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RETAILING TODAY

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ROUTE TO	INITIAL

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In not too many years you may immediately recognize the meaning of the initials that now can be placed behind my name. You have no trouble with the older ones – M.D., C.P.A., – and perhaps you may even recognize some of the newer ones – C.L.U. (Chartered Life Underwriter), C.P.C.U. (Chartered Property and Casualty Underwriter).

P.M.C. means Professional Management Consultant. It is granted only to members of the Institute of Management Consultants (IMCON), organized this January with Marvin Bower, former managing director of McKinsey & Company, as the first president. The purpose of IMCON is to establish educational, ethical and experience requirements for certifying individuals as professional management consultants and to encourage the establishment of degree programs directed at this professional field.

I was most honored to have been selected as one of the 120 founding members.

CALIFORNIA PROPERTY TAX

There are major changes taking place in the administration of property tax assessment in California. The State Board of Equalization is forcing the establishment of uniform practices among the counties. Their test audits are extending into personal property. The larger counties are starting programs of regular audits, particularly of businesses that report significant amounts of personal property.

Retailers are at a particular disadvantage on such audits, especially those who use the retail method to value their inventory. With March 1st, the California lien date, just around the corner, it might be well to review this situation. I am certain that the advice contained herein will be applicable to other states that tax personal property.

Underlying Accounting Philosophy

The first thing the retailer must realize is that he maintains his books in a form that meets requirements for income tax. Income tax law is concerned primarily with measuring income during a specified time span – and only secondarily with the correct value of the assets. On the other hand, property tax law is concerned with determining the "full cash value" of property in order to levy a uniform tax on property.

Let me illustrate this in its simplest form. If you added $100,000 to the cost value of your opening and closing inventory, thus overvaluing both by the same amount, your computation of income for income tax purposes would be unchanged. If the property tax assessor picks up the same figures he will levy an additional property tax on you. The converse, of course, is true.

(continued)

THE IMAGE OF BUSINESS

Just a few years ago business was upset by the anti-business attitude of our young people. When they found out about this there was a spate of programs to change the impression of business. Some of these programs are still going. But we hear much less about them today.

But businessmen did not change – nor did business. In fact, most businessmen concentrated on continuing business in the same old way – much of it devoted to the primary principle of making as much money as possible. Most businesses have established a policy that they are to operate within the law – but once the policy was established business didn't try to enforce it too strongly. In fact, I would suspect that business spends more time trying to keep travel and entertainment vouchers honest than they do trying to operate their business legally – let alone ethically.

Everyone urges a smaller business to copy a bigger business. (See RT Sept. 1968 – the retraction drafted by Credit Data Corporation because my criticism contained the words "numerous merchants in this area are utilizing the computerized files . . . and are finding them quite adequate.")

Too many businessmen follow a practice because they know – or they think – or they have been told – that someone bigger does it. Even when they KNOW that it is unethical or they SUSPECT that it is illegal, they do it because it may make them some money.

But youth looks at the smaller business that follows the bigger business – and he looks at the headlines to see what bigger business is doing. What does he see? Merrill, Lynch, Pierce, Fenner and Smith, the largest brokerage house, is charged with using insider information to allow special accounts to make a profit. General Motors, Chrysler, Ford, American Motors and their trade association are charged with illegal conspiracy to withhold improvements that would reduce contamination of our air. IBM is charged with antitrust violations for the second time in 20 years. And they remember the General Electric, Westinghouse and other major electrical companies that were convicted a few years ago.

That's just about a complete list of our biggest companies. As Kipling said in "A Code of Morals" (a most appropriate title), "But, howsoever Love be blind, the world at large hath eyes."

Inventory Valuation

Now let's look at inventory valuation. Under the retail method as approved for income tax use, you must take your inventory at CURRENT retail prices and reduce that retail value to cost by applying the cost complement developed under a prescribed procedure. When Congress approved this system the advocates, the predecessor to the IRS, and Congress all understood that the stated cost so determined was not likely to be accurate. But all parties agreed that if a specific uniform procedure was adopted and followed that it would be acceptable to the government for measuring periodic income.

Professor McNair in his book "The Retail Inventory Method and LIFO" (McNair, Hersum, Kleinhaus, McGraw-Hill 1952– now out of print) fully explains the sources of this variation.

The first reason for overstatement of cost value is due to the implied assumption that the "mix" of markups in your ending inventory is the same as in your purchases during the year. In most cases the lower markup merchandise tends to turn faster than the higher markup (even when variations are only between 40% and 50%) with the result that proportionately less 40% markup (60% cost) merchandise is in your ending inventory. Obviously, if you made special short-markup (high cost) in-and-out purchases during the year, none is left in your ending inventory but your cost complement is raised because of this purchase.

It is difficult to measure this amount of overstatement but I am convinced that it is substantially in excess of 2% of your inventory value. Some years ago a client converted from cost to retail method and the IRS required the inventory at the end of the initial year to be taken both ways. Cost as determined under the retail method (wherein marked-down merchandise was taken at the current selling price) CAME OUT 2% HIGHER THAN ORIGINAL COST.

The next reason for overstatement results from the fact that under the retail method for IRS you are not allowed to reflect markdowns until the merchandise is actually re-marked. For example, at March 1st you have boys' jackets in stock left from last fall. They are not marked down because you have not yet determined what price you will use to clear them at when the next fall season starts. A woman's department has merchandise that will be marked down after Easter but which at the March 1st date is still in stock at regular prices hoping that a few pieces will sell.

The retailer reporting on a cost basis operates under no such proscription. If a furniture store has in stock a chair that cost $55 and is priced at $99.50, he can, when it is considered older stock (say after 6 months) reduce his estimate of "cost or market" value to $40 or $35 without having to change his retail price. All he may do is mark the price ticket with a special code either offering a higher PM to the salesman for selling the chair or allowing the salesman some leeway in cutting price in order to move the chair. Or the store may value such older pieces at what a close-out specialist might offer for that chair, perhaps as low as $15, while still leaving the marked price at $99.50.

I would estimate that the percentage overvaluation of inventory because of unreflected markdowns exceeds the percentage for markdowns related to obsolete merchandise (this excludes price changes recorded as markdowns where price is reduced for a limited period and then raised after the sale). If a store had annual markdowns of 8% of which 3% related to special promotion price reductions leaving 5% applicable to closing out of buying errors, broken sizes, etc., I would estimate that an additional amount of more than 5% should be applied to the inventory figure to correctly estimate "full cash value."

On balance it is my conviction that the retail method of inventory overstates "full cash value" by from 5% to 10% – yet the State Board of Equalization, which doesn't really understand the intricacies of the retail methods, has put out instructions telling assessors that book cost under the retail method is approximately "full cash value."

Reporting Supply Inventories

The same problem relates to supply inventories, if reported (and here some companies carry such a figure on their books and pay taxes, whereas others expense all supplies and avoid property taxes). Be sure to write off all obsolete supplies.

But more important, the 15% exemption applicable to inventory, starting with 1969, is not restricted to what the trade considered as merchandise inventory – but extends to all items that are transferred to the customer at the point of sale. This means that all wrapping supplies, bags, boxes, string, marking tickets, etc., should be separated from operating supplies and reported with "inventory" in order to maximize the 15% exemption.

Fixtures, Equipment and Leasehold Improvements

The first problem here is clearly understanding the law and the procedure. The auditor starts with your book figures but disregards the reserve for depreciation. If you do not close out fully depreciated assets (presuming they are no longer in use) the auditor assumes you are still using the assets. In the area of leasehold improvements, where all improvements may have reverted to the owner at the end of a prior lease, this is completely foolish. But even more foolish is not understanding which leasehold improvements are NOT taxable to the occupant. First, any leasehold improvement that becomes part of the building (such as a new tile floor, rewiring a department, cutting a door in a wall, installing a sprinkler system, or a new store front) is to be assessed to the owner of the realty. There is no reason to report them a second time and have taxes assessed to the tenant.

Second, some items that may be reflected as leasehold improvements are not assessable, such as painted signs on a wall, store designer fees to re-layout a store, etc.

I have always recommended that TWO leasehold improvement accounts be set up, one entitled "Leasehold Improvements – Assessable" and the other "Leasehold Improvements – Non-Assessable." Detailed records should be kept so that on audit by the Assessor you can support your exclusion of the non-assessable items.

A similar problem relates to fixtures and equipment. Depreciation on fixtures and equipment is a relatively small expense in retailing. Fixtures are often modified, changed, moved and even thrown out. Most retailers elect to depreciate out such items rather than record abandonments each year. However, if proper identification is entered on the asset ledger (written in the description space on the ledger page) it will be possible to review the assets each year and recall those that were abandoned during the year. If the year of abandonment is entered this original cost can be deducted when reporting for property tax purposes and the auditor will normally concur.

A WORD OF CAUTION. Despite the accelerated rate of store remodelling, some assets are still used after they are fully depreciated – especially items like cash registers, accounting machines, adding machines and the like. These all have serial numbers for easy identification. Those that are fully depreciated and off the books should still be reported (with the correct year of acquisition) in addition to the book figures.

On reviewing "fixture and equipment" accounts of clients I have found as high as 40% of the book figure NOT SUBJECT TO TAXATION. This includes such things as leasehold improvements listed as fixtures (in order to record a shorter life for depreciation – which can be done in other ways if properly recorded as an improvement), abandoned assets, fire extinguishers (which are

RETAILING TODAY – STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

December was a catastrophe. The overall average dropped to 9.6 days – the poorest December figure for the 5 years that this report has existed. Only 6 stores made the Honor Roll:

Podesta-Baldocchi	4.0 days	Sears Roebuck	4.3 days
Roos/Atkins	4.0	Wineman's (L.A.)	4.5*
Ross Debt Store	4.0*	J. Magnin's	5.0

*indicates client

The real shame is the performance of the largest local stores. One reporter complained that their Emporium bill was received on January 10th with a January 17th closing; another reported that their Capwell bill for a December 20th closing was POSTMARKED January 20th – the next closing date.

Please read again WHY A CREDIT OFFICE RATING? at the bottom of this page.

	DECEMBER 1968			NOVEMBER 1968		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE
Bloomingdale's (NYC)	1	7.0	7	--	--	--
Brown-Mahin	4	11.3	11-12	2	10.5	10-11
Capwell's	2	18.5	13-24	5	13.0	12-15
City of Paris	3	13.3	12-14	2	9.0	7-11
Emporium	2	19.0	18-20	1	11.0	11
G.E.T.	1	6.0	6	1	9.0	9
Grodin's	1	18.0	18	1	13.0	13
Hastings	1	16.0	16	2	12.5	11-12
Hink's	3	9.3	6-12	3	5.7	3-8
Holman's	5	9.0	6-14	5	4.2	3-5
S. Klein (NYC)	1	6.0	6	--	--	--
Kushins	1	14.0	14	--	--	--
Lerner Shops (NYC)	1	14.0	14	--	--	--
Levy Bros.	14	9.1	7-13	16	7.0	5-9
H. Liebes	3	16.0	13-19	--	--	--
Livingston Bros.	3	19.7	18-21	--	--	--
Macy's	5	5.6	5-6	4	5.0	5
I. Magnin	6	5.2	5-6	4	6.3	5-7
J. Magnin	1	5.0	5	--	--	--
Montgomery Ward	1	7.0	7	3	6.3	6-7
Penney's	1	6.0	6	2	6.0	6
Podesta Baldocchi	1	4.0	4	--	--	--
Rhodes	2	6.0	6	1	7.0	7
Roos-Atkins	1	4.0	4	--	--	--
Ross Dept. Store	1	4.0	4	7	4.6	4-5
Saks Fifth Ave.	2	12.0	11-13	1	8.0	8
Scribner Book Store (NYC)	1	14.0	14	--	--	--
Sears	4	4.3	3-5	4	4.3	4-5
Simon's	3	6.3	5-8	1	5.0	5
Smith's	1	9.0	9	1	6.0	6
Tiffany & Co. (NYC)	1	14.0	14	1	14.0	14
United Factors	1	11.0	11	1	10.0	10
Wallach's (NYC)	1	9.0	9	1	5.0	5
Wineman's LA)	4	4.5	3-6	4	3.8	3-4
	83	9.6	3-24	73	6.9	3-15

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

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

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

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

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

BALANCE AT RISK

Once again we have too few stores to use as a comparison – this time because some did not report December for last year.

BALANCE AT RISK

MONTH	A(1) 1966	A(1) 1967	A(1) 1968	B(3) 1966	B(3) 1967	B(3) 1968	C(3) 1966	C(3) 1967	C(3) 1968
Jan.	7.0	5.5	4.8	7.0			5.0		6.2
Feb.	6.0	5.6	4.8	7.6	11.1		6.7	8.0	6.5
Mar.	5.6	5.3	4.6	8.5	10.6	13.2	8.0	6.0	6.5
Apr.	5.1	4.2	3.3	8.9	8.9	10.5	7.0	5.9	5.2
May	4.7	3.6	3.6	7.9	8.4	9.4	6.0	7.3	5.5
June	5.6	3.8	4.9	8.9	8.9	9.2	6.0	6.5	5.0
July	5.7	4.2	5.7	8.7	9.1		6.0	6.8	4.9
Aug.	6.5	4.5	6.0	9.8		8.7	6.0	7.0	5.7
Sept.	6.1	4.3	6.4	9.9	9.5	9.1	5.5	5.7	5.8
Oct.	6.1	4.4	5.8	9.9		9.0	5.5	6.2	6.8
Nov.	6.0		4.7	12.1		8.6	5.5	5.7	4.1
Dec.	6.2		4.9			8.1	4.2		4.5

MONTH	E(1) 1966	E(1) 1967	E(1) 1968	F(2) 1966	F(2) 1967	F(2) 1968	G(3) 1966	G(3) 1967	G(3) 1968
Jan.	4.5	7.8	4.2	6.4			6.8	6.7	7.1
Feb.	5.6	6.0	5.1	7.7			8.3	7.6	6.9
Mar.	6.7	6.8	5.0	7.5	8.9	6.7	8.1	6.6	5.7
Apr.	7.5	7.2	5.4	7.6	8.3	7.1	5.6	5.9	6.0
May	5.6	4.3	5.4	6.8		5.5	6.9	4.1	5.3
June	6.9	4.1	6.4	7.2	7.9	4.8	6.3		4.4
July	6.0	4.9	5.6	7.1	8.7		5.9	6.6	5.5
Aug.	6.0	4.6	5.8	7.8	6.1		6.1	5.1	5.8
Sept.	6.8	4.3	6.3	8.0	5.4		6.3	5.5	6.0
Oct.	6.8	4.1	5.6	8.0	6.9	7.5	6.3	5.4	N.A.
Nov.	7.0		5.2		6.0		4.5	4.2	5.3
Dec.	5.6		5.4	6.1		4.7	4.7		

MONTH	H(1) 1966	H(1) 1967	H(1) 1968	I(1) 1966	I(1) 1967	I(1) 1968
Jan.	9.9	13.7	13.7	4.7	4.2	2.1
Feb.	8.8	11.7	8.6	3.9	5.4	3.6
Mar.	8.9	11.8	8.8	3.9	4.7	3.9
Apr.	8.1	11.0	8.7	3.4	4.6	3.1
May	12.8	12.4	11.2	3.7	4.2	3.0
June	13.9	11.6	10.6	3.9	4.7	3.1
July	13.0	10.9	10.2	5.3	4.7	3.2
Aug.		14.3	8.9	4.2	4.3	3.4
Sept.		14.4	10.7	4.2	3.7	4.1
Oct.		15.6	7.0	4.6	4.0	3.6
Nov.	11.0	13.2		3.9	3.2	3.2
Dec.	12.6		7.6	4.5		2.7

NOTES:

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

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

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

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

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

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

part of the building for property tax purposes), repainting, painted signs, repairs (listed as 3-yr. or 5-yr. fixtures and equipment to simplify write-off) and many more.

As County Assessors become more professional we can look forward to more frequent and more detailed audits. In the long run this will improve the uniformity of property tax levies. But it will be UNFAIR TO YOU if you don't set up your records properly so that you pay the minimum amount of tax.

ADVERTISING AND THE F.T.C.

Unless there is a sudden change in direction under the Nixon Administration, it is easy to forecast that retail advertising is in for some major changes in the next few years. Here is a sampling of recent action.

In an advisory decision the FTC stated that the following sentence was objectionable as part of a continuing cooperative advertising agreement but could be permitted in special agreements for limited promotional events: "Dealer advertising will not qualify for cooperative reimbursement if it is featured at a price below the retailer's wholesale price (loss leader type) since such advertising tends to lower the quality image of the product in the consumer's mind." Commissioner Elman objected to the ruling because selling below cost is not illegal (under Federal statutes) EXCEPT when entered into for the purpose of destroying competition – and then the act is criminal. Commissioner MacIntyre did not participate because he thought both the opinion and the dissent were confusing and valueless.

Elgin National Watch Company signed a consent decree prohibiting it from making false price claims on Helbros watches by publishing misleading "list prices" and price markings on the watches.

The FTC is attacking rigged "games" conducted by leading oil companies and food chains – mentioning some of the biggest names in American business (see THE IMAGE OF BUSINESS – Page 1).

Finally, the FTC has warned retailers against "sale" advertising that includes BOTH reduced and regular price merchandise. It has stated that when both regular and sale price merchandise are in the same ad you cannot use the word "sale" unless you clearly identify those items that are not reduced from regular prices.

Isn't it a shame that government has to keep business ethical in a country where the businessman prides himself on his ethics?

IN DEFENSE OF PIPE SMOKING

The Seattle TIMES on November 24th had the following item:

Question: Is pipe-smoking less harmful than cigarettes?

Answer: Probably. But a very wise man once said, "Never trust anybody that smokes a pipe. Pipe smokers have a time-consuming ritual of stoking up their burner, pausing to light the pipe, etc., that gives them adequate time to think up evasive answer to any question. If I were an employer, I wouldn't hire any man who smokes a pipe."

And here I am – smoking a pipe and drafting this issue of RETAILING TODAY.

BANKAMERICARD GIVES OUT THEIR FIGURES

The major city papers didn't print the full story of BankAmericard in 1968 – but the LOS BANOS ENTERPRISE did. Sales increased from $459 million to $815 million with a 1969 goal of $1 billion. Cardholders, world-wide, increased from 6 million to 17 million with 22 million expected in 1969. (Note: the Bureau of Census in October 1968 estimated that there were only 22,900,000 households with incomes of $7,500 or more. I understand that $7,000 per year is the normal minimum for BankAmericard holders. People over $7,500 per year are the primary customers of department stores. Ergo – in 1969 BankAmericard EXPECTS THE BULK OF YOUR CUSTOMERS TO BE HOLDING THEIR CARD. Someday department stores will be sensible.)

The number of participating outlets increased from 155,000 to 397,000 and the number of participating banks increased from 1,607 to 1,864 located in 42 states and 6 foreign countries.

If we divided the AVERAGE NUMBER of card holders into the volume we get a volume per card holder of only $72 per year – and per merchant of only $2,950 per year.

PREPARING PROPERTY TAX RETURNS

Complete instructions are now being sent out with California property tax statements. Each county's instructions must be approved by the State Board of Equalization. The key factor to keep in mind – and to minimize problems on audit – is that you can AND SHOULD submit schedules with your return. I recommend that these schedules start with your book figures (which the auditor has access to) and show all adjustments made, WITH AN EXPLANATION, to arrive at the reported figure.

THE FUTURE IN HEALTH PLANS

Harvard Medical School is starting a new plan emphasizing PREPAID PREVENTATIVE CARE. They have established a separate corporation to service the faculty and staff at Harvard. It is estimated the cost, covering normal medical, surgical and hospital coverage PLUS the preventative care will run approximately $50 per family per year. It will also be offered on a voluntary basis through Blue Cross and major insurance companies to families living within 20 minutes of Harvard.

A NEW ATTACK ON SERVICE CHARGES

A delegate in the Maryland Assembly has introduced a bill that would allow a customer to refuse to pay any service charges until he received an answer to any questions he asked about his bill.

Retailers laugh and tell jokes about the problems of computers – but the customers become increasingly frustrated with the failure of businesses to answer letters and complaints about messages sent out by computers. Of course, the consumer ultimately strikes back through the legislature.

F.O.R. FOR DISCOUNTERS

"Operating Results for Self-Service Discount Department Stores" edited by Earl Brown and Robert Day (Cornell University $10) for the year ending January 31, 1968 has just been released. The report is based on 46 firms operating over 1300 stores and doing a combined volume of $4.1 billion.

Some trends are apparent – trends that indicate that discounters are becoming more like department stores. (As a personal note, Ira Hayes, Jr., of NCR went around the country some years ago giving a talk on the future of retailing – and telling the store owners that it would all be national brand merchandise sold behind L-shaped check-outs, hopefully with an NCR register. In San Francisco I had a chance to rebut his talk a month later – to a much smaller audience – with a theme of "How the Department Store will beat the Discount House." I think time has proven me right).

FOR 20 IDENTICAL STORES gross margin was up 1.07% to 27.00%, total expenses were up 1.01% to 25.45%, salary and wages were up .28% to 11.58%, and net after taxes was down .10% to 2.27%.

FOR ALL REPORTING STORES, inventory shortage ran 2.66%, stock turn (based on monthly average inventory) was down to 3.97 times, occupancy cost ran 4.71% (working out to $2.48 per sq. ft.), and advertising ran 2.25%. Gradually these figures come closer to department store figures.

As I said many years ago, just as the department store figures (in 1880-1890 their gross margin was 20% compared with 40% for specialty stores) rose to match specialty store margins and expenses, so discount stores will rise to the same level. The reason is too long to include here – but the basic factors have not changed over the past century.

In the not-too-distant future someone will find an empty warehouse with lots of parking space and get the idea of putting in apple-crate fixtures on which to sell quality merchandise at reduced prices – no fancy building, no fancy fixtures, no sales people – just cash savings. Their only problem will be selecting a name – now that "department store" and "discount house" have already been used.

RETAILERS BELOW $500,000 PER YEAR

Effective February 1, the Federal Minimum Wage Law is applicable to stores doing over $250,000 per year. For these newly covered stores the minimum wage is $1.30 – but in California this has no effect because the State minimum is $1.65 in retailing. Although the State minimum applies to women and minors, Federal law prohibits discriminating on the basis of sex and thus stores doing over $250,000 (now considered in interstate commerce) are subject to non-discriminatory provisions (sex, age, etc.). The Federal Law provides only for overtime after 40 hours – however, the State Law requires overtime at 1½ times the basic rate after 8 hours in one day as well as for work over 40 hours on the sixth day and for all work on the 7th day. The State also requires double time for work over 12 hours in one day or after 8 hours on the 7th day.

The main difference in coverage between the State and Federal law is the minimum dollar income required for exemption. The State requires a minimum of $450 per month – whereas the Federal is substantially higher (depending upon type of work and the exemption test applied).

RETURN ON CAPITAL

One factor does stand out in the Discount FOR – net after taxes represented 14.11% on net worth (and reached 24.61% for chains under $20,000,000). The Department Store FOR showed 9.47 for all stores – with the lowest return in smaller stores (opposite of the discount store trend) and the highest return only 10.17% (for stores over $50,000,000).

Recent Dun and Bradstreet studies show that most of the discount chains are operating today on a sound financial basis (after all, many are listed on major exchanges) and are taking their cash discounts.

The higher rate of return on net worth – which permits a faster rate of growth – is largely due to better use of capital. But we have always known that the "poor" store made better use of its capital than did the "rich" store.

As I look at the financial statements of hundreds of retail stores every year, I am always amazed at the extreme conservatism of many of them. Just at the time in their economic life when they have established a broad enough financial base to permit faster expansion – a step necessary to just stand still in most markets in California – one sees an apparent urge to "pay off the bank," build big cash reserves, and think that security has arrived at last.

I recall the story of a Pennsylvanian who appeared before a Senate Committee in the 1930's. He was a man who had started with nothing and who had built up ownership of a chain of public utilities. As he was about to leave the witness chair one of the Senators asked him if, in view of his personal success, he had any advice to give the youth of America that might explain his own accomplishment. The man replied immediately: "Get in debt and stay in debt." It is the greatest disciplinarian a retailer can have.

NEED A DIRECTOR?

BUSINESS WEEK recently told the story of a small loan company that ran an ad in the Washington Post reading "CORPORATE DIRECTOR – company in the metropolitan Washington, D.C. area plans to increase the number of outside directors on its board. Experience in service on Boards of Directors is essential, as is experience in guiding a company in the $5 million dollar size range to a higher order of magnitude. Compensation modest. Reply in strict confidence." The ad cost $60. He received 32 replies.

But the key point is this: most small businesses, especially family businesses, could do better with the help of outside people (directors, consultants, advisors). Many are not emotionally inclued to seek such counsel – sometimes because they feel ashamed of their operation and think they would be embarrassed exposing it to the world. But most important – the owners know that their golf buddy or local banker can't really help them and he just doesn't know where to turn.

If you don't want a business counselor, at least make an effort to find outsiders that can help you – who know enough about business to ask YOU the hard questions YOU don't want to ask yourself and who will make YOU do the planning YOU know YOU should do but don't do.

FORTUNE MAGAZINE'S BEST ISSUE

If you haven't read it already, I recommend that everyone read the January 1969 issue of FORTUNE. The entire issue is devoted to the present crisis in our cities, our schools and our society. You will especially appreciate the article "What They Believe" – a study of our college students.

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RETAILING TODAY

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ROUTE TO	INITIAL

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TRUTH IN LENDING

This report is late – but I was determined to get the final regulations and summarize the impact of Truth-in-Lending (T-in-L) – on revolving charge accounts. My comparison will be made with the operating provisions under California law (Unruh) but this is basically similar to the law in many other states.

This issue will NOT deal with conditional sales contracts and other transactions where Truth-in-Lending applies. If you want a similar summary of this portion PLEASE WRITE IMMEDIATELY – otherwise I will presume that most readers are not concerned with this area.

Application of State Law

During the time Truth-in-Lending was before the Congress we all heard about a provision by which certain transactions covered by state law would be exempt from Truth-in-Lending regulations. However, this exemption is not automatic. The State (which body in the state is not defined) must make application to the Federal Reserve Board for the exemption of such transactions as they feel are adequately covered by state law. The Federal Reserve Board has indicated that they will issue a supplement to the regulation by July 1, 1969 setting forth the transactions that will be exempt from T-in-L. If this regulation does come out, I expect it to be issued approximately June 30th. Therefore I have proceeded on the assumption that we will not have any transactions (in the area of revolving accounts) exempt from T-in-L.

Vocabulary

We have a new word game – and it is best that everyone understand it. In some cases we now have two different terms describing the same item – and it appears that both may have to be on statements effective July 1, 1969.

"Open end credit account" (T-in-L) equals "retail installment account" (Unruh).

"Finance charge" (T-in-L) equals "service charge" (Unruh).

"Periodic rate" (T-in-L), assuming that cycles close monthly, is what we formerly considered the monthly service charge rate (in California a maximum of 1½% on the first $1,000 of balance, 1% on any portion of the balance above $1,000).

"Annual percentage rate" (T-in-L) is, in the case of monthly cycles, 12 times the "periodic rate."

MANAGEMENT AND THE CUSTOMER

I wonder, as I watch retail firms, listen to retail customers, read letters to newspapers and listen to radio talk shows, just how some retailers stay alive. I am particularly concerned about the fact that the customer can no longer write to a store and get an answer. Yet top management apparently has no idea that this is happening.

I hear and read the stories all the time. People write to credit departments (particularly in periods of EDP conversion) and never get a reply. They won't pay an improper charge – perhaps not even their purchase – and then the computer duns them. They write saying to close their account – and nothing happens.

Or perhaps during the conversion period a statement goes out AFTER THE CLOSING DATE OF THE NEXT CYCLE. It is impossible for the customer to make a payment during the cycle. The computer – or bookkeeping machine operator, in some cases – adds service charge. The customer writes and never gets a reply. Then they tell their friends that the store and the principals and all retailers are a bunch of crooks – and with considerable merit.

Customers complain to clerks – so the clerk insults them. All this time, top management sits in an ivory tower and says we never receive any complaints. I recommend that you require, for just one week, that you (1) receive every letter from a customer, (2) have every complaint – including out-of-stock complaints – relayed to you every day. Do this for just one week – and perhaps you will get a new perspective on your store.

When you solve these complaints, then start listening to the complaints of your own middle management about your established procedures – and you may find out why your costs are high, your theft is high and your internal cooperation is much less than you imagine it to be.

This all underlines the fact that communication channels were designed to flow upward to the point where action can be taken – but they are clogged.

"Comparative Index of Credit Costs" (T-in-L) is a special index computed in accordance with regulations which will be particularly attractive to those stores that compute the service charge (excuse me – finance charge) on a balance reduced by current payments and/or credits. This will be described later.

"Consumer credit" – the item being regulated – APPLIES ONLY TO NATURAL PERSONS. These regulations do not apply to credit granted to businesses, corporations, associations or the like – or to natural persons when the item is not primarily for personal, family, household or agricultural use.

"Customer" (T-in-L) means the natural person seeking credit – but also includes a co-maker, endorser, guarantor or surety for a natural person.

General Exemptions

Truth-in-Lending only applies when two conditions prevail – first, when a finance charge may be imposed of more than 50 cents; OR second, when the amount is or may be payable in MORE THAN FOUR INSTALLMENTS.

Determination of Finance Charge

For most stores the determination of the finance charge is simple – it is the single figure computed according to a table (brackets are permitted) or computed at a fixed percentage applied to a determinable account balance.

However, the problem becomes more complicated when, on open and credit accounts (retail installment accounts, revolving accounts) an additional charge is made for insurance (life, accident, health, loss of income, liability, or against loss or damage to property). The cost of such insurance can be eliminated from the finance charge if the following procedures are carefully followed:

a. The insurance is not required by the creditor.

b. The fact that it is not required is clearly disclosed in writing to the customer.

c. Following which the customer gives specific dated and separately signed affirmative written indication of his desire for the insurance AFTER he has received written disclosure of the cost to him.

I suspect that the days of big profits off of credit insurance of various types are not past – because unless the steps outlined above are meticulously followed, the cost of the insurance will be included in the finance charge and will greatly boost the disclosed annual percentage rate.

Determination of Annual Percentage Rate

On "open end credit accounts" the annual percentage rate must be disclosed to an accuracy of the nearest ¼ of 1 percent. Where different periodic rates are used (such as in California with 1½% to $1,000 and 1% on the portion above) a special computation will have to be made on accounts over $1,000 which is basically done by (1) dividing the computed finance charge (service charge) by the balance on which it was computed so as to (2) determine the finance charge as a percentage of the balance – this will fall between 1½% and 1% – and then (3) multiply the resulting percentage by 12 to get (4) the annual percentage rate which (5) must be expressed to the closest quarter of 1%.

No determination is necessary if the service charge is 50 cents or less. Here you can use the periodic rate and annual percentage rate that would be applied to larger balances (1½% and 18% for most stores in California).

You are permitted to use a bracket arrangement but T-in-L is not as practical as Unruh where they came right out and permitted $10 brackets with the finance charge (service charge) computed on the mid-point. Under T-in-L the finance charge computed on the midpoint cannot understate the finance charge on the bottom of the bracket by more than 8%. Combined with the 50 c minimum (replacing the $1.00 minimum under Unruh) I have worked out a schedule that complies with both T-in-L and Unruh.

Up to $34.99	$ .50
$35.00 – $40.99	.57
$41.00 – $46.99	.66
$47.00 – $52.99	.75
$53.00 – $56.99	.85
$57.00 – $64.99	.91
$65.00 – $74.99	1.05

Above this amount use the present $10.00 brackets under Unruh Act with finance charges based on midpoint

I might comment at this point that if the opponents fighting T-in-L had not been so single-minded in their opposition for so long they might have come out with a bracket arrangement that would be more logical and a minimum finance charge more in keeping with the cost of rendering a monthly statement, completely independent of the interest cost of the credit extended.

Preparing the Monthly Statement

T-in-L is much more specific than Unruh – and it will mean changes in many computer programs.

You are exempt from sending a monthly statement only if you deem the account uncollectible or where you have instituted a delinquency collection procedure (this is not defined in the regulations). You are also exempt if the balance is under $1.00 AND YOU ARE NOT IMPOSING A FINANCE CHARGE.

You must show the following information on the statement in a form that may be retained by the customer:

a. "Previous balance" (Note: this term MUST be used).

b. Purchases during the cycle – you can use either country club or descriptive billing.

c. "Payments" (Note: this term MUST be used).

d. "Credits" which includes returns, adjustments and rebates of finance charges. (Note: this term MUST be used. It also forces a change in many procedures where returns are deducted from sales to arrive at net sales and where rebates of finance charges are deducted from finance charges to keep accounting records straight).

e. "Finance charge" (Note: this term MUST be used. Most statements now say "service charge." However, Unruh does not require this specific wording).

f. "Periodic rate(s)" actually used on the specific statement and the ranges for which they apply.

g. "Annual percentage rate" as described above in the section "Determination of annual percentage rate."

RETAILING TODAY – STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

It looks like the December catastrophe is not quite past. Although the Honor Roll has increased from 6 to 8 stores, the overall average for January is 11.1 days compared with 9.6 days for the December report. The range has dropped from 3 to 24 days to 3 to 21 days – after excluding Gumps which suffered a serious fire during this period.

Roos/Atkins	4.0 days	Rhodes	4.5 days
F.A.O. Schwartz	4.0	Abraham & Straus	5.0
Sears	4.3	I. Magnin's	5.0
Wineman's	4.3*	J. Magnin's	5.0

*Indicates client

CREDIT OFFICE RATING

	JANUARY 1969			DECEMBER 1968		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE
Abraham & Straus (NYC)	1	5.0	5	---	---	---
The Broadway (LA)	2	10.0	10	---	---	---
Brown-Mahin	3	12.0	11-14	4	11.3	11-12
Bullock & Jones	1	9.0	9	---	---	---
Capwell's	7	19.9	19-21	2	18.5	13-24
City of Paris	5	15.0	14-17	3	13.3	12-14
Emporium	6	15.6	12-19	2	19.0	18-20
Gertz Dept. Store (NYC)	1	12.0	12	1	5.0	5
Grodins	3	16.0	13-18	1	18.0	18
Gump's	1	30.0	30	---	---	---
Haggarty's (LA)	1	19.0	19	---	---	---
Hastings	2	16.5	16-17	1	16.0	16
Holman's	5	12.0	9-14	5	9.0	6-14
Kushins	1	19.0	19	1	14.0	14
Levy Bros.	18	12.5	9-17	14	9.1	7-13
H. Liebes	3	14.3	14-17	3	16.0	13-19
Macy's	8	7.5	6-11	5	5.6	5-6
I. Magnin	7	5.0	5	6	5.2	5-6
J. Magnin	2	5.0	5	1	5.0	5
May Co.	2	9.0	8-10	---	---	---
Montgomery Ward	3	8.3	8-9	1	7.0	7
Neiman-Marcus (Dallas)	1	9.0	9	---	---	---
Penney's	2	9.5	5-14	1	6.0	6
Podesta Baldocchi	1	7.0	7	1	4.0	4
Rhodes	2	4.5	4-5	2	6.0	6
Roos/Atkins	*1	4.0	4	1	4.0	4
Ross Dept. Store	4	6.3	6-7	1	4.0	4
Saks Fifth Avenue	2	14.0	11-17	2	12.0	11-13
F.A.O. Schwartz (NYC)	1	4.0	4	---	---	---
Sears	4	4.3	4-5	4	4.3	3-5
Simon's	2	7.0	7	3	6.3	5-8
Smiths	1	10.0	10	1	9.0	9
United Factors	1	10.0	10	1	11.0	11
Wineman's (LA)	4	4.3	3-6	4	4.5	3-6
TOTAL	108	11.1	3-30	71	9.0	3-24

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

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

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

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

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

BALANCE AT RISK

The trend with credit continues to be unfavorable – we had 6 stores for comparison, 4 of which show increased balances at risk and two show decreases.

