5.00." I can't get a refund that fast from a local store—but my daughter got hers in 6 days from a mail order firm that she had never done business with before. No wonder American consumers are turning more and more to mail order!

GULF & WESTERN BUYS 15% OF AMFAC "FOR INVESTMENT"

This looks to RT like the same kind of "investment" that ITT made in Hartford Insurance. As RT reported (April 1973) Amfac reported ownership of 86,000 acres of land at an average cost basis of $248 per acre. 77,000 of these acres are in Hawaii! Amfac had a book value at the end of 1972 of about $20 per share and that is higher now. Even if the blatantly intangible assets are deducted, the book value is still about the current market price of $17.00.

In 1968, Amfac sold their 11,000 acre Princeville Ranch (reported in the January 1973 *Hawaii Business* as having been an unprofitable cattle operation on Kauai) for $8.8 million or $8,000 an acre. The reported cost of the land was under $2,500 an acre. And Amfac retained 50 acres in the center of the property! At their Kaanapali project they had an agreement to sell 4.33 acres for $500,000 an acre—but it fell through because of financing problems. The 1959 assessed value of this area was about $200 an acre.

If the 77,000 acres of land is undervalued by as little as $3,000 an acre—this would represent $23 per share and so the present shares with a market value of $17 would have a liquidating value of $40.

But that liquidating value—just like the liquidity and cash i Hartford Insurance—can only be reached by acquirin company.

It is probably true that Gulf and Western are just mak investment—the question is whether they have a 15% or a investment in mind. It would be a great benefit to stockholders if G&W acquired Amfac for $25 or $30 a shar off the land at a huge capital gain and then spun c remaining retailing-wholesaling-finance-motel-hotel operat the remaining book value.

SHORT SHORTS

Personal bankruptcies down. For the year ended June 30 there were 155,643 cases filed by individuals other than i business in the 50 states plus the District of Columbia 5.5% from the 164,660 filed the prior year. Only 1: showed increases.

Next time Western International Surplus Sales will ma refund! Floyd Scott bought a tent with a card attached s that it had a window that could be closed tightly and ha The tent had neither. Western International refused to $38.86 so Scott went into court under the 1971 Consumer Protection Act. The Oregon Supreme Court r upheld the award to Scott of $200 general damages punitive damages, $650 in attorney's fees and $57.35 in $1,307.35 refund instead of the original $38.86 that wou made Floyd Scott happy.

If you pay your own way, say so. That's what Taylor Gif of Distinction, Wayne, PA does—they tell their custome **catalog pays its way in postage."** To prove it they cite head of the Postal Service, Elmer Klassen ("Third class profitable for us to handle"), the head of the Letter Union, James Rademacher ("It is the most profitable o large classes of mail"), and the last Postmaster General, Blount ("Direct mail is the most 'profitable' class of ..."). If your customers complain about your direct "junk mail" you might find these quotations helpful.

inflation, our sample store has reported and paid taxes over the intervening 33 years on $358 of phantom or inflationary profits. The store started with 100 shirts and ended with 100 shirts.

…our sample store had adopted LIFO in 1940 (which was hard …do, as Macy's and Hutzler's will recall), the 100 shirts (baring conversions) would only be valued at about $123 (accountants have come up with some wonderful theories on how to apply LIFO that always results in overvaluation–so what you thought should be $117 turns out to be $123).

But this is only one part of inflationary profit that arises from inventory. In a business that doesn't put the price on every piece of merchandise (which means most businesses), when there are no price controls, inventory can produce another form of inflationary profits. If one's inventory consists of unmarked copper or cases of peaches or even imported bicycles, it is easy to increase the quoted price to reflect replacement costs. If wire was made from copper purchased at 60 cents a pound and the current copper price is 70 cents, it is easy to adjust the price of the wire to reflect a 70 cent cost for copper–and so a direct profit is made on the increased value of the inventory (although the stock on hand, at year end, will continue to be valued on the basis of 60 cents under First-in, First-Out until all of the 60 cent copper is gone).

Retailing does not, in most cases, garner this kind of inflationary profits. Returning to our merchant with the Arrow shirts, the price is, in most cases, printed on the cellophane wrap so the retailer is stuck with selling the shirt at the appropriate retail value based on historic cost–not the current replacement value.

Of course, retailing has some other problems.

Now that retailers are offering wonderful 12 and 24 month …volving accounts, they probably turn money over at the rate of …nce every 7 or 14 months. If inflation reaches 1% a month, that means that what you sell for $100 you may be paid off in dollars that will only buy $93 to $86 worth of goods. This can be offset by borrowing as much as possible on your receivables and accelerating the replacement of goods–thus letting the institution (like a bank) be paid back the less valuable dollars.

The retailer with a slow turnover also has a problem. Typically, accounts payable will offset about 50% to 75% of the cost of inventory (depending upon turnover and trade terms). But the retailer who cannot raise his prices to reflect higher replacement cost suffers a decline in his ability to replace units of inventory (as opposed to dollar value of inventory).

On balance, then, retailers have a mixed blessing because of inflation–they get the opportunity to show profits on their inventory that analysts will say is unreal–but which they will need to cover the decreased ability to replace inventory units as a result of the increased amount of long-term credit now being offered; and if the company was overcapitalized enough to be able to afford to build their own buildings their "inflationary" profits will be even greater, but they won't be able to get at that profit unless they sell the building.

RThought: The world of the S.E.C. is getting lost in trying to make everything comparable. If the Equal Rights Amendment is passed, the S.E.C. may feel that it is necessary to insist that apparel firms make a single type of garment and that Lerner's and Bond Stores carry only unisex merchandise so as to improve …mparability (don't laugh–the courts have determined that the …alespeople do identical jobs!).

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THE GAP IN ACCOUNTING SERVICE

RT usually speaks about GAAP (Generally Accepted Accounti… Practices) when speaking about certified public accounts–but t… time GAP, as in "the yawning gap in services rendered," is t… proper word.

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Surprisingly, the clients think about their CPA often. The clie… might be reading the Wall Street Journal and he (RT hates to … classified as "sexist" but is not yet ready to refer to clients … "it") sees an article about having to capitalize leases. In fact, … sees a series of articles. Then he remembers the article abo… having to reflect the effective rate of interest when the banki… arrangement involves a compensating balance.

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RTip: The national accounting firms should give some thought … properly organizing their communication channels with th… clients. This responsibility cannot be placed on the partn… assigned to the client–he is too busy.

Like dealing with any problem, the first step is to identify … That is going to take someone in the accounting firm who thi… about clients. When the IRS comes out with a new ruling, th… person has to say "which of our clients are interested in t… decision?" Sometimes the answer will have to be by industry… such as retail; sometimes it will have to be by ownership–such… privately held companies; and sometimes it will have to be … accounting practice–such as those who use LIFO.

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Whatever is communicated to a client will also have to be sent to the partner in charge so that he can be prepared for the questions that will be forthcoming.

And a decision will have to be made by the partner involved as to the proper person in the client company to whom the communication should be directed. This might be more than one person. Information copies to the chief executive officer will certainly keep the CEO informed of your interest in him as a client—even if the CEO is not the one who must act on the information provided.

RThought: Virtually every retailer (and probably all clients of CPA firms) think the fees charged by their CPAs are too high. The really big cost to the CPA is the hours and hours of detail work involved in auditing a large company. But if the client just had a few positive indications from the CPA that say "I am always thinking about you, your problems are my problems, you are safe in our hands (with apologies to Allstate)" you might find that clients no longer mention your fees between two profanities.

A CHANGED POSITION

In the February issue of RT we quoted the original position of the Menswear Retailers of America (MRA) in suggesting that a solution to the energy crisis could be found by eliminating Sunday openings. Edward R. Stern, the MRA President, has advised RT that the final resolution taken at their annual meeting modified that position to urge "Prompt action to ease the national energy crisis by **emergency** legislation to limit the opening hours of retail stores, other than food and drug outlets selling not more than five (5) percent of non-food and non-drug items, to not more than 54 hours a week."

RT appreciates being advised of the changed position which is in line with the approach that RT would counsel—but wonders why MRA continues to include the exemption for a non-existing type of food and drug outlet, especially since a 54 hour week would allow these outlets almost 8 hours a day, 7 days a week.

DOES RETAILING UNDERSTAND RESEARCH?

RT suspects that only the largest retailers understand that they can learn something—from research. Most are inclined to the belief that success is the result of God-given inspiration—since retailing is "an art" (of course, retailing is tarnished with one of the highest business failure rates—a point not fully explained by the supporters of the "God-given art" theory).

Four years ago the Association for Consumer Research was formed—starting with 40 members and now numbering over 500. Unfortunately, only a small number of members come from the "real world," as one officer described it. The organization publishes an embryonic—but growing—journal, the Journal of Consumer Affairs. The 1973 annual meeting was held in Boston with 188 paid attendees—only a handful from business. Among the scores of people participating, only two retail names stand out (Richard Goodemote of Sears Roebuck Testing Lab and Jay Shaffer of S&H). The Advisory Council includes representatives from 2 major advertising agencies and 1 governmental agency—but no retailers.

RThought: These people are dealing with our customers and our problems—and much of their output will reach our legislators (incidentally, more persons associated with governmental agencies than retailers took part in the annual meeting). For information on membership write to Professor James R. Taylor, AC[illegible] tive Secretary, School of Business, University of Michi[illegible] Arbor, Michigan 48104.

WHO ARE THE "SCHLOCK" CREDIT OUTLETS?

You will recall that when Truth-in-Lending was be[illegible] Congress and most retailers were opposing it, one [illegible] arguments used was that "schlock" operators would bo[illegible] prices by more than a reasonable finance charge—a[illegible] advertise many months to pay with no finance cha[illegible] argument continued that this would work to the detrime[illegible] very consumers that the legislators were trying to hel[illegible] making these arguments, the representatives of maj[illegible] associations assured the members of Congress that neit[illegible] firm nor any of the members of their associations woul[illegible] in such practices.

RT is seeing just such "schlock" credit offers with i[illegible] frequency—and the retail spokesmen were right when [illegible] that such offers would not be made by members [illegible] associations.

The two most recent offers that RT has seen were [illegible] Standard Oil Company of California and Union Oil Com[illegible] California. In view of the front-page newspaper storie[illegible] ethics and practices of major oil companies, their [illegible] loyalties to places other than the United States, their pr[illegible] cartelism, etc., there is little need for RT to categorize [illegible] more specifically than did those who predicted this pract[illegible] opposing T-in-L. Standard Oil offered, in March 1974, [illegible] color TV set that had been closed out through d[illegible] 1973—and at the same closeout price. The price of $29[illegible] the same, whether paid in installments or a single paymen[illegible]

Union Oil offered a GE portable radio for a single pay[illegible] $79.92 + $3.96 for shipping and handling for a total of [illegible] or $6.99 for 12 months (which also equals $83.88) [illegible] Union 76 Revolving Credit Account.

RThought: The oil companies, looking at their profits fo[illegible] quarter of 1973, have learned a major merchandising [illegible] make it in the markup and never worry about the finance[illegible]

WORDS TO MANAGE BY

Sir Fletcher Jones, OBE, of Australia, is the Fou[illegible] Chairman of Fletcher Jones and Staff Pty. Ltd., th[illegible] manufacturer of suits, trousers and skirts in Austr[illegible] Australia's largest employee-owned business. In explai[illegible] his firm is run, he gave this sage advice:

> "We believe strongly, too, in management by consult[illegible] As many staff as possible are called together f[illegible] unexpected meeting and a problem is posed. Having [illegible] the questions we discourage discussion at this point . [illegible] this is most important, for experience has shown that [illegible] will fight like hell for the first silly thing he's said [illegible] hearing of his mates, so the meeting is ended as sudde[illegible] it began with the promise that we'll meet again, same [illegible] same time, tomorrow.
>
> "This gives staff members time to think it over, dis[illegible] among themselves, and in this way we have had [illegible] spectacular successes from their constructive suggest[illegible]

Big Stuff at J.C. Penney and Inflated Times Making It Bigger

the 1,640 stores around the country. Penney's advertising department in New York City, where corporate headquarters are located, keeps in contact with regional offices who tell them about specific items that are currently in stores. "We then determine which products are most representative of a department and tell the stores about the TV commercials we have made for their use. For example," Thompson continues, "our buyers will tell us an item is hot, so we often make a commercial about it and send it to the stores. But the local store determines how many commercials it wants to use depending upon its budget. That's its decision." The local commercials are scattered throughout the day with a fifty-fifty mix of daytime and prime-time scheduling.

Unlike the local TV spots, the Penney national TV advertising is one hundred per cent prime time from coast to coast. Penney turned to national TV for the first time in 1972 by sponsoring NBC's entire election coverage, fifty per cent of ABC's coverage, and nearly twenty-five per cent of the CBS coverage. The amount spent was about $4,000,000, a record buy in terms of the amount of TV time filled by a single advertiser in a single night.

Last year, Penney, along with Eastern Airlines, cosponsored "My Fair Lady" on national TV. During the program, the chain advertised forty-four different areas of merchandise, including these key areas: women's and men's apparel, women's and men's shoes, home furnishings, home entertainment and major appliances. "Our objectives for the show were accomplished," according to Johnson. "We said that Penney will take care of you for Christmas and Christmas sales were excellent. We chose those forty-four items upon which to build a climate for holiday buying. And we did an attitude and awareness study on the show and got positive feedback."

CATALOG TIE-IN

Johnson points out that, in the majority of cases, the merchandise advertised on national TV is also available through Penney's catalog operation. And he also notes that all of the chain's national TV i[s] merchandise-oriented, wit[h] ... institutional advertising.

For both national and local TV spots, Penney gears its products advertised to programs where certain groups are likely to be tuned in. "For example," details Thompson, "we have men's items, like socks and shoes advertised around a football game. And we have women's merchandise spotted during daytime hours—you wouldn't advertise hardware items during those hours."

But as mentioned earlier Thompson says it's hard to judge which specific items are sold through TV advertising. "We don't know," he emphasizes. "I[n]

(continued on page 8)

A Bob Kahn Analysis

'Hypermarche—Problem Is Not The First Store'—A Prediction

There may be too many catalog showrooms. But there could have been a lot more. By a miracle, everyone and his brother who was going to enter this new gold rush—stopped and had a second thought. A few went ahead anyway.

But most of the growth in catalog-showroom expansion has come from the experienced operators who have been in the business before. Sanity (possibly encouraged by a dreadful Wall Street bear market in retail stocks) ruled the day and, at least for the present, the catalog showrooms are not on a crazy "get-rich-quick" kick.

How about the next new retail miracle, the hypermarche? Oshawa has opened such an operation in Canada. Jewel Companies is about to launch a hypermarche division. According to the propaganda that has been widely disseminated, the hypermarche is now the "last word" in mass retailing. A number of American chains, discount and otherwise, have been solicited by both foreign retailers and various consultants to act now, franchise, get into hypermarches. Is this the new place where every mass retailer should go?

Our resident sage, Bob Kahn, questions this. In another visit with his "Retailing To-Day," we follow him as he projects why the brilliant bloom of the morning is dried and dusty by late afternoon. This is his analysis.

"The first hypermarche has been opened by the Oshawa Group in a suburb of Montreal, some 267,000 square feet consisting of 42,000 in foods, 105,000 in general merchandise, and 120,000 backroom space. Paris-based Carrefour is now scouting for locations in the United States, but plans to start with 150,000 square feet instead of 250,000 square feet they are operating in Europe. Operators of other types of retail outlets are being asked their opinion of hypermarches and their impact on the American scene.

"Carrefour professes to operate on a gross margin of eleven per cent to twelve per cent (compared to a reported typical margin in small stores in France of about twenty-five per cent). Food is a very large part of the volume, so it is difficult to interpret this figure.

"The principles behind the hypermarche are—

1. Low-cost physical plant
2. Large inventory
3. Assortment limited to fast-turning merchandise
4. Great buying strength
5. Limited sales service
6. Low margin or profits

"But these are the very same principles upon which the following types of business were originally established:

1. Department stores in 1880-1900 in France and the United States.
2. Big Bear, Big Wolf, and other supermarkets in empty textile factories in New England in the 1930s.
3. Ann and Hope and other discount stores in the 1950s.
4. Discount food departments in discount stores in the 1960s.
5. Levitz Furniture warehouse salesrooms in the 1960s.

"Yet all of these 'concept' types of retailing have run into problems, and the glamor has disappeared from most of them. It is only fair to ask of these faded 'concept' retailers, 'Why?' And it is relatively easy to answer, 'Competition under the free-enterprise system.'

"There are no proprietary formats in retailing. You cannot keep your method of operating a

Robert Kahn

retail business a secret. If you are successful and thousands of customers flock to your stores, your competition will come to look, right along with your customers. When department stores first started, they operated on a twenty per cent gross margin versus forty per cent for specialty stores; they offered less service; they carried only the fast-moving items; and they sold only for cash. Sixty years later, the discount stores used the very same concept to challenge the department stores, which then had changed to match the specialty store's service-cost-assortment-credit pattern.

"The problem is not how to make a success of the first store of a new type; it is what to do when the second and third new 'concept' stores arrive. Because the evolution of discount stores is within the recollection of many now in retailing, let us use it as an example. The first discount store in town did not have to advertise, it got all the advertising it could use through word-of-mouth. Much of the publicity was contributed by the conventional stores proclaiming that discount stores would go broke because their prices were so low and they didn't know their costs. The more rustic the discounter's physical plant, the greater the image of savings.

"Let us assume that the first discounter worked on a twenty per cent gross. When the second discounter opened (excited by the success of the first), it had to figure out how to attract customers from the first store. The second knew that cutting its gross to nineteen per cent would not do the job, so it decided to spend two per cent instead of one per cent on advertising. It got some business from the first store...but if it located away from the first store it probably got more of its customers from conventional stores.

"The third operator knew he was going to have to spend two per cent into advertising, but he, too, knew that cutting his gross from twenty per cent to nineteen per cent was not going to pull business from the other two, so he decided to appeal to the women shoppers by providing a better physical plant. He decided to spend three per cent instead of two per cent on occupancy!

"By now, the first store was feeling the pinch—growth may have been cut from fifty to twenty per cent a year! To meet this new competition, he must now start advertising more and must spend money to fix up his plant. Number 2 has to fix his plant. And soon, some of the bloom was off the discount business.

"In the meantime, the competition (that is, pressure from customers) was working in another way. The domestics department originally carried only white sheets because this was the fastest-moving color. One day, a customer asked for pink sheets and the manager carefully explains: 'Lady, the principle of a discount store is that we save you money by bringing you only the fast-selling items at the lowest possible price.' But when the lady answered, 'Well, I think I'll go visit the Number 2 discount store because I heard it was carrying pink sheets,' the manager suddenly remembers, 'My pink sheets will be in tomorrow!'

"But this is not the only form of competition. In the first discount sporting-goods departments, there were no clerks, just people who said 'go down to the full-price sporting-goods store, check out all the shotguns you are interested in, then come back and tell us the model number and we will save you a bundle of money.' That is, they said this until the time a customer said, 'I think I'll go over to discounter Number 3, I understand he has a salesclerk who really knows shotguns and he can explain it to me right there.'

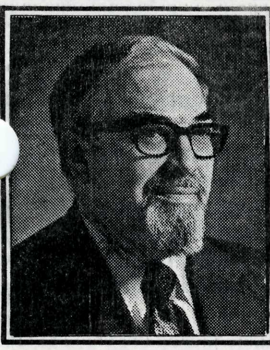
"Soon the 'everyday low prices' were not so very low. They looked even higher because the 'conventional' stores were not completely stupid. They selectively cut prices on key items to meet discount competition. On one of the increasing number of slow days, the merchandise manager and advertising manager of the discount store suddenly had an inspiration—'Why not run a sale this weekend and boost business?'

"So they cut some of the 'low everyday prices' to get traffic away from the conventional stores who regularly have sales pulling lots of people to cuts from their 'high everyday prices.' The discounter now knows that many customers love a savings, even if the 'sale price' is still not the lowest price in town.

"As we look back on the original 'concepts' (of department stores, supermarkets, discount stores, furniture warehouses, hypermarches,) we see fancier stores replacing simple ones, greater assortments replacing limited ones, increased clerk service, more credit available, more advertising; about the only fundamental principle remaining is 'low margin of profits' and, in too many cases, the profits have turned to losses. And these losses are experienced despite increases in gross margins, in many cases approaching that of the retailer they profess to undersell.

"RThought: RT can see no reason to predict any other pattern for the hypermarche. The first such outlet in any area is likely to be successful, given competent management. This will be particularly true if the press continues to print articles fantasizing the potential savings offered by hypermarches.

"But the same publicity will also bring competition—and with the tremendous number of publicly held retailers trying to boost their price-multiple, one can anticipate fast entry into the field of enough firms to guarantee failure for the majority. The final agony will come when the capitalized pre-opening expenses have to be faced up to, and then that will be followed by a new series of entries on annual reports called 'Loss on discounted operations.' "



RETAILING TODAY

ROUTE TO

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

Published Monthly. $12 per year.

MAY, 1974 VOL. 9, NO. 5

REPORT ON ANNUAL REPORTS

This year our analysis of annual reports will be prepared as a separate report rather than spread over a period of months. We hope to have it ready in time to send with the July issue.

We think this will make the analysis more useful. The removal of the page limitations of our regular format will permit more complete coverage of publicly held retail firms.

MORE "SCHLOCK" CREDIT OUTLETS

In the April 1974 RT we discussed the concerns of the early opponents of Truth-in-Lending who claimed that "schlock" operators would just raise their prices to cover the cost of credit—and then advertise "No Charge for Credit."

In April we pointed out that Standard Oil of California and Union Oil Company of California had, by their promotion of TV and radio sets, placed themselves in the category so vividly described some years ago by the opponents of T-in-L.

RT would certainly not want to slight Phillips Petroleum Company—and their offer of a "Bigston Recorder with FM/AM Radio" (Note: all the millions (?) of people who have heard of "Bigston" brand will be happy to know that the Bigston Corp U.S.A. guarantees the set—apparently Phillips does not—for 90 days) at $8.74 per month (plus 54¢ per month for shipping and packing) for 8 months, or $69.92 (plus $4.32 for shipping and packaging) in one charge. Don't bother to check—both methods come to $74.24.

On the Brochure, in the disclosure, it says "NO FINANCE CHARGES if payments are made on time!"

HOW THE GILBERTS RATE RETAIL FIRMS

Lewis and John Gilbert just published their "34th Annual Report of Stockholder Activities at Corporation Meetings During 1973."

RT was interested in two ratings—how the annual meetings are conducted and the adequacy of the post-meeting report.

On the Honor Roll for the conduct of their annual meeting were the following retailers:

Allied Stores	Macy's
Allied Supermarkets	Marcor
Arlen Realty	May Dept. Stores
Federated Dept. Stores	McCrory
Gamble-Skogmo	National Shoes
Genesco	Phillips-Van Heusen
Great A & P	Twin Fair
Hughese & Hatcher	Woolworth
Kroger	

A MATTER OF ETHICS

A retailer has shared with us the following letter—on the condition that we can not use the name of his firm. Thus, the blank spots do not represent either (expletives deleted) or (unintelligible)—but the place where the original contained the name of a growing, profitable retailer.

RT hopes that each and every reader conducts his business in such a manner that the letter could have been written to him.

"Dear

"We just today received from your warehouse a request for invoice showing that we underbilled (name) for merchandise. I want to thank (name) and all of the people that are a part of (name) for your ethics and honesty. I think one of the most gratifying parts of this hectic business we are in is to once in a while meet a group that reflects your standards of ethics.

"Thanking you again, we remain"

As to the very important post-meeting report (RT agrees with the Gilberts that the report should convey the entire sense of the meeting to the substantial majority of stockholders who cannot afford the luxury of attending annual meetings) the ratings were Honor Roll, Intermediate and Poor. Here is how retailers did:

HONOR ROLL

Allied Stores	Hughes & Hatcher
Dillon Companies	Macy's
Federated	Marcor
Gamble-Skogmo	Phillips-Van Heusen
Grand Union	Twin Fair
Great A & P	Woolworth

INTERMEDIATE

Arlen Realty	May Department Stores
Dominion Stores	Penney
First National Stores	Rapid American
Kroger	Zale
McCrory	

POOR

Beneficial Corp.	Household Finance
Castle & Cooke	Kresge
Dayton-Hudson	Safeway
Evans Products	Sears
Garfinckel, et al	Shop Rite Foods
Genesco	Southland Corp.
	Zale

MATCHING GIFTS FOR EDUCATION

The **Chronicle of Higher Education** recently printed the list of American corporations that support and encourage contributions by their employees to institutes of higher education through the process of matching corporate gifts. The list is long—and distinguished by the lack of retail names. In fact, out of several hundred firms, the only true retailers listed are Federated, W. T. Grant, Jewel, Wards, Southland and Winn-Dixie (think for a moment about all that are absent). If one adds the firms with some retail activity it only brings in three more: Castle & Cooke, Hart Schaffner & Marx, and Warnaco.

If you wonder who else is doing it, 5 of the Big 8 accounting firms are listed, most of the major banks, and probably the insurance company that carries your group life insurance. Then there are your supplies like the Generals (Mills and Foods) and the tobacco-food companies (Reynolds, American Brands, Philip Morris, Lorillard) plus pants (Blue Bell and Levi Strauss), hose (Hanes) and appliances (SCM, GE, Westinghouse).

RThought: Many retailers have rejected colleges and universities as a source of personnel ("Give me a good, bright kid right out of high school and I will train him") but that does not diminish the importance to the future of the United States of privately-supported institutions of higher education.

CONSUMER CREDIT COUNSELING SERVICES

This is the name given to the various industry-supported non-profit local groups organized to assist financially distressed clients by means of a confidential and professional counseling program. Looking over their activity—and sponsoring their growth—is a major function of the National Foundation for Consumer Credit (NFCC) (1819 H Street NW, Washington, D.C. 20006).

The best available information on their activities during the year ending September 30, 1973, is their composite report of some 74 local agencies (there are more). These 74 agencies reported 43,000 inquiries of which 33,000 ended up being interviews. Out of these interviews, 2,000 were referred elsewhere for assistance, 8,000 received only financial counseling and 16,000 were put on a debt management program.

16,000 plans may not sound like a large number but they represented almost $70 million in debts. For these 16,000, and for the plans established in earlier years, the 74 local agencies disbursed more than $36 million to creditors.

Of the plans closed during the year, only 200 ended in bankruptcy and 100 in Chapter XIII. 5,000 were closed for non-payment—but the successes were 2,400 released to self-administration and 2,000 paid in full.

RThought: Consumer Credit Counseling Services (CCCS) needs your support in three ways. First, if there is no CCCS in your area, help start one (write the NFCC for information). Second, if there is a CCCS, join the growing list of firms that have issued corporate statements of support for, and cooperation with, the program. And finally, make your fair-share contribution to the costs of the local CCCS—the only way it can operate.

THE DANGERS OF 100%

RT has often been accused of marching to a different drummer. Perhaps it does.

But somewhere retailers must understand that there are limitations to the use of 100%. This was highlighted in a recent 16 page insert advertising Libby meat products in CSA Supermarkets for February 1974. The research upon which the advertising copy is based was conducted by Lebhar-Friedman Research.

It talks about a 22,000 square foot Nashville super whose canned meat sales equals 3.5% of its $2.18 sales per square foot per week—and asks the question: "What's the secret?" of this high percentage. In another case the ad reports on a 20,000 foot super in Houston that does better than 2% in canned meats—"double the national average." Nobody ever asks "Why are they doing such a poor job on the other 96.5% and 98% of their sales so that canned meats look so good?" (And as an aside—is $2.18 per sq. ft. per week so good?)

That example really isn't as bad as the National Retail Merchants Association (NRMA), which RT has exposed before. The NRMA publishes the Departmental Merchandising and Operating Results (MOR) and in this they try to stimulate stores to "improve" by providing "goal" figures as well as median figures. There is considerable question as to the wisdom of the direction of the goals (is a higher or lower selling payroll most profitable?) but that question is not involved in their goals for sales volume. For each of the many department they publish for "Net Sales % to Total Consolidated Store" both a median figure and a goal figure (25th percentile from top of an array based on volume as a percentage of total consolidated store).

Looking just at the major department (1000, 2000, etc.) both upstairs and budget—which used to be basement—departments, plus 5 cost departments and 14 concession department, RT is pleased to see the total of the median figures is 107.1% of total consolidated store sales!

RT has tried for a long time to understand how businesses, each year, do 107.1% of their actual sales and is unable to figure out a method of illustrating this on paper. When they give each buyer the responsibility of meeting the goal figure for percentage of total consolidated store volume, the buyers will have to produce just 147.7% of total sale. This means that a store that does $10,000,000 in a given year really expects to produce another 47.7% somewhere else—when they place such a demand on their buyers.

THE FUTURE OF CHEAP IMPORTED GOODS

The world is changing—and with it will come a change in the relative cost advantage of each country. For years merchants have accepted the fact that imported goods—especially from the Orient—are cheaper. This has been attributed to lower wage costs (one recalls references to "coolie wages"), a differential that was great enough to offset higher transportation costs.

During the past 5 years this pattern has changed very rapidly. Japan and Germany are the other two major industrial powers in the West. In both cases the value of their currency relative to ours has changed. Since the start of "revaluations" in 1969 (when their currency was increased in relation to ours) and the recent U.S. "devaluations" (reducing our currency in relation to theirs), the value of the West German Mark has increased by 65% and the Japanese Yen by 35%. This means that a wage rate in West Germany that converted into the equivalent of $1.00 in the U.S. in 1969 now converts to the equivalent of $1.65.

On top of that, both countries have had a much more rapid increase in wage rates than has prevailed in the U.S.—in West Germany at the rate of about 12% a year and in Japan at the rate of about 15% a year. To the increases in basic wage rates one has to add the cost of fringe benefits—some 50% in West Germany and 85% in Japan compared with 25% in the U.S.

CREDIT OFFICE RATING

RT welcomes Buffum's (the U.S. subsidiary of David Jones, Ltd. of Australia!) to the growing list of stores sending in their reports. If you would like to add your store, write to RT, P.O. Box 343, Lafayette CA 94549.

The Honor Roll this month numbers 12—congratulations to each—with the top store averaging only 2.2 days.

HONOR ROLL

Rubenstein's	2.2	Livingston Bros	3.0	Gus Mayer (Oklahoma City)	3.5
Gus Mayer (Nashville)	2.6	Maison Mendessolle	3.0	Holman's	3.7
Levee's	3.0	Roos/Atkins	3.0	Robinson's	3.7
Bullock & Jones	3.0	J. Magnin	3.2	The Broadway	4.0

CREDIT OFFICE RATING

Information From Reporters	FEB-MAR 1974 No. of Reports	FEB-MAR 1974 Days to Bill Average	FEB-MAR 1974 Days to Bill Range	DEC-JAN 1974 No. of Reports	DEC-JAN 1974 Days to Bill Average	DEC-JAN 1974 Days to Bill Range
Breuner's (Oakland)	2	7.0	6-8	1	7.0	7
The Broadway (LA)	1	4.0	4	2	7.0	7
Brooks Bros. (NY)	2	7.0	5-9	3	9.7	7-12
Bullock's (LA)	3	4.3	2-7	3	6.3	5-8
Bullock's (North)	7	5.3	3-10	5	7.4	4-12
Bullock & Jones (SF)	1	3.0	3	2	12.0	11-13
Capwell's (Oakland)	6	10.3	9-12	8	10.8	6-15
Desmond's (LA)	1	6.0	6	2	4.5	4-5
Dunhill (NY)	1	10.0	10	--	--	--
Emporium (SF)	5	11.6	8-17	6	12.2	10-15
Grodins (Oakland)	3	5.0	4-6	2	7.0	7
Gumps (SG)	4	8.5	7-11	3	11.3	9-13
Hastings (SF)	1	8.0	8	--	--	--
Hink's (Berkeley)	4	14.8	13-16	3	11.0	2-16
Liberty House (Oakland)	2	10.0	6-14	6	7.8	6-9
Livingston Bros. (SF)	1	3.0	3	2	4.5	4-5
Lord & Taylor (NY)	1	6.0	6	1	7.0	7
Macy's (SF)	9	6.4	5-7	12	7.7	6-9
I. Magnin (SF)	7	4.4	4-5	9	4.3	4-5
Joseph Magnin (SF)	4	3.2	2-4	4	3.5	3-4
Maison Mendessolle (SF)	1	3.0	3	2	3.0	2-4
Penney's (Oakland)	4	5.0	4-6	3	5.0	5
Podesta Baldocchi (SF)	1	7.0	7	--	--	--
Ransohoff's (SF)	1	8.0	8	1	8.0	8
Robinson's (LA)	3	3.7	3-4	1	5.0	5
Roos/Atkins (SF)	2	3.0	3	2	3.0	3
Saks Fifth Avenue (NY)	2	7.0	6-8	--	--	--
Saks Fifth Avenue (SF)	1	6.0	6	4	9.0	8-10
Sears (Alhambra)	5	5.6	5-6	7	4.7	1-6
Shreve & Co. (SF)	3	12.0	10-14	3	13.7	11-15
TOTAL	88	6.9	2-17	97	11.4	2-16

Information From Stores	FEB-MAR 1974 No. of Reports	FEB-MAR 1974 Days to Bill Average	FEB-MAR 1974 Days to Bill Range	DEC-JAN 1974 No. of Reports	DEC-JAN 1974 Days to Bill Average	DEC-JAN 1974 Days to Bill Range
Blum Store (Phil)	8	4.8	--	8	7.5	--
Brock's (Bakersfield)	16	9.6	6-13	16	13.6	9-18
Buffum's (Long Beach)	10	5.3	4-7	--	--	--
Holman's (Pacific Grove)	10	3.7	2-5	10	7.7	4-11
Levee's (Vallejo)	20	3.0	1-5	20	5.1	2-8
Levy Bros. (San Mateo)	32	6.3	3-12	32	7.7	3-12
Gus Mayer (Nashville)	8	2.6	--	8	2.3	--
Gu Mayer (Beaumont)	8	4.7	--	8	5.7	--
Gus Mayer (Louisville)	8	4.5	--	8	5.6	--
Gus Mayer (New Orleans)	8	8.9	--	8	8.8	--
Gus Mayer (Oklahoma City)	8	3.5	--	8	3.7	--
Gus Mayer (Jackson)	8	4.5	--	8	6.8	--
Gus Mayer (Memphis)	8	8.8	--	8	10.9	--
Gus Mayer (Baton Rouge)	8	4.5	--	8	4.3	--
Mervyn's (San Lorenzo)	13	4.8	3-8	8	4.5	4[illegible]
Oshman's (Houston)	9	5.8	4-7	8	8.9	7-1[illegible]
Routzahn's (Maryland)	3	4.0	3-5	3	6.3	4-10
Rubenstein's (Shreveport)	6	2.2	2-3	3	2.3	2-3
Walker Scott (San Diego)	12	6.8	5-9	12	13.0	10-16
Wineman's (Huntington Pk)	8	5.8	5-7	5	4.4	2-4
TOTAL	211	5.4	1-13	197	7.2	2-18

WHY A CREDIT OFFICE RATING? The Unruth 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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride—both to management and credit and data processing personnel in being listed on the Honor Roll.

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

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

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

An articles in the January 1974 issue of the Indiana Business Review projects the current trend in relative wage rates, assuming no change in the monetary exchange rate, showing that West German wage rates will pass the U.S. about 1975-196—and those in Japan about 1977-1978.

RThought: We are already seeing the impact in cars—the "low cost" Japanese and German cars are costing more than comparable sized American cars. This is also showing up in the prices of apparel, appliances and other items—items sold by general merchandise retailers.

There are many implications involved in this change. For example, conventional stores have maintained their ties with U.S. manufacturers, especially those with national brands, while discount merchants have developed stronger emphasis on imported goods as a means of offering lower prices. As the imported goods become more expensive, discounters are going to have to turn to U.S. manufacturers. Many of the manufacturers of unbranded merchandise have disappeared because of the competition with imported goods. The pressure will again be on national brand manufacturers to sell to discounters—a pressure that was heavy in the early days of discounting but which subsided as discounters used more imported goods.

There is a serious question whether U.S. manufacturers have the capacity to pick up the volume previously represented by imports. Shortages will force U.S. prices up at least to the level of imported goods—and on branded goods to some level above that.

HOW NOT TO ESTABLISH CREDIBILITY

Edward J. Brennan, Jr., of TRW Credit Data, recently addressed the New Jersey Bankers Association on the questions of "Future Trends in Computerized Credit Reporting."

After the customary "we do not do anything wrong, but we are attacked by pro-consumer image seekers," he makes two points.

First, he said, "I believe that whatever man has the ingenuity to develop, man has the ingenuity, if he has the desire, to protect and use in a productive way." RT would only observe that Mr. Brennan should pay some attention to those products of man's ingenuity known as alcohol, marijuana and tobacco.

Second, he destroys his entire creditility by saying, "If present legislative trends continue and additional regulations are imposed, regulations such as notification to the consumer every time a report is issued, the transfer of telephone charges, etc., I am fearful that the credit reporting agencies will find their costs soaring to a point where they will be unable to stay in business." RT would offer this analysis of Brennan's own industry: if costs increase, then TRW Credit Data will have to charge more for a report (thus the profit of TRW-CD is maintained); if the higher report cost makes them economically unnecessary for credit granting (that is, the reduction in credit losses does not offset the cost of the reports), then users will quit buying reports and TRW-CD will go out of business; which only proves that credit reporting agencies are only a marginally viable industry today dependent upon cost savings often grained through infringement on consumer rights.

WHEN RETAIL EXECUTIVES TALK

RT doesn't know which is the most useless expenditure of time—the time spent by newspaper reporters doing a "round up" story on current retail sales trends, or issuing the "say-nothing" response from the retailers.

For those who need to know the current retail sales trends, there are monthly sales reports of the major retail firms, monthly and weekly reports by governmental agencies, quarterly reports (often delayed several months) by sales tax collecting agencies, monthly employment figures for metropolitan areas, states and nationally for all retail firms, and many other sources.

Isadore Barmash of the New York Times did a round-up story on retail sales that appeared the Saturday before Easter. RT offers for your consideration the quote attributed to Albert H. Dolin, Executive Vice President of Goldblatt Bros. in Chicago: "We're experiencing a trend on the upside, yet it's evident that there's been an erosion of consumer purchasing power. Even though the (gas) shortage has eased, our suburban stores have not rallied as much as we expected. Still, things are an improvement over February when we had an unusual sales decline."

RThought: What did he say?

RThought: Goldblatt's, for the 9 years ending January 1973 (RT does not yet have the report available for January 1974 at this writing) showed a compound annual sales growth rate of 6.9%, a growth rate of stores 4.9%, and a compound growth rate in estimated average sales per store of 2.6%. During this period the Consumer Price Index has increased at a compound rate of about 4%, with department store merchandise showing a somewhat lower rate. Doesn't this background indicate that one would conclude that Goldblatt's is falling behind?

COMMENTS FROM READERS RE STANLEY GOODMAN

From a store president: "... as it relates to Stanley Goodman's remarks at the NRMA Convention in January. Frankly, I had the same reaction to his remarks as you have expressed but until now have not found anyone else who has expressed those thoughts."

From the owner of a chain of stores: "It is more than coincidence that when I read a summary of Mr. Goodman's speech the first word that came to my mind was 'hypocrite'."

RECOGNIZING EQUAL OPPORTUNITY

Every once in a while publicity is given to a court decision or an order from the Equal Employment Opportunity Commission (EEOC) that hits at discrimination in the retail industry—discrimination against women, against minorities, or against traditional differences in compensation for jobs requiring the same skill.

