

DECEMBER 1986

- F - Let's Look at the Nature of Unemployment
(front and back)
- B - A Matter of Ethics
 - A - New Year's Resolutions -- Old Fashioned Style
- Everything is Back But the Bell
- Will Stores Have to Pay Customers in Order to
Sell Names of Their Accounts?
- Do Monthly Retail Sales Figures Mean Anything?
- How Small Stores Stay Alive
- By Their Cars Ye Shall Know Them
- What Retailer Will be Treated Like General
Motors?
- Emporium-Capwell's Built-In Finance Charge
Generator
- Praying for Gimbels Did Not Work
- Words - Could This Be Your Store? (Jim
Lavenson)

* * *

JANUARY 1987

- F - Your Name Is For Sale!
- F - Does A Study of the Rangers Explain Retail
Failures?
- B - Additional Information on Mervyn's
 - A - Why Draw Any Salary in 1987?
- How Many Does a House Hold?
- The Have vs. The Have Not - Retail Style
- The Great Recapitalization Game
- Financial Characteristics of High-Income
Families
- The State Attorneys General and Retailing
- Words - Worth Repeating (Jeffrey M. Rosen)

FEBRUARY 1987

- F - At Last! The Retailers Will be Consulted
- F - Fred Meyer Saw It Clearly
- B - The Ethical Retailer's Dictionary
 - A - Kahn is Careless with Numbers (Jan. RT)
- Insider Information - Everyday Variety
- What Retailers Do Not Know about the Christmas
Sales Pattern
- Those Who Seek to Make English Our Official
Language
- Retailers Do A Quarter To A Third Of Their
Annual Sales In November And December -- It
Says Here!
- Retail Humor
- Consumers Rate Pizza Restaurants Ahead of
Department Stores
- United Nations Standards on Consumer
Protection
- Words - Words of a Different Kind (Lamar Lee)

MARCH 1987

- F - How Much Does Employment Theft Cost?
(Front and Back)
- B - Mattress Ads
 - A - There Is One Thing Most Concepts Cannot Stand - Competition
 - "Let's Go Buy Some Catalogs"
 - The Hawthorne Studies
 - Where Is The Specialty Store Intensification?
 - How Accurate Are Surveys?
 - How Good Are Polygraph Tests?
 - Are You A Takeover Candidate?
 - Words - On Debt (Ironical Eulogy on Debt)

APRIL 1987

- F - The Editor Talks - And Travels
- F - Moving Inevitable to POS/EFT
- B - Welcoming Visitors
 - A - A True Story about Service
 - Retailers Among The Largest Private Companies in U.S.
 - Child Care And The Retailer
 - All Presidents Claim Credit for All New Jobs
 - Another Approach to Developing Mailing Lists
 - Information Is Not A Salvation
 - From Boardroom Reports
 - Who Do Food Manufacturers/Retailers Think They Fool?
 - Words - About Deregulation (Prof. F.C. Taylor)

MAY 1987

- F - Harvard Business School
- F - Macy's California Is Concentrating on Service
- B - Happiness

AUGUST 1987

- A - Diogenes - Where Are You When We Need You?
- The New H.O.T. Line
- How to Pick A Pollster
- Another Gouge by The Bankcard Industry
- Which Mutual Fund Is Best - Maximum Growth Or Small Companies?
- The Entrepreneur at Work
- What Do Your Customers Think about Rebates?
- Are Stock Prices As Crazy As They Seem?
- Reward And Punishment - At Tandy Corporation
- Words - With A Method (John Wesley)

Words - Words From a Potato Chip Bag

JUNE 1987

- F - A Word about The Post Exchanges (AAFES)
- F - The Impact of Bank Cards
- B - Is Our Society Mixed Up? (homeless)
 - A - Will You Do Your Part to Support "Just Say No to Drugs"?
 - Ever Wonder How to Give Away Surplus Inventory?
 - Emporium-Capwell Brings You a Wonderful 2-Days At Last The Federal Reserve Board Agrees With You
 - The Top Retailers - By Market Value
 - A Sad History of Cooperatives in The U.S.
 - What The State Attorney Generals Are Doing
 - Words - The Five "E's" of Entrepreneurship

JULY 1987

- F - Who They? (Gross National Product)
- F - How Dayton Hudson Got in Play
- B - Diogenes - You Can Stop Searching
 - A - Correction (SafeCard)
 - Why I Love "My Way"
 - Hawthorne Works of Western Electric Is Gone
 - When Is A Bad Debt Not A Loss?
 - For Those Who Think Price Is Everything - Skip This Item
 - Just Imagine! Consumers Do Not Like Complex Plans!!!
 - Small Business - Up or Down?
 - Banks Have Defined Bribery
 - Words - Words of A Prayer (fundamental truth)

AUGUST 1987

- F - Getting Around The Retail Method
- F - Three Kinds of Rich People
- B - You Should Never Buy or Sell Another Toshiba Product

- A - Price Is Not Everything
 - When Recycling Becomes A Habit
 - Will Bork Upset A Well-Balanced Court?
 - Last In, First Out, In Middle Management
 - Is The Future of Federated Department Stores in The Past?
 - Have You Sold Your HSN Stock?
 - 4day tire stores
 - Words - Words From a Potato Chip Bag

NOVEMBER 1987

- F - THING
 - The Have You Sold Your HSN Stock?
 - Was 4day tire stores
 - Words - Words From a Potato Chip Bag
 - Let Us Turn to The Question of The Deficit
 - Were Stock Prices Too High?
 - Was The Crash Caused by Programmed Trading?
 - What Happened Between August 25 and October 30?
 - Economic Information
 - What Will be The Impact on Retailing?

SEPTEMBER 1987

- F - Sales Per Square Foot
- F - The Missing Forum - On Accounting
- B - Does Macy's Tell Emporium-Capwell?
 - A - Is There Asbestos in Your Past?
 - Do Business Schools Produce Future Leaders of Industry?
 - Use of Bad Numbers by Inside Retailing
 - Disclosure of Stock Ownership of Directors
 - Is There An Implied "Must Operate" Clause in Your Leases?
 - Hangtown Catches Gillette for \$260,000
 - The Ultimate in Coupons
 - How Come Investment Bankers Overlook Retailing?
 - Counterfeit Diamonds May Not Be Your Best Friend
 - Catalogs to My Right, Catalogs to My Left, Catalogs...
 - Ideas from Annual Reports
 - Words - Words to Increase Your Happiness - with The World (James Whitcomb Riley)

OCTOBER 1987

- F - Another Side of Polygraphs (front and back)
- B - Integrity (Hechinger)
 - A - I Was Wrong (Comp-U-Card/CUC International)
 - Ford Sets Purchase of U.S. Leasing
 - Looking at Christmas Figures
 - People Are Good--I
 - People Are Good--II
 - Unwise (or Stronger Word) Credit Promotion
 - Found - An Honest Guarantee "Not to Be Under-sold"
 - Retailers on The Annual OTC 500
 - The Wheels Within Retailing
 - What's Needed in The NEW Retail Word
 - Words - Words From A Man - With Common Sense (Tom Paine)

NOVEMBER 1987

- F - THINGS NOT SAID ABOUT THE 1987 CRASH
 - The Importance of The Change in Margin Requirement
 - Was The Size of The National Debt The Cause of The Market Break?
 - Let Us Turn to The Question of The Deficit
 - Were Stock Prices Too High?
 - Was The Crash Caused by Programmed Trading?
 - What Happened Between August 25 and October 20?
 - Economic Information
 - What Will be The Impact on Retailing?

DECEMBER 1987

- F - How to Restore Integrity
- F - Is All Shortage Theft?
- B - A Matter of Resolutions
 - A - Oligopoly at Work
 - An Honest "We Will Not be Undersold"
Pledge
 - On The Polygraph Front
 - Cracking Down on Continuous Ads
 - Accountants' Report - Management Distorts
 - How Are Christmas Sales Going?
 - Words - Words About - Missing Ethics

JANUARY 1988

- F - Reaching Me By Telephone
- F - Abuse of Numbers - Industrywide
- B - Did You Know That February Is Black History Month?
 - A - I Still Think What Hechinger Did Was Right
 - Can Minnows Live With Whales?
 - It Makes One Wonder About GAAP -- And CPAs
 - Which Ad Appeals to You Most?
 - Who Can Learn Anything from New Zealand Retailers? (Small Store Special)
 - Are You Up on The FAX?
 - How Impersonal Can A Retailer Be?
 - Words - That Tell About Leaders

FEBRUARY 1988

- F - Another Questionable Price Protection Guarantee - RT Offers a Solution (Lechmere -- Integrity)
- F - Could We Have A Service Economy Without Increased Factory Productivity?
- B - Do You Have A Policy on AIDS? (Levi Strauss)
 - A - How Was 1987?
 - Consumers Union Says: 'Do As I Say, Not As I Do'
 - When Life and Income Tax Forms Were Simpler
 - Abuse of Numbers -- By Business Week
 - Let Their Words Be Recorded Forever
 - Heilig-Meyers Didn't Do It - And Promises Not To Do It Again
 - Your CPA May Ask You More Questions--Soon
 - Do Communists Face Problems Better Than Republicans/Democrats?
 - Words - On Why Customers Quit Your Store (from Furniture Forum)



RETAILING TODAY

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 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
 \$36 per year
 \$48 overseas

ROUTE TO

JANUARY 1987

WHY DRAW ANY SALARY IN 1987?

Many RT readers have substantial outside income, yet they regularly receive their pay check from their company.

Outside income may or may not be controllable (if you are getting oil royalties, they come when the oil goes; partnership income is recognized at the partnership's year end, etc.).

It was the famous Appellate Justice Learned Hand who advised us that we are under a legal obligation not to evade taxes but have no obligation against avoiding taxes. And with the much higher top tax rate in 1987, as compared with 1986, I don't understand why, given the choice, income is taken, by habit, in 1987.

The top tax rate in 1987 is 38.5%; in 1988 and thereafter (until changed) only 28.0%. If you have a \$240,000 a year salary, you could save \$25,200 by taking all of your 1987 salary in January 1988. If your net, after taxes, would be about \$15,000, then you could borrow the \$15,000 each month (perhaps against your house; and if the amount did not put the total debt against the house above the cost basis, the interest would be deductible interest) and pay 9½% (prime plus 2%—but you are really much more credit worthy than that). If you borrowed the first of each month the interest cost would be about \$9,300. That looks like a savings of \$15,900 even if the \$9,300 interest is not tax deductible.

RTThought: As all of us do with new tax ideas, I must say: "Check this with your accountant and legal counsel."

HOW MANY DOES A HOUSE HOLD?

The Bureau of Census reports two sets of figures: Average population per *household* and average population per *family*. They recognize three types of families: Husband-wife, female householder, and male householder. Households include all families *plus* those where people are not related or a person is living alone.

We are all aware of the drop in the average size of the household, but we are less aware of the breakdowns within the figures.

Look first at families (only 72% of the households in 1986 against 82% in 1970). The average number of people over 18 in a family has fluctuated very little during the years 1960 to 1986. The high was 2.27 and the low 2.23. Thus, the variation in persons 18 and over has not been significant. The number of family members under 18 peaked at 1.44 in 1964 and 1965 and dropped to .98 in 1985 and 1986. The average people per family living together was 3.76 in 1950, 3.54 in 1956 but

VOL. 22, NO. 1

ADDITIONAL INFORMATION ON MERVYN'S

In the December 1986 issue in this box, headed "A Matter of Ethics," I was critical of Mervyn's program of sending to their inactive accounts (estimated at 3,000,000 out of 6,000,000 based on the Nilson Report) a coupon good for 15% on any single purchase, regardless of amount. The same offer was *not* made to the 3,000,000 active accounts.

I have been advised that Mervyn's twice, on November 24 and December 8, had in their weekly tabloid, a full page of six coupons, each good for 15% off any *single* item.

Mervyn's feels that this was notice to their active charge customers because they say that all customers get the tab and, further, it made the offer available to the cash customers on an equal basis.

RTThought: The November 24 coupons were on the cover; the December 8 coupons were on page 3 (also a prominent position). However, the coupons were each limited to a single item over a three-day period; the coupon to the inactive charge customers was unlimited in the number of items that could be purchased. It was printed on a statement dated November 20 and was good through December 24. But, most important, there was a high probability of opening a mailing that looked like a statement from a store to which the addressee knew nothing was owed, thus the probability of the addressee knowing of the offer was much higher than through the tab. It should be noted in favor of the tab being seen, that Mervyn's tab goes in a Monday newspaper and usually is by itself rather than being lost among five to ten other tabs on a Sunday or Thursday.

Loyal as Mervyn's customers are, I don't think they consider it an obligation to read the tab each week; they consider it a much higher obligation to open a statement envelope addressed to them.

RTThought: The idea of special offers only to inactive accounts is one that arises often. RT would welcome the thoughts of readers, either for or not for publication (and if published, either with or without identification). Just doing something because someone else did it does not make an act ethically correct.

peaked again at 3.70 in 1961, 1964 and 1965. It has dropped to 3.21 in 1986.

The figure for households, *which includes the families* as well as households of unrelated people, has shown a much more drastic change. The number under 18 has dropped from the 1.21-1.23 range for 1960-1965 to .71 in 1986, while those 18

and over dropped from the 2.12-2.10 range in 1960-1964 to the 1.96-1.97 range in 1979-1986.

Looking at the man-woman households whether married or not, in 1970 unmarried couples were 1.16% of the total; this increased to 3.10% in 1980 and 4.11 in 1986. At the present rate, the figure should reach 5% in 1990 and 6.5-7.0% by 2000.

The average age at marriage is moving back to the level of the late 19th century. In 1986 men were a bit below their age in 1890; women substantially above.

Year	Men	Women
1986	25.7	23.1
1980	24.7	22.0
1970	23.2	20.8
1960	22.8	20.3
1950	22.8	20.3
1940	24.3	21.5
1930	24.3	21.3
1920	24.6	21.2
1910	25.1	21.6
1900	25.9	21.9
1890	26.1	22.0

RThought: There is a lot of talk about the decline of the nuclear family (I never understood the term) consisting of a man, a woman and two children. The number of people 18 and over in families has remained remarkably constant. Today all may be working instead of just one. The number under 18 has declined dramatically.

In the case of households not included as families there has been some drop in people over 18 but the drop has been much greater in the people under 18.

THE HAVE vs. THE HAVE NOT—RETAIL STYLE

Do-It-Yourself Retailing (Oct. 86) reported on the keynote address of John W. Hechinger, Jr., President of Hechinger's, at Hardware Industry Week (his address was titled "The New Success Criteria"):

Hechinger also expressed concern about "overstoring" in the do-it-yourself retail market. He said, "More is not better," and added that danger exists in having too many stores and too much retail footage in a given market.

He called for sanity in the marketplace to come from a more studied approach to evaluating retail markets.

RThought: Hechinger's is one of the most rapidly expanding DIY retailers. Once a Washington D.C., Maryland and Virginia retailer, it has expanded into New York, North Carolina, South Carolina, Pennsylvania, and Ohio. In January 1982, it had 31 stores; in January 1986, it had 54. Its November 1, 1986, quarterly report showed it had 59 stores open and five under construction.

Who is John Hechinger, Jr., to talk about "overstoring" when Hechinger's is a major part of any problem that may exist? Does he feel that somehow the stores Hechinger's opens do not impact stores that were there before Hechinger's? Or does only Hechinger's have the wonderful touch of being able to properly evaluate retail markets? Next time the American Hardware Manufacturers Association should get as a speaker a retailer who is properly serv-

ing a community that Hechinger's moved in to. Have him talk on the economic waste of predatory expansion by public companies with access to capital not available to independent operators.

THE GREAT RECAPITALIZATION GAME

Write off \$100 billion—call it "recapitalization" or "redeployment of assets." Explain that the XYZ Division, purchased for \$150 million over asset value, "no longer fits in with our plans."

I found an article I had put aside in 1982—Arthur Burck, a specialist in corporate mergers, acquisitions and reorganizations said, in the *Ideas & Trends* section of **Business Week** for December 6, 1982:

"Most acquisitions by corporate giants lay the groundwork for future job losses because of the eventual erosion of the acquired business."

He quoted William C. Norris' testimony before the Senate subcommittee on antitrust and monopoly: "If public concern for the social trauma of takeovers doesn't bring constraints, the increasing economic damage from unemployment certainly should. The most serious economic damage results from the destruction of job-creating resources. Technology innovation is the well-source of new jobs. Immediately after takeover, an innovation-stifling process sets in. The aggressor blankets the other with bureaucracy, layer upon layer. Proposals for new products languish. The result is the dispersal of the entrepreneurial team, the major job-creating resource."

RThought: Burck was right. Parent companies suffocate entrepreneurial subsidiaries, especially when older management in the parent resents the amount received by the entrepreneurs in the acquired company.

FINANCIAL CHARACTERISTICS OF HIGH-INCOME FAMILIES

Lately, there has been considerable information published about the unique characteristics of high-income families—and much of it has been too generalized.

High-income families have been described as those with incomes over \$50,000. Much of the information came from a study done by Robert B. Avery and Gregory E. Elliehausen and published in the March 1986 Federal Reserve Bulletin (for a copy, send \$2.50 to Federal Reserve System, Washington, D.C. 20551).

First, all of the figures used are based on 1983 data in 1983 dollars.

Second, this was the first study on this group (the top 1% of families ranked by income) and has some weaknesses that will be overcome in future studies (if such are made).

Third, and most important, the "over \$50,000 a year" grouping is not very homogeneous. The report groups people (with declining accuracy because each sample is smaller) into income groups of \$50-99,000; \$100-149,999; \$150-279,999; and \$280,000 and more.

Some of the differences are logical, others are surprising.

YOUR NAME IS FOR SALE!

What do you think your name is worth? I have studied **DM NEWS** where, if you or your family buy by mail or subscribe to a magazine, you are described in glowing terms.

Here is what your name is worth from different sources—you might rate yourself by averaging the price people get for your name:

\$1.00

Banana Republic
The Talbots

96 cents

Bullock & Jones

90 cents

L. L. Bean
Bennetton
Bloomingdales' By Mail
Carroll Reed
Damart
Country Life
J. Jill
Orvis
Nicole Summer
Sybernetics
Norm Thompson

85 cents

Brookstone Gifts
Comfortably Yours
Esprit
Gardner's Eden
Honeybee
Silk Paradise

80 cents

Bass Pro Shop
Bloomingdale's Charge Card
Brookstone Hard-to-Find
Tools
Company Store
Conran's
J. Crew
Deerskin Trading Post
INMAC
Jenifer House

Lands' End
My Child's Destiny (Note: in Chapter XI; income from list may pay off creditors, yet banks don't recognize a list as a valuable asset)
Serendipity

75 cents

Edmund Scientific
Giggletree
Just for Kids
Victoria's Secrets

70 cents

Career Guild
Chadwick's of Boston
Duncraft
Robert Edmunds
Godiva Chocoltier
Harrington's in Vermont
Hickory Farms of Ohio
Sir Thomas Lipton
Collection
Nasco's Country Select
New Republic
Plow & Hearth
Pride's Landing
Writewell Company

65 cents

Brookstone Tool
Century Family Products
Craft Basket
John Cook

60 cents

Abbey Press
Queensway

55 cents

Esprit Kids
Mothercare
Raleigh's

50 cents

Hit or Miss

Frederick of Hollywood
(among RT readers?)
Garfinckel's
Hammacher-Schlemmer
Herschner

Marshall Fields
Pepperidge Farms
Spiegel's
Starcresst of California
Sunset House
Williams-Sonoma

And then there are the magazines you take (no price shown because the price goes up as the selectivity increases—i.e., only incomes over \$50,000, Arizona only, etc.):

Architectual Record
Aviation Week
Business Week
Changing Times
Chemical Engineer
Chemical Week
Discover
Electrical World
Engineering News-Record
Fortune
Golf Illustrated
Health
The Homeowner
Human Events
LIFE

Money
Moneysworth (Sold subscriptions for practically nothing to get names to sell on lists)
MS
National Enquirer (not in the same category as Time-Life, etc.)
People
SAVVY
Sports Illustrated
Time
Venture
World Tennis
Working Woman

And, finally, there are hard-core lists—against almost anything:

Active Senior Citizens Working to Preserve Social Security and Medicare
Californians to Defeat Rose Bird
Howard Jarvis Tax Reduction Activists
Conservative donors broken down by:
Charitable
Conservative Political
Tax Issues
Social Issues
California Conservatives
\$25 plus donors
\$10 to \$24.99 donors

RTThought: We worry about privacy in the world today. We most often think in terms of "Big Brother" and central computers operated by the government, starting with the IRS records and then being merged with all the credit bureau data bases or those maintained by insurance companies in central medical records plus the relatively worthless criminal records maintained by the FBI (they record arrests but not dispositions—Attorney General Meese says that your name would not be on an arrest record if you were not guilty—and yet most arrests end in dismissals and not convictions).

But the biggest invasion of privacy—peddling the names and addresses of people—is done in the name of greed. The seller gets a few dollars of "miscellaneous income" for the bottom line of the P & L, and the buyer saves a lot of trouble as compared to building his own customer base.

Bloomingdale's, Altman's, Garfinckel's, The Talbots, Hammacher-Schlemmer, Norm Thompson, Esprit, Time, Life, Fortune—these are prestigious names. The public expects exemplary conduct. I don't think they show it by selling the names of customers who trust them to have high ethical standards.

Then there are the mail order companies for which no price is shown:

Altman's
S. A. Banks
Books Brothers
Crylane
Collins Street Bakery

Crate and Barrel
Drawing Board
Dunham
Figi's Fancy Fruit
Fingerhut

FEATURE REPORT

DOES A STUDY OF THE RANGERS EXPLAIN RETAIL FAILURES?

For those who do not know who the Rangers were, they were an elite combat force developed during World War II by the United States Army as a counterpart to the British Commandos. They undertook the tasks that Rambo pretends to do singlehandedly.

Typical assignments were to land behind the enemy lines before an invasion and at the proper time to destroy critical bridges or other facilities.

I was reading one of the Leavenworth Papers entitled "Rangers: Selected Combat Operations in World War II," by Dr. Michael J. King, done by the Combat Studies Institute of the U.S. Army Command and General Staff College at Fort Leavenworth, Kansas.

Of interest to a retail manager—or any manager—was an observation in the introduction:

Whether the Rangers gained success or not was strongly influenced by the quality of opposing forces. This quality was not so much the sum of the abilities of individual Rangers measured against the sum of enemy skills as it was the relative cohesion and morale of the forces engaged. Individual soldiers in a unit may be of superb quality, but if they lack organizational and moral cohesion, they will not fight to the best of their abilities. Significantly, the Ranger victories at Djebel el Ank, Porto Empedocle, and Catabantuan were won over enemies who had lost most of their tactical integrity.

When the Rangers lost cohesion, they, too, became less effective. The Rangers' loss of cohesion was less tactical than morale, however, and came about through the assignment of new men as replacements for casualties. These new men had not been with the Rangers when they were first activated, had not gone through training with the original Rangers, and were not as thoroughly integrated into the Rangers as those men who had been with them from the beginning. It is therefore not surprising that both the 5th Ranger Battalion's victory at Zerf, which was the costliest successful Ranger operation addressed in this paper, and the 1st and 3rd Ranger Battalions' defeat at Cisterna involved Ranger units that had recently suffered heavy loss of seasoned troops. That those losses were incurred in conventional infantry operations is a fact of single importance and one to which we shall return.

No less important than the Rangers' abilities and actions is the fact that none of the five operations were conducted in a tactical vacuum, and the Rangers' ultimate success depended upon the success of others. This was most clear at Djebel el Ank, Cisterna and Zerf. In each of these operations, the Rangers infiltrated enemy lines in advance and in support of a main attack, and their success depended upon the main attack linking up with them. The main attacks succeeded at Djebel el Ank and Zerf, operations in which the Rangers were successful. The main attack failed at Cisterna, and the Rangers were surrounded and destroyed as a fighting force.

A final factor, popular support, may be crucial when an operation is conducted in a populated area. While the approach of a conventional battle front may lead local citizens to flee, thus permitting operations to be conducted deep behind enemy lines or in a low-density conflict where front lines do not exist. The action at Catabanatuan, in which Rangers liberated American and Allied prisoners from a Japanese POW compound in a populated area behind enemy lines, was one such case. Friendly Filipinos conducted reconnaissance, surveillance, and security missions in support of the Rangers; chose the routes to and

from the objective; fought the Japanese in the objective area; provided transportation to friendly lines for the sick and wounded; and provided food and water for all. Had the local population been unfriendly toward the Americans, the mission would not have been feasible.

RThought: Think for a moment of several retail situations. First, the case of the acquired company. How many acquired companies have disappeared after the acquisition. Some that come to mind are Pic-a-Dilly (Lucky Stores), The Handyman (Edison Brothers), Mr. HOW Warehouse (Service Merchandise), Diamond Department Stores (Dayton Hudson), Rhodes Western (Amfac), The Cousins (RB Furniture)—mainly these stores were sold off as real estate.

And there were the start-ups that disappeared: Fedway (Federated Department Stores), Plums, the Elegant Discounter (Dayton Hudson), The Treasury (J. C. Penney), Woolco (F. W. Woolworth)—the list could go on.

In the case of the acquired companies, it often was a case of not being able to integrate the new and the old—the Ranger problem of the new arrivals not having trained together with the old hands. The parent management was not properly integrated—or vice versa.

Frequent changes of commanding officers did not help in the Rangers—nor does it help in retailing. In many department store companies, a CEO in a subsidiary group does not stay four years; the team of CEO and COO may not be together two years.

And what about success of a retail venture depending upon others accomplishing their mission? It is not only a case of others not failing in their mission but others not limiting the authority of the decision maker on the spot ("red tape"). Distribution does not get the goods out. Central buying does not respond to the needs (often the pleas) of the merchant in the store.

And the popular support is very important. Retailers, who have built a large balance in their "bank account of good will" in their community, often can survive for a relatively long time the lack of tactical and morale strength because its customers are forgiving.

RThought: But most of all, it is the integration of rookies and experienced hands that fail. Why do analysts talk of problems in Caldor—were the problems there when Carl Bennett was running it not too long ago? And what about the failing of the Handyman—would that have failed if it had remained a separate company with a shorter and faster decision-making process?

RThought: We believe our financial planners too much and our people handlers too little. There is no easy way for strangers to enter into a successful marriage based solely on a psychologist's analysis of two people; and there is no way to make one company out of two based on a financial analysis.

SHORT SHORTS

Why has FORBES grown faster than Business Week and Fortune? They merchandise! It was only from FORBES that I received a letter starting:

I don't know if you are one of the Forbes subscribers who have been qualified to save anything up to 50% on their subscriptions as a tax deductible expense, but if so, this

may well be the last year for it. The new tax legislation, as it stands now, puts an end to this itemized deduction.

They then suggest I subscribe now for an additional three years for \$84. They also mention the subscription rate will increase on January 1! **RThought:** The subscription rate increase is forced on them by the lower tax rate on corporations?

	(000's omitted)			
	\$50-99	\$100-149	\$150-279	\$280 and up
Interquartile age range	39-57	41-60	48-63	48-64
The interquartile range is the middle 50%. It is not unexpected that income rises with age or vice versa.				

	\$50-99	\$100-149	\$150-279	\$280 and up
Education				
0-12 grades	23%	16%	5%	4%
Some college	18	7	12	12

It is surprising that almost a quarter in the first group got no further than high school.

	\$50-99	\$100-149	\$150-279	\$280 and up
College degree	28%	32%	30%	36%
Graduate school	31	46	54	48

A mother will love this proof that her child should get more education. But don't forget that 16% of the families with over \$280,000 income in 1983 were headed by someone who did not complete college.

	\$50-99	\$100-149	\$150-279	\$280 and up
Occupation of Head of Family				
Craftsman or foreman	10%	2%	*	*

These may be two-wage-earner families. The * indicates less than 1/2 of 1%.

	\$50-99	\$100-149	\$150-279	\$280 and up
Not working	9%	12%	5%	11%

All of these figures are well below the figures for the general population where 31% of the family heads are not working.

	\$50-99	\$100-149	\$150-279	\$280 and up
Lawyer / Accountant	3%	14%	12%	12%
Health service professional	2	13	8	2

The income of doctors is limited—far more than that of lawyer/accountant.

	\$50-99	\$100-149	\$150-279	\$280 and up
Self-employed	17%	16%	25%	26%
Employed	39	26	29	17

These figures have to be interpreted. If you own your own company, you are "employed," although you may think of yourself as self-employed. Self-employed includes only those who operate as a sole proprietor or through a partnership.

	\$50-99	\$100-149	\$150-279	\$280 and up
Married	90%	90%	94%	90%
Neither working	4	7	2	10
One spouse working	29	44	54	49
Both spouses working	56	39	38	31

Here we have a picture of the new families. Even with a family income over \$280,000, in 31% of the families both spouses work. The percentage of families at all incomes with both spouses working is only 28%.

	\$50-99	\$100-149	\$150-279	\$280 and up
Source of Income				
More than half from earnings	85%	83%	84%	66%

With the change in the tax law and the limitations of the advantages of capital gains, it is likely that an even higher percentage will take more than half of their income in current earnings.

	\$50-99	\$100-149	\$150-279	\$280 and up
Source of Assets				
More than half from savings or earnings	94%	95%	91%	93%

Again, a mother will like these figures. They show the reward of saving and earning. They also show that inheritance is of less importance among the very rich. Even if inheritance may give one a start or a chance, saving and earning play a big part in the wealth of the households in the top 1% of income.

The study also analyzed the net worth of families. A few figures were surprising. In the \$50,000 and over income families, 13% had a net worth of less than \$50,000 and another 15% in the \$50-99,000 bracket. At the same time, 26% of the families with income of \$30-49,000 had a net worth of \$50-99,000.

There was a study of wealth made in 1962. Converting that study to 1983 dollars, we find that the percentage of families with a net worth above \$164,000 had increased from 6% to 14%, while those with zero or negative net worth had increased from 16% to 17%. This may support the conclusion that the middle class is disappearing although the sample is small. The conclusion is further reinforced by the drop in those with a net worth of \$1 to \$82,000 from 67% of the families to 56%.

The study asked about the willingness to take different levels of risk:

	\$50-99	\$100-149	\$150-279	\$280 and up
Substantial risk for substantial return	6%	8%	5%	10%
Above average risk for above average return	22	25	36	34
Average risk for average return	55	57	52	46
Take no risk	17	9	3	5

It also asked about liquidity—how long they would tie up their money.

	\$50-99	\$100-149	\$150-279	\$280 and up
Long term for substantial return	20%	30%	22%	26%
Intermediate for above average return	42	48	56	47
Not tie up money at all	5	3	2	2

It looks like we will continue to have a source of capital from the high-income families.

It also asked about the number of publicly traded stocks owned.

	\$50-99	\$100-149	\$150-279	\$280 and up
0	53%	39%	25%	10%
1	20	13	17	8
2-4	16	15	15	19
5-9	6	12	15	26
10-19	4	12	14	19
20 or more	2	10	15	18

And how often did they buy or sell a listed stock?

	\$50-99	\$100-149	\$150-279	\$280 and up
None in past year	77%	53%	48%	29%
1	5	5	6	4
2-4	11	15	16	18
5-9	4	9	9	16
10-19	1	10	10	18
20 or more	2	8	11	15
Have a brokerage account	28%	55%	59%	80%

RThought: From a retailer's view, I think we have to consider high-income families as over \$100,000. Then there is a real difference in the spending habits and background of the people. And that is a very small market—well under one-half of 1% of all families. All retailers cannot make a living off that small group of families.

Trading-up is easy and pleases the wife of the successful entrepreneur—but the real demand for service from retailers (and probably the biggest profit potential) is from the pressured middle class that is getting less of the income pie and is now willing to spend its money more wisely since its opportunities to make more money are declining.

When was the last time you heard a major retailer proclaim that his goal was getting more of the middle-income family dollars?

Sampling Error

This study was based on a relatively small sample—300 or fewer in each high-income group. The error at the 95% confidence level (the chances are 95 out of 100 that the true figure is within plus or minus the percentage points shown on the table below from the reported percentage) is:

If survey shows:

Respondents split	\$50-99,000	Other Groups
50%-50%	6.2%	10.5%
30 or 70%	5.7	9.6
20 or 80%	4.9	8.4
10 or 90%	3.7	6.3
5 or 95%	2.7	4.6

THE STATE ATTORNEYS GENERAL AND RETAILING

Automatic Dialing Machines: The Wisconsin Attorney General obtained a judgment against a company selling automated telephone dialing machines because the company represented that the machine could be used in Wisconsin. Wisconsin law makes it illegal to use such machines for the purpose of soliciting sales without the prior consent of each person being called (they may be used for bill collecting).

Tents: The Minnesota Attorney General forced Kellwood Company to recall tents that failed the Minnesota legal standard for flame resistancy. Further, the tents had labels claiming they met flammability standards. Made in the Far East, the tents were sold by K mart, Sears, United Stores and perhaps Target in Minnesota.

Misleading Comparisons: The Pennsylvania Attorney General said that The Dinette Set, Ltd., will pay a \$500 civil penalty and will cease advertising "regular selling price" that is higher than any price at which the store previously sold the item. Dinette Set promised (without admitting blame) not to

advertise "solid oak" when parts were press board and formica and to discontinue advertising "40 to 67% everyday savings."

Misrepresentation of Value: The FTC charged two companies and two individuals with misrepresenting the grade of rare coins. The ads claimed most coins were MS-65 (Mint State 65) when they were not. The firms also claimed that buyers could make a substantial profit in three to five years, but this was unlikely because the prices charged were substantially above the market price. **RThought:** One wonders why the FTC took on a case this narrow when there are so many misrepresentations of value affecting far more people. In the past, such cases have been prosecuted because someone in the FTC got burned. Some years ago, an effort was made to stop the FTC from doing this and also from bringing cases against the District of Columbia retailers for offenses that were totally disregarded in the balance of the United States. Do not forget the statement made years ago by Lord Acton that "Power tends to corrupt and absolute power corrupts absolutely." This is true in the FTC as much as in the National Security Council.