BALANCE AT RISK

	A(1)			B(3)			C(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	5.5	4.8	6.1			8.9		6.2	4.9
Feb.	5.6	4.8		11.1			8.0	6.5	
Mar.	5.3	4.6		10.6	13.2		6.0	6.5	
Apr.	4.2	3.3		8.9	10.5		5.9	5.2	
May	3.6	3.6		8.4	9.4		7.3	5.5	
June	3.8	4.9		8.9	9.2		6.5	5.0	
July	4.2	5.7		9.1			6.8	4.9	
Aug.	4.5	6.0			8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8			9.0		6.2	6.8	
Nov.		4.7			8.6		5.7	4.5	
Dec.		4.9			8.1			4.5	

	E(1)			F(2)			G(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	7.8	4.2	4.6				6.7	7.1	7.9
Feb.	6.0	5.1					7.6	6.9	
Mar.	6.8	5.0		8.9	6.7		6.6	5.7	
Apr.	7.2	5.4		8.3	7.1		5.9	6.0	
May	4.3	5.4			5.5		4.1	5.3	
June	4.1	6.4		7.9	4.8			4.4	
July	4.9	5.6		8.7			6.6	5.5	
Aug.	4.6	5.8		6.1			5.1	5.8	
Sept.	4.3	6.3		5.4			5.5	6.0	
Oct.	4.1	5.6		6.9	7.5		5.4	N.A.	
Nov.		5.2		6.0			4.2	5.3	
Dec.		5.4			4.7				

	H(1)			I(1)		
MONTH	1967	1968	1969	1967	1968	1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6		5.4	3.6	
Mar.	11.8	8.8		4.7	3.9	
Apr.	11.0	8.7		4.6	3.1	
May	12.4	11.2		4.2	3.0	
June	11.6	10.6		4.7	3.1	
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.		7.8			2.7	

NOTES:

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

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

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

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

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

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

Note: Disclosure of finance charge and annual percentage rate must be printed more conspicuously than other disclosures – and shall be printed in not less than the equivalent of 10-point type, 0.075 inch computer type or elite-size typewriter numerals or shall be legibly handwritten. Keep in mind that Unruh has certain requirements in either 8-point type or elite typewriter type.

h. "Comparative Index of Credit Cost," if creditor elects to use this.

i. The balance on which the finance charge was computed and a statement of how the balance was computed. IF ANY BALANCE IS DETERMINED WITHOUT DEDUCTING ALL CREDITS DURING THE BILLING CYCLE, THAT FACT AND THE AMOUNT OF SUCH CREDITS SHALL ALSO BE DISCLOSED. The regulations are not clear on how to disclose this fact – but it would appear that statement could be printed in the "Previous balance" column, for those who compute the finance charge on this figure, to the effect that the finance charge is computed on the balance shown above without deducting the items, if any, that are shown in the columns headed "payments" and "credits." The same might be done with the closing balance – but this now requires that the closing balance, BEFORE FINANCE CHARGE, as well as the closing balance after finance charge. If the finance charge is computed on previous balance less payments or less payments and credits, then the balance figure must now be printed out and shown on the statement, with an appropriate explanation printed on the statement.

j. "New balance" (Note: this term MUST be used. Most statement forms now say "balance due."

k. Date by which payment must be made to avoid additional finance charge. At the present time we normally show only the closing date for the cycle and presume that the customer knows that the payment must be made by the same day in the following month. For stores using bookkeeping machines, it would be practical to print in the column where the machine imprints the cycle closing date the legend "payments in full must be made by the same date of the month following that shown above in order to avoid additional finance charge." If payments must be earlier than the closing, the wording should be so modified.

l. Minimum payment required.

You must keep in mind that the Unruh Act still requires the legend at some place on the statement to the effect that the customer may at any time pay his total balance.

The explanation of how the finance charge is computed can be on either the front or reverse side of the statement, or can be shown on a separate form enclosed with the statement. This would include the bracket schedule for those using such a schedule.

The disclosure of periodic rate(s) used and the annual percentage rate, together with a reference to the actual finance charge and the statement of how to determine the balance on which the finance charge is computed must either be shown all on the face, all on the reverse side, or all on a separate statement. In other words, you cannot confuse the customer by spreading the facts of the computations on front, back and separate sheets.

If information is located elsewhere than on the face of the statement, you must include one of the following notices as appropriate: "NOTICE: See reverse side for important information"; or "NOTICE: See reverse side and accompanying statement(s) for important information." (Caustic editorial comment: please note that the Federal Reserve Board does not go so far as to tell you the color of your paper or how to design your sig cut).

How to Tell the Good News to Your Customers

Every credit department is now facing a crisis period – planning to meet the requirements of this Act prior to July 1, 1969. Here is what you must tell all of your accounts:

1. The conditions under which a finance charge may be imposed, including an explanation of the time period, if any, within which any credit extended may be paid without incurring a finance charge.
2. The method of determining the balance upon which a finance charge may be imposed.
3. The method of determining the amount of the finance charge, including the method of determining any minimum, fixed or similar charge which may be imposed as a finance charge (Note: the Unruh wording of "rates not exceeding those permitted by law" is not sufficient).
4. Where one or more periodic rates may be used to compute the finance charge, each such rate, the range of balance to which it is applicable, and the corresponding annual percentage rate.
5. The Comparative Index of Credit Cost, if the creditor elects to use this.
6. The conditions under which any other charges may be imposed, and the method by which they will be determined (Note: Unruh permits the retention of title which can include provision for extra charges to the customer and also permits, by separate agreement, that the customer can be charged for attorney's fees and costs).
7. The conditions under which the creditor may retain or acquire any security interest in any property to secure the payment of any credit extended on the account, and a description or identification of the type of the interest or interests which may be so retained or acquired.
8. The minimum periodic payment required.

All of this information must be disclosed by July 31, 1969 in writing to all customers who have a balance as of July 1, 1969. This allows mailing in mid-June to mid-July cycles (Note: delivery is required by July 31st – you must allow for delays in getting the bills in the mail and to the customer). For accounts inactive as of July 1, 1969, you must send such a written notice with the next billing of that account.

I doubt that many stores can arrange to do anything other than to mail all accounts prior to July 31st. It is hard to visualize a bookkeeping machine system where notations could be made on cards of actual mailings – in a form that would stand audit by the Federal Trade Commission (no – this is not a mistake. The Federal Reserve Board wrote the regulations but 9 separate agencies will administer them – which may produce some different interpretations – and retailing was donated to the FTC). It also seems impractical to code accounts on EDP and then, over the coming years, dribble out notices to those accounts that are reactivated after July 1, 1969.

It would seem expedient to plan to mail all accounts in June-July, whether or not they have a balance. I would suggest that you plan an account reactivation mailing at the same time – but I wonder what the customers will think if they are suddenly hit by such mailings from every single store that still lists their name and address as an account. As with many things, the greatest benefit will accrue to the store that can organize and get their mailing out in May – ahead of the rest of the stores – stating what will be effective July 1, 1969.

With new accounts, you must give the customer all of the information listed above IN A SINGLE WRITTEN STATEMENT, which the customer may retain. This must be done before the first transaction (this latter provision seems to eliminate the possibility of opening accounts by mail or telephone and simultaneously using them). Keep in mind that Unruh (1) requires the application to have a statement in type no smaller than 8-point "service charges not in excess of those permitted by law will be charged on the outstanding balances from month to month" – and that this shall be stated to the applicant when accounts are opened by phone. It also requires confirmation of the service charge rates together with a legend that the buyer may at any time pay his entire balance – and this latter confirmation must be in type no smaller than elite typewriter. The seller, if a copy is not retained of the confirmation, must make a notation on his PERMANENT RECORDS showing that such confirmation was mailed and the date of the mailing. Finally, the seller must display prominently in his main place of business and in each branch a statement of service charge rates (I haven't seen any of these for many years).

T-in-L does not explain how you prove that the required information was given to the customer prior to the first transaction – but I would suggest that it be combined with the information required under Unruh and made a part of the permanent records (Just an observation – how many systems on EDP recorded the date of compliance with the Unruh Act on the confirmation? It might be a good thing to be reviewed on EDP programs. Bookkeeping machine systems should provide for bringing forward this date on ledger cards).

Use of Forms

You may use present forms, if appropriately modified (presumably overprinted) or supplemented to show necessary items – but only until new forms are received but not after December 31, 1969 and only if you can demonstrate that by July 1, 1969 you had taken steps to get new forms. I strongly suspect that few existing forms can be properly modified – although it may be possible to adapt existing forms by using a supplement.

Retention of Records

Evidence of compliance must be preserved for a period of not less than two years after the date of disclosure and such records must be made available on request for inspection by the Federal Trade Commission. This is a step toward a reasonable statute of limitations on records – except that the Unruh Act requires some records to be "permanent."

Penalties for Violations

You can be fined not more than $5,000 or imprisoned not more than one year or both (Caustic editorial note: this is still less than the penalty for mutiny but more than the penalty for desertion) if one willfully and knowingly:

1. gives false or inaccurate information or fails to provide information which he is required to disclose under the provisions of the act or any regulation issued thereunder.

2. uses any chart or table authorized by the Federal Trade Board for the determination of the annual percentage rate in such a manner as to consistently understate the annual percentage rate, or

3. otherwise fails to comply with any requirement imposed by the act.

There is also a civil liability. Any creditor who fails in connection with any consumer credit transaction to disclose to any person any information required is liable to that consumer in an amount equal to the sum of (1) twice the amount of the finance charge in connection with the transaction, but not less than $100 or more than $1,000; and (2) in the case of any successful action to enforce the foregoing liability, the costs of the action together with a reasonably attorney's fee as determined by the court.

Liability of the creditor can be eliminated if, within 15 days after discovering an error and before action is instituted or before written notice of the error is received, the creditor notifies the person concerned of the error and makes the necessary adjustment, or if the creditor shows by the preponderance of evidence that the error was not intentional and happened NOTWITHSTANDING THE MAINTENANCE OF PROCEDURES REASONABLY ADAPTED TO AVOID ANY SUCH ERROR.

Comparative Index of Credit Cost

This is going to be an effective tool for lowering the stated amount of the annual percentage rate. It actually shows just how T-in-L forces the retailer to state a false rate.

To compute the Comparative Index of Credit Cost for your store you work out an actual transaction on the following basis: (1) assume a single $100 purchase on the FIRST DAY of a billing cycle in an account without a balance; (2) add finance charge in accordance with your published procedure – usually earned as of the first day of the month but posted the last day; (3) credit minimum payment on last day of each successive cycle; (4) carry out to complete payment. Then add the daily balances on the account (assume 30 days to a month), divide the sum of the daily balances into the total finance charge levied and multiply the resulting figure by 365. Round the final figure to the closest quarter of 1%.

To save you some time I have computed such a figure for two procedures – one applies service charge to the opening balance and the other to the opening balance less payment. In both cases I assumed a minimum payment of $10 per month and I used the bracket schedule shown previously.

Where the finance charge was applied to the opening balance the index figure came out 16.50% and when the finance charge was applied to the opening balance less payments the index figure came out to 14.00% (Note: you are still telling the customer it is $18.00). This information can be disclosed in the following permitted statement:

"Our Comparative Index of Credit Cost under the terms of our open end credit account plan is ....% per year, computed on the basis of a single transaction of $100 debited on the first day of a billing cycle to an account having no previous balance, and paid in required minimum consecutive installments on the last day of each succeeding billing cycle until the transaction and all finance charges are paid in full. The actual percentage cost of credit on your account may be higher or lower depending on the dates and amounts of charges and payments."

Some Final Thoughts

Space does not permit outlining the rules on advertising credit. This can wait until the next issue.

Just keep in mind that it is against the law to have dishonest advertising yet it is now required by law to say credit costs 18% per year when the law permits you to prove it costs 14% – or higher or lower! It will be administered by the same agency that bars stores from advertising "fake furs" since the two words cannot be used together. Then we wonder why life with Alice in Wonderland seemed so simple.

mailed 4-19-69

RETAILING TODAY

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ROUTE TO	INITIAL

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TRUTH-IN-LENDING (Part II)

This month we will discuss the balance of the regulations on T-in-L (See RT Feb. 1969 for discussion of regulations on open end credit accounts – formerly known as revolving charge accounts) consisting of credit other than open end credit advertising.

The sections on "Vocabulary," "General Exemptions" and "Determination of Finance Charge," as reported in RT February 1969, are applicable to conditional sales contracts – which T-in-L defines as "Credit other than open end," a most imaginative description which I am sure that consumers will immediately understand and use.

We must add, when speaking of "Determination of Finance Charge," that late payment, delinquency, reinstatement and similar charges are NOT FINANCE CHARGES for T-in-L purposes.

Determination of annual percentage rate

The determination of the annual percentage rate under open end accounts was simple – but inaccurate. You just multiply the monthly rate times twelve and report that inaccuracy to the consumer. On installment contracts, you need a Philadelphia lawyer plus two special volumes of tables. I can envision an entire new franchise industry – starting schools to teach people how to compute the simple annual percentage rate on installment contracts.

You start by sending a check for $2.00 to Federal Reserve Board, Washington, D.C. 20551 and ask for Volumes I and II of tables under Regulation Z, Truth-in-Lending. Volume I covers tables for monthly installment contracts of from 1 to 480 months and weekly installment contracts from 1 to 104 weeks. Volume II contains factor tables and instructions for their use in connection with modifying the tables in Volume I for irregular payments, multiple advances and the like.

You are permitted to use tables other than those prepared by the Federal Reserve Board (FRB) but I doubt that there will be any need for such tables in typical retail stores. However, businesses such as those selling farm equipment, where payments are made only in months when there is crop income, will need special tables.

The principle of the tables is quite simple. You compute your finance charge just as you are doing now. Let us assume that you write you are charging $10.00 per $100 per year (the maximum in California under the Unruh Act which is used as an example of current State laws). On a 30-month contract you will add $25.00 per $100 of sales price. Using Table FRB-103-M which covers contracts of 1 to 60 months, you go down the left-hand side of

HOW WISE IS THE RETAIL INDUSTRY

On one hand I read that the National Retail Merchants Association (NRMA) has unanimously approved the UNIFORM CONSUMER CREDIT CODE (UCCC) and affirmed the statement of the American Retail Federation that "The Code is, on balance, legislation which retailing can and should support."

On the other hand I read the material from the Association of California Consumers (ACC) which has just helped found a national organization of consumers. Their major program for 1969 in California is to oppose the UCCC and they make several points. Let me quote some of their material. "Loan companies can only be put out of business for 'repeated and willful' violations of UCCC. You could offer your home as security for a loan of $1,000 or more and risk losing it if you default. You could sign a blank auto sales contract and have to pay more than the agreed price. If you default on your car payments you can lose the car AND be sued for the unpaid balance."

But the major point that they make is that UCCC, as introduced in California, will permit a significant increase in finance charges – for example, revolving credit could go to 2% per month.

I just cannot understand how any prudent retail organization can be pushing the UCCC in the year in which Truth-in-Lending will go into effect. Even BUSINESS WEEK pointed out that the bill was pro-lender anti-consumer.

Retailers are always upset when consumer organizations attack industry practices – and yet these same retailers let their national and state associations back legislative programs that provide all the ammunition that the consumer organizations need. How can the NRMA support a back-door means of authorizing monthly finance charges of 2% per month when no state law with which I am familiar now allows over 1½%? Why did NOT NRMA suggest that the 2% be changed to 1½%?

Of course, these are the same trade associations that fought Wage and Hour legislation so long that when passage became inevitable they were in such a weak position that they couldn't induce the changes needed to adapt the law to retailing. As a result, the industry is stuck, probably forever, with an impossible overtime calculation, particularly for people who receive PMs or commissions.

the table to 30 months and then proceed across the table until you reach the figures $24.92 and $25.29. $24.92 is the nearest figure to the actual charge of $25.00. Looking at the heading of the column you have determined that the annual percentage rate (APR) is 18.00%.

Suppose, however, that you have a contract of $1,500 on which you are allowed to charge $10 per $100 on the first $1,000 plus $8 per $100 on the balance. For one year the finance charge would be $10 x 10 = $100 plus $8 x 5 @ $40 for a grand total of $140. Divided by $1,500, this gives a finance charge of $9.33 per $100 for 12 months. The table shows the closest figure is $9.30 for an APR of 16.75%.

You may run into a problem on small contracts – where the Unruh Act allows a minimum charge of $10 for a year. If you charge $10 minimum for a 12-month contract to pay off a $50 balance, then dividing $50 into $10 you determine a cost of $20 per $100. The closest figure in the table is $19.96 – which is an APR of 35.00%!

It is apparent that most retailers will not encounter too much trouble with rates up to $10 per $100 per year – which comes out at 18.00% – the same figure disclosed on revolving accounts charging 1½% per month. This is especially true when one realizes that installment contracts normally run for longer periods than open end credit accounts and have a substantially lower required monthly payment.

But a problem will arise when a minimum finance charge is applied to smaller balances – some very high APRs will result.

The tables also provide for adjusting the APR for an old first period (this arises when, for example, air conditioning is sold in January with the first payment in May) and for odd first and last payments. The adjustment for an odd first period will be of help to many stores. It is customary to compute a finance charge on an agreed time period – such as 30 months in our first example – and then allow a delayed first payment.

In our first example, where we added $25 per $100 to be paid over 30 months, we arrived at an annual percentage rate of 18.00%. However, if we allow an extra 15 days for the first payment – making it due in 45 days – then the adjustment table in Volume I allows us to compute the APR on the basis of $25.00 spread over 31 payments instead of 30. This would mean an APR of 17.50%. If we allowed an extra 30 days for the first payments, the adjustment would be to treat the contract as a 32-month contract – and $25.00 would mean an APR of 17.00%.

The adjustment is more dramatic in the shorter contracts. In the example of the $1500 contract payable over 12 months, were the APR was 16.75%, allowing an extra 15 days for the first payment would reduce the APR to 15.50% and an extra 30 days on the first payment would reduce it to 14.50%!

Since most stores allow extra days on the first payment, so that nominally early payments will not force a recomputation at the end of the contract and a refund to the customer, it would be wise to incorporate the "odd first period adjustment" into the quoted annual percentage rate.

Minor irregularities in amounts and payment dates can be disregarded. The test is complicated – but most retailers do not have material variances other than the due date of the first payment.

Specific disclosure rules

WITH INSTALLMENT ACCOUNTS, YOU ARE NOT REQUIRED TO MAKE ANY DISCLOSURES TO CONTRACTS WRITTEN PRIOR TO JULY 1, 1969.

On all contracts after July 1, 1969, you must disclose the following information – a copy of which must be furnished to the buyer. The disclosure must be made together on the note or other evidence of obligation or on ONE SIDE of a separate statement that identifies the transaction.

The general disclosures are as follows:

1. The date the finance charge starts, if other than the date of the transaction.

2. The finance charge expressed as a percentage using the term "annual percentage rate," EXCEPT if (a) the amount financed is LESS THAN $75 and the finance charge does not exceed $5.00 or (b) if the amount financed is MORE THAN $75 and the finance charge is less than $7.50. (Unruh allows a minimum of $12 on contracts more than 8 months and $10 if 8 months or less).

3. The number, amount and due dates of payments. You must describe as a "balloon payment" any payment that is more than twice the regular payments and must state the conditions under which a 'balloon payment" may be refinanced. (Unruh prohibits balloon payments).

4. The amount or method of computing for computing default or delinquency charges. (Unruh: limits to 5% of payment or $5.00, whichever is less, for delinquency of 10 days or more).

5. The type of security interest held, including terms applicable to after-acquired property or to secure future advances or sales.

6. Any prepayment penalty. (Unruh: prohibited on retail installment contracts.

7. The method of computing unearned charges in case of early payment. (Unruh: provides for use of the Rule of 78).

Right to rescind transaction

Whenever the credit sale involves a security interest in real property that is or will be customer's PRINCIPAL residence (which might arise with home improvement sales, installed appliances, installed carpeting, etc.) the customer has until midnight of the 3rd business day following the consummation of the deal during which to rescind by mail, telegram or other writing.

ADVERTISING CREDIT TERMS

The first general ban is against advertising any type of credit or terms that you do not normally provide. For example, a store can no longer advertise 50 cents a week if they do not normally write credit agreements calling for weekly payments. Nor can a store advertise "no down payment" (you are still allowed to use correct spelling in your ads) unless you regularly sell without a down payment.

When using catalogs, tabloids, mailers or multiple page newspaper ads, the necessary information may be set forth completely on just one page but EACH TIME CREDIT IS MENTIONED ON OTHER PAGES there must be a reference to the page on which the credit information appears. This could cause a problem on multiple page ads in newspapers that are not grouped together – but should not be a problem in other forms of printed advertising.

When advertising open end credit, a store cannot mention their Comparative Index of Credit Cost, no downpayment, a specified

RETAILING TODAY – STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

The recovery from Christmas is progressing satisfactorily. While January 1969 was the highest figure reported in 5 years, February a 7.9 is the lowest – comparing with 9.3 days in 1968 and 9.3 to 12.5 days for 1964 thru 1967.

My New York reporter detected that S. Klein skipped their January billing, at least for his cycle. New York City had serious problems with the snow.

However, the Honor Roll was cut one store in February.

Kauffman's (Sacramento)	3.0*	J. Magnin's	4.0
Rhodes	3.0	Ross Dept Store	4.2*
Holman's	3.4*	Simon's	5.0*
Wineman's	3.5*		

*indicates Client

CREDIT OFFICE RATING

	FEBRUARY 1969			JANUARY 1969		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE
Abercrombie & Fitch	1	10.0	10	--	--	--
Bloomingdale's (NYC)	1	6.0	6	--	--	--
Books Inc.	1	30.0	30	--	--	--
The Broadway (L.A.)	3	8.3	7-10	2	10.0	10
Brooks Bros.	1	10.0	10	--	--	--
Brown-Mahin	2	12.0	12	3	12.0	11-14
Capwell's	4	19.8	18-21	7	19.9	19-21
City of Paris	3	9.3	9-10	5	15.0	14-17
Emporium	2	9.5	8-11	6	15.6	12-19
Gertz Dept. Store (NYC)	1	10.0	10	1	12.0	12
Grodins	1	18.0	18	3	16.0	13-18
Haggarty's (L.A.)	1	9.0	9	1	19.0	19
Hastings	1	17.0	17	2	16.5	16-17
Hink's	1	14.0	14	--	--	--
Holman's	5	3.4	3-4	5	12.0	9-14
Kauffman's (Sacramento)	1	3.0	3	--	--	--
S. Klein (NYC)	1	8.0	8	--	--	--
Levy Bros.	16	5.8	3-11	18	12.5	9-17
H. Liebes	2	9.5	8-11	3	14.3	14-17
Livingston Bros.	2	14.0	11-17	--	--	--
Macy's (NYC)	1	16.0	16	--	--	--
Macy's	4	5.2	4-7	8	7.5	6-11
I. Magnin	4	6.0	5-7	7	5.0	5
J. Magnin	1	4.0	4	2	5.0	5
May Co. (LA)	1	8.0	8	2	9.0	8-10
Montgomery Ward	2	7.5	7-8	3	8.3	8-9
Penney's	1	7.0	7	2	9.5	5-14
Podesta Baldocchi	1	7.0	7	1	7.0	7
Rhodes	2	3.0	3	2	4.5	4-5
Ross Dept. Store	6	4.2	3-5	4	6.3	6-7
Sears	3	5.3	5-6	4	4.3	4-5
Shreve & Co.	1	10.0	10	--	--	--
Simon's	1	5.0	5	2	7.0	7
Wineman's (LA)	4	3.5	3-4	4	4.3	3-6
TOTAL	82	7.9	3-30	97	10.97	3-21

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

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

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

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

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

BALANCE AT RISK

February indicates a sharply improved condition (lower balance at risk) with 6 of 7 stores reporting improvement over 1968. This is in spite of general tight money and inflation. In October, December and January more stores reported higher than the prior year.

BALANCE AT RISK

MONTH	A(1) 1967	A(1) 1968	A(1) 1969	B(3) 1967	B(3) 1968	B(3) 1969	C(3) 1967	C(3) 1968	C(3) 1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6		10.6	13.2		6.0	6.5	
Apr.	4.2	3.3		8.9	10.5		5.9	5.2	
May	3.6	3.6		8.4	9.4		7.3	5.5	
June	3.8	4.9		8.9	9.2		6.5	5.0	
July	4.2	5.7		9.1	8.7		6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

MONTH	E(1) 1967	E(1) 1968	E(1) 1969	F(2) 1967	F(2) 1968	F(2) 1969	G(3) 1967	G(3) 1968	G(3) 1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0		8.9	6.7		6.6	5.7	
Apr.	7.2	5.4		8.3	7.1		5.9	6.0	
May	4.3	5.4		8.7	5.5		4.1	5.3	
June	4.1	6.4		7.9	4.8		5.2	4.4	
July	4.9	5.6		8.7	7.6		6.6	5.5	
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

MONTH	H(1) 1967	H(1) 1968	H(1) 1969	I(1) 1967	I(1) 1968	I(1) 1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8		4.7	3.9	
Apr.	11.0	8.7		4.6	3.1	
May	12.4	11.2		4.2	3.0	
June	11.6	10.6		4.7	3.1	
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

downpayment, a specified periodic payment (such as "just $15 per month") or any of the other specific limits listed below UNLESS ALL OF THE ITEMS ARE LISTED.

1. The period of time within which payment can be made without incurring a finance charge (this is probably going to lead to a greater stress of 30-60-90 day accounts without finance charge for those stores that still offer this form of credit).

2. How the store determines the balance on which the finance charge is computed.

3. How the finance charge is computed, including any minimum. In the case of stores using a bracket arrangement, the table must be printed.

4. The periodic rate or rates used and the corresponding Annual Percentage Rates. In California, where the Unruh Act sets two periodic rates, it appears that any store that might conceivably have accounts with balances in excess of $1,000 must disclose both the 1½% - 18% rate and the 1¼ - 12% rate.

5. The conditions under which other charges may be imposed and the method by which the charge will be determined. It is clear that this means a statement on late charges; however, it is not clear whether this means a full disclosure of insurance requirements.

6. The minimum periodic payment required. This means that a store with a $10 minimum payment cannot advertise "Take 12 months to pay" where the items offered are substantially less than $120.

In advertising credit other than open end (conditional sales contracts), one cannot advertise a rate expressed as other than an Annual Percentage Rate." Stores advertising conditional sales contracts on major appliances must say "18% Annual Percentage Rate" if the contract will be a 10% per year add-on. Further, the store cannot mention "no downpayment" or the amount of the downpayment or the number of payment installments or the period of repayment or that there is no charge for credit UNLESS THE FOLLOWING INFORMATION IS PROVIDED:

1. The cash price (this will stop many discount stores who stress credit terms in their appliance ads but then show items without a price, claiming the manufacturer won't let them advertise the price because it is too low).

2. The amount of the downpayment, if required.

3. The number, amount and due dates or period of payments.

4. The amount of finance charge expressed as an "Annual Percentage Rate." There is no exemption from this disclosure even when the price of the merchandise advertised is so low that the minimum finance charge of $5.00 for amounts under $75.00 and $7.50 for amounts over $75.00 would apply.

5. The deferred payment price or the sum of payments.

Requirements 3 and 5 appear to be impossible to meet in most large stores. Consider an ad that shows 25 different major appliances and TV sets. Then consider that the store may offer conditional sales contracts payable over 9, 12, 15, 18, 21, 24, 30, 36, 42 and 48 months. Must the store list 10 different payment amounts for each of the 25 advertised items (don't forget – this requirement applies to liners as well as major illustrations) for a total of 250 different amounts – and then list under each advertised item 10 different "sums of payments"?

Credit sales of merchandise

On credit sales of merchandise, the following specific items must be shown IN THE ORDER LISTED and USING THE TERMS IN QUOTATION MARKS. (Comparable terminology under Unruh will be shown but Unruh does not set out the sequence in which the information is listed).

1. "Cash price" of property. (Unruh: "cash sale price").

2. "Cash downpayment" (Ed note: I always thought that was two words but the FRB has made it a single word), "trade-in" and "total downpayment." (Unruh permits either cash or trade-in to be called "down payment" – two words – and requires a brief description of the trade in – written without a hyphen).

3. "Unpaid balance of cash price" is the difference between 1 and 2 above (Unruh: gives no name to the figure).

4. Other charges that are not part of finance fee, such as insurance, filing fees, notary fees, recording fees, etc. (Unruh: no name but requires identification of insurance coverage).

5. "Unpaid balance" which is 3 plus 4. (Unruh: same term).

6. "Prepaid finance charge," "required deposit balance" or "total prepaid finance charge and required deposit balance" which terms relate to identify any such cash prepayment of finance charges or maintenance of any special security deposits required under the terms of the agreement – or known by the lender to have been made by the purchaser. This does not normally apply to retail contracts. (Unruh: no parallel provision).

7. "Amount financed" which is 5 less 6. (Unruh: no parallel figure – except for "unpaid balance" which corresponds to step 5 above).

8. "Finance charge" (Unruh: service charge).

9. "Deferred payment price" which is the total of 1, 4 and 8. This is done to show the total cost to the customer. (Unruh: requires a similar figure called "time sale price").

Once again the retailer finds himself caught between terminology set forth in State laws and T-in-L. Since T-in-L has mandatory wording, I recommend use of T-in-L wording and not the traditional wording stores have been using.

Mail and phone orders

If any such order is received without personal solicitation, the required disclosures may be deferred to any time prior to the due date of the first payment, PROVIDED, in the case of retailers, the customer could determine for himself from your ad or catalog the cash price, downpayment, finance charge, deferred payment price, annual percentage rate, number of payments, frequency of payments, or amount of payments. This little provision shows how current the FRB thinking is (and how little NRMA helped in drafting Regulation Z). Now that retailers are moving into TV and radio advertising, the FRB is ruling that this information must be given over TV or radio – although I haven't the slightest idea how a store proves that a customer could compute the information for himself. If the customer cannot compute it, then it appears that this information must be provided the customer BEFORE THE SALE IS CONSUMMATED. The regulations do not indicate whether, in response to a mail order or phone customers the store can ship the merchandise and the required information simultaneously or whether the store must await an acknowledgment of the required disclosure to the customer.

Add-ons

When there are add-ons to existing contracts, the required disclosures may be deferred up to the due date of the first payment PROVIDED the customer has previously approved in writing the APR (which varies by length of contract) and the method of computing unearned finance charges PLUS the fact that the seller does not retain a security interest in the earlier purchases which have been paid for in full, apply the oldest payment to the earliest purchase. (Unruh: requires that customer be provided with a written memorandum showing all the information set forth above under CREDIT SALES OF MERCHANDISE).

ATTACK ON ADVANCE PAYMENTS

There have been a series of cases where the Internal Revenue Service (IRS) has converted advance payments into income – without allowing any deduction for the cost of goods to be delivered in the future. These cases have involved a custom furniture manufacturer who was paid in advance (this meant that all deposits became income in the year paid, but the cost of materials, labor, delivery, etc. was deducted the following year), an advertising display firm that also was paid in advance, a manufacturer of custom fur coats, and others.

The key factors looked at by the courts were the unrestricted right of the seller to use the money from the advance payment, the co-mingling of the funds, and in some cases the restrictions on the return of the advance payment.

There are several areas in retailing where this might become a problem. The most obvious point is the money received by the store for money orders (already attacked) that are not redeemed as of the end of the fiscal year. But we are inclined to disregard credit slips and due bills which fall into the same category. There are many departments where deposits are taken – such as in the silverware department when engraved silver is ordered. Some stores do not record lay-aways as sales until they are paid in full – and inventory the merchandise at regular price. Here they might get caught with the payments taxed as income and no deduction allowed for the cost of the merchandise.

QUOTES ON CITY LIVING

Congressman Jerome R. Waldie, an old friend, had the following quotation in his March 1969 Newsletter – and it is worth repeating again. Jerry read the comment made by Mrs. Marg Pegram, a black social worker in New York.

"As a social worker, and a black woman, I feel the agonies of second-class citizenship very deeply. Recently, I have come to feel that the conditions of our cities have made all people second-class citizens, in some respects. I visit cities and walk through their streets, breathing air that's not fit for anyone to breathe; I hear the constant rumble of traffic and feel its vibrations in the soles of my feet; I see the grime caked on windows, walls, sidewalks, and parked cars and shudder as I realize that this is going into our lungs; then I think that life in today's cities is no picnic – for anyone – black or white. You're a second-class citizen when you live like this.

"Passing any corner where people wait for public transportation, you can see crowds. And they're not all black. And I know that everybody is afraid to walk the streets after dark. I drive along the roads near rivers and see all the stuff that floats on the water and smell the sickening odor. It's everybody's river and it flows by luxury apartment buildings as well as slum dwellings. There's nothing first class about any of it for any of us.

"If we can make our cities free of filth, free of the overwhelming problems that affect everyone, I believe we'd find a new spirit of pride and optimism in this country. And with that spirit, we'll all become first class citizens, in every respect."

COMMUNITY ACTION ON BAD CHECKS

We are all so concerned about greater inventory shrinkage rates that we tend to forget that we have a problem – both handling expense and ultimate losses – with returned checks.

Jacke Haerle, Credit Sales Manager for Wineman's in Huntingt Park, sent me a copy of a letter on the stationery of the City Huntington Park that is sent to customers over the signature of the Chief of Police. It reads as follows:

"This department has received a complaint that you have issued a check which was subsequently dishonored by the bank upon which it was drawn. We are also advised that satisfactory arrangements with the victim have not been made.