Most retailers, if they think about such matters at all, easily convince themselves that the retailer involved in the decision or order was somehow different or bad—and that such an event is not likely in their own future.

But minority organization are not only watching—they are creating these actions. RT would estimate that the three largest employers of women—who keep women out of many top management positions—are retailers, banks and insurance companies. It is possible to see what can happen with a bank if one looks at a recent case—National Organization of Women et al v. Bank of California (D.C. N. Cal,. Consent Decree June 28, 1972) in which the National Association for the Advancement of Colored People and the American G.I. Forum were also plaintiffs, and Public Advocates, Inc., represented all plaintiffs.

The Public Affairs Council has estimated the cost of the decision to the Bank of California (BofC) at $42,000,000 over a period of years. BofC has agreed to a 10 year program to bring employment of blacks and Spanish-surnamed persons in line with California population. Goal figures have been set for each year (for example, by December 31, 1978, a minimum of 10% black and 15% Spanish-surnamed).

Goals are also set for black, Spanish-surnamed and female **participation** at each of 4 levels of management (for example, by **December** 31, 1982, top management is to have 4% black, 6% **Spanish**-surnamed and 16% female). In order to accomplish this, **BofC** is to establish certain advertising and training programs.

Finally, by November 1, 1973, the Board of Directors of BofC **was** to appoint a Committee to "investigate, identify and consider **qualified** minority and women candidates to fill vacancies on said **Board**" with the first report to be submitted prior to the 1974 Annual Meeting.

This was not an action by EEOC but was an outgrowth of the Equal Employment Opportunity Act of 1964 and subsequent amendments. EEOC has had power to initiate legal action only since 1972 and since that time has approved over 100 cases for litigation. They have also settled 2,000 cases out of court. That leaves 60,000 cases—and the number is growing.

RThought: Someday ask your personnel or payroll department for a little information. Ask them to compare the average wage of women buyers with men buyers, or women department managers with men department managers, or women in receiving and marking with men in receiving and marking.

Go even further. Ask for the mixture of males and females in key departments where strength or other physical factors are not important in selling the product. Use the furniture, appliance, radio and TV and vacuum cleaner, and sewing machine departments as one group; and then use the stationery, candle, candy, book, lunch counter, trim-a-tree and housewares departments as the other. Ask for average annual **earnings** for each department.

If there are far more men in each department and a much higher average annual earnings in the first group; and far more women and much lower average annual earnings in the second group, save the information. It will save the cost of collecting it again when the EEOC calls.

BROADER F.T.C. DECISIONS

The initial decision against Bristol-Myers Co. and its advertising agency, Ogilvy & Mather, based on the determination that false TV commercials had been prepared for Dry Ban spray anti-perspirant indicates a move to broaden the scope of future actions. In this case, commercials were prepared showing Dry Ban and "a leading" competitor being sprayed on a surface—the "leading" competitor was then shown as white while our hero, Dry Ban, was colorless (all they had to do was wait a long time until "Dry Ban" dried).

The proposed order would prohibit Bristol-Myers from using deceptive product features or product superiority demonstrations for any product; and it would bar Ogilvy & Mather from misrepresenting any other anti-perspirant or deodorant. The administrative law judge pointed out that top management has an obligation and responsibility to police the company's promotional and advertising practices—and in this case Bristol-Myers had disregarded substantial information coming to them that the public was being misled. Since Bristol-Myers advertises hundreds of items, it should not be necessary for the public to have to take action against the Company one product at a time.

In the case of the advertising agency, the judge held that Ogilvy & Mather "knew or should have known" that they were preparing misleading ads and they, too, should not have to be acted against for each new product or brand.

RThought: If this decision is upheld—and followed in future cases—the same argument of large advertising budgets a[illegible] multiple items can be made against more retailers. If, [illegible] example, a retailer is held to have run ads misrepresenting the price or quality of a TV set, the future order may well ban misrepresenting the price of quality of all items. RT completely agrees with the statement of the judge that top management "has an obligation and responsibility to police the company's promotional and advertising practices." RT could present a long list of nationally known companies where consistently dishonest advertising programs have been conducted **with the encouragement of top divisional management** and without any restraint being imposed by the top corporate management.

ORDERS FROM THE CONSUMER PRODUCT SAFETY COMMISION – WHO PAYS?

The Consumer Products Safety Commission (CPSC) has been given extremely broad powers—so that it can pursue the goal of protecting "the public against unreasonable risks of injury associated with consumer products."

These powers include:
1. Banning a product from sale, including immediate seizure.
2. Requiring notice of unsafe conditions be sent to every purchaser.
3. Recall and repair or replacement of the product.
4. Require that records be maintained especially for the Commission.

And to enforce these powers there are penalties ranging up to 1 year in prison and/or up to $50,000 in fines.

RThought: Retailers should consider adding to the provisions [illegible] their purchase orders a requirement that the manufacturer ho[illegible] the retailer harmless from all additional costs and expenses arising from action taken against the manufacturer's product(s) by the Consumer Product Safety Commission. If the products are seized off your shelf, you should have a claim for credit against the supplier (if he is still in business!). "Repair or replace" can be mighty expensive.

RThought: Industry trade associations that have standard trade terms should move to include response to action by the CPSC in those agreements.

WORDS TO MANAGE BY

RT offers thanks to "The Week in Review," published by Haskins & Sells, for again bringing to the front the following quotation from Judge Learned Hand, one of America's greatest judges, who sat for many years on a Circuit Court of Appeals and who many attorneys and judges felt should have been elevated to the Supreme Court:

> **"Over and over again courts have said that there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich or poor; all do right, for nobody owes any public duty to pay more than the law demands."**

RThought: Do not overlook the fact that Judge Hand is also saying that everybody owes—and should pay—that which the law demands.

RT welcomes contributions of words that you find inspiratio[illegible] —especially ones you carry in your wallet.

Lebhar-Friedman, Inc.

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OFFICE OF THE VICE PRESIDENT
AND EDITORIAL DIRECTOR

June 4, 1974

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

Dear Bob:

To be sure you see it, I'm enclosing a tearsheet of the current editorial that quotes your experience in absorbing higher gasoline costs.

PUT ~~[illegible]~~ WITH MAY RT

When I read your reference to that anonymous editorial director, I wasn't immediately sure that it might be me. But, on checking my files, indeed it was.

It was a nice friendship card - better than Hallmark.

Cordially,

Ben

Ben Gordon

SHORT SHORT
FEATURE
PAGE
R.H. COLUMN

BG:pt

Enc.

FINANCIAL

Does Top Retailing Speak With Forked Tongue?—Kahn

(EDITOR'S NOTE: The following commentary by Robert Kahn appeared in a recent issue of his "Retailing To-Day," national newsletter circulated monthly to top retail executives around the country. From time to time, with the permission of Robert Kahn, MODERN RETAILER publishes lead editorials from "RT," as it is more familiarly known. Readers who wish to receive the newsletter monthly may do so by writing to: Robert Kahn, P.O. Box 343, Lafayette, Cal. 94549. Annual subscription price is $12.)

Robert Kahn

" 'Hypocrite—one who plays a part, pretender, a person who pretends to be what he is not; one who pretends to be better than he really is, or pious, virtuous, etc., without really being so.' ('Webster's New World Dictionary,' College Edition.)

"In January, Stanley J. Goodman, chairman of the board of The May Department Stores Company, addressed the National Retail Merchants Association on the subject, "Raising the Fallen Image of Business." From some of the press coverage, one would consider it the finest single address since Lincoln visited Gettysburg. Here was a leader telling those he leads in his industry that they have to change their ways.

"In mid-February, Isadore Barmash of the prestigious New York "Times" followed up, and Goodman reported he was still digging out from under an avalanche of mail. Barmash reported Goodman's concern about the 'flurry of recent surveys (that)...underscored the

distribution both professional and substantial.' Note the terms 'fifty-fifty,' 'joint venture' (twice), and 'joining with.' Now let us see how Arthur Andersen and Company viewed the same matter as set forth in Footnote eleven:

" 'A wholly-owned subsidiary of the Company is one of two general partners in Consumers Distributing Company, a general partnership. Subject to the occurrence of certain events which might increase the subsidiary's share of profits, profits and losses of the Partnership are to be shared equally by the partners except that, if the Partnership shall have accumulated losses at any time when profits or losses are allocable, all losses and, to the extent of any such accumulated losses, all profits are to be allocated to the subsidiary. If certain operating guides are met, the subsidiary may be required to lend up to $25,000,000 to the Partnership prior to April 3, 1976, and up to an additional $25,000,000 prior to March 31, 1979, to provide for the opening of

page one: 'How does C.D. do it? Here's the inside story. C.D.'s unsecret code shows you penny for penny, dollar for dollar how we can cut the price of buying the best.' C.D. then explains the three sets of numbers—the buying-guide number, the coded C.D. price, and what appears to be a price but which is headed: 'This price at the far right is not the price you pay, it is a suggested manufacturer's list price or the customary trade price.'

"We then get to the fine print—closely packed, printed black on a blue background to reduce the contrast and increase the difficulty of reading. (Editor's Note: It is reproduced below in much larger than original size.)

Information Regarding Prices Important Note Please Read Carefully

The prices shown in the right-hand column on each page of this buying guide are for reference only, and no representation is made to the effect that any of these prices is the usual or ordinary price at which a particular item is sold.

Most of the prices shown in the right-hand column are manufacturers' suggested retail prices supplied to Consumers Distributing. Where manufacturers do not supply suggested retail prices. Consumers Distributing has applied to its cost markup percentages based on trade customs (which commonly vary with respect to various types of

Pulse of the Market

Discount Stocks in Review- May, 1974

• New York Stock Exchange	Date Pulse Done May 9, 1974	High	Low
Allied Dept. Stores (Almart, J.B. Hunter)	24⅞	24⅞	20
Arlen Realty & Development Corp.	2¾	4⅝	2¼
Borman's Food, Inc. (Arnold Drug)	2⅞	3⅝	2½
Cook United (Uncle Bill, Ontario)	6¾	8¾	5¾
Cunningham Drug	6⅞	7½	5¼
Daylin, Inc. (Great Eastern, Miller's, Gulf Mart)	4	5½	3¾
Dayton Hudson (Target Stores, Lechmere Sales)	9⅞	12	8⅝
Diversified Ind.	1⅞	2¾	1¾
Federated Dept. Stores (Gold Triangle, Gold Circle)	31¾	37½	28
Food Fair (J.M. Fields)	7⅛	9	6⅜
Gamble Skogmo (Tempo, Buckeye Marts)	29½	33¾	25½
Grand Union (Grand Way)	11½	14	11⅜
W.T. Grant (Diskay)	8	12	6½
Gray Drug Stores (Rink's, Bargain City)	7⅜	9½	6½
Heck's, Inc.	10½	13	7⅜
Interstate Stores (Topps, White Front)	1⅛	2⅞	½
Jewel Company (Turn Style)	40½	44	30¾
King's Dept. Stores	5¼	6½	4½
S.S. Kresge (K-Mart)	34⅞	37⅜	27¾
Lane Bryant (Town & Country)	10½	14	10
Lucky Stores (Gemco, Memco)	11¾	14	11½
May Dept. Stores (Venture)	23⅝	28½	19¾
J.W. Mays	5⅝	7	5¼
Melville Shoe Co. (Meldisco, Inc.)	7⅝	11⅞	7¼
Morse Shoe Co.	3⅝	4⅜	3½
National Industries (Community Discount Stores)	4½	5¼	3⅞
Pamida, Inc.	5½	6½	4½
Penn Fruit	4⅞	6⅛	3
J.C. Penney (Treasury)	72⅛	75⅞	65½
Revco Drug Stores	26	31⅞	20
Sav-A-Stop	3	4½	2⅞
SCOA Industries (Hill's)	6⅞	7⅜	4¾
Skaggs Co.	10¾	12⅞	10½
Vornado (Two Guys, Builders Emporium)	4⅜	6⅜	3½
Walgreen's (Globe Shopping City)	14¼	17	13¾
Wal-Mart	16¾	19	13⅝
Woolworth (Woolco)	17½	19⅜	16⅝
Zale Corp. (J.T.S.)	17⅜	18⅞	13¾
Zayre Corp.	6	7½	5⅜

• American Stock Exchange			
Barbara Lynn Stores	2⅝	3	2½
Big Bear (Hart's Family Centers)	18¾	24¾	17⅜
Caldor Inc.	7⅛	9	6⅝
Epko Shoe	6½	8⅛	6
Fabri-Centers	5½	8⅜	5¼
Family Dollar Stores, Inc.	3¼	7⅞	3⅜
Fed-Mart	16⅞	18⅛	14¾
Felsway	4	4⅞	3⅞
Franks Nurseries	6⅜	8⅛	5¾
Giant Food (Super Giant)	14⅝	15½	10⅜
Glosser Bros. (Gee Bee)	8¼	9¼	7⅜
Greenman Bros.	2¾	4⅞	2¾
Hartfield-Zodys (Yankee Stores, Karl's Shoe)	1⅝	2⅜	1½
Jamesway Corp.	3⅜	4⅜	2⅞
Kuhn's (Big K)	5⅜	7⅛	5½
Mammoth Mart	1½	2	1⅛
Medco Jewelry	2¾	4⅜	2¾

dress since Lincoln visited Gettysburg. Here was a leader telling those he leads in his industry that they have to change their ways.

"In mid-February, Isadore Barmash of the prestigious New York "Times" followed up, and Goodman reported he was still digging out from under an avalanche of mail. Barmash reported Goodman's concern about the 'flurry of recent surveys (that)...underscored the low regard of the public' for business. In preparation for his talk Goodman "recharged his batteries" by returning to Harvard Business School (far more noted for producing money-making technicians than activists in the area of business ethics).

"Goodman, in his talk, had urged retailers to, among other things, subject advertising to internal tests before releasing it for publication. He says that he has been attempting to practice in his own company the things that he has suggested to others. RT feels that there are major facets of the conduct of The May Company that are not representative of the standards that Goodman professes to follow—and suggests that others follow.

"RT has previously commented on the misleading manner in which Goodman and May Company President David E. Babcock told the stockholders about their entry into catalog-showrooms. In their signed letter to stockholders the following statement was made:

" 'In August we completed arrangements for a fifty-fifty joint venture with Consumers Distributing Company, Ltd., of Toronto, Can.; the joint venture will be called Consumers Distributing Company and will make a major entry into the United States catalog-showroom field in the fall of 1973, opening a total of fifty stores in the metropolitan areas of New York and San Francisco. By joining with one of the largest catalog-showroom companies in North America we are in a position to make our entry into this promising new field of except that, if the Partnership shall have accumulated losses at any time when profits or losses are allocable, all losses and, to the extent of any such accumulated losses, all profits are to be allocated to the subsidiary. If certain operating guides are met, the subsidiary may be required to lend up to $25,000,000 to the Partnership prior to April 3, 1976, and up to an additional $25,000,000 prior to March 31, 1979, to provide for the opening of catalog showrooms by the Partnership.'

"Note that no mention is made of any investment by the other partner, and May is obligated to risk $50,000,000 (eleven per cent of the company's net worth). In return, May Company gets the pleasure of absorbing all the losses. RT recalls at this time the story of the fifty-fifty rabbit sausage—one rabbit to one horse. Or perhaps the story of betting 'heads they win and tails we lose.'

"**RThought:** Does this disclosure, dated April 25, 1973, meet the standards expounded by Goodman nine months later? Does this substantiate Goodman's claim that he has been attempting to practice his suggestions in his own company?

ABOUT ETHICAL STANDARDS

"This brings us to an analysis of the ethical standards of the catalog-showroom industry and particularly as practiced by Consumers Distributing (C.D.). C.D. opened its stores in the San Francisco area with full-page ads showing how to read the price in the C.D. catalog. This included the following statement: 'The price at the far right is not the price you pay; it is a suggested manufacturer's list price or one computed under customary trade practices.' Is there a reader of RT (other than catalog-showroom operators) who knows how to compute a price 'under customary trade practices'? Particularly when price controls are in operation?

"In the C.D. 1973-1974 'Buying Guide,' with complete disregard for the laws of the state of California, C.D. proclaims on

sold.

Most of the prices shown in the right-hand column are manufacturers' suggested retail prices supplied to Consumers Distributing. Where manufacturers do not supply suggested retail prices. Consumers Distributing has applied to its cost markup percentages based on trade customs (which commonly vary with respect to various types of items) to arrive at a price which it considers to be in accordance with customary trade practices.

"This important notice goes on and on. The length is three times what has been shown and deals with 'these prices may vary in different trading areas,' 'no representation is made,' 'no user...should assume that a savings will be effected or realized,' 'we have clearly marked the fair-traded items,' and on and on. In the high ethical standards propounded by the chairman of the fifty per cent owner, any case where goods are sold by others for less are explained with this statement: 'In some cases, other retailers may be selling goods at prices equal to or less than the Consumers Distributing price for the purpose of clearing goods which are end-of-line or stale merchandise, or by reason of their ordinary business practices.'

RThought: C.D. is using the same catalog in California, New York, New Jersey, and Connecticut although the laws are different. Panasonic is fair-traded in California but at a price below Panasonic's list price. C.D. does not disclose this, but shows the list price for comparison and the fair-trade price as their selling price. California law requires that one can use a comparative price only when it can be shown that a substantial quantity of each item was sold at the comparative price within the area in which the advertiser is doing business.

"**RThought:** The Better Business Bureau of San Francisco appears to be afraid of The

(continued on page 12)

Barbara Lynn Stores	2⅝	3	2½
Big Bear (Hart's Family Centers)	18¾	24¾	17⅜
Caldor Inc.	7⅛	9	6⅝
Epko Shoe	6½	8⅛	6
Fabri-Centers	5½	8⅜	5¼
Family Dollar Stores, Inc.	3¼	7⅞	3⅜
Fed-Mart	16⅞	18⅛	14¾
Felsway	4	4⅞	3⅞
Franks Nurseries	6⅜	8⅛	[illegible]
Giant Food (Super Giant)	14⅝	15½	10⅜
Glosser Bros. (Gee Bee)	8¼	9¼	7⅜
Greenman Bros.	2¾	4⅞	2¾
Hartfield-Zodys (Yankee Stores, Karl's Shoe)	1⅝	2⅜	1½
Jamesway Corp.	3⅜	4⅜	2⅞
Kuhn's (Big K)	5⅜	7⅛	5½
Mammoth Mart	1½	2	1⅛
Medco Jewelry	2¾	4⅜	2¾
Morton Shoe Stores	3⅜	4⅛	3⅜
National Bellas Hess (GEX Superstores)	¾	13 16	9 16
Neisner Bros. (Big N)	9¼	10¼	5⅞
S.E. Nichols	2¼	3	2⅛
Pic 'N Pay Stores, Inc.	3⅛	4½	3
Spencer Companies	2¼	4	2
Twin Fair (Fashion Fair)	5¼	6¾	4⅝
United Dollar Stores	3	4	2⅞
Wards Co.	2⅝	3	2⅜

• Over-the-Counter	Bid	Asked
Bazar, Inc. (Big C Stores)	3½	4
Dollar General	5	5⅜
K-B Marketing Systems (Kobacker Shoe)	11¼	12¼
Fred Meyer, Inc.	18¾	19¼
Mr. Wiggs	6¼	7¼
National Shoe	3¼	4½
Pay Less Drug	9½	10
Rich's, Inc. (Richway)	22½	23½
Silo, Inc.	6	7
Weisfield's, Inc. (Valu-Mart)	3½	4½

Turn ★ Style Book Drops List Price

CHICAGO, Ill.—Turn ∗ Style Plus, the new catalog-showroom division of Jewel Company, Inc., will discontinue coded comparison prices in its 1974 catalog due to be issued in September, announces Frank Tyska, president of Turn∗Style division. There are clues that other major retail companies now in the catalog-showroom business may also be moving away from so-called manufacturers' list prices.

"Although the use of coded comparison prices is a common practice in the catalog-showroom industry, we believe it is not consistent with sound consumer practices," Tyska states. This action is in line with practices recently adopted in other companies of the Jewel Companies, Inc., whereby steps were taken to eliminate confusion for the customer.

The Jewel Food Stores inaugurated such programs as open code dating so that the consumer can determine the product's freshness and meat identification labeling to help the consumer make better buying decisions on fresh meat. The Osco Drug Company introduced drug price posting to enable the consumer to shop wisely for prescription.

Turn∗Style entered the catalog-showroom business in September, 1973, with five showrooms, all in the Metropolitan Chicago area.

Parkway Adds 7 H&B Leases

HOLBROOK, Mass.—Parkway Distributors, Inc. has announced that it now operates the health-and-beauty leases in the seven Forest Hills discount stores in Massachusetts, New Hampshire, and Vermont. Parkway also operates the Big L free-stand health-and-beauty chain. There are 130 of these stores from Maine to North Carolina.

Credit: The Vendor Takes A Look Around the Market

GARMON VIEWS THE MASS MARKETING SCENE

Fred Garmon

A growing number of vendor-resources to mass-merchandise discount chains are becoming increasingly cautious, even apprehensive, and understandably so, in their credit relations with the discount chains, as a result of the rash of Chapter XI situations recently. Oh, vendor-resources still want that volume out there with the mass merchandisers, but on more stringent terms of credit and delivery.

This tightening of credit terms and application of fairly rigid credit ceilings by vendors to many retail chains, and some distributors, may cause even more chains to feel the pinch. The ability on the part of many discounters to maximize and extend their capital through extra thirties and sixties has helped to finance their new store expansion and growth. Now, with this vendor financing drastically restricted, and interest rates from financial institutions at an all-time high, it would appear that retailing is entering a period of consolidation, with very limited store expansion. This can be healthy—by forcing chains to look inward toward making their existing stores more efficient and more profitable—through elimination of waste, duplication, and excess inventory.

LONG- VS. SHORT-RANGE

When you have to pay invoices in thirty to forty-five days instead of sixty to ninety, your available cash flow is reduced, so the logical approach is to make it work harder, through improved turnover of inventory at profitable markups. While this may cause some short-term difficulties and adjustments, it's quite possible that long-term-wise it could have a beneficial effect on the industry for both retailers and the vendors who serve them.

The mass market today for vendors, however, has become a much broader spectrum of the retailing industry, multifaceted with fertile and sound markets for new vendor growth and development. We're talking about such areas as the supermarket chains with their expanded areas for general merchandise, in their family centers and combination stores; superdrug chains, like Dart, Super-X; the minidrug chains like CVS, Rite-Aid, Revco; home-improvement chains, like Rickel's, Lowe's, Handyman, and the like; as well as the growing number of specialty-line chains selling limited product lines, such as fabric marts, arts and crafts, etc. Of course, we can't forget the catalog-showroom chain operations which have had a tremendous growth during the past few years with increasing emphasis on "not-in-catalog" items for promotional emphasis. As far as we can see, from a credit and collection standpoint, these areas of the mass market seem to be fairly strong, with very few, if any, "bad apples," so to speak! So, from a "broad-brush" aspect, the opportunities and potential for volume in these expanding areas of the mass market are very substantial.

Hills First Metro Market

CANTON, Mass.—While other discount chains are making for the hinterlands, the highly successful Hills Department Store division of SCOA Industries, Inc., is entering its first metro market this year. Before 1974 is out, Hills will open two units in Pittsburgh, with five more there within the next two years. At the present time, there are forty-one of these self-service department stores in operation, all in the Midwest, although the company headquarters are in a suburb of Boston.

The two new stores will be 80,000 square feet, and one will anchor a mall in West Mifflin Township across from Kenwood Amusement Park, while the other will be a free-stand store on Route 19, north of McAndless Township. Over the years, four stores have been opened not far from Pittsburgh. With the new program, Hills will be a major retail power in the Greater Pittsburgh trading area. Herbert H. Goldberger, a founder of Hills before it was acquired by SCOA eight years ago, is president of the Hills group and a corporate vice president of the parent company.

Also announced were the promotions of Raymond H. Brinkman to vice president-field operations; Stephen A. Goldberger to vice president-finance and administration; and Bruce G. Ross to controller. Brinkman, who advanced from director of field operations, joined Hills in 1966 as assistant manager of its Lorain, Ohio, store. Before joining Hills, he was associated with Bradlees. Goldberger, who moved up from controller, joined Hills as a buyer in 1971. He had been associated with the New York City management consultant firm of Cresap, McCormick and Paget, Inc. Ross was promoted from manager of electronic data processing. Associated with Hills since 1969, he formerly was with Lybrand, Ross Brothers and Montgomery.

Kahn Report...

(continued from page 11)

May Company. In their February, 1974, 'Spotlight,' they commented on catalog-showroom ads, saying: 'In our investigation (note: no operator was named) we find the 'list' or 'retail price' is often a false comparison because the item is not or has not for the preceding ninety days sold at the higher price...Such use of phony savings claims is in violation of truth in advertising laws and the F.T.C. guide lines.' Unfortunately, instead of indicating action that the B.B.B. will take on behalf of consumers in their area, they warn the consumer to be careful!

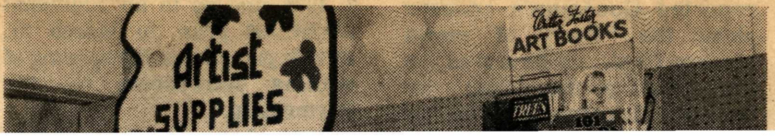
"The B.B.B. may be right, because C.D. apparently has shown disdain for the Attorney General of California. When RT checked to see if any action was being taken against C.D. and other catalog-showroom operators, we were told that an attempt was started months ago but C.D. failed to reply, and that stronger steps would be taken to protect the people of California.

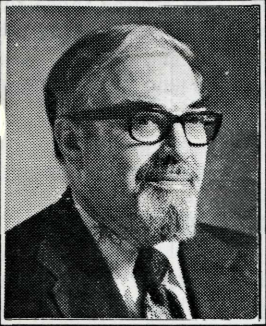
"**RThought:** This brings us to the final thought about C.D. and The May Company. The May Company, in Los Angeles, would never use the type of price comparisons that C.D. uses in the San Francisco area. Such advertising methods as C.D. uses represent unfair and illegal competition, and The May Company in Los Angeles would deplore the practice. But The May Company is smarter than to use these methods where they already have stores, so they picked the San Francisco Bay and the New York City areas, where they have no stores.

"**RThought:** Goodman is sixty-three and indicated to the New York 'Times' that he would probably retire at sixty-five at which time he would like to be a consultant on an international basis. RT will watch with interest how he 'consults' with his joint venture where his stockholders have the pleasure of betting a hundred per cent of the losses against fifty per cent of the profits—to the tune of $50,000,000. When Goodman talks about 'Raising the Fallen Image of Business' he might mention that The May Company and Consumers Distributing are among those who have pushed it down."

Salem Paint...

Above and below, Salem Paint's paint-products wallpaper, and art-supply leased departments in Packards, Hackensack, N.J.





ROUTE TO

RETAILING TODAY

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

Published Monthly. $12 per year.

JUNE 1974 **VOL. 9, NO. 6**

THE EDITOR SPEAKS

Would you believe that a talk on retail accounting would outdraw a talk on sex with explicit slides showing fornication, mayhem and other violent acts? It happened.

I was asked to address the National Association of College Stores at their annual convention in San Francisco (the largest in their history) on the subject "An Alternative to the Retail Method of Inventory" (Note: what I suggest is only applicable to books.) The day before my talk I attended another general session on the subject of "obscenity." My purpose was to get a feeling of the convention, to see how they conduct their meetings, and to get an idea of the facilities and the problems, if any, of the assembly hall. Much to my surprise the attorney showed the explicit slides he used when questioning prospective jurors–showing, side-by-side, pictures of abnormal sexual acts and violence (bayoneting, shooting, etc.).

The hall was one-quarter full–and so I expected it would be only one-eighth full for a dry subject like an alternative to the retail method. Imagine my surprise when I found almost every seat occupied! My faith in the dislike of the retail method of inventory was reaffirmed!

SHORTAGES AND GASOLINE MARKETING

This is the title of the lead article in the April 1974 issue of **Business Horizons** (published by the Graduate School of Business, Indiana University, Bloomington, Ind. 47401, $12/yr.)

The article is too long to reprint in full and too detailed to summarize in a paragraph or two. But, it will give you a good insight into what has happened and what needs to be done in the future to assure a steady supply of gasoline to our customers.

RT has obtained a limited supply of reprints which will be available to **subscribers only** on a first-come, first-serve basis. Please send a No. 10 self-addressed envelope with 20¢ postage to "Gasoline Marketing," P.O. Box 343, Lafayette, CA 94549.

HOW CAN TOP MANAGEMENT TOLERATE NOT RESPONDING TO CUSTOMERS?

In the January 1974 RT we quoted the statement made by Harry N. Jackson, Director of Credit, Dayton-Hudson Corporation, on behalf of the National Retail Merchants Association (NRMA), before a committee headed by Congresswoman Leonor K. Sullivan. Mr. Jackson said ". . . NRMA would like to point out that retailing, being such a highly competitive business and one entirely dependent upon customer satisfaction for its survival, has acted on its own, without prodding, to assure that credit billing errors are swiftly, fairly and efficiently resolved." RT responded, "If this statement was true, then the 'Action Line' columns in major newspapers could run every other day instead of daily."

Consider what Congresswoman Sullivan must have felt when she read the following "Action Line" (which appropriately appears on a page headed "Comics–Features") in the May 24, 1974, Washington **Star-News:**

My wife died last June. Last November I received a bill from Woodward & Lothrop for a purchase made in October and charged to my wife's account. Then in December I received another bill, this

A MATTER OF CONCERN

RT has built its circulation over the years primarily by sending sample copies to persons selected by me. Those selected are top retail executives who I think would benefit from a point of view about retailing that is seldom mentioned in other publications. I have been pleased that this process seems to work–with a satisfactory flow of new subscribers, 80% of whom renew their subscription.

Recently one of these mailings reached a former subscriber who returned the following note:

> **I was once a subscriber, but tired of hearing the same trite platitudes from a pompous self-appointed industry conscience who has been away from the real world of line responsibility for too long. I remain anonymous simply so that I will not be tried by the press.**
>
> **Ex-subscriber**

Several things in this letter bothered me; "pompous" was not one of them, nor was "self-appointed conscience," which is entirely correct. "Trite platitudes" certainly includes everything up to the 10 Commandments and the Boy Scout Laws.

What bothered me was the charge of being away from the "real world." It is true that I am not in a line position–but I counsel regularly with top retail management. During 1974, this has included (most are on a continuing basis) 5 department stores or department store groups doing over $125 million, 4 apparel chains doing over $60 million, and 3 miscellaneous retailers doing over $25 million. Combined, these clients operate over 150 units.

But what hurt most was the feeling that he had to write to me anonymously. I have never used in RT any material that the person providing it has asked not to be used nor have I ever used material that would violate a client's confidential status.

one for $135.08. At the end of that month I wrote and explained that these purchases could not have been made by any member of my household and should be cancelled. I am still being billed for the charges now, five months later, and recently received a form letter from a credit organization. Any help would be appreciated. – W.V.B.

The store was alerted to the probable fraud and an investigation made. You have received a telepost message that your account is cleared of all charges and offering apologies for your five-month inconvenience. The credit company was informed of the error, and you have received a new charge plate. The customer service department told ACTION LINE it is important for you to destroy any old plates. If you don't, an official said, you may be arrested in the store if caught charging with it.

RThought: Woodies is a $175,000,000 regional department store chain well represented in all the activities of NRMA. This must be the kind of firm that Jackson was reporting to Congresswoman Sullivan as resolving credit billing errors "swiftly, fairly and efficiently." Five months is "swiftly, fairly and efficiently"? Not in the mind of most consumers–which is why Congress will pass legislation compelling faster action. And isn't it interesting that in the spirit of friendship Woodies is telling the customer that he may be arrested at some time? What did the customer do that warrants such a possibility?

RThought: Woodies has demonstrated again a major weakness in department store management. They have failed to develop a system for bringing under immediate and direct control of a responsible executive every letter or phone call of complaint, whether addressed to the credit department, a merchandise department, the delivery department or any other part of the business. Until management feels enough concern about this matter to find a way to screen and control incoming complaints, statements like the one made (hopefully not under oath) by Jackson will just bring more discredit to the entire industry.

RThought: RT would like, out of curiosity, to see what remains in the files on "W.V.B." in the credit department of Woodies, in the local credit bureau, and in the collection agency. RT is willing to bet even money that at least one of the three will show a derogatory statement about W.V.B. that might affect him in the future.

WHERE ARE RETAILERS IN THIS AGE OF CONSUMERISM?

If you go to a national retail convention–where the consumers are not represented–you hear great talks by industry leaders about leadership responsibility within "the industry" (department stores, men's stores, discounters, and others). Of course, members always listen to each other–seldom to consumers. Then a surprising number rush home to sign consent orders with the FTC or a state agency professing that they never did anything wrong–but they will stop doing a lot of things.

All of this is to the point that one of the most effective consumer agencies–servicing the largest concentration of consumers–appears to be heading for a fiscal assault that will leave it incompetent and will leave millions of consumers much worse off. Newly-elected Mayor Beame of New York, is proposing to cut the budget of the Department of Consumer Affairs by nearly one-third.

RThought: RT is willing to bet that the names of Macy's, Gimbel's, Alexander's, Korvette's, Bloomingdale's, A&S, Supermarkets General, Lane Bryant, Altman's, Lord and Taylor, A&P, and First National, will not–repeat, not– be among those that urge the Mayor to continue to provide full services for the consumer. After all, the retailers that brag in their ads about helping the consumer are usually the last ones who want someone checking up on them.

WHAT IS THE PROPER ROLE OF ETHICS IN BUSINESS?

This is the question addressed at a recent 3 day seminar conducted by the University of Virginia Graduate School of Business–and attended by the deans of 11 major business schools plus many corporate representatives. Kirk Hansen, President of the National Affiliation of Concerned Business Students (April 1974, Concerned Business Students' REPORT, $50/yr. for corporation, $15 for individuals, 220 S. State Street, Chicago, IL 60604) gave his summary of the points of agreement that he thought emerged:

1. Corporate decisions are primarily motivated by profit considerations, but other major factors are important, including the ethical principles held by the chief executive officer and enforced by him on the organization, and the ethical values and perspectives of the individual manager making the decision. Thus ethics has a great impact on the decisions made by a corporation and a great impact on the success of the firm. Ethics should therefore be discussed explicitly in business education, with this attention focusing on the various ethical systems and values that could be employed and what their impact on the firm and its fortunes would be.

2. It is impossible and undesirable for a person to be entirely amoral and without ethical values while he is functioning as a business manager. Therefore it is critical that the individual business student be encouraged to explore and select for himself a coherent set of social and ethical values. The professor of business administration should highlight the various ethical alternatives and should not hesitate to articulate his or her own particular value choices. This does not mean the professor should preach one particular perspective, but instead should encourage and show the importance of openly holding a set of values.

3. Management education should deal specifically with the process and techniques of integrating ethical values and social policies into the firm. Social responsibility was defined to be the overall responsiveness of the firm to social and environmental values and pressures, be they from government, pressure groups, or a firm's own employees. It will be increasingly important for every business manager to know how to integrate social perspectives into his own decisions. Most often this will enhance the profitability and survival of his firm.

ALL GALL IS DEPOSITED IN BANKAMERICARD

RT did not believe reports received about the application form used by BankAmericard in California–but there it was, in the second portion of the form, right after the word "Occupation." It says, "If applicant is self-employed, attach current financial statement and/or latest income tax return"!

Let's think about this requirement for a moment. First, it is an admission that BankAmericard and their agents such as TRW Credit Data and Retail Credit Co. are incapable of providing credit verification for people like attorneys, doctors, dentists, engineers, investment counselors, accountants and many more people normally considered to be upper income citizens. Second, it raises the suspicion that for this group of people the Bank wants to disseminate the information so obtained to other

INTERSTATE IN RETROSPECT

Interstate Stores, Inc., and 188 affiliates have filed under Chapter XI of the bankruptcy laws, indicating $196 million in liabilities (which will increase) against $193 million in assets (which will decrease). The assets most likely to decline in value are $73 million in inventory, $50 million in fixed assets, and $15 million of goodwill (goodwill?).

The Company reported a loss of $40 million for the year ending January 1973, followed by $61 million for the year ending January 1974. Sol W. Cantor, Chairman, in a release dated May 3, 1974, said that Interstate's losses are entirely attributable to its discount store divisions, which are being discontinued!

Just 6 years ago—in June 1968—the stock sold for $46 a share, representing 21 times earnings. Today it is worthless. There may be a lesson to be learned from the history of this company, and the facts and events reported to the shareholders.

For the year ending February 2, 1969, (the year in which Chairman Cantor exercised options to purchase 93,068 shares of stock for $1,004,203 because the market value was $3,978,657) the company reported a sales gain of 15% to $641 million, but a profit increase of only 8% (with dilution, a per-share gain of 5%).

Over 2 years the sales increased by 27%, profits by 12% and earnings per share by 7%. The capital structure was already weak—long term debt had more than tripled, increasing by $29 million, while equity increased by only $18 million. It would have been a great time to sell 1,000,000 shares for $45,000,000 so as to put the company on a sound financial basis—but it is probable that all of the "advisors" were suggesting that "next year will be even better." Interstate waited until "next year"—and then sold only 500,000 shares for $16 million. Too few and too late.

In writing of 1968, Mr. Cantor said, "Important changes and additions were made in the top management organization, giving the Company the additional depth needed to manage its expanding operations." (Note: the only management that remained consistent through all the years at Interstate and who can bear the blame was Sol Cantor as Chief Executive Officer.)

Interstate got into the discount business in 1959, by purchasing two White Front Stores in Los Angeles doing $20 million in 30,000 square feet of space. Of course, these small (but profitable) stores were replaced with 140,000 foot units, and the brown and white goods was expanded to a full-line department store (utilizing, of course, the small-town, conventional department store experience of Interstate).

Soon Southern California was not large enough—rapid expansion was made into Northern California, Washington and Oregon, It seemed to those who watched that little attention was paid to site selection. It appeared that the overriding philosophy was that all the world was waiting for a White Front. The stores could produce miracles just by opening. RT would guess that the total White Front operation outside of Southern California never produced a dollar of profit!

The acquisition of White Front hardly quenched the appetite of Interstate (and Cantor). Discounting was the wave of the future—NCR was telling the world of retailing that all customers were pre-sold on national brands and trained in self-service.

In 1960, Interstate acquired Topps, a chain of 8 stores in New England and the Midwest. Like many of the chains that came out of New England, the primary emphasis was on soft goods.

The final acquisition took Interstate into the discount toy business, starting in 1966 with 4 units in Washington D.C. called "Children's Supermart." And in 1969, adding the 8 unit Children's Bargain Town, USA, chain in and around Chicago.

Interstate undertook to expand everything. They had purchased 22 discount stores. By 1968, they had added a net of 72 more—while cutting their conventional stores by 15. The direction was set.

But, the balance sheet was taking a beating. In 1959, the stockholder's equity represented 59% of total assets—an extremely strong position. By the end of 1968 that ratio had declined to 39%—and if one excluded intangibles of $9 million, the figure dropped to 36%.

But, Interstate was stretching their balance sheet another way—they were so convinced that their magic was producing exorbitant profits for landlords that they rushed into 50% corporations and joint ventures on store buildings, using their own lease as the basis of financing. The balance sheet reflected an investment of only $2 million. But behind the balance sheet was another $39 million debt on $49 million in fixed assets, all dependent on White Front paying its rent.

