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RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

JANUARY 1982 VOL. 17, NO. 1

ALSO APPLAUD FEDERATED DEPARTMENT STORES

In the December 1981 RT I said, "In the dozens of statements I saw about first quarter 1981 sales and earnings . . . I feel the only complete statement was made by David Farell of . . . May Department Stores . . . (who recalled) that last year's results were affected adversely by . . . credit controls."

My statement was right—but I was not getting the Federated Department Stores report which said, "However, it should be remembered that last year's first quarter performance was adversely impacted by the imposition of credit controls by the Federal Reserve Board in mid-March."

THE 1982 OUTLOOK

Everyone is making estimates of what will happen in 1982. A professor at the University of California-Berkeley Business School used to say, "If you make forecasts, make them often; you can always point to one that was right."

I looked back on an extensive forecast that I prepared (and offered to clients) for 1974 as we entered a period of depression resulting from the oil embargo. My conclusions were:

1. **Retail volume, for apparel and general merchandise stores, will be very good, thank you. In fact, the national figures will show another new record.**
2. **Profit levels may not be at record levels for all stores, but it will be for many, if not most, well-managed businesses or businesses now in a significant growth pattern.**

Both forecasts proved to be correct. Store sales continued to grow at about the same rate in current dollars although they declined moderately in constant dollars. Auto sales, however, were very much off in current dollars and even more in constant dollars.

Today, however, I am concerned about one segment of that report:

> *Can't we have a 1929-type depression?*
>
> No.
>
> **I have already mentioned some major differences since 1929-32—unemployment insurance, social security, bank and savings and loan account insurance. We even have available for $33 a year to anyone who wants to subscribe more information, more accurate information and more current information than anyone in the United States had in 1929-32. In those years the entire economy was flying by the seat of its pants.**

I traced the rise of government responsibility for the welfare of people. Our Republican president in 1974 did not reflect the depression days of 1929-30. From a newspaper on May 30, 1930: "Hoover counseled his fellow citizens to await with resignation and individual fortitude the day when good fortune might again bring better economic conditions." On March 8, 1930 Hoover had said, "All the evidence indicates that the worst effects of the crash on employment will have passed with the next sixty days . . ." As with most presidential forecasts, he was wrong.

From 1929 to 1933 prices dropped 24%, sales dropped 38% and unit volume dropped 18%.

In 1982 I am not able to answer the question, "Can't we have a 1929-type depression" with a positive "No." The present administration, in order to build arms and to sell arms to nations that may someday be our enemy, is intent on cutting the basic social supports put in place over the past fifty years. Much may go.

The present emphasis is on reducing social security benefits (even though funded separately) plus everything else lumped into the term "entitlements." That includes the Federal government participation in unemployment insurance and the government's own retirement plans for civilian and military personnel. Most certainly, if it becomes necessary, it could include breeching the protection provided by the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation. Many supply-side economists treat these government guarantees the same as debt. Perhaps in future bank failures insured accounts may receive only 90% or 80% or 50% of the amount of the account.

FREE ENTERPRISE

The Wellington (New Zealand) Regional Retailers' Association asked Rob Campbell, the head of the Shop Employees' Union, to speak at their annual meeting. All good Americans **know** that management and unions are just plain enemies and you shoot enemies—you don't ask them to dinner. Yet we spend all our time trying to imitate the Japanese and get our employees more involved in increasing productivity. If we consider our unions enemies, won't they consider management enemies?

Rob Campbell made an interesting point.

> **Campbell said he found it difficult to understand retailers' commitment to free enterprise and the market because (1) it didn't pay particularly well; and (2) most of the time retailers are trying to find some corner of the market in which they did not, in fact, have to compete.**
>
> **"In practice, it is really only the winners who enjoy competing. I think the real reason retailers talk about competition as a virtue is simply that they are making the best of a bad thing."**

RThought: Of course, you and I have never heard an American retailer trying to find a location for a new store—someplace where there is no competition and won't be any in the future. Of course, you have never heard an American retailer complain about sales being off because someone else opened near of him.

RThought: A government that hoped (with little basis) to turn a nation around through the psychological impact from its own election must recognize that psychology can work against it.

I am interesed in an organization called Leavenhouse, a voluntary group in Camden, New Jersey where neighbors are helping neighbors. Their most recent newsletter reported:

> **We prepared our first hot meal . . . on October 26th for 35 guests. Since then, we have served over 2000 meals, freely and unconditionally . . . Most of the food we use is given to us. Neighborhood volunteers prepare and serve the food; we pay no salaries . . . Each meal depends on people's generosity and concern for others."**

It took me back to the days of 1931-1933 when my younger brother and I served every night in a soup kitchen in San Francisco at the corner of Arguello and Clement Streets (now a street of restaurants of all nations). Louie Simpson, with a restaurant a block away, loaned cooking equipment; someone a stove; and there were counters left from the bankrupt drug store made available by a landlord who charged no rent. Markets and others contributed food.

Only men came to be fed. In those days about 25% of all people lived on farms compared with 5% today. Everyone had some part of their family on a farm and the women and children went there while the men stayed in the cities trying to find jobs.

Every church basement was filled with cots so men had a place to sleep.

The promised "safety net" now appears to have large holes, and I have little confidence in the firmness of the anchors that hold the net. I am particularly concerned when so many who already possess substantial assets have gained so much from the present administration through a substantial reduction in taxes on unearned income, and capital gains, from new shelters in buying depreciation and tax benefits and deductions for research and development.

In the bottom of our worst depression, we started to work our way out not by building arms, but by taxing those who were working to start a program of unemployment and social security insurance. We thought it was the thing to do—to help those who were less fortunate than we who were working.

A GREAT MOMENT IN RETAILING

On January 8 the Wall Street Journal published the following figures for sales for the 5-week December period:

K mart	$2,738,800,000
Sears	2,706,700,000

The difference is only 1.2%—but it has been a long time since any retailer other than Sears has been King of the Mountain. It comes as a shock—even though we knew that it was coming.

For the 48 weeks ending December, Sears was still 18% ahead of K mart (compared with 27% last year), and it is true that K mart had some massive promotions and markdowns.

But the fact remains—for the first time K mart has passed Sears even though only for a month.

DANGEROUS USE OF NUMBERS

In the November 1981 issue of the General Merchandise Edition of **Chain Store Age,** Editor Murray Forseter included the following paragraph, taken from statistics put forward by Larry Light, EVP of Ted Bates & Co. at the Association of General Merchandise Chains annual convention:

> "In 1970, the average household income was $10,000. It rose to slightly above $20,000 by last year. At first blush a hefty increase. But after deducting inflation, Light sa[id] income acutally went up only **27 cents** a day—a total of just $985.50. Per capita discretionary income for the $20,000 four person family is just $1.42 a day, says Light."

Let's look at that statement. Every listener to and reader of statistics should always listen carefully and always be asking, "Do I believe that?" If I write "two plus two is five," you would immediately challenge me. On the other hand if I said that sales increased from $1.45 million to $2.53 million **or** 88%, with emphasis on the 88%, you would accept that it was an 88% increase. But use your pocket calculator—it is only 74%.

In the above paragraph you can do your own calculation. If the real income increase in ten years was "just $985.50," then the increase per day should be $985.50 ÷ 365 = **$2.70 per day.** Yet the editor got caught up with a wonderful figure that no one else had ever emphasized.

But there is another problem. The $2.70 a day is not in current dollars—and that is not mentioned. It is in 1970 dollars. From this statement can we figure out what the inflation was so that we can convert the $2.70 in 1970 dollars to 1980 dollars? We can—easily. If $10,000 in 1970 is now worth, in 1970 dollars, $10,985.50, then the balance of the increase to $20,000 is inflation. $20,000 divided by $10,985.50 gives us an 82% increase; therefore, the $2.70 has to be increased by 82% to $4.91 in 1981 dollars.

So what have we discovered just on the information included in one paragraph of an editorial? We have discovered that wh[at] was reported to a real income increased of **27 cents a day** i[s] really, in 1980 dollars, $4.91.

RThought: In light of this, do you believe that a family of four earning $20,000 a year has discretionary spending of only $1.42 a day or $518.30? I don't. Editors should be able to understand figures well enough not to make such points. If you wonder about whether families with $20,000 a year have more discretionary income than $518.30, ask them how much they spent on vacation and Christmas presents in 1980.

ABUSE OF NUMBERS

Circle K is showing good progess although it appears that it may be switching into the oil exploration field. Circle K has always rated high, usually the highest, in John Roscoe's Dollar per Day analysis of publicly held convenience store companies.

Yet they appear to have been carried away by the ability of their calculator to compute percentages out to a great many decimal places.

Let's look at the figures reported for their second quarter ending October 31, 1981 compared with the prior year. The published figures are rounded to the closest thousand dollars and presented as follows:

	Three Months Ending October 31		
	1981	1980	% Change
Net Earnings	$5,238,000	$3,634,000	44.14

Here a percentage has been carried to two decimal places (implying great accuracy) **based on rounded figures.** The

PRAY FOR GIMBEL'S

Gone are Sterns (NYC), Wanamakers (NYC), Klein's on the Square (NYC), Korvettes, The White House (SF), City of Paris (SF), Lits (Phila), Scruggs-Vandervoort-Barney (St. Louis), Daniels and Fishers (Denver), Gilchrist (Boston), R. H. White (Boston), W. T. Grant, Webb City (St. Petersburg) and many more famous names.

Will Gimbel's be next?

According to a suit filed recently by Gimbel Brothers, Inc., a subsidiary of BATUS, INC., which is a subsidiary of many-billion dollar British-American Tobacco, there is a firm that is endangering the ancient Gimbel firm, founded by Adam Gimbel "in or about 1842" (they apparently don't know when) in Vincennes, Indiana. They desribe themselves in the suit as operating 35 stores "located throughout substantial market areas" and that "Customers from all over the world visit" their stores. They sell "hundreds of millions of dollars of goods" and "expend . . . large sums of money in advertising . . . its name."

Their trademarks of GIMBELS and GIMBEL BROTHERS are widely known, distinctive and recognized and "have acquired a secondary meaning as representing the source of origin of [Gimbel's] goods sold . . . in association therewith, and signify the substantial good will of [Gimbel's]."

Now enters a dastardly firm that will undermine 140 years (more or less) of effort. If is none other than a 1500 square foot gift shop in Boothbay Harbor, Maine (population 2252 according to the city clerk). Boothbay is 45 miles away from any city—but it does have a weekly newspaper, The Boothbay Register, and so what happens in Boothbay becomes known to all the world through AP and UPI.

It seems that the store is named Gimbel & Sons Country Store—because it is owned and operated by Jack Gimbel, his two sons, and his wife. It carries some brass ware, Wedgewood, scrimshaw, sweatshirts, sunglasses and other things like that. And it carries cheeses and **homemade fudge!**

Under oath Gimbel's says it has been and is being irreparably damaged by such designations and descriptions or representations in an amount which cannot be determined without an accounting, and damages will continue unless the acts are enjoined by the U.S. District Court in Portland, Maine.

Under oath Gimbel's (the big one) says "upon information and belief" that Jack Gimbel used his name "with the intent and purpose of causing the purchasing public to believe that [his store] is a branch, division or part of a larger business entity, namely [Gimbel's]."

RThought: Gimbel's has shown that they can make a fool of themselves. They did it through a law firm in Rockefeller Center who will probably collect legal fees about equal to a month's sales of Gimbel & Sons Country Store. Jack Gimbel tells me that he has already spent about half of a month's sales on attorney fees and the case hasn't even come to trial!

With Gimbel's poor past profit record, it would seem that its management could use money for better purposes than picking on a 1500 square foot store in Boothbay Harbor—when they haven't held their own in New York City against Macy's a block away.

I think the 2252 people in Boothbay Harbor are getting behind Jack Gimbel. Northeast Marine, a local business, has started collecting for a defense fund. Albonegon Inn, way off on Capitol Island, ran an ad saying, "GO GET 'EM, JACK." Paul Gimbel and his wife, (of the original Gimbel family) who have a summer home in Rengley, Maine, have shopped at Jack's store and had no complaint.

The tittering you hear in the background is the entire world laughing.

I have long known a ditty that goes:

> Here lies the body of John Jay
> He died maintaining his right of way
> He was right, by God, as he sped along
> But he is just as dead as if he was wrong.

A parody might go:

> Here lies the carcass of Gimbel Brothers
> The laughing stock as they fought off others
> They were right, by God, as they sued Jack
> But they sure looked silly when Jack fought back.

SHORT SHORTS

One wonders about productivity in return for salary and fringes paid. Women's Wear Daily reported the following career for Richard Champ: 1970-1978 Donaldson's (Allied Stores), 1979-1980 Jordan-Marsh Florida (Allied), September 1980-September 1981 Bambergers (R. H. Macys) and October 1981 Dayton's (Dayton-Hudson). One presumes that each new job carried a higher compensation based upon expected contribution from Mr. Champ, a contribution that at least required some time to become familiar with the new organization before "earning his salary."

We forgot the Tuesday specials. So United Airlines picked it up. Tuesday must be the slowest day of the week for them, too. (Perhaps you can use that information in scheduling your trips.) So in their cumulative mileage (Mileage Plus) scheme they are now crediting double mileage on Tuesdays on any route (only through March 2). (Has anyone run a Tuesday special lately? The things we retailers have forgotten usually work for the guy that remembers.)

Do you merchandise your finance charges? In this day of high interest a large single-outlet furniture store is advertising "Finance charges have gone up less than 2% in the past 15 years" reflecting that the old 1.5% per month in California can now be 1.6%.

Bad taste at Fairchild publications. Just because one can do something doesn't mean one should do it—and just because computers can put name "fill-ins" on printed materials does not mean they should do it. A recent mailing solicited a subscription for "W" from a proper, conservative 66-year-old lady (lives in a good income ZIP code) and purports to come to her from John Fairchild, himself! In reporting the "In" people her name is printed between Lady Diana Cooper and Estee Lauder; in describing "In" entertainment dinner for 6 her residence is listed between ranch barbeques (sic) (my dictionary lists barbecue from the Spanish barbacoa) and formal dinner parties. If "W" is so great, how come two-price John is offering 50% off—which he undoubtedly will not offer to the present readers?

A STATISTICAL SUPPLEMENT

More and more stores are doing a better job of getting out their statements. Rubenstein's, long the leader with a consistent record of 2 days or less, seems to have a competitor–Liberty House of California.

The start of this report more that 16 years ago was the first attempt to set a standard for performance of credit departments and RT would like to take much of the credit–yet the installation of good computer systems has probably been the major factor. Top management consciousness of the time interval and knowledge of what others have done has provided an input to the system design.

HONOR ROLL

Liberty House	1.5	Levy Bros.	3.5
Rubenstein's	1.8	Waldoff's	3.5
Mervyn's	2.1	I. Magnin	3.9
Eddie Bauer	3.0	B. Altman	4.0
Bullocks (S. CA)	3.0	Marshall Field	4.0
Routzahn	3.3	The Popular	4.0
Gimbel's	3.5		

CREDIT OFFICE RATING

Information From Reporters	OCT.-NOV., 1981 No. of Reports	Days to Bill Avg.	Range	AUG.-SEPT., 1981 No. of Reports	Days to Bill Avg.	Range
B. Altman (NY)	2	4.0	4	1	8.0	8
Bambergers (NY)	1	6.0	6	1	7.0	7
Eddie Bauer (N. CA)	1	3.0	3	--	---	---
Bloomingdale's (NY)	3	4.3	4-5	3	4.0	4
The Broadway (S. CA)	1	5.0	5	2	5.5	5-6
Bullock's (S. CA)	1	3.0	3	2	2.0	2
Bullock's (N. CA)	1	5.0	5	--	---	---
B. Dalton (S. CA)	1	9.0	9	--	---	---
Emporium Capwell (N. CA)	8	4.5	3-6	9	4.6	4-6
Foley's (Houston)	1	6.0	6	--	---	---
Gump's (N. CA)	1	8.0	8	2	5.5	5-6
Liberty House (N. CA)	2	1.5	1-2	--	---	---
Livingston Bros. (N. CA)	2	4.5	4-5	3	4.0	2-6
Macy's (N. CA)	10	5.1	3-14	8	5.3	4-8
I. Magnin (N. CA)	8	3.9	3-6	5	4.2	4-5
Marshall Field (Chicago)	2	4.0	4	1	8.0	8
May Co. (S. CA)	1	5.0	5	1	5.0	5
McCaulou's (N. CA)	2	6.0	5-7	1	8.0	8
Montgomery Ward (N. CA)	2	4.5	4-5	2	4.5	3-6
Neiman Marcus (Dallas)	1	6.0	6	--	---	---
Nordstrom (S. CA)	2	5.5	4-7	1	8.0	8
Penney's (N. CA)	3	8.0	7-9	3	7.2	7-8
Penney's (Philadelphia)	2	6.0	6	2	8.0	8
Saks 5th Ave. (NY)	4	7.8	7-8	1	6.0	6
Sears (Dallas)	1	5.0	5	1	4.0	4
Sears (Philadelphia)	1	13.0	13	2	5.5	5-6
Sears (N. CA)	4	5.5	5-6	3	6.7	6-7
Smith's (N. CA)	1	6.0	6	1	10.0	10
Weinstock's (N. CA)	2	4.0	4	1	4.0	4
TOTALS	71	5.2	1-14	56	5.4	2-10

Information From Stores	OCT.-NOV., 1981 No. of Reports	Days to Bill Avg.	Range	AUG.-SEPT., 1981 No. of Reports	Days to Bill Avg.	Range
Gimbel's (Philadelphia)	36	3.5	3-4	36	3.6	3-5
Levy Bros. (N. CA)	2	3.5	3-4	2	4.0	3-5
Mervyn's (N. CA)	30	2.1	2-3	30	2.2	2-4
The Popular (El Paso)	2	4.0	3-5	15	2.6	2-4
Ross Stores (N. CA)	4	7.0	3-8	4	4.3	4-5
Routzahn (Fredericksburg, MD)	6	3.3	1-5	7	4.2	3-7
Rubenstein (Shreveport)	6	1.8	1-2	6	2.3	2-3
Waldoff's (Hattiesburg)	2	3.5	3-4	2	3.5	3-4
TOTALS	88	3.1	1-8	105	2.9	2-7

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

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

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

maximum range is shown below, both of which would have been rounded as above, with the corresponding adjustment of the percentage change:

1981	1980	% Change
$5,238,499	$3,633,501	44.17%
$5,237,501	$3,634,499	44.10%

RThought: Since income taxes (a significant amount) have been **estimated,** it would be better if they had just reported the increase as 44%.

SURPRISE IN NUMBERS!

Retail Week (Oct. 15, 1981) made a great discovery when studying the NRMA "Merchandising and Operating Results"—"those divisions with the most stock turns also reported the highest GMROI or 'gross margin return on inventory' "! Next they may discover that the average American has two hands!

WHY WESTERNS PICK A SUPERMARKET

There is the old saying that if you get ten economists together and ask them for the outlook for the coming year you will have twelve opinions. Something like that happens when you ask the "experts" why customers pick supermarkets. **Sunset Magazine** (Menlo Park, CA 94025) sponsored research that asked three groups of "experts" to answer this question, and the table below shows what these "experts" rated as "very important" factors.

	Western Shoppers	Store Managers	Grocery Suppliers
Quality and freshness of produce	88%	83%	**74%**
Quality and freshness of meat	86%	83%	78%
Low prices/special sales	74%	**58%**	**53%**
Grocery selection/variety	69%	**52%**	**59%**
Clean, attractive store	66%	**71%**	57%
Convenient location	60%	63%	66%
Fast checkout	46%	**68%**	**66%**
Friendliness of store people	46%	**68%**	**66%**

The bold face numbers indicate the qualities where store managers or grocery suppliers or both are out of contact with customer thinking. Perhaps this explains why some slow checkout, unfriendly stores with lots of low prices and special sales do so well. And are not copied by their competitors.

DO YOUR EMPLOYEES KNOW THE VALUE OF "FRINGE BENEFITS?"

I am constantly amazed by the apparent confusion of retail management in regard to payroll fringe benefits.

First they complain about the high cost—and the competitive pressure to add more benefits.

Then they grumble because the employees are not appreciative of what they are getting (perhaps employees should be required to memorize their employee handbook?).

And finally, they never keep the employee informed about the menu of benefits provided and the money expended by the company on their behalf.

The ideal time to do this is when distributing W-2s at the end of January. Each W-2 should be accompanied by a letter from the CEO saying, "In addition to the payments listed on the W-2, you have received the following benefits at no cost—as part of our goal of having a well-cared for and healthy staff." The list should follow.

If practical, the specific costs for each employee should be computed. It should include such items as the employer's share of Social Security; state and federal unemployment insurance; worker's compensation insurance; medical, hospital, dental and drug coverage, if provided; subsidies such as free employee parking or low cost cafeterias on premises; a computation of a typical (exclude the top executives) cost to the company of employee discounts; and any other program provided.

DO WE REALLY HELP PARENTS STOP YOUNG SHOPLIFTERS?

Dear Abby carried the following letter recently:

> **Yesterday my 9-year old went marketing with me, and when we got home I discovered that he had taken a candy bar from the store.**
>
> **I took him back to the store immediately, made him give the candy back to the store manager, apologize for taking it and promise never to do it again.**
>
> **To my amazement, the manager said, "Oh, that's OK; it's no big deal. We have people carry out about $100 worth of stuff every day." I was floored!**
>
> **Abby, please print this letter and point out the possible damage done when adults assume an attitude of acceptance under such circumstances.**

RThought: I had the same experience when my son (then about the same age) came back from a shopping trip with a Bic pen. I took him back to the supermarket immediately. It was evening and the assistant manager made about the same reply. As a retailer I was even more distressed than the mother who wrote Dear Abby.

It is a small thing to ask—but have you helped your store managers handle such situations so that they reinforce the efforts of parents who want to raise their children to be honest? It is a moral as well as a practical obligation.

SHOPTHEFT

That is the term used in New Zealand. The article in the Retail News (Dec. 1981) of the New Zealand Retailers' Federation starts this way:

> **CAMPAIGN AGAINST SHOPTHEFT**
>
> **Wanted by the NZ Retailers' Federation: reports of all incidences of shoptheft and the results of prosecutions.**
>
> Following on its "change of attitude" campaign which the Federation initiated by sending posters emphasising the seriousness of shoptheft to every school in the country, it is now aiming to coordinate information on the incidence of stealing from stores and how the courts deal with offenders.
>
> It believes, from information already received, that in a large proportion of cases proceeding to prosecution, the fines are too light for the severity of the offense. From the new evidence it is seeking from retailers the Federation will compile a case to present to the Minister of Justice asking for adequate penalties to be imposed and also that fines should be correlated throughout the country.

RThought: If the retailers in a country of 3,000,000 people can do this, why can't the retailers in a state of 3,000,000 do the same thing? Is leadership unique to New Zealand?

United States retailers can't even agree to stop calling the offense by a wrist-slapping name, "shoplifting" and call it what it is—SHOPTHEFT.

IS THE "NO GIFTS POLICY" STILL THE POLICY?

RT is receiving fewer and fewer notices from companies stating to suppliers that the store policy bans gifts (sometimes permitting those of nominal value). I guess styles in ethics change. When the country was concerned about Watergate and illegal campaign contributions to Mr. Nixon, many retailers (and presumably other businesses) wanted the world to know that they did not favor having suppliers bribe (suborn) their employees, especially their buyers.

Despite the standards that Mr. Carter advocated, business drifted away from discouraging such bribery. RT is exposed to such efforts because it is listed in the accounts payable records of most of the major retail companies. This year only two such letters were received.

But one was unusual. The policy statement was simple–"It has alwasy been our Store Policy that no buyer or executive may accept gifts from our suppliers at any time, including Christmas."

But of greater interest was the letter from Donald Chappell, president of C. E. Chappel & Sons, a 6-unit chain based in Syracuse, New York.

The first paragraph supported fundamental principles for business and government–a balanced budget. It closed with the hope that "these next few years see us rid ourselves of this 'deficit dementia.' " The letter arrived the same day that the newspapers reported that the Council of Economic Advisors publicly proclaimed that there was no connection whatsoever between government deficits and inflation, despite everything said previously. We should plan on a good, healthy $60 billion deficit for the next year.

But putting aside messages on economics, and sandwiched between that and best wishes for good things and the holiday season, was a statement that only a few retailers can make this year:

> "As we at Chappell's come to the close of what seems destined to be an all time record year in sales and earnings . . ."

THAT TERRIBLE NATIONAL DEBT – $1 TRILLION

A great deal of publicity was given to the fact that our national debt now exceeds $1 trillion. I, too, am concerned about it and feel that the situation was aggravated by cutting taxes (especially some of the goodies added on to the original promise of a reduction in personal income tax rates) before expenditures were brought under control. Time has proven that the cuts, combined with changes in the economy, have made the possibility of a balanced budget within the foreseeable future a dream rather than a possibility.

I am reminded again of the story of the boy who came home and proclaimed that he had just bought a puppy for $1 million. When his mother asked where he got the money, he said that he traded two $500,000 mice.

We cannot look at the national debt without looking at the national income. This is the only way to tell how heavy the debt is. A mortgage of $50,000 is a lot heavier when against a $60,000 house than against a $600,000 house.

The table below goes back to the good old days of Herbert Hoover when we had limited government–and some would imply that we had no debt. The 1981 Gross National Product was estimated by me based on the 1981 first three quarters gain over the corresponding quarters in 1980.

Year	Gross National Product Year Ending Dec. 31	National Debt Year Ending June 30	Debt as % of GNP
	All figures in $Billions		
1930	90.7	16.2	19%
1940	100.0	43.0	43%
1945	212.3	258.7	122%
1950	286.2	256.1	89%
1955	399.3	272.8	68%
1960	506.0	284.1	56%
1965	688.1	313.8	46%
1970	982.4	370.1	38%
1975	1,528.8	533.2	35%
1981	2,937.0 (Est.)	1,000.0 (Oct.)	34%

SOURCE: Statistical Abstract 1980 and Business Conditions Digest Nov. 1981.

RThought: Do we really want to get back to the good old days of 1960 or 1950? I don't think so.

The more difficult problem with the national debt is the interest rate now being paid compared with what you and I consider a reasonable interest rate and what Mr. Reagan considered should be the interest rate when he submitted his budget.

The above comparison finds a close parallel among many middle and upper management executives. Many bought homes in 1950 for $50,000 subject to a mortgage of $40,000. Today that home is worth $300,000 and the manager has a mortgage of $160,000 (hopefully taken out in August 1980 when the mortgage rate dipped briefly to 11½%) which he has reinvested to bring more than enough to cover the interest and payments and leave a profit. He doesn't feel his 4 time increase in debt is bad.

That is considered smart financial planning!

SHORT SHORTS

Bullock's has created its own calendar! Their pre-Thanksgiving Sale ran November 19-30! Perhaps Thanksgiving is now the first Thursday in December?

How to cut your Christmas volume–and do it later at lower prices. Follow the lead of Bullock's Southern California. Send out your "Famous After Christmas Clearance & Sale–starts December 26, 1981" catalog so that it arrives at your customer's house on December 14! Makes it wise to give a Gift Certificate together with a copy of the flyer.

WORDS TO LAY OFF YOUR STAFF BY

The following doggerel written by Tim Howard, economist at Wells Fargo Bank, appeared in the column by Donald K. White, Financial Editor of the San Francisco Chronicle. If you want to sing it–use "O Little Town of Bethlehem."

The Federal Reserve Recession Song

O little Board of Governors
How still we see thee lie
While GNP comes crashing down
You keep the funds rate high
Yet in the dark Street shineth
A distant ray of light
Once all of us have been laid off
Fed ease should be in sight.

(916) 485-8993

BRANDWEIN ASSOCIATES
FORUM
WRITING & RESEARCH CENTER
4731 EL CAMINO AVENUE
CARMICHAEL, CA 95608

February 24, 1982

AB
Put w/ corres
RT

Mr. Robert Kahn
RETAILING TODAY
P.O. Box 249
Lafayette, CA 94549

Dear Bob:

The enclosed article will be in the next issue if space permits. You sure know how to write. You only have to write if you want changes.

I enjoyed the time we spent together. Ty and I have discussed coming down to see you.

I raised my price as you can see on the masthead. I enclosed a one time offer to extend subscriptions at the old price. I have had a 4% return the first week and 25% of those were for three years. This is an indication some retailers expect to remain in business (and also believe I will). I did not mention the increase in FORUM and do not intend to do so.

It is too early to see how my solicitation for new subscription will work at $55. The first ones were mailed third class just four days ago.

I believe I also mentioned I found a box of 1200 issues from three years ago that still had the old $33 price on them. I mailed them with a letter explaining that old issues have current ideas. Response to that has been just ove 1%. This offer, made to prospects who have previously received sample issues is three weeks old.

I made my first major blooper last month. It show that people are really reading FORUM. It was just a filler story. Over a dozen people have written or called along the lines of the one enclosed from Iowa.

With kindest regards,

Jay

Jack H. Brandwein

JHB:kj

Enclosures

ANOTHER VIEW-- The 5% off story that follows reprinted without change or editorial comment from a respected newsletter written for department stores and mass merchandisers. Bob Kahn is a tough writer who states his views clearly.

FORUM again recommends Retailing Today, P.O. Box 249, Lafayette, CA 94549 ($30, U.S.A., $37 overseas for 12 issues)

REDUCE 5% OFF ON CHARGES TO AMERICAN EXPRESS TO ONE COLUMN.

5% OFF ON CHARGES TO AMERICAN EXPRESS!

It took legislation to eliminate the classification of a 5% discount for cash (with full price charged on credit cards) as a finance charge under Truth-in-Lending.

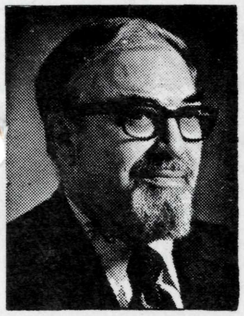
What, then, do you think of an ad that headlines:

> **An extra 5% off cash purchases**
> **Bank Cards and American Express®**

For a month this has been run by Breuners, a 125-year-old furniture retailer in California, now part of Marshall Field.

The only way you can pay full price on their special sales during January is to use your Breuner credit card.

There is a logic to this that most may forget. The discount rate at which third-party credit card transactions are purchased is partially a function of the size of the average transaction—and furniture stores often qualify for the lowest discount rate. Add that information to the narrow spread between the permitted rate in California on revolving accounts (1.6% per month to $1,000 and 5/6ths of 1% over $1,000) and bank borrowing to finance such receivables (16.50% prime at the present time). This can mean it costs less to take a small discount on the paper for cash right now!



RETAILING TODAY

ROUTE TO

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

FEBRUARY 1982 VOL. 17, NO. 2

CORRECTION

In the December 1981 RT I made the statement in a Short Short about discounts on Tandy computers. I wrote "**Late News**: Even bigger discounts are available on Texas Instruments computers as TI moves out of the personal computer market." That statement was only half correct–the discounts were 15% vs. 10%; but Norman Neureiter, Manager of Corporate Relations for TI, has advised me that this misunderstanding arose from an incorrect national magazine story on TI. He says that TI is doing great with the enhanced 99/4A personal computer and that Bill Cosby will be plugging it on TV. TI remains committed to the personal computer field.

5% OFF ON CHARGES TO AMERICAN EXPRESS!

It took legislation to eliminate the classification of a 5% discount for cash (with full price charged on credit cards) as a finance charge under Truth-in-Lending.

What, then, do you think of an ad that headlines:

> **An extra 5% off cash purchases**
> **Bank Cards and American Express®**

For a month this has been run by Breuners, a 125-year-old furniture retailer in California, now part of Marshall Field.

The only way you can pay full price on their special sales during January is to use your Breuner credit card.

There is a logic to this that most may forget. The discount rate at which third-party credit card transactions are purchased is partially a function of the size of the average transaction–and furniture stores often qualify for the lowest discount rate. Add that information to the narrow spread between the permitted rate in California on revolving accounts (1.6% per month to $1,000 and 5/6ths of 1% over $1,000) and bank borrowing to finance such receivables (16.50% prime at the present time). This can mean it costs less to take a small discount on the paper for cash right now!

WHAT IS THE PURPOSE OF A MONTHLY STATEMENT?

Many suppliers still send monthly statements. Most are prepared on the assumption that the accounts receivable department in the vendor firm is always right. The statement is organized to serve the vendor's purpose which often means that it is undecipherable by the store's accounts payable department.

As a management consultant I have always advised clients that their procedure when opening mail should be to look at statements and determine whether any items listed are over 60

A MAN WHO LEFT HIS MARK

When Edgar Kaiser stepped down from active management of the Kaiser empire (Kaiser Steel, Kaiser Aluminum, Kaiser Cement, Kaiser Foundation Hospitals and Kaiser Foundation Health Plans–America's first large prepaid medical health plan established despite the opposition of the American Medical Association), he said:

> "We must make our investment in heart and soul, as surely as we make our investment of money. Our returns must be in terms of people, their aspirations, hopes, and ideals, as surely as they are expressed in balance sheets."

Edgar F. Kaiser died December 11, 1981 at the age of 73. In the 1930s when the Kaiser firm was part of the joint venture building Bonneville Dam, he established the first company-paid medical system for men on the job. He repeated this for the Kaiser shipyards during World War II. After the War the system was opened to non-Kaiser employees (there are now 3.9 million members). In 1959 he made a separate contract with the Steel Workers Union because he did not believe it was right to put people back to work under a court injunction.

He served as the appointee of four Presidents–Kennedy, Johnson, Ford and Carter. His mark on our society will remain long after his name is forgotten.

days old. If there are none–throw the statement away. That takes care of about 90%-plus. If there is an item over 60 days, then time should be spent reconciling the statement.

But it is hard to do that with the statement provided by Levi Strauss & Co. (through their factor, Elesco Factors). The statement consists of the following sections:

1. Invoices due the prior 10th and earlier
2. Invoices due the **coming** 10th
3. Payment shortages
4. Pending items (on the sample at hand 5-month-old returns of defective merchandise are still listed as pending)
5. Open credits to be used
6. Unapplied cash (also 5 months old)

RThought: The controller in one moderate size firm that deals with Levi Strauss observes, "We ignore these statements until some human calls or writes and explains what the problem is." This is a good solution–although Levi Strauss has it within their power to provide a better solution.

THE MEANING OF NUMBERS– RETAIL SALES AND MAIL ORDER

When you read the newspaper and see "Retail sales are up" (or down or flat), what do you think? I suspect that you think this refers to the sales of retail stores–and feel good because your firm has done better.

But retail sales to the government statistician includes automobile, service station and restaurant sales—three very large classifications that you seldom think of when using the word "retail" as in the National **Retail** Merchants Association or the National **Retail** Hardware Association.

Car sales are down, gasoline sales (in gallons) are down and restaurant sales are down. With those major categories down, the volume of "store" retailers should be up. But we no longer get any quick monthly figure on "store retail" sales.

The second facet of the reported figure that is not known or is forgotten or misunderstood, as the case may be, is that the reported figure is "seasonally corrected." If you can't do an accurate seasonal adjustment of your own March and April sales to adjust for the changing date of Easter or your August and September sales for the changing date of school opening, what makes you think the government can do it for all retail sales?

Consider for a moment that in the pattern of years past, car manufacturers would have introduced all of their 1982 model cars in August and September of 1981. Here it is January of 1982 and new "1982 models" are still being introduced. Can one really use the past to determine a seasonally adjusted dollar sales for cars? And I haven't even mentioned the influence of major weather differences from year to year—cold or warm winter, snows so deep that stores have to close, killing summer heat. The impact of weather on this year's sales cannot really be compared with a composite of prior year sales (that is essentially how seasonal corrections are computed).

The same confusion arises when newspaper headlines read, "Consumer Mail Order Sales in 1981 reach $32 billion compared with $29 billion in 1980."

What do you think of when you read the term "mail order sales"? Probably Sears-Wards-Penney catalogs or perhaps Neiman-Marcus or Bloomingdale seasonal catalogs, or even Eddie Bauer, The Talbots or Sunset House direct mail catalogs. If you do, you don't understand what Maxwell Sroge (the source of these figures) is talking about.

The biggest Maxwell Sroge category of "consumer mail order sales" is insurance ($4.4 billion), third is magazine subscriptions ($2.1 billion) and seventh is auto club memberships.

RThought: As is said in "H.M.S. Pinafore": "Things are seldom what they seem, skim milk masquerades as cream."

LEBHAR-FRIEDMAN, INC. WORKS ON THE CASH FLOW

On July 20, 1981 I received a very important looking notice headed—RENEWAL NOTICE-URGENT! The caption read: "Act immediately to continue receiving your publication without interruption. If you let us know now, we'll have plenty of time to process your renewal . . . Return form today with your payment enclosed."

Guess what? it was for **Discount Store News** that would expire December 1981!

Every month I have received one of those notices.

Most readers of Lebhar-Friedman publications renew. But if they can get you to send them a 2-year, $26.00 subscription 5 months in advance, look at what they can make in the money market. They offered a $2 discount (14%) for paying 1 year in advance—to a trade that gets other bills at up to 8%/10EOM.

It is appropriate to send out billings in advance of expiration. RT does it with the 11th month of each subscription. But to do it during the 7th month certainly shows a bit of greed—a willingness to take advantage of their 30,000 subscribers in an industry that Lebhar-Friedman purports to serve.

THE IMPACT OF INTEREST RATE RESTRICITONS

For years Arkansas had a 6% usury law. When it was applied to retail revolving accounts (the attorney general sued Sears on his own account), everybody started paying through higher prices for the cost of credit to a few.

Studies have shown that virtually all small loan companies and personal property brokers, such as Household Finance and Beneficial Finance, withdrew from the market. Sears used a special catalog for Arkansas with higher prices and priced merchandise in their stores higher. Arkansas did change the usury limit to 10%—but the market shortly made that rate as out of date as the 6% limit.

When your business is primarily lending money, what do you do to find profitable ways to lend it? The following statement from the Third Quarter report for Beneficial Corporation tells one solution:

> "In light of recent unacceptable levels of Consumer Finance Group profitability (Note: $500,000 vs. $40 million for the first nine months of 1981 vs. 1980), Beneficial has substantially reassessed and reorganized domestic lending operations . . . By year-end it is anticipated that approximately 400 offices will have been closed . . . As part of this profit improvement program, Beneficial has sold its loan operations in the states of Tennessee and Alabama, taking a $1.2 million loss . . .
>
> "Commensurate with this objective, Beneficial has effectively ceased new lending activities in 12 states possessing one or more of the following characteristics: unreasonable regulation, deteriorating economies, limited growth prospects, or excessive costs of supervision. Perhaps the worst, most marked example of this group is Michigan, which has both an intolerable, antiquated rate structure and an eroding state economy.
>
> "Lending operations in the rest of the United States continue to concentrate on second mortgage lending. At September 30, real estate secured loans represented 43% of total receivables, and may approach 50% of the portfolio by year-end. Until such time as the overly liberal National Bankruptcy Act is changed, **unsecured** lending operations will remain sharply restricted . . . Beneficial has been forced to virtually abandon the non-homeowner loan market. Reflecting these influences and the state of the economy, Beneficial's loan portfolio is expected to contract in excess of $100 million in the fourth quarter."

RThought: The customers of Beneficial and other finance companies cannot, in most cases, get bank loans, particularly those customers who borrow in the $200-$500 range. Retailers are not about to let customers put cash borrowings on their charge accounts (although this might be beneficial at some times in some areas). The question to ask is: Have states (through their rate structure) and the federal government

THE PERPATETIC EDITOR

I recently made a quick trip to New York—the red eye special Thursday night leaving at 10:00 p.m. and arriving at 5:30 a.m. for a luncheon at noon and an appointment at 4:00 p.m. Then an overnight stay for a luncheon on Saturday which left a few hours before returning to San Francisco.

And this gave me an opportunity for one of my favorite indulgences—a visit to Macy's on Herald Square on a Saturday. It takes me back to the days in 1940-41 when I worked there, first on the training squad and then in the Research Division—called Division V (making it co-equal with Merchandising, Promotion, Operations and Control). In those days Macy's had the only true research department in retailing—a kind of department that doesn't exist today.

The largest effort undertaken at that time was to determine Macy's market penetration by department for each census tract within the New York Standard Metropolitan Statistical Area. Clerks recorded the address on every transaction for two periods of two weeks each (an 8% sample). That information was adjusted to balance to the annual sales total of each department. The results for each department were compared with an early printout (on IBM cards) of the April 1940 census. The data was summarized by a crew of about 25 comptometer operators—checked and re-checked. The analysis and evaluation against the census population and income data was on many handwritten pages.

As a result of this study a program of advertising was started in neighborhood newspapers (the Brooklyn Eagle was considered a neighborhood paper in those days when New York City had the Times, the Herald Tribune, the Daily News, the Mirror, the Post, the Sun, The World-Telegram, the Journal-American and PM). Departments were advertised in areas of low penetration to counter local competition.

But I am wandering from my story.

In those days Macy's was doing about $100 million in a single store—the equivalent of about $600 million today if one uses the Consumer Price Index for adjustment but more realistically $400 million if one uses only the price changes for the kind of merchandise carried by Macy's (in those days we tried to sell Crossley cars in the basement). But still, $400 million is about two-thirds of the present volume of Macy's New York division.

Regular counts were taken to determine the number of shoppers visiting the store—a limited number of times each year at all doors and more frequently at the major doors. Macy's advertised that an average of 137,000 people a day shopped at Macy's. Saturdays, of course, had many more people.

There were not as many people this February Saturday—but there still was excitement. As I watched the high percentage of husband/wife (roommate?) shoppers I recalled the classification we used then to indicate the market segments we served—we built advertising for the Monday to Friday shopper, the Thursday night shopper (the only night opening) and the Saturday shopper.

The Monday to Friday shopper was the non-working wife, usually above average income. This was supplemented by the noontime shopper from the area around the store. Thursday night was heavy husband/wife shopping when they could get a baby sitter to stay with the children while the two made decisions on major purchases such as furniture, appliances and radio-phonograph combinations. Saturday found some husband/wife shoppers but mainly people who worked in factories and other places far removed from downtown Manhattan.

The advertising was designed to appeal to the proper shopper group. Bras for $1.88 were advertised Sunday for Monday; while bras for 94¢ were advertised Friday for Saturday.

The store wasn't as busy as in 1940—but it was busy. The people were different—every nationality in the world was represented and almost every manner and style of dress was seen. *Macy's really should advertise the Herald Square store as "Merchant to all nationalities."*

I had made a similar but longer visit just before Ed Finkelstein took over and had written a longer feature—but because other material was used in RT it eventually became obsolete as Ed made his many changes. That time I walked all ten floors; this time I had to be more selective.

The Little Shop is still there—a shop that never made money in my days but was included so that Mrs. Jack Straus (of the Straus family that built Macy's and Jack was then CEO) could wear imported designer dresses at the opening night of the Opera—and still have a Macy's label. She may be allowed to shop elsewhere today—a change I watched in my own family as the time came when members were allowed to patronize other department stores other than Kahn's.

There were live pets—and fascinated children watching them. The pianos and organs had signs asking customers not to play them—a staff member would demonstrate—while the small electronic ones by Casio where hooked up for everyone to try. The background music was the kind of music that a proper store would never have allowed in those days—the music of the Village and Harlem was not allowed on Musak.

The days of the straight aisles (one on each side of the 750' x 250' floors) with neat rows of tables are long gone. You can get lost trying to get from one end of a floor to the other. You can no more walk straight down a floor than you can walk straight though a forest.

Nedick's still has their stand (greatly modernized and no longer all-white) at the Herald Square corner of the building. General Nutrition up the street now displays York Barbell sets in their windows—to go with health food. And Keen's Chop House on 36th Street is again open—but not on Saturday at noon. In 1941 their Mutton Chop and baked Idaho potato was $1.25 (when the minimum wage was 40¢); now it is $16.50 (when the minimum wage is $3.35). I hope my churchwarden pipe (number 16736—and the numbers now exceed 100000) still hangs on the ceiling. I will be back to smoke it again.

