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- Who Will Take the Next Step?
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- Who Coined the Term "Associate"?
- A Stimulus to Associates
- What Happens When the Trend Changes?
- If You're a Retailer, It's Easier Being an Economist, Too!
- Why A Supermarket's Profits Can be Higher When Sales May Be Lower

W - Words -- A Poem From a Longtime Friend

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- Read the Associated Press with Care

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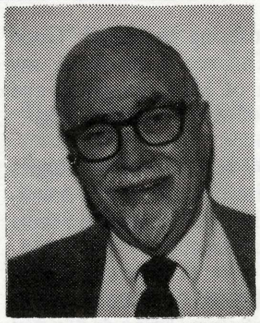

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ROUTE TO

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NOT ENOUGH RETAILERS ARE ACTIVE IN NOD

Again, this year, *Business Week* ran a list of companies which participate in the CEO Council of the National Organization on Disability (NOD).

In NOD's top category of supporters, J. C. Penney Company, Inc., was one of two companies listed.

In the second category, the Chairman's Circle, no retailers were listed.

The same was true of the third category, the Vice-Chairman's Circle, which listed ten companies.

However, the fourth category, the President's Circle, with 12 firms listed, included Woolworth Corporation.

The fifth category, the Leadership Circle, listed 39 companies, with Avon Products being the only retailer.

The sixth and final category of supporters, the Council Circle, listed 141 companies, but only five were retailers: Kmart Corporation, The May Department Stores Company, Oshman Sporting Goods, Inc., Safeway, Inc., and Shaklee.

Many retailers who are *not* shown on the list *do* have programs employing people with disabilities. By not joining the several hundred firms of all sizes that now participate in NOD, a large number of significant-size retailers may not be reviewing their own programs and providing employment for people who want to work and who want to be self-supporting but are disabled.

RThought: In my travels abroad, I have seen supermarket cashiers who are seated. Couldn't we do that?

RThought: I have also seen disabled people in wheelchairs, on crutches, etc., who are employed by retailers that I visit and who are accepted by other employees as "one of the gang."

RThought: You can do some good by hiring the disabled: NOD stresses, "A person's ability, not disability, is what counts in doing a job." (Remember, some disabilities, such as back injuries, are not always apparent.)

Contact NOD's CEO council program officer, Andrew J. Dvorshak, at 910 - 16th Street, N.W., Suite 600, Washington, D.C., 20006; telephone 202-293-5960; fax 202-293-7999; e-mail CEOCOUNCIL@nod.org.

RThought: Why can't retailers do a better job of hiring and training the disabled who want to work?

ALTHOUGH THIS WAS WRITTEN BEFORE CHRISTMAS...

I believe that as few as six or seven retail analysts and perhaps four or five management consultants went *unasked* for a quote on how good or bad the 1997 Christmas season would end up. All others were quoted. None had a factual basis.

With perhaps three dozen newspaper reporters from such states as Massachusetts, Florida, Georgia, Texas, Washington, Oregon, California, etc., calling for my view, I tried not to be "the issuer" of a percentage estimate. I explained that a Thursday Christmas is better than a Wednesday Christmas (like last year), if only because there are 27 days between Thanksgiving and Christmas against 26 last year. In other words, one day can be 1% to 2% of the season's sales.

I also told the reporters why there is the probability that conventional and national chain department stores will show a small increase — equal to inflation — while discount department stores may approach double-digit increases, explaining that discount stores, according to the FTC and the courts, meet the definition of a "department store," as laid down by the U.S. President's Office of Management and Budget. That definition being:

5311 Department Stores

Retail stores generally carrying a general line of apparel, such as suits, coats, dresses, and furnishings; home furnishings, such as furniture, floor coverings, curtains, draperies, linens, and major household appliances; and housewares, such as table and kitchen appliances, dishes, and utensils.

These stores must carry men's and women's apparel and either major household lines are normally arranged in separate sections or departments with the accounting on a departmentalized basis. The departments and functions are integrated under a single management. The stores usually provide their own charge accounts, deliver merchandise, and maintain open stocks. These stores normally have 50 employees or more. Establishments which sell a similar range of merchandise with less than 50 employees are classified in Industry 5399. Establishments which do not carry these general lines of merchandise are classified according to their primary activity.

Continued

WHO WILL TAKE THE NEXT STEP?

A couple of years ago, Wal★Mart Stores, Inc., eliminated cigarettes in all of its Canadian stores, a move which was not entirely voluntary. It came about because, as I recall, the pharmacists in Quebec, who are dedicated to helping people, could no longer work for stores that sold cigarettes. In other words, the retailer had a choice: sell cigarettes or have a pharmacy. It was easy: more money is made by a pharmacy than by the sale of cigarettes.

But, as far back as 1991, I had correspondence with Sam Walton in which I urged him to eliminate tobacco sales. I told Sam that Veterans Affairs Medical Center doctors had demanded all hospitals stop the sale of cigarettes because of the many cigarette-addicted

Continued

Courts often mention that the main difference between convenentional or national chain department stores and discount department stores is that discount stores normally do not have proprietary charge accounts.

I also explained to the reporters that the square footage in shopping centers has increased faster than the population and that much of the space is filled by chains that are certain people will be anxious to shop them. When people do not shop a particular chain, its low sales become a major factor in the chain's demise.

I explained further how drug stores continue to expand their merchandise mix, as do supermarkets. I further explain that trade associations, such as the National Retail Federation and the International Mass Retailing Association, often conduct surveys but seldom explain the *basis* for taking a survey, express the *size* of the sample used, or comment on the *statistical accuracy.*

Newspapers, such as *The New York Times* and *The Wall Street Journal*, when asking New York retail analysts and some retailers how they are doing, often receive such comments as "making plan" or "behind plan," without being told whether the retailer's plan is for an increase or a decrease. The International Council of Shopping Centers often reports that customers are still "starting their shopping," meaning that the last week before Christmas is still expected to be outstanding!

RThought: One of your 1998 resolutions should be: I will pay no attention to surveys, articles, etc., predicting retail sales so that I can properly *attend to my business and please my customers.*

patients they were treating. Sam replied that Wal★Mart had eliminated cigarette papers (used by marijuana smokers), vending machines, and, over a period of time, would have all "no smoking" stores. Unfortunately, I never did win my argument.

Many years ago, Trader Joe's eliminated cigarettes from its stores. CEO John Shields told me that his criteria for products carried was based on gross margin dollars per square foot of shelf space and that the only cigarette that met his criteria was Marlboro. Since it would be foolish to carry only one brand, he eliminated all cigarette sales from his stores.

Then, in 1997, Target Stores eliminated cigarettes from its shelves. Why? No doubt Target's management understands that cigarettes are bad for everyone.

More recently, Shopko announced that for the same reason it would no longer carry cigarettes. In both cases, little money was being made from selling cigarettes.

RThought: The phrase from Isaiah (11:6) seems appropriate: "...a little child shall lead them." Perhaps Target and Shopko "shall lead" Wal★Mart and Kmart. When that happens, more retailers will follow.

RThought: Shouldn't the pharmacists in the U.S. follow their professional brethren in Canada and demand that stores with pharmacies discontinue the sale of tobacco products?

RThought: If you still sell cigarettes, please tell me why?

A GOOD TURN THAT DESERVES RECOGNITION

As an Eagle Scout of 67 years standing, who still tries to do a good turn every day, and as a member of the National Eagle Scout Association, I would like to recognize the recent good turn of The May Department Stores Company in sponsoring its annual "Good Scout" Award luncheon in New York. This year's honorees: my namesake, Eugene Kahn, vice chairman of May Company, and Anthony Torcasio, chief executive officer of May Merchandising.

As reported in *Women's Wear Daily*, 1,500 vendors and colleagues attended the luncheon in an effort to raise money for the handicapped scouting programs conducted for the 32,000 disabled Scouts within the Boy Scouts' Greater New York Councils.

RThought: With funds raised by the United Way being either steady or declining, and with most larger gifts now being designated to a specific nonprofit organization, the traditional United Way beneficiary organizations, such as Boy Scouts, Girl Scouts, and Camp Fire Boys & Girls, as well as many other organizations in which many residents (and some of your associates) in your community devote hundreds upon hundreds of volunteer hours, are receiving allocations the same as or smaller than last year. (I speak from a background of many years of service on or heading the Allocations Committee of the United Way of the Bay Area.)

However, there are two ways in which you can help the communities you serve:

1. Be sure that you conduct a good United Way campaign within your organization, resulting in your associates taking pride in their group accomplishment. Remember, giving is good for character development.

2. Where there is a useful agency with serious funding trouble, sponsor a special event, such as the annual luncheon sponsored by the May Company. Your local United Way can discreetly tell you about a good, underfunded agency which you can adopt. You can then have one or more senior executives see how much good your company can do for the struggling recipient and let all of your associates know what can be accomplished together.

In the many years that I was associated with the United Way's Speakers Bureau and talked to all kinds of employee groups, I always began my talk by asking how many had members of their family receiving benefits from the United Way. Few hands would be raised. Then I would ask if they or someone they knew was or had been a member of the Boy Scouts, Girl Scouts, Camp Fire Girls (boys were yet to be included), Boys' Club, YMCA, YWCA, or the Red Cross. At that point, nearly every hand was raised. I then pointed out that such members were "receipients of charity."

RThought: It is easy to do a good turn: there are so many opportunities around you. And remember, a good turn is not only good for someone else, but it's good for me and for you!

WHO COINED THE TERM 'ASSOCIATE'?

In the past, *RT* reported that "associate" was first used by a retailer in the 1890s in the internal communications at Frederick & Nelson department stores in Seattle. More recently, however, I received the book, *A Foot in the Door*, by Alfred C. Fuller, "the original Fuller Brush man." The sticker inside the cover reads:

> **It is with pleasure that I present to each of my *associates* in the Fuller Brush Company this prepublication, gift edition of my life reminiscences. [Emphasis added.]**
>
> **I realize fully that the accomplishment recounted here would have been impossible to achieve without the assistance of the legions of Fuller Brush people now and over the years.**
>
> **Alfred C. Fuller**
> **Hartford, Connecticut**
> **Autumn 1960**

SHOULD WE ACCEPT THE CONCLUSIONS OF THESE SURVEYS?

The National Retail Federation in late November 1997 issued the results of the 12th annual consumer and retailer "Mood Survey: Retail Holiday Outlook" conducted by Deloitte & Touche LLP, using the results of "nearly 500 [retailer] respondents." (One wonders how many were sent out and how many were returned by retail executives in general merchandise, apparel, home furnishings, etc.) The usefulness of such a survey is related to the percentage of responses in each category of the retail industry; however, the information was not given.

The survey, which was based on a poll of 1,000 consumers, comprising a representative sample of the population, was conducted by an independent telephone research company. The poll had a margin of error of plus or minus 3%.

RThought: The release reported that consumers "plan to spend 2% more this year [1997]." With a sample accuracy of 3%, the correct reply should have been "-1% to +5%." Unfortunately, few readers of the four-page report know enough to apply the "plus or minus 3%" error.

RThought: In asking my wife, my four associates, and some friends if they knew, or *ever knew*, exactly how much they spent on holiday gifts last year, they all answered no. Yet, if one reads the report and interprets it in the way it is presented, shoppers are not only expected to know but also to know that they will spend 2% more than the figure they do not know!!!

The release further reported that retailers are optimistic (but aren't retailers always optimistic, especially those in Chapter 11?): "After analyzing the survey results and studying other economic trends and data," Deloitte & Touche "predicted actual GAF [general merchandise, apparel, and furnishings] will total $162 billion...for an overall 3.8% increase over last year."

RThought: If the plus or minus 3% is applied to $162 billion, estimates should range between $157 billion and $167 billion.

The release then gave the anticipated average consumer spending for the following geographic areas:

- The Northeast, including New York, will spend $804, up 3%.
- The Midwest will spend $770, up 4%.
- The South will spend $772, up 4%.
- The West will spend $710, *down* 2%.

However, if each area had only 250 telephone responses, the plus or minus 3% accuracy rate does not apply. It could be plus or minus 6% or plus or minus 8% if based on 250 telephone calls.

RThought: The NRF release has since led to front-page stories suggesting that something is askew in the West. Reporters try to explain why people will be spending less and even include El Nino as an excuse, saying that people are not spending because they are saving for the floods!

RThought: Within the 20,000 employees of Deloitte & Touche, or the 63,000 employees in its parent company, Deloitte & Touche Tohamtsu International, there must be many statisticians who could have reviewed this report before it was released. Although I am too many years from the study of statistics, I certainly would have at least rounded off numbers such as $804, $770, $772, and $710. (The first three amounts are roughly within a 3% accuracy, with only the latter outside the range.)

RThought: Most people would accept any number that is issued by the world's largest retail trade association and by one of the world's largest accounting/consulting organizations. The serious problem is that *hundreds of newspapers* in all parts of the U.S. accepted such figures as being precise. (Two local newspapers printed the figures for the West on their front page, not realizing they were wrong.)

After completing the above analysis, I came across an article in *Women's Wear Daily*, headlined "Conference Board: Americans Will Increase Holiday Spending." Figures presented by the Conference Board, a long-established organization which conducts numerous surveys relating to our society and economy, tend to be accepted. In this case, it surveyed 5,000 households (fivefold the sample used by the Deloitte & Touche survey) and concluded: "The average American household will spend about $465 [or up 3.3%] on gifts this holiday, up from about $450 last year and about $430 the year before."

RThought: How can this happen? Deloitte & Touche said that its sampling was based on 1,000 customer responses and 500 retailer responses and, with an *adjustment* for economic trends, this year's spending per household will be anywhere from $710 to $804 — a long way from $465 and far more than plus or minus 3%!

RThought: Because Deloitte & Touche and the Conference Board are reputable organizations, you might consider the following: If you can't remember in October what you spent for the holidays last year but you do remember that many of your purchases were impulse buys, remind yourself that you won't know how much you spent this year until December 26, or even later. With the thousands of people selected at random for the surveys, who knows what they spent last year and who knows months in advance what they will spend this year.

Any survey giving the amount to the closest dollar is foolish. *Thus, no weight should be given to either survey.* Maybe Deloitte & Touche and the Conference Board will cease conducting these "silly" surveys. Neither improves its reputation with someone who sees both studies. Perhaps the writers of the reports assume that no one does!

Hold the presses! After reading the two prior reports telling precisely, to the dollar, how much people will spend during the holiday season, Mona Doyle, the publisher of *The Shopper Report*, reported on the findings of holiday spending expectations from her 5,000 experienced shoppers:

- 13% expected to spend more on the holidays all together.
- 14% expected to spend more on food than last year.
- 19% expected to spend more in restaurants.
- 12% expected to spend more on take-out food.
- 60% expected to spend less on all aspects of holiday spending.

RThought: At last, I have some information that I can understand! Doyle's panels indicate that last year's figures will be hard to surpass, although food stores and restaurants may do somewhat better than GAF stores.

But no sooner had I finished reading *The Shopper Report* than I picked up the November 24, 1997, issue of *NSM* [NonStore Marketing] *Report* published by Maxwell Sroge. I was now faced with figures furnished by American Express in a report stating that shoppers plan to spend an average of $1,233 this holiday season, with $879 going towards gifts. Compared with last year's *NSM* index, this represents an increase of 6% over the forecast of $1,169! This survey was taken from "a national poll of 800 consumers." (Only 800 consumers?)

It further stated that each shopper will buy gifts for an average of 14 people and spend an average of $51 per person. (14 times 51 equals 714!)

SHOULD WE ACCEPT THE CONCLUSIONS OF THESE SURVEYS? *continued*

Average consumer spending was estimated to be:

- In the South, consumers will spend the most: $1,260, which is 7% more than last year.
- The North will spend $1,114.
- The West will spend $1,100
- The North Central states will spend $1,100.

(Note that there is no indication as to which states fall into which area.)

American Express even provided the following consumer percentages:

- 60% will buy toys, two-thirds coming from children's wish lists.
- 86% will visit shopping centers or malls.
- 65% will shop discount stores.
- 60% will shop apparel stores.
- 51% will shop toy stores.
- 50% will shop music and video stores.
- 44% will shop book stores.
- 41% will shop specialty stores [whatever that means?].
- 39% will shop electronic stores [computer stores are probably included].
- 38% will shop factory outlet stores.

RThought: All of these figures are derived from surveying 800 consumers! Unfortunately, American Express did not tell us whether total holiday sales will be up or down and by how much.

RThought: If you believe all of these surveys, which sometimes make the front page of newspapers, I have a bridge in Brooklyn for sale which you may find of interest.

SHORT SHORTS

I had a sad day recently. A memorial service was held for the other half of a friendship which started 61 years ago at Stanford University — and before we knew that we were second cousins! It made me also think of another friend from junior high school, high school, and Stanford who died shortly after World War II. He had a 100% disability from the Navy. At the beginning of WWII, we knew nothing about what happens to those involved in sonar experiments: another close friend from high school through Harvard Business School died of cancer. To illustrate how close we were, when he was out of Harvard for three months after his father died, I attended his classes and mine so that he could graduate on time. **RThought:** Life can be lonesome.

The "not wanted credit card of the month" award must go to AT&T, the company which has developed a "new way" to help small businesses do business. Guess what it is? A choice between MasterCard or Visa! And AT&T offers "a generous credit line of up to $7,000." (It does not mention if the card is free or if it has an annual fee.) The charge is only prime plus 7.4% (currently at 15.9%). **RThought:** Why should I apply for this credit card, especially when others offer me "a generous credit line" of up to $10,000? And at a lower APR. **RThought:** Isn't it precisely this kind of promiscuous credit-card offering that is behind 1.1 million individual bankruptcies?

Forced credit is behind my canceling a Visa card with First USA when, accidentally, the check for the balance was written $10 short and the bank added a $20 late charge! A few weeks later, my wife received an offer for a First USA Platinum card, with a 5.9% fixed introductory APR (the length of time at 5.9% was not disclosed but, perhaps, one month), no annual fee, a credit line of up to *$100,000*, a portfolio of valuable services, and balance-transfer savings. **RThought:** Patty and I get along very nicely with our Citibank Visa AAdvantage card, with much less than $100,000 line, but it is paid in full every month!

A notice for your security department is provided by Harry Schreiber, an expert consultant in retail systems and computer applications. Harry sent an article from *The Baltimore Sun* about a woman who was arrested in a supermarket and charged with stealing $101.49, an amount which made the charge a felony and, thus, exposed her to a sentence of up to 10 years in prison. Her attorney pointed out that some of the items in question were on sale. Valued at sale prices, the total would be $97.87; thus, the charge would only be a misdemeanor for which the punishment is a fine up to $300 and a jail (not prison) sentence of up to six months. **RThought:** The son of one of my associates runs a security business for retailers, and he agreed with the defense attorney, saying that you can't discriminate in price just because a customer is stealing.

What's good for the goose is not necessarily good for the gander. *Logistica*, a publication in the United Kingdom, conducted a survey of suppliers to retailers who are using EDI. It found that 85% of the suppliers use EDI because large-chain organizations insist upon it. Respondents admitted that supply channels need to be improved but that the problem is the cost of using EDI. Small firms believe that EDI costs are as much for them as for large firms, thus, putting them at a disadvantage. On the other hand, small firms believe that they must continue EDI to gain volume from large retailers. **RThought:** Do you know how your suppliers feel? Do you know if there is any means for a smaller supplier to be part of an EDI system at a lower cost?

Putting a stop to the sweatshops. I was astonished to read the December 15, 1997, *New York Times* article, "Four Major Retailers Tied to New York Sweatshops," and learn that the U.S. Department of Labor discovered two sweatshops in New York's Chinatown which withheld at least $214,000 in wages from 73 workers ($3,000 per worker). But even more surprising — and distressing — were the retailers whose garments were being produced in these shops: Kathie Lee Gifford's clothing line for Wal★Mart (again!); Basic Edition and Jacklyn Smith's clothing lines for Kmart; the Wear It Again line sold by Lerner (a subsidiary of The Limited); and the Classique Entier line for Nordstrom. **RThought:** It may be harder to detect sweatshops in the Far East or in Central America, but New York Chinatown sweatshops should never have existed. What we need is an *incorruptible* service (easy to define but difficult to establish) whose name should appear on the purchase orders of such companies as Wal★Mart, Kmart, The Limited, and Nordstrom, with a provision that if any sweatshop is detected working on the purchase order the retailer will consider the order canceled and will not be obligated to pay for any merchandise that has been delivered. Federal penalties should be levied against the middlemen who place the orders with the sweatshops.

RThought: In finding more and more people who have used the word "associate" for those who work with them in retail organizations, I realize that my exposure to the late Sam Walton's use of the word was hardly the first. His use of it, however, forcefully made me realize that "associate" was a more inviting word than "employee."

Turning to the *Oxford English Dictionary*, which I should have done long ago, I found:

> **Employee:** mainly applied to clerks; employed for wages [as opposed to salary] by a house or business or government.
>
> **Associate:** to join together with, sharing, united, allied; join in companionship, function, or dignity.

RThought: Is it your turn to recognize the relationship between employing "associates" and the success of your business?

A STIMULUS TO ASSOCIATES

Of the many employee (or associate) publications I receive, the following is repeated, with permission, from that of a multibillion dollar company which employs several thousand associates.

> **"Together We Can Do Anything!" Some of you may remember that I [the CEO] began [this article] in September 1995 with this quote. The reason I decided to begin this article with the same thought is to reinforce the many positives associated with teamwork and cooperation. Our company has truly been blessed with many tremendous achievements over the past 104 years and most particularly the last three years. I continue to marvel at the dynamic spirit of [the company] team and our unshakable resolve to provide the very best service to our customers available on the face of the planet.**
>
> **[Our] customers reward our efforts every day by patronizing our various operating units with their business. There's an old saying in business circles that rings true today louder than ever — "The best customer is the one you already service; and the least expensive sale to make is to your current customer."**
>
> **Remember, [this company] is a customer-driven business, not a brand-driven business. Our fortunes lie in the hands of many retailers around the world, so continue to absolutely delight our customers!**

RThought: That's what I call teamwork!

WHAT HAPPENS WHEN THE TREND CHANGES?

It appears as though every supermarket is now calling itself a "food and drug store," hastening to add a branch bank just as it did to add a pharmacy.

Two or three years ago, the *American Banking Journal*, the monthly of the American Bankers Association, ran stories on how much cost would be eliminated by using rented space in a supermarket against the cost of "brick and mortar" bank branches. In listing the many factors which made a bank in a supermarket that much better than a free-standing branch, I have no recollection of it ever being mentioned that a home mortgage business was to be developed just outside the fast checkout lane!

Over a year ago (December 16, 1996), *The Wall Street Journal* ran an article entitled "Supermarket Banking Gets More Popular: But Analysts Doubt Some Services Will Catch On." At that time, there were 4,000 supermarket bank branches in the U.S., up 27% from 1995, and ten-fold since 1986.

RThought: Supermarkets should not suffer because they receive a fixed rent for space. But a bank's business could suffer if another branch bank opens in a supermarket a block away, especially if the other supermarket is larger, the bank branch is better in some way, or the lines for service are shorter.

IF YOU'RE A RETAILER, IT'S EASIER BEING AN ECONOMIST, TOO!

A recent article made available through my Canadian press service was headlined "Boomers Will Shun Big Stores, says Economist." David Foot, a noted demographer and economist (teaching economics at the University of Toronto), was quoted as saying before the annual meeting of the Canadian Federation of Independent Grocers that baby boomers don't have time to wander about in huge stores like Costco and Wal★Mart looking for what they want; thus, trouble is brewing for the so-called big-box retailers. (One wonders why the folks at Wal★Mart keep having same-store increases in the range of 5% to 8% over the previous year, when, according to some of the Canadian press, Wal★Mart is doomed!)

Although Foot did not mention what happens when a big-box retailer offers quality and service, Mona Doyle of *The Shoppers Report* surveyed her shoppers, asking them to name the overall best and worst stores. The results were that 49% named a "mart" the best — and most named Wal★Mart. Others named were supermarkets by 27%, specialty stores by 7%, department stores by 7%, drug stores by 5%, and club membership stores by 5%.

A few shoppers volunteered statements:

> Wal★Mart's prices aren't just lower than supermarkets [apparently referring to Wal★Mart Supercenters], to many shoppers, its prices appear to be more honest and better managed.
>
> * * *
>
> Too many shoppers have found a higher price than advertised or higher than shelf price coming out of their supermarket's computer.

On the negative side, 88% believe that stores which do not have the sale prices in their computers are deliberately cheating: 67% believe it strongly. In addition, 96% believe that stores which do not have sale prices in their computers are poorly managed: 75% believe it strongly.

RThought: Perhaps Foot *should have said* that it is not that boomers will shun the huge stores but that boomers will shun *poorly managed big-box stores.* As one can gather from *The Shopper Report* excerpts, shoppers are smarter than some demographers/economists give them credit for being.

RThought: Regardless of whether or not shoppers are boomers, *shoppers of all ages* prefer stores which have lower prices; are well managed, with prices, either regular or sale, entered correctly into the store's computer; are well stocked, especially on items customers know the store carries; give good, expedient checkout service; and provide ample parking spaces, with sufficient lighting and security men on duty after sunset.

RThought: In addition to Foot's comments in the above mentioned article, he wrote a doomsday book, entitled *Boom, Bust and Echo: How to Profit from the Coming Demographic Shift.* Among his quotes, he said, "Quality and service are the hallmark of the marketplace today." So why are self-service discount stores growing so fast and conventional and national department stores growing so slowly? Foot may be in for a surprise!

WHY A SUPERMARKET'S PROFITS CAN BE HIGHER WHEN SALES MAY BE LOWER

The above title can be summed up in two words: continuity program.

Basically, a continuity program's discount is a markdown, meaning lower dollar sales. But profits can be increased when a retailer offers the program, saving more than the markdown in the reduction of advertising expense.

For example, if a continuity program costs $100,000 in markdowns but results in additional sales of $200,000 and the promotion expense is reduced by $150,000, with the cost of goods sold being 60%, the $100,000 markdown costs $60,000 and the $200,000 additional sales produced results in an additional gross margin of $80,000. Thus, the retailer is ahead!

In other words:

Cost of markdown	$ (60,000)
Margin on additional sales	80,000
Reduced promotional expense	150,000
Total additional profit	$ 170,000

Thus, the retailer gains!

But there are other ramifications: When the U.S. Bureau of Labor Statistics gathers price information for the Consumer Price Index, in most cases, the bureau's shoppers treat items in continuity programs as discount items. Thus, the shelf prices reported in the CPI are higher than the continuity customer pays. And with more continuity programs being recognized by the bureau, the lower (discounted) prices result in a lower CPI than if shelf prices were used.

RThought: Many retailers never think of the ramifications resulting from continuity programs. On the other hand, the small increase realized by grocery store sales in 1997 (1.7% for August and 1.7% for the first eight months) was due to the widespread use of major supermarket chains implementing continuity programs and the low inflation of vendor prices.

WORDS — A POEM FROM A LONGTIME FRIEND

Around the Corner
by Henson Towne

Around the corner I have a friend
In this great city that has no end,
Yet the days go by and weeks rush on,
And before I know it, a year is gone
And I never see my old friend's face,
For life is a swift and terrible race,
He knows I like him just as well
As in the days when I rang his bell,
And he rang mine.
We were younger then,
And now we are busy, tired men.
Tired of playing a foolish game,
Tired of trying to make a name.
"Tomorrow," I say, "I will call on Jim."
"Just to show that I'm thinking of him."
But tomorrow comes and tomorrow goes,
And distance between us grows and grows.
Around the corner! — yet miles away,
"Here's a telegram sir —"
"Jim died today."
And that's what we get and deserve in the end.
Around the corner, a vanished friend.

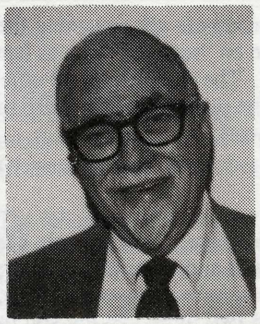
And my friend closed with: "If you love someone, tell them. Remember always to say what you mean and never be afraid to express yourself." I called my friend.

RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	OCTOBER 1997	OCTOBER 1996	Percentage Change	Ten Months YTD 1997	Ten Months YTD 1996	Percentage Change
52	*Bldg Matl Group	$ 12,925	$ 12,316	+ 4.9%	$ 860,492	$ 822,347	+ 4.6%
57	*Furniture Group	11,762	11,211	+ 4.9	110,746	105,395	+ 5.1
571	Furniture Stores	6,207	5,822	+ 6.6	57,596	53,596	+ 7.5
572	Appl, TV, Radio Stores	4,716	4,604	+ 2.4	45,273	43,632	+ 3.8
5941	*Sporting Goods Stores	1,687	1,564	+ 7.9	18,319	17,522	+ 4.5
5942	*Book Stores	834	866	- 3.7	9,267	9,146	+ 1.3
5944	*Jewelry Stores	1,343	1,455	- 7.7	13,167	13,830	- 4.8
531Pt	Conventional Dept Stores	4,881	4,540	+ 7.5	42,533	40,490	+ 5.0
531Pt	Natl Chain Dept Stores	3,432	3,466	- 1.0	30,766	30,792	- 0.1
	Subtotal	8,313	8,006	+ 3.8	73,299	71,282	+ 2.8
531Pt	Discount Stores	13,820	12,533	+ 10.3	126,319	115,737	+ 9.1
531	*Department Stores	22,133	20,539	+ 7.8	199,618	187,019	+ 6.7
539	*Misc General Mdse Stores	5,125	5,085	+ 0.8	47,620	46,870	+ 1.6
541	*Grocery Stores	34,305	33,584	+ 2.1	336,550	331,067	+ 1.7
56	*Apparel Stores	9,870	9,569	+ 3.1	89,755	87,761	+ 2.3
561	Men's & Boys' Stores	965	843	+ 14.5	8,324	7,680	+ 8.4
562,3,8	Women's Stores	2,685	2,805	- 4.3	25,352	25,884	- 2.1
565	Family Clothing Stores	3,903	3,683	+ 6.0	33,499	31,762	+ 5.5
566	Shoe Stores	1,540	1,494	+ 3.1	15,736	15,562	+ 1.1
591	*Drug Stores	8,264	7,715	+ 7.1	79,828	73,467	+ 8.7
596	*Nonstore Retail	6,587	6,220	+ 5.9	55,994	51,321	+ 9.1
5961	Mail Order	4,969	4,491	+ 10.6	40,641	36,586	+ 11.1
	**Retailing Today* Total Store Retailing†	114,835	110,124	+ 4.3	1,821,356	1,745,745	+ 4.3
	**GAF TOTAL	56,607	53,897	+ 5.0	521,871	497,929	+ 4.8

†Excludes car dealers, auto supply stores, variety and misc. general merchandise, eating and drinking places and service stations, and some specialty stores.
**General, Apparel, and Furniture.

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone 301-457-2706/2708; fax 301-457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report* call Government Printing Office, 412644-2721 or 2828; or write GPO, Box 371975M, Pittsburg, PA 15250-7975. Current cost is $57 per year. Handled same as magazine subscription. Will receive notice of renewal.



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ROUTE TO

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'RETAILERS AT N.Y. MEETING WONDER: WHERE'D ALL THE CUSTOMERS GO?'

This headline appeared on Susan Chandler's article in the *Contra Costa Times*, January 21, 1998, and was reprinted from the *Chicago Tribune*.

Dealing with the National Retail Federation convention being held in New York City, Chandler began by saying that it was "one of the scariest Christmas selling seasons in recent memory." She then concluded: "They [presumably, the retailers] admit buyers held back until the middle of December, forcing lots of retailers to take big markdowns that are likely to squeeze profits."

If there was any concerted action during the Christmas season, it was by retailers and not by customers. I didn't noticed a cluster of customers telling other customers to hold back. Did you? But most retailers failed in the weeks following Thanksgiving to offer the *merchandise* and the *service* that make a customer want to say, "It's just the gift I had in mind. The price is fair. And the service is great!"

It might do us well to look at the advertising we saw over the holidays and learn why customers don't believe the ads of the major GAF (General, Apparel, and Furniture) stores which appeared during the Christmas buying season.

Although we must await the fourth-quarter results of Nordstrom, Inc., it most likely did well with its relatively few and simple ads. It didn't join in the "page after page" of advertising run by Macy's California which claimed to offer 30%, 40%, 50%, etc., off, nor did Nordstrom advertise its semiannual sale following Christmas as being its "greatest sale ever" or its only "one-day sale" followed later in the week by another "one-day-only sale."

Wal★Mart Stores, Inc. turned in good figures — both total sales and same-store sales — for December. How does Wal★Mart advertise? Thirteen tabloids a year — one each month and one at Thanksgiving — with "special buys" in effect for one week. All items are coded. For example, the prices in a recent tab fell into three categories: 120 items were at Wal★Mart's "everyday low price"; 65 items were at a "rollback price" (good for three months); and 44 items were at a "special buy price" (expected to cover just the week).

Wal★Mart customers *expect* all items advertised to be in stock at least for the periods mentioned above. And, with approximately 230 items shown in a tabloid, Wal★Mart's gives more information than most other forms of retail advertising.

In November 1997, *RT's* Feature Report summarized a survey conducted for *Women's Wear Daily*. The results of the survey also listed the factors "influencing repeat business at a new store," the three leading factors being:

Good prices (not the lowest)	60.1%
Better quality than bought elsewhere	35.7
Helpful personnel	31.3

Continued

PERHAPS YOUR STOCKHOLDERS ARE THINKING ABOUT BUYING OR SHORTING YOUR STOCK

Herb Greenberg's column, the Business Insider, appears in the *San Francisco Chronicle* (largest circulation in Northern California).

In Greenberg's column of January 12, 1998, a letter to him began by saying that the writer believes in Peter Lynch's school of investing: you get some of your best ideas from personal experience. Similarly, if you notice changes for the worse in a company and you own its stock, it may be time to consider selling.

The gentleman who wrote the letter said that he does the heavy food shopping on the weekends so that his wife need only shop for fill-in items during the week. Recently, however, when shopping at his neighborhood Safeway, he has observed that the clerks and cashiers have become unusually friendly and that it is not unusual to hear them asking, "May I help you?" And, sometimes, when reading your check, credit, or debit card, they thank you by name!

The writer has also noticed that many of the brands he formerly bought at Safeway are no longer available, having been replaced by Safeway's private label, and that many of his favorite brand-name items remain out of stock for days. Figuring that it was just a way for Safeway to get higher markups, he found that the out-of-stock items intensified when Safeway switched from its monthly coupon booklets to its new Safeway Club card. Entire sections of shelves remained empty! And friends reported similar outages at other San Francisco Bay Area stores.

It made the writer wonder if an investor should continue to own the stock or, for noninvestors, to sell the stock short.

As Greenberg will often do, he got in touch with the company and reported his findings: Safeway's same-store sales are increasing at the highest rate ever. Further, his source within the company claims that its share of the Bay Area food sales has also been increasing. Greenberg then talked to the spokesperson for a "big Safeway shareholder," who said, "The good thing about the supermarket business is that it moves at a snail's pace," and that supermarkets do best when inflation is low (as it is now). It is not like judging apparel: Do they have blue shirts when everyone is buying brown ones? The spokesperson concluded that in the supermarket business, "it's a market share game." Thus, Safeway is winning.

RThought: I hope you find of interest this investor's observations and concern as to whether he should buy or shelter (short) Safeway stock — all because he became suspicious of unusually friendly, helpful clerks and cashiers and empty shelves.

RThought: If you are a publicly traded company, it would be wise to conduct a customer survey. One question to ask: Are you a stockholder in our company? A "yes" would be the strongest vote of support that you could receive: they *shop* with you and they *invest* in you!

RThought: You might also consider when, once upon a time, Doc Webb's "Most Unusual Drug Store in the World" in St. Petersburg, Florida, went public: he sold shares from a card table at each entrance!

Do most stores stress these factors? The fourth most important factor, "Has clothes that fit," was only 10%. From a total of 13 factors, the top three are definitely of significance and retailers should concentrate on them.

By the way, *do you have "helpful personnel"?* Probably not, according to most of the shoppers who have talked with me.

You must have heard the increasing complaints against conventional and national department stores for not providing enough salespeople to ring up sales. Further, customers often complain that some discount and self-service stores offer only three or four registers out of as many as 12, with each line six to eight long, and no cashier or manager opening more.

Too many retailers believe that cutting the cost of floor personnel will boost their profit. It does not. It just transforms customers who would have *first shopped a store into ex-customers.*

Yet, retailers who attended the NRF convention know the story of Nordstrom's success: outstanding service, with some of its sales personnel earning $35,000, $50,000, or more a year. The same is true at the Neiman-Marcus Group. Both retailers carefully select salespeople and give them thorough training. As a result, turnover is low compared to that of most conventional stores. And no one brags about it. (As previously mentioned in *RT*, personnel turnover is a retailer's best measure of service, but most retailers no longer compute the figure.)

Recently, Costco Cos. signed a new contract with the Teamsters Union, covering the personnel on the floor of its stores at $12 to $14 per hour. Retailers attending the NRF convention would opine that if they had to pay that wage their business would go broke. Yet, Costco is growing and is profitable, and its stock is selling at a 26 PE ratio, while Federated Department Stores, Inc., and May Department Stores Co. are trading at a 17 PE ratio. Two of the national chains, J. C. Penney Company, Inc., and Sears, Roebuck & Co., are trading at 24 and 15, respectively.

Two reported incidents from *RT* readers illustrate how desperate shoppers have become to get the attention of inattentive salespeople.

One reader reported that because he could not find anyone in a major department store to ring up a sale he carried an item, with a security tag on it, out the main door! When the alarm went off, store personnel were quick to react. When approached, he explained that all he wanted to do was buy the merchandise he had in his hand, having given up trying to find a salesperson to help him.

Another reader lit up a cigarette under a "No Smoking" sign!

Most customers, however, would just drop their selection, perhaps in the wrong department, and walk out. Most important, they often do not come back.

Remember, successful retailers have *customers,* people who return to a store from "custom." By attracting customers, retailers grow and profit.

Good service can exist in any type of store.

One *RT* reader told me a story he swore was true. He went into a store and said that he wanted to buy 50 pounds of peanuts in the shell. The clerk replied, "I can't sell you that much. If I did, I would be out of stock." The shopper then asked to speak to the manager. After hearing the identical request, the manager replied, "May I help you carry them out to your car?" The problem here is that the manager had failed to train the clerk.

Returning to the NRF article and the "scary" Christmas season, Chandler wondered if a retailer such as Sears or Wal★Mart should get into the travel business because consumers are spreading their buying over the year and spending more on "services" such as family vacations and less on traditional gifts. The chief executive officer of Sears, Arthur Martinez, who is also the president of the NRF this year, replied, "We tried that. It didn't work."

My reaction: So?

Costco, Sam's Wholesale Clubs, and, perhaps, BJ Wholesale Club are doing a thriving business selling cruises and other travel. (When I was young, I was told that anything *you believe can work* you will have to try three times because the first two times just tell you two wrong ways — not that the idea won't work!)

The article then quoted retail consultant Walter Loeb: "Online sales will hit $80 billion by the year 2010."

My reaction: What kind of products will be sold online?

It appears as though Loeb is under the same delusion as was my Harvard Business School professor of retail from years gone by, Malcolm McNair. Mac often wrote that in "x" number of years 15% of all GAF retailing would be handled electronically, with dollars coming from the sale of televisions. That never happened.

Forrester Research, Inc., appears to be in the lead in reporting Internet sales by product classes. Its latest estimate is that sales will increase from $518 million in 1996 to $6,659 million in the year 2000. Estimating to four figures is foolish; but if correct, then $80 billion could be the correct figure for the year 2010. The current estimate of Internet sales breaks down as follows:

Computer components	31%
Travel	24
Entertainment	19
Gifts/flowers	10
Apparel	**5**
Food/drink	5
Other	5
Total	99%

Let's consider these figures. Although computer components represent 31%, most department stores and some discount stores are no longer in the computer business. With travel accounting for 24% of sales, remember what Martinez said: Sears was unsuccessful in this area and implied that all other general merchandise retailers will also fail. With 19% of sales being entertainment, think of how few NRF members now handle tickets for such events as sports, theater, concerts, etc. If 5% of $80 billion continues to be in apparel, that totals $4 billion. Today, $4 billion is less than two weeks' sales for Wal★Mart and is less than 1% of the GAF sales for the first six months of 1997, which was $631 billion! And, if GAF sales on the Internet should reach $4 billion, very few GAF retailers would go out of business.