The footnotes to the February 2, 1969, statement show the manner in which Interstate was pushing to produce profits. Store leases ran 25 years on buildings that might not stand 25 years without major remodelling and rebuilding. Furniture and equipment was depreciated over lives up to 12½ years. Fixed assets were fully hypothecated. The balance sheet had more than $9 million in intangibles (excess purchase price of subsidiaries and capitalized pre-opening expenses) which represented 12% of the book equity figure.

By February 1, 1970, things were getting worse. Interstate paid $10 million over book value for the Children's Bargain Town, USA, stores. Inventory valuation was changed on certain stores from LIFO to FIFO. The debt of the 50% corporations/joint ventures on buildings had increased to $44 million. The reserve for bad debts had been cut materially without explanation.

Sales increased by 10%, profits dropped by 20% and earnings per share dropped by 25%. The current ratio dropped from 1.8 to 1 to a very weak 1.5 to 1. 16 stores were added. Intangibles had climbed from 12% to 21% of book equity figures. And tangible net worth had dropped from 36% to 32% of total tangible assets (exclusive of 50% ventures).

To ease the cash position, Interstate was putting Treasury stock into their pension plan (called Retirement Income Plan). Cantor saw a different future. He entered into a new 7 year employment agreement at $150,000 a year with provision for deferred compensation over the 10 years following termination. And Lehman Brothers, whose partner Harold J. Szold sat on the board, received a $150,000 fee for their part in the acquisition of the Children's Bargain Town, USA, for $10 million over book value.

Despite the clouds in the horizon, management expressed the opinion that there had not been any decline in the value of the intangibles related to acquired subsidiaries. Cantor attributed the drop in earnings to failure to reach targets set. This failure was attributed to "softness in the economy," increased competition because "a number of major conventional retailers" decided to open on Sunday, and delay in completing new stores (17 opened against a plan of 22).

By January 31, 1971 it was obvious that the situation demanded drastic action—which was not forthcoming. Interstate started to play down volume by restating sales to exclude supermarket volume (which had been declining). As reported, sales were up 4%, profits down 84%, and earnings per share down 85%.

But fixed assets and debt continued to rise while net worth dropped because of dividends paid in excess of earnings. As a result, tangible net worth dropped from 32% to 29% of tangible assets. The current ratio remained at a low 1.5 to 1. Debt in the 50% corporations/joint ventures jumped from $44 to $65 million. And management still felt that the $18 million of excess purchase price of subsidiaries over tangible value had not been reduced in value!

But, management would build itself out of an operating problem—a 294,000 square foot warehouse was opened in Secaucus. The poor performance was again blamed on others—never on the management. They selected quite an assortment ". . . the business recession, the General Motors strike, the retrenchment of the aerospace industry, and the sharp decline in new housing." With some afterthought they added a 4 month strike in only 4 stores and the termination of the unprofitable White Front furniture operations (which had never been mentioned before!). But, they had opened 21 stores—and announced plans to open 15 more in 1971.

Cantor expressed himself as follows: "As a result of actions taken to strengthen operations and to sharpen its competitive position, the Company is well situated to take advantage of the turn in the economic tide when it occurs." Later, he said, "Particularly significant from a long-range point of view are the Company's continuing efforts to develop and train additional management personnel and to fashion new management systems geared to its size and complexity and attuned to the growth opportunities that lie ahead." (Note: in the midst of collapse they are still developing management.)

Throughout the years from January 1968, to January 1971, other problem signs were apparent as the chart below shows:

	1/31/71	2/1/70	2/2/69
Sales increase	+4%	+11%	+16%
Year-end Inventory increase	+4%	+20%	+25%
Trade payables as percentage of inventory	67%	59%	48%

Here is a traditional pattern—inventory is increasing faster than sales—so turnover is declining. Trade payables are climbing rapidly as a percentage of inventory reflects increasing trade slowness. But, with earnings dropping and no dividends, it was now too late to go to the equity market. Additional debt, if obtainable, was not going to solve the problems.

For the year ending January 30, 1972, earnings were down, debt and net worth remained about the same, and no major change was made in intangibles. But the liquidation process had started. Five marginal stores were discontinued with no loss and "the remaining group of marginal stores, estimated at 15, will be discontinued over the next few years." Inventories were down and so were trade payables as a percentage of inventory—but the latter was accomplished through bank borrowings which no longer were at prime—but at prime plus 1¼%. Debt and assets of the 50% corporations/ventures had dropped by $8 and $10 million respectively.

The letter from Cantor claimed "Our balance sheet continues strong . . ." and "A major key to the success of our program for renewing Interstate's profitability is management. We are seeking to develop the aggressiveness that characterized the Company's growth between 1959 and 1968." No mention was made why the elimination of the GM strike and 4 store strikes, rising housing construction and improving economic conditions did not bring the results that Interstate was expecting. Nor did Cantor see fit to mention the foot note on the financial statement that the IRS had proposed deficiencies on income tax for 7 years ending January 31, 1968, totalling $3.8 million exclusive of interest plus an additional $1 million possible for February 2, 1969.

For the year ending January 28, 1973, Interstate reported a loss of $40 million. Now the problem was obvious. For the first time the financial report was qualified. The enthusiasm of Cantor's letters starting on page 2 hardly matches the qualified opinion of S.D. Leidesdorf on page 16. Leidesdorf pointed out that to survive, Interstate had to (i) obtain its customary merchandise and credit terms (ii) effect improvement in operating results including converting 16 White Fronts to leased oeprations (iii) maintain profitability in the toy and department store divisions (iv) finance substantial operating losses for the first 3 quarters.

All the years of "developing management" and making "plans for the future" were not enough. The Company was gone. Of the officers in 1968, other than those in the Secretary or Treasurer office, only Cantor remained as Chairman (there is no President) and Sam Abend as GM of the department store division (still profitable).

What does this tell us?

RT would suggest the following conclusions:

1. There is no substitute for equity in an expanding business. Providing adequate capital must be the first responsibility of the management of any company. Although a few companies have made it big by gambling without capital, for each of these there is another 100 who failed.

2. A business, to be successful, must have a concept and people who can make that concept work. This concept must be comprehensive—identifying the kind of customers, the kind of merchandise and the kind of service and promotion required to bring the two together. Copying someone else—or thinking you can "improve" upon another's concept—is a fatally dangerous philosophy.

3. One man alone cannot manage a business with sales in the hundreds of millions.

4. When growing successfully, never undertake major investments just to capture the profits another might make. The retailer should keep his capital, as much as possible, invested in inventory which is the asset with which he works. Let the landlord make his profit. Let the manufacturer—and the wholesaler—earn his profit by providing you a service that will make your investment in inventory earn more.

5. Use the best consulting skills that you can get—to supplement your own skills and those of your management team. Don't think that just because you can pick a coming dress style that you can pick a coming store location; or that because you can pressure a supplier into selling you below his cost that you can force a bank to lend you money below its cost.

6. Adopt some humility within your own industry, with the investment market, and with your own stockholders. You never know when it may stand you in good stead.

portions of the bank to generate business for other departments (trust department, executor under a will, savings and/or checking accounts, car loans, equipment rental, real estate trust and other investment media, and all the other activities that banks now ride themselves on).

RT doubts that other major credit grantors in the community feel the same lack of adequacy in evaluating self-employed individuals. Such a requirement will work against BankAmericard acceptance by major stores. In fact, a major store might well point out, when opening an account for a self-employed person, that unlike BankAmericard, the store does not require a current financial statement or latest income tax return.

RThought: This appears to be a form of credit discrimination. For an employed individual, BankAmericard does not ask whether or not the employee is on probation, contemplates leaving his job, has been subject to layoffs during the past 2 or 3 years. Nor does the form ask for information about non-institutional debt (gambling, Mafia, family) from employees–but which would be disclosed on personal financial statements.

HOW WELL DO YOU KNOW YOUR COMPANY?

RT thanks The Christophers (12 East 48th Street, New York, NY 10017), whose motto is "Better to light one candle than to curse the darkness," for the following story about Coca-Cola and the lack of knowledge, on the part of President J. Paul Austin, covering a period of 8 years, about the manner in which Coca-Cola exploited farm labor. It should be noted that the "Mr. Smith in Houston" has recently become the President of Coca-Cola and one hopes he remembers the moral of this story–just as it might suggest that every chief executive be certain that he never gets so remote that he does not clearly view his own company.

In 1960, the Coca-Cola Company acquired the Minute Maid citrus groves in Florida.

Ten years later, J. Paul Austin, Coca-Cola's president, told the Senate Subcommittee on Migratory Labor about the condition of Coke's 1,300 orange pickers:

"In late 1968 I began to read more and more about the crusade of Cesar Chavez in California on behalf of migrant labor. I called Mr. Smith in Houston and asked him to make certain that workers in our groves were not living in the sub-standard conditions that Mr. Chavez described for the workers in California. Mr. Smith personally visited the groves in December, 1968. He was so upset by what he saw that he came immediately to Atlanta to talk to me. He told me that many of the migrants in our groves were living in conditions that 'could not in conscience be tolerated by The Coca-Cola Company' . . . Our first instinct was to move promptly and change the physical situation in which the migrant worker found himself trapped. We soon realized, however, that merely to provide housing and transportation, without facing up to the basic human problems involved, would do little more than temporarily ease the hardship of the migratory worker."

Coca-Cola embarked on a $2 million program to change what it called "a culture of despair and poverty, vested by generations of neglect."

Coca-Cola also signed a contract with the United Farm Workers of America, AFL-CIO.

THE PROBLEMS OF INCENTIVES

Most executives in retailing attempt to solve problems of management supervision by instituting an incentive plan. There are many who feel that every salesman should be paid a commission–"the only way to really stimulate people." It is also the best way to sell the wrong merchandise, make the wrong warranty representations, and mistreat a discontent customer.

(RThought: There are a number of very successful stores that have found they can properly inspire and supervise their salespeople without paying commissions–which proves commissions are not necessary.)

An even higher percentage of retailers feel that you must have an incentive plan for buyers, store managers and top executives. They argue that without such incentives executives won't do their best (if you have a lot of such executives in your firm, you may be hiring the wrong people). This has led to complex incentive plans.

Ask yourself some time whether the financial executive with an incentive is going to suggest that you write-off pre-opening expenses as incurred or over a 4 year period; or whether the credit manager with an incentive is going to try to collect your money in the most brutal but least expensive manner or is going to do it with the hopes that the store will retain the customer.

(RThought: There are a number of successful stores that have found they can properly inspire and supervise their executives without paying any incentives–which proves incentives are not necessary.)

It is in the area of incentives for store managers that management often runs the most serious risk. Longs Drug Stores is one of the most successful retail businesses in the United States. Started by Joe and Tom Long in 1938, they have shown an increase in sales every single year. Public records of profits go back to 1951 and they have increased their profit every year at least since then.

Longs attributes a good aprt of this success to their incentive plan. The 1961 prospectus said, "Each store has a manager, an assistant manager, one or more department managers and assistants, and a managing pharmacist–all of whom receive bonuses based on either net or gross profits . . . Store managers receive bonuses based upon the net profit of their respective stores after deduction of (1) bonuses to their subordinate executive employees and (2) 6% per annum on the average value of their store inventory. The store executive employees, other than managers, receive bonuses based upon the gross profit of their respective departments." The 1971 prospectus says, "Each store has a manager, an assistant manager, one or more department managers and assistants, and a managing pharmacist, all of whom participate, with the general office executives of the Company, in the bonus plan which has been in existence since the establishment of the business in 1938." Press articles have indicated that many of the managers earn more in bonus than in base pay.

But the same bonus plan which has helped produce the outstanding results for Longs can also produce embarrassing results when made available to the wrong man. This happened to Longs recently in a small claims action filed in Marin County, just across the Golden Gate from San Francisco. An employee who had been fired claimed $500 in pay for overtime work he was required to do (five times during 9 months as an executive trainee) after he had punched out on the time clock. The employee claimed that he was told this was "the only way to get ahead." The store manager denied the claim that the employee was "required" to do such work but admitted that as many as a third of the employees have worked on their own time—he described these employees as "aggressive and have initiative"!

The store manager reported that the plaintiff was fired after failing to memorize a sale price list. The following dialog then took place: Judge: "When was he given time to familiarize himself with the list?" Manager: "On his lunch hour and at break-time." Judge: "On his lunch hour! What kind of operation are you running? It sounds like a 1930s sweatshop still exists at Longs Drug Store in 1974."

RThought: One wonders how much more angry the judge would have been if he realized that in addition to cheating the employee out of his pay by inducing hours of free labor, the store manager also made a larger bonus at the end of the year as a result of the lower payroll cost in the store!

The points that RT is trying to make are important.

First, RT assumes, from knowledge of Longs, that top management never intended that a store manager would use such a method as this to boost his own bonus.

Second, the Longs feel that their bonus system has both contributed to the success of the Company and also insured that the executives who made such contributions shared in that success under a clearly established formula.

Third, when using an incentive plan, management has a responsibility to see that the actions induced by such a compensation plan do not place the Company in violation of laws, deprive non-bonus employees of any of their rights, or reduce the quality and level of service and satisfaction provided their customers. Management must spend as much time seeing that executives under an incentive plan do not do things that are wrong as does the management that does not use incentives spends seeing that executives do the right thing.

RThought: This kind of frank courtroom disclosure could only occur in a Small Claims Court where neither party is allowed to have legal counsel.

PATTERNS OF BUSINESS WITHIN THE MAY COMPANY

RT commented in March 1974 on the talk given by Stanley Goodman before the National Retail Merchants Association in which, among other things, he urged that retailers subject their advertising to internal tests before releasing the ads for publications. RT was critical of the advertising policies of Consumer Distributing, a 50% owned (100% financed) venture of May Department Stores.

On a recent trip to Washington to attend the Mass Retailers Institute Annual Meeting, two facets of advertising by May Department Store subsidiaries came to light. First, the advertising of The Hecht Co. disclosed intermediate markdowns. For example, an item might read "Save* on Stereo Items—40%-60% off" or "Orig. $205*." The "*" was clearly set forth at the bottom of the ad as "* intermediate mark downs have been taken."

Second, John F. Geisse, Chairman of Venture Stores, Inc., in a session called "Let's Return to Fundamentals" said, "We do not allow comparative prices to be used on highly promoted items . . . When we use comparatives, we monitor them and consider it to be a serious violation if a buyer took an abnormal markup to use as a comparison."

RThought: It may well be that Mr. Goodman has instilled thinking in much of the May organization. This makes it all harder to understand why their newest major effort would be predicated on false price comparisons.

RThought: Turn*Style Plus, the catalog/showroom division of Jewel Company, will drop price comparisons in their September 1974 catalog, joining Giant Food (who started the trend) and others. Perhaps Consumer Distributing will want to join that group.

A MATTER OF RELATIVE IMPORTANCE

Clyde Bedell, the master of advertising, makes an excellent point in his column in the April 1974 NHFA REPORTS. After pointing out how much attention a store owner will pay to aggressively pressing a damage claim against a carrier and how little thought is put into advertising (he uses furniture stores in his example but the principle is much more widely applicable) he makes the following observation.

> "Maybe a damage claim amounts to $237. If he loses it, its $237. Maybe an ad that costs $375 could have produced $3,750 in sales but produced only $750. The lost gross profit dollars may amount to $1000! The furniture merchant never gives the $1000 loss a thought, but he worries a good deal about the $237 damage claim!"

WORDS TO LIVE BY

In February 1974, under this title, RT presented a "Credo" set forth by an attorney for the Bank of America at a graduation for retail trainees in a community program. In the March issue of RT we reported that a reader had a copy of "My Creed" on his wall, bearing the name "Dean Alfange" as author.

RT has been negligent in bringing you up to date. As soon as the name "Dean Alfange" was published we heard from Bud Cohen of the Fairchild Publications office in San Francisco, who said the name rang a bell and he thought the man had been active in the American Labor Party in NY before WWII. A few days later Milt Moskowitz, author of the "Money Tree" column and editor of the "**Business & Society**" newsletter, called to report that Dean Alfange had run for Governor of NY sometime in the 1940s.

Almost at the same time "My Creed" was included in a monthly newsletter received from a group insurance administrator—with the statement "One of our business associates recently developed a businessman's creed which we think is worth repeating"!

A visit to the library and some research among volumes of Who's Who in America disclosed that Dean Alfange is still alive. He was a founder of the American Labor Party in NY during the 1930s and did run as their candidate for Governor in 1942. The article specifically mentions "My Creed" as having been published before WWII in **This Week**, and later in **Reader's Digest**.

In other words, "My Creed" is famous—only because it is so goo

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BPA June, 1974

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Fast-Jumping Overseas Wages Can Kill Imports —Discounters Hurt Most?

EDITOR'S NOTE: This commentary by Robert Kahn appears in the current issue of his newsletter "Retailing To-day," of Lafayette, Cal.

"The world is changing—and with it will come a change in the relative cost advantage of each country. For years, merchants have accepted the fact that imported goods, especially from the Orient, are cheaper. This has been attributed to lower wage costs (one recalls references to 'coolie wages'), a differential that was great enough to offset higher transportation costs.

"During the past five years, this pattern has changed very rapidly. Japan and Germany are the other two major industrial powers in the West. In both cases, the value of their currency relative to ours has changed. Since the start of 'revaluations' in 1969 (when their currency was increased in relation to ours) and the recent United States 'devaluations' (reducing our currency in relation to theirs), the value of the West German Mark has increased by 65 per cent and the Japanese Yen by 35 per cent. This means that a wage rate in West Germany that converted into the equivalent of $1 in the United States in 1969 now converts to the equivalent of $1.65. On top of that, both countries have had a much more rapid increase in wage rates than has prevailed in the United States—in West Germany at the rate of about 12 per cent a year and in Japan at the rate of about 15 per cent a year. To the increases in basic wage rates, one has to add the cost of fringe benefits—some 50 per cent in West Germany and 85 per cent in Japan compared with 25 per cent in the United States.

"An article in the January, 1974, issue of the 'Indiana Business Review' projects the current trend in relative wage rates, assuming no change in the monetary exchange rate, showing that West German wage rates will pass the United States about 1975-1976, and those in Japan about 1977-1978."

"RTHOUGHT: 'We are already seeing the impact in cars; the "low-cost" Japanese and German cars are costing more than comparable sized American cars. This is also showing up in the prices of apparel, appliances and other items, items sold by general-merchandise retailers. There are many implications involved in this change. For example, conventional stores have maintained their ties with United States manufacturers, especially those with national brands, while discount merchants have developed stronger emphasis on imported goods as a means of offering lower prices. As the imported goods become more expensive, discounters are going to have to turn to United States manufacturers. Many of the manufacturers of unbranded merchandise have disappeared because of the competition with imported goods. The pressure will again be on national-brand manufacturers to sell to discounters, a pressure that was heavy in the early days of discounting but which subsided as discounters used more imported goods.

"There is a serious question whether United States manufacturers have the capacity to pick up the volume previously represented by imports. Shortages will force United States prices up at least to the level of imported goods—and on branded goods to some level above that."

MODERN RETAILER - JUNE 1974

Jas. J. Mullin & Sons, Inc.
CLOTHIERS SINCE 1862

MAIN OFFICE
6TH & MARKET
WILMINGTON, DELAWARE
19801

June 25, 1974

Editor
Retailing Today
P. O. Box 343
Lafayette, California 94549

Dear Editor:

I am the Treasurer of a medium-sized clothing retailer, and have been receiving your publication for the last few months.

I must write to you in an attempt to counteract the letter you published from an ex-subscriber in the June issue. My experience with your publication has been stunned astonishment at your fresh viewpoint, and anticipatory relish for your forthcoming issues.

"Ex subscriber" resents your adoption of the role of conscience in our business, but I for one find it refreshing and a distinct change from the usual Chamber of Commerce and Trade Association near-sightedness.

Keep up the good work, and I sincerely hope your message gets through. Unfortunately, my co-executives do not always share my (or your) view point, and I must therefore ask that you do not publish my name, (although I am not signing "anonymous"!)

Sincerely,

Laura Sternkopf
Laura Sternkopf

LS:leh

RETAILING TODAY

ROUTE TO

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

Published Monthly. $12 per year.

JULY 1974 VOL. 9, NO. 7

A GOOD GUARANTEE

Thom McAn is running ads for their Boys' Land Rover shoes with a picture of President Lawrence E. McGourty and the statement "Thom McAn Land Rovers for boys are such a good buy we'll buy them back . . . If you buy a pair for your boy or girl and are dissatisfied for any reason just bring them in within 30 days with the sales slip and we'll buy them back from you—no questions asked."

Frank Rooney, President of the parent company, Melville Shoe, has often made the point that the full value of vertical integration in the shoe industry is the ability to concentrate, through manufacturer-retailer coordination, on making a better product to sell for less money. This ad certainly complements and compliments that philosophy.

SHOULD CREDIT BE GRANTED TO MEN?

Considerable pressure is being placed on granting equal credit rights to women. At hearings conducted in November 1973, Representative Koch (NY) said this was the most important of some 80 questions being heard. A strong cadre of credit men remaining from the dinosaur age stressed that women have proven themselves unworthy of credit (they have children, get married, quit jobs, can't budget, don't own property) although none have ever introduced any statistics on the subject. On the other hand, these same dinosaur-men have worlds of statistics on the horrendous losses they have taken on credit granted to men (who have children, get married, quit jobs, can't budget, don't own property). These losses would seem to force a prudent man to ask: Should credit be granted to men?

WHETHER THE WEATHER WILL BE RIGHT

RT has long felt that retailers, committed to the concept that retailing is an art, fail to make effective use of long-range weather forecasting. As more stores have more units requiring larger purchases made further in advance (and as this is complicated by increased emphasis on private labels requiring purchases still further in advance) it would seem that some prudent merchants might be inquiring about the kind of weather one can expect when the merchandise is supposed to sell.

For example, if you have a growing ski department in New England, would it have been prudent to inquire about the weather for the 1974-75 ski season when placing orders? You may now be placing orders for Easter 1975—will you need Easter or rain bonnets?

This information is available—but bought by too few people. After all, retailers have been taking big markdowns for years because they guessed wrong on the weather—they have done it so long that perhaps they are convinced that this is the modern way of doing business.

RThought: Since stupidity enjoys company, RT has been advised that one of the major long-range weather forecasters knew well in advance that the 1973-74 winter would be mild in much of the country and thus fuel oil supplies would not have to be as large as normal. We all know this now—but my long-range weather

HOW GOOD ARE CREDIT OFFICE REPORTS?

Today there is considerable question.

Retail credit managers spend hundreds of hours at local and national meetings talking about a "sound basis" for credit granting. If one wandered into such a meeting they might suspect that credit granting is a scientific subject.

But much of credit granting is based upon a purchased credit report on an individual—and the present Federal Trade Commission complaint against Retail Credit Co., the source of more credit reports than any other company, raises doubt about the value of such reports.

The FTC charged that information reported as being based on interviews may actually have been obtained in other ways; that investigators do not get paid if the new information contradicts the data already in the file (thus a person who has bad information remains a bad risk forever; while once good, always good); some information is obtained under false pretexts; and some of the information is completely without basis.

Retail Credit Co. expressed surprise at the charges although the investigation has been underway for 2 years.

RThought: RT has often expressed itself on the ethics—or lack of ethics—in retail credit granting. Many in the industry have responded. It is now time to look closer at the firms (there are only a few) that provide credit reports and see if the standards of operation are satisfactory. These are the firms that over recent years have flashed a few fast bucks before the Boards of local, merchant-owned credit bureaus—and bought up most of them. In many cases the cost of reports went down—it may have reflected reduced standards of reporting rather than increased efficiency.

As long as retailers are satisfied with the cheapest—as opposed to the most honest—credit report, the situation can be corrected only through governmental intervention.

forecasting friends knew it last October. They wanted to offer this information free to the Government—and they could not get an appointment with the energy "czar"!

When you think back over some of the gas station lines you waited in last winter, just remember that one of the reasons you had to do this is because all energy czars are just as intransigent as most retailers—and wouldn't even let a firm that for more than 40 years has made a living from long-range weather forecasting tell them what was coming up.

RThought: On the other hand, you might check with your local utility (electric if you have a hydro-electric plant in the area, water if they use local catch basins) and see if they are experimenting with changing the weather. They might like more rain—and they might be doing something about it just at your peak seasons!

WHAT MIRACLE OF HYPERMARKETS?

Go to any convention for retailers (department, mass, furniture, supermarket) and the program will probably have a presentation on the coming miracle of retailing—the hypermarket or hypermarche. Chances are that one of the firms described will be Carrefour Company.

But, unfortunately, Carrefour is following the pattern set by other "miracle" retail concepts—it is adding expenses faster than sales and having to boost gross margins to cover expenses. This reduces their price advantage over other retail outlets. They may soon become just another retailer.

That is what happened to department stores—who burst on the scene with a gross margin of 20% in the days when specialty stores were operating on a 40% gross margin. That is what happened to supermarkets—that burst on the scene with a gross margin of 10% to 12% when regular food stores were operating on 20% to 25%. That is what happened to discount stores—that burst on the scene with gross margins of 20% when department stores were operating on 40%.

Retail News Letter (International Association of Department Stores, 72, Boulevard Haussmann, 75008 Paris) reports the following growth in figures during 1974 for Carrefour:

	1973	1974	Increase
Maintained Gross Margin	13.24%	14.27%	1.03%
Total Operating Costs	9.56%	10.57%	1.01%
Personnel Costs	6.45%	7.02%	.57%
Non-personnel Costs	3.11%	3.55%	.44%

When someone describes what a fantastic job hypermarkets are doing, they give figures for stores in existence. But the same was true for some of the early discount stores—when they had no competition.

But ask about the competition faced by the stores on which the speaker is reporting. He might tell you that in Great Britain there are only 10 food stores with a net selling area in excess of 50,000 sq. ft. and only 78 in excess of 25,000 sq. ft. He might also tell you that a government permit is required to build such a store and of 21 pending applications, only 3 have been approved since February 1972!

Ask him about France. Recent legislation requires approval of local small shop operations before a hypermarche can be built. And a new tax has been levied on hypermarkets—it starts at only 1% of the gross margin, but can easily be increased with the passage of time.

RThought: if you are thinking of building hypermarkets in the United States, consider the overbuilding permitted under our free enterprise system. It resulted in the demise of many discount stores, supermarkets, fast food outlets and on and on. In almost every case the first ones were successful—followed by too many—and investors took a bath.

HOW TO HANDLE 90 DAY ACCOUNTS

The 90-day account was exempt from Federal Reserve Board regulations under Truth-in-Lending (226.2(k)) which defined "consumer credit" as "is or may be payable in more than four installments." A number of firms have continued 90-day accounts without a finance charge.

But other firms have dressed up their 90-day accounts with all of the fringes of Truth-in-Lending. While requiring a minimum payment of "1/3 of the amount of your **original** purchase" and "within 10 days of receipt of this statement," they impose a 1% or 1½% charge on the previous balance.

It is this type of account which will be used to exemplify abuses under the "previous balance" method and yet the account is not even subject to the Truth-in-Lending regulations!

NEW PROCESS DOESN'T CHANGE

Despite the drop in earnings, from a peak in 1971, and a catastrophic decline in market price, it continues to use the same bad advertising. The letter to me started "Within the next few days I'm sending 2 pair of my new JB KNIT Slacks to your Lafayette home. All you have to do when they arrive, Mr. Kahn, is wear them as your own for a full week FREE—to work, a party, the ball park, watching TV—ANYwhere. I want to prove, **at my expense**, no other slacks give you so much for so little!" Enclosed is a full-color photo headed "Look like $30-cost only $9.92½ a pair" and then in much much smaller letters "in lots of any 2 pairs."

PRICE COMPARISONS AT CATALOG/SHOWROOMS

Giant Foods, which is spending a great deal of money telling the story of how ethical they are, was one of the first to drop the phony comparative prices in their catalogs. But that doesn't mean they planned to clean up their advertising.

For example, on May 23rd, they ran a double truck with a reverse header, 5 inches deep proclaiming "Discount Catalog Showcase Clearances Save 23% to 50% thru Sat., June 1st! Hundreds of Items on Sale!" After the "50%" there appeared, in type-size equalling the height of the % sign, the following:

Off
Comp.
Prices

Since they don't use comparative prices in their catalog, these must be manufactured for the ad. And it would appear, since no comparison is made with their own regular prices, that there may have been no reduction at all and the "clearance" is being attempted at regular prices!

The next day Giant ran a large newspaper ad on TVs and outdoor gas grills, the lowest price being $94.88, without any comparison prices—so they know how to do it.

MAY COMPANY REVISITED

May Department Stores becomes more and more obtuse in their disclosures to stockholders about their potential $50 million risk in catalog/showrooms. Readers will recall that when this venture was announced, the schedule was to open 50 stores a year for 3 years—to become the largest catalog/showroom company in the United States. They did open 52 by December 1973. The annual report of May Company says nothing about the future—but if one was a stockholder in the Canadian partner he would have learned that they expect to add only 8 to 13 units during 1974 and, as far as the future, "We would expect 1975 to be a year of positive progress and profit."

Let's look at how the "50/50 joint ownership between May and Consumers Distributing Company, Ltd., Canada," in which "The May Company's 50% share of the partnership loss, including the charge-off to expense of all start-up costs, amounted to $815,000 or 5¢ per share" (the quotes are taken from page 12 of the May annual report) is viewed by the accounting firms involved. One should note at this point that Messrs. Goodman and Babcock, Chairman and President of May, devoted a substantial portion of their annual letter to a section headed "The Quality of Earnings: A Tradition of The May Department Stores Company."

Arthur Andersen & Co., for The May Company, in Footnote 8, says:

> **A wholly-owned subsidiary of the Company is one of two general partners in Consumers Distributing Company, a general partnership. Subject to the occurrence of certain events which might increase the subsidiary's share of profits, profits and losses of the partnership are to be shared equally by the two partners except that, if the losses are allocable, all losses and, to the extent of any such accumulated losses, all profits are to be allocated to the Company's subsidiary. If certain operating guidelines are met, the subsidiary may be required to lend up to $25,000,000 to the partnership prior to April 3, 1976, and up to an additional $25,000,000 prior to March 31, 1979, to provide for the opening of catalog showrooms by the partnership.**
>
> **As of February 2, 1974, the Company has advanced $24,630,000 to the partnership. Sales of the partnership for the period from August 30, 1973 (commencement of operations), to December 29, 1973 (the end of their fiscal year), were $17,246,000 and the Company's share (50%) of the partnership loss and start-up costs after credit for income taxes was $815,000 or $.05 per common share for the partnership's fiscal year ended December 19, 1973.**

Laventhol Krekstein Howarth & Howarth, for Consumers Distributing Company Limited, says:

> **The investment in Consumers Distributing Company (U.S.) represents a 50% interest (at cost) in a partnership between a wholly-owned subsidiary of the company and May Catalog Showrooms, Inc., a wholly-owned subsidiary of The May Department Stores Company.**
>
> **The partnership currently operates 53 retail catalogue showrooms in the States of New York (13), New Jersey (8), Connecticut (4) and California (18), U.S.A., has opened 2 central warehouses and distribution centres in the States of New Jersey and California, and opened its first showrooms on August 30, 1973. Under the terms of the partnership agreement May Catalog Showrooms, Inc. is required to lend to the partnership up to $25 million through April 3, 1976 and, subject to the attainment of certain goals by the partnership, up to an additional $25 million during the period April 4, 1976 through March 31, 1979. As at December 31, 1973, May Catalog Showrooms, Inc. had advanced to the partnership the sum of $26,961,000. All losses of the partnership are allocated to May Catalog Showrooms, Inc., and are to be offset against future profits before such profits are allocated equally to the partners. In 1973 the partnership incurred losses, after writing off all branch and head office start-up costs, aggregating approximately $3.6 million (before income tax recovery) which were borne in their entirety by May Catalog Showrooms, Inc. Sales from September 1, 1973 to December 29, 1973 were approximately $17 million of which sales in the month of December amounted to approximately $11 million.**

RThought: Did May Company really disclose to their stockholders the full situation at Consumers Distributing under their proclamation "The Quality of Earnings: A Tradition of The May Department Stores Company"?

SHORT SHORTS

"Communicating" should be out, "interchanging" in. Periodically business needs new words—or new meanings for old, seldom-used words. For example, Webster's New International, Second Edition, put out in 1934, defined conglomerate as "gathering into a ball or a mass, or consisting of parts so collected; clustered; concentrated; as, a conglomerate language." Business took this seldom-used word, gave it almost the opposite meaning, and ended up with a one-word description of a type of business. The same need exists today for something to replace "communications" and its various derivative words. The same word now describes everything from the mechanical or electrical method of transmitting tangible messages to the interchange of abstract ideas and understanding between people, and it varies from mono-directional to multi-directional relations.

As businesses and society grow larger and more complex, the variety of meanings of the word "communicate" destroy the usefulness of the word. Let's leave "communcations" to describe the electro-mechanical processes of transmission and adopt a new word for the multi-directional handling of abstract concepts. RT suggests the word "interchanging"—although our kids long ago adopted the word "rap," a contraction of rapport, to describe a good part of this process.

Inspiring people. Over the years I have been impressed with the periodicals and posters put out by one firm. They range from inspirational material in the Elbert Hubbard tradition to bi-weekly safety posters and a "Your Telephone Personality" series. Whoever in your business is responsible for people-relations/training/personnel should be on the mailing list for samples of these publications. Write John L. Beckley, Publisher, The Economics Press, 12 Daniel Road, Fairfield NJ 07004.

CREDIT OFFICE RATING

It looks like the post-Easter slump is upon the credit offices throughout the nation—as evidenced by the short Honor Roll for the April-May period. In these days of high interest cost (prime has just hit 12% as this is being written, with one bank going to 12¼%) one would think that the simplest way to cut the amount a store is borrowing is to get statements out immediately. Looking at stores taking over 8 days (Emporium, Liberty House, Shreve) one must conclude that Carter-Hawley-Hale, Amfac and Dayton-Hudson have so much money they don't really care when they get paid.

HONOR ROLL

Rubenstein's	2.0	Joseph Magnin	3.0	Ransohoff's	4.0
Maison Mendessolle	2.5	Roos/Atkins	3.0	Routzahn's	4.0
Bullock & Jones	3.0	Desmond's	4.0		

CREDIT OFFICE RATING

Information From Reporters	APR-MAY 1974 No. of Reports	APR-MAY 1974 Days to Bill Average	APR-MAY 1974 Days to Bill Range	FEB-MAR 1974 No. of Reports	FEB-MAR 1974 Days to Bill Average	FEB-MAR 1974 Days to Bill Range
Abercrombie & Fitch (NY)	1	5.0	5	--	--	--
Bloomingdale's (NY)	1	7.0	7	--	--	--
Breuner's (Oakland)	2	6.0	5-7	2	7.0	6-8
The Broadway (LA)	2	5.0	5	1	4.0	4
Bullock's (LA)	4	5.3	5-6	3	4.3	2-7
Bullock's (North)	5	5.2	4-6	7	5.3	3-10
Bullock & Jones (SF)	1	3.0	3	1	3.0	3
Capwell's (Oakland)	5	7.2	6-8	6	10.3	9-12
Desmond's (LA)	1	4.0	4	1	6.0	6
Emporium (SF)	6	9.2	4-14	5	11.6	8-17
Gottschalks	1	8.0	8	--	--	--
Grodins (Oakland)	2	6.5	6-7	3	5.0	4-6
Gump's (SF)	4	7.5	6-9	4	8.5	7-11
Hastings (SF)	3	7.7	6-10	1	8.0	8
Hink's (Berkeley)	3	9.0	8-10	4	14.8	13-16
Jurgensen's (LA)	1	9.0	9	--	--	--
Liberty House (Oakland)	3	8.7	5-15	2	10.0	6-14
Livingston Bros. (SF)	1	5.0	5	1	3.0	3
Macy's (SF)	10	6.4	5-8	9	6.4	5-7
I. Magnin (SF)	5	4.8	4-6	7	4.4	4-5
Joseph Magnin (SF)	4	3.0	2-4	4	3.2	2-4
Maison Mendessolle (SF)	2	2.5	2-3	1	3.0	3
Penney's (Oakland)	2	5.0	5	4	5.0	4-6
Penney's (Buena Park)	1	5.0	5	--	--	--
Ransohoff's (SF)	1	4.0	4	1	8.0	8
Robinson's (LA)	1	6.0	6	3	3.7	3-4
Roos/Atkins (SF)	2	3.0	3	2	3.0	3
Sears (Alhambra)	5	5.2	4-6	5	5.6	5-6
Shreve & Co. (Minn.)	1	10.0	10	--	--	--
Shreve & Co. (SF)	2	6.0	6	3	12.0	10-14
A. Sulka (NY)	2	6.0	6	--	--	
Talbot's (Mass.)	2	5.0	5-9	--	--	--
TOTAL	87	6.3	2-15	80	6.7	2-17

Information From Stores	APR-MAY 1974 No. of Reports	APR-MAY 1974 Days to Bill Average	APR-MAY 1974 Days to Bill Range	FEB-MAR 1974 No. of Reports	FEB-MAR 1974 Days to Bill Average	FEB-MAR 1974 Days to Bill Range
Brock's (Bakersfield)	8	8.1	4-11	16	9.6	6-13
Buffum's (Long Beach)	18	6.1	5-9	10	5.3	4-7
Holman's (Pacific Grove)	10	4.1	3-6	10	3.7	2-5
Levee's (Vallejo)	20	5.1	3-8	20	3.0	1-5
Levy Bros. (San Mateo)	32	5.2	3-9	32	6.3	3-12
Mervyn's (San Lorenzo)	16	5.3	3-8	13	4.8	3-8
Oshman's (Houston)	4	7.8	7-9	9	5.8	4-7
Routzahn's (Md.)	2	4.0	4	3	4.0	3-5
Rubenstein's (Shreveport)	3	2.0	2	6	2.2	2-3
Walker Scott (San Diego)	12	7.5	6-9	12	6.8	5-9
Wineman's (Huntington Park)	7	6.1	5-8	8	5.8	5-7
TOTAL	132	5.6	2-11	139	6.6	1-13

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 HAPPEN–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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride—both to management and credit and data processing personnel in being listed on the Honor Roll.

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

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

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

Best Products can't buy any cheaper so they are trying to improve their claimed savings by boosting their comparative prices. The 1972 Buyers Book says of the open price "This is the suggested retail price as supplied by the manufacturer or **that we have suggested as fair.**" while in 1974 they say "This figure above represents the suggested retail prices as supplied by the manufacturer or **that we feel should be the maximum price charged.**"

There is a lot of difference between "that we have suggested as **fair**" and "that we feel should be the **maximum** price charged"– not only a difference in claimed savings but a difference in ethical standards.

The statements appear only once–in a 400-plus page catalog.

RThought: RT again expresses the opinion that catalog/showrooms cannot survive until they honestly present their prices.

WOULD THIS REPORT BE TRUE IN THE UNITED STATES?

Canada has established a Food Prices Review Board–which recently surveyed 1689 stores. In 159 cases (9%) it appeared that there were possible offenses under existing laws and the cases were referred for further investigations. These cases primarily involved misleading advertising, violation of weights and measures laws, and labelling requirements.

But the purpose of the survey went further–to look at store practices that might warrant new legislation. The Table below gives, for the 159 stores, the frequency of questionable practices:

More than 1 ticket or price on a product	102
Confusing prices or sizes (2 size packages mixed and all selling at price of higher unit)	79
Price different between shelf and special display	76
Low price exaggerated	61
Non-availability of advertised product	37
Other questionable practices	25

The policy on double-ticketed merchandise was interesting. Although A&P, Dominion, Food City, IGA, Loblaws, Provigo, Safeway, Steinberg's, Woodwards and Sobey had all agreed on a policy statement: "Where there are 2 or more prices marked on an individual item, the consumer will pay the lowest price." and the chains had sent the Board copies of directives to implement this policy, the customer still had to watch out for his own interest in most stores. Only one chain had publicly posted the policy. Dominion, Food City, IGA, Safeway and Woodwards had agreed not to raise the price of any food item on the store shelf on which the price had already been marked, but the survey found that no chain had fully implemented the policy.