"This department is conducting an investigation of this complaint and in connection with this investigation we would like to be advised of any extenuating circumstances which would show that your issuance of this check is not in violation of Section 476.a of the Penal Code.

"Unless you can provide further information which contradicts or alters the information at hand, it will be necessary to present this case to the District Attorney.

"Please contact me at (telephone number) regarding this matter within five (5) days from date of this letter."

The Police Department provides the letters to the stores who fill in the name and mail to the customer. A copy is sent to the Chief of Police so that he is advised prior to the offending check writer contacting his office. Jack comments that it has been very successful.

ARE ACCOUNTANTS GOING TOO FAR

At the moment the American Institute of Certified Public Accountants (AICPA) is riding high in the saddle. Retailers have suffered because deferred taxes related to installment reporting receivables are now reported as current liabilities (all beca low-profit Montgomery Ward couldn't do what Sears could do).

Now California retailers are having to report State Franchise Tax as an expense of the year on which it is based rather than the year to which it applies. Let me use a calendar year company as an example. In California a corporation will pay a franchise tax based on profits for 1968 in order to obtain the right to operate as a corporation in 1969. In past years this has been deducted as an expense of 1969. However, the AICPA now requires that it be treated as a 1968 expense EVEN THOUGH IT CANNOT BE DEDUCTED IN 1968 FOR FEDERAL INCOME TAX PURPOSES. What makes this ruling all the more amazing is that if the corporation winds up affairs on June 30, 1969 (and thus operates only half the year), it will get a refund from the State of California of one-half of the franchise tax they paid for the right to operate during 1969!

I note that the banking industry is strongly resisting many of the ideas of the CPAs. A vice president of Bangor Punta Corporation, a major conglomerate, has attacked the rule-making power of the CPAs.

It is hoped that at some point the retail industry will face off with the AICPA when the rules established by the IACPA are either detrimental to retailing or abnormally hypothetical and artificial. It is apparent that the AICPA is entering the Alice-in-Wonderland stage where the following conversation took place: "But 'glory' doesn't mean 'a nice knock-down argument,' " Alice objected. "When I use a word," Humpty Dumpty said, in rather a scornful tone, "it means just what I choose it to mean – neither more nor less." "The question is," said Alice, "whet you CAN make words mean so many different things." " question is," said Humpty Dumpty, "which is to be maste that's all."

I agree that the question is: "Which is to be master – that's all."

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RETAILING TODAY

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ROUTE TO	INITIAL

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ACCOUNTANT'S CORNER

Many of my readers are accountants – and many of these accountants are my friends. The views I express in RETAILING TODAY have already been expressed to many of them personally. Any reader – CPA or not – who disagrees with points raised on accounting should write to me and I will try to summarize their point of view in a later issue.

I do feel, however, that we need more dialogue between businesses and accountants if we are to eventually develop accounting rules that meet the test of logic as well as the test of theory. I know of no ready forum – so I will use this one.

In the March RT I commented, perhaps too bitterly, about the rules for handling franchise taxes where the tax for the right to operate as a corporation for a year is based on the profits of the prior year. Accounting principles now require that tax to be reported one year earlier than formerly, even though it is now reported in a year when the Internal Revenue Code will not permit the corporation to claim the expense. I have seen several cases where this ruling brought more than a minor reduction in net worth with double that amount as an increase in liabilities.

This month I want to look at a few specific balance sheet items on audited public statements that are obviously misleading. Price Waterhouse audits United States Steel. The balance sheet shows inventories at 12/31/68 of $813.5 millions. The footnote states, "For the most part, inventories are carried at cost as determined under the LIFO method, and the remainder is carried at cost or market, whichever is lower. The LIFO method was first adopted in 1941 and extended in 1942 and 1947." The Internal Revenue Code requires that when LIFO is used that all reports for credit purposes or issued to stockholders reflect the inventory at LIFO value. THE CODE DOES NOT BAR THE DISCLOSURE OF THE AMOUNT OF THE LIFO RESERVE. Either PW, USS or the American Institute apparently does.

The price index for metal and metal products in 1968 is more than 2.6 times the 1941 index. I would estimate that USS's inventory on a FIFO basis would be reported between $500 and $1,000 million higher. Net worth on a FIFO basis would be higher by half that amount. Yet no one is concerned about misleading stockholders, labor unions, and many other groups. No voice of accounting is insisting that LIFO reserves be disclosed. No voice is demanding that all inventories be reported on a FIFO basis for comparability.

My second example involves Arthur Young and The Pacific Lumber Company. The statement carried an item as of 12/31/67 "Timber and timberlands, at cost less depletion – $8,434,435." The notes do not disclose the basis of valuation so presumably it is cost. Other sources indicate the Company owns 156,000 acres of Redwood and Douglas Fir timberlands in California plus undisclosed thousands of acres in New Mexico. Assuming just 156,000 acres at $8.4 million, the value is $54 per acre. Newspaper reports indicate purchases of redwoods for park land at $3,000 – $3,500 per acre. The statement footnotes disclose sales at 33 times the cost of timberland in 1900.

It appears that the timberlands may be understated by as much as $300 million OR 7 TIMES THE NET WORTH OF THE COMPANY – and the accounting profession does not seem to be concerned about the adequacy of disclosure. (More–

TRUTH-IN-LENDING – Revisited

I think there will be many revisits to T-in-L before we take down the Christmas decorations.

The early rulings by the Federal Reserve Board point to a hard-nosed attitude when interpreting the Act. On April 2, 1969, in the first rulings, it was asked if it was all right to say, "The ANNUAL PERCENTAGE RATE does not exceed 18%" in order to avoid having to compute the APR to the closest ¼ of 1%. The FRB said "No." The statement in the Act (226.6[h]) providing that it is not a violation to overstate the APR was intended merely to protect the creditor who ACCIDENTALLY overstated, not to protect an intentional overstatement.

In response to a question asking what has to be done if a store cannot change forms or computer program by July 1, 1969, but can make it by December 31st, the FRB will require that BONA FIDE STEPS have been taken and that the necessary information must be disclosed even if on supplementary forms.

The second group of rulings (April 22, 1969) reflect an equally narrow interpretation.

In my contact with retailers the reaction has been wide ranging from those who bitterly resent what is being imposed on them to those who shrug and get to work on new forms and procedures to those who say "To hell with them. I'm too small for the government to check. What's the penalty if I don't do anything?"

Each store must make its own decision on precisely how it is going to comply with the regulations. I STRONGLY RECOMMEND THAT THE OBJECTIVE BE 100% COMPLIANCE.

Let us not forget that we have T-in-L because of the bad practices of a few in the retail industry. And let us always remember that if we are sloppy in our compliance and a customer sues, it is our name that will appear in the press – not the marginal operator who brought on the demand for T-in-L.

A similar situation existed in regard to the Haskins & Sells audits of Kern County Land Company. The October 31, 1965 balance sheet showed "Land, land improvements and leaseholds – $21,848,864." The notes state, "Upon incorporation in 1890, land assets were stated at $10,000,000. Substantially all other property, plant and equipment is stated at cost."

The original land was 400,000 acres – which was valued at $25 per acre. Then they discovered oil!

A report on Kern County Land by Dean Witter & Co. in September 1965 gives a hint that some of this $25 per acre land is now worth $1,000 but gives no indication that KCL might be undervalued by $500,000,000 (though the 1964 statement did disclose the sale of 10,000 acres for about $8,000,000).

My concern, again, is with assets being understated by as much as ONE HALF BILLION DOLLARS on an audited balance sheet showing a net worth of $127,000,000 – and rules that permit the auditor to certify that "the accompanying consolidated balance sheet . . . presents fairly the financial position of the companies."

I must admit that it is easy to criticize; it is much harder to come up with a solution. Yet the accountants named are among the largest and best qualified in the country and they are required to certify statements that mislead the reader. But it seems to me that more would be gained if we attacked first the problems with the biggest dollar variances and worked our way down to the smaller items.

In the retail industry there are few companies that own redwood timberlands but there are companies who have inventories valued at LIFO starting with 1941 or 1946 prices, who own land and/or buildings dating from the first decade of this century, who made bargain purchases of land in shopping centers or who carry at cost their investments in related corporations where they own less than 50% of the stock.

Then there is the matter of that item on many balance sheets called "Deferred taxes." In a recent discussion with an accountant I asked what would happen to the 10% surcharge added to the deferred taxes when the surcharge ends (we hope it will end). He explained that the approved procedure is to compute the amount of deferred income each year, compute the tax on that deferred income, and add it to the deferrals from the prior years. If the surcharge is removed two years from now, NO CHANGE WILL BE MADE for the amount of deferred taxes represented by the surcharge.

I asked what would happen if the income tax rate was cut by 20% and I was told that no adjustment would be made in most cases. I then asked what would happen if a "value added" or "sales" or "excise" tax was substituted for the income tax – and he had no answer.

When deferred taxes relate to different methods of computing depreciation for book and tax purposes, the deferred taxes are eventually absorbed as the depreciation taken under the one method drops below that computed under the alternate method. On the other hand, if the deferred taxes relate to reporting credit sales on the installment basis there is no offsetting period until the amount of deferred gross margin in the receivables declines – and this is not within the predictable future for most stores.

And finally we have such items as patents. The most recent IBM statement in my files, audited by Price Waterhouse, with an appropriate certificate, reports the patents and goodwill of IBM at something under $15,000,000. Would you care to guess the current conservative value of the patents held by IBM?

THE CHANGING CUSTOMER

A recent Bureau of the Census "Current Population Reports" (Series P-25, No. 420. 15cents U.S. Government Printing Office) gives an estimate of population by age for 1965-66-67-68 in comparison with 1960.

We have a new group of population-losing states. The 1950-60 census comparison showed mainly southern states – Arkansas, District of Columbia, Mississippi and West Virginia – losing population. The 1960-67 comparison shows West Virginia still declining but the only other states with a population loss are across the northern tier – South Dakota and Wyoming. North Dakota broke exactly even.

This makes for some interesting changes in population composition – which have major implications to retailers.

When we compare actual population by age group we find wide variations between states.

In the "under 5" group, 8 states had a drop of 16% or more between 1960 and 1967: North Dakota, South Dakota, Kansas, West Virginia, Iowa, Montana, Idaho, and Wyoming. On the other hand, 6 states had increases of 3% or more: Florida, Arkansas, Arizona, Nevada (a fantastic 59%), California, and Alaska. This can make a wide difference in your sales potential for children's and infants' wear, toys, baby furniture, and many other classifications.

There are also dramatic changes in the big-spending "18 to 44" group. Eight states show decreases: Maine, Pennsylvania, Iowa, North Dakota, South Dakota, Nebraska, District of Columbia, and Wyoming (with a drop of more than 11%!). The outlook in these states is dim compared with the 14 states that had an increase of 15% or more: New Hampshire, Delaware, Maryland, South Carolina, Georgia, Florida (22%), Mississippi, Arkansas, Arizona (25%), Utah, Nevada (50%), Oregon, California and Hawaii. A growth in this age group means new industry, additional housing, growing incomes, demand for more consumer credit.

Finally, we have the "65 and over" group. The District of Columbia had the only drop – under 1%. But the increases of over 19% in 8 states – North Carolina, Florida (39%), Texas, New Mexico, Arizona (43%), Nevada (41%), California and Hawaii (33%) – means higher taxes for medical services and welfare.

IT IS NICE TO BE PRAISED

My efforts at summarizing Regulation Z for T-in-L in the February RT were amply rewarded by incidents from opposite sides of the continent.

A nice letter from Dean C. Cushing, Executive Vice President of Massachusetts Merchants, Inc., who apparently received a copy from a Massachusetts subscriber, wrote in part, "I must congratulate you on the excellent job you did in explaining Regulation Z . . . Too often our readers don't realize the hours of work and the 'nit-picking analysis' which must be done if you are to turn out a readable, correct, and understandable report on a technical subject. Congratulations again."

And on the other coast, I received a phone call from Art Kaiser, consultant to the California Retailers Association on credit matters and former credit manager of Bullock's, who also had been given a copy of the February RT and he, too, congratulated me. He had some question about the bracket schedule for finance charges developed – but on reading the act together he agreed with my interpretation and schedule.

It was satisfying to hear from experts stretching from sea to shining sea.

CREDIT OFFICE RATING

We have a record Honor Roll – both in number (13 stores) and in percentage of stores reported (34%). The fact that one-third of the stores reported can meet or beet the 5-working-day standard merely confirms that all stores could do the same thing.

…ufmann's (Sacramento)	2.0**	Rhodes (Oak)	4.0	Ross (San Bruno)	4.3*
…lman's (Pacific Grove)	3.4*	F.O.A.Schwartz (NYC)	4.0	Wineman's (LA)	4.8*
Bullocks (LA)	4.0	W&J Sloane	4.0	Bowerman's (SF)	5.0
Robert Kirk (SF)	4.0	Levy Bros. (San Mateo)	4.3*	J. Magnin (SF)	5.0
				Sears (SF)	5.0

**Client – setting a new record
* Client

New York is still working out of winter snow problems – a New York reporter tells of a January 11th charge appearing on his March 12th closing at Macy's! Who says the biggest store doesn't offer the longest free terms?

CREDIT OFFICE RATING	MARCH 1969			FEBRUARY 1969		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE
Books Inc.	1	8.0	8	1	30.0	30
Bowerman's	1	5.0	5	--	--	--
The Broadway (LA)	1	8.0	8	3	8.3	7-10
Brooks Bros.	1	6.0	6	1	10.0	10
Brown-Mahin	2	14.0	13-15	2	12.0	12
Bullocks (LA)	1	4.0	4	--	--	--
Capwell's	5	18.8	17-21	4	19.8	18-21
City of Paris	3	7.3	7-8	3	9.3	9-10
Emporium	3	12.7	9-15	2	9.5	8-11
Gertz Dept. Store (NYC)	1	7.0	7	1	10.0	10
Haggarty's (LA)	1	16.0	16	1	9.0	9
Hastings	3	14.3	12-17	1	17.0	17
Hink's	1	13.0	13	1	14.0	14
Holman's	5	3.4	3-4	5	3.4	3-4
Judy's (LA)	1	7.0	7	--	--	--
Kauffman's (Sacramento	1	2.0	2	1	3.0	3
Robert Kirk Ltd.	1	4.0	4	--	--	--
Kushins	1	20.0	20	--	--	--
Levy Bros.	16	4.3	2-7	16	5.8	3-11
H. Liebes	1	10.0	10	2	9.5	8-11
Macy's (NYC)	1	11.0	11	1	16.0	16
Macy's	6	5.7	2-7	4	5.2	4-7
I. Magnin	4	5.5	5-6	4	6.0	5-7
J. Magnin	1	5.0	5	1	4.0	4
May Company (LA)	1	8.0	8	1	8.0	8
Montgomery Ward	2	8.5	8-9	2	7.5	7-8
Penney's	2	8.5	6-11	1	7.0	7
Rhodes	1	4.0	4	2	3.0	3
Robinson's (LA)	1	6.0	6	--	--	--
Ross Dept. Store	4	4.3	4-5	6	4.2	3-5
Saks Fifth Ave.	1	11.0	11	--	--	--
F.O.A. Schwartz (NYC)	1	4.0	4	--	--	--
Sears	4	5.0	4-7	3	5.3	5-6
Shreve & Co.	1	28.0	28	1	10.0	10
Simon's	1	7.0	7	1	5.0	5
W&J Sloane	1	4.0	4	--	--	--
Wallach's (NYC)	1	7.0	7	--	--	--
Wineman's (LA)	4	4.8	4-5	4	3.5	3-4
TOTAL	87	7.6	2-28	75	7.6	3-30

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

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

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

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

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

BALANCE AT RISK

March showed only 3 out of 7 stores (43%) showing an improvement over 1968. The earlier Easter (1 week) helped improve the performance because the earlier selling reflected in outstanding balances. The April figures will be more significant.

BALANCE AT RISK

MONTH	A(1) 1967	A(1) 1968	A(1) 1969	B(3) 1967	B(3) 1968	B(3) 1969	C(3) 1967	C(3) 1968	C(3) 1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3		8.9	10.5		5.9	5.2	
May	3.6	3.6		8.4	9.4		7.3	5.5	
June	3.8	4.9		8.9	9.2		6.5	5.0	
July	4.2	5.7		9.1	8.7		6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

MONTH	E(1) 1967	E(1) 1968	E(1) 1969	F(2) 1967	F(2) 1968	F(2) 1969	G(3) 1967	G(3) 1968	G(3) 1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4		8.3	7.1		5.9	6.0	
May	4.3	5.4		8.7	5.5		4.1	5.3	
June	4.1	6.4		7.9	4.8		5.2	4.4	
July	4.9	5.6		8.7	7.6		6.6	5.5	
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

MONTH	H(1) 1967	H(1) 1968	H(1) 1969	I(1) 1967	I(1) 1968	I(1) 1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7		4.6	3.1	
May	12.4	11.2		4.2	3.0	
June	11.6	10.6		4.7	3.1	
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

HOW DOES 1969 LOOK?

CONSUMER BUYING PROSPECTS published by Commercial Credit (Spring 1969) contains an article by Professor Raymond J. Saulnier, former chairman of the Council of Economic Advisors. Based upon the Survey of Buying Expectations, Dr. Saulnier projected consumer capital formation – the durable goods portion of expenditures which represents about 1/5th of the entire economy. Using the 4th quarter 1959 vs 1968 he sees total expenditures down about ½ of 1%, houses down about 5%, autos and auto parts down about 5%, furniture and appliances up about 6% and "all other" up about 2%.

FOR THE HIGH PAID EXECUTIVE

The high paid executives in closely held corporations always wonder, particularly when they are a major or controlling stockholder, just how high they can raise their own salary before a friendly auditor from the Internal Revenue Service will take the position that their compensation is excessive and that the excess amount should be taxed as income to the officer but treated as a non-deductible dividend by the corporation.

A simple cure is to provide that compensation will not be in excess of that allowed by the Internal Revenue Service. The idea is that any excess payment will be returned rather than pay a double tax.

In order for the officer to get a deduction at the time of repayment it is necessary for the corporation to have a legally enforceable right to recover the overpayment. All it takes to protect your position is a simple corporate resolution – but it must be in effect prior to the start of the IRS audit. You should discuss this matter with your attorney. A suggested resolution is:

"In the event that the salary paid to any officer (or to named officers) of this corporation is disallowed as an expense, in whole or in part, then said officer shall be obligated to reimburse the corporation in the amount of the disallowance and the board of directors shall be required to enforce the recovery of such disallowed amount."

CAVEAT VENDOR

Louis J. Lefkowitz, Attorney General for the State of New York, in the March-April 1969 issue of CASE AND COMMENT traces the replacement of the doctrine of Caveat Emptor – "let the buyer beware" – with the doctrine of Caveat Vendor – "let the seller make full disclosure."

A New York court (State v ITM, 275 NYS 2d 303, 1966) said it this way: "No longer do we believe that fraud may be perpetrated by the cry of 'caveat emptor.' We have reached the point where 'Let the buyer beware' is a poor business philosophy for a social order allegedly based upon man's respect for his fellow man. Let the seller beware, too! A free enterprise system not founded upon personal morality will ultimately lose freedom. We also believe that it is right, proper, just and equitable to tell the customer, clearly and adequately, that he is entering into a contract and that he is personally liable for the entire contract price and that he will be required to make stipulated monthly payments, plus carrying charges, etc., in language that the least educated person can understand."

Mr. Lefkowitz established in his office the Bureau of Consumer Frauds and Protection. The greatest number of complaints involve abuses arising out of credit sales. The number of complaints, on all matters, rose from 5,000 in 1959 to 15,000 in 1968. In the latter year the Bureau obtained restitution of over $1,000,000. Criminal action is taken only where repeated complaints identify a single offender and discussion fails to bring a change.

The Bureau proposed to the N.Y. State Education Department that a course in consumer education be made available at high schools. Today such a course is being taught in some high schools – covering buying food and clothing, buying automobiles, appliances and furniture, budgeting, credit use, insurance, investments, frauds, quackery, and where to get help if fraud exists.

Retailers everywhere SHOULD BE pushing such programs. More than 99% of the retailers apparently are uninterested or uninformed in this area and are doing nothing to provide such a course in their community.

CONTROL ON BOUNCING CHECKS

This is an increasing problem – and in many cases the old control methods are breaking down. Whenever there is a control problem – one that can be handled with a pencil and some collated paper – you will find Jack Moss and his gang at Moss Key-Rec Systems working out a solution.

They have done it with their "KEY-CHECK SYSTEM" – an adaptation of the one-write Key-Rec system which produces a Key-Sheet showing the date logged, name and address, check number, date, amount and bank plus the store accepting the check and code for the reason for return. The 5-part Key-Rec consists of a 1st and 2nd notice to the maker, a statutory demand notice, a copy for the district or prosecuting attorney (for those who will cooperate on bad check charges) and an office copy. No mistakes – no copying – as simple as filling in a Key-Rec.

For information write to Moss Key-Rec Systems, Inc., 2224 Benton Avenue, Dayton, Ohio 45406 and ask for KEY-RECommendations 30-52. Say that Bob Kahn sent you.

HOW ARE YOUR ALLOWANCES?

The Administrative Management Society recently surveyed certain travel and car allowances and policies.

The rates allowed for use of an employee's car broke down as follows:

Less than 8cents per mile	4%
8cents per mile	16%
9cents per mile	14%
10cents per mile	54%
Over 10cents	12%

As to passenger class for air travel, the report showed:

Tourist class	68%
First class	14%
No policy18%	18%

Some 55% of the companies reported that they carried flight insurance on their employees (as opposed to buying individual policies at the airport).

Some companies require tourist class on short flights but permit first class on longer flights. My personal experience is that on most mid-week flights I find the tourist section empty. Under such circumstances I can count on occupying 2 or 3 seats in the coach section. By removing the arm between seats I have more space than in first class. I spread out my briefcase, tape recorder and reading material – and enjoy several hours without interruption. In First Class they take 40% of the trip showing the movie and 60% serving the meal with your seat companion talking 100% of the time. (Note: the writer always had a strong anti-social streak).

QUOTES WITHOUT COMMENT

CONSUMERS UNION runs a column under this heading – quoting from retail trade publications some of the anti-consumer comments of our leaders. It is only fair to reproduce here a letter-to-the-editor that appeared in the April 1969 issue for their 900,000 readers to see, under the title "Interest: 55 per cent."

"Not long ago CU carried an article on the cost of credit, using as an example the practice of Sears, Roebuck in comparison with that of another company (CONSUMER REPORTS, Aug. 68). You may be interested in my experience with Sears about the same time. Late in May we got delivery of a power mower and grass catcher, catalog price $99.50. There was no invoice, so we didn't know how much we owed after addition of sales tax and delivery charges.

"On June 12 I received a statement for $103.33, showing a billing date of May 28.

"On June 18, 16 days later, I sent them a check for payment in full.

"On July 10 I received a statement showing a carry-over of $103.33, plus a service charge of $1.55 and a rubber-stamped past-due notice. Since they undoubtedly got the payment after their cut-off date, I ignored it.

"On August 7 I got a statement for July, showing a past-due carry-over of $104.88, plus a new 'service charge' of $1.57, then a credit entry of $103.33 on July 2. Balance due: $3.12.

"Since they acknowledged payment as of exactly 20 days after I received the statement, I figured out the true annual interest rate: $3.12 for the use of $103.33 for 20 days equals about 55 per cent true annual interest.

"Have you ever encountered any higher? Of course, they're not likely to get it. E.A.B., Lexington, Mass."

To which CU replied: "Whether by accident or design, many stores make a lie of so-called 30-day charge accounts by mailing their bills late. Any 'free ride' time ought to start, we think from the date postmarked on the bill. CU's representative on the Truth-in-Lending Advisory Committee to the Federal Reserve Board has been urging such a rule under the Consumer Credit Protection Act, which goes into force July 1. So far, the FRB has not been persuaded. Perhaps it would be if others supported our plea. Write to the Board of Governors, Federal Reserve System, Washington, D.C. 20551."

As retailers we know that it is impossible without a computer to compute 30 days for service charge from the postmark shown on the statement envelope. But this is not the first time this suggestion has been made. It was seriously discussed some years ago by Mrs. Helen Nelson, then Consumer Counsel for the State of California. It is interesting that Mrs. Nelson is now on the Board of Directors of CU.

It was because of the pressure for this action that I started the Credit Office Rating which appears each month as a supplement to RT. If you will again read the notes at the bottom, I urge every store to maintain their own records; I urge local groups to create and distribute their own credit office rating; I urge that an objective of 5 working days be firmly established – and I have offered my assistance to any group that wants to start such a rating.

PROXMIRE vs THE CREDIT BUREAUS

Senator William Proxmire, who master-minded Senator Douglas' T-in-L through the Senate (only to have it triple-strengthened in the House) is now holding hearings on the Fair Credit Reporting Bill.

Perhaps the credit bureaus are playing it smarter – they are trying to come up with a uniform policy on disclosure of information to the individual concerned – hoping to fend off oppressive legislation. The suggested guidelines would require member credit bureaus of the Associated Credit Bureaus, Inc., to allow an individual to have access to his credit bureau records, receive notification of bad ratings from credit bureau users, and be able to attempt to correct information he believes wrong before it is entered into his file.

But in the process of exploring some of the practices of credit bureaus – practices which don't stand up in bright daylight – we find the people of the computer world getting sensitive. This comment from COMPUTERWORLD: "The possibility that credit bureaus will change their current rules and allow members of the public to have access to their own files is a welcome one to the computer field. Inevitably, the increasing awareness of the problems of credit ratings has drawn public attention to the bureaus – and to the equipment the bureaus use to handle their operations. At the moment the situation is so confused in the public's mind that often the computer takes the blame for the policy of the bureaus. We trust that the guidelines currently under discussion by the bureaus are quickly approved – and that in the future, changes are made as necessary to keep them up to date and computers out of disrepute."

HOW TO FIGURE PRINTING COSTS

The printing industry has, for years, "snowed" the purchaser of printed material by offering quotations in 2 or 3 quantities. The manner of presenting the costs often induces the purchaser to buy more than he needs – and this often ends up in valuable forms being used for scratch paper.

There is a simple way to break down printing costs. There are two parts of a printing price: the setup cost, including design, master plate, and stopping and starting the press; and the run cost, which includes the cost of materials, commission and labor while the press is running.

Here is a recent price quotation on a complex form:

20,000	@ $136.50 per 1,000
10,000	@ $203.00 per 1,000
5,000	@ $336.00 per 1,000

The first step in the analysis is to extend the total cost.

20 x $136.50 per 1,000	= $2,730
10 x $203.00 per 1,000	= 2,030
5 x $336.00 per 1,000	= 1,680

The second step is to compute the variable or running costs. The difference between the total for 5,000 and 10,000 forms is $350 – which represents $70 per 1,000. The difference between 10,000 and 20,000 is $700.00 or $70.00 per 1,000. Now we know that the "running cost" is $70 per 1,000.

Subtract the running cost from the total price and the remainder is the fixed or set-up costs – in this case, $1,330.

At this point you can compute the cost for any quantity by adding $1,330 to $70 times the quantity. You can also correctly determine the quantity ordered by considering the value of the extra $70 vs the prospect of actually using an additional 1,000 forms.

Mailed 6-16-69

RETAILING TODAY

ROUTE TO	INITIAL

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TRUTH-IN-LENDING – CONTINUED

The major problem facing retailers today is compliance with the Truth-in-Lending Law that becomes effective July 1. As is often the case with legislation – and particularly legislation aimed at helping the consumer – the law tends to confuse as much as it helps.

The Federal Reserve Board is now pumping out rulings – ones that should have been issued months ago. They continue to indicate a strict interpretation of the law and the regulations. The following brief summary of those pertinent to retailers may send you rushing to the local Federal Reserve Bank to get more details – the paragraph references are included.

Open end credit must involve a continuing plan, the privilege of paying in full or in installments, AND a finance charge based on an outstanding balance (226.203). You may use a single add-on rate for varying periods of time up to 60 months and identify it by a single ANNUAL PERCENTAGE RATE so long as you use the highest applicable ANNUAL PERCENTAGE RATE. For example, the rate of $10 per $100 per year add-on is determined by the FRB to be 17.00% for 6 months, 18.00% for 12 months, 18.25% for 18 months, 18% for 24, 30 and 36 months, 17.75% for 42 months, 17.50% for 48 and 54 months, and 17.25% for 60 months. You can call them all 18.25% ANNUAL PERCENTAGE RATE (226.502).

Lay-Away Plans are not extension of credit (226.201). Required disclosures in the case of mail or telephone orders must be made not later than the delivery of the property or performance of service ordered (226.802).

If a charge is made on accounts not paid within a given period of time (for example, late charges on delinquent 30-day accounts) but the vendor does not consider the account in default if subject to such a charge, then the late charge is a "finance charge" and the account is an open end account (226.401). You may use brackets to describe how the "finance charge" is computed for disclosure purposes (page 1, April 2, 1969) but you still must disclose the correct (to closest quarter of 1% ANNUAL PERCENTAGE RATE on the statement.

You may not intentionally OVERSTATE the ANNUAL PERCENTAGE RATE such as "does not exceed 18.00%." (Page 2, April 2, 1969). You may use up existing forms to December 31, 1969 but must show bona fide effort (not defined) TAKEN PRIOR to July 1, 1969 to reprogram or obtain new forms (Page 3, April 2, 1969).

Not yet clearly covered is how to express the ANNUAL PERCENTAGE RATE when a cash discount is offered such as 2% - 10 Days EOM. This one is going to be real fun because the normal expression does not state when the full amount should be paid. If we add the phrase "net 30" we can arrive at the illogical result that a discount can be taken even after the expiration of the "net 30" terms (example: invoice dated April 1, payable net April 30th, but with a 2% discount to May 10th). If stated as 2%-10EOM/net 30 EOM we have a 2% discount for 20 days or an ANNUAL PERCENTAGE RATE OF 36.50%!

INVENTORY SHORTAGE

From about January 31st, when most inventories are taken, until the end of April, when most tax returns and audit statements are available, can be considered the annual "We must do something about inventory shortage" season.

Some company specializing in internal security will make a public statement that inside and outside thefts cost retailers "X billions of dollars last year" (while never disclosing the basis of the projection). Someone at NRMA will report that retailers have to do half their volume to cover the cost of shoplifting (while quoting the inventory shrinkage figures which covers far more than shoplifting). And the subject will be added to the agenda for the next convention of department stores, men's wear stores, appliance and furniture dealers – and perhaps even the grocers.

In the meantime, back in the store, the President and/or Owner is likely to go on a rampage. The worst departments, it will be announced, will henceforth take their inventory every month or every two months until the answer is found – a program that collapses after the first "extra" inventory is taken and the shortage rate is confirmed as being unchanged.

All of this is to remind you of a simple truth – one that is so easy to forget. To paraphrase a famous utterance "The price of a low shrinkage rate is eternal vigilance."

It starts with the attitude and the sensitivity of top management. It continues 365 days a year. It involves training – because 90% of your executives (this includes department managers and buyers) don't understand the bookkeeping required under the retail method. It involves internal audit – and it involves the controller bringing errors to the attention of both the perpetrator of the error and top management.

And now for a prediction. 98% of store managements will not do anything effective during the coming year to eliminate the causes of inventory shortage – and next year the shortage will be higher. This is what retailers call "Progress."

THE FUTURE OF THE SMALL RETAILER

My conclusion is that the small retailer is going to be here for a long time – and his position in the process of distribution is secure.

That sounds like just the opposite of the position taken by the forecasters of doom, the anti-trust proponents, and many of the small retailers themselves. Let's examine why I feel confident about the future of the small retailer.

Before setting forth my reasons let me clearly state that many, if not most, small retailers are doomed to failure. This is not because there is no position for the small retailer in our economy; it is because the majority of the present small retailers are not sound merchants, are not properly organized and capitalized and are not serving the needs of customers. There is no way – nor is there any reason – to protect the inefficient and unnecessary retailer in our economy today.

Let's look at the trend that is supposed to be taking over – the super-giant all-in-one store. Sears is pushing toward 300,000 sq. ft. suburban units, Penney's is passing 200,000 sq. ft. With rare exception, every growing organization is announcing that their future stores will be larger, more complete.

As the stores grow larger they attempt to cater to a broader segment of the market – either broader in terms of income and tastes or broader in terms of geographic distribution. If the approach is toward broader income and taste segments, the merchandising becomes less precise. Small boutiques will not compensate for the massiveness and impersonality of the total store. If the approach is to pull from a wider geographic area, the greater selection will not always compensate for the greater inconvenience.

At the same time, small manufacturers will continue to be with us. The guy who thinks he has a good thing is still going to go into business for himself. He is going to start small because he is unwilling to give up control to a few investors who are willing to gamble a few dollars but none of the blood, sweat and tears. He may ultimately "merge" with a big company – but new small firms will continue to start in the mundane fields that serve retailing just as they continue to be started in the glamour fields of electronics and atomics.

The small supplier can't serve the needs of the super-giants; he needs the small retailer. At the same time, the small retailer is looking for that special something that he senses belongs in his shop. And he will seek out the unusual – from the small supplier. Often the small retailer can make the products of the large manufacturer look much better than they look when presented by the large retailer.

At the same time, the small retailer is often providing the fundamentals that the larger outlet can no longer provide. The small retailer is often an expert in his merchandise field – whether it is men's clothing, cameras, sporting equipment or shoes. The "policy-making committee" is working directly with the customers – and is much more in tune with the customers.

There is still magic for me in walking into a small shop and having the owner or one of the clerks say, "Hi, Bob. You sure told them at the City Council meeting last night." Of course, I could always go down the street to Mr. Big and stand for a half hour being ignored by a clerk talking to another clerk. But I don't. And I won't.

So let me summarize. There will always be small retailers – being experts in limited fields. There will always be small suppliers – who can't handle and don't want the super-giants. There will always be customers who like to be recognized as a person by the people who sell to them. There will always be new special products that need a salesman with product knowledge.

GROUP AUTO INSURANCE FOR EMPLOYEES?

Group life insurance and group hospital and medical insurance, both of which provide benefits at far less cost than an individual can provide for himself, are among the major fringe benefits provided the majority of employees today. In many cases these are now paid almost entirely by the employer.

The low cost, however, is due largely to the economies of handling large numbers of people through the employer. In addition to procedural savings, the size of the policies warrant payment of a substantially lower commission percentage to the agent or broker involved.

Today we are finding more and more companies offering their employees an opportunity to purchase automobile insurance on a group basis and pay for it through payroll deduction. This is now legal in 17 states including the largest ones – California, New York, Pennsylvania, Illinois and Michigan. Employees sign up on an individual basis, and are rated individually. The savings run from 15% to 20%. Major firms such as Wards and Lockheed are offering this program to their employees.