CUSTOMERS TRADING UP? OR STORES TRADED DOWN?

The October 2, 1981 Kipling Washington Letter (1729 H Street NW, Washington, DC 20006 $42/yr) summarized the retail situation this way:

> "**There's a big upgrading this year** . . . better stuff, higher prices. People who once got low-priced things are now buying medium-grade things. People who once were satisfied with medium are now seeking expensive. This stepping-up has been going on for years, but now the step-up is BIG.
>
> "**Many merchants aren't even promoting their least expensive lines,** leaving it to shoppers to search for low-end items. As for discounters, they're also stepping up quality. Thus an upgrading in ALL merchandise."

Is this really what is happening? Or are customers just trying to get back to the quality level that we retailers took away from them?

I can remember before World War II when the Arrow Shirt went from $1.75 to $1.95. The big discussion was whether the increase on shirts in inventory should be recorded as a markon revision or credited against markdowns (the same argument would take place today).

The basic point, however, was that the quality of the Arrow Shirt was maintained without variation. When the cost increased, the price was raised.

Nobody tried to figure out how much would be saved by putting one less loop of thread holding each button (that's why buttons come off easier today) or shortening the shirttail to save a bit of fabric (that's why shirttails come out of your pants easier) or using a lighter weight fabric.

Cluett Peabody was, of course, concerned about changing a long established price point, but they were more concerned about maintaining the quality standard they had developed over many generations.

I think uniform quality in the Arrow shirts was maintained at least through until they sold for $6.00. With my weight loss (60 lbs.) I can again wear a 17 collar and found I had two boxes of new Arrow Fenway Club shirts (Dura-Neat, 100% cotton–spin dry, Sanforizedplus™) with a $6.00 price dating back to the late 1960s. I haven't felt that kind of cotton shirt for years.

Until the start of the 1970s increases in costs had been absorbed by maintaining quality and moving price points.

With the inflation that started with the oil embargo in 1973, the prices of many materials going into comsumer products increased substantially faster, especially those materials that come from oil (as do synthetic fabrics).

Neither stores nor manufacturers were really prepared to maintain quality. They cut quality to keep prices down, partially because they didn't know what the other manufacturers or retailers were going to do (imperfect knowledge in our competitive system that is supposed to be based on perfect knowledge).

Buyers were instructed to hold price points. Manufacturers responded by reducing the quality of their product even more in order to meet those price points. The constant drive for increased gross margins on the part of conventional retailers (which stimulated the growth of discounters) did not help the situation since this caused prices at retail to increase even more without any change in the quality of the product.

You can go only so far in taking dollars out of the cost of a Cadillac in order to hold the price down. Suddenly people will say, "That's just a Chevrolet" and go out and buy something imported that gives them the quality they used to get in a Cadillac.

The entire retail industry, from top specialty stores to the most aggressive discounters, report that "the consumer is trading up these days" when all they really are doing is trying to stay even. I know of no retailers that are willing to admit that year after year, in the guise of maintaining their traditional price lines, they regularly and consistently offered lower and lower quality merchandise to their customers. But they did.

Kiplinger reported accurately what the retailers say—but that is not what has happened.

SHORT SHORTS

What Genesco can do—that you can't! Genesco is really supporting their dealers who take special orders. It is their "Mission Impossible" program at Johnston & Murphy. Stores wanting a special order can call an 800 number and a person at an on-line entry station can tell if the style and size is in stock, immediately create the paperwork and shipment will be made the next day! The line is open nights and weekends to handle any store in the country.

Now see here! But it may not be necessary to see. Perkins School for the Blind in Watertown, Massachusetts has a new program going. It bought the Pioneer Food Store—a local mini-market. The manager is a 1970 graduate of the school. Part-time help comes from the school. Drop by some time—and you may not notice Manager Joyce Wood's handicap when she offers you a cup of coffee.

(through the bankruptcy law changes) helped more consumers than they have hurt, or is it the other way around?

ANYTHING TO MAKE A FEW PENNIES

Chevron (Standard Oil of California) is trying to sell me "ALL-CARD Service" to protect my credit cards—for just $12 a year, charged $1 a month on my credit card.

Bullock's is trying to get me to buy Credit CardSentinel through a specially imprinted insert—for just $6 a year.

Neither company tells their own policy on handling lost (as opposed to fraudulently used) credit cards where the limit of liability is $50 if the cardholder promptly notifies the issuer of the credit card about the lost card. Most card issuers do not attempt to hold the cardholder to even that liability.

RThought: Is it honest for a card issuer to try to sell an insurance policy to their cardholders against a liability that the seller knows will not be pressed—and which they know virtually all other issuers do not press? Instead, the stores selling such insurance dishonestly create a fear of great liability. It is implied by such words as "And you can bet that many of these people [who lost their cards] worried about what would happen if their cards were illegally used" (Chevron—who fails to tell them what can happen and what Chevron, itself does) or "How much would you be liable for?" or "You have a guarantee of non-responsibility against fraudulent use of your cards" (Bullock's).

I notice that most often this type of mailing comes from monster corporations—not from the entrepreneurial retailer who respects his customers.

HYPERMARKETS

Everyone thinks of hypermarkets in France as monster stores, all doing $800 per square foot (that is obtained by Carrefour). One envisions stores of 200,000 square feet with 70 or 80 checkouts.

What are the facts about hypermarkets—a type of retail outlet which did only 2.8% of total retail trade in France in 1970 and by 1980 did 11% (mail order grew from 0.8% to 1.2% while department stores dropped from 3.4% to 2.9% and variety stores from 3.9% to 2.7%).

First, at year end there were 466 hypermarkets, an increase of 34. The stores average 60,000 square feet and the new stores are even smaller—50,000 for the ones added in 1981. There was only one hypermarket opened in 1981 that was more than 100,000 square feet.

But they do have lots of checkouts—one for every 1,000 square feet. That means 60 in the average store of 60,000 square feet.

And they have lots of parking space (something that Americans think they invented) averaging 18 spaces per 1,000 square feet of gross leasable area compared with the 5 spaces commonly provided (and normally adequate) in the U.S. shopping centers.

Of course, the French stores stack goods higher—and with lots of space and lots of checkouts they can push tremendous volume through the door. More than 60% have cafeterias (not just snack bars), about half have auto centers, one-fifth have home improvement centers and a bit less than one-fifth have garden centers.

RThought: Our thanks to the International Association of Department Stores for providing this information in their monthly **Retail News Letter**.

THE TWO FACES OF FIRST NATIONAL SUPERMARKETS

With the report of the 1981 Annual Report, First National mailed a letter in which they explained the Company's position responding to a request to boycott Red Coach Lettuce. The Company explained that they have actively supported the goal of Ceasar Chavez' United Farm Workers including participation in lettuce and grape boycotts and active support of remedial legislation in California. In the case of Red Coach Lettuce they concluded that the solution was in bargaining, even though intermittent, rather than support of a boycott. This is an appropriate comment.

From that strong social position they then attended to the matter of protecting entrenched management and voted down two shareholder proposals: one to create a nominating committee to select candidates for the Board (2,516,000 to 140,000) and the other to elect all directors annually rather than through a class system usually installed out of fear of takeover (2,520,000 to 122,000).

Of course, the same management that supports Ceasar Chavez works as proxy holders to protect themselves from the shareholders.

SHORT SHORTS

Do you publish an analysis of your shortcomings? Probably not. But the Federal government does. Well, a small part of it—the Census Bureau—does. Their preliminary analysis of the 1980 census (compared with their Comparative Population Surveys) indicates an undercount of 0.6%, an improvement when compared with the 2.2% in 1970. On the other hand, inter-census estimates made by states can be far off—Nevada had 10% more than they estimated, Arizona 8% and Florida 7½%.

The following paragraph appeared in a letter from Teller Weinmann, president of Liberty House of California, to all their charge customers:

> **I would like to take this opportunity to thank you for being one of our valued customers. Please accept my warmest regards and my best wishes for your happiness during the Holiday Season and throughout the New Year.**

Loehmann's still remembers. As it does every year, Loehmann's, on December 16, ran their attractive "Special Holiday Message" ad which said, "To all the members of our Loehmann's family of customers and employees, we'd like to take this opportunity to express our sincere good wishes for a Happy Holiday Season and a Very Healthy New Year. Your continuing loyalty is remembered throughout the year. Sincerely, George J. Greenberg, Chairman of the Board."

Advertising everywhere? Airlines now have a multipage folder —with ads—in which they place your ticket. A recent "edition" has full "page" ads for Hilton, Toshiba, Yellow Pages, Master Card, Chevrolet, Lanier, Seiko, RCA, Panasonic, 3M, Remy Martin cognac, Exxon and Hertz!

What company announced this policy? They plan capital expenditures of $44 million mainly to improve existing retail operations, expand their retail base and improve the return on their property portfolio. It was Myer Emporium Ltd., the largest department store chain and second largest discount store chain in Australia. There, as here, it is time to go back and do things right–that were not done right the first time.

What to do when the local newspapers headlines that your firm has been sold. Fred Meyer faced that when the paper reported that Fred Meyer had been sold in a going-private leveraged deal structured by Kohlberg, Kravis, Roberts & Co. and that 500 stockholders attended the special meeting to approve the offer. Fred Meyer ran an ad–6 columns x 18"–with 2" headlines **"WE'RE STILL FREDDIES!"** followed by "Everything is still the same" and then listing 14 items including "Same Union Contract," "Same No Hassle Return Policy" and "Same sensitivity to your comments, suggestions and criticisms."

Can you spare a breakfast? Triad Systems, a company that provides $40,000 specialized computer systems for auto replacement parts stores and warehouses, hardware stores, tire stores and shoe stores as small as $400,000 a year sales and makes their computers pay off, has another big pay-off. Every Monday morning at 7:30 all Triad employees and their guests are invited to a company-sponsored breakfast at headquarters, usually presided over by President Bill Stevens. After breakfast, new employees and visitors are introduced, division managers give brief progress reports and employees from all parts of the company make announcements and volunteer interesting developments in their areas. **RThought**: Could you spare a breakfast–even once a month?

Unity Buying can't handle all who want to join? For years I have maintained a membership in Unity Buying, a different approach to catalog selling (with a complex method of figuring the price). I was late with my renewal this time–and my check was returned! Why? **"An overwhelming number of applications has exhausted our supply of catalogs in record time.** Perhaps it's because the economy has forced people to make their dollars count for more–perhaps our satisfied customers are spreading the word." **RThought**: Perhaps they made an error when trying to save money.

National Consumers' Week–Virginia Knauer, advisor to President Reagan, isn't going to do much more than set the dates (April 25 to May 1, 1982). At a recent meeting of the government's Consumer Affairs Council, she couldn't think of a single example to go with what she said was the government policy, to wit: "The Reagan Administration will act forcefully to protect the consumer in those critical areas such as food, health and safety, where the consumer cannot be expected to possess the information or expertise to make an appropriate determination." A successful National Consumers' Week depends on retailer cooperation. In Massachusetts the state will give great leadership–and Zayre will give great support.

Shell shows what computers can do–wrong. With the statement was a disclosure of total finance charges assessed and total finance charges paid for 1981. The assessed is probably correct–but since the statement date was December 5 any customer having a finance charge included in the December statement could have an additional amount deductible in 1981. If Shell only considers "paid" as of the cycle closing date, next year's record would induce a customer to deduct in 1982 a finance charge he might have paid in 1981 and not legally deductible in 1982.

Remerchandising the Jeep. Perhaps a few readers share my recollections of the Jeep–from 7 years' active duty during WW II and the Korean affair. It is being replaced by the Humvee (High Mobility Multi-purpose Wheeled Vehicle). It still has a range of 300 miles, a top speed of 60, zero to 30 in 6 secon[ds] and is able to climb a 60 degree grade. But now it is able [to] tow 2,500 lbs. vs. 1,200 and get 26 mpg on diesel vs. 19 on gas. And it will have power steering, power brakes and an automatic transmission (real easy to fix in the field)!

A real guarantee! Sotz Corporation in Columbia Station, Ohio, has made the "Sotz Monster Maul" for the past 25 years. A "maul" is used to split firewood–and this one has a 12 lb. head on a high strength steel handle. It sells for $24.95 delivered with this guarantee "Try a Monster Maul at our risk! Within one year, if you don't think it's the fastest, least tiring method of splitting firewood, let us know, and we will give your money back, including shipping . . . Plus it's guaranteed against failures for 10 years." Who said they don't make things like they did in the old days?

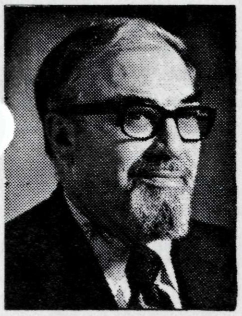
Do you service autos? I see little originality in promoting services offered–promotion is just about the level of the promotion done by your former local "service" station that has disappeared. Automotive News (11/23/81) quoted James Boord of Champion Spark Plug as saying that "longer new-car service intervals are creating a complacent attitude among America's motorists that will ultimately result in costly and needless repair bills and poor fuel economy." Does that give you an idea for an ad program?

Not invented in America. International Association of Department Stores **Retail News Letter** reports that a chain of do-it-yourself car-painting centers has been started in Europe. There are 4 in operation and 20 are expected by the end of the year. The Dutch AZCO chemical group started it–they rent th[e] equipment, provide a manual on how to paint your car an[d] have a professional on site for assistance.

WORDS ABOUT MANKIND'S BETTER MOMENTS

Mankind's Better Moments was the title of an article in the American Scholar (Autumn 1980, 1811 Q Street NW, Washington, DC 20009 $10/yr.) by Barbara Tuchman, two-time Pulitzer Prize winner and the first woman to head the American Academy and Institute of Arts and Letters. In it she tries to recall the more admirable capacities of the human race, though pointing out that the word "optimism" was not used until 1737–only two and a half centuries ago. The following quotation may put optimism and pessimism into perspective:

> "A study of history reminds one that mankind has its ups and downs and during the ups has accomplished many brave and beautiful things, exerted stupendous endeavors, explored and conquered oceans and wilderness, achieved marvels of beauty in the creative arts and marvels of science and social progress; has loved liberty with a passion that throughout history has led men to fight and die for it over and over again; has pursued knowledge, exercised reason, enjoyed laughter and pleasures, played games with zest, shown courage, heroism, altruism, honor, and decency; experienced love; known comfort, contentment, and occasionally happiness. All these qualities have been part of human experience, and if they have not had as important notice as the negatives nor exerted as wide and persistent an influence as the evils we do, they nevertheless deser[ve] attention, for they are currently all but forgotten."



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

MARCH 1982 VOL. 17, NO. 3

THE N.I.H. FACTOR IN RETAILING

In Silicon Valley, where I spent considerable time in one of my incarnations, the N.I.H. factor is well recognized—it stands for "Not Invented Here." It says, "If we didn't think of it, it cannot be very good."

That exists in other industries and it was apparent in a talk that Kenneth Macke, president of Dayton Hudson, gave to the New York Society of Security Analysts on November 5, 1981. Almost without exception Target is plugged first (Dayton Hudson thought up and created Target) and Mervyn's is second (it used to be lower).

About Target he said it will be following the same explosive strategy that has served so well in the past and that the plan for the next five years is an "aggressive one, but one that is entirely appropriate for an exciting company like Target. Target, of course, "is clearly in touch with the shopping expectations of today's upscale, value-conscious consumer."

Then he described Mervyn's with the statement, "Since we acquired Mervyn's three years ago, it has enjoyed rather modest growth"!

Checking the Dayton Hudson report for 1978 (the reporting sequence was department stores, low-margin stores, specialty stores and Mervyn's though Mervyn's did more volume than specialty stores) and the 1980 report (listed low-margin, Mervyn's, department stores and specialty stores), we get the following figures:

	Year End 1/78	Year End 1/81	% Change
Target	729,027,000	1,531,698,000*	+110%
Mervyn's	369,055,000	826,922,000	+124%

**Includes 5 months of 40-unit Ayr-Way chain acquired during year, with no such acquisition for Mervyn's.*

Isn't it surprising that Target's aggressive growth produced a 110% increase in three years with the help of a major acquisition while Mervyn's modest growth produced 124%.

Note the following comment by Mr. Macke: "Mervyn's had an outstanding track record **prior to the merger.** But we felt we needed to give Mervyn's some time to adapt and to perform as a Dayton Hudson company before stepping up its expansion pace." (Emphasis added.)

RThought: What does all of this mean and why is it mentioned here?

First, don't accept what corporate heads say before a meeting of analysts without going back and checking the facts. What they say may not always agree with the facts.

Second, management in retailing, as in electronics, has a blind spot favoring the entity they created.

HERE A LITTLE CHILD I STAND HEAVING UP MY EITHER HAND

The title is taken from "A Child's Grace" written in 1648 by Robert Herrick. The problem is today.

Children have no powerful lobby. They don't vote. Politicians kiss them but do not court them.

At a time when more and more mothers must work because of the pressure of inflation and growing unemployment among the fathers (auto industry and home building), government is cutting the support for child day care centers. The federal government is eliminating separate programs and putting less money into block grants which, at state level, will be allocated in proportion to the strength of the lobby for each special program. State and local governments, facing similar pressures, are cutting their share of support.

The small, underfinanced children lobby groups, often operating for a year on less than is paid a retail buyer, fight on bravely—but alone.

Retailers are among the largest employers of women, young women, women with children under 16, women with children under 6. There is a responsibility to be faced and much of it is a matter of organization and effort, not of charity.

Retailers, if they would, could operate, alone or in groups, child day care centers for their employees. Employees are willing to pay for day care; what they desperately need is a clean, safe, organized and supervised day care center convenient to their place of work.

I am amazed at how much attention retailers pay to the car parking needs of their customers and how little to the child care needs of their employees. As a result, retailers suffer excessive turnover and are unable to attract some of the very competent people they desperately need.

A few retailers ventured into this field. Dayton's in Minneapolis operated a joint center with Control Data Corporation. Zales operates one for women employed at their headquarters (although it was a decade or more from the original idea to the inception).

If you need help in organizing a day care center, contact the Day Care Council of America, 711 - 14th Street, NW, Washington, DC (202) 638-2316. There are local councils, state councils, United Ways, private operators—all waiting for a word from you.

Will you send the message—that you want to provide a day care center for the young children of your employees?

Third, Kahn has a sensitive spot resulting from the twenty years he was associated with Mervyn's as a consultant, director and officer starting when the volume was $1,400,000.

CAN YOU BUY A CONGRESSMAN? YES!

Retailers fully understand the art of buying and selling, and some retailers are organizing Political Action Committees to go out and buy a couple of Congressmen and perhaps even a Senator. Of course, they don't think of their conduct in such crass terms–but that is the result.

The front pages of major newspapers all over the country herald the response of more and more legislators to the "lobbying" of special interest groups. Lobbyists are the registered representatives of special interest groups who often bring to the seduced elected official his instructions on how to vote.

One must admit that not all lobbyists are fronts for business interests, interests that often seek to save money as a result of their lobbying (lower safety standards, cheaper dumping of dangerous waste materials). There are powerful labor lobbyists and powerful gun lobbyists and not so powerful consumer lobbyists. What distinguishes the groups is that business, labor and gun lobbyists tend to have lots of money–while consumer lobbyists do not.

There are lots of groups that "rate" national legislators. The Alamanac of Politics 1982 (Barone & Co., Box 32392, Washington, DC 20007 $18.20/in paperback) lists for each such legislator the way he was rated by the following organizations:

- Americans for Democratic Action
- Committee on Political Education AFL/CIO
- Public Citizen (Nader Group)
- League of Conservation Voters
- Consumer Federation of America
- Ripon Society (moderate Republicans)
- National Association of Businessmen
- National Security Index of the American Security Council
- National Taxpayers Union
- Americans for Constitutional Action
- American Conservative Union

Consumers Newsweekly (National Press Building, No. 813, Washington, DC 20045 $25/yr) published a correlation, shown below, of the relationship between how legislators voted on consumer issues and how much they received in 1981 from business PACs:

1981 Public Citizen Score	Average Business PAC Contributions House	Senate
91-100%	$14,000	---
81-90%	13,000	$ 20,000
71-80%	17,000	32,000
61-70%	24,000	44,000
51-60%	32,000	51,000
41-50%	44,000	104,000
31-40%	58,000	107,000
21-30%	60,000	148,000
11-20%	62,000	264,000
1-10%	63,000	272,000

RThought: Is this what we want? Does this fit into our concept of how democracy is supposed to work?

When you tell your children how you think free enterprise should operate, do you tell them that one of the key things they should do, when a manager, is contribute to the company's PAC and then let a committee decide, without the contributor's participation, on whom to support? (Note: Even in business PACs most of the support goes to the incumbents, and this means more to Democrats than to Republicans, even from largely Republican donors.) And if they become CEOs, should they start a PAC?

WHO CUT WHAT TAXES?

It now looks like the 1981 tax cut may have been too big. And it may not accomplish the intended purpose of stimulating investment in business (few businesses want to invest in new plant and equipment when the present plant utilization is about 75%). Based on the Congressional Joint Committee on Taxation report, the table below shows how much each party to the bill contributed to the total reduction:

	Billion Dollars	Percent
President's Original Program (2/18/82)	$600.5	91.3%
House of Representatives (Rostenkowski's Speech–4/9/81–and Ways & Means Committee)	26.6	4.0%
Senate Finance Committee	24.3	3.7%
Hance-Constable Substitute to get compromise	6 6	1.0%
TOTAL	$658.0	100.0%

Of late there has been an attempt to blame the excessive amounts of benefits to one or another group on one or the other house. Yet it is clear that the majority of the cut was outlined by the administration.

Some cuts–such as the sale of depreciation and investment tax credits–appear to be running much higher than estimated at the time the bill was passed, but one must assume that estimating the impact of a new tax gimmick is difficult.

The Joint Committee also estimated the impact of the tax cuts by income brackets. In other publications you see this table abused in various ways to make various points.

Income Bracket	% Taxpayers*	% Tax Benefits*
0-$ 5,000	5.8%	0.2%
$ 5,000- 10,000	18.3%	2.7%
10,000- 15,000	17.0%	5.6%
15,000- 20,000	14.0%	7.7%
20,000- 30,000	21.9%	19.4%
30,000- 50,000	17.6%	29.4%
50,000- 100,000	4.6%	17.1%
100,000- 200,000	0.8%	7.6%
Over 200,000	0.2%	10.4%

**Do not add to 100% because of rounding off*

RThought: Now that the beneficiaries of the tax cut are known, it is logical that public opinion surveys are showing that 70% of the population are in favor of postponing the cuts in order to reduce the deficit. That vote probably comes largely from the 77% with taxable incomes of $30,000 or less who get only 36% of the benefits plus some people with incomes above $30,000 who are more concerned about their country and its economy than their personal pocketbook.

POINT SCORING AND PEOPLE

As we go through life, many of us feel that "The System" is against us. Our friends park every day in a yellow zone and never get a ticket; we park 1 hour and 5 minutes on a meter and get a ticket. Our friends go on vacation and have nothing but sunshine; we go and get rain and thunder.

ABUSE OF QUESTIONS

Much of the decision-making in the United States is based on surveys. The user of the survey most often looks at the summary without looking at the questions asked.

A question can be written to induce a desired answer—or it can be so ambiguous that it produces a meaningless answer. I was struck by both of these problems when asked to answer a questionnaire from an organization to which I belong—Consumer Alert (1024 J Street, Room 417, Modesto, CA 95354 $20/yr). Let's look at a few of the questions.

Q. Do you believe the U.S. **suffers** from a **potential shortage** of energy **at this time?** (Emphasis added.)

"Suffers" and "at this time" put the question in the present tense while "potential" puts the shortage in the future. I don't know how far in the future—is it 5 or 50 or 500 years? By joining these two time periods in a single question they could easily come out with a statement that says consumers feel there is no "potential shortage"; whereas, the person answering was saying that the U.S. was not "suffering" "at this time" from an energy shortage.

Then they listed five statements and asked which most closely expressed the view of the member. The particularly bothersome statement was:

___ Government should put controls on the prices consumers pay for energy, likewise controlling capital income of U.S. energy producers.

The second part of the statement does not necessarily follow from the first. Although regulated utilities (many are energy producers) complain about the slowness of action on requested rate changes, many have had prices set over the past five to seven decades that protected the consumer from excessive pricing by a monopoly while still permitting sufficient profits to attract necessary capital.

Q. Have you purchased a more fuel-efficient car since 1979?

This question leaves out people who have been purchasing fuel-efficient cars for many years. My first one (forgetting a great 1931 Model A roadster in college) was in 1971.

Q. How much would you reduce your driving if fuel prices rose to (answer by the percentage you would reduce your driving) $2.00 a gallon, $2.50, $3.00, $4.00?

No date of increase is shown—if it went to $4.00 a gallon tomorrow, my answer would be different than $4.00 at a future date. Also, no mention is made of what happens to other prices (and presumably my income) as a result of inflation. Nor is any information provided on whether or not cars are available that get 40-50 miles per gallon around town and 70-80 on the highway, as are mentioned in more and more news releases.

Q. Which of the following more closely expresses your view?

___ U.S. oil companies, large and small, are the cause of our energy crisis.

___ U.S. oil companies, large and small, are hampered by federal and state over-regulation, thus precipitating our continuing dependency on Middle Eastern supply.

The choices are not mutually exclusive. The major oil companies, starting before World War II, sought Middle Eastern oil because it was cheaper to recover than domestic oil sources. This was because vast territories were controlled by a monarch and a minimum number of wells have to be drilled. In the United States the right of ownership of land normally gives the right to minerals below the land. Unfortunately land parcels are not determined by the outline of the underlying oil reserve. Therefore, everyone with land above an oil body has the right to drill for oil. Each well produces less per well.

Texaco and Standard Oil of California formed Aramco (Arabian American Oil Company) in 1935. Anglo-Iranian Oil Company, now British Petroleum, had the largest refinery in the world at Abadan when I served there in 1942-44. The Bahrein Petroleum Company was controlled by the British before World War II. Foreign oil companies controlled the Iraq Oil Company and activities in Kuwait in the period following World War II when government controls in the United States were not restricting the oil industry. Yet the amount of imported Middle Eastern oil increased.

Q. Do you believe that the problem of disposing of nuclear waste can be solved?

It seems rather silly to ask this of lay consumers when the finest scientific minds have not been able to solve the problem. Even if 100% of consumers believed this statement, their unaminity would not solve the problem. Yet the results of the survey could be interpreted to mean that government and businesses could proceed without regard for the facts.

Q. Do you favor elimination of U.S. dependency upon foreign oil by increasing our off-shore drilling and through further development of nuclear energy?

This is the famous "2 for 1" type of question. It can be interpreted as approving further development of nuclear energy **and** off-shore drilling even though many persons answering might have favored only one of the two.

RThought: When you use a survey for a serious decision, get the complete survey including the questionnaire. Examine the questions for bias before using the answers. Study the validity of the sample selection (Consumer Alert has a great consumer name, yet it really is an organization that believes all consumers are best served by removing all government controls—a position unique among consumer groups).

SHORT SHORTS

Surprises from Safeway. Safeway is re-cycling their old smaller (15,000 square feet) stores into discounters—Liquor Barns. And they are very promotional. A recent ad started, "Celebrate Presidents Day—WE CANNOT TELL A LIE—OUR PRICES ARE THE LOWEST." **The surprise? President's Day was February 15 and they ran the ad on the 17th!**

President Reagan does do things for consumers—if they don't cost anything. He has declared the week beginning April 25, 1982 as **National Consumer Week.** You might not find out about it because he didn't send the message to you—didn't even include it in some of those mailings supposedly from The White House asking you for money. Although the proclamation does say that government should see "that defrauders are brought to justice," the funds to catch the defrauders were among the first cut.

Amfac broadens their question answering. Included in their 1981 Annual Report is a tearout postage-paid card reading as follows:

> "At the next Annual Meeting . . . we intend to discuss as fully as time allows and interest sustains many matters of interest to shareholders. But YOU may not be there. Only a relatively few . . . are able to attend. . . . If you will not be able to take part in person . . . , but wish to state a need, ask a question or make a comment, please let us know on the postage-paid reply card. We'll be pleased to respond as effectively as we can. Of course, as in past years, a post-meeting summary of what occurred will be mailed to you."

Lewis and John Gilbert, fathers of the post-meeting report, must be loudly applauding Amfac.

A STATISTICAL SUPPLEMENT

The HONOR ROLL continues to grow longer and longer as more retailers get their accounts receivable procedures under control. It is not just the use of computers—because many stores with computers do not make the HONOR ROLL—but a matter of procedure and interest.

We may have to cut the standards to 3.5 days or even 3 days.

HONOR ROLL

Bullock's (S. CA)	2.0	Weinstock's (N. CA)	3.0
Liberty House (N. CA)	2.0	Gimbel's (Philadelphia)	3.4
Routzahn's (Stroudsburg, PA)	2.0	I. Magnin (N. CA)	3.8
Mervyn's (N. CA)	2.2	Abraham & Straus (NY)	4.0
Rubenstein's (Shreveport)	2.3	Nan Duskin (Philadelphia)	4.0
Bullock's (N. CA)	2.5	Macy's (N. CA)	4.0
Sears (Dallas)	3.0	Levy Bros. (N. CA)	4.0

CREDIT OFFICE RATING

	DEC. 1981-JAN. 1982			OCT.-NOV. 1981		
Information From Reporters	No. of Reports	Days to Bill Avg.	Range	No. of Reports	Days to Bill Avg.	Range
Abraham & Straus (NY)	1	4.0	4	---	---	---
Bloomingdale's (NY)	1	5.0	5	3	4.3	4-5
Breuner's (Reno)	1	6.0	6	---	---	---
The Broadway (S. CA)	2	5.5	4-7	1	5.0	5
Bullock's (S. CA)	2	2.0	2	1	3.0	3
Bullock's (N. CA)	2	2.5	2-3	1	5.0	5
Nan Duskin (Philadelphia)	1	4.0	4	---	---	---
Emporium-Capwell (N. CA)	8	4.3	4-6	8	4.5	3-6
Foley's (Houston)	1	6.0	6	1	6.0	6
Grodin's (N. CA)	2	11.5	7-15	---	---	---
Gump's (N. CA)	3	8.7	8-10	1	8.0	8
Liberty House (N. CA)	1	2.0	2	2	1.5	1-2
Livingston Bros. (N. CA)	2	6.5	4-9	2	4.5	4-5
Macy's (N. CA)	6	4.0	4	10	5.1	3-14
I. Magnin (N. CA)	4	3.8	3-4	8	3.9	3-6
J. Magnin (N. CA)	1	5.0	5	---	---	---
May Co. (S. CA)	1	6.0	6	1	5.0	5
McCaulou's (N. CA)	1	8.0	8	2	6.0	5-7
Montgomery Ward (N. CA)	2	4.5	4-5	2	4.5	4-5
Neiman-Marcus (Dallas)	1	7.0	7	1	6.0	6
Nordstrom (S. CA)	2	9.0	8-10	2	5.5	4-7
Penney's (N. CA)	1	7.0	7	3	8.0	7-9
Penney's (S. CA)	1	6.0	6	---	---	---
Saks 5th Ave. (NY)	2	9.0	8-10	4	7.8	7-8
Sears (Dallas)	1	3.0	3	---	---	---
Sears (N. CA)	3	6.3	6-7	4	5.5	5-6
Weinstock's (N. CA)	1	3.0	3	---	---	---
TOTAL	54	5.4	2-15	57	5.1	1-14

	DEC. 1981-JAN. 1982			OCT.-NOV. 1981		
Information From Stores	No. of Reports	Days to Bill Avg.	Range	No. of Reports	Days to Bill Avg.	Range
Gimbel's (Philadelphia)	36	3.4	2-4	36	3.5	3-5
Levy Bros. (N. CA)	1	4.0	4	2	3.5	3-4
Mervyn's (N. CA)	30	2.2	2-3	30	2.1	2-3
The Popular (El Paso)	7	4.7	4-6	4	3.8	3-5
Ross Stores (N. CA)	4	5.5	4-7	4	7.0	3-8
Routzahn's (Frederick, MD)	4	9.0	4-13	6	3.3	1-5
Routzahn's (Stroudsburg, PA)	1	2.0	2	---	---	---
Routzahn's (Pottstown, PA)	1	2.0	2	---	---	---
Rubenstein's (Shreveport)	6	2.3	1-3	6	1.8	1-4
Waldoff's (Hattiesburg)	2	5.5	4-7	2	3.5	3-4
TOTAL	92	3.4	1-13	90	3.1	1-8

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

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

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

Consider then the people who know that they handle their credit properly and pay their accounts—but who get turned down because of too few points on a point scoring system.

Let's look at the situation—and let me start on the premise that point scoring, because it is objective, is much better than credit granting governed by the biases of the credit manager.

The Fall/Winter issue of **ViewPoints** (The Fair, Isaac Companies, 55 Mitchell Boulevard, San Rafael, CA 94903, free upon request) explains the importance of the cutoff score—and what changes mean. In their explanation they show the following:

	Score	Loss Rate
	280	
		1%
	260	
		2%
	240	
		4%
	220	
		8%
CUTOFF	200	
		14%
	180	
		25%
	160	
		40%
	140	

I looked at this chart a long time. Mathematics may well indicate that the prudent cutoff score is 200—but what about the 60% of good accounts that had a score between 140 and 160? It is true that the credit grantor doesn't want to take on business that will end up 40% bad. But still there are 60% who would pay and on the basis of probability of paying should be entitled, under our system, to enjoy credit.

I talked to Ted Lewis at Fair, Isaac and he explained that the problem lies with restrictions placed on point scoring by the Federal Reserve Board based on restrictions in laws designed to eliminate discrimination.

There are a number of **factors that cannot be used** in point scoring such as age, sex and ethnic group. If allowed to construct separate scoring systems based on age, sex and ethnic group, a far greater percentage of applicants could be approved with no increase in risk to the credit grantor. It is also possible to construct special scores for teenagers who are just starting to use credit or people on welfare.

RThought: This anomaly is not being addressed. Retailers would gain by being able to grant more credit with no increase in loss. Minority and other groups would benefit by having credit made available to them at the normal rates rather than having to borrow (or finance purchasers) through high rate lenders.

At some point the protection of the minorities and the grantors of credit must come together. It would be wonderful if the NRMA would start the dialog—but their past history demonstrates an inability to start such discussions. They have not even been able to start a dialog between their members and vendors to their members.

Perhaps it will fall on the shoulders of J. C. Penney, who has the most complete consumer responsibility program in the industry—and who has a Consumer Advocate with access to top management. One would think that Sears, with more credit accounts than any other firm, would be able to undertake this; but it appears that Sears is getting out of the retail business. Other retail giants such as K mart and Safeway do not use credit. And the bank cards (Visa and Master Card) can offer little help because they must rely solely on the finance charge/purchase discount income out of which to make a profit (the retailer also has the gross margin). Therefore, they set their credit standards substantially above that already set by the retailer.

If you want to know about this potential for better point scoring, attend the Fair, Isaac **Scoring Conference V** at the Fairmont Hotel, San Francisco, CA May 12 to 14, 1982.

ABUSE OF NUMBERS I

As previously reported, abuse of numbers is often the result of not understanding what is happening. A recent article in **Popular Science** said:

> "The annual report of the Swedish Motor Vehicle Inspection Company shows that the median life of cars in Sweden has increased from just less than 10 years in 1965 to 15½ years in 1980. (The median age is the age surpassed by half the cars in the population and not yet attained by the other half.) Volvos held the lead with a median age of 19.3 years, followed by Mercedes-Benz with 16.6 years, VW with 15.4 years, BMW and Opel with 14.4 years each, and Saab with 14.2 years."

The above statement doesn't mean much unless you know whether or not the sales of the cars are growing or declining at the same rate.

The table below shows what happens to the "median age" when one car is increasing sales and the other is decreasing sales (assume all cars remain in use).

Year	Car A Sales	Car B Sales
1981	100	10
1980	90	20
1979	80	30
1978	70	40
1977	60	50
1976	50	60
1975	40	70
1974	30	80
1973	20	90
1972	10	100
Total	550	550

Median Age: Car A—3½ years Car B—6½ years

This clearly shows that the car with declining sales will have the longer median age than the one with increasing sales.

When comparing Volvo with Saab, for example, there may not be any difference in quality at all—merely a case of Saab sales increasing and Volvo sales declining.

ABUSE OF NUMBERS II

The January issue of RETAIL TECHNOLOGY (a supplement to Chain Store Age-Executive Edition) carried an article on standards for electronic purchase orders (EPO) and electronic vendor invoices (EVI).

Touche Ross made a study and it was cited in the following manner:

> **The initial reaction may have been slow, but it is also encouraging. Touche Ross surveyed 320 department, specialty, variety and discount stores on the subject and found that 5% are currently doing something with EPO/EVI, 5% are planning to do something within a year and 10% say they will have something within two years.** ***One-third of the 5% who are already using it,*** **are using the NRMA standards says (Randly L.) Allen. (Emphasis added.)**

A sample of 320 seems large enough—but 5% participation translates to 16 stores! Not a very big sample. But when we talk of "one-third" who are using EPO/EVI, we are really talking about just 5 firms.

DO LOCAL BUSINESSES RESPOND TO NATURAL DISASTERS?

I think the answer is no–but remote businesses may. Many parts of the country have natural disasters–and that happened in California in December and January with exceptional rains. I saw no special action, offer of delayed billing or other help from the local retailers.

Yet my secretary received the following letter from Texaco in Bellaire, Texas:

> "It was with extreme regret that we learned of the damage caused by recent flood waters in the area of Contra Costa. We are concerned that you or your family may have been personally affected by this unfortunate incident. If we can be of any help by extending additional time to pay your account, we would welcome the opportunity to be of assistance.
>
> "The patronage and confidence you have given us since we opened your account in August 1978 is important to us. If we can be of service to you, please do not hesitate to advise."

RThought: Something is backward here. The local merchant is supposed to be the caring one; the remote monster oil company is supposed to be the one that pushes you around. What do you do when a steel plant or auto assembly plant closes in your area?

ANOTHER SHOPPING TOUR

On a recent Saturday, I went shopping at two of my favorite stores–Best Products and Mervyn's. I was disappointed.

At Best I wanted to buy a hair dryer and an air filter for my Mother. She now requires 24-hour attendants. Having her hair done is difficult if the beautician has to lug a dryer to her apartment; and the attendants would like to clear the smoke odor from her room (at 89 Mother pays little attention to my warnings that continued smoking will stunt her growth and shorten her life).

The system at Best Products is simple. First, check the catalog to see if they have want you want. Second, check to see that the product is on display to indicate that it is in stock. Third, fill out an order form. Fourth, wait 15-20 minutes until your name is called. Fifth, pay the cashier. Sixth, pick up your purchase.

Everything worked fine until the fifth step when the cashier advised me that they were out of the hair dryer. I asked why the model was still on display and was told, "Well, nobody wants to buy the sample and anyway we don't have the box." There went a half hour of time–and new wonderment about Best Products now that it is a billion dollar retailer. (P.S. They gave me the wrong card for the advertised manufacturer's rebate.)

My visit to nearby Mervyn's brought the same kind of disappointment. Again the purchase was for Mother who needed new towels. At 89 she has not yet acknowledged that towels can be other than white–and she wanted Cannon to go with the Cannon she has been getting since I can first remember 50-plus years ago. I had started this transaction about four weeks before–during the White Sale. At that time I could only get a couple of face cloths and they would have to check other stores for hand and bath towels. I was told they would only hold the towels for five days after they came in–and soon I did receive a call. They had less than half the balance. I took them. Apparently I missed the next phone call and had dropped in to see if the order was still in the works. I was told the towels had been put into stock–we found two still there and I took them.

It was only then, on the third trip, that I was told that if wanted to pay the cost of delivery they could be delivered and charged to my account. Compared to driving 20 miles this seemed like a bargain. I am still waiting. Perhaps Cannon no longer makes white towels.

RThought: As I contemplated what was happening in retailing, my wife observed that she did not know how I. Magnin could stay in business–she was never able to find a clerk. She tried to find merchandise in her size, but merchandise is no longer arranged that way. In fact, it is not arranged.

After a moment's thought, she smiled as though she had found the answer–"I guess they stay in business because all the stores are that way."

One can begin to appreciate why mail order in better quality merchandise is operating so successfully. One can find the size they advertise. And the firms are simpler to deal with.

WHAT IS YOUR POLICY ON PRIVACY?

The PRIVACY JOURNAL (Jan 1982, Box 8844, Washington, DC 20003 $65/yr) does an outstanding job of reporting on privacy questions–practices, the law and court decisions.

The major retail firms, in their get-togethers such as NRMA or NMRI or AGMC, complain about the burden of legislation. They point out that the burden is heaviest on the responsible businesses that do not need to be regulated.

What about protecting the privacy of employees? The Department of Commerce has been urging businesses to endorse the privacy guidelines drafted by the Organization of Economic Cooperation and Development (a European organization–where most countries have enacted strong protective laws).

The Department recently published the list of U.S. firms that have agreed to abide by the rules. Shown below are the retail firms that have subscribed:

None

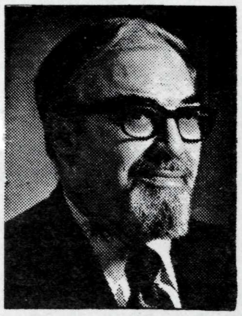
RThought: If it walks like a duck and quacks like a duck, it must be a duck. And if business doesn't do the things voluntarily that they say good businesses do, then they must be the kind of business that needs regulation.

WORDS TO GUIDE AN ATTACK ON ECONOMIC PROBLEMS

W. Michael Blumenthal, now chairman of Burroughs Corporation and once Secretary of Treasury under President Carter, in an **IDEAS & TRENDS** column in **Business Week** (October 26, 1981) wrote:

> "A good place for President Reagan to look for the answers might be to contemplate seriously the three basic, often unpalatable, rules of macroeconomic management that I tried–with limited success–to urge on President Carter:
>
> "First, in economics things are rarely what they seem.
>
> "Second, beware of simple solutions to complex problems such as inflation and economic growth, however politically attractive they sound.
>
> "Third, and above all, there really is no free lunch–not for the voters, and unfortunately not for politicians or even for dedicated and deserving Presidents."

RThought: We in retail know that **saying** that we can solve our profit problem by improving turnover, collecting receivables faster and being style-right all the time is much more easier than **doing** those three things.



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

APRIL 1982 **VOL. 17, NO. 4**

INTRODUCTORY STATEMENT

It is seldom that RT devotes as much space to a single subject as it does in the article that follows. It has been a decade since RT dealt fully with the weaknesses of the retail method of inventory. It is time to do it again.

HOW MUCH IS YOUR INVENTORY WORTH?

Sears said that as of January 31, 1981 their inventory was worth $2,608.4 million under LIFO. Presented to the closest $100,000 the figure implies an accuracy of plus-or-minus 4/1000 of 1%! The same accuracy is implied on a FIFO basis.

Touche Ross & Co.'s certificate accepted that figure!

> **NOTE: My comments here are not intended to be a criticism of Sears or Touche Ross–Sears has been used as an example merely because they are the largest retailer. I could cite many substantial companies that report their inventory to the closest dollar! Their implied accuracy is even higher than that of Sears.**

The retail inventory method is based on sloppy and, today, usually untrue assumptions made for the purpose of simplifying the valuation of a mass of hundreds of thousands of items located in hundreds or even thousands of stores.

The retail method of inventory was developed before the introduction of federal income taxes (1913) but was not accepted for tax purposes until shortly after the Revenue Act of 1918, the first act to contain a section on inventory. Major stores that had been using the retail inventory method, led by Macy's and Hudson's, worked with the Bureau of Internal Revenue (predecessor of the IRS). On April 24, 1920 the BIR issued Memorandum No. 55 which accepted the retail method as **"essentially a cost method"** and at the same time denied recognition of obsolescense or depreciation until such time as the offering price to the public was reduced. (Note: This and other specific citations are taken from *The Retail Inventory Method and LIFO* by McNair and Hersum, McGraw-Hill 1952. Mac did a real service through that book.)