The survey also reported to the Board some items of confusion arising from governmental regulations, like changing the designated size of a standard container, with no change of size or fill-level, from 4½ to 4¾ fluid ounces.

AUTOMATIC MARKDOWN ATTIC?

For an eon or two (actually only since 1909) Filene's has been operating an Automatic Markdown Basement. There is no secret about their system–the goods are put out on the floor at the price at which the merchant expects that they will sell. If any piece is still there 12 selling days later it is marked down to 75% of the original price; at the end of 18 selling days to 50%, at the end of 24 selling days to 25% and if still on hand at the end of 30 selling days those items are given away to organized Boston charities.

Now comes Franklin Simon with "The Attic" and they say "There's a brand new policy in our attic–the 50% off-and-more floor plus monthly automatic 20% markdowns." (the ad is not clear about what is new about the policy since the old policy is not stated.)

RThought: Just a few days before Filene's is ready to give the merchandise away to charity, Franklin Simon is taking their first markdown! It appears that they may have a greater desire to collect markdowns than produce dollars from dogs that didn't sell.

UNSAFE PRODUCTS–FEDERAL ACTION COMING

The U.S. Consumer Product Safety Commission publishes a monthly report (NEISS NEWS, Washington, D.C. 20207–NEISS stands for National Electronic Injury Surveillance System) showing the current rate of accidents for hundreds of products and services–together with an evaluation of the severity of the accident. Both the number of accidents and the severity rate are used in determining areas where additional study and/or regulation is necessary.

Some products are obvious candidates, even though they have a low frequency of accident. Included among the products with high severity rates are the following: Washers with wringers, hot water heaters, gas stoves and ovens, space heaters, fondue and table stoves, pressure cookers (no men had accidents with these), power cords, auto tools and battery chargers, soldering and welding equipment, paints and varnishes, gasoline and paint removers, caustic and solvent cleaners, lighting, cooking and heating equipment, chemistry and science toy sets, fireworks, sun and heat lamps, and matches.

SEMI-MONTHLY HUMOR

If you hear someone from Belk Stores, Beeline Fashions, Kinney Shoes or Price Waterhouse start a speech by saying "I love those signs saying: Make love, not war! I'm married, I do both," then you know he got hold of his company's copy of Bob Orben's Current Comedy, a semi-monthly newsletter being offered at $35 (regularly $42), available from the Comedy Center, 1529 East 19th St., Brooklyn, NY 11230. The speech might even include "I just heard about a doctor who lost all his money and in desperation tried to rob a bank. But nobody could read his holdup note."

THE COST OF EQUAL PAY

J. M. Fields is being required by a Federal court decision, recently affirmed by the Appeals Court in New Orleans, to pay back pay for 8 years to women supervisors in 66 stores who did substantially the same work as men but were paid less. The court held that softline departments, usually headed by women, did not require less skill than hardline departments, usually headed by men.

THE "NOT-SO-DESCRIPTIVE" BILLING

In this day of the computer more and more stores are going to descriptive billing–and so the bill-payer (me, in my family) can no longer tell who charged what. In the old days of country club billing, I could look at the signature on the salescheck for men's Levis and determine whether it was bought by my son, my daughter or my wife. Today they all disclaim the purchase.

I am about to open separate accounts for each member of the family, in those stores where 3 or 4 make purchases, so that the bills will come in separately. At least I will then know who bought what. I don't think the sales of the stores will go up—but their expenses certainly will go up.

Now all of this could be avoided—but so far no store has been smart enough to do it. Stores are smart enough to provide a column that shows 2, 3 or 4 digits to identify the department and 1 or 2 digits or letters to identify the store at which the purchase was made.

So why can't they spare a column to identify which credit card was used? And then issue credit cards with identifying terminal numbers that are captured in the data system. The travel and entertainment (T&E) cards have this capability—but then everyone important in major retail credit departments knows that T&E cards, together with bank cards, are totally unnecessary and could not know anything that could improve department/specialty store credit operations. Or do they?

THE ECONOMICS OF SELLING FLAMMABLE GARMENTS

A Federal Judge in Detroit settled an out-of-court claim, whereby a 5 year old received $850,000. The suit was filed because of burns covering 70% of her body when her nightgown caught fire. The suit charged that the nightgown when sold was represented as suitable for children—despite a charge that the firms involved knew that there had been at least 25 previous cases of burn injuries from such clothing.

The $850,000 was based on $150,000 from Saks Fifth Avenue, who sold the garment; $150,000 from Slumbertogs who manufactured it; $100,000 from Jaftex, the fabric broker; $200,000 from Randolph Mills who made the trim; and $250,000 from United Merchants and Manufacturers who produced the fabric.

This injury happened before the law required that sizes up to 6x had to be flame-retardant.

DOUBLE STANDARDS AT UNITED MERCHANTS AND MANUFACTURING

The **New York Times** (June 30, 1974) reported that 7th Avenue businesses were still buzzing following the announcement by Robert Hall that they were arbitrarily adopting the policy of paying 30 days later than usual—with the explanation that they could make more money in interest savings by late payment than they could earn in the retail business.

Suppose you tried this with United Factors—what do you think their reply would be? They would probably advise the firms that they factor not to sell you.

But what happens if Robert Hall tells this to United Factors—when both firms are owned by United Merchants and Manufacturing? Does United tell suppliers not to ship Robert Hall? If a firm factored by United rejects the arrangement because the supplier will now have to pay additional interest to United Factors, will United Factor continue to factor that firm?

RThought: there is a morass developing in the retail field brought on mainly by many supposedly high-principled publicly-held retailers. What Robert Hall did was state publicly what has been the unstated policy of some major firms for a long time.

The heaviest burden falls on the smallest suppliers who are in no position to cut off a well-known New York Stock Exchange company that takes 30 days extra and the discount.

For firms that are now following this practice, let me state that RT will, in the future, publish the name of any retail firm following this practice but not the reporting supplier when documented evidence is available to RT.

SHORT SHORTS

Do higher prices make inflation? If so, why is it good business, proudly reported to stockholders, when a store decides to trade up and cuts out the lower priced goods offered to its customers; but bad business, and protested to the stockholders, when the supplier raises the prices which the store must pay and pass on to the customer? Either way the customer pays more.

Hats off to Montgomery Wards! According to **Media & Consumer** March 74 ($12/yr, Box 6020 Norwalk, Conn 06852), Wards is sponsoring 10 awards of $1,000 each for "excellence in consumer reporting." The awards will be made by the National Press Club and the judges are all members of the working press.

"What would you do if the income tax were repealed tomorrow?" M. Harvey Segall, EDP consultant in Tacoma, Washington reported that when an accounting professor asked that question at a seminar for small businessmen that 85% replied "Discharge my CPA immediately."

WORDS TO MANAGE BY—FROM PAST PRESIDENTS

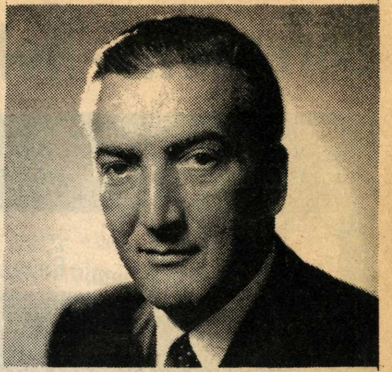
"Do what you can, with what you have, where you are." Teddy Roosevelt.

"Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'press on' has solved and always will solve the problems of the human race." Calvin Coolidge.

My observation is that whenever one person is found adequate to the discharge of a duty by close application thereto, it is worse executed by two persons, and scarcely done at all if three or more are employed therein." **George Washington.**

In response to a heckler with no constructive ideas: "My good friend here reminds me of a steamboat that used to run down the river when I was a lad. It had a four-foot boiler and a seven-foot whistle. Every time it whistled, it stopped running," **A. Lincoln.**

'A Major Key to the Success of Our Program for Renewing Interstate's Profitability Is Management'—Sol W. Cantor, January, 1972



Sol Cantor

EDITOR'S NOTE: The analysis of the decline and fall of Interstate Stores, Inc., is traced by Robert Kahn, publisher of the national newsletter Retailing To-day and a well-known retail counselor. The article published here appeared in the RT edition of June, 1974. Retailing To-day appears monthly and may be secured by writing to P.O. Box 343, Lafayette, Cal. 94549. Subscription rate is $12.

"Interstate Stores, Inc., and 188 affiliates have filed under Chapter XI of the bankruptcy laws, indicating $196,000,000 in liabilities (which will increase) against $193,000,000 in assets (which will decrease). The assets most likely to decline in value are $ 73,000,000 in inventory, $50,000,000 in fixed assets, and $15,000,000 of goodwill (goodwill?).

"The company reported a loss of $40,000,000 for the year ending January 1973, followed by $61,000,000 for the year ending January 1974. Sol W. Cantor, chairman, in a release dated May 3, 1974, said that Interstate's losses are entirely attributable to its discount-store divisions, which are being discontinued!

"Just six years ago—in June 1968—the stock sold for $46 a share, representing twenty-one times earnings. Today it is worthless. There may be a lesson to be learned from the history of this company, and the facts and events reported to the shareholders.

"For the year ending February 2, 1969, (the year in which Chairman Cantor exercised options to purchase 93,068 shares of stock for $1,004,203 because the market value was $3,978,657) the company reported a sales gain of fifteen per cent to $641,000,000, but a profits increase of only eight per cent (with dilution, a per-share gain of five per cent).

"Over two years the sales increased by twenty-seven per cent, profits by twelve per cent, and earnings per share by seven per cent. The capital structure was already weak—long-term debt had more than tripled, increasing by $29,000,000, while equity ir reased by only $18,000,000. It would have been a great time to sell 1,000,000 shares for $45,000,000 so as to put the company on a sound financial basis—but it is probable that all of the 'advisors' were suggesting that 'next year will be even better.' Interstate waited until 'next year' and then sold only 500,000 shares for $16,000,000. Too few and too late.

"In writing of 1968, Mr. Cantor said, 'Important changes and additions were made in the top management organization, giving the company the additional depth needed to manage its expanding operations.' (Note: The only management that remained consistent through all the years at Interstate and who can bear the blame was Sol Cantor as chief executive officer.)

"Interstate got into the discount business in 1959, by purchasing two White Front Stores in Los Angeles doing $20,000,000 in 30,000 square feet of space. Of course, these small (but profitable) stores were replaced with 140,000-foot units, and the brown and white goods was expanded to a full-line department store (utilizing, of course, the small-town, conventional department-store experience of Interstate).

"Soon Southern California was not large enough—rapid expansion was made into Northern California, Washington, and Oregon. It seemed to those who watched that little attention was paid to site selection. It appeared that the overriding philosophy was that all the world was waiting for a White Front. The stores could produce miracles just by opening. 'RT' would guess that the total White Front operation outside of Southern California never produced a dollar of profit!

"The acquisition of White Front hardly quenched the appetite of Interstate (and Cantor). Discounting was the wave of the future—N.C.R. was telling the world of retailing that all customers were presold on national brands and trained in self-service.

"In 1960, Interstate acquired Topps, a chain of eight stores in New England and the Midwest. Like many of the chains that came out of New England, the primary emphasis was on softgoods.

"The final acquisition took Interstate into the discount toy business, starting in 1966 with four units in Washington, D.C., called Children's Supermart. And in 1969, adding the eight-unit Children's Bargain Town, USA, chain in and around Chicago.

"Interstate undertook to expand everything. They had purchased twenty-two discount stores. By 1968, they had added a net of seventy-two more—while cutting their conventional stores by fifteen. The direction was set which was not forthcoming. Interstate started to play down volume by restating sales to exclude supermarket volume (which had been declining). As reported, sales were up four per cent, profit down eighty-four per cent, and earnings per share down eighty-five per cent.

"But fixed assets and debt continued to rise while net worth dropped because of dividends paid in excess of earnings. As a result, tangible net worth dropped from thirty-two per cent to twenty-nine per cent of tangible assets. The current ratio remained at a low 1.5 to 1. Debt in the fifty per cent corporation-joint ventures jumped from $44,000,000 to $65,000,000. And management still felt that the $18,000,000 of excess purchase price of subsidiaries over tangible value had not been reduced in value!

"But, management would build itself out of an operating problem—a 294,000-square-foot warehouse was opened in Secaucus. The poor performance was again blamed on others—never on the management. They selected quite an assortment '...the business recession, the General Motors strike, the retrenchment of the aerospace industry, and the sharp decline in new housing.' With some afterthought they added a four-month strike in only four stores and the termination of the unprofitable White Front furniture operations (which had never been mentioned before!). But, they had opened twenty-one stores—and announced plans to open fifteen more in 1971.

"Cantor expressed himself as follows: 'As a result of actions taken to strengthen operations and to sharpen its competitive position, the company is well situated to take advantage of the turn in the economic tide when it occurs.' Later, he said, 'Particularly significant from a long-range point of view are the company's continuing efforts to develop and train additional management personnel and to fashion new management systems geared to its size and complexity and attuned to the growth opportunities that lie ahead.' (Note: In the midst of collapse they are still developing management.)

SHADOW LENGTHENS

"Throughout the years from January 1968, to January 1971, other problem signs were apparent as the chart below shows:

	1/31/71	2/1/70	2/2/69
Sales increase	+4 %	+11 %	+16 %
Year-end inventory increase	+4 %	+20 %	+25 %
Trade payables as percentage of inventory	67 %	59 %	48 %

Here is a traditional pattern—inventory is increasing faster than sales—so turnover is declining. Trade payables are climbing rapidly as a percentage of inventory reflects increasing trade slowness. But, with earnings dropping and no dividends, it was now too late to go to the equity market. Additional debt, if obtainable, was not going to solve the problems.

"For the year ending January 30, 1972, earnings were down, debt and net worth remained about the same, and no major change was made in intangibles. But the liquidation process had started. Five marginal stores were discontinued with no loss and 'the remaining group of marginal stores were discontinued with no loss and 'the remaining group of marginal stores, estimated at fifteen, will be discontinued over the next few years.' Inventories were down and so were trade payables as a percentage of inventory—but the latter was accomplished through bank borrowings which no longer were at prime—but at prime plus 1¼ per cent. Debt and assets of the 50 per cent corporation-ventures had dropped by $8,000,000 and $10,000,000 respectively.

"The letter from Cantor claimed, 'Our balanced sheet continues strong...' and 'A major key to the success of our program for renewing Interstate's profitability is management. We are seeking to develop the aggressiveness that characterized the company's growth between 1959 and 1968.' No mention was made why the elimination of the G.M. strike and four strikes, rising housing construction and improving economic conditions did not bring the results that Interstate was expecting. Nor did Cantor see fit weak—long-term debt had more than tripled, increasing by $29,000,000, while equity increased by only $18,000,000. It would have been a great time to sell 1,000,000 shares for $45,000,000 so as to put the company on a sound financial basis—but it is probable that all of the 'advisors' were suggesting that 'next year will be even better.' Interstate waited until 'next year' and then sold only 500,000 shares for $16,000,000. Too few and too late.

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"Interstate undertook to expand everything. They had purchased twenty-two discount stores. By 1968, they had added a net of seventy-two more—while cutting their conventional stores by fifteen. The direction was set.

"But, the balance sheet was taking a beating. In 1959, the stockholders' equity represented fifty-nine per cent of total assets—an extremely strong position. By the end of 1968 that ratio had declined to thirty-nine per cent—and if one excluded intangibles of $9,000,000, the figure dropped to thirty-six per cent.

"But, Interstate was stretching their balance sheet another way—they were so convinced that their magic was producing exorbitant profits for landlords that they rushed into fifty per cent corporation and joint ventures on store buildings, using their own lease as the basis of financing. The balance sheet reflected an investment of only $2,000,000. But behind the balance sheet was another $39,000,000 debt on $49,000,000 in fixed assets, all dependent on White Front paying its rent.

"The footnotes to the February 2, 1969, statement show the manner in which Interstate was pushing to produce profits. Store leases ran twenty-five years on buildings that might not stand twenty-five years without major remodeling and rebuilding. Furniture and equipment was depreciated over lives up to twelve-and-a-half years. Fixed assets were fully hypothecated. The balance sheet had more than $9,000,000 in intangibles (excess purchase price of subsidiaries and capitalized preopening expense) which represented twelve per cent of the book equity figure.

By February 1, 1970, things were getting worse. Interstate paid $10,000,000 over book value for the Children's Bargain Town, USA, stores. Inventory valuation was changed on certain stores from L.I.F.O. to F.I.F.O. The debt of the fifty per cent corporations-joint ventures on buildings had increased to $44,000,000. The reserve for bad debts had been cut materially without explanation.

"Sales increased by ten per cent, profits dropped by twenty per cent, and earnings per share dropped by twenty-five per cent. The current ratio dropped from 1.8 to 1 to a very weak 1.5 to 1. Sixteen stores were added. Intangibles had climbed from twelve per cent to twenty-one per cent of book equity figures. And tangible net worth had dropped from thirty-six to thirty-two per cent of total tangible assets (exclusive of fifty per cent ventures).

"To ease the cash position, Interstate was putting Treasury stock into their pension plan (called Retirement Income Plan). Cantor saw a different future. He entered into a new seven-year employment agreement at $150,000 a year with provision for deferred compensation over the ten years following termination. And Lehman Brothers, whose partner Harold J. Szold sat on the board, received a $150,000 fee for their part in the acquisition of the Children's Bargain Town, USA, for $10,000,000 over book value.

"Despite the clouds in the horizon, management expressed the opinion that there had not been any decline in the value of the intangibles related to acquired subsidiaries. Cantor attributed the drop in earnings to failure to reach targets set. This failure was attributed to 'softness in the economy,' increased competition because 'a number of major conventional retailers' decided to open on Sunday, and delay in completing new stores (seventeen opened against a plan of twenty-two).

"By January 31, 1971, it was obvious that the situation demanded drastic action—ahead.' (Note: In the midst of collapse they are still developing management.)

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"The letter from Cantor claimed, 'Our balanced sheet continues strong...' and 'A major key to the success of our program for renewing Interstate's profitability is management. We are seeking to develop the aggressiveness that characterized the company's growth between 1959 and 1968.' No mention was made why the elimination of the G.M. strike and four strikes, rising housing construction and improving economic conditions did not bring the results that Interstate was expecting. Nor did Cantor see fit to mention the footnote on the financial statement that the I.R.S. had proposed deficiencies on income tax for seven years ending January 31, 1968, totaling $3,800,000 exclusive of interest plus an additional $1,000,000 possible for February 2, 1969.

"For the year ending January 28, 1973, Interstate reported a loss of $40,000,000. Now the problem was obvious. For the first time the financial report was qualified. The enthusiasm of Cantor's letters starting on page two hardly matches the qualified opinion of S.D. Leidesdorf on page sixteen. Leidesdorf pointed out that to survive, Interstate had to (1) obtain its customary merchandise and credit terms (2) effect improvement in operating results including converting sixteen White Fronts to leased operations (3) maintain profitability in the toy and department-store divisions (4) finance substantial operating losses for the first three quarters.

"All the years of 'developing management' and making 'plans for the future' were not enough. The company was gone. Of the officers in 1968, other than those in the secretary or treasurer office, only Cantor remained as chairman (there is no president) and Sam Abend as general manager of the department-store division (still profitable).

WHAT DOES IT TELL

"RT would suggest the following conclusions:

"1. There is no substitute for equity in an expanding business. Providing adequate capital must be the first responsibility of the management of any company. Although a few companies have made it big by gambling without capital, for each of these there is another one hundred who failed.

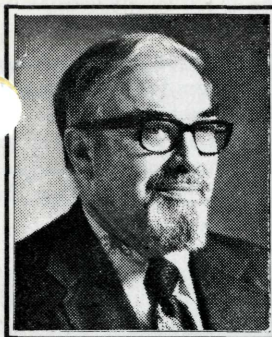
"2. A business, to be successful, must have a concept and people who can make that concept work. This concept must be comprehensive—identifying the kind of customers, the kind of merchandise, and the kind of service and promotion required to bring the two together. Copying someone else—or thinking you can 'improve' upon another's concept—is a fatally dangerous philosophy.

"3. One man alone cannot manage a business with sales in the hundreds of millions.

"4. When growing successfully, never undertake major investments just to capture the profits another might make. The retailer should keep his capital, as much as possible, invested in inventory which is the assets with which he works. Let the landlord make his profit. Let the manufacturer—and the wholesaler—earn his profit by providing you a service that will make your investment in inventory earn more.

"5. Use the best consulting skills that you can get—to supplement your own skills and those of your management team. Don't think that just because you can pick a coming dress style that you can pick a coming store location; or that because you can pressure a supplier into selling you below his cost that you can force a bank to lend you money below its cost.

"6. Adopt humility within your own industry, with the investment market, and with your own stockholders. You never know when it may stand you in good stead."



RETAILING TODAY

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

Published Monthly. $12 per year.

ROUTE TO

AUGUST 1974 VOL. 9, NO. 8

NAKED ECONOMIC POWER

The giants of retailing are, in increasing numbers, using their brute economic power to force their vendors to extend credit to them. Some are doing it openly, like Robert Hall (See RT July 1974 "Double Standards at United Merchants and Manufacturing" and NY Times June 30, 1974) who announced openly that they were going to seek an extra 30 days and the discount on all invoices–because they could make more putting the cash flow into 12% and higher short term investments than they could selling the merchandise. Others are like Amfac where the Chairman and CEO, Henry A. Walker, Jr., said in his annual letter to his stockholers "Business must be able to speak from a platform of honesty and integrity" and yet Amfac Merchandising is reported by suppliers to be slow pay.

RT feels that in some cases–but certainly not all–top management is not aware of what is being done in this area by operating divisions. RT is willing to give the benefit of the doubt to many top executives who may not condone such action–although they create incentive plans that compel divisional management to adopt these practices. And even worse, top management often is willing to look just at the bottom line produced by the division. If the results are satisfactory, they don't want to inquire about the method followed.

On the other hand, there may be many heads of corporations who condone the use by their corporation of the economic power to "take" an extra 30 or 60 days plus a discount.

RT has always addressed its remarks to top management and in the current case RT will assume that top management is not aware of what is happening. RT is checking vendors for information on payment records–not of the little guy but of the big guys, the ones who have access to money at prime rates but just don't want to pay interest to borrow the money to meet their trade obligations on a basis consistant with taking a cash discount.

As a result of the action of the big firms, the little guy is being squeezed by the supplier–who informs the little guy that his order will not be shipped until the last order has been paid for. The supplier needs the money to finance the Federateds and the Dayton-Hudsons and on and on. Those small stores have the right to exactly the same terms (unless the difference is cost-justified) as do their competitors who are part of billion dollar organizations. It is a violation of several Acts enforced by the Federal Trade Commission to induce preferential terms–and there is nothing more preferential than extra days **and** the discount. This is especially illegal when the action is accompanied by threats to stop buying from the vendor if the vendor insists on conformity with printed or agreed terms.

RT has found the following situation by checking with a limited number of vendors–but this check will go ahead in future issues until it appears that there is some improvement in the situation.

RT suspects that David Jones Ltd, so proud of their acquisition of Buffum's in Long Beach (they announced to Australia that this was the 5th largest department store group in California) does not know that Buffum's is taking 80 days extra over and above 30 day net terms. Bruce Dayton may be surprised at reports that Target is taking an average of 50 days extra at one supplier and 10-15 days at another, especially since payment reports on Dayton's and Hudson's are good.

Ralph Lazarus of Federated might be surprised at reports that A&S runs 60 to 90 days late, claiming problems in their bookkeeping. If the vendor pushes for payment A&S demands proof of delivery–from the vendor–which delays the process even more. Gold Circle is reported to take 30 days extra with the comment "if they were given 30x they probably would take an additional 20 to 30 days." Wayne Fisher of Lucky Stores may be surprised to hear that Arden is running slow and taking the discount, just as Lewis P. Seiler of Associated Dry Goods may be surprised that Ayrway is running 15 days slow.

Herbert Seegal of Macy's may be surprised at the report on his firm–New York runs 15 to 30 days slow and Bamberger's 15 to 20 days slow while Davison-Paxon, LaSalle & Koch and Macy's Missouri-Kansas pay "right on the dot." (This confirms to RT that it is not corporate policy). Thomas Macioce of Allied Stores will be pleased to learn that Bon Marche and Donaldson's were rated excellent and Almart/J. B. Hunter, Maas and B. Gertz were rated good.

There were many good reports. For example, on J. C. Penney the report was "checks came rolling in as scheduled" and for one of Woolco's divisions it was reported they were "so prompt it is unreal." Rich, Richway, Strawbridge & Clothier, Clover, Kings, Caldor, Wal-Mart, and Hills were all rated good.

RThought: It is unseemly of major companies particularly publicly held companies–to play the game of "squeeze the vendor." I have long advised buyers to always seek in the following order–the lowest price, the largest cash discount, the most extended dating with discount. Buyers should ask for the best terms that the supplier is offering to any other store. But that does not mean that after the terms are rejected at the time the order is accepted that the back office should take them anyway. (I will admit to one exception–Net 10 terms for shipments from the East to Western stores always seemed unduly demanding and I recommended they be confirmed and paid as Net 30.)

If there is going to be ethics in business, as Mr. Walker of Amfac asks, this is one place that one can start–and the decision to start is entirely in the hands of management.

IS CHAPTER XI FAIR?

No one questions that a number of major discount chains are still on the narrow edge—a cut in their available lines of credit from either their banks or their suppliers could force them in to Chapter XI.

Mammoth Mart illustrates this point—a company with a large net worth ($24,000,000) but unable to meet its current obligations as they matured. Newspaper and other reports indicate that the banks were worried—and said they would withdraw their credit line unless trade sources agreed to continue shipping. Trade sources would not make such a commitment until they knew that the banks would not withdraw their line. The result was the filing of a Chapter XI petition—and suddenly Mammoth Mart had $9,000,000 in cash.

Out of this cash will be framed an "offer" to the creditors of "so-much-on-the-dollar." Management will say "Why are you crying—look at all the money you made on us over the years. You should be happy to get 25¢ or 35¢." In the interim the attorneys (for both the creditors and the court) and the accountants will draw down fantastic fees. And in the end, Max Coffman, who took out over $4,600,000 in 3 public secondaries, will probably have his company back without having to put anything extra into it.

THE SKY IS FALLING, SAID CHICKEN LITTLE

That must have been the reaction of the United States when the Federal Trade Commission announced its intention to issue a complaint alleging that Sears Roebuck has used deceptive "bait and switch" tactics to sell its higher priced major home appliances and that its method of compensation for appliance salesmen has forced or encouraged them to use such tactics.

But this came as no surprise to many of the delegates at the Mass Retailers Institute's Annual Meeting in Washington, D.C., during May, when it was a common complaint that some one should do something about the advertising and promotion policy that Sears was following in this very field. RT had asked several delegates to provide specific information on this matter.

Although a number of the examples of advertising selected by the F.T.C. made specific reference to a $58 sewing machine (Sears, in responding, reported that they had sold about 50,000 of this machine and that this would hardly make it appear to be a "bait"), the consent order covers all major home appliances.

One Commissioner objected to issuing the proposed order because the Commission had not addressed the question of whether or not the products to which Sears "switched" customers were good or bad buys relative to comparable items offered by competition ("bait and switch" usually involves trading a customer up to a product that may be better but which is sold, under pressure, at a price above that for comparable items sold by other dealers).

Chairman Engman, in a statement concurred in by another Commissioner, pointed out that the FTC **Bait Advertising Guide**, in a long-standing statement by the Commission, makes it clear that Section 5 of the FTC Act is violated when a retailer advertises a low priced product to entice customers into his place of business and then, according to a preconceived selling plan, disparages the low priced item in an attempt to push a higher priced product on the customer. Thus it is clear that the ultimate sale of some or many of the low priced items does not prove or disprove the charge of "bait and switch."

RThought: RT has a number of reactions to this announcement by the FTC.

First, competitors of Sears have often commented on items being "nailed to the floor" at Sears but many retailers felt that this was erroneous conduct by a local manager and not Sears policy. In other cases retailers not competing with Sears on home appliances tended to categorize such complaints by competing merchants as "sour grapes." But the one thing that must be said is that the complaints persisted over many years.

Second, it is a sad day for all of retailing—not just Sears—if the FTC is correct in their charge (and one must presume that such positions are not taken lightly by FTC). Even merchants who find Sears one of their most serious competitors still tend to look with admiration at what that firm has accomplished—and many seek to emulate a good part of the way Sears operates.

Finally, there is a message here for many firms who are actually conducting "bait and switch" promotions—often as conscious policy. Briefly, it says—"A word to the wise is sufficient." If the FTC prevails over Sears, then any merchant who conducts himself in this manner will be a likely target for the FTC.

PROGRESS IN COMPUTERS

George Otto and George A. Miller, of the University of Pennsylvania, in a letter to **Datamation** compared the first computer ever made—the ENIAC—with the most advanced pocket calculator—the HP-65:

	ENIAC	HP-65	APPROX. RATIO
Word size-decimal digits	10	10	1:1
Number of memory registers	20	9	2:1
Program capacity— no. of instructions	750	100	8:1
Input/output	punch cards	magnetic cards	
Read rate-digits/sec	200	50	4:1
Manual switches	5,000	35	140:1
Multiply/second	360	15	24:1
Cost	$480,000	$795	600:1
Power requirement (watts)	50,000	½	100,000:1
Size	4,000 cu. ft.	26 cu. in.	270,000:1

WHO BENEFITTED FROM THE 1973 PROSPERITY?

The family median income in 1973 increased to $12,051—up 8.4% in dollars and up 2.1% in real income over 1972. For families headed by a year-round worker, income was $14,614 for increases of 8.1% and 1.8% respectively.

Let us now deal only with year-round workers and real income changes from 1972 to 1973. One's occuption made a great deal of difference on how 1973 affected him as the table below shows:

Occupation	Real Income Change
Self-employed professional and technical workers	−12.0%
Salaried professional and technical workers	+2.4%
Farmers and Farm managers	+16.5%
Self-employed managers and administrators	+15.9%
Salaried managers and administrators	+0.3%
Clerical and kindred workers	+2.4%
Sales workers	+6.2%
Craft and kindred workers	+0.6%
Operatives	+1.5%
Service workers excluding private household	−0.6%
Farm laborers	−2.6%
Laborers, except farm	+0.8%

WHAT GIVES WITH TRADE ASSOCIATIONS?

RT has never really understood most trade associations in the retail field or fields related to retailing.

It is obvious that though they profess to have the best interest of the consumer at heart, they seldom do anything for the consumer. It is equally obvious that they often fail to serve even the members of their own association, let alone their industry. I'm not talking about milk cooperatives headed by a bunch of crooks out to buy the President and the Congress of the United States; but I am talking about such organizations as the American Banking Association (ABA), National Retail Merchants Association (NRMA), National Association of Convenience Stores (NACS), and the California Grocers Association (CGA), just to name four whose stories crossed my desk on the same day.

Let's start with the ABA and the NRMA. The ABA is committed to an Electronic Fund Transfer System (ELTS) which, as presently contemplated, would tie-in with electronic point-of-customer-contact-devices everywhere checks are used in volume—including retail stores. The Federal Reserve System, especially the San Francisco and Atlantic Federal Reserve Banks, are backing experiments in this field—all professing that it is the only alternative to being swamped in paper. The trade associations in the banking field push the idea as an absolutely technological necessity—without ever mentioning that, as presently devised, the system will give the member banks (they hope to exclude savings banks and savings & loan associations) absolute control over the consumer credit system.

This was recognized, and warned about, in the report of the National Commission on Consumer Finance and alluded to in the Hunt Report. Fortunately, the Anti-Trust Division of the Department of Justice is aware of the problem—although whether or not they act seems to depend upon whether the Attorney General is about to be fired or convicted.

Clifford R. Schuman of Weil, Gotshal & Manges (a law firm active with the NRMA) tried to warn the retail industry at their 63rd Annual Convention in January 1974—but RT suspects that most retailers don't understand and are completely bored with the entire subject. They have sort of a "faith in heaven and politics" that "this kind of thing can never happen here."

That brings me to the National Association of Convenience Stores, their ardent but discriminating supporter, Coca Cola, USA, and an association president whose firm is already getting the goodies that are not available to all NACS members. This also ties in with the attempt of the franchise bottlers and their syrup supplier to gain exemption for bottling franchises from anti-trust laws (H.R. 122). This legislation would make it legal for each national brand (Coca Cola, Pepsi, etc.) to establish territorial monopolies and would make legal a ban on sales in that territory by a franchise in another area.

A small NACS member has been trying to buy the specials offered in his area by a subsidiary of Coca Cola—but that subsidiary will not sell him the merchandise ordered (the flier sent to him contains no reason why he is not eligible) nor will it put in writing the reason for refusing the orders.

When the member complained to NACS, suggesting that NACS should not let Coca Cola use NACS as a forum while Coca Cola follows discriminatory policies, NACS's President replied with two interesting facts: first, he didn't think the problem was really serious since the President's firm was getting the special deals (it happens to be much larger than that of the complaining member); and, second, "I do not feel that we, as association officers, can or should take a position that would ultimately be harmful or detrimental with possible damaging repercussions to NACS." Helping members get non-discriminatory treatment from a major resource could be harmful or detrimental? How?

And now to the California Grocers Association. The June 1974 issue of their publication, **Advocate**, reports official statements made before California legislative committees (1) attacking retail price control on liquor (because it protects high profits for distributors—that supermarkets could by-pass except for the law—and thousands of independent bottle shops) and (2) supporting retail price control of milk (controlled prices have concentrated milk distribution through supermarkets at a gross margin that, for most markets, produces the highest or one of the highest returns per square foot of space in the store). It may well be true that milk prices are lower in California than elsewhere—but that does not prove that they could not be even lower if subject to the very tests of free competition that supermarket operators so often champion (and ask for now in the case of liquor).

It is true that California has developed some very efficient methods of distribuuting fluid milk from captive milk plants—a most profitable investment when the retail prices are set by measuring industry "cost of handling" that has little or no relation to the cost of handling milk from captive dairies through supermarkets.

RThought: ABA pushes efficiency in a form that will permit monopoly control over consumer credit, while NRMA and other retail associations apparently don't know what is going on. NACS, which brags so much about being retailing's fastest growing component (except for last year!), adopts a policy that apparently trades off dollar support for NACS activities in return for refusal to oppose discriminatory selling practices (which happen not to be applied to the association president's firm). And California Grocers Association opposes retail price controls on liquor (in an attempt to gore the liquor distributor and independent bottle shop) while supporting retail price controls on milk to insure a non-competitive profit level from a critical essential food product.

RT is confused—but must conclude that (1) statements of retailers and bankers that they favor a "free competitive market without government interference" is one that could not be made under oath; and (2) there is little merit to the agrument that trade associations are interested in the consumer.

SHORT SHORTS

The impact of the energy crisis on men's clothing. The 1973 Annual Business Survey conducted by the Menswear Retailers of America reported their biggest increase (median for 64 firms reporting both years) in the sweater category—36.7%! Jackets and outerwear were up 12.6% and coats (including topcoats and raincoats) were up 11.1%.

Dayton-Hudson improves quarterly report. In the past, RT has criticized the manner in which D-H varied the reporting and announcing of quarterly profit figures, sometimes comparing retail-to-retail and other times including profits of real estate operations. The problem was serious when an effort was made to keep the reported figures down to the typical 6 or 7 lines in a typical quarterly report. But the first quarter report for 1974 lays out the whole picture, for the quarter and the trailing year, so that the reader can see revenues, taxes, and profits, by dollars and cents per share, for the retail, real estate and combined operations. In addition, the report contains a breakdown of retail sales into department stores, low-margin stores and specialty stores, showing sales change for both comparable stores and for all stores.

The money you save you can now leave in the store? That appears to be the plan for Fred Meyer, Inc., one of the leaders in the development of one-stop shopping. Fred Meyer—Founder and still Chairman at an age when most retailers have retired—owns 95% of the stock of Fred Meyer Savings and Loan Association, but has given Fred Meyer, Inc., right of first refusal on all the shares—perhaps pending action on a request to establish full service branches in three Fred Meyer locations. Can't you see the signs at the checkouts—"You have saved 11% by shopping at Fred Meyer's—why not deposit it at 7½% interest at our own Savings and Loan Association facing the checkout you are now leaving."

When you hear that national productivity is increasing do you immediately think of more efficient factories? If so, think again. The table below shows that our biggest increases in productivity (whether measured over the past 23 or past 10 years) have come on the farm—but unfortunately it involves producing much more—without a lot fewer poeple:

Increase in output per man/hour

Period	Total Private Economy	Farm	Nonfarm
1950-1973	+94%	+201%	+78%
1963-1973	+32%	+45%	+30%

Modesty becomes John Wanamaker's. Some months ago I had a chance to spend a day in Philadelphia—and that, of course, meant visiting all of the department stores. It was a thrill to find that Wanamaker's has resisted the temptation to put a popcorn stand and a pocket calculator department in the space occupied by the Grand Court. They prefer to offer seats for their customers—and a noon-time organ concert (although a stranger would never know about the concert because of the lack of signs around the store). And lest one think that the organ is a run-of-the-mill instrument, my mention of it to an organ player in California brought tears to his eyes as he explained that it was the second largest organ in the United States, being exceeded only by the one in Atlantic City! Someday you must "Meet me at the Eagle" at Noon and we will listen to it together.

Wandering through Philly: Wanamaker's says "Please—no smoking," while **Gimbel's** says "No Smoking." **H. L. Green** still had a store with a fresh produce stand on the sidewalk in front—hardly the G. McNew image! **Lits** still says "Hats trimmed free of charge" in bold letters over their corner entrance.

Kresge will offer opportunities to women in its management training and management level jobs under the first sex discrimination ruling issued by the Michigan Civil Rights Commission.

The cost of OSHA can be high. From July 1971 through February 1974 OSHA levied penalties totaling $11,114,204 following 130,407 inspections ($85.23 per inspection) in which they issued 85,175 citations ($130.49 per citation) covering 434,259 alleged violations ($25.59 per alleged violation).

A plea for ethics in control of computers. Daniel McCracken, author in the field of computer programming, addressed the New York Academy of Sciences last year and said "We need to do the unthinkable, tell the boss now and then that a given job ought not to be done, because it cannot be done safely or in a way that protects people's essential human rights. Unthinkable, indeed. Almost never done. But it should be." RT would hope that retailers are not asking their programmers to do such assignments—and that retailers are refusing the blandishments of the central data banks (such as Retail Credit Co. and TRW CDC) to dump raw data computer-to-computer without editing.

Dun & Bradstreet erases arrests in 6 months! Information concerning criminal proceedings that do not result in a conviction will remain on the businessman's record for only six months after disposition—instead of the 3 to 4 years that D&B previously recorded it and the 7 years allowed under the Fair Credit Reporting Act. **It is about time for retailers to disregard arrests not followed by convictions on both employment applications and credit histories obtained from outside agencies.**

Diners Club announces a dues increase! I recently received an invitation to apply for a Diners Club Card (DC) (I already have one). They start by telling me that American Express just increased their annual cost 33%—from $15 to $20 (I knew—I have their card, too). But DC promised that if my application is received by August 15, 1974, I will get a full year's membership for the $15 "we've maintained for years." **RThought:** how much more clearly could DC announce that the $15 "we've maintained for years" will end August 16th?