There is always the possibility that, once started, this may become an item negotiated through the union to a position where the employer pays all of the cost. On the other hand, this may be an additional benefit that will help keep your employees from turning to the union.

If you want further information – and the name of an expert who can help install such a program – write to RT today.

REAGAN FRAMES TAX BILLS TO BENEFIT HIGH INCOME PEOPLE

When Governor Reagan (California) increased the personal income tax rates and modified the dependency exemption he placed the heaviest burden on the middle income group. Now he proposes that in 1970 (an election year) every taxpayer deduct 10% of his tax on 1969 income. He again benefits the high income group.

Assume a constant income over the 4 years (1966, 1967, 1968 and 1969). A person with $10,000 before dependency exemption would have had his taxes increased 89% from 1966 to 1967, one with $20,000 would have had a 94% increase, while those with $100,000 would have had an increase of 50% or less! And the higher income people (who do not use the standard exemption) were more likely to have Uncle Sam pay part of the extra cost through reduced Federal income tax.

The rebate on the 1969 income tax would represent only 21% of the 1966-67 increase paid by those with $10,000 or $20,000 – while the person at $100,000 or higher would get back 30% or more of the 1966-67 increase.

The net result of the Reagan sleight-of-hand is that high income people (himself included) paid a smaller increase, got great relief through reduction of Federal income taxes, and will get a higher percentage returned through the rebate. Just to top off all of these benefits, Reagan is proposing that Congress make the rebate non-taxable!

CREDIT OFFICE RATING

The Honor Roll dropped a bit – from 13 stores to 11 – the overall list is slower (7.6 days vs 6.8) than in April 1968.

Ross Dept Store	3.3*	J. Magnin	4.0	Bullocks (LA)	5.0
Holman's	3.6*	Podesta-Baldocchi	4.0	Pausons (SF)	5.0
Kauffmann's (Sacto)	4.0*	Rhodes	4.0	Robinsons (LA)	5.0
Bloomingdale (NY)	4.0	Wineman's (LA)	4.5*		

*Client

Isn't it interesting that big operations such as Bullocks and Bloomingdale's can make the Honor Roll – and so many other major stores don't even come close.

CREDIT OFFICE RATING

	MARCH 1969			APRIL 1969		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE
Abercrombie & Fitch	1	15.0	15	--	--	--
Bloomingdale's (NYC)	1	4.0	4	--	--	--
The Broadway (LA)	3	6.7	5-9	1	8.0	8
Brown-Mahin	1	15.0	15	2	14.0	13-15
Bullock & Jones	1	7.0	7	--	--	--
Bullocks (LA)	1	5.0	5	1	4.0	4
Capwell's	6	12.7	10-18	5	18.8	17-21
City of Paris	4	7.0	6-9	3	7.3	7-8
Gertz Dept. Store (NYC)	1	6.0	6	1	7.0	7
Gump's	4	20.3	12-30	--	--	--
Hastings	1	13.0	13	3	14.3	12-17
Hink's	1	8.0	8	1	13.0	13
Holman's	5	3.6	3-4	5	3.4	3-4
Kauffman's (Sacramento)	1	4.0	4	1	2.0	2
Levy Bros.	16	6.0	3-9	16	4.3	2-7
H. Liebes	2	9.0	9	1	10.0	10
Macy's (SF)	4	6.5	5-7	6	5.7	2-7
I. Magnin	4	6.0	4-10	4	5.5	5-6
J. Magnin	1	4.0	4	1	5.0	5
Maison Mendessolle	1	7.0	7	--	--	--
Montgomery Ward	2	5.5	5-6	2	8.5	8-9
Pausons	1	5.0	5	--	--	--
Penney's	2	8.0	8	2	8.5	6-11
Podesta Baldocchi	1	4.0	4	--	--	--
Rhodes	2	4.0	4	1	4.0	4
Robinson's (LA)	1	5.0	5	1	6.0	6
Ross Dept. Store	4	3.3	2-4	4	4.3	4-5
Saks Fifth Ave.	1	11.0	11	1	11.0	11
Sears	3	5.7	5-6	4	5.0	4-7
Shreve & Co.	1	20.0	20	1	28.0	28
Simon Bros.	1	7.0	7	--	--	--
Simon's	3	6.3	6-7	1	7.0	7
A. Sulka & Sons	1	18.0	18	--	--	--
Wallach's (NYC)	1	6.0	6	1	7.0	7
Wineman's (LA)	4	4.5	4-6	4	4.8	4-5
TOTAL	91	7.6	2-30	76	7.5	2-28

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

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

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

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

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

BALANCE AT RISK

The figures for April show continuing improvement. 4 of 7 reporting stores had a lower balance at risk than in April 1968, an improvement from the 3 of 7 in March.

BALANCE AT RISK

	A(1)			B(3)			C(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3	5.1	8.9	10.5	8.4	5.9	5.2	5.4
May	3.6	3.6		8.4	9.4		7.3	5.5	
June	3.8	4.9		8.9	9.2		6.5	5.0	
July	4.2	5.7		9.1	8.7		6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

	E(1)			F(2)			G(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4	3.7	8.3	7.1		5.9	6.0	7.1
May	4.3	5.4		8.7	5.5		4.1	5.3	
June	4.1	6.4		7.9	4.8		5.2	4.4	
July	4.9	5.6		8.7	7.6		6.6	5.5	
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

	H(1)			I(1)		
MONTH	1967	1968	1969	1967	1968	1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7	8.8	4.6	3.1	2.7
May	12.4	11.2		4.2	3.0	
June	11.6	10.6		4.7	3.1	
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

HOW TO ANALYZE BAD DEBT EXPENSE

I am always amused when I hear stores compare their loss experience on charge accounts. In determining comparability they seldom get past the point of being sure if the percentage quoted is a percentage of total sales or of total CREDIT sales.

If someone comes up with a very low figure no one ever bothers to ask such questions as how many new branches did you open last year, how many new accounts did you open, did you send out any unsolicited credit cards, etc.

If each credit manager would analyze his write-offs each year he would find that his major exposure is on new accounts. If he broke down the losses between accounts open less than 1 year and over 1 year, and then tested his total outstanding balances to determine what portion of annual sales was represented by accounts open more than a year and by those open less than a year, he might find that his losses on new accounts might run as high as 5% of sales while old accounts might run only ½ of 1% of sales.

Two stores might have identical credit performance within these two categories but widely differing overall credit loss percentages. A dormant, unaggressive store, with 5% new accounts would have a credit loss (related to credit sales) of .725 of 1% [(5% loss on 5% of sales) + (½ of 1% on 95%)]. Another store, that opened a new branch and aggressively went after new accounts, with 20% of sales to new accounts, would have a loss of 1.40% [(20% x 5%) + (80% x ½ of 1%)]. It looks like the latter store had twice the loss rate of the first store – when the basic performance was exactly the same.

In many cases, a low bad debt loss percentage is an early indication of a dormant internal situation.

THE END OF AN ERA

J. E. "Doc" Webb started Webb's City in St. Petersburg, Florida, one of the original discount stores, when he bought a car load of widgets, had the freight car parked on a siding next to his conventional pharmacy, and sold the entire carload at about a 10% mark-up fast enough to pay for the car before the 10-day terms passed. From that early start he built an organization doing more than $25,000,000.

He set another record when he objected to the high cost of underwriting a new preferred stock issue – so he quietly got a Florida broker's license and sold the entire issue, OVER HIS OWN RETAIL COUNTER, in just a few days at a fraction of the cost that the brokers proposed.

With this as a history, one can understand my sorrow to learn that Webb's City supported the action of the Florida Board of Pharmacy in banning the advertising of prescription drugs.

NO GAMBLING AT NEVADA GAS STATIONS

I think most of us look on the gasoline company "games" as a form of gambling. True, the odds are outlandish – far worse than those available in craps, blackjack and roulette.

This may have been a factor that led the Nevada Legislature to outlaw such games at service stations. The spokesman for the service station operators reportedly said "hooray." The lobbyist for the oil companies said "Unconstitutional." Which just proves that there are only two sides to any law.

WISE GIVING BULLETIN

Every business that makes contributions on a broader scale than just the local United Fund should have a copy of the "Wise Giving Bulletin" published by the National Information Bureau, Inc., 305 East 45th Street, New York, New York 10017. This small bulletin lists, for each of 33 National Health Agencies, plus Red Cross and United Funds, the total funds raised during the past two campaigns, the expenditures for the current year, the amount allocated to research and the research expenditure as a percentage of current support. In addition it ranks the major causes of death and estimates of the incidence of disease or handicap in the present population.

Finally, it gives a summary of the Federal expenditures, through the National Institute of Health, for medical research. For example, the 33 National Health Agencies spent $51,000,000 for research in 1968 – while the Federal Government spent $1,455,800,000 – or 30 times as much. For example, the American Cancer Society spent $20,106,000 while the National Cancer Institute spent $185,000,000. For example, the American Heart Association spent $13,244,000 while the National Heart Institute spent $166,900,000.

The importance of Federal spending in the field of medical research is shown by the growth in expenditures – from $27,000,000 in 1947 to $324,000,000 in 1959 to $1,750,000,000 (includes related programs) in 1969.

Send $1.00 to the National Information Bureau and ask for a copy of the Bulletin plus Tabulation V.

A FAST $94,000,000 PROFIT

Last month (see RT – April 1969) I discussed the problem of honest and informative financial statements as submitted by major firms. I mentioned that United States Steel may, through the use of LIFO, be understating its inventory by between $500,000,000 and $1,000,000,000! No LIFO reserve is disclosed on the financial statements for recent years.

But USS did announce in their spring U.S. STEEL QUARTERLY that they were changing the method of reporting depreciation (from accelerated to straight line) for financial statement purposes and investment credit (from deferred over the asset life to the flow-through method) with the result that they increased the reported profit for 1968 by 59% – from $159.3 millions to $253.3 millions!

MORTGAGE MONEY RATES VARY

HOUSE AND HOME publishes each month the mortgage market quotations in various cities. The variations are quite wide, depending partially upon the supply of money locally. For example, in mid-March the rates quoted by commercial banks and insurance companies on 75% home loans varied from a low of 7% in Chicago and Detroit and 7% plus 1 point in Philadelphia to a high of 7¾%-8% plus 1 to 1½ points in Seattle, 7¾-8% plus 1 point in Los Angeles and 7½%-7¾% plus 1½ points in San Francisco. Going even farther West, the Honolulu rate was 8%-8¼%.

THE DISPOSABLE HOUSE THAT FOLDS

The day may come when you keep your lot and throw away your home – and even before that day we may see farm workers living in proper homes. Through a grant from the Rosenberg Foundation and the Office of Economic Opportunity, two Berkeley (Calif.) architects have developed a paper and plastic-foam house that sells for $1,200, folds like an accordion and can be thrown away. Some 20 farm communities have been started using these units, providing far better housing than was available previously.

A SHOPPING CENTER CHAIN – FUTURE OR FAILURE?

The Century 21 Corp of Denver has announced the start of a chain of regional shopping centers – ultimately to run across the United States. In August 1970 they expect to open four 600,000 sq. ft. centers in Colorado, North Dakota and South Dakota, followed by 5 additional centers each year for 10 years (that is over 32,000,000 sq. ft. of space – at $60 per sq. ft. it represents close to $2,000,000,000 in sales).

Litton Industries has served as the mortgage broker for the original $88,000,000 of financing, and Litton's Retail Services Group will offer design planning, fixtures and equipment.

The prototype calls for 3 department stores and contemplates that 90% of the tenants will be the same in each center. This means that most of the tenants will be either chains or franchise operations. This may simplify financing – with all of those AA A1 tenants – but it certainly does not portend the personality and variety of stores that have been necessary in the past for successful centers. We can only watch and evaluate.

UNDERSTANDING AMERICA

The January issue of FORTUNE was devoted to problems of youth – in school, with drugs, in society, on the Vietnam issue. It was outstanding and I recommended it to many people (see RT – January 1969). It is now available as a paperback under the title "Youth in Turmoil" for $1.50 wherever paperbacks are sold. I still recommend it as required reading for retail executives.

TESTING MAINTENANCE SUPPLIES, ACCESSORIES AND MACHINES

Buyers Laboratory, Inc. (305 East 45th Street, N.Y., N.Y. 10017) is offering a new service – testing maintenance and sanitary items. They will issue 6 reports a year for a subscription fee of $165 per year. Reports will cover floor waxes, floor cleaning compounds, vacuum cleaners, floor cleaning machines, sanitary paper products and the like. For stores buying a substantial amount of these items, the reports should offer a possibility for a savings.

Buyers Laboratory was founded some years ago by the former executive director of Consumers Union. Their initial field included office equipment and supplies. If you are not familiar with this series of reports, I suggest that you ask for information at the same address.

WHO ARE THE CONSUMER PROTESTORS?

A survey was made of the 1966 consumer boycotts that started in Colorado. Questionnaires were sent to 125 leaders, 75% of whom replied. Of those who replied, 95% were married, 86% had never before participated in an organized protest, 61% were homemakers, 59% had more than one year of college, 48% were between 26 and 35, and 41% had incomes of over $10,000. That profile exactly matches the customer that most department stores are seeking!

Is there any wonder that legislators are listening with greater interest to the complaints of the consumer? Is it any wonder that Rep. Eckhardt (Dem-Texas) introduced a bill that would allow consumers to bring class actions in Federal courts against businesses for violations of state consumer protection laws? Under the class action one or a few consumers could sue on behalf of all consumers who may have received the treatment being protested. Because they are representatives of a class, they can seek larger damages and if the plaintiffs prevail the court usually orders the business to pay the costs of the suit.

WHAT IS ETHICS?

At night, right after you turn off the light and put your head down on the pillow, you think back over all of the events of the day. If you can answer "yes" to the question, "Did I do this day the things I should have done?", then you know what is meant by "ethics."

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ROUTE TO	INITIAL

JUNE 1969 VOL. 4, NO. 6

WHY HIGH INTEREST RATES DON'T CUT BORROWING

The major economic problem facing America is inflation. We are trying to control it mainly through money controls – without materially reducing governmental expenditures (all levels) and non-consumptive production (war expenditures). Those who claim that this will work are much like the man who claimed he could lick John L. Sullivan with one hand tied behind his back.

The phenomena that is least understood is the fact that the demand for money continues to be high despite the increasing cost of money. When the prime rate was jumped a full one percent to 8½% everyone (including legislators) was shocked. But I think the shock was even greater when units of Bell Telephone brought to market debt instruments bearing rates approaching 8% with restrictions against refinancing for 5 years. Other firms, with lower ratings than Ma Bell, brought out instruments approaching 9%!

When the major banks raised prime a few of the smaller banks refused to go along, pointing out that there was no need to raise prime except where bankers didn't know how to say "No"! The smaller banks reported that they were not going to gouge their customers – they were just going to analyze carefully each application FROM AN ESTABLISHED CUSTOMER and would turn down those that didn't seem appropriate at this time. The larger banks were obviously seeking to avoid the problem of analysis and refusal by raising the price in an attempt to discourage applications.

Of course, in the process of making this move, the major banks were hurting many of their customers who were not seeking additional funds but whose interest rate is tied to prime. In the retail field this includes many firms who finance a portion of their accounts receivable by current borrowings.

But let's examine for a minute the circumstances under which a company might borrow at a 9% rate even if no refinancing was permitted for 5 years. Let us assume a 20-year 9% note for $1,000,000 amortized in monthly payments. At the end of 5 years payments will total $540,000 of which $113,000 will apply to principal and $427,000 to interest. If the note is at 8% the total payments will be $502,000 with $377,000 for interest and $125,000 for principal. At 7% the total payments would be $465,000 with $327,000 for interest and $138,000 for principal.

From the figures above it is apparent that on a 20-year $1,000,000 loan a drop in interest from 9% to 8% would save $50,000 over 5 years while a drop to 7% would save an additional $50,000.

The question that the business executive must answer is this: should I wait a year or perhaps more until the interest rate drops to 8% or 7%?

OVER-TAXED RETAIL INVENTORIES

Property tax auditor-appraisers – the ones in the assessor's office who review the valuation of personal property – are becoming more professional and better qualified. As they follow this course, they are attempting to do a better and more uniform job of assessing inventories.

Unfortunately, the retail method of inventory confuses them as much as it confuses most retailers. It is unfortunate, despite the widespread use of the retail method, that probably fewer than 100 people in the industry really understand the retail method of inventory. The accounting profession isn't much better off – most CPAs have limited contact with the retail method of inventory and when they do they go back to the 6 pages in their accounting textbook to bring back to mind the mechanical steps followed.

Professor Malcolm McNair, now retired from Harvard Business School, is the fountain of all knowledge on the retail method, having been active since the days of the great arguments preceding the acceptance (on a compromise basis) of the retail method for income tax purposes. His definitive book, The Retail Inventory Method and Lifo" is, unfortunately, out of print. A copy of at least the first 138 pages should be distributed to every assessor in the United States.

Perhaps it is only fair that retailers who don't understand the methods that they use and whose accountants don't understand the method they audit should end up paying excessive property taxes on their inventory.

Let me ask you a few questions which you can answer True or False. The retail method approximates actual cost, sometimes overstating and sometimes understating? The retail method is more accurate when your store is broken down into departments? The retail method, because of recording markdowns, approximates the value that would be assigned under a "cost or market, whichever is lower" valuation? If a store switched from "cost or market, whichever is lower" to cost under the retail method, there would be no predictable impact on profits as a result of the change? If all known price adjustments were recorded, the retail method would reflect a sound value?

I am pleased to report that after more than 4 years of work – and the opportunity to present the subject at a recent meeting of the Society of Auditor-Appraisers of California – I have hopes that we will solve the problem – and eliminate the millions of dollars of extra property taxes being paid each year by California stores using the retail method.

Oh! You wonder about the questions? If you checked any of them as "True" you flunked – back to the books and more study – or contact me for assistance with your assessor.

To answer that question, let's look first at the cost of construction (assuming this loan is for a building). If we expect building costs to be more than 5% (or $50,000) higher next year, a drop in interest rate would just offset the additional construction cost. If construction costs were to rise 10%, then interest rates would have to drop to 7% to offset the additional cost. In looking at many costs, we find that labor costs are being built into prices at their present high rates. It is true that lumber prices climbed dramatically since January 1969 and then dropped equally rapidly – but one can't expect the rapidly-rising carpenter (and other crafts) wage rates to drop at all.

If the building is a store, then postponing construction can mean postponing entry into a trading area. This may allow competitors to enter before you do, or existing stores to strengthen their position prior to your entry. Assuming that the market is a prudent one to enter, delaying a year will either mean foregoing the profit for that year or postponing the year when the new store does contribute to profit.

Next, one must consider that the additional interest is currently deductible for tax purposes (and even if the note is not refinanced, is deductible over the first 20 years) whereas the extra construction cost is deductible only over the life of the building – which might be 30 to 60 years.

Finally, some companies must consider the fact that they are obligated to build. Gas and electric or telephone companies that have limited excess plant capacity are compelled by either basic demand or regulating agencies to enlarge their system to serve their growing market. The projections for gas and power demand are fairly accurate and the utility must borrow (and build) when construction demands it, regardless of the interest rates.

But keep in mind that the logic that applies to money borrowings does not apply to signing 20-year leases with 10-year options.

WHAT HIGHER INTEREST RATES DO TO THE MONEY SUPPLY

As a result of the cycle above, which illustrates why the demand for money did not drop for some time after the prime rate reached astronomic levels, the banks have suffered a drop in lendable funds. There hasn't been any significant increase in the amount that banks or savings and loan associations can pay for deposits. Yet, as a result of the boosted prime rate, acceptance notes now yield 8%, good quality tax-exempts yield 6%, good quality industrial bonds yield close to 8%, and even short-term federal notes yield in the 7% range.

With all of these investment opportunities available, more and more people are withdrawing their savings and putting them in higher yielding instruments, instruments that will often increase in value as interest rates drop. This puts additional pressure on the banks – and the banks lean harder on their customers.

THE RETAIL BOOM MAY BE ENDED

The money crunch plus the tax pummeling may have finally dampened the desire of consumers to consume. It looks like the week ending June 21st may be the key date. In any case, after years of constant increases, the estimated weekly sales of retail stores was slightly below last year – the chart has shown a gradual tapering off for many weeks.

The less than 1% drop in total retail sales was the result of a 2% drop in durable goods sales being partially offset by a 1% increase in nondurable goods. Food stores were up 3% but chain supermarkets (over 10 stores) were up 7%. Department stores continued to be up 7% (against 11% for the year to date, YTD) but apparel stores were up only 3% and furniture and appliance stores were even. The lumber-hardware-building materials group was down 8% (+8% YTD), eating and drinking places were down 7% (+1% YTD), drug stores down 3% (+4% YTD), automotive group (car dealers, auto supply and tire stores) –2% (+5% YTD) and even gasoline service stations are down 1% (+5% YTD).

In some categories the pattern has been evident for some time. Eating and drinking places have been running behind for weeks, as have drug stores. The automotive group and service stations have been behind 3 of the last 4 and 6 weeks, respectively.

The total picture isn't necessarily the picture for your store. But if you are beginning to wonder about the constant upsurge of your inventory level and the amount of orders you have outstanding, this would be a good time to start getting inventory in line.

CHECKING ON FRAUD CASH REFUNDS

One of the techniques that I have used for many years in checking on cash refunds is to mail out a two-part postcard. The purpose is to detect the fraud names and addresses. If the address is bad the card is returned; if the address is good but the person named did not receive a refund, the card allows for a reply; and if the entire transaction is valid, then the card offers the customer an opportunity to comment on the service received.

This system works only if the cards are returned to the store when the address is bad.

Recently a client brought me up short with the comment that the cards were a waste of time and effort because the post office would not return them. This drove me to the Postal Regulations and sure enough – there has been a change.

Paragraph 158.21 on undeliverable mail, first-class, now include the following statement: "Only postal and post cards that bear the sender's return address and request return, are returned, and postage at the card rate is collected on delivery to the sender."

Be certain that your cards are printed or stamped "Return postage guaranteed" and that your return address is properly displayed.

DO YOU WANT TO BUY YOUR LANDLORD A PARKING LOT?

For some time I have been concerned about the abuse possible under the 'customary' tax increase clause in shopping center leases. This clause provides for the definition of a base year for tax purposes and then provides that any increase in taxes and ASSESSMENTS will be allocated to the tenants through a stated formula. The problem word is "assessment."

If a shopping center is owned by a single "person" then it is always possible to have the center form its own improvement district and levy assessments for capital improvements that the tenant thought the landlord would provide.

Let's consider a practical example. Suppose the landlord wanted to improve the parking facilities (perhaps repave or re-mark or even add a second deck). The lease provides that the landlord shall provide the capital facilities but that the tenant shares the common area maintenance cost; but it also has a taxes and assessments increase clause. The landlord then forms an improvement district, proceeds to finance the improvements through improvement bonds which are secured by the parking lot. The retirement of the bonds, plus interest, is handled through increased assessments which are paid completely by the tenant!

CREDIT OFFICE RATING

The Honor Roll has dropped again – from 13 stores in March to 11 in April to 9 in May:

Kauffman's	2.0*	Ross Dept. Store	3.8*	Bullock & Jones	4.0
Roos/Atkins	3.0	Rhodes	4.0	Sears	4.0
Holman's	3.8*	Robert Kirk Ltd.	4.0	Wineman's	5.0*

*indicates client

May's performance at 7.0 is right in line with the 1966-67-68 figures of 6.7, 7.1 and 6.9 respectively. The range of 2 to 19 working days is one of the best (narrowest) for any month on record.

CREDIT OFFICE RATING

	MAY 1969			APRIL 1969		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	DAYS TO BILL RANGE
Bloomingdale's (NYC	1	8.0	8	1	4.0	4
Books Inc.	1	9.0	9	- -	- -	- -
Brooks Bros	1	9.0	9	- -	- -	- -
Brown-Mahin	2	10.0	10	1	15.0	15
Bullock & Jones	1	4.0	4	1	7.0	7
Capwell's	3	14.0	11-19	6	12.7	10-18
City of Paris	3	8.7	8-9	4	7.0	6-9
Emporium	4	10.5	9-12	4	6.3	8-11
Gertz Dept. Store (NYC)	1	6.0	6	1	6.0	6
Gump's	1	6.0	6	4	20.3	12-30
Holman's	5	3.8	3-4	5	3.6	3-4
Kauffman's (Sacramento)	1	2.0	2	1	4.0	4
Robert Kirk Ltd	1	4.0	4	- -	- -	- -
Levy Bros.	16	6.8	3-10	16	6.0	3-9
H. Liebes	1	10.0	10	2	9.0	9
Macy's (NYC)	1	8.0	8	- -	- -	- -
Macy's	4	8.0	8-10	4	6.5	5-7
I. Magnin	4	6.0	5-7	4	6.0	4-10
J. Magnin	1	6.0	6	1	4.0	4
Maison Mendessole	1	8.0	8	1	7.0	7
Montgomery Ward (LA)	1	7.0	7	- -	- -	- -
Montgomery Ward	2	8.5	8-9	2	5.5	5-6
Penney's (LA)	1	8.0	8	- -	- -	- -
Penney's	1	7.0	7	2	8.0	8
Rhodes	1	4.0	4	2	4.0	4
Roos/Atkins	1	3.0	3	- -	- -	- -
Ross Dept. Store	4	3.8	3-5	4	3.3	2-4
Saks Fifth Ave.	1	13.0	13	1	11.0	11
Sears	2	4.0	4	3	5.7	5-6
Simon's	3	7.0	6-8	3	6.3	6-7
Wallach's (NYC)	1	6.0	6	1	6.0	6
Wineman's (LA)	4	5.0	4-8	4	4.5	4-6
TOTAL	75	7.0	2-19	78	7.3	2-30

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

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

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

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

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

BALANCE AT RISK

The condition of accounts remains unchanged from last month. In May, 3 of 7 showed improvement with 1 even compared with 4 of 7 showing improvement in April, and April was about even with March when 3 of 7 showed improvement.

BALANCE AT RISK

	A(1)			B(3)			C(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3	5.1	8.9	10.5	8.4	5.9	5.2	5.4
May	3.6	3.6	5.0	8.4	9.4	8.3	7.3	5.5	5.8
June	3.8	4.9		8.9	9.2		6.5	5.0	
July	4.2	5.7		9.1	8.7		6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

	E(1)			F(2)			G(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4	3.7	8.3	7.1		5.9	6.0	7.1
May	4.3	5.4	4.2	8.7	5.5		4.1	5.3	7.0
June	4.1	6.4		7.9	4.8		5.2	4.4	
July	4.9	5.6		8.7	7.6		6.6	5.5	
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

	H(1)			I(1)		
MONTH	1967	1968	1969	1967	1968	1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7	8.8	4.6	3.1	2.7
May	12.4	11.2	8.6	4.2	3.0	3.0
June	11.6	10.6		4.7	3.1	
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

It sounds like magic – and you are certain that no one would ever do such a thing. But it is being attempted now by the Park & Shop Shopping Center in Concord, California. It is apparently being done with the consent of the tenants – the only way they can improve their center after the original owner split the center to parcels and sold the parcels to investors who were not .terested in the long-range development of the center.

There are several protective steps you can take when negotiating a lease. The simplest is to remove the words "AND ASSESSMENTS" from the tax-increase clause. If the landlord will not allow this, then qualify the word assessments so that it will not include any assessments levied for improvements that are primarily for the benefit of the shopping center property.

IT WAS A GREAT YEAR FOR LIFO

The inflation during the past year created a situation where there were major tax savings to be gained by converting to LIFO valuation of inventory. The table below shows the change in price levels, by department store groups, from January 1968 to January 1969.

Group	Charge
Men's Clothing	+9.3%
Jewelry	+9.0
Women's & Children's Shoes	+7.2
Women's Outerwear & Girls Wear	+6.9
Piece Goods	+6.2
Men's Furnishings	+5.9
Notions	+5.5
Infant's Wear	+5.3
Women's & Girls Accessories	+5.3
Housewares	+4.8
Furniture & Bedding	+4.7
Women's Underwear	+4.4
Domestics and Draperies	+4.3
Men's and Boys's Shoes	+4.1
Boys Clothing & Furnishings	+3.9
Toilet Articles and Drugs	+3.5
Major Appliances	+2.8
Floor Coverings	+1.7
Women's and Girls' Hosiery	+0.6
Radio and TV	–1.3%
Total Store	+5.0%

For those of you who switched to LIFO years ago, I know you are enjoying the additional money in your business gained through reduced tax payments – even if you do have to explain to your banker each year just how the "LIFO Reserve" should be interpreted. To those of you who switched this year, congratulations. And to those privately-held companies who are sincerely trying to reduce taxes, take a look at LIFO next year if prices continue their present trend.

In any case, you will be in good company. Federated Department Stores, among the majors, is one of the few to use LIFO. It penalized their earnings this past year. But U.S. Steel is, according to my calculations, now reporting their inventory at about $500 to $800 million below the current market value by virtue of adopting LIFO prior to World War II.

And for those of you who won't consider LIFO, just remember that a good part of the profits you reported for 1968 represented increased replacement cost of identical items in inventory – hardly a "take-home profit."

FTC PROPOSES "NO-NO" TO CREDIT CARD MAILINGS

The FTC has issued "proposed regulations" banning the distribution of unsolicited credit cards. Written statements (send 20 copies if over 2 pages) can be sent not later than August 12, 1969 to Chief, Division of Trade Regulations, FTC, Washington, D.C. 20580.

The proposed regulation reads "The mailing by marketers of products or services or by others of credit cards to any party without first receiving an expressed written request from such party for the cards or expressed written consent to the mailing of the cards constitutes an unfair act or practice, and an unfair method of competition in violation of Section 5 of The Federal Trade Act."

I know that someone is going to raise the point that retailers frequently open charge accounts over the telephone and provision will have to be made for oral consent to send a credit card.

The FTC regulation does not cover banks, common carriers and air lines, (all of which are controlled by other agencies) but it would seem reasonable that such agencies (the I.C.C. and the C.A.B., for example), will follow the lead of the FTC.

THE WHEEL TURNS

Some years ago National Cash Register sent a brilliant speaker named Ira Hayes, Jr. to every corner of retailing, carrying a message that was probably heard by more retailers than any other message ever developed. Unfortunately, the message was not "the word" being handed down through NCR but a misinterpretation of the events of that day.

Mr. Hayes talked about the new generation that had been raised on self-service (everyone knew everything about all the products), national brands that were pre-sold through national media (everyone wanted a Thunderbird), and the L-shaped checkout stand. In summary his message was that the future lay only with the discount store and that the so-called conventional retailers had best convert their plants to discount layouts (central checkouts, self-service, etc.) pretty soon or else they wouldn't be there.

As I watch discount stores today I can't help but think of Ira Hayes and his message – as I see more and more area registers instead of checkouts, more clerks in specialized departments, more widely used and advertised credit plans, more advertising, more merchandise at regular price on their shelves.

All of which brings us to the recent statements of several discount store presidents that they are working to improve their turnover. It is true that their turnovers are better, in most cases, than typical figures in conventional stores. But it appears that the days have long passed when discount stores carried a very limited selection of the fast-turning items and styles and could operate indefinitely on a negative working capital – with accounts payable substantially exceeding inventory.

TAX REFORM AS IT AFFECTS THE SMALL RETAILER

There is a lot of talk about "tax reform" – and speculation about what will come out of Congress. Many of the points discussed have little relationship to life in a retail store. Few retailers are really concerned about depletion allowance, taxing of foundations, denial of expense deduction for interest incurred in acquisitions, etc.

But there are some areas that should be known. Take the matter of multiple corporations and the surtax exemption. The Administration has proposed that the number of exemptions allowed be reduced each year – starting with a limit of 500 exemptions within one controlled group, with the number allowed declining each year. The Ways and Means committee has taken a different approach. The first year one corporation of the group could take the full $25,000 exemption and all others would get $20,000. The following year there would be one full exemption and other corporations would get $15,000. At the end of 5 years all multiple corporation groups would be down to a single $25,000 surtax exemption.

In the area of capital gains, several new approaehes are being considered. Possible actions include continuing the exemption of 50% of the capital gains but eliminating the maximum personal rate of 25%; requiring a longer holding period (1 year or more) to be eligible for capital gains; varying the amount of capital gains subject to tax depending upon the period held (California had such a method some years ago).

Two approaches are being discussed in regard to appreciated securities in an estate. At the present time the appreciation is not taxed. The estate pays taxes on the current value and the beneficiary takes as his base the value declared in the estate. The two approaches now being considered are (1) tax the estate for the increase in value over basis while still paying estate taxes on the value at time of death; or (2) leaving the estate tax provisions unchanged but requiring the beneficiary to assume the basis in the hand of the testator – thus having to pay more capital gains tax when (and if) sold by the beneficiary.

There are discussions about eliminating the standard deduction and allowing specific deductions only if they exceed 10% of adjusted gross income. This would be combined with lower rates – so that a smaller percentage of taxpayers would have to go through the problems of collecting and supporting claimed deductions.

READ YOUR LOCAL LABOR NEWS

Retailers, I am certain, will be interested in the following item, quoted verbatim, from the May 1969 issue of the Contra Costa Labor News.

"Active Ballot Club membership cards for 1969 are now available at the Union Office or from your Business Representative. Memberships are $2.00. For your information, the ABC is the political arm of the Retail Clerks International Association and is strictly on a voluntary basis. Our ABC dollars are necessary that we may have a strong lobby in Washington, D.C., and further, the Active Ballot Club is committed to Labor. ALSO, your ABC membership card will give you a chance to win $100. in CASH at the drawing of ABC cards sold which will be held at our annual Labor Day Picnic. You do not have to be present to win!!! So, for the good of all concerned, let's make an all-out campaign to boost Local 1179's ABC membership for 1969. See your business representative or inquire at the Union Office for your ABC Card. BE THE PROUD HOLDER OF A SILVER ABC MEMBERSHIP CARD!"

And the same issue carried the report of scholarships granted by local unions to local people – it seemed to be far more than I recall being announced by employers. If the union is interested in aiding the children of workers in their desire for a college education – and the employer is not – what do you think the outcome will be???

HOW TO ESTIMATE SOCIAL SECURITY BENEFITS

The Social Security Administration has put out a good booklet entitled "Social Security Benefits" (issued October 1968, SSI-47, GPO: 1968 0-323-986) which is available from the Government Printing Office, Washington, D.C. 20402 for $10 per 100. This would make an excellent booklet to distribute to all of your employees – not just the ones approaching 65.

COMMUNICATIONS – AND THE MISSED CHANNEL

When your employees open their pay envelope what do they find? A message from you? Not very often.

It always amazes me that the retailer who insists that advertising material be included with every statement mailed every month never thinks of putting a message in the pay envelope that he sends his own employees 24, 26, or 52 times a year.

Why not start with the Social Security booklet mentioned above? And then lay out a program just as you do with your statement stuffers so that the payroll department knows a month or two in advance what will be sent.