Here are some seldom mentioned changes you can make!

1. Modify your price advertising so that customers will believe your "regular" prices. It will enable you to sell more of your goods at those prices.

2. Improve the training of your personnel, especially those who come into contact with shoppers. Sales personnel should want shoppers to come back again. Thus, when hiring, watch for special sales personnel. Commend and compensate them accordingly.

3. If you must cut personnel, cut those who you believe have not found a permanent home with you.

THE RELATIONSHIP BETWEEN CHRISTMAS SALES AND INFLATION

Wall Street's "knowledgeable" retail analysts have now claimed that retailers are used to 10% increases over a prior Christmas season (November and December). But this "truth" makes no sense.

The following table shows the percentage of change in the Consumer Price Index compared to the percentage of change in November-December GAF (General Merchandise, Apparel, and Furniture) sales from the prior year. The table, however, eliminates certain specialty retailers (sporting goods, books, jewelry, etc.) for which data is published. It also eliminates the increased sales of general merchandise by drug, supermarket, catalog, building material, hardware and garden supply, and auto stores. But the table does include the increased sales generated by computers and related products, as these items are categorized as consumer electronics under furniture.

Inflation is reflected by the change in the CPI for the year — *not just for the Christmas season.*

Year	Days Between Thanksgiving and Christmas	Percentage Change in CPI	Percentage Change Nov.-Dec. GAF from Prior Year
1978	31	+ 8%	+13%
1979	32	+11	+ 6
1980	27	+13	+ 7
1981	28	+10	+ 6
1982	29	+ 6	+ 6
1983	30	+ 3	+ 9
1984	32	+ 4	+ 9
1985	26	+ 4	+ 6
1986	27	+ 2	+ 7
1987	28	+ 4	+ 9
1988	30	+ 4	+11
1989	31	+ 5	+ 6
1990	32	+ 5	0
1991	26	+ 4	+ 3
1992	28	+ 3	+ 9
1993	29	+ 3	+ 6
1994	30	+ 3	+ 8
1995	31	+ 3	+ 4
1996	26	+ 3	+ 3

A factor affecting gift giving is the age distribution of the population. Here are the extremes in age (and the percentage of the population) in the change between 1970 and 1994.

	1970	1994
0-9 Years	18.2%	14.8%
65-84	9.1	11.4

Assuming that gift recipients in the 0-9-year range receive the greatest quantity of gifts, perhaps the type of gift giving is more an impact of age than of the declining importance of Christmas.

RThought: I doubt that many retailers, in planning their 1997 Christmas season, considered *either the low rate of inflation* (although it was mentioned often in the press) or *the changing composition of the market* (mentioned less often). Most likely, we retailers just set an unsupported percentage goal which, given population mix and low inflation, was unattainable. We then groused about poor Christmas sales.

On the other hand, analysts often recalled the years when we had 10% increases but never bothered to see if some of the increase was due to the impact of inflation. Yet, this season, they knew that the low inflation rate was a reason the Federal Reserve Board did not increase the interest rate.

READ THE ASSOCIATED PRESS WITH CARE

On Christmas Day, the *Oakland Tribune* carried the AP article "Slump Makes Retailers Ponder Holiday Strategies."

Allow me to excerpt a little faulty thinking.

Error 1. "For the third straight year, Christmas sales have failed to meet expectations at many of the nation's stores, forcing retailers to rethink the holiday that used to provide as much as 50% of their business." This "50%" statement, which has often been printed, is not true. During the Christmas season (November and December), no category of retail store ever did 50% of its business, with the exception of a seasonal business, selling only Christmas-related items. The most recent figures available are for 1996. They show the following percentage of the year for November and December combined: jewelry stores at 31%, department stores at 24%, apparel stores at 23%, mail order at 24%, and drug stores at 19%.

Error 2. "The countdown to Christmas used to be 20 days. Now, it's 60 days." Having been a student of retail for many years, I have never heard of a year when the Christmas season began December 5 (20 days). During the Civil War, in 1863, President Lincoln set the *last* Thursday of November as Thanksgiving. This gave at least 24 days (since Sunday selling began) for the Christmas season. Because Thanksgiving was on the last Thursday of November, it was commercialized just as were Valentine's Day, Easter, Mother's Day, Father's Day, and Halloween. Then, in 1939, when we were still in a depression, the retailers asked President Roosevelt to change Thanksgiving to the fourth Thursday in November so that there would be seven extra days between Thanksgiving and Christmas. He did, and it has remained. In 1997, there were 28 days.

Error 3. "I get sick of Christmas before it is even Christmas," said a New Yorker. All I can say is that it would be hard to sell Christmas presents after Christmas and children would be greatly disappointed if that happened, knowing that Santa Claus visits on that day.

Error 4. The AP article quoted a "survey of 1,003 people" (the accuracy of the sample selection was not given, so there is no basis leading one to believe the survey). In addition, it is foolish to assume that people can recall what they spent 10 years ago; and whatever they did spend a decade ago has to be adjusted for inflation before being compared with this year. From 1985 to 1995, the Consumer Price Index increased by 50%. Thus, what good is it to compare just the dollars spent? For example, in 1986, fewer people shopped at Wal★Mart, when sales were $12 billion; in 1996, sales were $104 billion.

Perhaps the only accurate statement in the AP article: "Christmas is not what it used to be." But, then, amateur football and basketball players are not what they used to be since professional teams have come on the scene (and, soon, amateur soccer will suffer).

RThought: The Christmas Day edition of the *Oakland Tribune* also included a tremendous amount of advertising (many stores having overestimated their Christmas sales volume). However, I have never seen a newspaper reject ads just because the ads "commercialize" Christmas. In fact, they *love* the extra ads. As for the retailers who are not able to plan properly, they are not protected by the free-enterprise system which allows them to absorb big losses. If they make too many mistakes, there's always bankruptcy which will settle the claims against the assets. No one has ever wept over competitors who have disappeared, so let us not weep over the retailers who are attempting to remedy the mistakes made in planning their 1997 Christmas season.

RThought: As mentioned in last month's *RT*, I told reporters who interviewed me that Christmas falling on a Thursday would be better than 1996, since a Wednesday Christmas is the worst day for retailers. It being a Thursday celebration in 1997, the increase was up 3% from 1996 (perhaps even as much as 4% for all retail if one includes such categories as auto dealerships, gas stations, and restaurants).

RThought: Read the Associated Press with care.

HOME DEPOT SAYS: 'CHARITY HAS ITS DIVIDENDS'

The *National Home Center News*, December 15, 1997, reported on Home Depot's activities, mainly $10 million in contributions, saying that this type of activity "helps people, builds morale, and is good business."

Home Depot district managers allocate 58% of the funds. The balance is handled centrally.

Beyond the dollars, Home Depot associates contribute hundreds of hours of volunteer work. Included examples are company volunteers teaching Girl Scouts how to make home repairs and others helping to build playgrounds in poverty areas.

Looking at Fortune 500 companies that would be comparable, Home Depot's contributions are about 1% of pretax profit. (The highest rate that I am aware of is Dayton Hudson Corporation's 5% pretax profit, the limit for tax purposes, which dates back to the time when it was just Dayton's, a family-owned business. Since then, Dayton Hudson has organized both a 2% Club and a 5% Club in its hometown of Minneapolis, hoping members of the 2% Club will ultimately join the 5% Club.)

RThought: The article placed emphasis on the fact that good work impacts profit. Good work also impacts honest advertising, but no one crows about that!

WHEN INTERVIEWING, DO YOU ASK THE RIGHT QUESTIONS?

Ian Jacobsen is a longtime friend through the Institute of Management Consultants. In fact, he is a Fellow of the Institute, a distinction greatly admired by members.

Ian, who publishes a newsletter, recently reported on a subject matter you might consider the next time you are about to interview executives.

Reportedly, when Apple was courting John Scully to leave Pepsi and come aboard, Steve Jobs asked him whether he wanted to sell sweetened water (Pepsi) or change the world (which Apple did). Scully chose the latter.

What questions regarding ambitions do *you* ask prospective executives?

Over the past two decades, I have watched Ian's firm, Jacobsen Consulting Group, develop. Today, Ian says, "My business is that of coaching leaders who want to create a work environment that inspires and enables people to perform at their best, as individuals and in teams."

RThought: Ian is located in Silicon Valley, where the world's technology leaders regard motivation sometimes as critical to accomplishing what is thought by others to be impossible.

If your team is not performing as a team and is not performing the impossible, perhaps you should call Ian at 408-244-6672. Tell him that Bob Kahn sent you.

WHAT'S AN MBA WORTH?

Forbes, January 26, 1998, reported that 90,000 MBA degrees are granted each year. The point of the article: How to succeed in business *without* an MBA.

During my many years of experience, I have worked on occasion with some MBAs who, I believe, were not competent. On the other hand, I have worked with executives who have earned their MBA through an evening program or a weekend program and who not only have studied hard to receive it but, today, are highly competent.

One wonders how the educational system can turn out 90,000 "qualified" MBAs a year.

I received my MBA in 1940, when there were only a few grantors of the degree — Harvard Business School at Harvard University, Stanford University, and the Wharton School of Business at the University of Pennsylvania — in substantial numbers, meaning 100 to 300 MBAs a year.

At HBS, the most popular class in the early 1940s was given by Professor Georges Frederic Doriot and was geared for people who wanted to make *something of themselves by working for a manufacturing company.* The professor's expertise was such that the military recognized it, and upon entry into World War II, he was immediately commissioned as a brigadier general. His manufacturing expertise was needed in order to make munitions for ourselves and our allies.

Today, the largest block of MBA graduates from major universities and colleges are employed by consulting firms. Which came first: the supply or the demand? I believe it was the demand. With some 65 years in the retail industry and the fourth generation in my family in U.S. retailing (I don't know how many generations before that were in retailing in Germany), I was raised to do what Marshall Field coined as a title to his biography, *Give The Lady What She Wants.*

Perhaps the second best trainer of retailers in the 1940s, but not authorized by any educational board to grant such a degree, was Macy's, then a single store in New York City, where its 2,000,000-square-foot store still stands today, and which, I believe, still operates a training squad. Macy's would often take the offspring of established retailers but would not pay them. Bobby Roos, heir to Roos Bros., which was once a successful chain of men's stores with headquarters in San Francisco, and a Meier from Meier & Frank Department Store in Portland were a few who were on the 1940 training squad.

RThought: I value my MBA, but I also value the year-plus I spent at Macy's on its training squad and then in its Research Division. The Research Division was the only pure *research* department in retailing. We would read the minutes of the weekly executive committee. And we had the right (granted by Percy Strauss) to research any decision we thought to be questionable and then report our findings back to the executive committee.

The five of us would often have lunch together; three had PhDs, one receiving his under Einstein in two years! It was at one such lunch that a coworker observed that I was "the most normal person" that had ever been assigned to the Research Division. I said, "Yes, I understand that I'm the dumbest!"

Today, I am aware of three of them: one died this past year, one is a retired professor, and one is still teaching advanced mathematics in Los Angeles — 58 years later!

4. Adjust the assortment of merchandise in every store to meet the demands of the trading area.

5. Reward your personnel for good *service* to *your* customers.

6. Get on the floor and talk to customers and associates. Take a group of three or four of each to the associate lunch room for a discussion. Always record the chats in order to study them.

7. Ask your vendor reps what or how they believe you can do better.

8. Use customer surveys to learn what your competitors are doing.

9. Here are a couple of quotes worth remembering: "Give the lady what she wants." —Marshall Field

   "Always have [someone from management] on the floor so that management knows what is happening. Let unhappy customers talk to you. Walk, observe, and be available." — Solomon Kahn

10. Be sure that every significant complaint or suggestion from an associate or a customer *crosses your desk* and that there is a reply from *you.*

11. Instruct telephone operators that any person wishing to talk to the president or the manager is transferred immediately. If unavailable, make sure the name and phone number are taken and a callback is made. (I obtained this important tip from my cousin, Fred Hirschler, when he was president of the Emporium-Capwell stores in California.)

An article from the January 1998 issue of *MMR* magazine, entitled "Christmas Isn't What It Used To Be," stated: "Then there is the American consumer, whose behavior has become more difficult to predict, understand, and analyze." (Obviously, "the American consumer" wasn't asked.) It further stated, "Luxury items once again sold well, while basic goods often remained on the shelves."

To my knowledge, no one has *admitted* that retailers have done anything wrong. Let me give you some examples.

Macy's California, with its multiple pages of "sales," must have produced the highest November-December profits ever for the *San Francisco Chronicle*, if not for every other major newspaper in the state. Perhaps Macy's paid for the ads from money it should have spent hiring salespeople, a constant source of complaint among shoppers who have found it hard to locate one.

Then, there is the "great" wisdom in the *MMR* article that luxury items once again sold well, mentioning Neiman-Marcus, Saks Fifth Avenue, Bloomingdale's, and Nordstrom. What the article did not state is that these stores do judicious advertising, have experienced and plentiful salespeople on their selling floors, and their merchandise is easy to review.

Customers who shop these top stores also shop Sears, Penney, Macy's, May Company, etc., but they know that only at the top stores do they find a well-arranged, great selection in addition to available, helpful, and polite salespeople. Thus, they find what they want and willingly pay more (sometimes much more)!

Here are two more experiences at medium-price stores.

An experienced retailer and *RT* reader, who was once the CEO of large chain of stores, was drawn to a medium-price department store by an item seen in an ad. After finding it, he looked for a salesperson *but* couldn't find one in sight on the entire third floor! What did he do? Seeing a phone, the customer dialed the operator and said, "Would you please send a salesperson to the third floor?" The operator inquired, "Who are you?" He answered, "A customer." Although the store is open until 9:00 P.M., to the customer's bewilderment, the operator replied, "We don't have any salespeople on the third floor after 6:00 P.M.!"

The above story is in line with one of my "walk-throughs" of Macy's New York (where I worked for a year prior to World War II). On one such walk-through, I noticed the piano department crowded in the corner of the ninth floor. There were no salespeople within sight, but there was a sign on the keyboard of each piano, saying, "Please do not play the piano!" Well, seeing the exclamation mark was my reaction! What better way of covering a low-volume department than having salespeople who respond to the sound of a piano?

Have you ever heard of a major department store regularly doing an "exit interview"? The last I can vouch for was at Macy's New York in 1940-41, when we, in the Research Division, did such interviews to find out what we could be doing better — or were doing wrong. If more surveys had been taken in recent decades, there would have been more customers who would have come back out of "habit" or "custom."

RThought: It is my belief that the poor Christmas selling season is no worse (and, perhaps, a little better) than most stores were entitled to. Such stores force their "customers" to go to Kmart, Target, and/or Wal★Mart because these stores *provide the service they promise* and usually are in stock. In fact, these stores have many customers who first go to them and, if the customers cannot find what they want, they decide on something else or go to Neiman-Marcus, Saks Fifth Avenue, Bloomingdale's, or Nordstrom, knowing full well that they will find a gift, pay more for it but *receive the service they deserve.*

WHO'S RESPONSIBLE FOR BANKRUPTCIES?

To answer that question, Consumer Federation of America's *CFA News* for November 1987 pointed the finger at credit grantors, which includes both retail stores and bank card issuers. Here are some of its findings.

1. Georgetown University's Credit Research Center reported that in a Chapter 7 bankruptcy the party in question normally shows an after-tax income of less than $20,000 and has an average credit card debt of $17,000. The latter arises largely from the aggressive issuance of bank cards.

2. Sixty percent of households have credit card debt, averaging about $7,000.

3. Households are not *forced* to accept the cards and ring up debt. But, for the issuers to deny their contribution to Chapter 13 bankruptcies, it does not relieve them of moral, if not legal, responsibility.

RThought: For $25 a year, you can keep abreast of such problems. Order a subscription to *CFA News* by writing Consumer Federation of America, 1424 16th Street, N.W., Washington, D.C. 20036. By subscribing, you will be in a better position to ask questions, especially about your credit department's policies and procedures. You may also learn that *you may be part of the cause* for the deplorable rise in bankruptcies.

WHAT STATISTICS DO RETAILERS ANALYZE?

Someone is about to imitate Gymboree Corp.: Toys "R" Us, Inc., is planning to expand its Kids "R" Us stores and is looking for locations.

My advice: Consider the facts before expanding.

In 1995, there were 3.9 million babies born, the fifth straight year in which births *declined.*

We used to say that children's stores had the highest failure rate. Many were started by mothers who *knew* that they could pick better items for children than the buyers for children's departments. Now, we are seeing a decline in the market.

RThought: With a higher percentage of women entering the work force, even though most would prefer staying home to rear their children, there is a connection.

RThought: Call 301-436-8500 at the National Center for Health Statistics for the Report of Final Natality Statistics, 1995 (Vol. 45, No. 11).

IF THERE'S TOO MUCH RETAIL SPACE NOW, WHY ARE RENTS GOING UP?

The Dealmaker, a publication "Reporting the Nation's Weekly News on Retailing and Retail Real Estate," periodically includes an editorial page, "My Way." In the December 19, 1997, issue, Editor Ted Kraus expressed his thoughts and predictions for 1998. His rationale for a jump in rents was interesting.

Having recently toured the tri-state area of New Jersey, New York, and Pennsylvania for a client, Kraus found vacancies in areas where a retailer wouldn't want to be and vacancies in areas for which a retailer would have to pay $25 per square foot; whereas, a year and a half ago, rent would have been $15 per square foot. New outlet malls and centers are not only renting to tenants but are competitively bidding for anchors.

Kraus found, however, that retail companies (including some food chains) are also filing Chapter 11.

RThought: Perhaps the increase in space exists primarily so that the International Council of Shopping Centers can announce that the square footage of retail space has risen to 25 square feet per capita. Many "older" retailers wonder why "sales did not come up to plan"; but these retailers expected to make everything up on December 26 and to be able to tell the press how well they did.

RThought: One must obtain a license to be an accountant, a doctor, an insurance agent (one license for life insurance and another for casualty insurance), or to call oneself a financial advisor — but anyone can become a retailer for a while.

And, if the first store comes up to 70% of planned sales, the new retailer believes he or she has "something hot." The retailer then calls Ted Kraus of *The Dealmaker* to request 10 more locations!

RThought: Here's what I would suggest: Since most of you are CEOs, tell your real estate manager that if he or she receives *The Dealmaker* you would like to read Ted Kraus' "My Way" editorials. Or, if you prefer, you can subscribe to your own copy by contacting Ted at P. O. Box 2630, Mercerville, NJ 08690-0630; telephone 609-587-6200; fax 609-587-4651. The yearly rate (U.S.) is $239. By saying that Bob Kahn sent you, Ted assures me that you will be trusted for the first issue. If he doesn't, call me, and I will scold him!

RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	NOVEMBER 1997	NOVEMBER 1996	Percentage Change	Eleven Months YTD 1997	Eleven Months YTD 1996	Percentage Change
52	*Bldg Matl Group	$ 11,054	$ 10,921	+ 1.2%	$ 132,095	$ 124,135	+ 6.4%
57	*Furniture Group	13,211	12,483	+ 5.8	124,033	117,878	+ 5.2
571	Furniture Stores	6,808	6,347	+ 7.3	64,452	59,943	+ 7.5
572	Appl, TV, Radio Stores	5,474	5,205	+ 5.2	50,775	48,837	+ 4.0
5941	*Sporting Goods Stores	1,835	1,736	+ 5.7	20,146	19,258	+ 4.6
5942	*Book Stores	880	870	+ 1.1	10,161	10,016	+ 1.4
5944	*Jewelry Stores	1,749	1,835	- 4.7	14,938	15,665	- 4.6
531Pt	Conventional Dept Stores	6,074	5,786	+ 5.0	48,601	46,276	+ 5.0
531Pt	Natl Chain Dept Stores	4,218	4,314	- 2.2	34,984	35,106	- 0.3
	Subtotal	10,292	10,100	+ 1.9	83,585	81,382	+ 2.7
531Pt	Discount Stores	16,417	14,969	+ 9.7	142,731	130,706	+ 9.2
531	*Department Stores	26,709	25,069	+ 6.5	226,316	212,088	+ 6.7
539	*Misc General Mdse Stores	5,663	5,685	- 0.4	53,278	52,555	+ 1.4
541	*Grocery Stores	34,065	33,924	+ 0.4	370,545	364,991	+ 1.5
56	*Apparel Stores	11,090	10,777	+ 2.9	100,870	98,538	+ 2.4
561	Men's & Boys' Stores	1,106	977	+ 13.2	9,432	8,657	+ 9.0
562,3,8	Women's Stores	2,910	3,048	- 4.5	28,285	28,932	- 2.2
565	Family Clothing Stores	4,634	4,366	+ 6.1	38,138	36,128	+ 5.6
566	Shoe Stores	1,647	1,606	+ 2.6	17,379	17,168	+ 1.2
591	*Drug Stores	8,135	7,613	+ 6.9	87,994	81,080	+ 8.5
596	*Nonstore Retail	6,868	6,920	- 0.8	62,962	58,241	+ 8.1
5961	Mail Order	5,298	5,223	+ 1.4	46,024	41,809	+ 10.1
	**Retailing Today* Total Store Retailing†	121,259	117,833	+ 2.9	1,203,338	1,154,445	+ 4.2
	**GAF TOTAL	66,168	63,380	+ 4.4	588,121	561,309	+ 4.8

†Excludes car dealers, auto supply stores, variety and misc. general merchandise, eating and drinking places and service stations, and some specialty stores.
**General, Apparel, and Furniture.

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone 301-457-2706/2708; fax 301-457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report* call Government Printing Office, 412644-2721 or 2828; or write GPO, Box 371975M, Pittsburg, PA 15250-7975. Current cost is $57 per year. Handled same as magazine subscription. Will receive notice of renewal.

RETAILING TODAY

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WATCH OUT IF YOU SELL CIGARETTES IN CALIFORNIA

In 1993, California passed an unfair-competition law that allows private individuals or groups to *sue for injuries to themselves or to the general public* caused by business practices that may be unfair, fraudulent, or illegal, including dishonest comparative prices.

Recently upheld by a 6-1 ruling of the California State Supreme Court, Lucky Stores lost the first round against a group called Stop Youth Addiction. The group sent 16-year-olds into Lucky stores from Sacramento to San Jose. Most were able to buy cigarettes despite a state law forbidding sales to those under 18. In rebuttal, a Lucky spokesperson said that the company has a "very aggressive policy that's very strictly enforced, forbidding sales to minors," and that Lucky expects to win the case. However, Lucky's policy was apparently not followed well enough to avoid a suit seeking $10 billion in restitution for present and future expenses to the state.

If Stop Youth Addiction wins, it will also have all of its legal expenses paid.

RThought: Doesn't $10 billion exceed Lucky's annual sales?

BIG BOXES ARE DRIVING SMALL STORES OUT OF BUSINESS — OR ARE THEY?

The media appears to report this prediction almost as often as it reported that 1997 Christmas sales would be either better or worse than those in 1996. With customers hearing both reports, many waited until after Christmas in 1997 to shop, in order to take advantage of clearance sales. And now we are hearing the self-appointed retail experts tell us that Halloween will soon be more profitable than Christmas!

In the February 13, 1998, issue of *The Dealmaker* (subscribe by calling Ted Kraus at 609-587-3511), an article by Alan Alexander, entitled "Tenant Mix — Not So Traditional Today," may have the answer: stronger anchors.

Convenient-size enclosed malls need three or four conventional or national chain department stores to draw traffic. But these stores are losing volume each month to discount department stores. The sales of discount department stores exceed the volume of conventional *and* national chain department stores combined.

ONE VOTE CAN MAKE A DIFFERENCE IN OUR 1998 ELECTIONS

Just in case you believe one vote — your vote — is unimportant, remember how often one vote has changed history.

In 1645, ONE VOTE gave Oliver Cromwell control of England.

In 1649, ONE VOTE resulted in the execution of Charles I of England.

In 1776, ONE VOTE gave America the English language instead of German.

In 1839, ONE VOTE elected Marcus Morton the governor of Massachusetts.

In 1845, ONE VOTE brought Texas into the Union.

In 1868, ONE VOTE saved President Andrew Johnson from impeachment.

In 1876, ONE VOTE elected Rutherford D. Hayes the president of the U.S.

In 1876, ONE VOTE changed France from a monarchy to a republic.

In 1923, ONE VOTE gave Adolph Hitler leadership of the Nazi party.

RThought: May I suggest that you cut this box out, reproduce it, and post it next to every time clock in every one of your stores. And for those who don't vote on Election Day, they deserve the government they get, rather than the democracy that many of our forefathers fought for, often giving their lives, in order to have a government by and for the people.

(**Source:** *United Air Force News for Retired Personnel*, September/October 1997.)

One can classify conventional and national chain department stores as "small shops," but what is going to happen to shopping centers which continue to have better parking than department stores located downtown? Will they disappear? Alexander suggests that the three

Contuinued

anchors, instead of being Macy's, J. C. Penney, and Sears, will be Kmart, Target, and Wal*Mart. And if a mall needs four anchors instead of three, it will consider Home Depot, Lowe's, Costco, or Sam's. In addition, by adding a 14-screen movie theater, the mall will probably receive double the rent it now receives from the "in-line" shops.

These three or four anchors will probably produce about twice the sales per square foot of conventional or national chain department stores. Thus, more traffic will pass and shop the in-line shops, resulting in more rent.

As a percentage of sales, the trend can also mean bargain rents for the three or four anchors.

RThought: By applying Alexander's idea, a small store can survive in the form of a well-run chain or a franchise operation within a center with good anchors.

RThought: Rather than small stores paying a low rent for no traffic, they will pay a higher rent for lots of traffic, just as malls produced in the past. A downtown area can then be converted into office buildings with sufficient parking. Progress may have been made.

WHAT'S WRONG WITH THE '100 BEST COMPANIES TO WORK FOR'?

Published in the January 12, 1998, issue of *Fortune*, the only retailers ranked high enough to make the list were the following:

Rank	Company
16	Wegman's Food Markets
34	Whole Foods Market
36	L.L. Bean
41	Eddie Bauer
43	Lands' End
45	Publix Super Markets
71	Nordstrom
80	Lowe's Cos.
82	Mary Kay Cosmetics
92	W. W. Grainger

Do you think that the above 10 companies are the *only* retailers which should be included on a list of the 100 best companies to work for?

With a list such as this one, as many of my readers know, I always look at the soundness of the method of selection. For example, you and I would probably agree that in order to find the 100 best companies one would have to start with a list of 1,000 to 2,000 companies. *Fortune*, however, sent questionnaires to *only* 238 firms selected by the "all-knowing" Robert Levering and Milton Moskowitz. (Moskowitz was the co-author of a book some years ago about the best companies to work for and gave much more information in the book than did the current questionnaire, which was only five lines, four inches in length!)

The minimum criteria for being considered: a company must be at least 10 years old and employ at least 500 persons. Of the 238 preselected companies, *only* 161 agreed to participate. Without more companies added to the list, the chances of the respondents making the list were almost assured — about two out of three — in a country of 250 million people!

Twenty thousand questionnaires were mailed to 124 preselected firms. (The number of questionnaires returned was not indicated.)

I do not want to discredit any of the 100 firms listed — I have often spoken well of a good number of them — but to consider that the list can be called the "100 best companies to work for" is a statistical farce. If *Fortune* wants to redeem itself, it will a) have to apologize and b) never publish such a list again.

This list is different from, say, *Fortune's* 500 largest U.S. firms because, for that list, *Fortune* scans all publicly held companies and has audited figures on such factors as sales, profit, return on equity, market value, etc.

Although *Fortune* claims to have had a database of 1,000 from which the 238 were originally contacted, there are more than 1,000 companies that are at least 10 years old and have at least 500 employees. *Fortune's* latest attempt was merely a popularity contest amongst a few companies selected by the authors.

RThought: Someone at *Fortune* must have had the same reaction as I did after reviewing the list. The article included the quote: "This is not a statistically useful list." I agree.

CAN SEARS AFFORD IT?

In the San Francisco Bay Area, Sears, Roebuck & Co. offered the following terms in one of its ads:

> **Zero percent finance charge, Friday through Sunday, January 30 through February 1, on all home appliances and electronics over $399, including all computers.**

Sears' terms:

1. No payments (until January 1999)
2. No billing
3. No accrued finance charge (a feature seldom mentioned in such ads)
4. No surprises!

RThought: If this ad were repeated and/or spread to other areas, a big response could result in a significant amount of purchases producing no current income from credit. If successful, the income is likely to be reflected in the same-store sales which are carefully watched by analysts and investors, most of whom will not recall the reduction of carrying-charge income, an important portion of the credit-operation contribution to Sears' earnings.

RThought: According to *Fortune*, February 16, 1998, Sears' uncollectible accounts (over 209 days) were 8%-plus in the summer of 1997; and the trade press reports that Sears may have to sell its receivables.

THE FEDS: DEALING WITH A BAD CROWD

Most identity fraud, according to the Federal Trade Commission, originates because credit bureaus are able to sell Social Security numbers and other identifying information, called "header information," about consumers without the usual limitations of the Fair Credit Reporting Act.

After a 1996 furor over the availability of SSNs (gathered from header information) in a telephone look-up service operated by Lexis-Nexis, three U.S. senators asked the FTC to investigate what could be done about it. Instead, Commission Chair Robert Pitofsky got the senators to acquiesce and accept a workshop on look-up services scheduled for June 1997 as the FTC's response to their request for an investigation. By now, Pitofsky, a former consumer advocate appointed by a Democratic president, was oddly reciting a mantra of "industry self-regulation." Last month, Pitofsky announced that in lieu of the investigation which the Senators had clearly requested the FTC was accepting a voluntary agreement that the look-up services and credit bureaus worked out without public involvement. The deal requires that credit bureaus assure by contract that the look-up services will prevent the general public from getting access to certain sensitive information. The auditing firm of Price Waterhouse will report publicly each year which of the services are not complying. It is the intent of the agreement, according to the drafters and FTC staff, that noncompliance constitutes a deceptive business practice in violation of the Federal Trade Act.

The deal was engineered by Washington attorney Ronald L. Plesser, who in the past has lobbied for direct mailers, cable TV vendors, and other commercial interests by agreeing to industry-specific codes that appear to Congress, the public, and the press to embrace fair information practices but, in fact, *permit wide latitude* for collection and use of personal information. For instance, most press reports said that the agreement permits consumers — once they locate and contact each of the 14 companies involved — to "opt out" of having their information listed by the services. But consumers will be shocked to learn from the small print that *they may not have their names and addresses deleted from the databases*. They may only prevent certain nonpublic information, like Social Security numbers and dates of birth, from being available to the general public. *Private investigators and direct mailers will still have access to that information, regardless of the wishes of a consumer.*

News reports covering the announcement went with the FTC spin, ignoring the connection of all of this to the original policy question about "header information." The FTC report, "Individual Reference Services," is available from Lisa Rosenthal, FTC Division of Credit Practices, Room S-4429, Washington, D.C. 20580, 202-326-2249, or via the World Wide Web http://www.ftc.gov/opa/9712/inrefser.htm.

News reporters did not report, nor did the FTC reveal, that of the 14 entities that agreed to the deal, fully *half have been cited* for flagrant violations of past FTC orders or have been caught violating ethical guidelines of the Direct Marketing Association. Here is the tally of the participants:

Acxiom Corp., Conway, AR (501-336-1000), a huge list and direct-marketing company regarded by some direct mailers as willing to press the limits of acceptable list-marketing practices; manages most of Trans Union's personal data and shares board directors with Trans Union; operates a look-up service.

CDB Infotek, Santa Ana, CA (800-427-3747), an "information broker" owned largely by a spin-off of Equifax, called ChoicePoint; ordered by the FTC in 1991 to cease reselling credit information in violation of the Fair Credit Reporting Act. It has sold postal address changes in violation of Postal Service rules.

DCS Information Systems, Plano, TX (800-299-3647), a database company with header information (including unlisted phone numbers), change-of-address data, and driver- license, driver- registration, and voter-registration records from states in its DCS National Inquiry System, which allows debt collectors, police, and businesses to search on-line by name and date of birth.

Database Technologies, Inc., Boca Raton, FL (800-279-7710), operates a database for investigators called Autotrack, with driver and motor-vehicle, divorce, marriage, corporate, property ownership, and other records from a variety of sources with variable rates of reliability.

Equifax Credit Information Services, Atlanta, GA (800-685-1111), a national credit bureau cited in 1995 by the FTC for major violations of the Fair Credit Reporting Act and currently operating under a federal consent order to comply with the FCRA.

Experian, Allen, TX (800-682-7654), a national credit bureau cited by the FTC and attorneys general in 17 states in 1991 for violation of state and federal consumer laws; operating now under a federal count-ordered decree to comply with the Fair Credit Reporting Act and state laws.

First Data Solutions, Inc., Omaha, NE (402-498-7125), a major mailer that acquired Donnelley Marketing's massive nationwide files, operates a look-up service on individuals, to serve mailers, banks, and creditors.

Information America, Inc., Atlanta, GA (404-479-6500), operates an extensive national database of public-record information and, for a while, offered Social Security numbers in the header information it sells.

IRSC, Inc., Fullerton, CA (714-526-8485), an "information broker" ordered by the FTC in 1991 to cease reselling credit information in violation of the Fair Credit Reporting Act.

Lexis-Nexis, Dayton, OH (800-543-6862), a legal and new information service that in 1996 inaugurated a service called P-TRAK, permitting anyone to call in for another person's Social

THE FEDS: DEALING WITH A BAD CROWD — *Continued*

Security number, address, and listed or unlisted phone numbers (header information). It then suppressed SSNs and said that news reports about its originally disclosing SSNs were erroneous.

Metromail Corp., Lombard, IL (800-228-4571), a huge direct marketer caught violating the Direct Marketing Association ethical standards four times in 1954 and 1996 and *the subject of a consumer lawsuit for permitting prisoners to process the company's consumer data.*

National Fraud Center, Horsham, PA (215-657-0800), originally a joint venture of Trans Union, now operating a fraud-detection and investigation database.

Online Professional Electronic Network (OPEN), Columbus, OH (614-481-6999), an online re-seller of commercial and personal credit reports from Experian.

Trans Union Corp., Chicago, IL (800-888-4213), a national credit bureau that continues to sell credit information for marketing — both header information and "below the line" information — in defiance of a 1993 FTC order and is currently operating under a separate 1992 federal court consent decree to comply with federal and state consumer laws.

The preceding article, with emphasis added, was printed, in full, with permission from *Privacy Journal*, Robert Ellis Smith, Editor.

RThought: "Identity fraud," or stolen identity, is a growing problem which arose not too long ago at a California state university and was due to the thoughtlessness of the college administration.

When teachers were provided a list of students for each class, to ensure identity, each student's address and Social Security number were listed. With this information, one teacher took it upon himself to obtain charge accounts under false names.

In addition, the teacher would often collect paycheck stubs that were thrown away at or near the window where teachers and student aides would go to collect their pay. With addresses often easy to obtain, dozens of people were greatly inconvenienced when they received bills from companies on accounts they had not opened and knew nothing about.

RThought: It is your responsibility to see that the names, addresses, and Social Security numbers of your employees are protected.

Having read Robert Ellis Smith's article, please act upon it.

If you would like to learn more, I suggest that you subscribe to *Privacy Journal* ($118 per year; $145 overseas) by writing P. O. Box 28577, Providence, RI 02908; telephone 401-274-7861; E-mail 5101719@mcimail.com.

SHORT SHORTS

Office Depot and OfficeMax are fined for comparison pricing. The Arizona attorney general recently announced an agreement with Office Depot and OfficeMax with regard to their price comparisons. The charge: both companies showed list prices at which they made few sales. Quoting the summary of action: "If the Manufacturer's Suggested Retail Price is quoted by companies that do not make significant sales at the MSRP, the customer is fooled into thinking he or she is getting a 'good deal.'" The two companies paid a total of $20,000 for costs and fees. **RThought:** I would guess that most attorneys general could easily support their offices by pursuing just this one offense.

Canadian consumers sue retailers, too. Canada has consumer protection laws which are used by the consumers, just as we have in the U.S. And one such Canadian consumer is launching an $18-million class-action lawsuit against Sears Canada, Inc., alleging that since 1980 Sears has been "selling high-priced treadmills by misrepresenting that they have more horsepower than they actually do." **RThought:** The article did not mention whether the $18 million award would go to the treadmill consumers, to the government, or to the persons bringing the suit.

Credit card offer of the month: Capital One has offered me a preapproved Visa Platinum card, with a 9.9% APR, no annual fee, and a credit line *up to $20,000.* I was also informed that I will never have to make a transfer again! **RThought:** I have not paid a finance charge in years, except for one mistake. However, when credit card companies impose a late charge of $15 for **not** paying an error of $10, then I might change accounts, although I am pleased with my present card because it gives me mileage on American Airlines, the airline I travel on most often.

MBMA finds a way to go around my cancellation. When I canceled my MBMA credit card, the company took aim at my wife. It made me wonder, in a community-property state, if it is legal. If MBMA had checked any of our credit records, it would have found that for our entire 52 years of marriage I have produced the income and Patty has been a wonderful homemaker for both of our children and me. But MBMA offered her a Platinum Plus Account, with an introductory rate of 4.9% for cash-advance checks and any balance transfer, Platinum Plus service 24 hours a day (whatever that is), up to $3,000 supplemental lost checked-luggage protection, around-the-clock fraud protection, $1 million common carrier travel accident insurance and a *credit line of up to $100,000*! **RThought:** My wife would be greatly disappointed if she decided to return the application form and learned that she would be denied a Platinum Plus card by the company. Why? Because under "annual salary," she would have to enter "none."

HOW GREEDY ARE RETAIL STOCKHOLDERS?

Periodically, I read articles in which supposed "experts on ethics" claim that big corporations often underpay their employees so that greater profits can be paid to their greedy shareholders.

There are two numbers on balance sheets of publicly held companies that can be compared:

1. Paid-in capital and
2. Retained earnings.

In many corporations, retained earnings are much larger than paid-in capital. Here are some of the retailers who show a high ratio. (**Source:** *1997 Fairchild Retail Financial Directory*, a directory which lists publicly held retail companies. I have selected companies with sales over $1 billion.)

Company	Ratio of Retained Earnings to Paid-in Capital
Mercantile Stores	129:1
May Department Stores	36:1
Wal*Mart	22:1
Weis Markets	19:1
Winn-Dixie	15:1
Family Dollar Stores	12:1
CVS	10:1
Giant Food	10:1
The Limited	10:1

Grouped between 5:1 and 10:1 are such stores as Albertson's, American Stores, Avon Products, Burlington Coat Factory, Circuit City, Costco, Dayton Hudson, Rite Aid, Ruddick Corporation, and Toys "R" Us.

RThought: Do you believe Wal*Mart could have over 825,000 associates worldwide if it had not retained (i.e., kept in the company) $18.2 billion of its earnings?

RThought: If retail employees want job security, together with the opportunity for advancement, I believe they would want more, rather than less, earnings retained in their company.

THE LONGEVITY OF SOME RETAILERS

This is the first of many lists to be forthcoming in *Retailing Today* of retailers organized in 1915 or earlier. Starting with the "A" list, the following companies either still exist, have changed their name, or have gone out of business within my memory:

Company	City	Year
A&P Food Stores	New York City	1859
Abercrombie & Fitch Co. (part of The Limited)	New York City	1892
Abraham & Strauss (Macy's, now Federated)	Brooklyn	1888
Adam, Meldrum & Anderson (Bon-Ton Stores)	Buffalo	1881
E. Albrecht & Son (now Albrechts Co.)	St. Paul	1888
Alden's, Inc.*	Chicago	1889
B. Altman & Co.*	New York City	1865
American Express	New York City	1850
American Stores Co. (once L.S. Skaggs & Co.)	Philadelphia	1891
Arnold Constable Corporation*	New York City	1864
Auerbach Co.*	Salt Lake City	1864
Avon Products, Inc.	New York City	1886
L.S. Ayres (now part of May Dept. Strs. Co.)	Indianapolis	1872

*Closed within my memory

RThought: Good retailers have a long life.