How good a job is your son doing? I don't know a single father who has a correct evaluation of his son's ability. I had been in retailing for 20 years and on my own as a consultant for 5 years before I shared a client with my Father, who did similar work, and my Father had a chance to see what I did and how. I was in my 40's before he had a clear evaluation of me. If you have the same situation in your family, you will want to get in touch with Frank M. Butrick who lists himself as the Managing Director of Manufacturers' Institute, Box 228, Oxford, Michigan 48051. What he really runs is counseling for family relations within a business. He publishes the **Family Business Report** (such titles as "How much should the sons be paid?" or "How does the son learn to run the business?") and **Son's Report** ("Brothers at war" and "How can I sell an idea to Father?") And then there are the seminars where Father and Son(s) (Daughters?) can share their misery with other Fathers and Sons—for the betterment of all.

The gored speaks! Walter B. Wriston, Chairman of the First National City Corporation, had an article in **The Credit World** for July 1974 ($6/yr., 375 Jackson St., St. Louis MO 63130) entitled "The Whale Oil, Chicken and Energy Syndrome." It is a plea for fewer government controls. Obviously it was written before Mr. Wriston's losses of hundreds of thousands of dollars in Home-Stake had become front page news. I presume that Mr. Wriston, as an advocate of caveat emptor, will appear as a witness supporting the right of Home-Stake to embezzle from Walter B. Wriston!

Make the shoplifter pay for the protection department? That's what is being done by Swiss stores, with the approval of canton (state) authorities. Migros Cooperative, according to **Retail News Letter** (International Association of Department Stores, 72, Boulevard Haussmann, 75008 Paris), has joined the plan of other major Swiss retailers. In rough dollar terms, a shoplifter who takes less than $3 will be required to pay $6 extra while those taking over $3 will be required to pay $15 extra. Payment does not preclude the possibility of prosecution. Migros management estimates that during 1973 each apprehended offender cost 11½ hours of security services time at a cost of about $50—and they feel the honest customer should not bear this cost.

It made considerable difference where in the country one lived:

	Real Income Change
Northeast	+1.3%
North Central	+1.5%
South	+4.0%
West	+3.2%

And it made a great deal of difference the size of the city where one lived:

Areas of 1,000,000 or more	– central city	+1.9
	– outside central city	+2.8%
Areas under 1,000,000	– central city	+1.4%
	– outside central city	+1.2%
Outside metropolitan areas		+3.7%

It helped if you are white:

White	+1.9%
Negro	+0.7%

And it didn't pay to have 4 or more years of college or less than 8 years of grammar school:

Less than 8 years of education	–1.2%
8 years	+4.1%
1 to 3 years of high school	+1.4%
4 years of high school	+2.2%
1 to 3 years of college	+3.1%
4 years or more of college	–1.3%

And for the 3rd year in a row the negro and other races lost out, in terms of family income compared to white families. They are almost back to the 1966 level:

Year	Negro & other races income as % of white
1947	51.1%
1950	53.8%
1955	55.2%
1960	55.4%
1963	53.0%
1964	56.1%
1965	55.6%
1966	59.9%
1967	61.8%
1968	62.5%
1969	63.3%
1970	63.9%
1971	63.3%
1972	61.4%
1973	60.3%

RThought: Master Charge is so very proud that the median annual income for their cardholders reached $15,076 in 1973 that they may not have realized that this is only 3% above the median for all families headed by a year-round worker (usually one of the first requirements for a cardholder!)

THE RECESSION

Despite the statements of Mr. Nixon promising that we will not have a recession (he clearly issued the order for the recession not to appear but apparently his authority has been reduced in recent months) and despite the double-talk of his economic staff, the Gross National Product (in Constant Dollars) has now dropped for 2 consecutive quarters. One can only say that if it looks like a recession and acts like a recession that it must be a recession.

But it is, as has been true for most post-World War II recessions, a hard-goods recession. As retailers we are concerned mainly with current dollar expenditures called "Personal consumption expenditures." These break down into three major categories with the changes shown below for the second quarter of 1974 compared with the second quarter of 1973:

Personal consumption expenditures	+8%
Sales of durable goods	–1%
Sales of nondurable goods	+13%
Sales of services	+8%

But some major categories within the durable and nondurable goods show a somewhat different pattern. Two categories making up 85% of sales of durable goods show:

Automobiles and parts	–14%
Furniture and household equipment	+9%

On this basis dealers in furniture and household equipment who complain that sales are off because of the recession are kidding themselves–they are actually losing market postion. To the extent that more firms are probably leaving this market today then entering it, one would expect that the remaining stores would show better than a 9% increase.

Under nondurable goods three major categories make up 78% of the figure and they show the following pattern–they are arranged according to their volume:

Food and beverages	+13%
Clothing and shoes	+6%
Casoline and oil	+32%

CAN THERE BE MORE HYPERMARCHÉS IN FRANCE

Retail News Letter (International Association of Department Stores, 72, Boulevard Haussmann, 75008 Paris) reports the appointment of a new National Commission on Town-Planning and Distribution with 20 members consisting of 9 from government, 9 from trades and handicrafts and 2 representing consumers. This group will review appeals against decisions denying new large retail units. Since the new control laws became effective this year, 109 applications have been received covering 5,100,000 sq. ft. of selling space (46,000 average) of which 59 have been refused (60,000 average) and 50 representing 1,500,000 sq. feet (30,000 average) have been approved. Thus it appears that the largest stores or hypermarchés are being rejected.

HOW BAD IS BUSINESS CREDIBILITY?

Bad enough that Opinion Research Corporation is charging $475 for a 2-day seminar on the subject of "Public Opinion–It's Impact on Planning, Performance and Profits." The titles of the segments of the seminar tell a story in themselves: (1) The increasing power of public opinion, (2) American attitudes toward big business, (3) Consumerism: Dimensions and Directions, (4) Advertising credibility and business ethics, (5) Corporate social responsibility, (6) The impact of scarcity and inflation on American attitudes and life styles and, finally, (7) The dangerous climate for more government control.

The Halloween spooks are coming early for businessmen. But much of the information is already known–from past Harris Polls and other sources. Business has a problem–and RT sees little being done to change the stituation. Retailers keep selling dangerous products and products of poor quality (while claiming they have little or no control over the manufacturers). Dishonest advertising continues. Major corporations have to be forced into obeying the Equal Employment Opportunity Act. Note the court decisions, consent orders and "voluntary" programs involving major banks (Bank of America), utilities (AT&T, PG&E), total industries (steel).

RThought: So much emphasis is placed on the requirement that retail executives be able to "look ahead" that sometimes we forget to train them to listen!

WHEN THE BANK TELLS YOU YOUR ACCOUNT IS UNPROFITABLE, THEN WHAT?

Banking, the Journal of the American Bankers Association (350 Broadway, NY, NY 10013 $9/yr.) in their April 1974 issue, summarized a study made by the Federal Reserve Bank of Kansas City on how banks compute the profitability of accounts. The study covered 91 banks of varying sizes throughout the country.

There are two important items for a retailer–first, determining what the account earns for the bank and second the charge made for deposited items. In a supermarket with a large check cashing business, the cost of being furnished currency and coins, and of depositing currency and coins, may be significant.

Let's look at what the bank does to determine how much money your demand account earns. The computation usually starts with the average balance shown on the bank's book which reflects deposits made but does not reflect checks that you have issued but which have not yet reached the bank. This figure will be substantially above the balance shown on the company's books.

The bank then corrects this book balance by two figures–what they call "the float" (which is different from your "float") and the legal reserve requirement. The bank's "float" represents checks you have deposited that are drawn on other banks and which have to be collected. Many banks use an arbitrary figure like 1 day and they compute the average daily deposit and deduct that from the book balance. From that figure they deduct the reserve required to be carried against the collected balance and the resulting figure is the average daily amount available for investment.

Each bank then uses their own figure on what they assume that money will earn. For many years the figure was unrealistically low. For the banks covered by the study, the average allowed was 4.8%, and the median a bit over 4.5% when the prime rate was 5.25%. A year later in July 1973 when the prime increased 3 times, rising from 7.75% at the start of that month to 8.5% at the end the average was 6.3% (Note: this rate is not adjusted by the bank with each change in prime rate) and the median about 6.6%.

However, in July 1973, 20% of the reporting banks were computing earnings at the rate of 5% or less, while 22% were computing the earnings at the rate of 7.5% or higher. (What rate did your bank use?)

On the matter of items deposited, retailers have long assumed the responsibility of the banks for check cashing. Yet the bank figures they should charge the retailer for each check deposited by the store. Only 16% of the reporting banks charged the same whether the check is encoded or not–while 84% charged a higher rate of checks not encoded.

For encoded checks the average charge was 1.6¢, the most common charge was 2¢ and the range was from .5¢ to 5¢! For checks that were not encoded the average was 2.5¢, the most common charge was 3¢ and the range was 1¢ to 5.2¢!

An increasing number of banks are concealing the basic rates charged by taking your activity and computing the amount of "Balance Available for Investment" that your account would need in order to produce income to cover a certain activity. For example, if the bank charged 2¢ per uncoded check deposited and you deposited 50,000 checks, that would come to $1,000 cost per month; and if the bank figured your balance earned .5¢ per month (6% per annum) the $1,000 could require a $200,000 average balance available for investment to produce $1,000 income. The $200,000 would then be inflated by the reserve requirement and the uncollected funds–which might produce a required figure of a $250,000.

The sum of all these figures would then be compared with your average ledger balance to determine whether your account is profitable or not; and if unprofitable, to compute a service charge–which you promptly protest and most banks then "negotiate."

RThoughts: (1) You cannot analyse the charges for services independent of the computation of earnings–in a number of cases banks that charge the highest amount per item processed also allow the highest earnings on your balance. (2) If your bank presents a statement in terms of "balance required to cover activity" ask for the facts–"all you want is the facts, Ma'm." (3) If there is a significant difference in the charge for coded and unencoded checks, you may find that encoding equipment could perform some of your present functions such as listing deposits, without additional labor costs, and at a savings that will make investment in the encoding equipment profitable.

FORCE–COUNTER FORCE

The consumer groups around the country are doing some innovative and interesting studies. For example, the Cleveland Citizen Action Foundation, in their publication **bait & switch** (Vol 1, No. 8, 1241 Terminal Tower, Cleveland, Ohio 44113, 50¢/issue) located a copy of a Kennedy & Cohen sales training manual, which sets forth a step-by-step process of starting and finishing a sale (a sale is written up upon after as little positive action by a customer as an answer to a question "Which one do you like?")

After two shoppers had been properly prepared by studying the sales manual, they went out to see if Kennedy & Cohen salesmen actually followed the manual. The results indicate that the salesmen bat only about .500. In one case, a shopper wandered around for 20 minutes before being approached; in another case the salesmen went through the steps in the manual 1,2,3,4, etc.

WORDS TO MANAGE BY

Alexander Pope (1688-1744) in his "Essay on Man" made an obseervation that bears repeating today

> "The proper study of mankind is man.
> Vice is a monster of so frightful men,
> As to be hated, needs but to be seen;
> But seen too often, familiar with her face,
> We first endure, then pity, then embrace.

RETAILING TODAY

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

Published Monthly. $12 per year.

SEPTEMBER 1974

VOL. 9, NO. 9

A LOOK AT ANNUAL REPORTS

The Annual Report should represent the highest form of communication between a corporation and a shareholder—an unsophisticated individual who most often owns a relatively insignificant number of shares.

Unfortunately, many of the major retail firms seem to use the annual report to conceal information from or confuse these individuals—and they do this in a variety of ways with the apparent acquiescence of legal counsel, accountants, the S.E.C. and even state regulatory agencies. RT sees daily, in studies by analysts for investment firms or in news roundups in trade publications, information that management never provides to the owners. *Women's Wear Daily* (WWD) can report that "Filene's profits zoomed 25% while volume rose over 10% to exceed $165 million" while Federated refuses to breakdown sales and profits by division for shareholders. WWD reports "In the Detroit area alone, Hudson's volume was about $420 million"—but Dayton-Hudson groups all department stores (Dayton's, Diamonds, etc.) together for shareholders.

Federated, Allied, Associated, Mercantile, Broadway-Hale, Macy, May, Dayton-Hudson and many other retailers who consider themselves "great" and "ethical" apparently leak information to analysts and trade publications that they are unwilling to put in simple open form in their annual reports.

MAJOR EFFORT

This year RT has tried to review the annual reports of all food retailers doing in excess of $700 million a year and all general and specialty retailers doing in excess of $300 million. It was a much bigger job than anticipated.

The analysis will break down into the following parts:

1. What RT feels should be in an annual report.
2. A summary listing showing for each firm the CPA, fiscal year, analysis of directors, and two critical financial ratios.
3. A summary of the present pattern of disclosure of historical information.
4. A comment on other items in the annual reports.

WHAT SHOULD BE IN AN ANNUAL REPORT?

1. **Financial information should be complete—and should include** a consolidated statement that includes any finance company subsidiary. RT can understand that companies still have a choice whether to own or lease property (thus making acceptable the exclusion from consolidation of wholly owned real estate subsidiaries) but there is no question that general and specialty store merchants must have credit in order to obtain their sales volume.

2. **Footnotes should be referenced to statements.** RT is concerned about the current trend to conceal by eliminating cross references. Notes should be complete. For example, many companies are not disclosing facts about their pension plans—such as the amount of unfunded past services, or whether assets do or do not exceed vested benefits. One would also hope that accountants would start to look carefully at the age of accounts payable before assuming that the audit should be done on a "going-business" basis. Look at the discounters now in Chapter XI or X who suddenly found that vendors would no longer ship merchandise when the retailer insisted on taking 90 or 120 days to pay.

3. **Retailers should show more information on which a shareholder can make his own analysis of the source and trend of profits.** This means that department store groups should report both sales and selling areas by operating divisions (and, hopefully, the contribution to corporate central expenses). Food firms that have a penchant to be all things to everyone (by operating convenience stores, fabric chains, auto stores, catalog/showrooms, hypermarches, etc.) should also have a penchant for honesty, during this post-Nixon period, by disclosing results by such groupings.

4. **It is amazing that so many retailers who sell mainly to women** have never found a woman qualified to serve on their board (see the tabulations of the boards) and even fewer have noticed that minority groups are also included among their customers. It seems that retailers are saying that they know so much all by themselves that there is nothing they could possibly learn from a woman, a black or a chicano. And the annual report should give complete information about the qualifications of each director—including all the organizations with which he or she is connected (both "for-profit" as well as public and community organizations).

5. **Summaries of historic information should cover at least 10 years and should be complete.** In the tabulation of this information RT has indicated the items that should constitute a minimum disclosure. Most important, the summary should show the annual high, low and closing prices of all the publicly traded classes of stock. This is not secret information that will help a competitor—it was printed in newspapers or "pink sheets" every day.

6. All intangibles should be disclosed in detail—and no firm should be allowed to keep on its balance sheet the "excess of cost over assets purchased" of any subsidiary or group once that subsidiary or group operates at a loss (after allocating central expenses). The world seems full of naive CPA's who blissfully accept the statement of the Board of Directors that the excess purchase price paid for the Old Bull & Flag Department Store group has not declined in value—a statement that is being made more and more often during a coffee break as plans are put together to file under Chapter XI.

7. Reports should include some honest-to-goodness signatures. United States retailers should adopt the practice of Canada (and other countries) of having 2 or more directors personally vouch for the accuracy of the financial statements. And since Messrs. Ernst, Waterhouse, Marwick, Touche, Lybrand, Anderson, et al are long gone, it is obvious that someone is forging their signatures. The certificate should be signed personally by the partner in charge. These two steps might help place responsibility a bit more precisely.

WHAT SHOULD GO IN THE HISTORICAL SUMMARY?

Table I shows what is now being reported by 48 general merchandise and 25 food firms, together with RT's indication of the minimum desireable information. Let's all strive to do better than the minimum.

TABLE I

ANALYSIS OF PUBLISHED HISTORICAL DATA

Minimum Desire-able	Data Disclosed	48 General Merchandise Firms	25 Food Firms
	No. of Years Reported:		
	None	3	3
	Under 5	1	0
	5	7	6
	6 to 9	2	2
*	10	34	14
	more than 10	1	0
	$ Sales – total	41	19
*	– by type of outlet	4	3
	No. Stores – total	21	12
*	– by type of outlet	3	4
	Sq. Ft. – selling	6	2
*	– total	9	2
	Sales/sq. ft. – total	2	3
*	– by type of outlet	3	1
*	No. Shareholders	15	10
*	No. shares outstanding – average	25	7
	– year end	7	8
*	No. Employees	8	10
*	Per share data – earned	43	21
*	– dividends	37	15
*	– book value	33	14
	Income data – gross margin	0	1
*	– net before taxes	32	16
*	– net after taxes	43	22
*	% net to sales	14	12
*	% net to net worth	13	8
	Depreciation expense	21	12
	Expenditures – capital	15	7
	Total dividends paid	17	8

TABLE I (Continued)

Minimum Desire-able	Data Disclosed	48 General Merchandise Firms	25 Food Firms
	Balance Sheet:		
*	Current assets	5	[illegible]
*	Current liabilities	5	5
*	Working capital	33	17
*	Current ratio	18	10
*	Accounts Receivable	14	0
*	Inventory	17	4
*	Long Term Debt	26	12
*	Fixed Assets	27	10
*	Net Worth	16	16
*	Total Assets	10	11
*	LIFO Reserve	2	0
	Stock Market Data		
*	Price Range	8	4
	Year-end price	1	1
	Price/Earnings Ratio	5	1

In addition to the summary, it is necessary to comment on "Good Guys" and "Bad Guys." "Good Guys" are the ones who provide information on the price range of the stock for each year in the historical summary (a number also provide the year-end price and/or the Price/Earnings ratio):

GOOD GUYS

Albertsons	Jewel Companies	Penney
Amfac	Kresge	Safeway
Genesco	Lucky Stores	Sears
Hudson's Bay Co.	Marcor	Simpson's Ltd.

"Bad Guys" are those firms who provide no (or very littl information. Some, like George Weston Limited, almost sho contempt for the public stockholders.

BAD GUYS

Allied Supermarket	Loblaw's Limited	McCrory
Brown Group	Macy's	George Weston

Macy's does provide some charts—with multi-year intervals so as to hide the irregularity of the annual pattern.

LET'S LOOK AT DIRECTORS AND RATIOS

Table II (25 Food Firms) and Table III (48 General Merchandise Firms) provide an analysis of the Boards of Directors and two key ratios for each firm.

If a man from Mars analyzed the Boards of these 73 firms he would have to conclude that they had nothing to do with women—otherwise the firms would have more women on their Boards. Yet, RT has been under the impression for many years that the majority of their customers are women!

I can just hear some of the fine, publicly spirited (according to their press agent) chief executives explaining that they are just unable to find any women who meet the high standards set for board membership.

Only 16 (21%) of the 78 firms have any women on their board (in a number of cases the woman is a member of the controlling family) with a total of 20 women (2%) out of 961 director Although the officers were not tabulated, the percentage women officers is under 2%.

A word of explanation is needed about the two ratios computed for each firm.

In computing the "Current Ratio" and "Debt to Net Worth Ratio" RT is not satisfied and does not accept certain "theories" of accountants or accounting principles. First, RT has consolidated the finance subsidiaries when the accountants have reported them as unconsolidated (although RT has disregarded unconsolidated real estate subsidiaries on the premise that most companies do not own their real estate). Second, RT does not consider deferred taxes arising from reporting accounts receivable on the installment basis as either a current liability or even a liability. RT can not foresee the day when general merchandise firms will operate without receivables and thus can not see the deferred taxes acutally becoming due (should a firm fail, the loss will be so great that the accelerated income arising from liquidating the receivables won't bring the firm up to a breakeven and thus no tax will be due). And finally, RT does not consider self-insurance reserves (the loss has not yet occurred), deferred compensation reserves, and minority interests to be liabilities (although deferred taxes related to use of accelerated depreciation is treated as a liability because RT can envision retail firms discontinuing major additions of plant and equipment for an extended period of time).

Therefore, the "**Current Ratio**" is computed on a consolidated basis without regard to deferred income taxes related to installment reporting of receivables.

The "**Debt to Net Worth Ratio**" is computed by excluding deferred taxes related to installment reporting, insurance reserves, deferred compensation reserves and minority interests from "debts"–and by excluding all intangible assets from net worth. (It might be pointed out here that as of January 31, 1974, McCrory had no tangible net worth!)

TABLE II
SUMMARY OF 25 FOOD FIRMS

Firm	CPA(6)	Yr. End	Directors Tot.	Directors Inside	Directors Female	RT–Computed Ratios: Current TY	Current LY	Debt to N.W. TY	Debt to N.W. LY
Albertson's	TR	2/2/74	11	5	2(1)	1.48	1.54	1.61	1.30
Allied Supermarkets	HS	6/30/73	9	2	2	1.66	1.60	3.36	3.83
American Stores	PMM	3/30/74	11	8	0	1.59	1.76	1.15	1.01
Arden-Mayfair	C&L	12/29/73	9	4	0	1.42	1.53	4.17	2.12
Colonial Stores	PMM	12/29/73	14	2	0	1.97	2.53	1.06	0.73
Cook United	E&E	12/29/73	9	5	0	1.84	2.22	1.96	1.69
Dominion Stores	C&L	3/23/74	13	3	0	1.43	1.72	0.94	0.79
First National	PW	3/30/74	11	5	0	1.50	1.71	0.97	0.79
Fisher Foods	E&E	12/29/73	10	7	0	1.47	1.73	2.21	2.19
Food Fair	LKH&H	7/28/73	15	12	0	1.82	1.69	2.47	2.29
Grand Union	C&L	3/2/74	15	6	0	1.87	1.70	1.14	0.67
Great A&P	H&S	2/23/74	15	8	0	1.82	2.01	0.59	0.64
Jewel Companies	TR	2/2/74	18	8	2	1.47	1.37	1.44	1.33
Kroger	C&L	12/29/73	15	7	0	1.77	1.58	1.61	1.19
Loblaw's Limited	(2)	12/29/73	8	4	0	(3)			
Lucky Stores	PW	2/3/74	13	5	0	1.40	1.45	1.65	1.69
Publix	PMM	12/29/73	5	5	0	1.41	1.61	0.63	0.53
Safeway	PMM	12/29/73	13	8	0	1.43	1.64	0.99	0.83
Steinberg's	C&L	7/28/73	11	6	1	1.40	1.43	1.73	1.61
Stop & Shop	PMM	2/2/74	14	9	1(1)	1.48	1.56	2.48	2.62
Southland	TR	12/31/73	8	6	0	1.96	2.14	0.97	0.91
Supermarkets Gen'l.	TR	2/2/74	14	9	0	1.31	1.43	3.43	3.18
Super Valu	TR	2/23/74	13	7	0	1.88	1.88	2.10	2.01
George Weston	(4)	12/31/73	11	11	0	(5)			
Winn-Dixie	PMM	6/30/73	11	7	0	2.43	2.79	0.39	0.37

(1) One woman is member of controlling family
(2) Thorne Gunn & Co.
(3) Not significant because of parent and inter-company guarantees
(4) Clarkson Gordon & Co.
(5) Too varied in operations to be significant
(6) Code to CPA firms: TR = Touche Ross; HS = Haskins & Sells; PMM = Peat Marwick Mitchell; C&L = Coopers & Lybrand; E&E = Ernst & Ernst; PW = Price Waterhouse; LKH&H = Laventhol, Krekstein Howarth & Howarth.

TABLE III
SUMMARY OF 48 GENERAL MERCHANDISE FIRMS

Firm	CPA(6)	Yr. End	Directors Tot.	Directors Inside	Directors Female	RT–Computed Ratios Current TY	Current LY	Debt to N.W. TY	Debt to N.W. LY
Alexander's	TR	7/28/73	11	7	0	2.02	2.22	1.96	1.93
Allied Stores	TR	2/2/74	13	2	0	2.16	2.18	1.89	1.93
Amfac	H&S	12/31/73	16	5	0	1.88	1.74	2.60	2.39
Arlen Realty	(3)	2/28/74	14	10	0	(2)			
Associated D.G.	TR	2/2/74	16	9	0	1.94	2.43	0.85	0.76
Beneficial Corp.	H&S	12/31/73	18	8	0	(2)			
Broadway-Hale	PW	2/2/74	19	12	0	1.85	2.12	1.30	1.15
Carson Pirie	AA	2/2/74	13	6	0	1.58	1.50	1.85	2.03
City Stores	SDL	2/2/74	11	5	0	1.56	1.57	1.87	1.77
Daylin, Inc.	PMM	9/2/73	9	7	0	1.81	1.87	2.62	2.33
Dayton Hudson	E&E	2/2/74	14	9	0	2.12	2.22	1.39	1.37
Jack Eckerd	PMM	7/28/73	7	3	0	2.98	3.09	0.49	0.54
Edison Bros.	SDL	12/29/73	10	10	0	2.01	2.32	0.77	0.75
Federated	TR	2/2/74	19	11	1	1.77	2.09	0.71	0.62
Gamble-Skogmo	PMM	1/26/74	12	10	0	1.82	1.80	2.96(10)	2.77(10)
Genesco	PMM	7/31/73	18	9	0	2.65	2.21	3.07	1.79
W. T. Grant	E&E	1/31/74	17	9	0	1.61	1.55	2.84	2.30
Hart Schaffner	PW	11/30/73	16	9	0	2.98	3.82	0.82	0.70
Household Finance	H&S	12/31/73	17	7	0	2.04(4)	1.91(3)	1.18(4)	1.04(4)
Hudson's Bay Co.(5)	PMM	1/31/74	17	6	1	2.10	2.07	0.95	0.54
Interco	PMM	2/28/74	15	11	0	3.83	3.71	0.50	0.54
S. S. Kresge	PW	1/30/74	17	7	0	1.92	1.88	0.72	0.71
Lane Bryant	C&L	2/2/74	14	9	1(6)	3.30	2.62	1.19	1.04
Levitz	LKH&H	1/31/74	10	8	0	2.55	2.68	0.73	0.82
Macy's	TR	7/28/73	15	8	0	1.73	1.93	1.79	1.70
Marcor	AA	1/30/74	15	8	0	1.82	1.97	2.44	1.95
Marshall Field	AA	1/31/74	10	3	0	2.84	2.92	0.42	0.43
May Dept. Stores	AA	2/3/73	21	16	1	2.85	3.25	1.47	1.34
McCrory	H&S	1/31/74	12	8	0	1.65	1.87	(7)	7.45
Melville Shoes	PMM	12/31/73	14	10	0	2.77	2.89	0.71	0.72
Mercantile	AA	1/31/74	13	6(8)	0	1.84	2.46	0.96	0.86
G. C. Murphy	C&L	12/31/73	12	5	1	2.70	3.03	0.75	0.66
J. C. Penney	PMM	1/26/74	15	11	0	1.83	1.81	1.46	1.50
Rich's	AA	2/2/74	20	8	0	4.23	4.20	0.57	0.61
Roses	PMM	12/31/73	11	7	0	2.52	2.00	0.75	0.68
Sears, Roebuck	TR	1/31/74	21	15	1	1.85	1.97	0.93	0.89
SCOA Industries	C&L	1/26/74	10	3	0	2.13	2.58	2.51	2.45
Simpson's Ltd.	PW	1/2/74	14	5	0	(9)			
Simpson-Sears	PW	1/2/74	14	13	0	2.10	2.58	2.09	1.94
Skaggs Companies	C&L	1/3/74	11	8	1	2.43	2.17	0.83	0.99
Tandy Corporation	PW	6/30/73	10	3	0	3.80	3.23	0.93	0.71
Thrifty Drug	AA	8/31/73	9	7	0	2.15	2.22	1.03	0.99
Vornado	PMM	1/27/74	9	4	0	1.93	1.80	1.73	1.58
Walgreen Co.	AA	9/30/73	10	4	0	2.17	1.99	1.11	1.21
Wickes Corp.	C&L	1/26/74	9	5	0	1.86	1.89	1.80	1.20
Woolworth	PW	1/31/74	21	9	0	1.62	1.86	1.10	0.88
Zale Corp.	TR	3/31/74	15	10	0	3.10	3.22	0.52	0.40
Zayre Corp.	C&L	1/26/74	11	7	0	2.05	2.08	2.61	2.76

(1) Code for CPA firms: TR = Touche Ross; H&S = Haskins & Sells; PW = Price Waterhouse; SDL = S.D. Leidesdorf; AA = Arthur Anderson; PMM = Peat Marwick Mitchell; E&E = Ernst & Ernst; LKH&H = Laventhol Krekstein Harwarth & Harwarth; C&L = Coopers & Lybrand.
(2) Ratios not pertinent or not available
(3) Eisner & Lubin, CPA
(4) Used balance sheet for merchandising subsidiary—City Products
(5) Debt to net worth based on market value rather than cost of investments
(6) Related to controlling family
(7) No tangible net worth left—thus no ratio
(8) 4 of 6 outside stockholders are from Milliken family or interests
(9) No market value established for holdings in Simpson-Sears since only non-voting stock is traded. Excess of market value over book value of investment would probably double net worth of Simpson's.
(10) Computed on basis of Capital Notes being treated as debt. If treated as capital, then ratios would be 1.29 and 1.32, respectively.

A LOOK AT INDIVIDUAL REPORTS

If one of the 78 firms shown in Table II or Table III is not listed, that indicates that no special comment is warranted. It would also indicate that the firm is using the most common method of inventory valuation (for general merchandise that would be the retail method on a FIFO basis and for food chains the lower of cost or market for warehouse stocks and either lower of cost or market or the food industry's version of retail method for store stocks), pre-opening expenses are not capitalized, games are not being played to meter out profits on sale of capital assests into the flow of income, and no comment is made on the availability of the 10-K report.

It would also mean that the impact of non-capitalized financing leases is not significant, there is adequate disclosure of the unfunded prior service under pension plans, pension plan funds exceed vested benefits, and reasonable historic disclosure is made.

Albertson's (Touche Ross): Non-capitalized financing leases would have reduced earnings 6%. No mention is made of any pension. 10-K is available.

Alexander's (Touche Ross): Sales per square foot of store space has been dropping for the past 4 years despite inflation. They continue to write-off investments in businesses that they were not familiar with (wholesaling, catalog/showroom for $400K). Earnings are a fraction of historic level and yet base salary of President is increased 59%!

Allied Stores (Touche Ross): Footnotes are not referenced to statement (inexcusable). Sales not reported by division (yet disclosed to press and analysts). 10-K "available at minimum cost" (why not free?) Both credit and real estate subsidiary consolidated (good). Unfunded past service $25 million (41% of pre-tax net). Non-capitalized financing leases would reduce earnings 5%.

Allied Supermarkets (Haskins & Sells): Unfunded past services equal 49% pre-tax profits. Period of time to amortize pre-opening costs of Livorna Center not disclosed (bad). Store inventories valued at "latest purchase price" (boosts profits under present inflation).

American Stores (Peat Marwick Mitchell): Non-capitalized financing leases would have cut profits 7% (104% prior year). No breakdown by types of outlets (bad—especially when going into fields other than supermarkets).

Amfac (Haskins & Sells): Contribution before interest and corporate expense for retail operations was insignificant yet management feels millions in premiums paid for J. Magnin has not declined. Footnotes not referenced (bad). Store pre-opening expenses **plus operating loss for first six months** amortized over 3 years (inexcusable that this is considered acceptable accounting). Unfunded past pension service not disclosed (bad). Shrinkage up 1% (fact that this was disclosed is good). Amfac continues to sell land at capital gains to force constant profit improvement (1973 sold 151 acres at average $63,000/acre—while valuing remaining 65,500 acres of Hawaiian land at $165 per acre!)

Arden-Mayfair (Coopers & Lybrand): Company appears to be liquidating. Management keeps changing—yet Chairman says "Although there have been a number of changes in top management positions in the company over the past 2½ years there is a unity of purpose among those members of top managment . . ." (one could add "who are left").

Associated Dry Goods (Touche Ross): Credit subsidiary not consolidated (bad) despite fact it lends unsecured to parent. 24% of inventory on LIFO. Unfunded past pension service equals 36% of pre-tax profits. Footnotes not referenced, (bad). Sales not shown by division. In 10 years, sales per square foot have increased at only 1.7% per year compounded. Shortage rate reported (good).

Broadway Hale (Price Waterhouse): Footnotes not referenced (bad). Credit subsidiary not consolidated (bad). Charts are so immersed in art work and graphics that I didn't see them until half-way through the report for the first time (is this really necessary?)

Carson Pirie Scott (Arthur Anderson): Credit subsidiary not consolidated (bad). Pre-opening expenses written off over 5 years (bad). Inadequate disclosure on pension plan.

City Stores (Leidesdorf): Inventory partially on LIFO. Pension plans are not funded! It is strange that the IRS is contesting the deferred gross profit on accounts receivable for 1959-1968—since City Stores was the key court case that led to allowing installment reporting of conditional sale contracts.

Colonial Stores (Peat Marwick Mitchell): Cost of pension plan accrued but not funded! Letter to RT sent with annual report said 10-K was available only through SEC (management has not gotten the message yet).

Cook United (Ernst & Ernst): Footnotes not referenced (bad). Company is going all directions at once—sold original supermarkets, liquidating home routes—but eager on catalog/showrooms, pants shops, records and audio outlets, yet no full disclosure of divisional sales and contribution (raises questions on analysis). Poor disclosure on pension plan.

Dayton-Hudson (Ernst & Ernst): 88% of inventory of LIFO. Unfunded past pension service, if any, not disclosed, Excellent 5 year comparison of store groups. 10-K available on request. Although accounting policies are generally conservative, reserve for bad debt does not appear to have been increased enough (1972 reserve at year-end was 110% of expense for 1972; by 1973 this had dropped to 86%). Reported that "inventories at Target are dramatically cleaner than a year ago"—but management did not disclose a year ago that inventories were bad (was value overstated?) Provided useful estimate of current values of real estate relative to basis.

Dominion Stores (Coopers & Lybrand): Balance sheet signed by 2 directors. Unfunded past pension service 68% of pre-tax profits. Warehouse inventory valued at replacement cost (boosts profits during inflation).

Jack Eckerd (Peat Marwick Mitchell): Mr. Eckerd has established his own stock option plan for employees utilizing personal stock.

Edison Bros. (Leidesdorf): This year they are reducing instead of increasing information on types of stores (Jeans West, Handyman, United Sporting Goods, Size 5-7-9 Shops) creating suspicion that the disclosure last year that sales increases came from these ventures but profits came from shoes is now an even more serious situation. All excess cost above assets purchased being amortized in 20 years (good). Inadequate disclosure on pensions. Footnotes not referenced to statements (bad). No breakdown by type of shoe store (Leeds, Chandler, etc.).

Federated (Touche Ross): Credit subsidiary not consolidated (Bad—and for years Federated had no credit subsidiary and thus presented a blance sheet including all receivables). Most inventory on LIFO. 10-K available on request. List of all department stores shown with date opened and total store area—but still no information on sales by division (except by watching Women's Wear Daily—which most shareholders don't read).

First National (Price Waterhouse): Madison Fund bought control at $23 per share when market was $18—BUT book value was $48! Unrealized capital gains in pension fund being amortized over 10 years. Abandoned LIFO.

Fisher Foods (Ernst & Ernst): 10-K available for $3 (next they may charge 10¢ for a "thank you" at the checkout). Amused with report that Shopping Bag achieved a small profit for the last 2 months of 1973—without reminding readers that there is no Thanksgiving or Christmas in the other 10 months. Describe self as fastest growing and most profitable food operation—with growth being expanded in 1973 despite fact that net increased less than sales (and despite turn-around by Shopping Bag—so must have fallen behind elsewhere).

Food Fair (Laventhol Kreckstein Howarth & Howarth): Pre-opening expenses amortized over 3 years (bad). IRS on audit for 1964-68 claiming $10½ million (8% of net worth) plus interest. No breakdown between J. M. Fields and food store results.

Gamble-Skogmo (Peat Marwick Mitchell): Breakdown of results by general, food & drug, and catalog outlets (good). Two finance subsidiaries not consolidated (bad). Poor disclosure on pension plans. Reserve for bad debt reduced from 4.6% to 4.3%. Bad debt not shown separately within credit expenses so no analysis possible. Their own insurance agency sells all-risk casualty, workman's compensation and other coverage to franchise stores. Also sells auto and homeowners to Gamble employees. Management brags about "no short-term debt," by closing their eyes to debt in finance subsidiaries. Show Subordinated Income Notes (held by more people than hold stock) as part (39%) of Capital Accounts.

Genesco (Peat Marwick Mitchell): IRS has made "substantial" claim—facts not disclosed. 10-K available. Footnotes not referenced (bad). Solvency of pension plan depends upon Genesco buying back millions of dollars worth of S.H. Kress real estate. (This deal looked great when made—unfortunately management didn't know how to operate Kress.)

Grand Union (Coopers & Lybrand): Poor disclosure on pension. Inadequate breakdown of results by discounting, catalog/showroom, food—in light of closings and de-emphasis of Grand-Way Stores. Apparently feel that by day-after-tomorrow all convenience store locations will be gone.

W.T. Grant (Ernst & Ernst): Do not consolidate financial subsidiary (bad). Debt ratio too high and growing (commented on last year). Problems of liquidity already rearing its ugly head. No information on pension (bad).

Great A&P (Haskins & Sells): 10-K available on request. No disclosure of unfunded past pension service. Warehouse inventory valued on replacement cost—assumed to equal market—could boost profits.

Hudson's Bay Co. (Peat Marwick Mitchell): Company invests $1 for each $9 employee puts in stock purchase plan. If employee does not sell prior to expiry of commitment period, then Company guarantees stock will not be less than 89% of original price. Use of market value instead of cost for stock held in Hudson's Bay Oil & Gas Co. and Siebens Oil & Gas Ltd. would more than double net worth ($223 million vs $210 million book net worth compared to last year when there was a $196 million increase on $196 million book net worth). Company sold $100 million debentures secured by Hudson Bay O&G stock to fina[nce] retail expansion.

Interco (Peat Marwick Mitchell): Writing off all excess of purchase price over value of assets (good). Footnotes not referenced (bad). Inadequate disclosure on pensions. When comparing with Genesco, Interco bought larger companies, management remained and corporate office did better financial planning.

S.S. Kresge (Price Waterhouse): Set goal of $12 billion by 1980—represents 15% per year compounded sales growth, which is less than present rate. Absolutely no information given on directors (bad). No info on pension plans (bad). Footnotes not referenced (bad). Only limited breakdown between K-Mart and other stores.

Kroger (Coopers & Lybrand): Do not consolidate stamp company—even use different CPA. Switched to LIFO (most publicly traded retailers want to go the other way), which, during the first year added 10.5% (78¢ per share) to net income (next year will be different). Notes not referenced (bad). Inadequate disclosure on pension plan. Pushing hard for profits—including reducing reserve for unredeemed stamps, (increasing net income by $3.9 billion).

Levitz (Laventhol, Kreckstein, Howarth & Howarth): Despite miserable stock market record, this remains one of the best financed retail companies—with debt to net worth ratio of 0.73 to 1! This proves wisdom of getting equity when the stock is hot (which Interstate and others did not do). Inventory valued on specific identification—overstates old inventory as loss is not recognized until sold. Remember when Levitz was a wareho[use] "concept" company? Now they say " . . . our studies indica[te] that there is now a large and rapidly increasing segment of the American public who are demanding higher quality, higher priced furniture. Also, more people want full service including uncrating, pre-delivery inspection and finishing and setup in the home, and they are willing to pay for it. We are now in the process of implementing this full service approach." Just imagine! And compare with mouthings when stock was hitting $60.