By 1922 the BIR understood the retail method better than most CPAs and retailers do today. Touche Ross proved to the industry some years ago that virtually none of the retail executives, from an assistant buyer to a general merchandise manager, could correctly answer more than half the questions asked about the retail method. Treasury Decision 3296 in March 1922 stated in regard to the retail method, "Under this method, the goods in the inventory are **ordinarily priced** at the selling price and the total retail value of the goods in each department or of each class of goods is reduced to **approximate cost** by deducting the percentage which represents the difference between the retail selling value and the purchase price." (Emphasis added.)

The 1922 prohibition against reflecting markdowns not actually taken on the merchandise was restated in Treasury Decision 5048 in 1941.

DO LOCAL BUSINESSES RESPOND TO NATURAL DISASTERS?

In the March 1982 RT I pondered that question when Texaco from faraway Texas offered my assistant additional time to pay if she had been impacted by the January floods. I knew of no such local response.

Samuel Leask IV of Leask's in Santa Cruz, the area in which the most deaths occurred during the January storms, gave me a more precise answer. Leask's is one of the very old family retailers in California, founded by Samuel Leask perhaps 100 years ago. About 1913 or 1914 my Father succeeded the first Sam Leask as President of the California Dry Goods Association–and was still visiting Sam Leask when Sam was 99 years old.

Here is what the present Sam Leask reported:

1. Within 10 days Mervyn's (not a local firm) and Leask's contributed $5,000 and $2,500 respectively to the Red Cross Disaster Fund.
2. Leask's offered a 20% discount on cash orders or vouchers issued for replacement of goods lost in the disaster.
3. Leask's credit office was instructed to make whatever extensions or adjustments were necessary for victims of the storm.
4. Within 2 weeks an Area-Wide Disaster Relief Committee was formed, including local businessmen, to raise $1,000,000 to help private individuals. At this time, $350,000 has been raised and dispersed.

RThought: As Sam Leask IV says, "Remote? Uncaring? I think not. Unpublicized? Perhaps . . . I think that the Santa Cruz County business community responded . . ." I agree. I hope this will be an example to others if disaster strikes in their area.

In the 1920 hearings Mr. J. P. Friedman of Touche, Niven, Bailey and Smart (now Touche Ross) advocated the use of reserves against the value determined under the retail method ranging from none if merchandise over 1 year old was less than 10% of the total inventory up to 40% in cases where more than 25% of the merchandise was over 1 year old.

Despite the data obtained from early conversions by stores from cost valuation to retail inventory method valuation disclosing a higher valuation under the latter (which for many years was not subject to taxation on the basis that it did not constitute income!), accounting literature more and more drove home the point that the retail method of inventory was a cost method. In Accounting Research Bulletin 29–"Inventory Pricing" dated July 1947 and repeated by the Accounting Principles Board in their Principles (Section 5121 issued June 1953), Statement 6 defines the phrase "lower of cost or market." In the discussion that follows there is the single sentence: "The committee considers, for example, that the retail inventory method, **if adequate markdowns are currently taken,** accomplishes the objectives described herein." (Emphasis added.) Of course, markdowns are never taken to the extent identified by the merchants since mechanical steps cannot be taken until clearance and other ads are scheduled.

What is the theory behind the retail method?

The assumptions are very simple. If you keep track of the original markup—the difference between cost and sell—on all purchases, you develop a cost percentage that can be used to reduce the retail value of the inventory to cost. This much is generally understood.

However, for the assumption to be true one must further assume that the inventory being valued has the same proportion of high, middle and low original markups that are included in the purchases. "Ay, there's the rub" (Shakespeare, Hamlet, Act III).

The retail method was introduced in the 1890-1910 period when promotional pricing was virtually unknown. Almost all markdowns taken were to reflect a loss in value in the merchandise. Gross margins were smaller and the variance between individual items (almost all were staples) was less. This is not the case today.

Let's look at two situations—what happens when the mix in the ending inventory does not match the mix in the purchases and what happens when a company grows rapidly through additional stores.

In looking at the variation in mix, let us assume that we have a department with just four items.

Item A: Markup of 30% and turns 3 times a year.
Item B: Markup of 40% and turns 2 times a year.
Special Order Item: Factory ship to customer at markup of 25%.
In-and-Out Promotion at 20%, all sold the first day.

In Situation I we have only Items A and B.

		Cost	Sell	Cost %
Opening Inventory:	Item A	$ 70.00	$100	70%
	Item B	60.00	100	60%
	TOTAL	$130.00	$200	65%
Purchases:	Item A	$210.00	$300	
	Item B	120.00	200	
	TOTAL	$330.00	$500	66%
	Goods Available	$460.00	$700	65.7%
	LESS: Sales		-500	
Ending Inventory:	@ Sell		$200	
	@ Cost	$131.40		

Here we have developed a cost of ending inventory of $131.40—when we know that it is only $130.00. Thus we have overstated the cost by $1.40 (or 1.1%) as well as the gross margin.

There will always be an overstatement so long as there is a tendency, within each department, for lower markup merchandise to turn faster and higher markup merchandise to turn slower. To make our example turn out correctly the ending inventory would have to be in the same proportions as the "Goods Available." Since $400 of the $700 "Goods Available" was in Item A and $300 in Item B, the ending inventory would have to be 4/7ths Item A and 3/7ths Item B. For this to occur, Items A and B, despite the disparity in their markup, would have to turn at an identical rate.

In Situation II let us add the drop shipment item which goes through purchases but never gets into inventory.

		Cost	Sell	Cost %
Opening Inventory:	Same	$130.00	$200	65%
Purchases:	Item A	$210.00	$300	
	Item B	120.00	200	
	Special Order	150.00	200	
	TOTAL	$480.00	$700	68.6%
	Goods Available	$610.00	$900	67.8%
	LESS: Sales		-700	
Ending Inventory:	@ Sell		$200	
	@ Cost	$135.60		

By virtue of handling a special order item—*that never got into inventory*—we have managed to raise our book value of inventory from $131.40 to $135.60—or 3.2%. And we did this when the true value of the inventory was still only $130.00. We are now overstating our inventory by 4.3%—but we are happy to report this additional profit to our stockholders, after paying our merchandiser a bonus on the additional $4.20 that he was credited with because of the way we do our arithmetic.

In Situation III let us add the successful promotion, all sold in one day, at 20% markup.

		Cost	Sell	Cost %
Opening Inventory:	Same	$130.00	$ 200	65%
Purchases:	Item A	$210.00	$ 300	
	Item B	120.00	200	
	Special Order	150.00	200	
	In-and-Out Promotion	80.00	100	
	TOTAL	$560.00	$ 800	70%
	Goods Available	$690.00	$1000	69%
	LESS: Sales		- 800	
Ending Inventory:	@ Sell		$ 200	
	@ Cost	$138.00		

Now we have managed to raise the value of our $130 inventory to $138—or 6.2% above cost! We now show even more profit—and pay our buyer a bigger bonus.

Now let's recap what has happened under the retail method:

We know the correct cost of remaining inventory is:	$130.00
In Situation I we got a value of:	131.40
In Situation II we got a value of:	135.60
In Situation III we got a value of:	138.00

In all of the three situations your independent accountant will certify the cost as the equivalent of "cost or market."

RThought: If you still pay property tax on your retail inventory, you are paying too much. This is an inherent failure of the retail method. Jim Powers of Peat, Marwick, Mitchell, in his introduction to the 1971 version of the NRMA manual "Retail Inventory Method Made Practical" said, ". . . 'cost' under the Retail Inventory Method, ignoring the effect of markdowns, will often give a 3% to 7% higher valuation than 'cost' developed from vendor invoices." By the third printing (1979), this statement became part of the first Chapter.

Unfortunately, the manual has a footnote that completely misleads the reader—it says, "However, if a careful and conservative approach to markdowns is taken, the retail method will provide an ending inventory valuation which is very close to the most conservative valuation procedure allowed under present lower-of-cost or market rules, and considerably lower than the least conservative net realizable value rules allowed by the prevailing accounting literature dealing with cost basis inventories."

This footnote simply is not true. First, it is doubtful that retail method will ever get as low as cost, let alone cost or market.

WILL ANYTHING NEW COME ALONG?

RT has long maintained that professional management can bring a retail firm up to average performance but cannot produce superior results. For our purposes, superior results are indicated by a high return on equity (15% or more) while maintaining a growth rate substantially in excess of inflation (15-20% or more) without straining the balance sheet (1:1 ratio of total debt to equity after excluding liability on financing leases and measuring inventory on a FIFO basis).

It is a simple test. Few companies meet it. And those that do are normally headed by entrepreneurs, not professional managers.

If business schools could teach future executives how to do this, our businesses would be much more profitable (except that competition would then work to reduce the profit level of all). In real life, few of the people heading businesses that produce results that meet the standards above are business school graduates.

Closely tied to the attainment of these results is the degree of innovativeness—the degree to which store A is different from all other stores. Today there is less and less difference.

Stanley Marcus, who made Neiman-Marcus the unique organization that it is (and it appears to be less and less unique the longer Stanley is not making the decisions), talks often of the "sameness" of all department stores. Everyone has a housewares department just like the one that Ed Finkelstein created in the basement of Macy's-San Francisco. Even the stores that I visited in Australia had a Macy's-San Francisco basement.

Joseph Foy, who helped build Spartan Stores in Michigan, deplored the disappearance of the creative genius from the supermarket industry when he addressed the 17th Annual Food Management Conference at Western Michigan University—and noted that this may be due to the second and third generation heads of supermarket firms. Where are the people who are creating the equivalent of self-service itself? Or Sylvan Goldman, who devised the shopping cart? Or Clarence Saunders, of Piggly Wiggly, "Sole Owner of My Name" and the Keydoozle store?

The Stanford Magazine recently ran an article about Dr. Paul MacCready, who devised the Gossamer Condor, the first manpowered plane to fly a figure-eight course, the Gossamer Albatross that flew with human power across the English Channel, the Gossamer Penguin which was the first plane to fly without assistance from pedals, batteries or stored energy, and finally the Solar Challenger which was the first plane to fly the English Channel using solar power.

He started all this to win some prizes and pay off his debts!

The best observation on Dr. MacCready was made by Malcolm Stamper, president of Boeing Company, who told him, "The Gossamer teams have built six airplanes in five years, every one a major breakthrough in aerodynamics, structure or control. You hold every record for human and unconventionally powered flight and you've done that with about twenty people per airplane. We'd like to know how."

It is certain that Boeing could not do it. Nor could Lockheed, McDonnell-Douglas and the others. They probably would not have enough conviction that any of the planes could have been built to invest time and money. And the people, working for them for a salary, would not be creative enough to do the job.

RThought: We still have creative people and that is why we find companies like Computerland, The Athlete's Foot, Compu-Card, Pizza Time Parlors, and other new firms appearing within the retail field. Of course, there are failures like the efforts to transfer hypermarkets (FedMart) or limited assortment stores (Plus) to the United States.

Today, in most cases, the big winners in large retail firms are the acquisitions, not the home grown. Dayton Hudson did grow Target and B. Dalton, but May could not grow Venture. U.S. Shoe bought Casual Corner, SCOA bought Hills, Melville bought Marshall's, CVS and others, W. R. Grace bought a half dozen home improvement chains and Herman's.

Perhaps we have worked around again to the old saying that the man who knows how (the B-school graduate) will always have a job working for the man who knows why (the entrepreneur).

SHORT SHORTS

One way to cut bad checks. Business Week (Feb. 1, 1982) Letters had one from the head of the Downtown Business Association in Fargo, ND. The first bad check offense calls for a minimum of $50 fine plus fees, restitution and attendance at a checking seminar. The second offense calls for a $100 fine plus the same fringes plus a 6-day jail sentence and prohibition against having a checking account for one year. Second offenders are down 90% since the program started.

Apple polishing? I see an increasing number of letters to business publications from unknown associate or assistant professors of economics, some at major universities, urging a greater move toward a completely free market—absolutely no controls. I was amused at one who claimed that Adam Smith, if alive, would have voted for the Libertarian ticket. My most informed Libertarian friend points out that having a political party and seeking to control the administration of government of any size is in total conflict with the fundamentals of Libertarianism!

New competition. The Yellow Pages will now have Gold Pages—full of coupons and special offers. One side of the settlement of the antitrust suit against AT&T is overlooked—the increased competition for the retail advertising dollars. With the split of the local companies from Mother Bell, the high profits on the Yellow Pages will no longer go to subsidize local telephone service rates.

Twin brands? Men's Wear reports that Goodwill Industries is adding their own label, **Goodie's**, below the signature brand on apparel.

How big is ¼ of 1% interest? I was shown a statement from a bank under a variable rate mortgage loan indicating the interest was being increased by ¼ of 1%. The debtor was offered the opportunity to increased the payments on a 30-year mortgage by 1.87% or to leave the payments the same and extend the term by 77 months!

DO SO-CALLED QUALITY RETAILERS ENCOURAGE VULGARITY?

The following exchange took place in Dear Abby's column:

> **Dear Abby: I just can't stand to see another TV commercial showing a lot of fannies wiggling around in jeans so tight there is no way a person could sit down in them! This goes for men as well as women.**
>
> **That bra commercial in which a man measures a curvy blonde's dimensions was bad enough, but a new low in vulgarity was reached when some swivel-hipped gal bragged that the underclothes she was wearing under her clothes made her look like she wasn't wearing nuthin! Disgraceful!**
>
> **Tell me where to write to complain about such tasteless commercials. If enough people object, maybe the commercials will be taken off the air.** *–DISGUSTED IN TULARE*

Part of Abby's reply said, "If enough complaints are received (by the president of the firm that runs the ads), the advertising agency that's responsible for the commercial will be told to shape up or ship out."

RThought: The retailers who sell the goods could bring change much faster–if there was the expected amount of taste within the industry. **Women Against Pornography** gave their ZAP Award to several major brands (Calvin Klein, Jordache, etc.) and criticized Maidenform for promoting the image of women as vacuous and passive exhibitionists and for promoting a power imbalance between the sexes by showing undressed women with fully clothed men.

Store management may be trading up their merchandise levels, but they certainly are trading down their taste level.

MACY'S HELPS THE SMALL STORES

I recently received my wife's Macy-California statement–we get four or five a year, but she is shopping there less and less often because of the difficulty of finding a salesperson–and the only line on the body of the statement said, "Finance Charges Billed to Your Account During 1981 Totaled $1." We probably were late one month since their cycle closing date is a bit earlier and they require payment 5 days prior to the closing date.

It happened this time that the check was mailed the day after the "pay by" date but 4 days prior to the cycle closing for charges so there was a finance charge of 57¢.

In addition there was a blue insert that noted that a payment had not been received during this billing period; and then said, **"To prevent possible closure of your account,** please remit the total payment due, as indicated on this statement." **The amount was $10!**

RThought: I know this is the result of computer programs–and thus is not the conscious act of a human being. But the unwarranted irritation of customers through a computer program seems to me the height of stupidity in a business that has little that is unique–just about everything carried by Macy's can be bought at other places, equally convenient and often at a lower price.

At some point a major executive approved the creation of this program and presumably checked it to see that it was working in accordance with design specifications. Certainly that person did not check to be sure that it made sense.

In small stores that carry their own accounts, and use those old-fashioned electro-mechanical bookkeeping machines, a human has to make a decision whether to drop the blue card into the statement. The operator is looking at the ledger card, sees the past payment record, and wisely does not send the blue slip.

In both cases the store gets paid at the same time, the sma[ll] store gets their money without irritating their customer. Th[is] is what makes it possible for small stores to compete so effectively with big stores.

RThought: Macy's can survive in this kind of competition for just two reasons. First, the competing larger stores (Emporium-Capwell, Bullock's, Liberty House) are following the same practices–because they all copy each other. Second, unfortunately some of the small stores think they should do what the big stores do and so irritate their customers in the same way

DAYTON HUDSON N.I.H. REVISITED

In the March 1982 RT the lead article, "The N.I.H. Factor in Retailing" dealt with the inability of Dayton Hudson to recognize Mervyn's as their best unit. Rather, they concentrated on praising Target which they created. This was apparent in their news release announcing the results for fiscal 1982. They did footnote a table showing sales for Target were up 34% and Mervyn's only 28%. The note disclosed that without the 40 Ayr-Way stores which were included only 5 months in the prior year Target showed only a 25% increase.

But in the important question of operating profit, they said, "Mervyn's achieved a 57% increase in operating profit for the year. Target reported an operating profit increase of 19% . . ." One had to pull the prior year annual report to realize that Mervyn's produced an operating profit of about $120 million against $108 million for Target.

RThought: The N.I.H. Factor continues.

CREDIBILITY

It seems that most types of retailing can maintain credibility in the eyes of customers for only a very limited period of time.

Do many supermarket customers still believe that their discount supermarket is still a cheaper place to buy? There was a day when the claim to fame of the discount supermarket was that it had low everyday prices and did not advertise weekend specials. Now I see self-proclaimed discount supers with full pages of weekend specials plus continuities.

Already the warehouse stores, in many communities, are having a difficult time maintaining credibility as a low price place to shop–perhaps because of poor market analysis before opening. The anticipated volume necessary for attaining the planned low expense percentage does not materialize. Big E Warehouse Food (part of Eisner Food Stores, in turn part of Jewel Companies) is offering Beautiful Baroque Hearthside stoneware (59¢ with a $5 purchase) and Big Bird's Sesame Street Dictionary (99¢ first volume, $2.49 for 2nd to 8th).

Double stamp days cannot be far behind.

RThought: The cycle of promotional appeal in supermarket chains has long been established: discount, games, continuities, stamps (especially during recessions/depressions) and back to discount. In the meantime, while professing a desire to lower food costs, most competition is on a non-price basis: larger stores, more non-foods, better graphics, boutique shop arrangements, health foods, flowers and plants, etc.

Second, net realizable value is a method used only if it comes to less than cost. In most retail situations the net realizable value (retail price less cost of selling the merchandise) arrives at a figure above cost or else no one would ever make a profit.

Let us return to the question of inventory valuation for property tax purposes. In California the property tax on inventory has been eliminated—but before elimination this question was thoroughly discussed in meetings of tax auditors (especially the Society of Auditor-Appraisers which was founded in California) and before the State Board of Equalization. A very high percentage of the auditor-appraisers are CPAs, and I suspect they understood the retail method of inventory better than the controllers or CPAs with whom they were dealing.

Because of this greater knowledge on the part of my opponents, I was usually able to obtain for clients two adjustments to the inventory figure reported on their books:

1. A reduction by 3% for inherent overstatement under the retail method.
2. A further reduction equal to the annual **regular** markdown percentage (excluding promotional markdowns) to reflect markdowns known to exist in the inventory at lien date but not yet recorded. With a lien date of March 1 (California) most general and apparel merchandisers know what is going into the post-Easter clearance but have not yet set specific prices. Retailers with a January 1 lien date face the same problem with their January markdowns that are not all taken as of January 1.

RThought: The problem is even more serious for food chains. Many chains determine a cost percentage based on the cumulative markup on foods shipped from their warehouse or goods shipped to the store (if no warehouse) or a combination. With slow moving canned peas at 33% and fast moving (52 times a year) cigarettes at 10% or less all rung up as "groceries"—the overstatement is far greater. The same would be true for jewelry operations with a mixture of double-keystone markups on diamonds and low markups on quartz watches unless sales and purchases are divided into classifications with very narrow differences in markups.

What happens when you add stores—when you grow rapidly?

In the table below I have assumed the following:

1. The inventory at all times consists of:
   $100 Item A, cost $60, turn 3 times a year
   $100 Item B, cost $80, turn 6 times a year
2. Sales at each store, each year, are:
   $300 Item A (3 x $100)
   $600 Item B (6 x $100)

Under each year I show two end-of-year valuations. In one case the owner brings in the inventory for a new store on the last day of the year.

RThought: Again we see what happens when items have different turnover and markup. Because there is a propensity for lower markup items within a department (cigarettes vs. cigars in tobacco departments) to turn faster than high markup items, just adding new stores and new inventory improves gross margin.

That miracle often happens in reverse—when retailers undertake dramatic reductions of inventory, gross margins drop much more than anticipated even when markdowns are disregarded.

What happens if promotional markdowns are taken as markup cancellations?

Today, more and more stores bring in promotional goods (special purchases) and mark them at an abnormal markup knowing that at a later date the merchandise will be advertised at a lower price.

(Note: It is not the purpose of this article to discuss when the advertised price comparison is honest.)

Let us make the following assumptions:

1. Opening and Ending Inventory equal $100.
2. Original Markup equals 50%.
3. Markdown or Markup cancellation for period equals $100.
4. Sales equal $100.
5. Therefore, purchases equal $55 cost/$110 sell.

WHEN REDUCTION IS TREATED AS A MARKDOWN

Line Description	Cycle I Cost	Cycle I Sell	Cycle II Cost	Cycle II Sell	Cycle III Cost	Cycle III Sell	Cycle IV Cost	Cycle IV Sell
1. Opening Inventory	$ 50	$100	$ 50	$100	$ 50	$100	$ 50	$100
2. Purchases	55	110	55	110	55	110	55	110
3. Goods Avail.	105	210	105	210	105	210	105	210
4. Cost %	50%		50%		50%		50%	
5. Sales		100		100		100		100
6. Markdowns		10		10		10		10
7. Retail Reductions		110		110		110		110
8. Ending Inventory	50	100	50	100	50	100	50	100
9. Cost of Goods Sold	55		55		55		55	
10. Gross Margin	45		45		45		45	

			Year I				Year II			
			Only 1 Store		Stock 2nd Store		Only 2 Stores		Stock 3rd Store	
			Cost	Sell	Cost	Sell	Cost	Sell	Cost	Sell
Opening Inventory:		Item A	$ 60	$ 100	$ 60	$ 100		$ 200		$ 200
		Item B	80	100	80	100		200		200
		TOTAL	$140	$ 200	$140	$ 200	$ 289	$ 400	$ 289	$ 400
Purchases:	For Sales–	Item A	$180	$ 300	$180	$ 300	$ 360	$ 600	$ 360	$ 600
		Item B	480	600	480	600	960	1200	960	1200
	New Store–	Item A	---	----	60	100	----	----	60	100
		Item B	---	----	80	100	----	----	80	100
		TOTAL	$660	$ 900	$800	$1100	$1320	$1800	$1460	$2000
Goods Available for Sale			$800	$1100	$940	$1300	$1609	$2200	$1749	$2400
Cost %			72.73%		72.31%		73.14%		72.88%	
LESS:		Sales		–900		–900		–1800		–1800
Ending Inventory:		@ Sell		$ 200		$ 400		$ 400		$ 600
		@ Cost	145		289		293		437	
Cost of Goods Sold			$655		$651		$1316		$1312	
GROSS PROFIT		$		$245		$249		$484		$488
		%		27.22%		27.67%		26.89%		27.11%

WHEN REDUCTION IS TREATED AS MARKUP CANCELLATION

Line Description	Cycle I Cost	Cycle I Sell	Cycle II Cost	Cycle II Sell	Cycle III Cost	Cycle III Sell	Cycle IV Cost	Cycle IV Sell
11. Opening Inventory	$ 50.00	$100	$ 52.50	$100	$ 53.75	$100	$ 54.38	$100
12. Purchases	55.00	110	55.00	110	55.00	110	55.00	110
13. Markup Cancellations		-10		-10		-10		-10
14. Goods Avail.	105.00	200	107.50	200	108.75	200	109.38	200
15. Cost %	52.5%		53.75%		54.37%		54.69%	
16. Sales		100		100		100		100
17. Ending Inventory	52.50	100	53.75	100	54.37	100	54.69	100
18. Cost of Goods Sold	52.50		53.75		54.37		54.69	
19. Gross Margin	47.50		46.25		45.63		45.31	

IMPACT OF MARKUP CANCELLATIONS vs. MARKDOWNS

20. On Gross Margin	$+2.50	$+1.25	$+0.63	$+0.31
21. On Ending Inventory	+2.50	+3.75	+4.38	+4.69
22. Total Impact	+5.00	+5.00	+5.01*	+5.00

**1¢ due to rounding*

RThought: Eventually (through enough cycles) the Gross Margin will be the same as before the method was adopted—but the inflated value will always be in the inventory and half of that amount (assuming a 50% tax rate) will be in net worth.

The implications are also clear—the higher inventory value will be reflected in higher property taxes on inventory.

Yet the use of markup cancellations, when goods are bought with the expectation of selling most at a lower price, is the correct procedure. It is, in effect, recording the purchase as though it was originally priced at the sale price.

But it also highlights the two great "Generally Accepted Accounting Principles" (GAAP):

1. Privately held (record as markdown)
2. Publicly held (record as markup cancellation)

Although auditor-appraisers in California and other states are becoming experts on the retail method of inventory (where inventories are subject to taxation), the same progress has not been observed among IRS agents. To be fair, the same knowledge has not been observed among some of the personnel sent to retail firms by major accounting firms.

RThought: The title of this article, in case you forgot, is "How Much Is Your Inventory Worth?" I hope you will join me in the conclusion that you really don't know. Certainly the presentation by Sears, approved by Touche Ross, implying an accuracy of plus-or-minus 4/1000 of 1% is not correct. The probability is that you are overstating your profits and paying too much income and property tax.

What about LIFO?

The situation becomes even worse if you are on LIFO and think you are saving lots of money. If the plain, ordinary retail method used by most retailers **overstates** the actual cost value of the inventory, what do you think happens when IRS requires you to treat all markdowns as markup cancellations in order to produce an even higher cost complement? When applying that higher cost complement to the retail value of ending inventory, the IRS euphemistically pronounces that you are now reflecting the true cost of the inventory. Yet you are actually overstating it even more.

Some years ago I tried to interest a large retail firm with a tremendous LIFO reserve in contesting the method laid out by the IRS. They didn't want to get into an argument with the IRS for fear that the IRS, if challenged on their logic, would retaliate with an intensive audit.

I tried to get several of the Big Eight accounting firms to take up the cudgels. They didn't want to embarrass their entire industry which, since the beginning of standards, has considered that cost under the retail method is the equivalent of cost in the term "cost or market, whichever is lower."

Apparently everyone is happy. The retailer overstates profits and the governmental agencies collect more taxes than they are entitled to. The retail industry complains because they pay a higher effective tax rate than most other industries. The accountants reassure the public that they can place reliance on audited statements. The SEC apparently does understand or doesn't care or both.

RThought: In some major chains (those with several hundred **similar** stores), it is worthwhile to make sample checks to determine the difference between true cost of inventory and inventory as reflected under their particular form of the retail method. If accepted by taxing authorities (property tax, state income, IRS), the return on the labor investment is quite high. I am not sure that this is possible or practical with 100,000 square foot and larger general merchandise stores.

Are there any solutions to this problem?

RThought: There is a simple one that would eliminate a good part of the overstatement—but it would require acceptance by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the Securities and Exchange Commission, the Internal Revenue Service and the taxing authorities in the fifty states.

Split your purchase journal so that for every department you have regular purchases and promotional purchases. In the promotional purchases you would include those purchases that (a) are brought in at a price higher than you expect to sell the bulk of the items plus (b) short-markup in-and-out promotions. The basic assumption is that the items in the promotional purchases portion of the journal will not be in the ending inventory; therefore, the cost complement of those purchases should not reflect in the cost complement used to reduce the retail value of ending inventory to cost. Promotional markdowns would be offset against promotional purchases. If significant amounts of promotional merchandise are in the year-end inventory, the auditors would require that it be valued at specific cost and not at the departmental or classification cost complement.

WORDS TO ACT BY

The following thoughts were expressed by John Luther.

> **When you think of a nice thing to do for someone, don't just think it. Do it.**
>
> **When you have a kind thought, express it. Bring it to life. Put it into action.**
>
> **If you admire something someone has said or done, speak up and say so. His life—and yours—will be the richer for it.**
>
> **Never be content to *think* nice thoughts. *Express* them, and *do* them.**

RThought: For years I have followed the practice of sending nice thoughts to people whenever I have them. Years ago I found myself writing those same thoughts to someone's widow—after I had failed to send them to my friend while he was alive. Whenever someone has served me well—an elected official (even if I disagreed with him at times), a publisher of a magazine that I enjoy, a fellow worker in a community in which I am active—I always find a few minutes to write and say, "Thank you for what you have brought me."

RETAILING TODAY

Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434

April 21, 1982

Mr. Walter Raymond
Menswear Retailers of America
390 National Press Bldg.
Washington, D. C. 20045

Dear Mr. Raymond:

This letter is to confirm our oral permission for you to duplicate April, 1982 Retailing Today, Vol. 17, No. 4, approximately 75 copies.

Sincerely,

Annabelle Farrell
Assistant to Robert Kahn

AB

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April 22, 1982

Pub with April issue - I answered [illegible] 4/30/82

Mr. Robert Kahn
P. O. Box 249
Lafayette, California 94549

Dear Bob:

I regret missing you on your recent trip to Reno. Please call again when you come this way.

With your permission, we will incorporate much of your "How Much is Your Inventory Worth" into our firm's valuation of inventories training. You said much-more clearly than most texts, and with many fewer words (if one can have "many fewer" anything).

Are you planning a followup article on the credibility of shrinkage figures?

With best regards.

Very truly yours,

Leroy R. Bergstrom

LRB/sr

Dear Sir/Madam:

We are preparing the third edition of a textbook entitled Modern Retailing: Theory and Practice to be published by Business Publications, Inc. in 1984 and intended for use by college and university students. I would like your permission to reprint in this book and any future editions, the material indicated below. We are interested in securing world rights.

Author(s): Retailing Today

Title: "Do So-Called Quality Retailers Encourage Vulgarity?"

Year: 1982 Volume: Month: April

5
Lib of Ideas

From page ___________ beginning: Excerpts as attached

to page ___________ ending:

Full credit will be given to author, title, and publisher. If you should prefer any specific credit line, please indicate so in the space provided.

A release form is provided below for your convenience. You may retain the enclosed copy of this letter for your files.

Sincerely,

J. Barry Mason

Professor

Morris L. Mayer

Professor

Granted 2/6/83

Return to:
J. Barry Mason
Box J
University, AL 35486

Permission granted to reprint the material indicated above

____
NAME

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TITLE

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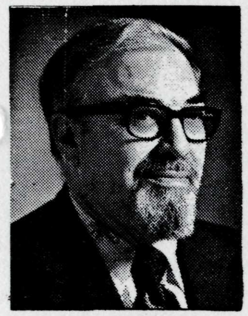
DATE



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

MAY 1982

VOL. 17, NO. 5

BANKRUPTS THAT COULD PAY OFF

Dr. Robert Johnson of the Credit Research Center at Purdue University testified before the Senate Subcommittee on Courts as to the payment ability of individuals adjudicated bankrupt under the new law.

The study analyzed 1,070 cases drawn from 5 states that had high exemptions (California, New York, Pennsylvania, Texas and Wisconsin) and 5 with low personal exemptions (Georgia, Illinois, Lousiana, Ohio and Virginia). The cases were heard before 47 different judges in 20 judicial districts–2 in each state.

Information was obtained as to each bankrupt's current pre-tax income. Based on Bureau of Census studies of the cost for families of the size of the bankrupt, the study then determined the amount of income that appeared to be available for payment of the debts cancelled. They made a second computation in which they increased the non-housing expenses in the Bureau of Census costs by 20% which reduced the estimate of funds available.

The table below shows, **using the lower funds available**, the percentage of non-mortgage debts that could be repaid over 36 months and over 60 months.

Percentage Repaid	In 36 Months	In 60 Months
100% or more	14.9	22.6
75-99.9%	4.8	3.6
50-74.9%	5.1	4.3
25-49.9%	7.2	5.3
0-24.9%	8.1	4.3
None	59.9	59.9

The study then proceeded to estimate the dollar amount that could have been paid by this group of 1,070 over a 60-month schedule ($5.3 million) and projected that figure nationally for 1981 (315,000 personal bankruptcies) at $1.55 billion.

RThought: The debtors might disagree with the conclusion drawn from the study because a 60-month payment schedule on past debts that permits little leeway (other than that gained from increased income to the family unit) is not an enjoyable prospect. On the other hand, there is serious question whether the law should allow them to make the decision unilaterally without review by the court.

THE SHOP THIEF SAYS

The March/April 1982 issue of Walgreen **World** (their employee publication) has the following quotes from apprehended thieves. The names have been changed.

"Walgreens is a big company. Why should they miss the money I took? It was just a few dollars." Bill, 21, liquor clerk.

"Sure I took the watches and stuff. I think the company owes it to me. They didn't pay me enough for the job I did." Al, 18, stockman.

"I'm divorced and really strapped financially. It seemed so easy to steal from the cash register." Sue, 26, cashier.

"The bookkeeper and I doctored the records so that I got paid for days which I didn't work. But we never thought we were being really dishonest." Adele, 40, cosmetician.

"I'd just moved away from home and was struggling to make my car payments. I took a part-time job at Walgreens to help. I didn't intend to steal, but after a while the temptation got to me and I thought everyone was too busy to watch me. I probably wouldn't have done it if I'd realized what kinds of controls the company has." Liz, 20, pharmacy cashier.

These go with the article in Fortune (April 5, 1982) extracted from the Wall Street Journal. Claude Charron, then a minister in the Quebec government, was caught leaving a Montreal department store wearing a $120 tweed sports jacket he had not paid for. He said, "I think it's a personal fault I have made, like other citizens can make." He resigned.

DO YOU EVER ASK YOUR EMPLOYEES FOR IDEAS?

Recently the head of a $100 million organization wrote that an article in RT plus a response to his inquiry had resulted in a SPEAK UP form available to all employees. It starts: "If you have a question, an idea, a concern or a problem, please SPEAK UP. Discuss it with your manager or let me know. You will receive a prompt reply mailed to your home, if you wish." The employee can also indicate if he or she would like to discuss the matter personally with the CEO. A postage paid envelope takes SPEAK UP to a special P.O. Box available only to the CEO. The CEO writes that this solved the problem of employee feedback and is working well.

How far can this type of cooperation go? Mazda, now the 9th largest carmaker in the world, encourages employee suggestions. In 1975 there were about 200,000 submitted and 100,000 accepted; in 1981 more than 1,700,000 were submitted and 900,000 accepted, about 1½ suggestions per car manufactured.

RThought: Just think where Sears, Wards, A&P, W. T. Grant and others might be today if they had encouraged their employees to submit 500,000 to 1,000,000 ideas a year.

DEPARTMENT STORES HAVE A GOOD TRACK RECORD

The Standard and Poors 500—an index based on 400 industrial (retail stocks are industrials), 20 transportation, 40 utilities and 40 financial stocks—is much broader than the Dow Jones—30 industrials, 20 transportation and 15 utilities. The index fluctuates less—partially because it is broader and partially because the base is a smaller number. The index is based on 1941-43 equalling 10. (The present index of 115 means that prices are about 11½ times what they were in 1941-43.)

Many of the stocks in subindices are also based on 1941-43 = 10. The table below shows those sub-groups that have had a 15 times or greater increase. (More than half the sub-groups did not exist during the base period—groups such as computer services, gaming companies and hotel-motel.)

	April 14
Oil well equipment and services	1514
Office and business equipment (without IBM = 201)	1005
Radio-TV broadcasters	586
Crude oil producers	533
Publishing	448
Electrical equipment	383
Coal bituminous	321
Entertainment	320
Construction and material handling	315
Integrated oil companies—domestic	272
Life insurance	246
Paper	219
Containers—paper	219
Drugs	216
DEPARTMENT STORES	**194**
Gold mining	194
Distillers	185
Integrated oil companies—international	184
Pipelines	181
Soaps	168

There are 39 more groups with indices below 168 making a total of 44 below department stores. Food chains, an equally old index, stood at 61 (largely because of the showing of A&P) and shoe companies (manufacturing) was at 71. The bottom of the list, as one might expect in the days of high interest, was the investment companies (bond funds) at 7 or 30% below the start in 1941-43.

DISHONESTY WITH FIGURES

The Leather and Luggage Goods Manufacturers of America, Inc. ran a full page ad in STORES December 1981 with the headline "Luggage Sales Per Square Foot up 82%* in 3 years." The "*" footnote read, "1980 MOR Department Stores $100 million and over." M.O.R. is published annually by the National Retail Merchants Association—the publisher of **STORES.**

The copy read:

> "The latest M.O.R. statistics are showing luggage sales per square foot at a whopping 173.2. Just three years earlier, the number was 95.4."

If the two figures were correct, the increase would be 82%.

BUT—they are not correct.

The figures from the M.O.R. show the following:

	Median	Superior
1980	103.7	173.2
1977	90.9	140.0

There are just a couple of things wrong with the ad. First, the sales per square foot are reported **only** for the main or largest store in a multi-store group. Usually that store has higher sales per square foot than the other stores (that is often what makes it the largest store). Second, the "superior" figure is the upper quartile point—25% of the reporting stores do better and 75% do worse. The "median" is the point where half are better and half are worse.

I cannot confirm their figures for three years earlier—my copy of the M.O.R. shows as above. It appears that they compared (intentionally?) the superior performance in 1980 with the median performance in 1977. This is not honest, fair, ethical—whatever else you want to call it.

On the basis of superior versus superior the three-year increase was 24%, and on the basis of median versus median it was 14%. Neither figure kept up with general inflation over the three years.

RThought: How come someone at STORES doesn't check the figures taken from the M.O.R. when both are published by the National Retail Merchants Association? Or don't they care about the accuracy of figures in ads accepted for publication?

SUPPLIER SAYS HE IS "BLOODY SHOCKED" ABOUT MYER SEEKING 10% DISCOUNT AFTER TERMS ARRANGED

That was the headline, front page, of the February 22, 1982 issue of INSIDE RETAILING, published in Australia by Philip Luker. As you can see below, it is a much more aggressive and investigative weekly newsletter than its more recently established namesake in the Lebhar-Friedman collection.

> *A small manufacturer phoned INSIDE RETAILING last week to say he was "bloody shocked" by Myer's demand for an extra 10% discount* **after he had received an order and made the goods. He was commenting on our report (February 8) that some manufacturers were paying more handouts, called "spivs," to retail sales staff and buyers, to push their goods. The manufacturer said Myer had ordered his goods for March delivery to the company's new store in Albury. The terms had been arranged, he said. Then in mid-January, he was told to deliver by early February, at the latest.** *He was told that all suppliers to the new store were expected to give Myer an extra 10% discount.* **And he was told to date his invoice April 1. The manufacturer said it was grossly unfair of Myer to put suppliers on the spot in this manner. "Why not ask for the discount when the order is placed, instead of waiting until the goods are made up?" he said. He was becoming more and more horrified by the squeeze being applied by big retailers. "First it was to attach their pricing pin-tickets; then to deliver their garments on special hangers—extra costs, one after another.** *But they won't absorb the costs themselves."*
>
> *Roger Kay, managing director of Myer NSW, told Eric Craig, our associate editor, that it had been accepted practice* **for a long time for suppliers supporting the opening of a new outlet for their goods with concessional arrangements. There was a chance that the Myer person placing the order originally had omitted to tell the supplier this. But Myer contained enough "reasonable people" at all levels to hear suppliers' problems.**
>
> **In sharp contrast with the small manufacturer's remarks, one large manufacturer told INSIDE RETAILING: "I hear lots of grizzles about the department stores and chains, but I've never experienced**

DO STOCKS SELL AT BOOK VALUE?

Each year **Business Week** publishes their "Corporate Balance Sheet SCOREBOARD" which, among other things, reports the price of stocks (this year as of February 5, 1982) as a percentage of book value. They do not summarize these figures—but RT does and the table below shows the spread of ratios:

Market as % of book	Number	% of all stocks
0- 9.9%	1	0.12%
10- 19.9	4	0.46
20- 29.9	12	1.39
30- 39.9	22	2.56
40- 49.9	43	4.99
50- 59.9	60	6.97
60- 69.9	65	7.55
70- 79.9	82	9.52
80- 89.9	74	8.59
90- 99.9	60	6.97
100-109.9	65	7.55
110-119.9	58	6.74
120-129.9	36	4.18
130-139.9	29	3.37
140-149.9	30	3.48
150-159.9	19	2.21
160-169.9	13	1.51
170-179.9	30	3.48
180-189.9	21	2.44
190-199.9	18	2.09
200-249.9	57	6.62
250-299.9	30	3.48
300-349.9	8	0.93
350-399.9	9	1.05
400-499.9	9	1.05
500-749.9	4	0.46
750-999.9	1	0.12
1,000 plus	1	0.12
TOTAL	861	100.00%

The median figure—half above and half below—is 101% or just at book value with the interquartile range (50% in the middle with 25% above the range and 25% below) was 71% to 153%.

This is an improvement over the last time such an analysis was published. And the market has gained a bit more since February 5, 1982.

The Top 10 among food retailers were:

Dillon	217.3
Weis Markets	173.6
Albertson's	171.7
Winn-Dixie	168.9
Lucky Stores	138.1
Pneumo	115.6
Southland	112.8
American Stores	105.0
Kroger	104.2
Supermarkets General	101.7

The Top 10 among the non-food retailers were:

Tandy	589.1
Wal-Mart	490.1
Toys "R" Us	421.9
Petrie Stores	226.5
SCOA Industries	202.4
Rite Aid	194.0
Revco D. S.	193.2
Melville	181.4
NORDSTROM'S*	176.0
Longs Drugs	163.0

*Why all caps on NORDSTROM'S? Because they are the only one of the Top 10 that have a significant amount of accounts receivable—all the others are cash and credit card operations. High return on equity (which produces high stock prices) is harder when more assets are necessary. Which was the top firm? Southland Royalty—the market price was 1004.4% of book value.

SHORT SHORTS

Forbes (Feb. 15, 1982) reports that five of the largest consumer loan firms—Beneficial, Household, CIT, Avco and Associates—have reduced or eliminated lending to renters because of the new bankruptcy law. Instead they are making second mortgage loans.

Congratulations to Market Basket (California subsidiary of Kroger). They have opened a supermarket in the Watts Shopping Center (120,000 square feet) joining 5 black-owned and 1 Hispanic-owned shops. Twenty more are expected.

Japan, Inc. moves again. Matsushita Electric Industrial Company, Ltd. has become the first non-U.S. company to endow a chair at Harvard Business School, the Konosuke Matsushita Professorship of Leadership.

The billboard startled me. A picture of a motorcycle and the words "Suzuki 650—Under $2600." It brought back memories of the billboards of 1934 with a picture of a new car and the words "Now a Buick—for $995."

Do you merchandise your checks? Recently I received a check from a small local business and above the signature was the printed statement: "This check is made possible by the continued patronage of our most valued customers."

Do you have a "director of energy management"? I am seeing this or a similar title more often. It lets your entire organization know that energy conservation is important—and it pins down the person who is responsible for monitoring the effort.

Germans also search for quality. The International Association of Department Stores (February 1982) reported on the study of the Geselleschäft für Konsumforschung, a consumer research institute, showed in 1974 52% of consumers interviewed were looking for low prices when shopping for food while only 36% reported this in 1981; much more stress was being placed on quality. Shoppers were visiting more stores (4.9 vs. 4.1) and fewer were shopping daily for food (1 in 8 vs. 1 in 4).

A STATISTICAL SUPPLEMENT

Things are improving. Perhaps high interest rates are finally getting through to credit departments. My studies have indicated that for each two days earlier that you send out your statements, you will cut one day's average payments off your receivable balance.

For example, if monthly payments are $300,000 a month ($10,000 per day), then cutting 4 days from cycle closing date to postmark date (say from 8 to 4 days) will reduce outstanding receivables by $20,000 which, in turn, will cut interest costs by $4,000 a year at 20% interest.