RThought: I will attempt to work through the alphabet, one letter at a time. But in peeking ahead, Kahn's Department Store in Oakland was formed in 1879. Seven of the above firms were established after Kahn's. California was not really settled until 1849; and then settlement was in the mountains, where prospectors could pan the rivers and streams for gold.

DOES THIS MAKE SENSE?

My address was on one side of a mailer I recently received from J. C. Penney Company, Inc., while the other side read:

Join in the Celebration of
BLACK HISTORY MONTH
February 20-22 **JCPenney**
I Love Your Style

My reaction was most favorable. And although I gathered it was a mailer sent to all Penney customers, I was proud to have received it.

The inside of the triple-fold gave the history of Black History Month, starting in 1926 with the Study of Afro-American Life Association and the initiation of Black History Week. In 1976, President Jimmy Carter expanded the celebration, declaring the month of February as Black History Month.

The third portion of the mailer was a 25%-off coupon for a shopping spree in honor of Black History Month. At this point I was surprised and pleased with the Penney tribute — but I did wonder how it could afford to give 25% off on regular-priced merchandise for a month. (I cannot recall a retailer *ever giving 25% off* on merchandise for an entire month, except as part of a going-out-of-business sale.) Then I read the fine print, which said:

25% Off Shopping Spree valid February 20 through February 22, 1998

ANANI then wondered how many recipients of this mailer had the same reaction as I did. I lost my admiration for Penney.

ANOTHER FALLACIOUS SURVEY

An item in the February 1998 issue of *Stores*, the publication of the National Retail Federation, began:

Survey Tracks Retail Charitable Activities

Retail companies contributed more than $100 million to local and national charities in 1996, according to a survey released last month by the National Retail Institute, the educational foundation of the National Retail Federation.

The article went on to say that the survey found that of the *59 retail companies responding*:

- 68% (40 companies) increased their donations in 1996 over the previous year.
- 44% (26 companies) encouraged employees to take paid time off for volunteer activities and nearly a third (22 companies) had an in-house volunteer coordinator.
- 59% (35 companies) loaned executives or employee volunteers to charitable groups.

RThought: If only 59 retail companies responded (out of thousands and thousands of retailers), how can such a small sample be considered a true measure? With 59 companies, each company represents 1.695% of the sample!

RThought: What right does the NRF, under the guise of a study, have to imply that a survey of 59 retailers warrants being published in *Stores* and then being sent to thousands of NRF members? By doing so, the NRF implies that the survey actually has meaning!

HOW MANY LOST CASES ARE NEEDED BEFORE AN INDUSTRY COMES TO UNDERSTAND THE LAW?

My local newspaper, the *Contra Costa Times*, doesn't pretend to cover the United States, but it did report the court judgments against the following supermarket chains for sex and race discrimination:

Nob Hill*	$ 1.30 million
Safeway	7.50 million
Lucky	74.25 million
Publix Super Markets	81.50 million

*Recently acquired by Raley's

RThought: These judgments total $160 million! As we know, there have been other supermarkets that have lost cases to or have compromised with the Equal Employment Opportunity Commission. And there are more to come.

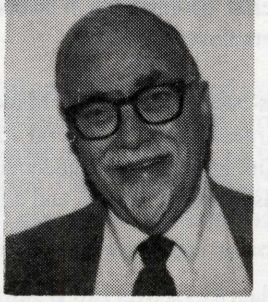
RThought: It's fortunate that the judgments nowadays are in dollars and are not in the type of judgments once handed down in the town in which Raley's was founded: *Hangtown*, now Placerville, California!

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON (Unadjusted $ millions)

SIC Code	Category	December 1997	1996	Percentage Change		YTD 1997	YTD 1996	Percentage Change	
52	Building Material Group *	11,086	10,186	+	8.8%`	143,193	132.943	+	7.8%
57	Furniture Group *	17,232	15,968	+	7.9	141,266	136,719	+	3.3
571	Furniture Stores	7,594	6,797	+	11.7	72,038	67,567	+	6.6
572	Appliance, TV, and Radio Stores	7,921	7,511	+	5.5	58,705	58,332	+	0.6
5941	Sporting Goods Stores *	3,157	3,022	+	4.5	23,297	23,021	+	1.2
5942	Book Stores *	1,631	1,392	+	17.2	11,824	10,687	+	10.6
5944	Jewelry Stores *	4,619	4,716	-	2.1	19,569	21,065	-	7.1
531	Department Stores *	38,432	36,248	+	6.0	264,753	245,897	+	7.7
531Pt	Conventional Stores	9,729	9,300	+	4.6	58,335	55,427	+	5.2
531Pt	National Chain Stores	6,309	6,435	-	2.0	41,293	40,485	+	2.0
	Subtotal	16,038	15,735	+	1.9	99,628	95,912	+	3.9
531Pt	Discount Stores	22,394	20,513	+	9.2	165,125	149,985	+	10.1
539	Miscellaneous General Merchandise Stores *	7,534	7,462	+	1.0	60,832	59,663	+	1.9
541	Grocery Stores *	36,329	35,474	+	2.4	406,775	401,708	+	1.3
56	Apparel Stores *	15,988	15,003	+	6.6	116,809	113,027	+	3.3
561	Men's and Boys' Stores	1,651	1,479	+	11.6	11,077	9,984	+	10.9
5623	Women's Stores	4,524	4,314	+	4.9	32,820	32,783	+	0.1
565	Family Clothing Stores	6,643	6,296	+	5.5	44,771	42.880	+	4.4
566	Shoe Stores	2,184	2,005	+	8.9	19,510	19,134	+	2.0
591	Drug Stores *	10,549	9,486	+	11.2	98,527	89,248	+	10.4
596	Nonstore Retail *	8,185	8,457	-	3.2	71,190	71,085	+	0.1
5961	Mail Order	6,735	6,209	+	8.5	52,822	47,855	+	10.4
	* *RETAILING TODAY* TOTAL STORE RETAILING **	154,742	147,414	+	5.0	1,358,024	1,304,963	+	4.1
	GAF TOTAL ***	97,500	93,066	+	4.8	655,667	655,667	+	4.6

** Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
*** General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975. The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).



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CORRECTION

In the March 1998 issue of *Retailing Today*, there was an article about the suit brought by the Stop Youth Addiction organization in California against Lucky Stores, Inc., for $10 billion, to be paid to the State of California, based on sending 16-year-old youths into stores where they successfully purchased cigarettes against the law.

The correct amount of the suit was $1 billion. (There was a typographical error in my source for the item.)

NEW YORK TIMES JOINS RETAILING TODAY IN ADVICE TO RETAILERS

Under the following headline on March 26, 1998, *The New York Times* talked frankly about Toys "R" Us, Inc.:

Facing Grown-Up Problems
Can a New Chief Find a Solution for Toys 'R' Us?

The article began with the problems of Arlene Blankenship: "The last time [she] was in a Toys "R" Us store, during the holiday season, she left with two things: 'The Lost World: Jurassic Park' games for her grandsons and the notion that there had to be an easier way to play Santa."

The 62-year-old woman from Birmingham, Alabama, thought that all of the Nintendo "stuff" would be together in the store. It wasn't. She observed: "To find someone to wait on me is just time-consuming and they tell you it's in aisle seven and then you've got to go back to aisle seven and sometimes you find it and sometimes you don't."

But Blankenship has not been the only one to complain during the past few years.

The article stated that Toys "R" Us is still the largest toy retailer in the U.S. (I have seen reports, however, stating that Wal*Mart Stores, Inc., is now the largest. In any case, Wal*Mart is rough competition.)

For a number of years, when I was on Wal*Mart's board of directors, Charles Lazarus, the founder and longtime chairman and chief executive officer of Toys "R" Us, was also a director. It's unfortunate that Lazarus left the board before Sam Walton established the 10-Foot Rule: If a customer gets within 10 feet, stop what you are doing, approach the customer, and ask if you can be of help.

There was another rule Sam established for his associates at about the same time: If a customer asks you where something is located, you should not tell the customer where the item is but should take the customer to it. (However, Wal*Mart associates cannot tell customers what aisle an item may be in because the aisles are unmarked.)

Recently, I noticed the cat food had been moved in the Sam's Wholesale Club I frequent (we purchase 90 pounds of cat food at a time because we have two cats, plus another frequent feline visitor from the neighborhood, a dwarf raccoon who was booted from the clan and thereby does not know it is supposed to be nocturnal, and about six other raccoons that come around at the regular "nocturnal" time). Seeing a group of associates, I asked, "Where is the cat food now?" One of the associates immediately responded, "Let me show you," and he led me to it. When I said, "Thank you," he replied,

Contuinued

HOME DEPOT'S WORD IS GOOD — AND MANY PEOPLE KNOW IT

In January, when Cyrville, Ontario, was without electric power due to a devastating flood, Home Depot sold two models of a small generator at $796 and $898 (Canadian dollars) to about 2,500 customers. At the same time, it placed 700 names on a waiting list.

Because many of the customers were aware of the 30-day return policy printed on Home Depot's sales receipt, when power returned, they returned their generators for a full refund. Because Home Depot found most of the generators to be in good shape, it serviced them for resale, as used generators, with the same 30-day guarantee. It cost Home Depot about $100 to recondition each generator; thus, if all of the generators had been returned and serviced for resale, it would have cost the company a quarter of a million dollars!

However, let's not forget that the cost of honoring the returned generators was a wonderful way for Home Depot to gain respect among its customers and soon-to-be customers.

RThought: Integrity always brings its just rewards. And while hundreds of people personally experienced Home Depot's integrity during this episode, thousands more have read about it in a reliable source (*The Ottawa Citizen*, February 5, 1998).

Retailers with integrity usually find an easy way to convert consumers into customers. (I suspect that Home Depot found it had more response from this act than if it had spent a similar amount of money on advertising.)

"You're welcome." He didn't know who I was: he just followed his good judgment, or Sam's rule (and Sam died six years ago).

The New York Times article showed that the annual sales growth of Toys "R" Us has dropped from the 30% range in 1987 to 5% in 1996 and 10% in 1997. Over the same period, operating margins have dropped from 11% to under 8% and inventory has grown from $750 million to $2.5 billion.

Robert C. Nakasone, most recently the chief operating officer of the company and now its chief executive officer, plans to have a conference for financial analysts which will outline what he intends to do to restore Toys "R" Us to its premier position as a retailer.

RThought: I hope that Nakasone read the article in *The New York Times,* because I know that Sam looked down and smiled, knowing that in his stores, at least, his rules are being followed!

P.S. Every retailer should adopt Sam's two rules. (To mention more would be a consulting assignment!!!) We survive and grow only if we have customers: people who come to our store by "habit" or "custom." And they do that only if they enjoy the service they receive.

VISITING PRAGUE COULD BENEFIT MANY U.S. RETAILERS

At the headquarters of Tesco Department Stores in the Czech Republic, you'll find the director of human resources, Petr Slezak, who can tell you a thing or two about his program to get salespeople to mind their manners.

According to Slezak, when merchandise was limited, salespeople had the power to *refuse* the sale of an item to a customer. But now that goods are plentiful, "We have so many goods, shop assistants must persuade customers to buy [our] goods."

Imagine! Tesco is in the process of working on salary *incentives* to encourage further improvement in customer service. And salespeople are being trained on how they should treat a customer! An example is to look pleasant and smile when approaching a customer.

With plentiful goods, Tesco has found that it is having trouble with its "older" shop assistants: it is easier to train young people who have never worked in an environment where they could tell a customer, "No, you can't have it."

RThought: Should Slezak want to move on, I could give him a list of about 50-plus large – even very large — U.S. retail companies who need his services. And many of them are multibillion-dollar-volume firms.

SHOULD EMPLOYEES OF THE '100 BEST COMPANIES TO WORK FOR' BE HAPPY WORKING FOR THEIR COMPANY?

Last month's issue of *Retailing Today* criticized *Fortune* for its methodology in selecting the "100 Best Companies to Work for in America." One hundred and sixty-one handpicked companies were selected from those meeting two criteria: having been in business for five years and having at least 500 employees.

One of these companies, Austin, Texas-based Whole Foods Market, Inc., claims to be the country's largest chain of natural food supermarkets. (As a result of acquisitions, it operates under such names as Mrs. Gooch's Natural Foods, Bread & Circus, and a few others.)

But it is how Whole Foods operated when it took over two Westward Ho stores in November of 1997 that is disturbing: it displaced 85 union workers and reopened nonunion. One would think that the 85 displaced union workers would want to work for one of the "100 best companies." In fact, the local union to which the 85 displaced employees belong has organized the picketing of two stores for five months!

And when *Supermarket News* made an effort to reach Whole Foods' "officials," none could be reached for comment. Although the union professes not to be trying to organize new workers, it estimates that the sales in two of the stores have dropped 15%, a percentage which is not in line with its fourth-quarter, same-store increase of 14%.

RThought: Is this your image of one of the "100 Best Companies to Work for in America"?

SHOULD RETAIL EXECUTIVES HAVE TO PASS A COMPETENCY TEST BEFORE GETTING MILLIONS OF DOLLARS FROM THE PUBLIC?

Jumbo Sports, Inc., recently announced that it would close 18 stores, taking a charge of up to $40 million in its fourth quarter. It then hopes to return to profitability, using the funds from the liquidations to reduce its debt. Chairman Jack Bush said the company has been struggling "because of rapid expansion in too many markets." After closing 18 stores, it will still have *59 stores in 23 states*!

Jumbo Sports went public as Sports & Recreation, Inc., on September 16, 1992. Underwritten by The First Boston Corporation and Lehman Brothers, the company raised $87 million, of which *$13 million went to selling stockholders.*

RThought: In retrospect, was Sports & Recreation management qualified to acquire that much money from the public?

RThought: Without testing management, were the underwriters qualified to determine if management was qualified?

RThought: *Inside Retailing* (January 19, 1998) reported that HomePlace, the 98-unit home-furnishings chain, has just filed for Chapter 11 protection and that this is another case of over-ambition, with debt financing obtained for its over-expansion.

ATTENTION: ALL RETAILERS HONORING DISCOVER CARD

Although I use my Discover Card infrequently, I did make a purchase on it in February. And when the March bill arrived, I noticed it made

...AND A BICYCLE SHOP SHALL TEACH THEM

All apparel stores, food stores, book stores, sporting good stores, jewelry stores, drug stores, discount stores, conventional department stores — in fact, any type of retailer — can learn from Chris Zane. That's exactly what I did from reading "Lessons for All from Bicycle Retailer Chris Zane," an article from that wonderful periodical, *Bottom Line/Business.*

In 1981, Chris Zane's grandfather was willing to lend him $20,000 so that the 16-year-old could get his bicycle store, Zane's Cycles, started. Having had sales of $1.65 million in 1997, Chris is shooting for $2 million this year! The largest single-location bicycle dealer in Connecticut, a state which has non-bike weather much of the winter, shows a 25% a year sales increase!

Although it may be too late for you to start a business at age 16, it is always good to pick up ideas from successful merchants. Here are a few from Chris.

1. Build passionate customer loyalty, "marry" this passion, and make customers trust every promise you make. (Remember, many customers don't trust your ads or those of your competitors). Chris stresses that patrons *must come back.*
2. If you make a guarantee, be sure to follow through. In Chris' case, if any product sold needs maintenance, he repairs it — at no cost — even if the owner of the bike ran over it in the driveway!
3. When people thought that Chris upped the prices to cover his maintenance guarantee, he introduced his "price guarantee," stating that Zane's Cycles will not be undersold. For example, if the price for the same bike is lower *anywhere* in Connecticut within 90 days of purchase, the customer receives the difference *plus* 10%.
4. Chris will do anything to bond with a customer who has taken the trouble to drive to his store. Keeping customers in your store with, perhaps, inexpensive gifts such as toys or balloons is a start. (I remember, as a child, that Mother always bought our shoes at Sommer and Kaufman and that the store always gave us candy — audited, of course, by Mother!) He also keeps his customers happy and willing to stay by always having two filled coffeepots ready on a 14-foot counter equipped with six bar stools! There is gourmet coffee for the espresso and cappuccino machines, Snapple for those who don't drink coffee, and magazines to read while waiting for a small repair. All this makes Starbucks scream "Ouch!" (One recommendation I made to Sam Walton that he did *not* buy was having coffee available to customers catercorner to the snack bar in stores over 80,000 square feet. It is my contention that one should never lose a customer because of his or her need for a cup of coffee!)
5. Knowing people is intuitive, so don't just hire people with sales experience. Hire people "who are into people."
6. Follow Chris' advice when a competitor within 50 miles calls it quits and the name of the store is still in the Yellow Pages. Ask the telephone company if the ex-competitor's calls can receive the message: "The number you are calling is no longer in service. If you are in need of a bicycle retailer, Zane's Cycles will be glad to service you. If you want to be connected, dial 'zero' now, and you'll be connected toll free."

RThought: I've mentioned only part of the story. In order to get the full account, enter your subscription NOW before my friend, Marty Edelston, runs out of the March 1998 issue. If you prefer, you may order it as a single copy: just send $6 to *Bottom Line/Business*, Boardroom Reports, Box 58415, Greenwich, CT 06836-2614. But to learn from this wonderful publication throughout the year, I suggest that you enter a $49 yearly subscription today, starting with the March 1998 issue.

CHECK YOUR SECURITY DEPARTMENT

It's important to check your security department because what happened at a Toys "R" Us store in San Francisco could happen to you!

It started two years ago when a 12-year-old boy slipped a Yak Bak recorder into his pocket. The security guard caught the boy and took him into her office. She then called his mother, telling her to pick up her "thieving son." The mother grabbed a cab from work and arrived in a panic. But she wasn't allowed to leave with her son until she signed a form acknowledging that Toys "R" Us could sue her. Because she was willing to sign anything just to get her child out of there, she signed the form.

That evening she heard her son's side of the story, a story the guard *did not* think to ask, and she truly believed her son had not intended to steal the recorder.

She thought the matter was over, but four months later she received a letter from Loss Prevention Specialists, Inc., demanding $175 within 30 days in settlement of a "civil demand." Naturally upset, she telephoned Loss Prevention and said that she was not going to pay. The company made no response.

Then, a full year after the incident, she received a second letter, this time from Mary P. O'Donnell, an attorney for the law offices of James R. Palmer, which now demanded $365! When the mother called the law offices, which she thought were in Los Angeles, she found that the phone rang in Los Angeles but the call was being forwarded to Orlando, Florida!

Upon further checking, the mother found that the only Mary P. O'Donnell in California had no connection with the letter demanding $365. The State Bar informed her that Mary P.

O'Donnell went inactive in 1993 and that she now listed her address as Delray Beach, Florida. But O'Donnell apparently reactivated her California State Bar membership a few days *after* the date of the $365 letter.

Indeed, if O'Donnell filed a suit, there is a question whether she could file a suit based on a letter written *before* she could legally practice law again.

Toys "R" Us has refused to talk to the reporter covering this sad tale. However, an attorney in Florida, by the name of Natt Reifler, assured the reporter that he is handling the collection for the company and that he defends the legal assault on the boy's mother. He further stated that he didn't know that O'Donnell was not authorized to practice law in California. His "claim," however, overlooks the fact that California law defines shoplifting as "taking property *out* of the store" and that in this case the property never left the store.
As a result of this upheaval, the boy's mother is bringing suit against the attorneys and others for emotional distress and unfair business practices. She is asking for the court to call a halt to such practices and has asked the court to give her damages plus enough to punish the defendants.

Her lawsuit has now become a class action.

With the suit being filed 10 days before Christmas, the peak period for Toys "R" Us, the story appeared in San Francisco's largest newspaper on December 14!

RThought: Information I have on Loss Prevention Specialists shows its address as Winter Park, Florida. The company offers such services as loss prevention, shoplifting control, and employee theft control. There is nothing, however, on the subject of whether the company is in compliance with California law.

POTENTIAL RETAILERS WOULD PERHAPS BE HAPPIER AND MORE SUCCESSFUL AS FRANCHISEES

The Gallup Organization recently surveyed 1,001 U.S. franchisees (both retail and service) and found...

- 92% of the respondents are either very or somewhat successful
- 80% have only one franchise
- 45% had a professional or managerial job before franchising
- 28% are women
- 24% of the respondents earn $100,000 a year (the average gross income is $91,630)
- 18% of the men have incomes between $100,000 and $200,000
- 12% of the women have incomes between $100,000 and $200,000

At a 95% level of confidence, the maximum expected error range is plus or minus 3.1%.

RThought: It's refreshing to see the way Gallup set forth the basis of its sample.

But virtually no franchises exist for general merchandise or apparel retailing compared to restaurants or services. It is particularly unfortunate because people who want to go into general merchandise or apparel — categories where we definitely need more franchisees — often find that there are no franchisers; and when they do go out on their own, they are often unsuccessful.

SHORT SHORTS

Do you regularly check your telephone service? People call your store every day. Do they get a busy signal time after time? Are they put on hold and wait and wait and then hang up? Do your telephone operators answer the phones in a polite, knowledgeable, and helpful manner? **RThought:** Make sure telephone operators are specializing in generating customers — not creating ex-customers! (I won't comment at this time on telephones with electronic answering devices.) The same is true in your credit office/collection department, where some employees appear to be under the impression that they are supposed to drive customers away, even when the store may be wrong! **Note:** One *RT* reader recently commented that 1) a department store known nationally "is the worst"; 2) one of his clients is "pretty bad"; 3) a national chain "no longer answers its phones"; and 4) a local apparel store "is great."

Bankcards continued to grow in 1997, passing a volume over $1 trillion (up 15.4% over 1996). Visa's market share was up .81% to 52.30%, almost twice the volume of MasterCard, which was down .14% to 16.32%. American Express, Discover Card, and Diners Club were slightly down in shares, but all showed an increase in volume. (**Source:** *The Nilson Report*, Issue 663, March 1998)

Magazines continue to "push" their renewal notices, with one of the boldest items I have received in some time reading:

URGENT NOTICE

Expiration date: Nov 98

RThought: I will obviously postpone my renewal to this publication until, at least, October. Presently, I am not sure whether it is worth reading – it is not a magazine like *Time*, *Newsweek*, or the various trade publications.

A Milwaukee supermarket customer, upset because another shopper in the express checkout lane had "too many items," confronted the shopper in the parking lot and slashed part of the woman's nose off with a pocketknife! The assailant was arrested and charged with "second-degree recklessly endangering safety." **RThought:** Perhaps a warning, "CORRECTLY COUNT YOUR ITEMS; OTHERWISE, USE AT YOUR OWN RISK," should be posted at all express checkout lanes.

a pitch for me to take out its "CreditSafe® Insurance" and that my "unprotected account" is "automatically eligible."

Piquing my interest, I attempted to read the information on the back of the statement, a document which is 11 inches in length, about 100 lines, with about 1,500 to 2,000 words in fine, light brown print on a white background. With my bifocals on, a bright light, and a ruler to help me stay on the line I was reading, it was difficult to say the least!

RThought: I believe that this unreadable type of disclosure is deceptive and that companies honoring the Discover Card should protest. If Discover Card does not correct its unreadable disclosure, retailers should discontinue honoring the card. Force the people at Discover Card to face making a decision between intentional deception of its cardholders and having retailers who continue to honor the card.

WHY IT'S IMPORTANT TO REVIEW PRESS RELEASES

Three local, daily newspapers — *San Francisco Chronicle, Oakland Tribune, and Contra Costa Times* — all carried the story regarding the resignation of Peter A. Magowan as chairman of Safeway, Inc. Magowan has made the decision to devote more time to his position as president and managing general partner of the San Francisco Giants baseball team.

The above was properly reported by the *Chronicle* and the *Tribune*, but the *Contra Costa Times* apparently included parts of the press release that the other two papers wisely did not:

> **The 55-year-old Magowan's longtime involvement with Safeway began in 1968, when he took a job as a grocery store manager. He worked his way up the chain, serving as district and division managers in Safeway stores across the country and Canada. In 1980, he was named chairman and chief executive.**
>
> **But his involvement with Safeway began to decline in 1993 when he began to work for the Giants full time.**

This paper is relatively young, and perhaps no one knows the history of Safeway back to the days when it was created by the merger of McMarr, Mutual, and a couple of other 1,500- to 2,000-square-foot food store chains.

The *Times* article also reported that Magowan would continue to draw $40,000 each year as a Safeway director and $636,932 in retirement benefits as a former employee.

The composition was inappropriate for two reasons:

1. The information is personal and not related to his resignation.

2. As far back as 1956, the chairman and president of Safeway was Robert A. Magowan, his father, who, until 1979, was a member of the Executive Committee.

RThought: It appears as if someone in the Safeway's Public Relations Department thought he or she would gain brownie points by making Magowan appear to be the "superman of the supermarket chains" when actually the Magowan family has always been one of Safeway's major stockholders, although there were several other chief executive officers between the time Magowan's father reduced his activity within the company and Magowan assumed the position of chief executive officer.

RThought: Create a category of press release that must be reviewed by someone in senior management before it is released. Certainly, the mention of Magowan's position indicates that during his reign as chairman and chief executive officer of Safeway the move to be a private company (in cooperation with Kohlberg Kravis Roberts & Co.) resulted in such a great growth in sales and in profit that it is today one of the top supermarket chains in the world.

WHY YOU SHOULD PAY ATTENTION TO 'CARDING'

Retailing Today reported in last month's issue about the $1 billion suit against Lucky Stores, Inc., brought by Stop Youth Addiction, an organization which sent 16-year-olds into Lucky stores to buy cigarettes. Cigarettes were sold to most of these teenagers; and although Lucky states that is has a strict policy, apparently, it was not observed by most of the cashiers.

Now, in Nevada, the state attorney general has announced that her office will conduct 275 undercover stings *each month* for the next year "in an effort to discourage stores from selling cigarettes and smokeless tobacco to minors."

RThought: The attorneys general have a national association which exchanges information through a monthly magazine. Perhaps you should subscribe as I do. In states in which you have stores, it is important to be aware of such actions.

Today, everyone is aware of the degree to which the attorneys general work together in their many cases against the tobacco companies. On April 1, the Senate approved a bill to force the tobacco industry to pay $506 billion-plus over 25 years. And it is unlikely that tobacco companies will receive exemption from the numerous suits which are based upon injury caused by aiming their ads at teenagers.

RThought: Stop Youth Addiction claims to have filed similar suits against 1,000 California retailers, usually settling for $50.

The judge hearing the Lucky case commented: "In order to obtain evidence of alleged unlawful activity, Stop Youth Addiction has induced minors to commit crimes by purchasing cigarettes...the avenger may be guilty of the greater crime."

SHORT SHORT

Be careful with Federal Trade Commission agreements. Rite Aid Corporation paid a civil penalty of $900,000 for failing to divest three drug stores in Maine and New Hampshire, as required by a 1994 order of the FTC and as a condition of acquiring LaVerdiere Enterprises, Inc. (**Source:** *FTC News Notes*, February 23, 1998)

WORDS — TEACHING FEELINGS 101

...and a little child shall lead them (Isaiah 11:6)

Time (September 28, 1997) featured an article, entitled "Teaching Feelings 101," which stated that as many as "700 school districts across the country have instituted programs that aim to nourish students' souls as well as their minds," and that a book written by Daniel Goleman, *Emotional Intelligence: Why It Can Matter More Than IQ*, has helped teachers guide students. The book contends that children's ability to recognize their own emotions, empathize with peers, and deal with crises is their "emotional quotient," or EQ, and that it "influences their life chances as much as native intelligence."

An example given was a second grade class in an inner city school. The 25 children in the class sat cross-legged on the floor passing around a big blue ball. As they did so, they whispered compliments to each other. The exercise resulted in a soothing calm in the room and, for a moment, traditional academics were nowhere to be found. The teacher said that the children learned "deeper truths." And, at the same time, they learned values that are universal: "Being kind to a person — that's something all people need to do."

Most of you are in charge of a business with a large number of associates. Think for a moment by looking back on today. To how many associates have you talked? To how many have you said something nice? One? Five? None?

For example, say something nice about the store manager. You know the store manager will feel good if you acknowledge his or her worl

RThought: If EQ can be taught to children in the second grade, or even to those in kindergarten, why can't we learn it ourselves? By applying EQ, we will see how quickly the associates around us appreciate being recognized.

RThought: Perhaps someone in your training department could read Goleman's book and then integrate EQ within your company.

RThought: Writing this article brought back to mind the 12 years I worked closely as an advisor to Sam Walton. Of all of the chief executive officers with whom I have worked, Sam was the greatest practitioner of EQ-type leadership. (Merv Morris of Mervyn's was a close second.)

Sam knew, perhaps, 10,000 to 20,000 associates by name, store, and the year he or she joined the company. When he would visit a store (which was every year until the store count made it impossible to do so each year), he not only looked at the performance of a store and the departments that did well, but he would congratulate the department managers and the store manager. I remember Sam telling a department manager, "I wish we could get all the stores to do as well as you are doing."

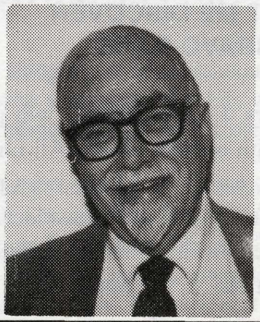
RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	January 1998	January 1997	Percentage Change
52	Building Material Group *	$ 9,515	$ 8,859	+ 7.4%
57	Furniture Group *	11,692	10,390	+ 12.5
571	Furniture Stores	5,772	5,227	+ 10.4
572	Appliance, TV, and Radio Stores	5,072	4,398	+ 15.3
5941	Sporting Goods Stores *	1,531	1,464	+ 4.6
5942	Book Stores *	1,323	1,484	- 10.9
5944	Jewelry Stores *	1,078	1,074	+ .4
531	Department Stores *	17,389	16,229	+ 7.1
531Pt	Conventional Stores	3,287	3,124	+ 5.2
531Pt	National Chain Stores	2,545	2,685	- 5.2
	Subtotal	5,832	5,809	+ 0.2
531Pt	Discount Stores	11,557	10,420	+ 10.9
539	Miscellaneous General Merchandise Stores *	4,399	4,244	+ 3.7
541	Grocery Stores *	33,662	33,317	+ 1.0
56	Apparel Stores *	7,402	6,957	+ 6.4
561	Men's and Boys' Stores	821	751	+ 9.3
5623	Women's Stores	2,065	2,030	+ 1.7
565	Family Clothing Stores	2,674	2,480	+ 7.8
566	Shoe Stores	1,240	1,161	+ 6.8
591	Drug Stores *	8,388	7,827	+ 7.2
596	Nonstore Retail *	5,626	5,150	- 9.2
5961	Mail Order	4,396	3,804	+ 15.6
	* *RETAILING TODAY* TOTAL STORE RETAILING (1)	112,849	106,620	+ 5.8
	GAF TOTAL (2)	47,603	44,565	+ 6.8

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.

(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975. The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).



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RETAIL SURVEY READERS DESERVE A DISCLOSURE OF SURVEY METHODOLOGY

The following was extracted from a survey conducted by Coopers & Lybrand LLP for the American Banking Association and reported in the November 1997 issue of *ABA Banking Journal.*

Survey Methodology

During February 1997, 1,200 telephone interviews were completed with consumers at least 20 years of age – 1,000 of the interviews were with consumers who indicated they use a bank; 200 were with consumers who do not have any interaction with a bank. The national sample for the survey was provided by Survey Sampling, Inc., and the telephone interviewing was conducted by National Research, Inc.

The margin of error (at the 95% confidence level) for this study is plus or minus 3.2 percentage points for the bank users and plus or minus 7.2 percentage points among the nonbank users. (That would mean, for example, that a change in response from 87% in 1994 to 80% in 1997 for nonbank users would not be statistically significant because it falls within the margin of error.) When comparing the two samples, the margin of error is approximately plus or minus 6 percentage points.

Mathew Greenwald & Associates [MGA], overall manager of the survey, is a full-service market research and consulting firm that specializes in financial services. The firm's president, Mathew Greenwald, has more than 20 years' research experience. Prior to forming MGA, he served for eight years as the director of social research at the American Council of Life Insurance. MGA is based in Washington, D.C.

RThought: Not one of the various sales forecasts reported in *Retailing Today* that dealt with the Christmas season (November and December) provided anywhere near this amount of information nor, in particular, the qualifications of the person(s) supervising the survey, the person(s) who picked the sample, and the person(s) who did the interviewing.

RThought: The retail industry deserves the same kind of disclosures as those given to banks...before one even reads the results of a survey. If such disclosures are not provided, don't even bother to read the article. Why load your mind with *false* information distrubted by well-known accounting firms, professors, and/or companies?

CALIFORNIA'S COLLEGE ENROLLMENT SYSTEM

After World War II, California conducted a brain drain on the rest of the United States because its three-part, higher-education system (all University of California campuses; all state colleges [formerly teacher colleges]; and all community colleges [two-year, day and/or evening classes]) required low or no tuition.

Because of the wonderful cooperation between the California universities, colleges, and industry, by the end of the 1960s, many states had copied elements of the system. For example, the Silicon Valley in northern California became supportive of the system at the same time the aircraft industry in southern California became supportive. Specialized business and technology courses were either conducted by school faculties on business sites or distributed to business sites by closed-circuit TV.

Today, enrollment in California's universities, state colleges, and community colleges is between 1.8 million and 1.9 million people. By the year 2005, the California Department of Finance estimates that enrollment will be about 2.3 million.

The following is the U.S. Bureau of Census' estimated population for the 16 states with population *less* than the present enrollment in California's three-level college system:

State	Estimated Population (000s)	State	Estimated Population (000s)
West Virginia	1,840	Rhode Island	998
New Mexico	1,823	Montana	920
Nebraska	1,704	Delaware	759
Nevada	1,691	South Dakota	720
Hawaii	1,327	Arkansas	699
Idaho	1,290	North Dakota	643
Maine	1,240	Vermont	592
New Hampshire	1,165	Wyoming	522

This system speaks well of the continued supply of educated people for technological industries in California.

RThought: In planning for the future growth of your stores, place California high on the list, particularly in Silicon Valley (which is now spilling over into Alameda and Contra Costa counties), Los Angeles and its surrounding areas, and San Diego.

Contuinued

CALIFORNIA'S COLLEGE ENROLLMENT SYSTEM

Continued

In California, even secondary earners in a family are receiving good pay in technical positions utilizing skills obtained in the state's college and university systems.

Several years ago, there was much talk about how many residents were moving out of California. And they were. But not in the number I saw in the press: In 1997, California's population increased 600,000, the most of any state. Today, California's population comprises approximately 13% of the United States population. Are 13% of your sales from California?

RThought: Unemployment in California is unbelievably low. March figures were as follows:

Los Angeles County	6.1%
Alameda County (Oakland)	3.8
San Diego County	3.4
San Francisco County	2.9
Orange County	2.8
Santa Clara County (Silicon Valley)	2.8

ANOTHER LESSON IN EVERYDAY STATISTICS

Hoping you save your back issues of *Retailing Today*, please take a look once again at the Feature Report in the January 1998 issue, where I criticized the claim of a 3% accuracy rate with a total sample of 1,000 respondents. The survey made no statement of accuracy when the sample was broken into four areas of the country.

However, if each area had only 250 telephone responses, the plus-or-minus accuracy rate for a sample of 1,000 does not apply; it could be plus or minus 8% or 10% for the smaller base – and only if selected in the proper manner.

On February 15, 1998, *The New York Times* published a CBS News poll that showed the opinion of all respondents as well as separate categories for men and for women.

The following statement appeared below the results:

> **Based on a nationwide CBS News poll of 786 adults conducted by telephone on February 8. The margin of sampling error is plus or minus 3 percentage points for all respondents. For men and women, the sampling error is plus or minus 5 points. Those with no response are not shown.**

RThought: If you do not find a similar statement on the next survey that crosses your desk, even if it is from an organization such as the Gallup Poll, American Express, or the National Retail Federation, either throw it away or send a note with a copy of the survey to the organization claiming authorship (and to me), stating, **"I am surprised that you would impose such a survey upon me without disclosing complete information as to its accuracy. I can think only less of you."**

THE PEOPLE WHO BROUGHT ME DISCOVER CARD NOW BRING ME THE BRAVO CARD

As is the case with most *RT* readers, I am sure that I was pre-selected to receive a Bravo Card with no annual fee. All I have to do is fill out a short form. But, wait! If I have been pre-selected, why do I have to fill out a form? If I am "pre-selected," shouldn't Bravo just send me the credit information it already has on me? I could then just initial it for approval if the information. is correct.

The Bravo Card offers two separate lines of credit up to $5,000: an Active Line and a Reserve Line. (I don't understand the differnece.) And it offers a low 4.9% on balance transfers and Active Line purchases until July 1998. In addition, I receive a *free* gift.

RThought: Isn't a gift, by definition, supposed to be free? (*Webster's Ninth New Collegiate Dictionary* states that a "gift" is something voluntarily transferred by one person to another *without* compensation.)

VIRTUAL SHOPPING MALLS REALLY STRUGGLING

This headline was taken from an article in the February 9, 1998, issue of *The Nikkei Weekly*, a Japanese-business newspaper published in English. The subheadline read: "Most online shops quickly close down in 'trial and error phase.'"

It was in Japan that cybermalls first went online to provide 24-hour shopping. By late 1996, some 3,000 stores had set up shop. Although the shops were able to accept orders 24 hours a day, delivery was another matter. A time lag was often created between order confirmation and dispatch. Thus, a majority of the shops have closed.

As in the United States, on a general basis, the most successful online shops have been computers and related items, books, and travel services.

RThought: The Japanese, with their high incomes and their abundancy of personal computers, have the same problems we do; and not unlike the U.S., there is the tendency to wait for the year 2000.

RThought: Much of the "travel services" are airline and hotel reservations that are diverted from telephone or fax.

INFORMATION OF INTEREST TO RETAILERS

In the past five years, the annual charge off on credit-card debt has increased from $14 billion to $37 billion. Cardholders who "skip" account for 75% of all credit-card debt placed for collection and 90% of all unpaid balances.

The category of miscellaneous general merchandise stores, which showed a decrease of 0.1%, was below expectation, although it is the hiding place for BJ's, Costco, and Sam's wholesale clubs.

Grocery stores, up 1.3%, did not increase as much as inflation. The small increase most likely reflects the price pressure from superstores (Meijer, Fred Meyer, Kmart, Target, Wal*Mart, etc.), all of which mix food and general merchandise. (Wal*Mart, for example, is already listed by *Supermarket News* as one of the top five U.S. food retailers.)

With all of the reports that have been circulating about the problems of apparel stores, all apparel and accessory stores were up 4.3%, and family clothing stores were up 6.3%, the latter continuing the strong showing that has been evident now for several years (which, in part, is the conversion of women's stores into family stores by the addition of menswear).

The increase of 8.4% in drug stores is due, I believe, to the increased size of new drug stores, more prescriptions, and the addition of new merchandise items. For example, our local Longs Drug Store (one in a $3 billion chain) carries many more food items, including some fresh produce, than in the past. The food store at which my wife shops for 98% of our groceries is next door. But, with increased frequency, my wife buys food items at Longs (she often finds superior avocados at Longs and cookies which are not available at her food store).

Nonstore retail includes retailers who have coin-activated vending machines (candy, cigarettes, soft drinks, etc.) or who sell merchandise over the Internet or through TV, although the largest portion of this category is mail order. This category showed an increase of 5.9%, an increase most likely brought about by the fact that more and more stores now offer sales by catalog.

The GAF total (general merchandise, apparel, and furniture categories) was up 4.7%. Discount stores, which showed an increase of 8.0%, represented about 25% of the GAF total.

RThought: Before Christmas last year, I received telephone calls each week from five to eight newspaper, magazine, TV, and/or radio reporters. I always accept such calls (or I call back) because I have an interest in helping journalists write better retail stories. It is also the reason I am listed (at my own expense) in the *Book of Experts*, the guide practically every news source uses. Starting after Thanksgiving, with most reporters calling up and saying that retailers were going to have a poor 1997 Christmas season, I said that I believed sales would increase 3% to 5%. And I am not ashamed of my forecast.