SHORT SHORTS

How many tabloids can/will I read? Sunday, December 28th: The following tabs were in my local paper: Alpha Beta (supermarket, subsidiary of American Stores), Long's Drugs, Sattlers (local TV, audio, appliance dealer), Montgomery Ward, J. C. Penney, Pay Less Drug (subsidiary of K mart), K mart and Emporium Capwell. **RThought:** It wasn't until I made the list that I realized that Macy's had skipped this week, probably a profitable decision.

The new broad-form noncompetition clause: Roy M. Speer, co-founder and Chairman, and Lowell W. Paxson, co-founder and President, of Home Shopping Network, "may not compete with the company for a period of five years, following termination of their employment *unless terminated by reason of death, long-term illness, disability or other incapacity.*" **RThought:** Would you really want to stop someone from competing with you after he died?

We have come a full circle in the application of the Equal Credit Opportunity Act. As originally applied, you could not ask for the applicant's race or national origin or age; now, under revised regulations effective October 1, 1986, every application for credit primarily for the purchase or refinancing of a personal residence must show race or national origin, sex, marital status and age **FOR THE PURPOSE OF ENFORCING COMPLIANCE WITH ECOA AND THE FAIR HOUSING ACT!**

WORDS—WORTH REPEATING

Jeffrey M. Rosen, Harvard 1986, summa cum laude, now a Marshall Scholar at Oxford, gave the Student Oration at the 350th Celebration, and many acclaimed it as an outstanding talk (perhaps because it was shorter than most).

He said this:

"If any one of us has had an ambition higher than that of making money, or a love purer than that of self, he has been slow to express it."

RThought: Are you inclined to agree? This is the problem of the generation of the 80s, you say? It may help to learn that this was the observation of Henry Adams as the commencement speaker—in 1858—some 128 years ago.



ED BURNETT CONSULTANTS, INC.

99 WEST SHEFFIELD AVENUE, ENGLEWOOD, N.J. 07631 (201) 871-1100 / WATS (800) 223-7777

February 5, 1987

AB
But w/ RS
~~1/87~~
in earlier

TO: Robert Kahn

FROM: Ed Burnett

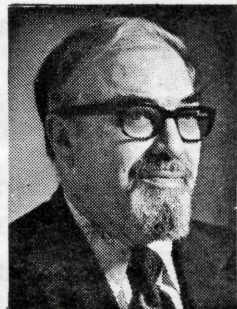
Robert, you can of course take issue with the concept of renting names for pelf. (We compile 13,000,000 records from classified telephone yellow pages which you probably will not cavil out) - but I think it would be well if you read DM News a bit more carefully. Rental prices for lists are quoted per 1,000 names. This \$100 per 1,000 results in a price tag of 10¢ per unit, not \$1 as you have printed. It turns out that missing a figure in this way produces a greivous error of 10 times. It is better obviously to miss by a few percent on the last digit than to move the decimal one place too many!

EB

Ed Burnett

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RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

VOL. 22, NO. 2

FEBRUARY 1987

KAHN IS CARELESS WITH NUMBERS

You are actually worth only 10% of what you thought you were if you followed the suggestion in the January RT and totalled the price per name obtained by some retailers for selling your name as part of their customer list.

Everything was all right until I reached odd numbers—like \$96 a thousand (9.6 cents a name)—and rewrote the numbers. Somewhere in my haste I forgot about decimal points. Obviously, the list like The Talbots or the Banana Republic, which go for \$100 a thousand names, is only 10 cents a name.

RThought: You may be deflated because you are worth less than you thought. I am red-faced and embarrassed for carelessness with numbers.

INSIDER INFORMATION—EVERYDAY VARIETY

I am sure all RT readers have followed with great interest the unfolding of the stories of insider trading where dishonest operators have made millions. Ivan Boesky was fined \$100 million (but had more than that left—all gained after he decided to make his bets sure-bets by buying inside information).

Those of you who head public companies probably feel certain that nothing like that is happening in your company. You are clean—none of your people would do anything dishonest with your inside information.

After assuring yourself that you do not deal in inside information, you quickly accept an invitation to address a group of financial analysts. You hope that you will impress them enough that they will put out a report on your firm—and perhaps suggest that people buy the stock.

Now you know that if you formed the habit of telling the analysts (who may not own any stock in your company) only that which you told your owners (your shareholders) directly or what you are required to disclose (Forms 10K and 10Q for the SEC), you would never be asked again to talk before them.

So what do you do?

You start dealing in insider information. And that's a crime.

But the way you do it is sort of like speeding—55 mph really isn't the speed limit—it is 65 mph because that is when police start arresting drivers.

I thought of this when I read a report on Lucky Stores which hopes it has successfully repelled an attack by Asher Edelman. The report started:

On (the date is not important), Lucky Stores' top management met with a small group of analysts . . . to provide ad-

THE ETHICAL RETAILER'S DICTIONARY

reg-u-lar adj., (ME *regular*, fr MF, fr LL *regularis regular*, fr L. of a bar, fr *regula rule*) 1: belonging to a religious order; 2 a: formed, built, arranged or ordered according to some established rule, law, principle, or type; b: (geometric definition—omitted); 3 a: ORDERLY, METHODICAL; b: recurring, attending to functioning at fixed or uniform intervals; 4 a: constituted, conducted, or done in conformity with established or prescribed uses, rules or discipline; b: NORMAL, STANDARD.

In retailing it means the price at which the specific article was offered to the public on a regular basis for a reasonably substantial period of time, in reasonable quantity, and may be used even if no sales were made but openly and actively offered and provided that it was done honestly and in good faith and not for the purpose of establishing a fictitious, higher price from which a deceptive comparison may be based.

(Offered with help from the Federal Trade Commission's "Guides Against Deceptive Pricing," Jan. 8, 1964.)

ditional insight into the company's highly publicized restructuring plans as well as the prospects for the ongoing food operations and the planned spinoff of the Hancock Textile Company, Inc.

I read a lot of retail press, and I didn't know that Lucky had the right to buy back 22 of the GEMCO stores sold to Dayton-Hudson if Lucky can get a higher price by March 31. I didn't know that Lucky figured it retained about a third of the GEMCO food volume when it could have been 20%. I didn't know that 510 of the 574 stores are scanner equipped. I didn't know how some of the GEMCO distribution centers would help the food stores. I didn't know that Lucky was negotiating a 7% wage roll back in exchange for a 2% participation in profits.

RThought: Certainly, you say, this is not dealing in insider information. Analysts, you say, have always been entitled to more information than shareholders. Everyone understands that. And they are entitled to spread the good news first to the customers of their company—even before reports are printed for a broader group of interested investors.

If it is good news, the price may go up, and the uninformed, simple shareholders should be happy; but conversely, if the news is bad and the favored customers get out before everyone knows the bad news, then the stockholders—who get the least news—also get the lowest price. One is reminded that stock prices reflect the market's forecast of the company and anyone buying stock should understand that risk.

RThought: I don't know a single company that gives as much

information and on such a timely basis to its shareholders—the owners—as it does to the analysts who can make money either way—investing before the market goes up and selling before the market goes down.

WHAT RETAILERS DO NOT KNOW ABOUT THE CHRISTMAS SALES PATTERN

*From The Wall Street Journal—1/9/87
by reporter Ann Hagedorn*

The last-minute buying spree by the nation's Christmas shoppers gave major retailers modest gains for December—their biggest month—with few unplanned markdowns.

Harold Sells, President of Woolworth—"The first 15 days of December were on the weak side, but the last 10 days pulled through with great force and sales continued strong between Christmas and New Year's."

Jeffrey Edelman, Drexel Burnham Lambert—"That one extra day did wonders for percentages."

Jeffrey Feiner of Merrill Lynch, Pierce, Fenner & Smith—"Aided by the strong last-minute sales rush as well as very tight control over inventories and expenses, retailers will generate [fourth quarter] profit increases estimated on an industrywide basis at about 10%"

Summary: Ann Hagedorn, the reporter—"Other retailers, analysts and economists said much the same. The late December buying surge, they said, appears to have ended. Some said the new tax law's inducement to make major purchases in 1986 effectively stole some retail sales from 1987."

From The New York Times—1/9/87

Jeffrey Edelman, Drexel Burnham Lambert—"There is a Santa Claus. There was enough incremental volume generated in that final week to help offset the shortfall that occurred up to that point. Sales were very soft earlier, raising a lot of concern that Christmas was going to turn out to be very, very poor."

Joanne Legomsky, Standard & Poor's—"The last spurt of buying brought retailers 'pretty much close to plan.' By and large, they're pretty satisfied. They've salvaged the season."

Bernard M. Fauber credited "the consumers' late burst of shopping enthusiasm" for the improvement.

RThought: George Santayana, the American philosopher, said that those who do not know their history are bound to repeat the same mistakes. Most retailers plan daily sales against the pattern of the prior year. If they knew their history, they would know this is not a good guide for years when Christmas, as it did in 1986, falls on Thursday. In the customers' minds, it is a week later. The days up to the Friday or Saturday before Christmas show frightening losses. Panic sets in. Prices are cut unnecessarily just as the customers start to buy.

It is even worse in years like 1980, when, because of leap year, the Thursday Christmas was compared with year-ago figures based on a Tuesday Christmas.

Did any retailers look at the daily pattern for 1952 vs.

1951—since 1952 was the last time we had a Thursday Christmas in a leap year? Certainly not!

In 2008, will they look back to 1980 and 1952? Certainly not!

THOSE WHO SEEK TO MAKE ENGLISH OUR OFFICIAL LANGUAGE

The following item is quoted as distributed worldwide in the Retail News Letter of the International Association of Department Stores for December 1986:

France—Is there a French word for hamburger?

For two years, the manager of the fast-food chain, France-Quick, which has over 60 restaurants in France, has been before the courts of justice for infringing the law of December 31, 1975. This law makes the use of the French language obligatory "for the description, the offer, the advertising, spoken or written, and the method of use of a product or a service."

The manager of France-Quick, called somewhat curiously Mr. Jambon, was in 1984 taken to court for breaking the law of 1975 by the Association of French Language Users. He was accused of using foreign words for describing some of the drinks and meals offered in his restaurants; in particular, for using the word, "hamburger."

At the first trial, he was found guilty, and damages were awarded to the Association of French Language Users. On appeal, the verdict was reversed as Mr. Jambon was able to prove that every customer in his fast-food restaurants received a menu which showed a picture of exactly what was represented by the "foreign" words in question together with a very clear description in French of the exact composition of the product offered.

However, further appeal against the acquittal of Mr. Jambon on the above grounds was immediately lodged, and the verdict regarding the appeal is being awaited.

This case is being followed with great interest, not only in the fast-food industry, but by many other retailers and industrialists. France-Quick is a Belgian-French operation.

RThought: Just wait until the Association of English Language Users takes on retailers for having "boutiques," operating a "hypermarket," offering a hair "salon," or describing the new swim suits as "risque," selling "gourmet" food, describing a dress as "chic," selling a "chiffonier," operating a "cafe," naming a vehicle "Caravan," granting a "diploma," leading an "exodus," using metric measurements like "litre, meter and gram," serving "quiche"—but why go on.

RETAILERS DO A QUARTER TO A THIRD OF THEIR ANNUAL SALES IN NOVEMBER AND DECEMBER—IT SAYS HERE!

How often do you hear the statement that retailers do a quarter to a third of their annual sales in November and December?

How many of you have, as experts, made the same statement?

Because I have heard it so often—and never seen it con-

AT LAST! THE RETAILERS WILL BE CONSULTED

The Electronics Funds Transfer Association (EFTA) (1726 M Street NW, Suite 1000, Washington, D.C. 20036, 202-659-2100), which calls itself, without any particular modesty, "the world's largest multi-industry EFT trade group" (it has only five or six general merchandise retailers as members) headed their news release, "Individual Retail Segments to be Reviewed and Analyzed During Six-Month Study."

EFTA is the organization that is working to bring debit cards to every POS terminal—and every retailer's store.

The first of three "subscriber conferences" was conducted by Benton International in Houston in December, at which there was a summation of the current perspectives about "EFT/POS systems and services from the viewpoint of consumers, retailers and subscriber companies, and a presentation and discussion of subscriber [Note: not retailer] needs and comments about EFT/POS."

Something called a "Focused Planning Effort" will, they claim, "overcome the limitations of more traditional group methods of obtaining consensus forecasts!" (Note: this means focus groups of ten to fifteen people, thus eliminating the need to prove the statistical validity.)

The retail segments to be studied are "supermarkets, gas stations, convenience stores, department stores, mass merchandisers, apparel stores, drug stores, hardliners [sic—politicians on the right?], hotels, restaurants, airlines, car rental agencies and fast-food outlets."

EFTA President and CEO Dale Reistad said the project is "unique as it will focus on individual retailer segments and their interests and concerns about EFT/POS, as well as their past, present, and likely future involvement in offering direct debit at the point of sale. This project will be the most com-

prehensive review ever undertaken on the outlook for EFT/POS in individual retailer segments."

RThought: Note that there is not a single mention of cooperating with any retail trade group or association. This seems particularly arrogant since EFTA gives themselves so much importance as an association.

If you are a member of a retail trade association—NRMA, NMRI, MRA, NRHA, NHFA, either NACS, Ace, Cotter, AMC, ABA, FMI, NAMM, NOMDA, NTR&RA, NACSR, or other retail group (if you don't belong to one of the previous sets of initials, you should), **you should have your set of initials contact the EFTA and become part of this study.**

Eventually, it will be necessary for everyone to get together and understand the problems of the other party—and now is the right time.

Perhaps one of the first results will be the education of Mr. Reistad and his PR department to a better categorization of retailers than "hardliners." I think—but am not sure—that includes hardware stores, home improvement centers, consumer electronics, and auto supply stores. But does he include specialty stores other than apparel (there are a lot of jewelry, book, camera, stationery and other specialty retailers)?

RThought: The move toward broader use of EFT/POS, especially with the use by oil companies as they try to reduce the number of human beings in their distribution process, makes it inevitable at other points of sale. With EFTA consisting mainly of banks and related entities plus oil companies and information service vendors, they never will have a full understanding of the needs of store retailers. Nor are store retailers going to accept a system that they did not help create, a system that may not serve their needs, and an allocation of the costs involved that ends up as an expense to the store retailers and a good profit to the EFTA members.

SHORT SHORTS

Check on your contributions for Nicaraguan refugees just as you would on a local charity. President Reagan gave a talk for the Nicaraguan Refugee Fund, and it grossed \$219,525. Catering costs were \$71,163, "consulting fees" were \$116,938, and other expenses were \$30,275. This left \$1,149 to ship food and clothing to Nicaragua. Nearly 700 people paid \$250 to \$500 a person for dinner.

Hanover House (subsidiary of Horn & Hardart) is leveraging their expertise in the catalog business (they have more than twenty names—Hanover House, Adam York and on and on) by joint venturing with retailers that have a unique merchandise approach. The most recent firm to sign an agreement is Aca Joe—their merchandise and Hanover's skills. **RThought:** It should beat reinventing the wheel a few dozen times.

How secure are your fitting rooms? If they are like those in a check made by Peter Berlin in a store spending \$750,000 a year on fitting room checkers—in 60 test thefts not one was detected—you may want to read the July/August Executive Edition of The PETER BERLIN Report on Shrinkage Control (Price Waterhouse, 153 East 53rd Street, New York, NY 10022 \$135/yr). **RThought:** Write Peter and say that Bob Kahn sent you and he will send you a complimentary copy. (P.S. After a lot of work, a proper training program and a change in attitude, there was 97% compliance with procedures on later checks.)

Using industry statistics. Menswear Retailers of America (MRA) sent each contributor to their annual report on operating statistics a detailed report comparing each contributor with the medians for stores in their volume group. This will be repeated for those who contribute their 1986 figures. A member in Kansas used the figures to show his bank (1) how well he was performing and (2) what he was going to do to improve the areas where he was weak. National Mass Retailing Institute provides their contributors with their position in the array of each reported figure. Private figure exchanges have provided information for years, sometimes openly. **RThought:** In this day of computers, with massive memories, this is a low-cost, high-value byproduct.

Exxon's credit card will become a combination credit/debit card. Debit transactions will get the cash price at stations with POS terminals. Distribution will be in mid-1987.

An organization I like: The Retired Officers Association—because it has a long-standing policy against selling its membership list to commercial or political organizations. **RThought:** TROA probably has more need for the money than do retailers—but then it is appropriate that they have a higher ethical standard against which they measure their own conduct.

FEATURE REPORT

FRED MEYER SAW IT CLEARLY

Fred Meyer, founder of Fred Meyer, Inc. (Portland, Oregon), saw the future in retailing very clearly. He was one of the early "superstore" operators. He kept adding more lines of merchandise—food, drugs, apparel, hardware, auto supplies—anything that his customers needed. James E. "Doc" Webb was doing the same thing catty-corner across the United States in St. Petersburg, Florida.

As Portland spread, Fred Meyer followed his customers. He soon had branches around the metropolitan area.

And he was sure he made provisions for parking—even if he had to put cars on the roof of his stores. That hasn't been copied very much (although Macy's did experiment with a circular store with parking around the perimeter—park on the floor you shop on!).

Fred Meyer always kept in mind the advice from an old bank robber, Willie Sutton, who, when asked why he robbed banks, replied quite simply, "Because that is where the money is!" Fred Meyer hated the idea that his customers shared their money with anyone else, particularly banks with inconvenient hours—10-3, Monday to Friday—and long lines when open.

So he bought a savings and loan association, changed the name to Fred Meyer Savings and Loan and opened branches (after a fight with governmental agencies) in the front of each store. Within a matter of months, he had the second or third largest savings and loan association in the state of Oregon.

Fred Meyer was right—but at the wrong time. He did it in the days of fixed rate mortgages and almost went under when double-digit interest rates were needed to keep the mortgages funded. Had he waited until the variable rate mortgages were developed, the clear vision of the future would have put him

among the top S & Ls in the country. But such was not to be his fate.

Fred Meyer also saw the savings that would come through handling check cashing in a banking environment. In those days, S & Ls did not have interest-bearing checking accounts, but the cashier could always ask, "Do you have an account with us?", and make people feel guilty about getting service without supporting the server.

RThought: All of this came to mind when I received the public relations package from 1st Nationwide Bank (an S & L in "bank's clothing"), reporting the success of the first ten branches established in K mart stores in San Diego and plans to move into 150 branches—not quite "nationwide" but in California, Florida, Missouri, New York, Ohio and Michigan. (I am always bothered by announcements of 100 to 150 new anything—so often that doesn't happen—but we can watch.) And since 1st Nationwide is owned by Ford Motor Credit Company, will the joint undertaking soon be advertising, "There is a Ford in Your Future?"

RThought: Since many financial analysts report that K mart is a takeover candidate, and with the likely acquirer being a real estate firm to get at the 2,000 store locations, can Fred Meyer's roof-top parking be far behind as an acquirer develops the 100-135,000 square feet of buildings, often stand-alones, into mini-malls? Looking at K mart's Annual Report for the year ending January 1986, the combined cost of capitalized leases (which probably includes some non-store leased items) and minimum rent payments totalled \$606 million for what appears to be more than 150 million square feet, one could conclude that the space costs under \$4 per square foot per year. New leases, at \$10 to \$12 per square foot, would produce \$900 to \$1,200 million "gross margin" on the space. K mart, for the years January 1984, 1985 and 1986, reported about \$800 million pre-tax profits.

SHORT SHORTS

It is good that God has told Attorney General Meese that Playboy and Penthouse are not pornography; it may have been that God knew that Meese (who now admits it) has read them.

RThought: Despite the rehabilitation of these magazines, it is my feeling that retailers should make their own decision on whether or not they feel, knowing their own customers and their customers' families, that this is appropriate merchandise for their store. Certainly don't sell them just because Attorney General Meese plugged them at a meeting of federal law clerks in the District of Columbia. (Associated Press, January 29, 1987.)

Crooked New York City retailers don't go to jail—even when they plead guilty. And crooked customers don't even get identified. Bulgari, the jewelry store in the Pierre Hotel, paid \$969,000 in unpaid taxes, \$586,000 in interest and \$367,000 in fines and civil penalties for falsely reporting in-state sales as out-of-state sales by the simple process of sending a package with worthless contents to an address provided by the store or the customer. Bulgari joins Cartier and other jewelers and furriers who have pleaded guilty. **RThought:** The smallest sale reported was \$240 on which the customer saved \$19.80, and the store incurred the additional cost of creating a false package and the delivery cost to a "safe house" address. Once crooked, always crooked; it becomes a habit.

When the quarterly report starts "The third quarter of 1986 was filled with events of long-term strategic importance to . . .", you immediately know that profits are down.

Cheating on your customers—as one of your suppliers does it. Many firms receiving RT sell Tinactin antifungal cream made by Schering. I use Tinactin for athlete's foot. When I bought a new tube, I noticed the cap was much larger than the old one. The weight (1.5g) was the same; the instructions were printed in half the size letters used on the old one—unreadable without a magnifying glass. But most of all, the larger cap covered an orifice that was 50% larger in diameter—so you would use it faster by squeezing out more cream. **RThought:** Will the Schering annual report say, "Our new packaging boosted our sales?"

A challenge for all of us—Dora and James (he worked two jobs—truck driver and barber) Williams of Memphis reported that all five of their sons and all four of their daughters went to college. Lewis (he started as a garbage collector and now owns the company) and Dora Morrow of South Bend have fifteen children, and all but two attended college. Wilmer (a shipping clerk) and Beatrice Woodfork of Brusly, Louisiana, have eight children, who now have careers ranging from education to the ministry to computer programming. **RThought:** I always get a warm feeling when reading EBONY.

tradicted—I felt for certain it was not true. The Bureau of Census votes with me.

The table below shows the percent of sales falling in November and December for the year 1985:

Type of Business	Percentage of Annual Sales in Nov. and Dec.
Total Retail Sales	18.66%
Total, excluding auto group	19.69
Durable Goods	17.01
Nondurable Goods	19.69
Building Materials Group	16.51
Building Materials and Supply Stores	16.26
Hardware Stores	18.36
Automotive Group	14.77
Motor Vehicle Dealers	14.76
Auto and Home Supply Stores	17.25
Furniture Group	21.30
Furniture Stores	19.21
Household Appliance Stores	21.01
Jewelry Stores	19.69
General Merchandise Group	25.80
Department (including Discount Stores)	25.84
Variety Stores	23.81
Food Stores	17.61
Gasoline Service Stations	16.77
Apparel Stores	23.81
Men's	26.34
Women's	23.34
Family	25.91
Shoes	19.69
Drug Stores	19.60
Liquor Stores	19.60
Non-Store Retailers	20.99

RThought: Only one type of store gets 26% (men's apparel) and two get into the 25% range (department stores and family apparel stores). Other than those four, none of the stores or store groups gets as much as 25%.

So much for another of those unchallenged statements—that are not true. This one is in the same category as that other great truth everyone repeats—that 60% of your shortage is attributable to employee theft.

RThought: The figures above are for all stores everywhere in the U.S.—and thus are an average number. Therefore, there are some that have a higher percentage during November and December—and some a lower. But it is doubtful that any significant number of any particular kind of store ever reaches the “one-third” of its annual volume in November and December (excluding, of course, winter resort area stores).

RETAIL HUMOR

Our friends decided it was time to surprise their mother with a new color television set for her 80-plus birthday. From years of experience, they knew this: When she asked them how much it cost, she must be assured that the set had been purchased at a remarkable discount.

The television was presented to the surprisingly grateful recipient, who was unsuccessful in her attempts to learn the price. Several days later, during a conversation with her son she tried again:

“I’m not going to try to find out how much the set cost, but I just want to ask you: Did you really get it at a discount?”

“Yes,” she was told.

“A big discount?”

“Yes.”

Then: “WHY DID YOU SPEND SO MUCH?”

From Metropolitan Diary by Ron Alexander—The New York Times, January 14, 1987.

RThought: This reminds me of a true story my Mother told for years about a friend of hers. Her friend's son asked what kind of funeral his Mother wanted. A big one? Private? Cremated? What? After a moment's hesitation, she replied brightly, “SURPRISE ME!”

CONSUMERS RATE PIZZA RESTAURANTS AHEAD OF DEPARTMENT STORES

The wonderful publication, **The Shopper Report** (3624 Science Center, Philadelphia, PA 19104), asked its consumer panel to rate various retailers on whether the consumers feel they are getting their money's worth or not. Ten (never received in any study) indicates they absolutely, totally agree; and one means just the opposite.

Here are the ratings:

7.7	Supermarkets
7.5	Discount department stores
7.0	Chain drug stores
6.8	Gas stations
6.7	Pizza restaurants
6.6	Department stores
5.8	Mail order services
5.7	Fast-food restaurants
5.1	Corner grocers
4.5	Convenience stores

In the service field, consumers rated the following above department stores:

7.0	Dentists
6.8	Hair dressers/stylists
6.7	Opticians

And in consumer products, these were rated ahead of department stores:

7.9	Eggs
7.7	Milk
7.5	Juice
7.1	Hard cheese
7.0	Yogurt
7.0	Men's clothing
7.0	Toothpaste
6.9	Ice cream
6.9	Margarine
6.8	Bread
6.7	Household supplies

RThought: Look at the retailers rated above department stores—supermarkets, discount stores, chain drug stores, gas stations and pizza restaurants. How often do you see these

retailers advertising 30% off on all "item X" or a one-day sale with 25% off marked prices even if on sale?

You can't return gasoline to a service station or a pizza to a restaurant; but it is much easier to return merchandise to most supermarkets, discount stores or chain drug stores than it is to many department stores

You can't expect clerk service in a supermarket, discount store or chain drug store, and you don't get it; you do expect service in a department store, and you don't get it.

I would suspect that any person in a supermarket, discount store or chain drug store can tell a customer just where a product is. I don't think they can in a department store. I have never heard, in any of the three higher rated retail stores, the statement, "That's not my department."

I think that the time per item to complete a sale in a supermarket, discount store or chain drug store is a fraction of the time per item in a department store. And the parking is likely to be better.

Yet, there is no reason why department stores must be at such a disadvantage.

UNITED NATIONS STANDARDS ON CONSUMER PROTECTION

In April 1985, the U.N. General Assembly adopted statement 39/248 on Consumer Protection. The Statement of Objectives bears repeating for a country that feels it has fairly good consumer protection (perhaps, some may say, "more than the dang fools deserve").

OBJECTIVES

1. Taking into account the interests and needs of consumers in all countries, particularly those in developing countries; recognizing that consumers often face imbalance in economic terms, education levels, and bargaining power; and bearing in mind that consumers should have the right of access to non-hazardous products, as well as the right to promote just, equitable and sustainable economic and social development, these guidelines for consumer protection have the following objectives:

- (a) To assist countries in achieving or maintaining adequate protection for their population as consumers;
- (b) To facilitate production and distribution patterns responsive to the needs and desires as consumers;
- (c) To encourage high levels of ethical conduct for those engaged in the production and distribution of goods and services to consumers;
- (d) To assist countries in curbing abusive business practices by all enterprises at the national and international levels which adversely affect consumers;
- (e) To facilitate the development of independent consumer groups;
- (f) To further international cooperation in the field of consumer protection;
- (g) To encourage the development of market conditions which provide consumers with greater choice at lower prices.

It later states these "legitimate needs" that should be met:

- (a) The protection of consumers from hazards to their health and safety;

(b) The promotion and protection of the economic interests of consumers;

(c) Access of consumers to adequate information to enable them to make informed choices according to individual wishes and needs;

(d) Consumer education;

(e) Availability of effective consumer redress;

(f) Freedom to form consumer and other relevant groups or organizations and the opportunity of such organizations to present their views in decision-making processes affecting them.

RThought: With the present attitude of our Federal Trade Commission, disregarding abuses of the consumer because the FTC decides the consumer can afford to bear the costs of adverse action based on economic power, we don't seem to meet the standards set forth by the United Nations.

Only a small portion of unsafe products are detected; and only a small number of those detected are recalled. Seldom does the person foisting the product on the consumer pay a significant economic penalty for the bad conduct.

There is general agreement that we still have many products on the market which cause cancer in humans.

Recently, car manufacturers have been permitted to go back to 2½-mile-per-hour bumpers (from the 5-mph standard), even though all economic studies show that the savings to the consumer on the original car price is a minor fraction of the higher cost in repairs. (It should be noted that not all manufacturers have availed themselves of this potential cost saving.)

SHORT SHORTS

Improved productivity in Who's Who in America. The 44th edition (1986-87) contains the same number of biographies (their estimate—75,000) as did the 42nd Edition (1982-83) but in 3,200 pages instead of 3,800 pages. A reduction of 16%. The secret? Smaller type!

We all know that Al Capone went to jail because he did not pay his income tax—but few know the background. A CPA from Carson City, NV (the gambling state) offered the answer in a letter to the Journal of Accountancy (March '86). He was assessed taxes of \$252,000 plus penalties of \$164,000 for 1924-29 after the Supreme Court overturned the illogic of the IRS position that income tax could not be collected on illegal income! **RThought:** We don't have that kind of an IRS today.

WORDS OF A DIFFERENT KIND

There are two kinds of words, according to Lamar Lee, teacher at the Stanford Graduate School of Business. Mervin Morris of Mervyn's saw this, liked it, and was kind enough to think of RT by sending it to me.

MISTY WORDS

Happiness comes not from
hard words like money and power,
but from misty words
like honor, love, loyalty,
trust and faith.

RThought: There are 12 Scout Laws that I have lived by many years. Perhaps five are enough, only two of which match a Scout Law.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly

\$36 per year

\$48 overseas

ROUTE TO

MARCH 1987

VOL. 22, NO. 3

THERE IS ONE THING MOST CONCEPTS CANNOT STAND—COMPETITION

Isn't it interesting that new concepts, in retailing and elsewhere, have a fatal weakness: *they cannot stand competition.*

I thought of that when I first read that People's Express was considering selling part or all of the airline (it is now gone). Here was the concept-company that was suppose to change the history of aviation—every employee owned stock, everybody did all kinds of jobs, and low cost was the sole goal. Soon People's would rule the world.

They grew to \$1 billion in sales without ever making a significant profit—and for the total life showed nothing but a cumulative loss.

The concept was good—until the competition started matching their prices and offered more comfort and services. Then all People's Express had to offer was price and inconvenience.

Why do I mention this in a letter to retailers? Because retailers are more likely to be objective about the airline industry than about retailing. I would guess every RT reader would say, "I knew they couldn't last as soon as they had price competition." And it does appear they did not have something so unique that they could survive price competition.

Let's look at parts of the retail field. Remember when there were many different catalog/showroom companies? Now there are just two significant chains—Best Products, just now beginning to consolidate the mishmash of Best, LaBelle's, Jafco, Dolgin's, Rogers, Great Western and Miller Sales into a single company while incurring a massive loss for Fiscal Year 1987, and Service Merchandising, licking its wounds from buying, expanding and selling Mr. HOW Warehouse, and trying its hand with computers, lingerie and jewelry chains. Consumers Distributing has closed all California stores, Carlsen Companies is closing stores. And few new ones are opening.

But once these stores were applauded as the ultimate in efficiency—and they were efficient in handling goods. But they failed because they could not put merchandise in the customers' hands as fast as the customers wanted it. Discount stores met the prices and handed the merchandise over to the customers faster. Best Products was very late in accepting bankcards—and customers wanted credit on big ticket items.

Soon there may be one chain—yet if it stays with the basic format of catalog/showroom, it will never win back all of the old customers.

Then there is the wonderful off-price field. Already the number of stores is leveling out—as many being opened as closed—and starting this year, the absolute number will

MATTRESS ADS

Jack Brandwein writes **Furniture Forum**, an excellent monthly newsletter for the retail furniture industry (Box 6415, High Point, NC 27262, \$77/yr.). In the January 1987 issue, he properly criticized a terrible mattress ad by The May Company in Los Angeles, under the appropriate heading, "Worst of 1986."

An ad for Serta mattresses offered any size "Hotel" quality mattress at \$99 apiece and "Accord" quality at \$149 apiece. The result of this pricing made the regular \$1399 king three-piece set go for \$447—68% off! Do you believe that price comparison? I don't. And Serta, which probably paid 50% or more of the ad cost, had nothing to say about the way its trade name was damaged.

The ad brought an anonymous letter from an executive in a major bedding firm (not Serta). Some of his statements are of interest:

It is impossible to find anything good to say about this ad. Having said that, I will also say that it may be naive to think that the manufacturers in the bedding industry can correctively influence it very much. A small retailer, yes; a large retailer, like The May Company, very doubtful. This is irrespective of the fact that it is our money in most cases being spent on such garbage . . . the Co-op Ad payout is usually . . . a sales percent sum. In many cases even the [store's] merchandise organization . . . has restricted input beyond furnishing a fact sheet . . . Serta, I'm sure, spends even more than we do. Jack, I'm not condoning complacency for garbage ads spent with our [bedding industry] money.

RTought: I can do nothing more than cite some of Jack's comments:

Have you noticed what we noticed—there isn't a single, solitary statement about comfort or any sleep benefit. The ad is loaded with negatives; in addition to the possibility of the credit offer being withdrawn before the customer gets to the store. They didn't mention the cost of delivery.

Jack's main observation is interesting:

When we get frustrated with department store ads, we sometimes mention they are easy competition. We've even urged a prayer of thanks to the God of Stupidity that we think many department store executives worship before every merchandising meeting.

decline. As the big (such as Marshall's) get more of the market, growth will slow, goods will drop in value, and price competition will increase.

The Home Depot started a wonderful surge of warehouse DIY stores, but suddenly they found out they could not easily break into California. Earnings dropped drastically—and the stock price even faster. What works in a void with no competition is

HOW MUCH DOES EMPLOYEE/CUSTOMER THEFT COST?

Recently a newsletter publisher in another field called and asked me to check some facts on a story that he was going to run which included a reference to the amount of employee theft and shoplifting in the country. The figure he had obtained was \$40 billion a year. I told him I could not associate myself with such a figure—even though others, including some of the major accounting firms and many specialists selling security services, like that figure.

Let me explain why.

Only a few retail groups publish figures on inventory shortage—largely because only a few types of retailers have a substantial majority of their members using the true retail method of inventory (as opposed to the food retail method where markdowns are not record but initial markon is developed from input to stores and then applied to the ending store inventory at retail). In my records, I find the following general ranges:

NRMA for women's specialty stores	2.0%
NRMA for department stores	1.8
Menswear Retailers for men's stores	1.7
National Mass Retailing Institute for discount stores	1.5

If we sort of weight that result, considering the volumes in the four groups of stores, a composite figure would be in the 1.6-1.7% range.