Macy's (Touche Ross): Do not consolidate credit company (bad). 55% of inventory on LIFO. Intangibles amortized at 3% or more per year (good). Charts compare 1958-1963-1968-1973 to make growth appear orderly.

Marcor (Arthur Anderson): Footnotes not referenced (bad). Credit subsidiary not consolidated (bad). Pre-opening expenses amortized over 36 months (bad). Inadequate disclosure on pension. Combined net worth of Montgomery Ward and Container Corporation exceeds consolidated net worth by 18%.

Marshall Field (Arthur Anderson): Average sales per square foot in 1973 well below 1967-68-69 (poor performance or overbuilding). Company is overcapitalized and could finance $1 billion sales but prefers to get into real estate deals.

May Department Stores (Arthur Anderson): Credit subsidiary not consolidated (bad). Investment in Consumer Distributing Company Ltd. not reported consistent with disclosed terms or with audit report of other 50% partner (see RT July 1974). Prof[its] were boosted 11¢ by reducing reserve for redemption of E[agle] Stamps (disclosed only if you read to end of every paragraph).

McCrory (Haskins & Sells): Operating divisions are collapsing but the company still sees no reason to reduce excess purchase price of acquisitions made before 10/31/70. Credit subsidiary not consolidated (bad). **No tangible net worth left**—even before considering $157,000,000 lease liability on S. Klein branches being closed.

Mercantile Stores (Arthur Anderson): Finance subsidiary not consolidated (bad). Tightened credit granting and increased required monthly payments on revolving accounts during fall 1973—no estimate offered of negative impact on sales volume and profit relative to savings on bad debts and interest costs.

G. C. Murphy (Coopers & Lybrand): Pre-opening expenses written-off over 12 months. No unfunded past pension service cost (good).

Penney's (Peat Marwick Mitchell): In 1969 Penney's cut their reserve for bad debt from 3% to 2% (detailed information was hidden in footnotes) in order to protect their series of profit increases. The report for 1973 clearly indicates that this 1% should have been—but was not—restored. Increasing credit losses is one of the explanations now being given for the poor current year performance. Reserve is now only 70% of last year's loss. They do not write-off until no scheduled payment is received within 6 months. Accounts with balances 3 months or more past due stand at 4.2% of outstanding at **start** of the year against a 2% reserve. Profits in 1973 boosted $3 million by increasing acturial earning assumption in pension plan. Excellent breakdown by types of stores. Reported on affirmative action programs (good). Pension plan is a heavy purchaser of stock—now holding 6.5% of common stocks. This helps to maintain (boost?) stock prices. Financial information (used in lieu of footnotes) not referenced to statements (bad).

Publix (Peat Marwick Mitchell): Letter to RT accompanying annual report said no 10-K available (bad). LIFO adopted this year—reduced earnings 10.3% (27¢ per share). Report depreciation on declining basis. Pays no dividends. Simple annual report. Treated as though still a family-held business—though stockholders should not complain in light of earnings record.

Rich's (Arthur Anderson): Ready to conquer the South—again. This time without Ben Gordon. Last time the company was not prepared, and management had fantacized that the world was waiting for Rich's. This time they appear better prepared.

Rose's (Peat Marwick Mitchell): No accounting principle statement on handling of investment credit. No square footage reported for stores (cannot analyze operations). 1973 changed to LIFO at cost of $2.25 per share.

Safeway (Peat Marwick Mitchell): Footnotes not referenced (bad). Warehouse inventory valued on replacement cost (boosts profits during inflation). Excess costs prior to 1971 being amortized over 20 years (good). Non-capitalized financing leases would have cut earnings 6.6% (6.1% prior year) reflecting impact of 4.2% per year growth in store space, largely leased. Report states "Women are a great and largely untapped reservoir of potential management talent"—highest woman now Assistant Treasurer. Report has article by two outstanding women. One-third of store personnel are women—but so are most of customers women and probably half of the stockholders. Yet no woman in the U.S. is qualified for their board.

Sears (Touche Ross): Credit subsidiary not consolidated (bad—and they used to consolidate it). 9¢ a share improvement due to capitalizing interest during construction. 10-K available. Finance charge revenue included in net sales—at $600,000,000 exceeds all except a few retail firms. Issued 24 million shares (20 million prior year) to profit-sharing fund to conserve cash. Report states that one of their greatest assets is "Satisfaction Guaranteed or Your Money Back"—yet management lets individual district managers determine whether or not to use slogan (many do not). 66% of profit improvement in 1973 was due to (1) capitalized interest on construction ($14.1 million), (2) increased realized capital gains in Allstate ($6.8 million), (3) improvement in Allstate earnings due to change in accounting policies ($11.3 million), and (4) capitalizing interest in Homart ($2.3 million).

SCOA (Coopers & Lybrand): Inventory valued on LIFO. 10-K available on request. No clear summary of stores—number, space, division sales, number of stores open and closed, etc.

Simpson's (Price Waterhouse): Simpson-Sears investment carried on equity basis—using market value in excess of carrying value would probably double net worth of Simpson's. Unfunded past pension service equals 36% of pre-tax earnings. Statements signed by 2 directors.

Skaggs Companies (Coopers & Lybrand): Joint venture with Albertson's is growing faster than Skaggs. Policy on pre-opening is bad: "Follows practice of deferring net operating losses of newly opened stores—including pre-opening and operations prior to first quarterly closing (limited to $60,000 per store) written off over 3 years." Accounting principles not set forth on joint venture—could be much different.

Steinberg's (Coopers & Lybrand): Inadequate disclosure of information by divisions (supermarkets, Miracle Mart). Only general statements of inventory control and expense control problems. Admitted loss in catalog/showrooms (so what else is new?) but opened 13 in 1973 and plan 14 more!

Stop & Shop (Peat Marwick Mitchell): Research, development and startup costs for meat packaging plant being amortized over 5 years. Potential gain coming closer as insurance claim for $10.8 million (vs book basis of $2.7 million) moves toward settlement. Poor disclosure on past pension service costs.

Southland (Touche Ross): Report states "Sales include sales of franchises but do not include sales made through stores operated by other companies under exclusive area franchises." Also that there is "no significant effect arising from inflation as the holding period for items is relatively short." (I wish I really knew what these statements meant.) No information on pension plans.

Supermarkets General (Touche Ross): Department stores on LIFO. Amortizing excess of assets over cost over a 10 year period but no decline in value of assets bought for more (questionable). Pre-opening expenses are now being charged direct (congratulations on change). Another loser on catalog/showrooms. In 5 years went from $5 to $55 million only to have $100K loss. Sales per square foot over past 5 years has declined for home centers (Rickel) and catalog/showrooms (Value House). This makes it more difficult to make a profit. Despite poor showing, narrative section merely indicates for catalog/showrooms and home centers "operating results have been affected"? Mention made of "monitoring the productivity of our capital assets" but no mention made of the number of dollars invested in Rickel and Value House on which get little or no return.

Super Value (Touche Ross): "10-K available on payment of reasonable charge" which charge is not disclosed (hope they don't run business and advertising the same way they write for their annual report). Non-capitalized financing leases could cut earnings 7.3%. Did not disclose operating results of 2 catalog/showrooms (causing one to guess there was a loss).

Tandy (Price Waterhouse): See January 1974 RT for complete summary of how auditors, in signing off annual report on September 5, 1973, were not aware of proposed sales (at heavy losses) of all 74 Mitchell stores which RT learned about through analysts report dated only 3½ months later. Company writes-off pre-opening expenses on general retailing stores over 60 months—if the stores last that long. 60 months also being used on pre-opening costs in Europe. Now planning to develop 8 city blocks of Fort Worth—but fail to give stockholders any estimate of projected total cost.

Vornado (Peat Marwick Mitchell): Non-capitalized financing leases would have cut profit 9.0%. No mention of pension funds. Sales per square foot were $75.48 in 1974 vs $80.88 4 years earlier. Report offers stockholders words like these "... future advertising will reflect a highly promotional approach which emphasizes our discount pricing policy" and "The success of our one-stop shopping concept has been evident in the expansion of our Two Guys stores ..." No mention of problems with food departments—fully covered in the trade press. Three pages of "Flexibility and Growth Within a Changing Industry" does not mention that company passed peak sales and profits 2 years earlier.

Walgreen Co. (Arthur Anderson): Although company stresses they are a great drug company, major growth has come from Globe discount stores. Inadequate breakdown of information by types of stores.

Wickes (Coopers & Lybrand): Not consolidate Wickes Credit (bad), or manufacturing divisions. Pre-opening expenses for furniture stores written-off over 2 years, while costs of major relocations (headquarters was moved to San Diego), start-ups of new businesses, development of new systems and similar items written-off over period of "expected benefits." Unfunded past pension service not disclosed. Most investors think of firm as retailer but 62% of profit comes from 49% of sales to non-retailer. Bad showing of furniture stores in 1973 largely due to policy of deferring pre-opening expenses. Had expenses been written-off at time of opening, furniture warehouses in 1973 would show a $291,000 loss instead of $1,700,000. Wickes conducted survey on how to run furniture warehouse stores—after 17 were open!

Winn-Dixie (Peat Marwick Mitchell): Use sum of digits for financial reporting of deprecation. Has an outstanding "debt to net worth ratio"—of 0.39 to 1—and still shows 20% return on net worth (a good argument against having to use leverage). Company has had 39 years of sales increases.

Woolworth (Price Waterhouse): Changed fiscal year from December to January to standardize with industry but permitted $13 million loss to be charged directly to surplus.

Zale (Touche Ross): Excess of cost over assets being amortized over 30 years (good). Sum of digits used in financial statements. No mention of pension information. Testing catalog/showroom stores (whoops!).

Zayre (Coopers & Lybrand): Excess of price of assets from prior 1970 not being amortized. Pre-opening expenses written-off over 12 months following. Annual report states "And although large size is not an objective in itself, it does enhance the balance of stability of a Company's operation." (1) What does this mean? (2) Has anyone checked Cantor of Interstate on this? (3) Is it happenstance that the emphasis on growth ended suddenly when the $1 billion mark was reached—not when Zayre reached the magic number of $940 million (peak profit year)?

IF YOU HAVE TO CLOSE AN UNPROFITABLE STORE...

Some firms are closing stores faster than they opened them and many more firms are considering closing unprofitable units. The decision to close a store is usually made at corporate headquarters—based on cold statistics—after the people at headquarters have "tried everything they know" to make the unit profitable.

But the closing of a unit can mean putting a large number of people out of work—and corporate headquarters seldom asks those people what else can be done.

RT is indebted to Brad Laycock who included the following tale in his column "Eliminate the Deadwood" in the June 1974 issue of **Office Products** (Controlled circulation, Hitchcock Building, Wheaton, Ill 60187).

> **When United States Senator Charles Percy was president of Bell & Howell Co. he faced a cost problem in his lens department. It cost B&H more money to manufacture their camera lenses than it would to buy them from Japan. Percy was told by his lens department that they had higher labor and raw material costs and could never hope to compete with the Japanese prices. Percy then announced that he would have no other choice but to close the department since he could not expect B&H customers to pay a penalty to buy their merchandise. He gave the lens department a period of time to determine that the cause was hopeless. In due course a highly motivated B&H lens department discovered that with a little advanced technology they could compete with their Japanese counterparts.**

RThought: I think it is obvious—that this can be adapted to branches operating at a loss. Management might be surprised to learn what the people in the store know that will improve sales and reduce cost. The penalty of closing stores and writing-off fixtures and equipment, clearing inventory, making severance payments and destroying the confidence of your remaining employees is traumatic. Why not be sure that you haven't overlooked any possibility before making the decision?

FROM THE WALLET OF...

The wallet may not be the correct site of this poem—since it was once printed in the Congressional Record. But it was submitted by my old friend and long time critic, Nathan A. Baily, former Dean of the School of Business at the American University and now a Commissioner on the Postal Rate Commission.

True worth is in being, not seeming,
In doing each day that goes by
Some little good, not in dreaming
Of great things to do by and by.
For whatever men say in blindness
And spite of the fancies of youth,
There's nothing so kingly as kindness
And nothing so royal as truth.

August RT

From Where I Sit

by Samuel Feinberg

9-20-74

For years, Ohrbach's slogan was "A Business in Millions, a Profit in Pennies."

The profits in pennies which undersellers used to boast about are steadily declining for all types of stores. The seven best net profit-to-sales ratios of major retailers last year ranged from 5.5 percent for Sears, Roebuck to 3 percent for J.C. Penney and S.S. Kresge, with an average of 3.8. The in-between four, in descending order of profit, are Carter Hawley Hale, Federated Department Stores, Associated Dry Goods and May Department Stores. The likelihood is for even less impressive showings, on average, this year.

Conventional, general merchandise and discount stores alike are thwarted in their efforts to achieve better earnings by a combination of hard-to-get business and constantly higher merchandising and operating costs.

Even the most blue-chip of the store chains seem unable to stem sluggish public interest in the equity markets and the receding tide of stock quotations. Double-digit inflation has raised to new highs the prime rates of interest on loans from banks and other financial institutions.

All of which is reflected in heightened endeavors of retailers — large and small — to extract as many more pennies as they can from vendors. The quest for extra pennies of profits most often assumes the forms of regular discounts taken on late payments and an inordinate number of questionable merchandise returns. (WWD carried comments on these points from apparel manufacturers on Sept. 4 and from accessories resources on Sept. 6.)

Another means of trying to obtain any possible edge is indicated in a letter from the accounts payable manager of an operating division of a major department store chain to a manufacturer who has forwarded to WWD copies of the communication and his reply. The retail executive's letter notes his store operates under "an interdivision" collection program allowing it to transfer money from one store to another. He tells the manufacturer he has deducted $227.89 from this resource's account and transferred it to another division. He further suggests that, if the vendor has any questions, he should contact the accounts payable manager of the other store.

The resource's response, in part:

"I find your company's action extremely disconcerting and unjustified. I understand you can operate under an interdivisional collection program allowing consolidation of collection to one operation. However, I feel transferring money from one store to another is improper. We have no idea where the amount of $227.89 comes from and reserve the right to challenge such a claim. This claim may be of an advertising nature demanding the vendor's participation but which should first be authorized by us. If the claim is for return merchandise or shortages, it is an entirely different matter and should be so stated."

Robert Kahn, Lafayette, Calif.-based consultant, chastises "the giants of retailers for using their brute economic power, in increasing numbers, to force their vendors to extend credit to them." He cites such an action as extra 30 or 60 days plus the normal discount on all invoices because the retailer "could make more putting the cash flow into 12 percent and higher short-term investments than they could selling the merchandise."

Why stores are wresting profit-pennies from vendors

Kahn, a perpetual gadfly, says, "It is unseemly of major companies — particularly publicly held — to play the game of 'squeeze the vendor.' I have long advised buyers always to seek — in the following order — the lowest price, the largest cash discount, the most extended dating with discount. Buyers should ask for the best terms that the supplier is offering to any other store. But that does not mean that, after the terms are rejected at the time the order is accepted, the back office should take them anyway. (I will admit to one exception — net 10 terms for shipments from the East to Western stores always seemed unduly demanding and I recommended they be confirmed and paid as net 30.)"

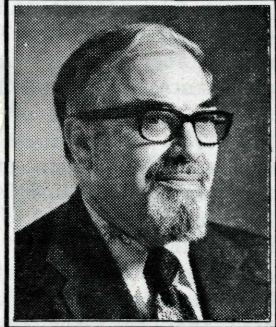
Kahn feels, "In some cases — but certainly not all — top management is not aware of what is being done in this area by operating divisions. I am willing to give the benefit of the doubt to many top executives who may not condone such action — although they create incentive plans that compel divisional management to adopt these practices. And, even worse, top management is often willing to look just at the bottom line produced by the division. If the results are satisfactory, they don't want to inquire about the method followed. If there is going to be ethics in business, the decision to start is entirely in the hands of management."

A vice-president of a general merchandise chain has an explanation why traditional department and specialty stores appear to be relatively more involved in the search for additional pennies of profit of these descriptions than his type of operation is. The national chains order enormous quantities of centrally bought merchandise built to specifications, both for store and catalog selling. They make their commitments farther in advance than the conventional stores do and not infrequently pay for the goods in advance or immediately after their receipt, thereby virtually subsidizing the vendors.

Presumably, the inside prices to which their method of procurement may entitle them are sufficiently attractive to help them sell at lower average margins and realize better profit than conventional competitors. This edge may curb their appetites for further concessions.

The Federal Trade Commission charge (WWD, Sept. 12) that nine department and specialty store chains have cheated customers out of some $2,800,000 in unclaimed credit balances and the government's belief the practice is widespread may be a related case in point of retailers' attempts to achieve maximum corporate liquidity. The complaint is that, unless customers demand refunds of their credit balances or make purchases to offset these credit, the stores eventually clear the accounts and retain the money.

The firms have been given the opportunity to advise FTC whether they will correct the alleged unfair practices and sign consent orders requiring them to refund unclaimed credit balances dating back five years.



ROUTE TO

RETAILING TODAY

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

Published Monthly. $12 per year.

OCTOBER, 1974 VOL. 9, NO. 10

ERRATUM–A LOOK AT ANNUAL REPORTS

Sears (Touche Ross): RT said "Credit subsidiary not consolidated (bad–and they used to consolidate it)." The fact is: the credit subsidiary was consolidated–and should have been applauded (in fact, my marginal note on page 22 of the report says "Good!"–I have no explanation for the error). RT said "Issued 24 million shares (20 million prior year) to profit-sharing fund to conserve cash." RT should have said "Issued 261,000 shares valued at $24 million (180,000 shares and $20 million in prior year) to profit-sharing fund to conserve cash." The dollar figures became shares in condensing the remark.

Gamble-Skogmo (Peat Marwick Mitchell): RT said "Poor disclosure on pension plans." Company claims "Our pension plans are fully funded (disclosed–Note 5, page 21)." Fact: footnote says "It is the company's policy to fund normal cost accrued **and interest on prior service costs**" (emphasis added). RT feels that the failure to disclose the amount of unfunded prior service constitutes poor disclosure. RT said Management brags about 'no short-term debt,' by closing their eyes to debt in finance subsidiaries." Company points out RT failed to mention $108 million of cash shown in consolidated balance sheet (RT agrees that this should have been mentioned) and "What finance company does not have debt, . . ." (RT will continue to object to balance sheets of retail companies that offer consumer credit but who do not consolidate their credit subsidiaries–and thus RT objects to comments that are true only because the finance subsidiary is not consolidated.) RT said: "Shows Subordinated Income Notes (held by more people than hold stock) as part (39%) of Capital Accounts." The Company refers to a questionnaire among bankers, following an excellent article on Income Bonds (From the June 1974 Harvard Business Review–RT is certain a letter addressed to Gambles, Box 458, Minneapolis, Minnesota 55440 would bring a copy) which states, "There was almost unanimous agreement that income bonds should be included in the capital base." RT has no objection to this analysis by bankers in making loans. But RT has an argument with "generally accepted accounting principles" which permits Peat Marwick Mitchell, on March 18, 1974, to certify two different balance sheets as both being "in conformity with generally accepted accounting principles applied on a consistent basis." The balance sheet included in the 1973 Annual Report showed subordinated income notes under the heading "Capital Accounts" while the balance sheet in a prospectus dated June 13, 1974, shows the same subordinated income notes as part of "Long term debt." RT has never expressed disapproval of subordinated capital notes as an instrument for public investment–and RT has never expressed any disapproval of Gamble's capital notes which are held by 17,529 holders compared with 14, 976 stockholders.

NAKED ECONOMIC POWER–Revisited

RT is pleased with the response to the discussion and exposure of the current abusive practice of major firms who pay late and still take their discount. Several trade and general publications have picked up the issue–although they fail to mention offending firms by name. RT wants to repeat its warning that eventually unfair trade practices such as this do come to the attention of law enforcement agencies with embarrassing and unfortunate penalties for the firms involved. (An example is discussed in WHERE DID RT FALL? which follows this article).

Since August, RT has received (enclosed with a check) from Albertson's, Inc., a form apparently prepared in December 1970, which states: "TO OUR SUPPLIER . . . Remember we are still depending upon you to bring to our attention . . . Delinquent Invoices . . . Overpayments . . . Other Discrepancies . . . This must be done on a regular monthly basis to cut administrative costs and eliminate the possibility of payment refusal. Please attach copies of past-due invoices to this note and return immediately."

Wineman's, a client in Huntington Park,California, was motivated to send the following letter to the attention of the President of each supplier: "It is common knowledge that many of the nation's largest retailers are purposely paying their invoices to most of their resources 30 and 60 days late–and still taking their discounts. We all know that this is forcing those resources to

A MATTER OF ETHICS

RT is dedicated to the concept that most retail executives have an inherent desire to conduct their business activity in an ethical manner–yet they recognize the need for two things: A periodic reminder to examine each act carefully; and an independent analysis of many everyday activities from an angle other than "maximizing the bottom line" as is suggested by amoral economists such as Dr. Friedman.

Vermont Royster, former editor of the Wall Street Journal and currently William Rand Kenan Professor of Journalism at the University of North Carolina, in an article "The Public Morality–Afterthoughts on Watergate" (American Scholar-Spring 1974) mentioned an interesting study on the importance of morality–with a frightening result.

> **"This attitude (that repeated transgressions by many people against professed morality led to the conclusion that there was no reason to uphold morality) is widespread. In a carefully controlled study of college students' attitudes toward cheating, conducted by Charles R. Tittle and Alan R. Rowe at Florida Atlantic University, it was found that the threat of sanctions (disciplinary action) did have some effect on reducing cheating on examiniations but that moral appeals had none whatever. In fact, after morality was mentioned to the students as a reason for not cribbing–but after the threat of sanctions was removed –cheating increased in each of the student groups studied. There was no discernible sense of guilt on the part of those who cheated nor, apparently, any peer-group disapproval. Tittle and Rowe concluded that 'the moral appeal was simply irrelevant'."**

allow these same retail companies to work on their money—an expense many of them cannot afford. I just want you to know that, as a corporate policy, I have instructed Wineman's Accounts Payable Department to never lose a discount, and to **always** pay every Vendor when each invoice falls due and no later. We need and often ask for your help, but we don't think that you should have to carry our financial burden. All we ever ask is that you ship us whatever we order from you as soon as you ship your most prized customer. Sincerely Yours, A. H. Wineman, Jr., Chairman."

A midwest men's store complained that on September 3, 1974, he received a statement from Manhattan Shirt Co. listing 3 invoices as past due. The invoices were dated July 24, but were not received until August 1st—8 days later. The retailer treated them as being after the 26th. McGregor-Doniger invoices with 2%/10. Net 30 terms arrive 10 days after the invoice thus making it impossible to take the discount. H.I.S. invoices always arrive late but the merchant attributes that to administrative delay since the merchandise arrives a week or so before the invoice (not the case with Manhattan).

A manufacturer objects to major customers who will refuse a large shipment of merchandise because "they are over-inventoried," or will pack up and return hundreds of garments with the comment that they are "late delivery" or that the purchase order was not signed, despite a long history of working on telephone orders or verbal confirmations.

And finally there are the legitimate complaints of stores about vendors shipping unauthorized substitutions, defective merchandise, and delivered either early or late. In addition there are problems of poor packing, improper routing, and split shipments.

Three things are needed in this situation:

1. Higher personal standards in the top management of retailers —expressed in more specific policies to guide middle management in areas of ethical conduct.
2. Higher personal standards in the top management of vendors—expressed in more specific policies to guide middle management in areas of ethical conduct.
3. Communications—frank letters between chief executives of retailers and vendors bringing to the attention of the "chief executive officer" any conduct by their subordinates that does not reflect the highest ethical standards.

Hopefully this will come.

WHERE DID RT FAIL?

RT is dedicated to the idea that retailing can be a more honest, a more ethical industry. RT feels that this can be accomplished by writing frankly for top retail executives on ethical and moral issues.

The recent FTC complaints issued against Associated Dry Goods (Lord & Taylor), Carter Hawley Hale Stores (Bergdorf Goodman, Neiman-Marcus, Broadway Department Stores, Emporium Capwell), Genesco (Bonwit Teller), Gimbel Bros., and Lerner Stores represents a defeat for RT.

Why? Because RT started exposing the practice of stealing customer credit balances in January 1971, under the title "The Gentle Art of Stealing." The story was based on an experience with a Genesco subsidiary. RT hoped that bringing this matter to the attention of top management would, in due course, lead to the correction of this practice.

Top executives in every one of the firms—both parent and subsidiary—cited by the FTC are included among the list of RT subscribers. Although RT knows of a large number of firms that did change their practice of stealing credit balances, it is apparent that these firms did not.

RT was disregarded by these major firms—but the "complaint of an elderly lady in Florida" was not disregarded by the FTC. This can happen time and time again.

RThought: RT was even more disturbed by the response of Carter Hawley Hale (CHH). Women's Wear reported contacting Chairman Edward Carter who indicated that he knew the questionnaires had been issued but knew nothing of the latest development. His response to being informed that the FTC had given notice of the complaint a day before the announcement was "Highly thoughtful of them, isn't it?" Yet this, apparently, is more notice than Carter Hawley Hale's divisions gave their customers.

Both the Wall Street Journal and The New York Times reported a CHH spokesman as saying that in 1973 the amount came to less than 2¢ of every $100 of our credit sales. Acknowledging that the act being discussed is stealing, it appears that CHH condones stealing if they can just make it appear to be a small amount. CHH also pleaded "Our credit practices are consistent with responsible standards in our industry . . ." which is **not** true. Just ask someone big in the retail industry, like Sears or Penney's. The responsible firms don't have to steal small amounts from hundreds of customers.

NOW IS THE TIME TO ESTABLISH POLICY AGAINST CHRISTMAS GIFTS

Every chief executive should, at this time, be setting forth clear policy against both the giving and accepting of gifts between management and vendors. This requires a specific policy statement to all store executives—and a letter from the chief executive officer of the retailer to the chief executive officer of the vendor.

In November, 1973, the letter sent out by Macy's over the signature of Chairman Donald B. Smiley and Pre..ident Herbert L. Seegal said, in part, "Nevertheless, with all the good-will that is part of Christmas, the desire to express appreciation can sometimes lead to a practice we consider undersirable within the framework of business relationships; namely, the exchange of Christmas gifts. We are convinced that the wonderful tradition of gift-giving at Christmas is misapplied when presents are given to any member of our organization by a representative of a company with whom we do business. In fact, we regard the acceptance of such gifts, however well-intentioned, by anyone at Macy's, to be a serious infraction of our policy."

Avram J. Goldberg of The Stop & Shop Companies said, in part, "For that reason, we have asked our employees not to accept gifts at Christmas, or indeed at any other time of the year, from companies with whom we do business. We sincerely, ask your cooperation in refraining from offering Christmas gifts to any of our people. The only exceptions would be the 'traditional' Executive Calendar of modest value, **or if you should so desire, a contribution to a worthy charity of your choice.**" (Emphasis added).

Zollinger-Harned said, "The highest standards of business ethics require repeating at this time our policy regarding gifts to buyers and other executives—and this applies not only at Christmas time but at other times of the year. Such gifts are undesirable and unnecessary from every point of view—the executive's, the company's, the manufacturer's. We, therefore, urge our resources

THE ENVIRONMENT IS THE THIN SKIN . . .

We in retailing are so very busy selling more non-degradable plastic goods, more goods in wasteful disposable packages, and more items with unnecessary annual model changes. We are all dedicated to the concept that a compounded annual growth rate of 10% is barely acceptable to Wall Street, our stockholders and "professional management" that controls most retailing.

Then we go home and watch TV, read newspapers and listen to radio. We are told by environmental leaders that with only 6% of the world's population we are using 33% of the world's energy—and that we cannot continue to be so wasteful. When we listen, we are seldom conscious of the fact that we, the retailers, are the largest single link between the wasteful consumer seeking materialistic accumulation—perhaps beyond their ability to confortably consume—and an industrial complex committed to production aimed at rapid disposal and frequent replacement.

RT is pleased to bring you a summary prepared by **Washington Watch, a private newsletter**, of a talk given by Dr. Barry Commoner, Director of the Center for Biology of Natural Systems, to a conference held by the Machinist's Union.

"The environment is the thin skin on the earth's surface, the air, the water, the soil . . . We use oxygen. That oxygen was made chemically by green plants. There is no other way to get oxygen on the earth's surface, in the air, except by the action of green plants. So every time you use oxygen you have to realize that plants put it there . . . Everything has to go somewhere. If we're using five times as much fertilizer as we used to make the same amount of food, four parts of it have to go somewhere. They now go into the rivers and pollute the rivers. All the rivers in Illinois are now running with nitrates over the Public Health Service limit. Nitrate is not good for us . . .

"The main reason for the environmental problem is the change in what happens in the factory. All the new things that we are using—detergents instead of soap, throw-away containers instead of returnable ones, aluminimum instead of steel, plastics instead of natural fabrics—are much worse for the environment. Cotton takes the sun's energy and makes it into a cotton fiber. When we make nylon, we burn petroleum. The energy that comes from burning the petroleum pollutes the air. What's more, the nylon is not natural, so it can't go back into the cycle. If you bury a cotton shirt in the yard, in six months it will decay. You bury a nylon shirt and it's still there. Each pound of nylon in the US that we've made is still with us or it's being burned which pollutes the air . . .

"The workers are the guinea pigs. The problem starts where you are. Here is an example. There is a table of standard exposures allowed by the Environmental Protection Agency for various toxic materials—sulphur dioxide, carbon dioxide, lead, nitrogen dioxide, etc. I've compared them with Federal Occupational Safety and Health Standards. For sulphur dioxide, the EPA standard allows no more than half part per million exposed in the air. If you're exposed for more than 3 hours to a half part per million once a year, you've exceeded the standard. The industrial standard is 5 parts per million for 8 hours. Occupational standards are generally 10 to 100 times more lenient than the EPA's environmental standards . . .

"The same companies that used to make soap now make detergents. Why? Figures show that soap manufactures doubled their income per pound of cleaner when they switched from soap to detergent. Why do we use trucks instead of railroads? The trucks are more profitable. By the same token, aluminum is more profitable than steel. Bottlers make more on throw-aways than they do on returnables . . .

"We've got to start negotiating with management to distribute the cost of the debt to nature which has been run up. It's got to be distributed fairly. This does not mean putting the burden on the workers and throwing them out of work. Management must take a bigger part. If profits are cut down because of pressure to install environmental controls, then they're paying the mortgage."

SHORT SHORTS

Tiffany shall light the way! We quote their ad of September 10, 1974, in the New York Times: "A NOTICE—When raw silver went up, our sterling prices went up too. That was not surprising. But now that raw silver prices have come down, we feel it's only proper that Tiffany's prices should also come down. That may be surprising to some but we feel it is just plain simple honesty to do so. So starting today all our silver prices in our Silver Department will be reduced 10% from their present marked prices." Bravo!

Food discounting, Lucky Store style! As a lover of beef jerky, a mass display will stop me every time. That is how I learned that discount pricing at Lucky Stores means $2.49 for the 4¾ oz. package and only $5.29 for the large. economy 9 oz. size! No wonder consumers demand unit pricing.

Who does Horchow Collection think they fool? This successor to the Kenton Collection, attempting to expand their mailing list, sent out a partial catalog with a covering letter saying "The enclosed sampler is our printer's overrun of one section of our latest catalog!"

Can a retailer be committed to a free press—and a free country if he pulls his advertising from a newspaper because of disagreement with editorial content? Younkers pulled their ads from The Des Moines Register for two weeks—during June 1974—right at the time that most Americans were really appreciating that without a free press the corruption of the Nixon Administration would never have been exposed. The Federal government has more influence on the electronic press than on the printed press—but with retailers it is the other way around. One must seriously question the commitment of Younkers, an old and well established retailer, to the press that has protected the economy and society in which Younkers flourished.

From the Casual Living direct mail catalog: "Our simple guarantee is, as ever: money tearfully refunded if not satisfied."

Key-Rec was never like this! A client who uses Key-Rec received a statement from SCM Allied/Egry Business Systems, the outfit that is always showing retailers how to be more efficient. But Allied/Egry should get some help with their computer. The Statement showed a credit balance of $10.44—owed to my client. But the bottom of the statement dutifully read "We call attention to your past due account which is 60 days delinquent!" Jack Moss—where were you when Allied/Egry needed you? P.S. Even if it was an invoice rather than a credit, it was only 42 days delinquent.

FTC orders use of Better Business Bureau Arbitration Tribunal. The FTC had originally proposed a complaint against Joseph's Furniture Co., Inc., of New York City for violation of both Truth-in-Lending and the Federal Trade Act. In the consent agreement, Joseph's agreed to submit all unresolved disputes with customers to binding arbitration through the Bureau.

Abusive shelf-repricing brings reaction. Dade County (Miami) Metropolitan Commision has banned marking up prices of merchandise once it is on the shelf—penalty up to $100 fine and 15 days in jail. Exception is allowed for prices lowered for specials and then restored.

CREDIT OFFICE RATING

The June-July Credit Office Rating should have appeared in last month's RT–but there was no space. The August-September rating will appear on schedule in the November issue.

Business must be better–because the Honor Roll list is getting shorter–only 9 this month.

Rubenstein's	2.0	Bond's	4.0
Brock's	2.3	Joske's	4.0
Maison Mendessolle	2.7	Penney's (Buena Park)	4.0
Roos/Atkins	3.5	Sears (Dallas)	4.0
Routzahn's	4.0		

CREDIT OFFICE RATINGS

Information From Reporters	JUNE-JULY 1974 No. of Reports	JUNE-JULY 1974 Days to Bill Average	JUNE-JULY 1974 Days to Bill Range	APRIL-MAY 1974 No. of Reports	APRIL-MAY 1974 Days to Bill Average	APRIL-MAY 1974 Days to Bill Range
Bond's (Houston)	1	4.0	4	--	--	--
Breuner's (Oakland)	2	6.5	6-7	2	6.0	5-7
The Broadway (L.A.)	1	5.0	5	2	5.0	5
Brooks Bros. (N.Y.)	1	10.0	10	--	--	--
Bullock's (L.A.	2	6.5	6-7	4	5.3	5-6
Bullock's (No. Cal.)	3	5.3	5-6	5	5.2	4-6
Capwell's (Oakland)	4	9.3	8-10	5	7.2	6-8
Desmond's (L.A.)	3	4.7	4-5	1	4.0	4
Emporium (S.F.)	5	8.8	8-3	6	9.2	4-14
Foley's (Houston)	2	8.0	8	--	--	--
Grodins (No. Cal.)	5	8.4	6-14	2	6.5	6-7
Gump's (S.F.)	3	7.7	7-8	2	6.5	6-7
Hink's (Berkeley)	2	9.0	9	3	9.0	8-10
Joske's (Houston)	2	4.0	4	--	--	--
Liberty House (No. Cal.)	4	8.5	6-14	3	8.7	5-15
Livingston Bros. (S.F.)	2	5.0	5	1	5.0	5
Macy's (S.F.)	10	6.4	6-8	10	6.4	5-8
I. Magnin (S.F.)	9	4.4	4-5	5	4.8	4-6
J. Magnin (S.F.)	1	5.0	5	4	3.0	2-4
Maison Mendessolle (S.F.)	3	2.7	2-3	2	2.5	2-3
Montgomery Ward (Houston)	1	6.0	6	--	--	--
Palais Royale (Houston)	1	6.0	6	--	--	--
Penney's (Oakland)	3	5.0	5	2	5.0	5
Penney's (Buena Park)	1	4.0	4	1	5.0	5
Robinson's (L.A.)	1	6.0	6	1	6.0	6
Roos/Atkins (S.F.)	2	3.5	3-4	2	3.0	3
Saks Fifth Ave. (S.F.)	1	5.0	5	--	--	--
Sears (Alhambra)	3	6.7	6-8	5	5.2	4-6
Sears (Dallas)	1	4.0	4	--	--	--
Shreve & Co. (S.F.)	1	11.0	11	3	10.7	10-12
TOTAL	80	6.4	2-14	73	6.2	2-15

Information From Stores	JUNE-JULY 1974 No. of Reports	JUNE-JULY 1974 Days to Bill Average	JUNE-JULY 1974 Days to Bill Range	APRIL-MAY 1974 No. of Reports	APRIL-MAY 1974 Days to Bill Average	APRIL-MAY 1974 Days to Bill Range
Brock's (Bakersfield)	16	2.3	1-4	8	8.1	4-11
Buffum's (Long Beach)	18	5.7	5-7	18	6.1	5-9
Holman's (Pacific Grove)	10	4.8	4-6	10	4.1	3-6
Levee's (Vallejo)	20	4.1	2-7	20	5.1	3-8
Levy Bros. (San Mateo)	32	5.5	3-9	32	5.2	3-9
Mervyn's (No. Cal.)	20	4.4	3-6	16	5.3	3-8
Oshman's (Houston)	4	8.0	7-9	4	7.8	7-9
Routzahn's (Md.)	1	4.0	4	2	4.0	4
Rubenstein's (Shreveport)	3	2.0	2	3	2.0	2
Walker-Scott (San Diego)	6	8.0	8-11	12	7.5	6-9
Wineman's (Hungington Park)	9	6.7	5-9	7	6.1	5-8
TOTAL	149	4.6	1-11	132	5.6	2-11

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 HAPPEN–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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride–both to management and credit and data processing personnel–in being listed on the Honor Roll.

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

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

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

not to engage in this practice. There is satisfaction enough for everybody in a growing profitable relationship which is built solely on sound business principles."

RThought: It is hoped that these words from leading retailers will encourage you to send out a similar message to your suppliers and your employees.

BE SURE YOU SAY WHAT YOU MEAN

Congress Insurance Administrators of Santa Ana, California, claims that the following happened to a competitor of theirs. Stories like this have a tendency to be repeated and embellished —because they highlight a fundamental principle.

This competitor mailed to a college student, Stan Mazanek, an offer of $5,000 life insurance for an initial premium of $1 for 6 months. The student took out the policy in the name of Fred Fin Mazanek, a guppy, and showed on the application form that Fred Fin's height was 3 centimeters and his weight 30 centigrams, his age 6 months, and Stan as the beneficiary. All of this was true.

Fred died within 6 months and Stan wrote to the company asking for his $5,000—and for the first time the company looked closely at the policy. And the company also noted that nothing in the policy restricted the insurance to Homo sapiens. In the end, they paid $650.

RThought: Most retailers could take a close look at what they write—such as "Lowest price ever" and "Our greatest sale." Or claims that garments will wash easier, last longer, look better, or are worth more. Many such claims cannot be substantiated.

Retailers might also look at how accurately they describe their fringe benefit program in the employee handbook—because the company can be stuck for the cost if the employee can reasonably expect to get something alluded to in the employee handbook but not provided by the actual document covering the benefit.

You might also check to see if the floor supervisor approving returns and credits reviews the credit slip that a clerk has prepared any closer than did the insurance company clerk who received the $1 together with an application on the life of Fred Fin Mazanek.

HOW DOES RETAILING STAND AS A LONG-TERM INVESTMENT?

Standard & Poors Index of 500 Stocks includes 5 retail categories, 4 of which have been included since 1941-1943 when the Index was established with a base of 10 (the May 1974 figure stood at 92.22). 425 of the stocks are classed as "Industrial" (which includes retailing!) and the industrial index stood at 103.97 (15 railroads were at 39.32 and 60 utilities were at 40.62).

RT feels that two of the original retail groups have done fairly well—as the following figures show:

Category	No. Firms	Index
Mail order & General chains	3	198.65
Department stores	9	154.26
Variety chains	6	66.10
Food chains	9	58.00

Discount stores were added later (1957 = 10) and stand at 7.01 or 30% below their 1957 prices.