All of this is a preface to the largest HONOR ROLL in history—15 stores:

HONOR ROLL

Liberty House	1.5	Levy Bros	3.0	The Popular	3.7
Bullock's (S. CA)	2.0	Montgomery Ward	3.1	Emporium-Capwell	3.8
Bullock's (N. CA)	2.0	Gimbel's (Philadelphia)	3.5	B. Altman	4.0
Mervyn's	2.2	Routzahn's	3.5	Bloomingdale's	4.0
Rubenstein's	2.3	I. Magnin	3.5	Weinstock's	4.0

CREDIT OFFICE RATING

Information From Reporters	FEB.-MAR. 1982 No. of Reports	Days to Bill Avg.	Days to Bill Range	DEC. 81-JAN. 82 No. of Reports	Days to Bill Avg.	Days to Bill Range
B. Altman (NY)	1	4.0	4	1	4.0	4
Bloomingdale's (NY)	1	4.0	4	1	5.0	5
The Broadway (S. CA)	1	5.0	5	2	5.5	4-7
Bullock's (S. CA)	2	2.0	2	2	2.0	2
Bullock's (N. CA)	1	2.0	2	2	2.5	2-3
Emporium-Capwell (N. CA)	6	3.8	3-4	8	4.3	4-6
Grodins (N. CA)	1	7.0	7	2	11.5	7-15
Joskes of Texas (San Antonio)	1	8.0	8	--	---	---
Liberty House (N. CA)	2	1.5	1-2	1	2.0	2
Livingston Bros. (N. CA)	3	4.3	3-6	2	6.5	4-9
Macy's (N. CA)	7	5.0	4-6	6	4.0	4
I. Magnin (N. CA)	4	3.5	3-5	4	3.8	3-4
May Co. (S. CA)	1	5.0	5	1	6.0	6
Montgomery Ward (N. CA)	4	3.1	4-7	2	4.5	4-5
Nordstrom's (S. CA)	1	6.0	6	2	9.0	8-10
Penney's (N. CA)	1	7.0	7	1	7.0	7
Robinson's (S. CA)	1	8.0	8	--	---	---
Saks 5th Ave. (NY)	2	9.0	9	2	9.0	9
Sears (S. CA)	1	5.0	5	--	---	---
Sears (N. CA)	2	6.0	5-7	3	6.3	6-7
Smiths (N. CA)	2	6.0	5-7	--	---	---
Weinstock's (N. Sacramento)	1	4.0	4	1	3.0	3
TOTALS	46	4.8	2-9	43	5.1	2-15

Information From Stores	FEB.-MAR. 1982 No. of Reports	Days to Bill Avg.	Days to Bill Range	DEC. 81-JAN. 82 No. of Reports	Days to Bill Avg.	Days to Bill Range
Gimbel's (Philadelphia)	36	3.5	3-4	36	3.4	2-4
Levy Bros (N. CA)	1	3.0	3	1	4.0	4
Mervyn's (N. CA)	30	2.2	2-3	30	2.2	2-3
Routzahn's (Frederick, MD)	4	3.5	3-4	4	3.8	3-4
The Popular (El Paso)	13	3.7	2-6	7	4.7	4-6
Ross Stores (N. CA)	5	5.4	4-7	4	5.5	4-7
Rubenstein's (Shreveport)	6	2.3	2-3	6	2.3	1-4
TOTALS	95	3.5	2-7	88	3.2	1-7

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

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

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

it myself. I suppose it's because my stuff is pretty essential to them. It's the little blokes who seem to cop the trouble, and they don't know how to handle it." *This big manufacturer continued:* **"When Grace Bros said to me they had to have 3.75% discount from now on, I told them that might be *their* policy, but *mine* was still 2.5%–and that is how it remains. But maybe the small bloke couldn't say that!"**

Australia does not have laws such as the Robinson-Patman Act which established some rules for the conduct of business. Thus Myers Emporium, which also operates Target discount stores (no connection with Target stores of Dayton Hudson) is free to squeeze whatever small guys they can squeeze. Myers is the third largest retailer in Australia ($US 1.7 billion in a country of 14 million) exceeded by Coles–20% owned by K mart–doing about $US 3.8 billion and Woolworths (not connected with F. W. Woolworth).

5/27 Rosie + marshall Klein

It is easy to see how Myers (not the most profitable retailer) can try to make money by buying cheaper and getting more favorable terms than its smaller competitors. And only the major brands can stand up to larger stores (Grace Bros is the second largest department store group doing $US 500 billion in a trading area of 3 million–but then it asked for less).

RThought: In Australia the abuses in the retail industry are often moderated because of a very independent editor/publisher, Phil Luker, who is not always well liked by retailers. Yet one can see from this example what a free trade press (one really does not exist in the United States) can accomplish.

Yet one must also admire the firms such as Myers who do not hide behind that famous quotation "No Comment" which is so popular in the United States.

WILLINGNESS

As retailing becomes more "scientific" (not always with a commensurate improvement in profits), we find the word "ability" used more frequently.

We are told about the "ability" of the computer to extract data for us, do automatic reordering, trace SKUs, control credit granting and many more miracles. But we don't always find the "willingness" of the computer to do that. It fails because we don't put the right systems into the computer–or because the output isn't used.

But it is in store location evaluation and merchandising to charge customers that the difference between "willingness" and "ability" becomes most important.

Linden Wheeler, for many years the Vice President for Credit at Sears Roebuck and now a consultant, made this point in his talk to the NRMA's 48th Annual Credit Management Conference. He said:

> "We need to find ways to get at a measurement of those qualities that relate to 'willingness' more effectively than we now do. We have in our files, and in the credit reporting services files, a fairly-useful collection of information that speaks to the 'ability to pay.' Also, ability to pay is a matter of degree and relates with reasonable clarity to the numbers in the credit abstract. 'Willingness' is a more elusive combination of qualities that was far more discernible in Temple, Oklahoma in 1947 than it is today in Westchester or in Watts. 'Willingness' tends to be more of a 'you-have-it-or-you-don't-have-it' quality–even though it, too, is properly modified in truly extenuating circumstances. If you succeed in doing as much with the 'willingness' dimension in the next 15 years, then I promise you that drawing the profile of the potential consumer . . . debtor in 1995 will be a breeze."

Completely independent of Linden's remarks, I had a lengthy discussion with a long-time executive of a top fashion store who explained his attempts to determine the "willingness" to spend as compared to the ability to spend. We recalled the days in Boston before World War II when it was "stylish" to wear a felt hat until the point in the crown was worn through–and **then to bend it over and wear it another 10 years.** There was no question about the ability to buy a new hat–there just was no willingness.

In his particular case he is trying to use the ratio of Cadillac Seville sales to incomes over a certain bracket when comparing two trading areas that have comparable "ability to spend." The area with the highest ratio of Cadillac Seville sales demonstrates the most "willingness."

RThought: Market questionnaires often ask about income but seldom try to measure the willingness to spend. You can ask such questions as "how long since you bought a painting, diamond jewelry or a fur coat" when interviewing in high income territory. When in agricultural territory, it may only be necessary to subscribe to the crop news reports to judge "willingness" as opposed to "ability."

THE HIGH COST OF APPEARING TO FIX PRICES

The line item in the P&L read: "Settlement of Antitrust Litigation, Net of Tax benefit–$9,187,000." That represented about a fifth of the net worth of First National Supermarkets, one of three firms alleged to have fixed food prices. The report further said, "The Company agreed to the settlement, notwithstanding our continued denial of the allegations of wrongdoing, so as to reduce financial risks and additional expenses attendant upon this complex litigation. In addition, it allows management to devote its full attention to running the Company. The Company remains committed to a policy of strict compliance with all laws in the conduct of every facet of its operation."

RThought: Settlement can be costly.

DON'T RETAILERS HAVE GOOD MANAGEMENT BACKUP?

Today Macy's is, without doubt, the best performing department store group, largely due to the effectiveness of people who came up through the system. Macy's California has demonstrated the success of internally developed management–the product of their "training squad." (Note: I am an alumnus of the N.Y. squad.) Starting at the end of World War II with a single store doing less than 10% of the combined Emporium-Capwell sales, Macy's now leads E-C in California, and in downtown San Francisco does about double the volume of the main Emporium.

Jim Lundy went from training squad to Chairman of the Board, succeeded by Ed Finkelstein, Macy-trained, and then Phil Schlein, also Macy-trained.

Dayton Hudson has been one of the premier diversified retailers (a new term to encompass mixtures of department, discount and specialty retailers). Most of their top management has progressed from within.

But something is happening to the ability to train people internally when Macy's announces that Richard R. Champ will move from Vice Chairman of Dayton's to President and C.O.O. of Macy's California.

RThought: The grass on the other side of the fence is always greener. No loyalty can be expected when outsiders continue to be brought in at the top. Yet most retailers are angry because executives show no loyalty. Retailers cannot have it both ways.

TELLING ALL TO YOUR EMPLOYEES

Bill De Jonge, president of The Talbots, that wonderful mail order source for classic women's clothing (plus a budding chain of stores), responded to the January RT reminder to tell your employees, in addition to what is required on a W-2 form, all the other things you provided.

He said, "We have been doing this for years, and I've enclosed a sample of the one that went out this January—with the employees' W-2 form." Bill has given me permission to reprint it—and here it is:

The Talbots Benefit Summary
1981

Name ______________________

____

Benefit	The Talbots Paid	You Paid
Christmas Bonus	______	0
Dental Insurance	______	______
Disability Insurance	______	______
Health Insurance	______	______
$______ Life Insurance	______	______
Paid Time Off: *Vacation	______	0
Personal/Sick Days	______	0
*Holidays	______	0
Retirement	______	0
Social Security	______	______
Travel Insurance/Worker's Compensation	______	0
Unemployment Insurance	______	0
Total	======	======

Benefits paid for by The Talbots amounted to ______ percent of your annual salary.

	The Talbots Contributed	You Invested
Investment Savings Plan	______	______

In 1982 you are eligible for:

______ Unused personal/sick days carried over from 1981.

______ Personal days - each earned according to the attached schedule.

______ Vacation (after six months of continuous service according to the attached schedule).

In ______ you will be eligible to join the Investment and Savings Plan and the Retirement Plan.

*Holiday time and vacation time are calculated based on an eight-hour day.

3858D474A

RThought: Isn't it amazing that in this day when experts estimate that fringe benefits run 20-30% of payroll that every firm is not doing this?

IS LEVI STRAUSS FOR OR AGAINST COMPETITIVE PRICING?

Levi Strauss has faced allegations of price control in practically every state and a half dozen countries. Their policies have changed over the past decade. They will now sell national general merchandise chains but not the discounters that compete with them.

It is a surprise to learn that the Levi Strauss Foundation has funded **Consumer Action,** a California group, in a survey of pharmacy prices because drug prices vary widely but, to quote Levi Strauss, "many consumers do not realize that they can save considerable sums of money by comparison shopping."

RThought: Levi Strauss wants them to save money by comparison shopping on drugs, but wants Levi Strauss products to sell at higher prices through elimination of price competition by discount stores. Or have I misunderstood something?

SHORT SHORTS

Zayre—go to the head of the class. Women's Wear Daily (April 9, 1982) had their regular summary of sales—for March. Zayre reported a 20.6% gain (very good) and noted that one reason for the large increase was that Easter was a week earlier this year. Wasn't it a week earlier for all the others? **RThought**: For most stores the plan is to save this alibi to explain April sales if they are poor.

How silly can American Airlines get? A special mailing plugged "American Airlines Nonstop service from San Francisco to Hawaii." Is there any other way to go?

Innovative recruiting. The Retired Officer magazine reports that the Navy's top recruiter award went to CPO Julie Reed, who signed up many men by scouting the video game parlors, offering young people a coke, putting a quarter in their machine and telling them that the Navy has sonar, radar and computer weapons that work just like the games. Have retailers ever checked on the graduate merchants from Junior Achievement companies? Have they ever sponsored Junior Achievement companies?

There is an easy way to commute. The January 1982 Month Summary of The National Bank of Australasia Limited contains the following item on commuting:

> "Take the case of 35-year-old Siegfried Heibt, a shipping agent living in Bergedorf, one of Hamburg's teeming outer suburbs located 18 kilometres to the south-east of the city centre. To get to his city office he takes a bus at breakfast time, switches to a rail interchange just seven minutes after leaving home and is at the Hauptbahnof (main station) by 8:10 a.m.—just 31 minutes after leaving his front door. Compare that achievement with the daily commuter struggle often endured in both Sydney and Melbourne. Moreover, it is little or no better in some of the world's biggest metropolitan centres."

18 kilometres is about 11 miles.

WORDS TO GUIDE YOU WHEN EXPLAINING

Edmund Berkeley publishes a magazine called COMPUTERS and PEOPLE (815 Washington Street, Newtonville, MA 02160, $16.50/yr), and he often publishes "lists." A recent one bears repeating:

7 AXIOMS FOR EXPLANATION

—Almost nobody understands the first time.

—Almost nobody reads more than one page.

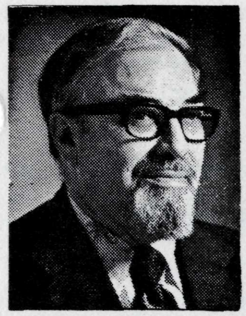
—Nobody reads the fine print, even when writ large.

—People like examples spoken.

—People like examples on paper even more.

—People like examples that have happened, that run on a computer, most of all.

—To be impatient, to show irritation at lack of understanding, a splendid highway to failure and defeat.



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

JUNE 1982 VOL. 17, NO. 6

HOW GOOD IS ELECTRONIC SURVEILLANCE?

The following incident was reported by a reliable source (I have wanted to use that phrase for some time) and involves a very major department store.

A full-skirted wedding dress was purchased that was supposed to have an electronic security tag on it. The clerk searched but was unable to find it so told the customer that she could take it as it was. On leaving the store the customer heard an alarm go off but nothing happened; nobody accosted her. In fact, it seems nobody even paid attention to the alarm.

On getting home she found the tag in the hem of the skirt, and then came the struggle to remove the tag without damaging the wedding dress. The battle was won, leaving only a small hole.

RThought: In this case there was no shortage—but can department stores really cut their staff to the point where there is no response to an alarm indicating that merchandise is leaving the store without removal of the security tag—and still think the reduction of staff leads to improved profits?

CONCEPT RETAILERS

Once again a "concept retailer" is on our horizon—the Price Club in San Diego, founded by Sol Price, who also founded FedMart when discount stores for government employees was a "concept retailer." The last FedMart will be closed by July 1 after Hugo Mann tried to make a discount chain, no longer limited to government employees, into a hypermarche, a "concept retailer" that never quite made it to North America.

The Price Club drew great attention during the National Mass Retail Institute convention held in May in San Diego. Already imitations are under way. The Wholesale Club, backed by Art Coller (in the process of withdrawing as the partner in The Andersons in charge of retail activities) and John Geisse (founder of Target and Venture). Makro is already operating a similar unit in the Baltimore area.

How does the Price Club operate? Low markup (reported to be about 10%), a limited number of SKUs (about 7,000), limited service, no decor, high turnover plus either a membership charge ($25 a year for businesses with a resale permit which allows them to buy at posted prices) or an additional 5% charge for employees from certain types of companies.

If all this sounds like the early days of discount stores, it is. And it is being done by one of the early discounters.

But San Diego is seeing another closing—Wickes (although headquarters has recently been moved to Los Angeles). And with it the Wickes Furniture chain—a warehouse operation copied after Levitz, another "concept retailer." Levitz blossomed overnight and grew to be the largest furniture chain and second to Sears in the amount of furniture sold. Levitz combined 100 or so room settings plus an adjacent warehouse. The buyer bought at a low price, took delivery in the carton, hauled it home himself and set it up.

That concept is gone. Levitz no longer has a big warehouse as part of every unit, delivery is the common method of getting the merchandise to the buyer and decorators are available. In other words—just a large furniture store, trading on a big assortment. Wickes never seemed to change their furniture stores; and although figures have not always been available, it is likely that during the entire history of the Wickes Furniture chain the operating profit never covered the interest on investment.

Another "concept retailer" is the catalog/showroom, now going through a period of consolidation. In the days when they all used just two or three catalogs and divided up the country, they had spectacular growth. Two are now billion dollar firms. But when their territories started to overlap, when each had to absorb the cost of its own catalog and when price competition started between catalog/showrooms, life became somewhat different.

IS THIS THE WAY TO INFORM SHAREHOLDERS?

Evans Products Company, parent of Grossman and other DIY chains, started their 12-page report for the first quarter with an explanation of why sales were down moderately and the loss before accounting changes was the same (about 2½% on sales after taking a tax credit). Then followed 9 pages of figures, notes and comments on each operating group.

On the 11th page, if the reader got that far, was an explanation of the proposed disappearance of the company. A new holding company is proposed in which Sharon Steel (rated B- by Standard & Poor's) stockholders will have 82 million shares and Evans (rated B+) stockholders will have 68 million. But Sharon Steel is thoroughly controlled by Victor Posner. Most companies have fought having Victor Posner hold a major interest in their company, let alone control it. Perhaps this is why Monford Orloff of Evans hid the information. Since that report, Posner has been indicted by a Federal grand jury for conspiracy and for "unlawfully, willfully and knowingly" filing false tax returns.

Then after two paragraphs about the merger/combination, Evans included a paragraph that told the common shareholders that their dividend would be omitted!

RThought: Can anyone call this "communicating with the owners of the company"?

Then there was the period of the "concept retailer" bringing specialized style to segments of the women's market through specialty stores–The Limited, Miller-Wohl (after it got out of Chapter XI), Brooks Fashion and others. With four or five of these units in most larger malls, profits were harder to earn. A decade of fast growth has witnessed a change of demand. And with slowed growth, price/earnings ratios declined and so did stock prices.

Supermarkets, department stores and even purveyors of factory-made clothing once were "concept retailers." Can you imagine the risk that someone took when he set up the first store to sell factory-made shoes or men's clothing? He would offer immediate delivery and lower cost in competition with the tailor or shoemaker. Department stores, including the merchandise of all specialty stores, would put all the specialty stores out of business by cutting the price in one department and letting other departments carry the loss until all the competing shops were out of business.

Even chain stores, whether A&P or Woolworth, were "concept retailers." Many said they would put competition out of business by cutting prices in one territory and letting other territories carry them.

RThought: What causes "concept retailers" to slow and often stumble or disappear? The answer is simple–competition. The first discount store in town, even when run by incompetent people, could make a big profit selling national label hardgoods at prices below conventional stores. Remember Arlan's and Giant Stores and even Korvette's?

Hugo Mann could not make his hypermarches work like they did in Europe because most countries in Europe heavily restrict the opening of superstores (over 50,000 sq. ft.) and thus create a quasi-monopoly for those that are approved. In the United States, competition would open across the street and slash sales of $500 a square foot and with it the ability to make a profit at a 10% gross margin.

What will happen to the Price Club or the Wholesale Club or Makro when there is competition? The number of SKUs will rise. With rising SKUs will come lower turnover–and the ability to have the store manager generally select and merchandise all his own items. Why will this happen? Because the new price club in town will compete by offering a larger assortment, in a more attractive store.

That is why gross margins in supermarkets have risen from 10% at which they started during the depression. Although all customers want low prices, they tend to respond more to non-price appeals of assortment, service and attractive surroundings with good parking. All of this costs more–and must be met by competition, and thus ultimately costed into the price charged.

Thus it was (supermarkets, chains, department stores, catalog/showrooms, women's fashion chains, closeout operations, discount stores) and thus it always will be. I hope Sol and Robert Price, and Art Coller, John Geisse and Makro sell out at a great profit while they are still expanding rapidly, showing increasing profits, and are considered a "concept retailer."

ARE YOU TAKING ADVANTAGE OF COOPERATIVE EDUCATION?

"Cooperative Education is an educational plan which incorporates productive work as a regular part of the student's curriculum. The first program . . . was initiated in 1906 at the University of Cincinnati." The quote is from the "Undergraduate Programs of Cooperative Education in the United States and Canada" 9th Edition, prepared by the National Commission for Cooperative Education, 360 Huntington Avenue, Boston, MA 02115.

In 1981 1,017 junior or senior colleges were providing such programs, approximately the same number of schools that have been offering such programs since 1976. This is up from only 200 in 1970.

Retailers can approach schools offering such programs and seek to make arrangements for participating by providing curriculum credit jobs.

The table below shows the number of schools in each state now offering cooperative education programs in business. At each school the number enrolled in such business programs range from as few as 1 to as many as 2000. But if your local school offers any such program, you should be able to participate.

	Colleges			Colleges	
State	**Jr.**	**Sr.**	**State**	**Jr.**	**Sr.**
Alabama	8	15	Montana	1	7
Alaska	2	--	Nebraska	5	3
Arizona	13	2	Nevada	1	--
Arkansas	7	5	New Hampshire	2	2
California	44	19	New Jersey	13	12
Colorado	8	13	New Mexico	2	3
Delaware	2	2	New York	21	17
D.C.	--	5	No. Carolina	14	13
Florida	20	15	No. Dakota	3	4
Georgia	5	10	Ohio	4	14
Hawaii	4	2	Oregon	8	2
Idaho	1	2	Pennsylvania	10	16
Illinois	13	13	Rhode Island	--	2
Indiana	1	10	So. Carolina	9	9
Iowa	7	6	So. Dakota	1	2
Kansas	11	6	Tennesse	6	7
Kentucky	8	8	Texas	27	13
Louisiana	1	6	Utah	7	7
Maine	--	6	Virginia	10	10
Maryland	6	8	Washington	13	2
Massachusetts	12	8	West Virginia	2	6
Michigan	22	21	Wisconsin	4	7
Minnesota	5	5	Wyoming	3	--
Mississippi	2	9	Canada	3	6
Missouri	2	11	Puerto Rico	2	3

ABUSE OF ENGLISH

Now that we are going into a recession/depression(?) more and more CEOs are abusing the English language in addressing their shareholders. The following quotations are from the second quarter report of Charles P. Johnson, to the shareholders of General DataComm Industries, Inc., but it could have been a retailer.

"Our total **earnings loss** for the second quarter was about half of the $824,000 loss reported in the first quarter."

"Our **earnings loss** per share was also significantly less than . . ."

"The Company attributes the upturn in sales and **improvement in earnings** in the present quarter . . ."

RThought: The word "loss," unfortunately, is clearly understood by investors and is the opposite of "earnings." That is

WILL THE PAST FORECAST THE FUTURE?

President Reagan is accusing Democrats of playing politics and being irresponsible. He is telling them that if they had approved the budget that he and the Republicans in Congress worked out in early May the result would be stimulated business, a reduction of unemployment and the end of high interest.

I think it is fair to say that with rare exception, such as during popularly supported wars, Congress is always "playing politics." This is the essence of a two-party system. And the same "playing politics" exists in the legislatures of Germany, France, the United Kingdom, India and most other democracies (Russia is not a democracy).

If we put accusations aside, the facts remain that the Republicans control the Senate and Democrats control the House. President Reagan was able to garner support from a large number of Democrats in both Houses for his 1981-1982 budget and the Kemp-Roth tax cuts. Many of those votes were obtained by "playing politics," that is, agreeing to do something that the individual Senator or Congressman wanted in return for support from that Senator or Congressman. Cast in a different light, this "playing politics" could be described as either bribery or extortion.

But the more serious problem, and the reason for asking the question "Will the past forecast the future?" is that, within the memory of a good number of people still living, the United States has been in a similar situation before.

In 1928 Herbert Hoover was elected President over Al Smith getting 59% of the popular vote and 84% of the electoral votes. Many feel that Hoover won because of the strong anti-Catholic feeling (Al Smith was a Catholic) in many parts of the country that would otherwise have voted for a Democrat. Ronald Reagan won in 1980 with 52% of the popular vote and 91% of the electoral votes. Many feel that many votes were against Carter rather than for Reagan.

al Klaber 6/22/82 1936 Roosevelt Landon

Scientific polling did not exist during Mr. Hoover's term—only a populist poll conducted by the magazine Literary Digest. Literary Digest was destroyed when their 1932 mail-in poll predicted Hoover over Roosevelt by a wide margin. Hoover did not have the benefit that Reagan has of measuring changing attitudes on issues and the popularity of the President.

Hoover was inaugurated March 4, 1929 and in his address he said that "the larger purpose of our economic thought should be to establish more firmly stability and security of business and employment, and thereby remove poverty still further from our borders." He made this commitment at a time when unemployment had been increasing for a year and a half. In 1929 the government did not make surveys—surveys were not started until 1940 although data was collected in the 1900, 1910 (not tabulated until 1948) and 1930 census. Hoover pinned his hope on voluntary action—as Mr. Reagan has pinned his hope on "free enterprise," given a few adjustments of taxes and spending.

The depression hit the United States during Hoover's term (it had started earlier in Europe). The effects were dramatic. One talks about the "1929 Stock Market Crash" and "Bloody Thursday" but few remember the figures. The table below shows the drop in market prices in 70 days spanning the start of the crash—these were the leading companies in those days.

	Prices		
Company	Sept. 3	Nov. 13	% Change
American Can	181	86	-53%
American Telephone & Telegraph	304	197	-36
Anaconda Copper	131	70	-53
Electric Bond & Share	187	50	-74
General Electric	396	168	-58
General Motors	72	36	-50
Montgomery Ward	138	49	-65
New York Central Railroad	256	160	-38
Radio Corporation of America	101	28	-73
Union Carbide & Carbon	137	59	-57
United States Steel	261	150	-43
Westinghouse	290	102	-65
Woolworth	100	52	-48

On May 30, 1929 at Valley Forge Hoover said that Americans must wait the return of good fortune.

The day after Black Thursday, Hoover assured the American people that the country was "on a sound and prosperous basis." In March 1930, despite all evidence of declining conditions, he said:

> **"All the evidence indicates that the worst effects of the crash upon employment will have been passed within the next 60 days, with the amelioration of seasonal unemployment, the gaining of strength of other forces, and the continued cooperation of the many agencies actively cooperating with the government to restore business and to relieve distress."**

It was not until October 1930 that Hoover admitted that the problem of unemployment had not been met, and he appointed a President's Emergency Committee on Employment which collected information and made suggestions on what business could do. It recommended a major public works program. However, any government action was rejected by Hoover because of his strong belief that voluntary action would provide all the remedies necessary. Thus the report was not released.

Congress sought to pass legislation to help those unemployed, but Hoover resisted with the active support of large income taxpayers. He vetoed the Wagner Employment-Exchange Bill. And with that veto the President's Committee collapsed as members realized that their advice would not even receive courteous consideration by Hoover.

Hoover also rejected the arguments of his cabinet. In an attempt to convince Hoover, Colonel Arthur Woods, who headed the Emergency Committee, got Metropolitan Life Insurance Company to make a survey of unemployment by using their thousands of agents who collected weekly insurance premiums (called "industrial" policies, usually in an amount to cover funeral expenses, and just recently discontinued by Metropolitan). In January 1931 Metropolitan estimated there were 5 million unemployed (out of a labor force of about 48 million). Shortly after, the Bureau of Census took a more detailed survey and estimated the number at 6,050,000. But the Administration withheld the report until after Congress adjourned. It was only announced when the Administration announced a change of policy—to one of providing "all the facts." Facts had been withheld for more than a year.

The declining conditions in the country led to a major change in voting. The Republicans controlled both the Senate and the House from 1919 to 1931. However, with the failure of Hoover to meet the economic problems, the voters in 1930 elected a Democratic majority in the Senate (the Republicans lost 8 of 56 seats). In the House the Republicans lost 49 seats; and although 218 Republicans were elected against 216 Democrats and 1 Independent, 2 Republicans died before being seated and the Democrats organized the House.

Unemployment continued to increase. The best estimates indicate that the annual average for the years 1932 through 1935 exceeded 20%, with a peak of 25% in 1933. Mortgages on farms and houses were being foreclosed. In 1932 some 15,000 unemployed World War I veterans gathered in Washington—it was called the "Bonus March"—seeking immediate payments of a bonus due to be paid in 1945. Hoover ordered then Army Chief of Staff, General Douglas MacArthur, to evict the marchers—which he did by turning out the Army, personally directing the eviction and ordering the troops to fire on the veterans.

In the early 1930s more than 20% of our population was still on farms. Every family had someone on a farm, and the women and children of destitute city families were sent to the farms while men tried to find places to work. Soup kitchens, staffed by volunteers, appeared in hundreds of thousands of vacant stores. How did a soup kitchen operate? A landlord let the organizers use a vacant store, a restaurant down the street would loan cooking equipment, someone would locate a large stove and counters, the grocers would provide enough substance to make a soup and some day-old bread (before the days of preservatives), women would come in each afternoon to prepare the meal. My brother and I for several years, helped serve food in such a soup kitchen. Daily, destitute men, with no money, came for one hot meal.

Every church converted a basement or a portion of a facility into a dormitory—outfitted with donated beds and cots and blankets. Each night they took in as many men as they could.

25% unemployment is hard to comprehend—unless you have witnessed it. Yet in the 1930s a spirit of concern was felt for one's fellow man. That spirit appears to have disappeared during the past fifty years. Now we have the "me generation." People proudly say that all they are interested in is making more money for themselves. But that concern for one's fellow man got our society through the 1930s, brought many of us closer together, and made better people out of many who experienced it. Yet 25% unemployment also broke the spirit of (and drove to suicide) many who could not adjust to the change.

During the last two years of Hoover's term there was little cooperation between the Democratic House and the Republican President. One of the vivid images I carry with me is the repeated newsreel scene (there was no TV and few pictures in papers) of President Hoover on a fly-fishing vacation in New England, wearing a business suit, felt hat and waist high rubber waders. This was when more than 25% of the people had no jobs. Today President Reagan goes horseback riding and chops wood or vacations in the Caribbean as we approach 10% unemployment.

Congress was "playing politics" by not bailing out Hoover, and Hoover was "playing politics" in not recognizing the new expression of the people as evidenced by the change in the composition of the Congress.

The country paid a terrible price for conduct (playing politics) that is a key characteristic of our two-party system, a system that we want to retain and which we see as protecting our liberty. This problem always arises under our system when control changes from one party to the other. In most European countries when the government in power no longer has a majority (either absolute or through coalition) in the legislature, it falls and is replaced by another government.

During the 1932 election Franklin D. Roosevelt made a major address to the Commonwealth Club in San Francisco on September 23. He traced the history of disagreement on the nature of government and said, "The issue of government has always been whether individual men and women will have to serve some system of government or economics, or whether a system of government and economics exists to serve individual men and women."

We are arguing the same issue today. Hamilton and Jefferson argued it at the founding of our Constitution—Hamilton arguing for a government of the trained elite and Jefferson for the control by the majority. Jefferson won in 1800—but the argument did not end.

Roosevelt traced the opportunities in the United States when the country was founded, with virtually free land, a big middle class, and few very rich people. He pointed out that railroads were built by ruthless men, out for themselves, heavily subsidized by land grants from the government and then extracting many times the cost of building the railroads through stock manipulations. But the country benefited from the railroads. He mentioned the tariffs that protected U.S. industry. The merchant marine was granted subsidies, and the press was subsidized through below-cost mail rates. Roosevelt then commented, "Some of my friends tell me that they do not want the government in business. With this I agree; but I wonder whether they realize the implications of the past."

RThought: Why do I dwell so long on a subject that appears not to be related to retailing? Readers often comment that such articles as this are out of place in RETAILING TODAY. **I do it because no one else is pointing out what may be ahead of us during 1983-84 if, as some now predict, the Republicans lose heavily in both Houses and lose the Senate.** Most retailers are already planning what they are going to do during 1983-84 without regard to the possibility that 1931-32 might repeat. What happened in 1931-32 should not have happened, but it did. Politicians and parties are as fallible today as they were then, and 1983-84 may see the same thing. There is nothing in our Constitution that provides a means of arbitrating this type of conflicting power.

what they experienced when the General DataComm stock price dropped from a high of 19 in 1981 to the present 9. It might have been more forthright to say that there was a "reduction in loss" rather than an "improvement in earnings" since there were no earnings.

DOES YOUR BUSINESS HAVE "GOING CONCERN VALUE"?

Whenever a business is sold for more than book value, a tax problem exists. The seller has no objection to a portion of the purchase price being attributed to "goodwill" because that will be taxed as a capital gain. But the buyer does object because amortization of goodwill is not deductible for income tax purposes.

As a result, various portions of the purchase price are attributed to various assets, particularly fixed assets, which allows the purchaser to deduct the entire amount.

It has long been established that neither cash nor accounts receivable can have a value greater than book value (thus attributing no value to a customer list). However, excess payments over book value have been attributed to inventory, fixed assets, and other assets. The excess amount attributed to inventory is taxed to the seller as ordinary income while the other types of assets normally result in capital gains for the excess over book value.

In the case of **Concord Control, Inc. v. Commisioner** (originally resolved under TC Memo 1976-301) the Tax Court held that there was no goodwill as such–but that a portion of the purchase price was paid for the "going business value"; in other words, paid in lieu of incurring the cost to the purchaser of starting such a business from scratch.

Many smaller retail businesses are sold on the basis of an agreed value of the business (inventory taken jointly, receivables evaluated or else the buyer collects on behalf of the seller, fixtures and equipment taken at book value) to which is added an amount equal to one or two times annual profits (the definition of "profit" varies widely from proprietorship to partnership to corporation and in relation to the size of the business).

Having agreed on the total price, the price is then allocated to the various assets and set forth in the purchase agreement proclaiming that each asset was separately negotiated. The additional amount (one or two times annual profit) is usually reflected in fixed asset value, valuation of store leases or sometimes in inventory.

Returning to **Concord Controls, Inc. v. Commissioner,** the Tax Court held that there was no goodwill but that there was a "going concern value." They set forth a figure (which would end up as non-deductible for the purchaser) but did not explain how they arrived at the figure. The Sixth Circuit Court of Appeals upheld the determination but remanded the case to the Tax Court to set forth how they had arrived at the "going concern value."

Thus the recent decision by the Tax Court in **Concord Controls, Inc. v. Commissioner** (78 TC No. 49) explains how the figure was determined.

First, the Tax Court determined that there was no bargaining for the value of each asset and that the seller and buyer did not have adversary tax positions.

Then they determined that they could not use the difference between the purchase price and the appraisals of the values of the tangible assests because the valuations differed greatly.

Therefore, they resorted to the capitalization method–which still involved a determination of the value of the assets. To the stated value of cash, receivables and inventory the court added a "best judgment" figure for the other assets.

The court then determined the average earnings for the prior five years in order to estimate the future earnings (not always a good method in a changing industry). They excluded any unusual factors from the annual figures. Then they determined what a like business earned on net worth (7.8% in this case) and applied that figure to the net worth resulting from the court-determined value of assets reduced by liabilities as set forth on the balance sheet.

The expected earnings of 7.8% was deducted from the five-year average earnings, and the excess was attributed to the "going concern value." This income was then capitalized at a rate determined after evaluation of the risk, the position of the company in the industry, the difficulty of entering the industry and other factors. In the case of Concord Control, the appropriate capitalization rate was determined to be 20%.

RThought: For years "goodwill" has been difficult to prove. The economic definition of "goodwill" is earnings in excess of those expected from the assets comprising the business.

The Tax Court, with the help of the Sixth District, has avoided the problem of valuing "goodwill" and destroyed much of the argument that values are bargained for at arm's length. And then they have produced a new figure called "going concern value."

Any business sold that has earnings on net worth above that set forth in various published figures (Robert Morris Associates Annual Study, Dun & Bradstreet 14 Ratios, industry reports such as NMRA, MRA, NMRI, NRMA, NACS, etc.) now may have something called "going concern value" which will have to be amortized by the purchaser for reporting purposes without any tax benefit.

HOW RADIO SHACK KEEPS EXPANDING

One thing that could not have been said about Charles Tandy was that he was tradition-bound. His innovativeness has been carried on by those who run Tandy Corporation.

A recent Radio Shack mailer listed 66 new stores and dealers–in 28 states. **And half of them are not called Radio Shack!**

Here are some of the businesses that saw a benefit in being a Radio Shack dealer:

Western Ace Hardware, San Luis, AZ
Express Sportswear, Winder, GA
Payette Lakes Lumber Co., McCall, ID
Fairmount Family Pharmacy, Fairmount, IN
Custom Cycle & Van Supply, Newburgh, IN
Watkins Furniture, Crystal Springs, MS
The Associates Consulting Group, Gassaway, WV

RThought: These outlets are also uninhibited–Radio Shack merchandise may not look like sportswear or lumber or pills; but if it brings in traffic and gross margin, it is a good addition.

WATCH YOUR TV—FOR THE LATEST TOYS FOR MEN

The Sharper Image is operated by Richard Thalheimer out of San Francisco and is one of the most successful of the direct response merchandisers. From his start with direct response he has developed a catalog for his direct response customers until it is the largest part of his business.

Now he has returned to direct response advertising—through another medium—Cable TV.

Every Thursday evening at 8:30 Eastern time (7:30 Central, 6:30 Mountain, 5:30 Pacific) he is putting on a half-hour program over the Satellite Programming Network. Products will be demonstrated as well as described; and, with your credit card ever at hand, you can order via an 800-number.

RThought: He is even enlisting his catalog readers to get their local cable company to provide the program!

RETAILERS AND THE LAW

The U.S. District Court in San Francisco approved distribution of $1 million among 224 claimants in a suit against Safeway alleging bias against women between 1971 and 1980. The original suit involved one woman with other suits following. Safeway agreed to accept women for management training and to select store and department managers on the basis of merit.

ABUSE OF NUMBERS—I

A frequent abuse of numbers is in the use of percentages to summarize year-to-year changes in profits. The writer of the letter to shareholders loves to use this ploy. It may be terrible watching profits drop from $50,000 to $1,000—but the writer knows that this is much better than dropping either to $10,000 or to a loss of $1,000 when one thinks about writing the report next year.

Let us assume that next year profits recover to $20,000. If you had a profit of $1,000, you could proudly proclaim that "profits are up 2,000%!" If, on the other hand, you have a loss of $1,000, there is no percentage that you can use; and if you have a profit of $10,000 this year, a report of 100% improvement next year will not get much in the way of headlines.

All of this leads to the headline on a boxed item in **Women's Wear Daily** of May 5, 1982 reading:

"Jonathan Logan's
1st-quarter net
Skyrockets 880%"

That is a dramatic headline—until one sees that last year the profit was only .26 of 1% on sales and an 880% increase in the dollar profits on a slightly smaller volume produce a profit of only 2.50%, hardly something that warrants "skyrockets."

ABUSE OF NUMBERS—II

Deloitte Haskins & Sells publishes an excellent newsletter covering accounting and accounting related matters called THE WEEK IN REVIEW.

However, they, too, are prone to distort figures by converting small numbers into percentages. The table below is taken from the May 14, 1982 issue and is based on a Conference Board Report:

FOREIGN SERVICE PAY PACKAGE

Percentage of Survey Companies That Provide Basic Elements

Industry Group	Foreign Service Premium	Hardship	COLA	Bonus	Tax Equalization Allowance	Housing
Aerospace	100%	75%	100%	75%	100%	100%
Automobile	89	78	78	89	89	89
Banks	83	100	100	100	100	100
Business Equipment	50	67	83	83	83	83
Chemical	60	70	80	90	90	70
Oil	100	58	100	100	100	100

RThought: The entire Conference Board Report was based on only 100 reporting firms. I do not know how many industry groups were included, but it is apparent from the numbers shown for the reported groups that the number of firms in each industry group is as follows:

Aerospace	4
Automobile	11
Banks	6
Business Equipment	6
Chemical	10
Oil	19

Looking at the Business Equipment group, I am certain that you would gain a much different impression if, instead of figures of 50%, 67%, 83%, 83%, 83% and 83%, the publication disclosed that there were 6 firms reporting and the number in each category was 3, 4, 5, 5, 5 and 5.

SHORT SHORTS

You can improve the employee benefit summary used by The Talbots and illustrated in the May RT. Al Klaber, a Northern California consultant to retailers, says that he has done such forms and included **employee discount.** For firms that require all discount purchases to be charged, it is easy to calculate the amount on an individual basis.

WORDS TO THINK ABOUT

General Omar Bradley said:

> "We have grasped the mystery of the atom and rejected the Sermon on the Mount. Ours is a world of nuclear giants and ethical infants. **We know more about war than we do about peace—more about killing than we do about living."**

Edward T. Gibbons, chairman of F. W. Woolworth, in addressing the Economic Club of Detroit in February said:

> "I have heard over and over again that the place to cut spending is in the area of entitlements. We are paying too much for support of non-producers and simply must do something unpleasant. While I agree that we have used the wrong indices for increasing some of those payments year after year, and while I suspect there is abuse and waste in some of the programs, I cannot agree that the aged, the poor, the helpless, the unemployed, and other unfortunate Americans are not entitled to a reasonable level of public support—guns or no guns. **It is my feeling that any society which cannot afford reasonable support to such people would be so poor in spirit that it could not be trusted with guns."**

RThought: No comment is necessary.

RETAILING TODAY

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P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

JULY 1982

VOL. 17, NO. 7

ABUSE OF NUMBERS– UNITED PRESS INTERNATIONAL

In late May United Press International released a story out of Washington saying that 400 economists predicted a not too rosy future. It was the result of a survey of 400 members of the National Association of Business Economists (the story did not tell the number of members in the Association or how representative the sample was).

The story was headed "Highlights of their combined views" although I suspect that the article really reflected either the median (mid-point) or arithmetic average (add up estimates and divide by the number of figures used).

One paragraph read:

> "As a result [of an estimated deficit of $120 billion in fiscal year 1983] they expect a modest decline in interest rates, with the prime rate falling from its recent 16.5% to 14.6% by the end of this year and 12.9% by the end of 1983."

That information came over a news radio station to the commuter traffic as "Economists forecast that the prime rate will be 12.9% by the end of 1983."

RThought: If I polled the sportswriters on who would win a series between Boston and Atlanta (leaders as of this writing) and 240 said Boston and 180 said Atlanta; then a similar article could have reported, "Sportswriters predict Boston will win pennant 4 games to 3." The correct report should be "Most sportswriters predict Boston will win."

There is a responsibility for organizations such as United Press International that daily disseminates complex information to report such information correctly. In the case of projected prime rate at the end of 1983, the report should have read, if it was a median figure, "Half of the economists predicted a rate of more than 12.9% and half predicted a rate of less than 12.9%." **That conveys a much different meaning.**

CAN YOU CUT BANKRUPTCY LOSSES?

The answer may be yes.

Revolving Credit & Electronic Systems Letter (12 Avery Place, Westport, CT 06880, 6/30/82 issue $124/yr) reports that one bank has made progress by setting up a special unit to analyze cases involving more than $500.

Of interest to retailers is the steps taken to compare information given on the bankruptcy petition and the credit application, if recent. Another is to protest charges made immediately prior to application for bankruptcy as being made with no intention of repaying and therefore nondischargeable.

Many older account agreements for companies selling large ticket goods contained some form of reservation of title to the goods sold. Recovery of the goods may be of some value or may even lead to reaffirmation of the retailer's account in order to permit the bankrupt to keep the goods.

THE COST OF PRICE-FIXING

Would you believe that the cost of price-fixing by three companies was a total of 12 years in jail for 4 executives, payment of $2.6 million in costs for the plaintiffs (cost of defense is not known), $5 million in fines and $20 million in damages payable to customers?

That was the settlement that led to a "no contest" plea before U.S. District Judge Thomas D. Lambros. The three firms were Pick-n-Pay, Fazio's and Stop-N-Shop, all of Cleveland. The price-fixing took place from 1976 to 1978. The evidence showed that Charles Rini, formerly president of Stop-N-Shop; John Fazio, formerly a director of Fazio's; and Richard L. Bogomolny, chairman and Raymond Korfant, former senior vice president of Pick-n-Pay used code names, met secretly in motel rooms and parking lots and used post office boxes to conceal their conduct.

In the end, each of the four men was sentenced to 3 years in prison (suspended) and placed on probation for 5 years and fined $200,000 ($125,000 suspended). Pick-n-Pay and Fazio's were fined $2 million ($1.2 million suspended) and Stop-N-Shop was fined $200,000 ($100,000 suspended). In addition, the three firms were ordered to pay the $2.6 million cost of a special master and attorneys' fees of the Ohio Public Interest Campaign which brought the class action.