Now, shortage does not mean theft. It means that the ending inventory is not what you expected it to be. It is the result of keeping track of all incoming goods at retail, recording all markdown, and reducing inventory by retail sales. But there is many a slip twixt the cup and the lip (not an original thought).

I am sure that stores with strict markdown budgets are aware that buyers who want to help move merchandise into cash at the earliest date (to the store's advantage) are more willing to face a tongue lashing once a year for an excess inventory shortage rather than every month for markdowns over budget. People count wrong on markdowns, they miss merchandise in transit between stores, they don't write off damaged goods—I could go on and on.

Any large chain that has gone into price lookup has been surprised to find the amount off merchandise being sold at a different price than they thought it was being sold.

And many stores that have gone into price lookup have found that inventory shortage drops without any measureable increase in the detection of either employee or customer dishonesty.

I am strongly inclined to 1% as the outside measure of employee/customer theft with the remaining 0.6-0.7% representing clerical or other errors.

The question then becomes—1% of what?

The latest figures I have on retail sales, as reported by the Department of Commerce, is for the twelve months ending with August 1986 which was approximately \$1.4 trillion.

But I don't think of some "retailers" as having significant shoplifting losses. For example, how much shoplifting is there in a new or used car dealership? Has any employee ever come

in yelling, "A guy just stuck a Cadillac under his arm and ran down the street?" I am inclined to the same feeling about service stations and what is called "eating and drinking establishments" (although there are thefts of cash in both groups).

These categories of "retailing" (they are not considered retailing in countries like Australia and New Zealand) amount to about \$600 billion, leaving about \$800 billion subject to the 1%. My arithmetic results in \$8 billion—not \$40 billion as being a usable number.

Where do such "junk numbers" come from? Let me quote from a book that I consider worthless, except for finding the source of bad numbers, **Theft by Employees**, published by Professor Richard C. Hollinger of Purdue University and Professor John P. Clark of the University of Minnesota in 1983. Both are professors of sociology, and they start from studying human characteristics. They make such statements as (page 3), "As we can see in Figure 1-1, the total dollar impact of non-violent crimes against business is estimated by the AMA (American Management Association) to be in excess of \$40 billion a year." WE HAVE FOUND THE NUMBER !!! EUREKA!!!

Now, AMA sounds like an impressive source of information. So let's look at what the footnote citation says:

American Management Association's "Summary Overview of the 'State of the Art' Regarding Information Gathering Techniques and Level of Knowledge in Three Areas Concerning Crime Against Business." Draft report (Washington D.C.: National Institute of Law Enforcement and Criminal Justice, Law Enforcement Administration, March 1970, pp. 17-19).

That sure looks good, doesn't it?

Now we have the origin of the famous \$40 billion number!

How did Professors Clark and Hollinger become such experts on "Theft by Employees"? They received Grant Number 79-NI-AX-0090 from the Community Crime Prevention Division, National Institute of Justice, U.S. Department of Justice; and on June 30, 1981, issued a report called, "Theft by Employees in Work Organizations," which is clearly marked "Points of view or opinions stated in the document are those of the authors and do not necessarily represent the official position or policies of the U.S. Department of Justice."

This uncopyrighted report, funded by Federal money, bears an outstanding example of the "Chutzpa Principle." (Joys of Yiddish by Leo Rosten defines "chutzpa" as "gall, brazen nerve, effrontery, incredible 'guts,' presumption—plus arrogance, such as no other word and no other language can do justice to.") On the inside cover of a report, partially paid for by my money, is a note, "This report may not be quoted or reproduced in any form without permission in writing from the authors." So much for my comments on the authors of **Theft by Employees**.

Now, how is the \$40 billion figure developed in the AMA report? That report made the following estimates:

Employee pilferage	\$5-10 billion
Kickback bribery	3.5-10 billion
Securities theft/fraud	5 billion
Embezzlement	4 billion

FEATURE REPORT *continued:*

Arson	3.5 billion
Burglary	2.5 billion
Vandalism	2.5 billion
Shoplifting	2.0 billion
Insurance fraud	2.0 billion
Check fraud	1.0-2.0 billion
Credit card fraud	0.5 billion

This produces a maximum "guess" (what else can you call numbers that could be from \$3.5 to \$10 billion?) of \$44 billion and a low of \$32 billion.

Note that this report was published in 1977 and purports to represent the facts in 1975. Some people, who don't just bandy figures about but know about this, would then apply the increase in the Consumer Price Index to the "gross guess." The CPI averaged 161 in 1975 and today is above 330—an increase of 105%—they would proudly proclaim that it is now up to \$82 billion. (Please! Don't use this number.)

A word about the Hollinger-Clark study. It covered what they called "the three most populous sectors in American business—retail, manufacturing and service." Nine retailers, ten manufacturing firms and sixteen hospitals in the Minneapolis area cooperated. In the retail group, three were full-line department stores (guess which ones?), two were discount stores, three specialty stores and one catalog/showroom. In manufacturing, seven were related to manufacturing computers and three produced other technology products. The hospitals were all general community hospitals, ranging from 200 to 800 beds. Twenty-four unions and professional associations also cooperated. Later they made similar studies in Dallas-Fort Worth and Cleveland but only for retailers and hospitals—hardly a representative study of the U.S. excluding the more than 50% that live in the Northeast, Mid-Atlantic, South Atlantic, East South Central, Mountain and Pacific. But then who am I to argue with professors?

Their data came from self-reporting, by randomly selected employees, including specific questions about personal involvement in theft activity. Second, they interviewed 180 executives (in person in Minneapolis and by phone in the other two areas) and, finally, interviewed 256 employees.

Let's look for a moment at the objectivity of the investigators. In the self-report in the Minneapolis area, they asked such

questions about "theft" as "Take unauthorized long lunch or coffee breaks" (12.5% daily, 21.6% weekly) and call this "theft"—while overlooking the answer to the question, "Give up lunch or coffee breaks in order to work (16.9% daily, 28.1% weekly).

And, in Minneapolis, they totally disregarded, and eliminated from the second-phase questionnaire, the question, "Do work above and beyond the call of duty" (21.4% daily, 28.0% weekly, 24.6% monthly, 7.6% yearly, 3.7% happened once—11.8% never and not applicable 2.9%).

RThought: There is, in this world, a whole species of people who make a career of telling us the world is made up of nothing but crooks. They are interested in selling us honesty tests, consulting services, systems installations, research reports, polygraph tests, giving talks, etc.

What bothers me is that retailers know that 95% of what they are owed by millions of customers is paid with nothing more than a statement or a "gentle reminder." We know our customers are honest—and, in many stores, our employees are also our customers.

Even non-retailers must be aware that more than 95% of the people in the United States who are required to file income tax returns do it. In our stores, more than 95% of our employees do file (perhaps only to get their refund).

Yet we let a bunch of people, who don't know a thing about our employees, tell us they are robbing us blind.

RThought: Years ago, my Father told me that if I wanted to have a good relationship with employees and develop morale I should trust everyone—and challenge everything. I was to distrust only when there was something that I could specifically challenge—an act or situation—and even then, I should not distrust a person until I had proof. Too bad my Father is not here to sell that advice.

RThought: When you are driving late at night, notice the number of people who stop on a red light and wait for the green light—even though no cars are using the intersection.

RThought: How often has mail been stolen from your mailbox (if you have a roadside box)—or your newspaper been stolen—or gasoline been siphoned from your car's tank?

SHORT SHORTS

When considering store hours, keep these facts in mind:

1. One quarter of the people work on Saturday.
2. One in eight works on Sunday.
3. One in six works outside daylight hours.
4. 5.4% (up from 4.9% in 1980) hold more than one job.
5. One in eight full-time workers has flextime available.
6. One in four prefers a longer work week if it means more money.
7. One in ten would take a cut in hours with less pay.
8. For men, 18.0% (women—23.4%) have worked at the same place for one year or less; 41.9% (50.8%) for two to nine years; 23.2% (19.1%) for ten to nineteen years, and 16.7% (6.7%) for twenty or more years.

COSTCO cuts costs—illegally. COSTCO sent out its membership renewal notices third class mail—even though it can itemize from one to twenty-five different names on the notice. **RThought:** Postal regulation 321.1(d), covering bills and statements of account, says, under (i), "A bill is a request for payment of a definite sum of money claimed to be owing by the addressee either to the sender or to a third party. The mere assertion of an indebtedness in a finite sum combined with a demand for payment is sufficient to make the message a bill." COSTCO makes its situation more difficult by saying, "Please do not throw your cards away . . . They are your permanent cards," thus confirming an on-going obligation. The cost of first class would have been 22 cents; using bulk rate (its envelope does not show the permit number), it would have a minimum of 12.5 cents per piece without sort, 10.1 cents per piece with a five-digit sort and 8.3 cents if a carrier-route sort.

Mayo took five women off the assembly line and segregated them, under the eye of a supervisor who was more a friendly observer than a disciplinarian.

Mayo made frequent changes in their work conditions, always discussing those changes in advance.

He changed their hours, number of rest breaks, and lunch periods. Occasionally, he would return the women to their original and harder working conditions. To his amazement, he discovered a general upward trend in production, completely independent of any of the changes he made.

Mayo realized that the women, exercising a freedom they never had on the factory floor, had created a social atmosphere that included the observer tracking their productivity. They talked, joked, and began meeting socially after work. He discovered that places of work are social environments; within them, people are motivated by more than economic self-interest.

The women had been singled out: that raised their self-esteem. They had a friendly relationship with the supervisor: that made them feel part of a team.

Mayo had secured their cooperation and loyalty: that explained why their productivity rose even when he took away their rest breaks.

The part of the Hawthorne Studies dwelling on positive effects of benign supervision, and concern for workers to make them feel part of a team, became known as the Hawthorne Effect. The studies themselves spawned the human relations school of management that is constantly being recycled in new forms today: witness participative management, team building.

RThought: There is a lesson here that everyone seems to forget—except those who never learned it. Joe Harlan (once a controller but now a recently retired top Carter Hawley Hale executive), many years ago, put it to me very succinctly: “I learned that good human relations are worth two points on the expense rate.”

WHERE IS THE SPECIALTY STORE INTENSIFICATION?

In a recent **STORES** magazine article, the statement was made, “The specialty store trend is due to intensify.” I wondered how true that was.

California’s State Board of Equalization puts out an excellent annual report on taxable sales and the number of sales tax permits, by type of store, as of July 1 each year. The table below covers what would generally be considered “specialty stores,” together with the growth rate for 1974-80, 1980-85 (the 1986 report will not be out until mid-year of this year) and for the eleven years, 1974-85.

Type of Store	Compound Annual Growth Rate		
	1974-80	1980-85	1974-85
Women’s apparel	5.27%	1.86%	3.65%
Men’s apparel	2.20	(1.75)	0.39
Family apparel	9.29	5.84	7.71
Shoes	3.67	3.91	3.78
Gift and art goods	5.61	2.61	4.23
Sporting goods	5.66	1.58	3.75
Photo shops	3.50	3.84	3.65
Musical instruments	3.84	0.08	2.11
Stationery and books	6.36	4.45	5.49
Jewelry	7.46	4.01	5.88
TOTAL GROUP	5.46	2.64	4.17

Only shoes and photo shops had greater growth rates in the 1980-85 period than in the 1974-80 period; the other eight

types had from moderately to seriously slower growth rates. The fast growth of family apparel stores probably represents the increased number of men’s stores that added women’s departments; and that change is reflected in the much slower growth of men’s stores.

RThought: If the growth rate of specialty stores intensifies, it might, at least in California, get back to the growth rate they had in 1974-80. One can raise all kinds of arguments about these figures—California’s growth rate has declined; there has been a recession in the electronics industry, which is centered in California; California was overstored and is just now getting down to the right number of stores.

Regardless of the explanation, when the growth rate of women’s apparel stores—the type of specialty store I think **STORES** magazine had in mind—was 5.27% per year for 1974-80 and only 1.86% for 1980-85, it doesn’t indicate such a hot market to be in.

On the other hand, shoes and photo shops just keep rolling along at a fairly uniform rate of growth.

HOW ACCURATE ARE SURVEYS?

In the 1960s, market surveyors expected fewer than 10% to refuse to take part in surveys. That has now risen to 40%, and the industry is alarmed.

As a user of market surveys, would you feel that the 40% who declined to be interviewed might have something in common? And that the survey completely omitted the views of these people?

ScanAmerica had a 34% decline rate to the offer of \$20.00 a month for people who would participate in electronic measurement of TV usage and recording of grocery purchases. Participation later dropped from 66% to 54%. (They were seeking a 600-family test group in Denver.)

The participants agreed that every 30 minutes they would “check in” on the meter to show they were still watching TV. They would also want the Uniform Product Code bars scanned on all grocery items purchased. ScanAmerica will combine the data to relate watching TV to buying.

Lawrence Gold of Nielsen Marketing Research feels they can go even further. He envisions family members wearing passive sensors that will identify the watcher and could record such items as blood pressure, pulse, body temperature and brain waves. The recorder/transmitter might be implanted under a tooth or beneath a fingernail so the participant would not have to worry about remembering to wear it.

RThought: Please note that Lawrence Gold is projecting the future and not saying what Nielsen is doing now; ScanAmerica is trying to do what is outlined above.

RThought: You can keep abreast of information like this if you read **Privacy Journal** (Box 15300, Washington, D.C. 20003, 202-547-2865, \$98/yr.).

HOW GOOD ARE POLYGRAPH TESTS?

They aren’t very good.

An aide to Senator Orrin Hatch (R-UT), who sat through hearings, summarized his views as follows:

We were dumbfounded by the number of industries using polygraph

tests. But we could find no evidence anywhere that they are reliable. In fact the scientific evidence showed that employment testing in the private sector is not reliable. 'The 15-minute specials' [in employment] are not like the 4-hour exams administered to persons applying for national security clearances. There are inherent inaccuracies in the '15-minute specials.' They tend to disfavor persons who are innocent. Nuns would fail polygraph tests, and convicts would pass [emphasis added].

The sales job done of [persuading the public about] polygraphs is unbelievable. We could find no one who would testify with scientific certainty that polygraphs detect dishonesty in employees. More commonly, it reflects the gut feeling of the person administering the test. The polygraph is used to screen out minorities, union activists, and persons not liked by the employer. In states with BANS ON EMPLOYMENT POLYGRAPHING, THERE IS NO EVIDENCE THAT SERVICES ARE MORE DISHONEST [emphasis added]. From Privacy Journal (1/87, Box 153000, Washington, D.C. 20003, \$98/yr.).

RThought: There are those in retailing who will swear on a stack of Bibles that using pre-employment and/or post-employment polygraph tests has reduced their shortages. Unfortunately, they are unable to provide acceptable scientific proof.

RThought: We should know by now that people take a different attitude toward complying with instructions (or laws) that can be monitored. There is an old saying, "What the boss watches, the employee watches." If the boss is at the door in the morning, perhaps offering a friendly word of caution to those coming in late, people will soon get there on time. If the boss comments on variances from the dress code, people will dress properly.

And as applied to the apparent effect of the polygraph, if the boss goes to the extreme of testing, the employee gets the message that the boss is darn serious about the shortage problem. Thus, it is the boss's attitude, which can be evidenced through means other than an inaccurate polygraph test to get his message across, that produces the result.

Be sure you understand what caused the reduction of shortages before you give credit to the wrong factor.

ARE YOU A TAKEOVER CANDIDATE?

Size is no longer protection. **Financial World** listed the following retail takeover prospects:

Allied Supermarkets (almost merged with Von's)
Ames Department Stores
Carson Pirie Scott
Carter Hawley Hale (Limited tried again)
Circuit City Stores (the founder has retired)

Claire's Stores
Color Tile (problem with earnings)
Dayton Hudson
Dillard Department Stores
Federated Department Stores

Jamesway
K mart
Kroger
Lucky Stores (Edelman tried again)
May Department Stores

Mercantile Stores
J. C. Penney
Petrie Stores (only if Milton Petrie wants it)
Sears, Roebuck
Stop & Shop

F. W. Woolworth (a higher price now that it has turned the corner)

Zayre

(Note: Parenthetic statements are by Kahn.)

There you have it. This list includes the three largest general merchandise chains—Sears, K mart and J.C. Penney.

Which large ones are left as safe ?

Albertsons
American Stores
Fleming
Food Lion
Giant Food

Godfrey Co.
Great A & P

Hartmarx
Limited
Lowe's

Melville
Fred Meyer (just went public)
Nordstrom
Price Co.
Rose's

Rite Aid
Southland
Strawbridge & Clothier
Super Valu
Supermarkets General
(Whoops! Offer made)

Tandy Corp.
Toys "R" Us
U.S. Shoe
Wal-Mart
Walgreen
Wetterau
Wickes
Winn Dixie

RThought: The list came from **Management Horizons**.

WORDS—ON DEBT

The following are words that generations of children studied in the late 1800s:

IRONICAL EULOGY ON DEBT

Debt is of the highest antiquity. The first debt in history of man is the debt of nature, and the first instinct is to put off the payment of it to the last moment. Many persons, it will be observed, following the natural procedure, would die before they pay their debts.

Society is composed of two classes: debtors and creditors. The creditor class has been erroneously supposed to be more enviable. Never has there been a greater misconception; and the hold it yet maintains upon opinion is a remarkable example of the obstinacy of error, not withstanding the plain lesson of experience. The debtor has the sympathies of mankind. He is seldom spoken of but with expressions of tenderness and compassion—"the poor debtor!" On the other hand, "harsh" and "hard-hearted" are the epithets allotted to the creditor. Who ever heard the "poor creditor" or the "unfortunate creditor" spoken of? No, the creditor never becomes the object of pity, unless he passes into the debtor class. A creditor may be ruined by a poor debtor, but it is not until he becomes unable to pay his own debts, that he begins to be compassionated.

RThought: There is a lot of truth in this statement. It is a good observation about the manner in which society reacts to the debtor and the creditor. And it was set forth very clearly in McGuffey's Sixth Eclectic Reader, Revised Edition, first written by William Holmes McGuffey (1800-73). McGuffey's Reader was used in all parts of the United States from 1836 to 1857. One hundred and twenty million volumes were sold. They used the classroom environment (and perhaps a greater interest in reading) to teach respect for the United States government and economic system and the implanting of moral ideas and literary tastes.

McGuffey was a teacher—an underpaid position in those days—all of his life and certainly felt empathy for the debtor—but would a sixth-grade textbook with this story pass reviews today?

(The sales figures include sales of mail order merchandise sold through mail order departments located in stores. Total mail order sales, including these sales were \$ 2,332 million).

In 1986, virtually all catalogue orders were handled by 14 catalogue telephone centres. Most orders were delivered within 48 hours and shipped either to the catalogue departments located in the Penney stores, selected Drug stores or freestanding facilities, to the customers' homes or to the catalogue sales merchants. Sales merchants are independent businesses located in communities not otherwise serviced by JC Penney stores.

The total number of Penney stores was 1,845 and total space was 10,650,000 M². The firm employed a total of 176,000 people.

AB
Part
Pub
w/RT

U.S.A. - New method of extending circulation of mail order catalogue

Retailing Today, a well-informed and amusing news letter (Box 249 Lafayette, California 94549), reports that the Catalog Retail Corporation will shortly be placing 100 mail order catalogues for sale in the Waldenbooks Chain of over one thousand bookshops. The catalogues will be next to the magazines.

The catalogues on sale are mostly specialist catalogues and include the catalogues of Bergdorf Goodman, Bloomingdale's, Garfinckel's, I Magnin, Marshall Fields, Saks Fifth Avenue, The Limited, etc.

The catalogues will vary in price from \$ 1 to \$ 3 but a sticker on the front of the catalogue tells the purchaser that there is a \$ 5 coupon inside that can be used on the first purchase. The customer therefore gains \$ 2 to \$ 4 on this purchase, and has an attractive catalogue.

The advantage for the retailer issuing the catalogue is that the cost of the operation is about the same as that of a mailing list plus handling and postage, but the response rate should be much higher.

It is probable that the scheme will be extended to other retailers such as large supermarkets and convenience stores.

U.S.A. - Waldenbooks opens "Waldenkids" for children

Waldenbooks, now a subsidiary of K mart, has opened a small chain of bookstores aimed specially at children. The stores are called Waldenkids.

The entrance to the Waldenkids stores resembles a playground and children can even crawl into the store through a carpeted tunnel. Inside the children are greeted with a video playing cartoon fairy tales and there are toys for children as well as books and magazines.

Furthermore, the toys can be played with by the children and the books and magazines opened and read. There is also, at the back of the shop, a stage for book readings and puppet shows.

The Waldenkids shops aim clearly, at present anyway, at families in the higher income ranges.

RETAIL NEWS LETTER

INTERNATIONAL ASSOCIATION OF DEPARTMENT STORES
ASSOCIATION INTERNATIONALE DE GRANDS MAGASINS

No. 337

June 1987

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retailers' options

defined trading territory and stronger and possibly more professional advertising.

Some of the disadvantages are: novices are often attracted to franchises; the franchise chain is only as good as its weakest link; you can lose sales to other group members and there is loss of flexibility and control.

Mr Atkinson said most marketing groups started as buying groups but quickly realised that no matter what price advantage they may have got on buying merchandise, there was no real benefit until that merchandise was sold.

"Groups will become stronger in the future but their success will be determined largely by the consistency of their stores in core merchandise and services and in the identification of the stores.

"With the high costs of labor, occupancy costs and interest rates, greater productivity from an existing outlet is likely to be a more favoured option than

expansion for many independents.

"As a result, there will be more rather than less banner groups in most retail areas although some will be second banners to existing groups such as Village Hardware to Mitre 10.

"Most groups will tend to have around 50 to 100 stores and they will become tougher on adherence to concept and standards," he said.

"Most will remain essentially one-state groups or national organisations with autonomous state divisions because the culture of groups is a difficult one and the more retailers you try to fit under one banner, the more tolerances that need to be built in and the more the concept is diluted.

"It is usually a less expensive alternative to franchise but might never offer the same consistency of standards and the weakest link in the chain factor is very relevant to the success of the individual

store."

Mr Atkinson concluded that each of the three main options available to independent retailers were valid options depending on a wide range of factors such as the experience of the retailer, the store location, competitive factors, the skills of the retailer and objectives for the next five or ten years.

"One of the key advantages of either a franchise or buying group can be the access to specialist services in peripheral areas of the retail discipline, such as advertising, that allows the individual retailer to get back to what he does best, which is selling his merchandise.

"There are good franchises and marketing groups but their services, activity and standards need to be examined carefully by an independent retailer before he joins," warned Mr Atkinson.

TELE-SHOPPING SPREADS

The company said that its wholesale division, which now includes an operation called HomeClub which was acquired a year ago, lost \$U.S.11.9million.

Results for Dayton Hudson were mixed, with its major chain, Target, performing well while its two smaller chains, Mervyn's and Lechmere, disappointing. Mervyn's profitability dropped by 35%.

The top five discount department store chains in the United States in 1986 were:

Chain	Sales (rise)	Profits (rise)
K mart	\$23.8b (7.2%)	\$570m (20.8%)
Wal-mart	\$11.9b (41.0%)	\$450m (37.0%)
Zayre	\$ 5.3b (32.0%)	\$222m (-2.2%)
Target	\$ 4.3b (10.0%)	\$311m (12.0%)
May	\$ 2.5b (8.5%)	\$155m (4.7%)

Teleshopping sales soar

Teleshopping sales will reach \$U.S.5billion by 1990 and look set to chalk up \$U.S.1billion this year, says a leading electronic retailing consultant.

Thomas Rauh, national service director for retail consulting at Touche Ross, a major American firm of accountants, made this forecast for current cable and broadcast video retailing systems only.

Interactive teleshopping programs, that planned by JC Penney which it is calling Teleaction, are not included in Mr Rauh's figures.

"Important strides" have also been

taken by the other facet to the tele-shopping boom, the sale of machines which provide information and the means for electronic retailing.

At the end of last year there were 40,000 such systems in operation in America's shopping centres and stores, said Mr Rauh.

This figure breaks down into 36,000 units which can provide information on a wide range of products, plus 4,000 selling machines which can process merchandise orders and transactions.

Declining survey

Market surveyors can now expect some 40% of people to refuse to take part in their surveys, according to an article in Retailing Today, the newsletter published by Robert Kahn, the Californian consultant.

In the 1960s, fewer than 10% refused to participate in surveys. Mr Kahn's publication poses the question: "As a user of market surveys, would you feel that the 40% who declined to be interviewed might have something in common and that the survey completely omitted the views of these people?"

In some cases, it seems, you cannot even pay people to take part. An offer by ScanAmerica to pay \$U.S.20 per month to people who would participate in the electronic measurement of tele-

vision usage met with a 34% rejection. Subsequently, the ratio of those who agreed dropped still further to 54%.

K mart gaining on Sears

K mart, which had sales of \$U.S.23.8-billion last year, will easily reach and pass the \$U.S.26billion figure this year, according to Bernard M Fauber, the company chairman.

Mr Fauber's projection figures for this year translate into a volume gain of 9% over 1986.

If the K mart corporation continues to improve at that kind of rate it could well be outpacing Sears by the year 1991.

Cash and carry

Membership warehouse clubs across the U.S. continue to achieve rapid growth despite low profit margins and steadily increasing competition, according to a report by the American publication, Discount Store News.

Most experts feel that the cash and carry warehouse concept has only scratched the surface of the full market potential.

Total sales are now estimated at about \$U.S.8billion but with more and more units getting into the act, that figure is expected to mushroom into \$U.S.20billion by 1990.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

APRIL 1987

VOL. 22, NO. 4

A TRUE STORY ABOUT SERVICE

This story is taken from the editorial by Jos Baker in the November 1986 issue of *The Buyer*, the major department/specialty store publication in South Africa.

The importance of service was demonstrated to us when walking through Woolworths [Note: not related to F. W. Woolworth Co.], where we were accosted by a harassed shopper. "Do you know anything about colour?" she demanded, obviously in critical need of advice. When we said it was part of our job, she thrust a skirt and blouse at us asking, "Can I wear this with that?"

We assured her she could (a little surprised that she would take the word of a total stranger) and were immediately besieged by other shoppers, anxious to take advantage of an unexpected (and free) source of advice, and eager for confirmation that their proposed purchases would coordinate.

It struck us forcibly that—even given the merchandise and the visual display—the ingredient necessary for increased sales was consumer confidence.

In selecting basic merchandise, whether panties or pantihose, the shopper has no problem. But when it comes to putting a fashion look together, many women are lost.

We believe this lack of confidence is the reason for the success of colour coding. When clutching her book of personalized swatches, the coded consumer feels totally secure on the shopping expedition. She has been told that she will look "fantastic" in any of the shades she sets out to match.

But we are raising the possibility of a "consultant" who knows the merchandise and its potential and could help shoppers over their insecurities.

Pick'n Pay [Note: a hypermarket] can do it for groceries. Surely it would also be feasible in fashion? And judging by the shoppers we "serviced" in Woolworths, there would be two tangible benefits to any self-service chain: increased turnover [Note: sales volume] and satisfied customers. (Mr. Stakol [Note: managing director of Woolworths], we are NOT looking for a job . . .)

RThought: There is little that I can add to what Jos has stated so well. We think we can sell style and fashion and color by newspaper ads, windows and store display. Just before the last step—when the money or credit card is laid down on the counter—most of our customers need a bit of expert advice to overcome the insecurities.

A salesperson, who answers the question, "Where can I find a blouse to go with this skirt?" by saying, "Over there!" does not fill that need.

We say we cannot afford to train the people we have on the floor because they don't stay very long. Perhaps the minimum wage plus 10 cents that so many stores use as a starting pay is the major reason for turnover; but certainly close behind that is the fact that we do little to help the salespeople with their assigned jobs—and the opportunity to increase their skills to

WELCOMING VISITORS

For five or six years, I have worked with Masamichi Okuzumi of the Okuzumi Management Institute in Tokyo when he brings Japanese retailers on tours to the United States. Each group knows what it wants to see and it is my job to make arrangements.

I do appreciate very much the way many, but not all, companies cooperate. On a recent tour, there were heads of major specialty store chains—shoes, apparel, home improvement, etc. They were interested in off-price retailing.

Ross Stores' executives spent two hours conducting a tour of their automated distribution center and explaining the way they operate their MIS. Then the store manager and assistant store manager at the Hayward (CA) Price Club could not have been more cooperative. Stuart Moldaw, a general partner in U.S. Venture Partners, and currently CEO of Ross Stores, was the key speaker telling about venture capital activities in retailing, the basic trends in specialty stores and how entrepreneurs get money out through merger or going public.

RThought: Why do so many foreign retailers make sojourns to the U.S. and so few U.S. retailers go out to look at the rest of the world? I think there is a belief within this country that you are not a true American unless you are absolutely certain that everything done in the United States is absolutely better than what anybody else does. In retailing, we cannot accept the idea that the hypermarket is successful because the first ones were in France. We are unwilling to share the first successful department store with the French. We close our eyes to sales per square foot produced by many department stores in Tokyo. We are unwilling to accept that a department store group can do \$1 billion in a metropolitan area of 3 million as is done in Australia, because we need an area of at least 10 million.

We are taught from our very earliest years—we are the greatest; We Are The Greatest; WE ARE THE GREATEST!

We are good. We are not the greatest. We would be a lot better if we went and looked at what the rest of the world is doing.

the point where (1) they will make enough to want to stay, and (2) you will quit playing "Russian roulette" with every regular customer who enters your store.

RETAILERS AMONG THE LARGEST PRIVATE COMPANIES IN U.S.

FORBES recently published another of its "400" lists (going **FORTUNE** 100 less?) of the largest privately-held companies. The following retailers were listed:

Rank	Name	Sales (millions)
15	Publix Supermarkets	\$3,476
16	Malone & Hyde (food wholesaling)	3,137
17	Carlson Cos (includes catalog/showrooms)	3,125
21	Jack Eckerd (drug stores)	2,508
32	H. E. Butt Supermarkets	1,900
33	Rapid American (variety stores)	1,898
37	Dominick's Finer Foods (supermarkets)	1,600
40	Belk Bros. (department stores)	1,500e
42	First National Supermarkets	1,500
47	Giant Eagle (wholesale/supermarkets)	1,450
54	Hy-Vee Food Stores (supermarkets/drug stores)	1,300
56	SCOA (discount stores—Hills)	1,214
58	Furrs (supermarkets)	1,200
69	Meijer (discount stores)	1,100e
73	Cumberland Farms (convenience/gasoline)	1,000
92	Demoulas Super Markets	845
101	Raley's Superstores	800
103	Wegman's Food Markets	800
107	Cole National (specialty retailing)	781
115	Schnuck's Supermarkets	750e
123	Golub (supermarkets)	725
133	Western Auto (auto parts stores)	697
139	Randall's Food Markets	650
142	Alfred M. Lewis (wholesale, supermarkets)	643
146	Amcena (department and specialty stores)	620e
148	Eighty Four Lumber (DIY)	608
164	Piggly Wiggly Southern (supermarkets)	570
169	Builders Marts of America (DIY)	555
190	Ingles Markets	528
197	Racetrac Petroleum (convenience stores/gasoline)	517
201	B. Green & Co. (wholesale/supermarkets)	510
205	Brookshire Grocery	500
211	Pamida (discount stores)	500
225	Schwegmann Giant Supermarkets	460
241	C. R. Anthony (department stores)	427
242	Schottenstein (discount/furniture stores)	425e
246	A. J. Bayless Markets	410e
256	Minyard Food Stores	400
268	Almac's (supermarkets)	379
275	Quicktrip (convenience stores)	370
278	Fred W. Albrecht Grocery (supermarkets/drug stores)	360
280	Hughes Markets (supermarkets)	358
294	Pantry (convenience stores)	350
299	K & B (drug stores)	347
303	3 Beall Brothers 3 (department stores)	340
308	Hale-Halsell (supermarkets)	335
318	Fareway Stores (supermarkets)	325
322	Benjamin Moore & Co. (paint stores)	325e
324	Randall Stores (supermarkets)	325
345	L. L. Bean (mail order)	304
352	Fiesta Mart (supermarkets)	300
359	Inserra Supermarkets	300
371	H. C. Prange (department stores)	298
372	Wawa (convenience stores)	295
377	Otasco (auto parts)	290
388	Consumers Markets (supermarkets)	284
394	James Ferrera & Sons (supermarkets)	280
396	Glosser Bros. (discount and supermarkets)	280

e—estimate by Forbes

Note: Macy's, Revco and others have since gone private.

CHILD CARE AND THE RETAILER

Let's look at facts—and a possible solution.

FACT: Far more than half of retail employees are women.

FACT: Many retail employees are heads of households.

FACT: Many retail employees have children under 15, often under 5, and not infrequently under 2.

FACT: Satisfactory care arrangements for their children is a continuing concern. Usually the location of the care facility involves extra travel twice a day and is not convenient to either parent in case of emergency.

Now, let's look at another set of facts that relate to a growing percentage of retail sales volume: **AL KLAER 4/30/89**
FACT: A growing percentage of retail volume is done in shopping centers of more than 500,000 square feet.

FACT: There are more than enough employees with children in day care to warrant an on-premises day-care center.

FACT: There is room on the roof to build a day-care center and even provide an outdoor play area large enough to handle 40-60 children.

Now, let's look at another set of facts:

FACT: The store says, (1) "I don't control the center, and I can't afford \$15-20 a square foot to rent space for a center," and/or (2) "I cannot have one policy here and another at my other store."

FACT: The center operator says, (1) "My insurance won't let me," (2) "It is not my responsibility to do this," and/or (3) "I am not qualified to run a center."

RThought: Here we have a situation that everyone recognizes and one with an obvious solution.

In most situations, such as this, a person called an "entrepreneur" will step forward and see it as a great opportunity. But then the landlord says, (1) "I now have another tenant, and he should pay \$15-20 a square foot," (2) the entrepreneur says, "Now I will have to charge \$100 a week," (3) the employee says, "I can't afford that," and (4) the employer says, once again, "Gee, I would like to help toward the cost, but I can't have a different policy at just one store."