RThought: Now for some good news. Christmas in 1998 should be better. How can I make this early prediction? Simply by looking at a calendar.

> In 1998, Christmas falls on a Friday, meaning, as always, when it falls on a Friday, that there will be *29 days* from Thanksgiving to Christmas, against 26 days in 1997. Three extra days! Eleven percent more!!!

RThought: But this always happens when Christmas moves from a Thursday to a Friday.

RThought: May I be the first to wish you a prosperous and Merry Christmas for 1998 assuming, of course, that the economy continues to remain strong!

OLD-LINE RETAILERS RESIST ON-LINE LIFE

I nabbed this headline from an article in *The New York Times*, April 20, 1998, by Jennifer Steinhauer. Steinhauer's youth showed throughout the article, but she did relate some pertinent information about various retailers attempting online sales.

Steinhauer first talked of Saks Fifth Avenue's effort on the World Wide Web in 1996 and its Time Warner Dreamshop site selling only *one* $2,000 suit and some candy. (The chances are 99 out of 100 that the suit had to be altered. As for the candy, it is as good an item to sell online as books, particularly if it is See's Candies!) But, alas, Dreamshop is no more and Saks has no further plans for another site.

The two major reasons traditional stores cannot sell apparel over the web are the same as those found years ago when testing the sale of apparel over TV first occurred.

1. Apparel, especially women's apparel, has no standardized sizes. Even if we measured thousands of women and set new standard sizes every 10 years, as is the practice in Germany, selling apparel probably wouldn't work because there is no way to try it on. (My wife is a good example. When shopping, Patty, who wears either a 2, 4, or 6 petite, takes one of each into a dressing room and often must return all three because none fits!)

2. As with TV, the color of a garment over the web is not a true color, a problem that is not going to be solved for a long time.

All the words of advice on how to design and decorate a cyberspace store won't solve the problems of size, "real" color, texture, or quality of craftsmanship.

Forrest Research in Cambridge, Massachusetts, in my opinion, the best student of sales on the Internet, projects in the year 2000 only $322 million in apparel sales, or less than 5% of projected Internet sales.

RThought: If all retailers experienced the percentage of returns that catalog and TV apparel retailers experience every day, there would be fewer retailers. If you don't believe me, just ask any female who has ordered through catalogs, the Internet, or TV.

According to Steinhauer's article, we traditional retailers shouldn't worry about the billions of dollars that will be made by using the web, because more than half will be computer-related items followed by travel reservations.

RThought: What exactly constitutes "travel"? On the Internet, it is more complete information on airlines and hotels than is given by the official airline guides. We formerly made reservations by telephone or fax; today, the Internet not only allows us to make reservations but often provides us information on sold-out flights, what hotel accommodations are available, you name it!

RThought: Remember, when reading about the volume of sales generated over the web and thinking "there goes my volume," don't be surprised like many experienced retailers, analysts, and consultants: business generated over the web is not a threat to retailers.

EVERYONE SAYS THAT WE HAD A POOR 1997 CHRISTMAS
DID YOU?
LET'S LOOK AT THE FIGURES

SALES COMPARISON
NOVEMBER-DECEMBER
1996 v 1997
(Unadjusted $ millions)

SIC Code	Category	1996	1997		Percentage Change
52	**TOTAL RETAIL SALES**	$454,955	$471,546	+	3.6%
	Building Material Group	21,271	22,152	+	4.1
57	Furniture Group	28,091	30,444	+	8.3
571	Furniture Stores	13,061	14,394	+	10.2
572	Appliance, TV, Computer and Radio Stores	12,468	13,104	+	5.1
5941	Sporting Goods Stores	4,625	4,986	+	7.8
5942	Book Stores	2,401	2,543	+	5.9
5944	Jewelry Stores	6,313	6,380	+	1.1
531	Department Stores	61,770	65,146	+	5.5
531Pt	Conventional Stores	15,120	15,808	+	4.6
531Pt	National Chain Stores	10,900	10,527	-	3.4
	Discount Stores	35,750	38,811	+	8.0
539	Miscellaneous General Merchandise Stores	13,314	13,206	-	0.1
541	Grocery Stores	69,387	70,295	+	1.3
56	Apparel Stores and Accessory Stores	25,907	27,029	+	4.3
561	Men's and Boys' Stores	2,491	2,751	+	10.4
5623	Women's Stores	7,454	7,445	-	0.1
565	Family Clothing Stores	10,600	11,267	+	6.3
566	Shoe Stores	3,623	3,778	+	4.3
591	Drug Stores	17,215	18,668	+	8.4
596	Nonstore Retail	14,871	15,096	+	1.5
5961	Mail Order	11,426	12,096	+	5.9
	GAF TOTAL	156,307	163,646	+	4.7

The table above shows not only the retail sales (in millions of dollars) for both the 1996 and 1997 Christmas seasons (November and December) but the percentage change for each category.

Although I have reported various types of stores, I have not reported detail on three forms of retailing that are included in total retail sales (i.e., the top line of the table) and which represent about one-third of the total. They are:

1. Automotive groups
2. Service stations
3. Food and drinking places

Let's look at some of the results by type of store.

The building materials group was significantly above the total retail figure. The increase in building materials and other related items may have been the result of the weather brought on by El Nino (floods, landslides, tornadoes, electrical outages, etc.).

The furniture group had a great season. It was up 8.3%; furniture stores were up 10.2%; and appliance, TV, computer, and radio stores were up an impressive 5.1%. I expected something lower than a 5.1% increase because the media reported a reduced demand for computers. What may have happened is that department stores discontinued carrying computers; thus, computer stores did not fall behind.

The three specialty stores – sporting goods, books, and jewelry – had a mixed pattern. It was a surprise to see that jewelry stores were up only 1.1% after so much talk of people buying high-priced items with their gains from the stock market. That may account for the 7.8% increase in sporting goods (bicycles, roller blades, golf clubs, tennis rackets, skis, and many other "I can afford " items). Book sales, showing an increase of 5.9%, reflect the supply side: in recent years, about 50,000 new titles are published *each year.* (Remember, not all books purchased are read!)

Retailers need to understand that there are three types of department stores:

1. Conventional stores (Macy's, Marshall Field, May Company, etc.)
2. National stores (Montgomery Ward, J. C. Penney, and Sears)
3. Discount stores (Ames, Kmart, Target, Wal*Mart, etc.)

Conventional stores showed an increase of 4.6%; national stores, which have all of their stores under the same name, were *down 3.4%*; and discount stores *increased 8.0%,* despite the number of discoun stores now in Chapter 11 and/or closing unprofitable stores. Discount stores did $38.8 billion against the total of $26.3 billion for conventional and national department stores *combined.*

Continued

RThought: The Editor's Column in the November 1997 issue of the *ABA Banking Journal*, headed "Information Abounds. How Will You Use It?" applies to all retailers. Such articles are also my reason for frequent mention of information sources that many, if not most, retailers do not know about or do not receive – to their detriment. And it is why I include information like that above, as well as the monthly sales and the year-to-date sales by type of retailer issued by the U.S. Bureau of Census.

IT WAS A NICE COMPLIMENT!

The female voice at the other end of the phone said that she was a headhunter for a consulting firm and relayed information about me that fit the skills being sought. I asked her how she came by the information, and she responded that she obtained it from the Institute of Management Consultants. I quietly asked if anyone had mentioned that I am 80 years old. After a long pause, she admitted that I was beyond the age specification! The conversation then concluded with a pleasant exchange.

RThought: I must admit that I was not completely honest: The conversation took place during the first week in March, and I will not be 80 until May 17. I am sure, however, that "Pie" Meyer, Scoutmaster of San Francisco Troop 17, if he is still watching me from above, will forgive this little lie. I just wanted to get the enjoyment of saying 80 and hearing the response!

...AND THE PREAPPROVED CREDIT CARD OFFERS CONTINUE TO ARRIVE

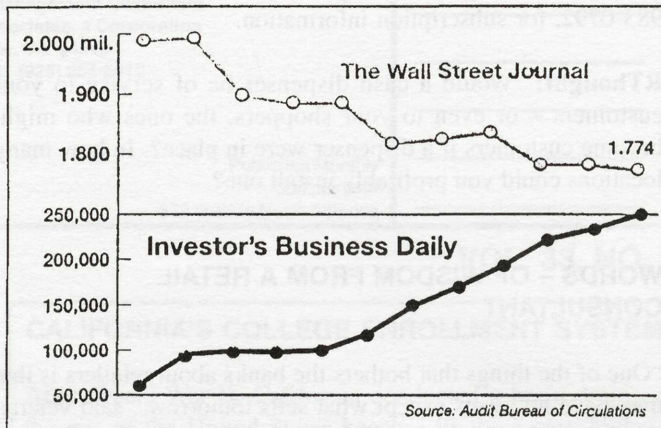
The Capital One Visa Platinum Card: A fixed rate of 9.9% — not just an introductory rate, with a limit up to $20,000 and a minimum monthly payment as little as 2%. Capital One's application asked if I had health insurance. (Could it possibly be affiliated with an insurance company?). The offer expired April 30, 1998. Whoops! I missed it!

The AT&T Universal Business Card: A few years ago, when this card was first introduced, I was two days late in my request for one and was therefore turned down. This time around, there is no annual fee and a 9.9% fixed APR. However, well down in the reading material, I found out that the 9.9% is really prime plus 1.4%. (Remember when prime was above 15%?) AT&T's card features individual cash and credit lines for each cardholder on an account; an annual activity report; ATM access; and a 10% discount on "eligible" (not explained) telephone credit card calls. I passed.

The Augusta State University Alumni Association Gold Card: I once canceled an MBNA MasterCard, but MBNA America Bank is now offering me a card, even though I graduated from Stanford University and Harvard Business School, with the Augusta State University Alumni Association name on it! There is no annual fee; an introductory APR rate of 4.9%; and a 30-minute credit line increase decision (just what the majority of cardholders don't need). I once again passed.

RThought: And the banks still claim no responsibility for the 1,000,000-plus bankruptcies per year.

WHO SHOULD RECEIVE THE MOST CRITICISM FOR PUBLISHING SUCH A CHART?



Circulation Growth (1987-1997)

Investor's Business Daily recently ran this chart, which was more than twice the size now shown, in an advertisement relating to its circulation growth and the number of chief executive officers who read *The Wall Street Journal* and *Investor's Business Daily*.

At first glance, it appears that the *Daily* – the bold line — is quickly catching up with that of *The Journal's*. However, if you look carefully, you will note two factors:

1. The circulation of *The Journal* is approximately seven times that of the *Daily*.

2. Despite an increase of 500% by the *Daily*, the circulation of *The Journal* dropped less than 15%. In other words, over 10 years, the *Daily* has hardly made a dent!

RThought: The *Daily* is at fault for creating such an ad. It certainly does nothing to lead me to change my position of subscribing to and reading *The Journal*. And it only makes me wonder that perhaps the *Daily* takes the same leeway with the contents of its publication.

At the same time, *The New York Times* is at fault for running an ad with this much distortion. Again, many readers will glance at the chart, thinking the *Daily* is catching up with *The Journal*, and will then pass along false information to their friends and associates.

CASH DISPENSERS ARE ON THE RISE

The Nilson Report, Number 662, February 1998, reported on the continued and the faster sale of cash dispensers, as well as their increased features. About 35,000 cash dispensers were sold in 1997 compared with about 2,000 in 1992. As Nilson reported, cash dispensers have increased in features and, thus, profitability. Prices range from $6,000 to $14,000; and, in addition to dispensing cash, they dispense coupons, stamps, and other media.

RThought: If your company subscribes to *The Nilson Report*, be sure the non-credit information is passed on to the appropriate executive; if not, you can telephone 805-983-0448, or fax 805-983-0792, for subscription information.

RThought: Would a cash dispenser be of service to your customers – or even to your shoppers, the ones who might become customers if a dispenser were in place? In how many locations could you profitably install one?

WORDS – OF WISDOM FROM A RETAIL CONSULTANT

"One of the things that bothers the banks about retailers is that they have no assets except what sells tomorrow," said veteran Toronto-based retail consultant and former executive Albert Plant in a February 20, 1998, article in *The Ottawa Citizen*. Plant continued, "People have come to expect constant change. Inventory has to turn over six to eight times a year compared to two or three times a few years ago." He then drew a parallel between the three-way battle of Wal*Mart Canada, Zellers, and Kmart Canada (the latter of which is now part of Zellers) and the three-way competition between Hudson's Bay Co., Sears Canada, Inc., and T. Eaton Co. department stores. Just as the discount chains are now down to two, the department stores may soon be down to two, because Eaton's is just coming out of the equivalent of Chapter 11 in the U.S. and recently announced that it intends to go public after 129 years in business! When asked, one retail analyst said that he would not invest "while the Eaton family has control."

To make this competition more intense, The Bay and Zellers are headed by Bill Fields, formerly the vice president of Wal*Mart stores and its supercenters in the U.S. On the other hand, Eaton's recently hired the retired president of The Bay, while Sears is headed by the former chief executive officer of Zellers. While Zellers has kept most of its volume, it has lost much of its profit competing with Wal*Mart Canada.

The head of Chapters, Inc., Canada's largest bookstore chain, recently surmised: "What I find stunning is how quickly the retail market has fragmented into different pieces. Not so long ago, you would have defined your competition as those who looked exactly like you; in our case, bookstores. But today we compete with (big-box discounter) Price Costco and Price Costco competes with Toys 'R' Us and Loblaw's." The same comments were voiced by the head of a major music retailer, Maxi & Co., saying that Maxi now looks at competition from Wal*Mart, Chapters, and other non-traditional music retailers.

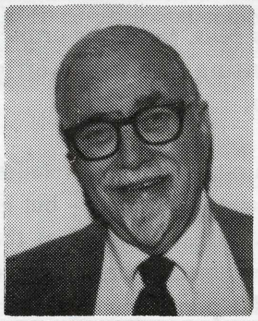
RThought: The same is happening here in the United States. Book competition is coming from Sam's Wholesale Club; drug stores are competing with large supermarket chains; and we even have Circuit City Stores competing with used car dealers.

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON (Unadjusted $ millions)

SIC Code	Category	FEBRUARY 1998	FEBRUARY 1997		Percentage Change	YTD 1998	YTD 1997		Percentage Change
52	Building Material Group *	$ 10,070	$ 9,245	+	8.9%`	$ 20,145	$18,458	+	9.1%
57	Furniture Group *	11,486	10,314	+	11.4	23,723	21,107	+	12.4
571	Furniture Stores	5,527	4,986	+	10.9	11,291	10,205	+	10.6
572	Appliance, TV, Computer and Radio Stores	5,134	4,541	+	13.1	10,719	9,316	+	15.1
5941	Sporting Goods Stores *	1,483	1,388	+	6.8	2,941	2,780	+	5.8
5942	Book Stores *	991	831	+	19.3	2,354	2,426	-	3.0
5944	Jewelry Stores *	1,445	1,456	-	0.8	2,529	2,630	-	3.8
531	Department Stores *	18,340	16,916	+	8.4	35,760	33,255	+	7.5
531Pt	Conventional Stores	3,679	3,480	+	5.7	6,791	6,447	+	5.3
531Pt	National Chain Stores	2,616	2,580	+	1.4	5,187	5,291	-	2.0
	Subtotal	6,295	6,060	+	3.9	11,978	11,738	+	2.0
531Pt	Discount Stores	12,045	10,856	+	11.0	23,782	21,517	+	10.5
539	Miscellaneous General Merchandise Stores *	4,162	4,010	+	3.8	8,391	8,115	+	3.4
541	Grocery Stores *	32,478	32,165	+	1.0	63,853	63,259	+	0.9
56	Apparel and Accessory Stores *	7,715	7,265	+	6.2	15,194	14,280	+	6.4
561	Men's and Boys' Stores	697	653	+	6.7	1,475	1,368	+	7.8
5623	Women's Stores	2,012	2,051	-	1.9	4,011	4,003	+	0.2
565	Family Clothing Stores	2,800	2,556	+	9.5	5,512	5,060	+	8.9
566	Shoe Stores	1,423	1,358	+	4.8	2,707	2,572	+	5.2
591	Drug Stores *	7,957	7,586	+	4.9	16,362	15,394	+	6.3
596	Nonstore Retail *	5,554	5,403	+	2.8	11,244	10,808	+	4.0
5961	Mail Order	3,702	3,163	+	17.0	7,650	6,658	+	14.9
	* *RETAILING TODAY* TOTAL STORE RETAILING (1)	101,681	96,579	+	5.3	202,496	192,512	+	5.2
	GAF TOTAL (2)	48,670	45,184	+	7.7	97,164	90,176	+	7.7

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975. The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).



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INTRODUCTION

Retailing Today presents an unusual issue: a single article!

"Do YOUR Figures Fool You?" appeared in the November 1950 issue of *The Balance Sheet*, once the monthly publication of the Controller's Congress of the National Retail Dry Goods Association. Today, however, not only has *The Balance Sheet* disappeared but so has the title of controller.

During the past year, I have distributed copies of the article to several people in retailing, including consultants; and they have found the article to be an eye opener.

I did not create or discover contribution accounting, but I did work under such a system in 1940-41 when I went through Macy's training squad program at its 34th Street and Broadway store (then Macy's only store). I continued to use contribution accounting while working in Macy's Research Division V and at companies which I worked after World War II.

Although some of the article's phraseology may not be grammatically correct today, **"Do YOUR Figures Fool You?"** is as timely as it was in 1950, because contribution accounting eliminates all of the foolishness contrived by executives who attempt to allocate overhead down far enough beyond department or classification to SKUs (i.e., when doing so, executives are under the impression that they have measured profit by SKUs)!!!

Do YOUR Figures Fool You?

...a good yardstick to use in measuring the efficiency of a department in the "contribution plan of expense distribution."

Figures are the yardstick in all of our retailing operations. We dissect, bisect, and trisect our operations. We come out with departmental, divisional, and storewide figures. But do we let our figures fool us?

Every retail operation seeks a profit, and the final measuring stick for each operation is the net profit. But many stores go even further – they can measure the net profit of each and every department. They place complete faith on the net profit figures they have developed for each department. Why, they must be right! They are careful to follow the *Standard Expense Accounting Manual for Department Stores and Specialty Stores*, as prepared by the Controller's Congress of the National Retail Dry Goods Association. In fact, its controller has gone even further in developing a "sound basis" for allocating expenses. Today, less than 2% of total expenses are not distributed on either a direct or a semi-direct basis; and the manual is working hard to eliminate that 2%.

Such confidence as the foregoing has been expressed many times by department store executives. A tremendous amount of work went into the *Standard Expense Accounting Manual*, and many stores follow it faithfully. Now, let us look back to see how this method of measuring our operation has helped us in our thinking.

For years, department store executives have accepted, as a truism, that they lose money on certain departments year after year but that (a) they would lose even more if they didn't have them and/or (b) a store must keep them because they are an accepted part of the department store pattern and the customers demand them. The same thinking has gone into the concept that a store loses money all year long but makes a profit in December. If that is true, why not take an 11-month vacation and operate just during December? Then, the profits would be tremendous because the losses from the first 11 months would be eliminated.

Somehow, there must be a reconciliation of this apparent conflict between the measuring sticks that have been developed by the accounting end of retailing and the common sense outlook generally practiced by retail executives. The true situation is hazily perceived by management – but they have been unable to bring it into sharp focus.

Let us examine the *Standard Expense Accounting Manual* and see just how it produces these figures that do not agree with our logic. On page 9, one finds this statement: "The purpose of the *Standard Expense Accounting Manual* is to provide a standard for defining and a procedure for classifying and distributing expense items." It has provided an excellent standard for defining accounts for use in retailing and has been largely responsible for the development of common terms in the retailing field. By following the definitions of expenses, one store is able to compare expense with another store and know that both are discussing the same expense.

But when the manual explains how expenses should be combined into departmental operation reports, it goes a step beyond its purpose. It allocates expense on a basis that must, of necessity, be arbitrary in many cases. The source of the conflict between "accurate accounting figures" and common sense lies in the arbitrariness of the allocation of many expenses to a specific source of income or sales.

The income of a store must come from some place outside the store. We can assume that all of this comes from selling departments. It is accurate and realistic to give credit to each department for the income it produces in the form of sales because we can apply the rule of reversibility by saying that without that *specific* department we would not have had that *specific* income (granted that we might have had another department occupying the same space and producing its own income). By the same test, we are correct in charging the cost of goods sold to the income produced by a specific department, because, without that specific department, we would not have had the cost for the goods sold.

The same rule of reversibility can be applied to what are generally accepted as departmental or direct expenses, such as selling salaries, taxes on selling salaries, department manager and buyers' salaries, supplies actually used, advertising devoted directly to the sale of merchandise of a specific department, and several other expenses. However, we can not apply the rule of reversibility to the allocation of many other expenses that we normally consider overhead expenses.

We have three basic rules.

1. **Rule of Reversibility**: If we did not have this specific source of income to which this expense is charged, we would not have the expense.

2. **Rule of Reasonableness**: If the cost of determining a department's share of a reversible expense is excessive, the expense will be absorbed as overhead.

3. **Rule of Fairness**: Expenses that are reversible but are not controlled by the buyer will be used to evaluate the department but not the buyer.

Let us look at overhead expenses. *Webster's New International Dictionary*, Second Edition, unabridged, defines overhead in relation to accounting as follows:

> **Those general charges or expenses, collectively, in any business which cannot be charged up as belonging exclusively to any particular part of the work or product, such as rent, taxes, insurance, lighting, heating, accounting and other office expenses, and depreciation.**

That is exactly the manner in which management in retailing recognizes overhead in its planning and its thinking – but not in its measurement of operations. Despite the fact that management recognizes, by definition, that overhead does not belong exclusively to any particular part of the work, by following the *Standard Expense Accounting Manual*, management proceeds to charge it to the operating departments of a store.

Expense Distribution

Chapter XIII of the 1950 edition of the *Standard Expense Accounting Manual*, entitled "Expense Distribution – Net Profit Plan," devotes itself to the method of allocating costs. It sets up four basic principles which bear repeating here:

1. **All items of expense should be charged as far as possible directly to departments – selling or non-selling – where initiated or incurred.**

2. **All items of expense not charged directly should be studied carefully in the light of conditions prevailing in the individual stores.**

3. **The basis of distribution selected must be best suited to bring out true costs.**

4. **The distribution of indirect expenses, if done thoroughly, need not be made more often than semiannually.**

The essence of these four basic principles is that all expenses must finally be charged to a selling department. Let us examine the basis recommended by the *Standard Expense Accounting Manual* and see if the basis recommended actually does "bring out true costs."

It is recommended that the executive office expense be distributed on the basis of sales. The basic assumption is that major executives devote their time and their effort to departments in proportion to the sales of each department. No store operates in this manner. First of all, top management usually devotes more of its time to the departments it feels are doing poorly than to those that are doing well. Secondly, for the larger departments, better-qualified buyers or managers are hired who are given greater leeway in their operation and who are paid more for the additional responsibility they have. And then that department is charged an even larger, rather than a smaller, part of the cost of the executive office. In practice, this means that if you hire a top person to run a department and give him or her complete leeway in its operation, resulting in doubling the sales, you will double his or her charge for the executive office.

On fixed plant and equipment costs, where a percentage lease is not involved, the *Standard Expense Accounting Manual*, on page 118, states:

> **Determine the relative value of each floor, giving consideration to total area, real estate worth, and accessibility. If a zoning method is used, such determination will extend to different sections on the same floor.**

Essentially, the above states, "You take your guess; I'll take mine." But, even worse, after setting a final guess as to how valuable the space on the second floor is relative to the street floor and how valuable the west side is relative to the east side, we shall then say, "This is it. This is accurate. This is the basis upon which we can allocate a major item of expense and are sure that we are reflecting 'true costs.'" It is doubtful that any store or any management can arrive at true costs in allocating fixed plant and equipment costs. See for yourself just what an error in the basis of allocating this expense might mean. Assume that you have allocated 40% of these costs to your street floor and, upon review, feel that 50% should be the correct figure. Adjust your net profit figures shown last year for your new street floor valuation and see how it changes your opinion regarding many of the departments and buyers or managers.

The sales promotion office includes the payroll for the publicity manager and assistants, copywriters and proofreaders, artists, and other regularly employed, plus professional advertising services, if any, and minor items of supplies and traveling. The *Standard Expense Accounting Manual* again recommends that this expense be allocated on the basis of dollar sales. What happens to the departments that do not get their relative proportion of advertising? The 1948 Merchandising and Operating Results, under typical performance figures for stores in the $10,000,000 to $20,000,000 group, show a variation in newspaper costs as a percentage of sales from a low of 0.8% in laces, trimmings, and ribbons to a high of 4.8% in furs. Yet, it is recommended that the expense be distributed on the basis of dollar sales.

Display: On page 119 of the 1950 edition of the *Standard Expense Accounting Manual* a simple statement appears regarding display expense:

> **The principal factor involved in the distribution of the expenses under this sub-function is the determination of daily window charges. Each window and interior case must have placed upon it a daily advertising value or rating, as an advertising medium.**

Like the statement of fixed plant and equipment costs, it doesn't say how. Once again, the basis of reflecting true costs must be completely arbitrary. Yet, this arbitrary valuation is then added with other arbitrary valuations to arrive at a net profit or loss for a department that is accurate to the penny! In the future, it looks like we will be able to add to the old retail truisms: (a) "We lost money on every shirt we sold but made a profit on the volume"; (b) "We lost money on the store but made a profit on our cash discounts"; or (c) "We lost money on the store but made a profit on our display department."

It can be shown, with equal ease, that the recommended basis for allocation of other expenses is equally arbitrary in nature. Office salaries (dollar sales), training and welfare (average clerk days), workmen's compensation insurance (dollar sales), surety bonds (dollar sales), elevator operator salaries (space occupied, presumed to include first floor), store superintendent and assistants (space occupied), light, heat, and power (space occupied), merchandise managers and assistants (group sales), and others could be explored.

The above expenses, the allocation of which must be highly arbitrary, account for 6 to 14 percentage points in various stores out of an expense rate of 30 to 33 percentage points. The manner in which they are allocated, in an honest attempt to reflect true costs," materially affects the final net profit or loss figure shown for a department. Yet, despite this realization, the accounting department of a store operating on the net profit plan must be able to produce, for any period, a report showing the net profit or loss, carried out to the penny, for each selling department, and the arithmetic sum of the net profits or losses of the various departments must equal the net profit or loss of the total store.

Therein lies the greatest weakness of the net profit plan. In examination of each individual expense the assumptions involved in the allocation may be recognized; but, once someone is shown a net profit or loss figure, those assumptions are forgotten or the variations from true costs are assumed to be exactly equal and offsetting. It is doubtful that any store has ever shown a net profit figure for a department as follows:

Net Profit $3,697

Plus or minus $3,150 to allow for errors in accuracy of arbitrary assumptions involved in the allocation of overhead expenses.

It has been fairly easy to criticize the net profit plan of accounting, to show how it leads to inaccurate evaluation of operations and how it creates erroneous pictures of individual departments. Such an attack would be unfair if it were proposed to end this discussion at this point. Having made this analysis, it is incumbent upon the writer to propose a better method of statistical evaluation of a department.

Such an accounting approach has been known and used by a few stores for many years. It is called the contribution plan and is dealt with in Chapter XIV of the *Standard Expense Accounting Manual* in the same manner as an orphaned child that the writers of the manual wish would wander away. The 1950 edition shows that the last formal consideration of this plan by the Controller's Congress took place in 1937, at which time the Contribution Plan Committee stated that it would be "unwise" at that time to take a stand on whether to "recommend that the contribution plan succeed the proration, distribution, net profit plan. It is recommended that each store review the advantages of both plans and make its own decisions."

Contribution Plan

In explaining the contribution plan, the *Standard Expense Accounting Manual* stated:

> **Under the contribution plan, the individual department is, in reality, only a part of the store, not a separate business, and both the department's worth and the buyer's results are measured only by those factors that directly result from the department's activities.**
>
> **The net profit plan considers each department as a separate business, so that items of indirect expense, such as rent, executive salaries, and other expenses are charged to each department in order that a departmental net profit or loss can be determined to judge the department's worth and the buyer's ability.**

Is there any logical reason why, in a department store of today, a department should be examined and evaluated on the basis of being a separate business? As a separate business, a department manager would have final control over his or her resources, the price lines carried, the methods of selling, whether the department manager wanted to have charge accounts and who he or she wanted to carry on credit, the newspapers in which ads would be placed, how much sales help would be paid and on which basis it would be computed, how often he or she would sweep the floor, what kind of fixtures would be used, and many other things over which a manager of a department in a modern department store has no control. If a department does not operate as a separate business, then why set up an accounting system that attempts to measure it as a separate business? Why not establish an accounting system that attempts to *measure the contribution of the department and the department manager to the total of the store*?

In stating the advantages of the contribution plan, the *Standard Expense Accounting Manual* presents arguments that it never refutes in advocating the net profit plan:

> **...this plan has many things to recommend it. It is quickly prepared and easily understood. The result is a measure of the effectiveness of the buyer's effort. Attention is not diverted by figures which may represent mistakes made by store management.**
>
> **Stores which use the contribution plan report that it gives them a more accurate and fairer estimate of results of departmental operations.**
>
> **The contribution plan follows the reasoning that merchandise executives shall be charged with the expense over which they have direct responsibility, and it stops right there; while the net profit plan charges them with expenses over which they have no direct control and by methods of distribution which are not always true measures of departmental participation or benefit.**

Despite this development of the advantages of the contribution plan, the writers of the *Standard Expense Accounting Manual* could not bring themselves to give wholehearted support of the plan, even in the paragraph supposedly devoted entirely to the contribution plan method. The writers had to add this sentence:

> **With little additional cost, stores may report contribution and also net profit by department, and management might in such a procedure have a much better analysis than they have through net profit alone.**

Of course, they could have a better analysis if they expanded their net profit method to show a department contribution; for then, they would have a basis for realistic evaluation of a department.

Let us forget the history of departments and department stores and look at these organizations as they stand today. Somebody is the owner and he or she owns or rents a physical plant. He or she has a building at X location with Y square feet in it. The problem of the management is to use this physical plant so as to produce a profit to the owner.

The first step is to fill the space. Management recognizes that certain space will be used for selling departments which will produce income; certain space will be used for necessary customer services, such as elevators, stairs, restrooms, aisles, and the like; additional space will be used for operating divisions, such as receiving, storage, shipping, marking, advertising office, credit office, general office, display department, and so on down the line. Everything that goes into the fixed physical plant has certain flexibility. Each selling or operating department, with rare exception, could be on the top or the bottom floor. However, management recognizes that certain departments operate more efficiently in certain locations, such as locating receiving close to the point where the trucks deliver the merchandise.

Management also recognizes that because of the complexity of a department store, no one person can take care of all the details necessary for the smooth operation of the store. Therefore, organization charges are planned to spread the responsibility among specialists – credit managers, store superintendents, office managers, display managers, service managers, marking supervisors, shipping supervisors, and, finally, department managers or buyers. Each specialist is given complete control, more or less, over those things in which he or she is a specialist and limited control over those things in which he or she is not a specialist.

The problem that now arises is how to evaluate the operation of the various departments, or divisions, so that they can be combined in such a manner as to produce the maximum profit from the fixed physical plant with which the management started.

A special problem arises in attempting to evaluate the selling departments, since their operation is complicated by the fact that they receive income (as opposed to service departments that are just expense or out-go operations). Immediately, because they do produce income, the idea comes to mind that we should measure them by means of profit. Following this line of reasoning, we arrive at net profit accounting, because our logic says that in order to measure their profit the selling departments must bear their expenses. Since, in theory, none of the expenses controlled by other experts would have arisen if we did not have income departments, then we must see that the income departments get their "fair share" of these expenses. The result? *Arbitrary* allocation of expense.

But let us start a little differently. Let us recognize that every department manager, whether a selling or a service department manager, has control over certain expenses. The only basic difference between a selling department and a service department is that the selling department has an additional expense, the cost of goods sold, and an income item, sales. The selling department manager, unfortunately, doesn't have a problem of making a profit. But he or she does have control over the relationship of the cost of goods sold and the price he or she gets paid for them. Our *Standard Expense Accounting Manual* has served one purpose in establishing a fixed concept of gross margin, and we can accept that gross margin figure as the starting point in our evaluation of a selling department manager.

Gross Margin

Gross margin can be measured either in percentages or dollars. Dollars will pay bills; percentages will make charts. Dividends to owners are paid in dollars and not in percentages. Percentages are yardsticks, an arithmetic tool for comparing the relative size of two numbers. It can be used with equal ease for dollars or donuts, profits or peanuts.

Starting with gross margin as the basic income figure, let us look now at the expenses that a selling department manager can control. A manager can, to a very marked degree, control his or her selling expense, through the number of people he or she asks for and uses, the degree of training the manager gives, and the enthusiasm he or she engenders in them for the merchandise the manager has purchased and they have to sell. The department manager has effective control over many of his or her miscellaneous expenses, such as the cost of deliveries (by training people how to sell properly), the supplies they use (by watching that they are not wasted and that people know how to use them), or advertising expense (by seeing that advertising dollars are not wasted, and, therefore, are not charged to the department, when they will not produce a proper sales return for the expenditure), and other dollars that are spent right in his or her department.

On the other hand, the department manager has no control over the cost of his or her insurance (as management decides what types will be carried) or the cost of property taxes (which is set by the local government), or the salary of the president and other officers (which is set by the board of directors) or the cost of operating the credit office (which is controlled by the credit specialist) or the cost of polishing and sweeping the floors (which is controlled by the building maintenance specialist). There are many other expenses that fall in this category.

We can hold our selling department manager responsible only for part of the total expenses – the cost of merchandise and the costs of operating his or her own department. We can give the department manager credit for all the income he or she produces. If we subtract the expenses for which the manager is held responsible from the income for which we give him or her credit, we arrive at a figure that is not profit and is not gross margin. Yet, it is a figure that is important in the thinking of all retail executives. It is the income that the selling department manager has produced to cover the costs of the business controlled by the other specialists in the store. This is the income we want to maximize before we consider the other operating expenses. This income will tend to vary in proportion to sales, whereas the other operating expenses will tend to remain fixed.

We have given the merchandising division the job of maximizing this income, and we can measure the results. We can say to the merchandising division: "You have Y square feet of space. Your job is to produce from that space the maximum number of dollars, after deducting cost of goods sold and the other expenses that you can directly or effectively control. These dollars we will call your contribution to the other expense of the store, or your CONTRIBUTION TO OVERHEAD." The *merchandising division* has then, in effect, only one limiting factor – the size of the plant; and it *has only one goal* – the *production of the maximum dollars* (not the percentage) *of contribution to overhead.*

Accepting the definition of overhead as set forth by *Webster's* and as generally accepted in accounting as those expenses which do not belong exclusively to one SELLING department of a store, we can, with a high degree of reality, say that the variance in this CONTRIBUTION TO OVERHEAD figure will not affect the OVERHEAD EXPENSES. Therefore, if the merchandising division can produce more contribution to overhead, we should be able to make more profit; if the merchandising division produces less contribution to overhead, we should make less profit.

Overhead is not necessarily fixed expenses. However, it is expense that does not derive directly from the volume of any one selling department nor is it controlled by any person in the merchandising division. However, assume for the moment that overhead is fixed. Let us look at several sets of figures. Suppose X physical plant makes it necessary to incur $2,000,000 in overhead expenses a year. In X plant, a variety of selling departments can be placed with any combination of markup rates or department expense rates. Let us assume that it could be used either for Food or for General Merchandise. In X plant, then, we might be able to show operating figures as follows:

	Food Store		General Merchandise	
Sales	$15,000,000	100%	$10,000,000	100%
Cost of goods sold	12,000,000	80	6,000,000	60
Gross margin	3,000,000	20	4,000,000	40
Departmental expenses	750,000	5	1,500,000	15
Contribution to overhead	2,250,000	15	2,500,000	25
Overhead	2,000,000	13	2,000,000	20
Net profit	$ 250,000	2%	$ 500,000	5%

Faced with such figures, most management would elect to go in the general merchandise business rather than in the food business.

However, let us now assume that they are in the General Merchandise business, and the merchandise manager comes to management and says, "I'd like to put in a Food Department. I think we could make more money with that than we do with our Hardware Department." The usual analysis of such a situation might develop along the lines of the figures below:

	Hardware Department		Food Department	
Sales	$ 50,000	100%	$150,000	100%
Cost of goods sold	30,000	60	112,500	75
Gross Margin	20,000	40	37,500	25
Departmental and overhead expenses	17,500 (1)	35	45,000 (2)	30 (2)
Net profit (net loss)	$ 2,500	5%	$ (7,500)	(5)%

(1) Based on estimated departmental expenses of 15% plus store overhead rate of 20%, making a total of 35%.

(2) Based on estimated departmental expenses of 10% plus store overhead rate of 20%, making a total of 30%.

Looking at the figures from the approach of net profit accounting, they indicate that the department should be turned down on the grounds that the Hardware Department will produce a profit of $2,500, whereas the Food Department would lose $7,500. But is this true? Both departments would occupy the same space. In both cases, all expenses of the department would be included in the department expense rates of 15% and 10%, respectively. However, both departments have been charged the standard overhead expense rate of 20%. For using the same space, we would charge the Hardware Department only $20,000 overhead (20% of $50,000 sales) and the Food Department $30,000 overhead (20% of $150,000 sales). Therefore, by changing from a Hardware Department to a Food Department, we must have incurred an additional $20,000 overhead expense. We know that this statement is not true, so there must have been an error in the presentation of our figures.

Let us forget overhead for a minute and look at this problem with the criterion that the job of the merchandising division is to produce the maximum contribution to overhead from its available space. Under this analysis, the figures would be presented as follows:

	Hardware Department		Food Department	
Sales	$ 50,000	100%	$150,000	100%
Cost of good sold	30,000	60	112,500	75
Gross margin	20,000	40	37,500	25
Departmental expenses	7,500	15	15,000	10
Contribution to overhead	$12,500	25%	$ 22,500	15%

With these figures, we see that the Hardware Department has a much higher markup. It involves considerably less departmental expense ($7,500 against $15,000). The Hardware Department produces a much higher rate of contribution to overhead (25% against 15%), BUT, and this is the biggest factor, the Food Department will produce $22,500 excess over its own expenses to be used to cover overhead expenses, whereas the Hardware Department would produce only $12,500. By adding a Food Department, despite its low markup, this store would stand to make an additional $10,000 a year (assuming that overhead is true overhead and, thus, is not a function of volume or traceable to a department operation).

From the above analysis, we also come to a basis for measuring the productivity of a department. Assume that the space in question is 1,000 square feet. We could then reduce the contribution to overhead of the two departments to a figure of contribution per square foot. In the case of the Hardware Department, it would be $12.50 per square foot while the Food Department would produce $22.50 per square foot.

We then have a figure which we could compare with other departments and we have a criterion for measuring the value of a department and the space it would be allowed to have. From our relatively fixed selling area, we want to produce the maximum contribution to overhead. Therefore, *we will seek the maximum contribution to overhead per square foot of selling space.*

Let us use our figure of contribution to overhead per square foot per year in a practical application. For purposes of this example, let us use actual figures for $10,000,000 to $20,000,000 per year department stores as shown in the 1948 Merchandising and Operating Results. Let us further assume that the only direct departmental expenses are those that are shown in the report; namely, newspaper costs, salespeople's salaries, and delivery expense. Further, let us assume that the seventh floor of our store has on it the following departments:

	China and Glassware	Major Appliances	Housewares
Gross margin	42.1%	27.1%	35.0%
Newspaper costs	3.3	2.1	3.2
Salespeople's salaries	6.5	5.9	5.8
Delivery expense	3.1	2.0	4.1
Total departmental expenses	12.9%	10.0%	13.1%
Contribution to overhead	29.2%	17.1%	21.9%

Looking at this operation, it appears that China and Glassware was the most profitable operation. This department had the highest gross margin percentage of the three departments, and it had the highest contribution to overhead percentage. By the same standards, Major Appliances was the least profitable operation. It is highly unlikely that any method of allocating overhead expense can lead to any other conclusion than the one that the China and Glassware is the profitable department and Major Appliances is the unprofitable department.