And finally, the three firms are to issue $20 ($2 each 6 months for 5 years) in coupons to 1,000,000 families in Northern Ohio. The coupons are to be redeemable in any cooperating food store that will accept them. The value of any coupons not used will be given in first quality food to charitable agencies.

The coupons will look like dollar bills (Pick-n-Pay and Fazio's wanted to put their name on the coupons so customers would think they were promotional rather than penalty coupons).

RThought: Judge Lambros made the cost high to the executives and companies, but the lesson will not be learned by others until long-term prison sentences are handed out when there is blatant conspiracy as there is here and was in the Bergdorf Goodman Saks-Bonwit case several years ago. RT has previously commented on the cost to First National Supermarkets, parent of Pick-n-Pay (RT May 1982)–$9.2 million after taxes or one-fifth of their net worth.

The major costs ($18.6 of $20 million in coupons) was borne by First National Supermarkets (Pick-n-Pay) and Fisher Foods (Fazio's). Penalties were less for Stop-N-Shop because they cooperated with the prosecution.

Judge Lambros indicated that he was especially harsh because the price-fixing involved food, a basic commodity to all income levels.

Credit application information not previously checked, such as income and job duration, could be checked for misrepresentation. If the store can prove that it relied on the misrepresentation, the debt may not be dischargeable.

THE PROGRESS OF SCANNING

The New Zealand Retailers' Federation RETAIL NEWS (June 1982) published the status of the use of optical scanners by country, based on reports of the International Article Numbering Association. The lead of the United States, as of September 1981, was exceptional.

Country	No. of Stores with Scanners	% of Food Items Source Marked
United States	4,396	95%
Germany	38	72
Japan	37	3
France	11	50
Sweden	11	25
Italy	10	N/A
Switzerland	9	15
United Kingdom	8	N/A
Australia	3	50
Austria	3	17
Netherlands	3	10
Norway	2	N/A
Belgium	1	35

N/A=Not Available

No stores with scanners were reported for Denmark, Finland, New Zealand or Spain.

WHY IS IT TOUGH IN THE SUPERMARKET INDUSTRY?

The FRB SF WEEKLY LETTER (Federal Reserve Bank of San Francisco, Box 7702, San Francisco, CA 94120–no charge) of June 11, 1982 makes the following comment:

"The current recession has demonstrated again that consumers economize on food spending during periods of slow income growth by shifting to lower-cost diets. During the 1980-81 period, real spending on food and beverages increased at only 0.5 percent annual rate, in line with the experience of past recessions and far below the growth pace recorded during typical expansion periods. One sign is the weakening of sales at fast-food establishments; indeed, this recession has witnessed a definite break in the two-decade-long uptrend in spending for purchased meals and beverages. In addition, consumers apparently have economized by shifting to a lower-cost mix of groceries for home consumption. In particular, low-cost poultry products have gained in popularity at the expense of higher-cost beef and pork products."

RThought: You will know the recession is over when you have to wait in line at a restaurant–or your wife serves steak when there isn't company.

WHY RETAIL PROFITS ARE DROPPING

There are a number of trends today that adversely affect retail profits–other than the general recession.

We talk of declining productivity in the retail field–but that is largely because we cannot, on a national level, accurately measure productivity. In essence one should divide a specific measurement of work (hours, days, manweeks, etc.) into a specific measure of output (tons of steel, number of cars). When one can say that over the past period of "x" years the number of cars manufactured per 1000 manhours has risen at the rate of "x" percent per year, they have correctly reported a productivity increase.

Unfortunately, when hours are not known, the measure tends to fall back on the payroll as the measure of work because hours or head count are known from various reports. The number of people employed during a specific pay period (the one containing the 12th of the month) for each month is reported on quarterly payroll tax reports. Unfortunately, that can include varying mixes of part-time and full-time people.

The other part of the fraction is even more difficult–measuring the output in physical terms. Even retailers do not know this. Food chains have a partial measure if they process most goods through a distribution center because they may have a record of tons or cases shipped to each store.

In the case of retailing, the government attempts to use indices to correct dollar figures in order to measure productivity. Retail sales are adjusted by use of figures collected for the Consumer or Producers Price Index. Neither index reflects the change in mix–the switch of food shoppers from frozen to canned food (see previous article) or the switch of apparel customers to lower price lines. These price indices assume that customers always, over a period of a decade or more, purchase what the government establishes periodically as a constant mix of goods.

But a retailer knows that life is different. He has to raise wages a bit below the Consumer Price Index increase in order to keep people. To the extent that retail wage increases are below those of other industries (which has been the case over the past decade), the retailer finds that the new people coming into the business are coming from a lower and lower level in the labor pool.

At the same time, the retailer knows that just because the government says that the price index on the merchandise he sells has increased by 6% or 7% or 5% he does not automatically get that increase in same-store sales. The majority of firms reporting same-store sales are reporting changes of 4% or less, and the vast majority that do not disclose same-store sales changes can be presumed to have an even poorer experience.

Faced with this situation many stores have opted for higher gross margins, hoping to offset the expenses that are rising faster than sales. In fields that are primarily small stores, such as menswear stores, the frequent plea is for other merchants to return to providing service and quality goods and to end the constant sales and price cuts. Probably a majority of men's stores (and many other small stores) would welcome the return of fair trade.

But the constant pressure to increase gross margins, whether by specialty stores, department stores or discount stores, usually without regard to gross margin dollars per square foot of space, merely provides more room for off-price retailers to blossom.

Department stores took away a great deal of the specialty store business during the 1880-1920 period because they operated on a lower gross margin reflecting lower costs as a function of their size. Discount stores did the same thing in

HOW TO TREAT A NEW IDEA

I think the "thing" with the shortest measurable life is a completely new idea, something as contrary to accepted knowledge as the first suggestion of factory-made shoes, a motorized individual transportation vehicle or self-service in a food store.

Put yourself in the place of the owner of a business who is approached by an employee with one of the above suggestions. Put yourself back into time when such an idea might have been presented for the first time. In 5 minutes, without lifting your pen from the paper, you could put down thirty or forty reasons why the idea won't work. If you couldn't, you wouldn't be a very good owner of a shoe shop making shoes by hand, a manufacturer of buggys or a corner grocery.

Carlson, the inventor of Xerography and father of what we now call Xerox, spent about two decades trying to convince manufacturers that his process would work. IBM turned him down. The mimeograph and Ditto machine—remember them—did a great job; and the big companies could use offset printing.

I have done the same thing—more often than I like to recall. **And I think I have an open mind.** What is more, I was trained to handle new ideas as things to be cherished, nourished, cultivated and expanded, trained by one of the finest new idea men who ever crossed the retail scene.

In 1940-41 I had the privilege of working in Division V, the Research Division, of R. H. Macy & Co., then just one store in New York City (they also owned Bambergers, LaSalle-Koch and Davison Paxton, each a single store operation).

Some of my fellow researchers went on to outstanding careers—Perry Meyers, who does store location studies for some of the largest retailers; Milt Woll, who had a long career as the head of retail services for Booz, Allen and Hamilton; George Brown, (who obtained in two years a Ph.D. in Mathematics under Einstein), who was pulled out of Macy's at the start of World War II to head the mathematical section of the Naval Research Lab at Princeton (an interesting story for another time); and Abe Hackman, who stayed at Macy's and rose to be a senior vice president and controller.

But the man who led us was Harold Wess, later to head corporate development for Alexander's and then to be a professor at the business school at American University in Washington, D.C.

When a new idea was presented to Division V, Harold (to his face I called him Mr. Wess) would call us into his office and explain the idea we were being asked to consider. Then we went through a period of from 2 to 8 hours, depending upon the novelty of the idea, during which the only thing we could do was make suggestions that would improve the idea. **We were not allowed to say anything in criticism.**

Only after we had done our very best to make the idea perfect—by finding a way to eliminate from the idea all the critical thoughts we had—could we then criticize the idea.

Criticism usually came on another day, after we had had time to contemplate the idea without having to put ourselves on record by saying something (few of us can easily change our position once we have taken it, especially in the same session).

Out of this process came successful new ideas that others in retailing would have rejected. Of course, it took an open-minded top management to bring us novel ideas to consider.

RThought: Retailing doesn't do a very good job of accepting novel ideas. Read the literature of the NRMA in the 1950s, and one will learn why discount stores will not work. Virtually none of the major retail conglomerates have acquired an interest in specialty direct mail catalogs, a rapidly growing area. Retail conglomerates have not really learned how to nurture specialty retail chains, how to retain the creativeness of the founder; in case after case, what was a growing, profitable, unique specialty chain becomes a stagnant, losing subsidiary, sometimes liquidated and often sold at a loss.

An idea is a precious thing. It brings rewards to those who learn how to understand it, improve it, cherish it and apply tender loving care.

SHORT SHORTS

Do tax incentives work? President Reagan and Congress have expanded the incentives to invest through tax credits and fast write-offs. Domestic oil supply is one of our critical needs. Yet A. G. Becker estimates that, despite the new incentives, the growth in money raised from the public for oil and gas programs will level off in 1982 at the 1981 rate—as the table below shows:

1977	0.5 billion
1978	0.6
1979	1.0
1980	1.7
1981	3.0
1982	3.0

Perhaps eliminating the 70% tax bracket removed some of the incentive to gamble in oil and gas wells.

Demand for liberal arts graduates rises. Stanford reports that during the 1980-81 year 116 companies interviewed liberal arts students compared to only 11 four years ago. Ralph Keller, director of career planning and placement, observes that the liberal arts grads may help companies avoid the morale problems generated when a brand new MBA joins the firm at substantially higher salary than others with much more experience on the job. **RThought:** We now have a surplus of MBAs. Lincoln was right when he said you cannot fool all of the people all of the time.

Aren't you glad these are not in your inventory? In twelve months (Feb. 81-Feb. 82) the price of a $10 gold U.S. Eagle (Liberty NM AU-55 has dropped from $2600.00 to $837.50—68%!

A STATISTICAL SUPPLEMENT

I guess the high cost of money is finally getting through to the credit departments. That may explain the great improvement in store billing performance. 15 stores are on the Honor Roll and THREE STORES FOR THEIR BILLS OUT IN TWO DAYS!

HONOR ROLL

Eddie Bauer	2.0
Bullock's (S. CA)	2.0
Liberty House (N. CA)	2.0

Mervyn's	2.3	Gimbels	3.5
Rubenstein's	2.5	Emporium-Capwell	4.0
Horne's	2.8	Livingston Bros.	4.0
Routzahn	2.9	Macy's (N. CA)	4.0
Bullock's (N. CA)	3.0	I. Magnin (N. CA)	4.0
Waldoff's	3.0	Robinson's	4.0

CREDIT OFFICE RATING

	APRIL-MAY 1982			FEB-MARCH 1982		
	No. of	Days to Bill		No. of	Days to Bill	
Information From Reporters	**Reports**	**Avg.**	**Range**	**Reports**	**Avg.**	**Range**
Abraham & Straus (NY)	2	5.0	5	--	---	---
B. Altman (NY)	2	4.5	4-5	1	4.0	4
Bamberger's (NY)	2	5.5	5-6	--	---	---
Eddie Bauer (N. CA)	1	2.0	2	--	---	---
Bloomingdale's (NY)	2	4.5	4-5	1	4.0	4
Buffum's (S. CA)	1	6.0	6	--	---	---
Bullock's (S. CA)	1	2.0	2	--	---	---
Bullock's (N. CA)	2	3.0	2-4	1	2.0	2
Emporium-Capwell (N. CA)	4	4.0	3-5	7	3.6	2-4
Gump's (N. CA)	2	8.0	7-9	--	---	---
Liberty House (N. CA)	1	2.0	2	2	1.5	1-2
Livingston Bros. (N. CA)	2	4.0	2-6	3	4.3	3-6
Macy's (N. CA)	3	4.0	4	7	5.0	4-6
I. Magnin (N. CA)	4	4.0	4	5	3.4	3-5
McCaulou's (N. CA)	1	5.0	5	--	---	---
Nordstrom's (S. CA)	2	5.0	5	1	6.0	6
Penney's (S. CA)	1	6.0	6	--	---	---
Robinson's (S. CA)	2	4.0	4	1	8.0	8
Saks 5th Ave. (NY)	2	9.0	7-11	2	9.0	9
Sears (N. CA)	1	6.0	6	3	5.0	3-7
Shreve & Co. (N. CA)	1	6.0	6	--	---	---
Wanamaker (Philadelphia)	2	4.5	4-5	1	5.0	5
TOTALS	**41**	**4.7**	**2-11**	**35**	**4.4**	**1-9**

	APRIL-MAY 1982			FEB-MARCH 1982		
	No. of	Days to Bill		No. of	Days to Bill	
Information From Stores	**Reports**	**Avg.**	**Range**	**Reports**	**Avg.**	**Range**
Gimbels (Philadelphia)	36	3.5	3-4	36	3.5	3-4
Horne's (Pittsburgh)	10	2.8	2-4	--	---	---
Mervyn's (N. CA)	30	2.3	2-4	30	2.2	2-3
The Popular (El Paso)	10	4.3	3-6	23	3.7	2-6
Ross Stores (N. CA)	3	5.7	4-8	5	5.4	4-7
Routzahn (Frederick, MD)	9	2.9	2-5	3	2.7	2-4
Rubenstein's (Shreveport)	6	2.5	2-3	6	2.3	2-3
Waldoff's (Hattiesburg)	1	3.0	3	--	---	---
Wineman's (S. CA)	1	6.0	6	--	---	---
TOTALS	**106**	**3.1**	**2-8**	**103**	**3.2**	**2-7**

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

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

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

the period since 1950 because of reduction of services and assortment, again permitting lower cost operations. Supermarkets did the same thing to the neighborhood food store starting in the 1930s, and now superstores and warehouse stores are taking business away from supermarkets.

Department stores, today, are a mature business; discount stores are becoming a mature business; and specialty stores vary in maturity depending upon the particular field (sporting goods, specialty shoes, some forms of DIY and other specialty stores continue to report rapid growth).

In the mature or maturing fields there has been a tendency to develop heavier organizational superstructures. Payroll has risen dramatically both as a percentage of sales and as a percentage of operating costs. With the increased assortment of merchandise and increased number of specialty departments, more buyers and department managers are needed. Staff management has grown as evidenced by more and more vice presidents—credit sales marketing, energy conservation, employee benefits administration. It is now common for a larger company to have a chairman and a president splitting the main management function (because we no longer develop executives qualified in both merchandising and operations), supported by a chief operating officer, chief administrative officer, chief financial officer and a flurry of executive and senior vice presidents, each supported by the appropriate assistants and secretaries.

When it becomes necessary to reduce expenses, the selling expense is the one single large payroll classification (since all the above are separate "expense" centers but none are "profit" centers). Therefore, the action dictated is to cut that selling expense.

But selling expense is one of the few profit producing uses of payroll, especially in service (department and specialty) stores. The common complaints of customers are (1) I can't find anyone to wait on me; (2) the person I found doesn't know anything about the merchandise in the department; and (3) the salesperson feels that helping me is doing me a favor.

The result is a growing number of Chiefs and a declining number of Indians. This has not worked in the past and it will not work now.

Few, if any, retailers are willing to use a "zero people" planning basis for the organizational structure. They are unwilling to create a plan based on whom do I need to do what. Is it necessary to have a chief financial officer, controller, chief accountant and various accounting department heads? Must one have a vice president for sales promotion plus an advertising manager and a display manager? Is there a level of management that is totally unnecessary?

There has been so much growth in staff functions that the line corporals, sergeants and 2nd lieutenants are not permitted to do their line functions. They are tied up in procedures. Too many staff people spend time enforcing internal regulations (in government it would be called red tape) and too little time asking (1) is the regulation necessary? (2) if necessary, can it be made simpler? and (3) can it be combined with something else that we are already doing?

It seems that staff functions grow proprotionately larger in slow growth companies than in fast growth companies. Titles are inflated as a means of "rewarding" faithful (and often effective) service. But the new title brings a new self-image which means additional expenses—attending new conventions, making new forms of work, and finally needing someone to fill the old position. A few companies appear to have avoided title inflation. For example, Southland seems to run large groups of stores with nothing more than district managers, while smaller convenience store chains need a vice president. Vice presidents, so often, in addition to getting the key to the executive bathroom, also get executive health plans, personal cars, and may even travel first class; district managers get none of this.

In the meantime, warehouse food outlets have eliminated item marking and are using cheaper fixtures and buildings and are taking business away from supermarkets and superstores. Marshall's, T J Maxx, Hit or Miss, Pic-A-dilly, Pic'n Save and other off-price operations are growing rapidly. Of course, growth tends to slow when (1) territories are no longer exclusive (this is happening with catalog/showrooms); and (2) true distress merchandise is not available in sufficient quantity to support the number of outlets (this is happening in the Hit or Miss and Pic-A-dilly field) with the result that stores have to buy at or close to regular price to keep their stores stocked.

One of the truths of retailing is that all new forms that have been accepted by the public have enjoyed a period of rapid growth followed by slowing growth, then maturity and in some cases declines and disappearance (for an example of disappearance consider the variety store and the furniture warehouse store).

Yet even in mature or declining fields one will find management that continues to produce outstanding results. In department stores one need merely look at some of the accomplishments of Nordstrom's or Bloomingdale's (Bloomingdale's proves that concepts are not fundamental to the parent holding company because other Federated divisions are not doing as well). Conventional variety stores operated by Woolworth, Kresge, Kress, McLellan, Green and others are disappearing (or have disappeared) and profits are dropping faster than sales. Yet M. H. Lamston in New York City shows 10%+ per year sales increases, 20%+ per year increases in earnings per share and a 25% return on first of year equity.

In most cases, as RT has pointed out before, the high performing retailers are either ones still run by the founder or the immediate successor of the founder (sometimes the "founder" was really not the first person to start the company because RT considers Francis Rooney the "in loco Founder" of the modern Melville Corporation). Most report substantially below average turnover at all levels of personnel. It is true that these companies tend to have faster growth and thus avoid the clogged organization chart that, as mentioned earlier, leads to so much job title inflation and so few opportunities.

RThought: There are so few retailers in executive positions who were executives in 1929-39. I can recall as a youth talking to one of the owners of a women's clothing business that grew during the depression. He didn't look for miracles or the one magic stroke that suddenly would produce fantastic jumps in sales and profits. In fact, he looked for very small things. He said, "Everyday I try to find at least one improvement that I can make and I usually find more." The savings might be as small as 20¢; but if it recurred every day, it was $60 a year in the days when a week's pay for a salesperson was about $10 (the 40¢ minimum wage did not come in until later—but neither did Social Security nor withholding taxes).

In every business today—and especially in those that are experiencing unsatisfactory profits or even significant losses—there are many 10¢ a day savings (although today there are likely to be $10 a day savings); but in so many cases, management doesn't seem to think they are worth the effort. They would rather search for the magic move that will suddenly bring 15% sales increases in like stores and a 20% return on equity.

Honestly–those magic moves don't exist. If they did, the 70 or 80 new top executives at Montgomery Ward would be putting them into place.

RETAILERS AND UNWANTED PUBLICITY– LUCKY STORES VERSION

The newspaper item on the annual meeting read, "The most nervous people probably were the publicists at the Lucky Stores, Inc. annual meeting. They turned away news photographers and the meeting was half over before they provided the proxy statement, which contained the meeting agenda."

RThought: Apparently the reporters couldn't pass a Pathfinding Merit Badge because the agenda was on tables at the entrance. But next year Lucky Stores better see that the directors and management comb their hair and wear clean shirts because photographers belong at a stockholders meeting.

SHORT SHORTS

The growth of children's departments surprised many discounters. It shouldn't. Although our birth rate is down, the number of births are up reflecting the arrival of the WW II baby boom as parents. In the 1950s it was customary for their parents to buy their own needs at a department or specialty store but to outfit their kids at Penney's. This proved that the mother was a frugal shopper. Today discounters have replaced Penney's as Penney's tries to be a department store.

The problem of presenting numbers. Persons writing articles that include numbers feel that they must personalize every change. Newspapers appear incapable of producing a plus or minus sign. They then feel that "up" and "down" are inadequate so they reach for adjectives to describe the change. In a recent 9 column inch article on auto sales by Japanese companies, the numbers were described as follows:

fell	1.9%	
	2.5%	drop
edged down	2.7%	
fell	2.8%	
slumped	2.9%	
	4.4%	drop
declined	7.3%	
down	9.3%	
fell	21.1%	
plunged	25.0%	

It is apparent that "declined" is about three times as bad a change as "edged down" and that "fell" has virtually no consistent meaning.

Could this happen in the U.S.? The International Association of Department Stores, in their February 1982 RETAIL NEWS LETTER reported as follows on the Delhaize Le Lion food group in Belgium: "The supermarket division–the group's most important domestic division–was unable to open any new stores during the year because of the prevailing legislation regulating retail expansion"! Delhaize Le Lion owns Food Giant Stores ($591 million) and 52% of Food Town Stores ($667 million) in the U.S.

How many incompetent programmers are in our midst? A great many, I would say. For example, the Airline Passenger Association insurance renewal came showing I could upgrade to higher insurance–$999,999 1st year through $1,249,999 4th year and later. Plus a separate slip saying they meant to say $1,000,000 and $1,250,000.

Sears stock should rise now that the financial side is blooming. This will happen because of better understanding of Sears by analysts. Until recently most investment analysts classified Sears as a retailer. RT has written that Sears stockholders would benefit if the firm was split in two. Kidder, Peabody is taking the next best step–having analysts from the financial services area join with the retail analysts in evaluating Sears.

Those small towns may look better in the future. The number of farms increased in 1981 (ever so slightly–by 0.3%) for the first time since 1935. And the average age of farmers reported in the 1978 farm census dropped for the first time–although still slightly above 50. It is expected to drop more in the future.

A WORD TO THINK ABOUT

When I was young, I loved to read the poems of Rudyard Kipling–the strong rhythm, the feeling for the underdog, the frankness of his criticism of what was wrong or unfair has never left me. I know that he should have been made the Poet Laureate of England in 1930 instead of John Masefield. Bartlett's Familiar Quotations, 14th edition, agrees; they gave 13 columns to Kipling against 3 to Masefield.

Kipling's thought for today's executive is called–

IF

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting,
Or being lied about, don't deal in lies,
Or being hated, don't give way to hating,
And yet don't look too good, nor talk too wise:

If you can dream–and not make dreams your master;
If you can think–and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;
If you can bear to hear the truth you've spoken
Twisted by knaves to make a trap for fools,
Or watch the things you gave your life to, broken,
And stoop and build 'em up with worn-out tools:

If you can make one heap of all your winnings
And risk it on one turn of pitch-and-toss,
And lose, and start again at your beginnings
And never breathe a word about your loss;
If you can force your heart and nerve and sinew
To serve your turn long after they are gone,
And so hold on when there is nothing in you
Except the Will which says to them: "Hold on!"

If you can talk with crowds and keep your virtue,
Or walk with Kings–nor lose the common touch,
If neither foes nor loving friends can hurt you,
If all men count with you, but none too much;
If you can fill the unforgiving minute
With sixty seconds' worth of distance run,
Yours is the Earth and everything that's in it,
And–which is more–you'll be a Man, my son!

Put up 7/82 RT

(*continued from page 1*) minute. Don't ask me to do in four years what you couldn't do in eighteen.

How do you get across to a player?

You have to give a player what he needs as an individual. Some you have to chew out, some you have to hug. The one rule is treat them all fairly.

What's the most important ingredient in winning?

To set your goal and to plan how you're going to get there. There's nothing mysterious about the process. It takes pride, hard work and class.

What about picking winning players?

I've made my share of mistakes there. I've kept people on, worked with them, invested time, because I thought I could help them. It turned out I couldn't. On the other hand, I feel I've helped people work up to their potential, helped them in other ways, just by staying with them.

I've also made the mistake of giving up on many people who turned out to be great players (because they never gave up on *themselves).* The point is that you have to keep trying, not give up on people too early, if you see something in them you can work with—that basic ability.

What kind of ability do you look for?

There's intelligence, for instance. That's an important fact many people don't appreciate. Football isn't a game for a dummy. There are so many things going on in a football game people watching don't know about.

How does a coach who is known for winning handle his losses?

I never talked a whole lot about losing to my teams. I think you should lose a couple of times just so you know how it feels. And lose with dignity. Look at it as a stepping-stone to the next time, when you win.

Then are you the kind of leader who looks on defeat as a way to learn?

You learn a lot more from winning.

What is it you did, all those years, to get players to win for you?

They didn't win for me. They won for their parents, their sweethearts, themselves, the institution.

Is there any reliable way of finding potential in people and making the most of it?

Hell, I don't know, and if I did know, I wouldn't tell anybody. □□

PRACTICAL BUSINESS

. . . management

□ **New managers** should be made aware from the very first day they are promoted that their primary task is to be *leaders,* says *Keith B. Roofner,* vice president of sales and marketing of Pittsburgh-based Polyplastics, Inc. New managers often try to hold on to the duties they enjoy and fail to develop leadership. The problem is compounded if they get favorable performance reviews for doing these lower-level tasks.

□ **Standards of accountability** should apply to everyone, from the janitor to the president. Some companies make a big fuss about measuring the output of a $7-an-hour machine operator but ignore standards of performance for the $100,000-per-year executive in charge of the whole division.

John A. Patton, writing in *Phoenix Business Journal,* 1817 N. 3rd St., Phoenix 85004, weekly, $27.30/yr.

□ **When a new idea** is presented, suspend criticism. Instead, ask your staff to suggest improvements. Only when the idea has been put in its best possible form should criticism begin. That way, you'll avoid offhand rejections of ideas that do have potential merit.

Retailing Today, Box 249, Lafayette, CA 94549, monthly, $30/yr.

. . . productivity

□ **Quality circles** and similar productivity-boosting efforts that depend on employee participation can easily backfire. *Traps:* A majority vote of the quality-circle members replaces managers' decisions and also alienates the employees who don't agree with the majority. Managers may learn to manipulate the circles to avoid tough or unpopular actions. *Recommendation:* Introduce quality circles only in work groups that are friendly to management.

Roy W. Walters, president, Roy W. Walters & Associates, productivity consultants, 45 Whitney Rd., Mahwah, NJ 07430.

□ **Overall productivity** in the company is what counts. Some employees can affect an organization *adversely,* even if they get their own jobs done. They are the ones who use company time for personal activities or spend time chatting with other workers.

Supervisory Management, Box 319, Saranac Lake, NY 12983, monthly, $18/yr.

. . . financial management

□ **Business yardsticks.** Compare *current* performance with *projections* rather than last year's performance. Under shifting business conditions, comparing results with the previous year's allows managers to throw up a barrage of excuses based on circumstances that have changed. But projections should take these changes into consideration.

How to Manage a Turnaround by Stanley J. Goodman, The Free Press, 866 Third Ave., New York 10022, $18.95.

□ **Negotiating a loan.** To make more working capital available, arrange to repay the loan in quarterly, semiannual or (best of all) annual installments—rather than monthly.

Business Owner, 383 S. Broadway, Hicksville, NY 11801, monthly, $66/yr.

. . . motivation

□ **To improve others'** performances: (1) Set objectives properly. (2) Involve the others in the decision process. (3) Measure their performance. (4) Tell them how they've done. *Trap:* Companies often have feedback systems in place, but they usually pass on *only* criticism.

Fran Tarkenton, former quarterback, Minnesota Vikings, now chairman of Tarkenton & Co., management consultants, 3340 Peachtree Rd. NE, Atlanta 30026.

□ **Informal praise** can be more valuable than a formal evaluation. One senior manager sends a note home to an executive's spouse to praise work being done in the office *before* a formal evaluation.

□ **Stimulate employees' minds** so that after quitting time they'll still be thinking about work, at least subconsciously. *Key:* At the end of the day, mention to the liveliest thinkers the following day's projects. *Example:* Let's get together tomorrow to discuss a new vacation-pay system. See what ideas you can come up with.

Bert Decker, Decker Communications, Inc., 999 Sutter St., San Francisco 94109.

Boardroom® Reports (ISSN 0045-2300) is published 24 times a year, twice monthly, by Boardroom® Reports, Inc., at 500 Fifth Ave., New York 10110. $49/yr.
Second-class postage paid at New York, NY, and at additional mailing offices.

2/1/83

Dear Sir/Madam:

We are preparing the third edition of a textbook entitled Modern Retailing: Theory and Practice to be published by Business Publications, Inc. in 1984 and intended for use by college and university students. I would like your permission to reprint in this book and any future editions, the material indicated below. We are interested in securing world rights.

Author(s): Robert Kahn

Title: "The Cost of Price Fixing," Retailing Today

Year: 1982 Volume: Month: July file w/ Mason

From page 1 beginning: "Would you believe . . .

to page ____ ending: . . .a basic commodity to all income levels."

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CONVERSATION PIECES

The demand for liberal arts graduates is rising. Stanford University reports that during the 1980-81 year 116 companies interviewed liberal arts students, compared to only 11 firms four years ago. Liberal arts graduates can help companies avoid the morale problems generated when a brand-new MBA joins the firm at a higher salary than more experienced workers.

Brand-name products are surfacing more and more in the movies lately. That's because the use of actual products, originally done only to lend verisimilitude to a film, has become a form of advertising for some manufacturers. The practice is called "product sampling."

How to communicate bad news is the subject of a client newsletter one consulting firm issued earlier this year. Much of the reaction to a baleful announcement from management, the newsletter advised, depends on how the tidings are presented. For instance, bad news always looks better when presented beside something worse. Secondly, choose for your spokesperson someone who enjoys high standing among employees and stockholders.

Men's jewelry is difficult to insure. Women are more likely to wear their jewelry regularly and to know where it is at all times. Men also tend to indulge themselves in more expensive baubles when they shop for jewelry.

Small businesses report that growth is outpacing their ability to handle information. A research firm notes that even small professional practices such as physicians' offices are turning to automation to process client data and manage finances.

The chronically late who seek greater heights of inventiveness in excusing themselves to their bosses have a new source of help. It's a custom-made pay telephone booth that offers 14 taped backgrounds to reinforce whatever the caller comes up with. Soundtracks range from the stale traffic jam or airport delay ruse to the more exotic prison riot or cattle drive. About half the callers use the machine just to be funny.

Video game addicts may risk chronic problems of the hands, wrists and shoulders, warned an Emory University physician at the Pan-American Congress of Rheumatology.

A solar-powered lounge chair is now available for those seeking the perfect tan. The chair rotates automatically every fifteen minutes for a more uniform bronzing.

One beer distributor has found a way to use bottle refunds to increase sales. Rather than mailing refund checks to their customers in exchange for returned kegs or bottles, the sales force now hand-delivers them. In addition to saving postage costs, personal delivery offers the opportunity to pick up additional orders or sell new displays. Their treasurer enthuses, "A manager can always see a salesperson if the salesperson has money to give him."

Electroniture, the marriage of computers and office furniture, is becoming a necessity for many executives. One CEO had an oak desk custom-designed to include a computer, stock market display screen, telephones and tape recorders built into recesses in his desk. Even if you cannot envision a computer in your office now, make sure any new desk has a channel for electrical wires.

Economizing on pencils can actually waste money. The time required for sharpening a broken or unevenly worn pencil costs just as much as buying a new good-quality pencil. If the writer's train of thought is interrupted as a result, the cost is even higher.

The most productive time for work for many is early in the morning, before most employees have arrived at the office. Most CEO's find this their best time of day for working steadily without interruptions.

Best of the month . . .

Once again it is our pleasure to commend to your attention these brief glimpses of articles selected from over 400 authoritative sources because of their timely significance to executive readers – both at their desks and "after hours." If you like their flavor . . . we'd be delighted to give you the address of the publishers of any magazine listed.

CAMBRIDGE ASSOCIATES
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Shrewd retailing

☐ **For customer service** purposes, classify customers according to the volume or profit they produce. This isn't so much to guarantee major customers special treatment as to ensure that extraordinary measures aren't taken for nickel-and-dimers.

☐ **Obtrusive security measures** such as uniformed guards and TV cameras in stores anger many shoppers into wanting to beat the system. Camouflaged cameras and guards in plain clothes may be equally effective without provoking the urge to steal.

Research by Dr. Michael Mills, University of Southern California, Los Angeles.

☐ **Follow up on customers** who buy things by check with an invitation to open a credit account. Get their addresses from their checks.

Retail Control, 100 W. 31 St., New York 10001, monthly, $20/yr.

☐ **Not low enough.** Buyers who had postponed major purchases said that they would consider buying an auto if the financing cost were down to 12.1%, and a home and household appliances if the interest cost dropped to 11.6%. Since current rates are above that, the soft markets on high-ticket items will continue.

Institute for Social Research, University of Michigan, Ann Arbor, MI 48109.

☐ **Normal store hours** (8 AM–6 PM) are less sensible as more women enter the work force. *Better:* Noon to 9 PM or 9:30 PM. Stay open for business on Saturdays and Sundays where permitted, and close one or two days during the week, if necessary. (A Wednesday-through-Sunday schedule is ideal for many.)

Retailing Today, Box 249, Lafayette, CA 94549, monthly, $30/yr.

☐ **Better customer surveys.** The typical questionnaire asking for a simple yes-or-no answer on whether customers were satisfied with service can be misleading. Customers are reluctant to check *no* because it suggests they made a stupid choice. *More revealing:* Give brief descriptions of *varying* degrees of satisfaction. Customers choose the closest one.

Findings, 24 Furnace Brook Dr., Peekskill, NY 10566, 10 issues, $45/yr.

the oil field supply business, for example, it was relatively easy to go public at 12–15 times earnings up to a year ago. Today, the industry's leaders are selling at only six times earnings. The public is not going to purchase a new oil field supply company stock at 12 times earnings now when the established suppliers are going for so much less.

The market, however, is enthusiastically responding to new high-technology companies that are going public. In this area, companies can sell themselves if they have a particular area of expertise. The public is buying above-average growth and unique market position.

The fact that the current stock market is dominated by the institutions is no longer the impediment to going public it used to be five or six years ago. Institutions are now important in initial public offerings, particularly in high-technology areas.

For companies already public and contemplating whether to issue new stock, the trade-off revolves around the alternative costs of financing. What is a company's cost of debt compared to that of equity? If the price of a company's stock is going up and, at the same time, financial managers believe that interest rates are going to rise, then it makes sense to sell stock. But if interest rates continue to fall, it's better to wait. Many companies are issuing stock to retire debt. But the calculation depends on a continued assessment of the direction of interest rates and the reactions of the bond and stock markets to that direction.

MURRAY HILLMAN

Asking the right business questions

More than ever, the key to business survival and to becoming a winner in the marketplace is the ability to ask the right question at the right time. It is more important than ever, in fact, because this is the age of information overload. Managers generally have a great deal of information available, but little of it is important.

Managers must learn to pinpoint what they need to know to make critical decisions and be able to spot what they don't know. Only then can they tap existing information banks or develop new information to deliver the right answers.

Too often, the questions executives raise now are nothing more than mirror images of those they grappled with and for which they found answers previously. Ten years ago, General Motors Corp. should *not* have asked itself how it could duplicate its past success, but rather *why* foreign imports had gone from zero in the US market to 15%.

To take one industry group—consumer-goods companies—the management-information systems now in place can tell how much of its profits come from various product lines, different geographical areas and different sales managers, as well as how much the company earned in the last 45 minutes. But top management should also know something about the *quality* of its profits.

Key question: Is the share of profits from its *loyal* customers growing, remaining stable or decreasing?

The most important overlooked question is *What if?* For instance, what if the marketing forces that influenced business in the past cannot be extrapolated into the future? What if the sleepy competitor suddenly wakes up? ☐☐

Hillman: How to find out what you don't know

The first stage for managers: *Organize ignorance.*

Make a checklist of the factors that impact on revenues and profits and the information that explains why these factors *drive* the business.

List the unknown variables that *might* impact the business. *Ask:* What if we discounted? Would it break down consumer loyalty? What if we changed an existing product? What if we increased advertising? Is information currently available to better understand and manage those variables?

Likely fallout: Managers will become more comfortable ferreting into unknown territory. They will create new information systems that will lead to new knowledge, better questions and, ultimately, better decision making.

Boardroom interviewed Murray Hillman, president, The Strategy Workshop, Inc., 575 Lexington Ave., New York 10022.

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RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

AUGUST 1982 **VOL. 17, NO. 8**

WHO WANTS TO CLOSE ON SUNDAY?

Any major retailer interested in closing on Sunday should chat with Vince Conant, vice president for information systems at Carter Hawley Hale. According to **Inside Retailing** July 12, 1982 (Box 981, Darlinghurst, NSW 2010 Australia $165/yr), at a meeting of the Australian Confederation of Apparel Manufacturers, Conant said that some U. S. department stores would like to close. He is quoted as saying: "We have been opening on Sundays in California for 10 years, and my feeling is that the average retailer would be a lot happier if his opposition did NOT open on Sundays. But nobody knows who is going to be first to close. When we got into it, we thought it was the smartest thing going. But it doesn't appear to be as beneficial as we thought it would be. All we know is it costs money and when you consider the staffing we have put up with, and the utility of having the stores open, it doesn't seem to be worth it."

Thought: One of the hardest things to analyze is whether volume is shifted or increased when store hours are changed. There are several kinds of shift. The most costly one is when adding hours shifts your own volume from one time period to another with no increase in sales. The desired type of shift is from one store to another now that your store has more convenient hours. This can be profitable to the gaining store, but there is no net increase in retail sales volume. The best shift is a shift from non-merchandise expenditures (such as entertainment) to merchandise expenditures as a result of longer store hours. This produces an increase in total retail volume but no increase for the total economy.

Many types of businesses set their hours to suit their customers. A fine restaurant usually opens only for dinner; whereas, a Denny's or a McDonald's may be open 24 hours. Neighborhood movies are open only in the evenings except weekends when they add the afternoons, while downtown movies may open in the morning. Barbers, in many areas, close on Monday and are open on Saturday in order to keep to a 5-day week and still service customers who cannot get in during the regular work week.

Banks have gradually been extending the hours they are open—and are meeting pressure for additional hours through automatic teller machines. Most baseball games are played in the evening when people can attend (except for the Chicago Cubs).

The best store hours are **not** those that match the working hours of most customers, particularly with the increasing number of wives working full or part time. Monday to Friday is still the most common work week (I would estimate it is worked by 70 percent or more). And 7 a.m. to 6 p.m. covers most of the work schedules (again I would estimate more than 70 percent).

Logic would lead one to the conclusion that retail sales could be maximized by being open some but not all of the days from Monday to Friday plus the weekends, and by being open afternoons and evenings with morning hours only a few days a week. This sort of comes down to a Tuesday-Sunday or Wednesday-Sunday schedule (the latter gives all your own workers 2 consecutive days off) and open 12 noon to 9 or 9:30 p.m. on weekdays, 9 to 9 on Saturday and noon to 5 or 6 on Sunday.

There is a familiar ring to the schedule. For years GEMCO, the discount arm of Lucky Stores, was closed on Monday, open noon to 9 Tuesday to Friday, 9 to 6 on Saturday and 12 to 5 on Sunday. Gradually, they have extended hours to 10 a.m. on weekdays and then opened on Monday as well. (Note: In 1941 I recommended that Macy's first branch—Parkchester—be open noon to 9 on Monday to Friday and 9 to 9 on Saturday. They rejected the recommendation—then!)

If one compares the annual sales figures of GEMCO as reported in the annual reports (admittedly a very gross figure for analysis), they do not seem to have made an exceptional gain in sales per square foot as a result of extended hours.

RThought: If you run a very expensive boutique on Rodeo Drive in Beverly Hills, you can operate from noon to 5 p.m. Monday to Friday by appointment and maximize your sales volume—because that covers just about all the shopping hours your customers might want. At all other times, your customer is doing something else and never would consider shopping.

THE REAL RATE OF BANKRUPTCY

You will read that in 1982 there will be more business bankruptcies than any year since 1932. Through the courtesy of Dun & Bradstreet and the American Institute of Economic Research (Great Barrington, MA 02130, Research Reports, May 3, 1982, $35/yr), we can put that in perspective. Failures per 10,000 firms listed with D&B are running about 70 compared with 150 per 10,000 in 1932. Liabilities of failed businesses during 1981, in inflation-adjusted dollars, were about 10%–15% below the peak in the 1974-75 recession. AM International, Braniff, International Harvester and a few others not yet settled will greatly boost the amount of liabilities in 1982 but not significantly change the number of failures.

CONCEPT RETAILING

RT has in the recent past dealt with the appearance/disappearance of retail firms that have now/in the past been identified as "concept retailers." This is a term developed by stock market financial analysts as they proclaim that one or another retailer has some magic that puts it above competition and thus above the financial impact of competition.

Most of the "concept retailers" have been specialty operators; that is, they vend a limited range of merchandise. Baskin Robbins has 31 flavors of ice cream (they actually carry more, but concepts must remain concepts); imitators promptly imitated.

It should be pointed out that retailing has only two basic dimensions: assortment and service.

Assortment refers to the variety of types of merchandise (departments or classifications) carried. Selection within varieties is always offered, though the range of selection may vary.

Service is a single word used to reflect the presence or absence of selling help, location and parking convenience, and physical plant attractiveness. It represents appeals to ease of shopping and satisfaction from the act of shopping independent of satisfaction from the merchandise vended.

Low price is not a concept because price, if a business is to be permanent, is a function of cost and not the other way around. The founder of a business may seek to offer merchandise at a lower price than other firms, but to do so he must settle on an assortment/service combination that will result in low costs permitting low prices. Since many costs relate to size of the store(s) created, establishment of the correct store size, in relation to volume attainable in a given location, is fundamental to attaining the desired costs but does not distinguish a concept of firm from a nonconcept firm.

On this basis all retail firms can be placed within the following matrix:

Assortment \ Service	Full	Limited
Full	Full Service Full Assortment	Limited Service Full Assortment
Limited	Full Service Limited Assortment	Limited Service Limited Assortment

Service and assortment are, of course, continuums with an infinite number of levels: Supermarkets are generally self-service but may have service meat departments, health food advisors, catering service, etc. Department stores are generally service stores but may have self-service toy departments and self-selection (limited sales help availability) in other departments.

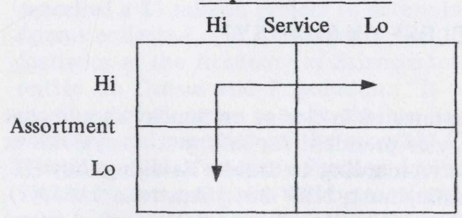
Examples of stores that would appear in each matrix boxes are given below:

Full Service, Full Assortment:	Department stores
Limited Service, Full Assortment:	Discount stores D.I.Y centers Combination stores
Full Service, Limited Assortment:	Men's fashion stores Women's fashion stores Guild quality jewelers Full price furniture
Limited Service, Limited Assortment:	Factory outlet stores Remainder/surplus outlets

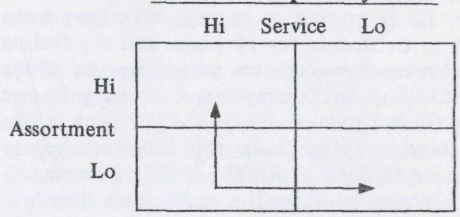
It should be pointed out that only the department store, in all of retailing, has sought to establish a position as a full service, full assortment store. This was the strength that brought rapid growth in the 1880-1920 period when the choice available to the customer was only between full service-full assortment and full service-limited assortment. Since the early days of department stores they have discontinued their grocery, hardware, feed and grain and other departments. Currently they are discontinuing yardage, notions, patterns, furniture and other departments.