RThought: This is what was said of the Faneuil Hall area in Boston, the downtown area in Philadelphia, and the port area in Baltimore until a guy with vision—Jim Rouse—came along. But retailers have also had visions. Sol Price created The Price Club. Korvette and Masters created the modern discount store.

It seems that somewhere—in the Federated, Dayton Hudson, May Company or other major tenants of shopping centers, or somewhere among the larger shopping center developers, such as DeBartolo or Hahn—there should be one who can take the lead. Or perhaps a retailer and a developer might get together and try it—I doubt that this would be a violation of any anti-trust laws.

Come on—someone—be a pioneer. There are lots of people who will fall in behind you and help.

ALL PRESIDENTS CLAIM CREDIT FOR ALL NEW JOBS

Obviously, we in business have nothing to do with creating jobs. Only Presidents create jobs. And most people do not look at the facts on the number of jobs in a growing country.

FEATURE REPORT

MOVING INEVITABLE TO POS/EFT

The move toward Electronic Point of Sale (EPOS) terminals tied to Electronic Funds Transfer (EFT) now has a momentum of its own. As I read literature from both the Electronic Funds Transfer Association (EFTA, 1726 M St., Suite 1000, Washington, D.C. 10036, 202-659-2100) and the National Automated Clearing House Association (NACHA, 1901 L St., NW, Suite 640, Washington, D.C. 20036, 202-659-4343), I see the mileposts being passed faster and faster.

NACHA said a study by Carmody & Company (Fort Lee, NJ) reported in mid-1986 there were 17,300 POS debit terminals installed; they estimate there will be 178,000 by 1990. Of the presently installed terminals, 32% are at retail gasoline outlets and 13% at supermarkets. By 1990 these percentages will rise to 42% and 17% respectively; 21% will be in convenience stores, major retailers and fast-food restaurants; 20% will be in other places.

Transactions are expected to rise from 4.2 million per month to 31.6 million. Supermarkets, which now average only 200 transactions per terminal per month, should see that rise to 600-plus as the bank-issued debit cards (the card used to access automatic teller machines) rise from 128 to 150 million.

EFTA has polled its members to find the 11 most important users of, or potential users of, POS/EFT to be included in a study to be called "Markets for EFT/POS: The Next Five Years," the results were:

- | | |
|-----------------------|----------------------|
| 1. Supermarkets | 7. Fast-Food Outlets |
| 2. Convenience Stores | 8. Hotels and Motels |
| 3. Gas Stations | 9. Apparel Stores |
| 4. Department Stores | 10. Airlines |
| 5. Drug Stores | 11. Restaurants |
| 6. Mass Merchandisers | |

EFTA reports it is making good progress in its contacts with the American Petroleum Institute (gas stations) and has met with the National Association of Convenience Stores, Food Marketing Institute (supermarkets) and the National Restaurant Association.

But there was no mention of discussions with the National Retail Merchants Association, National Association of Retail Druggists, National Mass Retailing Institute, Menswear Retailers of America, National Shoe Retailers Association and other retail associations.

RThought: Let us remember the changes that have roared down the road toward retailing, giving us lots of warning and then finding us unprepared. Those who have been around long enough remember when Linden Wheeler, Vice President for Credit at Sears, argued that retailers should join Sears and never accept bankcards. Sears was arguing from the position of having more accounts than BankAmericard (which became Visa) and Master Charge (which became MasterCard) combined. Today, Sears offers the competing Discover card.

J. C. Penney was one that heard the clarion call of "We don't need them" but then cut a sweetheart deal with Visa—not duplicated elsewhere.

J. C. Penney and Sears now compete to service other companies (including retailers) through Sears Payment System and J. C. Penney Systems Services, Inc.

The fight has been a long one against being charged for debit transactions when there is, theoretically, "no charge" by banks for handling checks; that is, no charge except taking them out of the register, adding them up, checking the amounts, making a deposit slip, etc.

Then there was the argument that the Universal Product Code (UPC) would never work for anyone except grocery stores. I would not estimate the untold millions of dollars and thousands

of hours put into proving the OCR-A (Optical Character Recognition—Font A) was better than UPC. The drug industry quickly adopted UPC; the general merchandise retailers, led by the National Retailer Merchants Association, did not give up until 1986.

Should I recount the fight against Senator Proxmire's "Truth in Lending" and following bills? I can still remember part of the statement offered by the International Consumer Credit Association (ICCA) on November 16, 1973, against the Equal Credit Opportunity Act in which the ICCA official position was:

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

When I observed in the July 1975 RT, "Of course, one didn't even take the application of a divorced woman—only recently the officers of the ICCA argued before Congress that divorced women didn't deserve credit because they [not their husbands] were the ones who broke their sacred marriage contract!", the Secretary-Treasurer of ICCA started a letter to me with "Libel is the willful and malicious publication of an untruth regarding a living, identifiable person or group of persons [Note: I think he stretches the law a bit on 'group'], which defames the person or persons by holding [sic—he was so mad he didn't catch the repeated word] him or them up to public contempt, scorn or ridicule." (Note: he forgot that truth is a defense against libel and that public "people" have less defense than private people.) I had to point out that under common law, going back centuries, a complaint is filed by the injured party (not the injurer) and, therefore, the husband must have been the one who broke his vows.

In any case, today we accept that wives can get recognition for the conduct of jointly used accounts.

Then there was the matter of stealing credit balances (with or without stating the policy) that finally ended when the Federal Trade Commission forced various parts of Associated Dry Goods, Gimbel Bros., Lerner Stores and Carter Hawley Hale to refund millions stolen from thousands of accounts. (Today the Chairman of the FTC would not investigate such a complaint on the theory that charge customers can afford to lose an average of \$18—and deserve to if they don't keep accurate track of what they owe and overpay.) Today there is a law that tells us what to do—and fines have been assessed for not following the law.

RThought: EFT/POS is coming. By not being part of the planning, retailers will be the victims. Stances by general merchandise retailers, such as those taken against UPC, against Equal Credit Opportunities, in favor of the right to steal, against applying the minimum wage law to retailing, against honesty in advertising, etcetera, Etcetera, ETCETERA (quote Gilbert or Sullivan—I forgot which one) were unsuccessful—and neither will resistance to POS/EFT. We will just end up with a system designed without our input—a system that could have been better.

In early March, I had the privilege of addressing the Merchant Research Council at its meeting at the Hotel Del Coronado in San Diego (if you have never visited this hotel, you should—it is one of the wonders of the hotel world).

Bob Devine, who invited me, gave my presentation the title, "Let It All Hang Out!" feeling that would give me room to say almost anything—and it did.

For example, I was able to discuss the declining number of retailers who can regularly make 20% after taxes on their net worth. It represents the disappearance of the entrepreneur, who is replaced by "professional management." I am firmly convinced that professional management cannot produce high-return (over 20%) stores. Part is directly related to the fact that the entrepreneur, in most cases the founder (Ed Finkelstein is an example of a non-founder), has more degrees of freedom in decision making than does the replacement professional management. Certainly the successor to Leslie Wexner or Sam Walton will have to seek board approval more often than Wexner or Walton now do. But the basic reason is that professional managers are trained to "run" something and an entrepreneur "creates" something.

I had a chance to chide BATUS about their great fear—resulting in an oppressive suit—of Jack Gimbel, who operates Gimbel & Sons Country Store in Boothbay Harbor, Maine (population about 2,500) forcing him to include in every ad "Not Associated with Gimbel's Department Stores." Perhaps BATUS was right—Gimbel's Department Stores are gone and Gimbel & Sons continues its successful summer store/winter catalog business (the catalog offers one of the finest selections of thimbles anywhere in the world).

There were a few observations on the sad fate of successful businesses when acquired by retail conglomerates—and the deconglomerating being done.

Proper attention was paid to the pontification in reports by retail firms to stockholders—and the extraordinary number of times when it is reported that the decline in sales/profit was "in line with plans"—plans which were never disclosed in advance and thus may be suspect.

Then there were a few words for retailers, who still argue in the days of 7½% prime (now 7¾%), that an APR of 19.2% is absolutely necessary for credit customers to pay their full cost. Whenever I run into someone making that argument, I ask, "If you lose so much on credit, why don't you eliminate credit?" They stare at me as if I was crazy and reply along the lines, "We can't afford to; we would lose too much money!" (Note: you understand why I have concern about professional management.)

I won't bore you with all the points covered with the Merchant Research Council.

The last half of March was spent visiting Australia and New Zealand at the request of the Retail Traders' Associations in Melbourne and Sydney. They had invited me out in 1979—and they paid me the greatest compliment they can pay a speaker—they wanted me to come back!

I was able to induce Sam Walton, Chairman of Wal-Mart Stores, Inc., to go with me—after promising that he would not have to give a speech. I told him we would use an interview format. (Note: he gave a great talk!)

We put on a well-received "Sam and Bob Show" to more than 200 top retailers in Melbourne and more than 100 in Sydney. In addition, we met with major retailers, visited their stores, had small dinners with top CEOs and generally learned a great deal of what they were doing—many things will be incorporated into Wal-Mart.

Almost every hour that we were not involved in talks we were visiting stores—and they have some remarkable stores. I consider Myers store in Melbourne (some upper floors are not yet remodeled—but the same is true at Macy's in New York City) and the David Jones store in Sydney to be world-class department stores, capable of competing against anything we have in the United States.

And we found they have many of the same problems we have—plus an almost unbelievable labor-management structure with most decisions being made by government agencies.

After Australia, I went to New Zealand to visit with retailers (and a two-day vacation in Christchurch, the Garden City—an absolutely accurate description).

In New Zealand, I saw—the day before opening—a 55,000-square-foot MaxiMart discount store (the fifth to open in the Auckland area—under 1 million population) that did US\$325,000 the first day (hurt by the running of the "Round the Bays" race that had 70,000 participants and even more spectators) and US\$1,100,000 the first week (\$20/square foot the first week).

But then no sensible professional manager in U.S. retailing would ever drop into New Zealand to see if there was something he could learn.

RThought: I enjoy being with retailers, talking about retailing and seeing/reading what is happening elsewhere in retailing.

But most of all, I enjoy the opportunity to stimulate thinking about retailing from a viewpoint (based on some 55 years in retailing) that isn't exactly what the trade papers and textbooks see in retailing. (Note: see Lead story on retailing in South Africa and the Box story on the front page on visitors from Japan.)

SHORT SHORTS

My Montgomery Ward statement read, "Picture frames . . . \$200.22." Fortunately, I remembered that what I purchased was a typewriter. **RThought:** Remember when computers promised to eliminate things like this?

Lowe's Companies expands its board again. The new member is retired Senator Russell B. Long. He joins outsiders

Jack Shewmaker, Vice Chairman of Wal-Mart Stores, John Belk, Chairman of Belk Stores Services, and Bill Andres, retired Chairman of Dayton Hudson. (Fortunately they did not elect Long's law firm—the name is too long: Finley, Kumble, Wagner, Heine, Underberg, Manley, Myerson & Casey.) **RThought:** When Lowe's Chairman, Bob Strickland, wrote me about this appointment, I asked how, with a famous board like this, they ever found time to do business?

We didn't keep track of the average number of people employed until after World War I—so here is the record of the number of jobs during the fourth year of each presidential term since 1920, and the percentage increase during the term then ending (or the year of death or resignation if the presidency terminated). THE ONLY DECREASES WERE HOOVER (1932) WHEN THERE WAS WORLD-WIDE DEPRESSION AND ROOSEVELT (1946) AT THE END OF WORLD WAR II. Note that if Roosevelt had lived to the end of his fourth term (1948), there would have been an increase of 8.1% during that term—all things other than his death being unchanged.

Year	President Ending Term	Average Number of People Employed During Year	Percentage Change During Term In Office
1920	Wilson	39,208,000	—
1924	Harding	42,045,000	+ 7.2
1928	Coolidge	45,123,000	+ 7.3
1932	Hoover	38,038,000	(-15.3)
1936	Roosevelt	43,989,000	+ 15.6
1940	Roosevelt	47,520,000	+ 8.0
1944	Roosevelt	53,960,000	+ 13.6
1945	Roosevelt (death)	52,820,000	(-2.1)
1948	Truman	58,344,000	+ 10.5
1952	Truman	60,254,000	+ 3.3
1956	Eisenhower	63,802,000	+ 5.9
1960	Eisenhower	65,778,000	+ 3.1
1963	Kennedy	67,762,000	+ 3.0
1964	Johnson	69,305,000	+ 2.3
1968	Johnson	75,920,000	+ 8.6
1972	Nixon	82,200,000	+ 8.3
1973	Nixon (resigned)	85,100,000	+ 3.5
1976	Ford	88,800,000	+ 4.4
1980	Carter	99,300,000	+ 11.8
1984	Reagan	106,700,000	+ 7.5

ANOTHER APPROACH TO DEVELOPING MAILING LISTS

First, some background. A Gallup Poll Survey reported that 52% feel they receive more promotional mail (sometimes called "junk mail") than others do, which is pretty close to being right—only 50% could receive more. Those over the age of 35 noticed it more. But the report cautioned about whether or not such annoyance is real when 73% reported having purchased by mail or telephone six times or more in the six months prior to November 1986. (Note: since the survey was by phone, it does not include people without a phone who may not get much mail and likewise place few orders. Thus the 73% doesn't apply to the total population.)

The Council of Europe has set guidelines, some of which are:

"The collection of names and addresses of private persons from other private persons for the purposes of enlarging marketing lists should be permissible only if carried out in compliance with appropriate safeguards designed to protect the privacy of the person concerned. Domestic legislation may prohibit this practice or make it subject to more restrictive conditions.

"Any person should be able, where appropriate, either to refuse to allow data concerning him to be recorded on marketing lists; or to refuse to allow data contained in such lists to be transmitted to third parties; or unconditionally and on request to have such data erased or removed from several or all the lists held by user. In addition, any person should be able to obtain and rectify data concerning him which are contained on a direct marketing list or marketing file."

RThought: This information is compiled from the February 1987 issue of *Privacy Journal* (every large retailer should be receiving this newsletter; P.O. Box 15300, Washington, D.C. 20003, (202) 547-2865, \$98/yr.).

We hear the word "greed" explaining the conduct of Boesky and others accused of profiting off insider information. And we say to ourselves that this kind of greed does not exist within retailing. Perhaps it doesn't within those firms that don't sell their mailing lists—but those that do can only be described as doing so for "greed"—that few extra dollars they can get by selling a name that is not quite theirs to sell.

I would not be surprised if the heads of many firms, selling, buying or dealing in name lists, have unlisted telephones or are listed without an address. Think about that for a moment. They want to protect their own privacy yet are willing to invade that of others.

INFORMATION IS NOT A SALVATION

Paul Strassman, author of *Information Payoff: The Transformation of Work in the Electronic Age* points out that there is no relationship between information technology and profitability.

He observes that, if you take a bad company and add information to it, the company invariably becomes worse. This is true of retailing—many losing companies have advanced information systems. They can tell exactly what happened, where and why—but they cannot use the information to make future decisions that will be profitable.

Strassman has introduced two new categories of management: "Eagles" are companies that spend little on information technology and get big returns.

"Turkeys" (with apologies to what Ben Franklin wanted as our national bird) are companies that spend a lot on information systems and have losses.

His book had an odd circulation pattern. The Japanese bought more copies than did the Americans—and the Russians have just printed 30,000 copies!

RThought: Management always has to make decisions on less information than it would like to have. If all information was available and the future could be predicted from it, computers could replace managers.

But there is a more serious problem. Often management has to make decisions without knowing that the information is available. The top decision to launch the Challenger is a perfect example. The top management did not know what was known at lower levels—the impact of cold weather on the O-rings. Yet, this was easily demonstrated by a technical person on the investigating committee when he put a piece of an O-ring into the cold water glass at his table and observed what happened.

RThought: Do you know what your company knows? Do you know what is important information that should get to you; and what is unimportant, but impressive looking information in print-outs that humans cannot absorb?

Is your information timely? When you come in at 9:00 a.m. on Thursday do you have detailed figures audited through Tuesday, plus detailed flash figures for Wednesday, so that you can

make sound decisions on something that will benefit your company on Friday?

People advance by making substantially more right decisions than wrong decisions; but the process of identifying an executive who makes more wrong than right decisions, at which time he will be replaced, is a very expensive process.

(For another review of the book, see October 1986 **INFO-SYSTEMS**, Hitchcock Building, Wheaton, IL 60188, \$6.50 single copy.)

FROM BOARDROOM REPORTS

Boardroom Reports (330 W 42nd St., New York, NY 10036, \$49/yr.) is one of my regular sources of information. No wonder it has been so successful.

The January 15, 1987 issue had several items—several with information I had not known before.

Cutting cigarette usage from 37 to 5 a day only reduces nicotine intake by 50-60% and tar consumption by 50%.

Fluorescent bulbs should be replaced every three years rather than when they burn out; that is when the illumination drops—it may be off by 70% at the end of five years.

On-the-job stop-smoking programs are more effective than community-based programs; there is positive reinforcement from a partial or total ban in the workplace.

Trouble spots in marketing: American household equipment manufacturers have made noisy products because consumers did not complain; Japan is making silent models and will take much of the U.S. market.

From 1870 to 1950 progress was made on standard sizing of garments. Since then all moves have been backwards. Look for the Far East to provide true-to-size garments.

You spend thousands of dollars to hire a new executive; did you know that there are firms that do objective reference checking? It takes about 72 hours. You get the results in an oral report followed by a transcript of calls. It costs about \$250-450.

RThought: Twice a month I get exposed to this kind of miscellaneous, but helpful, information.

WHO DO FOOD MANUFACTURERS/RETAILERS THINK THEY FOOL?

The February 1987 issue of **The Shopper Report** (3624 Science Center, Philadelphia, PA 19104) asked their panelists about misleading advertising. 83% responded that they "definitely" (or more strongly) agreed that misleading advertising is common.

The examples they submitted were:

Microwave products take much longer to prepare than the ads suggest.

Claims about "no cholesterol" for vegetable oils are insulting.

Toothpaste ads that talk about "fighting plaque" don't do that.

Prepared foods don't look as good as the ads indicate.

Granola bars are candy promoting themselves as health food.

Ads claiming that "more doctors recommend" are misleading.

Paper towels don't perform nearly as well as the ads claim.

Toy ads exaggerate size and performance of products.

Milk advertising claims of being 96% fat free. (Note: in most states, whole milk must, by law, meet a minimum, usually in the 3.5% range. Ergo, all regular milk is roughly 96% water and milk solids.)

Many items advertised as "Lite" aren't light.

Ads that suggest saving calories with cream cheese vs butter are tricking consumers into consuming more calories than ever (they use lots of cream cheese to replace a little butter).

RThought: We wonder what is happening in our society—and then go out and insult the intelligence of our customers. I don't know which is worst—the manufacturers or their advertising agencies that come up with the ideas (Note: the advertising agency seldom is identified with an ad so only its peers know if a particular agency has an affinity for misleading ads) or the retailers who use the ideas or allow the manufacturers' printed material in their stores.

SHORT SHORTS

Honest balance sheets may be coming. The Financial Accounting Standards Board is considering an amendment to the rules on consolidating majority-owned subsidiaries in a way that would prevent retailers from showing only their equity interest in unconsolidated financing and real estate subsidiaries. This means the revision of many published ratios used for credit granting *and indirectly affecting the criteria for lending to smaller companies because they are industry guidelines* (Robert Morris Associates Publications) *based on auditors' reports*. When the exemption was first established for what are called "unrelated" subsidiaries, it made sense because few retail companies had such subsidiaries and they had them for other purposes. (However, one wonders how accounts receivable can ever be considered "unrelated" to a department store.) But once exempt from consolidation, everybody started using such subsidiaries.

WORDS—ABOUT DEREGULATION

From a letter to **Business Week** by Professor Frederick C. Taylor, University of Pittsburgh (1/26/87):

Deregulation was foisted upon us by economists who condemn "protectionism" while relishing their own academic tenure. Those who advocate all-out competition while refusing to ask why competitors feel compelled to cheat are guilty of the equivalent of criminal negligence.

RThought: When I look at the retailers who advocate all-out competition, *at least in retailing*, I tend to find the ones who have the economic power to beat suppliers to the point of failure, to out-advertise (at lower rates) their competition and to deny to their smaller competitors the prime resources they have tied up. Or have I read something wrong in the message from the free-trade advocates? They seldom want to play by the rules—whether it is forcing markdown allowances on vendors, returning merchandise after season for full credit (deducted from held bills), paying late and taking the discount or misrepresenting the "regular prices" for both their own store and that of competitors.

of merchandise. (The give and take of a good marriage?)

Personal service — always a byword at Allan Gee — has not changed, for the philosophy that "the customer is always right, even when he's wrong" is the cornerstone of his trading practice.

Key to this service are sales assistants who know and understand the merchandise they sell. As Miller puts it: "They must be able to say to a customer, 'If it *doesn't* please, bring it back . . .'" He describes his training principles as "Choosing an appli-

customer and making right decisions and carefully steered away "from the things they might like to put with their suits".

To Miller, a customer is a walking advertisement. And the better turned out and co-ordinated, the better the advert. Not only for Levison's Durban, but for the group.

Since the amalgamation, business has been "way up — far better than expected in spite of the economy", according to Miller.

We see his open approach to change and

is unnecessary. This is typical of Miller. He looks forward rather than back.

South African retailing has been through a tough time. We believe that things could get even tougher for the independents. While not all boutiques can expect to have a Levison's behind them, we believe their strategy needs the objective assessment shown by Miller.

Does he plan to stay on the floor of the new Levison's? "But of course," he smiles. "It's the personal touch and awareness of merchandise that counts."

Retailing Today, a newsletter edited by American management consultant Robert Kahn (whom The Buyer editor met in San Francisco, and who impressed with his knowledge of the retail industry and trenchant comments on trading practices) published a speech made by Australian Brian Walsh, former MD of David Jones Ltd, shortly before he left for England to head the House of Fraser, owners of Harrods.

Walsh had been singularly successful in turning round David Jones. We quote his speech, which highlights his basic strategy, together with RT comment, to underscore the point made by Robert Kahn:

The fundamentals of retailing are universal

You must first have a strategy. You must know what type of store want to run, and you must have a fairly good idea of who your

customer is. One of the first things I did after I was appointed managing director of David Jones, which was nearly six years ago, was to list down on a foolscap pad a few points which I considered to be the major reasons a customer would wish to shop at David Jones. In preparation for this speech this evening, I dug out the original strategies that I formulated at that time. That's some time ago, but when I re-read them, I would not change one of them. They are:

1. She, our customer, can depend on our store to have good quality merchandise which she thinks is right for her.
2. She can generally find what she wants when she wants it.
3. Our store offers considerable choice in any one category, and perhaps in some categories we have the reputation for having extremely large assortments.
4. The price is reasonable as far as she is concerned. We like to say if people shop with David Jones and are happy with the merchandise we guarantee they have not paid more than they would in any other store. It's very trite and very easy to say we're never undersold, and a very famous company has used that as a motto. But in David Jones we really do live by it.
5. She believes that our store is up to date with the fashion.

6. It's likely she will find a favourite department in our store; for instance, "I always go to David Jones first for my cosmetics".

7. It's likely she will acquire a favorite salesperson. "Miss Walsh is always very kind to me." "Miss Walsh always knows what I want." Courtesy and manners are of paramount importance in our business.

8. Our store's advertising — newspaper, television, direct mail and radio — must appeal to her.

9. The most important — her daily shopping experience in our stores must be pleasurable because without this all the above is lost.

It's been estimated that the average customer walks through a store at a rate of 10 feet every three seconds. Now don't ask me how it's estimated; I don't honest to God know and I don't know how accurate it is. I've seen them move much faster trying to get out of Grace Bros [a competitor]. I believe one old lady broke even time for a hundred yards trying to escape from the ground floor of Walton's [another competitor]. Anyway it does serve to illustrate how important it is to get her attention quickly and dramatically. And at David Jones we recognize that very early in the piece.

We recognize that shopping is both recreation and entertainment for most shoppers. Bad stores bore a customer. Our customers are now more sophisticated than they have ever been. They bore more easily today and they will do so even more in the future.

RETAILING TODAY comment: Note that the nine steps did not involve any quick fix that could be done overnight. There is no magic stroke.

It was back to the principles practiced by Marshall Field and John Wanamaker and Adam Gimbel and Herbert Marcus and Isaac H Clothier and Justus Clayton Strawbridge and Lyman and Joseph Bloomingdale and David May and James Cash Penney and many more whose names are still with us.

You build customers one at a time.

Today we try to copy someone else — and in doing so we antagonise our present customers faster than we acquire new customers. The word "service" means nothing at most of our stores, and integrity in our advertising is not something our customers regularly praise. Even the finance charge we make on our revolving accounts appears usurious to most of our customers now that the prime rate is 7½ %.

Brian Walsh did the things he wrote on that foolscap paper. The operating profit went from \$24.3 million to \$96.9 million in five years — an increase of 41% per year!

The House of Fraser is to open the first store in London under its own name. The four-floor store in Kensington, which forms part of a redeveloped mall, represents the beginning of a major programme by the group to revitalise its stores other than Harrods.

The Horrockses colourful range of spring bedlinen was recently launched at cocktail parties in Cape Town and Johannesburg.

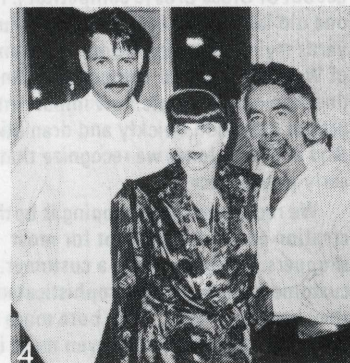
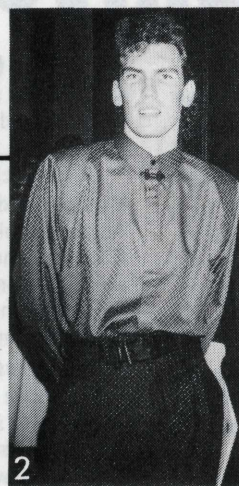
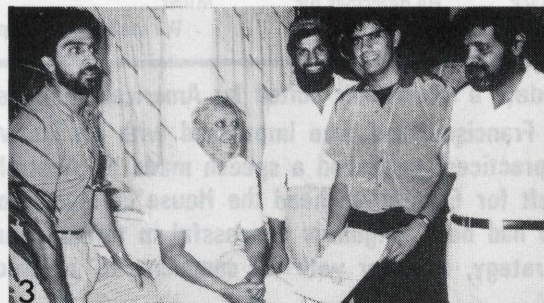


ses marketing director; Carol Haarhoff, Charmfit product manager; and Richard Muller, Woolworths merchandise manager.
(2) John Walton, Charmfit general manager; Ian Robertson, MD of Horrockses; Elaine Levitte, Pres-Les product development manager; and Les Ruhrmund, MD of Pres-Les.

In Johannesburg:

(3) From Bargain Stores, Vereeniging, directors Maqsood Chenia (left) and Zunaid Chenia (second right) with the sales team: Cassim Cassoojee, Yusuf Tootla and Mahmood Dhaler.

(4) Piet van der Merwe, Karoo Linen House, Kimberley; Heather Nolting and Sharon Peskin (right), both of Jet Stores.



WOOL BOARD SETS TRENDS

At the South African Wool Board trend shows, presented in Cape Town and Johannesburg:

(1) Jeremy Argue and Shani Boerstra, both of Blue Zoo, who designed garments for the show.

(2) Braam Kruger, compere of the show and SAWB fashion co-ordinator, who carried off the theme of the evening — to dress in shades of brown — in high style.

(3) Thane Slater of Edgars and Lynda Sumpton of the SAWB.

(4) Albertus Swanepoel, who designed some of the pure wool outfits shown (left), Chenine Huxham and designer Peter Soldatos.

GRASSHOPPERS GREATEST

Bolton Industries enjoyed a "numerical" celebration in February. While the Great Brak River factory celebrates its 128th anniversary, the company boasts a recent sales achievement of the five millionth pair of Watson Grasshoppers — a line launched 21 years ago.

(Below) MD of the Great Brak River factory, Brian Puckert (right), presents the five millionth pair of Grasshoppers to Des Bolton, chairman of Searles Industrials (holding company of Watson Shoes). Bolton was recently honoured as one of the top five businessmen of the year.





RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

MAY 1987

DIogenES—WHERE ARE YOU WHEN WE NEED YOU?

Dear Diogenes:

We need to find an honest advertiser. Please help us.

Yours sincerely,

The World

I was catching up on newspapers after being out of town. There was Wells Interiors, advertising Levolor blinds. The "60% plus 10%" was in big letters—and in small letters, "Off Mfg. Sugg. Retail" referring to the 60% and "Mfg. Rebate on 3 or more (up to \$25.00) Details Posted" referring to the 10%. Elsewhere, the big type said, "OUR PRICES ARE UP TO 75% OFF" and the small type said, "Inflated Reference Price Lists used by Department Stores and others who offer big discounts." What bothers me is that Wells is growing—they just opened their tenth store.

But then came the Sears ad offering the Levolor Riviera at "50% off" against Wells' "60% off plus free valance and shipping," plus the 10% rebate explained above. Sears offered free decorator service to measure the windows. (RThought: When was the last time you saw Levolor at less than 50% off?)

Next was Irving A. Belkin, Wholesale Furs, with "The Ultimate Fur SALE" at "up to 70% off." Belkin is offering to the general public "a full length natural Canadian lynx—Retail \$29,500; Sale Price \$9,750." (RThought: I should call "Fred, the Furrier" and check his regular price.)

Then came Marshalls and strangely all the "compare at" prices tended to be 70% to 100% more than Marshalls' prices—without saying where one found the "compare at" merchandise. But at least Marshalls does better than Ross Stores—Ross will take a "\$14.99 price" with a "compare at \$28.00" and claim a "\$13.00 saving"!

Montgomery Ward was in with "55%-60% off 14K gold chains," but I suspect the net price was the same as when it was 40% off (adjusted for the fluctuations in the price of gold). It costs very little to go from a "40% off" retail to almost any discount.

Emporium-Capwell (E-C) and Macy's (M) had their periodic "Henckels Cutlery Sale," E-C with 25%-30% off and M at 25% off. Henckels does have a price list, but both stores have set their regular prices above that list. They get almost list markup at 25% off. (There are places in San Francisco that regularly sell Henckel at 20% off the published list.)

Jockey For Her® is causing trouble with different prices for women's sizes 5-7 and 8-9. Soon a male wearing size 30 Jockey shorts will sue, claiming discrimination in male prices.

VOL. 22, NO. 5

HAPPINESS

I think everyone wants to be happy; and yet many in our society are pushing other people into unhappiness.

Kids in high school commit suicide because they get a low grade (it may be just a C), and they fear their parents will "skin them alive." In our community, one high school girl killed another out of jealousy of the dead girl's popularity. There are hundreds of courses and seminars being offered on how you can dominate or manipulate other people.

Advertising people try either to (1) appeal to your baser instincts, or (2) make you unhappy with what you are.

The world is full of people who suffer real pain because they don't have a Mercedes or a BMW; and there are even more people who have these cars but can't afford the payments. Too many feel that you have to look successful to be successful.

I thought of these things when 60 Minutes (May 3, 1987) told the story of Sister Thea, a black Protestant who, in a segregated community in Mississippi, became a black Catholic nun. She is bringing revivalist-type prayer to Catholic parishes. In the course of the interview, Sister Thea said,

"I am comfortable with who I am."

And I said to myself, "So am I." My family kids me because it is so difficult to buy a gift for me; there is so little that I want. If there is something I do want, it is likely to be a small thing and I just buy it. Three years in a row, during the early years of our marriage, I upset my wife. On the day before Christmas each year, I bought at a markdown exactly what she had bought me for a present.

We just celebrated our 41st anniversary and expect to see the 50th and even the 60th. We have two great kids, a comfortable home and a simple life. I enjoy my work—and she hers (she loves her garden and has a name for every bird). We have been fortunate in having good health—and hate to think of ourselves as Senior Citizens, a status cast on us, by most measures, about ten years ago.

Then Sister Thea said something else:

I'm content to do my little bit—some people think they have to do big things to make any change.

RThought: If everyone was "comfortable with who I am," gone would be the Type A people who pressure themselves into early heart attacks and who often (1) make life miserable for those around them, and (2) fail to reach the maximum of their intelligence—all because of a drive for perfectionism in things the world feels are not important.

Try saying to yourself, with sincerity, "I am comfortable with who I am." The sun may rise even higher for you in the future. And you may find yourself smiling at the world—or vice versa.

That happened in several states where men's slacks were altered free and women were charged.

But the worst sins were in mattresses (the Attorney General of Maryland made this kind of advertising expense for Hecht's—a May Company store). Sears, Wards and Emporium-Capwell had mattresses at 50% off. My assistants have checked salespeople in Macy's, Emporium-Capwell and Breuners and have yet to find one who has sold one of the king sets at the claimed regular price of \$1400. E-C has Sealy Cambridge, Sealy Classic Rest Deluxe and Sealy Posture Form Supra; Macy's has Sealy Posture Crest, Sealy Posture Crest Century, Sealy Posturepedic Violet and Sealy Posturepedic Iris; and Wards has Sealy Posture Premium Level III, Level V, Posturepedic Classic 300 and Classic 400—**AND SEALY DOESN'T MAKE THAT MANY DIFFERENT MATTRESSES!** But Sealy certainly offers a wide range of names so stores can say, "That mattress is not the same as ours," when it really is the same.

RThought: Diogenes—I will give you ten to one odds that you cannot find an honest retail advertiser of mattresses (except for Bob McRosky of McRosky AirFlex in San Francisco).

THE NEW H.O.T. LINE

H.O.T. is the Haggar Order Transmission system, now working in 600 stores (including 300 Belk Department Stores). Haggar apparel items come with a tag containing the SKU number in three different scannable codes. Each transaction is picked up at the register, transmitted to Haggar, analyzed and used in automatic stock replenishment. Getting information on SKU movement at the time of sale rather than weeks later from an order permits textile manufacturers to anticipate Haggar needs.

Joe M. Haggar, Jr., President, claims participating stores are experiencing a 10% increase in turnover with up to a 50% decrease in out-of-stocks. Some stores report sale increases of up to 25%.

RThought: I agree with the point raised by Joe Haggar that off-shore manufacturers cannot match this cost reduction/sales increasing step. I was surprised to read about this for the first time in *Sales & Marketing Management*, March 1987, rather than in one of the many retail periodicals I read.