Square Feet of Selling Space

But let us use a few more of the typical figures shown in the Merchandising and Operating Results. To simplify the extension of these figures, let us assume that our department store has an annual volume of exactly $10,000,000 per year.

	China and Glassware	Major Appliances	Housewares
1. Sales as a percentage of total store (Source: MOR)	1.1%	2.9%	3.1%
2. Sales in dollars for the store ($10,000,000 multiplied by Line 1)	$110,000	$290,000	$310,000
3. Contribution to overhead percentage (See previous computation)	29.2%	17.1%	21.9%
4. Contribution to overhead (Line 2 multiplied by Line 3)	$32,100	$49,600	$67,000
5. Dollar sales per square foot of selling space (Source: MOR)	$ 41	$ 145	$ 69
6. Total square feet of selling space (Line 2 divided by Line 5)	2,680	2,000	4,490
7. Contribution to overhead per square foot of selling space (Line 4 divided by Line 6)	$ 12	$ 25	$ 15

From the above computation, it now appears that the relative evaluation of our three departments is exactly reversed. For every square foot of selling space (our most important fixed factor in retailing), we find that Major Appliances, despite its poor markup, produces the greatest number of dollars to help pay for our overhead expense (see Line 7 above) and that China and Glassware produce the least. Once again Housewares is in the middle.

This analysis of the relative evaluation of the three departments does not agree with our so-called "common knowledge of retailing" — that you can't make money with an Appliance department that has a gross margin of 27.1%.

Let us see what would happen if we used the 2,000 square feet now devoted to Major Appliances for something else. This department now produces an almost $50,000 per year contribution to overhead. If we had it in China and Glassware (assuming that we did not already have such a department and that it would produce the figures shown as typical in the Merchandising and Operating Results), we would have a much higher gross margin percentage (42.1% vs. 27.1%) and a much higher contribution to overhead percentage (29.2% vs. 17.1%), but it would have a smaller total dollar contribution towards the overhead expenses of the store ($24,000 vs. $50,000). Looking at dollars, again, instead of percentages, which department would you want in that 2,000 square feet of space? The obvious answer is Major Appliances rather than China and Glassware.

The figures quoted above are not ones dreamed up to prove a point. They are the actual figures for consecutive departments (76, 77, and 78) and extracted from the 1948 Merchandising and Operating Results published by the Controller's Congress of the National Retail Dry Goods Association. In most stores, the three departments would be in the same division and would be located on the same floor. They would occupy adjacent space, and there would be a constant problem of space allocation between the three departments. These typical figures represent the composite of the figures of 53 reporting stores, which, according to the appendix, represent a sufficient number of stores to be a reliable sample.

We can now come back to our original question: **Do YOUR Figures Fool You?**

Under the figures set forth above, would your operating reports and your analysis of departments show that Major Appliances were more or less a "profitable" department than China and Glassware? Has the concept that you must, in the end, allocate all expenses to some individual selling department produce a yardstick with so many *ifs*, *ands*, or *buts* in it that its measurements are unreliable; in fact, they are so inaccurate that they are useless?

With the more realistic yardstick outlined above, we can now see many uses for it. The *total dollars of contribution to overhead* rather than the total dollars of sales become the measure of importance for a department. It becomes *a figure against which to evaluate a department manager and to which his or her compensation can be tied.* The figure of dollars of contribution to overhead per square foot of space becomes a sound basis for adjusting the space allocation of departments so that the fixed factor of limited selling space can produce the maximum profit. The figure can be an annual figure for use in planning general departmental layout and it can also be a monthly, quarterly, or a seasonal figure for use in adjusting the space allocated to each department in order to maximize the contribution to overhead in any month, quarter, or season.

A monthly operating report to the department manager that shows a measurement of his or her worth and effectiveness, based solely upon figures over which the manager has either complete or effective control, becomes a report that the manager will appreciate and to which he or she would be willing to tie compensation.

A monthly operating report is simple to prepare, as it does not require an expensive allocation of expenses to departments. Such a report prepared for each department becomes a measure of the effectiveness of the department buyer or manager; the combined report of the departments constituting a division becomes the measure of the effectiveness of the divisional merchandise manager; and the total of all departments in the store becomes the measure of the effectiveness of the general merchandise manager.

The overhead expenses are not neglected in this method of reporting the store operation. In addition to the general merchandise manager, there are usually three other key executives who, together, have control over the overhead expenses: the controller, the store superintendent, and the publicity or advertising manager. Each overhead expense can then be dealt with in total, and the responsible major executive held responsible for its control. His or her shortcomings will reflect only in higher overhead expenses – and not, in any way, in the operating figures of the departments. By the same approach, top management policy decisions, such as types of insurance to carry, charitable contributions to make, etc., do not reflect in the profitability of any single department.

Just as the monthly operating reports are considerably simpler under the contribution to overhead method of accounting and can, therefore, be prepared monthly, a monthly report of overhead expenses can be prepared and used in the evaluation of the effectiveness of the control of overhead.

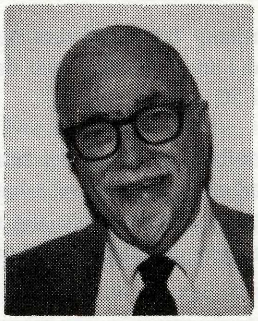
The contribution to overhead method of accounting will produce in your organization a more logical and realistic method of income and expense presentation that will materially aid management in its decisions. By using the contribution to overhead method of accounting, you will be able to answer "NO" when asked, **"Do YOUR Figures Fool You?"**

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	MARCH 1998	1997	Percentage Change	YTD 1998	YTD 1997	Percentage Change
52	Building Material Group *	$ 12,595	$ 11,588	+ 8.7%	$ 32,715	$ 30,026	+ 9.0%
57	Furniture Group *	12,433	11,380	+ 9.3	36,173	32,487	+ 11.3
571	Furniture Stores	6,066	5,606	+ 8.2	17,371	15,811	+ 9.9
572	Appliance, TV, Computer and Radio Stores	5,466	4,918	+ 11.1	16,205	14,234	+ 13.8
5941	Sporting Goods Stores *	1,846	1,683	+ 9.7	4,789	4,463	+ 7.3
5942	Book Stores *	869	815	+ 6.6	3,221	3,241	- 0.6
5944	Jewelry Stores *	1,186	1,223	- 3.0	3,737	3,753	- 0.4
531	Department Stores *	20,830	20,480	+ 1.7	56,598	53,735	+ 5.3
531Pt	Conventional Stores	4,195	4,192	+ 0.1	10,539	10,539	+ 4.3
531Pt	National Chain Stores	3,052	3,179	- 4.0	8,240	8,470	- 2.7
	Subtotal	7,247	7,371	- 1.7	19,231	19,009	+ 1.2
531Pt	Discount Stores	13,583	13,100	+ 3.7	37,367	34,625	+ 7.9
539	Miscellaneous General Merchandise Stores *	4,696	4,499	+ 4.4	13,077	12,614	+ 3.7
541	Grocery Stores *	33.349	34,022	- 2.0	97,245	97,281	0.0
56	Apparel Stores *	9,303	9,445	- 1.5	24,530	23,725	+ 3.4
561	Men's and Boys' Stores	809	770	+ 5.1	2,290	2,138	+ 7.1
5623	Women's Stores	2,385	2,589	- 7.9	6,396	6,592	- 3.0
565	Family Clothing Stores	3,466	3,411	+ 1.6	8,986	8,471	+ 6.1
566	Shoe Stores	1,669	1,809	- 7.7	4,383	4,381	0.0
591	Drug Stores *	8,542	8,283	+ 3.1	24,996	23,677	+ 5.6
596	Nonstore Retail *	6,522	6,207	+ 5.1	17,788	17,015	+ 4.5
5961	Mail Order	4,463	3,888	+ 14.8	12,135	10,544	+ 15.1
	* *RETAILING TODAY* TOTAL STORE RETAILING (1)	112,171	109,625	+ 2.3	314,869	302,017	+ 4.3
	GAF TOTAL (2)	54,554	52,933	+ 3.1	151,502	143,100	+ 5.9

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975. The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).



RETAILING TODAY

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ROUTE TO

JULY 1998 **VOL. 33, NO. 7**

IF I WERE AS SMART AS I THINK I AM, I WOULD HAVE HAD THIS IDEA 46 YEARS AGO!

Fortune, February 2, 1998, told the success story of Johnny Johnson, chief executive officer of Community Pride Stores, a chain of seven inner-city supermarkets in Richmond, Virginia.

Six months after Johnson opened his first store, he spotted one of his customers standing in the rain and offered him a ride home. The grateful customer said, "Boy, I sure would buy more groceries if I had a way to get home." Johnson immediately acquired a van to take customers home, a move which increased the store's volume by 21%! Today, he has two vans at each of his seven stores.

From 1952 to 1956, I was a key executive at a store serving Oakland's inner city. I often watched customers, mainly women, leaving our store with both of their arms full of merchandise, primarily supermarket items, who would have to take a taxi home. I knew that it was expensive and that they could not afford a car, but it never occurred to me that a van service could be the answer. I am sure it would have increased our food volume by at least 20%, as it did Johnson's! Not once during those five years did such an idea enter my mind, although I did put in a coupon credit program for the general merchandise departments in the store. It offered credit to people on welfare; and although some in retailing said that many on welfare wouldn't pay, for the most part, they did. And they bought enough to boost our general merchandise volume by more than 50%! With the increase, our buyers and our department managers gained confidence, buying better, advertising better, and becoming enthusiastic about giving good service to inner-city patrons. The second year of credit produced an acceptable bad-debt percentage, and general merchandise sales again increased – this time, by more than 25%!

I seldom mentioned our results to the other members of the Golden Gate Retail Controllers. They wouldn't have believed me. But, ever since I read of Johnny Johnson in *Fortune*, I wish I'd thought of a van then!

RThought: Many of my supermarket readers have stores in areas where customers do not have cars and where customers can buy only as much as they are able to carry. How many provide a van service home? My guess is none. If I am right, how about beginning such a service? If I'm wrong, please fax me about it.

A SUGGESTION FOR YOUR EMPLOYEE PUBLICATION

In my reading, I have noted many unnecessary lawsuits against retailers – both good and bad and small and large – charging discrimination or working off the clock.

It hurts me.

I am proud to be my family's fourth generation of retailers in the United States (following in the footsteps of Israel, Solomon, and Irving Kahn), and I am proud of my own 65 years in retailing (counting six years as an Air Force supply officer).

In view of my observations, I suggest something along the lines of the following be included at least once a year in your company publication:

Dear Associates:

I *insist* that our company observe *all laws*, especially those related to discrimination, sexual harassment, or working off the clock without compensation.

If you should observe an infringement of a law, all you have to do is place a call to me at 800 — —— and either I or my administrative assistant (who has my complete confidence) will personally answer your call. If we are not present, your message will be recorded. Rest assured that only I and my assistant have access to the recorded messages on this number.

If you are worried about something and do not wish to leave a message, call again, or leave your home phone number and one of us will return your call.

Remember, this company DOES NOT TOLERATE discrimination, sexual harassment, or working off the clock.

(your signature)
Chief Executive Officer

RThought: If you can make a stronger statement, please do so. I would appreciate receiving a copy.

RThought: I hope you are as proud of being a retailer as I am.

RETURN ON INNOVATION: THE POWER OF BEING DIFFERENT

The above title was used for a lengthy article — about 200-column inches — in the May 1988 issue of *Retailing Issues Letter*, co-published by Arthur Andersen and the Center of Retailing Studies at Texas A&M University. The article dealt mainly with the design of stores and the development of products sold, or the store itself as a "brand name" (Sears was an example of the latter).

If one read the article from beginning to end, as I did, the conclusion was that retail design and architectural consulting firms are all that is needed to survive in the years ahead.

The article did have a dozen or so words – some of which were negative – about the present level of service provided by selling staffs. And it stated that unless you have a spectacular service training program, such as Walt Disney Co., "the typical retailing staff will not get the job done."

Continuing with the article, one "myth" — "The customers will tell us what they want" — is explained: "In many cases, when customer input is sought, that feedback usually relates to merchandise selection and pricing, not the 'big picture.'"

An amazing statement! This is not the retailing world that I experience in talking with people in the field and reading such publications as Mona Doyle's *The Shopper Report* (see this month's Feature Report for subscription information).

RThought: The article appeared to be attempting to convey the message that such companies as Neiman-Marcus, Nordstrom, and Saks Fifth Avenue shouldn't waste money on providing service *but that they should spend money on remodeling*! Do you believe that?

DOESN'T ANYONE THINK TO PROOFREAD ADS?

The reduced ad to the left ran alongside similar ads on page 3 of the June 17, 1998, National Edition of *The New York Times*.

There's nothing wrong with the ad's headline; in fact, it does a fine job at alerting readers to the fact that Father's Day is just 4 days hence! But there is something grossly inappropriate with the last line of the description:

...9.00 delivery fee, allow 2 weeks for delivery.

With Father's Day just four days off, am I supposed to buy something that will arrive 10 days *after* it is intended as a gift? The same day this ad appeared in the paper, I placed a catalog order by phone through another company for a different item, and my purchase arrived by United Parcel Service two days later! The total delivery charge: $4.50.

RThought: Perhaps advertising proofreaders should be tested in order to see if they can at least read and comprehend what is supposed to be conveyed to the customer. For example, the sun does not rise at sunset or set at dawn – true or false — and only two tries are permitted!

WHOOPS!!!

Following up on the matter of proofreading problems, Macy's Father's Day booklet, which read "The best day. The best gifts. June 21," arrived on June 10. On the back cover, it stated that you could shop by mail, 24 hours a day, at 1-800-622-9748. A pretty good way to get something for Dad, right? But continuing with even smaller print, it stated:

Allow 2-4 weeks for delivery.

If my arithmetic is correct, two weeks is 14 days. June 10, plus 14 days, equals June 24, which is three days *after* Father's Day! There goes having a gift on time for Father in 1998. Better luck in 1999, if delivery isn't faster or Father's Day moves to a week later!

RThought: Doesn't anyone bother to proofread what is written in thousands of booklets being sent across the country at a cost of thousands of dollars? With prices guaranteed only to June 21 (Father's Day), shoppers could be charged a higher price than in the catalog if the order is shipped after June 21 but within 14 days. In actuality, it could be shipped after the 4th of July!

PROOF THAT THE BANKRUPTCY RATE IS RELATED TO CREDIT CARD STANDARDS

The table below was extracted from the International Credit Association's *Consumer Trends*, March 1998.

Percentage Return on Assets of Card Industry

	1983	1994	1995	1996	1997
Total income	24.4%	18.5%	18.0%	17.9%	17.4%
Operating expenses	7.2	4.5	4.2	4.3	4.3
Charge-offs (net)	1.9	4.4	4.1	4.2	4.6
Cost of funds	9.9	5.7	6.1	6.1	5.9
Pretax net income	5.4	3.9	3.6	3.3	2.6

Total income (finance charge and fees) has dropped from 24.4% to 17.4%, and operating expenses (as a result of volume) and systems have dropped from 7.2% to 4.3%; but the *cost of charge-offs now exceeds operating expenses*! And the cost of funds has dropped from 9.9% to 4.9%, but the pretax income has dropped more than 50%, from 5.4% to 2.6%!

A recent article by syndicated columnist Jane Bryant Quinn said that card issuers now turn to "computerized models to detect customers on the verge of bankruptcy." Such people may not

DO YOU – AS CEO – LISTEN TO YOUR CUSTOMERS AT THE CHECKOUT?

The answer, of course, to this question is NO: you don't have the time and, even if you did, you have more important tasks than listening to complaints. But your problem may be that same-store sales have been negative for a couple of months (or perhaps years) and that you have just hired an executive vice president in charge of advertising with orders to turn same-store sales on an upward trend. And for a 2.6% same-store sales increase, the new vice president could possibly receive a bonus equal to his or her annual salary and options on 100,000 shares of stock!

Mona Doyle's *The Shopper Report* had the time to measure feelings at the checkout, and she reported her findings under the article entitled "Anger at the Checkout."

Doyle does not select random samples: she contacts some of her 5,000 experienced shoppers and she asks them *for you.* In her article, Doyle stated, "Checkout is a bottleneck at which many of the irritations and frustrations of the shopping trip are expressed. When anger builds, bad things happen."

How long has it been since you stood at a checkout or near an area register and listened to what your customers are saying. I can just hear you saying that you wished you had the time. Well, Doyle found that a *few* customers did receive good service. And guess what? They often compliment the clerks who give good service and they do so to their face – which is something you could do!

Here are some of the numbers.

- ❖ 46% have heard other customers complain to a clerk in the last month.
- ❖ 40% agree that there is a lot of anger around the checkout from customer, as well as checkout clerk behavior.
- ❖ 32% agree that they themselves have expressed dissatisfaction to a retail clerk in the last month. (You most likely were unaware of this fact because someone failed to supply forms for the suggestion box. That person, however, probably received an award because now you don't have complaints to read.)

And it gets worse.

- ❖ 32% agree that they have complained about a clerk to a friend or family member in the last month. (Is this the word of mouth that you *believe* your customers are spreading?)
- ❖ 24% agree that they have complained to a clerk about something that probably wasn't his or her fault.
- ❖ 23% agree that much of the "unfriendly stuff" we get from clerks is partly our own fault.
- ❖ 13% complained about a clerk to his or her employer in the last month. (Did you know that fact? Does your training department know? Does your store manager know? Could it apply to you?)

But there was some good reported, including Doyle's suggestion of "Clerk Appreciation Day" and some ways that complaints can better be handled to the happiness of the shopper and the benefit of the store.

Solution: Send $195.00 for a yearly subscription to Mona Doyle at Consumer Network, Inc., 3624 Market Street, Philadelphia, PA 19104. Mention that Bob Kahn sent you and ask her to start your subscription with the June 1998 issue, the issue I quote herein with permission.

In the June issue, Doyle also asked her panel to rate *customer service* at a variety of stores and industries with which they spend their time and their money. The 5-point scale shows 5 as excellent to 1 as awful.

	Average Rating
Wal*Mart	3.4%
Airlines	3.4
Supermarkets	3.4
Banks	3.3
Casual restaurants	3.2
Department stores	3.2
Target	3.2
J. C. Penney	3.1
Hospitals	3.1
Convenience stores	3.1
Private doctor offices	3.1
Fast-food restaurants	3.1
Kmart	3.0
Sears	2.9
Long-distance phone companies	2.8
Doctors (HMOs)	2.6

RThought: On a scale of 1 through 5, the median is 3.0, with 3.4 very good. Obviously, a rating *below* 3.0 calls for some attention by – guess who? – the chief executive officer!

RThought: See your world as your customers see it. Then, you will know what has to be changed.

WILL THE FTC LEARN FROM CANADA?

Canada's Hudson's Bay Co. (in business for 328 years) was recently fined $600,000 ($ Canadian) because one of its advertisements carried a time limit on bicycle sales. Ninety in-store visits by the federal Department of Consumer and Corporate Affairs found that in seven provinces *sale prices continued after the expiration date shown in the ad.*

The government wanted a larger fine but compromised at $600,000. The original charges against two responsible employees of The Bay were dropped.

RThought: If the U.S. Federal Trade Commission issued a few half-million-dollar fines against large retailers for nonconformance with their own advertising, such as "lowest price of the season," "one-day only sale," and a few of their other common slogans, it might result in policy changes that would once again restore *shopper confidence* in retail ads.

IS THIS HOW FREE ENTERPRISE IS SUPPOSED TO WORK?

BAY AREA MILK PRICE SURVEY

A Consumers' Union survey of 60 markets in four Bay Area counties found widely different prices for a gallon of whole milk. A sampling from that random survey below shows the highest and lowest prices charged by various supermarkets and independent stores.

SAN FRANCISCO	ALAMEDA COUNTY
Highest:	**Highest:**
$3.85 at Safeway, Bell Market, Cala Foods and Mollie Stone's Market	**$3.38** at Lucky and Safeway
	$3.35 at Andronico's
	$3.29 at Wild Oats Market
Lowest:	**Lowest:**
$2.49 at California Food Market and Rightway Market	**$2.58** at Food Max

MARIN COUNTY	SAN MATEO COUNTY
Highest:	**Highest:**
$3.49 at Lucky	**$3.39** at Bell Market and Petrini's
$3.39 at Mollie Stone's Market	**$3.38** at Lucky and Safeway
$3.38 at Safeway	**$3.35** at Falletti's
$3.19 at Whole Foods	**Lowest:**
Lowest:	**$2.79** at Oak Grove Market
$2.98 at Andronico's and United Market	

Source: Consumers' Union

Chronicle Graphic

With free enterprise, most people believe that big business will force small business out of business by using greater efficiency that then leads to lower prices.

The "big companies" in the above table are Safeway, Inc., and Lucky Stores, Inc.

Except in San Mateo County, one or both of these companies are the *most expensive*; but in Alameda and San Mateo counties, Safeway and Lucky prices are the same! Collusion?

And not once does Safeway or Lucky offer a gallon of milk at the lowest price, yet each has its own processing plants!

RThought: I will have to find my college Econ 1 textbook and see what chapter I must have misunderstood.

DO YOU HONESTLY HAVE RESPONSIBILITY?

In my dentist's office recently, there was a young boy with a man, who, being the only other person in the waiting room, I assumed was the father of the child. After chatting with the boy and learning that he was four years old, I told his father that his son was certainly full of spirit. At that point, the boy responded, "My father is deaf." It was then that I suddenly realized that the four-year-old boy was the translator for his father – in sign language – and that he had a tremendous responsibility, one that I had never before seen placed on such a young child.

It happened that one of the dentist's staff also communicated by sign. She explained that her mother was deaf and complimented the boy for using the proper symbols when conveying information to his father.

RThought: With so much responsibility placed in the hands of such a young boy and his handling it so well, I thought to myself that I probably could not have done it at such a tender age. The two "chatted" in sign language.

Examine yourself. Could you have assumed such a responsibility for one of your parents at the age of four? (At the age of six, I recall my folks divorcing. My mother then referred to me as "the man of the house," but it was just a mother talking, without involving any "real" responsibility.)

RThought: Are your store(s) prepared to serve patrons with such disabilities?

RThought: I tell this story because we often criticize the irresponsibility of young people today and seldom mention those who act with mature responsibility.

CHIEF EXECUTIVE MAGAZINE APPARENTLY DOESN'T REACH MANY RETAIL CHIEF EXECUTIVES

The January-February 1998 issue of *Chief Executive* stated:

> **More than one-third of U.S. retailers are now selling or plan to sell their wares on the 'Net, and 67% of those expect their on-lineoperations to be profitable within one year, according to a study by consulting [and accounting] firm Ernst & Young, LLP. The survey also found that more than half of retailers expected to generate 20% of sales on-line by 2000. At least one retailer has a head start: book giant Barnes & Noble said it expects sales from its 'Net subsidiary, BarnesandNoble.com, to top $100 million 1998. [$100 million is far short of 20%.]**

RThought: What does "one-third of U.S. retailers" mean? By volume? By number of stores? By number of square feet of selling space?

RThought: Perhaps *Chief Executive* will some day have an active retailer involved in its activities!

be able to obtain any more credit on their existing cards; however, some institution will have a standard a bit lower and will give these people a new card. Even Fair Isaac & Co., Inc., doesn't guarantee its screen of applicants (who may have put dishonest information on their application, such as how much they make).

RThought: Don't bet that bankruptcies will go down significantly, even with the lowest unemployment rate in decades.

DO YOU SELL CIGARETTES IN MINNESOTA?

Cigarette manufacturers and the State of Minnesota have agreed to a $6.5 billion settlement of the suit brought by the state. But, more importantly, Minnesota will no longer allow cigarette companies to advertise on billboards, sponsor sporting events, allow giveaways, appeal to teenagers, or advertise in motion pictures by showing actors smoking particular brands of cigarettes. These restrictions, among others, will help curb cigarette sales to addicted customers, the customers from whom you believe you profit. Have you ever computed your profit?

RThought: Now might be the time to seriously think about discontinuing the sale of tobacco products. Even if addicts find it harder to buy cigarettes and, perhaps, manage to live longer by not smoking as much or not smoking at all, you may be better off in the long run.

Target Stores (with its parent company, Dayton Hudson Corporation, located in Minnesota) discontinued carrying cigarettes over a year ago. When I visit a Target store, however, I often ask an associate if Target carries cigarettes, and the associate will proudly answer "No." I am sure that pride makes for better service and repeat customers, probably producing a better profit than did the sale of cigarettes.

Shopko Stores, Inc., has also dropped tobacco products, a decision which may have been easier than Target's because Shopko does a much larger prescription business.

Perhaps you should give tobacco products the "Trader Joe's test." John Shields, the chief executive officer of Trader Joe's Co. and an old friend from Mervyn's days, said that his company checked the gross margin per square foot that each brand of cigarette produced, and *only* Marlboro met the standard to be on the shelf. It appeared foolish to carry only one brand, so the company dropped *all* tobacco products.

If you have an expectation of a certain gross-margin dollar per square foot, you may find what John found: perhaps only one brand meets your standard. Then, consider what you could do with the space and the items you could carry that are less subject to shoplifting. Consider the time saved by not having to bother keeping cigarettes under lock and key and the cashier's time obtaining proof of age if the purchaser appears to be 27 years or younger.

RThought: Again, I hope I have given you something to think about.

DO YOU READ LETTERS TO THE EDITOR IN TOWNS WHERE YOU HAVE STORES?

Thanks, on Behalf of Scouts

Editor:

Pollock Pines Boy Scout Troop 104, Novato Troop 81, and Rancho Cordova Troop 363 want to thank the following businesses and individuals for helping to make our Snow Derby a resounding success: PG&E, Pollock Pines Safeway, Placerville Raley's, the Pollock Pines-Camino Community Center, Mr. and Mrs. Bill Campau, Harold Bingham, and Mr. Richard Morris. Your support of the boys is much appreciated, making this event a great success!

Joseph Elison
Senior Patrol Leader
Boy Scout Troop 104
Pollock Pines

RThought: WE MUST DO GOOD in the communities we serve. Upon doing so, we will most likely receive such a polite letter as the above, frequently through the local newspaper or sent directly to us.

Note: This letter was clipped from the *Mountain Democrat*, a daily newspaper published in Placerville, California. The heart of the gold-rush country, Placerville was originally called Hangtown and is the location of the first Raley's supermarket (now a multibillion-dollar chain).

BANKS CONTINUE TO DUCK RESPONSIBILITY FOR THE LARGE NUMBER OF BANKRUPTCIES

In 1997, there were a record-breaking *three billion* credit-card solicitations offered. And many, such as *RT* has been reporting, offered "preapproved" credit (which means nothing). Fortunately, the response to such offers has hit a 10-year low, with only 1.3% of the applicants accepting such an offer.

Let's look at some of the numbers.

Mailing three billion solicitations equals 12 being received by each man, woman, and child in the United States, including all of those on welfare or in jail!

Six percent of the solicitations were offers for platinum cards and 44% were for gold cards. (The number of titanium cards was not given!)

What about public acceptance: 1.0% accepted platinum cards; 1.3% accepted gold cards; and 1.7% accepted a standard card. The recipients, however, were wiser than the banks, because fewer than 45 million accepted cards (roughly 1 per 5 persons).

RThought: Even at a low percentage (1.3% equals about 45 million), I have serious doubt that the authorization information provided is sufficient. After all, the issuers will argue that it is the *people* who are irresponsible, while we all know the *issuers* are equally irresponsible and are indeed shameless in sending out three billion applications, many of which state "preapproved" credit.

ONE FUTURE OF RETAILING

Airports, except for enlargements such as the Ronald Reagan National Airport in the District of Columbia, have just about have all of the retail they can accommodate; and with rents (seldom low) going towards supporting and enlarging airports, retailers are now looking in other directions.

An industry that retail has recently discovered is that of the cruise lines. With construction now under way on two vessels for the Walt Disney Co., for example, each at a cost of $370 million and carrying 1,760 passengers, *what a target for the right retailers*! With 1,800 passengers locked on a cruise ship between ports, retailers could stay open until midnight every night!

Not only is there an increase in the number of cruise lines, there are more destinations for people to enjoy: one can now take three or four cruises a year and not duplicate a cruise for a decade!

The largest line, Carnival Cruises, saw its stock price go from $46 to $70 in just one year (up 52%). How do you compare? In addition, the number of Carnival cruise passengers has doubled from 2.5 million in 1987 to 5.0 million in 1997.

RThought: Starbucks will most likely accompany McDonald's on each ship. But I doubt Ross Stores will have the first "cruise-ship chain," offering $14.99 women's swimwear!

WORDS – ON HOW RETAILERS CAN SAVE THE FORESTS

Use recycled paper.

Once, recycled paper was scarce; now, there is a large supply, thanks to people doing their share in recycling their newspapers, mailings, etc.

In addition, by recycling cardboard cartons, all the more trees are saved.

RThought: As a senior retail executive and the chief executive officer, in many cases, you will sleep better if you recycle paper and cardboard cartons; even better, if you print your tabloids on recycled paper, paper containing 75% post-consumer fiber, you will do us all a favor and will set an example for the rest.

When I first became aware of this possibility, 25% post-consumer fiber was the most recycled paper in the mixture – but it was not available in large quantity. Seventy-five percent post-consumer fiber is now available. Aim for it when you buy!

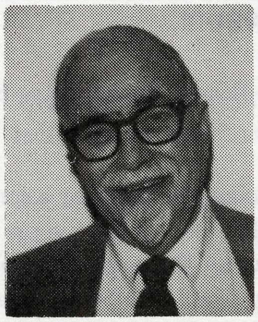
RThought: Where will all of the birds go that our children, grandchildren, and even our great-grandchildren should hear and point to as the creatures fly amongst the trees? (I'll never forget that my son's first word was "bir," for bird!) What will life be like for them when there are no trees?

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	APRIL 1998	1997	Percentage Change	YTD 1998	YTD 1997	Percentage Change
52	Building Material Group *	$ 14,883	$ 13,603	+ 9.4%	$ 47,679	$ 43,529	+ 9.5%
57	Furniture Group *	11,811	11,045	+ 6.9	47,972	43,532	+ 10.2
571	Furniture Stores	5,951	5,550	+ 7.2	23,288	21,361	+ 9.0
572	Appliance, TV, Computer and Radio Stores	5,016	4,724	+ 6.2	21,245	18,956	+ 12.1
5941	Sporting Goods Stores *	1,910	1,793	+ 6.5	6,701	6,256	+ 7.1
5942	Book Stores *	845	815	+ 3.7	4,067	4,047	+ 0.5
5944	Jewelry Stores *	1,331	1,325	+ 0.5	5,082	5,078	+ 0.1
531	Department Stores *	22,216	19,419	+ 14.4	78,816	73,154	+ 7.7
531Pt	Conventional Stores	4,337	3,935	+ 10.2	15,326	14,674	+ 4.4
531Pt	National Chain Stores	3,191	3,005	+ 6.2	11,431	11,475	- 0.4
	Subtotal	7,528	6,940	+ 8.5	26,757	26,149	+ 2.3
531Pt	Discount Stores	14,688	12,479	+ 17.7	52,057	47,106	+ 10.5
539	Miscellaneous General Merchandise Stores *	4,863	4,471	+ 8.8	17,940	17,085	+ 5.0
541	Grocery Stores *	33,779	32,256	+ 4.7	130,999	129,537	+ 1.1
56	Apparel and Accessory Stores *	10,132	8,875	+ 14.2	34,686	32,400	+ 7.1
561	Men's and Boys' Stores	937	741	+ 26.5	3,225	2,879	+ 12.0
5623	Women's Stores	2,693	2,471	- 9.0	7,426	7,677	- 3.3
565	Family Clothing Stores	3,722	3,152	+ 18.1	12,719	11,623	+ 9.4
566	Shoe Stores	1,819	1,582	+ 15.0	6,202	5,963	+ 4.0
591	Drug Stores *	8,665	7,846	+ 10.4	33,667	31,523	+ 6.8
596	Nonstore Retail *	6,125	6,032	+ 1.5	23,881	23,047	+ 3.6
5961	Mail Order	1,153	1,373	- 16.0	16,224	14,356	+ 13.0
	* *RETAILING TODAY* TOTAL STORE RETAILING (1)	116,560	107,480	+ 8.4	431,490	409,188	+ 5.5
	GAF TOTAL (2)	56,476	50,603	+ 11.6	208,057	193,712	+ 7.4

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact *Retailing Today*.



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RECOMMENDATION OF THE MONTH

I thought I could scan the July 1998 issue of Maggie Gilliam's monthly *Viewpoint*, but once I began to read it, I couldn't put it down. In 12 pages I learned much about what specific retailers are doing – and are *not* doing – as well as Maggie's trips to about 55 malls from coast to coast. In addition, a reader receives the benefit of Maggie's years as a retail analyst (Sam Walton often expressed his admiration for her capabilities). Her memory capacity runs to computer dimensions! And, for years, she has been a favorite panelist at the annual meetings of the National Retail Federation.

Let me try to list the retailers that were discussed in this one issue.

- Saks and Proffitts (including the history of both)
- CompUSA and Tandy
- Wet Seal and Britches
- Toys "R" Us (what is happening with this firm)
- Home Depot and Lowes (the latest actions by both)
- Ethan Allen and Furniture Brands (the latest from the furniture industry)

It would take me more than 12 pages to list everything!

My recommendation: Subscribe. The address is Gilliam & Co., 15 West 53rd Street, 34A, New York, NY 10019-5401. The subscription price is $340 for one year; $600 for two years.

RThought: Tell Maggie that Bob Kahn sent you and that I suggested you begin with the July 1988 issue.

BREECH OF CONFIDENTIAL INFORMATION

As reported in the July 1998 issue of *Privacy Journal*, the case involves CVS Pharmacies, one of the largest drug chains in the U.S.

CVS allegedly divulged prescription and medical information, information customers thought was private, to direct-marketing companies. Not only did CVS take advantage of its customers, it is also alleged to have disclosed confidential information on its 90,000 employees!

PharmaCare, a CVS subsidiary which manages the company's health plan (as well as 500 other companies nationwide), suggested that doctors treating CVS employees with certain medications for mental health problems to taper off or discontinue the prescriptions. The action came about after the CVS director of public relations said that PharmaCare clients were receiving appropriate and cost-efficient care!

Contuinued

FINALLY! A CHECK SYSTEM THAT *REALLY* REDUCES BAD CHECKS

Spence Nilson of *The Nilson Report* reported in Issue 669 (June 1998): "The risk of loss to merchants who accept checks for payment will continue to rise. As a greater percentage of total purchases will be made on debit cards, it will cause the number of checks written at the point of sale to decline, and an increasing percentage of these checks will be written by fraudsters hoping to take advantage of the check system. Check fraud cost merchants an estimated $8 billion in 1997, up from $6 billion in 1995."

RThought: Let me share an experience of a one-store, top-quality supermarket that installed a check truncation system in its registers. With this system, each check must clear several databases before it is accepted; basically, however, the account number and the amount of the check are electronically recorded from the POS register. And, when a check is received before 3:00 P.M. Pacific Standard Time, the funds are in the store's bank account the next morning!

Here are just a few of the advantages the supermarket has experienced.

1. The handling of checks in the back office has been significantly reduced.
2. The number of bad checks received by the supermarket has significantly declined. (Every time the store receives a telephone call asking if it electronically processes checks, the merchant believes one more bad check has *not* been pawned upon him.)
3. The new procedure has been accepted by more than 99% of the supermarket's customers who pay by check.

If you are interested in receiving a write-up by the owner of this supermarket which tells further advantages of using this system, please write or fax me.

(**Note:** The owner of the test supermarket and the developer of the truncation system are both clients of mine.)

RThought: Does your company use PharmaCare? If so, you might inquire of CVS whether names and prescriptions were disclosed. For those of you who do not use PharmaCare, you might inquire of your company's health provider whether its practices are similar and seek a complete disclosure, including any recommendations contrary to those of the physicians.

RThought: Keep up to date on privacy matters by subscribing to *Privacy Journal.* You may do so by telephoning 401-274-7861 or sending $118 for a one-year subscription to *Privacy Journal*, 89 Valley Street, East Providence, RI 02904. Please remember to tell the publisher, Robert Ellis Smith, that I sent you. (I have read every issue for over 20 years.)

WORRIED ABOUT COMPETITION FROM THE NET?

If you still worry about the Internet's effect on your sales, you don't have the necessary facts. And if you read that the Net did $2 billion in 1997 and that by the year 2000 it will possibly be doing $50 billion, rest assured, you need not worry.

Why? Because *Internet Service Provider* recently provided the following information about 1997 Net businesses:

Company	Product	Sales ($ Million)
Dell	Computers	$1,061
Gateway	Computers	360
Auto-by Tel	Automobiles	360
Amazon.com	Books	121
America On Line	Internet service provider*	100
CUC International	Internet service provider*	50
CompuServe	Internet service provider*	40
1-800-Flowers	Flower deliveries	32
Total		**$2,124**

*mixed products

RThought: Without the detail, some believe that such retailers of apparel, general merchandise, sporting goods, book, jewelry, and drug stores will be out of business by either the year 2001 or 2002 at the latest. Barnes & Noble, for example, expects to do $100 million in 1999. Perhaps bookstores will be hurt, but much may come out of Barnes & Noble's store volume: $2.8 billion in 1997. The loss will represent people who don't want to drive to their nearest Barnes & Noble or one of the other super bookstores.

RThought: Note that no mention was made of men's and women's apparel (including lingerie) and shoes being sold via the Net!

RThought: Let me put $2 billion in perspective: $2 billion represents less than one week's sales at Wal*Mart or less than three weeks' sales at Sears or Kmart!

LEARN FROM ANOTHER'S LAWSUIT

The name of the company is insignificant: the lesson to be learned is the message.

The case stemmed from a customer being confronted by a non-security employee who demanded that the customer show a receipt for two prepared-food purchases. The customer's suit against the company resulted in a jury award of $450,000, plus $25,000 in compensatory damages!

Although the company appealed the jury award as excessive, the state court of appeals upheld it, stating that the company's conduct was "egregious and reprehensible." The court further stated that the employee's conduct put customers in fear of physical restraint when employees knew that most customers take their purchases *without* keeping the receipt. Later, the clerk on the transaction said that *the customer was not given the receipt*!

The action, according to the decision, was "egregious" not only for causing a public perception of the woman as a thief but demonstrating that other people might be humiliated and falsely accused. The state in which this incident took place *allows merchants to restrain people **only** if there is **probable cause** to believe that they have stolen store property.* (In some states, one cannot stop a shoplifter until the person has taken the goods out of the store.)

RThought: I can only quote the woman who was awarded the damages: "If I hadn't been a black woman, I don't believe I would have been stopped."

Add this one to the case involving an off-duty policeman working as a security guard at an Eddie Bauer store in a Washington, D.C. shopping center. A young black man wearing an Eddie Bauer shirt was stopped by the guard and was asked to produce a receipt. When the youth said that he had bought the shirt the day before, the guard didn't believe him. Thinking he may have stolen it, the guard made him take off the shirt, go home for the receipt, and bring it back to the store to confirm the earlier purchase. Once again, there was *no evidence* to indicate that he had taken the shirt from the store.

Immediately upon hearing about the incident, the president of Eddie Bauer traveled to Washington, D.C. to help make amends. The incident, however, did not go unnoticed by the Washington, D.C. newspapers, and the story appeared not only locally but nationally. (I am sure you would not want such publicity.)

RThought: Be sure your employees know the law of the state in which they work (each state varies slightly) before they stop a person and allege theft.

RThought: Introduce your security department to your training department.

IT'S ALWAYS A PLEASURE TO STUDY ITO YOKADO'S ANNUAL REPORT

The Japanese company of Ito Yokado Ltd. consists of interests in a variety of stores in both Japan and the United States.

Because the U.S. doesn't have a conglomerate quite like that of Ito Yokado, here is a listing of the percentages and the names of companies it wholly or partly owns.