Shown below are the more common migration patterns from the original concept of a firm:

Department Store

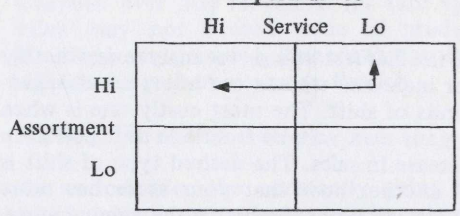


Traditional Specialty Store



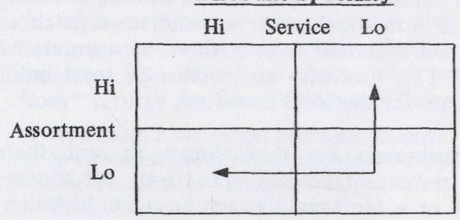
Men's stores
Women's stores
Hardware stores

Supermarket

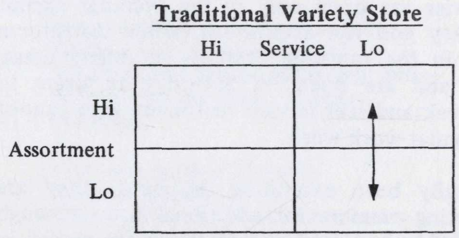


Super Drug stores
Super Food stores
Combination stores
D.I.Y. centers

Discount Specialty



Traditional Variety Store



RThought: If one traces the development of retailers that went public in the 1960s and have survived, one can use the service/assortment matrix to express the philosophic changes (if any) that have taken place. Those with the smallest migration had the soundest original concept; those with the greatest migration showed adaptability to the market but may never have attained the return on equity that was obtained by those that migrated less.

ABUSE OF NUMBERS—WITH CHARTS

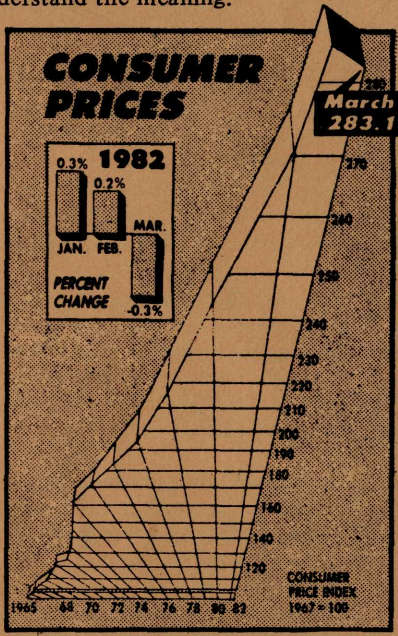
A picture may be worth a thousand words—but a chart can be manipulated to convey a thousand lies.

A chart is used to convey information quickly. But charts are prepared by chartists under the instructions of a statistician. Long ago it was said there are three kinds of prevaricators in the world: a liar, a damned liar and a statistician.

Two cases of gross distortions are shown below.

In an article on consumer prices, the first drop in the index in many years was reported. The drop was miniscule (only 0.3%)—but one would not gather that from looking at the chart accompanying the article.

To magnify the change the chartist used, in effect, a reverse logarithmic chart—notice that the distance between 260 and 270 on the right-hand axis (a 3.8% increase) is more than 4 times the distance between 190 and 200 (a 5.3% increase). The right-hand axis does not go down to 0—but only to 100. The chartist properly showed parallel lines across the bottom to indicate that the scale was interrupted—but few readers would note it or understand the meaning.

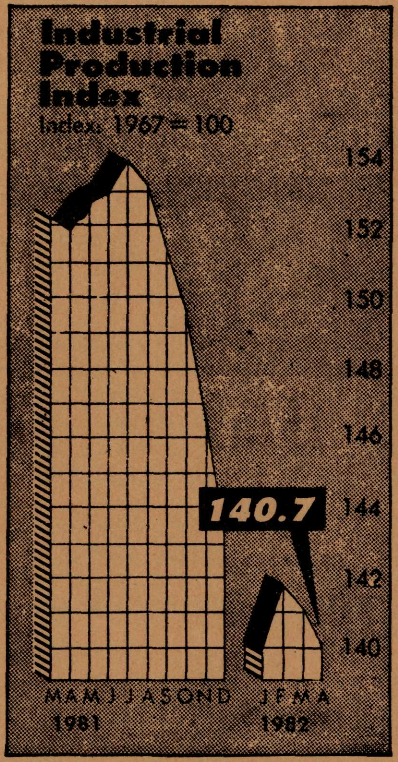


The illustration makes the 0.3% drop appear to be the solution to all our inflation problems. Just a few more months and we will be back to 1967 prices!

The same type of distortion appeared in the chart accompanying an article on the decline in industrial production since it peaked in July 1981.

The chart makes it appear as though the decline was 100%—the economy must have almost come to a stop. Readers who had jobs in factories must have wondered why they were going to work.

But the total drop was only 8.4% from about 154 to about 141!



SHORT SHORTS

Double coupons should mean double coupons. Safeway prints an additional coupon called "Double Coupon" which has to be presented with another coupon thus limiting the impact. They ran only 4 in one ad with use restricted to 3 days and requiring a minimum $5 purchase (question: before or after applying coupons) excluding liquor and dairy products.

Neiman-Marcus retains its glamour—3,000 apply in July for 400 jobs in the San Francisco store that will open in November. N-M will have the pick of many top people, particularly ones whose husbands have high incomes. One must never forget that with such people the discount on purchases for their family may be more important than the weekly pay check. I can recall the I. Magnin situation 35 years ago when many salespersons had annual pay less than the total of their employee discount.

You can buy with confidence from New England Business Services, Inc. (NEBS). RT has often criticized suppliers to business that offer bribes in various forms to persons who have the authority to write purchase orders. When such a firm does something good, it should also be noted. When many businesses in California were affected by floods and landslides in early 1982, NEBS wrote to all customers offering assistance—replacement, **at no charge**, for NEBS merchandise destroyed and an additional 60-day term on any current balance.

Books by the pound? Perhaps. Such sales have been successful in England and Australia—although they use a kilo instead. About $3 a kilo should do it—and move out lots of remainders.

In some cases the number of competing outlets offering the same merchandise forces an entire industry to migrate–as supermarkets migrated from limited to greater assortment and in some cases from limited to specialized service.

Most discount stores migrated to larger selection within their original assortments and, in many cases, to greater assortment (D.I.Y., pharmacy) combined with some reductions (in-house food departments).

The use of the matrix helps compare firms with widely divergent service policies and offering any type of retail merchandise.

SURE THERE ARE A LOT OF JOBS

Almost every conservative politician says that the people out of work are just lazy. All they want to do is collect unemployment or welfare and do nothing. "After all, there are hundreds of jobs advertised every day."

One of the largest such advertisers is the **Los Angeles Times**, especially on Sunday. So my assistant and I analyzed the May 16, 1982 "Job Opportunities" listing–51 pages of them.

There are a lot of specific jobs described–5,181 to be exact (sometimes they wanted more than 1 person).

This is how I would classify the jobs available that day:

Bookkeepers, accountants, credit people and higher financial positions	342
Data processing and programming people	468
Clerical, stenos, word processing personnel, PBX, bank and insurance personnel	783
Sales	502
Paraprofessional–including nursing, dental, medical, legal, hospital, therapists, etc.	596
Professional, including engineers, chemists, nurses, pharmacists, etc.	822
Managers and administrators	253
Skilled craftsmen and mechanics	648
Other jobs requiring literacy and/or special education	409
JOBS THAT PERHAPS COULD BE FILLED WITHOUT LITERACY OR TRAINING	358
TOTAL	5,181

Only 7 percent of the job openings are ones that might be **available** to a person with limited or no training and limited literacy and who is now unemployed and/or on welfare. These included domestics (41), assembly workers (3), dancers (2), delivery person (3), drivers (3), food service workers (5), housekeepers (4), laundryworker (1), maintenance workers (25), models (7), overseas jobs (6), production workers (60), restaurant workers (35), security jobs (60), and so forth.

This analysis clearly indicates that most of the unfilled jobs still require a good ability to read and write, even if prior training is not required.

RThought: It is so easy to say that anyone can get a job if he or she would just try. The main barrier is that much of the work force is functionally illiterate, if not actually illiterate. A comprehensive nationwide survey was made of literacy–the 1979 Adult Performance Level Project undertaken by the University of Texas. It found that 20 percent of the adults tested could not read a bus schedule, understand the finance terms of a credit statement or address mail so that it would reach its destination.

Although we consider ourselves a literate nation, we really are not. As computers and electronics change our environment, literacy is becoming much more important. It is no longer a case of being able to read simple documents and sign your name.

The increasing number of dropouts, as school work becomes more difficult, provides a constant input to the functional illiterate group. When functional illiterates have children, the parents are unable to help their children with school work and seldom provide an environment that encourages their children to learn to read and write at a level that will permit them to function in society. Thus illiteracy reproduces illiteracy.

The expanded procedure manuals now required in your business together with the more advanced POS and EDP equipment will reduce, with each expansion, the percentage of our society that have the literacy to handle the jobs in your organization.

Even the words that are used today in our modern business system are ones that are foreign to a majority of the potential workers. Yet I do not recall ever seeing a "definition of the terms" in an employee's handbook. Do you think people are born knowing what vesting or seniority or accrued vacation means? I think not.

You may not realize how serious the problem is in your own business. Do you think that a person with limited literacy who is barely holding onto a job is going to tell you all the things that they do not understand? Jobs are too hard to get to risk them by displaying one's shortcomings.

THINGS I WONDER ABOUT

Warren E. McCain, chairman of Albertson's, in the June/July issue of their employee publication, reported to their 30,000 employees on some points he had covered at the annual meeting.

Two points made with pride seemed to be unreconcilable:

1. They opened 24 stores in 1981.

2. They made progress on their 6-to-7-year plan to convert all stores to scanning–at a cost of $45 million.

Every trade publication reports the profit improvement obtained by use of scanning–in the food field it means true movement date, an ability to identify high shoplifting items (when stock on the shelf varies widely from the difference between input to the store and the number sold) and better control of selling prices. Other payoffs come from elimination of marking costs and more items handled per hour by checkers.

I don't know what 24 combination or super stores cost to open, but I know that it is much more than $45 million. I also suspect that the payback period (overcome preopening costs and initial losses to reach a cumulative profit equal to the total cost of investment and interest) is much longer for the 24 new stores than for the $45 million investment in front end scanning. Yet POS and like devices are always spread over a great many years "because of the high cost."

In the department store field, stores always have money to spend on new stores, new fixtures and internal ambience (the return on this investment often cannot be measured) but don't have money to retrofit older stores with POS devices.

RThought: The answer, of course, is obvious. Despite the lip service given to improving profits, retailers still tend to measure their company's importance in terms of total volume. When did the Wall Street Journal, the trade press or your local paper ever report annual or quarterly results for retail stores arrayed by the profits? Never.

Marshall Field managed to double sales with no improvement in total profit, produced a decline in return on equity and a weakened balance sheet and end up accepting a merger/purchase offer at three quarters of what had been offered several years earlier.

I picked Albertson's to make this point **because—they have not neglected profit.** Mr. McCain also told the 30,000 employees that this was the 21st year in which they had higher sales and earnings—and for years Albertson's has produced one of the highest rates of return on equity in the supermarket industry. But I still wonder about spreading the scanning conversion over 6 or 7 years.

BAMBERGER'S RECOGNIZES CUSTOMERS' PROBLEMS

Ed Epstein of Bamberger's has been kind enough to send a copy of the ad they ran when a tornado destroyed a hundred homes in South New Jersey not far from one of their stores. The headline read:

AN IMPORTANT MESSAGE TO ALL OUR NEIGHBORS WHO SUFFERED STORM DAMAGE

In the body copy it said, "If you are one of our charge customers and find out you are unable to meet your financial obligations to Bamberger's during this unfortunate time, just come in and talk it over with our credit representative. We're sure something can be worked out. Special credit terms can also be arranged for the new purchases you'll be needing. If you'd like to open a charge account with us to help you over this period of particularly high expenses, we'll do our best to arrange extended credit terms."

RThought: Bamberger's proves again that when management wants to, even very large retailers can respond on a one-on-one basis to the problems of their customers. That is the way retailing should be—since we are a people-to-people business. This is the fourth time in recent years that Bamberger's has had occasion to do this.

DON'T COUNT ON THAT BABY BOOM

Many retailers are counting on the babies of the post-WW II baby boom to produce their own baby boom. But few realize how many baby factories are closed. According to a recently completed study by William D. Mosher at the National Center for Health Statistics, based on 1976 statistics, more than 28% of U.S. couples were, at that time, surgically sterile. Another 10% were infertile (this figure is rising among young people because of the increase in gonorrhea and in infections resulting from the use of IUDs).

This trend (up from 16% surgically sterile in 1965) certainly has continued during the 6 years since the last study.

The highest rate of surgical sterilization was among wives between the ages of 40 and 44—50%! This was up from 27% in 1965.

RThought: Despite rosy projections of a population increase, it won't come from a return to the high fertility rates experienced during and after WW II years. Our population increase may come from immigration, legal or illegal. But that will require more significant changes in our retail activi[ty] than if the increase was a natural increase.

SHORT SHORTS

Even if one accepts the underlying theory of the CPI (Consumer Price Index) (which affects the amount or allocation of about half the national budget), **how accurate are the figures?** The Bureau of Labor Statistics spends $20 million collecting and summarizing the information, but they have just cancelled a $1 million project to determine the accuracy of the figures collected. The Chairman of the Committee on National Statistics at the Academy of Sciences told the House Subcommittee on Census and Population: "It will probably surprise members of Congress to learn that we have no estimates of the accuracy and precision of the monthly Consumer Price Index figures on which so many funding decisions rest." **RThought**: This may not make you feel better if you have labor contracts with cost of living adjustments or try to adjust non-union rates for changes in the cost of living or have rents with a cost of living adjustment.

July advertising in Arkansas—is unusual. W. F. Beal is really pushing credit by offering "NO PAYMENT UNTIL NOVEMBER 1, 1982!" They don't mention whether finance charge is payable for the interval. **K mart** makes shopping confusing in a headline: "NOW EVERY TUESDAY DOUBLE COUPON DAYS" (sic). Just a few "exclusions" like "Manufacturer's Coupons Only. Excluding tobacco, coffee and free coupons. Coupons over 50¢ redeemed for face value. Double coupon value may not exceed value of product." Almost makes Tuesday a day to avoid. Perhaps that is the day the copywr[iter] will take a brush-up course in English.

WORDS TO THINK ABOUT

As we consider the constantly rising defense expenditures which contribute to large deficits which will make interest costs high and profits low for retailers, we might contemplate the ultimate result of two countries each demanding that they have a greater nuclear capability. For this we might turn to the Japanese who have been there and a poem by Sankichi Toge from "Liturgy for Four Voices and Congregation."

How could I ever forget that flash of light!
In an instant thirty thousand people disappeared from the streets;
The cries of fifty thousand more
Crushed beneath the darkness.

Yellow whirling smoke became light,
Buildings split, bridges collapsed;
Crowded trams burned just as they were—
Endless trash and heaps of embers,
Hiroshima.

Then, skin hanging like rags,
Hands on breasts;
Treading upon shattered human brains . . .
Crowds piled on the river bank, and on rafts fastened to the shore,
Turned gradually into corpses under the scorching sun . . .

The conflagration shifts . . .
Onto heaps of school girls lying like refuse
So that God alone knew who they were . . .

RThought: My thanks to the newsletter of the Mt. Dia[blo] Peace Center in Walnut Creek, California, for bringing these words and thoughts to me.

GRODINS OF CALIFORNIA

ARNOLD MICHAELS
Chairman of the Board

file w/ 8/82 RT

October 25, 1982

Mr. Vince Conant
Vice President
Carter Hawley Hale Stores
550 South Flower
Los Angeles, CA 90071

Dear Mr. Conant:

I just happened to notice an item, "Who wants to close on Sunday?" in Retailing Today. I can tell you Grodins (34 units) and Tannery West (a subsidiary, 23 units) would love to close on Sundays. Furthermore, we would be happy to join with anyone in an effort to make it come true. The most serious obstacles seem to be: one, shopping center developers; and two, how does one ever get a majority of retailers together on anything?.

If you are serious, so are we.

Sincerely,

Arnold Michaels

2225 GRANT AVENUE - SAN LORENZO, CALIFORNIA 94580 - 415 278-7000

Fleming Companies, Inc.

C.A. VERNON, JR.
Vice President
Marketing Services

October 12, 1982

File w/ issue

Robert Kahn
Robert Kahn & Assoc.
P. O. Box 249
Lafayette, CA 94549

Dear Bob:

This letter confirms ~~your kind~~ permission to use the article from your August 1982 issue, "Concept Retailing".

Thank you for permission over the phone in order to meet the time schedule we were facing.

Sincerely,

Atlee

Atlee Vernon

AV:bc

Two Townsite Plaza, Box 1160, Topeka, Kansas 66601 (913) 233-2800

acme inc.

The association of management consulting firms

230 Park Avenue
New York, NY 10169
Tel: (212) 697-9693

File w/RT

September 22, 1982

Mr. Robert Kahn, CMC
Robert Kahn and Associates
Business Counselors
P.O. Box 249
Lafayette, CA 94549

Dear Mr. Kahn:

I very much enjoyed reading the September 1982 edition of "Retailing Today". In particular, I was impressed with the article entitled "Rules for Teaching" on pages 3 and 4 and would like to receive permission to reprint the material for use in one of our future Newsletters.

Thank you for your kind cooperation and assistance.

Sincerely,

EDHendricks

Edward D. Hendricks
Director of Administration

EDH:nw

September 27, 1982

Mr. Edward D. Hendricks
Director of Administration
ACME, INC.
230 Park Avenue
New York, NY 10169

Dear Mr. Hendricks---

I am happy to grant permission to reprint the article "Rules of Teaching" from the September 1982 issue of RETAILING TODAY -- provided that it is reproduced completely to show that I gave credit to this to Tom Bailey and that my source was Campus Report which is published for the Stanford University staff.

Please say hello to Joe Brady for me.

Sincerely,

Robert Kahn, CMC

acme inc.

The association of management consulting firms

230 Park Avenue
New York, NY 10169
Tel: (212) 697-9693

September 22, 1982

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Robert Kahn and Associates
Business Counselors
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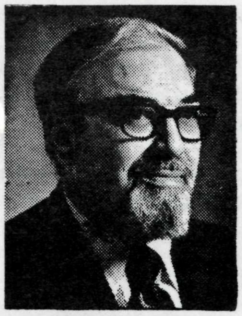
E D Hendricks

Edward D. Hendricks
Director of Administration

EDH:nw



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

ROUTE TO

Published Monthly
$30 per year
$37 overseas

SEPTEMBER 1982 VOL. 17, NO. 9

REGISTER THE VOTERS

As part of keeping in touch with the headquarters city for Wal-Mart, now that I am on their board, I read the Benton County Daily Democrat. And that is how I learned of Wal-Mart's participation in the "Register to Vote, America" drive.

County clerks and deputy registrars will be in all their 513 stores plus their warehouses and distribution centers. The first step will be to see that their 43,000 associates in 14 states have an opportunity to register. In 1980 75 percent of the then 23,000 associates registered, and this year the goal is 90 percent.

Registrars will also be provided space at the entrance to the stores for the registration of customers.

RThought: Retailers are in a position to make an important contribution to citizen participation in government. In almost every community and state the older people, 55 and up, have the highest percentage of registration. And at the other end of the range, 25 and under (where we find a high percentage of **our** employees) the registration percentage is the lowest.

If we want our democracy to continue, we should at least see that our own employees are (1) told about the importance of voting and (2) provided with an easy way (on the job) of registering.

DOES YOUR TRADE PUBLICATION TALK ABOUT ETHICS?

In the July 1982 issue of **Hardware Retailing**, published by the National Retail Hardware Association, Editor John Hammon, in his "In Perspective" column, wrote on "**A matter of ethics.**"

The content was not unique—the forum was. At RT we read about 40 trade and association publications (plus 30 to 40 others), and the subject of ethics is as rare as do-it-yourself instructions on bank robbery.

I think John Hammond put his finger on the reason why our business ethics tend to slip lower and lower when he quoted Thomas Paine: "A long habit of not thinking a thing wrong gives it the superficial appearance of being right." This explains the years that retailers stole credit balances from their customers, banks stole inactive deposits from their depositors, advertising departments defended absolutely dishonest merchandise representations under the right of the First Amendment and stores dishonestly billed the costs of cooperative advertising.

RThought: If you would like a copy of John Hammond's editorial, just send a stamped, self-addressed envelope to Ethics, Box 249, Lafayette, CA 94549.

THERE ARE TWO WAYS TO MAKE CHARITABLE CONTRIBUTIONS

RT has reported on and supported the development of 5% clubs and 2% clubs—and is encouraged by the increasing number of retailers that are making this commitment. Even more, RT is pleased that some of the closet 5% donors are coming out in public—such as Hechinger's, The World's Most Unusual Lumber Yard, who have had such a policy for about a generation and a half. There are others known to RT who are still in the closet.

But a retailer has a position in a community—and in an industry—that makes is possible to provide support in another manner.

Some years ago Southland—the 7-Eleven chain—became interested in the Muscular Dystrophy Association and its Telethon and supported it through their stores. Eventually they sold their fellow members in the National Association of Convenience Stores on the Muscular Dystrophy Association with the result that in 1981 the members of NACS raised $5.5 million. This year NACS expected to exceed that.

Partially as a result of this effort by Southland, other convenience store operators became interested in other voluntary health and welfare organizations. Convenient Food Marts in Chicago raised $100,000 for Easter Seals, and $66,000 was raised for the American Cancer Society by Sunshine-Jr. Stores in Florida.

RThought: Southland is now undertaking additional support for the Muscular Dystrophy Association through the Classic Car Show in Dallas (they plan to make this an annual event) held in August. And they have already raised funds and will continue to raise funds for the 1984 Olympics.

A number of discount chains—Zayre and Jamesway are two examples—encourage local managers to provide support for fund-raising efforts and coordinate major efforts through corporate headquarters.

Every major retailer has the opportunity to use his organization and its position in the community to provide this kind of support—yet too few do it. It is even more important today as the Federal government cuts and then cuts further much of the support provided in the past for the voluntary health and welfare agencies in our communities. The government has cut faster than organizations and agencies can respond. Those who will be hurt most are **our customers—and our employees.**

MERCHANDISING CREDIT TERMS

Breuners, the 126-year-old California furniture subsidiary of Marshall Field (slated to be the first disposal by BATUS?) continues to experiment with merchandising credit terms.

In the February 1982 RT under "5% Off on Charges to American Express!" we reported their offer of a 5% discount on any credit card (Visa, MasterCard or American Express) **except** their own. Because of a furniture store's large average salescheck, the discount rate is relatively low. With many sales over $1,000 California retailers are severely restricted by the finance charge limit–1.6%/month on the first $1,000 and 5/6ths of 1% above $1,000. With prime then at 16.5% (now 13.5%), the 5% discount on prices plus the discount on selling the transaction to the card company really represents something less than 7% overall. And it eliminates collecting finance charges that do not cover the cost of the credit operation even if receivables are financed at prime or prime-plus-1%.

Breuners took a different approach in their July clearance sale–offering to defer billing the purchase until the January 1983 cycle, 6 months later!

Let's look at the cost of this offer. Assume that Breuners **expected** accounts receivable financing at prime +1%, or 17%. The transaction remains a current receivable because no payment is yet due. The cost of financing the 6 months is 8½% plus the administrative costs of handling the deferral. This could cost more or less, depending on the change in prime. (They won that gamble since prime is now 13½%.)

RThought: One of the objectives of Truth-in-Lending was to give consumers enough information on credit costs so that they would be able to shop for the best terms. Current studies indicate that about half of the users of revolving accounts understand the cost of their credit–that is a large portion of the consumers to understand any single fact.

Breuners is in a segment of retailing hard hit for two reasons: lower home sales mean fewer people needing new furniture; and rising unemployment rates discourage major durable consumer good expenditures.

RT believes that both promotions brought a better result, at a lower cost, than offering 10% off (or an additional 10% off in the case of the clearance sale) on all the merchandise in the store.

DO WE SWITCH EXECUTIVES ENOUGH?

This subject was brought to mind by the following headlines that appeared in Women's Wear Daily:

August 6, 1982–COHEN LEAVES MERVYN'S FOR ROSS

August 9, 1982–COHEN RECONSIDERS, WILL REJOIN MERVYN'S

The first story reported that Ira Cohen, after 18 years at Mervyn's and then vice president and general merchandise manager for sportswear and ready-to-wear, would join Ross Stores, recently acquired by a group headed by Stuart Moldaw. Ross Stores will be converted to off-price merchandising under the presidency of Donald Rowlett, who headed Woolworth's J. Brannam chain from founding until joining Ross. The second article reported that Cohen was returning to Mervyn's.

But the above facts are not the point.

On the departure of Cohen, Mervyn's moved Pat Belardi, vice president and general merchandise manager for accessories, intimate apparel, cosmetics and jewelry, into the position vacated by Cohen. In the second article it was reported that Cohen would fill the position vacated by Belardi!

Both are top merchants and I am willing to bet that over the coming one to two years each will improve upon the job that the other was doing. And I am willing to make another even-money bet–that if at the end of two years they are switched back to their original positions, they will again improve on the performance of the other.

The constant problem facing every executive is how to maintain a fresh view on everything within his or her responsiblity. It is harder in retailing and service companies than in many manufacturing areas such as high technology. In retailing and service firms the work area and products tend to remain the same. Styles in sportswear or jewelry may change, but the departments remain about the same. There is nothing to compare with the excitement in a semiconductor company when moving from a random access memory with a capacity of 4,096 bytes (called a 4K RAM) to a 16K RAM and then to a 64K RAM and now attempting a 256K RAM.

In a merchandising career such job switches are easier to do at the merchandise manager level than at the buyer level. They can also be done at the store manager level.

RThought: I firmly believe that if competent store managers switch stores every 2 to 4 years they will improve results. This need not involve disrupting and moving families. Many large retailers have two or more units in the same metropolitan area. Even with just 2 stores in a metropolitan area I feel very strongly that switching the **same** two managers between stores every 2 to 4 years will produce better operating results than leaving the two managers at their "own" store for 6 or 8 years.

RThought: Since writing this article, Ira Cohen has a new position at Mervyn's–but the observations resulting from the first two news reports are still valid–and worth contemplating.

ARE MAJOR LAYOFFS NECESSARY?

Every day there are more announcements that companies are closing plants or laying off people. In some cases the firms making such announcements are ones that until recently had a reputation for rapid growth. Gone are the days of foresight, days of *attrition as a method of employment reduction*, and even the days of spreading the work as is practiced by some technology companies.

Some interesting thoughts were expressed on this matter by Kenneth Olsen, president of Digital Equipment Company (DEC) when he appeared before the New York Society of Security Analysts last March. A questioner asked him to expound on DEC's philosophy about not laying off people. His response is of interest:

> **"We never promised never to have layoffs, but it seems common sense to avoid it. When a company has to have a layoff, it's most often the management's fault. So at least for a while, we should take the licking, not the employees. In each recession, people want to test me to see if I'm brave enough to have a layoff. I'm willing to take that ridicule because it's paid off to hold on to our people. I don't have layoffs to prove how brave I am. At some time if it's the wise thing to do, we may do it.** RT

CAN SAFECARD SERVICES, INC., SAFEGUARD CARDS?

A new industry is developing that has some similarity to the insurance companies that insured against polio two decades ago but with a touch of Itel thrown in. These new companies, for a fee (much of which goes to sales commissions including kickbacks to greedy merchants milking their charge customers for a few more pennies) will insure you against any loss if your credit cards are lost or stolen.

Of course, most major credit card issuers do not press cardholders for payment in the case of legitimate losses and, if prompt notification is given, the most that could be claimed is $50 per card.

SafeCard Services claims to be the leader, and their financial report for the 6 months ending June 30, 1982 is interesting. At the end of June their stock was selling for a bit under $10 or 11 times reported earnings. They reported revenues up 58% (70% for the second quarter) and earnings per share up 12% (up 6% for the second quarter).

But let's look at a few factors.

As is done for magazines and insurance, people pay in advance. Sometimes they pay for several years. This produces a lot of cash. As of June 30, 1982 these advance payments totaled $25 vs. $11 million the prior June 30. Despite that large increase, cash and certificates of deposit were down from $10 to $6 million.

Where did the cash go? Well, "Deferred Direct Marketing Costs" were up from $15 to $25 million, and that is considered under "Generally Accepted Accounting Principles" to be an asset! It has all been spent.

Of course, we might not worry about such intangibles if they were small—but in the case of SafeCard this intangible asset exceeded the reported net worth by more than $6 million (compared with only $2 million a year ago).

Years ago retailers used to capitalize store pre-opening expenses, and there were many arguments over whether they should be written off over 1, 3, 5 or even 10 years. The longer the write-off period, the more current profit you reported. But that ended when Generally Accepted Accounting Principles required going businesses to write-off in the current period all R & D and other development costs.

But not so with the marketing costs incurred by SafeCard. SafeCard writes them off over 3 years. Their report says, "SafeCard's new programs introduced in recent years, however, do not have sufficient history to determine the full length of time revenue will be received."

Itel, the miracle company of a decade ago (now coming out of Chapter XI as a much smaller and contrite company), had a similar feature. Companies leased from Itel. Itel wrote straight leases retaining the right to the residual value (or sharing it with someone else on a leveraged lease). At the inception of the lease (receipt of the first month's payment out of 36 to 120 or more), they estimated the residual value coming to them at the end of the lease (if the customer made all the payments) and then, on a "scientific" basis, took 26% of the estimated residual value into current income!

When Itel got into trouble, they found that there was no value in those residuals. But the "other assets—residuals" were not quite equal to the book equity of the company. In SafeCard, as you can see, they exceed the book value.

RThought: We must return to the parallel with polio insurance which cost, as I recall, $10 for 3 years. We all feared polio—but only an infinitesimal percentage of the people got it. If the insurance company got in trouble, the probability of an individual policyholder being hurt was small, since most would not get polio.

I think the same is true of SafeCard's customers—if they remember to notify the card issuer in case of loss. Then the lack of tangible net worth won't hurt them.

SHORT SHORTS

The terrible profit from government regulation. The Insurance Institute for Highway Safety, a very selfish organization of insurance companies that want to make more profit (pay out less) because of deaths and injuries in cars, reports that post-1967 cars (the first to have mandated safety standards) had a 23% lower death rate from accidents than did 1964-67 models and 39% lower than pre-1964 models. **RThought:** By some form of perverse greed the auto manufacturers are resisting a mid-trunk, separate STOP light (it attracts more attention than the present mass of taillights) which has proven to reduce front-into-rear car accidents by 50%. Many taxi companies are installing this device. The objection? A projected cost per car of under $5.

POS in all its capabilities comes to convenience stores. Southland (7-Eleven) is testing a unit that in addition to price lookup and inventory and cash control will control heat and air conditioning, the gas pumps, incorporate a bar code reader and handle telecommunications with Southland's host computer.

What is hottest in mall leasing? National Mall Monitor WEEKLY (May 15, 1982, 2280 U.S. 19 North, Suite 264, Clearwater, FL 33515 $225/yr) quotes Jack Mitchell, VP of EDWARD J. DeBARTOLO CORP. as saying one-hour photo service. One is generating "unbelievable" traffic in their Youngstown Mall. John Raynoha of ERNEST W. HAHN, Inc. makes the same report, as does Owen Aronov of ARONOV REALTY. **RThought:** Do customers pick up photos in one hour? Is the quality good?

Are your stores in magnet states? The Newsletter of Sunset Magazine (Menlo Park, CA 94025) reports that Allied Van Lines analyzes moves each year and rates states as "magnet states" if 55% of the relocations are into the state. Eight of the 13 states are in the West. The first 3, in order, are Hawaii, Alaska (out of the Sun Belt) and Arizona. The others, alphabetically, are Arkansas, California, Colorado, Florida, Georgia, Louisiana, Nevada, North Carolina, Oregon and Washington. In total net movements in, California leads all states.

A STATISTICAL SUPPLEMENT

IMPORTANT NOTICE

When the Credit Office Rating was first started, the Honor Roll was set at 5 days. Very few stores were able to hit 5 days, although one must point out that most billing was being done on NCR bookkeeping machines and we were doing country club billing instead of descriptive billing. After about 10 years, during which many retailers accepted 5 days as a goal, so many stores were able to get their statements out in 5 days that we cut the Honor Roll requirement to 4 days.

In this report there are 29 stores reaching from coast to coast—and more than half of them, in fact 55%, are on the Honor Roll.

Starting with the next Credit Office Rating the Honor Roll requirement will be 3 days.

HONOR ROLL

Bullock's (N. CA)	2.0	May Co. (S. CA)	3.0	B. Altman	4.0
Liberty House (CA)	2.0	Weinstock's	3.0	Bamberger's	4.0
Mervyn's	2.5	Levy Bros	3.0	Emporium-Capwell	4.0
Bullock's (S. CA)	2.7	Waldoff	3.0	Livingston Bros.	4.0
Rubenstein's	2.7	Gimbel's (Phila)	3.6	Wanamaker's	4.0
I. Magnin (N. CA)	2.8				

CREDIT OFFICE RATING

	JUNE-JULY 1982			APRIL-MAY 1982		
Information From Reporters	No. of Reports	Days to Bill Avg.	Range	No. of Reports	Days to Bill Avg.	Range
B. Altman (NY)	2	4.0	4	2	4.5	4-5
Bamberger's (NY)	1	4.0	4	2	5.5	5-6
Breuner's (N. CA)	1	8.0	8	- -	- - -	- - -
Buffum's (S. CA)	1	5.0	5	1	6.0	6
Bullock's (S. CA)	3	2.7	2-4	1	2.0	2
Bullock's (N. CA)	1	2.0	2	2	3.0	2-4
Emporium-Capwell (N. CA)	3	4.0	3-5	4	8.0	7-9
Gump's (N. CA)	1	7.0	7	2	8.0	7-9
Liberty House (N. CA)	1	2.0	2	1	2.0	2
Livingston Bros. (N. CA)	2	4.0	4	2	4.0	2-6
Macy's (N. CA)	3	4.7	4-6	3	4.0	4
I. Magnin (N. CA)	5	2.8	2-3	4	4.0	4
May Co. (S. CA)	2	3.0	2-4	- -	- - -	- - -
McCaulou's (N. CA)	1	5.0	5	1	5.0	5
Nordstrom (S. CA)	1	5.0	5	2	5.0	5
Penney's (Philadelphia)	1	6.0	6	- -	- - -	- - -
Saks 5th Ave. (NY)	3	9.3	9-10	2	9.0	7-11
Sears (S. CA)	1	8.0	8	- -	- - -	- - -
Sears (N. CA)	1	5.0	5	1	6.0	6
Wanamaker's (Philadelphia)	2	4.0	4	2	4.5	4-5
Weinstock's (N. CA)	2	3.0	3	- -	- - -	- - -
TOTALS	38	4.5	2-10	32	4.8	2-11

	JUNE-JULY 1982			APRIL-MAY 1982		
Information From Stores	No. of Reports	Days to Bill Avg.	Range	No. of Reports	Days to Bill Avg.	Range
Gimbel's (Philadelphia)	36	3.6	3-4	36	3.5	3-4
Levy Bros (N. CA)	1	3.0	3	- -	- - -	- - -
Mervyn's (N. CA)	30	2.5	2-4	15	2.1	2-3
Ross Stores (N. CA)	4	4.8	4-5	3	5.7	4-8
Routzahn & Son (Frederick)	3	5.0	4-6	9	2.9	2-5
Rubenstein (Shreveport)	6	2.7	2-3	6	2.5	2-3
Waldoff's (Hattiesburg)	1	3.0	3	1	3.0	3
Wineman's (S. CA)	2	7.0	7	1	6.0	6
TOTALS	83	3.3	2-7	71	3.2	2-8

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

WHAT HAPPENED–THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established at the beginning at five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride—both to management and credit and data processing personnel—in being listed on the Honor Roll.

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

"But we have a big investment in those people. So keeping them, when we know things are going to turn around, is good business. It's also good business for our people to have confidence that we will not lay them off just to help our profit short-term. Their faith in the company is important. We might have layoffs someday, very reluctantly. Hopefully never."

RThought: Equally successful Hewlett-Packard has the same philosophy. They often turn down major contracts so as not to disrupt the orderly growth of the company. In very bad times they may work a four-day week.

BIG BROTHER IS HERE

For years many people have worried about the invasion of personal privacy through computers talking to computers. Computer professionals pooh-poohed the idea claiming it really wouldn't work. State and federal laws were passed to protect privacy. The Federal Privacy Act of 1974 says:

> "No agency shall disclose any record . . . except . . . with the prior written consent of the individual to whom the record pertains, unless disclosure of the record would be . . . for a routine use (the use of such record for a purpose which is compatible with the purpose for which it is collected)."

Robert Ellis Smith in the June 1982 issue of **Privacy Journal** (Box 8844, Washington, DC 20003 $79/yr) reports that the Reagan administration has, in effect, eliminated all review steps before matching computer files and allows agencies to make such matches if the **agency** is satisfied that "disclosure . . . would not violate . . . the Privacy Act"!

Here is what was done in tracking down men who did not register for the draft. Selective Service ran the names of those who registered against the 9 million names and addresses at Social Security for men between 18 and 22. The unmatched names from Social Security were then run against active military lists to delete those who did not have to register. The remaining names were run against the IRS files for the latest home address. The persons identified were turned over to the Justice Department who are sending warning letters to 500,000 men a month.

RThought: As the government administratively reduces the protection of the law, private data base owners will apply the same lower standards. (See Tom Paine's quote in box on first page.) Soon an informal request by the government to run a data file match with the major credit bureaus will be interpreted as an authorized use of the file. The end result is that no one will have any privacy.

Those who constitute the so-called "power structure," that is, the big donors to any administration then in place, will feel safe; but they are not. When information is handled in this manner, their enemies, who may be many, will also have "informal" access to the same files.

SERVING THE MAIL ORDER CULT

You may want to subscribe to a magazine called DIRECT ($9.97/yr, 60 East 42nd Street, Suite 1825, New York, NY 10165) to get a better view of what is happening in the direct mail field—a field in which most major retail firms are **not** represented.

I have just started reading DIRECT and was surprised at the number of firms that were charging for catalogs. The table below is based on the Oct./Nov. 1982 issue:

Free	85
Charge	47
Charge but refundable against purchase	8
Subscription basis	2
Subscription but refundable	1

Those that charge start as low as 25 cents but there were a significant number charging $3 or more ($5 was the highest).

I also learned a few other things. Apparently there is a pistachio war going on, and some sellers are misrepresenting the size of their pistachios. Pistachios are apparently like olives—the smallest size is Jumbo followed by Extra Jumbo, Colossal and Super Colossal. The smallest size olive packed today is Large!

There were some other interesting items, beyond the Letter to the Editor that started, "I love DIRECT, since I am hooked on mail-order shopping."

For example, for $1 you can receive "dozens of new, colorful, exciting catalogs absolutely free" (sic) if you check not more than 3 out of 15 fields (such as cosmetics, food coupons, collecting). Another source, using a format like a want ad section, lists 50 catalogs. If you want to receive from 1 to 10, it costs $1; 11-25 costs $2; and 26 to 50 costs $3.

Or perhaps you want a directory of over 2,000 catalogs—that costs just $12.95 for a copy of "The Great Book of Catalogs."

RThought: RT has long pointed out the growth in this field. An increasing number of such firms are doing over $50 million a year and several over $100 million. Most acquisitions that have been made are ones that have been made by non-retailing firms, probably because non-retailers have strategic planning departments in which the people do not wear blinders, but look to see what opportunities there are to serve customers—at a profit.

The new development that you may soon find right in one of your shopping centers is a franchised CATALOGIA outlet. These were started by Hazard Reeves, who developed the Waring blender. The prototype stores are in Tuxedo Park, New York and Montvale, New Jersey. They have hundreds of catalogs available. There is no charge to the user—much like a public library. The issuers of the catalogs (some 300 to date) pay a percentage of the sales generated through the CATALOGIA outlet. Reeves expects to have 50 outlets (the favorite number of all new franchisors) within a year.

RULES FOR TEACHING

Every major retailer thinks they train people. Few really test to see if the pupils have learned what they were supposed to learn. And virtually none ever check the teaching capabilities of those assigned to do the training.

I thought of that when reading about a professor from my days at Stanford, Thomas A. Bailey (age 80), whose books ("The American Pageant" for example) have sold well over a million copies and whose courses were popular when I was there. He pointed out in the Campus Report (for Stanford Staff) that "Good teachers are born, not made, but there are a few ways in which one can become better." His suggestions may be of help:

1. The most important rule is to learn to hold the attention of the students, and to make them understand what you are saying. You can use all sorts of ways to achieve this: never

use an 8-cylinder word when a 4-cylinder one is just as good; underline major points by a short anecdote if possible.

2. Never talk above their heads or go too quickly. Above all, keep them awake by making sure that your presentation is interesting.
3. Bear down on the practice of students borrowing each other's notes or photocopying in lieu of attending class.
4. Get tough with students who fail to come to lectures on time, or who have unexplained absences, or who have clearly not done the required reading.
5. A prime purpose of the lecture, like education itself, is to make people think, not merely to memorize a collection of facts. A good memory is not an indispensable attribute —even idiots have been known to memorize a remarkable amount of data.
6. Never forget that many students have not developed the ability to draw proper conclusions, so lead them into the process carefully.
7. Above all, prepare your own material with meticulous care. If that is not adequate, the best presentation will not make up for the defects.

RThought: Point 7 is the one where I think retailers fail most often, followed by 1, 2 and 6 in that order.

SHORT SHORTS

Isn't it funny (pathetic?) that in a multi-trillion dollar economy two guys can move it up and down like a yo-yo? Joe Granville sends out a few hundred telegrams saying "sell everything"—and the market drops like a rock; Henry Kaufman says interest rates are going to drop and the market takes off like a rocket. And the public is left—between a rock and rocket.

Does your poor programming spoil your marketing efforts? Stationery House in Maryland, otherwise a good mail marketer of printing and office items, took my name off their mailing list—apparently it read Robert Kahn & Associates, P.O. Box 249, Lafayette, CA 94549—and wanted to sell me some mini letterheads. Look how it came out when the computer finished its part of the job.

KR

KAHN ROBERT ASSOC

Kahn Robert Assoc
Pob 249
Lafayette, CA 94549

Take a good look at this extraordinary Memo! Examine its elegance, uniqueness and practicality. It's ideal as a mini letterhead for a short message.

Know your products! We used to say, "Know your customer"; but if you redeem coupons, be sure you know your products. Milton Moskowitz in his column—**The Money Tree**—which appears in a growing number of newspapers, reported that the Postal Service, with the cooperation of Procter & Gamble inserted coupons for **Attract Shampoo** in the Detroit Free Press, Detroit News and Flint Journal. There is no **Attract Shampoo** (someone ought to use the name), but 6,000 coupons were turned in for redemption! They came mostly from small stores, all of whom are prima facie guilty of illegal use of the mails to defraud.

Is it true that by the year 2000 more people will be employed by special interest lobbying groups than by all of industry? And that the only larger category of workers will be those employed as staff to legislators or legislative committees busy at deflecting (or accepting?) such efforts? At a somewhat later date the funds disbursed by political action committees will exceed the amount disbursed by the life insurance industry. I hope not—but the current trend is not healthy.

The title of vice president of marketing is appearing in retailing with increased frequency. Where? In the major firms and giant apparel chains? No. Where I am seeing it is in the convenience store chains, those stores that started out with 200-300 SKUs in food, added beer and wine, rental appliance, pinball machines (since upgraded to electronic games), fast foods, radar ranges for hot sandwiches, magazines and books, gasoline and then canned oil. Marketing thinking shows in that industry.

Westerners buy different cars—and other things. The Sunset Magazine **Newsletter** (Marketing Department, Sunset Magazine, Lane Publishing Co., Menlo Park, CA 94025) regularly points out the dramatic difference between citizens of the 13 western states and the rest of the United States. Of the 10 top selling cars, only 4 appear on both lists (Olds Cutlass, Ford Escort, Buick Regal/Century and Chevy Citation). The truly Western choices and their popularity standing are: Honda Accord (1), Toyota Carolla (3), Subaru (4), Honda Civic (6), Datsun 210 (9) and Volkswagen Rabbit (10). **RThought:** To get a better picture of the Westerner send $7.50 for the Sunset Western Market Almanac.