HOW TO PICK A POLLSTER

The following suggestions are condensed versions of the ten set forth by Albert J. Ungar of Century Research, Ridgefield, CT, in the March 1987 issue of *Sales & Marketing Management*:

1. **Seek technical competence**—Does the pollster know the difference between statistically significant and insignificant findings? (**RThought:** Many published reports indicate that many pollsters and more commentators do not.)
2. **Seek creativity, ingenuity and common sense**—Ask to see how they approached someone else's problem.
3. **Consider whether you would be better off as a big fish in a small pond.**
4. **Know who will handle your account**—Probably not the one who sells you.
5. **Be sure the poll is correctly interpreted**—Mistakes in interpretation are more common than sampling errors.

6. **Seek experience**—But too much experience in your field may mean a stale approach.

7. **Get a pollster with guts**—Enough to give you the bad news.

8. **Watch out for low-cost polls**—Every corner cut has its impact on the accuracy and usefulness of the study.

9. **Have a written agreement setting forth who the pollster can tell about the poll and/or the results.**

10. **Political pollsters often are more marketing oriented.**

RThought: Every company doing over \$20 million a year should do regular polling, at least every two years, repeating the identical questions, to find out whether it is winning or losing customers; and if it is not getting the new customers, who is?

ANOTHER GOUGE BY THE BANKCARD INDUSTRY

Bank One in Columbus, Ohio, has just advised me that they can do me a big favor. For just 60 cents per month (if I were under 65) on each \$100 of outstanding balance, I would be insured as follows:

1. If I or my wife die, the balance (up to \$10,000) will be paid in full (unless we commit suicide).
2. If we die as a result of an accident ("accident" not defined), a like amount (up to \$10,000) will be paid to my estate.
3. If I am employed full-time, non-seasonally, and am fired, laid off, or become unemployed due to a labor dispute, my minimum monthly payment will be made.
4. If I am disabled (not defined) through accident or illness, my monthly payments will be made as long as I am under a doctor's care and unable to work.
5. If I or my wife lose the sight of both eyes or either a hand or a foot in an accident, my account will be paid in full.

Sixty cents per month per \$100 is equal to an annual percentage rate of 7.2%. On a \$300 balance the insurance company would collect \$21.60 for \$300 (\$600 in case of death under age 65) in coverage.

RThought: If I had to make a guess how the money will be split, it would be 30% to the bank, 20% commission to someone for selling the banks, 20% administrative costs, 20% payouts under the policy and 10% profit to the insurance company. This really is not a good deal EXCEPT for the bank, the insurance salesman and the insurance company.

Anything to squeeze a buck from the customer who thinks you are his/her friend.

Employees can probably get, through their employer, \$10,000 accidental death and dismemberment insurance plus \$5 a day extra hospital coverage for something on the order of \$3 to \$6 per month depending on age. In case of death, the \$10,000 will pay the \$300 balance owed to your friend, Bank One, and leave \$9,700 for other purposes. And the \$5 per day in the hospital will clear the \$300 balance in two months, not just pay the minimum payments.

RThought: I just don't understand how the head of a multi-billion dollar bank can let this be done to his customers. But perhaps the CEO does not consider those with the bank's credit cards as "customers"—perhaps "simpletons" would be a more appropriate term.

YEARBOOK—1938-39:

The book was dedicated to John Gurney Callan, Professor of Industrial Management. He responded, in part, with the following thoughts:

Environment and affiliations, a man's own reasoning powers and above all his fundamental character and emotional and intellectual patterns are the factors that will shape his course.

Much more than formerly the activities of business are recognized as part of the total social and individual life of the community and the State, by no means wholly separable, nor at any time free from the enforceable social responsibilities naturally devolving upon so large a fraction of human activities.

This implies graded opportunity, but since we cannot be in full measure both free and equal, we must seek the kind of inequality that raises the total level of freedom.

Competence and hard work being taken for granted, honesty and friendliness and sympathetic understanding are indeed the best policy—if only they are genuine. And in seeking this practical, workable, realistic idealism we need have no fear that we shall be lonesome; I have found as much of it among American business men as in any group that I have known.

In describing the Baker Library, the caption read:

Baker Library where Future Captains of Industry Spend Their Apprenticeship in the Pursuit of a Firm Business Foundation and in the Development of Sound Judgment in order that They May Better Serve Country and Fellowman in Their Chosen Field.

YEARBOOK—1939-40:

The book was dedicated to Howard Thompson Lewis, Professor of Marketing and Director of Research. He responded, in part, with the following thoughts:

He chose the title "The Cost of Loyalty."

He pointed out that the School generates an unusual form of loyalty. Students attend for only two years. There are no football or other athletic teams around which they can gather. And they come with established loyalties to other groups.

Following this analysis, he made some observations:

The other thing to note is that this very loyalty to the School is—or should be—a force for good within the community to which the graduate goes. For loyalty to the School means *fidelity to the principles for which it stands and a belief in the objective toward which it is striving*. [Emphasis added]

And—let there be no mistake about it—the School does stand for one very definite ideal. That ideal is not simply financial success in business, although such an achievement is an integral part of the whole. Nor is it correct to say that a sense of social responsibility, alert and active citizenship, appreciation of scholarly achievements, and a

deep sense of religious values are underlying fundamentals which the School must take for granted and upon which it is to superimpose the training which makes for business success. Far from it. All of these characteristics are united in varying degrees in the same person. If this institution stresses those qualities which make for business success, it does so not because it lacks appreciation of the other basic values, but because of obvious limitations of quite a different sort. *The real task of the School is to make its graduates men in whom business training is an integral part of the essential qualities of a well-educated man.* [Emphasis added.]

Dean Wallace B. Donham, in his message to my class, made the following observations:

The services of men whose energies are directed beyond the lure of immediate material gain has prolonged and enriched the life of the groups of which they are a part. You are living in a society whose life blood is drawn from its industrial and commercial resources, and it is among business men that the high standards of a professional class are particularly important.

The Yearbook also contained "A Brief History" of the School, condensed from a Historical Sketch by Dean Wallace B. Donham and Assistant Dean Esty Foster. The last two paragraphs of that condensation were:

In a short span of twenty years, an ideal of the socially responsible business man has been nurtured, to be implanted in successive generations of students leaving the School to enter the world of business, a career which President Lowell has described as "the oldest of the arts but the newest of the professions."

"Dreading to leave an illiterate Ministry to the Churches," the founders of New England established Harvard College. As Owen D. Young said at the dedication of the School Buildings, Harvard is now striving to guard against an illiterate ministry of business.

RThought: Perhaps you, as my readers, understand what I got from Harvard Business School (MBA 1940) and what is not being given to current graduates. Harvard Business School has failed the dreams of great teachers like John Gurney Callan and Howard Thompson Lewis. It has fallen short of the dreams and goals of Dean Donham. If they were here today, it would be a great disappointment to President Lowell and Owen D. Young and, yes, to George Baker, whose great gift first propelled it into prominence.

Perhaps you, as my readers, understand my great disappointment with a school whose real task was once described as "to make its graduates men in whom business training is an integral part of the essential qualities of a well educated man" and a Dean who said, "It is among business men that the high standards of a professional class are particularly important."

Please weep with me.

SHORT SHORTS

Did you have a problem with D & O liability insurance? Did you complain and then pay more for less coverage? Did your trade association help you? The American Bankers Association formed a captive company, American Bankers Professional and Fidelity Insurance Co., Ltd., which started issuing policies February 1, 1987. **RThought:** When malpractice insurance became almost prohibitive, doctors in several states formed their own insurance company—and saved money. Years ago, when insurance companies did not fully adjust rates for sprinklered factories, manufacturers formed Factory Mutual—and enjoyed a great savings. Why have retailers not met some of their common problems in this manner?

How SAVVY looks at the Harvard Business Review. It did note that the Review "looks great in an attache case" but then observes, "Can you trust a magazine that plugs its authors' services?" And it questioned an article on the "five stages of small business growth" that contained the statement, "We found that while a number of other companies appeared to be at a given stage of development, they were, on closer examination, really at one stage with regard to a particular factor and at another stage with regard to others." **RThought:** I have always been enthralled by the "positive indefinite" tense in which the theories of business are presented. It seems that Newton, in explaining the law of gravity, should have warned us to watch out because sometimes the apple might fall up!

MACY'S CALIFORNIA IS CONCENTRATING ON SERVICE

More of my friends in Northern California complain about the service at Macy's California than complain about service in any other department store. That, perhaps, is as it should be; Macy's does more business in Northern California than any other department store. It long ago passed its major competition—Carter Hawley Hale (Emporium-Capwell plus Weinstocks).

Yet almost every Macy customer has a story about leaving merchandise and walking out—in frustration about the inability to find a person to ring up the sale.

At the same time, there is an upstart in Northern California named Nordstrom, and the story of its good service is repeated time after time by the same people who leave merchandise at Macy's. I have never heard a story of someone walking out of Nordstrom because of inability to complete a sale—and certainly if there was such a story, the unfortunate customer would waste no time in trying to puncture the aura surrounding Nordstrom.

With considerable publicity, Macy's California has announced that it is concentrating on improving service.

One hears about a number of steps taken. Nordstrom places great emphasis on sales commissions; Macy's is reported to have increased its commission rate. Increasing the commission paid does not mean that the same sales staff will pay more attention or give better service; only that the sales staff payroll percentage may increase.

There are reports of increased staff on the floor of Macy's; the stories I hear from shoppers do not tend to confirm these reports; but, on the other hand, I have not heard any stories of less staff.

Recently, major ads have appeared headed "SALES ASSOCIATES 2-DAY SALE," and there are other references to "associates" instead of "employees." Considering staff as "associates" is something that has to be imbedded in the culture of the company—not just put in ads. James Cash Penney started imbedding that attitude when he was operating as The Golden Rule in Kemmerer, Wyoming, in 1902; J. C. Penney-graduate, Sam Walton, established the "associates" philosophy in 1949 in what is now Wal-Mart Stores and which is in the process of passing Penney's in size to become the third largest general merchandise chain. (Incidentally, I think J. C. Penney was the kind of man who would be proud of what his ex-associate Walton has accomplished.)

Calling people "associates" is the first step—but it takes a long time before people who were "employees" feel that they are "associates." Changing the kind of sale that used to be a "MANAGER'S SALE" or a "WHITE FLOWER DAY SALE" is a step—but just a small step and perhaps not the most important step. We were all taught "actions speak louder than words," and it takes many actions to change an "employee" into an "associate."

From the customers' viewpoint, service is something that they actually experience: A transaction is (1) handled promptly by an associate who (2) is knowledgeable about what is being sold, (3) is interested in the customer and, finally, (4) completes it in a satisfactory manner.

"Completes in a satisfactory manner" depends largely on the way the store operates and the sensitivity of the system/operating procedures to the needs of the customer. Systems and operating procedures are set by the store; the

employee/associate is not free to change them to overcome shortcomings.

My wife recently was served by an interested and informed Macy's sales associate who was unable to provide satisfactory service because of the systems/procedures provided to her by management. I think you will find the story interesting.

The daughter of a friend of ours was to be married in 16 days. My wife went shopping for a present. She knew that the couple was listed in the Bridal Registry at Macy's. With the assistance of a good sales associate, they tried to bring up a listing of the bride's selections on a computer screen.

As required, they entered the first three letters of the last name plus some additional information. In this case, the first three letters brought forth an almost identical name of a bride in the State of Washington. The interested associate finally asked if my wife knew the name of the groom—which, fortunately, she recalled. Thus, they were able to access the list of the bride's selections.

The first item selected was not in stock!

When a choice was finally made, my wife asked when it would be delivered and was told, "In ten days to two weeks; I THINK IT WILL GET THERE BEFORE THE WEDDING! ! !"

My wife has lived with a retailer for a number of years (41) so her next question was a logical one, "Don't you use UPS?" The answer was "Yes" but the associate added the explanation for poor service as, "The paperwork has to go through San Francisco! ! !" The San Francisco Macy's is only 23 miles away as the crow flies; but apparently Macy's uses the successor to "Snow Shoes" Thompson, who, in the 1860's, carried mail over the Sierra Nevada mountains on skis. But even "Snow Shoes," in the worst of snows (we don't have snow between Concord and San Francisco), could have completed the transaction and delivered the present in much less than "ten days to two weeks"; at the most, it would have taken him three days, allowing one full day for gift wrapping.

RThought: Service is like beauty for "beauty is in the eye of the beholder."

My wife is like most of your customers; she will tell the story of disservice to many of her friends (of which I am one). And it may come up over a period of a year or two, wherever women customers gather to exchange their experiences. And the story will never be anonymous; it will always be "Macy's at Sun Valley in Concord."

RThought: The future of department stores is in service. No matter how many experts in retailing tell us that the customer is fully informed and all he or she is interested in is price, our economic information shows an increasing number of people enjoy the income that permits them to indulge themselves in the services that they want.

If it is not provided by the department stores that already charge for it, then who? Is the answer to be specialty stores or even the discount stores with their cheerful, helpful associates? Will the new Lerner's that Leslie Wexner has brightened up and whose employees have responded become a center of service?

Jeremiah lived 600 years before Christ; and in his book, it is written (13:23), "Can the Ethiopian change his skin, or the leopard his spots?"

WHICH MUTUAL FUND IS BEST— MAXIMUM GROWTH OR SMALL COMPANIES?

the **Business Week** (Feb. 23, 1987) issue, they ran their annual **Mutual Fund Scoreboard**. They classified funds as balanced, growth, growth/income, income, maximum growth or small company (plus three other very specialized categories).

Being entranced by all the talk about the undiscovered small companies, I was interested in how they performed and particularly when compared to "maximum/growth" funds. The table below may cause you to wonder about expressed "fund objectives":

Type of Fund	Number of Funds	Total Return Percentage	
		Median (1)	Interquartile Range (2)
Maximum Growth	33	-8%	+24% to -23%
Small Companies	32	+14%	+130% to -9%

(1) Half above and half below.

(2) 50% between the numbers shown: 25% below lowest and 25% above highest.

RThought: If the median performance of "maximum growth funds" was a loss of 8%, what happened to regular growth funds (I was too frightened to tabulate)? Clearly, the small company funds out-performed the maximum growth funds in 1986.

THE ENTREPRENEUR AT WORK

We forget that the advantage the entrepreneur has is that he/she *NEVER STOPS THINKING* about how to do more business profitably. There is no such thing as going home and leaving the office behind.

Our local one-hour photo service is an example. I have often wondered about the permanent sign on their window "2 copies of your prints for the price of 1—Sunday only." I went in one Sunday with some prints that I wanted two copies of—and figured that I would get them later on Sunday and save some money. The salesperson said that the prints would be ready Tuesday afternoon! Each Sunday this store backs up enough work to take it through the slow Monday and Tuesday.

The local Rocking Horse restaurant is another example. They cover the table cloth with butcher paper and leave crayons for the kids to use. The best picture of the month is posted on the wall just inside the entrance. The owner, too, is worried about a slow Tuesday. He tears off the stub on your check and marks it as "good for two dinners for the price of one—on Tuesday."

Take the franchise operator of Santa Maria Airport Hilton right next to the airport. American Eagle, on flights to Santa Maria, puts in each ticket envelope a slip that reads, "Good for a \$5 cash rebate when you stay overnight." (I don't approve of cash rebates—they induce travelling business people to file false expense reports.)

WHAT DO YOUR CUSTOMERS THINK ABOUT REBATES?

One of the new publications that I receive—and read with interest—is the **Price Club Journal** issued monthly by, as you might guess, the rapidly growing Price Club. April 1987's issue was Volume 2, Number 3.

They have an active "Letters" section, and the April issue was almost entirely devoted to views on rebate offers and coupons—under titles of "Rebates are ripoff gimmicks," "Why rebates are worthless," "Consumers are being deceived," "Watch out for the fine print," and "Rebate tale: never again." All agree with a previous letter along the same theme.

Here, Mr. Retailer, is a view you seldom get. I can only presume that had one been received, Editor Jim Alvord would have published a letter he might have titled, "Look at how much money I saved with coupons/rebates." So, I assume he did not get such a letter.

Let's assume that the letter writers were at least first cousins to your customers. Here are the points they raised:

1. Need separate sales tags if one or more rebate items are rung up.
2. Taking bar code off a gift destroys the package—and cannot be done easily.
3. If the item is defective, you have no sales tag to prove purchase.
4. The check, when received, can get lost in a mass of junk mail.
5. Retailers are reluctant to cash rebate checks.
6. If a business deduction, you have no sales check for proof.
7. Short expiration date on newspaper coupon (the complainer cited a newspaper coupon for Stove Top; and when he went to use it, within a week of the ad, he found it had expired).

RThought: The writers asked such questions as "Why can't they just reduce the price?" and "Why can't the retailers just honor the rebate form?"

These seem like sensible questions. So, I ask you—Why do you run rebate ads? Do you think your customers like them? If the vendor makes it hard for your customers, does that help you?

(I am currently waiting for a check for \$5 from Duracell after cutting bar codes off five battery packages—three of the "four to six weeks" for rebate have passed. The mail might consume three days each way—Does it really take three to five weeks to write a \$5 check? Is this why U.S. industry is failing in world markets?) (STOP PRESS: Received check within six weeks—barely.)

ARE STOCK PRICES AS CRAZY AS THEY SEEM?

We tend to look only at (1) the height of Dow Jones Industrial average (30 industrial—which includes two retail—stocks) and (2) the daily gyrations.

For some years we have published a smaller publication called **STOCK DATA**—a compilation of the price and price/earnings ratio on over 350 retail stocks. (For a sample copy, write **STOCK DATA**, P.O. Box 249, Lafayette, CA 94549.)

At the end of 1986, the median price earnings ratio (half were higher and half were lower) for retail stocks stood at 14 times. There was only a moderate gain from the end of 1985 when the ratio was 13 times.

Although 350-plus retail stocks are not comparable in quality to 30 of the largest, best managed and most analyzed stocks, let's see what happened to the price/earnings ratio of the Dow

Jones Industrial. At the end of 1986, it stood at 16.2 times—DOWN FROM 17.1 TIMES AT THE END OF 1985!

RThought: the Dow Jones Industrial price/earnings ratio is published as of the end of each week. On Friday, May 1, the P/E ratio was 19.7x, up moderately (6%) from 18.5x a year earlier.

The Dow Jones Industrial Average was at 2280.40, up from 1955.57 or plus 17%.

If the P/E ratio increased only 6%, then the 17% increase in the average largely reflects better earnings.

RThought: At least one privately held retailer uses STOCK DATA as a guide, setting prices for transactions in its own stock among family members or for moderate redemptions by the company. For any firm interested, there is a good mathematical tool using this data that I have used for years in valuations of stocks for estate tax purposes and which generally have been accepted by the IRS. If enough readers are interested in this, such a service could be provided. NOTE: It does not provide results in the wonderful high prices that many owners want to set for purchases by their ESOT—but it does establish what I believe to be a fair market value as defined by law and court decisions.

REWARD AND PUNISHMENT— AT TANDY CORPORATION

The proxy statement for Tandy Corporation clearly indicates that employees can work until age 75. The insurance funded benefits provide for retirement at 55 or older, or payments, in case of death, at 75 or less during employment.

But Tandy would really like to have you leave some time between 65 and 70. Although welcome to stay until 75, this "may be injurious to your (financial) health."

Suppose that you would be entitled to \$100,000 a year retirement benefit at age 65. Here is what you would get at other ages:

Age	Amount	Age	Amount
55	\$ 50,000	63	\$ 90,000
56	55,000	64	95,000
57	60,000	65 to 70	100,000
58	65,000	71	80,000
59	70,000	72	60,000
60	75,000	73	40,000
61	80,000	74	20,000
62	85,000	75	NOTHING

How much more clearly can a company say, "You are not wanted—get out," and yet remain within the law?

RThought: As I approach the "punishment age," and still make about 40 out-of-town trips a year, plus maintaining an active program which includes consulting (Robert Kahn and Associates), merger and acquisition work (Kahn & Harris, Inc.), writing (Retailing Today and a biweekly column in our local paper), community activity (professional associations and local government affairs), plus reading and scanning 200-plus publications monthly and getting in my 90 miles a year of swimming, I wonder if we really know how to judge the contribution a person can make? Mechanistic rules are simple—but often produce the wrong result.

We have a similar situation when writing wills. I can recall my feeling of success with the father of one of my clients when I persuaded him that it was not the right thing to divide his estate equally among his children—when each child had different needs (and my client had no needs).

SHORT SHORTS

New Secrets from Victoria under The Limited: In addition to an aggressive opening of mall shops (The Limited can now offer a shopping center developer 5 or 6 different shops—sometimes side-by-side giving The Limited flexibility on future use), the mail order catalog has changed. The most recent sale catalog breaks down into about one-third intimate apparel, a bit of swimwear ("bit" refers to catalog space as well as body coverage) and the balance in outerwear.

First cigarettes, next coffee. The decrease in cigarette sales is accelerating despite the increased advertising cost per package and the use of coupons. The tobacco companies are rushing to diversify—something they never thought they would have to do. Now comes a report from the National Coffee Association on the percentage of Americans who drink coffee:

Age	1985	1962
10-19	7%	25%
20-29	41	81
30-59	71	91
60	79	88

RThought: If this would just happen to pot and cocaine—what a wonderful thing it would be.

Everybody is your competitor. Sugar Bowl is a ski resort at Norden, California, in the Sierra Nevada Mountains about 20 miles west of Lake Tahoe—just the place where I would look to order a house-label Cabernet Sauvignon or Chardonnay at \$65 a case or to sign up for a fly-in fish safari in Alaska at \$1600 per person and up (plus transportation to and from Anchorage). But it is offering both. **RThought:** Next week diamonds at 40% off from Sugar Bowl ski resort?

The last of Designer Depot's merchandise will go to Food for the Hungry, Inc. The family apparel worth \$12 million will be used for disaster relief and long-term assistance throughout the world.

WORDS—WITH A METHOD

John Wesley (1703-1791) attempted to lead a Christian life through "method" or discipline. Ultimately, the societies that he formed came to be known as the Methodist Church. One method he advocated is offered below:

Do all the good you can,
By all the means you can,
In all the ways you can,
In all the places you can,
At all the times you can,
To all the people you can,
As long as ever you can.

RThought: Almost everyone—and you are part of the "everyone"—can adopt this method if you have not already done so.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

JUNE 1987

VOL. 22, NO. 6

WILL YOU DO YOUR PART TO SUPPORT "JUST SAY NO TO DRUGS"?

There was a day when retailers were active leaders in bringing about desirable results for the community they served. They worked for better schools; they urged people to vote in favor of important bond programs. They served on city and state committees.

It is the community that supports the retailer, provides him with an income and often makes him wealthy.

Though it happened before I was born, I have always been proud of the standard of community support provided by my Grandfather, Solomon Kahn. He was a leader in making Oakland a better community; only a portion of the return for his efforts was the building of a department store that needed a 375,000 square-foot building.

The greatest reward was one I hope he witnessed—although that is a matter of belief. On the day of his funeral, all of the merchants in Oakland closed their stores, and many of their employees attended the services. The following day, the local paper devoted almost the entire first page to a report of the funeral and quoted most of the speakers.

Such conduct is no longer common. When it does occur, it is largely people from the declining number of home-owned businesses; it rarely exists among professional management. This is not a subject taught by academicians as part of retailing.

RThought: We are fighting for our existence in a battle against drugs. The First Lady is leading the way. Almost every community has a large number of people organized to support "SAY NO TO DRUGS." Perhaps retailers give a few dollars or permit their names to be shown in an institutional ad.

But that is not offering their strongest support.

In the May 13, 1987, **Miami Herald**, Lindsley Home Decorating Centers had a center double-truck ad; and in the upper right-hand corner, larger than anything except the key item in the ad, was the support of "SAY NO TO DRUGS," with the statement, "Lindsley Home Decorating Centers are proud to support the efforts of the 'JUST SAY NO TO DRUGS' campaign. A campaign dedicated to creating a drug-free community."

Publix Markets joined three non-retail firms in an ad. In a full page listing of firms, I recognized the following retailers: Burdine's Home Improvements (perhaps no part of the Burdine Department Store), Dollar General Stores, JByrons, Lionel Play World, Loehmann's, Malone & Hyde, and L. Luria & Son. The list ran only through "M"—so perhaps there were others—but this is not enough names to make Miami retailers feel proud about doing their part for the community.

IS OUR SOCIETY MIXED UP?

We know to the unit how many cars we make every week and how many we sell every 10 days, how many kilowatts of electricity we use every month—and we know with reasonable accuracy what our retail sales are every month and how much consumer credit is outstanding at the end of the year.

And then I read, "It is *estimated* that there are anywhere between 600,000 and 6,000,000 homeless people in the United States, among them an increasing number of women of all ages, colors and classes" (**Medical Mission Sisters News**).

RThought: For several years during the Depression in the '30s, I worked in a soup kitchen. I do not recall ever seeing a woman or a child. Some time, go to your local library and look at pictures of soup lines—all you will see is men. *With all of our advances—the man on the moon, instant worldwide communications, nuclear bombs that can destroy the world—can we really say we have made progress in our society?* Once upon a time, we felt a responsibility to do something for our fellow Americans; today we send a small check or drive along a different street (and lock our car doors) or walk the sidewalks looking down just so we won't see the truth around us.

RThought: Can we be very proud of ourselves? Between 1929 and 1933 our national income dropped by 46% in current dollars and 31% in deflation-adjusted dollars, and we still found more time to care for others than we find today in the midst of our prosperity.

EVER WONDER HOW TO GIVE AWAY SURPLUS INVENTORY?

Contact the National Association For The Exchange Of Industrial Resources, Box 8076, Galesburg, IL 61402, 309-343-0704. Section 170(e)(3) of the Internal Revenue Code provides that a corporation (but not an S-corporation) may give inventory to a 501(c)(3) organization (united funds, religious, charitable, scientific, literary, education, or anti-cruelty to children or animals) exempt under 501(a) BUT *only if the use of the property relates to the purpose for which exemption is obtained* and the donor/taxpayer receives a written statement representing the use and disposition of the property. (Any items subject to the Food, Drug and Cosmetic Act must meet FDA requirements for at least 180 days prior to the gift.)

The deduction shall be no greater than the sum of half of the limit allowed for contributions (5%) and not to exceed twice the basis of the property. (Note: Assuming you are within the 5% limit, then a retail corporation on cost or market can take

up to double the cost while one on retail method can take up to double the cost determined by applying the appropriate current cost complement to the *current* retail price—any markdowns previously taken have already been reflected as a cost for tax purposes.)

RThought: The rules are relatively simple for inventory. First, the surplus must go to certain tax-exempt agencies (of which there are many needing store-type merchandise). Second, it must be used in the ordinary course of that agency's business, and the agency must indicate, in writing, that they will so use it. Third, you are limited on this kind of gift to merchandise with a cost basis of not more than 50% of your 5% deduction (or 2 1/2% of taxable income) increased to not more than twice your basis. The "not more" means that you still cannot go above the market value (in most cases, the price at which you are offering the goods for sale). For example, you have an item in stock at \$100 in a department with a cost complement of 60%, so your basis under the retail method is \$60. You cannot take \$120 (twice your basis) because you have already determined the fair market value is only \$100. On the other hand, if you have a cost complement of 40%, your basis is \$40, so you can only take \$80 but not the marked price of \$100.

RThought: Lucky Stores used this method to dispose of several million dollars of inventory remaining when they closed their Gemco Stores division. They received considerable good publicity in the local press. They gave it to four agencies that met the qualifications set forth above.

The article that stimulated this item was in the April 1987 issue of Retail Stores Service's **Furniture Digest** (1946-P Greenspring Dr., Timonium, MD 21093, \$39/yr.).

EMPORIUM-CAPWELL BRINGS YOU A WONDERFUL 2 DAYS

It is Sunday, May 24. San Francisco is celebrating the 50th anniversary of the opening of the Golden Gate Bridge with an unexpected 900,000 people trying to walk across the bridge, starting at 5:30 a.m. Monday is Memorial Day—a holiday! E-C's tabloid, headed "Making News," has one of hundreds of pictures of the bridge on the cover and the announcement "Memorial Day Sale." Prominently on page 2, "LAST 2 DAYS—Shop Sunday 11-6, Monday 9-6." Based on that, special prices should end May 25.

Here are the true expiration dates shown in the tabloid:

Page	Merchandise	Prices Good To
4-5	Luggage	June 7
6	Glassware	June 1
7-8	China and Silverware	June 22
10	Table Appliances	June 8
11	Casio Watches and Keyboards	June 15
12	Cameras	June 22
13	Typewriters	June 15
14-19	Televisions, Audio and Telephones	May 31
20-21	Lamps	June 22
22-23	Recliners and Sofas	June 8
24-25	Rugs	June 1
26	Vacuum Cleaners, etc.	June 8
27	Closet Organizers	June 14
27-28	Bookcases and Exercise Equipment	June 8
29-31	Lingerie	July 6

That leaves the prices only on page 2, 3, 9 and 32 (back cover) ending in two days.

RThought: Blame it on the advertising department. They didn't know when they created the headline what the buyers

were going to put into the ad. Yet the advertising department helped hide the statement, "Now through (date)," in a different place on every page. Most often, it was hidden in the copy of a single item—not clearly and honestly disclosed. E-C wants the copy to be just honest enough to avoid questions from the Attorney General but sufficiently dishonest that the customer will not see it; and if the customer does see it, the customer will think it applies only to the item it is under.

You can hear the reasoning by all the buyers, the merchandise managers, the general merchandise manager, the advertising director and, finally, the CEO: "If we put the dates out so the customer can clearly see how long the prices are good, we will not make our Sunday and Monday sales plan—and worst of all, that might impact our bonus. Let's agree that if this gets to the public, we will say it was an error, and we will be more careful in the future." And then, taking a tip from our fearless political leaders say, "We will start a program of damage control to our declining reputation."

AT LAST THE FEDERAL RESERVE BOARD AGREES WITH RT

For years I have complained in **RT** and to the Federal Reserve Board that their published figure of M-1 (the simplest measure of the money supply—currency in circulation plus bank deposits accessible by check) was not only worthless but perhaps was damaging the economy.

My reasons were as follows:

1. It is published weekly based on reports of a limited number of banks (many regional banks report monthly; smaller banks report quarterly). The sample was subject to excessive variations of deposits by active money managers, and thus the money center banks were no longer a reliable sample.
2. The standard error was \$800 million, which meant that any fluctuation under \$800 million had only a 65% chance of being a real change. It took a variation of more than \$1.6 billion to have a 95% chance of being a real change.
3. The money and stock markets frequently reacted violently to weekly M-1 changes that were not statistically significant.
4. The Federal Reserve Board refused to moderate these weekly fluctuations by publishing a four-week moving average or other summary number that would smooth the wild fluctuations. (I felt that not to do this was morally unethical.)
5. The constant introduction of new kinds of accounts that make money available by check, but are not included in M-1, destroyed the value of M-1 as a predictor of inflation. NOW accounts, started by savings and loans, and money market funds with access by checks, were not reported to the Federal Reserve Board. All that made the very definition of M-1 obsolete.

This brings us to the **Weekly Letter** of March 13, 1987, issued by the Federal Reserve Bank of San Francisco. It reported that on February 19, 1987, Paul Volcker testified before the Senate Banking Committee about the Fed's 1987 plans for the money target ranges to be used by the Federal Open Market Committee (FOMC) whose acts, in effect, control the supply of money and thus the availability of money and the cost (interest rate) of money.

Volcker said that no guide figures would be set for M-1, but they would be set for the broader money measures—M-2 and M-3. The newsletter then stated:

The downgrading of M-1's role in monetary policy for 1987 reflects concern about that aggregate's reliability as an indicator of monetary policy, concern that has arisen because of M-1's highly unusual behavior over the past two years.

Many will feel that I have deserted private retailers! I have accepted an appointment for three years as a Consultant to the Commander of the Army and Air Force Exchange Services.

I want to tell you a bit about my new client (they pay only expenses; I cannot afford to take many clients on this basis).

First, let me straighten out those of you without a military career. The Post Exchange is something completely different from the Commissary, the mortal enemy of all food merchants. In my correspondence over the years with top retailers, when I have defended the Post Exchanges, I have felt much like the Chinese in Chinatown in San Francisco right after the attack on Pearl Harbor; most Americans could not then, and cannot now, tell a Chinese from a Japanese. Over-angry Americans, in completely bad taste, and in violation of our Constitution, were beating up innocent Chinese (*the Japanese in the U.S. were also innocent, but martial law brought out the worst in us*), throwing rocks and otherwise abusing the Chinese to the point where, for their own safety, they had to wear 8" x 10" signs, saying, "I am Chinese." My 8" x 10" sign says, "I advise the PX."

But I am in good company. The other consultants are: *George T. Alley*, Professor, School of Food, Hotel and Tourism Management, Rochester Institute of Technology; *Richard H. Falck*, recently retired Executive Vice President of K mart (most recently for merchandising systems and distribution; and before that, EVP for merchandising); and *Mervin G. Morris*, founder and CEO of Mervyn's from 1949 until merger with Dayton Hudson in 1977.

The fundamental dimensions of the AAFES are given on the enclosed News Release. It has a fine history going back to peddlers who followed the Army during the Revolution (there were other followers on that army, as in all wars, and AAFES specifically disassociates itself from them).

I attended my first meeting of the Board of Directors, and I have never seen so many stars in one room in my life. We civilian consultants sat at the large table, but it seems that some of the Brigadier Generals sat in the second row.

I had met Major General John E. Long, Commander of AAFES, prior to the meeting. Also present was the Chairman, Lieutenant General Max W. Noah, Comptroller of the Army (his position alternates with the Comptroller of the Air Force). General Noah was well informed. So were the other board members who spoke. At times, their proposals for increasing profitability went contrary to what you and I would consider sound retail principles. It is always a difficult balancing act between lower costs and the service needed to build a clientele. I was impressed, however, with the responses of General Long.

I said to myself, "I think I am going to enjoy this appointment." (Note: I had to clear my appointment with Wal-Mart, which has helped AAFES a number of times.) AAFES considers itself to be a discount chain. Throughout the United States, their main competition is K mart, except in the southeast where Wal-Mart is first and K mart is number two.