The index for 49 of the original groups of stocks are below the index for department stores. This includes many basic industries such as aluminum, cement, chemicals, gold mining, lead and zinc, steel, sugar, etc. Many of the consumer goods firms are also below department stores—such as automobiles, auto parts, all 5 of the food manufacturing categories, textile and apparel manufacturers and tobacco companies.

READING BETWEEN THE ADS

RCA is advertising that more TV repairmen **own** RCA color sets than any other make. Zenith is asking the same group "If you were buying a new color TV set for yourself **today**, which brand would you buy?" and more say Zenith than any other brand.

Both ads may be true. RCA was the first in color TV and has made many more sets than anyone else. Thus, as to present ownership, every kind of people or every occupation probably would report that more own RCA sets than any other make. Yet Zenith may well be correct as to present intentions.

RThought: through the courtesy of these ads, assuming both are honest, I now know that (1) RCA's relative quality in the eyes of TV repairman has dropped and (2) that Zenith is their first choice. Really, if I was a wheel (transistor? resistor) at RCA, I would be inclined to find some other way of advertising color TV.

CAN CASH REGISTERS BE RIGGED?

That is what will be investigated in an action taken against The Great A&P by the New York City Department of Consumer Affairs. A suspicious customer thought his bill was high—so he checked each item on the tape against the item purchased. The items were all rung correctly. He was still suspicious—so be added the tape and found that the grand total was more than the sum of the items.

The Department of Consumer Affairs checked the store—by sending one operator through to purchase just a few items and then an operator with a full grocery cart. The small purchases checked out fine—but the two larger orders, run through different registers, both overcharged by exactly $3.55.

RT will try to keep you posted on the results.

THE PERIPATETIC SHOPPER

A visit with the San Antonio papers reveals some surprising things about major stores. Despite the constantly changing military personnel at the many bases in and around San Antonio, Joske's apparently doesn't feel any necessity to mention where their stores are located! Sears, who dominate the paper, mentions "Satisfaction Guaranteed or your Money Back," a policy that many other Sears districts appear to have abandoned. On the other hand, the mention by Sears of "No Seconds, No Irregulars" on hosiery and yardage—makes one wonder about the tires when the ads are silent about whether or not they are seconds or irregulars.

The credit card situation is interesting, especially among the jewelry stores, Hertzberg's, a quality store, honors AmEx, B/A and MC. Gordon's, a chain that regularly reports after-tax profits of 5% on sales, apparently maintains this record by never letting a customer get away—they honor B/A, Diners, Shoppers Charge, MC, CB and AmEx! McNeel's competes by offering accounts without any interest or carrying charges.

Levitz honors MC but not B/A—perhaps because Rhodes honors B/A but not MC. RT wonders if stores that exclude many customers by only going half-way with bankcards, also have a policy of carrying either brown or blue men's suits–but not both!

Woolco joins Sears in pushing a "Satisfaction Guaranteed" policy–while Penney's says "shop the JCPenney catalog."

WARD'S NEEDED MOBIL LONG AGO!

Marcor's latest annual report says "We plan to continue our concentration on development of exclusive Ward's merchandise, **manufactured to our own quality, performance and safety specifications.**" Later they pointed out the need "to react quickly, credibly and responsibly to changing national priorities . . . ". But perhaps they should start by responding to some of the fundamental, old-fashioned priorities that too many retailers, including Ward's, tends to forget.

One of the oldest priorities is that you put on the outside of the package an accurate statement of the contents of the package. Ward's apparently is happy with private label "Riverside" oil such as "All Season," "Heavy Duty," "Additive Free" and "Supreme" –and they just take the word of a supplier (probably the low bidder) that the contents meet the specifications.

The Contra Costa (California) County District Attorney took Ward's into court (Ward's has 2 major stores in the county–Richmond and Pleasant Hill) because none of the oil could pass independent tests. What did Ward's say? The D.A. said that Ward's has pretty much the same problem car owners have . . . they don't have the costly testing equipment needed to verify claims about additives, viscosity, weight and other mysteries of lubricating oil.

But Ward's will in the future! Because Ward's paid $36,000 in penalties and agreed to establish an extensive quality control program for future tests of Riverside motor oil. Perhaps Mobil will show them how.

DO WE NEED GENERAL MOTORS' THOUGHTS?

Sam Feinberg, in his column in Women's Wear Daily, reminds us that what Charles E. Wilson said when being nominated for Secretary of Defense was "For years, I thought what was good for our country was good for General Motors, and vice versa." Yet, for many years GM proceeded to fight the obvious desire of Americans for small, but good quality, cars (expressed by consumers in terms of purchases of imported cars). It now appears that GM has adopted a new policy of disregard toward the American people–they put their former chairman on the speakers circuit (currently James M. Roche) making speeches to the effect that businessmen "must conform our attitudes to the new expectations with respect to our social problem." Note carefully that these statements are not made by the present Chief Executive Officer–Richard C. Gerstenberg. He will not make them until he is retired–and then will go around saying that business "must conform our attitudes to the new expectations with respect to our social problems" while the successor CEO follows the GM practices of making and forcing on the public that which makes the most money (though it is wasteful of materials, destructive of the environment, and contrary to public desires).

MAIL ORDER OR CATALOG SALES?

Most people think Sears and Wards do a big mail order business. Most people think that Penney's got into the mail order business as part of the emulation of Sears. Most people believe that there is great growth in the mail order business being done by Sears, Ward's and Penney's.

But this is not so. Sears is in the catalog business. W rds is in the catalog business. Penney's is in the catalog business. But the catalog orders no longer come in by mail. The sales are stimulated by catalog desks in conventional stores, catalog stores, and catalog franchise agencies. The people who have catalogs at hom telephone their order to the local catalog desk or catalog store.

A **Computerworld** article on computers and COM (Computer Output on Microfilm) mentioned that Penney's, at their Milwaukee plant, receives 80% of their catalog orders from 1100 catalog desks in Penney stores and only 20% by direct mail.

Rthought: The growth of catalog sales by the Big 3 national chains does not represent a return to the good old days but the creation of some interesting good new days. The catalog usually offers more complete assortment (colors, size) than the store in which the catalog desk is located. The customer gets a better description of the merchandise than a clerk can give–and the catalog center usually has a better in-stock condition.

Finally, the catalog price often is below the regular store price for the identical merchandise, including the delivery cost if the customer picks up the merchandise at the catalog desk.

SELLING REFRIGERATORS AND COLOR TVS DURING AN ENERGY CRISIS

Dr. J. Herbert Hollomon, former GE executive, Assistant Secretary of Commerce under Kennedy and Johnson, and now head of the Center for Policy Alternatives at M.I.T., has completed a study of the life-cycle costs for refrigerators since 1954 and color TVs since 1964. It shows that the life time expenditure for energy for refrigerators has increased from about $130 to about $350 as a result of adding cubic feet, a separate freezer compartment and thinner insulation. On the other hand, energy costs over the life of a color TV have dropped from about $180 to $100.

Dr. Hollomon points out that a redesigned refrigerator costing about 20% more (better insulation and more efficient motor) could cut energy costs by 50%–and the 20% extra selling price would be offset by the energy savings during the first 2 years.

Both appliances show a marked drop in service cost and original purchase price (the study covered models through 1972).

WORDS TO LIVE BY

I am thankful for the Christophers for the thoughts that mark the months on their 1975 calendar. Founded in 1945 by Father Keller, who wrote "You Can Change The World," and dedicated to the idea that the practice of good by many individuals can overcome the practice of bad in this world. Their motto is "Better to light one candle than to curse the darkness."

Here are some of the thoughts offered:

–Our Fears Always Outrun Our Dangers (Latin proverb).
–The test of leadership is not to put greatness into humanity, but to elicit it, for the greatness is already there. (John Buchanan).
–Poor government comes about when good citizens sit on their hands instead of standing on their feet. (Robert Baker).
–When you reach the end of your rope, tie a knot and hang on. (Anon).
–The cruelest lies are often told in silence. (Robert Louis Stevenson).
–Everybody thinks of changing humanity, and nobody thinks changing himself. (Tolstoy).
–The man who graduates today and stops learning tomorrow is uneduated the day after. (Newton D. Baker).

FOXMOOR casuals
DIVISION OF MELVILLE SHOE CORPORATION

February 21, 1975

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

file with

Dear Mr. Kahn:

May we have your permission to reproduce, "This is the Season--To Think of Ethics" in Retailing Today, Vol. 9, No. 12.

We would like to distribute it to personnel in our stores.

Sincerely,

Jack Brandon
General Manager
Western Division

/mj

I am happy to grant permission to reproduce "This is the Season---To Think of Ethics"----and am complimented that you want to share this with your personnel.

February 22, 1975

GENERAL OFFICES AND DISTRIBUTION CENTER / 160 SOUTH WHISMAN ROAD / MOUNTAIN VIEW, CALIF. 94040 / P.O. BOX 310 / (415) 964-1800

Financial focus

Late payments: Stores deny it's deliberate

By JOHN F. STACK

NEW YORK (FNS) — The high cost of money has brought increasing reports that major retailers are running past due on payments to suppliers, but the stores mentioned deny any deliberate slowness.

Many credit managers for suppliers claim that large retailer — including Abraham & Straus, R. H. Macy, Gimbels and Bloomingdale's are paying late.

And it's not just the New York stores. Credit men say it is happening with major stores around the country, including Bullock's in Los Angeles.

Generally, retailers admit they are paying late "sometimes." But they put the major blame squarely on the vendors,

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WWD

10/24/74

Stores deny deliberate late payments

Continued From Page One

claiming failure to follow shipping instructions.

Secondly, some retailers allow that they slip occasionally, causing a slowdown and late payments. They admit that the huge amount of paper work involved in accounts payable can go awry. But they still put the major blame on suppliers.

Some credit men say that A & S has a traditional policy of paying suppliers late. That isn't the way David Katz, A & S's senior vice-president for finances, sees it.

Katz states, "Our policy and practice is to play within the terms of the purchase contract. We pay a lot of vendors and we need the invoice to do it. Many times a vendor doesn't send the invoice with the goods, and it is very difficult to connect the two together.

"I don't believe we have been traditionally slow in making payments. I do know that we have had payment problems with certain vendors and I have to wonder if those vendors had internal problems themselves."

Suppliers single out Bullock's for having a "skip pattern" in payments. The credit men claim that it sometimes pays recent bills on time, but skips payments on bills 90 to 120 days past due. Here, too, the store disagrees.

James Gray, controller of Bullock's, said, "The current situation is normal. Sometimes the vendor does not follow our shipping instructions. There's nothing deliberate about it when we pay late due to the vendor's shipping mistakes. In general it is the fault of the suppliers, but in some instances we do make some mistakes."

Also challenging the credit men's charges is Robert Mulligan, Gimbels controller, who said, "We are running current on payments. It's always difficult to pay bills when you don't get an invoice. Our record is clear."

Mulligan said he would not hesitate to take a trade discount when the past due condition is the fault of the vendor. Most other retailers hold the same view.

Frank Kiernan, vice-president of Bloomingdale's, also said the store is paying vendors on time; the only delay stems from processing the paper work.

Jack Hanson, senior vice-president, controller and treasurer of R.H. Macy could not be reached for comment.

Not all credit grantors feel retail tardiness on payments is deliberate. Some believe the stores do have problems with personnel and procedures in the accounts payable operations.

Most credit men, though, feel the stores "use a lot of dodges to delay payment," as one supplier put it. He said, "They go out of their way to avoid paying on time to have longer use of the money involved. I feel that the business about a lack of invoices is a lot of malarkey.

"Part of the problem stems from the multi-branch operations. We ship to the branch as per instructions. The branch juggles invoices and some of them never get to headquarters. Then we get that 'prove delivery' routine.

"Why, I know some stores that will not even check out a situation until it is at least 90 days past due. That doesn't show any hurry to pay suppliers."

Another credit executive said, "The major problem on payments is the 'unwarranted' deductions made by stores, such as handling and advertising charges and so on. And the stores really mess it up when there are returns. They just deduct the returned amount from payments due, without telling us. That takes a long, long time to fix up."

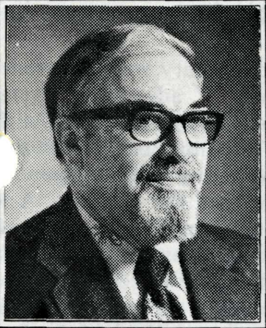
The credit men also note that major chains, such as Sears, Roebuck, J.C. Penney, Montgomery Ward and S.S. Kresge, are paying suppliers on time for the most part, but not anticipating as they did when money costs were low.

The credit executive summed up the general view, "It all depends on how much you need the department store business. If you need it, you eat the unearned discounts. If you have a product the stores are greatly in need of, you can hold out for full payment.

"Most times, name brand producers do a little better. But anyway, when we get hung up continually by the retailers some of it is gained back in future pricing."

Nearly all credit men agree that it is impossible to get past due interest from the major retailers, or any other retailers. But there too, it can be a matter of clout.

For instance, the president of a major supplier stressed, "We have a long historical policy of charging interest on past due accounts. It's been successful and is applied evenly on all customers."



ROUTE TO

RETAILING TODAY

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

Published Monthly. $12 per year.

NOVEMBER 1974 VOL. 9, NO. 11

MAJOR NEW YORK STORES WILL HONOR BANKAMERICARD!

The headline should include all smaller New York stores, restaurants, drug stores, hotels, nightclubs plus all businesses inside and outside of New York City. Chase Manhattan Bank, the one with the Rockefeller touch, has figured out how to get around the resistance of major stores to honoring bank credit cards.

Their announcement came just before BankAmericard announced that for the first 9 months of 1974, their U.S. volume was up by 33% and world-wide it was up 40%. Most retailers still don't interpret that figure to mean that their customers are voting that they like the convenience of a single credit card.

The Chase Manhattan Bank procedure, which undoubtedly will be followed by many other banks whether they offer BankAmericard or Master Charge, provides a card holder with special bank checks that are drawn against his or her credit card rather than a bank balance. When making a purchase at any store, whether or not the store honors that bank card, you present what appears to be a regular bank check. Printed on that bank check is your name (but no address) together with your credit card number (in MICR print where your bank account number would normally appear). For identification you present your bank credit card which bears the same number and your sample signature on the back (plus, in some cases, your photograph).

From the viewpoint of the recipient of the check, the handling is no different than any other bank check and there is no discount. From the viewpoint of the cardholder, these checks can be drawn for cash or payment of taxes or auto license or any other purpose without the present special charge for such transactions.

From the viewpoint of the bank, the credit document is cast in the form of a document already being handled by electro-mechanical means within the banking system at much lower cost than the customary credit card document. At the billing point, the card-honoring bank is relieved of the responsibility for itemizing the mechandise covered by the check since that obligation is placed on the issuer of the check.

RThought: The major stores have long fought the bank credit cards on the theory that by denying their use in the Sears and Penney and Wards and Federated and Dayton-Hudson and Macy and May Company and other department stores that (1) the department stores would protect their customer list, (2) the extension of credit by the store would continue to develop some form of store loyalty, (3) it is cheaper to handle the store accounts, and (4) the department stores would eventually defeat the bank credit cards. Now the credit customers will gradually drift away to the bank credit cards, good at all stores, leaving behind in each sale only a single copy of a piece of paper that doesn't even contain the cusomer's address!

Perhaps it is best this way. Until the very end, the department stores can proudly say—"See! We never did honor bank cards!"

CLEANING UP THE CATALOG/SHOWROOM ADVERTISING ETHICS

RT hopes that this will be a short but regular feature ending when all C/S retailers abandon phony price comparisons.

Turn*Style Plus, part of the Jewel Companies, has announced they will discontinue coded comparison prices in the 1974 catalog with the statement, ". . . we believe it is not consistent with sound consumer practices." Not only is is not consistent with sound consumer practices, it was not consistent with the kind of ethical leadership regularly provided by Donald S. Perkins, Chairman, and W. R. Christopherson, President, of Jewel Companies. Therefore, they are changing an "industry practice."

HOW TO CONTROL TRADE PRACTICES

The British do more than "muddle through" in many areas. One area is trying to raise the standards of retailers. They have an organization called the Retail Trading-Standards Association. The new executive director, a former consumerist, says that despite the strengthening of consumer laws and the advent of the Office of Fair Trading, the Association has the special virtue that it is in immediate touch with hundreds of stores. The Association takes the position that self-administered codes, particularly in the field of advertising, are of little value unless there is an effective outside organization to stimulate compliance.

RAIN CHECKS REQUIRED!

That's the law today in St. Paul, Minnesota. If you advertise an item and run out before the announced end of the sale, you must give the customer a "rain check" and provide the advertised item at the advertised price within 20 days of the end of the original sale period. Under limited circumstances this can be extended another 20 days. The merchant is allowed to substitute an article of equal or greater value.

Signs announcing the provisions of the law must be posted to acquaint the customers of their rights.

The law does not apply if the ad states a limitation on the supply, or when the ad is for a close-out, clearance, one-of-a-kind or discontinued items sale. It also does not apply when the ad does not include a specified time period, or for items that have been on sale at the advertised price for 45 or more days (can this be called a "sale?")

RThought: RT can only repeat that abuse of customers leads to consumer legislation that abuses retailers.

WHAT'S IN THE FUTURE?

Stanford Research Institute has looked into their three crystal balls–called Near Term, Mid Term and Long Term, and see the buying public dividing themselves into supporters of Traditional Values and Self-Expression Values.

In looking at what will get people to part with their dollars, they see brand importance declining while appearance and uniqueness increase greatly. Fashion, which is the opposite of uniqueness, drops dramatically, as do fads.

For seekers of Traditional Value, competitive prices and sales will be the major determinants while for those interested in Self-Expression Values, the key determinants will be "Fun to Shop There" and distinctive selection.

RThought: What happens if someone puts together a "Fun to Shop There" place with Distinctive Selections and Competitive Prices plus frequent Sales and Loss Leaders? SRI implies that they will corner the market.

IS THERE COMPETITION IN THE SUPERMARKET INDUSTRY?

That is what the Federal Trade Commission (FTC) is going to investigate. The question they propose to examine is whether or not there is a relationship between the degree of concentration of food store ownership (areas where 2 or 3 chains dominate as compared to areas where 7 or 8 chains exist) and the level and competitiveness of prices. The investigation will be conducted without public disclosure of information–but the FTC is advising that they will initially investigate Atlanta, Denver, Detroit, Jersey City, Little Rock and Washington, D.C.

RThought: The hard question to answer is whether identical prices for the same product in a number of different food chains represents competitive pricing or collusive pricing. In past studies one of the measures used was to compare the level of the uniform price in areas of concentrated and diffused store ownership, and concluding that lightly uniform prices indicated a lack of competition.

WHEN RESULTS ARE BAD, WHAT CAN YOU SAY?

When quarterly and annual reports are good, it is always due to brilliant merchandising and planning. Luck, inflation, national economic policies–none of these have anything to do with it. But when things go bad, it is never management's fault.

For example, **Manhattan Industries**, reporting that earnings for the 1st quarter were off from 44¢ to 7¢ said, "Operating results were principally affected by a slowing of consumer purchasing due to inflationary pressures on the family budget and significantly higher interest expense and fabric costs."

LISTENING TO MARY WELLS LAWRENCE

RT was struck by the concern expressed by Mary Wells Lawrence, co-founder and about to be 43%-owner of advertising agency Wells, Rich and Greene (Rich and Greene are now gone). At the garish display of economic summitry offered by President Ford, a half-time entertainment between ineffective Nixon plans and hodge-podge Ford plans, Sister Mary offered the opinion "A lot of government controls are created in the name of the consumer but my research shows that the consumer does not want to pay for so much government in the way of higher prices." She cited examples like the Product Safety Commission (RT wonders if 5% of the consumers can recognize the name), Line of Business Reporting (same question, but at the 1% level), and seat belt regulations (give her credit for 1 out of 3).

But Sister Mary failed to comment on the robber baron (baroness?) aspects of current plans for Wells, Rich and Greene to go private by buying back the publicly-held stock at a fraction of original offering price and after she made millions through secondary offerings when the price was above the offering price. Nor did Sister Mary make any comment on the economic waste induced by the heavy advertising of cosmetics, vanity goods, and about-to-be-banned appeals to children.

RThought: Would the consumer be better off economically without government agencies interested in the consumer or without advertising agencies stimulating demand for vanity goods that consume large quantities of critical natural resources without really improving the quality of living?

HONORING AMERICAN EXPRESS

Macy's, you will recall, decided some time ago to honor the American Express Card (they said it was to benefit American travellers who visit the great "Fun Cities" served by Macy's of New York and Macy's of California, although most statistics indicate that most such visitors carry a BankAmericard or a Master Charge). RT has watched closely to see if and when Macy's would ever share information on honoring AmEx with the buying public. One can imagine the internal arguments within Macy's–"Why advertise AmEx, so few people use it?"–"But so few people use it because they don't know we honor it?"

This is OK for Macy's management–but, as usual, the concessionaires prove to be more practical and realistic business men. Sure, a concessionaire is offered, for a high precentage of his sales, the right to appeal to all of Macy's credit cardholders. But the concessionaire is interested in maximizing his sales.

Thus, it was interesting to note that the Macy's (of California) Auto Centers have started to include, prominently, across the bottom of their ads "WE HONOR THE AMERICAN EXPRESS CARD."

LEGAL ACTION BY EQUAL EMPLOYMENT OPPORTUNITY COMMISSION

One of the best-kept secrets in American business is the status and degree of legal action being taken by the Equal Employment Opportunity Commission (EEOC) to compel compliance with the Equal Employment Opportunity Act (EEOA).

EEOC sends out news releases regularly–and the fearless American Press, which no longer hesitates (now that it is popular) to publish "leaked documents" about the government, someho

ANNOUNCING A POLICY VS. INSTITUTING A POLICY

It is all well and good to announce wonderful consumer-oriented policies. But if you do, you had better be certain that your organization is able to implement the policy.

Recently a number of major food chains have instituted a policy of not increasing the prices of goods once they have been placed on the shelf. This policy has been in effect in Canada for some time—and is not working perfectly there (see "Would this Report be True in the United States?" RT July 1974).

And now Lucky Stores may be about to pay extra for announcing a policy that they apparently could not control. The District Attorney in Sacramento, California, has filed a consumer fraud lawsuit against Lucky Stores accusing them of falsely advertising a policy of not raising prices on goods already on the shelf. The charge says that Lucky is removing prices and putting on new ones, 1¢ to 10¢ a package higher. The charge is against 2 Sacramento stores but it is claimed that "it was a common practice" throughout the Lucky chain."

The cost? The suit seeks $2,500 in civil penalties **for each act of false advertising**, an injunction against this practice in the future, and a price roll-back to return the money wrongfully taken from consumers!

RThought: At this moment many RT readers who are not in food retailing are probably saying, "I'm sure glad I don't have that problem." But it isn't the food retailer who advertises "Satisfaction Guaranteed or Your Money Back," "Lowest Price ever," "Our Greatest Sale," "Special Purchase," "Limited Quantities"—and these could cost an extra $2,500 each, plus free publicity in the local newspapers, plus a court injunction that lasts forever.

BANK OF AMERICA ADOPTS POLICY OF RESTRAINT ON LOANS

The recent announcement by the Bank of America (B of A) that they will make it more difficult for people to obtain loans should not come as a surprise to long-time RT readers. In April 1972 the RT Feature Report on "Financing the 1970's" used the Bank of America as an example of what was happening to our banking structure. In the 10 years from 1962 to 1971, the equity capital of the B of A dropped from 5.99% to 3.98% of total resources. In the two years since the analysis, it has dropped even further—to 3.14%. The **N.Y. Times** reports that resources were up 27% for the year ending September 30th which would indicate that the equity-to-resources ratio has dropped well below 3%.

B of A does not discuss why this situation has arisen. It is related to the policy of paying dividends when the capital is needed in the business plus a desire to increase "leverage" for the benefit of the stockholders (although not, perhaps, for the benefit of the country and the economy). Dividends per share increased by 50% over the past decade. And, of course, the increased leverage represented by the lower ratio of equity capital has boosted the earnings per share.

In the original article, RT showed what would have happened if B of A had not paid any dividends—the equity-to-resources ratio would have dropped much less—from 6.35% at the end of 1962 to only 5.69% at the end of 1971, and to only 4.65% at the end of 1973 (this computation was made without attempting to compute the increased earnings that would have come from an additional $748 million of capital and the resulting reduction of interest cost).

In 1972, RT said, "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 regular sale of the stock dividend would have produced capital gains income, at a lower tax rate." RT has not changed its view.

RThought: Those individuals and businesses that will be pinched today as a result of the new B of A policy (and which may be spread to other banks, with or without such a public announcement) must certainly wonder whether B of A (and other banks) did act as a responsible growth firm in a private economy where their every act sends ripples throughout the economy.

SHORT SHORTS

The Village Voice didn't change—just the advertisers when NEW YORK magazine gained control. Now you can find ads by Castro Convertibles, Arrow Audio, Korvette's, The New York Health Club, The Brooklyn Museum Art School, New York University, A&S, Winston cigarettes, Chemical Bank, The Bowery Savings Bank (complete with the very same Joe Dimaggio who is offered to readers of the NY Times, etc.), Ohrbach's, Stereo Warehouse, and so forth. It is great for advertising revenue when the establishment takes over the "alternative press"—almost as if the readers had all changed!

Consumers Distributing Catalog. Some minor progress is being made in adequate disclosure of prices. The price is now clearly set forth. Each page gives reference to the page on which price information is printed. However, RT could not find proof of the statement "This catalog contains some fair-traded items. In these instances, we have identified the fair traded items." RT understands that Panasonic is fair-traded in California and the CD prices, ending in 95¢, appear to agree with those of stores selling at the fair-traded price, but RT is unable to find any identification of a fair-trade price on any individual items. CD continues to "manufacture" comparative prices by application of their concept of someone else's markup rate when the manufacturer does not cooperate by providing a list price (which list price may be completely meaningless).

RThought: Change is not necessarily improvement and these changes have not materially improved the ethical standards of CD price advertising.

What do people think about direct mail advertising? The Canadian Post Office did a survey—that may be representative of the people in "the lower 48." 15% said they enjoyed receiving and looking through advertising mail, 38% said they liked some and disliked other, 25% said they didn't care either way, and 22% said they disliked receiving it. 61% agreed that mail advertising was more convenient because they could read or discard it as they wished. The most popular forms of direct mail advertising were store catalogs, cents-off coupons and samples. At a lower level of interest were supermarket flyers and charity appeals.

CREDIT OFFICE RATING

Back-to-school sales took their toll. Credit Office performance dropped slightly in the August-September period from June-July, and the Honor Roll shortened.

HONOR ROLL

Maison Mendesolle	2.0	Montgomery Ward (Houston)	3.0
Zollinger-Harned	2.1	Ohrbach's (NY)	3.0
Rubenstein's	2.2	Sears (Dallas)	3.0
Joske's	3.0	J. Magnin	4.0
		Roos/Atkins	4.0

CREDIT OFFICE RATING

	AUG-SEPT 1974			JUNE-JULY 1974		
Information From	No. of	Days to Bill		No. of	Days to Bill	
Reporters	Reports	Average	Range	Reports	Average	Range
Breuner's (Oakland)	1	8.0	8	2	6.5	6-7
The Broadway (L.A.)	2	5.0	5	1	5.0	5
Brooks Bros. (NY)	1	6.0	6	1	10.0	10
Bullock's (L.A.)	4	4.8	4-5	2	6.5	6-7
Bullock's (No. Cal.)	5	6.0	5-7	3	5.3	5-6
Capwell's (Oakland)	9	10.2	8-11	4	9.3	8-10
Desmond's (L.A.)	2	4.5	4-5	3	4.7	4-5
Emporium (S.F.)	7	9.7	8-12	5	8.8	8-13
Foley's (Houston)	1	8.0	8	2	8.0	8
Grodin's (No. Cal.)	1	11.0	11	5	8.4	6-14
Gump's (S.F.)	3	9.3	7-13	3	7.7	7-8
Hink's (Berkeley)	3	8.7	8-10	2	9.0	9
Joske's (Houston)	1	3.0	3	2	4.0	4
Livingston Bros. (S.F.)	1.	5.0	5	2	5.0	5
Macy's (S.F.)	8	6.6	6-8	10	6.4	6-8
I. Magnin (S.F.)	5	5.4	5-6	9	4.4	4-5
J. Magnin (S.F.)	2	4.0	3-5	1	5.0	5
Maison Mendessolle (S.F.)	1	2.0	2	3	2.7	2-3
Montgomery Ward (Houst.)	2	3.0	3	1	6.0	6
Ohrbach's (NY)	1	3.0	3	--	--	--
Palais Royale (Houston)	1	7.0	7	1	8.0	8
Penney's (Oakland)	2	5.0	5	3	5.0	5
Penney's (Dallas)	1	6.0	6	--	--	--
Ransohoff's (S.F.)	1	5.0	5	--	--	--
Robinson's (L.A.)	2	5.0	5	1	6.0	6
Roos/Atkins (S.F.)	1	4.0	4	2	3.5	3-4
Saks (NY)	1	5.0	5	--	--	--
Sears (L.A.)	2	6.5	6-7	3	6.7	6-8
Sears (Dallas)	2	3.0	3	1	4.0	4
Shreve (S.F.)	2	12.5	12-13	1	11.0	11
Smiths (Oakland)	1	6.0	6	--	--	--
A. Sulka (NY)	1	14.0	14	--	--	--
TOTAL	77	6.9	2-13	73	6.3	2-14

	AUG-SEPT 1974			JUNE-JULY 1974		
Information From	No. of	Days to Bill		No. of	Days to Bill	
Stores	Reports	Average	Range	Reports	Average	Range
Brock's (Bakersfield)	16	5.4	4-7	16	6.4	5-8
Buffum's (Long Beach)	10	5.9	5-7	18	5.7	5-7
Burdine's (Miami)	20	7.7	--	--	--	--
Holman's (Pacific Grove)	10	7.9	4-11	10	4.8	4-6
Levee's (Vallejo)	20	5.0	3-7	20	4.1	2-7
Levy Bros. (San Mateo)	28	6.4	4-9	32	5.5	3-9
Mervyn's (No. Cal.)	20	4.3	4-5	20	4.4	3-6
Oshman's (Houston)	8	9.3	8-11	4	8.0	7-9
Rubenstein's (Shreveport)	6	2.2	2-3	3	2.0	2
Wineman's (Huntington Pk)	8	5.9	5-7	9	6.7	5-9
Zollinger-Harned (Penn.)	10	2.1	1-4	--	--	--
TOTAL	156	5.7	1-11	115	5.6	2-9

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

WHAT HAPPEN–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 at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride–both to management and credit and data processing personnel–in being listed on the Honor Roll.

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

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

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

finds it "un-newsworthy" to inform their readers about actions proposed or consent orders or judgments entered against major American businesses for violating the EEOA.

If the White House had just used more paid advertising in your local newspaper, you might never have heard about Watergate.

Here is a rundown of some of the actions involving companies you may recognize–offered as an inducement for your firm to study the EEOA and be sure you are in compliance:

Firm	Action
Pacific Gas & Electric	Voluntary agreement to provide opportunities for women, minorities
Container Corporation and Paperworkers Union	Settled court case charging discrimination against women, including sex-segregated jobs. $48,000 settlement. Monitoring program established for 5 yrs.
duPont and Neoprene Craftsmen Union	Suit alleging discrimination against blacks, segregated departments and job classifications.
Amour and Meatcutters Union	Suit charges discrimination against women, sex-segregated job classifications and seniority.
Wagner Electric	Consent degree covering program of equal opportunity for blacks, including 6 to be promoted to supervisor position within 2 years.

THE INDUSTRY REPORT

Back in the 1920s and the 1930s, the only reports on retail operating experience were the Harvard Reports issued on department and specialty stores and on variety stores, both reflecting the interest of Professor Malcolm McNair. These were supplemented by the "Merchandising and Operating Report" (MOR) issued by the National Retail Merchants Association.

Since then, many retail trade associations have started publishing reports–and Harvard has lost interest while Cornell has gained interest. But one of the things that RT has noted is that more and more trade associations are doing a better job than the National Retail Merchants Association–which now publishes both the Financial Operating Report (FOR) and the Merchandise Operating Report (MOR) for Department and Specialty Stores. This change was strongly brought to mind when RT received the 1973 Annual Business Survey of the Menswear Retailers of America–which is exceptionally well done. (It would have helped if the publication had both the address and the price printed on it–investigation discloses that the address is 390 National Press Building, Washington, D.C. 20045–write for the price for non-members).

RThought: MRA still has one weakness–copied from NRMA. In reporting their "Star Performers" they picked the 25% of stores in each major category (size, geographic area) for additional analysis, reporting both the median for this group and the range. Unfortunately, they picked the 25% on the basis of net profit as a percentage of sales–rather than net profit as a percentage of net worth. Often an overcapitalized store, with high miscellaneous income generated from surplus cash, will show a higher profit on sales–but a lower return on net worth than can be earned in many savings and loan association accounts (7½%).

BANK CREDIT CARDS IN THE MENSWEAR FIELD

Menswear Retailers of America, in the same 1973 Annual Business Survey, includes information on percentage of sales made on national and regional credit cards. The tables below show the information by geographic area and by size of store and headquarters city:

Geographic Area	Range	Median
Southwest	10.7%–18.6%	12.7%
West	8.3 –17.8	10.8
Central	4.1 –13.5	8.1
Southeast	4.7 –17.4	7.1
North Central	4.1 – 9.5	5.7
Northeast	3.8 –10.3	5.1

Size of Metro Area	Range	Median
500,000 – 999,999	11.3%–34.3%	23.2%
1,000,000 and over	8.6 –23.3	17.4
100,000 – 499,000	5.2 –13.7	8.8
25,000 – 49,999	3.4 –11.4	7.1
50,000 – 99,999	3.9 – 9.8	6.6
Under 25,000	3.6 – 9.4	4.9

Size of Store	Range	Median
$5,000,000 and over	5.6%–16.4%	12.2%
1,000,000 – 4,999,999	4.9 –18.5	8.9
300,000 – 499,999	4.9 –16.6	8.8
Under 300,000	4.5 –11.1	7.8
500,000 – 999,999	3.8 –13.1	7.3

NEW YORK EMPLOYEES TO GET PAYMENT IN CASH

Effective October 1st, New York employers must pay employees in cash unless they can show (1) financial responsibility so that checks will not bounce, (2) that employees will not incur carfare or check-cashing fees in getting checks cashed, (3) that employees will not lose substantial amounts of uncompensated time in order to cash the pay check, and (4) the check-cashing arrangement will not reduce lunch hours to less than 30 minutes.

This will not cause a problem for retailers in regard to their own employees–since most have or can arrange for cashing pay checks. But it could provide a great traffic-producing and revenue-producing opportunity for alert retailers. It would appear practical for retail organizations, particularly those with branch stores, to contact businesses near their stores and make special arrangements to cash the checks of that employer (after checking the financial soundness of the employer)–for a fee, to be paid by the employer! This would provide a location (the branch store) convenient to that place of employment. The fee charged to the employer would probably cost him less than establishing a check-cashing service within the plant on either a temporary or permanent basis, or having to make payments in cash.

WHY UNIT PRICING DOESN'T HELP

Many major retail chains make derogatory statements about unit pricing, often using as an argument that customers don't use the information. If this is true, then RT wonders why an attempt is made to confuse the issue.

While shopping recently, a decision had to be made between Duke Camembert in a 5¼ oz. package at $1.00 and a Rouge et Noir 8 oz. at $1.78. A glance at the shelf-edge didn't really help–for it told me that Duke was $3.05 per pound while Rouge et Noir was 22.3¢ per ounce! I still had to convert the price per ounce to find that the larger (and presumably economy) package cost $3.57 per pound!

HOUSE OF FABRICS RECEDES FROM RECORD

RT has watched with fascination for a number of years as the House of Fabrics attempted to reach the point where its opening inventory would equal or exceed the cost of goods sold for the following year. Thus, they would be the first publicly held retail firm to attain the magic goal of a one-time inventory turn! In retrospect their opening inventory for the year starting February 1, 1972 represented 78% of the cost of goods sold. For the year starting February 1, 1973, this dropped to practically an empty-shelf level–69%. During the year ending January 31, 1974, sales increased by 30% but through expert management, inventory managed to increase by 64%. At January 31, 1974, the inventory on hand ($48,105,000) exceeded the cost of goods sold for the prior year ($42,542,000)–and if sales for the current fiscal year did not increase by more than 13%, the one-time goal would be reached.

Alas–the report for the first half indicates that House of Fabrics is doing the unthinkable! They actually reduced inventory by $5,000,000! What will they think of next? And since sales for the first half are up by 30%, it looks like the opening inventory may, in retrospect, have represented only 87%.

RThought: Another "concept" of retailing smashed.

ENVY IN THE EYES OF THE BANKERS

Harry Waddell, Publisher/Editor of **Banking, Journal of the American Bankers Association** (350 Broadway, NY, NY 10013 $9/yr.) in his column in June talked about the revolution in POS equipment in food retailing. What he described for his readers (Universal Product Code, optical scanners, inventory up-date, etc.) is not news to retailers. But his conclusion, for bankers, is of interest: "What does all this mean to banks? The automatic checkout system connects to the supermarket's minicomputer to record inventory and re-order information which the manager can obtain any time he wants it. The same kind of connection could be made to a bank's computer to instantly debit the customer and credit the supermarket. No new technology is needed to accomplish this. Somebody will be doing it, beginning not later than sometime in 1975, it is safe to assume. Will it be a bank or a S&L?"

RThought: If we have reason to fear big government, massive data banks, abuses of individual privileges–what reason do we have to believe that bankers are not trying to get an even stronger strangle-hold on all business, everywhere? After 1975, if Harry Waddell is right, all that will be necessary to bankrupt the largest retailer will be for some bank to disconnect their computer from the retailer's POS terminal.

A STUDY OF CATALOG/SHOWROOM PRICING

The Cleveland Citizen Action Foundation, as reported in their publication **bait & switch** ($5 per yr. 1241 Terminal Tower, Cleveland, OH 44113), made a study of catalog/showroom pricing, both relative to each other and to other stores in the community. Their conclusion was that prices were lower–but there was still a wide variation between catalog/showrooms, enough to make it worthwhile to shop.

The comparison was based upon 34 identical items, ranging from major purchases to items under $7. They then listed the catalog/showrooms based on the composite price of the 34 items, expressed as a percentage variance from the average price. Best Products won! Here is the list:

Firm	Variance from Average Pr
Best Products	-2.5%
State Wholesale Merchandise	-2.0
World Distributers	-1.5
U.S. Merchandising Co.	-1.0
Club Sales	-0.5
ABCO	+1.5
ESCO Distributing Company	+2.0
H&H Distributing Company	+3.5

They gave one specific example to show the dishonesty of comparative prices used in catalogs–a Hoover Dial-A-Matic vacuum cleaner. The list or comparative price shown in the catalogs was $179.95 in 2, $174.95 in 1, and $169.95 in the other 5. The only regular retailer they could find close to these prices was that great advocate of Catalog/Showrooms–The May Company at $177.99. Zayre's carried it at $136.97 and other outlets were between.

Among the catalog/showrooms, State Wholesale was low at $117.45, while ABCO was high (but still below Zayre) at $131.97.

SHORT SHORTS

You can be as funny as President Ford. President Ford buys his jokes from Bob Orben–just like Belk Stores, Beeline Fashions, Kinney Shoes and Price Waterhouse do (see RT July 1974). Twice a month you have a chance through Bob Orben's Current Comedy to find out what jokes President Ford will use for t next 2 weeks. (Note: Orben denies that President Ford h offered to appoint him "Secretary of Humor").