Superstores

80.3%	Marudai
36.8	Hua Tang Yokado Commercial
74.0	Chang Du Ito-Yokado

Supermarkets

28.6%	York Beninmaru
91.6	York Mart
100.0	Sanei

Discount stores

85.3%	Daikuma

Department stores

100.0%	Robinson's Japan (located only in Japan)

Specialty stores

0.2%	Steps
100.0	Mary Ann
100.0	Oshman's Japan

Convenience stores

65.1%	The Southland Corp. (the U.S. firm)
50.7	Seven-Eleven Japan

Restaurants

100.0%	York Bussan
93.3	Family
51.6	Denny's Japan

To aid people who read Ito Yokado's annual report in English, the company lists the top retail companies, by market value, as of March 31, 1998.

Rank	Company	Country	1998 Market Value
1	Wal*Mart Stores	United States	$114,120
2	The Home Depot	United States	49,471
3	Seven-Eleven Japan	Japan	28,533
4	Marks & Spencer	United Kingdom	28,217
5	Carrefoure	France	22,666
6	Sears, Roebuck	United States	22,515
7	Ito Yokado	Japan	22,487
8	Tesco	United Kingdom	21,854
9	Dayton Hudson	United States	19,233
10	J.C. Penney	United States	18,917

As is the case with most of The Limited's subsidiaries here in the U.S., most of which are **not** traded separately on the stock exchange, Ito Yokado does not have the simple job of consolidating corporate subsidiaries.

As for a few recollections and a little history of the company, its founder is Honorary Chairman Masatoshi Ito.

After World War II, when much of Japan had been destroyed, I landed with occupation forces at Yokohama. We then went, by truck, to Yokota Air Force Base, a base which is still operated by the U.S. Air Force. Yokohama, a port and industrial city, had been totally destroyed by incendiary bombs. With all of its buildings gone, the Japanese broke up the cement floors so that there would be land upon which to grow food. I vividly remember driving down what had been one of Yokohama's main streets, a six-lane thoroughfare, and seeing traffic lights dangling from their posts. The only shops at the time were in the Ginza, the retail district of Tokyo, but they carried limited merchandise. (I did return to the states with a few purchases, two of which were pearl necklaces, one for my mother and one for my bride-to-be. The ratio at the time was $1 to 360 yen.)

It was from this background that Mr. Ito first noticed what an assortment of business he could have and appears to have followed the advice of Marshall Field: "Give the lady what she wants."

For example, some years ago, when The Southland Corporation of Dallas was in dire straits, it was Ito Yokado that came to its rescue. Today, the parent company indirectly has 5,000 7-Eleven stores in the U.S. and 7,000 Seven-Eleven stores in Japan and most southeastern Asian countries.

In Hong Kong alone, the cash registers in Seven-Eleven stores are connected to the computers at the distribution center. With two deliveries to each store a day, what is sold in the morning is replaced in the afternoon and what is sold in the afternoon is replaced the next morning.

RThought: Again, I know of no other company, worldwide, that has successfully retailed in so many fields!

SHORT SHORT

Don't trip over that billboard on the floor! Perhaps you have been in a Kmart recently and have noticed the experimental billboards on the floor by FLOORgraphics, Inc. (609-488-2280 or 888-356-6723), which estimates that 70% of *brand* selection is made at the point of purchase. As a result, Ken Kramer, Kmart's divisional vice president of hardlines, selected FLOORgraphics because it offered a turn-key program: ad sales (i.e., vendors who pay for exposure), decal production, installation, and management reporting. **RThought:** But be careful. You might just bump into someone who is blocking the aisle with a shopping cart while studying the ad!

A REBUTTAL TO ERNST & YOUNG LLP

The Summer 1998 *Retail News*, published by Ernst & Young LLP, caught my eye when it featured the headline:

Focus: Retail Consolidation

The article detailed how Proffitt's, Inc., in just ten years, has completed nine transactions (not including its most recent acquisition of Saks Fifth Avenue stores), growing from five stores, with $40 million in sales, to more than 230 stores in 24 states, with annual revenues now exceeding $3.5 billion! The article then outlined the problems associated with mergers. (We all know the problems of mixing two management concepts, but nothing was stated about Proffitt's unusual management skills and, with its mergers, how many different cultures it acquired from different corners of the U.S., thus enabling the company's profits to increase *faster* than sales.)

The article mentioned Wal*Mart, Kmart, and Target, the three major discounters, and *finally* recognized Dollar General and Family Dollar as "forging their niche." (Again, the article offered no explanation as to why the latter two companies are becoming successful discounters. If the majors are such a threat to regional discounters, why has the good management at Ames produced the excellent results it has over the past few years? Could the same management obtain the same results at Hills or Bradlee's? I'm inclined to believe so.)

Why are conventional and national chain department stores performing so poorly? *With few exceptions, they do not provide satisfactory customer service.* In fact, they often try to make a profit by reducing the number of people on the floor, the very people needed to *provide service* and *make customers*!

If Ernst & Young conducted a survey of the various stores that are doing well, as well as those stores that are losing sales, we could then see if there is a significant difference in service. It could also compare the stores' other differences: having in stock what customers want and having in stock those items advertised. It could also survey customers as to their belief in present ads, particularly the "savings" represented in the ads run by national and independent department stores.

I can even suggest the person to whom Ernst & Young could turn for such a study: Mona Doyle of *The Shopper Report*, with her 5,000 experienced shoppers!

Years ago, when first forecasting how fast Wal*Mart would grow, I was close to the date by which the $100-billion level would be achieved. (At the present time, the company is ahead of my latest forecast to reach $200 billion.) Although some readers believe I make such favorable comments about Wal*Mart because I was a friend of and worked with Sam Walton, my reasons were not just Sam: they were the goals he and his company proposed to accomplish, *goals* most other retail chief executive officers never accomplish; and it was *the organization* within the company, an organization which continues to build today!

BY SELLING OUR NAME AND ADDRESS, DO ORGANIZATIONS TO WHICH WE CONTRIBUTE MAKE MORE THAN OUR CONTRIBUTION?

Starting January 1, 1998, one of my associates has kept track of the solicitations to which my wife and I do *not* have a record of contributing (our 1997 tax return showed that we contributed to more than 40 organizations).

The frequency with which organizations have solicited us during the first six months of this year are as follows: 54 organizations, 1 time; 15, 2 times; 6, 3 times; 4, 4 times; and 2, 6 times. In other words, a total of **81** organizations have sent us at least one solicitation and two have sent as many as six!

Here is a listing of just *some* of the 81 organizations with which you also may be unaware.

- Alaska Conservation Foundation
- AVSC International
- Association of Handicapped Artists
- Americans for Hope, Growth, and Opportunity
- Allies of Lakota
- Council of Indian Nations
- Childreach
- Children's Wish
- Eldridge Street Project
- Fresh Air Fund (a good New York City organization)
- German State Lottery
- Grassroots International
- Independent Institute (doing what I don't know!)
- Museum of Tolerance
- Next Step Learning Center
- Navajo Health Foundation
- Ogala Lakota College
- Orbis Sightflight
- ProPAW
- St. Labre Indian School
- Wildcare
- Wellstone Presidential Exploratory Committee
- Yellowstone Wolf Alert

RThought: In the future, all new and unknown organizations will be checked against the listing of the National Charities Information Bureau. My wife and I will then limit our contributions (except for local organizations that we know well). We will also not read the heart-breaking, and often, I suspect, untrue material sent out by some organizations to fund their executives!!!

If you are flooded by such solicitations, I suggest that you become a member of the National Charities Information Bureau.

It was President Grover Cleveland who called for an agency to sift through and evaluate charitable organizations. Thus, NCIB was formed in 1906. Located at 19 Union Square West, New York, NY 10003, its membership dues are a minimum of $35 a year. Each quarter, you will receive an informative list on many agencies throughout the U.S.

A BATTLE OVER TOBACCO IS HEADED TOWARD THE QUEBEC COURTS

The Quebec Order of Pharmacists' ruling that drugstores must get out of the tobacco business is going to be challenged by the Jean Coutu Group, Quebec's largest drugstore chain. (It also has drugstores in the U.S.) The group has already contravened the new pharmacists' code of ethics by selling cigarettes.

The ruling was issued more than a year ago. The Order of Pharmacists believes a pharmacist's goal is to make people well and not to injure or, perhaps, to kill them. Upon receiving the order, Wal-Mart Canada immediately stopped selling all tobacco products, not just in Quebec but in all of Canada. I have seen no press reports (I use a Canadian clipping service) about the economic impact, good or bad, on Wal*Mart's sales.

The matter with Coutu, however, is headed to a legal decision. The president of the pharmacists group, who is also the vice president of professional activities for the Coutu chain, recently stated that 1,460 pharmacies would lose, on the average, $41,000 (I wonder at the accuracy) of gross profit: one-third is the gross margin on cigarette sales, and the balance is from other goods sold to smokers at the same time. The ruling is alleged to be unconstitutional under the Quebec Charter of Rights.

RThought: The article does not mention the additional volume drugstores will receive if they stop making their customers ill (i.e., how many customers they will save if they sell fewer drugs to dying customers). Sick customers may consume medications, but the dead buy nothing!

RThought: Many of you may wonder why I so often mention the dangers of smoking.

Many retailers do not sell asbestos products or have used such products in the construction of their stores. Why? Because bits of asbestos may get into the air and be inhaled; thus, people may be sickened or killed.

Many women no longer opt to have silicone breast implants. It was once a big business for the manufacturer of the breast implants, Dow Corning Corp., as well as for the doctors and the medical centers performing the procedure. However, the number of procedures has been reduced, with the prospect of fewer women becoming ill or dying.

Now, are you going to raise your right hand and swear, as did the heads of the tobacco manufacturers, that you *do not believe* cigarettes are addictive? With the evidence now available and the fact that tobacco manufacturers *knew* from all of the messages circulated by and between the companies, they could now face indictment for lying under oath.

Today, the only way that a cigarette seller can honestly say that he or she does not know that cigarettes are addictive is to prove that he or she was off the planet for the past 10 years!

RThought: Each of us in retailing has a responsibility to see that *we do no harm to our customers, the people who trust us.*

RThought: I do not believe such a decision would have been hard for James Cash Penney. And, at least the successors of the Dayton and Hudson families have discontinued carrying tobacco products in their Target Stores.

RThought: I have hundreds of readers who are chief executive officers of discount stores, supermarket chains, warehouse clubs, department store groups, apparel stores, and soft goods chains. I also have among my readers dozens of professors of retailing, professors who must imbue their students with the sense of responsibility retailers have to their customers and to the communities in which they serve.

USEFUL INFORMATION

For years, I have subscribed to the *Economic Education Bulletin*, published by the American Institute for Economic Research.

In the June 1998 issue, a graph showed the sources of Federal receipts and their percentages of the Gross Domestic Product. I believe you, too, will find the information of interest.

Source	Percentage of GDP
Individual income taxes	9.0%
Social Security taxes	7.0
Corporate taxes	2.0
Excise taxes	1.0
Other receipts	1.0
Total	**20.0%**

RThought: If you had to guess, I am sure you would not have thought of Social Security taxes providng the second largest GDP. There are, however, three sources.

1. Employee's payroll;
2. Employer's portion; and
3. Interest on funds in excess of benefit payments invested in interest-bearing government bonds.

IF YOU OPERATE IN THE AREA OF THE 3rd CIRCUIT COURT

...not only check the health insurance plan(s) provided your employees but the disability benefits provided those employees under the Americans with Disabilities Act, keeping in mind that *you cannot exclude persons with a disability from health benefits.*

Many assume that mental illnesses do not fall into the same category as cancer, broken limbs, ulcers, spinal disorders, pneumonia, etc. Be aware, however, that the Federal Court in the Eastern District of Virginia has ruled that Kmart Corp. cannot use a long-term disability policy that provides lower benefits for people with severe mental illnesses than for other medical disorders: it is unfair and discriminatory.

The lawsuit stems from a Kmart employee who was hospitalized when his depression worsened and he was forced to stop working and go on disability. The carrier, Aetna Life and Casualty Insurance Co., informed Kmart and the employee that it did not cover hospitalization due to depression. The employee then filed the first lawsuit of its kind, and the 3rd Circuit Court ruled that such exclusion was discrimination under the Americans with Disabilities Act.

Kmart was ordered to resume paying the employee's disability benefits and penalties up to $654,000.

RThought: A leading expert on depression who served as an expert in the case said: "Brain malfunctions cause disabilities just like malfunctions of other organs like the heart. Today's new medical technologies provide positive proof. So-called 'mental illnesses' are brain diseases."

Perhaps the U.S. Supreme Court may one day change this ruling; but in the 3rd Circuit Court, the law has been interpreted.

SHORT SHORT

Question: Which company showed the following results in the first quarter of 1998: An increase in sales by $2.55 billion and reduced inventory by $1.00 billion? Answer: Wal*Mart Stores, Inc. **RThought:** Which retail schools recommend these changes to produce greater efficiency? None. Which stock analysts will comment favorably? Only a few.

WORDS – OF CONFUCIUS

When I was about 13 years old, I took up the sport of competitive pistol shooting. On match Sundays, I would awaken our bachelor neighbor next door around 6:00 A.M. (He was a friend of Mother's and a fellow pistol shooter who would willingly drive me.) While he was getting dressed, I would read the book I always found on his piano, *The Ethics of Confucius.* Now, almost 70 years later, the book is mine, and I still read parts of it from time to time.

I seldom share with you my readings of Confucius, but in a chapter entitled "What Constitutes the Superior Man," Confucius had the following thoughts:

> **There is only now and then a man under heaven who loves what is right without expectation of reward or hates what is wrong without fear of consequences.**
>
> **The Superior Man will decline a position of high honor, but not one that is mean; he will decline riches, but not poverty.**

RThought: I, as well as millions of others, still read with humility what was written by a man who died at 73 in the year 479 BC!

U.S BUREAU OF CENSUS

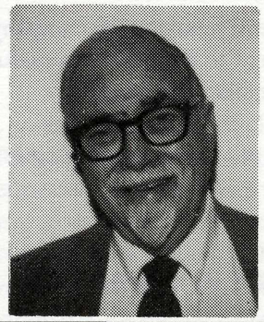
RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON

(Unadjusted $ millions)

SIC Code	Category	May 1998	May 1997	Percentage Change		Year to Date 1998	Year to Date 1997	Percentage Change	
52	Building Material Group *	$16,171	$ 14,852	+	8.9%`	$ 63,870	$58,361	+	9.4%
57	Furniture Group *	12,307	11,620	+	5.9	60,255	55,152	+	9.3
571	Furniture Stores	6,169	5,932	+	4.0	29.438	27,293	+	7.9
572	Appliance, TV, Computer and Radio Stores	5,258	4,866	+	8.1	26,497	23,824	+	11.2
5941	Sporting Goods Stores *	2,045	1,860	+	9.9	8,755	8,116	+	7.9
5942	Book Stores *	905	890	+	1.7	4,968	4,937	+	0.6
5944	Jewelry Stores *	1,828	1,656	+	10.4	7,273	6,772	+	7.4
531Pt	Conventional Stores	4,602	4,452	+	3.4	19,910	19,026	+	4.6
531Pt	National Chain Stores	3,305	3,278	+	0.8	14,737	14,753	-	0.1
	Subtotal	7,907	7,730	+	2.3	34,647	33,779	+	2.6
531Pt	Discount Stores	15,710	14,096	+	11.5	67,768	61,201	+	10.7
531	Total Department Stores *	23,617	21,826	+	8.2	102,415	94,980	+	7.8
539	Miscellaneous General Merchandise Stores *	5,224	5,001	+	4.5	23,166	22,086	+	4.9
541	Grocery Stores *	35,622	35,015	+	1.7	166,587	164,552	+	1.2
56	Apparel and Accessory Stores *	10,143	9.696	+	4.6	44,824	42,096	+	6.5
561	Men's and Boys' Stores	927	841	+	10.2	4,145	3,720	+	11.4
5623	Women's Stores	2,753	2,744	+	0.3	11,843	11,807	+	0.3
565	Family Clothing Stores	3,789	3,545	+	6.9	16,509	15,188	+	8.7
566	Shoe Stores	1,614	1,799	-	10.3	8,015	7,762	+	3.3
591	Drug Stores *	8,756	8,261	+	6.0	42,428	39,784	+	6.6
596	Nonstore Retail *	6,112	5,972	+	2.3	30,014	29,019	+	3.4
5961	Mail Order	4,181	3,704	+	12.9	20,428	18,060	+	13.1
	* *RETAILING TODAY* TOTAL **STORE RETAILING** (1)	122,731	116,649	+	5.2	554,555	525,855	+	5.5
	GAF TOTAL (2)	59,545	55,771	+	6.8	267,653	249,483	+	7.3

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677; or on the World Wide Web at http://www.census.gov/svsd/www/monret.html



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ATTORNEYS GENERAL TAKE MORE STEPS AGAINST SELLING CIGARETTES TO MINORS

The best way to keep informed on what attorneys general are doing is to subscribe at $145 per year to *Consumer Protection Report*, a monthly publication prepared by the National Association of Attorneys General. For further details, call the association at 202-326-6018 and ask for Valerie Gibson.

For example, the July 1998 issue dealt not only with what is or has been accomplished in various states but the fact that the attorneys general of Massachusetts, New York, and Vermont are working together to stop minors from purchasing cigarettes and smokeless tobacco products.

As a retailer, if you are under the impression that you can protect yourself from laws prohibiting the sale of tobacco products to minors because *minors* are used to test stores, you should be aware that these states used *minors acting under adult supervision and with their parents' permission.* The method has withstood court challenge. And in two thirds of the tests, the minors were sold cigarettes!

In view of such frequent violations, the three-state attorneys general have approached several retail companies to enter into Assurances of Discontinuance. Penalties of $1,250 per package of cigarettes sold to minors are imposed through these agreements. The State of Massachusetts has entered into Assurances of Discontinuance with six supermarket chains. And, as of the July 1998 report, the attorney general of New York was in the process of working out an agreement with Duane Reade Corp., which owns a chain of drug stores. The three-state group has found that 34% of minors could purchase tobacco products at drug stores. Discount stores have an even higher rate of 43% purchasing tobacco products, while gas stations have 36%, convenience stores have 31%, grocery stores have 30%, and "other" stores have 28%. A law is ineffective if minors can purchase tobacco products from 28% to 43% of retailers.

The companies that have entered into the Assurances of Discontinuance "contributed" $550,000 collectively to run a series of hard-hitting anti-tobacco commercials aimed at teens and younger children.

RThought: Selling tobacco products to minors is becoming more and more costly to retailers. In addition to the three-state attorneys general mentioned herein, other attorney generals are considering the use of a point-of-sale device that will stop a register half way through a tobacco-product transaction because proof of age has not been ascertained and entered.

JAMES JONES
1930-1998

Jimmy Jones became my friend two decades ago when he welcomed me on the board of directors of Wal*Mart Stores, Inc. Jimmy had been a director from the time Sam merged 30-plus partnerships to form the company. When the company organized, the board consisted of Sam and his brother, Bud; two officers, Ferold Arend and Ron Mayer; Jimmy Jones; and representatives from the two underwriters that would take Wal*Mart public.

In *Sam Walton: Made in America*, Sam was quoted as having said:

> **I struck up a relationship with a guy named Jimmy Jones at Republic Bank down in Dallas, and he loaned us a million dollars.**

Later in the book, Sam was quoted as having commented:

> **...money was getting tight, and some of our creditors were pressuring us. I flew to Dallas and tried to borrow some more from Republic Bank, whose officers were getting nervous about what they'd already loaned us. They made it clear we had all of their money that we were likely to see, and that ended our relationship. By then, Jimmy Jones had moved to a bank in New Orleans, so I flew down there from Dallas to see if he could help us. Jimmy came up with a $1.5 million loan, which helped us out in the short term, but it really wasn't the answer to our long-term problem.**

Jimmy also advised Sam about the advantages of becoming a banker himself, lending Sam the money to purchase the Bank of Bentonville. The Walton family continues to own the bank, making it even larger and, I assume, more profitable.

Jimmy, born in a small town in northern Arkansas, prepared himself well: He not only graduated from the University of Arkansas but from the Graduate School of Banking at Southern Methodist and the Advanced Management Program at Harvard Business School.

Continued on Page 2

He gave time and dollars to many organizations and was on the national boards, among others, of the Boy Scouts and the Big Brothers of America. At various times, he was also a trustee of the universities of Arkansas, Loyola, and Tulane.

I was pleased when Jimmy moved to northern California. Locating his office just south of the San Francisco Airport, I would often drop by to chat or to meet him for lunch. Then, in later years, when we both had left the Wal*Mart board, we continued to exchange thoughts, not only on the company but on many subjects of common interest.

Jimmy, I thank you for 20 years of friendship. You were a good man. I know that someday we will be together once again with our friend, Sam.

CAN YOU FORCE YOUR EMPLOYEES TO BE 'NICE' TO CUSTOMERS?

In early September, the local press carried stories with headlines such as "Safeway Workers Blast Customer Service Policy" because a few Safeway, Inc., employees and their union claim that the company's "unwritten rule" is that employees should maintain eye contact with customers for three seconds, anticipate shoppers' needs, and smile and greet customers each time they ask for help. By complying with the "rule," one female employee said that she has been asked out on dates, followed to her car, and asked about her marital status. A Safeway spokesperson said that the company does not have specific rules about behavior but the company does ask its employees to be "friendly."

The present status of this case, according to the *Contra Costa Times*, September 3, 1998, is that the union has filed a complaint with the National Labor Relations Board against Safeway and that Safeway is investigating the harassment charges.

Perhaps Safeway never heard of Sam Walton's "10-Foot Rule" for Wal*Mart associates: "If a customer comes within 10 feet of you, stop what you are doing and *ask* if you can be of help." Of course, Wal*Mart associates perform tasks different than those on the floor of a Safeway, but the rule definitely applies to both stores.

RThought: In a supermarket, a customer's main point of employee contact is at the checkout. And there are basically three arrangements for a checkout: The register is stationed at 90 degrees to the lane; it is parallel to the lane; or it is at 45 degrees to the lane.

It is my observation that the most "friendly" layout is at 45 degrees. At this angle, the cashier is able to reach items on the belt and have some eye contact with the customer. When the register is at 90 degrees to the lane, the register is between the customer and the checker, thus blocking their view of each other. And with the register being parallel to the lane, the cashier is not at a convenient angle for "eye contact," the predecessor of the employee's "smile."

I have mostly used the term "employee" in this article; but if Safeway's thinking were, perhaps, in terms of "associates" (the noun used by an increasing percentage of retailers), its company instructions might help its management to be more successful in reaching the desired customer/associate relationship.

RThought: Here, of course, I have put on my consulting hat rather than my reporter's hat.

DO YOU REALLY WANT A STORE IN MICHIGAN?

Can you afford to do business in Michigan?

Be sure you understand the state's pricing laws: *you must stamp or attach the price to each item* and put the price on the shelf or in the price lookup. In other words, basing the price upon the bar code is not enough.

Investigators from Michigan's Consumer-Protection Division checked six Home Depot stores and reported that in each store more than 25 classes of merchandise did *not* have the price marked on the products. Although Home Depot claimed that teams in all of its Michigan stores maintain compliance with the law, the teams were apparently not catching all of the products. In 1996 alone, Home Depot paid $26,000 in fines for violations.

RThought: My source of information did not indicate that anyone other than state investigators identified the noncompliance, but it is not beyond thought that smaller retailers who cannot compete with Home Depot (and who may be more easily able to comply with the law) complained. Retailers – in fact, all forms of business – have been known to report to authorities those competitors who do not comply with a specific law.

ROGER FARAH, YOU SHOULD REMEMBER MARSHALL FIELD MEANT YOU: 'GIVE THE LADY WHAT SHE WANTS'!

The following letter to the editor appeared in *The New York Times*, Sunday, July 26, 1998:

> **Woolworth Had It All**
>
> **If Roger N. Farah of Woolworth (sorry, it's now the Venator Group) wants to revive profits, let him bring back the five-and-ten stores instead of turning them into shoe stores ("Highflier in an Uphill Battle," *The Times*, July 12). There are already too many places to buy sneakers, upscale and down.**
>
> **No store or chain has been able to replace the idea of the five-and-ten. There are no longer places to easily buy everything from safety pins to hair nets to plain cups of coffee (sorry, no lattes, please).**
>
> **Before leaving New York three years ago, I visited two Woolworth stores in Manhattan and found all the packing materials I needed, not to mention all sorts of odds and ends.**

'MEASURING MARKETING'S RETURN ON INVESTMENT'

...was the title of an article in the May 1998 issue of the National Retail Federation's *Stores*. The article began with a statement attributed to John Wanamaker — "I know that I waste half of my advertising, but I don't know in advance which half" – and continued by stating that ROI goes far beyond measuring the response rate or the increase in sales on previous events, emphasizing the fact that it is obvious that ROI can only be determined by a computer program.

Unfortunately, most stores did not advance in the way Percy Strauss had advanced his Macy's store in New York City by the time I worked there in 1940, the *only* Macy's at the time, although it owned L. Bambergers in New Jersey, Davison-Paxon in Atlanta, and LaSalle-Koch in Toledo.

In 1940, there were three types of advertising:

1. **Store institutional** included events such as the Thanksgiving Day Parade and Christmas. The amounts to be spent were budgeted amounts set at the beginning of each year.

2. **Departmental institutional** included planned advertising of Macy's private labels such as men's apparel, cosmetics, linens, children's apparel and shoes, various liquors, the personal shopper service, the Little Shops, etc. These budgeted amounts were also set at the beginning of each year. [A note about the Little Shops: When Jack Strauss succeeded his father as president of Macy's, it bothered him that his wife wore garments from Saks Fifth Avenue and Bergdorf Goodman to such social events as the opera and the symphony. The Little Shops were introduced at Macy's so that Mrs. Strauss would be able to wear designer goods with a Macy's label; they were not introduced to make money.]

3. **Direct response** included considerable advertising research accomplished by Division V, the research department, before I arrived.

For example, when advertising china, the research department had already determined whether it was more productive to show a complete set of china and name all of the patterns available or to show a sample of each pattern and list the pieces available in each set. With approximately a dozen *daily* newspapers in New York City, research showed which departments did best in which papers. Research had also determined which departments offering higher-priced merchandise did best on weekdays and others which did best on weekends.

As to the money available, it was *unlimited*. A department could run as much advertising as it wanted, as long as it brought *a sales response five times the cost of the ad* and *could convince the divisional merchandise manager that the response would be at least five times the cost of the ad* (space and production). If a department (there were 265!) missed the "five-times response" too often, a new buyer would probably be assigned. And if the new buyer didn't regularly hit the "five times," there would no doubt be a new divisional merchandise manager!

The buyer's bonus was based on the "Q sheet" at the end of the year. Essentially, the Q sheet was contribution accounting developed and fine-tuned, with decades of experience, by Macy's controller, Ernie Katz, and by C. B. Clark, Katz's counterpart at J. L. Hudson. (As you may recall, the June 1998 issue of *Retailing Today* was entirely devoted to a 1950 article I wrote on how contribution accounting was used.) During my days at Macy's, no one would have thought of spreading Percy Strauss' salary to 265 departments and to let it affect a buyer's bonus! The better a buyer did, the less attention the president paid – and there was less worry that the president's salary would be charged to the department!

A response was computed for every ad. It was from this information the research department was able, through tests, to determine which merchandise should be shown, in which papers the ad should be run, and the day on which the ad should appear.

Today, the San Francisco Bay Area, as is the case in many regions throughout the U.S., has only one traditional department store: Macy's. It's my belief, however, that Macy's West fears what would happen if it reduced the amount of pages it devotes to advertising. One fact is certain, the major daily papers might lose money. Or, perhaps, the papers might bill Macy's at a higher rate for less volume.

Perhaps Macy's no longer has a research department. That's my guess. [When I was released from service after World War II, I had no plans of returning to Macy's in New York City. I did, however, drop in at the San Francisco store to see an old friend from New York who was the No. 2 executive in San Francisco. When I said, "Here I am with my Veteran's re-employment rights!" he quickly replied, "We aren't going to have any people from Division V in *our* store."]

SHORT SHORTS

***Business Ethics* magazine for July/August 1998 had unfavorable comments regarding the following retailers:** Body Shop franchisees are suing for misleading sale of franchises, in some cases, forcing bankruptcies. Its founder and chief executive officer, Anita Roddick, has resigned after five years of declining sales. Dayton Hudson was criticized by Mark Dayton, candidate for governor of Minnesota, saying, "My family started this company, but the people running it now don't provide health coverage. When I'm governor, they will." PETsMART has been sued by some employees, claiming they were required to work overtime without pay. And then there is the old Nordstrom case (at least five years old) regarding unpaid time; Food Lion, ditto; Wal*Mart, ditto; and Albertson's, ditto. **RThought:** It is a shame that a publication can point a finger at so many good retailers, when some involve cases which have yet to be decided and especially when the magazine is called *Business Ethics*.

One reason not to do business with Harvard Business School appeared in *DM News*, May 25, 1998:

> **Harvard Management Update**
> **Axiom/Direct Media**
>
> **Description: This file contains subscribers to a new monthly newsletter from Harvard Business School Publishing. They consist of mid-to top-level managers who use the newsletter to generate new ideas and understand management trends, make themselves and their businesses more effective and solve business problems.**
>
> **Selects 31,759 subscribers, recent expires, consumer offers, gender, state, SCF, and Zip. Contact your list broker or Axiom/Direct Media, 200 Pemberwick Road, Greenwich, CT 06830; phone 203-352-2501; fax 203-532-3766.**

RThought: As an MBA from Harvard Business School in 1940, I can say only that the school's standards have dropped or even disappeared. Many people have asked for my mailing list; but in 30 years, it has never been provided. You can rest assured that you won't be flooded with junk mail so that I can make a few cents off you.

It isn't the big box that defeats small, local retailers. My associates and I have patronized a small stationers in town rather than a big box, even though the small retailer has changed management. The prices are not full list, but they are reasonable enough so that we do not have to travel the extra miles for a small savings or place a large order over the phone for free delivery. The staff is stable, and they know us by name. They also are aware that they have two accounts for two people with the same name, Robert Kahn. I am also sure that the staff would be angry with me for telling this story, but my associates and I are the ones who have to be pleased. And, occasionally, we are not: we are not considered a "big" customer, perhaps $500 to $800 a year; but if other such customers have the same reaction to the store's emerging high staff turnover as we do, they may start complaining and return to the big boxes. **RThought:** This is a case of having had good service and then realizing you don't have it any more.

***FTC News*, July 19, 1998, stated that Gateway 2000** has made numerous false statements in advertising its refund policy and its on-site warranty service and that it has agreed to pay $290,000 as "part of a settlement" with the FTC (FTC File No. 32375). **RThought:** I believe many of us have thought highly of this company, as has been the case with other retailers who have been cited by the FTC.

An idea for a shopping center. Harbour Town is a 500,000-square-foot, single-level center opening on the Gold Coast of Queensland, Australia. It will feature such brand-direct outlets as Brian Rochford, Esprit, Laura Ashley, Mikasa, Nike, Oroton, Polo by Ralph Lauren, and Table Eight. **RThought:** The idea of a section devoted to vendor stores under the name of Brand Direct does not necessarily indicate a factory outlet. By the same token, shops as small as 2,000 square feet will not be lost in an area by this name.

Australia is leading the way by having Myer Grace Brothers, the largest department store group in Australia, and part of Coles-Myer, the largest retailer in the country, introduce "suit separates" in 16 stores. Suit separates will allow customers to select different-sized jackets, waistcoats (vests), and trousers from ranges in the men's department. The traditional jacket, with a certain waist size, placed with trousers to form a suit, often do not fit well. The suit separates will be sold under the Myer private label, Reserve. **RThought:** This new feature will most likely reduce alteration costs. And the dyeing process is such that up to 7,000 suits per color will match perfectly!

Retailing "ungoes" international. Perhaps the time is coming, because Daimaru, Inc., of Japan is considering pulling out France, Hong Kong, and Thailand; Marks & Spencer has postponed entry into Australia; Kmart is out of Canada, Europe, and other international sites; and Sears is out of Mexico, after 50 years! **RThought:** There is no magic in retailing internationally, even though there may be some satisfaction at a banquet in saying to your dinner mate, "We did pretty well in Cypress, but we have a problem with the stores in Accra and in Caracas, even though Venezuela is pumping a lot of oil."

For those who thought the future of retail shopping was going to be replaced by sitting a short time in front of a computer, many still remember how grocery stores provided home delivery in the 1920s to houses which were usually built with an alley or a breezeway next to them. Because there was no refrigeration in those days, a door would be placed in the wall of the house so the delivery person could insert the groceries into a cool area. By the 1940s, home delivery had disappeared. And now, OnCart has disappeared. OnCart, until March of this year, serviced Kroger supermarkets in Atlanta and Basha's in Phoenix. Now, it has retired from the delivery game. **RThought:** If supermarkets paid more attention to being "super," shoppers might find themselves spending less time in aisles and checkout lanes and more time thinking twice about how to handle the arrival of groceries, other than those in cans and jars.

In my hometown there are fast-food restaurants that *never* remove the "Help Wanted" or "Now Hiring" signs from their windows. I can't believe that with their constant search for employees they can provide the kind of service I expect and, even more, the quality and cleanliness expected of fast service. My observation was recently underscored when the state attorneys general, upon checking on the sale of cigarettes to minors, found that convenience stores (in New York, Massachusetts, and Vermont) had an average length of employment per employee of 88 days! **RThought:** Can this type of business provide good service? Do such employees *really want to work* at that place of business, or is it only until they can get another job? Are they at all interested in me as a customer? Probably not. **RThought:** I stress, again, that *retailers should know their turnover rate in every department in every store* and have a minimum turnover that they believe is necessary to provide trained and knowledgeable people who will create *customers* who will want to return. Therein lies the true basis of a profitable store.

Shoe styles may come and go, but we can always use a good five-and-ten, no matter what marketers say.

Yvonne R. Freund
Bellevue, Washington

RThought: With all the writings regarding the future of retailing, nothing I have seen is as important today as the sage advice of Marshall Field: "Give the lady what she wants." Of course, those writing about the future of retailing never have time to consult the experts – like Mrs. Freund, *the customer* – as to what they most prefer in a store – *customer service* – and what they want, when they want it, and where they want it!

Too many retailers believe the way to a profit is to put fewer inadequately trained people on the sales floor of their stores. If they would just take some advice from women, as did Marshall Field, same-store sales would suddenly increase – even in the discount stores and big boxes!

FAREWELL TO MAIN STREET AND HELLO TO AIRPORTS

San Francisco Airport, known throughout the U.S. as SFO, is adding runways and terminals – and 150,000 square feet of retail space!

Now that the San Francisco Giants baseball team will have its own PacBell Park, the old 3Com Park is tentatively scheduled (as of September 15, 1998) to be rebuilt exclusively for the San Francisco 49er football team. If it is rebuilt, the park may possibly include a 300,000 square feet of retailing. Parking for 50,000 football fans should be sufficient.

In addition, John F. Kennedy Airport in New York now boasts of a Bloomingdale's store; Cincinnati and Atlanta airports have added shopping malls; and, besides a Duty Free store at SFO, the airport is trying to lure Macy's, The Gap, Levi, and Esprit, all local companies, to open stores.

And in Europe, how far is the Eurotunnel from Main Street? You may opt for the United Kingdom side or the French side.

The Cite Europe shopping center at the Calais terminal attracted 17 million visitors in 1997, and only 25% were British. The center is now planning 150,000 square feet of factory shops, in addition to 125,000 square feet of DIY and garden products!

RThought: Eurotunnel, the operator of Channel tunnel "shuttle" services and Eurostar, which runs high-speed trains though the tunnel, saw a 75% increase in the second quarter, shuttling over 800,000 cars, or 233,000 cars per month!

DAN SWEENEY GIVES ADVICE TO CANADIAN RETAILERS

Dan Sweeney is an old friend, going back to his days as a principal at Management Horizons and now as vice president of consulting services in the distribution industries division of IBM Corp.

Recently, Dan conducted a survey in Canada and added his own thoughts based on his vast experience. For example, one retailer surveyed said, "I am not sure about the impact of the Internet," and that it bothers him. Dan agreed that retailers should be concerned, saying that he believes there will be a rapid change in the next five years and that retail executives should start *right now* in studying and understanding the potential of retailing on the Net, including the fact that it will be difficult to catch up if they don't start becoming familiar with e-mail retailing now.

RThought: I agree that there will be a change over the next five years, but I also believe that a lot of people are not being realistic about what can be sold on the Net.

Cross off any big volume for apparel that must be the right size. For example, I always shop at the same shoe store and sometimes I take an 8D and sometimes an 8E. On the Net, would I order one of each and return the pair that doesn't fit?

I don't believe men's suits will ever be sold over the Net. And I suspect that women's apparel will also be limited, except for hosiery, baggy-fit items, and lingerie, perhaps, if you have bought the advertised garment before and know the size of the particular brand.

All you have to do is recall the great forecasts that were made for TV shopping by my old professor, Malcolm McNair, at the Harvard Business School. I differed then with his forecasts (I believe he said 10%, or perhaps 20%, of retailing would be made by TV within 10 years, years which now have long passed). Today, much of TV selling is jewelry, chrome and stainless steel items, and the like (i.e., hardgoods).

Mac and I remained friends until his death, but I once told him that what he taught me at Harvard Business School is what I used as the foundation of my disagreement.

Dan Sweeney is, with me, in the same category as Mac: What he has taught me helps me question all projections.

DO YOU UNDERSERVE YOUR HISPANIC CUSTOMERS BY IGNORING THEIR LANGUAGE?

Many retailers poorly serve the minority members of a community, although the *minority* members often represent the *majority* of a local area, as do the Hispanic and Asian populations in various parts of California.

California will soon be the first state – perhaps by the year 2000 census — where the white population will be the minority. Many U.S. retailers, however, tend to avoid large minority populations and often treat them as less valuable customers. In this day of global retailing, retailers from around the world are looking at the potential of expanding into the U.S. For example, Mexico City's Grupo Gigante, a supermarket chain with sales of U.S.$2.1 billion, has acquired 12 acres in Arleta, California, an Hispanic section of the San Fernando Valley, to build its first U.S. supermarket.

Can U.S. supermarket chains compete with a Mexican chain when Hispanics are more than half the customers?–

RThought: If you have a supermarket near a Grupo Gigante store, consider the competition you may soon face from a company that offers the foods which Hispanics prefer, the cashiers with whom Hispanics will be able to communicate, and a store where Hispanics will not be looked down upon. Where will *you* be then?

RThought: If you find yourself in this position, there is something you can do: For your own benefit, hire associates from the prevailing ethnic group. Train them. And promote them. Believe me, the word will get around – and more minority customers will want to shop in your store.

RThought: Good acts more than likely mean good business.

CONSUMER REPORTS LOOK AT VALUES FOUND IN OUTLET MALLS

In accessing whether outlet malls actually deliver the goods, Consumers Union's August 1998 *Consumer Reports* not only compared regular prices and outlet prices but the quality of the material and the make of items under the following labels:

Bose Acoustimass-5 Series II 3-piece speaker system
Calvin Klein 100% cotton crewneck T-shirt for men (3-pack)
Coach City handbag, style 9790
Donna Karan DKNY Classic 100% cotton dark-indigo jeans for women
Fossil Execufold wallet
Lancome Tresor eau de parfum spray, 3.4 oz.
Le Creuset 2 ¾-qt. traditional round French oven
Martex Grand Patrician 100% Egyptian cotton bath towel
Mikasa Garden Harvest 5-piece stoneware pattern
NordicTrack 3-7 elliptical trainer
Polo Ralph Lauren 100% cotton mesh knit shirt for men
Reebok Roadwalker DMX, men's and women's
Villeroy & Boch Petite Fleur 5-piece china pattern

The comparison revealed that outlets virtually always provide the better deal, from 5% to 50% less than mainstream competitors.

In its discussion on the make and quality of the items, the article included lengthy comments regarding Levi Strauss' red-tab, orange-tab, and white-tab pants, concluding that the latter will probably be dropped.