Purpose of AAFES

I think this is clearly set forth under "Mission" in the enclosed News Release, but I have a little different view. I am a Lieutenant Colonel, U.S. Air Force Reserve (Ret.). I was in ROTC in high school and college and have held a commission since my 21st birthday. I served voluntarily from September 1941 to April 1946 in Iran, the Philippines and Japan; and again from February 1951 to August 1952 in French Morocco. Most of

the time I was in command of something, and I know the importance of the share of the AAFES profit that goes to "morale, welfare and recreation activities." It was generally described as "non-appropriated funds." That money went to our unit fund, and we could use it for any purpose that fell within "morale, welfare and recreation." I remember squadron picnics outside San Antonio, renting fishing boats off Clearwater, Florida, and using the money, when in the Philippines, to buy a Kelvinator ice cream-making machine in Australia. I can assure you that a supply of safe ice cream on Leyte contributed greatly to "morale, welfare and recreation."

The Market

The market is limited—and if the defense budget is cut, there will be fewer customers. And it is a very diverse group. Many military people are married to natives of foreign countries. The PX carries a lot of ethnic merchandise, especially Hispanic. They have market surveys that show that they can capture much of the military ethnic business now going to other retailers. And they cater to people with a wide range of income—from Generals to Privates. They have lots of restrictions—for example, they cannot sell TV sets in the continental U.S., but they can sell computers and monitors. They have a major catalog divided into three sections—some items can be bought only in the U.S., others only in the Europe region, and others only in the Pacific region.

The sales breakdown is as follows:

Sales	Millions of Dollars
Continental United States	\$2,739
Europe	1,368
Pacific	560
Catalog	50
Concessions	500*
TOTAL	\$5,217

*approximate figure.

The breakdown of owned sales is:

Sales	Millions of Dollars
Retail	\$4,084
Food	424
Services	58
Vending	142
TOTAL	\$4,717

And they share your problems. Currency exchange-rate fluctuations can spoil a year when it becomes cheaper for overseas customs to buy on the local economy. They have 114 stores with NCR scanners—and are adding about 15 stores a year. They have major improvements under way at their distribution centers—but financing them on a pay-as-you-go basis is slow when a significant part of the half of the profits retained is needed for working capital.

They are busy building their franchised Burger King restaurants—that do better than their past fast-food units (the largest volume Burger King in the world is at Fort Ord, CA). They have to handle 400,000 bad checks a year—and it is not a matter of just calling the unit commander; many of their customers are retired personnel, such as me. As the Federal budget is cut, AAFES is expected to somehow make more profit. Where the military used to provide buildings, AAFES now

continued on back

FEATURE REPORT *continued*:

has to build their own to get the kind of efficient facilities they need to compete. And new buildings immediately belong to the Army or Air Force.

RThought: If the "morale, welfare and recreation" funds were allocated from the budget instead of being limited to roughly half the profit earned (the equivalent of a 50% tax for those who think the PX advantage is to operate without income

taxes), the budget item would be subject to tremendous political pressure for "more."

In seven years of active duty, I, and the men in my outfits, benefited greatly from AAFES. I'll do my best to see that the units that come along in the future have the best possible Exchange Service and the most money for "morale, welfare and recreation."

THE IMPACT OF BANK CARDS

When BankAmericard first appeared on a test basis in Fresno, California, in the early 1950s, retailers with charge accounts scorned it. The first sign-ups were small stores; stores that either could not afford to carry their own accounts or who would prefer not to carry them. Many were stores that did not do frequent business with the same customer, and thus the expense of opening an account that would be used only once or twice a year was very high. The same was true of Bank of America's first competition—the International Charge Card started by Seaboard Finance Company.

The national chains—Sears and Penney's—took the uniform stance of "Only over my dead body," as announced by each senior credit personnel, "will those cards be honored here."

In the September 1968 RT, I wrote "MEN IN THE WEST USE CREDIT CARDS":

The SUNSET Newsletter reports that the MEN in the West carried 2.58 general purpose credit cards (bank, Diner's, etc.) against an average of 1.14 in the Northeast, .66 in the North Central and .36 in the South. This is another strong argument for accepting both BankAmericard and Master Charge in addition to your own credit plan.

And in the December 1968 RT, "UP TIGHT" THINKING ABOUT BANK CREDIT CARDS

I sometimes wonder about the thinking capacity of some of the vocal members of the retail industry. Lately there has been a lot of space devoted to spokesmen opposing bank credit cards. They argue (1) the banks are getting into the retailer's business, (2) store costs will be increased if bank cards are honored and these costs will have to be passed on to the consumer, (3) a store needs their credit customer mailing list, and (4) the bank cards destroy customer loyalty.

Every study I have seen in recent years indicates that holders of store credit cards are not loyal to one store—in fact, studies on common billing services show a high percentage of duplication among major stores in a community. The analysis of extra costs fails to indicate a measure of additional sales volume available through bank cards.

The one thing that protesting retailers are forgetting is that the unexpected success of recent bank card ventures (particularly Master Charge and the Interbank Card exchange) indicates that customers like the arrangement. I would assume that the prudent merchant who sees success through pleasing customers will "listen" more closely even if that speaker is given his platform by a national retail organization.

If you think about the matter carefully, you may see that the spread of bank cards will probably benefit all retailers EXCEPT the very large ones (who may have account penetration to match the bank cards)—and then you might conclude that some of these warnings are not aimed at the banks but at keeping a benefit from small retailers.

But stores were in for a surprise. I can remember my Father, who was regularly sent a BankAmericard, saying to me one day that he had used it for the first time—to buy a radio from a neighborhood shop. He was pleased at how easy the transaction had been handled. Dad, I must tell you, was a counselor to retailers just as I am today.

I can remember urging all my clients—honor them, honor them, honor them. Most of them did. I watched the cards rise steadily from 3% to 5% to 8% to 10% to 15%—and in some cases, even to 30% to 40% of the total sales.

RETAILING TODAY — JUNE 1987

During the years since I have watched the major department stores, now called "the dinosaurs of retailing," slowly lose their market position and many independent department stores are gone.

In all the explanations I have heard for the hard times of the department stores, I have yet to hear a mention of the credit card revolution started in Fresno by the Bank of America, back in the days when B of A was financially sound, innovative and ever conscious that its customers were little people—not Brazil and Mexico. Little people wanted bank cards; Bank of America, true to the spirit of A. P. Giannini, a truth no longer apparent, brought forth the product the little people wanted.

RThought: I thought of this as I read, three months late (I may put aside but I always read), **The Nilson Report** (Box 49936, Los Angeles, CA 90049, \$535/yr.) for February 20, 1987. Here are his figures on the volume done by plastic:

Bank Cards	\$144 billion
Retail Cards	63
Travel and Entertainment Cards	61
Oil Company Cards	21*
Telephone Cards	6
Sears Discover Card	3
Others	22
TOTAL	\$320 billion

*Have you noticed how much non-gasoline merchandise they are selling these days?

In the past six years, the volume through bank cards is up 195%; on retail cards, it is up only 58%.

During the same six years, personal spending was up 60%, and the Consumer Price Index up 45%.

RThought: Just for fun, let's see what happens if, in the next six years, bank cards and retail cards show the same growth in volume:

	1980 \$Billions	1986 \$Billions	1992 \$Billions
Bank Cards	\$ 49	\$144	\$425
Retail Cards	40	63	100
Retail Cards as a Percentage of Bank Cards	81%	43%	23%

Just think, Spence Nilson reports that Neiman-Marcus (Carter Hawley Hale—about to become General Cinema), Lazarus (Federated), Kaufmann's and Famous-Barr (May Company) do not accept any third-party cards.

Do you think those stores will notice something? From ancient China we are told by Confucius that people voted with their feet; in the United States customers are voting with their plastic cards. And they like bank cards. In fact, it looks like a landslide.

aafes news release

Headquarters,
Army & Air Force Exchange Service

Public Affairs Division (214) 780-2763

March 1987

ARMY AND AIR FORCE EXCHANGE SERVICE FACTS

The Army and Air Force Exchange Service (AAFES) is an instrumentality of the federal government operating on a joint basis with the U.S. Army and U.S. Air Force. Worldwide headquarters is in Dallas.

MISSION

The AAFES mission is to provide merchandise and services at uniformly low prices to active duty and retired military people and their family members worldwide. Earnings go to the Army and Air Force for morale, welfare and recreation activities and also are used for the modernization or construction of Exchange Service facilities.

AAFES seeks to improve the quality of life for its almost seven million customers within the military community. Customers' loyalty depends upon their perception of the Exchange Service as competitive and convenient. Recognizing this, the Exchange Service remains committed to customer service and significant price savings (about 20 percent in the continental U.S.). It is staffed by a workforce of professionals dedicated to the basic philosophy of offering good service and value to customers.

To verify its savings, each year AAFES contracts the A. C. Nielsen Company to conduct independent pricing surveys.

HISTORY

During the American Revolution peddlers, called sutlers, sold non-issue items to Army people, such things as soap, razors and tobacco. Sutlers followed the Army, dealing mostly in inferior goods. Because of its corrupt nature, this system was replaced in 1867 by post traders, who in turn were superseded by canteens authorized by the War Department in 1889.

On July 25, 1895, General Order No. 46 set the standard for the mission and concept of the modern Exchange Service. The next pattern to evolve was independent operations at Army divisional levels. At large posts, each division established a post exchange to serve that unit with little or no direction from higher-ups. Each post commander decided how generated earnings were to be spent. This system remained basically unchanged until 1941 when the Army Exchange Service was established to provide broad policy

guidance for operations worldwide. After the Department of the Air Force was established in 1947, it was decided to operate the exchanges of the Army and Air Force on a joint basis. The Army Exchange Service was redesignated Army and Air Force Exchange in 1948.

ORGANIZATION

AAFES is organized as a joint command of the Army and the Air Force. The commander, a general officer, is responsible to a board of directors established by the Secretaries of the Army and the Air Force through their respective chiefs of staff. The 15 members of the board which includes minority and female representation are:

- . Comptroller of the Army,
- . Comptroller of the Air Force,
- . Commander, US army Community and Family Support Center,
- . Chairman, Army and Air Force Exchange Service, Pacific Council,
- . Chairman, Army and Air Force Exchange Service, European Council,
- . Commander, Army and Air Force Exchange Service,
- . Sergeant Major of the Army,
- . Chief Master Sergeant of the Air Force,
- . A general officer designated by the Chief of Engineers, Department of the Army,
- . Deputy Auditor General of the Air Force, Cdr, AFAA,
- . Director, Transportation Energy & Troop Support, USA,
- . Asst DCS/Personnel for Military Personnel, USAF,
- . A general officer designated by the Deputy Chief of Staff, Logistics and Engineering (DCS/LE) Department of the Air Force,
- . A non general officer member at large from each service for one year appointments renewable up to 3 years.

The command of the Exchange Service rotates between the two services, with the vice commander being from the alternate service. Although AAFES is a military command, it has only 102 military personnel assigned worldwide; it is primarily a civilian-managed organization employing almost 72,000 men and women. All civilian employees are paid from Exchange Service earnings, not from funds appropriated by the U.S. Congress.

AAFES operates worldwide. The continental United States includes five exchange regions and one distribution region. Overseas operations are headquartered in Munich, Germany (Army and Air Force Exchange Service-Europe) and Honolulu (Army and Air Force Exchange Service-Pacific). Each has its own commander subordinate to the Exchange Service commander in Dallas.

OPERATIONS

The Exchange Service operates nearly 6,000 retail facilities including military clothing sales stores; 1,800 food facilities; 5,200 personal services concessions, such as barber and beauty shops, laundry and dry cleaning services, and florists; 600 automotive facilities; catalog services; and 2,000 vending patios worldwide. It also operates some 360 motion picture theaters and provides free movies to 500 remote and field locations.

In some overseas areas, AAFES also operates food plants that service exchange facilities plus commissaries, hospitals, clubs and troop dining activities. AAFES also supports Department of Defense school lunch programs overseas on a break-even basis.

Annual sales from all exchange activities worldwide amount to \$5.2 billion.

The breakout of each dollar spent by the average Exchange Service customer is approximately 79 cents for retail merchandise, 9 cents in concession activities, 8 cents for food, 3 cents in vending machines and 1 cent for motion pictures/personal services.

Of retail purchases, photo/optical accounted for 3.0 percent; home entertainment 14 percent; food and beverages 11.5 percent; stationery and greeting cards 4.3 percent; tobacco items 3.2 percent; watches and jewelry 4.1 percent; automotive 11.4 percent; military 5.4 percent; health and beauty aids 7.4 percent; housewares and home furnishings 12.4 percent; sports and recreation items 3.7 percent; and clothing, linens and domestics 19.6 percent.

For each dollar taken in, AAFES spends about 95 cents for operations including merchandise, personnel and utility costs. The remainder is split evenly between dividend contributions for morale, welfare and recreation activities and capital expenses such as construction, store renovation, equipment and vehicles.

Each year AAFES completes about 20 major construction projects. Since 1965 AAFES has built 9.6 million square feet of space at a cost of \$572.7 million. Once completed these buildings become U.S. government property. AAFES began funding its own construction program in the 1960s as fewer appropriated dollars became available to build exchange facilities.

During Fiscal Year 1986, AAFES dividends to morale, welfare and recreation funds amounted to \$114.5 million -- money which the Army and Air Force spend for libraries, gyms, hobby shops, recreational areas and athletic equipment. Over the past 20 years AAFES dividend contributions to the services has amounted to \$1.6 billion.

AAFES is unique among government organizations. It is a military command with a chairman of the board. It is a government organization which funds itself. It is a military organization but only one of each 720 employees is military and although charged with making a profit, it returns every cent of its earnings to its customers.

The article points out that during 1985 M-1 grew 12% while real inflation was only 3%. The explanation is simple—as interest rates dropped, people moved money back from high interest-paying checking accounts (with inconveniences such as (a) not a local check, and (b) must be greater than \$500) into regular checking accounts which are reported by banks for M-1. The removal of restrictions on paying interest on bank checking accounts resulted in account balance increases that were reported to the Fed.

RThought: It is a shame that this change was not made years ago when money-market funds started to divert money from checking accounts. The economy was hurt unnecessarily by the rigidity of thinking by the Fed.

RThought: It is possible to draw a parallel to stupid and costly conduct by many retailers that continued for years at great cost. It was summed up recently in a discussion with a local (California) retailer who had just liquidated his store in order to retire. He told me, "I learned several things that I should have known long ago. First, never order any sports shirts or T-shirts smaller than medium. Second, never order any pants with waists smaller than 30 inches. Third, never order any hats smaller than 7 1/8 inches." I told him of my experience in the 1946-50 period in a large men's store. Twice a year we had a "small sizes only" sale before we got smart enough to change the "standard" size mix that we ordered. For years, we simply ordered guaranteed markdowns in every order we placed.

If you did that for many years after World War II, then you can understand how embarrassed the Federal Reserve Board should be taking so many years to acknowledge that M-1 was a guarantee of mistakes in money policies.

THE TOP RETAILERS—BY MARKET VALUE

More than five years ago, RT started reporting on retail companies by market value (number of shares outstanding times price per share)—a listing not then common. Now everyone is doing it. **Business Week** (April 17, 1987) devoted an entire issue to the 1,000 U.S. firms with the highest market value at March 20, 1987.

They saved me a lot of work. Here is the listing of retail companies, together with sales and with the market value as a percentage of sales (the last figure is computed by RT), shown in the 1,000 firms:

Rank	Company	Market Value \$Millions	Sales \$Millions	Market Value as a % of Sales
14	Sears Roebuck	\$19,608	\$44,281	44%
19	Wal-Mart Stores	16,436	11,909	138
48	The Limited	9,039	3,143	187
57	K mart	8,188	23,812	34
68	J. C. Penney	7,471	14,740	50
72	May Dept. Stores	7,377	10,328	7
116	Toys "R" Us	5,081	2,445	208
131	Federated Dept. Stores	4,612	10,512	43
132	Dayton Hudson	4,585	9,259	49
146	Melville	3,959	5,262	75
185	F. W. Woolworth	3,280	6,501	50
206	Kroger	2,974	17,123	17
246	Southland	2,539	8,620	29
253	Price Co.	2,444	2,868	85
261	Nordstrom	2,308	1,630	141
262	Food Lion	2,307	2,407	95
263	Walgreen	2,291	3,803	60
282	American Stores	2,170	14,021	15
298	The Gap	2,055	848	242
299	Winn-Dixie Stores	2,046	8,580	23

Rank	Company	Market Value \$Millions	Sales \$Millions	Market Value as a % of Sales
329	Home Shopping Network	1,794	365	491
330	Zayre	1,778	5,351	33
332	Albertson's	1,760	5,380	32
343	Mercantile Stores	1,708	2,028	84
356	Supermarkets General	1,630	5,508	29
357	Rite Aid	1,620	1,702	95
378	Petrie Stores	1,532	1,172	130
380	Charming Shoppes	1,498	521	287
400	Dillards Dept. Stores	1,412	1,851	76
421	Weis Markets	1,357	1,101	123
448	Great A & P Tea	1,256	7,072	17
453	Lowe's	1,238	2,283	54
458	Lucky Stores	1,225	6,441	19
460	U. S. Shoe	1,223	1,968	62
486	Pic "N" Sav	1,152	304	378
497	Carter Hawley Hale	1,126	4,090	27
529	Ames Dept. Stores	1,029	1,751	58
559	Wickes	949	4,770	19
574	Giant Food	915	2,393	38
591	Pep Boys-Manny, More & Jack	893	463	192
593	Payless Cashways	883	1,526	57
604	Circuit City Stores	861	912	94
626	Home Depot	821	1,011	81
632	Stop & Shop	809	3,872	20
644	Medco Containment Services	778	177	439
654	Circle K	764	2,216	34
658	Longs Drug Stores	751	1,635	45
684	Bruno's	710	1,079	71
705	Hechinger	672	588	114
706	Consolidated Stores	670	397	168
796	Caremark	548	165	332
826	Family Dollar Stores	518	505	102
920	Edison Brothers Stores	439	904	48
941	Porex Technologies	424	193	219
956	Rose's Stores	411	1,199	34
984	Carson Pirie Scott	392	1,413	27
991	Land's End	388	265	146

RThought: The range is wide. The highest ratio of worth to sales in Home Shopping Network—almost five times (491%) (see Late Report note); the lowest is American Stores at 15%. 25% of the companies are 138% or above, and 25% are 34% or below. The median (half above and half below) was 62% (an example being U.S. Shoe).

Eight of the firms on the list of the 1,000 highest market-value companies had sales of under \$500 million.

Late Report: At May 29 the market value of Home Shopping Network was only \$1,106 million or 303% of sales—c'est la vie!

A SAD HISTORY OF COOPERATIVES IN THE U.S.

Consumer cooperatives do a large portion of the retail volume in Scandinavian countries, Great Britain and, to a lesser degree, in Switzerland, Italy and France. In the United States, they are not and never have been significant.

The Cooperative Movement started in Great Britain, and the early attempts failed because they were based on selling merchandise at cost. As soon as merchants under-cut their price, the cooperatives were out of business. The turning point came

from the Rochdale Group that changed the pattern; it sold at competitive prices and refunded the profit to the members in accordance with their purchase during the year. This eliminated the effectiveness of the below-cost counter strategy used by the for-profit retailers.

All significant U.S. consumer cooperatives operate on the Rochdale Principle. Even then, most have not been successful. The largest have been started in college communities—Berkeley (University of California), Palo Alto (Stanford) and Hyde Park (University of Chicago) to cite some examples. Most were started by people who felt that profit was not desirable/necessary and that creative management was not necessary because members would automatically shop at stores that rebated the profit to owners.

It doesn't work that way. Profits are always elusive. Customers still like well stocked stores with good lighting in convenient locations and with adequate parking. Outside of those few factors, customers will, of course, go to the cooperative of which they are an owner. Unfortunately, most cooperatives don't have the most appealing building/selection/location/parking and frequently do not have good management that operates efficiently. Thus, co-ops face financial problems. It is not helpful to have a board of directors that politicizes the operation, observes boycotts or even creates them, spends money on fringe activities, inadequately studies locations for new stores, tries to eliminate the candy department so that kids won't get abscesses, wants to refuse to sell cigarettes "for the good of the members," etc.

I have experienced all of this with (1) membership in a consumer co-op, and (2) having had another co-op as a client.

Once the Consumers Cooperative of Berkeley had 10 to 12 stores; now they have three. Last year, they lost \$600,000; but their members have responded to a drive for new equity investment—raising \$200,000 of a goal of \$250,000 (and I will probably contribute). They have changed management—the third in about two years. And the National Cooperative Bank has loaned them \$1.3 million; renewal is based on their progress toward a profit.

RThought: I think it was Stuart Chase who wrote 50 years ago that the reason consumer cooperatives had failed in the U.S. was that the American people would rather work harder (overtime; two jobs) making more money than spending their money wisely. The closest we ever had to a cooperative movement was one not recognized by most people; in the days of closed-door, membership discount stores open only to government employees, there was a specialized retail format aimed at the highest homogeneous market of government employees—people who had similar tastes and income and who knew they were not going to be paid overtime. These people were willing to spend more time spending their money wisely.

WHAT THE STATE ATTORNEYS GENERAL ARE DOING

This information is taken from the Consumer Protection Report published monthly by the National Association of Attorneys General, 444 North Capitol Street, NW, Room 403, Washington, D.C. 20001).

Advice to Attorneys General

From an article by Stuart M. Statler, for seven years a member of the Consumer Product Safety Commission, telling of areas that he thinks should be addressed (perhaps you are now addressing or could address some of these without action by the government):

Require descriptive age labeling on toys—particularly toys that might be hazardous.

Consider initiating suits to compel manufacturers and retailers of paint strippers and aerosol spray paint to cease production and distribution of products that emit methylene chloride (DCM) at unnecessarily high levels. Between 1,400 and 4,000 people a year may contract cancer from exposure to DCM in poorly ventilated areas.

Consider initiating suits to remove from the marketplace children's products containing DEHP, a known carcinogen. It is used to make plastic and vinyl products soft and pliable—including such things as the mouth guards on pacifiers, plastic infant pants and crib bumpers and pads.

Consider bringing suits to prevent the sale of those wood products found to emit excessive levels of formaldehyde fumes, which pose acute health risks and may also cause cancer. This includes many types of particleboard, plywood and fiberboard that are used in new home construction, remodeling, mobile homes and furniture. Place particular stress on medium density fiberboard that requires more "free" formaldehyde than other products.

Advertising Prices

The AG in Massachusetts has gotten an "assurance of discontinuance" from Lectra City that they will not make unsubstantiated claims of the "usual selling price" of same or comparable merchandise, including misleading "list" and "suggested retail prices" and disclose that comparisons are only made with other dealers within 50 miles.

Advertising: Vitamins

The AG in New York has stopped Lederle Labs from implying that Stresstabs can reduce the effect of psychological and ordinary physical stress and of advertising that biotin (found in eggs and liver) is difficult to obtain in an average diet. Lederle, while admitting no wrong, paid \$25,000 to cover the costs of the investigation.

Advertising: Control on Use of Mailing Lists

The AG in California has prohibited R. L. Polk and Company from selling or leasing lists obtained from records of the Department of Motor Vehicles without first determining how the lists will be used and receiving a copy of the proposed advertising.

Telecommunications

The AG in Iowa has required Northwestern Bell to send notices to approximately 11,000 people who bought decorator phones between 1973 and 1980. They probably did not understand that all they were buying was the exterior shell and not the internal mechanism! Northwestern Bell and AT&T Information Systems provided \$150,000 for a refund program under the AG.

THE FIVE "E'S" OF ENTREPRENEURING

The "Five E's" were set forth by Ray Noorda of Novell, Inc., who made his reputation curing sick entrepreneurial technology companies.

1. **Enthusiasm** "... on the part of the entrepreneurs with the fresh ideas, and on the part of investors."
2. **Excitement** "... when you start shipping your dream. But when you find the product you shipped is coming back, you enter the Valley of Despair."
3. **Exuberance** "... "If you fix the problem, and climb out of the valley, it looks like you can't lose."
4. **Euphoria** "... "You know the company's in this phase when you start seeing the Porsches and expensive cars parked out front ..."
5. **Extinction.**

Extracted from the May 1987 Update of the American Electronic Association.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
 \$36 per year
 \$48 overseas

ROUTE TO

JULY 1987

VOL. 22, NO. 7

CORRECTION

RETAILING TODAY previously printed two feature articles about SafeCard Services Incorporated in its September 1982 and June 1986 issues. Since those articles were published, I have been furnished information which causes this correction.

In making reference to the amount paid by SafeCard to stores that offer SafeCard's services to its customers and in using the word "kickback," I did not intend to imply that SafeCard has ever paid any illegal bribes. Also, I have been advised by SafeCard that it is SafeCard's policy not to sell its customer lists and to not allow the customer lists to be used by anyone (including SafeCard) for any reason other than for providing the services for which the customer enrolled.

Finally, in expressing my opinions regarding Generally Accepted Accounting Principles (GAAP), as applied to SafeCard's financial statements, my criticism was directed to GAAP. I did not intend to convey the impression SafeCard was or is insolvent.

This should correct any contrary impressions caused by the original articles.

WHY I LOVE "MY WAY"

"My Way" is the editorial column that Ted Kraus writes in his publication **Retail Leasing Reporter (RLR)**, Box 1001, Kendall Park, NJ 08824-1001, \$125/yr.). **RLR** contains a great deal of information about retail companies.

In the June 15, 1987, issue, he dealt with a distressed shopping center. He had done the original study and recommended a 40,000 sq. ft. convenience strip center with the balance of the land in residential or industrial development. Like all good clients, the owner disregarded the views of an expert and built a 110,000 sq. ft. center, of which no more than 50,000 sq. ft. has ever been occupied—and with a high turnover on the occupied space. The fifth realtor in five years (four were fired for not producing miracles) happened to find Ted's report and called him. After Ted suggested a fire or flood as a solution—to which the realtor was not receptive—Ted laid out his projection of the future:

I'm willing to bet that the scenario on this center will be: (1) Within 6 to 12 months, the property will be given back to the bank. The developer in this case is in deep trouble, since his permanent financing doesn't "kick in" until the center is 80% leased and he's currently on a construction loan, which is personally guaranteed. Anyone want to buy a Mercedes? (2) The bank will spend \$25-70,000 in consulting fees to determine what to do with the property. We are already typing up a proposal, except we don't know the "cure." (3) The bank will try to sell the center for \$8 million (that's what they're on the hook for). The developer built in a development fee of \$650,000 and then did some creative financing. Unfortunately for the bank, the cash flow of the project only justifies \$3.8 million and the project is deteriorating (no cash flow/no maintenance). (4) The bank will refuse to sell at a loss

DIOGENES—YOU CAN STOP SEARCHING!

I have found an honest ad on mattresses—please drop a note to Weir's Furniture Village, 3219 Knox Street, Dallas, Texas, and tell them you are proud of them.

In the **Dallas Morning News** for Sunday, June 7, 1987, Weir's ran AN HONEST AD FOR STEARNS & FOSTER "CORRECT REST" MATTRESSES, and showed the comparison as follows:

	Factory Suggested	Was	Now
Twin—each piece	\$199	\$149	\$ 98
Full—each piece	249	169	148
Queen—set	649	449	398
King—set	849	599	498

RThought: This ad obeys the law. This ad is honest. This ad provides facts to Weir's customers.

Now, compare that with how Macy's California advertised Stearns & Foster's Sterling #705:

STEARNS & FOSTER—STERLING 705*

Regularly carried in our stock	REG.	SALE
Twin—each piece	\$ 320	\$160
Full—each piece	440	220
Queen—set	1,000	\$500
King—set	1,400	700

*Bonus frame with all Posturepedics, Correct Comfort and Beautyrest as well as selected other styles. Mattresses (d. 414) Now through July 5 [about 3 weeks].

RThought: I *think* the asterisk means you get something with Stearns & Foster—but one never knows.

P.S. And I have found another honest advertiser of mattresses—Dillard's. In the **Dallas Morning Herald** of June 6, 1987, Dillard's pushed its "everyday low prices." For the Sealy Ultra Firm (Paramount Century series) plus bedding, it showed:

Twin, each piece, orig. \$119	now \$ 88
Full, each piece, orig. \$159	now \$ 98
Queen, 2-piece set, orig. \$399	now \$298
King, 3-piece set, orig. \$499	now \$398

The prices are followed by the bold-face statement:

**compare Dillard's everyday
 low prices with others' "sale prices"**

and will carry the property on their books at \$8 million for the next 4 to 6 years (unless they go under). (5) In 4 to 6 years, when the center's trading market has grown adequately enough, some investor will offer the bank \$5 million, plus participation. The bank by then will gladly accept the offer, and at the end of 10 years will wind up recouping all of their investments. They will consider this investor as the Messiah and live happily ever after.

RThought: First, now you know why I like **RLR** and Ted Kraus. Second, with 22 issues a year, Ted offers this kind of advice for \$5 per session (less than the price of three packs of cigarettes in some vending machines). Third, you wonder how banks survive (they don't—in more cases than ever). Fourth, and finally, you know your bank would not do that for you. They can bankrupt you by taking all of your cash flow—but with a shopping center, they have all of it already, and there isn't any more to take. The bank put their money in a bad deal, where the developer concealed from them the sound advice he had received—but disregarded, and with the firm conviction that real estate is always great because someone cannot pack it up and cart it away during the middle of the night.

HAWTHORNE WORKS OF WESTERN ELECTRIC IS GONE

Cicero, Illinois, was the site of the classic study by Elton Mayo and Fritz Roethlisberger, professors from Harvard Business School. Starting in 1924, Western Electric and the National Academy of Science had been studying worker output. In 1928, Elton Mayo was asked to join the study. Working with a group that knew it was being studied (those who challenged the validity of the study called this a “biased sample”), the researchers introduced, at staged intervals, pay incentives, various rest schedules (the first coffee breaks in a factory), shorter work weeks and more. A recent book, **A Delicate Experiment: A Study of Harvard Business School**, reports, “Taken as a whole, the productivity of the workers rose consistently. A return to the original working conditions reduced productivity somewhat but not to the levels originally recorded.”

This was followed by an interview with every employee using a “listen but don't argue” method developed by child psychologist, Jean Piaget. Out of this came the conclusion that the worker's psychological state related to his or her productivity. From this study came a new practical science—industrial relations. If bullying by supervisors could be eliminated, an undreamed increase in human productivity was possible.

RThought: We did not eliminate bullying, and we rarely considered the psychological status of the worker.

RThought: We had in our hands in the 1930's what was introduced into Japan after World War II and which came to haunt us in the 1970's to the point that, in the 1980's, some American companies are doing what Mayo and Roethlisberger and Western Electric told us could be done in their book, **Management and the Worker**. (A *Special Thanks* to Jerry Gallagher, recently Vice Chairman of Dayton Hudson and now a venture capitalist with Oak Investment Partners, for sending me the pictures of the demolition of the Western Electric Hawthorne Works plant.)

WHEN IS A BAD DEBT NOT A LOSS?

As a retailer, you know that when you add to your reserve for bad debt, you are recognizing, on a statistical basis, the very firm expectation that you are not going to collect on all of your receivables. Despite the fact that Congress, in their desire to increase taxes on retailing without appearing to increase taxes, denied using the reserve method for tax purposes, you are going to treat additions to reserves as expenses for reporting to your shareholders.

It is just plain, honest business—you do not want to overstate either your receivables or your net worth.

But banks do not think that way. Consider the “double talk” in the letter that I received from A.W. Clausen, Chairman and CEO of the fastest shrinking bank-holding corporation in the world, BankAmerica Corporation. He is worried that stockholders, like me, will think adding \$1.1 BILLION DOLLARS to the “loan loss reserve” might make the bank weaker. Here is what he said to assure me:

The increase in BankAmerica's loan loss reserve is expected to result in a second quarter net loss of approximately \$1 billion and in a loss for the full year. The transfer of \$1.1 billion from our equity account [Note: He is saying this is not an expense even though it produced a \$1 BILLION loss] to our reserve account does not change, in any respect, BankAmerica's primary capital ratio. It remains at 7.4% and is currently the third highest among the 10 largest U.S. banking companies. The action increases our reserve for possible credit losses from 3.2% to 4.8% [Note: This must reduce equity from 4.2% to 2.6%], one of the highest reserve ratios among major U.S. banking companies.

RThought: When was the last time you bragged about having the highest reserve for bad debt among the 10 largest companies in your segment of retailing? When was the last time you added your reserve for bad debt to your equity position to measure your “primary capital ratio”? Why not increase the reserve account to 7.4% and cut the equity to 0.0% and have a really strong bank?

Years ago, when this condition was developing within the Bank of America, I pointed out to **RT** readers that the Bank of America survives at the will of the United States Government, particularly the Federal Reserve System and the Federal Deposit Insurance Corporation.

Are you one of those who believes that the Bank of America is just as strong after setting up a proper reserve for loan losses as they were before?

RThought: One final point—if you did on your books what the BofA did on their books, the BofA would not lend to you. And you know it. And the world knows it. But millions lend to BofA—which is what the bank account is.

FOR THOSE WHO THINK PRICE IS EVERYTHING—SKIP THIS ITEM

This item is about what shoppers think; it is not about what retailers think shoppers think. If you are not open to an opinion contrary to your own, I suggest you save time by skipping to the next item.

I cannot applaud **The Shopper Report** enough. Created and published by Mona Doyle (The Consumer Network, 3624 Science Center, Philadelphia, PA 19104), it is based on panels of shoppers. Since January, she has used all of her panels (2,500 experienced shoppers) for their perception of different types of stores.

She has found that it is far easier for a shopper to change stores than to change credit cards to one with a lower finance charge percentage.

For this report (May 1987), she had her panels rate four types of outlets: Department Stores, Discount Stores, Specialty Stores and Catalog/Mail Outlets.

Her first major question was on use of the consumer's time—finding what you want and need. With a score of “10 equals the best,” here is how the outlets rate:

Department Stores	6.3%
Discount Stores	5.6
Specialty Stores	7.4
Catalog/Mail Outlets	7.1

I will always remember the answer Willie Mays gave to a reporter who asked him what he thought of making Air Force General William "Spike" Eckert (a classmate of mine) the Baseball Commissioner. Willie replied, "Who he?" Just five letters put Spike into perspective—and his career as Commissioner was short.