WORDS TO GUIDE A SATISFYING CAREER

"In your early years, you're not sure of what you want to do. You like a lot of things and the question is what do you like the most. I'd always intended to do this thing on Jefferson [write a comprehensive biography of Jefferson], but it wasn't clear in my mind as it was later that I'd rather do it than anything else. You just don't know those kind of things when you're young. You flounder around quite a lot." So read the quote in the Summer 1982 issue of The Key Reporter (published by Phi Beta Kappa).

At 51, in 1943, Dumas Malone quit his job as director of the Harvard University Press and settled on a farm in Charlottesville, Virginia and started his task. He finished the first volume in 1948, the second in 1951, the third in 1962 (when, at 70, he finally retired from teaching), the fourth in 1970, the fifth in 1974 (for which he received the Pulitzer Prize) and the final volume in 1981. By then he was 90 and almost blind.

In 1982 he was given the Phi Beta Kappa Award for Distinguished Service to the Humanities, a proper tribute to a man who knew what he would rather do than anything else.

RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

OCTOBER 1982

VOL. 17, NO. 10

CAN YOU BELIEVE ADMINISTRATION FORECASTS?

The most frequent economic forecasts from the present Administration was: "You can expect an improvement in the second half of the year" (year not specified). Now it is: "We have bottomed out and will have 4% growth in the first quarter of 1983." After two years they have discovered: "Our economic plan has not had time to work after 20 years of Democratic damage."

At least one part of the Federal Reserve System says it cannot work.

Each Federal Reserve Bank publishes some form of monthly report mainly devoted to their research work. Federal Reserve Bank of St. Louis puts out a particularly good one (write to Research Department, Box 442, St. Louis, MO 63166–no charge). In the May 1982 issue they had an article "A Monetary Analysis of the Administration's Budget and Economic Projections" and the following is worth quoting in full:

SUMMARY AND CONCLUSION

The administration has presented a controversial set of economic assumptions and budget projections for the years through 1987. Some simulations of a monetarist model, however, demonstrate that the administration's projections contain fundamental inconsistencies. Based on U.S. economic experience since 1960,

(1) the administration's estimates for GNP growth are inconsistent with its stated monetary targets; and

(2) given its GNP growth path, its estimates of real growth, unemployment and, to a lesser extent, inflation appear too optimistic.

These conclusions also indicate that the administration's estimates of the size of the federal deficit are imprecise. Given the administration's budget plan, the pattern of declining growth in money that it supports will result in a deficit of about $144 billion in 1987, $93 billion more than is projected in the fiscal 1983 budget.

RThought: No wonder 2 of the 3 members, including the chairman, of the Council of Economic Advisors, have resigned in recent months. Both are well-known economists who have an interest in maintaining their professional reputation; they cannot do that by being "team players" and using their prestige to validate erroneous figures in the spirit of being a "team player." One wonders what Secretary of the Treasury Regan would be saying today to the management committee at Merrill Lynch if he had not become a good "team player."

Afterthought: This was written before the October 6-7 stock market explosion–which came the day before the report that unemployment had passed 10% for the first time since before World War II (less than 40% of our population was born before World War II).

MALCOLM FORBES LETS HIS EGO OVERCOME ANY GOOD SENSE HE SHOULD HAVE

In the September 13, 1982 issue of FORBES he ran what was labelled as "The First Annual Forbes Four Hundred"–a listing that purports to show the 400 wealthiest individuals in the United States.

Fortunately only 12 retailers were listed.

Every newspaper that I saw when the story was released as ego-publicity for Malcolm Forbes (and I was travelling widely at the time–Bozeman, Montana; Bentonville, Arkansas; San Diego, Dallas, Las Vegas and short stops in Tulsa, Denver and Kansas City) featured the story on the front page.

Newspapers are where the "crazys" get their ideas. For example, newspaper information on the Hearst family and how wealthy it was or appeared to be was the reason, and the only reason, that Patty Hearst was kidnapped. The "crazys" don't read FORBES–and they don't read the proxy statements and SEC reports from which much of the information was obtained.

It appears that local reporters gleefully turned into lookouts for "crazys" by providing additional information to FORBES just to get some credit in the magazine.

RThought: I have written to FORBES setting forth this same complaint. I hope that another such list is not published. For years I held the position that more information should be published in annual reports about the holdings and change in holdings of members of boards and top officers of corporations. I maintained that position up **until** the Patty Hearst kidnapping. At that time I changed my position and indicated why–the very reason that I set forth now.

There are a number of retailers who are worth more than the $91 million minimum on the published 400–and it is wonderful that their names were not printed.

CAN THEY PUT THE TOOTHPASTE BACK IN THE TUBE?

Stewart Brand was one of the gurus of the 1960s. The young people of that time called themselves "The Beat Generation." In 1971 Brand published **The LAST Whole Earth Catalog**. 1,600,000 copies were sold and it received a National Book Award.

Some time later he had regrets about what had been wrought by the generation of which he was part. He started the **CoEvolution Quarterly** and published "think pieces," some of which dealt with the values in our society that were destroyed in the 1960s.

One of the values that disappeared was courtesy. On this Brand recently wrote:

> **"My generation threw out courtesy back when we were throwing out hypocrisy. It's clear that simple courtesy–and its secret ingredient, humor–was the main glue holding society together, especially where there's disagreement going on. Beyond that, it is courtesy that imbues every individual with the habit of thoughtfulness, of respect, which keeps all communication and the whole idea of good itself alive."**

Perhaps it is as a result of reflecting on the damage done that he expressed another thought, one about guilt and compassion:

> **"The difference between compassion and guilt must be the most important difference there is in the do-good business [in which Brand is now involved]. Guilt shrivels, it wants something; compassion extends far beyond the gift."**

RThought: It took dozens of generations to build up the courtesy that was destroyed in less than one generation. Look at the things that are gone, all small things but pleasant things that were important to the operation of our society. Gentlemen offered their seats to ladies. People said "Please" and "Thank You." We smiled at each other when we met. Much of society operated without the use of profanity. It was very rare when a woman swore and men did not swear when in "polite society."

We knew what courtesy was because our role models, our parents, practiced it.

Brand is right when he said that it was the glue that held society together. I would have expressed it as the oil that lubricated the relationship between people. It permitted them to work without the generation of friction and heat.

I heard a story the other day that put courtesy in a proper perspective. A man held the door open for a woman who, with her mannish suit and her briefcase, gave the impression that she was an executive in the business world. The woman said, "You didn't have to do that because I am a woman" to which the man replied, "I didn't; I did it because I am a gentleman."

BEHIND THE DRIVE FOR A FLAT RATE TAX

The present interest in the flat rate income tax is much akin to the expected return of the free lunch and love for the Bill of Rights with the dislike of the rights under the Bill of Rights.

I don't have to explain the expected return of the free lunch–it isn't going to come back.

The Bill of Rights is another matter. Some years ago a survey was made of attitudes on the provisions of the Bill of Rights. Persons interviewed were almost 100% in agreement that the Bill of Rights was the most important protection of personal liberty granted by the Constitution. But when each of the protections was reworded into the vernacular, not a single protection was supported by a majority of the very large sample interviewed!

Lou Harris did the same thing in a survey for BUSINESS WEEK (September 1982). When asked if people favored a flat tax rate of 14% with almost all deductions eliminated, 61% agreed.

When asked which deductions should be kept, medical expense was supported by 80%, home mortgage interest by 71%, charitable contributions by 66%, state and local income and property taxes by 64%, casualty and theft losses by 63%, state and local sales taxes by 53%, employee business expenses by 47%, and installment and credit card interest by 47%. The only deductions reported to have a **majority against** continuation were political contributions by 57% (a very small deduction on personal taxes but a large one for corporations in states where they are allowed to deduct for state elections) and oil and gas drilling costs.

RThought: It is obvious that when people talk about eliminating "nearly all deductions" they clearly mean the deductions that the other guy takes, not the one that they take. It is doubtful that members of Congress can get re-elected if they take away the 8 deductions where more people think they should be kept than think they should be eliminated. Even a 14% rate, which will mean increases for many people, won't salve the wounds that are opened.

ZAYRE GUT

10/29
Feldberg
Hershel
Denker

I am told that it was this expression among the Feldman family that led to the naming of an early effort in the discount field as Zayre. "Good" should have continued to be part of their name.

Zayre runs one of the better consumer programs in retailing (if you have a better one, please put RT on your mailing list and try to change my mind). I have recently received their "Zayre cares about you" booklets, now printed in Spanish, French, Portuguese and Italian as well as English. In it they make such statements as:

We care that refunds and exchanges are made quickly and easily.
We care that layaways are easy, too.
We care that check approval is made easy with your personal Check Approval Courtesy Card.
We care that advertised specials are easy to find.
We care that rain checks are available for your satisfaction.
We care that substitutes are available for your satisfaction.
We care that checking out is easy.
We care about your satisfaction.
We welcome your comments and questions.

Each statement is amplified. The efforts are supported by an 800 number directly to the Office of Consumer & Community Affairs.

The booklets also include the Zayre Consumer Bill of Rights:

> **To insure your satisfaction, Zayre has set down the following consumer bill of rights.**
> 1. **The right to expect quality merchandise at discount prices.**
> 2. **The right to purchase products that are reasonably safe.**
> 3. **The right to expect products that work properly.**
> 4. **The right to purchase advertised merchandise at advertised prices.**
> 5. **The right to be heard.**
> 6. **The right to be a pleased customer.**

Finally, there is a place for the customer to rate their Zayre store on such things as register checkout service, availability and courtesy of store personnel, cleanliness of store, rest rooms and fitting rooms, and shopping ease.

RThought: I can remember when this is what we expected department stores and national chains to do–as a means of distinguishing themselves from discount stores. Zayre's attitude may explain why Zayre has just about doubled their earnings over the past 5 years.

WHERE GOETH THE STOCK MARKET

Early October has seen another burst of activity and booming of prices on the stock markets. As of this writing (October 13, 1982) the Dow Jones Industrial Average (DJIA) stands at 1,015, just short of the all-time high of 1,051.

At the weekly close of October 8 the DJIA stood at 979 which represented a price/earnings (P/E) ratio (the October 8 prices of stocks compared with publicly announced earnings for the prior 12 months) of 12.4 times. This was up from the P/E a year ago of only 6.8 times.

Historically there has been an inverse relation between the prime rate (which usually correlates well with other short-term interest rates such as treasury bonds and notes and the Federal Reserve Bank discount rate) and the P/E for the DJIA. The P/E can be converted into earnings as a percentage of the share prices by dividing the P/E into 100.

For example, a P/E ratio of 16 is equivalent of earnings on the stock price of 6.25%.

If we convert a few of the past years' annual average DJIA P/E ratios into such percentages and compare them with the annual average bank prime rate, we get the following:

Year	P/E as % Earnings on Share Price [1]	Prime Rate [2]
1960	5.2%	4.82%
1965	5.0%	4.54%
1970	6.1%	7.91%
1974	16.1%	10.81%
1975	8.8%	7.86%
1976	9.6%	6.84%
1977	10.8%	6.83%
1978	14.1%	9.06%
1979	14.9%	12.67%
1980	12.7%	15.27%

1. Source: Barrons 5/4/81
2. Source: Statistical Abstract of the U.S. 1981, Table 873, page 522

To the degree that the market anticipates future events in the form of changes in earnings (expected higher earnings will result in a higher P/E ratio based on past earnings and conversely when lower earnings are expected) or short-term interest rates (expected higher interest rates will result in a lower P/E ratio and conversely), the P/E ratio will either lead or lag the prime interest or other short-term interest rates.

RThought: With this in mind the rise in DJIA stock prices to 1,015 with an estimated P/E of 12.9 or 7.8% is not abnormal if the expectation is that the prime will continue to drop. Short-term treasury rates are already at 7.5%, and the spread between prime and other base points (other interest rates, consumer price index, etc.) is still abnormally high.

RT is not an investment letter. But the present DJIA above 1,000 does not seem to be out of keeping with the facts at this time; an even higher P/E ratio with a higher DJIA would not appear to be abnormal.

SHORT SHORTS

Would a retailer report dishonest sales figures to a shopping center? Yes, says Ken Lamy of R. G. FOSTER & ASSOCIATES, who check such things for shopping centers. The percentage who are dishonest has been rising regularly and now stands at 61 percent according to an item in NMM Weekly, The Shopping Center Newsweekly (2280 U.S. 19 North, Suite 264, Clearwater, FL 33515 $225/yr).

How much discretionary income? Really, not a lot. Management Horizons issued an analysis recently that starts out, "The 10% across-the-board tax rate reduction this spring, which for most families translates into a relatively small gain in their monthly income (median family tax break will be roughly $25/month), may be perceived by consumers as a more substantial increase in discretionary income. Based on consumers' determination of their current monthly discretionary income of $95, from our survey, **the tax break will yield an increase of over $25 in discretionary money for the typical household.**" **RThought:** My reaction to their figures was surprise that with the median family income well over $2,000 per month consumers themselves felt they had discretionary income of **only** $95.

Can't Women's Wear Daily staff read? The headline read, "Blame recession for lower '83 net Manhattan Industries will register." But the first sentence said, "Due to the continuing recession, Manhattan Industries, Inc., said it expects the fiscal 1983 **earnings gain** will fall below the 87% jump reported last year, according to Laurence C. Leeds, Jr., chairman and president." There is a lot of difference between "lower '83 net" and "earnings gain will fall below the 87% jump reported last year." But WWD apparently doesn't know the difference.

When is a sale just sort of a sale? At Macy's California in the case of the Bill Blass Pre-Season Sale held everywhere—"except Stockton, Monterey, Reno, Hilltop, Oakridge, Modesto, San Rafael and East Ridge" or 20% off on Caribou Mountaineering Equipment Stuff "except Stoneridge, Santa Rosa, Modesto, San Rafael, Birdcage, Oakridge and Stockton." Macy's major Sunday insert ran in all the cities where the sale was not—and must make the customers there wonder. After all, the 25% off sale of John Weitz and Evan Picone sportcoats for men was held in every store.

FKK 10/20/82

I never thought a great name like KUPPENHEIMER would be the Robert Hall of the 1980s, pipe racks and all.

Nice guys at Evans Products. The press release read, "Evans Products Company today announced that George E. Porter has resigned as vice president and controller in order to accept a position as vice president with NIKE, Inc., an athletic footwear and sports apparel company headquartered in Portland [note: as is Evans]. Evans will announce the appointment of a new controller, **to be selected from within the company,** prior to the effective date of Mr. Porter's resignation, which is July 30, 1982." **RThought:** How many of RT readers are as nice to a departing executive? RT is distressed by the number of executive moves; but when it happens to someone who has made a contribution to your company, you could act like Evans did. Porter has been VP-Controller there since before 1975.

WHAT IS VALUE–WHEN VALUING A STOCK?

Everyday we can look at the prices of thousands of stocks–more than 6,000 are publicly traded. We can say that ABC Company sold for $37.50. We then can conclude that if there are 2,000,000 shares outstanding the ABC Company is worth $75,000,000.

But is that true? Is that significant?

How did we arrive at the $37.50 per share? In the auction market for selling shares one must have a seller willing to sell at $37.50 and a buyer willing to buy at $37.50. The seller may have 200 shares and at that moment he would rather have a new subcompact car than the 200 shares of ABC Company. So he tells his broker to sell his shares at the market. The highest bid available at the moment is $37.50 and that is what he receives for his stock.

Does that warrant valuing ABC Company at $75,000,000? I don't think so. Market prices are almost always the expression of an agreed price involving an infinitesimal percentage of the shares outstanding. Few stocks have ever traded ½ of 1% of their shares in a single day.

How do people decide how much to pay for a few shares? They read reports of analysts, they study the company, they use the product, they know the people in the company, they read magazine and newspaper articles about the company. Then they try to project what will happen in the future–what will happen to earnings per share (EPS). If they think EPS will go up and they can make a profit if the stock price rises, then they will buy. (If they are very sophisticated and think it will go down, they will sell short by borrowing shares which they will replace later by buying back at the lower price.)

Assuming that they can make an estimate of future earnings, how do they convert those earnings into a price per share? They do this by looking at the price/earnings ratio; not only the ratio to past or trailing earnings, but also the ratio to earnings expected this year, next year and perhaps even the year after that.

They may also look to see if institutions, the big investors, have taken an interest in the company, information that is available in the Standard & Poors monthly **Stock Guide.**

There is nothing in the process described so far that values the company; it only values the shares that a very few shareholders want to sell; and a very small number of people want to buy. At any given time there might be a lot of people watching the stock but only 10 or 15 offering to buy and a like number offering to sell.

But what is a company worth? Its value is the value of the people who operate it, the market position the company holds and the tangible assets that the company owns. None of these, except perhaps the skill of the management who operate it, has entered into valuing a share of stock.

There are, however, a group of people that do value companies as against valuing small numbers of shares available to be sold. These are the people who make takeover offers. They want to buy Marshall Fields or Gamble Skogmo or Children's Place or Kuhn's-Big K or Lane Bryant. These people look at all of the parts of the business.

If they conclude that the value is substantially higher than the figure arrived at by multiplying the current price per share times the shares outstanding, they will make an offer for the company. Such offers are usually made at 50% or more above the most recent price (before the leak of the proposed takeover–most studies show a mysterious creeping up of prices just before the takeover offers).

In some cases the buyer just feels that he can operate the business better. And in some cases he sees an opportunity to dismantle the company and sell the pieces off at a profit. Now the true value of the company is being determined, a value that Generally Accepted Accounting Principles mandate shall not be disclosed to the present shareholders, the true owners. How much are shopping centers in May Centers, a subsidiary of May Department Stores, really worth? GAAP requires that the value of the building constantly be reduced by depreciation while the market value continues to rise. How much are the low cost leases in King's Discount Stores really worth in KDI's Chapter XI?

In many cases the total asset value doesn't reach the market valuation. This is because of the skill with which someone or some group in management has managed the assets made available. Normally these companies are less immune to takeovers.

If we did not have inflation, then only inept management would be targets for takeovers; but inflation has raised the true value of so many assets on a balance sheet above the figures permitted to be disclosed to stockholders (the current owners) that raiding and breaking up is a profitable business.

RThought: With the weakening of the enforcement of antitrust laws under the Reagan administration, it would appear that acquisitions (friendly and unfriendly) will accelerate in the retail field. I anticipate a number of $10 billion sales (in 1980 dollars) retail conglomerates within the next decade. BATUS, for one, could make enough acquisitions. A discount, catalog/showroom, food or DIY chain would not conflict with their present department/specialty store ownership (Kohls supermarkets are only a small part of the present mix).

In Australia 3 of the top 10 retailers (Walton's, David Jones and John Martin) have been taken over by non-retailers in recent years and another Grace Bros., is a current target. Even Myer Emporium, the second largest retailer, is rumored to be a target.

The larger the retailer, the slower it is able to react; the slower the giant reacts, the more opportunity for small business.

TWO IDEAS FOR COMMUNITY SERVICE

Number 1: A baseball team increased the use of a local library. Perhaps you can stimulate a similar increase in your communty. The plan was simple. The Oakland A's baseball team offered free tickets to all kids who read more than 10 books during the summer of 1982. It was a great success. One branch of the Oakland Public Library reported that usage during the summer of 1982 was up 300%. (This reflects community conciousness typical of the Haas family, who built Levi Strauss as a "good citizen" corporation and now own the A's.)

Number 2: An inventor wants to stimulate interest in reading. At the November 1981 meeting of the American Electronics Association, Steve Jobs, one of the "Steves" who created the Apple Computer, pointed out that children learn to speak by the time they are 1 or 2 years old **because they have a perceived need to learn to speak.** If they want to participate in things around them, they have to talk.

But there is no such perceived need to learn to read and write. Children can get along very well without learning to read and write. They watch TV instead of reading the comics (which used to be a major incentive). They get along with friends and adults by talking. But when you put them in front of a computer game, they have to learn to read in order to interface with the computer.

Steve Jobs' experiments showed that 4- and 5-year-old children learned the alphabet and learned to read off the computer screen and "write" into the computer keyboard within 3 months! This is what is behind Apple's desire to give an Apple Computer to every elementary and high school in the United States. To make it economically feasible, a special bill (applicable to all computer companies) was passed permitting deduction of the selling price (by Apple to a dealer) rather than the cost of goods price as a charitable deduction.

RThought: With Apple stimulating children's desire to learn to read, can't you find a way to stimulate their interest in books? Unless we tackle the problem of illiteracy and functional illiteracy, our high-tech society will come to a grinding stop. **And where will you get customers who have jobs that permit them to pay your prices?**

WOOLWORTH EXPECTS TOO MUCH OF DOLLARS

Management is usually more important than dollars. In the Associated Press story on the closing of 336 Woolco stores, Edward Gibbons is quoted as saying the restructuring of the company to emphasize specialty stores was "a redeployment of assets away from areas producing low or no return on investment." Discount stores are not an area of "no or low return" such as copper mining or wheat growing might be when there is a worldwide oversupply. In terms of return on equity consistently above 15% during the past years, one would find Ames Department Stores, Target, Heck's, Jamesway, Gemco, Hill's, probably ShopKo, and Wal-Mart.

It is true that Korvette, Grant's, Masters, Two Guy's, Kuhn's and many others are gone. But full-line discount stores are not inherently "no or low return."

RThought: **It is a matter of what people do with dollars, not what dollars do by themselves. The same is true in specialty retailing which has seen Miller-Wohl, Sam Solomn, Topps 'n Trowsers and many others in Chapter XI.**

A more accurate statement would be "A redeployment of assets into areas where *our management* can produce an acceptable return *on our investment.*"

ONCE DEPARTMENT STORE MANAGEMENT WAS SMARTER

During some recent research for a client, I came across the following section of a publication:

SELF-SERVICE

In any discussion of the productivity of store personnel a question is sure to be raised about the possibility of self-service. Therefore, the Bureau questionaire for the past 5 years has included an inquiry with respect to the operation of self-service departments. *Again the conclusion is that department stores generally do not regard self-selection as a useful way in which to approach the problem of personnel productivity. . . .* **Once again the conclusion is emphasized that a great majority of existing department stores regard themselves primarily as a service institution. It will probably remain for some enterprise entirely outside the department store field to pioneer in any wide spread application of self-service methods to department store types of merchandise. (Emphasis added.)**

The source? Professor Malcolm McNair's introductory comments to the publication "Operating Results of Department and Specialty Stores in 1946," better known as the Harvard Report and now replaced by the National Retail Merchants Association's Financial and Operating Results (FOR).

RThought: Mac was right on the button. It did take others such as Masters, Korvette and Ann & Hope.

Discount stores have filled that void and now do more volume than department stores (subject, of course, to one's definition of what is a department store and what is a discount store).

In order to continue as a "service institution" department stores have increased their initial markon from 39% (price controls were in effect for part of 1946) to 50% in 1980 (latest FOR). And that initial markon is placed on top of higher unit costs of goods purchased.

But someone forgot to continue to provide the salespeople—and to train those salespeople—except for those few stores that don't know much better such as Nordstrom's and many successful privately owned stores.

THE OTHER SIDE OF TAX COLLECTING

F. W. Woolworth Co. won a Supreme Court decision reducing the tax that New Mexico could collect as income tax under that state's "unitary apportionment" method.

"Unitary apportionment" means that a state in which a multistate or multinational firm does business should collect income taxes on the proportionate share of that firm's income that the state represents rather than what the firm reports as profit made in the state. This is done by a variety of methods but the principle is to determine the percentage of the firm's sales, employees and assets that are located in that state, average those percentages (sometimes the percentages are weighted rather than considered equal) and then tax the resulting percentage of the firm's reported profit.

For example, if Firm X had 2% of their sales, 5% of their employees and 8% of their assets in State Z, then the average of 2%, 5% and 8% would be 5% and that state would tax 5% of the annual profits reported for the total company. **Auditing departments of state taxing authorities have learned that the profits reported by firms (not just retailers) to each of the states in which they operate somehow total substantially less than the total profits reported for the firm.**

Woolworth had to pay tax on a unitary basis to New Mexico, but the profit against which the unitized percentage was applied could not include dividends from four foreign subsidiaries, gains on currency speculation (nothing was said about losses) and federal tax credits.

It is unfortunate that business ethics are such that major companies have absolutely no qualms about reporting dishonestly to states under the theory that the states are not capable of auditing the entire firm in order to determine the correct profit.

RThought: In 1962-63 I served on the Contra Costa County Grand Jury. This was at a time when the County was first sending auditors to Eastern corporate headquarters to audit the figures reported for personal property tax. They were finding that some of the finest names in retailing were reporting inventories at 25% or less of true value while others were reporting exactly correctly. (California, at that time was assessing at 25% of full cash value which is what taxpayers were to report.)

When we considered criminal action against a major retailer, one member immediately begged to get off the Grand Jury–because her husband, an attorney, represented that national retail firm on tax matters. (I told my wife that night that if she were ever on the Grand Jury and found a case of wrongdoing by one of my clients she should stay there and see that the proper punishment was meted out.)

Because underreporting by out-of-state retailers was so common, I worked out some ratios that the Assessor could use for determining reasonable inventory levels. It was based on reported taxable sales (information available from the State).

Frankly, I could see no reason why I should insist that my clients report all property exactly as required by law while bigger and richer firms cheated.

IS THERE AN ANSWER TO BANKRUPTCY LOSSES?

Over the years I have enjoyed my friendship and correspondence with Bob Johnson, director of the Credit Research Center at Purdue. I think our recent correspondence was tuned to the football season–I noted that I was saying nothing about Stanford's defeat of Purdue and in his reply he was kind enough to point out that he had not mentioned San Jose State's defeat of Stanford. With Stanford's defeat of Ohio State, however, our dialogue could continue.

The gist of our exchange is a point made several times in RT–that the problem with the bankruptcy law is that retailers grant credit on the basis of income earning capacity and the court adjudicates debts on the basis of assets owned by the debtor that are subject to the proceedings (much is exempt).

Bob identified the first problem–that the original bankruptcy laws applied mostly to business and bankrupt businesses have no future income. Therefore, the court could deal only with assets available. I might point out that much of business lending is based on assets and assets are the major factor in credit ratings granted to businesses.

RT can suggest a possible solution that should be explored.

> **On all retail credit applications there should be a separate statement, signed separately, and clearly set forth in large bold face type (so the debtor cannot say he did not see it) in which the applicant attests to the fact that the credit was granted to him with the understanding that the debt is to be repaid from future income. This would apply to both revolving and installment accounts, the latter being suggested by Bob because the underlying assets on a furniture installment account, for example, very quickly bear no relationship to the remaining debt.**

RThought: Is there a response from the corporate counsel and credit managers to this suggestion? A study made for the National Coalition for Bankruptcy Reform by Arthur D. Little, Inc. and the Credit Research Center (where Bob Johnson does his work) estimated that a third of all individual bankrupts could have paid from 25% to 100% of their debts over a 36-month period.

SHORT SHORTS

Sears uses very small type for their correction of ads. RT has pointed out the frequency of Montgomery Ward corrections, but perhaps we are missing Sears corrections because they use a typeface smaller than the type size used in the local paper for news. Does Sears really want customers to see the correction?

Coverup? The Limited, Inc. reported that sales more than doubled and profit was up 40% for the 2nd quarter–but refused to comment on the impact of the Lane Bryant acquisition (in 1981 Lane Bryant had greater sales than The Limited so sales should have been up more than 100%). This shows only that the good June month may have covered the interest cost on $150 million paid for Lane Bryant although there may have been adjustment of assets that could contribute to the profit. Standard & Poor's has put The Limited on their "watch" list, and under these circumstances shareholders and the public should receive the fullest possible information.

Women's Wear Daily says drop everything! On September 21 they mailed a postcard asking each subscriber to describe their business. The card had a photo of John B. himself! Without a please, it says, "LET US KNOW **BY SEPTEMBER 30**"! Yes Sir!

Update on SafeCard. At the end of 9 months, July 1982, the Deferred Direct Marketing Costs (similar to expenses of opening charge accounts which are charged to current expense), totalled $26 million against a book net worth of only $20 million. SafeCard continues with a **negative tangible net worth of $6 million** to insure some of your charge customers.

WORDS TO THINK ABOUT

At the recent Robots VI Conference the introduction to the proceedings contained the following thought:

> "No war . . . no strike . . . no depression, can so completely destroy an established business, or its profits, as new and better methods . . . new and better equipment in the hands of our enlightened competitors."

RThought: Retailing is the most primitive form of combat in our American business community. There is no merchandise that one store has that another cannot get or get an equivalent. There are no products protected by patents such as Scotch Tape upon which the multibillion 3M Corporation was built. There is nothing that you can do that your competitor, reading your ads or going through your store, cannot deduce and copy. In some cases all he has to do is attend a convention at which you talk on your special accomplishment; you will not only tell him how to do it but you will hand him a copy of your talk complete with exhibits for him to take home.

Yet some companies grow rapidly and make big profits; others grow rapidly and fail financially; and still others don't seem to do much. The difference, I believe, is in the people that run the businesses.

Zayre

Zayre Corp.
Framingham, Massachusetts 01701

file w/ 10/82 RT

October 25, 1982

Mr. Robert Kahn
Editor
RETAILING TODAY
P.O. Box 249
Lafayette, California 94549

Dear Bob:

Thank you for your nice words about Zayre in the October issue of RETAILING TODAY. One small correction: The founding family was named Feldberg, not Feldman.

Yours truly,

Hersh

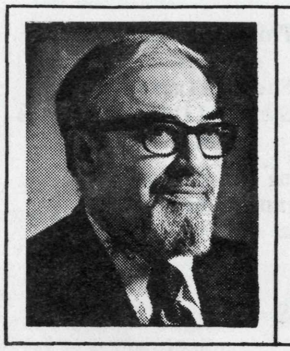
Hershel A. Denker
Executive Assistant to the President

br

cc: Mr. S. Berkovitz

617-620-5000

11/1 Called Hersh - asked apologize to Summers' Stanley



RETAILING TODAY

ROUTE TO

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

NOVEMBER 1982 VOL. 17, NO. 11

IS THERE A STORE THAT SELLS YOU THINGS THAT COST NOTHING?

In wandering through a Pic 'n' Save store in San Bernardino, there was an end display of Cēpacol Mint mouthwash. Now I know that Pic 'n' Save is an off-price store, one of the most successful. And I know that today 70 percent of their volume represents deals brought to them (up from about 50 percent last year).

But I never knew that resources brought them deals such as this one.

The price of the 24 oz. bottle was only 98¢. On the front there was notice of a $1.00 rebate–"See back of label." Pic 'n' Save had posted a sign that Merrell was paying a $1.00 rebate on the 24 oz. size.

The arithmetic works like this: Buy for 98¢, spend 20¢ to send for the $1.00 rebate and get a check for $1.20 (covering postage and rebate). Net cost: you are paid 2¢ to buy it (your sales tax is a contribution to the California State deficit).

RThought: We often kid about paying people to take the merchandise away. At last I have found a case where it is done and done on an open basis available to everyone. I explained it to three ladies who were looking at the smaller size bottles which would have cost them 59¢ and no rebate; they all took two of the 24 oz. size.

Their mouths will be clean and sweet, and their pocketbooks full.

THINK FUNCTIONAL

The following is a condensation of a lead item with the same title that appeared in the October 1982 issue of Jack Brandwein's FORUM (4731 El Camino Avenue, Carmichael, CA 95608 $55/yr) written for the furniture industry.

You have no choice. You will be buying and selling smaller size, dual purpose, and multifunctional furniture. The affordable 3-bedroom home for a family with a $35,000 income has shrunk from 2200 to 1800 square feet in just 3 years.

We hasten to stress that demand for functional furniture is traditional, colonial, oriental, provincial and contemporary–it is in demand and needed by consumers with varying style preferences.

The colonial tea cart is today's microwave station. The traditional nesting tables are the forerunners of today's TV tables.

Exercise caution about investing all of your dollars in small furniture. You have two separate markets in your community. One market is, of course, the new construction we are writing about. The other market is the older home with larger rooms. Your store must be merchandised for both customers. Your salespeople must be trained to find out more about the customer's home before they begin selling the wrong thing.

We also continue to bug you on the need for vertical furniture to house electronic games and for home offices to handle the home computer.

If furniture stores don't begin filling the functional furniture need, you can be sure the specialty stores will be your new competition for the consumer's furniture purchase.

PRIVACY BEGINS AT HOME

That statement was shown on a framed needlepoint with appropriate trim and a picture of an old-fashioned home in an ad run by IBM. The copy read:

PERSONAL PRIVACY.

Everyone wants it. Everyone believes in it. And with so much personal information being stored in computers and other files, it has been of continuing concern to us at IBM.

So, a number of years ago we began to examine how personal information was being handled in our own house. Actually, our record was pretty good. But it wasn't good enough.

We discovered that we were collecting some information about people which didn't really relate to their jobs. And we concluded that one excellent way to protect people was to collect less information about them. So, we purged our files of non-essential data. And we stopped asking job applicants things such as age, where a spouse worked, credit references, etc.

We ask only what we need to know to run IBM, and only people who need to know it can see it. Information that's stored in computers is further protected by electronic safeguards built into the system.

What we've done so far isn't the answer for everyone.

But it begins to deal with the question.

RThought: IBM has taken the right step. Unfortunately, they continue to make bigger and faster and less expensive computers that let their customers gather more and more data that may not be needed, and IBM watches as customers install systems that let too many people gain access to that personal information.

I. Magnin, for example, would have been $2.3 million richer (perhaps the cost of a good IBM system) if they had not recorded the age of just three people. Unfortunately, a good computer system will not conceal gray hair.

But IBM is right. Why do you need to know a person's age or where the spouse works?

RThought: I agree with Jack on all his points. I watch department stores pushing home computers in one department—but never showing related furniture. Are people going to put them on the breakfast table? Furniture and department stores refused to carry waterbeds; that is why there are so many specialty waterbed stores today. Jack Brandwein was the first one to write—and to write often—that waterbeds were a type of bed that was going to be with us a long time, just as the queen and king size beds have been added in the post World War II period.

I cannot recall the last time I saw a stackable washer/dryer combination advertised—to go with the shrunken apartment/home. Yet increased publicity has been given to the successful sale of condominiums as small as 400 square feet.

In thinking of condominiums with just 400 square feet, it becomes very important that ads contain the dimensions of all furniture items. Turning quickly to a chair sleeper in the J. C. Penney Christmas 1982 book, it took only this much space to include that vital information: "27 x 33 x 25 in. high. Opens flat (80 in. long) . . ."; or in the case of their Deluxe 5-way Compact Stereo System in which the receiver is "18-3/8 w. x 15-1/2 d. x 5-1/4 in. high."

I think the manufacturers do not think about designing for what Jack calls the functional home. For example, I have never seen a clothes hamper with drawer space under it. You have to go to a specialty store to get a bed with built-in storage below the springs. To get a slide-in unit to go under the bed you probably have to go to a mail-order house.

Where are the sink manufacturers who will put the drain at a back corner so as to make the space under the sink more usable storage space? Couldn't a breakfast or dining table have storage underneath for linen?

If you love the people who need to conserve space, just remember what Elizabeth Barrett Browning wrote in **Sonnets from the Portuguese** as the start to a slightly different expression of love—

> How do I love thee? Let me count the ways
> I love thee to the depth and breadth and height.

A+ RATED RETAILERS

FINANCIAL WORLD publishes a list of 1600 stocks on the New York and American exchanges and rates them from A+ to D. Generally banks, insurance and finance companies and over-the-counter stocks are not rated. The list below shows those pure retailers that, as of October 1, 1982, were rated A+.

Albertson's	Longs Drug Stores
Allied Stores	May Department Stores
Eckerd (Jack) Corp.	Melville Corp.
Edison Bros.	Payless Drug Stores NW
Federated Department Stores	Revco D S Inc.
Wal-Mart Stores	
Weis Markets	
Winn-Dixie Stores	

The above names may not be national household names, but they are rated A+.

The following companies are also rated A+ and have significant retail activities:

CBS Inc. (Pacific Stereo)	Mobil Corp. (gas stations)
Exxon Corporation (gas stations)	Petrolane, Inc. (tire stores, supermarkets)
Fleming Companies (supermarkets)	Phillips Petroleum (gas stations)
Gulf Oil (gas stations)	Shell Oil (gas stations)
Malone & Hyde, Inc. (supermarkets, sporting goods)	Standard Oil of Calif. (gas stations)
Standard Oil of Indiana (gas stations)	
Union Camp (home improvement stores)	
Union Oil of Calif. (gas stations)	

A BAD SUNDAY FOR BUSINESS

On Sunday morning, October 10, I made the rounds to pick up the New York Times and a few overlooked items at the local branch of a major supermarket chain.

Standing in the Express Check-Out line, the man ahead was protesting being charged $3.29 for 10 pounds of sugar, saying there was a sign on the sugar display that said $3.15. The clerk politely said that $3.29 was what was in the computer, and the customer politely said that there was a sign on the sugar that said $3.15.

The clerk properly called for a price check, using the public address system that could be heard throughout most of the store. The person checking reported that the sign did say $3.15.

RThought: I checked the Wednesday advertisement for the chain and found that sugar was not included. There were no Friday nor Sunday ads in our area. Thus it is not possible to determine how long customers had been charged 14¢ more than management intended that they pay. Nor can one determine how many people found their faith in the store's computer system reduced.

Then I returned home and watched what has become my favorite TV channel since it was added to our local cable service—C-SPAN or Cable-Satellite Public Affairs News. It is on 18 hours a day, mainly showing sessions of the House of Representatives or hearings of House or Senate committees or sub-committees. The session that I watched was a hearing on September 29 of the House Banking Committee investigating the failure of Penn Square Bank. Representative Fernand J. St. Germain of Rhode Island, chairman of the Committee and 22-year member of the House, was presiding.

He was well prepared for his questioning which he did without assistance from the staff. And he was questioning Continental Illinois Bank which had suffered losses of several hundred million dollars.

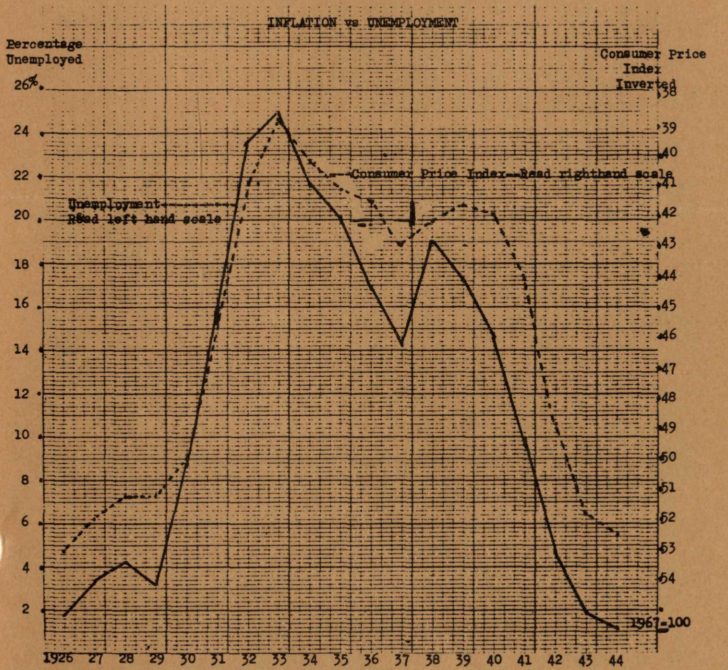
The key people from Continental Illinois were John H. Perkins, president of the parent holding company and George R. Baker, executive vice president of both the parent company and the bank. Mr. St. Germain was approaching the question of "handshake" (apparently non-security) loans from Penn Square to officers of Continental Illinois who had the power to approve the participation of Continental Illinois in loans generated by Penn Square.

Mr. St. Germain asked whether Continental Illinois had a code of conduct or other established guides covering such a situation and, if such were the case, would the bank provide the Committee with a copy of the document. **I was startled to hear Mr. Perkins claim that such a document is considered "proprietary and normally not disclosed"** but that under the circumstances he felt that a copy could be made available to the Committee.

INFLATION vs. UNEMPLOYMENT

There is much talk about having solved the problem of inflation and that now we can tackle the problem of unemployment.

A picture is worth a million words in analyzing the statement above. The chart below shows the relationship between unemployment and the Consumer Price Index for the period 1926-1944. To make the comparison, the Consumer Price Index has been inverted. That is, as prices drop, the line goes up; and as prices rise, the line goes down.



Note how closely the two lines move together. When the Great Depression (I hate that term—having lived through it, there was nothing "great" about it) started, the two lines ran on the same track. As we recovered, after bottoming out in 1932, unemployment dropped faster than prices increased.

Two factors must be kept in mind when looking at the 1938-1944 period. First, our economy was boosted after the outbreak of World War II in 1939 (we did not enter the war until December 1941) as we supplied munitions to England. Second, by late 1942 inflation was restricted as a result of massive price and wage controls.

RThought: We could have the Consumer Price Index moving downward today at a good clip if we could just increase unemployment to 15% or to 20%. The Consumer Price Index is not reacting as dramatically as it did after 1929 because too many prices are rigidly controlled. Interest was artifically increased by the Federal Reserve Board (and over-weighting in the Consumer Price Index boosted the CPI figures despite rising unemployment). Oil prices are largely influenced (but no longer controlled) by the Organization of Petroleum Exporting Countries. Wages do not respond to the pressures of supply and demand because of union contracts and minimum wage laws.

If the current price index were corrected for what is called "built-in inflation," we would now be showing a drop in the prices.

RThought: There is one lesson we have learned in our application of economics, an important lesson that is seldom discussed. We know how to stop a recovery; **we do not know how to start a recovery.** This proved true under Keynesian theory; it is proving true under supply-side and monetarist theory.

However, I think Keynes came closest to the truth when he discussed the "propensity to consume"; that is, he recognized the importance of psychological impact on the conduct of the economic man. When prices drop, a man who is worried about whether or not his job will last will not respond as economic theory predicts he should respond. He will only respond when fears about his own job subside.

Corporations will not invest in new plants just because interest rates are low; they first want to put their existing plants back in operation before considering new ones.

In a slow recovery—that is, only a slight increase in output and a slight rise in jobs—it may take a long, long time for either the consumer or the corporation to regain the confidence needed to fuel a recovery. **The propensity to consume thus lags behind the ability to consume.**

SHORT SHORTS

The winner of our Honest Ad Contest—Grodins (Northern California men's chain) for their "Once a year, Grodins Quality Cleanup" Sale. A full page ad had dozens of line items, all with a "Were" price—and was footnoted, 'The word 'were' refers to the retail price we wish we could have gotten for the specific item advertised!"

Amfac does an outstanding job in reporting to shareholders. In their 1980 Annual Report they included a questionnaire through which shareholders could ask questions. There were 289 questions submitted. They repeated this with their 1981 Annual Report, and this time more than 900 of the 11,000 shareholders asked questions. Amfac has published "Amfac Responds" in which they answer these questions. **RThought:** A great job that other companies should copy. Perhaps Lewis and John Gilbert will start asking questions about this when they attend annual meetings.

Here is an employee benefit with little cost—organize your own blood bank. In a recent letter Marshall Kline (Marshall Kline Buying Service, Los Angeles) mentioned that the American Red Cross is finding it increasingly difficult to provide an adequate supply of blood. It takes 14 pints for an open heart surgical procedure. If purchased, blood is very expensive. But if you promote your own blood bank (American Red Cross will help you set one up), then (1) your employees will have the satisfaction of making a very personal gift to their fellow workers, (2) your employees will benefit knowing that blood is available to them if there is a requirement, and (3) your employees will think favorably about you.

You can improve your driver safety if you copy a North American Van Lines practice that I saw—on the back of the truck was the message: "If I'm not driving safely, you can call my boss at 282-9240."