The article also included an informative section on goods made solely for outlets by such names as Brooks Brothers, The Gap, and Ann Taylor, saying that some of the goods may be *slightly lower* in quality than their full-retail counterparts.

RThought: If your customers are reading the August 1998 issue of *Consumer Reports*, perhaps you are being exposed. To better acquaint yourself, send $5 to Back Issues Department, *Consumer Reports*, P. O. Box 53016, Boulder, CO 80322-3016. (Reproduction in whole or in part without prior written permission is never permitted and is never for commercial use.)

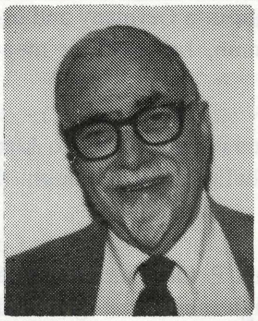
Finding: Outlet malls are not *outlets*: They are separate retail chain businesses, usually run by a manufacturer or a retailer. Most outlets, including Saks Fifth Avenue and Nordstrom, not only carry factory items but have items manufactured exclusively for the outlet stores. In other words, customers often unknowingly buy merchandise that was never intended for sale in retail stores.

U.S BUREAU OF CENSUS
RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	June 1998	June 1997	Percentage Change	Year to Date 1998	Year to Date 1997	Percentage Change
52	Building Material Group *	$ 16,094	$ 14,211	+ 13.3%	$ 79,951	$ 72,592	+ 10.1%
57	Furniture Group *	12.582	11,386	+ 10.4	72,616	66,538	+ 9.1
571	Furniture Stores	6,185	5,729	+ 8.0	35,611	33,022	+ 7.8
572	Appliance, TV, Computer and Radio Stores	5,507	4,870	+ 13.1	32,006	28,694	+ 11.5
5941	Sporting Goods Stores *	2,238	2,052	+ 9.1	10,991	10,168	+ 8.1
5942	Book Stores *	933	870	+ 7.2	5,901	5,807	+ 1.6
5944	Jewelry Stores *	1,591	1,392	+ 14.3	8,864	8,114	+ 9.2
531Pt	Conventional Stores	4,101	4,049	+ 1.3	24,009	23,075	+ 4.0
531Pt	National Chain Stores	3,077	3,165	- 2.8	17,814	17,918	- 0.6
	Subtotal	7,178	7,214	- 0.5	41,823	40,993	+ 2.0
531Pt	Discount Stores	14,862	13,660	+ 8.8	82,631	74,861	+ 10.4
531	Total Department Stores *	22,040	20,874	+ 5.6	124,454	115,854	+ 7.4
539	Miscellaneous General Merchandise Stores *	5,237	4,883	+ 7.2	28,403	26,949	+ 5.4
541	Grocery Stores *	34,152	32,980	+ 3.6	200,683	197,532	+ 1.6
56	Apparel and Accessory Stores *	9,587	9,111	+ 5.2	54,420	51,207	+ 6.3
561	Men's and Boys' Stores	903	827	+ 9.2	5,048	4,547	+ 11.0
5623	Women's Stores	2,035	2,077	- 2.0	14,342	14,312	+ 0.2
565	Family Clothing Stores	3,670	3,404	+ 7.8	20,181	18,572	+ 8.7
566	Shoe Stores	1,722	1,666	+ 3.0	9,746	9,448	+ 3.2
591	Drug Stores *	6,571	7,929	- 17.1	51,008	47,713	+ 6.9
596	Nonstore Retail *	6,163	5,849	+ 5.4	36,181	34,888	+ 3.7
5961	Mail Order	4,010	3,579	+ 12.0	24,442	21,839	+ 11.9
	* ***RETAILING TODAY* TOTAL**						
	STORE RETAILING (1)	117,178	111,537	+ 5.1	673,472	637,362	+ 5.7
	TOTAL (2)	57,667	53,669	+ 7.4	325,319	303,152	+ 7.3

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677; or on the World Wide Web at http://www.census.gov/svsd/www/monret.html



RETAILING TODAY

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A PROBLEM NOT RECOGNIZED WHEN SOCIAL SECURITY WAS FIRST CREATED

With Social Security having come into effect in 1936, the following table shows the life expectancy of all people (white, black, Hispanic, Asian, etc.), including all male and female groups in the population.

Year	Life Expectancy
1936	58.5
1940	62.9
1950	68.2
1960	69.7
1970	70.9
1980	73.7
1990	75.4
1995*	76.7
2000*	76.7
2005*	77.3
2010*	77.9

*Estimate

RThought: Sixty-five years ago, when Social Security payments were established, life expectancy was 58.5 years. Many were not expected to receive Social Security.

RTFacts: I have been receiving Social Security since the age of 72 (automatic, without an application). I am already two years older than the 2010 estimated life expectancy. But I am not alone: there are literally thousands of seniors whose life expectancy was never factored into Social Security. The original 65 years of age for payment was 6.5 years *beyond* the life expectancy; now, the payment is more than 12 years *short* of the life expectancy.

IN CASE YOU PLAN TO OPEN STORES IN CALIFORNIA...

When California became a state at the end of the Gold Rush in 1849, it had a population of about 160,000 Caucasians and 300,000 Indians. By 1900, the population had grown to 1,490,000. By 1940, it was 7,000,000. And, today, 33 million. The growth through the years, however, has been a mixture of races, cultures, and languages from around the world.

For example, more Hispanics live in Los Angeles County than in any city in the world except Mexico City, more Koreans than in any city except Seoul, and more Filipinos than in any city except Manila. More than 80 languages are spoken in the Los Angeles schools; at Hollywood High School alone, students speak 40 languages!

It is estimated that California's population will grow to 50 million by 2025 and that it will become the first mainland state that does *not* have a racial majority.

DON FISHER SETS A WONDERFUL EXAMPLE

Don Fisher, founder of The Gap, Inc., has pledged $25 million to Edison Project, a for-profit company which runs about 25 public schools around the country. Declaring that public schools, like businesses, need to think creatively, Mr. Fisher's grant will enable the company to manage about a dozen San Francisco Bay Area schools, with the hope that test scores will improve as they have in other areas of the country.

Because the Edison Project invests in the schools it manages, it trains its own teachers, with a heavy emphasis on phonics instruction. All students receive a computer – and school hours total a full eight-hour day.

In the past, the Edison Project has stayed away from California because, I am ashamed to report, despite being the largest state in the union and probably having the highest Gross State Product, it is almost at the bottom of the 50 states in "per student" expenditure.

Thank you, Mr. Fisher, for tackling what California's state legislature, governor, and superintendent of schools have yet to address, although it is their responsibility.

RThought: With retail executives often earning enormous salaries (including options that may, with time, become gold mines), perhaps some will come forward to supplement Mr. Fisher's offer. Yours may not be as large, but it will indicate concern for others and will inspire them.

Thank you, again, Mr. Fisher, for joining Leslie Wexner, L. S. Skaggs, and others for setting an example within the retail industry.

RThought: Are you prepared to do business in this type of state and in these types of cities? Are you prepared to run ads in several languages and in several non-English newspapers? If not, get ready. *California is your future*.

RThought: The United States is projected to have 338 million people by 2025, of which 50 million are projected for California. Can you afford to miss a state boasting a population of 50 million, despite the diversity of race and language?

With retailers expanding internationally, perhaps California will be approached in the same way that English-speaking retailers have expanded into Mexico, Brazil, Argentina, China, Korea, Indonesia, Japan, and other nations. This time, however, retailers will notice one difference: While a single language is generally spoken in a country, in California, there will be an assortment of languages and cultures to enjoy.

IT'S NOT ALWAYS SAFE TO GO INTERNATIONAL

A popular subject appearing in many publications is the trend of retailers, mainly large ones, to expand outside their own country. One side of "going international" is never, absolutely never, mentioned: Is it safe? Or will your executives traveling overseas have a shorter life span than those in the United States?

The February 1998 issue of *Frequent Flyer* addressed this subject with a "Top 10 List for Travel Danger." Kroll Associates, Inc. (900 Third Avenue, New York, NY 10022; telephone 212-593-1000), an international security consulting firm, supplied the information on the ten most dangerous cities worldwide. In order of danger, they are:

- Algiers, Algeria
- Bogota, Colombia
- Caracas, Venezuela
- Johannesburg, South Africa
- Karachi, Pakistan
- Lagos, Nigeria
- Medellin, Colombia
- Mexico City, Mexico
- Moscow, Russia
- Rio de Janeiro, Brazil

RThought: For further information, check State Department advisories at www.state.gov/travelwarnings.html.

RThought: I have traveled to five of these cities. In the future, I will certainly remember to take caution.

IF YOU SHOULD GO INTERNATIONAL, BE SURE YOU KNOW THE SLANG

When General Motors Corp. introduced its Chevrolet Nova in Mexico, it failed to realize that "nova" in Spanish means "doesn't go"! Is this the kind of name you would want for a car? Oops!

Bacardi Corp. introduced a new liquor into Germany and used a French name, Pavian. In German, however, it means "baboon"!

When Gerbers Products Co. introduced its baby food into Africa with a picture of a baby on the label, Africans thought the contents were babies!

Worst of all were the chickens Frank Perdue introduced into Spain. The slogan: "It takes a tough man to make a tender chicken." The Spanish translation, unbeknownst to Perdue: "It takes a sexually stimulated man to make a chicken affectionate"!

RThought: What makes a great slogan here in the U.S., like "satisfaction guaranteed," may translate into something you possibly wouldn't want to be associated with in another country. Beware! and do your homework.

WHO'S RESPONSIBLE FOR HURTING CONSUMERS WITH DEBIT CARDS?

All debit cards are dangerous. And the person most likely to get hurt is the one whose name is on the card. The weakness of all debit cards with which I am familiar is that the cards do not require identification or a PIN (personal identification number) in order to complete a transaction.

Visa USA and MasterCard International specifically state that if your card is stolen or lost and you act as the card agreement requires – mainly notification to the issuer – the card will be blocked.

My experience with unethical conduct in the area of debit cards was an occasion when the Bank of America sent me a new Versatel card. Without my knowledge or permission, the bank added a debit-card feature to my ATM card. Upon learning that I now had a debit card, I called the bank and told it that I was destroying the card. I further instructed the bank to issue me a new card *without* any debit-card feature.

Now, retailers are being stuck: When a stolen or lost card is unknowingly accepted by a store, there is *no limit* on the loss. In other words, the banks are saying to retailers, "Don't look to us. Tough luck, buddy."

But it may not be the end. I suspect that the banks will be sorry they created the debit card when the courts finish with the growing antitrust case begun four years ago by Sears and Wal*Mart and which now includes Circuit City and The Limited, among others.

In addition to losing money on the cards, retailers are being abused by the banks. Banks are showing no mercy in setting charges for processing transactions, with some charging more than $1, when Sears and Wal*Mart claim that transactions can be processed for less than 10 cents. No wonder NationsBank bought Bank of America: it is among the largest issuers in the U.S.!

THE RETAIL FORMAT OF THE FUTURE JUST DISSOLVED

About 20 years ago, many retailers were talking about "catalog showrooms" as the coming format, with low operating costs and prices competitive with discount stores.

To see how many public companies actually indulged in this "format for the future," I checked the *1978 Fairchild Financial Manual of Retail Stores*. It's hard to imagine that just 20 years ago so many retailers were looking for success through catalog showrooms.

Best Products
Astrex-Modern Merchandise
BASCO
W. Bell Co., Inc.
Belscot Retailers

Stratford Jewelers
Ellman's
Towers Jewellers & Distributors
Gordon Jewelry
Medco

Modern Merchandising
Naum Bros.
Paysaver Catalog/Showroom
Present Catalog/Showroom
Purity Supreme

Sam Solomon
Service Merchandise
Value House
Sutton Place
Zale's

On September 10, 1998, Service Merchandise issued a press release containing the following statement:

Service Merchandise today reported that customers responded enthusiastically to its new self-service format and improved assortment of trend-right home products and fine jewelry.

Much of the retail industry jumped on the catalog-showroom format 20 years ago. Obviously, today, the cure for Service Merchandise is to go back to the format that has been fundamental to retailing since the beginning of specialty retailers, department stores, and discount stores: self service amongst an inventory of wanted items *combined with helpful staff* and the fastest possible method of completing and recording a transaction.

After receiving and reading numerous press releases issued by Service Merchandise, I can report that it has *planned* the conversion carefully and has concentrated on the categories of merchandise where it is the strongest. As a result, what was once a variety chain and then a catalog showroom will now be with us as an active retailer with a growing pool of customers who will like what they find as they become self-service customers.

RThought: The catalog-showroom format that was to be a format of the future lasted less than three decades. Remember this point if you swallowed the stories about the future of retailing on the Net: it probably will not become as widespread as did the catalog-showroom chains.

One of the problems with many of the catalog showrooms was the attempt to bring in more customers by *adding* departments, such as electronics, sporting goods, luggage, china and glassware, etc.; i.e., more categories unfamiliar to management. As a result, a number of companies ended in bankruptcy and found no buyer for the remains.

TURMOIL CONTINUES IN ASIA-PACIFIC REGION OF THE WORLD

The financial turmoil in many Pacific Rim countries has undoubtedly affected duty-free stores. Suddenly, faster than you can snap your fingers, DFS customers, the wealthy Asians who go through airport terminals, have disappeared.

And because the duty-free shopping chain controlled by LVMH has had an arrangement to pay its vendors in 30 days, it is asking its major suppliers (including some of the top luxury brands in the world) to accept payment in 90 days. With the Asia-Pacific area representing 40% of the volume and many suppliers being unhappy, they are considering a group action to enforce the 30-day terms in their contracts with DFS.

RThought: DFS has *written agreements* for 30-day terms; many U.S. retailers just *take* 30 days *and* the discount many times more. I have seen many Dun & Bradstreet reports on major retailers where, under 5A (which represents a net worth of over $50 million), the number that follows runs from 1 to 5 (indicating the promptness of payment). For example, many of the top companies are rated 5A2. In all my years, I have seen only two large retailers rated 5A1, and one of those was downgraded some years ago to 5A2. Only one is left among the companies I often see – and virtually no large companies pay according to terms.

On April 2, DFS announced the closing of five of its least profitable stores: two in Hong Kong (300 jobs) and a store each in Hawaii, Canada, and New Zealand.

RThought: If traveling, particularly to and from South Asia, continues to drop, more duty-free stores may be closed. And there goes the cash flow!

WHAT'S THE FUTURE OF YOUR BUSINESS?

With frequent articles about the future of retailing — "Will the Big Boxes Kill the Little Boxes?" "Will All Business be Transacted Through the Web?" or "Are Supermarket Chains Taking Over the Drugstore Business?" – I recently read of a business that began growing 60 years ago and the exact business is still growing today.

Business Week, March 16, 1998, devoted over a page to Massachusetts-based Dunkin' Donuts, Inc.

My Harvard Business School classmates (1940) and I would visit the Dunkin' Donut shop, located one long block from school, for doughnuts and coffee, pretty much what it still sells today, although it now offers a greater array of coffee (as broad as Starbucks, but cheaper), bagels, and even a lunch menu. (The article erred, however, when it said the menu consisted of not only doughnuts but regular and decaffeinated coffee back in its beginning days. I knew it before decaf came on the market.) In addition, Dunkin' Donuts is no longer under the same management today.

RThought: If you have 3,700 stores and are opening 300 a year, you can't stand still. However, if you make all the right moves like Dunkin' Donuts has done to remain in the lead, you, too, will show an 11% same-store increase!

RThought: The last time I visited the B-School, the Dunkin' Donut shop was still just a block away. The next time I'm in the area, I will have to once again stop by.

RThought: In order for you to keep growing after many years, do as Dunkin' Donut did: change your offering, keep your service high, and undersell your less-efficient competitors. Be the Wal*Mart of your field.

FELLOW MERCHANT WARMTH EXISTS...IN SOME PLACES

In the old days, (i.e., usually 1935 and earlier), merchants would encourage new merchants who had just arrived in town or those who wanted to enlarge an existing business.

My grandfather, Sol, who died before I was born, was a leader in this field in Oakland, California. I remember seeing a few newspaper ads that the family saved *welcoming* department buyers from Kahn's who went on their own, became a co-owner of a business, or enlarged. Sol would run an appropriate ad, and across the bottom of it, he would list all of the merchants in town who had got their start at Kahn's. I especially remember an ad for Mazur's, a women's specialty store, just across from Kahn's main entrance on Broadway, a store which lasted beyond the end of World War II.

Was the feeling mutual? Sol died in Europe in 1914, but his body was returned to Oakland for burial. When the funeral was held, *all* of the downtown merchants closed their stores so that they or their staff could attend. But that was long ago.

Today, in 1998, Nordstrom just opened its largest store in the building in Seattle that once housed the Frederick & Nelson department store. The *Seattle Post-Intelligencer* ran an eight-page section announcing the opening. The back page, in color, was devoted to Nordstrom by its major competitor, The Bon Marche. The copy read:

> **Over the years, we've grown up together – in the heart of downtown, in the heart of the great Northwest. Together, we have played a significant role in helping to build downtown...so we welcome you, our old friend and neighbor, to your beautiful new location...FROM ONE NORTHWEST ORIGINAL TO ANOTHER.**

RThought: When similar events happen in your town, I hope that you are do the same. The townspeople will think well of you. What more can you ask?

GO-FOR-BROKE MONUMENT

On your next trip to Los Angeles, check to see if the Go-For-Broke Monument has been completed in the Little Tokyo section of the city.

We are all aware of the embarrassingly cruel manner in which we treated Japanese-American citizens during World War II, without any evidence of their disloyalty. At the same time, Italian-American fishermen on the West Coast were restricted after sunset, while German Americans were unrestricted despite the bund.

However, the 100th Battalion/442nd Regimental Combat Team, a battalion comprised of Japanese Americans, went on to become the most decorated unit in the history of the United States Army, receiving the most Purple Hearts of any unit in World War II.

Following the war, the battalion organized the Go-For-Broke Association, now called the 100th/442nd Veterans Association. I joined it because, growing up in San Francisco, I admired many Japanese Americans. I not only attended school with many Japanese-American students, but at Stanford University from 1935 to 1938, I worked with fine Japanese Americans who later were abused during the war. (At that time, Japanese-American students were admitted to Stanford but not African Americans.)

RThought: If the Go-For-Broke Monument is finished, spend a few minutes of your time and visit it. When there, remember that there are so many great Japanese-Americans and that we have been hellishly slow in recognizing them.

WHITHER GOEST THE COUPON?

Courtesy of Carlene Thissen's publication, *In-Store* (a newsletter of in-store marketing and business; fax 941-262-7511), coupon distribution is down about 10% — to 276 billion – a percentage that still results in more than 1,000 coupons per year *distributed* for every man, woman, and child! Redemption was also down about 18% — to 4.8 billion less than last year, but still about 20 per man, woman and child, or maybe 25-30 per adult, which is still well above one coupon per month!

RThought: Most of the decline can be attributed to continuity programs. The time may come when the major use of coupons may be from dispensers on the shelf edge next to a product. (I must confess that my wife and I redeem about six per year from the thousands that come into the house.)

RThought: Perhaps the lowest unemployment rate in 25 years may have contributed to reduced use of coupons.

Without the status of a class action, the plaintiffs are asking about $2 billion. I am unwilling to guess the amount that will be claimed if the case is ruled a class action and all the significant retailers add their names to the list of plaintiffs.

RThought: Watch for progress. If the present retailers in the antitrust case (or the class action) win, I believe the message to the world will be "You're not going to get away with stiffing the retail industry."

LET'S BE SPECIFIC ABOUT INFLATION/DEFLATION

The American Institute for Economic Research recently took items in the Consumer Price Index and computed their increases in then-current dollars between 1980 and 1997. I believe most *RT* readers were in business in 1980, so the period listed is one through which you have lived.

Here are some of the items.

College Tuition	338.6%
Hospital and related services	335.7
Prescription drugs	264.0
Airline fares	237.8
Assorted fresh vegetables	166.5
Newspapers	157.1
Magazines, periodicals, books	138.5
Rent of dwelling	117.4
Postage	110.4
All items	109.8
Barber services	106.4
Beauty parlor services	102.8
Electricity	92.3
Lunch away from home	99.5
Dinner away from home	94.2
Beer and ale	83.1
Motor oil	70.5
New cars	69.0
Fresh whole milk	55.0
Infants and toddlers' apparel	56.0
Boys and girls' footwear	45.7
Women's footwear	36.3
Coffee	59.8
Round steak	35.0
Motor fuel	29.5
Tires	11.1
Television sets	41.7
Telephone interstate calls	- 8.8

RThought: If we could receive a college education via TV, perhaps it would result in average values of between +338.6% and –41.75%, or 148.5%!

AS YOU SQUEEZE ANOTHER 5% FROM A MAJOR VENDOR, CONSIDER THIS CASE

An independent bookstore on the margin of Silicon Valley, with the support of the American Booksellers Association, brought a suit against Penguin USA and four other publishers, charging that the defendants were giving the large chains and warehouse clubs "secret and illegal deals that put independent bookstores at a competitive disadvantage."

The four publishers, claiming not to have done anything wrong, settled out of court. Penguin, however, has continued with its own way.

Then, in March 1998, the association again filed suits against two of the largest booksellers, Barnes & Noble and Borders, claiming that the publishers are now so dependent upon the large chains that they give improper deals. And the association won. The settlement is thought to be one of the largest settlements of antitrust cases: $25 million! Both Barnes & Noble and Borders will appeal.

The vice president of corporate communications at Barnes & Noble said that the independents should be more concerned about "the wholesale clubs and the Wal*Marts of the world" which now represent 56% of the book-selling market.

RThought: It is not just in the sale of books where powerful companies are getting a much better deal in the end than the smaller retailers in a field. One often hears of many special guaranteed sales, compensation for markdowns in the form of a guaranteed gross margin, or exclusive territories – but only to larger retailers.

RThought: If this settlement is not overthrown, you can expect other suits by smaller retailers in many fields and YOU MAY BE THE "BIG" RETAILER WHO IS CHARGED WITH ANTITRUST CONDUCT.

Remember that our legal system is based upon the decisions of earlier lawsuits — called "precedence" – and that a new "precedent" has now been set.

SHOULDN'T YOU HAVE A $3,000 DEFIBRILLATOR IN EVERY ONE OF YOUR LARGE STORES?

The following is courtesy of the September 28, 1998, *U.S. News & World Report:*

> **A 42-year-old lawyer in the middle of Grand Central Station in New York City collapsed. Fortunately, a member of the station staff and an emergency medical technician were near. There was no pulse. CPR was administered. The manager of fire prevention recalled that just the day before they had received an automated external defibrillator. He opened the package and set it up per the instructions. A voice said, "Shock advised." The shock button was pushed and a 1,700-volt electrical shock**

followed. Within four minutes, the man's heart was beating again.

The American Heart Association estimates that the $3,000 device (manufactured by Heartstream, a subsidiary of Hewlett-Packard) could save between 20,000 and 100,000 lives annually.

RThought: I am sure that some executives from the larger retail chains who read *RT* have experienced such heart attacks and the sense of futility that exists because so little in-house help is available.

The life you save could be *your own*.

On most days, shoppers numbering the thousands will walk through your doors. And if such an attack should take place, the automatic operation of the device would make it possible for a salesperson with no medical experience but with a clear set of operating instructions to possibly save a life that otherwise might be lost in the time required for an affected person to get to a hospital.

Consider the benefits you can obtain from a $3,000 expenditure. Then weigh the benefits against other $3,000 expenditures and buy a defibrillator per large store.

SHORT SHORT

Do you know how much your company meetings cost? Jud Richmond recently asked that question in Bob Keiningham's *The Furniture Forum*. The answer: Compute the hourly compensation for all executives, multiply it by the length of the meeting, and then ask yourself if you made money or wasted it. Also ask yourself a few other questions: Did you have this meeting out of habit? Did you have it to socialize? Was it to provide an audience for some executive? Also, place a value on what was *accomplished* at the meeting. What was it worth compared with the cost? Even if you don't compare the cost and the value, ask yourself after every meeting: *What did we produce of value or benefit?*
RThought: You may learn to adjourn meetings early!

WORDS – THAT GO FOR BAROQUE

Lindsey Mask of San Marcos wrote:

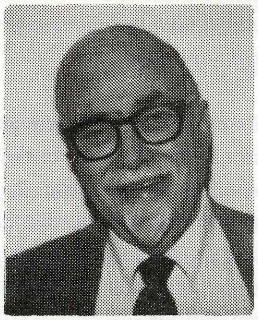
> **Recently, a guy in Paris nearly got away with stealing several paintings from the Louvre. However, after planning the crime and getting in and out past security, he was captured only two blocks away when his Econoline van ran out of gas. When asked how he could mastermind such a crime and then make such an obvious error, he replied: [Editor's note: This is gonna hurt!] "I had no Monet to buy Degas to make de Van Gogh."**

U.S BUREAU OF CENSUS
RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON
(Unadjusted $ millions)

SIC Code	Category	July 1998	1997	Percentage Change	Year to Date 1998	1997	Percentage Change
52	Building Material Group *	$ 15,489	$ 14,176	+ 9.3%	$ 95,449	$ 86,767	+ 10.0%
57	Furniture Group *	13,032	11,869	+ 9.8	85,642	76,407	+ 12.1
571	Furniture Stores	6,396	5,958	+ 7.4	42,025	36,980	+ 13.6
572	Appliance, TV, Computer and Radio Stores	5,787	5,126	+ 12.9	37,783	33,820	+ 11.7
5941	Sporting Goods Stores *	2,084	1,924	+ 8.3	13,068	12,082	+ 8.2
5942	Book Stores *	865	822	+ 5.2	6,756	6,629	+ 1.9
5944	Jewelry Stores *	1,472	1,374	+ 7.1	10,334	9,488	+ 8.9
531Pt	Conventional Stores	4,029	3,833	+ 5.1	28,038	26,908	+ 4.2
531Pt	National Chain Stores	3,052	3,142	- 2.9	20,865	21,080	- 1.0
	Subtotal	7,081	6,975	+ 1.5	48,903	47,988	+ 1.9
531Pt	Discount Stores	14,627	13,338	+ 9.7	97,258	88,199	+ 10.3
531	Total Department Stores *	21,708	20,313	+ 6.9	148,182	136,167	+ 8.8
539	Miscellaneous General Merchandise Stores *	5,098	4,831	+ 5.5	33,501	31,780	+ 5.4
541	Grocery Stores *	36,353	34,831	+ 4.4	237,123	232,363	+ 2.0
56	Apparel and Accessory Stores *	9,845	9,206	+ 6.9	64,289	60,415	+ 6.4
561	Men's and Boys' Stores	856	772	+ 10.9	5,912	5,319	+ 11.1
5623	Women's Stores	2,442	2,374	- 2.9	16,777	16,686	+ 0.5
565	Family Clothing Stores	3,895	3,582	+ 8.7	24,086	22,154	+ 8.7
566	Shoe Stores	1,765	1,689	+ 4.5	11,503	11,137	+ 3.3
591	Drug Stores *	8,637	8,023	+ 7.7	59,344	55,736	+ 6.5
596	Nonstore Retail *	6,3323	5,917	+ 7.0	42,508	40,785	+ 4.2
5961	Mail Order	4,231	3,581	+ 18.2	28,677	25,220	+ 13.7
	* *RETAILING TODAY* TOTAL **STORE RETAILING** (1)	120,915	113,286	+ 6.7	796,196	748,619	+ 6.4
	TOTAL (2)	57,665	53,663	+ 7.5	382,961	356,815	+ 7.3

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677; or on the World Wide Web at http://www.census.gov/svsd/www/monret.html



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ROUTE TO

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CHRISTMAS PLANNING FOR 1998

This year, Christmas will fall on a Friday. The last time Christmas changed from a Thursday to a Friday was in 1987. Thus, you should look at your pattern of sales in 1987 as a guide for 1998.

Both 1987 and 1998 had 28 days between Thanksgiving Day and Christmas; both 1986 and 1997 had only 27 days. Based on the many hours of studying the patterns back to the 1920s, it is my belief that the 1998 pattern will *appear* to be running behind 1997. People will suddenly realize on the weekend of December 19-20 that "Christmas is next Friday!!!" and business should pick up substantially through December 24. That short week has one more day than last year and will account for much of the season increase.

ORGAN DONORS – GIVING LIFE

The following contains excerpts from *Walgreen World*, the bimonthly publication for the 90,000 associates of Walgreen Co., by permission of Daniel Jorndt, its president and chief executive officer.

As a country, we are doing a poor job of acquainting the 20 million people who make up our industry of the effort being made to explain how organ-giving can give the greatest gift of all, the gift of life, often to a stranger and often after a death of someone close and dear to you.

Most of us skim over the articles in the press about the hundreds of people who are living in hope that they will get a heart, a kidney, a bile duct, or one of many organ parts.

And when I read the following stories, I cried. You may, too, as I try to convey the impact.

First, there was a picture of a lovely young girl and a teddy bear. The caption read: "There's nothing that can compare to losing a child," says store manager Rick Cox, whose daughter Stephanie (pictured) was killed in a car accident in 1995. "One comfort is knowing that four people benefited from the donations of her 11-year-old organs."

WHY WAL*MART IS HAVING A $135 BILLION YEAR

While attending the 5th Annual Analysts' Meeting of Wal*Mart Stores, Inc., the company mentioned sales of $135 billion this year, or a $17 billion (14%) increase from last year.

There were only five subjects discussed at the meeting. They were:

1. How to please the customer
2. How to reduce expenses while improving service
3. How to please the customer
4. How to accomplish planned growth
5. How to please the customer

RThought: Nothing was said about having a sale at 35% off an artificial "regular" price, nor was there any suggestion of reducing the number of properly trained salespeople with a goal of reducing expenses.

RThought: In other words, Wal*Mart's success can be summed up in the six-word title of Marshall Field's biography: *Give The Lady What She Wants.*

RThought: How can any form of retailing survive if retailers don't understand their customers. The word "customer" has been in the English language from about 1450 (*Oxford Unabridged Dictionary*) and is defined as an individual who usually has "some specified distinctive trait," such as returning to a shop "by habit or custom." Thus, a person who shops at a store only when there's a sale is *not* a customer.

After I summarized the Wal*Mart meeting to a friend recently, he sent me a copy of a full-page American Express advertisement, entitled "Profiles of Leadership: A Conversation With James M. Zimmerman, Chairman and CEO, Federated Department Stores, Inc." I was pleased with Zimmerman's answer to the question about his favorite charity: the United Way. I'd have given the same response. After some 20 years in approximately 10 major positions for the United Bay Area Crusade/the United Way of the Bay Area, I was the first recipient of the Fleishacker Award, an award now presented annually to the outstanding volunteer. I was, however, only following in the footsteps of my mother and father.

As for Zimmerman's answer to the next question, which asked his favorite proverb — "This one is simple: Think like a customer" — I had a problem. If he had just stopped for a moment and thought like many of Macy's West ex-customers, all of whom say something along the line of "I never can find a salesperson to ring up my sale, so I go to Nordstrom because my time is valuable. It may cost a bit more to shop there, but at least there are enough salespeople to take care of the customers." If Zimmerman doesn't believe me, I'm sure I could get a number of my associates and friends to meet with him in San Francisco to tell him why they no longer shop at Macy's West.

Then there was the story of Edna Lavella, a cashier in a Missouri store. Seven years ago, she was dying of heart failure. She then received a new heart. The most terrifying time for her was after the transplant. Even though you know your life is saved, you don't know how well your new heart will work. Perhaps Edna is alive because someone in some state wrote on the back of a driver's license that his or her organs could be used. As simple as that. Or perhaps this is what makes people at Walgreen so willing to encourage fellow workers – as does the following story: "Many of you have heard my brother Tom donated a kidney to my older brother George in 1992. This past February marked the sixth anniversary of the surgery, and both Tom and George are fine. There are few days, even now, when I don't think about the generosity which has brought such joy to the three of us brothers and our families."

The latter story was longer, but the person who spoke of "my older brother George" was none other than Daniel Jorndt.

RThought: Our industry is a large one, employing 20,000,000 people, one of every six people in the labor force. If we do something collectively as an industry, we can help save thousands of lives every year. And we can do it – if only retailers would emphasize organ-giving in the millions of pages of advertising each year.

RThought: As part of this industry and, perhaps, as a member of the National Retail Federation, if you believe we can hasten the action of individuals to arrange for use of their organs, please call Ms. Tracy Mullin, President, National Retail Federation, at 202-783-7971, for further information. Explain that Bob Kahn has asked you to join in this effort.

WHAT I OBSERVED ONE AFTERNOON

I have had some trouble with my legs the past few years. Thus, while shopping with my wife at our local independent supermarket, I was pleased to spot a chair – something all stores could provide for their patrons – near the exit. Upon sitting down to rest, I began to observe the checkout stands.

It being a weekday afternoon, the store had only two of five checkouts open; however, when lines began to develop, a cashier came off the floor and opened a third one. Believe me, the people making up the "front-end team" appeared to be performing in the same manner in which the 49ers hope to have the offensive and defensive teams perform this season: as with any football team, with proper teamwork, the team could be headed to the Super Bowl in January!

The baggers moved from line to line, depending upon the need for a bagger, and both the checkers and the baggers were chatting with the customers. When a bagger finished placing the bagged groceries in the cart, the bagger would then ask the customer if help was needed loading the groceries into the car. If so, the bagger took the cart and followed the customer to the car. After unloading the groceries, the bagger would take the cart back to the store, picking up any stray carts along the way.

I noticed that the baggers were not only resupplying plastic and paper bags at the checkout stands but picking up the hand baskets that had been left behind and stacking them at the entrance. I also observed what happens when an item doesn't have a bar code on it: in all but one case, someone up front knew the price. And in the one situation, a bagger, *with enthusiasm*, left to find the shelf price and then quickly returned with it.

When my wife had completed her shopping, I complimented the checker who appeared to be in charge, telling her how impressed I was with their teamwork. She apparently has been a checker for a number of years because she knew many customers by name and often asked questions regarding their families. One of the cashiers has the board backing the checkout covered with pictures of customers, children, and pets.

Again, needless to say, I was impressed. But I became even more impressed with the store's teamwork after we stopped at one of two major supermarket chains in town to buy a few items the independent does not carry. After finding the three items we needed, I went to the "9 or fewer" checkout stand. When the checker rang up the items, the only words she uttered were to ask me for my (continuity) card, to which I replied I had none, the amount of the transaction, and the amount due as change from a $20 bill. She did it efficiently, but there was nothing to indicate she was interested in serving me – not even a "thank you." Upon finding out that I didn't have a card, she should have said something along the lines of "Why not fill out a form right now. It will take only a moment. Or, if you prefer, fill it out and either mail it or turn it in the next time you're in the store." What a missed opportunity.

THE MARK OF THE CIGARETTE MAKER

Cigarette manufacturers want to avoid liability for the thousands of people that they have made ill or have killed from cancer and the thousands of young people (some as young as 12) that they have enticed into smoking cigarettes. Now, tobacco companies have agreed to withdraw some of the ads that they formerly placed in sport stadiums, on buses and streetcars, etc.

But have you heard how much tobacco companies have increased their direct-mail advertising (1996 is the latest year reported to the Federal Trade Commission): by 11.8%! One way or another, the manufacturers are determined to make money by killing people – and $300 billion won't bring those victims back.

Do you think for a moment that the chief executive officers of the tobacco companies really believed that cigarettes are NOT addictive?

The U.S. Congress has spent over $30 million on an independent counsel, but it has spent virtually nothing on eliminating cigarettes and, thus, eliminating the addiction.
RThought: You could join some fine companies that no longer

IF RETAILERS ONLY KNEW MORE, BOTH THEY AND THEIR DISABLED CUSTOMERS WOULD BENEFIT

The headline on the front page of the *Los Angeles Times*, June 19, 1998, read: "Disabled Shoppers Due for Better Access at Macy's."

On the same day, our local newspaper, the *Contra Costa Times*, headlined: "Compliance, Competition Clash in Suit for Macy's."

I suspect that most of the papers from Los Angeles to San Francisco carried the story of a suit by two disabled persons against Macy's for failure to provide aisles which will accommodate people in wheelchairs in accordance with the Americans with Disabilities Act. The suit involved the San Francisco Macy's store at Union Square and was supported by the Disabilities Rights Advocates.

The R. H. Macy & Company bought the San Francisco store during or immediately after World War II. It was formerly known as O'Connor & Moffat, an old, one-unit department store in a building that I would guess was built a few years after the 1906 San Francisco Earthquake and Fire.

Today, Macy's has been expanded to at least three times the original store. But there are inadequate aisles in not only its San Francisco store but in at least two other nearby stores: the Sunvalley store it built and the Walnut Creek store it acquired from the Emporium.

The California Retailers Association said that the industry supports Macy's position and even quotes the president of the association as saying, "It's pretty basic in retail. Inventory per square foot drives sales per square foot, which drives your profit." After reading the quote, I contacted him, informing him that his *statement cannot be supported* and that it is wrong and that I will say so in this *RT* article. If he were correct, retailers would need only to eliminate all aisles and stack merchandise to the ceiling to maximize profit!

I became involved in this matter when I received a call from an economic analyst, a faculty member of the Department of Economics at San Francisco State University. (He had met me in an earlier case involving injury to a fellow consultant and friend.) After explaining the basis for the suit against Macy's, he asked me to read and comment on the statements by two expert witnesses.

The first was entitled "Retail Industry Selling Space Analysis" by Richard A. Feinberg, PhD, Retail Institute, Purdue University. I asked some of my friends in the academic field (many of whom use *Retailing Today* in their classes or quote from it in their books) what the American Collegiate Retail Association (ACRA) knows about Feinberg. Their immediate reaction was to tell me that the Retail Institute at Purdue was still part of the Home Economics Department and that most of the profession looked down upon it as a "retail" institute. I know about retail institutes, since I have been a member for over 20 years of the Advisory Committee of the Retail Management Institute at Santa Clara University.

Feinberg's opening statement began:

> **The major goal of store layout and merchandise presentation is to get shoppers to spend as much as possible on any shopping trip in the available space. Space is a communicator; and to that extent, it communicates in a rewarding manner, it sells. Ideally, it sells. Ideally, all available merchandise should be displayed. Merchandise in storage areas is not available to consumers (and is an expense that impairs profitability). That is why retailers try to maximize merchandise placement while maximizing sales.**
>
> **Space productivity is the goal of all merchandise layout and space usage. Every square foot of space is valuable. Sales per-square-foot productivity is crucial because sales go up. In a fixed space environment, there is an increasing effect on profitability. For every retailer, there is a cost of doing business.**
>
> **The importance of space as a retail variable is sharply etched by its significance as a benchmark used by all retailers and industry analysts (retail, stock, and scholars) for measurement, analysis, and comparative productivity, performance, and success. For example, the National Retail Federation regularly benchmarks the following industrywide financial results in retail store studies:**
>
> - **Sales per square foot of selling space**
> - **Selling space (percentage of total space)**
> - **Gross margin per square foot**
> - **Average inventory per square foot**

Feinberg then proceeded with an analysis of spacing effects.

> **Changes of space will effect Macy's West as follows:**
>
> 1. **Sales loss due to less merchandise in the same space**
> 2. **Market damage due to increased customer dissatisfaction**
> 3. **Customers do not like to shop when spaces are too open**
> 4. **Open space lowers stimulation and alertness and high levels of stimulation associated with greater spending and excitement**
> 5. **Increased time in store, increased interaction with personnel**
> 6. **Enjoyment and tendency to spend more money than planned**

I cannot include all of Feinberg's report, but here's his conclusion.

> **Based upon my best judgement, requiring Macy's West to decrease or reduce space available to sell merchandise would result in a significant loss of selling space, have a significant and negative effect on sales profitability, and be negatively affected by increasing non-merchandise and decreasing merchandise availability within fixed spaces. I cannot see these losses as being able to be made up by any level of possible increases in market share (increasing the amount spent by consumers with disabilities).**

The second statement offered by Macy's was prepared by Price Waterhouse (now Pricewaterhousecoopers), specifically, a Mr. Carl Steidtmann. (Upon seeing his name, I recognized him as the chief economist of Management Horizon, a subsidiary of Price Waterhouse.)