David Hale, chief economist for Kemper Financial Service, wrote in the June 25, 1987, issue of *The Market Chronicle* (31-17 12th St., Long Island City, NY 11101, \$50/yr., \$1.25 per copy) on the "Twilight of American Power."

His table is an attempt to compare the relative position of the western industrial countries for the period 1820-1985. (I added a total to the columns and computed the percentages at the bottom.)

GROSS NATIONAL PRODUCT—WESTERN INDUSTRIAL COUNTRIES
(1970 U.S. Dollars—in Millions)

Country	1820	1870	1913	1950	1979	1985
Australia	\$ 50	\$ 2,257	\$ 8,817	\$ 19,362	\$ 64,382	\$ 75,934
Austria	1,293	2,591	7,216	7,909	31,939	35,640
Belgium	1,254	4,715	11,094	16,187	49,103	52,802
Canada	200	2,285	11,367	32,986	127,002	143,861
Denmark	417	1,072	3,308	8,210	22,942	25,534
Finland	300	674	2,423	5,889	20,423	24,591
France	1,852	24,193	48,974	70,816	266,385	284,722
Germany	4,770	12,970	42,664	68,688	303,508	327,828
Italy	7,000	16,001	29,908	50,724	202,180	219,808
Japan	7,285	8,681	24,663	48,044	512,104	646,625
Netherlands	938	3,030	7,463	18,136	61,671	64,336
Norway	286	849	2,093	6,100	19,391	23,513
Sweden	780	1,726	5,587	15,605	40,718	45,295
Switzerland	609	2,093	5,068	10,617	28,511	31,917
U.K.	9,052	29,254	65,591	105,471	222,749	238,899
U.S.	3,385	30,557	176,630	488,913	1,335,678	1,508,083
TOTAL	\$39,471	\$142,948	\$452,866	\$973,657	\$3,308,686	\$3,749,388
% of TOTAL						
U.S.	8.5%	21.4%	39.0%	50.2%	40.4%	40.2%
U.S./U.K.	31.5	41.8	53.5	61.0	47.1	46.6
U.S./U.K./ Australia/ Canada	32.1	45.0	57.9	66.4	52.9	52.4

This task is not as difficult as counting the number of angels on the head of a pin—but it is almost that difficult. The first problem, of course, is to convert foreign currencies into U.S. 1970 dollars. The ratios in a free market vary from country to country and time to time. The French Franc may go down

against the U.S. dollar and up against the British Pound. That would mean that the relative position of France and the United Kingdom on the table below might not be the same as would be shown on a table on United Kingdom 1970 Pounds or French 1970 Francs.

The second problem is how good are the figures for gross national product in 1820, 1870 or 1913?

The key thing to learn from the figures Mr. Hale was kind enough to put together is that things aren't what they were in the past (1950), and they are even less like what they were long ago (1820), and are probably totally unlike what they will be in the future (2000). But people, who are familiar only with the United States, are like the Flat Earth Society people—they can only see as far as the horizon and that doesn't take in much of what there really is in this world.

It will probably shock many Americans to learn that in 1820 the Japanese economy was more than twice the size of ours. And if it continues to grow at twice the rate of ours (1979-1985 increase in Japan at 3.96% a year versus U.S. increase of 2.04% a year), the table below shows what would happen (no trends last as long as is shown—or else the United Kingdom would still rule the world).

GROSS NATIONAL PRODUCT IN 1970 U.S. DOLLAR
(Billions)

Country	2000	2033	2050
Japan	\$1,071	\$3,859	\$7,458
U.S.	1,961	3,818	5,382

The problem is that we may not be able to maintain a 2.04% real growth—and Japan may be able to increase their 3.96% real growth.

In looking back to 1913, it is hard to realize that there could be a World War without inviting us in—considering the giant size of our economy. When you consider that it took four years to defeat the Germans, whose economy was smaller than that of France and only 15% the size of the combined U.S./U.K./France economies, one must wonder how efficient our countries really were.

SHORT SHORTS

What you learn when wandering through stores. Marshall's in Old Towne Place, Torrance, CA, is handing out American Express Card applications! So its customers can shop at a shop that recognized only American Express.

How incompetent can a retail clerk be? I found out. A gas pump jockey is a clerk with a limited number of SKU's to sell. Recently, I was driving a car I do not often drive, and I stopped for gas. The pump jockey asked, "Regular or Super?", and I said that I would have to look it up. The owner's manual told me "87 Octane Unleaded," so I asked which was 87 Octane? He replied, "87 cents?" I said, "Octane... it should be on the pump"; and when I turned, I saw that it was in 2" high letters where he inserted the end of the hose when he hung it up (or grabbed it when he took it out). Yet, he had never had the curiosity to find out what that number and word "Octane" meant. **RThought:** It could have been the temperature at which gasoline explodes for all he cared!

A word about assertiveness—which is all the rage: Keep in mind that Rabbi Hillel said in the 14th century: "If I'm not for myself, then who will be? But if I am only for myself, then what am I?" **RThought:** The theme today is to be only for myself, and we are paying some of the penalties that Rabbi Hillel foresaw.

Is instant gratification the goal of living? Any prostitute, from the street, from a massage parlor or from a discreet madam, might say, "I make a person feel loved and wanted by providing instant gratification." **RThought:** What do I say about the comments of Kenneth P. Partch, Editor of *Supermarket Business*, being quoted from the recent Food Marketing Institute Convention? He said, "The supermarket customer desires to be wanted, loved and cared for. *Store managers will cater to instant gratification.*" (Emphasis added) **RThought:** Supermarkets are not alone in feeling the future is in instant gratifications; it just happened to be said most recently at FMI.

HOW DAYTON HUDSON GOT IN PLAY

Dayton Hudson (DH) recently proved the power of a charitable foundation, especially when there is a commitment to put 5% of earnings from all over the country into the foundation and then give a disproportionate amount of money to its home area (Minneapolis-St. Paul) and its home state (Minnesota).

DH was first frightened by the unwanted attention from Dart Group (DG), the divorced parent of Dart Drug Stores in the Washington, D.C., area (the drug store management buy-out now appears to be in financial trouble) which has started two companies—Crown Books (high \$25, current \$15) and Trak Auto (high \$49, current \$15)—both with more initial than subsequent success.

DG has made a tremendous amount of money on takeovers—that it did not complete. One would assume, from its past successes, that it identifies a potential target, acquires some stock (after 5%, it must be disclosed), puts it in play with an open or private offer it probably knows is below the value of the underlying assets, and then makes its profit when a company with deeper pockets takes the target at a much higher price than DG paid.

It looked like DG was on the right path with DH when it apparently discussed a price in the \$50 range, and a new offer appeared in the \$70 range. The latter proved to be the figment of the deranged mind of an individual stockbroker. Obviously, this was enough to stimulate DH management to protect its position even if it might deprive the shareholders of a current price that might not be met by management performance for a number of years.

Enter the angel—the DH Foundation. When you give \$120 million to a small portion of the United States, that community (state and local) feels it has a proprietary interest in your profits without having paid anything for it. Realizing that, DH jumped into action. I am certain its counsel had some ideas of what could be done, capitalizing on the fact that it was incorporated in Minnesota, rather than Delaware as are many large retailers.

The problem was how to get DH's "insurance" plan in place. According to **Business Week** (7/13/87), "In a demonstration of DH's influence within the state, the law was enacted with virtually no opposition just seven days after Chairman Macke asked for a special session of the legislature to consider it."

But isn't DH controlled by the Dayton family?

That is a good question, and it needs some examination.

In 1969, the Roberts brothers, who had received about 1.5 million DH shares for their Diamond (Phoenix) and Lipman Wolfe (Portland) department stores, had their second secondary offering of shares (the first was almost simultaneous with the sale to get money to pay off the indebtedness not assumed by DH).

DH had just completed a series of acquisitions: J. L. Hudson (not yet approved by the FTC?, Lechmere Tire & Sales, the Roberts stores and Pickwick Book Stores. In the July 15, 1969, offering, Ernst & Ernst gave retroactive effect to these acquisitions to February 1, 1969, with the result that the ownership of DH was in big chunks—of the 16,251,000 shares, it was as follows:

Dayton family	7,511,000	46.2%
Former Hudson shareholders*	4,500,000	27.7
Former Roberts shareholders*	1,007,000	6.2
Former Lechmere shareholders*	900,000	5.5
Former Pickwick Book shareholders*	110,000	0.7
TOTAL	14,028,000	86.3%

*Formerly private companies, so I assume only a few shareholders.

The Hafts at DG would never look at a public company with holdings like the above.

Now, let's look at the shareholdings of directors of DH over recent years:

Year	Shares Outstanding	Owned By	Directors %	Options To	Directors %	Total 5
1980	23,778,000	3,866,000	16.26%	96,000	0.40%	16.66%
1983	48,250,000 ¹	2,789,000	5.78	197,000	0.41	6.19
1985	97,030,000 ¹	298,000	0.31	319,000	0.33	0.64
1986	97,303,000	209,000	0.21	218,000	0.22	0.43
1987	97,385,000	68,000	0.07	232,000	0.24	0.31

¹ Split 2:1

RThought: Please note that if the stock of DH goes up or down by \$1, it means a total of \$68,000 to the board of directors. In 1980, adjusting for a 4:1 split, it meant \$15,464,000! I think that more attention was paid when directors owned a lot of stock.

Stock ownership among the directors at April 1, 1987, was:

Number of Shares	Insiders	Outsiders
100-1,000	1	8
1,001-2,278	0	4
35,180	1	0
TOTAL	2	12

I know all the arguments about stock ownership not being important to being a good director; but when 13 of 14 directors have fewer than 2,300 shares, a drop in the price is not significant.

I cannot help but feel that Bruce B., Donald C., Douglas J., K. N. and Wallace C. Dayton had a little different commitment to the success of DH than does the present board. And they have, since leaving the board, diversified their holding (i.e., today they own less DH stock).

How did this change occur so quickly? It was partly done by the Dayton brothers themselves as they instituted some rigid limits on the tenure of the directors, neither of which related to the contribution the directors might make: (1) out at age 65; and (2) out if you change your employer even if you stay in the same industry.

RThought: I guess a criteria for a board structure should be enough stock ownership by inside directors so that a 1% change in stock price is of more concern than a 10% cut or raise in pay. (And don't count changes in non-risk, anticipated profits from unexercised options, phantom stock, etc., etc.)

RThought: For outside directors, I suggest a different method of determination. Each director has a pretty good idea of what each other director has contributed to the company. Each year, for all directors whose terms are ending (this allows for the defensive platoon system many corporations have adopted), the entire board, inside and out, would be given a list of those directors and indicate "yes" or "no" to the question, "Should 'X' continue on the board?" Require a two-thirds approval—at least something above 50%. The chairman will notify the director(s) that will not be continuing so that he or she can resign "because of the pressure of his or her job" or "to devote more time to personal business" or any of the standard phrases.

RThought: How long will it take you to form a Foundation commit 5% of earnings to the Foundation, and put most of the money in the your state of incorporation?

For the discounters, who think all the volume is going to the lowest price, they might look at how long it takes to enter, find, pick and check out merchandise. Have you noticed that checking out can be slower today—with the new electronic registers? I am always fascinated when I present a bank credit card and some cashier still pulls out the old printed book and goes through the fine print to see if my card is good—while five or so people are in line behind me. One survey respondent wrote:

“As my time becomes more valuable, I find myself shopping discount and even department stores less.”

Another put it this way:

“I enjoy shopping at discount stores only when I have lots of time to browse for odds and ends.”

As to their evaluation of the check-out service (paying, lines, attention to customers, etc.), the rating ran:

Department Stores	6.3%
Discount Stores	5.0
Specialty Stores	7.5
Catalog/Mail Outlets	6.4

RThought: I recall again a chalk reproduction of Venus de Milo. I bought it for 35 cents because inscribed across the bottom was, “There never was anything made that someone else could not make cheaper.” I have been looking for the 25-cent Venus ever since. If someone told me I could get a dozen for 10 cents, I wouldn’t go two blocks out of my way to get them.

JUST IMAGINE! CONSUMERS DO NOT LIKE COMPLEX PLANS! ! !

S & H Motivation (that’s where S & H Green Stamps retired) and Saffer/USA Advertising commissioned a two-part, six-month study of 600 Americans to get their views of incentive buying programs (resulting from the success of frequent passenger programs on the airlines). Here are some of the results:

- ... They have no effect on buying habits of 80% of the sample.
- ... Fewer people in the sample were participating at the end of the six months than the start.
- ... 21% did not like savings tapes.
- ... 23% said that there was no real savings.
- ... 20% said that they were too time consuming.

Gerald Wood, President of Saffer/USA Advertising, came up with an idea that would transfer the complexity and the cost of record keeping to the retailer and a computer. Sign up for EPAS (Electronic Point Award System). Customers get a free plastic card with an account number. The number is entered at the register (presumably part of an EPOS system). The customer gets a periodic statement of standing and a catalog showing how the points can be spent.

RThought: I am sure you share my agreement with the survey findings. I have tried to follow the side-packages of the airline programs (I am in American, Delta, PSA, Eastern, Northwestern, AirCal—now part of American, thank goodness—Canadian-Pacific, Republic and United) and have just given up. Sometimes I ask the hotel if they belong (I am also in the Hyatt and Marriott programs) but usually I forget.

The only time the membership enters a fly or a stay decision is when there are two flights at the desired time (or two hotels at the desired destination), and I am in one program and not in the other. Despite the points, the high price of American

Airlines on the San Francisco-Dallas run (which I fly about 20 times a year) often leads me to use Braniff, at a slightly less convenient time, even though my client pays the cost of travel.

I have enough points on United, American and PSA to take my wife on four trips to such places as Hong Kong or Europe—which we may do when and if I retire.

RThought: The article did not tell how much EPAS will cost the retailer—a minor oversight.

(This item and my **RThoughts** were prompted by NMM [National Mall Monitor] Weekly **INSIDER**, 2535 Landmark Dr., No. 207, Clearwater, FL 33519-3999, \$250/yr.)

SMALL BUSINESS—UP OR DOWN?

The July **ABA Banking Journal** discusses the problems of the current Chief Administrator of the Small Business Administration, James Abdnor, who paid to have his own calling cards printed after he was appointed by Mr. Reagan, who had announced a goal of dismantling the SBA. It was a special issue of the **Journal of Accountancy** titled, “SMALL BUSINESS—AMERICA’S GROWTH INDUSTRY”!

Articles highlighted the wonderful (negative) impact of the Tax Reform Act on small business: Loss carry-forward can no longer wipe out total tax liability; longer asset life for depreciation; elimination of tax deferral on installment sales; elimination of completed-contract tax reporting; and expansion of items reversed in computing income for alternate tax. One would have to think that Congress, after rejecting Mr. Reagan’s attempt to dismantle the SBA, decided to dismantle small business through the tax law.

RThought: Fortunately, small businessmen are firmly dedicated to being their own boss (I am an example) or so dedicated to an entrepreneurial life (I am also an example here) that we will continue to (1) own and start businesses, (2) add jobs to the economy that big business does not add—but which Mr. Reagan is proud of and mentions as though he created the jobs, and (3) still pay a disproportionate ratio of taxes to income.

RThought: Banks will still collect a premium rate on money loaned to small businesses, and CPAs will thrive on fees that many owners of small businesses consider an expense imposed on them as a condition of borrowing money. Brazil and Mexico, for examples, did not have to have audited statements in order to borrow billions of dollars at a much lower interest rate.

BANKS HAVE DEFINED BRIBERY

The banks were frightened by the broad definition of bribes in the 1984 Comprehensive Crime Control Act. In 1986, they got the law amended because it apparently made a business lunch, with a prospective or current customer, a bribe.

The Federal Reserve, Comptroller’s Office, FDIC, Federal Home Loan Bank Board and National Credit Union Administration got together and recommended a definition of bribery—and the following exceptions:

1. Gifts arising from obvious family or personal relations [Note: Would this cover gifts from Gary Hart to Donna Rice?].
2. Meals, refreshments and entertainment of reasonable value [Note: Not defined] provided in the course of genuine [Note: Not

defined—would asking, “How are things going?” suffice?] discussions.

3. Loans granted by institutions other than the employer for such activities as home purchase, except where prohibited by other law.
4. Advertising and promotional items such as key chains [Note: Tiffany has them in sterling silver and 14 ct. gold], etc.
5. Discounts or rebates on merchandise or service granted to all customers.
6. Gifts related to events, such as promotions, retirement and holidays, subject to bank limits.
7. Civic awards.

RThought: There is a simpler way—especially when management truly wants to avoid the petty, but often cumulative, bribery that goes on in our business world. At the recent Annual Meeting of Wal-Mart, I went by the row of 50 or more buying rooms, and on the wall in each room, there was a poster 24" x 36" which read as follows:

WAL-MART POLICY ON GIFTS & GRATUITIES

It is our policy that Associates of the company, regardless of their capacity, do not accept for their personal benefit, gifts, gratuities, tips, cash, samples, etc., from anyone buying from us or selling to us, or in any way servicing our company.

We define gifts or gratuities to include: Tickets to entertainment events; kickbacks in the form of money or merchandise; special discounts to one of our employees; discounted or no-longer-used samples; vendor paid trips; Christmas gifts, etc. Any such item received will be returned to the sender at their expense.

Meals are also considered gratuities. When dining together, the vendor and Wal-Mart Associate MUST pay for their own meals. This applies to the Wal-Mart General Office area, as well as other locations.

It is also understood that any request from a Wal-Mart Associate to a supplier for a personal gain or consideration will be reported by you directly to Wal-Mart Senior Management.

RThought: English is a great language. When you want to say something clearly, it is so easy to do so. But first, you must want to; second, you must want to do it publicly; and third, you must make it apply to yourself.

(This item was prompted by the June 1987 **ABA Banking Journal**, 345 Hudson St., New York, NY 10014-4502, \$30/yr.)

SHORT SHORTS

Non-price competition wins again! In June, the innkeepers met in San Francisco; and Steve Rubenstein, a columnist, covered the meeting. He learned from people in the “Amenity Package” business (they provide those things in a basket on the wash basin in hotels), and in particular from Gene Luckey of Procter & Gamble, that if you add a 30-cent bottle of shampoo, you can get \$2 a night more for the room and that people are expected to take it home (I have disappointed many an innkeeper). **RThought:** It was Steve Guaraldo of Scott Toiletries who took a big step toward corrupting the English language when he said, “Amenities are a necessary part of life!” (Webster says of amenity in the plural, “attractive or desirable features, as of place, climate, etc.; not a word about ‘necessity.’”)

I wonder... do stores ever look as beautiful (and sterile) as they do in pictures in the prospectus of a company going public for the first time? And if they do, would the merchants really be happy with the sales results?

I could not believe my eyes! I opened the Friday, July 3, 1987, national edition of **The New York Times**; and in the lower right-hand corner were three ads saying that Lord & Taylor, Bloomingdale's and Saks Fifth Avenue (except for its Southampton store) would be closed on July 4. L & T even wasted the money to say, “Happy Birthday, America!” But a glance at the upper left corner of page 2 reassured that most the world will still grab every dollar—the ad said, “MACY'S IS OPEN JULY 4TH.” **RThought:** All of this took me back to the pre-air conditioned, pre-World War II days, when all New York stores (none had significant branches) were closed on Saturdays between the 4th of July and Labor Day. And they managed to survive, somehow.

The prize for spotting the earliest 1987 Christmas ad goes to Marshall Kline (Marshall Kline Buying Service) of Los Angeles. In the **Los Angeles Times** on June 20, by Geary's on North Beverly Drive in Beverly Hills, there was an ad for the First Edition of the Lladro Christmas Tree Ornament. **RThought:** Perhaps Beverly Hills' residents have to be reminded early, or they might forget when Christmas trees come! **RThought:** Macy's California ran their first Christmas ad on July 5th.

The fame of Home Shopping Network is fleeting. The May 1987 issue of **Venture** showed HSN at the top of the list of its “Fast-Track IPO 100” with a market value, as of February 4, 1987, of \$3,276 million—and they ran an article about CEO Roy Speer, the billionaire (he owns 45%). I read the article on May 17 at which time the market capitalization was about \$1,245 million, and Speer “only” a paper “560 millionaire” (to which must be added [1] what he had before he started HSN, and [2] the \$22 million cash he took out when he sold securities).

“I-am-colored-Green Farmer Jack” had a red face recently. Farmer Jack is the name of Borman's Supermarkets, and President/CEO Paul Borman had a note in the FY '87 Annual Report which I quote “. . . notwithstanding the date printed in the Annual Report [Ed: May 22], this year's Annual Meeting is scheduled to be held on Friday, May 29, 1987.” **RThought:** Whoops!!!

WORDS OF A PRAYER

The following is a fundamental truth, so fundamental that it might well have been written by an agnostic, an atheist or a Confucian:

Where there is hatred, let me sow love;
Where there is injury, pardon;
Where there is doubt, faith;
Where there is despair, hope;
Where there is darkness, light;
Where there is sadness, joy.

... grant that
I may not so much seek to be
consoled, as to console;
To be understood, as to understand;
To be loved, as to love;
For it is in giving that we receive.

RThought: Many will recognize the Prayer of St. Francis of Assisi, and yet many may not recognize the universality and wisdom of the prayer. It was not a special pleading; it was advice to mankind.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
 \$36 per year
 \$48 overseas

ROUTE TO

AUGUST 1987

VOL. 22, NO. 8

PRICE IS NOT EVERYTHING

Off-price, discount, warehouse clubs, hypermarkets, combination stores, 100,000 square-foot supermarkets—the world of retailers would have the world of customers believe that they now understand the customer. He or she wants it cheaper—and will pay anything (in inconvenience, lower-standard buildings, triple-handling checkouts, etc.) just to get it for less.

Without a great deal of effort, retailers close their eyes to anything that conflicts with this theory. They dimly remember taking Econ 1 and meeting the “economic man,” who always buys the cheapest and helps “free enterprise” set the “perfect price” at the point where incremental revenue to the retailer equals his incremental cost of providing the goods—not a penny more or a penny less.

Do you realize that most industries cater to the “non-economic man” which happens to be you!

Let's try a simple test. Answer yes or no to each question below:

Yes No

- ☐ ☐ I always buy my gasoline at the lowest priced station.
- ☐ ☐ I or my spouse regularly make a comparison shopping of food prices to be sure that we pay the lowest price for this major portion of our expenses.
- ☐ ☐ I buy my national-brand suits from a Kuppenheimer outlet store.
- ☐ ☐ I drive a perfectly utilitarian compact or subcompact car that I bought after studying the Consumer Reports and with due consideration to economy of operation (high mileage per gallon, low maintenance history, and high turn-in value), and I have the comparison worksheets to prove the correctness of my selection.
- ☐ ☐ When I buy stock, I always buy at the low point; and when I sell, I always sell at the highest point.
- ☐ ☐ I never bring home the small bottles of shampoo from a hotel where I stop in order to help keep their room rate down for my next visit.

Interpretation of scores:

- 0 Yeses You pulled a William J. Casey and lied under oath.
- 5 Yeses You pulled a Bud McFarlane and lied even though you were not under oath.

YOU SHOULD NEVER BUY OR SELL ANOTHER TOSHIBA PRODUCT

It bothers me to see a newspaper or magazine ad or hear one on the radio for a Toshiba product—TV, Hi-Fi equipment, photocopiers, telephone systems, adding machines or calculators.

We should not be selling Toshiba products.

We should not be buying Toshiba products.

And it should not take a law passed by Congress to bring this about.

Four members of the Walker gang have been sentenced and are in jail for 15 years to life for selling secret codes and other information to the Russians. A spy for Israel is in jail for more than 15 years for the spying he did for an ally. This list of spies—American citizens—who are now in jail is long. The problem had gotten so bad that in 1985 Congress passed, and President Reagan signed, a bill permitting the death penalty for spying by military personnel in peace time.

Now comes a famous Japanese company that has enjoyed billions in sales in the United States. Its majority-owned subsidiary, Toshiba Machine Company, starting in 1974, sold five-axis machine tools to Russia in violation of export control laws.

Russia, as a result, now has submarines with silent propellers that make detection difficult. The Navy has known for some time that the Russian subs have become more difficult to detect but did not know this was the result of a traitor in Japan (a country we have agreed to protect).

The Defense Department has estimated that it will cost \$6 billion to \$60 billion to regain the technology lead we had.

RThought: Toshiba can be punished even if it is beyond the courts in the United States. Its penalty can come from the Court of the People if we refuse to buy any products made by Toshiba for at least 15 years (the minimum sentence an individual would be likely to get for the same offense).

You can help the public along by not carrying Toshiba products—perhaps with a sign explaining what you are doing—and how they can help administer the appropriate punishment.

- 2-4 Yeses Your employer will start double checking the facts you submit to him to be sure they are accurate.

- 1 Yes Join that tremendously small minority that actually do try to spend money for maximum economic and psychological benefit.
- 0 Yeses Join the vast majority of the people in the United States who act just as you do—while still believing firmly that low price is everything.

RThought: What brought all of this on?

For years I have been pointing out that there are no “economic men” out there. They were just a figment of the imagination of economists who were then (and even now are) unable to measure and test the almost infinite factors that enter into a buy decision. (An example: I always buy something extra, usually something I don’t need, from any person who does *any* suggestive selling—it is my way of attempting to protect a scarce and endangered species in our retail society.)

But this article was prompted by a humorous report (with devastating quotes) on the recent amenity-industry convention in San Francisco. The amenity industry provides all those things that are stacked on the wash basin (like shampoo) in the hotels/motels at which we stay.

Here is where Steve Guaraldo of Scott Toiletries said, “Amenities are necessities;” and others pointed out that tests show that if you put a 30-cent bottle of shampoo on the wash basin, you can get \$2 extra for a room.

WHEN RECYCLING BECOMES A HABIT

California is already recycling 50-55% of its aluminum cans—a rate that many said, not too many years ago, would be impossible. California supermarkets continue to offer both reusable glass and one-way containers, often side by side. I visited the State of Washington recently. There, the supermarkets I visited offered products only in one-way bottles and at a much higher cost to the consumer than in California.

I happen to drink Schweppes Tonic Water (I learned this during World War II in Iran and the Philippines—a way to prevent malaria!). At our local grocer, I have the choice of quart returnables at 2/99 cents plus 20-cent/bottle refundable deposit—or 28-ounce, one-way bottles at 85 cents each. I won’t compute the difference in price per liquid ounce; but apparently, people are willing to pay the difference to be able to throw something away. In Washington, only the one-way bottle was offered; and it was above 85 cents in every store I visited.

From a standing start, protesting all the way, the California industry has found ways to handle the aluminum cans—even through reverse-vending machines! Local groups have added aluminum cans and bottles to their collectibles along with newspapers. (We reprocess so much paper these days that one seldom sees that information printed on reprocessed paper as a badge of good “environmentalism” [that may not be a word].)

Reynolds Aluminum Recycling Company has been operating for 17 years—and apparently at a profit. Now, under a California law that went into effect in stages, starting in September 1987, Reynolds will handle bottles and plastics—and, from the tone of a guest editorial by their regional manager, plan to make a profit as a full-line recycler. (July 1987 issue of *Grocers Journal of California*, 1636 West Eighth Street, Los Angeles, CA 90017, \$10/yr.)

RThought: To paraphrase, where there is a law, there is a way (to comply, that is; not to evade as was confessed by the White House in the Contra-Iran hearings).

WILL BORK UPSET A WELL-BALANCED COURT?

It is likely that there will be less satisfaction with the Supreme Court if Justice Bork is confirmed. The October 1986 Gallup Report asked the public about their confidence in the U.S. Supreme Court, and this is what the public said:

	% Great Deal	% Quite A Lot	% Total Favorable
Overall	19%	35%	54%
Men	20	36	56
Women	18	34	52
Republicans	19	38	57
Democrats	20	32	52
Independents	16	35	51
Age			
16-29	19	37	56
30-49	19	36	55
50-64	15	33	48
65 and older	22	31	53
East	22	36	58
Midwest	17	35	52
South	21	18	39
West	19	33	52
Whites	22	36	58
Blacks	21	18	39
Hispanics	22	34	56
College Grads	24	40	64
Some College	23	35	58
High School Grad	16	37	53
Non-High School Grad	14	27	41
Household Income			
\$40,000 and over	22	41	63
\$25-39,999	20	37	57
\$15-24,999	20	33	53
Under \$15,000	16	30	46
Professional/Business	23	40	63
Other White Collar	8	37	45
Blue Collar	19	33	52
Skilled Worker	23	36	59
Unskilled Worker	16	31	47
Protestants	19	32	51
Catholics	21	36	57

RThought: It seems to me that a switch, as extreme as is likely to come if Judge Bork is confirmed, will change the present balanced satisfaction. The alternate answers to “great deal” and “quite a lot” were “some confidence” (32%), “very little confidence” (10%), “no confidence” (1%), and “no opinion” (3%).

A “great deal” and “quite a lot” indicate relatively high confidence. And that is what is held by a majority of men and women; Republicans, Democrats and Independents; all ages except 50-64; all parts of the country except the South; all colors except black; all education levels except non-high school grads; all household incomes except below \$15,000; both major religious groups; and most classes of workers.

I suspect that with Bork the confidence level will drop materially for women; Democrats and Independents; young people; college graduates; middle income; and, probably, both religious groups.

GETTING AROUND THE RETAIL METHOD

Most large, general merchandise stores use the full-retail method—a method that requires all markdowns to be recorded—and reflects the loss of value as of the date the price is changed rather than, as under most cost methods, when the item is finally sold.

In the April 1986 issue of *RT* (a back copy is available for \$4—Box 249, Lafayette, CA 94549), I set forth the different timing of gross margin under five methods of inventory valuation: specific cost; specific cost not to exceed sell (the method Ross Stores used for awhile); cost or market to cover cost of disposal; cost or market to cover cost of disposal plus profit; and the retail method.

Zayre Corporation, in the notes to its audited statement for the year ending January 31, 1987, says in regard to merchandise inventories:

Inventories are stated at the lower of cost or market. The discount stores and the specialty stores primarily use the retail method for valuing inventory, on the last-in, first-out method for all hardgoods inventories, and the first-in, first-out basis for softgoods inventories. The warehouse clubs use the average-cost method. (Note C reveals that 36% of total inventory is hardgoods on a LIFO basis.)

This is unusual. No definition is given of "hardgoods" as used by Zayre, but the prices over the past 10-20 years of much of the hardgoods has increased less than the overall inflation rate.

I would hazard a guess that if Zayre had reversed and reported softgoods on LIFO and hardgoods on FIFO over the past five years, it would have reported less profit.

This is background to its news release, dated July 16, 1987, which contained the following statements:

Net income for the quarter is expected to be between \$75-80 million versus \$5.6 million last year. This reflects an after-tax gain of \$90 million from the recent sale to the public of 17.5% of the common stock of the Corporation's new subsidiary, The TJX Companies, Inc., net of certain non-recurring charges. Zayre estimates an after-tax LOSS [my emphasis] of between \$10-15 million for the quarter prior to the \$90 million gain. The above

estimates reflect the losses attributable to disappointing results in the Zayre Stores division and to certain writedowns and other charges being taken in the quarter which are expected to approximate, in total, some \$40 million pre-tax.

I think I have this figured out. It is going to report \$75-80 million; but if I take out the \$90 million after tax on the sale of TJX stock, I get the \$10-15 million LOSS. Part of that is due to Zayre Stores' performance, but \$40 million relates to pre-tax writedowns and charges.

These include:

1. A substantial reserve for markdowns to clear certain slow-moving merchandise in the Zayre Stores. (Note: The Internal Revenue Code does not permit markdown reserves to be deducted for taxes, but Zayre does not pay taxes on the profit at the end of the second quarter. The reserve is a guess, and Zayre can pick the actual items any time between now and the end of the current fiscal year.)

2. A further reserve for markdowns, resulting from the competitive repricing of selected brand-name merchandise within Zayre Stores. (Note: I don't understand the reason for a reserve on something this specific. Why not just mark down the goods? This markdown probably is a result of marking goods at an unrealistically high price so that unrealistically high savings can be claimed in ads—copying what the department stores and others are doing.)

RThought: I would guess that I had read reports of public companies for more than 30 years before I ever saw a company that used a method of marking down inventory other than through normal earnings. That was some years ago when Carter Hawley Hale took a writedown of inventory value of, as I recall, \$25 million and treated it as a non-recurring expense.

The details in the July 16 release are more than will be given in the results of the second quarter, when announced; and the details given in the annual audit, when announced, will be even less than that given in the second-quarter report. By the time figures for 1988-89 are reported, the non-recurring may no longer be separated; and a good profit improvement should suddenly appear. But perhaps not.

SHORT SHORTS

TIME magazine had a weekly radio program in the 1930's. The "People" section would start, "Death, as it must to all men, came this week to..." In the August 10 issue of *Newsweek*, it told the story of one year of AIDS—in more than 300 pictures of people who have died from this disease. Retailing was not missed. David Lynch, 40, record store manager, San Francisco; Ronald V. Smith, 24, store manager; and Edward Loeb, 58, retailer, Lafayette, IN ("Infected by transfusion; he had a department store chain"). **Chain Store Age Directory of Department Stores** stated that Mr. Loeb was president, general manager (and six or seven other things) at Loeb's, founded 1870, four stores, estimated 1985 volume of \$5.2 million. No other Loeb's listed among the executives.

RThought: AIDS does not discriminate—a professor at Stanford, a playwright with four Obie awards, a cardiologist who was a Phi Beta Kappa and retailers. This world needs all the help we can give.

Would you believe your son if he gave an excuse like this? Menswear Retailers of America quoted Larry Davidson of Davidson's, Roanoke, Virginia, on why one of its stores was closed the Saturday after Thanksgiving: "A squirrel chewed into a cable and blew the power for the entire shopping center and surrounding area." **RThought:** Like many a rookie reporter, Davidson didn't say what happened to the squirrel!

You never can be too careful; there are risks everywhere. When in Miami for the NRMI/IMRA convention, an article reported the death of a seven-year-old first grader who was killed in a major DIY store when a lumber cart loaded with plywood fell over on him. It was loaded with 17 four-foot-by-eight-foot sheets (thickness not indicated). **RThought:** Perhaps, if clerks were more safety conscious, a customer would not have that kind of a load on a lumber cart.