COULD THIS FIRE HAPPEN TO YOU?

$3,000,000 damage was done to the 384,000 sq. ft. Grace Bros. store in 1,300,000 sq. ft. Roseland Shopping Center in Sydney, Australia. The fire broke out late on a Friday before a holiday weekend. It took 3 hours to bring under control BECAUSE THE SPRINKLER SYSTEM HAD BEEN TURNED OFF TO AVOID WATER DAMAGE FOLLOWING A SMALL FIRE EARLIER.

THE F.T.C. IN ACTION

The FTC is concerned about the practice of selling as new merchandise items that have been out previously on trial or have been used as floor samples or demonstrators. They list such items as household furniture, typewriters, calculators, pool tables, power and hand tools, tape recorders, ball point pens, cameras, phonograph records and portable radios. The FTC has announced their intention to investigate all complaints where merchandise has been used (not merely inspected) and this fact is not made known to the purchaser. It will be treated as an unfair trade practice.

The FTC has already moved against a Washington, D.C. TV store that advertised terms of $1.75 per week and yet refused to allow purchasers to make these nominal weekly payments. The original complaint also pointed out that the seller did not disclose the total purchase price including finance charge, failed to disclose that the contracts may be negotiated to a finance company and failed to deliver a copy of the signed contract to the customer. All of this was done before the effective date of Truth-in-Lending.

In an advisory opinion digest the FTC reported that they had advised a trade association that their proposal to circulate among the association members a uniform warranty would result in a violation of FTC-administered laws because of the possibility of reduced competition between members of the Association.

Elgin National Watch Co. signed a consent order (for settlement purposes and without admitting any violation) as a result of the FTC complaint that Elgin made false, misleading and deceptive representations in list price schedules, catalog inserts and other promotional material for watches offered by the Helbros division.

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RETAILING TODAY

ROUTE TO	INITIAL

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SOME NEW TERMS FOR SHOPPING CENTER LEASES

We must constantly attempt to look ahead when drafting shopping center leases.

One of the conditions that concerns me today is the reaction to the level of property taxes. Some states are virtually facing a revolt. Efforts are being made to relieve property as a source of tax revenue – and some of the proposals being discussed could involve 30% or 40% of the present property tax load.

State governments are discussing more direct aid to schools, a major portion of every local property tax bill. The Federal Government is discussing basic changes in the welfare and relief system which could also eliminate a large portion of the local property tax burden.

In the past we have agreed to shopping center (and other) leases with the idea of providing for INCREASED taxes. Stores that accept a "tax increase" clause do not have the possibility of savings if there is a tax decrease (obviously, net-net-net leases place the entire property tax burden on the lessee).

Let's look at a hypothetical situation. The minimum rent is $2.00 per sq. ft. of which the landlord estimates that the initial tax burden will be 50 cents per sq. ft. The lease provides for any tax increase over the base year to be paid by the tenant. But suppose, through transfer of tax burden, the property tax drops to 35 cents per sq. ft. The landlord will pocket an additional 15 cents per square foot – which may double or triple his profits.

It would seem that the "tax increase" clause should, like many other provisions in our leases, become a "tax change" clause, thus permitting it to move both ways. Perhaps the decrease would be triggered only if there were a basic change in the activities supported through the property tax.

If the lessee does not have protection, he may find himself paying higher corporate and/or personal income taxes, a tax on gross revenues, higher sales tax, or other increased taxes without enjoying the savings due to the drop in property tax on the leased buildings the lessee occupies.

ANOTHER PROBLEM THAT MAY INVOLVE THE LEASE or which may be capable of solution by your insurance broker, is the problem of business interruption from causes not covered by the normal U&O policy (fire and extended coverage). Recently a client in an air-conditioned center lost about 20% of his normal sales because the air-conditioning equipment, installed and maintained by the landlord, broke down. The heat inside the store was oppressive.

In some cases, this coverage can be solved by the tenant, through contingent U&O insurance; in other cases, where the air conditioning system is completely controlled by the landlord, it might

ABM AND THE COMPUTER

It may seem strange to feature the Anti-Ballistic Missile (ABM) in a retailing newsletter – but the rapid increase in computer utilization by retailers means that more and more retail executives can evaluate, from personal experience, the problem of successfully designing the ABM system.

Apparently a large number of top computer specialists (Paul Armer, director of the computation center at Stanford; Joseph Weizenbaum, inventor of several computer languages, of MIT; Max Palevsky, founder of Scientific Data Systems; and others) feel that the system "probably could not be made to work at all."

Pointing to the problems and failures of present complex systems such as air traffic control and election reporting, not to mention such systems as our department store billings, they feel that the increased complexity of the ABM system, combined with the inability to use the system repeatedly to test and improve it, make it much more likely to fail than to succeed.

Their basic argument is that the computer – not man (not the President nor his senior military advisors) – would have to make all of the decisions because of the limited time available between warning and reaction. Through misreading radar signals, responding to harmless objects, machine failures, program errors, or even sabotage, the computer could initiate a firing sequence that would release nuclear-armed defensive missiles that could destroy American cities.

The computer system would never have a chance to test against decoys developed by the enemy. The aggressor has many more options than does the defender.

We all remember the recent moon landing – the computer got Apollo 11 to the moon – but Neil Armstrong had to manually fly it the last few feet in order to find a satisfactory landing site. Prior Mariner moon landings have demonstrated the limitations of computer controls and decision-making.

It would be a tragedy if the public had false confidence in the ABM system, when the experts felt that the system could not be programmed. And the cost of attempting an impossible program could make the cost over-run on other defense systems such as the C5A seem like penny ante poker.

be better to have the landlord assume responsibility and carry insurance for such losses. The liability also runs another way – what is the liability of the store to a CONCESSIONAIRE whose sales are hurt by the failure of an air conditioning or heating system operated and maintained by the STORE?

In the June 1969 RT we discussed the need to protect the store from action by the landlord creating an improvement district solely for the benefit of the landlord and then passing on all of the cost of the improvement to the tenant through the net-net-net provisions or the tax increase clause provision of the lease.

THE CHANGING METROPOLITAN AREAS

The Bureau of the Census recently issued a special report "Trends in Social and Economic Conditions in Metropolitan Areas" that should be required reading for stores planning branches (Current Population Reports, Special Studies, Series P-23 No. 27, February 7, 1969, 70 cents). The report covers the 212 Standard Metropolitan Statistical Areas (SMSAs) which include 65% of our population. The analysis separates changes occurring between 1960 and 1966 from those for 1966-68.

We all know that the suburbs have grown faster (25% for 1960-68) than the central cities. Actually, the central cities lost white population (-4%) while gaining black (+25%). But in 1966-68 the black population in the SUBURBS increased 17%! The number is still not great – but the movement of blacks to the suburbs has started.

The proportion of black population is higher in SMSAs over 1,000,000 but the movement of blacks to the suburbs is greater in SMSAs under 1,000,000, and is greatest in the West – though still amounting to only 4% of the suburban population (disregarding the 10% level in the South).

The median age of the black suburbanite is the same as the central city dweller (21.7 years) whereas the white central city dweller is substantially older (32.3 years) than his suburban counterpart (27.8).

The family statistics are discouraging. Both white and black show a decline in the percentage of families headed by both husband and wife. When the family is headed by a female, the chances are greater than in 1960 that she is divorced or separated (up from 31% to 37%).

In measuring education the group to watch is that between 25 and 29 – those who have just completed their education. For whites between 1960 and 1968 the high school completion rate has increased from 67% to 79% (refuting the claim of increased drop-outs) and the college graduates have increased from 14% to 18%. The figures are about the same for both central city white and suburban white. For blacks the high school completion has increased from 42% to 62% (almost where whites were 8 years earlier) but college has remained the same (5%). However, a black college graduate is more likely to live in the suburbs.

The suburbanites generally run 10% to 15% higher income for the same level of education. The median income for blacks is increasing as a percentage of that earned by whites with the same education. For blacks with less than 8 years of school, his income has increased from 50% to 62% of the white pay; for blacks with one or more years of college, from 59% to 70%. Despite the improvement, the earnings level is still far behind.

The unemployment rate continues to be higher for people living in the central city. Unemployment rates for blacks run from 1.7 to 2.5 times the rate for whites. During the past 8 years the suburbs have become increasingly the domain of the professional and managerial worker – with a decline in the importance of skilled craftsmen and operatives (such as auto workers union members).

Family income over the 8 years shows great changes – particularly for blacks. The percentage of black families with incomes over $15,000 increased from 1% to 5% in central cities (compared with an increase from 9% to 13% for whites) and from 1% to 6% in the suburbs (whites from 10% to 18%).

Another indication of the progress is also an argument FOR the negative income tax. In 1959 it would have taken $15.6 billions to bring all the poverty level people up to a minimum income. In 1967, despite increased population and inflation, it would only take $9.7 billions. Measured against the Gross National Product for the corresponding years, the "poverty gap" has dropped from 3.2% to 1.2% of our Gross National Product!

SALES TAX AND LEASED CARS

One of the arithmetic quirks that often makes car leasing an economy (even if the finance charge under the lease is higher than the interest rate the store merits from the bank) is the computation of sales tax. In California, sales tax is charged on the full price of the car whether or not there is a trade-in. If we assume that a car costs $3,800 and the sales tax rate is 5%, the sales tax will be $190.

If a car is leased the sales tax is charged only on the lease payments. If we assume that the $3,800 car is leased for $125 per month (consisting of $100 applied to the cost of the car) the sales tax at 5% of $125 will be $6.25 a month. Under an 18-month lease this comes to only $112.50 compared with $190 on the full price. When the leased car is traded in, the sales tax on the residual value ($3,800 less 18 x $100 = $2,000) of $100 is paid by the second owner, not by you. The savings of $77.50 will frequently offset the higher interest cost – and ordering a car through a leasing firm often saves hours of dickering and shopping.

THE 3-DAY WEEKENDS

In 1968, Congress got into the long weekend, demi-vacation business by switching Washington's Birthday to the 3rd Monday in February; Memorial Day to the last Monday in May and Veterans Day to the 4th Monday in October. It then created Columbus or Discovery Day as the 2nd Monday in October (necessary to get the Italian vote so the bill would pass Congress!).

October wasn't such a hot month anyway – but now it is shot with two 3-day weekends.

All of this was to go into effect for the Federal Government (which includes the District of Columbia and Guam) in 1971. The states are lining up behind Uncle Sam. The following have simply followed the Federal law: Arizona, Arkansas, Colorado, Connecticut, Delaware, Georgia, Idaho, Indiana, Kansas, Michigan, Minnesota, Montana, New Hampshire, New Mexico, New York, North Dakota, Pennsylvania, Rhode Island, Washington and Wyoming (total of 20).

Iowa and Nevada, both having small Italian populations, omitted Columbus Day. Utah jumped the gun – putting the schedule into effect in 1970. Delaware remembered Lincoln – the first Monday in February.

Less than half the states are accounted for in the latest recap.

CREDIT OFFICE RATING

The Honor Roll continues to drop: March 13, April 11, May 9 and now in June down to 7. And we haven't even started with the impact of T-in-L.

Roos/Atkins	3.0	Podesta and Baldocchi	5.0
Holman's	3.8*	Ross Department Store	5.0*
I. Magnin	5.0	Wallachs (NYC)	5.0
Pauson's	5.0	*indicates client	

It is interesting that a recent brochure from Uni-Tote quotes Cyril Magnin as saying "We are now able to bill customers three days after closing date and soon will be billing on the second day." They may be ABLE to do it – but our records show that they are not doing it. For 1968-69 our records show 7 reports of 4 days, 8 reports of 5 days, 3 of 6 days, 1 of 7 days and 2 of 8 days for an average of 5.2 days.

CREDIT OFFICE RATING

	JUNE 1969			MAY 1969		
	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE	NO. OF REPORTS	DAYS TO BILL AVERAGE	RANGE
Abraham & Straus (NYC)	1	6.0	6	- -	- -	- -
Brooks Bros.	1	9.0	9	1	9.0	9
Brown-Mahin	3	6.7	5-8	2	10.0	10
Capwell's	2	21.0	21	3	14	11-19
City of Paris	3	8.0	6-10	3	8.7	8-9
G.E.T.	1	8.0	8	- -	- -	- -
Gump's	1	11.0	11	1	6.0	6
Hastings	2	15.0	14-16	- -	- -	- -
Hink's	1	11.0	11	- -	- -	- -
Holman's	4	3.8	3-4	5	3.8	3-4
S. Klein (NYC)	1	9.0	9	- -	- -	- -
Kushins	1	21.0	21	- -	- -	- -
Livingston Bros.	3	21.3	16-26	- -	- -	- -
Macy's	2	8.0	8	4	8.0	8
I. Magnin	4	5.0	5	4	6.0	5-7
J. Magnin	1	6.0	6	1	6.0	6
Montgomery Ward (LA)	1	6.0	6	1	7.0	7
Pausons	1	5.0	5	- -	- -	- -
Peck & Peck	1	22.0	22	- -	- -	- -
Penney's (LA)	1	7.0	7	1	8.0	8
Podesta Baldocchi	1	5.0	5	- -	- -	- -
Ransohoffs	1	6.0	6	- -	- -	- -
Roos/Atkins	1	3.0	3	1	3.0	3
Ross Dept. Store	1	5.0	5	4	3.8	3-5
Saks Fifth Avenue	1	10.0	10	1	13.0	13
A. Sulka & Sons	1	17.0	17	- -	- -	- -
Wallach's (NYC)	1	5.0	5	1	6.0	6
Wineman's (LA)	2	10.0	7-13	4	5.0	4-8
TOTAL	44	9.6	3-26	37	6.9	3-19

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

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

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

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

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

BALANCE AT RISK

The condition of accounts receivable continues to remain unchanged – with 3 out of 7 showing improvement during June, the same as for May.

BALANCE AT RISK

MONTH	A(1) 1967	A(1) 1968	A(1) 1969	B(3) 1967	B(3) 1968	B(3) 1969	C(3) 1967	C(3) 1968	C(3) 1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3	5.1	8.9	10.5	8.4	5.9	5.2	5.4
May	3.6	3.6	5.0	8.4	9.4	8.3	7.3	5.5	5.8
June	3.8	4.9	4.9	8.9	9.2	8.0	6.5	5.0	5.3
July	4.2	5.7		9.1	8.7		6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

MONTH	E(1) 1967	E(1) 1968	E(1) 1969	F(2) 1967	F(2) 1968	F(2) 1969	G(3) 1967	G(3) 1968	G(3) 1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4	3.7	8.3	7.1		5.9	6.0	7.1
May	4.3	5.4	4.2	8.7	5.5		4.1	5.3	7.0
June	4.1	6.4	3.9	7.9	4.8		5.2	4.4	6.4
July	4.9	5.6		8.7	7.6		6.6	5.5	
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

MONTH	H(1) 1967	H(1) 1968	H(1) 1969	I(1) 1967	I(1) 1968	I(1) 1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7	8.8	4.6	3.1	2.7
May	12.4	11.2	8.6	4.2	3.0	3.0
June	11.6	10.6	8.9	4.7	3.1	3.4
July	10.9	10.2		4.7	3.2	
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

TRUTH-IN-LENDING – AFTER REGULATION Z

The introduction of Truth-in-Lending brought many interesting changes – and exposed some interesting facts.

For example, Regulation Z became effective on July 1 and on July 2 the Federal Reserve Board issued a regulation on how to determine which state laws provide exemption from compliance with T-in-L. In the February 1969 RT I wrote, "If this regulation does come out, I expect it to be issued approximately June 30th. I missed by 2 days!

For example, no customer reading an ad for big ticket merchandise has any idea whether he can get credit for 18, 24, 30, 36 or 48 months. Yet the purpose of T-in-L was to better inform the customer.

For example, the disclosure notices of some of the bank credit cards disclosed some interesting variations from department store practices. In California both BankAmericard and Master Charge disclosed a FINANCE CHARGE higher than department stores – a periodic rate of 1½% without limit – and the banks also collect a late charge of 5% or $1, whichever is less. Under the Unruh Act controlling revolving charges in California, retailers cannot make a late charge.

For example, Tiffany dropped their small service charge on long-pay accounts over $200. I suspect that all of Tiffany's competition will immediately follow Tiffany's example. I will let you know when I have defined the competition.

For example, the first suit under T-in-L was filed just hours after the law went into effect by the NAACP Legal Defense and Education Fund along with the Harlem Consumer Protection Union against the Future Furniture Company who sold a TV to Henry A. White for $338.33. White happens to be the director of the Harlem Consumer Protection Union and he went into the store to test the operation of the new law. If the NAACP spreads this program nationally, many stores, particularly those catering to blacks, are likely to find themselves subject to suits unless they are meticulous in their procedures AND EFFECTIVE IN TRAINING THEIR PERSONNEL.

SOME MERCHANDISING ODDITIES

I wonder, sometimes, how carefully key executives think through their policies. Let me give you two examples that have recently caused me to stop and consider.

For 40 years I have been ordering the same items at the B & G Sandwich Shop (they advertise "Home of the bottomless cup" – unlimited coffee refills). The Wiz sandwich is a triple-decker Swiss Cheese and Ham on toast; the chocolate fudge cake is just what its name implies. Just the other day I asked a waitress, who mentioned with pride that she had been with the company for 27 years, how often they had changed the menu. She could recall just two or three changes in 27 years – and then I noticed that they printed their menus daily!

A short time later Radio Station KCBS reported on their attempt to help a listener with a problem. The listener had ordered a $15 file cabinet from Montgomery Ward and objected to the delivery charge. The announcer explained that Wards had a $3.00 delivery charge on all items under $35.00 (which is reasonable) – but that they also had an additional $3.00 delivery charge if you did not have an account with Wards! I couldn't help but wonder – if they told that I would have (1) opened an account (which probably would have cost much more than $3.00) and (2) paid 30 to 59 days later instead of at the time of purchase. This would have saved me $3.00 and cost Wards about $10 or $12!

OUR VARIED LIFE EXPECTANCY TABLES

The cost of insurance is related to the assumed death rate – and the death rate used is usually one of the standard published tables. The figures shown below are for a 45-year-old male, showing expected deaths per 1,000 men:

TABLE	DEATHS/ 1000
American Experience (1843-1858)	11.16
Commissioners 1941 Standard	8.61
Commissioners 1958 Standard	5.35
U.S. Total Population 1959-61	4.76
Annuity Table for 1949 – Male	3.63

Note the difference between the Commissioners 1958 Standard (which is used in most policies) and the 1959-61 actual experience. This is where many life insurance companies make money, particularly on non-participating policies. If they charged 1000 men $5.35 each, promising to pay the heirs of each man who died the sum of $1,000, the Commissioners 1958 Standard would indicate a break-even wager. But the 1959-61 experience shows that only 4.76 would die – and only $4,760 would be paid out, leaving the Company a profit of $590.

At 60 the spread is even greater – 20.34 deaths per 1,000 expected and 17.61 actual, a difference of 2.73 deaths per 1,000 men aged 60.

INFLATION

Most of us are aware of the increases in the consumer price index and know that we are experiencing an increase of about 7% on a year-to-year basis.

We tend to blame this increase on somebody else – the increase in services or medical costs or interest costs.

Retailers usually feel that they don't contribute to inflation because they take a constant mark-up – everything that cost $6 last year was marked to sell at $10 – and the same thing is being done this year. We miss the fact that in many cases the item which would have cost $5 last year and retailed at $8.35 now costs $6 and is being retailed at $10.00

The Business Week price indexes show what is happening to prices in many categories. The following table shows the percentage change from a year ago – as reported for the week ending July 26th.

PRODUCT(S)	CHANGE FROM 1968
Industrial raw materials – 13 spot commodities	+19.6%
Foodstuffs – 9 spot commodities	+14.3
Print cloth	+ 9.9
Copper	+ 9.5
Finished steel, composite price	+ 8.9
Aluminum, primary ingot	+ 3.8
Wheat	– 2.2
Cotton	–12.6

Prices would be much better if more of the products we used were made of cotton – but unfortunately, nature didn't do as good a job of product development as DuPont and the other chemical companies.

PROBLEMS WITH COMPUTERS

As the number of computer installations increases, the number of public apologies increases even faster.

The University of California Press, which publishes, among other periodicals, CALIFORNIA MANAGEMENT REVIEW, wrote me, "Last December, in an effort to improve service to our subscribers, we installed a computer. Unfortunately, (but, we are told, not unprecedentedly), this technological wonder has since repeatedly broken down or malfunctioned. As a result, issues have been mailed late, payments have not been processed promptly, and complaints have not always been acknowledged. The benighted instrument is now showing signs of life, and we devoutly hope that by the end of June we will have caught up on the work that has been accumulating." So much for their labor-saving efficiency system.

In May, Sylvia Porter laid out, for all her readers to follow, her 5-month fight with Abercrombie and Fitch about an error in billing. She concluded her narrative with the observation "There's no mistaking the rising consumer uproar. What is more, I know we have been comparatively fortunate that we have not been intimidated; our credit rating (as far as we know) has not been undermined by our failure to pay our bills."

Mrs. Porter then sought advice on what to do when there are billing errors on charge accounts – and went to Ethel Langtry, NRMA Vice President in Charge of Research. Says Miss Langtry, "Just don't pay. Clear up the situation first."

You should know what a national column is telling your customers.

And before you retaliate by using a computer-prepared credit rating (showing the customer past due for not paying an incorrect charge), consider the recent suit filed in California for $1,500,000 by a former banker, Charles Tijerina, against Retail Credit Co., Inc. based on a credit report that read, "The bank started off successfully. However, their volume of clients dropped off, and the control of currency (sic) in the bank was curtailed so that in January 1967, national bank examiners investigated the bank records . . . and found the bank was in extreme financial pressures, having limited operating currency (sic). They forced Tijerina to sell and the bank was taken over by the Sierra National Bank in an effort to prevent a run by the bank's customers. The stockholders, who had originally purchased stock at $10 a share were forced to settle for $2.50 a share at the time of liquidation." Mr. Tijerina claims that this report was read by an attorney some 3,000 miles away who understood the statement to indicate that Mr. Tijerina had mismanaged the bank.

Just to make you feel better about your computer – the number of computer-related embezzlements is increasing. Some of this is a result of improper system design; some is a result of management unfamiliarity with control methods. Here are a few checkpoints from a recently-published list that you might consider for your own system.

Periodically you should print out all the master data and re-check it against the source date. The time log for the computer should be completely detailed so that a comparison can be made between the estimated and actual run time – and every stoppage or interruption should be explained (just as we check "No-sale" and other drawer openings on cash registers). Preferably you should have two people operating the computer and both should sign the log. Responsibility should be fixed for controlling and accounting for all tapes.

A group of experts in Los Angeles recently showed that they could manipulate election tabulations in a manner that other computer experts could not detect. Wall Street has reported some interesting, and large dollar, embezzlements through the computer room. Retailing is yet to have its first major computer crime – but it probably is in the works right now in some retail computer installation.

F.T.C. IN ACTION

In 1960 the FTC issued an order stopping Marvin Accessories from importing or selling dangerously flammable wearing apparel. On December 20, 1968 suit was filed for civil penalties – settled for $15,000 for violating the 1960 order. This should be a warning to all who have signed consent orders.

According to Complaint D 8777 Korell Corporation, distributing some $9,000,000 of dresses under the trade names of Korell, Patty Petite and McKettrick, gave advertising allowances only to special customers. Cited are $1459 in 1965 and $850 in 1966 to Strawbridge & Clothier in Philadelphia and $668 and $558 to Rich's in Atlanta – but the company "did not offer and otherwise make available such promotional allowances on proportionately equal terms to all other customers in the Philadelphia and Atlanta metropolitan areas, competing with those who received such allowances."

The FTC is moving closer and closer to challenging whether or not the major stores induce such preferential treatment or have knowledge that they were receiving preferential treatment.

THOUGHT FOR THE MONTH

One of Whitney Young, Jr.'s (National Urban League) favorite expressions is that the black man would much rather be able to make the UNgrammatical statement, "I IS rich" than the grammatical statement, "I AM poor." Think about it a minute.

EMPLOYEE EARNINGS IN RETAILING

The most recent survey of employee earnings in general merchandise, department and limited price variety stores (1966 data) continues to show wide variations in average straight time hourly earnings.

The following factors are clearly shown:

1. Larger stores pay more than small stores.
2. Men are paid more than women.
3. Metropolitan stores pay more than non-metropolitan stores.
4. The lowest rates are in the South, followed by the North Central, Northeast and the West, where hourly rates are about 20% to 35% more than in the South.
5. The wage spread is greater in the general merchandise category than in the department or limited price variety stores.

The following table shows the average hourly earnings by type of outlet and geographic area:

	General Merchandise	Department Store	Limited Price Variety Store
United States	$1.77	$1.89	$1.43
South	1.58	1.75	1.27
North Central	1.75	1.87	1.37
North East	1.82	1.86	1.61
West	2.07	2.19	1.55

In comparison with prior reports, the percentage of persons working 40 hours per week or more has dropped – meaning that a substantial part of the impact of the minimum wage law has been offset by reduced hours of work.

RETAILING TODAY

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ROUTE TO	INITIAL

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HOW SHOULD WE SPEND OUR ADVERTISING MONEY?

The 152 Department stores, doing $4.5 billion annually, that reported for the 1967 FOR (Financial and Operating Results for Department and Specialty Stores, NRMA) spent $137,000,000 on advertising MEDIA. The figure for all department stores is probably on the order of $500,000,000. And this half-billion dollars is spent without any sound basis.

28 years ago, when in the research department at Macy's-New York, we attempted to measure the effectiveness of advertising and to formulate a scientific basis of planning advertising expenditures. The net result then – and little has changed since – was the development of a few measures that helped the controlling executive to formulate his guesses.

The planning of advertising is pretty much the same in all types of retailing. The first step is a policy decision – determine the rcentage of annual sales to be spent on advertising media. There e hundreds of sources – showing "typical" percentages for different types of retailing. The magic number for some businesses is 1%, for others it is 4%. Some may even be higher.

Policy decisions are supposed to be well thought out and logical – yet I have never seen a planned advertising figure for other than an even percentage (1%, 2%, 3%, 4%) or at the half-percent mark (1½%, 2½%, 3½%). Apparently it will never be "policy" to have an advertising expense of 3.12%.

Now comes the scientific "theory." The "policy" annual percentage is applied to the planned sales for each month. Two "rules" are then applied to produce the final plan. The first rule states that you are unable in December to use all of the money that is determined by applying the policy percentage to the December sales plan. It allows the retailer two options: cut December and "save" the money; or transfer part of the December money to other months so as to "maintain promotional pressure."

The second rule is that advertising should peak prior to the major selling season. If school opens early in September, transfer some of the September money to August. If Mothers' Day comes May 8th, transfer some May money to April.

I have heard this approach explained by the heads of advertising of major department and specialty stores, I have read it in trade publications, and I have read it in textbooks.

This approach has always disturbed me. I have no objection to paying a landlord a fixed percentage of my monthly sales for the ght to occupy his building. After all, I am buying location ility and that utility is directly measured by the sales that result.

However, I have never been able to understand why I should pay almost the same percentage (in some cases an even higher percent-

BRAINS ARE EVERYWHERE

Retailing has losts its appeal among college graduates. The major business schools have dropped practically all of their straight retailing courses – and in most cases it is no longer an accepted major. The published studies of entry level salaries for business school graduates seldom list retailing as a classification.

For the most part, retailers have not sought the college graduate. The proportion of retailers who recruit at colleges is very small.

The most frequent expression that I hear is "We need some smart young people we can train" – this really means some smart young people who have been broken in by some other retailer but who are looking for greener fields. Unfortunately, most retailers are not prepared to conduct a training program. Even fewer are prepared to identify and mine the gold that they have in their present organization.

Too often we think of a stock clerk as just a stock clerk – and fail to identify a man with intelligence and ability to learn. This is especially true if his skin happens to be off-white, brown or black. It might help to keep in mind the information developed by psychologists Harrell and Harrell in 1945 from a study of AGCT (Army General Classification Test) scores – and published in *The Psychology of Human Differences,* L. E. Tyler, 3d Ed., 1965.

The AGCT score is a good measure of intelligence (although somewhat biased by the amount of formal education) and generally correlates with I.Q. scores. The table below shows, for selected occupations prior to service, the average AGCT score and the range.

OCCUPATION	AVERAGE SCORE	RANGE OF SCORES
Accountant	128.1	94-157
Lawyer	127.6	96-157
Engineer	126.6	100-151
Receiving & Shipping Checker	107.6	52-151
Laborer	95.8	26-145
Barber	95.3	42-141
Farmer	92.7	24-147
Farmhand	91.4	24-141
Teamster	89.0	46-145

A score of 130 or higher has the ability to handle any job in retailing – and there are probably thousands of such high-score people working for us today, completely unidentified, in such jobs as sales clerk, receiving clerk, key-punch operator, billing clerk or stockboy.

age) to the local newspapers, TV and radio stations, billboard companies and the post office. Let us assume that our store only uses newspaper advertising. If I have determined the magic number to be 4%, does this mean that the newspaper is entitled to 4% of my sales? Does this mean that the newspaper is really standing there expecting me to produce filled space to the extent necessary to account for 4% of my sales for each and every month?

I don't think so. I think the newspaper has something that I ought to buy on a more logical basis.

So let's approach advertising from a new and novel angle.

First, let's look at the facts. My store is just as large in February as in December. I have just as many square feet of selling space, just as many fixtures, just as many spaces in my parking lot, just as many departments, just as many buyers.

There are just about as many customers in my trading area, perhaps even a few more because we are growing each month. Every single family is buying something that a department store sells just about every day or every week. And if they aren't buying it, they are certainly wearing out the things I sell like sheets and blankets and furniture and vacuum cleaners and books and stationery and pots and pans and china – not to mention all the clothes they wear.

The newspaper is reaching just about as many people in February as in December, perhaps more. And these people are still reading the sporting pages and the society pages and the financial pages and the funnies as well as the first page and the front page on each section. The radio and TV stations are being listened to by about the same number of people – perhaps even more with the holiday parties and caroling sessions out of the way.

People are probably making about the same income in February as they did in December. It shows by their purchases. Comparing February 1969 with December 1968, adjusting for 10% fewer days, they spent 1% more in grocery stores, 2% more in restaurants and lunchrooms, 4% more in lumber and building material yards, and 14% more on cars! It seems that some of the other retailers just don't know that customers spent all of their money for Christmas and so don't have any to spend.

Second, with the facts at hand, let's consider what advertising really means to us. In this day of communication fetishes I am almost ashamed to say that advertising is our communications channel with all of the customers "out there." I don't think any store has as much as half of the potential customers – so every store has a big potential. The potential must always be greater than the present penetration.

It is through our advertising that we will communicate – and we must remember that we can communicate through the eye to the person who reads the paper, through the ear to the guy commuting to work in the car, through the eye and the ear to the family at home. We haven't yet worked out communications through touch and smell – except for the good old samples that we can send out through direct mail or as statement stuffers.

But the entire idea is communications – so we had best start thinking just what we want to communicate. For example, what are we going to tell the 15% to 20% of the people out there who weren't in our market last year? Have we forgotten to tell what kind of a store we are, what services we have, where we are, what time we are open? Many stores appear to have forgotten these points. Have we forgotten to ask the people to come in for a visit – a few free samples and some candy just like my great-grandfather offered when he was a back-pack peddler in Kentucky and Tennessee? Do you remember your early visits to the shoe store with balloons and gadgets for every kid – and lots of time it was candy?

We want to be sure that we tell when the new merchandise arrives, that we are helpful when gift time rolls around, that we have a full assortment in each department – and that we have special buys and that we have made mistakes that we want to get rid of fast.

That outlines a lot to be communicated – and if you will study your local paper carefully (and listen to your local radio and watch your local TV and visit your local mail box) you may observe that most stores really aren't communicating very well with the tremendous potential that is now going to the other guy's store – the potential that is more than any store has yet captured.

But let's get back to preparing an advertising plan. Would you say that we know the following things:

1. We are getting NEW people in our market every day – people who don't know us, don't know where we are, don't know what we offer.
2. Our advertising media has little or no seasonal pattern – the people are looking and listening at just about the same rate all year round.
3. The people are making about the same amount of money – and spending just about the same amount (but for different things – because different people make a pitch for the money) in February as they do in December.

If any of us could be guaranteed that we would get back $10 in plus sales for every $1 that we spend on ads, we would have an unlimited advertising budget. The more sophisticated stores would be happy with a guarantee of $5 in plus business for each $1 spent.

And do you know – a funny thing. It is just about as easy to get $10 of plus business in February as it is in December. But in addition we have another thing going for us – because in February we are operating a lot of our business at below rated capacity. We could handle 10% more business without increasing very many of our expenses. The payroll shouldn't rise in February because we do 10% more business – and the lights and heat and janitor service and depreciation and computer rental will all remain the same.

In fact, we have reached that wonderful point where the only extra cost is likely to be the cost of the advertising (and sometimes a percentage of the rent). That isn't really true in December when we are pushing our plant to capacity, the quality of our staff has dropped because of the inexperienced short-time or temporary help, and we manage to make more than 50% of our errors (which antagonize customers) when we are doing only 15%-20% of our business.

So we have reached a conclusion that doesn't match our traditional advertising philosophy. Customers are ready on any day of any month to respond to the merchant who has something to turn them on. The customer has the money – he is always busy spending money. There is a constant flow of new people – and we keep having to repeat almost every day who we are, what we do, where we are. In just about ANY MONTH except December we can handle the extra volume at very little more than the cost of advertising (and percentage rent) – so it is cheap extra volume.

Under these circumstances I would suggest the following approach to advertising budgeting which is just a bit different from the traditional approach.

1. Start with the selection of the magic number just as you have done in the past – make it 3% or 4½% or 2%. I would suggest a higher number than is traditional because you are going to get some great results.

CREDIT OFFICE RATING

The Summer Vacation Doldrums continue to impact the credit office performance with the Honor Roll remaining at the June low of 7 firms. I am certain that compliance with T-in-L is partially to blame. 5 of the 7 firms are repeaters from June – showing that certain managements know how to accomplish objectives.

Roos/Atkins	2.0	Goldman's	5.0
Holman's	3.6*	Lord & Taylor, NYC	5.0
Podesta-Baldocchi	4.0	I. Magnin	5.0
Ross Dept. Store	4.5*	*Indicates client	

The over-all performance of 8.1 days is the highest in the 7-year history of this report – the 1963-1968 years having ranged from 7.3 days to 8.0 days.