In Steidtmann's submitted letter, the following key statements were made:

> **The question at hand involves the impact of reducing selling space at Macy's West on divisional sales and Federated's shareholder value.**
>
> **Price Waterhouse found that there was a direct 1:1 relationship between the reduced selling space and reduced sales at Macy's West (e.g., sales will decrease 1% for every 1% of selling space removed). Our findings further assert that for every 1% loss in selling space at Macy's West Federated will lose approximately 0.4% of its shareholder value, or $40 million, given the company's market capitalization of approximately $10 billion.** [*RT* Note: The letter did not state how Price Waterhouse "found…a direct 1:1 relationship."]

Now, for my comments.

There is no outside support other than what is provided by Feinberg. In addition, there is no proof of the 1:1 impact reducing inventory and divisional sales.

Both of these documents were prepared by persons who represented themselves as "experts in retailing." The federal judge, however, disallowed both reports on the basis that neither Feinberg nor Steidtmann had any direct experience in retailing and did not make reference to any studies or surveys supporting their conclusions.

Price Waterhouse assumed that a 5% reduction of merchandise space would reduce profits 5%, etc., etc. On the other hand, I have specific evidence based upon valid studies with wider aisles: a reduction in non-aisle space, which permits greater access to merchandise, leads to a *disappropriate* increase in sales. This evidence was once published in *RT*; however, I have *never* seen it published elsewhere. For example, several years ago, while a director and a consultant of Wal*Mart Stores, Inc., I disclosed an experiment conducted by Sam Walton as a result of visits to recently acquired stores. Visiting a store in Albuquerque, New Mexico, shortly after Wal*Mart acquired a discount chain out of Salt Lake City, I wrote Sam to tell him that I had never seen such narrow aisles. I then suggested that the generally accepted formula for higher sales per square foot was wrong and believed that most merchants are under the impression that sales can be improved per square foot by stacking merchandise higher and running more ads.

My formula was: **Number of customers multiplied by length of stay equals sales per square foot.**

I suggested to Sam that we *concentrate on the right-hand element* and offered the following four steps:

1. Never have such a narrow aisle that a shopper would not go down it because someone was already in it.
2. Have the cleanest restrooms in town so that we never again hear someone say, "Let's go home. I have to go to the bathroom."
3. Rather than just one bench near the entrance of a store, forget the adage that someone sitting is not shopping and put benches throughout. [I made up a saying years ago that I attribute to Confucius: "Woman can shop longer than man can stand."]
4. Provide coffee at the opposite corner from the snack bar so that shoppers will get that pick up they so often need to shop longer.

About 18 months later, Sam wrote to say that he had built a dozen 110,000-square-foot stores instead of the standard 80,000-square-foot buildings. And although the 110,000-square-foot stores had the same lineage of shelving and the same SKUs, they had higher sales per square foot! Since that time, wide aisles are always in Wal*Mart's plans, although, sometimes, more merchandise is shipped to a store than it can hold, so store management often blocks aisles.

Several years later, Phillip Miller, chairman and chief executive of Saks Fifth Avenue, gave a talk at the NRF convention. I recall him telling various experiences. Re-merchandising the women's dress floor, for example, management put rounders further apart so that people, particularly with children, would not be reluctant to inspect the merchandise. Sales increased significantly. Next, Saks added benches – for anyone to sit on but especially for husbands. Sales increased even more!

The Wal*Mart Analysts Meeting that followed the 1998 Annual Meeting reported the results of an experiment that I had suggested long ago: increasing the space between rounders in women's apparel to 36 inches. Guess what? Sales increased 25%!

In the early to mid-1980s, Leslie Wexler of The Limited, Inc., experimented with 12,000-square-foot stores. Sales per square foot increased.

Sales per square foot is a measure used frequently in evaluating stores, so much so that the annual *Directory of Department Stores* issued by Chain Store Guides provides a listing for virtually all store groups. Its most recent issues (1998 and 1999) covered Federated Department Stores' divisions, ending February 1997 and 1998.

Subsidiary	Ending February 1997	Ending February 1998
Bloomingdale's	$251	$293
The Bon Marche	243	257
Macy's East	192	194
Macy's West	180	244
Sterns	179	185
Burdines	168	168
Rich's, Lazarus, Goldsmiths	121	130

If Bloomingdale's reaches $251 and The Bon Marche $243, why are the others, particularly Rich's, so low?

My belief is that Bloomingdale's largely reflects the high volume generated by the Manhattan, New York, store. I had a longtime friend and Certified Management Consultant survey the main Bon Marche store in Seattle and one of its branches. He commented on their wide aisles and especially noted that the attitude of floor personnel was most helpful. Since then, I have discussed the same subject with another longtime friend and CMC who works in the retail field. He said that he received his training in retail at The Bon under Pat Segner, a name I have not heard in more than 20 years. My friend said that Pat always insisted on wide aisles.

I then asked a friend in a retail buying office in Los Angeles to check two or three Macy stores. He, too, reported adequate aisles and noted that floor personnel were most gracious and helpful to disabled people. He noted that personnel either brought merchandise to the disabled or helped them find a specific item. (**Note:** Most Macy's West stores in Los Angeles were once owned by Bullock's, stores built to encourage shopping.)

I detest doing long-distance counseling through *RT*, but I believe that if Macy's San Francisco and the branches which I mentioned in Sunvalley and Walnut Creek showed the wisdom of Sam Walton and Phillip Miller and provided wider aisles its sales would not only improve but disabled Americans would be greatly helped. It's a win-win situation, although purchases made by the disabled are most likely insignificant in total. However, disabled customers will definitely buy more in a store that cheerfully accommodates them.

For much of the information contained herein, I have relied on five expert shoppers: my wife and my four associates. As mentioned in the boxed article on the front page, I would be happy to bring all five of them to the San Francisco store to discuss what Macy's can do to make shopping easier, convenient, and faster for them. I already know that wider aisles should be on the top of their list.

I did not write about Macy's as a stranger but as one who received much of his training under executive vice-president Harold Wess in Macy's one and only Research Division (Division V) in its 34th Street store. I helped plan Macy's first branch in Parkchester, New York, in 1940-41. And, after joining the military in 1941, I received a report from friends on Parkchester's first year. I was proud of my projections.

As a final note on this subject, Macy's might spend some time looking at the aisles in the stores of the three major discounters. Dividing the sales by the reported square foot of selling area as reported, Kmart Corp. had about $200 and Target stores had about $300. In addition, analysts have commented favorably on Kmart's new format: *wider aisles.*

The figures are not available for Wal*Mart, but trade articles indicate about $350-400. Sales per square foot of Wal*Mart's stores are affected by the following factors:

1. Number of stores open 24 hours
2. Volume of food which generally has higher sales per square foot than general merchandise
3. Volume generated internationally, particularly in Canada and Mexico
4. Reputation for helpful service

Let's not forget the title of this article: "IF RETAILERS KNEW MORE, BOTH THEY AND THEIR DISABLED CUSTOMERS WOULD BENEFIT."

sell cigarettes: Shopko Stores, Target Stores, and Trader Joe's in the United States and Wal*Mart Stores in Canada. (I wrote many letters to my friend, Sam Walton, pleading for him to discontinue the sale of cigarettes. Unfortunately, I never found the right words to convince him. If the largest retailer in the world did not sell cigarettes, how many people would live? Are Canadian lives more valuable than American lives, Mexican lives, etc.?)

RThought: Please check the degree to which cigarette sales are important to your business.

Remember, cigarette manufacturers will never stop marketing illness and death as long as we, the retailers, are greedy for the small sales volume we collect without thinking about the *few* dollars we earn. PLEASE consider this important issue.

Ask your spouse if he or she wants you to sell cigarettes, possibly to your children.

Don't be a merchant of death.

(**Note:** I write this because I love retailing and want it to be constructive at all times.)

WHAT COLLEGE GRADS MOST WANT FROM THEIR FIRST JOB

The 1997-98 Graduate Student and Alumni Survey by the National Association of Colleges and Employers, as published in the November 1998 issue of *Bottom Line/Business*, found what students most want is, to say the least, interesting.

Benefits most valued were rated on the basis of 1 to 5 and consisted of the following:

Medical insurance	4.71
Retirement benefits	4.30
Annual salary increases	4.09
Dental insurance	4.05
Life insurance	4.01
Tuition reimbursement	3.80
Stock options	3.56
Family friendly benefits	3.53
Vacation exceeding two weeks	3.46
Flextime	3.42
Frequent performing reviews	3.34
Bonuses and commissions	3.32
Telecommuting	2.90
On-site fitness center	2.47
Casual dress	2.45
Psychological counseling	2.09
Company car	1.89

RThought: Is it worthwhile hiring a person out of college who ranks retirement benefits as the second most important job feature???

When I graduated from Harvard Business School with an MBA, I was happy to get a $35-a-week job, although I was in a good training program at a good retailer, Macy's. If I had placed importance on any feature listed above, I definitely would *not* have been hired.

And what's the sixth most important feature: tuition reimbursement???

(**Note:** *Bottom Line/Business*, P. O. Box 2614, Greenwich, CT 06836-2614, is $49 per year. I enjoy reading this publication every month, from cover to cover.)

ARE YOUR CUSTOMERS SATISFIED? OR DO THEY JUST NOT SHOP WITH YOU ANYMORE?

The above title is a bit different from that of an article in *Marketing Tools*, an American Demographics, Inc., publication, but the message is the same: make sure your customers keep coming back.

The article pointed out the five stages to a customer's "life":

1. Acquisition
2. Retention
3. Attrition
4. Defection
5. Reacquisition

Dealing largely with business-to-business relationships, the article could definitely apply to a retailer-customer relationship.
In 1994, the Juran Institute conducted a study among America's 200 largest companies. Most had on-going measures of customer satisfaction; but, with all of that effort, *only 2%* of the firms could show any significant increase in sales. Between 65% and 85% of their customers were "satisfied" or "very satisfied" with a previous supplier – *they just didn't use the supplier anymore.* I am confident that if a survey were made of customers of department stores, large apparel specialty stores, or major chains, the results would be pretty much the same. In other words, if they were satisfied, they would reply yes – but they just don't shop at those stores anymore. However, I would follow up with the question: Why not?

Customer-satisfaction research accounts for significant revenue for research companies. The performance of such surveys seldom results in a retailer's increase in sales because the wrong questions were asked. In other words, *satisfaction does not necessarily produce sales.* A study should try to produce results telling decision-makers what constitutes satisfaction to a level that someone will shop at a given store.

Perhaps it would be constructive to conduct a little test of your own on charge-account customers. Call customers who used to charge at least three or four times a year but who have not charged for the past two years. First, ask if bankcards are used by the customer; if so, why? Then tell them that you have missed them and then ask if *you* have done something to disappoint them. Some, of course, may have a logical reason, as I do, when I recently charged my dentist's bill on my AAdvantage Visa card in order to receive 1,000 or more in miles for the next upgrade! But that can't be the total reason. At least, in my case, my dentist knows that I am returning at least twice a year (he schedules it!); but, in your case, your survey should tell something about a customer's patronage in, for example, the men's department.

One writer of the article expressed the problem this way: "Customer satisfaction is an *attitude*; customer loyalty is a *purchase behavior*."

An example was illustrated by a hardware store where 43% of its defecting customers gave one reason: poor floor service. This group of defecting customers was broken into two groups: 14% complained to the company and 29% did not. The remaining 57% defected for reasons other than poor floor service.

Of the 14% who complained, 58% had a positive reaction—that is, they *might* return. Of the 29% who did not complain, 51% said that they would *not* come back – possibly because of *the attention shown by the company in contacting them* and thus being discovered as someone who has defected.

The article is replete with recommended books and the names of people to contact who study/consult in the area of recovering "defectors." However, as with most "missing customer" surveys, no mention is made as to the number of people who may still be shopping at a store who now use bankcards.

RThought: If interested, send $5 to American Demographics, Inc., P. O. Box 10580, Riverton, NJ 08072-0580, or call 607-273-6343. Request the May 1996 issue of *Marketing Tools*.

WORDS – FROM A PHYSICIST WE ALL KNOW

Imagination is more important than knowledge.

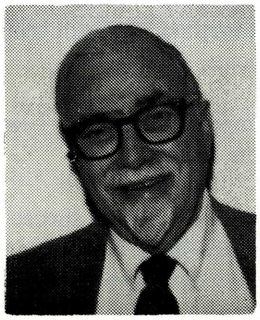
Albert Einstein

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON (Unadjusted $ millions)

SIC Code	Category	August 1998	August 1997	Percentage Change		Year to Date 1998	Year to Date 1997	Percentage Change	
52	Building Material Group *	$ 14,429	$ 13,141	+	9.8%	$ 109,884	$ 99,905	+	10.0%
57	Furniture Group *	13,434	12,453	+	7.9	99,265	90,860	+	9.3
571	Furniture Stores	6,399	6,223	+	2.8	48,422	45,203	+	7.1
572	Appliance, TV, Computer and Radio Stores	6,103	5,349	+	14.1	43,878	39,169	+	12.0
5941	Sporting Goods Stores *	2,148	2,048	+	4.9	15,211	14,140	+	7.6
5942	Book Stores *	1,350	1,287	+	4.9	8,106	7,916	+	2.4
5944	Jewelry Stores *	1,526	1,414	+	7.9	11,860	10,902	+	8.8
531	Department Stores *	23,392	22,531	+	3.8	169,563	158,698	+	6.8
531Pt	Conventional Stores	4,603	4,640	-	0.8	32,650	31,548	+	3.5
531Pt	National Chain Stores	3,434	3,540	-	3.0	24,300	24,600	-	1.2
	Subtotal	8,037	8,180	-	1.7	56,950	56,148	+	1.4
531Pt	Discount Stores	15,355	14,351	+	7.0	112,613	102,550	+	9.8
539	Miscellaneous General Merchandise Stores *	5,157	4,882	+	3.8	38,655	36,662	+	6.8
541	Grocery Stores *	35,407	34,631	+	5.6	272,472	266,994	+	5.4
56	Apparel and Accessory Stores *	11,199	10,874	+	2.2	75,530	71,289	+	2.1
561	Men's and Boys' Stores	957	889	+	7.6	6,865	6,208	+	10.6
5623	Women's Stores	2,562	2,603	-	1.6	15,802	16,227	-	2.6
565	Family Clothing Stores	4,395	4,186	+	5.0	28,521	26,342	+	8.3
566	Shoe Stores	2,144	2,096	+	2.3	13,645	13,233	+	3.1
591	Drug Stores *	8,629	7,960	+	8.4	68,297	63,696	+	7.2
596	Nonstore Retail *	6,033	5,526	+	9.2	48,446	48,311	+	0.3
5961	Mail Order	4,025	3,527	+	14.1	32,611	28,747	+	13.4
	*** *RETAILING TODAY* TOTAL STORE RETAILING** (1)	122,704	116,747	+	5.1	917,289	869,373	+	5.5
	GAF TOTAL (2)	61,643	58,895	+	4.7	444,632	415,710	+	7.0

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975.
The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).



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ROUTE TO

DECEMBER 1998 **VOL. 33, NO. 12**

ONCE UPON A TIME, I DEFENDED GIMBEL & SONS AGAINST GIMBEL BROTHERS

It was not that many years ago that BAT Industries (British American Tobacco), the parent company of Gimbel Brothers, Inc., brought suit against Jack Gimbel, owner and operator of a single store, Gimbel & Sons Country Store, on the Old Wharf in Boothbay Harbor, Maine.

Two products – a catalog containing what is probably the widest assortment of thimbles, anywhere, and saltwater taffy – are Gimbel & Sons' mainstay.

And it was not that many years ago that Gimbel Brothers, Inc., owned large department stores in New York City, Philadelphia, Pittsburgh, and a few other cities, all of which were headed down. Perhaps Gimbels was declining because Gimbel & Sons' sales were growing a few thousand dollars a year!

Even today, Gimbel & Sons continues to grow, even though Jack has passed away. (At the time of his death, a letter I had written was found on his desk, a letter to which he had intended to reply.)

With the recent arrival of the 1998 Gimbel & Sons catalog, Patty and I once again ordered a thimble – this time for our daughter Roberta. We ordered the thimble that has cats painted on it because Roberta has six or seven felines around her house at all times. She also gives good advice to Patty and me on our cat, Goldie. (Our cat gets along with five raccoons who live on our property!)

Just inside the front cover of the catalog was a picture of Jack's offspring, his daughter and son, who now run the store, and a short letter I'm sure many of you would like to have written about you.

> **Dear Friends—**
>
> **Pictured above are my employers, sister and brother, Beth and Mark Gimbel. I've known and worked for them for 15 years, and they are doing a wonderful job of leading Gimbel & Sons Country Store. It isn't easy directing a company and still making the employees feel like family members, but that is what Beth and Mark do. Most of the staff has been here for over 10 years which tells you what kind of people the Gimbels are. Everyone is consulted about product selection, just like a real family, and this year we are all excited about our new items. We think they will please you. Because many of you have suggested that we list thimble sizes, we will begin this year to do that. Beth and Mark do listen to your ideas and suggestions – a lot like a regular family – so keep them coming! Helping with this catalog has been a fun and rewarding project for everyone here, and we're certain you will have just as much fun browsing through it.**
>
> **Happy Collecting,**
>
> **Jane E. Eames**
> **Office Manager**

RThought: From my many exchanges with Jack, I am certain there really is such an office manager as Jane Eames and that a true family spirit prevails. However, if you have doubt, call Gimbel & Sons' customer service line at 207-633-5088 and ask for Jane Eames.

RThought: At this stage of success, one cannot help but wonder if Gimbel Brothers might not still be with us had it been run by Jack.

Over the years, I have tried to stress in *RT* many points that Jack practiced, such as running a store with good leadership rules and listening to your customers and then acting upon their requests. In other words, as Marshall Field once said, "Give the lady what she wants."

'I HAVE A DREAM' *by* *Martin Luther King*

'I HAVE A DREAM...FOR MY COMPANY' by A Principal Dreamer

I HAVE A DREAM that we *will create the desire* in every associate *to be everything* that she or he can be.

I HAVE A DREAM that every associate *will be able to be* all that she or he can be.

I HAVE A DREAM that I *will create the opportunity* for every associate *to be everything* that she or he can be.

TO MAKE THIS DREAM COME TRUE, this long-range plan is set forth for *OUR PERSONAL GROWTH DEPARTMENT** within *OUR PEOPLE DIVISION.***

*Formerly the Training Department
**Formerly the Personnel Division

RThought: I hope some of you will share my dream.

THE HEADLINE: 'DH WANTS MORE FROM MERVYN'S'

The insert in the article read:

"...we will not accept erratic performance from Mervyn's in the future."

—Bob Ulrich, Dayton Hudson Corp.

The person who sent this article to me commented:

"We will no longer permit ducks to quack!"

In reading the article, I couldn't help but think of my association with Mervyn's over 21 years, as a weekly adviser to Merv Morris, the founder of Mervyn's, until the company was acquired at a premium by Dayton Hudson. It has always been my belief that the acquisition was made because Mervyn's had developed a retail position *between* the department stores and the discount stores, thereby developing a strong clientele which enabled it to successfully take its format into almost any part of the U.S. market. Jack Kilmartin, the company's president under Merv Morris and its chairman after the acquisition, was also successful in doing just that – and the company produced a good profit then.

When Jack Kilmartin retired, Dayton Hudson began to provide Mervyn's senior management, which was usually not from within and, thus, not familiar with neither the position in the market enjoyed by Mervyn's nor how to maintain it. I doubt that there are any senior executives left today who remember what Mervyn's was like in 1977 when it was acquired.

Bloomingdale's, The Gap, and Victoria's Secret each have their own format. And Mervyn's did, too. However, as was the case with Mervyn's, too much of a change by someone who is not imbued with the "beliefs of how to retail" is likely to damage any retail company. Unfortunately, each of us who understands this concept can probably think of other retail companies to add to this growing list.

An "executive" is too often put in charge of a company and believes he or she can do better than the previous leader. Often, this "un-imbued" person, who is out "to make more money" for the company, reduces the number of salespeople in the store and cuts the incentive plan. The company may show a little more profit for a few months but, when the established clientele begin to disappear, so does the gain.

Talbots, Inc., recently experienced this very problem. The company's original greatness was a result of its sophisticated, tailored fashions sought after especially by female graduates of eastern colleges for women – Smith, Vassar, Wellesley, etc. Then, the company went nationwide and ownership changed hands several times, resulting in different methods of operation and different target markets. With declining sales, Talbots' management had to revive what made the company a highly successful company in the first place. It went back to its original format, more or less, and the company once again began to grow.

Great stores seldom survive major changes, even if someone is convinced that he or she knows "just the method" that will bring added sales and/or reduced operating costs.

FAO Schwarz is an example of a company which has been through several ownerships with varying results.

RThought: Formats do not always meet with great success. Walt Disney Co. has had troubles in France – and it's not with the language.

RThought: And even the best of merchants try retail formats that don't work. Sam Walton sold and/or closed several types of stores along his road to success: 35 Dot Drug Stores, three Helen's Arts and Crafts, a goodly number of Ben Franklin stores, and a farm supply business.

LUCKY STORES TO MAKE UNEXPECTED GIFT TO LOS ANGELES COUNTY

The "gift," in the way of an extra contribution to the City of Los Angeles, is one, I am sure, that Lucky Stores never expected to make.

The Los Angeles city attorney's office investigated Lucky's Reward Card prices and its Key Buy prices over a three-week period and found that 119 prices were *incorrect* and about 16% of the time the scanner *overcharged*! The overcharges ranged from about 8 cents to $2.

Criminal charges have been filed by the city attorney's office against Luckys on 19 misdemeanor counts of false advertising, each of which carries a maximum fine of $2,500; three misdemeanor counts of overcharging by more than $1, each of which is punishable by a fine of up to $1,000; and 16 counts of overcharging by less than $1, an infraction which carries a maximum $100 fine per violation.

RThought: A Luckys spokesperson has been quoted as saying, "We make every conceivable effort to try to assure scanning accuracy in our stores." *Perhaps the answer is with electronic shelf labels*, or ESL. More and more companies are establishing prototype ESL installations with success.

MORE 'DE-INTERNATIONALIZING'

Retail Asia, an excellent publication focusing on Pacific Rim retailing, recently reported the following retail company departures:

Hong Kong
- Shui Hing
- Isetan
- Yaohan
- Daimaru
- Matsuzakaya

Shanghai
- Marks & Spencer

Indonesia
- J.C. Penney
- Wal*Mart

Singapore
- Kmart
- Galleries Lafayette
- Lane Crawford
- Yaohan

'FORGET POLICY MANUALS'

What really caught my attention when I spotted an article with the above title in the April 1998 issue of *Inc.* was the statement below the introduction.

> **A SURE WAY TO TRANSFORM efficient field generals into cover-your-butt middle managers is to toss a fat policy manual at them. Skip it – do a Blue Ribbon Tour instead.**

That "cover-your-butt" phrase took me back to six-plus years of command in Army Air Force/U.S. Air Force units.

When I reported to Washington, D.C. for overseas duty on December 15, 1941, a colonel asked me if I knew where Basra was located. With five continents to pick from, I told him that I honestly didn't know. He then showed me the Shatt-al-Arab River on a map, where the Tigris and Euphrates rivers flow together. At the age of 23, I looked at the Persian Gulf "carefully" for the first time.

I was then sent to Abadan, Iran, for two years, where we assembled aircraft for the Russians. We had a CO, an adjutant/interpreter, and five test pilots – and I was in charge of everything else: all classes of supply, the post office, the kitchen, the command of a platoon of MPs (with a tech sergeant to help), and the motor pool. I was also the War Shipping Administration Representative and the base engineer, having to oversee the construction of about three dozen buildings, including a parachute tower, where chutes could be repacked without sand during a dust storm, and a V-mail facility. I had no engineering background. But we built the buildings! (The specs called for the V-mail facility to maintain a constant temperature of 80 degrees. But it was 150 degrees outside. When the postal officer for the Middle East, India, and Burma visited — just once — he spent most of his time *inside* the V-mail building, the coolest spot to not only sort the mail but develop and enlarge 35mm rolls of film.)

As a War Shipping Administration Representative, I could divert cargo vessels from Abadan to such new destinations as India, Eritrea, and Burma. I buried Americans who died, mostly en route; and when I notified the next of kin, I would send pictures of the service.

We daily hired and paid off about 400 native laborers, most of whom spoke no English, AND THERE NEVER WAS A POLICY MANUAL. Even the Army regs didn't count for much in Iran!

We never had a court-martial on our base because we didn't have enough officers who knew how to conduct a court – but we did have a great commanding officer who had flown with Eddie Rickenbacker in World War I (he was pulled from a soft desk job at American Sugar Co. because he had flown for the Shah of Iran in the early 1920s). Whatever the task, if it wasn't testing or assembling airplanes or interpreting, the CO would just say, "Bob, do it," and I would get together with the men that I was going to assign and we would talk over the assignment. I would put a sergeant in charge, and he would see that it was done. I would forget about the task. On the other hand, if any enlisted man on the base had ever saluted me while passing, I would have fainted. Of course, civilians from Douglas, Curtis, and Bell aircraft companies never saluted, although there were a couple of darned good retired Marines who helped to take over Central America for the U.S. plantation owners.

After two years, I had four months back in the states, with two weeks to visit my family. While in the U.S., I formed the 384th Service Group Special. Being CO of the 608th Air Material Squadron scheduled to land on Leyte when it was safe, we were to support the Second Combat Cargo Group, one hundred C-46s that delivered everything needed by the Fighter Group at the northern tip of Luzon, *behind the Japanese line*: all of the food, gasoline, and munitions were by air. After some 10 months, we went to Japan with the occupation forces.

We approached all tasks as I had in Iran. A few times I made a unilateral decision. For example, the men didn't appreciate the squadron cook who got up at 3:00 A.M. to cook bread for breakfast. I therefore ordered no bread; and after two weeks, every guy, every morning, said "Thank you" to "Cookie."

Recall of my reserve unit during the Korean affair ended up with me helping to run the 80th Air Depot Wing as Deputy Chief of Supply in French Morocco, supporting four B-52 SAC Wings that were to keep Russia out of central and western Europe if Russia tried to spread the war.

In roughly six and a half years of command, I never had a policy manual, never missed an assignment, and never had to bring any soldier before a court-martial! I did, however, defend about nine servicemen upon their request. I was successful in all but one case.

RThought: In today's litigious society, it is difficult to run retail businesses. But remember, most people respond to leadership, as they did in service, accept their responsibilities, and *want to contribute to success*!

THOUGHTS ON KROGER AND FRED MEYER VERSUS WAL*MART

The November 9, 1998, issue of *Discount News* stated the following regarding the merger of Kroger Co. and Fred Meyer, Inc. into the largest supermarket chain in the country. I can't help but give my thoughts.

The article, entitled "Kroger-Fred Meyer May Be Stiff Competition for Wal*Mart," stated that the merger would result in a supermarket chain with $43 billion in sales from 2,200 stores in 31 states. It further stated, "Fred Meyer has the experience selling general merchandise as well as fine jewelry, a major competitive asset for Kroger in the food industry." Does that mean we should rush down to Kroger for a diamond ring?

Fred Meyer has 816 convenience stores, each probably under 3,000 square feet, and 381 fine jewelry stores, probably in-line stores in enclosed malls or strip centers. However, "both chains believe they can slash annual costs by $225 million in three years, $75 million the first year."

Unfortunately, the article did *not* touch on a key factor: net worth (in $ million).

Kroger (June 1998)	$ (667)
Fred Meyer (January 1998)	1,350
Combined total	683
Wal*Mart (January 1998)	$18,503

Wal*Mart's net worth is 27 times that of Kroger and Fred Meyer combined, and Wal*Mart's annual retained earnings (after dividends) is far more than the total net worth of the two companies.

RThought: I would rather have the net worth. For quite some time, Wal*Mart is likely to add to its net worth each year *more than Kroger and Fred Meyer's total net worth.*

RThought: There is the possibility of a share offering; but unless the combination produces a significant profit from the merger, it may result in a significant dilution of the holdings owned by Ron Burkle, Fred Meyer's chairman and the matchmaker of the merger, step by step.

ONCE, RETAILERS ESTABLISHED THEIR OWN STANDARDS

A note from a longtime friend and *RT* reader, Dan Cooper, revealed this story:

> **I grew up with *The New Yorker Magazine* in the house, beginning in the 1940s. My father was an ad executive for the magazine for more than 20 years.**
>
> **In the early 1950s (and perhaps in the late '40s), *The New Yorker* refused ads for cigarettes because of the perceived health risk to its readers. This was well before the Surgeon General's report and the warning labels. It was a huge bite out of the profits for the sake of principle. [*RT* Note: The reason there is so little principle in many businesses today is because businesses put profit before principle.]**
>
> **Even though the magazine solicited ads from upscale retailers, it would also turn away suggestive ads for lingerie of the type we now see daily in mainstream newspapers and magazines and upscale stores.**
>
> **So here was a live – and let-live – politically liberal publication demonstrating back then the kind of responsibility that Bob Kahn favors.**
>
> **An historical note: I remember as a teenager howling over an ad (full page) by Black Starr and Gorham for a solid gold shaving cup. The price, printed discreetly, was $5,000. In fine print at the bottom, it said, "Soap not included"!**

RThought: Recently, I have read articles about the decline of profits at *The New Yorker* and a change of management. But Dan makes me think that 1) this might not have happened had the standards remained as high as they were in his father's day and 2) had the magazine's cartoons remained as great as the one showing men with obvious long faces standing around an indoor swimming pool with the caption, "The day the Ivory Soap sank."

SHORT SHORTS

Bankcard activity continued to grow in 1997, with volume passing $1 trillion (up 15.4% over 1996). Visa's market share was up 52.3%; MasterCard was down 16.32%; and American Express, Discover Card, and Diners Club were all down slightly. However, all showed an increase in volume. Visa's volume was approximately twice that of MasterCard. [**Source:** *The Nilson Report*, Issue 663, March 1998]

***The Wall Street Journal* (September 3, 1998) reported that McDonald's** is experimenting with a single waiting line, as usually found in post offices, airline terminals, banks, etc. The famous call, of course, is "Next, please." The writer of *The Journal* article interviewed a spokesperson of Kroger Co., the largest supermarket chain in the country until Albertson's bought American Stores, and asked if Kroger foresaw the day when it would go to a serpentine. His response was that Kroger would have to reconfigure every store's front-end and that it would need more space. **RThought:** I'm not sure he is correct. My suggestion would be to check out the military commissaries. The commissaries my wife and I periodically shopped did not have to change their register space to accommodate a serpentine. I would guess that 80% or more of the shoppers in a commissary prefer the serpentine. Yet, supermarket-chain operators believe they are more efficient than the commissaries. In a supermarket, however, if there is a line behind a register, I believe it is wrong. (My wife and I both prefer the serpentine, because we are sure that we will spend the minimum time in line in order to be checked out.)

Singapore (Cont'd)	**Malaysia**
Chomel	Flyers
Emporium	Chomel
Apparel World	Yaohan
Ray Summers	Super Value
Pisces	Supermart
	Theme
	Fifth Avenue
	U2

Some of these companies you may not recognize; on the other hand, some are world renown.

RThought: The departure of such companies does not mean that these and other retailers will not be expanding outside the U.S. It is not *impossible* to go international, but it does take a knowledge of the country into which you wish to expand and, most of all, a knowledge of its infrastructure. In other words, be thoroughly familiar with the methods of retailing in a selected country or buy a firm that is already doing well within a selected country.

A VIABLE FIVE-AND-TEN IN SAN FRANCISCO!

One might expect all five-and-ten stores to act like lemmings (small rodents which are known for their recurrent mass migrations, often continuing into the sea, where vast numbers are drowned). But there's still one five-and-ten in San Francisco that did not follow other five-and-tens into failure. Quite the contrary. Standard 5 & 10 in San Francisco's Laurel Village continues to heap merchandise to the ceiling and allows children to play with toys on the floor. And, most importantly, it does something that most retailers refuse to do: it listens to its customers.

The two main changes in Standard 5 & 10 since opening in 1949 are that it is now a part of Ace Hardware, because many items, such as pliers, nails, etc., are cheaper that way and it has extended store hours to 7:00 P.M., because people are so busy that they need that time to shop. With the closure of a Standard 5 & 10 in Marin County two years ago, many customers now travel 25 miles or more to San Francisco to shop, often spending over $200 per trip!

Around the same time that the Marin store closed, the co-owner of the San Francisco store heard about the Beanie Baby craze on the East Coast. He immediately ordered the little stuffed animals from Ty Co. because *he knew his customers would love them.* Now that the Beanie Baby demand is so great, Ty Co. has stopped taking new customers, but the single Standard store remains on its customer list.

Standard 5 & 10 also has listened to its customers when it comes to special orders. Making up for its limited space, the store "special orders" merchandise it can't fit onto its shelves. The result: special orders used to be about five or six a week; now, they are 50 to 60!

Standard 5 & 10 has also recovered from the arrival of major-chain stores, such as Toys "R" Us and OfficeMax, opening in the neighborhood. *The only problem it has had with a major chain is Mervyn's* opening a store a few blocks away. With Mervyn's large Carter's children's wear department, Standard had to "throw in the towel" and drop almost all of the line.

Now, the family has opened Gourmet Greetings, a new store a couple of miles away from the five-and-ten. The new store carries cookware, food, a great assortment of inexpensive greeting cards, and, of course, Beanie Babies.

The owner's comment on Woolworth Corp. is noteworthy: "The reason Woolworth went out of business is they didn't listen to their customers. Their look, their hours, and their customer service never changed." Another reason I can think of is the fact that Woolworth's record keeping was very disorganized.

Standard 5 & 10 has listened to its customers for 50 years. Do you? Or are you tied to your desk and your old ways and, perhaps, haven't talked to your customers since soon after you opened and knew that you needed the reaction of shoppers?

A DISAPPOINTMENT WITH WAL*MART'S REACTION

My readers know of my long association with Wal*Mart Stores, Inc. and even of my longer friendship with its founder, Sam Walton. Thus, you can imagine my disappointment when I read in *Women's War Daily*, October 4, 1998, an article stating that a U.S. district judge had held Wal*Mart in contempt of a 1996 court order, particularly when it was entered into by consent and included a *permanent injunction* against an infringement of any specific trademarks of Tommy Hilfiger Sportswear, Inc.

I understand that dissemination of a court order consented to by a company with 780,000 associates is difficult, but there cannot be more than a dozen people who would buy merchandise of the type banned in violation of a 1996 court order.

RThought: You may not have 780,000 U.S. associates, yet *there is a lesson here for you*: if you consent to a court order, within 24 hours of the consent, you should notify all persons to whom the order pertains or to whom it might pertain and post the order, in large print, on the wall of any office where a violation may occur.

It is particularly important to do so when a company has consented to a permanent injunction. (I recall a case of violating a court order 30 of so years *after* it was issued.) However, it would appear to me that it is the responsibility of the company's legal counsel to properly explain the significance of consenting to a *permanent* injunction and the penalties the court can impose for such a violation.

PROOF: 'THERE IS NO NEW THING UNDER THE SUN'*

Kmart Corp. is mulling over the idea of possibly joining up with a supermarket chain.

However, as I recall, it must have been 30 years ago that Kmart would operate its stores out of buildings shared by a supermarket. As one faced a building, Kmart usually had the left portion and a local supermarket chain had the right. It is also my recollection that there was a large door in the wall which separated the two stores so that customers did not have to go outside when going from the discount store to the supermarket, or vice versa, and that each section had its own checkout stands.

In various parts of the country, regional supermarkets would compete for such a location with Kmart as the draw. However, several of the supermarkets ended in Chapter 11, and the "experiment" was terminated.

Another example at about the same time was the GEMCO discount stores operated by Lucky Stores. Lucky would put a supermarket in the back section of the discount store, but there would be two separate sets of checkouts.

RThought: Then, bar-code scanning was years in the future. Today, point-of-sale devices can handle both food and general merchandise.

*Ecclesiastes

HOW IS SEARS DOING?

Sears, Roebuck & Company's 10Q report for the third quarter of 1998 shows the following breakdown of operating income ($ million):

Retail	$ 228
Services	284
Credit	774
Corporate	(156)
Total domestic, excluding non-comparable	1130
Non-comparable	(241)
Total	$ 889

RThought: The largest source of profit results from charge accounts. The outstanding balance on accounts is about half of Sears' annual retail sales. In addition, the company honors bankcards.

WORDS – YOU CAN LEAD A HORSE TO WATER, BUT YOU CAN'T MAKE HIM DRINK

In Germany, where store hours are controlled, the government has increased the hours that stores may stay open by 10 hours a week, expecting two results: an increase in retail sales and an increase in retail employment. Neither has happened. So far, it just hasn't worked. Retail sales in Germany have not increase in five of the last six years.

RETAIL MONTHLY / YEAR-TO-DATE SALES COMPARISON (Unadjusted $ millions)

SIC Code	Category	August 1998	August 1997	Percentage Change	Year to Date 1998	Year to Date 1997	Percentage Change
52	Building Material Group *	$ 14,429	$ 13,141	+ 9.8%	$ 109,884	$ 99,905	+ 10.0%
57	Furniture Group *	13,434	12,453	+ 7.9	99,265	90,860	+ 9.3
571	Furniture Stores	6,399	6,223	+ 2.8	48,422	45,203	+ 7.1
572	Appliance, TV, Computer and Radio Stores	6,103	5,349	+ 14.1	43,878	39,169	+ 12.0
5941	Sporting Goods Stores *	2,148	2,048	+ 4.9	15,211	14,140	+ 7.6
5942	Book Stores *	1,350	1,287	+ 4.9	8,106	7,916	+ 2.4
5944	Jewelry Stores *	1,526	1,414	+ 7.9	11,860	10,902	+ 8.8
531	Department Stores *	23,392	22,531	+ 3.8	169,563	158,698	+ 6.8
531Pt	Conventional Stores	4,603	4,640	- 0.8	32,650	31,548	+ 3.5
531Pt	National Chain Stores	3,434	3,540	- 3.0	24,300	24,600	- 1.2
	Subtotal	8,037	8,180	- 1.7	56,950	56,148	+ 1.4
531Pt	Discount Stores	15,355	14,351	+ 7.0	112,613	102,550	+ 9.8
539	Miscellaneous General Merchandise Stores *	5,157	4,882	+ 3.8	38,655	36,662	+ 6.8
541	Grocery Stores *	35,407	34,631	+ 5.6	272,472	266,994	+ 5.4
56	Apparel and Accessory Stores *	11,199	10,874	+ 2.2	75,530	71,289	+ 2.1
561	Men's and Boys' Stores	957	889	+ 7.6	6,865	6,208	+ 10.6
5623	Women's Stores	2,562	2,603	- 1.6	15,802	16,227	- 2.6
565	Family Clothing Stores	4,395	4,186	+ 5.0	28,521	26,342	+ 8.3
566	Shoe Stores	2,144	2,096	+ 2.3	13,645	13,233	+ 3.1
591	Drug Stores *	8,629	7,960	+ 8.4	68,297	63,696	+ 7.2
596	Nonstore Retail *	6,033	5,526	+ 9.2	48,446	48,311	+ 0.3
5961	Mail Order	4,025	3,527	+ 14.1	32,611	28,747	+ 13.4
	* ***RETAILING TODAY*** **TOTAL STORE RETAILING** (1)	122,704	116,747	+ 5.1	917,289	869,373	+ 5.5
	GAF TOTAL (2)	61,643	58,895	+ 4.7	444,632	415,710	+ 7.0

(1) Excludes car dealers, auto supply stores, variety and miscellaneous general merchandise, eating and drinking places, service stations, and some specialty stores.
(2) General, Apparel, and Furniture

For further information, contact Nancy Piesto, Services Division, Bureau of Census, Washington, D.C. 20233. Telephone (301) 457-2706/2708; fax (301) 457-3677. To subscribe to *Monthly Trade, Sales and Inventory Report*, call or write the Government Printing Office, (412) 644-2721/2828; Box 371975M, Pittsburg, PA 15250-7975. The current cost is $57 per year and is handled the same as a magazine subscription (i.e., will receive notice of renewal).