WORDS TO MANAGE BY

This month RT brings two for the price of one, the kind of bargain we need to stimulate thoughts during this "depression" period.

Sir Henry Wotton, who lived a long time ago–1568 - 1639, captured an eternal thought in his poem "The Character of a Happy Life," one that applies particularly accurately to independent management consultants and editors on the one hand, and retail entrepreneurs on the other hand:

> How happy is he born and taught,
> That servest not another's will;
> Whose armor is his honest thought,
> And simple truth his utmost skill!
> Lord of himself, though not of lands;
> And having nothing, yet hath all.

On the more practical side is this short observation from the Spokane Traildust:

> A lot of today's frustration is caused by a surplus of simple answers, coupled with a tremendous shortage of simple problems.

RETAILING TODAY

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

Published Monthly. $12 per year.

ROUTE TO

DECEMBER 1974

VOL. 9, NO. 12

WE SAID NICE THINGS ABOUT TIFFANY TOO FAST

In the October 1974 RT, under SHORT SHORTS, there was an item **"Tiffany shall light the way!"** in which we reported their announcement of a 10% reduction on silver items because of the drop in the price of silver. RT did not know that Tiffany wholesales many silver items to other jewelers who follow the Tiffany pricing–and they were compelled to drop their prices 10% although not yet benefiting from the reduced price of silver. Even more, one such retailer pointed out that Tiffany's was not quite so open and above board when they cancelled the 10% markdown as of November 1st–he saw no such ad nor did RT. Perhaps RT was wrong in implying that Tiffany's is a sterling character.

UNDERSTANDING PUBLIC RELATIONS

RT was impressed by the statement of Dr. Carl F. Hawver, Executive Vice President of the National Consumer Finance Association, in his column "Pipe Lines from Washington" (Consumer Credit Leader, November 1974). Dr. Hawver, after dismantling the customary definitions of PR (whitewash, manipulate, conceal, distort, etc.) suggests a more formal definition: "Public relations is the management function that provides the professional skills necessary to communicate **truth**, effectively, to concerned publics." (Emphasis added.)

Before a firm can add the public relations function, they must first answer the question: "Who are our publics, and why do they dislike or distrust us?" When this is done, public relations can then undertake to bring the **truth** to each of those publics.

RThought: Dr. Hawver is much too gentle to point out what RT would point out. If you attempt to communicate something to one of your publics that is not the truth, you are not indulging in PR–you are simply lying. Although this is often done with "professional skill," no particularly high skill is required to lie. For those that are inclined to use lies, remember that a lie can prevail only so long as the truth can be hidden–but because the truth is the truth, people have a bad habit of leaving it around in the open and people exposed to lies frequently find out they have been lied to when they stumble over the unconcealed truth.

WHAT DO YOU DO WHEN A DEADBEAT PAYS?

Media & Consumer (P.O. Box 111, Uxbridge, MA 01569 $12) quotes Richard Givens, Regional Director, FTC in New York City, as saying that many stores do not report to the courts when a customer pays following a default judgment. In 3,000 cases checked, "virtually all of the cases where the customer paid or reached agreement to pay after a judgment was obtained, the retailer did not enter into court records that the matter was satisfied." This often causes problems for the customer because the judgment continues to be reflected as unsatisfied in the credit bureau records.

THIS IS THE SEASON–TO THINK OF ETHICS

At the end of this month you will ask yourself–"Should I make resolutions for the New Year?" I hope your answer will be yes.

Perhaps RT can suggest a few that you may find helpful in both your business and your personal life.

First, never go to sleep mad. There is nothing more devastating to the human soul than having to remember the next morning that you have to be mad at someone–whether it be your spouse, your child, your boss, your competitor, anyone.

Second, remember that two people who are willing to go half-way are never going to find a meeting ground. 50-50 is not good enough. You must be willing to go 60% of the way. Solutions are going to come only from people who accept the 60-60 principle as a working rule.

Third, remember that there are 20 ways of doing things–5 are perfect, 10 are acceptable and 5 are wrong. When someone wants to do something his way, listen closely to learn if he, like you, is planning on doing it one of the 5 perfect ways. More time is wasted today arguing which one of the 5 perfect ways should be followed than on any other difference.

Fourth, remember that a new idea probably has to be started 3 times before it will succeed. The first two failures merely let you know of two ways that won't work.

Finally, promise yourself that each night, as you put your head on the pillow, you will think back over the day you have just completed and will ask yourself one question–"Did I spend this day as I know I should have spent it?" I hope your answer always will be "Yes."

May 1975 bring you Peace, Love from and towards others, Happiness for you and your dear ones and your associates.

The FTC office in Chicago reported some complaints in this area but that they lacked the authority to enforce reporting, while the Seattle office reported that they had informally forced companies to notify the courts when bills are paid. However, Seattle reported the problem was more with collection agencies than with retail stores.

RThought: Don't let the collection agency take the blame–it is often your accounts they are working on and you got the money in the long run. But this certainly should be a point that each retailer should check—to be sure that you are being fair with your customers. There is no reason to complain about the conduct of your customers if you are not going to set the example.

AMERICAN EXPRESS GIVES COMPUTERS A BAD NAME

An RT Reader has reported an incident with American Express that causes one to wonder whether American Express should be trusted with a computer. In the process of moving from Europe to the U.S., this long-time AmEx customer received a statement, payable in England, on August 28th and made payment the same day. The endorsement on the check indicated that AmEx England received it September 5, and the check cleared a San Francisco bank on September 11. The cycle closing was September 16 and yet the statement did not reflect the payment which had, at that time, been back in the San Francisco bank for 5 days!

The computer then printed out "Your account is now one month overdue in the sum of $53.25. The card you now hold will shortly expire and a renewal card will not be issued unless you bring your account to a current status by settling immediately the total outstanding balance." A letter to Howard Clark, the head of AmEx, brought a reply—37 days later! There was no explanation given for the delay in crediting the account but there was the following statement, "You will realize that the wording at the top of the statement is wholly standardized, and therefore, however formidable it may appear, you should not assume it to be a personalized criticism of your method of payment, or to be intended as such."

RThought: Just what was the message intended to be—a "Thank You?" Howard Clark had to have a better command of the English language than that to get through Stanford in the 1930s. There is no excuse for using a computer as a means for threatening customers just to cover the incompetence of computer and/or credit department management.

W. T. GRANT MAKES SOME FRANK STATEMENTS

The Third Quarter Report for Grant's was a document that every retailer should read. Grant's is not doing too well these days—major losses, drooping sales despite increased store spaces, and operating under the watchful eye of a 140-bank consortium.

And it has a new management. That management is making interesting statements.

For example, they said "Intensive studies have indicated that bank card transactions can be handled more economically than credit sales made by means of the Company-operated revolving credit facilities." As a result, Grant's is now honoring 61 million BankAmericard and Master Charge cards. Grant's learned that there is no magic in granting or collecting credit centrally. So the report says "(C)redit arrangements are being arranged with financial institutions to take over the operation of certain installment purchase transactions on a more localized basis."

On the merchandising side, they are returning to fundamentals. "Merchandise assortments are being trimmed and fringe items eliminated . . . The proven 'checking-list' system is being reinstituted in all Grant stores to provide exact rate-of-sale information and to permit a major reduction in man-hour time needed to check and order merchandise."

And some of the over-valuations will disappear. Obsolete merchandise is being marked-down and moved out. And accounting for finance charge income will be revised with a major reduction, retroactively, of retained earnings (indicating that past earnings will be revised down). One can only assume that Grant's has been taking finance charges on installment accounts into income in accordance with scheduled rather than actual payments.

RThought: Such announcements are easy to make when a company is in trouble and even easier to make when there is also a change in management. But it represents the type of frank communication with stockholders and the investing public that should be a standard practice among publicly held companies.

WHY DOESN'T PHILIP HAWLEY TELL THE TRUTH?

Hawley, President of Carter Hawley Hale Stores, Inc. (CHH) continues to tell the press, in regard to their "long term practice" of stealing credit balances from their charge customers, "I understand our practice is the **same as all retailers.**" (Emphasis added—quotation is from Women's Wear Daily, Oct. 7, 74).

Is one to believe that Mr. Hawley doesn't know what practice Sears, Penneys, Wards, J. Magnin, Liberty House, Rhodes, and Mervyn's, just to name a few California competitors, are doing? Is one to believe that CHH credit managers don't belong to credit associations and their controllers don't belong to controllers associations—where people talk about such practices?

And finally, will Mr. Hawley explain why they have failed to escheat the balances so taken to the State of California, after holding them for 7 years, as required under California's Unclaimed Property Act?

RThought: Why do the leaders of honest stores stand by silently while Mr. Hawley tars them with the broad brush of stealing from their customers with statements such as "I understand our practice is **the same as all retailers.**" (Emphasis added). The honest retailers, by remaining silent, encourage further dishonesty, and confirm in the mind of customers that even billion dollar retailers aren't above stealing $4 bills.

THE SORRY STATE OF THE DEPARTMENT STORE INDUSTRY

The National Retail Merchants Association has just released the "Financial and Operating Results for Department and Specialty Stores of 1973" (FOR) and the Table below shows the sorry state of the industry:

Pretax Earnings as % of Capital Stock and Surplus

Size	1971	1972	1973	1973-25% of stores reported above
Over $50,000,000	20.20	22.67	18.10	22.54%
$20-$50,000,000	8.09	16.73	16.85	40.37
$10-$20,000,000	9.79	8.12	6.29	26.90
$ 5-$10,000,000	9.36	7.79	13.09	19.64
$ 2-$ 5,000,000	9.95	8.34	11.06	16.93
$ 1-$ 2,000,000	5.23	4.74	7.71	16.83

If we assume that most of the owners of these stores think their business is worth the value shown on their books, then they are in for a shock. Their company would have to show 20% pre-tax income on capital stock and surplus (perhaps only 16% to 18% in stores under $5,000,000) in order to show 10% return after tax—and then their stock would have to sell for 10 times earnings, a price/earnings ratio shown today by only a handful of department stores, in order for the market to accord them book value for their stock.

HOW BIG IS YOUR FUTURE MARKET?

Most retailers (except a handful of multi-billion dollar firms) look forward to future growth without concern about the size of their market. Kresge, for example, is working on a current goal of $12 billion.

This thinking is based on a general attitude that "the future will be very much like the past, only a little different," as one economist said when presenting his annual forecast.

Unfortunately, it looks very much as though the future will be very different from the past.

A growing market based on an increasing number of Americans will NOT be in your future. This condition will come within the business experience of a large percentage of present retail executives.

Population growth in the United States is based upon three factors:

1. Birth rate.
2. Death rate.
3. Net migration.

Taking these in reverse order, net migration is essentially a political issue controlled by acts of the Congress and thus is not subject to scientific projection. However, it seems evident that the periods of massive, uncontrolled in-migration are a thing of the past. It is practical to say that the future will be much like the recent past, except a little different.

Death rates are relatively easy to project. Over the past several decades there has not been a great change in the death rate for each age, except for a moderate impact from the recent military action (substantially below those experienced in World Wars I and II). An unexpected breakthrough in treating a major disease such as heart or cancer can not be projected—such a breakthrough would work to increase the populations above current forecasts.

And so we come to births—and here the statistical measure used is the "fertility rate" expressed in terms of the average number of births per woman during child-bearing age. Unfortunately, this rate is not as easily projected as deaths or net migration. It is subject to variation due to economic factors (depression, cost of raising and educating kids), social pressures (acceptance of mores on the "best size" family), legislation (changes in laws on abortion) and medical science (the pill, permanent or temporary sterilization, other birth control methods/devices).

Thus, the major variation in population projections—most of which originate from the work done by the Bureau of Census—relate to the assumptions related to fertility rates. Normally 4 different rates are assumed so that 4 different population totals are projected.

In the early 1950s the assumption was made that fertility rates would change at various points in time.

In projection of population from a 1953 base through 1975, the following assumptions were made—and identified by the letter codes shown:

A—1950-53 fertility rate continues through 1975
B—1950-53 rate continues to 1965 and then declines to the 1940 level by 1975
C—1950-53 level declines to about 1940 level by 1975
D—1950-53 level declines to about the 1940 level by 1960 and continues at that level to 1975

By 1960, letters had been dropped and Roman numerals adopted because projections were being made on a different basis:

I—Fertility averages 10% above the 1955-57 level
II—1955-57 level continues to 1975-80
III—1955-57 declines to the 1949-51 level by 1965-70 and remains at that level through 1975-80
IV—1955-57 level declines to 1942-44 level by 1965-70 and remains at that level through 1975-80.

These assumptions of when and how the fertility rate was going to change proved difficult to work with—and so the Bureau started using constant fertility rates. The change from the current fertility rate to the assumed rate, if different, was spread over a period of years. And the Bureau switched back to letters—letters which have indicated the same fertility rate in all reports since adoption:

A—a fertility rate of 3.350 (3.35 children per woman reaching child-bearing age)
B—a fertility rate of 3.100
C—a fertility rate of 2.775
D—a fertility rate of 2.450

The lower rate of 2.45 is of interest—it was the lowest rate on record and covered women born between 1905 and 1910, whose peak period of fertility occurred during the depression years of 1930-40.

By 1970, it became obvious that the "A" series was totally unrealistic—and it also became obvious that the fertility rate would drop to new low levels—so they introduced the "E" series at 2.110 which represented a "Zero Population Growth" (ZPG) fertility rate.

In 1974, it became obvious that we were not likely to ever reach and maintain the "B" rate and so this was dropped and the "F" rate of 1.8 (well below the ZPG rate) was introduced. At the same time the fertility rates were rounded off in publications—although not changed in computing the projections—to the following:

C—2.8
D—2.5
E—2.1
F—1.8

Now that we have identified the "assumed" fertility rate, let's look at the actual rates in the past. The Table below shows them for the period 1940 through 1973:

1940	2.3	1950	3.1	1960	3.7	1970	2.5
1941	2.4	1951	3.3	1961	3.6	1971	2.3
1942	2.6	1952	3.4	1962	3.5	1972	2.0
1943	2.7	1953	3.4	1963	3.3	1973	1.9
1944	2.6	1954	3.5	1964	3.2		-Low
1945	2.5	1955	3.6	1965	2.9		
1946	2.9	1956	3.7	1966	2.7		
1947	3.3	1957	3.8-High	1967	2.6		
1948	3.1	1958	3.7	1968	2.5		
1949	3.1	1959	3.7	1969	2.5		

You should take a moment and study the figures. Fertility went up during the first part of the War and dropped during the last 2 years when the largest number of men were away in service. The first two post-war years were a catch-up as men returned to marry sweethearts and start their family. But by the start of the 1950s the rate zoomed—increasing every year until 1957. These were the years when 4 children were considered the ideal number and the 4 bedroom home displaced the 3 and 2 bedroom home as the standard size home.

By 1957, thinking changed—and this was long before the pill. People changed their mind about the ideal size family—and many even changed their idea about having any children at all. People talked about the expense of raising so many children, the problem of seeing that they got a college education, the things the parents had to give up just to maintain minimum standards of housing, feeding and clothing for such a large family.

For 16 years the fertility rate has dropped—and there is no evidence, in light of the dramatic drops in the most recent years, that it will suddenly turn up. **For 1972 and 1973 the fertility rate was below the ZPG rate!**

This has had a major impact on population projections as the Table below shows. Let's look at the projections for various years, made from different starting points and using the various assumptions (A,B,C,D,E, or F, or I, II, III, or IV):

Population Projections for the Year 1975
(figures in millions)

	1954		1960		1965		1970		1973
A	221	I	244	A	230				
B	214	II	235	B	226	B	219		
C	207	III	226	C	220	C	218	C	216
D	199	IV	216	D	219	D	216	D	215
						E	215	E	214
								F	213

Population Projections for the Year 1980

	1960		1965		1970		1973
I	273	A	252				
II	260	B	245	B	237		
III	245	C	237	C	232	C	231
IV	231	D	233	D	228	D	229
				E	226	E	224
						F	222

Population Projects for the Year 2000

	1965		1973
A	362		
B	338		
C	309	C	300
D	291	D	286
		E	264
		F	251

It is apparent from the figures above that the future isn't going to be as big as we thought just 10 years ago. In 1965, most people would look at the range of projections made for the year 1980 (from 233 to 252 million) and be inclined to think the upper figure was the most realistic.

Today the retailer should look at the projection for 20 years later—the year 2000—and wonder whether the population will actually reach the lower figure of 250 million—or about what we, until recently, expected for 1980!

The ramifications are many because our society will change so much. Just look at the age distribution in 2000 if we assume the lower rate of population growth, compared with the distribution in 1972:

	1972	2000
Median age	28.1 yrs.	35.8 yrs.
0 to 14 years old	27.2%	20.2%
15 to 29 years	25.6	21.2
30 to 44 years	16.8	23.9
45 to 64 years	20.4	23.2
65 and over	10.0	11.5

The big spending market for apparel and home furnishings, cars and appliances is 15 to 29 age group—and that group drops significantly. The children's market becomes even less significant than now—and today is a long drop from the 1950s.

RThought: A 30 year lease written today ends in the year 2004. A building with useful life of 50 years will still be used in the year 2024. A store that needs 3 to 7 years to reach a profitable level needs growth in a trading area to attain that profit. It is time all retailers started looking much more carefully at what the population will be in their trading areas—10 and 20 years from now. this is especially true if the type of business you run is not significantly different from your competition. If you do not have any new or different approach (a Nieman-Marcus or a Bergdorf Goodman or a Tiffany) but must fight to get your "share of the market" from existing, very-similar outlets, then your future is very much tied to the numeric growth of a market.

RThought: If you have a store with lots of square footage, and you see that the trading area is not growing, you must start thinking in terms of what else can I do in this physical plant to serve the people who are actually here. That means looking carefully at the changing age patterns. Although young people may buy more fashion apparel, older people buy more travel cruises; although young people buy the equipment for active sports, older people may find the major department store a convenient location for a Health Maintenance Organization; and so it goes. Retailers should start thinking about seeking Associate Memberships (if there is such a thing) and sponsoring studies in such organizations as the American Association of Retired Persons (hundreds of active groups through the country) or S.I.R. (Sons In Retirement).

RThought: Will the trend to smaller families and the abandonment of single family dwellings mean a dramatic change in furniture and appliances? Should conventional outlets learn from the multiple-purpose furniture developed for recreational vehicles and boats? Is the trend from the suburban single-family houses to condominiums, apartments and townhouses in the central city going to make ghost towns out of suburban shopping centers—like the move to the suburbs devastated the central city? This time there won't be any new waves of people to fill the empty single family dwellings—there will just be empty houses, empty stores.

RThought: Under these changing conditions will the future of retailing belong to the independent retailer who can move faster and cater more effectively to special groups of people and special areas—or will the multi-billion corporations succeed in homogenizing most of retailing? Perhaps the multi-billion retailers will survive only by buying up the newly developing types of specialty retailers.

RThought: The NRMA could be more helpful to their members if they would think more clearly about the objective of management in a department store. The name of the game is "how much can I make on my capital and surplus?" and not "what is the highest profit I can make in relation to my sales?" Many an overcapitalized store makes a better return on sales, because they have no interest cost, pickup a few dollars on anticipation and own buildings on which they take depreciation at a rate that will not replace the asset at the end of its useful life.

The "Goal" figures should be based on the 25% of the companies showing the highest return on capital stock and surplus, as shown in the right-hand column in the Table above. Then the NRMA members would have something to look at. They could see if the higher return was due to spending more instead of less on selling payroll or advertising or allowing credit losses to be above average.

NRMA has the capability to make this computation and print-out with a minor change in programming but they apparently are unwilling to do it even as a one-time study to see what it would tell its members.

RECESSION SHOWS ODD PATTERN

The Gross National Product in constant dollars dropped for 3 consecutive quarters–from the 4th Quarter of 1973 through the 3rd Quarter of 1974–so soon we should have confirmation that we are in a recession. However, when we look at the figures, in 1958 dollars, for Disposable Personal Income (basically the source of individual spending) and Personal Consumption expenditures (what was actually spent) it is apparent that consumers are not reflecting their total decline in income. The Table below is in annual rates of billions of dollars.

	Disposable Personal Income (1)	Personal Consumption Expenditures (1)
4th Qtr., 1973	$622.9	$546.3
1st Qtr., 1974	610.3	539.7
2nd Qtr. 1974	603.5	542.7
3rd Qtr. 1974	601.9	546.7

(1) In 1958 Dollars

Much of the recovery from the low expenditures is due to increased dollar sales of automobiles–which, after major drops in the 4th Quarter of 1973 and the 1st Quarter of 1974, has risen progressively in the 2nd and 3rd Quarters, and during the 4th Quarter of 1974 could pass the peak levels reached in the 1st and 3rd Quarters of 1973.

PITTY THE UNDERPRIVILEGED MILITARY RESERVISTS!

I know that most retailers feel very sorry for military reservists who continue in the active reserve program. This involves weekend duty when they are paid two days' pay for one days' training–earning from about $80-$100 per weekend for Sergeants to $200 for Colonels! All get 4 days' pay for a Saturday and a Sunday. But they, with the backing of the Reserve Officers Association, claim they need PX privileges to support their morale!

Until recently, reservists could use the PX on the days when they were in training status and their spouse could not accompany them into the PX. Now, for each two training periods they get one day of PX privilege, at any time of day or week, and their spouse may come with them but the military person must complete the transaction. This applies to Exchanges for Army/Air Force, Navy, Marines and Coast Guard.

But the Reserve Officers Association goes even further they want unlimited Exchange privileges for the entire Reserve Component. It now appears that the Department of Defense is moving in this direction.

WHAT ARE THE 15 FASTEST GROWING STATES?

According to the Bureau of Census, based on the change between the Official Census as of April 1, 1970, and the estimated population on July 1, 1974, the fastest growing states are:

Arizona	21.4%	Hawaii	10.0
Florida	19.2	New Hampshire	9.5
Nevada	17.3	Oregon	8.3
Colorado	13.1	Wyoming	8.1
Idaho	12.0	Texas	7.6
Alaska	11.6	South Carolina	7.5
Utah	10.8	Arkansas	7.2
New Mexico	10.4		

The U.S. grew 4.0% and California, former champions, grew only 4.8%. By major areas, the South and West were tied at 7.0%, the growth in the South peaking in the South Atlantic area (8.3%) and the West in the Mountain States (13.6%).

Who says you can't keep them down on the farm, after they've seen New York, Chicago and Philadelphia?

HOW FURNITURE RETAILERS RATE MANUFACTURERS

The National Home Furnishings Association recently published a "white paper" rating 45 case goods and 24 upholstery goods manufacturers on their dependability, quality control and complaint handling. Five gradings were permitted: excellent, very good, good, fair or poor. This report, based on information from 800 members, was not distributed to the general media but is being used to try to bring improvement in the industry.

Media & Consumer (Nov. 1974, P.O. Box 111, Uxbridge, MA 01569, $12/yr) obtained a copy and worked out a rating system by adding the percentage of replies reporting excellent or very good in the three areas and subtracting the percentage reporting fair or poor in the three categories. For example, Henredon, in case goods, received excellent or very good ratings by 60%, 75% and 65%, for a total of 200, from which were subtracted fair or poor ratings of 11%, 1% and 9%, for a total of 21%, with a final rating of 179 (200-21). The Tables below show the 5 best and 5 worst for case goods and upholstery:

BEST

Case Goods		Upholstery	
1. Henredon	179	1. Henredon	211
2. Sumter Cabinet	173	2. Conover Chair	206
3. Tell City Chair	163	3. Key City Furniture	180
4. Hooker Furniture	124	4. Norwalk Furniture	178
5. White Furniture	123	5. Flexsteel Ind.	157

WORST

45. Lea Industries	−114	24. Bassett Uphol. Div	−149
44. Singer Furniture	−112	23. DeVille Furn.	−119
43. Bassett Furn Ind	−110	22. Craft Assoc. Inc.	−58
42. Barwick Furn	−109	21. Singer Furniture	−54
41. Pennsylvania House	−108	20. Howard Parlor Furn	−44

RThought: Studies like this should be conducted by all retail trade associations and widely publicized. This is one of the few ways that retailers will learn the names of reliable suppliers–and unreliable ones. The information should be published in trade papers. This constitutes one of the major steps necessary to establish a truly competitive market between retailer and manufacturer—because a truly competitive market assumes complete information about the market on the part of both the buyer and the seller. Unfortunately, in most markets, whether between vendor to retailer or retailer to consumer, the seller knows substantially more about the market than the buyer.

RThought: Is it happenstance that Henredon heads both lists as the best, and that Bassett and Singer are rated among the 5 worst in both listings? RT is inclined to think that such status is the result of management—good in one case and poor in the other.

THE CHANGING STATUS OF THE BLACK POPULATION & RETAILING

The Department of Commerce recently published a Current Population Report (Special Studies, Series P-23, No. 48, $2.75 Govt. Printing Off., Washington, DC 20402) with considerable information of interest to retailers. It affects your business—because it affects the society in which you operate.

From 1969 to 1973, black families, in terms of median income, lost ground compared to white families, the ratio dropping from 61% to 58%. Both groups of families will be smaller. Among the younger women (18 to 24) the projected family size is the same (2.3 children). (Note: 1974 figures indicate a further drop in births for both groups to below the level needed for "Zero Population Growth"). The health and life expectancy of black females has improved—but not for black men.

Joblessness is still serious for black teenagers—the unemployment rate is over 30%—2½ times the rate for white teenagers. Despite this discouraging picture, the percentage of blacks, both male and female, finishing high school and college is increasing. Finally, the percentage of white males enrolled in college is drawing ahead of females—reversing a pattern that has prevailed for years among whites.

One should look carefully in this and other reports at figures comparing income, unemployment rates, etc.—to identify whether the comparision is for "blacks only" or for "blacks and other races." In the latter case, particularly in the West where employment rates and median family income for the large number of orientals included in such categories is almost the same as for whites—the figures shown are not typical of "blacks only."

In the period 1963-1973, there was a dramatic change in the ratio of "black and other races" to white sales workers, both male and female, in the retail trade. Among women, the black and other races increased from 16% to 26% of the positions—while the total employment of women in retail sales work was dropping 1% from 8.6 million to 8.5 million. In the case of men the increase was from 28% to 33% of the positions, while the total number of males employed was increasing 13% from 3.2 million to 3.6 million. The bulk of these positions are filled by "other races" because since in 1973 only 4.0% of the sales workers in retail trade were Negro (the balance were "other races"). For all positions in all retail trades (sales, clerical, managers, professional, etc.) 6.9% of the positions were filled by blacks. It was only 6.6% when eating and drinking places are excluded.

DO ALL RETAILERS UNDER-PLAN NEW STORES?

RT can prove that all retailers under-plan sales for new stores. That is a very broad claim—but it came to mind when reading the first quarter report for Jacobson Stores, Inc., where they said, "We are pleased to report that our Toledo store in the Franklin Park Mall opened on October 23. Sales results during the first month have been more than gratifying and greater than planned." The first reaction was that this was a trite statement—but it was trite only because one never reads "Sales results during the first month have been disappointing and below plan." Since retailers always keep their stockholders informed, as urged by the SEC (and the laws behind the SEC), of both good and bad news, one must assume that there never was a disappointing opening. This end result can only be produced by gross underestimating of the sales to be derived from new stores. There is no other logical explanation—or is there?

NAMES IN THE F.T.C. NEWS

Pay'N Save Corp. has signed a provisional consent order that they will have advertised specials available for sale at or below the advertised price and that the firm must disclose the existence of this availability requirement in its advertising and in notes near each public entrance and near each cash register. Further, the company must institute a program of surveillance **including contracting with an independent company to test compliance. (Emphasis added.)**

K-Mart Enterprises, Inc.: the F.T.C. announced a final consent order requiring an end to unsubstantiated claims for tires.

Hart Schaffner & Marx: agreed to a consent order prohibiting them from inducing discriminatory price reductions or advertising allowances from suppliers and engaging in other challenged purchasing practices. The FTC alleged that HSM menswear stores received from certain suppliers discounts reflecting the amounts the suppliers normally paid as commission to their salesmen; and HSM induced suppliers to provide advertising allowances that HSM knew or should have known were not made available on proportionally equal terms to competitors of HSM menswear stores.

WORDS TO MANAGE BY

RT always enjoys reading "The Rock" published by Rockower Bros. for their employees. The March 1974 issue contained the following quotation from "The Supervisor of the Seventies" by Robert D. Gray. The quotation was spotted by Jerry Burkhead in their Littleton, Colorado store:

BE A BETTER "BOSS"

"The supervisor of the seventies will have a more difficult job than in the past, but he can succeed if he develops the proper philosophy and if he uses policies, procedures, and techniques consistent with that philosophy. As a suggestion, our Caltech Industrial Relations Center has developed a Code of Ethics for Supervisors consisting of the following ten points:

1. Set an example of what you expect from others.
2. Emphaszie the future rather than the past or present.
3. Look for, and deal with, causes rather than symptoms.
4. Admit, and learn, from making a mistake.
5. Don't pass the buck.
6. Consider both the long-run and short-run results.
7. Everyone involved should benefit.
8. Legal and ethical means should be used to achieve legal and ethical ends.
9. The dignity of every individual should be respected.
10. Try to understand others, and make yourself understood by them.

RECESSION NOTEBOOK

Thirty days to pay...

By Ken McEldowney

The best place to charge merchandise is the store that takes the longest time to mail its bills, right? Wrong. That's the worst place. The "30 days to pay" advertised by most stores doesn't mean 30 days from when you receive the bill. It means 30 days from the end of a "billing cycle." Half of your 30 days may elapse before you actually get the bill. Many charge customers have discovered to their chagrin that just ten days after their bills arrive in the mail, the stores have socked them with the maximum legal interest on their accounts—18% a year.

It's just one of several ways department stores have come up with to squeeze the maximum amount of money from their charge customers. Some stores have gone farther, shortening the month to 25 days. Grodin's, Granat Bros., Capwell's and the Emporium have all switched to the 25-day payment periods. The Emporium claims the remaining five days constitute a grace period, during which there's no penalty, but other stores have grace periods extending beyond the 30 days.

BUT I PAID THE BILL . . .

The stores have also figured out how to charge you interest on bills you've already paid. It's called "previous balance," as in:

> "The finance charge is figured on the previous balance shown on your statement before deducting payments or credits."
> —The Emporium

In other words, if you are billed for $100 on Nov. 14 and you pay $90 by Dec. 14, you'll still be charged interest on the full $100, not the ten dollar balance. The system maximizes the amount of finance charges for the store by constantly overcharging the consumer, since finance charges are always based on a month-old balance.

Oakland consumer attorney Hal Seibert estimates that California consumers would save $5-10 million a year if Sears and Montgomery Ward alone would abandon the "previous balance" system. He has filed nine class-action suits against Bay Area stores, charging them with violating the Unruh Act, which prohibits retailers from charging more than 1.5% monthly interest on month-to-month balances.

How local stores try to squeeze the most money out of their charge customers and how you can fight back

PHOTO BY RICK GROSSE

Robert Kahn, editor of "Retailing Today," which goes out to top store executives, uses volunteers who provide information on their own bills to determine how much time stores give their customers to pay without penalty. The key is how long it takes the store to process and mail out bills after the close of the monthly billing cycle. The longer it takes the store to get them out, the fewer days the customer has to pay before the store starts to charge interest.

Kahn considers four working days between the close of the billing cycle and the postmark date to be a reasonable goal. Herewith, his most recent data:

Average working days to get bills out

Retailer	June-July	Aug-Sept
* Breuner's (Oakland)	6.5	8.0
Bullock's (No. Cal.)	5.3	6.6
* Capwell's (Oakland)	9.3	10.2
* Emporium (SF)	8.8	9.7
* I. Magnin (SF)	4.4	5.4
J. Magnin (SF)	5.0	4.0
* Maison Mendessolle(SF)	2.7	1.0
Penney's (Oakland)	5.0	5.0
* Ransohoff's (SF)	—	5.0
* Roos/Atkins (SF)	3.5	4.0
Saks Fifth Ave. (SF)	5.0	—
Shreve & Co. (SF)	11.0	12.5
* Smith (Oakland)	—	6.0

*Stores found by Guardian researchers to be using unfair "previous balance" system of computing interest payments. Others: Hastings, (SF), Goldman's (East Bay), Granat Bros. (SF), Montgomery Ward (SF).

Throughout 1974, Capwell's and the Emporium have had the worst record of the major local retailers. Since Kahn doesn't consider Sundays and holidays in his calculations (they aren't working days for the stores' credit offices), these two chains are eating up a full two

chases so they fall as early in the billing cycle as possible. If your store uses the 30-day payment period and your cycle date is the 13th, you can buy something on Dec. 14 and not have to pay for it until Feb. 13.

4. To keep the customers happy, some stores have a grace period on late payments. Often it's okay if a payment is merely postmarked on the deadline day, even though it's supposed to be in the credit office that day. Find out about the grace period and make sure the store observes it.

5. When all else fails, complain. Stores don't want to lose customers and will often bend the rules when faced with an irate customer who is vocal and persistent. If there are six or more working days between the end of your billing period and the postmark on your bill, call up and demand an explanation on the grounds that the store is denying you a just amount of time to make your payment. Complaints can bring about changes in credit policy: Cable Car Clothiers-Robert Kirk Ltd. acknowledges that customer complaints helped them decide to switch from the "previous balance" system to the more equitable "adjusted balance" method of computing interest charges.

6. If you're going to make a major purchase or want to pay off some department store bills, it makes a lot more sense to go to a credit union for a loan on far better terms than the 18% you face from the stores or the credit cards.

While most credit unions restrict their membership to people in particular unions or working for certain companies, we have been able to find several with fairly open membership.

Cooperative Shopping Centers credit unions. Open to all members of the co-op stores: 1763 Eastshore Blvd., El Cerrito, 235-8520; 1550 Shattuck, Berkeley, 841-7711; 1414 University Ave., Berkeley, 845-6428; 3667 Castro Valley Blvd., Castro Valley, 357-8896; 59 Tamal Vista Blvd., Corte Madera, 924-9550; 1510 Geary Rd., Walnut Creek, 935-2710.

Metropolitan Credit Union. Open to people living or working in Alameda and Contra Costa counties: 285 17th St., Oakland, 444-7360.

Palo Alto Credit Union. Open to members of the co-op store: P.O. Box 11458, Palo Alto, 94306, 326-8645.

BUT I PAID THE BILL . . .

The stores have also figured out how to charge you interest on bills you've already paid. It's called "previous balance," as in:

"The finance charge is figured on the previous balance shown on your statement before deducting payments or credits."
—The Emporium

In other words, if you are billed for $100 on Nov. 14 and you pay $90 by Dec. 14, you'll still be charged interest on the full $100, not the ten dollar balance. The system maximizes the amount of finance charges for the store by constantly overcharging the consumer, since finance charges are always based on a month-old balance.

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Some stores, including Hink's, Brooks Brothers and Cable Car Clothiers—Robert Kirk Ltd., compute their finance charges on the "adjusted balance" system, which allows for payments during the just-completed billing period. Penney's uses a third method, basing the finance charge on the average daily balance in the previous billing cycle, with payments weighted by how long they have been on the books. This method most accurately reflects the day-to-day status of the account.

STRIKING BACK

There's been some forward movement in legislation to protect the consumer from being gouged by retailers. President Ford has just signed the Fair Credit Billing Act, which sets 14 days as the absolute minimum between the day the consumer is billed and the day interest charges begin. The law, which doesn't go into effect until Oct. 28, 1975, will also require that if a consumer does not notify a creditor about an error in his or her credit account, the creditor must reply within 30 days and resolve the problem within 90 days. Also, people who buy faulty goods or services with a non-store credit card will have legal claims against both the store and the credit card company. Under certain conditions, a customer who has tried to get satisfaction from the store can legally withhold payment.

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Throughout 1974, Capwell's and the Emporium have had the worst record of the major local retailers. Since Kahn doesn't consider Sundays and holidays in his calculations (they aren't working days for the stores' credit offices), these two chains are eating up a full two weeks of the billing cycle through their own inefficiency.

The Guardian will continue to publish Kahn's reports as one more pressure on retailers to improve their billing procedures.

State law (effective Jan. 1) prevents credit card companies from prohibiting retailers who accept their cards from offering discounts to cash customers. So far, the Guardian has been unable to turn up any stores that plan to grant such a discount. They probably won't until people start asking. If you run across any merchant who gives such a discount, let us know and we'll print their names.

SF consumer advocate Gary Near has filed suit against MasterCharge—specifically Security Pacific Bank, which is second only to Chase Manhattan in MasterCharge billings. Near wants to go farther than the state law: he wants retailers to be able to charge credit card customers a surcharge to reflect the actual cost of handling a sale, and end the current practice whereby cash customers subsidize the extra costs and paperwork due to the credit card customers. The case is now before US District Court Judge Stanley Weigel for an initial ruling on whether it is a legitimate class-action suit.

IN THE MEANTIME. . . .

While we wait for the outcome of these court cases and for the federal legislation to take effect, here are some tips on making the best of the credit situation:

1. If you can get the same product at more than one store, choose the store with the best credit policy: the quickest billing, the longest billing period, the most equitable method of computing interest charges (avoid stores that use the "previous balance" system). Let the other stores know why you aren't shopping there (a little jab at the pocketbook always helps).

2. If you must patronize a store that uses the "previous balance" system, use either MasterCharge or BankAmericard, both of which use the "adjusted balance" method. Again, let the store know why you're doing it (another jab, since the store then has to pay the bank 3-6% of your purchase as a service charge.

3. Use the store's credit policy to your best advantage. If the date your billing cycle begins isn't noted on your bill, call the store's credit office and find out what it is. It will usually depend on the first letter of your last name. For example, at the Emporium the billing cycle for A and B names begins on the third day of the month; for the C and D names it's the 7th and so on. Time your purchases to take advantage of the more equitable "adjusted balance" method of computing interest charges.

6. If you're going to make a major purchase or want to pay off some department store bills, it makes a lot more sense to go to a credit union for a loan on far better terms than the 18% you face from the stores or the credit cards.

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Cooperators Credit Union. Open to members of unions or non-profit organizations: 1400 Castro, SF, 824-6691.

Quickie buys

TOP OF THE LIST is a season when the spirit of giving often gives way to commercialism is the Alternate Christmas Catalogue, which last year channeled $300,000 away from consumer products into human welfare. See page 3 for more details. . . .DISCOUNT BOOKS. Good recommendations about Bookquick, Inc., 160 Eagle Rock, Box B, Roseland NJ 07068. 30% off on books selling for more than $3. Write for order forms. . . TRINKETS AND TOYS. East of the Sun, 3913 24th St., has dozens of little gifts from 10¢ and less: tiny black skillet with eggs, 3/10¢; imported Donald Ducks, 3/10¢; Winky animal pins, 3¢; fortune teller fish, 4/15¢, larger fish 2/15¢; finger traps, 10¢. . . WINE BARGAINS. Three bargains from Astorian Wine Imports, 1252 Howard: Grand Reserve, white or red for $1.99 a bottle; Latour Marcillanet Haut Medoc AC, 1967, was $4.99 now $2.99; Fleurie, 1969, was $4.99 now $3.79. . . HARD STUFF. Far fewer sales listed in the liquor industry BIN book this Christmas, but we found a few buys in half gallons: Beefeater, $16.75; Cabin Still, $10.98; Haig, $15.99, and Johnnie Walker Red, $18.45. If your retailer is listing higher prices, ask why. . . . Send your Bargains and Burns to Ken McEldowney, Bay Guardian, 1070 Bryant, SF 94103. ■