CREDIT OFFICE RATING

	JULY 1969			JUNE 1969		
	NO. OF	DAYS TO BILL		NO. OF	DAYS TO BILL	
	REPORTS	AVERAGE	RANGE	REPORTS	AVERAGE	RANGE
Abercrombie & Fitch	1	11.0	1	- -	- -	- -
Abraham & Straus (NYC)	1	8.0	8	1	6.0	6
Books, Inc.	1	9.0	9	- -	- -	- -
The Broadway (LA)	1	8.0	8	- -	- -	- -
Brown-Mahin	2	13.0	10-16	3	6.7	5-8
Capwell's	2	14.5	13-16	2	21.0	21
City of Paris	4	10.0	7-13	3	8.0	6-10
Emporium	3	15.6	15-17	- -	- -	- -
Gertz Dept. Store (NYC)	1	11.0	11	- -	- -	- -
Goldman's	1	5.0	5	- -	- -	- -
Haggarty's (LA)	1	7.0	7	- -	- -	- -
Hink's	1	9.0	9	1	11.0	11
Holman's	5	3.6	3-4	4	3.8	3-4
Levy Bros.	16	7.9	5-12	16	7.2	5-10
Livingston Bros.	1	13.0	31	3	21.3	16-26
Lord & Taylor (NYC)	1	5.0	5	- -	- -	- -
Macy's (NYC)	1	10.0	10	- -	- -	- -
Macy's	3	6.7	6-7	2	8.0	8
I. Magnin	2	5.0	5	4	5.0	5
Montgomery Ward (LA)	1	7.0	7	1	6.0	6
Montgomery Ward	1	8.0	8	- -	- -	- -
Penney's (LA)	2	7.0	7	1	7.0	7
Penney's	1	11.0	11	- -	- -	- -
Podesta Baldocchi	1	4.0	4	1	5.0	5
Roos/Atkins	1	2.0	2	1	3.0	3
Ross Dept. Store	4	4.5	3-6	1	5.0	5
Saks Fifth Avenue	1	8.0	8	1	10.0	10
Sears	2	5.5	5-6	- -	- -	- -
Shreve & Co.	1	21.0	21	- -	- -	- -
Simon Bros.	1	6.0	6	- -	- -	- -
Simon's	1	12.0	12	- -	- -	- -
Wallach's (NYC)	1	7.0	7	1	5.0	5
Wineman's (LA)	4	6.3	5-7	2	10.0	7-13
TOTAL	70	8.1	2-21	48	8.3	3-26

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

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

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

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

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

BALANCE AT RISK

An encouraging improving trend is appearing in the condition of accounts receivable – with 4 out of 6 reporting stores showing a smaller proportion at risk during July 1969 compared with July 1968.

BALANCE AT RISK

	A(1)			B(3)			C(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3	5.1	8.9	10.5	8.4	5.9	5.2	5.4
May	3.6	3.6	5.0	8.4	9.4	8.3	7.3	5.5	5.8
June	3.8	4.9	4.9	8.9	9.2	8.0	6.5	5.0	5.3
July	4.2	5.7	3.9	9.1	8.7	8.5	6.8	4.9	
Aug.	4.5	6.0		9.5	8.7		7.0	5.7	
Sept.	4.3	6.4		9.5	9.1		5.7	5.8	
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

	E(1)			F(2)			G(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4	3.7	8.3	7.1		5.9	6.0	7.1
May	4.3	5.4	4.2	8.7	5.5		4.1	5.3	7.0
June	4.1	6.4	3.9	7.9	4.8		5.2	4.4	6.4
July	4.9	5.6	4.3	8.7	7.6		6.6	5.5	6.5
Aug.	4.6	5.8		6.1	6.5		5.1	5.8	
Sept.	4.3	6.3		5.4	7.7		5.5	6.0	
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

	H(1)			I(1)		
MONTH	1967	1968	1969	1967	1968	1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7	8.8	4.6	3.1	2.7
May	12.4	11.2	8.6	4.2	3.0	3.0
June	11.6	10.6	8.9	4.7	3.1	3.4
July	10.9	10.2	9.8	4.7	3.2	3.8
Aug.	14.3	8.9		4.3	3.4	
Sept.	14.4	10.7		3.7	4.1	
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

2. Apply the magic number to your sales estimate for the year to determine the total dollars you are willing to spend on advertising.

Take 5% of this amount and put it away in a box labelled "peak period supplement."

4. Take the remaining 95% and divide the amount by 52 weeks – and this is your "constant pressure fund" and your "constant communications fund." Supplement just a few weeks in the year (Easter, Father's Day, Christmas, Mother's Day, and The Big Sale kickoff) with the extra money in your "peak period supplement."

I think you will find some startling facts about advertising and retailing business. I would suggest that you watch for the following:

1. Big increases in February and July and some other small months that you have intentionally made small months in the past by cutting down on the advertising – even when the customers were wanting to buy.
2. The big months remain big months without all of that extra advertising.
3. The pressure of constant media dollars in most weeks will force you to use a lot of imagination to get all the messages into the limited space – and you may discover that 6 columns brings as much plus business as 8 or that EOM ads don't have to be as large and many more interesting facts.

.HE HIGH COST OF MONEY

It is easy to determine the prime rate of interest – all it takes is a telephone call to your local bank, in case you missed the announcement of the last increase. Normally, changes in the prime rate make front page news.

But the COST of money is another matter. This is greatly affected by the compensating balance required by banks. On this point our range of information is rather narrow – we are likely to know what our bank is asking or requiring and then we have to accept their word that other customers are meeting the same requirement. But as I talk to people from other stores, I find that this situation varies widely from store to store – and even within the same bank. The bankers may exchange this information – but the retailer is left in the dark.

If an information exchange would be helpful – with complete confidential treatment – send a note to RT marked "Confidential–Attn: Robert Kahn" giving, for a start, your current compensating balance requirement. Some are expressed as a percentage of the amount owed – but many more are expressed as a percentage of the authorized limit of the line. Be sure to clearly identify the method applicable to your line.

As a continuing exchange, please report modifications of the required compensating balance – and in case of a decrease I would appreciate knowing if the information in RT was helpful.

,ust to drive home the importance of the compensating balance in determining the cost of money, let's look at a few simple illustrations. If you are borrowing at prime plus ½% or 9% and have to carry a compensating balance of 20% of the AMOUNT BORROWED, you will be paying 10.8% for money. On the other hand, if you are paying prime plus 1% or 9½% and have to carry a compensating balance of only 10% of the AMOUNT BORROWED, you are paying only 10.45% for your money.

The computation becomes more difficult – and the cost of money jumps rapidly – if the compensating balance is related to the authorized line. Let's assume that you have a $2,000,000 line at prime plus ½% or 9% and are required to carry a 20% compensating balance or $400,000. If your actual borrowing averages $1,000,000 (and remains in a fairly narrow range) so that $600,000 is being used and $400,000 is compensating balance, the effective interest rate is 15%.

Under the circumstances, a reduction of the line to $1,500,000 and a proportionate reduction in the compensating balance to $300,000 would mean that you would average only $900,000 borrowed providng $600,000 for use and $300,000 for the compensating balance, reducing the effective cost to 13.5%.

If you could reduce the line to $1,000,000 and the compensating balance to $100,000, you would be borrowing $700,000 and the effective rate would be 10.5%.

One of the ways to live with a smaller line and a smaller compensating balance (and thus a lower effective interest cost) is to arrange to measure the compensating balance over a 60- or 90-day period. This means that with a $1,000,000 line you might have only a $10,000 balance over the 10th of the month when bills are being paid – or during the early November period when Christmas inventory payments peak – and that in the slow part of the current or one or two following months you will run your bank balance up to $200,000 or even $300,000 in order to average out at the required $100,000.

With interest rates at their present level – it seems prudent to manipulate your bank line as wisely as you manipulate your inventory.

F.T.C. IN ACTION

For years I have been warning that the FTC is moving closer and closer to bringing action against large purchasers who knowingly induce preferential prices. The most recent instance was in RT July 1969 where I said, "The FTC is moving closer and closer to challenging whether or not the major stores induce such preferential treatment or have knowledge that they were receiving preferential treatment."

The August 12th NEWS SUMMARY reported a complaint against a banana merchant – Harbor Banana Distributors, Inc. of Long Beach – along with United Fruit Co. The complaint reads that Harbor Banana Distributors "induced respondent United to agree to afford it such discriminatory considerations, when respondent Harbor knew or should have known that such discriminatory benefits would not be granted to all of the other purchasers from respondent United competing in the distribution and resale of bananas with respondent Harbor" and that this is a violation of Section 2(f) of the Clayton Act, as amended.

FTC has also announced regulations for the use of games in the food retailing and service station industries. To many readers, the prime new rule is what I would call the "peaceful interval" rule. Simply stated, the interval between games must be as long as or longer than the period that the prior game ran. In other words, if a game runs for 60 days, the food chain or gasoline company cannot start another game for at least 60 days.

But it seems a shame that the FTC has to set forth rules for billion-dollar companies such as exist in the food and service station industries requiring that (1) prizes be distributed on a truly random basis, (2) games not be used that are capable of being of being solved or broken without opening, (3) disclosure of the exact number of prizes available in each category, (4) the geographic area covered by the prizes so disclosed and (5) the length of the game be announced in advance. The final shame is that game users will now be required to submit to the FTC at the conclusion of the game a list of the names and addresses of the winners of EACH prize, the number of game pieces distributed, the number of prizes available in each category, and the number of prizes awarded in each category.

CREDIT CARD PROGRESS

Those who dream of the computer and tomorrow tell of a single magic card that will identify each consumer and which will be used for credit, check cashing, identification, placing telephone calls and many other things. But in the meantime, the current users of computers force other changes – as shown by the announcement that another city, Cleveland, is eliminating Charge-A-Plate so that EACH store can have its own plastic card to fit their own computer system.

MARYLAND PROTECTS THE CHARGE ACCOUNT CUSTOMER

Effective July 1 (the same date as Truth-in-Lending) Maryland is requiring that retailers and financial institutions give a clear and definitive answer to all written inquiries about the status of one's charge account WITHIN 60 DAYS – or the customer is relieved of all responsibility for finance charges from the date the store received the inquiry until the problem is finally resolved.

At the suggestion of customer groups, an amendment will be introduced requiring every monthly statement to bear a notice of this right granted to the customer. There is also talk of making it a criminal act to send a false derogatory credit information report to an outside agency – a type of error that is arising with increasing frequency as credit grantors dump masses of information from computer-to-computer with the credit rating agencies.

COMPUTER-WRITTEN LETTERS

I guess the peak of computer-written letters came with the 1968 election campaigns – and here it was relatively simple to personalize the letters since names were usually taken from voter registration lists. But I am getting a little tired of the so-called "personalized" computer fill-in (remember when it was all computer-written) letter.

Could you have much confidence in the intelligence of an oil company that sends fill-in messages that read "The number 521 84 843 is embossed on it, Robert Kahn" or "The Kahn Family, in Lafayette, Ca. is invited" or "IT'S JUST TO SAY THANKS TO THE KAHN FAMILY." Does anyone talk or write this way? Except a stupid computer?

This reminds me of the computer letter a friend received. The addressing was correct – to Mr. John Smith 3d – but the salutation read "Dear Mr. 3d"! That certainly made that advertiser look smart, didn't it?

EVER WONDER WHY WE DON'T HAVE DEPRESSIONS?

The most important reason is seldom mentioned – the availability of information on almost all portions of the economy. We are constantly pounded with information on the changes in sales, inventory, average work week, average prices, unemployment rates, free bank reserves, bank deposits, sales of automobiles.

For just a few dollars anyone can subscribe to BUSINESS WEEK and the page headed "Figures of the Week" contains more information on the economy of the United States than J. P. Morgan ever had available in 1929. For just $18 a year one can subscribe to the Survey of Business (Department of Commerce) and then receive monthly an almanac of up-dated statistics, in table and chart form, covering every facet of the economy. Many are nicely classified as leading, concurrent or lagging indicators.

PAY CHECK STUFFERS

For those firms that have started stuffers as a form of employee communication as suggested some time back by RT, we now recommend a helpful government publication (10 cents each, Supt. of Documents, Washington, D.C. 20402) put out by the Public Health Service called SMOKER'S SELF-TESTING KIT consisting of Part 1: The Tests, and Part 2: Interpretation of the Test Scores. Even if you are still hitting 2 packs a day (I can be pious – I quit pipes and cigars some 6 months ago), you can still have enough interest in your employees to offer them this kit.

WHO SAYS COLLEGE STUDENTS HATE BUSINESS?

They now have their own business publication, BUSINESS TODAY, issued quarterly with a circulation now past 200,000. Try it – send $6 to Princeton Business Review Publishing Co., 171 Broadmead Rd., Princeton, N.J. 08540. The fact that Malcolm S. Forbes, Jr., '70, is one of the Editors and Christopher Forbes '72 is on the advertising staff may, I suspect, have something to do with the plugs that appear regularly in FORBES. Of course, a problem may arise if BUSINESS TODAY attains a higher circulation that FORBES.

EXEMPT PERSONNEL MAY BE MORE EXPENSIVE

The Department of Labor has proposed that the minimum salary level for exemption from the overtime provisions of the Wage and Hour Act be increased from $100 to $130 per week for executive and administrative people and from $115 to $150 for professional personnel.

DOING BUSINESS WITH THE FEDERAL GOVERNMENT

Monroe Oppenheimer, head of Addo-X, reported on the problems involved. When he wanted to sell to the government they sent him a 200-page questionnaire to fill out before being listed. To help solve his problem he has ordered "A simplified Guide to Doing Business with the Federal Government (864 pp, 96 chapters).

RETAILING TODAY

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

Here is a sample copy of RETAILING TODAY --- a newsletter devoted to retailing.

Once a month, in just a few minutes of reading, you will find a potpourri of ideas --- ideas to save money, to improve your internal communications, to help you run your business.

You will find articles that challenge accepted and traditional concepts of retailing --- in a manner that will force you to re-think your own operating philosophies.

And you will find the voice of the social conscience of retailing -- providing guidance for you in determining your responsibilities beyond making a profit.

A picture is worth a thousand words --- but reading a copy of RETAILING TODAY is better than a picture because it tells you just what you can expect to receive every month.

Read the sample enclosed. When you are finished, ask yourself "Did I get 83¢ worth of stimulation and savings?".

If the answer is "Yes", then return the enclosed order and join the growing list of subscribers which includes such great retailers as Macy's, Broadway, Maas Bros., J. C. Penney, Forest City, Gimbels, Montgomery Ward, McCrory's, Gertz --- and on and on.

Sincerely,

Robert Kahn

Robert Kahn, C.M.C.*
Publisher

*In case you wondered, "C.M.C." indicates Certified Management Consultant, a designation that within a few years will be almost as well known in business as CPA.

RETAILING TODAY

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

Published Monthly. $10 per year.

ROUTE TO	INITIAL

OCTOBER 1969 **VOL. 4, NO. 10**

HOW TO ATTEND A CONVENTION

I am always a bit startled at top management thinking on convention going. Most stores can be grouped into two categories – those who encourage their executives to attend conventions related to their position; and those who operate in isolation.

So let's look first at whether or not executives should go to conventions. In most stores there are *many* merchandisers *plus* *one* controller, *one* advertising manager, *one* personnel manager, *one* credit manager, *one* security manager, *one* warehouse manager, *one* traffic manager, *one* store superintendent, *one* EDP manager, and so forth. The merchandisers are able to exchange ideas with each other, are constantly in touch with the buying office, make frequent visits to the markets, and find most of the space in trade publications devoted to their area of interest.

On the other hand, our one-of-a-kind executives don't have this interchange. In fact, many of them languish day after day wondering why no one else in the business understands their problems. They have no market to visit. There may be one or two minor trade publications relating to their specialty. And perhaps there is a local association that has monthly or quarterly meetings.

Yet many managements expect their one-of-a-kind executives to keep up with all the new ideas in their field. I never really understood how this was supposed to happen – perhaps special wavelength mental telepathy or permanent correspondence course enrollment. This expectation often comes from the same management that insists that their buyers get into the market regularly even if they are not open to buy – because the store can't maintain its market position if the merchandising staff is not constantly aware of what is happening.

Conventions are the "market place of ideas" for the specialty staff executives in a retail business. After 51 weeks of solitary they get a chance for three or four days to sit down with other one-of-a-kind executives who have the same interests, the same problems – and perhaps some new solutions. A solid program is scheduled, the question and answer periods are productive, and best of all the casual discussions over breakfast, a drink, during the coffee break, or even in the cab on the way back to the airport brings forth specific ideas about long-standing problems. Even more, the contact often means friendships that permit your one-of-a-kind executive to call his counterpart in some other part of the country to discuss a problem – or find out how the other guy is doing a particular task. Your man will probably get more real help from his counterparts than he could from anyone in your organization – and at no cost to you (except for the phone call).

All of this argues for a management policing of *requiring* one-of-a-kind executives to attend their specialty conventions. It is apparent, however, that many stores have not arrived at this conclu-

WHO BUYS FOR THE PUBLIC?

I may be giving my age away but I have a 1935 textbook which quotes an unidentified Congressional Committee as saying: "The retailer's true function is that of *serving as a purchasing agent for his community;* as such, he selects and carries a reserve supply of merchandise to meet the requirements of the individual consumer."

In the days of simpler goods and before the development of national brands and electronic marvels, many shoppers did rely heavily on the quality standards established by the store. Unfortunately, most stores today do not have quality standards although they do attempt to establish *some concepts* of quality (no seconds, well-established national brands, full satisfaction guarantee). They don't set such standards as "We warrant that the products we sell are safe."

The Consumer magazines, Consumer Reports and Consumer Bulletin, are constantly warning their readers about the danger of products that most stores are perfectly willing to carry in stock.

Almost every testing of TV or radio sets or electrical products discloses design defects that expose the set owner to possible electrocution. The tests of rotary lawn mowers carefully illustrate how someone standing nearby can be killed by a slung rock. Then there are the toys for children that are capable of being eaten (although not designed for that purpose) which contain poisons; I see the same toys in "quality" stores.

The retailers constantly resist efforts to pass rigid consumer laws – such as the Flammable Products Act, the Textile Fiber Identification Act, the Truth-in-Packaging Act, the various food and drug administration acts. Yet these laws became necessary only because retailers no longer attempt to be the "purchasing agent for the public."

The pressure is so great in many stores to be the "first" with new items, the reliance by many buyers on the manufacturer to "always" produce a safe product, and the concentration of management on making money is so great that there is no one left to think about the care and safety of the consumer.

The days are past when Mr. Marshall Field or Mr. John Wanamaker stood on the sales floor and watched the customers and the merchandise. These men *personally* stood behind every product they sold – do you? If you don't, won't you please change?

CONVENTIONS (concluded)

sion; all one needs for proof is to list the firms that are *not* represented at a convention. Even the roster of attendees doesn't confirm a commitment by the company; because in too many cases one will find that the conscientious executive is attending the convention as part of his vacation!

Let us suppose for a moment that a far-sighted company does establish a policy of requiring their specialty executives to attend at least the key convention – at company expense and without charging it against the executive's vacation time. How should the company insure that the most benefit is obtained?

The chief executive, or the immediate superior if not the chief executive, should familiarize himself with the program for the convention. It should be discussed with the specialty executive. In the event that the program shows concurrent sessions, there should be some agreement on which session will be most beneficial. There should also be a discussion of the problems in the company that the executive might keep in mind in his discussions, or during the question period, with the hope of getting some new ideas.

And finally, after the convention is over, the attendee should make a simple one- or two-page summary of the convention, listing the ideas obtained and the changes or new programs that are to be introduced. This should be reviewed with the chief executive or the immediate superior.

It is surprising that none of the retail trade associations whose literature I read – the ones that give the biggest conventions – ever do a selling job on why one should attend and how management should benefit from attendance. Instead they just hope that they get more people than they did last year. If trade associations would start reporting the number of the members *who did not attend* instead of the number who did, they might understand the true level of their failure.

AIR TRAVEL INSURANCE

In these days when there usually is no savings by buying a round trip ticket, many people do not purchase their return ticket until they know the exact time and airline they wish to take. If these same people purchase airline trip insurance at the airport, they should carefully read the fine print on their policies. They will find that some insurance companies will not cover the round trip unless the ticket purchased prior to the first leg is a round-trip ticket. Exceptions provide for in-flight ticketing and shuttle flights that do not issue round-trip tickets.

Most people think they have round-trip coverage just because (a) they check the box on the policy; and (b) actually go to the destination and return.

YOUR PAYROLL STATEMENT STUFFER

RT has long argued that employers should be as diligent in putting appropriate reading material in the pay check envelope as they are in putting stuffers in all charge account statements mailed.

A current suggestion is a small booklet entitled "YOUR SOCIAL SECURITY" put out by the Social Security Administration and available from the Superintendent of Documents, Washington, D.C. 20402 for 15 cents each. The document number is SSI-44, GPO: 1969 0-330-523 published April 1969.

HERE IS YOUR W-2 PLUS . . . .

By January 31, 1970, every retailer will give each employee a W-2 form on which will be shown the gross earnings for the year, t' withholding tax deduction and the Social Security deductic Most employees are going to look at the gross earnings and sa "Is that all they paid me for last year?"

Unless you put something extra with that form, your employee is going to think that this is all that you have paid him. But what about the . . .

State Unemployment Insurance
Federal Unemployment Insurance
Employer's Share of Social Security
Workmen's Compensation Insurance
Group Life Insurance
Medical, Hospital and Major Medical Insurance
Dental Plan Drug Plan
Pension Plan
Profit-sharing Plan
Employee Association
Employee Discount
Long-Term Disability Insurance

And More

The above list may mount to as much as 20% of the reported earnings. If the W-2 shows $5,000, the extras can be $1,000 – no small amount – and all of it "tax free," just like the people who have depletion allowance and depreciation shelter and tax-exempt bonds.

The computation of the amounts is simple. Many of the amounts are a percentage of the reported total compensation (some w an annual maximum). Others are on a straight per-capita bas perhaps varying somewhat with income level or job title. Othe may have to be averaged (such as lump sum payments to the employees' association).

Unless you initiate action right now to accumulate this data – January 31st will pass with your employee getting just his W-2 form, just like in all previous years, and saying to himself: "Is that all they paid me for last year?"

LOOKING INSIDE THE COST OF LIVING INDEX

The national cost-of-living index figure makes the front page almost every month when it is announced. But the local area index and component marts are seldom reported.

Starting with 1957-59 prices, New York has shown the biggest price increase (30.8% to May) and Cincinnati (22.7%) the least. Starting with a 1947-49 basis for prices, Cincinnati still comes out with the smallest increase (49.4%) and San Francisco-Oakland with the largest (63.6%).

Among the individual items there have been some big drops in prices since 1957-59. Prescriptions for anti-infectives are down 37%, and for ataractics are down 10%. Portable console and TV sets are down 20% and portable and table model radios are down 24%. Super 8 zoom lens movie cameras are down 15%.

On the other hand, the big increases are admission prices for children at indoor movies (up 116%), and for adults (up 92 Hospital charges for private rooms are up 144% and for semi-p vate they are up 148%.

In the apparel field the big increases are men's year-round suits (up 50%), women's cotton street dresses (up 51%), women's street pump shoes (up 48%). In the personal service field, men's haircuts are up 53% but beauty shop prices are up only 36%!

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

OW SHOULD WE SPEND OUR ADVERTISING MONEY? The replies!

There certainly was greater interest and greater response to this subject (RT Sept. 69) than any previous article.

Let me share just two reactions.

From Herman Silverman, Lafayette, California – and one of the leading consultants to newspapers in the West. Also an old friend who speaks frankly to me. He wrote: "I think your advice on advertising could be very dangerous. You did *not* qualify your advice – THAT IT IS ONLY YOUR IDEA. You could be 100% wrong." That certainly defined the issue – bluntly.

From the other side of the country, another old friend, Milt Woll, Director of Retail Sales, Booz, Allen and Hamilton, Inc. He wrote: "As usual I read your newsletter of September with great interest. I was particularly interested in your comments on how to spend advertising money, since I go back to the same time when we sought to measure effectiveness of advertising.

"I do *not* agree with you that just because there are as many people, and perhaps as many readers, during the whole of the year that expenditures can be spread rather evenly through the year and have approximately equal results. I say this in spite of the fact that I agree that there are other kinds of businesses which have peak selling seasons that differ from those of department and other general merchandise stores. On the whole, efforts to hange seasonal selling patterns for specific businesses have been elatively unsuccessful. For example, it is fairly well established hat attempts to change the day of the week on which people shop in supermarkets have not been particularly fruitful. For years supermarkets have been trying to get customers in earlier in the week, and have been using a variety of promotional devices to do this, but with little success.

"There are many possible reasons for what appears to be the nature of the beast; on the other hand, what has been the case need not necessarily continue. I would be in favor of experiments to see how effective contra-peak advertising could be.

"I have been convinced for many years that the technique of measuring advertising that we developed at Macy's (Note: in 1940) is ripe for a major project today. At that time we were swamped with paper work, the records were inadequate and inaccurate and the cost of doing the work became onerous. It should be possible to compile the data for such a study today from computerized records with considerably greater efficiency and accuracy, but no one really seems to be very interested.

"Advertising people, both in retailing and out of it, talk of measuring advertising but are really reluctant in most cases to undermine the mystique that surrounds the whole business. I believe this is particularly true in retailing. To the best of my knowledge, there has never been a program at an NRMA convention devoted to the subject of measuring advertising's effectiveness. The standard cliche is the quote from John Wanamaker: 'I know that half my advertising is being wasted, but I can't tell which half.' If anyone reporting to me were to tell me that half of his budget was being wasted and he was not doing anything to find out how o reduce that portion, I would fire him at once – and that ncludes old John Wanamaker."

Before responding

Before I respond, let me highlight a few observations.

My late Grandmother, a very sage woman, always told me that "if two people agree *all of the time*, one of them is unnecessary." By the same virtue, any business practice in this rapidly changing world that can remain universally accepted for decades *must be wrong*. The only reason it remains universally accepted is that nobody has bothered to think about it.

In the retailing field, general management has been trained to accept the philosophy of allocating advertising according to sales pattern. Every advertising manager, every retailing textbook, every issue of the Buyer's Manual preaches the practice.

Then the American Newspaper Publishers Association disseminates the same information; the advertising salesman for the newspaper suggests the practice; the Small Business Administration distributes this information as part of their support material for small retailers.

I suspect that there is no practice in American business that is so thoroughly uniform as the concept that advertising dollars must be allocated basically in accordance with the sales pattern.

And now for some response

In response to Herman Silverman who says this concept "is only your idea, you could be 100% wrong," I would say that it is more than an idea. I have been able to practice it in several businesses and know the results.

I can cite one business where the store, located in a declining area, had experienced a small drop in volume for several years – roughly in line with the neighborhood. The advertising was "traditional" – matched to sales. As one of a series of changes in policy (and it is impossible to measure the impact when several basic changes are introduced almost simultaneously) we decided that we would take a full-page ad, one day a week, every week of the year. We sought a fixed position in the paper – the page *inside* the back cover of the first section. The largest department store in town had, for years, controlled the back page of the first section. The inside page which we asked for was the one where they clustered ads for elevator shoes, hemorrhoid treatment, the local herb doctor, and patent medicines.

The newspaper acquiesced. So we started to build our "channel of communication." For months our ad said, "Look for us in this spot every Wednesday" and it stressed "All prices good Thursday thru Saturday."

The cost of 52 pages applied to volume for the two or three prior years was far higher than any percentage the business had ever before spent. Management approved the decision to spend the money.

The effectiveness was cumulative – we attributed this to the fact that we were developing a fixed channel of communication with people who wanted to shop with us. We told them in very direct terms where to look for us.

Our previous advertising policy, after allocating the dollars based on volume, was essentially one of "We have to have an ad on Friday because Saturday is our biggest day" and "We should have an ad on Thursday because we are open Friday night and it is our longest day and our second biggest day" and "If we have the all the other stores advertise (this store did about 5% of the volume of the largest department store).

The first point observed was that we had big increases on Thursday (obviously – because we never advertised on Wednesday before), good increases on Friday and we made our Saturday figures. Monday and Tuesday remained the same as previously (although they later grew as the total business grew) and Wednesday afternoon showed a spurt when the street edition of the paper came out.

At the end of the first year our advertising percentage was below the prior year!

In a matter of three years – while the surrounding neighborhood continued to decline – we doubled our volume!

During the second year we added a regular half page in the Sunday paper. Again we told our customers – both ads carried a line saying, "Now – look at this page every Sunday and Wednesday." This brought up the Monday-Tuesday-Wednesday volume – the ad clearly indicated the items were available Monday thru Wednesday.

We had several interesting side benefits, some of which are obvious. Since Saturday was our peak day, we were operating with all of our regular salespeople plus extras. If we did more volume on Saturday we would have to increase selling payroll – and increase it with a lower experience level. This was true even recognizing that the store was largely self-selection with area registers – because we needed more people on the registers – both cashiers and wrappers.

Since we got our major growth on days other than our peak, we handled a great deal of it without any payroll increase. As the Monday-to-Friday sales grew we actually expanded our regular people (both full-time and part-time) and ended up with fewer Saturday extras – and a more experienced sales force.

The next benefit that developed was a more regular daily pattern as a result of the more rigid pattern of advertising. Thursday sales volume became a good guide for the following Friday and Saturday. A 3 p.m. reading of the registers gave us a pattern to use in adjusting the Friday-Saturday sales help schedule, particularly the short-hour Friday night help and the Saturday 5-hour people.

Finally, the policy of a full-page insured multiple department representation and store-wide impact from the advertising. Prior advertising might have found 1 or 2 of the 12 departments in the Thursday-for-Friday ad and only 2 or 3 in the Friday-for-Saturday.

In response to Milt Woll

I am aware of the unsuccessful efforts of supermarkets to change their traditional weekly pattern – although the pattern itself varies from section to section of the country. The intra-weekly pattern is much more difficult to change – although the detailed history given previously shows that we were successful in accomplishing this.

The intra-week pattern can be affected by the time availability of the customers. If the store caters primarily to higher income families where the wife does not work, great changes can occur; but if the store caters primarily to blue collar *men*, the traditional Monday-to-Friday workweek greatly inhibits intra-week changes.

On the other hand, we have watched seasonal patterns being modified greatly. Most retailers forget the miracle of the August Fur Sale. August became the biggest month in the year.

The Automobile Show, held in February until the mid-1930's, once was the kick-off of the auto season in the days when many cars were put up on blocks for 2 to 4 months every winter. Gradually the introduction date slipped earlier and earlier – until we reached the present September introduction dates.

Remember when baseball ended and football began – then football ended and basketball began? Once there was a big gap between the November end of the season and the 2 or 3 "bowl" games. Now we have the seasons stretched – football is well underway before the World Series is out of the way – and even the pre-season pro-basketball games are being played when the football season is only 3 weeks old. Once upon a time the merchants of spectator sports had a philosophy that the sports fan recognized seasons and that he wouldn't dream of going to a football game during baseball "season."

Sales patterns are changing all around us – except in department stores. And it doesn't change there because every "tradition," every "advertising rule" works to keep it unchanged.

There is no store in the United States that could not improve their profit if they could split their sales volume into 52 weeks doing exactly the same volume. This is, of course, impossible as long as our society recognizes certain gift-giving days (Christmas, Mother's Day) and certain dress-up periods (Back-to-School). With departments we are bound to have seasonal patterns that cannot be changed – I doubt that May will ever be a good month for regular price ski equipment. But these reasons do not validate the industry practice of repeating last year's pattern through the policy of advertising allocation.

Finally we have the question of measuring advertising. Milt Woll is correct in saying that what we experimented with some 30 years ago using squads of comptometer operators working from stroke tallys by salesclerks could be done practically today by computers utilizing point-of-sale data capture, leading to price-line and classification reports.

The basic objective of our studies was an attempt to measure the "plus business' attributed to a specific advertisement. If we advertised a particular shirt in the men's department the advertising could not be measured just by the sales obtained on that shirt. If the shirt was regularly carried in stock we had to deduct from the actual sales the normal sales for the response period (and the definition of the response period, particularly when substantial mail orders are involved, is also complicated).

The sales volume must also be reduced by the loss of sales in other kinds of shirts – transactions where the customer substituted the sale shirt for a regular stock shirt.

In cases where the gross margin was materially different on the sale items this data must be converted to gross margin dollars rather than sales dollars – and in some cases direct expenses have to be brought into the computation.

Then we have to add back to the "ad response" the "plus" sales of related classifications resulting from the advertisement (neckties sold with shirts, slacks sold with sport coats, etc.).

With all of this data – plus a knowledge of the direct costs of selling – it may be possible to compute the profitability of a particular ad. If such data was readily available on each ad, *a store could adopt a policy of unlimited advertising,* as long as the projected results were (1) accurate and (2) indicated that the "plus gross margin" would exceed the plus costs including the cost of the ad. After all, if one could guaranteee that spending $1 would always produce $2 there is no reason to place a limit on advertising.

HOW TO USE LIFO IN MULTI-CORPORATION STRUCTURES

One of the drawbacks to using LIFO is that the Internal Revenue Code requires each user to report his inventory on a LIFO basis on all reports to stockholders and all statements used to obtain credit. This is an unusual provision in the Code and really should be removed; after all, a taxpayer can use accelerated depreciation for tax purposes and straight line for reporting; or installment reporting of receivables for tax purposes and accrual reporting for published reports.

But there is a way, in a multiple corporation structure, to have the benefits of LIFO without the penalty. Have your CPA review with you the provisions of Revenue Reg 69-17. In essence this provides that if a subsidiary has only one stockholder (the parent company) and does not seek credit directly, then the report to the parent must reflect income based on LIFO – but that the consolidated report *of the parent* can be on the basis of accrual reporting.

Let me give an illustration. Company H is a holding company that provides buying and administrative services to Subsidiaries X, Y and Z. All borrowing is in the name of H and money is re-loaned to the subsidiaries. H has no inventory. For income tax purposes X, Y and Z use LIFO in valuing their inventory. Over the years this has created a combined LIFO reserve of $200,000 and a corresponding reduction in net worth on a combined basis.

Under Reg 69-17 the Parent Company H can, on consolidation, show the inventory on a FIFO basis ($200,000 higher), a deferred tax liability of $100,000 (which the CPA's have not yet ruled is a current liability – so there is a net increase in working capital of $100,000, and an additional $100,000 of net worth).

Reg 69-17 creates the possibility of a major tax savings for 1969. Many firms are leery of LIFO because of the problem of showing, during a period of rising prices, lower earnings, lower asset values and lower net worth. If it is any consolation, remember that United States Steel appears to be happy (as are their accountants, a major national firm) reporting their inventory on a LIFO basis, using *pre*-World War II prices. The amount of the reserve is not shown – nor is the change in the reserve from year to year (the accounting profession expects to study this matter someday – and appear not to be worried about their responsibility in this area to stockholders) with the result that my rough estimate, using government price indexes, indicates that inventory is *undervalued* by more than $500,000,000, deferred liabilities more than $250,000,000, net worth by more than $250,000,000 and profits over the past 30 years by more than $250,000,000!