A STATISTICAL SUPPLEMENT

Isn't it amazing what has happened at many stores in getting out their statements. This month there are 5 stores that got them out in just 2 days—between cycle closing date and postmark!

HONOR ROLL

Bullock's (N. CA)	2.0	Wineman's	2.0
Routzahn's (MD)	2.0	Livingston Bros	2.1
~~Waldoff~~	~~2.0~~	Mervyn's	2.3
Weinstock's	2.0	Rubensteins	2.3

al wineman

What amazes me is the difference between members of the same firm. Take Carter Hawley Hale. Weinstock's takes 2 days, Emporium-Capwell 4 days and The Broadway 5 days. Don't they exchange ideas with each other?

And you can't be perfect at everything. Nordstrom's should not tolerate 8 days—it is not in line with their desire to service their customers properly.

CREDIT OFFICE RATING

Information From Reporters	AUG-SEPT 82 No. of Reports	AUG-SEPT 82 Days to Bill Avg.	AUG-SEPT 82 Days to Bill Range	JUNE-JULY 82 No. of Reports	JUNE-JULY 82 Days to Bill Avg.	JUNE-JULY 82 Days to Bill Range
Abraham & Straus (NY)	1	5.0	5	--	--	---
B. Altman (NY)	2	4.5	4-5	2	4.0	4
Bamberger's (NY)	2	5.0	4-6	1	4.0	4
Bloomingdale's (NY)	2	5.0	5	--	--	---
Bonwit Teller (NY)	1	7.0	7	--	--	---
The Broadway (S. CA)	2	5.0	5	--	--	---
Bullock's (S. CA)	2	4.0	3-5	3	2.7	2-4
Bullock's (N. CA)	1	2.0	2	1	2.0	2
Nan Duskin (Philadelphia)	2	3.5	3-4	--	--	---
Emporium-Capwell (N. CA)	5	4.0	4	3	4.0	4
Grodin's (N. CA)	1	4.0	4	--	--	---
Gumps (N. CA)	1	6.0	6	1	7.0	7
Henshey's (S. CA)	1	5.0	5	--	--	---
Liberty House (N. CA)	1	5.0	5	1	2.0	2
Macy's (N. CA)	5	4.4	2-6	3	4.7	4-6
I. Magnin (N. CA)	6	3.2	2-5	5	2.8	2-3
May Co. (S. CA)	2	4.5	4-5	2	3.0	2-4
Nordstrom's (S. CA)	1	8.0	8	1	5.0	5
Penney's (S. CA)	1	7.0	7	--	--	---
Penney's (Spokane)	1	6.0	6	--	--	---
Penney's (Philadelphia)	1	7.0	7	--	--	---
Robinson's (S. CA)	2	4.0	4	--	--	---
Saks 5th Ave. (N. CA)	1	9.0	9	5	9.2	7-11
Sears (S. CA)	2	6.5	6-7	1	8.0	8
Sears (N. CA)	2	5.5	5-6	2	5.0	5
Weinstock's (N. CA)	1	2.0	2	2	3.0	3
TOTALS	**49**	**4.7**	**2-9**	**33**	**4.6**	**2-11**

Information From Stores	AUG-SEPT 82 No. of Reports	AUG-SEPT 82 Days to Bill Avg.	AUG-SEPT 82 Days to Bill Range	JUNE-JULY 82 No. of Reports	JUNE-JULY 82 Days to Bill Avg.	JUNE-JULY 82 Days to Bill Range
Gimbel's (Philadelphia)	36	3.6	3-4	36	3.6	3-4
Horne's (Pittsburgh)	10	3.5	2-5	--	--	---
Levy Bros (N. CA)	2	3.5	3-4	1	3.0	3
Livingston Bros. (N. CA)	8	2.1	2-3	--	--	---
Mervyn's (Sun Belt)	30	2.3	2-3	30	2.5	2-4
Routzahn's (Frederick, MD)	3	2.0	1-3	3	5.0	4-6
Routzahn's (Pottstown, PA)	3	3.3	2-5	3	2.7	2-3
Rubenstein's (Shreveport)	6	2.3	2-4	6	2.7	2-3
Waldoff's (Hattiesburg)	2	3.5	3-4	1	3.0	3
Wineman's (S. CA)	2	8.5	6-11	2	7.0	7
TOTALS	**102**	**3.0**	**2-11**	**82**	**3.2**	**2-7**

confused

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

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

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

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

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

WHY RT PUBLISHES ADDRESS AND SUBSCRIPTION COSTS: RT gets ideas from other publications and feels that readers may want to obtain the complete document. RT is always annoyed when a citation is given without an address and often spends hours tracing down the source. The publication quoted does not know that it is being cited and RT gets nothing beyond the good feeling that comes from plugging a good source for RT readers.

RThought: What good is a code of conduct if it is not readily available? Why did Mr. Perkins, the president, appear uncertain as to whether such loans were or were not permitted? His main responses were (1) the matter was being investigated internally and (2) the code had been reviewed about two years earlier and deemed to be adequate and the Penn Square fiasco had not raised questions about the code.

I then caught up on some clippings my assistant sets aside for me and learned that the United States Supreme Court refused to hear the appeal of Federated Department Stores from a $2.3 million jury award by a California District Court to three ex-I. Magnin employees who alleged they had been fired illegally because of their age.

RThought: Federated Department Stores still has a New York case open involving the head of personnel at Abraham & Straus who, before being fired himself, claims he was part of the plan to discharge older employees. In the appeal in the I. Magnin case, Federated argued that because our population is growing older the number of cases alleging discrimination because of age is likely to increase greatly. Perhaps Federated, who still takes substantial extra time on payments to vendors and yet takes the discount, forgets that the reason the law was passed was to protect properly performing employees, many with long careers with the employer, from being subjected to just the kind of treatment the jury found I. Magnin gave three of their long-time employees.

RThought: On a day for rest and thought, renewal and re-inspiration, I found three things. First, management and staff in supermarket chains apparently still have not found an error-proof way to see that the shelf price and the computer price are in agreement. This is a management failure. Second, faced with great embarrassment, when the outside world would expect a business (Continental Illinois) to indicate that the questionable conduct was not acceptable to the management, the management is reluctant to release a copy of their code of conduct. A copy of the bank's code (or any business's code) should be available on request by anyone doing or contemplating doing business with the bank (or firm).

Third, a jury award of $2.3 million for three ex-employees may, at last, make companies think more carefully before intentionally disregarding or violating laws. Courts have been reluctant to send white-collar criminals with solid gold cuff links to jail for their misdeeds. It did not happen when millions were stolen from charge accounts just because they happened to have a credit balance and did not spend it. It did not happen when leading style stores in New York and San Francisco illegally maintained prices. It did not happen when Sears was caught with a sales force that refused to sell advertised items (nailed them to the floor, in the vernacular).

This case, plus the case against Pick-n-Pay/Fazio's/Stop-N-Shop for price fixing where the court levied $25 million in fines and damages payable to customers in Cleveland, may begin to get attention of retail management.

I still think that common criminals, regardless of the color of their collar, should share a common jail cell.

THIS IS ENTREPRENEURSHIP

Boscov's—a Reading, Pennsylvania department store group—opened a 140,000 square foot store in the Dover (Delaware) Mall 17 weeks after signing the lease!

Everyone except Al Boscov, the president/CEO/general merchandise manager of Boscov, agreed that they could not make the mall opening date. Boscov stayed on top of the situation, called people on Sundays, set daily prizes for construction workers who met daily targets. Spirits were boosted with pizza and steak-and-lobster parties. Workers wore T-shirts reading, "When will Boscov's open?"

At the end, everyone wanted to be part of the winning team and some offered to work around the clock to meet the goal.

And at the same time Boscov's did a masterful job of introducing themselves to a new community that did not know them.

RThought: They opened in time for Back-to-School business on August 4, 1982. It seems, however, that instead of just a gain from back-to-school volume, they were conducting a back-to-school lesson in what can be accomplished by entrepreneurs, and seldom by professional management.

WORKING WOMEN

I have just started to receive a fascinating magazine called **Working Woman** (1180 Avenue of the Americas, New York, NY 10036 $9/yr) after picking up a copy that came to my daughter (a working woman). I find it an insight into an important part of the world just as I find Ebony, Black Enterprise, INC., Conservative Digest, Metropolitan Home, The Federal Reserve Bank of St. Louis Review, Kiplinger's Washington Newsletter and 40 or 50 others.

I would recommend it to all retailers. You will find, in addition to good feature articles, little ideas like the one offered by Suzanne Morel of Florida, who goes to market in New York City about once a month, the date being determined by her travel agent who calls when special fares are being offered.

MACYS CALIFORNIA TACTICS APPEAR AIMED AT INCREASING FINANCE CHARGE INCOME

It is interesting what stores can do when prime drops materially below the finance charge rate. Suddenly it becomes profitable to delay account payments and increase finance charges. That, at least, might explain what Macys California has done. Prime is now 12% and their finance charge on the first $1,000 is 19.2%. So suddenly my bill comes from Louisville, Kentucky!

Let's explore what happens. Formerly the statement was mailed from San Francisco—standard delivery time is next day. From Louisville the standard delivery time is 3rd day. There go 2 days. On return of the payment it is the same—2 days lost in postal delivery.

Macys cuts off receipts (but not charges) 5 days before the cycle closing date so the time interval from closing to payment varies from 23 to 26 days. The requirement for mailing statements is 14 days prior to the date on which payment must be received in order to avoid a finance charge. Macys California can now chew up 6 of those 14 days in the postal service. That could leave only 8 days during which the customer can mail a payment.

Macys California is now taking about 7 days from closing to postmark, leaving an actual period of 10 to 13 days. Delayed mail, of course, works against the customer and in favor of Macys as do Sundays and holidays. Finally, Louisville does not have the most flights in the world.

RThought: I am certain that Macys California had a reason for making this change. I suspect that it was undertaken to save money. It certainly was not undertaken with any consideration of improved service to Macys California customers or even fairness in dealing with the customers.

But then who really thinks of customers in department stores today, customers who pay for but do not necessarily get the service they pay for.

MILLER AND RHOADS GOES HONEST WITH VENDORS

The Federation of Apparel Manufacturers in New York reported in their NEWS ALERT for November that Miller & Rhoads had rescinded its recently announced chargeback policy. The M&R VP for Operations made one of those fancy statements that makes one wonder if he ever heard of communicating with vendors.

Edward Murphy said they only did it to alert vendors to "the need for care in executing orders." Apparently Mr. Murphy thinks M&R has perfect records, that buyers never make verbal changes or authorize substitutions without changing the file copy of the purchase order.

RThought: RT is constantly amazed (but not amused) by senior department store officials who still believe that might is right and that the power to modify the check and cheat on paying what they owe can be done unilaterally. Someone should explain to such vice presidents the meaning of a contract.

If a shipment is wrong or late, the buyer, under the Uniform Commercial Code, has just three options:

1. Reject the entire order and owe nothing.
2. Keep the entire order and pay for it without modifying the amount due (unless agreed to in advance by the vendor).
3. Keep any commerical units and reject the rest.

LKK 11/20/82

RT will be happy to send a photocopy of the pertinent code sections if you send a stamped, self-addressed envelope to: COMMERCIAL CODE, Box 249, Lafayette, CA 94549.

MUST READING FOR ALL RETAILERS

The November issue of INC. (38 Commercial Wharf, Boston, MA 02110 $10/yr, $2/issue) has a fascinating article on Sandy Zimmerman and Cohoes Specialty Stores Ltd.—but it also has many observations by Zimmerman about Federated Department Stores.

Zimmerman says that the success he has had in developing Cohoes is based on the same program he wanted to use at Abraham & Straus. He wanted to build a loyal organization interested in selling, and he wanted to provide service, by enthusiastic salespeople, for his customers.

When he took over as CEO at A&S, he said that Federated wanted him to dismiss at once anyone who didn't perform rather than build a loyal organization.

At Cohoes he has time to spend with his customers and on the store floor. Cohoes provides free lunches for customers (so they won't wander away for a couple of hours and forget to shop) and he joins them.

Federated, he said, was the most political environment he had ever been exposed to and he would never allow himself to get into such a position again.

Although Cohoes operates on a 39% gross margin, he says it provides more, and more enthusiastic, sales help than do department stores and carries heavier stocks (both wider selection and carried later into the season).

He can do all of this (as does Nordstroms in the West) because he has provided a combination that customers want. Because they want what he has to offer, he produces $600 sales per square foot of selling space—and that figure continues to grow!

RThought: I suspect that the first measure of the quality of management is the sales per square foot they can produce.

SHORT SHORTS

If shoplifting and employee theft can be reduced by prosecution, why not let the public know. If stores, at least monthly, would include a box in a major advertisement saying how many shoplifters and employees have been prosecuted and the number found guilty, then everyone would know that store is serious about theft. An item might read like this:

Prosecution Report: 1982 to Date		
Shoplifters prosecuted	20	Convicted 19
Dishonest employees prosecuted	6	Convicted 6

WORDS TO KEEP THE WORLD IMPROVING

I am thankful to Ed Burnett, a New York consultant to the direct mail industry, for passing on to me the following which was read as an eulogy to the storyteller, Sam Levenson, at the Brooklyn College Alumni Association Annual Dinner in 1980.

Sam Levenson's Ethical Will and Testament to his Grandchildren

I leave you my unpaid debts. They are my greatest assets. Everything I own, I owe:

1. **To America I owe a debt for the opportunity it gave to me to be free and to be me.**
2. **To my parents I owe America. They gave it to me and I leave it to you. Take good care of it.**
3. **To the Biblical Tradition I owe the belief that man does not live by bread alone, nor does he live alone at all. This is also the Democratic Tradition. Preserve it.**
4. **To the six million of my people and to the thirty million other humans who died because of man's inhumanity to man I owe a vow that it must never happen again.**
5. **I leave you not everything I never had, but everything I had in my lifetime: a good family, respect for learning, compassion for my fellow man, and some four letter words for all occasions, words like help, give, care, feel, and love.**

Love, my dear grandchildren, is easier to recommend than to define. I can tell you only that like those who came before you, you will surely know when love ain't, you will also know when mercy ain't, and brotherhood ain't.

The millennium will come when all the "ain'ts" shall have become "ises" and all the ises shall be for all, even for those you don't like.

Finally, I leave you the years I should like to have lived so that I might possibly see whether your generation will bring more love and peace to the world than ours did. I not only hope you will, I pray that you will.

Grandpa Sam Levenson

American Red Cross

AB
Put w/ November
RT

National Headquarters
Washington, D.C. 20006

December 10, 1982

Dear Mr. Kahn:

Mr. Marshall Kline recently sent the Red Cross a copy of the November 1982 Retailing Today which contained an article suggesting that retailers encourage their employees to give blood through the Red Cross.

The Red Cross appreciates any effort which encourages voluntary blood donations. Let me take this opportunity, however, to clear up a few misunderstandings which readers might infer from that article.

American Red Cross Blood Centers in 57 regions throughout the United States serve as collection and distribution centers to meet the blood needs of thousands of patients and hospitals, and, when necessary, to share blood resources with other blood services, both within and outside Red Cross. The Red Cross, however, does not establish "blood banks" for individual donor groups.

The Red Cross believes that community responsibility is the best way to ensure adequate blood supplies, and all Red Cross regions work closely with employers and other groups to sponsor group donations. Bloodmobiles at factories, churches and schools are one method for collecting much-needed blood. Of course this means that employees of retailers who take the advice in the Retailing Today article will have an even greater feeling of satisfaction: their donation of blood helps not only their fellow workers but also many others in their community who depend on volunteer donors to provide life-saving blood and blood products.

Because it believes in community responsibility, the Red Cross does not operate on the policy of credit for or required replacement of blood. All blood donated to the Red Cross is provided free of cost or of the need for mandatory replacement (although Red Cross will provide replacement blood for patients from Red Cross regions who need blood in areas where replacement is required). The Red Cross charges hospitals only for costs it incurs in collecting, processing, testing and distributing blood.

Thank you again for your efforts to promote voluntary blood donation.

Sincerely,

Donna J. Christenson

Donna J. Christenson
Associate Director (Acting)
External Affairs/
Communications Management
Blood Services

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RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
ISN 0360-606X

Published Monthly
$30 per year
$37 overseas

ROUTE TO

DECEMBER 1982 **VOL. 17, NO. 12**

A FEW RESOLUTIONS FOR A NEW YEAR

Take a moment from planning your business for 1983 and look at your personal plans. Review 1982.

What did you do in 1982 to make the world a better world–for your loved ones, for your friends, for your community, for mankind? Were you concentrating so much on making and spending money, getting ahead by playing corporate politics–that your marriage deteriorated, your children became alienated? Did you frequently deplore the deterioration of our society–and do nothing to make it better?

Let me suggest some resolutions that I make every year. I don't have to change them each year because I am never able to fulfill them as I want to fulfill them.

First, make your marriage a 60-60 proposition. When two people are willing to go half way, to make it 50-50–they never seem to meet.

Second, never go to bed mad. It is terrible to wake up in the morning and have to rekindle the anger from the night before. Soon there is no opportunity to say, "I am sorry." Have everyone in the family resolve that before going to bed each night all differences and disputes must be settled. Then sleep well and start the next day with a smile and expressions of love.

Third, remember that all the world has discovered the Golden Rule. Sometimes it is said, "Do unto others as you would have them do unto you"; and sometimes it is said, "Do not unto others as you would not have them do unto you." Either way, it is in the Judeo-Christian, Moslem, Hindu, Shinto, Taoist, Buddhist and Confucian writings. Follow it each day.

Fourth, remember that Kipling wrote, "There are 9 and 60 ways of writing tribal lays . . . and every single one of them is right." Listen to the other person's idea. There are 5 perfect ways to do almost everything plus 10 good ways and only 5 wrong ways. Quit spending time arguing which one of the 5 perfect ways something should be done. If you are in San Francisco and have to be in Los Angeles a week from today, you can get there by plane, train, bus, car or boat. Why argue about which way is the right way?

Fifth, remember that what you do is important. A few hundred votes out of 3.6 million will decide the governorship of Illinois. Join with me in accepting the motto of The Christophers . . . "It is better to light one candle than to curse the darkness." Alex Haley has on his stationery, "Seek out good . . . and praise it." When you think good things about someone, even one you may not know, write and say what you think. With your friends it is far better to tell it to them than to relate it to the surviving spouse. I have done that too often; I have promised myself never to be in that position again.

Finally, when you go to bed at night, think back over the way you spent that day. You can kid the world about what kind of

A MATTER OF ETHICS

I am wrestling with an ethical problem for which I do not have a clear answer. Any thoughts that readers have would be very much appreciated.

I write this based only on what has appeared in the papers and my general knowledge of retailing. I have not discussed this matter with any member of the firm involved.

The day before Thanksgiving, HRT Industries (formerly Hartfield-Zody) filed for bankruptcy under Chapter 11. They filed for the parent company and the Zody's and Karl's subsidiaries, but not for the apparel manufacturing subsidiary.

HRT had reported a $3.2 million loss for the first six months and was expected to report a $6 million loss for the third quarter. HRT started the year with $58 million equity, a major recovery from their bankruptcy 8 years ago following the foolish acquisition of Yankee Stores in the midwest, half a continent away and in trouble when acquired.

During the current fiscal year, HRT acquired 7 Gold Circle stores in northern California from Federated Department Stores, sold the 68 Hartfield stores to Petries, and planned for a major sales increase, partially based on remodeling and upgrading existing stores. Instead, they suffered from the devaluation of the Mexican peso and a depression in California. HRT obviously was in trouble.

The day before Thanksgiving just about all their Christmas merchandise must have been in their stores–and most of the bills not paid.

Weil, Gotshal & Manges, probably the outstanding retail law firm, represented HRT.

The Problem: If HRT had continued to operate, trying to pay off creditors, the situation would have deteriorated and the creditors might have gotten very little. Using Chapter 11, HRT can accumulate all the Christmas cash, pay no interest on money owed and be able to cancel any bad leases. I would expect that very shortly after Christmas a plan will be put forth providing 100% repayment of all creditors with a substantial initial cash payment; the only major losers would be the terminated landlords who might not be able to find new tenants during the period for which the Chapter 11 provides rent.

Had HRT continued to operate, the landlords might have gotten a few more months' rent and the banks and vendors taken a larger loss.

But is this the proper use of Chapter 11? The loss for the creditors is concealed because they are not paid for months, perhaps up to a year, and they receive no interest. Can HRT go into Chapter 11 each time it undertakes an ambitious program that is set back by a depression? Or did HRT do the right thing for the most people? I don't know.

a person you are, but you cannot kid yourself. I hope you will always be able to say, "I spent this day the way I know I should have spent it."

May your holidays be merry and may the New Year bring happiness to you and your loved ones and peace to the world.

WHAT HAS THE STOCK MARKET BOOM MEANT TO RETAIL STOCKS?

The Dow Jones Industrial Average gained almost 300 points between the end of July and the end of October. STOCK DATA, a publication that reports on month-end prices and price/earnings ratios of more than 300 publicly traded stocks (Robert Kahn & Associates, Box 249, Lafayette, CA 94549 $20/yr) shows the following changes in median price/earnings ratios for stocks traded on various exchanges between the end of 1981 and the end of October.

RETAIL STOCKS vs. DJIA

		12/31/81	10/29/82
New York Stock Exchange	Current year	7x	11x
	Prior year	7x	8x
American Stock Exchange	Current year	5x	7x
	Prior year	7x	6x
Over The Counter	Current year	7x	9x
	Prior year	7x	7x
Dow Jones Industrial Average	Current year	7.1x	12.4x
	Prior year	8.7x	6.6x

RThought: RT has previously pointed out that the reciprocal of the price/earnings ratio (100 divided by the price/earnings ratio; e.g., a P/E of 11 divided into 100 means 9%) reflects the total earnings on the current market price of the stock.

The dramatic drop in all short-term interest rates and the more moderate drop of long-term rates are reflected in a dramatic change in the P/E of the Dow Jones Industrials. This has been reflected in a much smaller improvement for retail stocks, with the greatest improvement in stocks on the New York Exchange.

The NYSE stocks come out better for many reasons. They are larger companies and are studied regularly by more analysts. There are more shares outstanding and thus a broader market (most institutions, which do a majority of the stock buying, will not invest in companies below a certain size). The companies tend to retail in broader areas and are known to more people (I can recall some years ago, before there was an organized options market, wanting to buy an option on Broadway Hale, now Carter Hawley Hale; my regular trader in New York asked, "Isn't that a discount chain on the west coast?").

But most important, this explains why retailers showing lower earnings than last year can still sell at higher prices. And they will continue to sell at such higher prices as long as interest rates remain low and retailers' earnings do not drop drastically (as in a depression with 14% or 15% unemployment).

ALL PROGRESS MAY NOT BE PROGRESS

We have all read the slogan "Better living through chemistry"; however, we can also get better dying through chemistry. Rachael Carson wrote **The Sea Around Us** in 1951; we really began to understand what she documented in the 1970s. Many miracle drugs, insecticides and other products of chemistry, first thought to be safe, have since been outlawed. Such laws are only written after so many people have been hurt or killed that it is obvious to the public that something has to be done. And usually it is only when the public reaches this state of awareness that politicians can legislate.

As we surround ourselves with computers, terminals and other electronic devices, we probably will experience the same thing that has happened since we accepted a better world through chemistry, much of which we unwittingly put into our stomach.

It might be wise to be aware of the steps that Canada took recently. Their Ministry of Labor is proposing that persons working with visual display terminals (VDTs) be limited to 5 hours of work a day. And that they get a 16 (sic) minute break each hour. If they are pregnant, they would be transfered to other jobs, without loss of pay or seniority, during the period of pregnancy. Finally, all VDT operators should be provided annual eye examinations; and if they need glasses, glasses are to be provided by the employer.

RThought: There is much we do not know about the effects of introducing electronic devices into intimate contact with humans over a long period of time each day. My closest friend from grammar school through college was involved during World War II with the development of sonar. He contracted leukemia because of this; it took his life in 1948. He was on full medical retirement from the Navy when he died. He was 30 years old. The Navy did not intend to kill him; they just didn't know a lot about sonar in those early days. They just knew that had to find a way to detect and track submarines if we were going to win the war.

I don't think any user of computers and electronic devices wants to hurt their employees; they just want to get the information necessary to run their business profitably so that a VDT operator can continue to have a good job with good fringe benefits and a chance for advancement.

I would hope that no employer would conceal data about dangers to employee health such as Manville is alleged to have done in the case of the manufacturing and processing of asbestos.

We can only have proper use of electronics with safety for employees if top management is aware that this work area must be watched carefully by a responsible executive.

A MIXED PATTERN OF PROMOTIONS

The usual cycle in supermarket retailing is from regular prices to continuities to games to stamps to discount. In Los Angeles every firm is at a different place in the cycle.

Albertsons is running super coupons, 1 to a customer with a minimum purchase of $5. Ralphs is into Double Coupons with a limit of 4 to a customer in a limited 7-day period (if people understand the 62-word instruction panel). Vons and Thriftmart are matching Ralphs or vice versa. Safeway and Smiths are offering only 3 coupons, but Safeway is ALSO offering a Cash Dividend Stamp for each $1 spent. 36 stamps fill a certificate and each certificate buys 1 Cash Dividend Special such as 1 dozen large AA eggs for 18¢ (the difference in Cash Dividend Stamps from store-redeemed trading stamps is slight).

Hughes accepts coupons from other supermarkets with their 10 rules presented in very small type. Lucky plugs along with "Low prices on name brands . . . Basic Value."

A FEATURE REPORT

ATTENTION SMALLER STORES

RT has been properly admonished by a long-time subscriber for not giving more attention to the problems of smaller stores (a rather indefinite measure of size).

The story that follows is based on the experience of a smaller retailer—under $20 million in sales. There will be more such stories in the future—in addition to the many items in RT which are equally applicable to large and small retailers.

DON'T COUNT ON LOYALTY FROM YOUR BANK

For the 28 years that I have been consulting I have always advised clients to continue their bank (as well as accounting, legal and insurance brokerage) relations. The premise is that the long association develops an understanding of your business and loyalty on both sides.

During the past year a 110-year-old family business was forced out by the Bank of America after a 68-year relationship. In 1914, when the relationship first started, it was the Bank of Italy and few people outside the San Francisco area had ever heard of Amadeo Peter Giannini, the man who took command of the bank after the 1906 fire in San Francisco.

Bank of America banked the firm through the 1920 crash and the major depression of the 1930s. But elected not to do so after a bad year in 1981.

The relationship apparently was so firm that the bank required only annual financial statements. Thus the problems that developed in 1981 were not fully known until May of 1982 when the line was up for review. The bank was aware of part of the problem in the fall when, on an emergency basis the bank was asked to—and did—increase the line significantly. As a result, the store remained on a prompt and discount basis throughout this emergency.

By the time the bank was considering the renewal, the corrective action had already been taken to turn the business around.

When the regional office sent in their analysts, they were people unqualified in the retail field. It is true that the 1981 loss represented more than 20% of their equity, yet after the loss the total debt to equity ratio was only 1½ to 1. Worst of all, the analysts did not understand the significance of the LIFO reserve that was 37% of the equity, and refused to restructure the balance sheet to a FIFO basis. Thus, the bank could not look at the current values involved. After all, if action is necessary by the bank, current values are what are important.

On a FIFO basis, the loss was 18% of equity instead of 22%; and the total debt to equity would have been 1.4 times instead of 1.5 times.

RThought: The lack of understanding by the analysts and regional supervisors was demonstrated by an original demand that the $1 million-plus line be replaced in 30 days. After violent protest, this was extended to 90 days. A satisfactory new bank relationship was established.

The moral of this story is simple. A. P. Giannini is dead and so are the people who valued long relationships. The claim by President Samuel Armacost of "loyalty to customers" made in BankAmerica Corp.'s third quarter report is simply not true. At the first sign of a lack of understanding of your business by your banker, start looking for a new bank. Do so at your timing and on your basis. Try not to give your bank the chance to do what the Bank of America did here—force the change under bad conditions.

And remember the old saying—the value your bank places on your business may be of no longer duration than the life of the hole you leave in a bucket of water when you remove your hand. That is, unless you are Mexico or a South American country and default on billions in loans; then your loyal banker will work out an extension.

RThought: My client is showing profit improvement at the rate of $60,000 or more per month and during December should do more than $100,000 better. The new bank has a good customer.

SHORT SHORTS

Data Terminal Systems Model 500 is too slow. A local supermarket of a national chain uses the DTS 500 at the express lane, and on a single item transaction it has to print so much after the sale is completed that the customer can be gone before the receipt is out of the register. This opens wide the door for fraudulent voids and other manipulation. Is it worthwhile to have each tag indicate method of payment, number of items, Thank You, transaction number, clerk number and register number plus the time of the transaction?

There is a place in the world for English majors. Sally K. Ride got her BA in English at Stanford—and on April 20, 1983 she will become the first American woman to go into space. Clue: she later got her master's and doctoral degrees at Stanford in physics. Liberal arts did not stand in her way.

Are airlines discriminating against business travelers? Yes, says Charles C. Shafer, Jr. of Kansas City, who has filed a suit against American, Continental, Delta, Eastern, Frontier, Ozark, Republic, TWA and United, charging that businessmen pay full fare so that all the others can travel at reduced fares. He claims such discriminatory pricing is banned under the Robinson-Patman Act, and he alleges a conspiracy that is illegal under the Clayton Act.

Outlet centers are easier to lease. That is what **National Mall Monitor Weekly** reports (10/11/82—2280 US 19 North Clearwater, FL 33515 $225/yr). Manufacturers are interested. Many new outlet and off-price centers are fully leased the day they open. There are new names for non-manufacturing tenants like "value," "deep discount" and "jobbers."

ABUSE OF NUMBERS

This is about the abuse of numbers in the October 1982 issue of "The Peter Berlin Report on Shrinkage Control" published by Price Waterhouse.

The headline reads:

Two New Studies Show:

INVENTORY SHORTAGE RISES AS RETAILERS COPE WITH SHRINKING ECONOMY

It refers to reports issued by the National Retail Merchants Association (NRMA) and the National Mass Retailing Institute (NRMI).

As to the NRMA it says that the 1982 edition of the Financial and Operating Results (FOR) "reports that stock shortage **in the nation's department and specialty stores** rose . . . ."

The figures obtained and tabulated by NRMA are not representative of "the nation's department stores" and they are not even representative of the membership of NRMA. The stores reporting break down as follows:

Size of Firm	Number Reporting
$1-2 million	2
$2-5 million	8
$5-10 million	11
$10-20 million	11
$20-50 million	15
$50-100 million	14
Over $100 million	26
Total	87

I doubt that NRMA would ever claim that only 3% of the NRMA members were doing under $2 million or that 14% were doing under $5 million.

The reporting firms (which may be divisions of large companies) are heavily biased toward the larger firms.

NRMA compounds the problem by using two methods of producing figures. For the figures reported as being representative of "Department Stores Over $1 Million," they use an aggregate figure. That is, to determine the inventory shortage they take the total shortage reported by all stores and divide it by the total sales of all stores. When reporting figures for a size group such as the $5-10 million stores, they use a median figure. That is, to determine the inventory shortage they take the percentages reported and array them from high to low. For the 11 reporting stores in the $5-10 million size, the reported figure is the one reported by the 6th store from the top (also the 6th store from the bottom) of the array.

The table below shows what happens when using two methods. In 1982 the weight given to department stores doing over $100 million was over 80% (75% in 1981 and similar heavy weights in prior years)—because 80% of the total volume of all stores was done by that group. You can see that the figures reported for "Department Stores Over $1 Million" are almost identical to those reported for stores over $100 million and show little relationship to the figures for smaller stores.

	Inventory Shortage		
Size Stores	1981	1980	1979
Over $1 million	2.11%	2.03%	2.46%
Over $100 million	2.12	2.03	2.40
$5-10 million	1.60	1.35	1.64
$10-20 million	1.73	1.67	1.66

Remember, the first line is based on aggregate numbers and reflects **all shortages**. The figures for stores by size are median figures. Because shortages can go up to any level but cannot (theoretically) go below zero, the arithmetic average (used for determining the "Over $1 Million" figure) will with rare exception be larger than the median figure.

The figures stand indicted on the following basis:

1. The sample is not representative of department stores in the United States.
2. The sample is not representative of the membership in NRMA.
3. When aggregate figures for "Department Stores Over $1 Million" are compared with departmental figures taken from the Merchandise and Operating Results (MOR), where median figures are again used, the reader is not advised of the significance of the different methods of computation.
4. The NRMA does not publish a figure for the same firms both years (NRMI does—and this produces significantly different figures than the "all reporting firm" figures), and no comment is made about this. In the case of "Department Stores Over $1 Million," the increase from 2.03% in 1980 to 2.11% in 1981 may be due entirely to the fact that the number of reporting firms dropped from 96 to 87 (in the case of "Over $100 Million" firms, from 27 to 26).
5. No comment is made on the difference in samples between the FOR and the MOR, as shown below for 1981:

Firm Size	FOR	MOR
$1-2 million	2	11
$2-5 million	8	
$5-10 million	11	13
$10-20 million	11	11
$20-50 million	15	16
$50-100 million	14	15
Over $100 million	16	47

   Note the dramatic difference in the impact of "Over $100 Million" firms on the MOR figure as compared with the FOR figure—and the "Over $100 Million" firms appear to be the ones with the highest shrinkage rate (despite tremendously higher pay for presumably top executives and heavier use of computers and other state-of-the-arts technology).

6. Because the figures are not statistically sound, the entire section entitled "The Studies . . . What They Mean" is merely a subjective expression and not based on valid sampling procedures. The expressions may be 100% correct—but they are not disclosed by the statistics presented.

RThought: When a retailer receives a report bearing the Imprimatur of Price Waterhouse, he should not have to research the data published, including the details on how the figures are computed, in order to determine whether or not the material presented is factual. **If the data is not statistically representative** of "the nation's department stores" or "discount stores," then that should be disclosed. The NRMI figures did cite that only 30 firms reported (25 reported both 1981 and 1980), and the aggregate volume was **only** $13 billion, substantially less than the volume the NRMI claims for discount stores.

RThought: There are a number of excellent articles in Peter Berlin's October issue, articles that are not affected by statistical weakness. One such article was a suggested letter to be sent to vendors regarding Christmas gifts to store employees. Unfortunately, the article did not address the twin problems of leadership by example from top executives or the policing of the policy. Another article dealt with security in handling gift certificates.

RThought: Los Angeles is one of the most competitive food markets—no one or two chains hold a majority of the business. Leadership has changed over the years with Ralphs and Vons holding the top positions in recent years. Each chain can gain by moving small shares of market from the other 8 or 10 major chains.

It looks like stamps are coming back (Safeway Cash Dividend Stamps), and "Going Discount" is here again; even for those now discounting, stamps are a possibility.

COMPETITION ON FINANCE CHARGES

The auto industry has proven that customers respond to competition in finance charge rates. The only good periods for the auto industry during the past year have been those with major rebates (these have lost their pulling power) and when low cost financing was offered (now being offered at about 10%).

Let us take an example. Financing an $8,000 balance on a car over 48 months at 18% APR means payments of $235 per month ($11,280 total); at 10% APR it costs $202.90 ($9,739). The savings is $1,541 over the term of the contract.

This is the kind of competition that was envisioned when Truth-in-Lending was passed.

RThought: Many retailers have just finished increasing their finance charges, both the rate on the lower balances and the point at which a lower finance rate, if any, starts. This was badly needed when prime was above 20%—but it is less needed now that prime has dropped to 11½% and less.

It is about time that some retailers started competing by lowering their finance charges.

ALL FACTORY OUTLET SHOPPING CENTERS ARE NOT ON ONE LEVEL

National Mall Monitor Weekly (2280 US 19 North, Clearwater, FL 33515 $225/yr) has regularly reported the growing number of factory outlet malls and the fact that many have opened fully leased, something that is not happening in conventional centers.

In some cases the shopping centers are converted buildings in the 100,000 square feet range.

In Los Angeles, 860 South Los Angeles Street, the Cooper building, formerly occupied by jobbers and diverters, is now operating as an "open to the public wholesaler." In other words, an outlet center. Reports from Los Angeles indicated that it has done very well. One of the great advantages to the jobbers (there are a few manufacturers taking space there—Alex Colman, for example) is that they are paid promptly, something that fewer and fewer of their store customers are doing. There are no arguments about late delivery, unauthorized substitution, markdown and advertising allowances—nothing but cash or credit cards on delivery.

RThought: One of the appeals of 860 South Los Angeles Street is that it is in the right part of town, right where the wholesale firms are concentrated. 821 Market Street in San Francisco is planning to go the same route. That location is even closer to masses of shoppers (who frequent the Emporium and Macy's) than is 860 South Los Angeles although there is not as great a concentration of wholesalers (if one doesn't consider the Merchandise Mart as a wholesaler).

LET'S HAVE NO MORE COMPLAINTS ABOUT WITHHOLDING ON DIVIDEND AND INTEREST PAYMENTS

To hear some chief financial officers talk about the problems of withholding on interest and dividend payments one would think that withholding was a completely new idea.

In a recent discussion I heard the three standard complaints:

1. It would be expensive—another administrative burden imposed on business by Washington.
2. Recipients of interest and dividends were deprived of the earnings on the interest or dividend between the date of withholding and the due date of the tax return.
3. It would discourage people from investing.

I asked the following questions and got the following replies:

1. Can you tell me how much it costs you to withhold on all of your thousands of employees, every single time they are paid? There was no answer, and the cost had never been computed in that firm.
2. You have a lot of withholding tax taken out of your own paycheck every pay period. How come you are not starting a revolution demanding the right to use that money up to the due date of the tax? He had not thought of that point. He was too young to remember when a retailer, Beardsley Ruml, economist to R.H. Macy's, thought up the withholding idea in 1942 as a means of keeping the government's cash flow on a current basis in the face of increased taxes.
3. What proof is there that people reinvest dividends and interest more regularly than wages and salary? There was no evidence.

RThought: There are two major reasons why all types of business should be cheering the withholding of taxes on dividends and interest.

1. Much of the interest and dividend income is not now reported on individual tax returns and thus escapes taxation. The financial officer with whom I was talking admitted that, and he did admit that more and more people are working in a "cash economy." He mentioned cases of charging one price if paid by check and a lower price if paid in cash. The fact that the cash economy problem is not completely solved by the new withholding does not mean that all attempts to collect should be eliminated. The argument that a form 1099 is now filed does not address the problem. With about 200 million taxpayers and probably as many or more 1099s filed, the IRS does not yet have the computer system (one may not be possible) that can correlate all of the 1099 information on each individual.
2. The most important reason for liking what is going to happen starting July 1, 1983 is that if the payers of taxable income do not cooperate in seeing that the receivers of dividends and interest pay their taxes, then tax rates will have to be raised on businesses and people on the payroll. That seems an undesirable step, especially for retailing which pays a higher effective corporate income tax rate than any other segment of our economy.

CAN WE HAVE HONEST SALES?

There is much doubt about the honesty of sales. Top name retailers tend to attribute the abuse to smaller stores, especially ones that are described as schlock houses.

In several states the agency responsible for consumer affairs is challenging the representation of sale prices and imposing fines when the price claimed to be a "sale" price is really the everyday price. In California a bill was proposed that would have made it a civil offense subject to fines if more than half the volume in a regularly stocked item was done at sale prices. This was to get at things like tires which are advertised "on sale" by major retailers every other week.

Your customers do not believe the claims of "sales" when they appear too often although in the past year many stores have been in a constant "sale" mode because of their inability to run their business (plan their purchases) on the basis of reasonable sale expectations.

On November 18 I received two mailers, one for housewares and one for electronics from Macy's and the Emporium. Virtually every item in each catalog had a regular and a "sale" price. Both catalogs said that prices were good through December 31—a period of more than 6 weeks!

RThought: Most large retailers have lost the confidence of the shoppers they claim as "their customers." Those formerly loyal customers do not believe them anymore; and in many cases, they don't like the store anymore, even though they may still shop at the store (convenience, habit, charge accounts, particular brands, etc.)

There must be a time after which a "sale price" becomes the regular price. I know that customers do not believe claims that a sale on a single item is going to last 6 weeks; I know that customers do accept a lower price for two, three or even seven days as a true "sale." Unfortunately, there is no mathematical formula that determines what your customers consider to be a legitimate sale. But such a formula would certainly not include 6 weeks.

I do know that if major retailers continue to claim that "sale" prices are good for 6 weeks either administrative bodies acting under existing laws or legislators drafting new laws or both will move to eliminate this abuse. And retailers, who always have a problem defining honesty, will again complain about burdens imposed by government.

SHORT SHORTS

For more evidence of the profit in a stable executive structure—look at the performance of Macy's. Walter Loeb, the retail analyst for Morgan Stanley, in a recent talk at the International Retail Conference, pointed out that over the past 5 years, earnings increased at a compounded rate of 23%, topped off with a 41% increase in their quarter ending July 31, 1982. But the key comment Loeb made was "All of (Macy Chairman Ed) Finkelstein's people have been with him since the Sixties. The structure is solid. There is little of the usual politics. **RThought**: Does Macy's tell Gimbel's? If they did, BATUS would be much better off.

How does unemployment affect the local economy? Representative James Weaver from Oregon, where the unemployment level is among the highest in the country due to the impact of the drop in housing construction on the lumber industry, testified before the House Subcommittee on Forests that for every 1% rise in unemployment Oregon can expect a 4.1% rise in suicides, a 5.7% rise in homicides, a 3.4% increase in mental hospital admissions, a 4% increase in the number of prison inmates and a major increase (from 16% to 60%) in the reported cases of child abuse.

A clever way to reduce bad check losses—was developed by the Blue & Gold Market, close to the University of California at Berkeley—as reported by the Grocers Journal of California. The back of the check is stamped with the store policy authorizing the charging of any returned check to a bank card, the policy is signed by the customer, and the credit card imprinted. This has increased recoveries from 40%-50% to 90%.

Remember these words. Pete Van Horn, president/CEO/of National Convenience Stores, Inc. and chairman of the board of National Assocation of Convenience Stores, said—in an interview for **C-stores Business** when asked about the impact of the recession on the convenience store industry—"Our basic business concept is recession-resistant. It is not recession-free." But what about being depression-resistant?

We did make progress—between 1960 and 1977. But are losing now.

	1960	1977
Whites in housing without plumbing/kitchen	10%	2%
Blacks in housing without plumbing/kitchen	33%	5%
Whites in overcrowded housing	40%	5%
Blacks in overcrowded housing	50%	11%
Whites owning homes	65%	69%
Blacks owning homes	36%	60%

Part of the overcrowding has been reduced by the decline in the size of both white and black families and the growing number of people living alone. Part of the decline in substandard housing has been the redevelopment of central cities, but much is due to the new housing construction between 1960 and 1977. **RThought**: Are you addressing the new markets, especially the black homeowner market?

Do you believe the statement—"Human resources represent our most important asset"—when it appears in the 21st paragraph of a 23-paragraph letter to shareholders? **I don't.** This is where most CEOs place it in their letter to shareholders. If they sincerely meant it, they would talk about it before they talked about other assets. But then you and I know they really don't think that—the way most of them hire top people from outside, fire older and long-time employees, sell off divisions, and boost their own salary and bonus while holding down the pay of middle management and staff workers in the name of ROI.

WORDS THAT FACE ME WHILE I TYPE

I look at these words everyday.

> **Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men, even when they exercise influence and not authority. There is no worse heresy than that the office sanctifies the holder of it.**
>
> *Lord Action*

My thought: The Presidency of the United States does not sanctify the holder of the office as many assume.

> **All that is necessary for the forces of evil to win the world is for enough good men to do nothing.**
>
> *Edmund Burke*

My thought: I must resist evil even when done in the highest offices.

> **When the Nazis came for the Communists, the Jews, the Trade Unionists, and the Catholics, I was silent because I was not a Communist, Jew, Trade Unionist or Catholic; and, consequently, when they came for me, there was no one left to speak out on my behalf.**
>
> *Pastor Martin Niemoeller*