SHOULD YOU CONTROL YOUR SUPPLIERS

Over the years RT has pressed the point that the Federal Trade Commission is getting closer and closer to establishing fault on the part of large outlets who force discriminatory provisions from suppliers. But the FTC is not the only approach.

Several months ago Elder-Beerman in Dayton won a $3,800,000 award for triple damages against Rike's, a division of Federated, for coercing resources. In the trade we have all known of incidents – or have heard stories about coercion. In many cases the evidence was pretty complete. As long as the FTC failed to find a solution, the practice continued.

But this decision puts the situation in a new context. It may be years before the appeals are completed – it seems certain to end up at the Supreme Court.

But in the meantime retailers should think carefully about how they want to make their profit. Can they make enough by satisfying customers directly – or do they have to seek profits by denying something to their competitors?

SHOULD EMPLOYEES BE LOYAL?

Professor Borje O. Saxberg, University of Washington, Seattle, Washington, has written an interesting paper – "Obsolescence of Employee Loyalty under Automation" (Reprint No.14, 1969, Graduate School of Business Administration).

Professor Saxberg traces the history of studies of employee-employer relations and the changes now occurring in business. He points out that automation has tended to upgrade skill levels, often making white collar workers out of blue collar workers. EDP, in the office, has had the *opposite* impact.

The net result appears to be that "Dull work appears to become duller, while interesting work tends to become still more interesting, with no end in sight."

Although employers continue to seek loyalty from employees, they are no longer willing to make a reciprocal commitment to employees. The days when a man leaves high school, joins a company, and after 10 or 20 years can expect that company to continue to provide a job for him for the rest of his working life are long past. *But the employer tends to overlook his unwillingness to make a commitment* while criticizing the employee for a lack of loyalty.

The problem is further complicated by the change in desires on the part of workers (work commitment vs recreation, personal objectives vs business objectives). Executives must come from the relatively small group of employees who are willing to give up some of their own identification and identify with the employer.

The general conclusion is that loyalty is obsolete and therefore management must seek permanent staff by appeal to other desires and objectives, especially the interest of an employee in self-improvement. Continuing education for employees will hold them with the company because they recognize this as an effort by the Company to prepare the employee for change and *advancement.*

In this regard, I recently attended a meeting in Sacramento in the State Board of Equalization building and was struck by the tremendous number of announcements of courses and special programs on the employee bulletin boards. On a single board there were announcements for the local state college, junior college, evening high school, several private schools, and courses offered by employee associations and groups. Perhaps because of the use of competitive examinations and credit for course work, public employees have a stronger orientation toward self-improvement than do employees in private business.

As applied to your retailing business, how long has it been since you re-thought your policy on encouraging people to take educational courses, reimbursing them for the cost, recording it on the personnel records, and recognizing it in promotion and assignments?

INDEX OF COMPENSATING BALANCES

The first firm has reported on their compensating balance requirement. Since 1966 it has been 10% of the line or 15% of the outstanding, whichever was greater. Although the agreement does not specify when or how this is checked, the bank indicates that they check the balance over the period of a quarter. If other stores will send this information RT may be able to make a comparison of these arrangements.

If other readers will send this information to RT (See Sept. 69), a common figure can be developed.

WHO IS RESPONSIBLE FOR TEEN-AGE JOBS?

When you and I were teen-agers we had dozens of opportunities for jobs – at least if we were teen-agers prior to about 1955. In the earlier days before the minimum wage law – or when the minimum was much lower – every department store and many specialty stores had regular crews of high school students – Saturdays, Easter, Back-to-School, Christmas, Thursday nights, Summer Vacation replacements. The grocery industry used thousands upon thousands of package boys – Friday afternoon and all day Saturday and sometimes on Sunday. There were even a few lucky "regular" teen-age package boys that worked Monday thru Thursday afternoons.

The kids made money – but most of all they learned how to keep a job and they built a stack of "letters of recommendation" that they could use when they were ready to go to work full-time. In fact, many of them started their full-time career working with the retailer who had given them a part-time job – and some of those people are among the readers of this newsletter.

But in the mid-1950's this changed drastically. It is true that we were getting more teen-agers as the WW II baby boom hit the work market. But mostly we became more "scientific" in our business. We found that by stretching the vacation period and by rigid scheduling that we could get through with few or no high school summer vacation replacements. When we looked at the minimum wage requirements we decided that we were better off with "more mature" extras and sought older people. We began to be critical about the fact that after training a high school girl for a year and then using her for another year that she might then go on to college – and we would have to train a replacement.

In some cases the jobs disappeared because of unions, such as when the food clerks suddenly claimed jurisdiction over package boy jobs and demanded that package boys get regular scale (often \$3.00 to \$4.00 per hour).

Now our "scientific approach" is coming back to haunt us. It is almost impossible for a teen-ager to get a job – not because he doesn't try but because business, and this means primarily the retailers, are too smart to waste money employing high school kids. It will be completely impossible if and when the minimum wage law increases to \$2.00 or \$2.50 per hour as the unions (who must share a substantial part of the blame) are now demanding.

A recent survey (57,000 replies) by the National Federation of Independent Businesses indicates that within just this group of firms some 500,000 jobs formerly held by teen-agers have disappeared.

Among teen-agers who are in the labor market (out of school) unemployment runs about 15% for whites and 30% for blacks. After being tired of living in the "land of opportunity" and being told that there are "plenty of jobs if you just go out and dig – like I did when I was your age," they decide that at least one generation isn't telling the truth, the whole truth and nothing but the truth – so they cut out.

Have you ever wondered if we would have as many hippies, as many teen-age marijuana and narcotic and drug users, as many turned-off kids, if teen-age jobs were as readily available as when we were kids?

Don't forget – labor may have pushed for the minimum wage law and Congress may have passed it – but it was the businessman, and especially the retailer, who made the decision to eliminate the teen-ager's job.

CREATIVE THINKING

Solutions to problems will come faster with imaginative thinking.

I was attracted by the idea put forth by Dr. Butkys of Lehigh University before the Federal Trade Commission. He suggested that private enterprise could be encouraged to re-develop deteriorating central business districts by establishing them as zones exempt from state and local sales taxes. This could mean savings to the customer of up to 5% or 6% on many items – even with the advertised price and gross margin to the store remaining the same. The lost state and local revenue would be made up 90% by the Federal government and 10% would reflect the state-local share of the cost.

A little thinking about this idea – combined with thoughts on where you would locate your next branch – certainly indicates that this might produce a dramatic and relatively inexpensive solution.

In another area, I recently put forth in my editorial column in a local newspaper a way to accomplish deflation through impact over the entire economy. Instead of putting most of the onus on the construction industry (high interest rates cut homebuilding by 50%, then President Nixon announced elimination of 75% of government construction and urged the states to follow) I would suggest that deflation be accomplished by instituting *gasoline rationing.*

Reduced mobility would cause a reduction in activity in virtually every area of the economy. The only *increases* that I could envision would be television sales, snack foods and the birth rate.

HAVE YOU EVER BEEN ARRESTED?

This question probably appears on your store's employment application. But is this the question you really want to ask? If you are willing to accept the concept of "innocent until proven guilty," don't you really want to ask: *"Have you ever been convicted of a felony?"*

Arrest is being used as a form of punishment, particularly against students and minority groups. Recently in Berkeley the police arrested over 500 people (many adults) in a sweep of a single downtown street. When the cases reached the court every single case was thrown out because the police did not have adequate evidence. Yet each one of these people must reveal this information on your employment application – if you ask: "Have you ever been arrested?"

The radio today told that 150 people arrested in Las Vegas for violating the curfew would not have the charges pressed – but these people now must put the arrest information on your employment form. Even Dr. Spock must indicate an arrest, even though acquitted.

Many state and local government agencies have changed the wording on their application forms. But conversation with my friends in the legislature and the American Civil Liberties Union indicates that state laws have not been passed banning this question on private employer job applications because of employer resistance.

If you think this is not fair, why not (1) change your own application and (2) get your state association to back legislation to ban this question?

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

RETAILING TODAY

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ROUTE TO	INITIAL

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THE INNER WORKINGS OF THE RETAIL METHOD

Between now and spring, most stores will be reporting inventory figures for property tax purposes. As a starting point you will look at cost as determined under the retail method of inventory – and assume that this figure is cost. As RT has pointed out before (June 1969), *the retail method substantially overstates cost* – a trade-off that arose in order to get the method accepted for income tax reporting.

Let's look at just how this happens under different situations. In the situations analyzed below let us assume that our "typical department" handles just two items – Item A which has a mark-up of 30% and turns 3 times a year; and Item B which has a mark-up of 40% and turns 2 times a year. Certainly these are not unreasonable assumptions. We will also assume that our opening nd closing inventories always have $100 (at retail) of each item.

N SITUATION I we have no mark-downs at all. Let's see what the arithmetic shows:

			Cost	Sell	Cost %
Opening Inventory:	Item A		$ 70	$100	70%
	Item B		60	100	60%
		TOTAL	130	200	65%
Purchases:	Item A		210	300	
	Item B		120	200	
		TOTAL	330	500	66%
	Goods Available		460	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 by assumption we know that it is only $130.00. Thus we have overstated the cost by $1.40 or 1.1%.

There will always be an overstatement so long as there is a tendency, within each department, for lower mark-up merchandise to turn faster and higher mark-up merchandise to rn slower. To make our example turn out correctly the ending nventory 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 mark-up, would have to turn at an identical rate.

WHO SELLS TO THE MOBILE HOME OWNER?

When was the last time you saw a retailer aiming an ad at the mobile home owner? Come to think of it, when was the first time? Certainly this is one of the overlooked markets in the United States.

Let's look at this market. You may have noticed that mobile homes aren't too mobile – they stand on concrete pads and are hooked up to water, sewage, electricity and telephones. The old 10'-wide homes have been replaced by ones 12' and 24' wide – and the lengths run up to 60'. A "mobile" home that is 24' by 60' contains 1440 square feet – *or 50% larger than the size of a minimum FHA house!*

The table below shows a comparison between construction of single family dwelling units, mobile homes and travel trailers (a subject that we will deal with in the future).

YEAR	SINGLE FAMILY DWELLING UNITS	MOBILE HOMES	% MOBILE HOMES TO SINGLE FAMILY DWELLING UNITS	TRAVEL TRAILERS
1960	995,000	103,700	10.4%	40,300
1964	972,000	191,320	19.6%	90,360
1965	964,000	216,470	22.5%	107,580
1966	779,000	217,300	29.2%	122,700
1967	844,000	240,360	28.5%	130,420
1968	900,000	317,950	35.3%	158,300

Statisticians can do anything they want – so if we wanted to be a statistician we might conclude that if in 8 years (1960 to 1968) sales of mobile homes have climbed 25% on single family homes (from 10.4% to 35.3%) that in 21 years the sales of mobile homes will exceed the construction of single family dwelling units.

These mobile homes represent permanent customers. A recent study showed that they are moved, on the average, every 5.7 years compared with a move every 5.2 years for people in conventional housing. Units can run, in price, from under $5,000 to over $20,000.

There are an estimated 22,000 mobile home parks in the United States today (the number is growing rapidly). Some 12,406 of these are rated in Woodall's Mobile Home Park Directory – and these rated parks report 165,000 sites (1,271 parks) in Florida, 160,000 (2,058 parks) in California, 40,000 (475 parks) in Arizona and lesser numbers in the other states.

Mobile homes have special requirements – for furniture, for carpeting, for TV and appliances, for household items. I suspect that if you ask any of your buyers in these departments whether he had ever been in a mobile home he would tell you "No." With more than 600,000 people a year leaving conventional housing and moving into mobile homes one would suspect that retailers would start to cater to these people. The past history of conventional stores (which have shown great success in missing the boat on the automobile market, the do-it-yourself market, the major appliance market, and others) would lead one to believe that the first recognition of this market is likely to be by Sears, Penney's and the discount stores (the latter will merely find room to squeeze in one more concessionaire).

But even more important – since these people wear the same kind of pants and dresses and shoes – you just might check and see what kind of distribution your mail and/or hand-delivered advertising gets at the mobile home parks in your town – and what kind of coverage your newspaper gives you.

IN SITUATION II let us add one factor – the department had a special order that was drop-shipped from the factory to the customer. As a result of the direct shipment, no inventory, and no risk on the sale, the merchandise was sold at a 25% mark-up. Now we have the following situation:

		Cost	Retail	Cost %
Opening Inventory:	Same	$130	$200	65%
Purchases:	Item A	210	300	
	Item B	120	200	
	Special Order	150	200	
	TOTAL	480	700	68.6%
	Goods Available	610	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 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. (NOTE: There is no way we can avoid the $1.40 from Situation I.)

IN SITUATION III our Buyer really does his job as a buyer. He bought out the remaining stock of one of his regular sources, marked the merchandise at a 20% mark-up, sold all of it in one day (and based on his success the store had the greatest day in its history!). Now let's see what we did to our inventory valuation.

		Cost	Sell	Cost %
Opening Inventory:	Same	$130	$200	65%
Purchases:	Item A	210	300	
	Item B	120	200	
	Special Order	150	200	
	In-and-Out Promotion	80	100	
	Total	560	800	70%
	Goods Available	690	1000	69%
	LESS: Sales		-800	
Ending Inventory:	@ Sell		200	
	@ Cost	138		

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

Then we argue with the assessor that we ought to get a 5% allowance for obsolescence – and when the assessor agrees, we are happy because we are paying taxes on *only 1% more* than the original cost of the inventory!

So let's recap what has been shown here:

True Cost of Inventory	$130.00
Situation I Value	131.40
Situation II Value	135.60
Situation III Value	138.00

Now let's see what happens as the years go by. Let's assume for a moment that we considered Situation III a great performance and so we repeat during the following year.

		Cost	Sell	Cost
Opening Inventory:	From Prior Year	$138	$200	69%
Purchases:	Same as Prior Year	560	800	70%
	Goods Available	698	1000	69.8%
	LESS: Sales		-800	
Ending Inventory:	@ Sell		200	
	@ Cost	139.60		

The miracle has worked again – we have inflated our cost value by another 1.2% – and we are now overstating our $130 inventory by $9.60 or 7.4%!

In the example above, as in most cases, there is a leveling-off point. In Situation III the cost value of the inventory will ultimately approach 70% of the retail value (as the cost-sell ratio in the ending inventory approaches – but can never quite reach – the cost percentage of the purchases). At a $140 valuation of a $130 inventory we are overstating inventory by 7.7%.

If Sears, for example, is overstating their $5 billion inventory by 7.7%, it is a matter of $385,000,000! At some time they have over-reported their pre-tax profits by that amount. But since certified public accountants, financial analysts, internal revenue agents, insurance underwriters, and even general managers ar controllers are not aware of this, perhaps RT should let th matter rest and allow everyone to go on believing that cost a determined under the retail method is a good measure of true cost.

THE CONSUMER WATCHES

More and more newspapers are developing special columns for dealing with the problems that their readers cannot solve. The newspaper acts as an advocate for their reader – and then reports the results in a special column. It is always amazing to find such a large number of complaints against retailers – and the apparent lack of concern (in some cases an intentional disregard) on the part of the retailer.

Sylvia Porter, some months ago, devoted an entire column to her problems with Abercrombie and Fitch on their billing procedure.

I recently read the article in Glamour on "How to Complain and get Results." This was a handbook on what to do when you, Mrs. Consumer, enter into battle with business. There are separate schemes for dealing with the big department store and the little dry cleaner and the monopolistic public utility. If this keeps up, these "how-to-do-it kits" will prove to be more damaging to stores than the ones put out by anarchists on how to make fire and stink bombs.

And then there are the consumer organizations. Consumers Union and Consumers Research document case after case each month. If you thought you made a great point at a trade convention ai were gratified with the coverage given you by your trade public tions, then take a look at an excerpted section included b Consumers Union under the title "Quotes without Comments." No comments are necessary; the leaders of industry succeed in making the retailers in that industry look like a bunch of shysters to the CU reader.

CREDIT OFFICE RATING

At the request of several readers we are now showing the headquarters city of all stores listed. *We would like more reporters* – please write if you are interested in reporting on your own bills as received by you.

For the two-month period, the following stores were on the Honor Roll:

Masters (NYC)	2.0	Brown-Mahin (Stockton)	4.0
Rhodes (Oakland)	3.0	Bullock & Jones (SF)	4.0
Ross Dept. Store (San Bruno)	3.9	Holman's (Monterey)	4.6
J. Magnin (SF)	4.0		

On an overall basis – and despite the high cost of borrowed money – statements are getting out slower. For the past 6 months the composite performance has been approximately 1 working day slower – increasing from the 7(plus or minus) range to the 8 (plus or minus) range.

CREDIT OFFICE RATING

STORE	AUG.-SEPT. 1969 NO. OF REPORTS	AUG.-SEPT. 1969 DAYS TO BILL AVERAGE	AUG.-SEPT. 1969 DAYS TO BILL RANGE	JULY 1969 NO. OF REPORTS	JULY 1969 DAYS TO BILL AVERAGE	JULY 1969 DAYS TO BILL RANGE
Abercrombie & Fitch (S.F.)	2	8.5	8-9	1	11.0	11
Abraham & Straus (NYC)	1	14.0	14	1	8.0	8
Brown-Mahin (Stockton)	4	4.0	5-11	2	13.0	10-16
Bullock & Jones (S.F.)	1	4.0	4	--	--	--
Capwell's (Oakland)	8	8.6	6-13	2	14.5	13-16
City of Paris (S.F.)	5	8.2	6-10	4	10.0	7-13
Emporium (S.F.)	2	11.5	11-12	3	15.0	15-17
G.E.T. (S.F.)	1	6.0	6	--	--	--
Gertz Dept. Store (NYC)	2	5.5	5-6	1	11.0	11
Gump's (S.F.)	1	11.0	11	--	--	--
Hink's (Berkeley)	2	8.0	7-9	1	9.0	9
Holman's (Monterey)	12	4.6	3-9	5	3.6	3-4
S. Klein (NYC)	2	9.5	8-11	--	--	--
Levy Bros. (San Mateo)	32	10.4	7-14	16	7.9	5-12
H. Liebes (S.F.)	1	11.0	11	--	--	--
Livingston Bros. (S.F.)	2	18.5	18-19	1	13.0	13
Macy's (S.F.)	5	7.4	5-9	3	6.7	6-7
I. Magnin (S.F.)	8	5.9	4-10	2	5.0	5
J. Magnin (S.F.)	1	4.0	4	--	--	--
Masters (Discount,NYC)	1	2.0	2	--	--	--
Montgomery Ward (Oakland)	2	7.0	6-8	1	8.0	8
Penney's (Oakland)	2	7.0	7	1	11.0	11
Rhodes (Oakland)	2	3.0	3	--	--	--
Ross Dept. Store (San Bruno)	7	3.9	2-5	4	4.5	3-6
Saks Fifth Avenue (S.F.)	1	12.0	12	1	8.0	8
Sears (S.F.)	3	5.3	5-6	2	5.5	5-6
Simon's (Oakland)	2	6.0	6	1	12.0	12
Smiths (Oakland)	1	10.0	10	--	--	--
United Factors (Oakland)	2	11.0	11	--	--	--
Wallach's (NYC)	2	5.5	5-6	1	7.0	7
Wineman's (LA)	4	7.3	6-8	4	6.3	5-7
TOTAL	112	7.95	2-19	57	8.2	3-17

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

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

HOW IS TIME COMPUTED? We do NOTcount the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the reponderance of stores.

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

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

BALANCE AT RISK

In August the collection situation deteriorated after several months of improvement. 5 out of 7 stores reported higher amounts at risk than in August 1968. In September the situation completely reversed itself with 5 out of 6 reporting stores showing lower balances at risk. It is too early to determine whether any of this fluctuation is related to implementation of Truth-in-Lending.

BALANCE AT RISK

	A(1)			B(3)			C(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	5.5	4.8	6.1	11.3	12.4	8.9	5.2	6.2	4.9
Feb.	5.6	4.8	4.5	11.1	13.1	9.4	8.0	6.5	6.3
Mar.	5.3	4.6	5.4	10.6	13.2	8.7	6.0	6.5	4.3
Apr.	4.2	3.3	5.1	8.9	10.5	8.4	5.9	5.2	5.4
May	3.6	3.6	5.0	8.4	9.4	8.3	7.3	5.5	5.8
June	3.8	4.9	4.9	8.9	9.2	8.0	6.5	5.0	5.3
July	4.2	5.7	3.9	9.1	8.7	8.5	6.8	4.9	--
Aug.	4.5	6.0	4.0	9.5	8.7	9.0	7.0	5.7	7.4
Sept.	4.3	6.4	3.5	9.5	9.1	9.4	5.7	5.8	--
Oct.	4.4	5.8		12.1	9.0		6.2	6.8	
Nov.	3.8	4.7		13.4	8.6		5.7	4.5	
Dec.	4.3	4.9		13.2	8.1		5.6	4.5	

	E(1)			F(2)			G(3)		
MONTH	1967	1968	1969	1967	1968	1969	1967	1968	1969
Jan.	7.8	4.2	4.6	8.9	6.4		6.7	7.1	7.9
Feb.	6.0	5.1	4.6	8.3	7.0		7.6	6.9	7.2
Mar.	6.8	5.0	5.7	8.9	6.7		6.6	5.7	6.6
Apr.	7.2	5.4	3.7	8.3	7.1		5.9	6.0	7.1
May	4.3	5.4	4.2	8.7	5.5		4.1	5.3	7.0
June	4.1	6.4	3.9	7.9	4.8		5.2	4.4	6.4
July	4.9	5.6	4.3	8.7	7.6		6.6	5.5	6.5
Aug.	4.6	5.8	2.8	6.1	6.5		5.1	5.8	6.1
Sept.	4.3	6.3	3.2	5.4	7.7		5.5	6.0	4.7
Oct.	4.1	5.6		5.9	7.5		5.4	N.A.	
Nov.	6.1	5.2		6.0	5.5		4.2	5.3	
Dec.	6.1	5.4		4.4	4.7		4.2	4.7	

	H(1)			I(1)		
MONTH	1967	1968	1969	1967	1968	1969
Jan.	13.7	13.7	10.5	4.2	2.1	2.3
Feb.	11.7	8.6	5.9	5.4	3.6	2.5
Mar.	11.8	8.8	8.9	4.7	3.9	2.9
Apr.	11.0	8.7	8.8	4.6	3.1	2.7
May	12.4	11.2	8.6	4.2	3.0	3.0
June	11.6	10.6	8.9	4.7	3.1	3.4
July	10.9	10.2	9.8	4.7	3.2	3.8
Aug.	14.3	8.9	10.1	4.3	3.4	3.6
Sept.	14.4	10.7	7.8	3.7	4.1	4.0
Oct.	15.6	7.0		4.0	3.6	
Nov.	13.2	7.6		3.2	3.2	
Dec.	11.9	7.8		2.4	2.7	

NOTES:

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

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

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

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

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

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

Local consumer organizations have formed State units and the State units have recently formed a national unit. The groups are becoming increasingly active. Their publications are improving.

The September 1969 CALIFORNIA CONSUMER (Vol. 8, No. 4) contains the following article on "Report on Truth-in-Lending":

"Related to above is result of random sample ACC (Associated California Consumers) did mid-July asking members to collect and mail in credit application forms in neighborhood banks, department stores, etc. Of 51 applications submitted, 16 were in apparent violation of disclosure of annual percentage rate terms.

"Forms turned over to the FTC who has responsibility for enforcement of stores and about 80% of credit purveyors under the Act. And exactly two attorneys to cover all of Northern California and Nevada are responsible for watchdogging all forms, advertisement, etc. You can help and continue to send us forms that appear to be in violation. Incidentally, some of the very large retailers were in the noncompliance group."

HAVE YOU EVER BEEN ARRESTED? PART II

In the October RT, the point was made that employers who ask, on their employment application: "Have you ever been arrested?" are really destroying the American concept of justice – innocent until proven guilty – by creating an implication of guilt without evidence. RT suggested that you review your forms – and determine whether a change should be made.

Here are three sample wordings that you might consider – each taken from a large employer.

The United States Civil Service Commission on their Personal Qualifications Statement (Standard Form 171 July 1968) asks the following questions:

29. Have you ever been convicted of an offense against the law or forfeited collateral, or are you now under charges for any offense against the law? (You may omit: (1) traffic violations for which you paid a fine of $30.00 or less; and (2) any offense committed before your 21st birthday which was finally adjudicated in a juvenile court or under a Youth Offender law.)

30. While in the military service were you ever convicted by general court-martial?

The California State Personnel Board in their Application for Examination (Form 678 (2-68) asks the following question:

9. A. Have you ever been convicted by any court for any offense? Yes ...... No ......

You may omit:

1. Traffic violation for which the fine imposed was $30 or less.

2. Any offense committed prior to your 21st birthday which was finally adjudicated in a Juvenile Court or under a Youth Offender Law.

3. Any incident that has been sealed under Welfare and Institutions Code Section 781 or Penal Code Section 1203.45.

B. Has your driver's license ever been suspended or revoked? Yes ...... No ......

Finally, the Civil Service Commission of the City and County of San Francisco on their Application for Examination (Form 1035, 11-66) asks:

14. Have you been convicted of any violation of the law (including court martial) within the past two years? Omit traffic violations where the fine was less than $30.00. If yes, list convictions of past two years.

That gives you the procedures of the administrations of two Republicans (President Nixon and Governor Reagan) and one Democrat (Mayor Alioto).

WHAT UNIONS DO BLACKS NOW BELONG TO?

The Equal Employment Opportunity Commission recently released a report on the black workers belonging in 1966 to "Referral Unions" – unions where there is a central hiring hall or where contracts or custom require the employer to first check with the union. The survey was made of some 3,700 locals with over 2,000,000 members (out of a total of 20,000,000 union members in the United States).

For all reporting locals, the black membership was 9.7% with building trade locals reporting a composite of 8.4% and others at 12.0%. But this is not the entire story.

In the Building trades, the Laborers Union had 30.5%, Plasterers 14.0%, Roofers 13.5% and Bricklayers 9.6% – but at the other end the Plumbers and Sheet Metal Workers had 0.2%, Elevator Constructors 0.4% and Electrical Workers 0.6%.

In other fields, the same spread existed. Building Service Employees had 28.4%, Office Employees 14.3%, Hotel and Restaurant Workers 12.9% and Distillery Workers 12.0% with the other end represented by Patternmakers 0.1%, Masters, Mates and Pilots 0.3%, Lithographers and Photo-engravers 1.3% and Seafarers 1.5%.

WHO HOLDS CREDIT CARDS?

The Brand Rating Index recently released a study (reported in the Sunset Newsletter) of credit card ownership *by men* broken down by geographic areas. As one would suspect, the pattern varies greatly; but in all cases credit card ownership is materially heavier in the West.

Remember that BankAmericard and Master Charge came charging out of the West; and that the West was the first of the heavy auto users – and thus heavy owners of gasoline credit cards. With this background, look at the figures:

TYPE OF CARD	WEST	NORTH CENTRAL	NORTHEAST	SOUTH
Gasoline	53.3%	37.0%	23.4%	30.0%
Department/Specialty Store	40.6	38.2	31.9	25.8
General Purpose (Bank)	26.5	10.4	10.6	12.3
Travel/Entertainment	13.4	7.2	8.7	7.8

The next time a Western store talks about bank credit card usage, travel credit card usage, or other facets of credit, keep in mind that the West is much more credit-oriented.

WHOSE CAR DO YOU LEASE?

I suspect that most major stores use Hertz or Avis credit cards – and they are pleased with the 20% discount that they receive. But perhaps the discount still leaves the billed price considerably above the market price.

Recently I made a trip to Los Angeles and because I knew I would be driving a considerable number of miles in a two-day period (it turned out to be 340) I checked a bit on the other companies that claimed a savings – and ended up using a car from Airways Rent-a-Car – rented on a flat daily basis plus gas (the car is turned over to me with a full tank and it is filled again when I return).

The table below shows a comparison of 5 companies (Hertz and Avis had the same rate schedule) and with a 20% discount on the Hertz and Avis rates – computed for 4 different size cars. Two days and 340 miles was assumed in all cases. In the case of Airways the gasoline mileage and gas price had to be estimated for the car size other than the one that I used – but the assumptions are realistic.

COMPANY	COMPACT	INTERMEDIATE	STANDARD SEDAN	CADILLAC OR CONTINENTAL
Airways	30.27	35.15	38.87*	55.57*
Val-Car	44.73	50.40	56.07*	87.99*
Dollar-A-Day	47.67	51.87	53.97	64.47*
Avis or Hertz-Regular	N.A.	70.14*	73.71*	102.06*
Avis or Hertz-Discount	N.A.	56.11*	58.97*	81.65*

*Rate includes air conditioning

As indicated, Airways charges a flat daily rate plus the cost of gasoline. Val-Car operates on a lower daily rate and a lower mileage rate. Dollar-A-Day starts at $1 plus 11 cents per mile for Volkswagens and works up ($4 plus 11 cents for compacts, etc.). Hertz and Avis tend to use the "matched" figures – $8 and 8 cents, $9 and 9 cents, etc.

WHY EMPORIUM-CAPWELL IS BUYING BROADWAY-HALE

There is an interesting bit of arithmetic, which I recently helped Fairchild Publications develop, that indicates why Emporium-Capwell (EC) is going to buy Broadway-Hale (BH) which already owns 50.3% of EC.

The Hale Family and Carter (HC) own about 1,500,000 (25%) of the present 6,000,000 shares of BH outstanding (and there are additional shares owned by the BH Employee Fund). Obviously, being in control of both corporations, it would be prudent to make the deal to their best advantage.

Let us round off some figures and in our computations assume that the Hale-Carter group owns 1,500,000 of the 6,000,000 shares of BH outstanding and that BH trades at $40 per share. Let us further assume that EC has 2,500,000 shares publicly held and trades at $30 per share.

On a straight market-value exchange, one could exchange 3/4 of a share of BH for 1 share of EC; or 1-1/3 share of EC for each share of BH. Under this arrangement nobody would get a premium. The HC holdings would represent 19% of the merged companies.

Unfortunately, it is going to be necessary to offer a premium. If BH buys EC and has to offer 1 share of BH for each share of EC, then there will be 8,500,000 shares outstanding (6,000,000 old BH plus 2,500,000 issue for EC) and the 1,500,000 shares held by the HC group would represent only 17½%.

On the other hand, if EC acquires BH and offers 1-2/3 shares of EC for each share of BH, then the 6,000,000 BH shares will become 10,000,000 shares of EC making the EC total outstanding 12,500,000 shares. The 1,500,000 held by the HC group would become 2,500,000 shares of EC and would now represent 20%.

If we assume that the market value of the two companies remains the same $315,000,000 (6,000,000 shares x $40 + 2,500,000 shares x $30), then a 2½% variation in the HC holdings would represent a difference of $7,875,000 in the market value – something worth working towards. It appears that there are more large block holders in BH (stock exchanged for Neiman-Marcus, Korrick's, Sunset House, etc.) than in EC and all the BH stockholders would benefit from this plan.

A CHECK LIST OF INTERNAL CONTROL PROCEDURES

Some months ago, one of RT's valued subscribers, Mr. Dean C. Cushing, Executive Vice President of Massachusetts Merchants, Inc., sent RT a copy of a check list prepared by Ro-Mar Service Systems, Inc. (20 Melrose St., Boston 02116). Although many of the 119 points may not fit larger stores, there are still enough to stimulate your own thinking. Here are a few in that category.

Are accounts reported as uncollectible investigated to determine whether the customer actually exists?

Is the person in charge of the stockroom denied access to the inventory records?

Are all employees required to take an annual vacation?

BLANK CREDIT CARDS

When the trade and public press recently reported that some blank credit cards were stolen from the Addressograph-Multigraph office in Sacramento, I am sure that many stores immediately checked the outside agencies that store their blank credit cards.

But what about the inside storage? My observations of stores leads me to believe that the control of blank credit cards is considerably below the level of control on blank checks – and in many cases the control of blank checks leaves a great deal to be desired. Further, a check can be used only once whereas a credit card can be used many times.

For some years RT has been urging retailers to start having their credit cards printed with a small serial number on the card so that exact serial number control can be maintained on unissued cards. Until this is done – and until blank credit cards are treated as high-value items – retailers are going to continue to be surprised by periodic high losses in this area.

mailed 12-27-69

RETAILING TODAY

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ROUTE TO	INITIAL

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A STUDY OF THE WORKING WIFE

What has been the trend in working wives? The Bureau of Census recently released a study (Current Population Reports, Series P-60 No. 64, Oct. 6, 1969, Government Printing Office, Washington, D.C. 20402, 70 cents) on this subject. As you might suspect, the percentage of wives in husband-wife families who are working has increased steadily over the years, as the figures below show:

YEAR	% OF WIVES IN HUSBAND-WIFE FAMILY IN PAID LABOR FORCE
1953	25.6%
1958	28.1%
1963	31.8%
1968	36.6%

In absolute numbers, the working wives increased from 9,150,000 in 1953 to 15,850,000 in 1968.

A working wife where the husband is employed full-time is more common, as one would suspect, among Negro families than white (54.9% vs 37.7%) but the number of white working wives is still high and has followed the growth pattern set forth above.

The percentage of wives working tends to decline as the husband's income rises, but we still find that when the husband makes from $15,000 to $24,999 that 31% of the wives have earnings (median $3,100) and when the husband has over $25,000 that 25% of the wives work (median $3,600). When the husband makes between $2,000 and $7,000, from 54% to 56% of the wives work. When the husband makes below $2,000, the percentage drops off slightly to the 45%-48% range.

It is not unexpected that the median earnings of the wife rises with the level of the husband's earnings.

The occupation of the husband doesn't have a direct bearing on whether or not the wife does *paid work.* When the husband is employed as a professional, technical or similar worker, 36% of the wives work compared with only 31% of the wives when the husband is a farm laborer or foreman and 22% of the wives when the husband is a farmer or farmer manager. The highest level – 46% – occurs if the husband is a clerical or service worker.

What does this mean to a retailer? It means that the "working wife" can come from almost any economic or social level. Almost 1,000,000 of the working wives have husbands who make over $15,000. Another 2,500,000 have husbands who make between $10,000 and $15,000. The percentage of wives who are working is increasing – and as families get smaller and the birth rate declines we can anticipate that this will continue.

WHO TALKS BACK TO THE F.T.C.

The Federal Trade Commission has issued something that they call "Consumer Credit Policy Statement Number One." It has been duly printed and distributed. Every trade association, every credit group has distributed the statement. The Credit Management Division of NRMA says through the Editor of *Creditalk*, "I believe it imperative that each and every credit executive be fully cognizant of the contents . . ."

But nobody is challenging the F.T.C. on this statement which constitutes the grossest form of bureaucratic slaughter of the English language that has ever been perpetrated on American business. And the trade associations disseminate–rather than attack!

The philological authority of the F.T.C. seems to be derived from Alice in Wonderland and Humpty Dumpty – "When *I* use a word," Humpty Dumpty said, in rather a scornful tone, "it means just what I choose it to mean–neither more nor less." "The question is," said Alice, "whether you *can* make words mean so many different things." "The question is," said Humpty Dumpty, "which is the master–that's all."

The F.T.C. has decreed that the terms "easy credit," "easy credit terms," "liberal terms," "easy pay plan" and others mean, of all things, that "Consumer credit is extended without determining the debtor's financial ability to pay or his credit rating; or consumer credit is extended to persons whose ability to pay or credit rating is below typical standards of credit-worthiness." If the F.T.C. can find 1% of the American population who are literate enough to read the cited terms and who offer the definition given by the F.T.C., I will personally buy a steak dinner for each Commissioner and compliment each one on his astounding knowledge of the English language.

Fortunately for the United States, a new man will shortly become Chairman of the F.T.C., Caspar Weinberger, now Director of Finance for the State of California. He recognizes that the F.T.C. is one of the most incompetent, poorly administered independent agencies in our government–a fact that has recently been confirmed by several independent studies. Weinberger is charged with straightening it out–which apparently includes providing the Commissioners and the Staff with a course in "English–Words and Word Usage."

The unfortunate thing is that such "policy statements" are actually allowed to reach the public–it must embarrass the members of the Commission to have to display their ignorance of their native language. And to hasten the restructuring of the F.T.C. it might be well to express your views to Mr. Weinberger–until January 6th at the Director of Finance, State of California, Sacramento, California–and after that at the Federal Trade Commission, Washington, D.C.

THE CHANGING HOUSING PATTERN

The days of the dominance of the single-family dwelling the suburbs may be ending. An analysis of housing statistics back to 1910 shows a changing pattern of importance. During the 1910-1916 period single family homes represented from 61% to 65% of the housing units built each year. This proportion then rose to 82% in 1920 but by 1922 was back to 61% and stayed in the 56%-62% range until 1929.

With the depression in housing (the peak was reached in 1925), the percentage of single family homes increased–and this was stimulated by the development of the Federal Housing Act loans in the 1930's. By the start of World War II (1940) the percentage had risen to 84% and remained high during World War II.

After World War II the subdivision pattern continued this high figure–but by the late 1950's the decline had started.

During the "Sizzling Sixties" the percentage dropped every year–from 79% in 1960 to 55% for the first 9 months of 1969.

Although more and more multiple dwelling units are being erected in suburbia, the main impact of multiple dwelling units is to increase population density in central areas.

Our core cities are ripe for rebuilding. The mortgage-renewal-redevelopment programs are available. Local groups, in increasing numbers, are dedicated to bringing such programs about.

In some cities rapid transit is boosting the program to redevelop central areas.

It appears that we are about to enter a period similar to 1910-1930, the hey-day of central city development in the United States. And with it will come remodelled, enlarged–even new–downtown major stores. Plus all of the problems of catering to a heterogeneous population–even more mixed than the central areas have been for the past 10-15 years.

SOME DEFINITIONS

Letters to the Editor of *Administrative Managements,* contains the following: "If when a boy meets a girl, he tells her how lovely she looks and how much he loves her, that's sales promotion. If, instead, he impresses on her how wonderful he is, that's advertising. But if the girl seeks him out because she's heard from others how great he is, that's public relations."

This brought back to mind a comparison of store evaluations that I observed right after World War II. I spent a month or so in San Antonio waiting for my bride to finish work for her advanced degree. I was struck by the fact that people always said, "You can get anything you want at Joske's" (they had an airplane on the 4th floor when we went in to make a payment). When my bride got back to the Oakland area she asked other people where to shop for things–and so often people would say, "If you can't find it anyplace else, try Capwell's."

Both Joske's and Capwell's were the largest stores in their town–so what was the difference reflected by the two evaluations? Merely that Capwell's did only 1½ times the volume of the next largest store–while Joske's did more than 4 times the volume of the number two store.

THE EMPLOYMENT APPLICATION

I lost a bet with Bob Beason, editor of MECHANIX ILLUSTRATED, when he showed me that the Fawcett Publications employment application did not ask, "Have you ever been arrested?" They don't even ask, "Have you ever been convicted of a crime?" And they seem to get along fine.

But I was particularly impressed with the following statement which appeared right above the signature of the applicant:

ALL CANDIDATES FOR EMPLOYMENT:
PLEASE READ CAREFULLY

"Our company growth rate has required that we employ applicants who can not only perform well on their new assignment, but who also will do well with the larger responsibilities which company growth will provide. Consequently, we have made it a practice to carefully check applicants' backgrounds. This would include, for example, such items as dates of employment, present salary, salary progression, and reasons for leaving present and/or previous employers.

"In spite of any well-intended advice you may have received from friends, agency counsellors, or others to enhance the attractiveness of your background, the accuracy of all information placed upon our application is of utmost importance, as it is carefully investigated for all leading position candidates, and obviously apparent omissions, or misstatements of fact, would be cause for disqualification. We would be pleased to discuss with you our reasons for this care in selecting employees."

GIVING YOUNG PEOPLE A BREAK

RT October 1969 discussed "Who Is Responsible for Teen-age Jobs?" which concluded with the thought, "Don't forget–labor may have pushed for the minimum wage law and Congress may have passed it–but it was the businessman, and especially the retailer, who made the decision to eliminate the teen-ager's job."

One RT reader, Logan Fowler, who operates two junior department stores and a dress store replied, in effect, "Not me!" He sent me the detail of his payroll for the week of November 30th. Store No. 1 had 28 people–including 7 teen-agers. 1 black and 3 white were on the regular payroll while 3 black students were on special projects. Store No. 2 had 4 adults and 2 white teen-agers (the store is in an almost 100% white community) and in the dress shop there were 3 adults. Out of 37 people, there were 9 teen-agers of whom 4 were black.

A NEW PER DIEM IS DAWNING

Recently the Federal Government raised their maximum per diem from $16 to $25 per day. Under the provisions of IRS Regulation 1.274-5, employees are not required to provide detailed expense accounting if the per diem allowance (excluding travel costs) is the greater of $25 or 125% of the maximum authorized per diem paid by the Federal Government in the locality where travel is performed. 125% of $16 was $20–so the practical limit for years has been $25.

However, 125% of $25.00 is $31.25–which will not be accepted in areas like New York City without constituting income to the employee even if not supported by expense records.

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

FEATURE SUPPLEMENT:

THE ETHICS OF DATA ACCUMULATION

The history of retailing is the history of data accumulation. Every retailer has always wanted more information–more *current* information–more rapidly available information.

This has been particularly true when granting credit. The granting of credit to thousands, hundreds of thousands, even millions of people, by a single store has been a constant balancing of three factors: the desire for the business to be obtained through credit sales, the recognition that most Americans are honest, and the desire for more information hoping that this information will somehow help identify the small percentage of accounts that end up as bad debts.

Every credit grantor is interested in building credit files; many have gone so far as to cooperatively own their credit bureau so as to control the development of these files.

The storage and retrieval problems have, for many years, served as a limit on the availability of information. Negative reports became more important than positive reports. As years passed, as turnover of bureau personnel increased, as clerical work standards dropped, the traditional credit bureau faced mounting problems–but regardless of the data accumulation problems, the data transmission from the file to the requester of the information passed through a human brain and was exposed to an editing function.

But these problems of data accumulation merely stimulated the interest of credit bureaus in using the wonderful new tool–the computer and the fantastic memory capacity of the computer. Visionaries dreamed of the day when complete data, from birth to yesterday, was stored centrally on all of the people in the United States. Every subscribing credit grantor would have a terminal unit in his office with a big TV screen and keyboard. Once the individual's Social Security number was keyed into the system (at some later date to be replaced by a fingerprint impression), a complete file would appear on the screen.

Then the credit grantor would be able to see such data as "1952 cashed 3 cks tot $8.99 @ clge bk store, insuf fds; 1953 ticket 82mph in 65; 1955 dtd mrd secry to boss; 1958 late 2 car pymts; 1960 dischd union activities; 1961 NLRB forced rehire; 1967 grew beard; 1969 mrchd VNam Pc Prde."

The potential file of information was unlimited. With a great vacuum cleaner–really, optical data readers–the computer would suck up all available information. It would record every delinquent tax bill, law suit filed, arrest made, newspaper report, Department of Motor Vehicle file, Republican and Democratic voter registration, and on and on. In theory, the memory capacity of the computer would be a limiting factor–but the ingenious EDP industry has expanded memory capacity and cut the cost of storage faster than the data accumulators have been able to add to their files–so programs are now developed on the assumption that storage capacity is infinite.

The retailer would be swamped with information. As each year goes by, the data output in response to each credit background inquiry would become longer and longer, more and more detailed. As credit grantors today talk amongst themselves–they are developing formulae and equations for determining credit-worthiness (like 6 points for natural red hair, 5 points for natural blond, 2 points for bleached blond).

All this time the President of the store–the true policy maker–the only man who could change the course being taken–the President has gotten further and further away from the data file and its use. The reason for this is that he is caught on the horns of a dilemma.

He is pleased with the data availability. He believes it when his credit people tell him that they are granting more credit than ever and all of it at acceptable loss rates. But he also is thinking, "What does that computer have recorded *on me*? Does it know about the time 9 years ago that I took out that cute hosiery buyer? Could they find out I was late paying my income tax last April?"

So his dilemma is easy to expound: *am I more interested in making money through data accumulation or am I more concerned with the rights of people to have some privacy?* It is an age-old question–the conflict within the mind and soul of honorable men between what they know is right and what they will do to make money. Each man must make his own decision; there is no way anyone, including this writer, can make a decision for another person.

But the fact that the decision is a hard one does not give a retailer–particularly the retailer who is the operating head of a business–the right to duck the issue just because it can be ducked. The trade press barely raises the issue. No employee is going to go to the boss and say, "Is your conscience clear about the manner in which your payments to a credit data source subsidizes prying into individual secrets?" No employee will even think to ask the question–could you operate a successful business with a satisfactory rate of return on your investment by using more selective and less intimate information as the basis of granting credit?

Certainly there are many retailers who are violently opposed to the development of a *National* Data Bank – with its cross references between income taxes, parking tickets, and census data. They don't want the government to be building files on them; but they don't see the parallel of credit bureaus building files on little people.

Yet some major retailers–and many major banks–have been persuaded that our society (or is it our economy?) would be better off if they would just extract automatically, each month, all derogatory data from their credit files and transmit it to the credit bureau files–without going through an editing process at either end. If the credit bureau is willing to pay for the data–or compensate the supplier by preferential report rates–then it becomes an economic decision instead of a moral decision. The retailer can say, "I have an obligation to my stockholders."

Yet this same retailer, if approached by a credit bureau that was *not* serving his store, would respond to a request to provide such data by saying, "What sort of a person do you think I am? We treat our customer information in confidence!"

It is time for retailers to discuss morality.

It is time for America to discuss morality. A retailer is an American. A retailer is a leader. And a store principal has special obligations.

It may be helpful to learn what is happening in this field.

Congress has rebelled at the idea of a Data Bank. The newspapers have reported the rejection on the front pages. Press services have carried feature stories telling how a national data bank is possible within the present technology.

The retailer, who is proceeding full speed with his endorsement of *private*, unregulated, uncontrolled credit bureau data banks, feels relieved.

But then the retailer does not see the report of the talk of a government official–Mr. H. R. J. Grosch of the National Bureau of Standards, at the Fall Joint Computer Conference, where he said that the National Data Bank was inevitable and that its misuse was also inevitable. Mr. Grosch decried the deterioration of our society–and expounded what should be called the "Grosch Law" which states that, "It is possible for things to get continuously worse without limit."

The computer professional isn't concerned–it is just another assignment. The computer professional can disclaim any relationship between developing the system and using it; just as the developers of the atomic bomb could disclaim any responsibility for using it. Years after Hiroshima, many developers of the A-bomb had second thoughts—but those second thoughts could never change the reality of the A-bomb and H-bomb.

Some day computer programmers and computer system analysts may have second thoughts about creating the National Data Bank—but those second thoughts will never be able to change the reality of the National Data Bank.

And some day heads of retail credit grantors and major banks may have second thoughts about creating their private data banks—but those second thoughts will never be able to change the reality of the private data banks.

But what are other people saying? And what is happening on other fronts?

Most retailers don't read CAR AND DRIVER—and if they do, they probably don't read the editorial page. So let's quote a portion from November 1969. "There is the case of Louis J. Ostric, a Massachusetts lawyer who was denied a driver's license when he failed to comply with an order that he produce his Social Security number. Some of you will remember a similar case in New York when I (Note: Leon Mandel, editor) refused to provide a birth certificate, but Ostric's point is better taken and applies to all of you. He was willing to give any and all information the Department of Motor Vehicles required and take whatever test their bureaucratic minds could invent but, being a lawyer, he was vividly aware of what supposedly restricted information a Social Security number gives access to—tax files for example.

"And so he refused. And they refused. So now he's appealing and CAR AND DRIVER stands behind him offering whatever support we can give, because DMV files are not sacrosanct, they are sold to commercial list houses and all the information they contain is sold along with them. C/D does not, will not, agree that information which can only be gotten by law enforcement agencies on application to a court should be turned into commercial confetti."

Is a Social Security number on a driver's license one more step toward the private data bank that retailers are seeking?

Then there is the possibility of damages against credit grantors. Take the case of John Swarens who brought suit against the Ford Motor Company in Kentucky. John was making his payments according to his agreement. He had his checks as a record. But the computer wasn't given the information—and the incorrect computer records were used as the basis of repossessing John's car. John went into court and won an award of $7,000 against the Ford Motor Company.

Ford Motor Company, in a manner typical of computer-users, cried "Unfair" and asked for a new trial claiming that a computer mistake wasn't really worth $7,000. But the judge said something that all retailers should keep in mind, *"In this computerized age, the law must require that men in the use of computer data regard those whom they are dealing with as more important than a perforation on a computer card."*

This is not unusual. I lease a car from a company that was recently acquired by a larger firm. My contract calls for payments on the 10th of the month, and a delinquency charge if not paid by the 25th. After the merger I received a new, computer-prepared statement together with a note that their computer could only prepare statements on the basis of a 1st of the month due date and delinquent on the 15th. If my terms were different I should disregard the computer billings and pay in accordance with the original terms—which I did.

But the masterminds of computing went further in their programming. Automatic late charges were programmed—which didn't recognize the original contract. And then they programmed insulting messages on their statement. *Yet I have never been delinquent.* The most recent statement is dated November 28th and it does not reflect my payment mailed to the personal attention of the President and received by him on either November 23rd or 24th. But it bears this month's friendly message, "REMIT BALANCE IMMEDIATELY TO AVOID FURTHER COLLECTION ACTION AND HELP US TO PROTECT YOUR CREDIT RATING."

What is my concern? The same concern I have about every computer program in retailing—in which computer-prepared data is used for a variety of purposes. I keep asking myself—is it leasing company's computer automatically dumping data into central credit data bank? If it was a commercial bank the odds are that it would be dumping data computer-to-computer. Is that stupid credit data bank computer—the one with the big storage capacity and the small brain—assembling a record of late payments from the car leasing company?

How does that apply to retailers? Stores do have batches of mail that are received on time but processed a day late—and in the summary record of an account, 1 day late and 30 days late are listed exactly the same. Customers are charged for items that belong on someone else's account—and in the many months it often takes to get the account corrected the computer is reporting the account as delinquent—and dumping that data into a central credit data bank.

Perhaps you are an informed retailer. Your credit manager has urged you to use your influence against the bill of Senator Proxmire to control credit data files. His argument is that the Associated Credit Bureaus have already adopted standards regulating credit bureau policies. Forgetting the fact that many bureaus have already said they will not accept the policy and the policy cannot be enforced in any way, let's look at what the Associated Credit Bureaus feel is a fair policy.

Under the imposing title of "Consumers Right to Know" it states, *"The consumer* shall furnish full identification and *shall sign a statement granting immunity from legal action both to the credit bureau and to its sources of information.* The bureau shall then upon request disclose the content and the sources of information in its master file to such consumer." I would rather not sign such a statement—and instead be in the position of the woman who won a $600,000 judgment against a credit bureau that termed her a lesbian. The judge reduced the award to $250,000 but the credit bureau is still appealing.

On the matter of who has access to the files other than credit-granting agencies, the provision reads, "Any other information (Note: other than name, addresses, former addresses, places of employment and former places of employment) in the credit bureau file, *unless the investigation is for security purposes,* will be supplied only in response to legal process." But who decides what is a "security purpose"? Is information for a bonding company a "security purpose"?

The American Legion Magazine (December 1969) has a lengthy article on the "Problems with Credit Investigations." I am certain most major retailers don't see this magazine—and I saw it only because a friend, who knows my interest, sent the article to me. I am certain that any person connected with credit would say, "That couldn't happen to me or my company." But a lot of things have happened.

And the article provides some interesting quantitative measures. The Retail Credit Company of Atlanta has offices in 1800 cities, files on 45,000,000 people, makes 35,000,000 reports a year to 82,000 customers producing revenues of $150,000,000. Credit Data Corporation has files on 27,000,000 Americans and is adding a half million a year. Members of the Associated Credit Bureaus of America (some 2200 credit bureaus and 1900 collection agencies) provide 100,000,000 reports a year to 400,000 customers. An official of Credit Bureaus, Inc. of Salem, Oregon, which is computerizing 43 credit bureaus with funds provided by the Credit Bureau of Atlanta, is quoted as being opposed to giving people a copy of their files or sending notice when something adverse is entered.

A TIME FOR THOUGHT

The issue is here. If the retailers just refrain from doing anything the ultimate action will be a monster private data bank that must ultimately be misused. The attraction of such a file to the Mafia and similar criminal groups is obvious. And all of society—including the retailer—will pay the penalty ultimately. *Things can get continuously worse without limit.*

HOW SECURE ARE YOUR COMPUTER TAPES?

Many EDP systems rely on a grandfather, father and son magnetic tape sequence with at least one tape stored off premises. Fire protection and protection from stray electrical disturbances are often provided.

But the one protection that is usually overlooked is the protection from the EDP-trained disgruntled employee. Recently a group called Beaver 55 took credit for erasing 1,000 tapes at the Dow Chemical Co. computer center as a protest against the manufacture by Dow of napalm (since discontinued). They apparently entered the center sometime between the end of the second shift and the start of the first shift. No physical damage was done.

Now let's think about the employee with a big balance on his own account—who sneaks in and destroys the grandfather-father-son tapes. Does someone know your system well enough to know where the three tapes are located? Are there hours when someone could enter your computer center unobserved? How many dollars are involved in a single cycle? Does your accounts receivable insurance cover you?

SUGGESTIONS FOR THE PAYROLL STUFFER

RT continues its recommendations of publications that could be included with your payroll checks when they are distributed. The three listed below are available from the Government Printing Office, Washington 20402.

It appears that smokers lost an additional 77,000,000 work days above the absence rate of non-smokers, an additional 306,000 days of restrictive activity and an additional 300,000 deaths. All of which must outweigh the $3.5 billions of Federal, State and local taxes generated by tobacco and the $8 billion in agricultural revenues.

Smoking and Illness. 8 pages, revised 1969, 10 cents each, $6.75 per 100. Reference FS 2.2:Sm 7/7/69. Presents the highlights of a study which shows the relationship between cigarette smoking and illness – between cigarette smoking and chonic disease, acute disease, absenteeism from work because of illness, and days of restricted activity because of illness.

If You Must Smoke, 5 Ways to Reduce the Risks of Smoking, 8 pages, revised 1969, 10 cents each, $5.50 per 100. Reference FS 2.2:Sm 7/9/69. Lists some of the chronic diseases resulting from smoking and 5 positive steps to lower your intake of cigarette smoke.

Keeping Food Safe to Eat. 12 pages. 1969. 10 cents. Reference A 1.77:162. Gives information on storing, preparing, cooking, freezing, and canning food that will help safeguard against food infections and production of toxins that cause illness.

CHECK CASHING—POLICY AND REVENUE

I was interested in the sign at a cashier's office window in a local Sears store. The policy was simple—and the fees above that charged by many stores.

On the floor—equal to the purchase.

"Personal checks: $20.00 limit, 10 cents service charge, identification either driver's license or Sears Credit Card.

"Payroll checks: $250.00 limit, 2 good identifications, 25 cents service charge."

THE COMING NATIONAL NAMES

With the growth of major groups and the increased mobility of population, it is becoming apparent that national names such as Sears, Penney's and Wards (also K-Mart, Woolco, Parview-Gem and others) have the advantage of instant identification.

This was brought to mind by a recent trip to Seattle where Frederick and Nelson now includes "A division of Marshall Field" in all their windows and ads. Marshall Field recently purchased The Crescent in Spokane and I would suspect that someday soon all the stores may be known as Marshall Fields. Some years ago Allied's unit, The Bon Marche, changed the name of all the C. C. Anderson stores to Bon Marche to increase identity and patronage. Western Department Stores changed all their stores to Rhodes and their corporate name to Rhodes-Western.

I would not be surprised, at some point, to see major groups such as Federated, May Company, Dayton-Hudson and Allied try to develop national names. Many of our famous old names will disappear.

RETAILING TODAY always welcomes letters from readers – whether pummel or praise.

MORE MOBILE HOMES IN THE FUTURE

Last month RT dealt with the subject of the growing importance of mobile homes—the home conventional retailers are not prepared to serve. Since that issue we have received a nice note from an aggressive and perceptive buying office, Kline-Kinsler in Los Angeles saying, ". . . your observations with regards to Mobile Homes is most timely . . . and a ripple towards a wave of the future! Congratulations . . . on your usual awareness."

Trade releases indicate that the 1969 total of new mobile homes will go over 400,000—a 30% increase—and even more are expected in 1970.

This growth will be assured by the recent announcement by the Federal Home Loan Bank, The California Savings and Loan Commissioners, and others that savings and loan associations may now lend up to 5% of their total loans to individual mobile home owners. This will mean loans more like home mortgages than the present bank financing which is really like a long term auto loan. Many mobile homes are sold today on 5 to 8 year contracts; savings and loan associations will be able to offer 10 to 15 year terms, with proportionately lower monthly payments. When the impact of this new financing reaches the market, mobile home sales should spurt even more.

ADVERTISING TO THE BLACK MARKET

The November 1969 issue of *Ebony* shows the continued participation of a few major retailers and a few consumer goods brands.

Sears and General Motors each took 3 full pages, Ford took 2 and Zale's Jewelers took 1½. Chrysler, Avon, Zenith, Clairol, Kodak and General Electric (small appliances) took full pages. Flagg Bros. Shoes, Daniel Green Shoes, Jarman Shoes, Dobbs Hatts, Petrocelli Suits, Botany Suits and Mirro Aluminum all took ½ pages.

The names that are missing are really as interesting as the names that are included. Where are Wards, Penney's, the major discount stores, and many more?

"NOR LOSE THE COMMON TOUCH"

Kipling, in "If," wrote, "If you can talk with crowds and keep your virtue, or walk with Kings–nor lose the common touch." Yet so many stores "lose the common touch"–the close, friendly, intimate contact with their employees as their store grows larger. They lose this contact without ever making a decision to do so.

As stores grow it is important to have regular and direct communications with all employees–and this means an employee publication. The basis of a successful employee publication is (1) management commitment, (2) a devoted editor, and (3) regular publication. Note that the quality of the printing, the number of pictures, the number of pages have not been mentioned as factors.

To often employee publications fail because they are planned on too grandiose a scale–they can't be gotten out regularly.

One of my favorites–a publication that proves that simple but interesting material can succedd– is *The Winebarrel* published by Wineman's in Huntington Park (Los Angeles area–$2-5,000,000 volume range). In consists of two columns on each side of a single sheet of legal size mimeograph paper. I have been fortunate in being allowed to read it for some years. I feel I know many of the names mentioned in the paper–I share their vacations and know their children and grandchildren. But I also know who won the charge account drawing, what the major promotions are for the next two weeks, all about the second store recently acquired, and what the boss and his family are doing.

THE COMPENSATING BANK BALANCE EXCHANGE

Some months ago RT offered to act as an interchange of information on compensating bank balances as a guide for other stores in dealing with their bank. This offer continues.

The most recent report came from an old established family department store in the $5-10,000,000 volume range. A few years ago, when planning a branch, they arranged a long term loan with their bank. This was just before the first tight money market. When the bank raised the point of compensating balances the store refused to discuss the question stating, "We need all the money we are asking for and that if we did not want that much we would not be asking for it." This firm stand–plus their long relationship with the bank and their position of community leadership–resulted in a 10-year loan without any compensating balance requirement and at the same interest rate they were regularly enjoying.

F.T.C. RULES ON CO-OPERATIVE ADVERTISING

When the F.T.C. issued guides for advertising allowances, aimed at making them proportionately available to all competing retailers, many soft-goods trade associations objected strongly. The food industry also uses a great deal of cooperative advertising–and the report of the General Counsel of the National Association of Retail Grocers of the U.S. (NARGUS) says that a careful analysis of the guides does not support the conclusion that they compel the discontinuance or substantial reduction in co-op programs.

The analysis wisely concludes by saying that the test is not whether the guides block successful co-op programs, but whether such programs are an effective sales promotion device.

COUPONS

Coupons, good for price reductions on certain products, continue to be a key promotional device in the grocery and drug-sundry fields. According to A. C. Neilson, the number issued in 19[illegible] rose from 14.5 BILLION to 16.5 BILLION. That comes[illegible] approximately 80 coupons for every man, woman and child[illegible] the United States.

Coupons are accepted by stores at face falue, presumably only for the merchandise named on the coupon. The store then sends the coupon (whether printed separately or cut out of a newspaper) to the manufacturer (in some cases through his grocery wholesaler) and is reimbursed for the face amount of the coupon plus either 2 or 3 cents per coupon.

This has not been done in the soft goods field–but there is no reason why branded merchandise purchased with high frequency could not be promoted by coupons. In all probability this will come within the next few years–for items like women's hosiery, men's underwear, and socks. The program would be aimed at building regular usage–the coupon in the package good on the next purchase of the same item.

CONTROL OF BLANK CREDIT CARDS

It was recently reported that Diners Club was taken for $719,887.23 by an embossing machine repairman who made duplicate Diners Club Cards and sold them to the underworld. This can only happen because blank credit cards have no personality–no individuality.

The time has come when blank credit cards must be controlle[illegible] closely as blank checks. Blank credit cards should bear a se[illegible] number. Every serial number should be accounted for just as we account for bank check numbers, or control the number of impressions from a check-signing machine.

A PLAN FOR THE FUTURE

The following is the invocation given by Father Donald Connolly at the annual convention of the American Advertising Federation.

"It is a lucky thing for you, Heavenly Father, that you are here today. For your advertising techniques have been so mismanaged that people are saying you are dead–as a salesman. Your primary product, Lord, is not a bad one. It is called Love. But many of your reps don't know what to do with the product. Some have packaged it in prostitution; others have labelled it with their own brand of selfishness.

"We suggest that in re-thinking your marketing plans, Lord, you use us. We have had practical experience in showing people how to maintain self-respect by using personal products to beautify themselves; we have spot-announced the tastiness of food you have given mankind; and we have promoted the conveniences invented for health and comfort. We have even indicated by some of our advertising what social responsibilities are. Our 'gimmick' in producing your message will be to display a clear conscie[illegible] and a clean heart. We feel we can sell the customer this w[illegible] because–it is such a novel approach. Amen."

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

STARTS SEPT 1968

INDEX OF KEY ARTICLES IN RT

Month/Year	TITLE
Sept, 1969	How Should We Spend Our Advertising Money
Oct. 1969	Replies To How We Should Spend Our Advertising Money
	How to Attend Conventions
Feb. 1970	The Discount Store vx. The Department Store
	Controlling Payroll Expense
Apr. 1970	Annual Reports Study
May 1970	The Ethics of Collection Work
June 1970	Do You Remember 1929?
	Negotiating a Shopping Center Lease
July 1970	Annual Reports -- Revisited
	Needed: A better BBB
Aug 1970	What is Consumerism?
Sept. 1970	A Common Stock with No Tangible Value
Oct. 1970	Toward a Better BBB
	Ethics in the Finance Charge
	Why Use Retail Method for Tax Purposes
Nov. 1970	Job Application Forms, Arrest Records and Data Banks
Sept. 1970	The Lost Art of Ratio Analysis
Jan 1971	The Gentle Art of Stealing
	The Computer World -- Who Controls It
Jan 1971	F.W. Dohrmann Rules for Emporium Capwell
Feb 1971	The Rights of Consumers
Mar 1971	Growth Through the 70s (Population Trends)
	J. Edgar Hoover Reads RT
Apr 1971	How Will Legislation Affect Retailers in the 70s
May 1971	The Retailer, Minimum Wages and Society
	Annual Reports
June 1971	Annual Reports
July 1971	Why Not Declare War on Customers?
	Annual Reports
	A Solution to Teen-age Unemployment
Aug. 1971	How Will Legislation Affect Retailers in the 70s -- Continuer
Sept. 1971	The Ethics of Credit Collection
Oct. 1971	The Consumer is Defeated -- But Does Not Know It.
Nov. 1971	On the Privacy Front
Dec. 1971	The Outstanding Annual Report
	Big Business Leadership -- the Bad Practices
Jan. 1972	Productivity Increase? Not Much in Department Stores
	Price as an Indicator of Quality
Feb. 1972	The Disappearing Difference
Mar. 1972	Corporate Responsibility -- A View from the Top
Apr. 1972	Can't the Better Business Bureau Find Honest Firms?
	Financing the 1970s
May 1972	What Would Happen if Marriott Operated Stores?
	Usury and Equal Protection of the Law
	Fundamentals of Consumerism -- First You Tell The Truth

INDEX OF KEY ARTICLES IN BT

Month/Year	TITLE
June 1972	Measuring the Quality of Your Accounts Receivable
July 1972	Some Thoughts on Finance Charges
	Great Examples From the Better Business Bureau
Aug. 1972	Jumping Gross Profits
	Is Enthusiasm for Political Gift Loophole in Good Taste?
	The "Outstanding" Companies Represented on the BBB
Sept. 1972	The Absurdity of Point Scoring
	The Herd Instinct in Retailing
	The Explanation of High Price Earnings Ratios
	Why Require Non-flammable Fabrics for Children's Sleepwear
Oct. 1972	Balance Sheet Projections -- A Tool for Projecting Cash Needs
Nov. 1972	Everybody Talks About the Weather
	Shoplifting from the Associations
Dec. 1972	Attacking the Return Goods Bottleneck
	Jobs, Unemployment, Intelligence, Education, Welfare -- and Democracy

mailed 4-3-69

RETAILING TODAY

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

Dear Intelligent Retailer:

This is a plagiarized letter.*

Just fill in the blanks on the enclosed order envelope. Take advantage of the bargain price. Slip your check in the envelope. You will start receiving RETAILING TODAY at a fantastic bargain rate.

Your business will start increasing at 20%---30%---50%---100% a year.

This is the way professionals say a newsletter should be promoted.

When I converted my old Client Memo to RETAILING TODAY and placed it on a subscription basis, I expected every retailer, once he saw it, to subscribe immediately. In fact, I thought he wouldn't be able to wait to get more of the thought stimulators, the concise explanations of complex laws, the expense saving ideas.

But it hasn't happened that way. Our circulation is just above 200. I am just as disappointed with this as William F. Buckley, Jr.* is with 110,000 subscribers to his magazine after a dozen years.

I have sent out dozens of letters --- and am hitting about a 5% response. I only count responses accompanied by a check. I think you are perspicacious enough to be part of that 5% --- and gain the benefits of a thorough thought stimulation (you may even get angry) once a month.

All I ask is that you read the enclosed issue --- from page 1 to page 4. When you finish, ask yourself --- did I get 83-1/3¢ worth of new ideas and stimulated thought? Will our company benefit to the tune of $8.33 because I read this?

Then, having proven that you will get at least a 10 to 1 return on this investment, pass the enclosed envelope on to accounts payable with your authorization for a $10 check payable to RETAILING TODAY.

If you do, I promise to stop sending you letters like this --- and just send you RETAILING TODAY for the next 12 months --- and then a renewal bill for another year.

Sincerely,

Bob Kahn

Robert Kahn

*The entire approach for this letter was stolen from a letter by William F. Buckley, Jr. plugging subscriptions to his National Review.

RETAILING TODAY

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

To those infrequently seen or contacted:

I send my Season's Greetings.

It has been two years since I checked with you to determine whether you were finding my monthly publication of interest.

It has been 15 months since I changed the format, changed the name to RETAILING TODAY, and offered it on a subscription basis. (Incidentally, I am finishing my first year about 25% above the planned number of subscriptions). In that issue of September 1968 I said.......

"EVERYONE WHO IS RECEIVING THIS ISSUE WILL CONTINUE TO RECEIVE IT FREE."

This policy still goes -- but I did want to check to be sure that you still found it of interest and wished to continue to receive it. This will become important during the coming year when I contemplate application for second class mailing privileges and at that time must account to the Post Office on the basis of paid and non-paid circulation.

If you do wish to continue receiving RETAILING TODAY --- please jot your name below and return it to me in the enclosed envelope.

Sincerely,

Bob Kahn

Bob Kahn

Bob:

Please continue sending RT

Name____________________________

Company_________________________

Address_________________________

____

RETAILING TODAY

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

MEMO TO: Robert Kahn

I accept your offer to simplify my CHRISTMAS SHOPPING.

Please send RETAILING TODAY for one year to each of the friends listed below -- I am certain they will appreciate the thought-provoking material.

And be sure to enclose a personal letter with the first issue telling them that I remembered them this Christmas.

I am enclosing my check for $10.00 for each subscription.

Your Name ______________________________
If you print or type your name, I won't misspell it.

Your Address ______________________________

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RETAILING TODAY

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

To a fellow admirer of Jack Moss and Key-Rec:

Mrs. Innis, the magic manager of the Systems-Ideas Department at Moss Key-Rec has sent your name as one who responded to the mention, in KEY-REC IDEAS #18, of my newsletter, RETAILING TODAY.

I am enclosing a copy of a recent issue. I hope you will find it interesting, stimulating, informative. I am certain that there will be times when you do not agree with some of the items --- but that is what starts interesting and friendly correspondence with subscribers.

RETAILING TODAY is a reflection of my background as the 4th generation of my family in retailing in the United States, with some 30 years of personal experience, the last 13 being as a business counselor primarily to retail firms.

I am looking forward to welcoming you as a subscriber and getting your reactions and comments.

Sincerely,

Robert Kahn

Robert Kahn C.M.C.