FEATURE REPORT

THREE KINDS OF RICH PEOPLE

In a couple of months (probably October), Malcolm Forbes will once again indulge himself as his magazine professes to identify the 400 richest people/families in the United States, making estimates for all except his own. He likes to play coy, and perhaps he can since he owns the third or fourth largest business magazine in circulation (*Working Woman* has passed *Forbes*).

When he first undertook this self-indulgence, he did have the courtesy to inform the first "richest man," J. Gordon Getty, in advance so that Getty could hire some guards. Forbes recognized, though he refuses to admit, that he was publishing a "To Be Kidnapped" roster.

If you think carefully about the people on the list, you will recognize at least three different categories of "rich," each with distinct characteristics.

The first group consists of people whose wealth is nothing more than a series of pieces of paper—stock certificates representing ownership in companies that they started and continue to run. In this category, you can put some of the wealthiest—Sam Walton, H. Ross Perot (until General Motors forced a massive amount of cash on him to escape his constructive criticism), David Packard and Bill Hewlett, John Kluge, Harry Helmsley, Leslie Wexner, Forrest Mars, Sr., and his family, the Tisch brothers, Curtis Carlson and many others. These people do not have large personal cash flows—most of the cash remains in their businesses. When they do something exceptional, it is usually through gifts of stock—and under the new tax law, that is a more expensive way to do it than formerly.

The second distinct group is those who inherited their wealth. In many cases, this has become institutionalized. A staff of professionals, reporting to a committee of the senior members

of the family, manage the money on a basis that they hope will become a permanent form of wealth for the family. Here one would put the Rockefellers, the female Hunts, the Getty family (when they are not fighting amongst themselves) and the Annenbergs. In some cases, the family, although institutionalized, is still close to the founder—as in the case of the Henry Crown family, the Bass brothers, the Mellons, the Johnson family and others.

The third distinct group is those who fluctuate between fully invested and highly liquid—H. Ross Perot finds himself in that position now; Henry Hillman, Marvin Davis, Alfred Taubman, Donald Trump, the De Bartolo family, Harry Weinberg, Daniel Ludwig, and Kirk Kerkorian. Some who have played this game, such as the Hunt brothers when they tried to corner the silver market (and drove the price to \$50 at one point), have also flirted with or gone into bankruptcy.

RThought: There are many people who enjoy a far greater career opportunity because they work for one of the rich whose riches are stock certificates in the company he or she started. These aggressive, confident entrepreneurs head expanding businesses. And many of their long-time associates have become personally wealthy in the process.

The businesses controlled by the second group have been less explosive but, perhaps, employ more people and provide more opportunities.

You won't find many among the entire list who try to spend everything they make to impress someone or who bet every dollar on an untried idea. In other words, the flashy very seldom rise to the top; those who did it by insider trading and bribes are finding fewer opportunities to flash their money around—and that is as it should be.

SHORT SHORTS

Thrifty Drug's secret formula for promotional prices was revealed to the world when they agreed to pay \$100,000 in penalties, \$12,935 in costs of the Los Angeles County District Attorney's Office and \$5,005 to the County Department of Consumer Affairs. A check of 100 Thrifty stores over a six-week period revealed that 37.8% of the merchandise advertised as being on sale was, in fact, being sold for the regular price. **RThought:** Fortunately, there are no Boruns (who founded Thrifty) or Sontags (who merged with Thrifty) left on the board. The Boruns and Sontags created the promotional drug store as we know it today—with honest value. And they provided material for thousands of comedians. For example: "I have to get a piano for my kids." "Where are you going?" "To Thrifty—they have a special this week." (I knew Ray Borun and Ada Sontag in my younger days.)

As our litigious society moves along. SAVVY, an excellent magazine for women in business, offers this advice to readers:

When asked for references, "Our advice is to confirm the job held and the dates of employment and that's all," says Sara S. Portnoy, a partner in Proskauer Rose Goetz & Mendelsohn in New York. "If you would like to say more, it's wise to ask the prospective employer to get a written release from your old employer authorizing you to make statements about her or him."

RThought: Soon we won't even be able to confirm that THEY DID THE WORK FOR US.

The sign above a little shop said,

FROZEN YOGURT

Sushi — Hot Dogs

But the sign on the window said, "For Rent." I think I know why.

"Leap with joy, be blythe and gay, or weep my friends with sorrow; What California is today, the rest will be tomorrow," said Richard Armour. The Population Reference Bureau estimates that by 2005 the minorities in California will be the majority. By 2030 the population will be: non-Hispanic whites 38%; Hispanics 38%; blacks 7%; Asians 16%; others 1%. **RThought:** I look forward to California in the 21st Century with its assured supply of new entrepreneurs to keep our economy growing faster than that of our neighboring country, the United States.

Even 54 inches would have been too high! I was walking through a K mart store in Spokane, when a boy, perhaps two-years old, turned the corner. He was looking for his lost mother—mothers get lost so easily in a big store—and tears were coming to his eyes. He took my finger in his hand as I guided him to a checkstand where the checker, a young lady in her 20's, bent over to put her arm around him just as the team arrived and the assistant manager standing there picked up the phone to announce a lost mother.

LAST IN, FIRST OUT, IN MIDDLE MANAGEMENT

LIFO has applications other than in valuing inventory. It is called "seniority" in employee situations.

As companies restructure for economic reasons and as expanded management information systems reduce the need for middle managers, there is going to be great damage to what we call the "middle class." For years, it has been the backbone of both our society—and our retail businesses.

The following figures are from the Equal Employment Opportunity Commission and appeared in the March 1987 issue of **Black Enterprise** (130 Fifth Ave., New York, NY 10011, \$15/yr.).

OFFICIALS AND MANAGERS

	1975	1980	1985	% Change 1975-1985
Total	3,549,840	4,181,430	4,501,173	+ 27%
Black Women	29,519	52,034	82,114	+ 178
White Women	461,532	715,964	974,809	+ 111
Black Men	78,823	113,029	133,029	+ 29
White Men	2,891,106	3,151,237	3,115,903	+ 8

PROFESSIONALS

	1975	1980	1985	% Change 1975-1985
Total	2,748,673	3,374,600	4,126,953	+ 50
Black Women	42,508	52,034	109,203	+ 157
White Women	692,352	1,095,398	1,524,192	+ 120
Black Men	42,672	64,444	79,361	+ 86
White Men	1,859,756	1,941,019	2,145,382	+ 15

RThought: The figures show excellent progress over the years in increasing opportunities in these two high-pay classifications: (1) officials and managers, and (2) professionals (the other categories are craftsmen, operators, sales, laborers and farm laborers).

Much of the two-income middle class have jobs in the two top-wage categories.

The disruption of families and the resulting impact on the economics of society of a layoff of the middle class are difficult to estimate. Not all of the gain will be lost—but 1990 will undoubtedly show small percentage growths in penetrating these jobs—and even a declining proportion of the jobs being held by two-income families (31% among officials and managers and 48% among professionals).

IS THE FUTURE OF FEDERATED DEPARTMENT STORES IN THE PAST?

I was reading the proxy statement for this company and wondered how it compared with the prior year. So I constructed the table below. As part of the defense against someone making a change in Federated, there are three classes of directors with one-third elected each year for a three-year term.

The table gives (1) their current position, (2) for outside directors, their current or former positions, (3) for company employees, their salaries for Fiscal Years 1987 and 1986, and (4) stock ownership, with a breakdown on employees/directors between what is held by them directly and held through the Retirement Income and Thrift Incentive Plan (the "Plan").

Name and Job	Salary (000's)		Shares Owned Apr. 87		Owned Apr. 86	
	FY 87	FY 86	Out- right	Plan	Total	Total
Class I						
Charlotte Beers Chairman/CEO Tatham-Laird & Kidner (Advt.)	NA	NA	100	—	100	100
John W. Burden, III Vice Chairman Federated	\$516	\$516	2,218	2,459	4,677	5,382
James L. Ferguson Chmn., Exec. Comm. General Foods	NA	NA	400	—	400	100
Reginald H. Jones Retired Chairman General Electric	NA	NA	200	—	200	200
Bernard S. Klayf Former EVP Federated	No longer a director					15,329
Will M. Storey Vice Chairman Federated	513	497	1,320	1	1,321	1,495
Clifton R. Wharton Chairman Teachers Annuity	NA	NA	200	—	200	200
Class II						
Robert A. Charpie Chairman Cabot Corporation	NA	NA	1,000	—	1,000	1,000
Howard W. Johnson Retired Chairman MIT	NA	NA	795	—	795	765
Daniel W. LeBlond Chairman LeBlond Makino Machine Tools	NA	NA	400	—	400	400
Norman S. Matthews President/COO Federated	533	491	1,476	852	2,328	2,714
Donald J. Stone Vice Chairman Federated	572	556	4,167	6,105	10,272	10,517
Class III						
Philip Caldwell Sr. Managing Director Shearson, Lehman Retired Chmn./CEO Ford Motors	NA	NA	200	—	200	200
Howard Goldfeder Chairman/CEO Federated	817	755	3,450	3,586	7,036	7,875
G. William Miller Chairman G. William Miller & Co.	NA	NA	500	—	500	500
Peter G. Peterson Chairman Blackstone Group Former Chairman Lehman Bros.	NA	NA	200	—	200	200
Marvin S. Traub Chairman/CEO Bloomingdale's	535	528	4,176	10,375	14,551	17,691
Kathryn D. Wriston Professional Director	NA	NA	500	—	500	500

RThought: Is this a picture of a board that sees a great future in the company? Please applaud outside directors James L. Ferguson and Howard W. Johnson—the only directors that increased their shareholdings (300 and 30 shares, respectively). All of the management got a little more in cash compensation and sold off or gave away a few shares. The second biggest holder in 1986, behind Goldfeder (who reduced his shares by 18%), was Bernard S. Klayf, who retired after being with the company 40 years.

RThought: You have to look a bit further for the real growth in holdings of management. Executives have deferred a portion of their compensation (which would be above the cash shown on the chart) and now have the amount of shares and dollars shown below squirreled away for the day when they retire, quit or, heaven forbid, are terminated:

	Shares	Dollars
Howard Goldfeder	24,415	\$1,235,093
Norman S. Matthews	5,601	392,244
Donald J. Stone	26,142	602,602
Will M. Storey	3,977	None
Marvin S. Traub	13,163	1,013,639

Then there is the matter of employment contracts—most are protected by employment contracts through April 30, 1990, at roughly the salaries shown.

Next there are pensions—most qualify for a pension in the 40-60% range of their current cash compensation. To this, one must add ten-year “retirement allowances” in the range of \$50,000 to \$100,000 a year. Plus, of course, golden parachutes, probably to the extent allowed by the new law.

But that isn't all. They have options with *tandem—All Keeler 8/29* random rights—most at about \$45/share (post split—the price closed August 5 at \$53 7/8), so there is some profit there. But look at (1) the option share they hold, and (2) what they gained on shares exercised between February 1, 1986, and April 2, 1987:

Name	Shares Held	Gain 2/1/86 to 4/2/87	Options with Tandem Rights
Goldfeder	30,000	\$327,375	54,000
Matthews	20,200	0	30,000
Burden	14,000	124,938	21,500
Stone	16,000	83,500	28,000
Storey	16,000	327,750	24,000
Traub	0	499,375	25,000

RThought: There is little use in detailing some of the other fringes. For example, they apparently continued to have their high-executive discount (part was reported as additional income). There are loans to executives to facilitate purchases of homes. There is a restricted stock-grant plan not reported above.

RThought: The disclosure requirements set forth by the SEC are so interpreted that the company can make a disclosure that is absolutely impossible for most well-educated persons familiar with accounting, financial and retail words, as well as with general English, to really figure out (1) how much an executive got, and (2) how much he/she is likely to get in the future. But we do pride ourselves on disclosures—and I say in all sincerity that Federated's disclosure is about as good as any other that I have seen. It is also as bad.

Final RThought: Until I see insiders buying Federated stock under conditions other than a cinch bet (the market is way above exercised price—and you can sell almost immediately), I think I will buy other stocks.

HAVE YOU SOLD YOUR HSN STOCK?

TV home shopping has always seemed to me a distribution method whose time really hasn't come. It was President Lincoln who said, “You can fool some of the people all of the time...”; but I am not sure that there are enough such people

to keep all (the remaining) or, perhaps, even one such firm alive.

Changing Times, July 1987 (Editors Park, MD 20782, \$15/yr.), reported under “Operators Are Standing By...” its test of Home Shopping Network and QVC Network and came to the following conclusions:

1. You do get what you ordered—and in 10 days.
2. You can make returns within 30 days.
3. You will get your credit 30 days after that.

But what of the items that you buy?

1. The \$18.75 Ronson Rotary Shaver hasn't been made for 10 years.
2. The \$70.18 value-pak filing cabinet for \$59.99 plus \$7.19 transportation showed up at K mart for \$59 plus sales tax.
3. The Hasbro “Montgomery Monkey” valued at \$90 and offered at \$47 plus \$3.78 never succeeded at stores for \$80 and is now \$50—and out of the Hasbro catalog.

RThought: I have tried a few hours watching a local (not publicly-held) TV firm offering merchandise, and I continue to wonder why people will watch until they find something they want. Even if bedridden, I would rather read.

4day tire stores

I have been fascinated by the growth of this company—it operates only Wednesday to Saturday. To quote it, “Open only during the 43 most efficient selling hours. Developing maximum sales with 1-shift overhead helps us to cut tire prices.”

Headquartered in Irvine, California, it now has 52 stores in California, Arizona, Texas and Washington.

They run small print but very wordy ads—with a lot of information. And they teach people about tires. A recent ad explained “How to tell a damaged tire from a defective one” and explained how, for 5% extra, you can once again get “our exclusive 4day guarantee that protects you for a specific number of miles against road hazards, premature or irregular wear (even if there are signs of misalignment or mechanical problems, run flats or other damage in use).”

RThought: That is what I used to get at Sears—and when they dropped that, I stopped buying tires from Sears. And I didn't know they had dropped it until I had a road-hazard failure.

WORDS FROM A POTATO CHIP BAG

Do you read the messages on packages? I do. I found the following on a bag of Granny Goose Hawaiian Style™ Potato Chips.

In Hawaiian it is: UA-MAU-KE-AE-O-KA-AINA-I-KA-PONO

In English it is: The life of the land is perpetuated by righteousness

*Betty Eldon
Thurs Bud 8/25*

RThought: Almost every culture values and protects the land. It is taught by parent to child; it is part of their basic world. But not us; to us, land is a place for a parking lot or to dump chemicals; it is contaminated water under, over and around the land; and, most of all, it is not something we feel obligated to pass on to the next generation in at least as good condition we received it. It is seldom better as the result of our stewardship.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
 \$36 per year
 \$48 overseas

ROUTE TO

SEPTEMBER 1987

VOL. 22, NO. 9

IS THERE ASBESTOS IN YOUR PAST?

What would happen if one of the malls in which you have a store was closed from June 24 to August 29? How much money would you lose? Would your customers switch to another store?

That is what happened to the stores in Southglenn Mall in Denver—and it was done by the Colorado health authorities after discovering asbestos in construction materials being removed during some routine renovation work.

The work crews did not know they were working with asbestos, and the required safety precautions were not in place. The white asbestos dust was being tracked into stores by customers that walked through it.

When Southglenn reopens, the public will know that it is asbestos-safe. But what about the other malls in the Denver area? After stories in the daily press, they will wonder.

RThought: Do you know what your exposure is? The problem may be most serious in older malls. And if you have to close for 60 days, who do you look to in an attempt to recover your losses? Who does the mall owner look to?

Watch this space in 1997 for an answer.

DO BUSINESS SCHOOLS PRODUCE FUTURE LEADERS OF INDUSTRY?

I think any thoughtful person, who looked at where graduates of the top business schools end up, would immediately conclude business schools do not produce "leaders of industry."

Let me offer two items—one about Harvard Business School and one about Stanford Graduate School of Business—the two most often rated 1 and 2 or 2 and 1.

FORTUNE (10/27/86) quoted Asa Jonishi, director of Kyocera Corporation (Japan), the world's largest maker of ceramic packages for integrated circuits:

Theories taught in management schools are often useless when applied to practical business. That is why we think Harvard Business School is a remarkable school but may be more of a detriment to the U.S. economy.

Stanford reported the following job acceptances by its 1986 graduates:

Consulting	25.6%
Investment Banking	24.6
Commercial Banking	9.5
Financial Services	2.8
Real Estate	2.8
Venture Capital	1.4
Other Services	9.1

NOT PRODUCING ANYTHING 75.8%

DOES MACY'S TELL EMPORIUM-CAPWELL?

I phoned Macy's at Sunvalley Mall (California) to see if they carried the HP-12C pocket business calculator. I asked for calculators. The young man answered, "Cameras and calculators." I said, "Do you carry the HP-12C?" He said, "What is it?" Such is the modern day fame of Hewlett-Packard. He returned later to tell me that they did not but that Emporium-Capwell did.

My assistant, who overheard the conversation, said that when in Emporium-Capwell recently, one of her sons asked her how does one establish credit and she said by opening a charge account. There was an application there and he filled it out. The salesperson asked if he had accounts at any other stores; and when he said, "No," she said, "You should try Macy's; they will open one much faster!!!"

RThought: It is amazing what you hear and learn just being around retail stores. I don't mean to pick on our local stores so much—but they constantly offer me so many examples.

Electronic Manufacturing (including computers)	10.0%
Manufacturing Consumer Goods	6.2
Pharmaceutical/Biotechnology Firms	1.4
Other Manufacturing	6.5

PRODUCING SOMETHING 24.1%

Lost in rounding: 0.1% (Perhaps retailing!)

RThought: Can our economy, and thus our society, survive when the bulk of the output of our top business schools (Harvard graduates show a similar distribution) go out to make money off others rather than make money by producing something?

When I was at Harvard Business School, the most popular course was the one given by Professor Doriot in manufacturing; today, General Doriot is remembered most (except by his students) for heading the first venture capital firm and investing the original \$70,000 in Digital Equipment Corporation (today, a \$7 billion company, employing 70,000 people); an investment that returned hundreds of millions of dollars.

It is interesting to note that **FORTUNE** (10/27/86) in selecting Ken Olsen, the founder of DEC, as "America's Most Successful Entrepreneur" (over retailing's Sam Walton, who came in second), pointed out that Doriot's firm got 77% of the company; Olsen, 13%; and other founders, 10%. Today, Olsen, the moving force who created an entire industry, owns 2% of the company.

But because Olsen is a builder, rather than a taker, he always considered Doriot a friend and one of his three mentors. But

Doriot, in 1957, set the path for non-building/money seekers that, today, populate our top business schools.

In my other life (in merger and acquisition work in technology fields), I live with venture capital firms. Few in that industry have ever run anything (those that have are especially admired).

The structure of a venture fund is simple. Limited partners put up the money; general partners get a reasonable salary and put in a little money and their sweat. The partnership usually runs for 10 years, during which time the limited partners provide operating funds (usually set at a percentage of amount invested). At the end of 10 years, the general partners get to split 20% of the profit made by the fund.

In numbers, it might go like this: \$50,000,000 invested; \$1,000,000 a year for operating expenses (providing a salary in the \$100-150,000 range for general partners); liquidate in 10 years when valued at \$150 million (\$100 million profit); and the general partners split \$20 million. *And they didn't have to know how to make anything!*

In many cases, their skill is in finding how little a percentage of the new company the people who know how to make something will take and still be dedicated to the venture.

On the other hand, many of the people who know how to build something are just like Ken Olsen—truly interested in building. They are less concerned about making millions (although Olsen is rich).

Do not overlook the fact that venture funds are now backing retail ventures.

USE OF BAD NUMBERS BY INSIDE RETAILING

In a sample copy of *Inside Retailing* (seeking to get a subscription), there was a chart showing, for 12 large general-merchandise chains, (1) Operating Gross Profit per Square Foot—1985, (2) Sales per Square Foot—1985, and (3) Annual Compound Growth in Sales per Square Foot for 10 years, from which *Inside Retailing* drew a full page of conclusions. When I wrote asking about the "apple and orange" situation (Federated's supermarket volume was included at \$2 billion; Dayton Hudson had about half in discounting; while Federated, Allied and May Company also had significant discounting volume). Further, annual reports sometimes indicate that square footage is total space and sometimes is selling space. I received a handwritten note on my original letter to the editor saying, "The questions you raise should be directed to the source—Morgan Stanley. The chart was simply used to illustrate the lead paragraph. L.J.-R." I don't know who "L.J.-R." is because the publication prefers, unlike other Lebharr-Friedman publications, to conceal the name of the editor from the public.

RThought: I have criticized major CPA firms for inducing bad numbers through surveys; magazines for having writers prepare bad numbers; and now we have a company, Lebharr-Friedman, publishers of the *Chain Store Age* magazines and others that have a large research department, refusing to challenge the numbers used to support a page of editorial conclusions. They did not ask themselves, "Do these numbers truly reflect differences between the 12 companies on the list?"

Lebharr-Friedman does a disservice to readers by not assuming a responsibility for what they use from "other sources."

DISCLOSURE OF STOCK OWNERSHIP OF DIRECTORS

Once upon a time, a reader of a retailer's proxy statement could take, as a fact, that the share ownership shown after the director's name was the number of shares "owned."

Then we got into "creative ownership;" and in order to make it appear that officers/directors had a greater ownership than they really did, the numbers owned was increased by the number of options that are (or within the following 90 days are) exercisable. That can make a dramatic difference.

Interestingly, it could include options that are under water—that is, the exercise price is above the current market; it is unlikely that a prudent man would exercise them. But the officer/director is made to look better.

RThought: Dayton Hudson is to be complimented for clearly showing this information by the simple process of using one column for "owned" and another for "options," even though the process does disclose that one senior officer/director owns only 1,000 shares despite a salary in excess of \$600,000.

On the other hand, Toys "R" Us shows one officer/director owning 2,146,932 shares; but a footnote on the next page shows that 2,117,706 are in options, and thus current ownership appears to be only 29,226.

RThought: Will it take SEC action for retailers (and all public corporations) to clearly show ownership by officers/directors?

IS THERE AN IMPLIED "MUST OPERATE" CLAUSE IN YOUR LEASES?

National Mall Monitor Weekly Insider (2535 Landmark Dr., Clearwater, FL 33519) reported on First American Bank vs. Safeway, 729 P.2d 938 (AZ).

Safeway had a lease running to 1988 but closed the store in 1983 and continued to pay the minimum rent (after having paid overages in prior years). The lessor sued and argued that there was an implied "continuous operation" clause or else the percentage provision had no meaning. The court said, "In agreements where the rental is based either upon a straight percentage of sales, or upon a minimum fixed rental and additional rent based upon a percentage of sales, the inadequacy of the base rent implies a covenant of continuous operation." In other words, if you have been paying overages, then you will have to pay overages even when the store is closed.

HANGTOWN CATCHES GILLETTE FOR \$260,000

In the Gold Rush Days, Hangtown (now the small town of Placerville, CA) provided instant justice; now it is a bit slower. But the District Attorney of El Dorado County did get \$260,000 from Gillette for oversize packages. A citizen complained that he wasn't getting as many razor blades as the package appeared to hold and also that the contents of items, like Right Guard sticks and other Gillette items, were not up to snuff.

In the end, mighty Gillette paid \$225,000 to El Dorado County, \$25,000 to the State Attorney General's Office and \$10,000 to the State Department of Food and Agriculture's Weights and Measures Division. The \$225,000 to the County was \$125,000 for the costs of the suit and a \$100,000 fine. Gillette did stipulate, in the final judgment, that they

SALES PER SQUARE FOOT

Most retailers are satisfied measuring themselves and comparing themselves by total sales. A very few look at ranking by profit. Even fewer look at market value—which reflects a market consensus of their future.

But what about sales per square foot?

Sales per square foot of gross area has a great deal to do with profitability. It reduces the percentage of many fixed expenses. It gives your customers the feeling of being in a busy store—few like to shop in a cavern. It usually means more sales help on the floor. It makes you attractive to vendors. It indicates that you can move merchandise.

STORES magazine, the official publication of the National Retail Merchants Association, has for many years published a list of the 100 Top Department Stores. (They have had some problems in defining a “department store.”) As more and more stores drop appliances, yardage, TV, drug sundries, furniture and other departments, the difference between a specialty store (for example, Saks Fifth Avenue or Filene’s) and a department store disappears. And it should—because customers of both Dillard and Nordstrom consider those stores to be department stores because of their size—while you and I, as purists, may not be sure.

Faced with a list of the Top 100 Department Stores that shows both **square footage (not fully defined but hopefully comparable)** and volume—and having a calculator, as always, at my right elbow—it was natural to do a lot of dividing.

Shown below are the 30 stores with the highest sales per square foot:

Store	Size (Rank)	Affili- ation*	Sq. Ft. (000)	Volume (\$ mil.)	Dollar Sq. Ft.
Mergdorf Goodman	86	CHH	129	\$ 120	\$930
Nordstrom	2	Ind	5,098	1,630	320
J.B. White	82	MS	455	145	319
Liberty House	58	Ind	700	220	314
Parisian	54	Ind	827	226	273
Neiman-Marcus	14	CHH	3,230	850	263
Goudchaux	57	Ind	874	224	256
Bloomingdale’s	8	Fed	4,269	1,050	246
Macy’s California	6	RHM	5,682	1,335	235
McAlpin	42	MS	1,450	325	224
Macy’s New Jersey	5	RHM	6,550	1,440	220
Gayfer’s (Mobile)	38	MS	1,700	350	206
Macy’s New York	3	RHM	7,710	1,575	204
Bacon/Roots (KY)	75	MS	790	160	203
Dayton Hudson	4	DH	7,791	1,566	201
Gayfer’s (Montgomery)	69	MS	880	175	199
Boscov’s	46	Ind	1,448	287	198
Lion’s	86	MS	610	120	197
Macy’s Atlanta	22	RHM	3,095	605	195
Filene’s	35	Fed	2,117	391	185
Gottschalk	85	Ind	682	126	185
Carson Pirie Scott	31	Ind	2,518	435	173
I. Magnin	43	Fed	1,828	317	173
Castner/Knott	56	MS	1,300	225	173
Bonwit-Teller	77	All	914	157	172
Woodward & Lothrop	25	Ind	2,971	497	167
Jacobsen’s	44	Ind	1,892	309	163
Hecht’s	21	May	3,824	624	163
Strawbridge	33	Ind	2,550	410	161
Burdine’s	16	Fed	5,069	810	160

*CHH: Carter Hawley Hale
Fed: Federated Dept. Stores
All: Allied Stores
MS: Mercantile Stores

RHM: R.H. Macy & Co., Inc.
May: May Department Stores
Ind: Independent
DH: Dayton Hudson

Recapping the ownership of the stores in the top 30 for sales per square foot we get:

Independents	10
Mercantile Stores	7
R. H. Macy Co., Inc.	4
Federated Department Stores	4
Carter Hawley Hale	2
May Department Stores	1
Allied Stores	1
Dayton Hudson	1
TOTAL	30

The list of 100 included 28 “Independent” stores—36% had over \$160/sq. ft. sales. There were 75 stores that are parts of chains (the list actually totalled 103 stores), and 20—or 27% had over \$160/sq. ft. in sales.

But isn’t it surprising that Mercantile Stores—which people in many parts of the U.S. have never heard about—had 7 stores out of its 10 in the top 30 firms? Macy’s had all 4 store groups in the top 30. Federated had 4 store groups (Filene’s and I. Magnin are really specialty stores) out of 10 divisions. Carter Hawley Hale had both U.S. specialty stores (soon to be spun off) out of 7 groups in the top 30. May Department Stores had 1 out of 17 (some newly acquired) groups. Allied Stores had 1 (a specialty store—Bonwit-Teller) out of 15 (some recently sold) groups at above \$160.

RThought: Perhaps we are not using our space as well as we could? Perhaps the reason department stores have so much competition from off-price and discount stores is that they have built too many stores too large to operate efficiently. The tendency is to raise prices to cover costs—hoping the competition will do the same—and the department store competition does. But the other types of outlets, with lower built-in costs, take volume away.

It takes a certain type of management, such as that at Mercantile Stores and Macy’s, to continue to operate stores at \$160 or even \$200 or more per square foot without thinking that profits would be improved by having larger stores and spreading the sales out more.

RThought: What about the poor performers? Who are they? The list below shows the stores and their affiliation of those doing less than \$100 per square foot:

Store	Rank	Affiliation	\$ Per Sq. Ft.
Block’s	96	All	\$63
Weiboldt’s	69	Ind	64
Pomeroy’s	81	All	68
Joske’s	39	All	69
Sibley, Lindsay, Curr	65	May	78
Jordan Marsh (FL)	50	All	83
Miller & Rhoads	83	All	84
Cain Sloan	103	All	84
Miller’s (TN)	94	All	90
Hutzler’s	98	Ind	92
McCurdy’s & Co.	102	Ind	92
Frederick & Nelson	58	Ind	93
Donaldson’s	67	All	96
Admas Meldrum Anderson	89	Ind	97

What immediately strikes one is that 8 out of 14 below \$100 are part of Allied Stores—some, such as Joske’s, have been sold.

In the United States, we have set up sort of a sweetheart deal for the accounting profession. For all companies, there is the Financial Accounting Standards Board (FASB) which determines what is Generally Accepted Accounting Principles (GAAP); and for publicly held companies, there are some additional standards, mainly in the areas not covered by GAAP, that are set forth by the Securities and Exchanges Commission (SEC). Normally, SEC will give FASB a reasonable time to come up with a decision—and will work closely with FASB on a decision.

As long as an accounting firm does “creative accounting” outside of GAAP and SEC rules, it is limited only by its conscience. It will never hear another word from fellow accountants. Privately, some may express an opinion; and their partnership may have a policy against doing what some other accounting firm does, but they won’t comment publicly, either in the general business press or their own accounting press. That leaves it up to academics to address such subjects—and it is easy to ridicule any academic as a “gadfly.”

I found a different situation in Australia recently. In one of its major business periodicals, **Business Review Weekly** (3/20/87), under the heading, “A collision looms over standards,” they examined the audited reports issued by Arthur Andersen on Kern Corporation.

Here is the situation.

Kern Corporation is a property company. It recently built a major office building that represents over 40% of Kern’s total assets and is now 90% leased.

Each six months, Kern has been “revaluing” the building and reporting the board’s estimate of increased value as part of ordinary income. It has proven a most effective tool; apparently, the judgment of the board just happens to lead to an even flow of profits.

The Australian Accounting Standards Board says that when a company revalues non-current assets (Note: In this area, Australia is far ahead of us) any revaluation increment should be taken to a revaluation reserve directly and not through operating profits.

A spokesman for an unnamed accounting firm was quoted, “When Kern’s treatment of unrealized gains first came to my attention in the 1985 accounts, I was incensed because I had been telling one of our clients that there was no way I would go along with their doing the same thing.” From another unnamed accountant, “I find it extraordinary that Kern has been revaluing incomplete buildings.”

Stuart Grant of Hungerfords (a national accounting firm) commented on it in a speech and was particularly bothered by the lack of full disclosure and the effective concealment of the actual cost of the structure. Geoff Leppinus, former national audit director of Touche Ross said, “I am surprised Arthur Andersen has let the Kern style go through unremarked. Most firms would not. You are not looking just at a few million, but at about two-thirds of the company’s total operating profit.”

Justin Gardener, Australian practice director of Arthur Andersen, would not comment on the case but said, “Our audit report is Andersen’s standard audit report. It is normal that we do not refer to the profession’s accounting standards. Some other firms don’t either.” In response to questions to Price Waterhouse, PW said that they believe it would merely confuse readers by drawing distinctions between legal and professional standards; on the other hand, Coopers & Lybrand said that they report more fully.

RThought: Do you believe such a public discussion is important? Do you believe it is helpful to the accounting profession in maintaining standards above the lowest possible level?

Do you believe such an article would be printed in the U.S.? Do you think that, if such articles regularly appeared, there might be fewer bankrupt savings and loans, land companies, even spectacular startups?

It seems that in the United States the “professionals” in the accounting profession (as in the medical, engineering, law and other professions) do not feel that the honor given them by the public calls for total responsibility to the public. The peer-review process followed in the U.S. is good—but it seldom gets to the public. It permits an accounting firm with inadequate standards to continue to issue reports that the public thinks are sound.

— SHORT SHORTS —

Repercussions. The following is from the prospectus for Wisconsin Toy Company, Inc., and specifically from the background of Leslie Mendelsohn, President and Chief Operating Officer: “Prior to joining the Company, Mr. Mendelsohn was employed from 1973 through December 1986 by Federal Wholesale Toy Company...in October 1986, the Gemco division of Lucky Stores, Inc. (which was Federal’s principle customer, representing over 50% of Federal sales), was liquidated...Federal filed a petition for relief under Chapter 11...in November 1986.” **RThought:** Waves spread widely; more than 50% with one customer is operating unwisely.

“The little hand points to the 4...” I think tradition and analog have won over digital watches. Virtually all the watches I see advertised, at more than \$15, are straight analog watches (a few have a digital panel, but these are very small). **RThought:** When cheap, quartz digital watches first came on the market, everyone thought the days of the analog were gone

and that our grandchildren would never talk about “the little hand points to the 4...” I find it slower to read a digital watch—but thought I must be unusual. Perhaps I am just normal—after all.

To sign or not to sign, that is the question? Dear Abby recently ran a column in which there were two letters against signing the back of credit cards, one from a person who worked in a prison and heard inmates talking about practicing signatures on stolen credit cards. Both had identification (driver license, job ID) with their photograph; and if that was not enough, they would leave the merchandise. **RThought:** Abby wrote, “My mail is running 10-to-1 AGAINST signing credit cards.”

Sears—and an ad I never thought I would hear! Over my car radio on Friday, August 28, I heard, “Everything in every store on sale!” **RThought:** My notes are not clear because I was driving—but I think it was 10% to 50% off. How desperate is Sears for volume?

nothing wrong—but they also agreed to modify, as of June 1, 1988, products that were found to have “false bottoms, false sidewalls, false lids or were otherwise constructed or filled wholly or partially so as to facilitate the perpetration of deception of fraud or which contained nonfunctional slack fill.”

RThought: The observant citizen was—the county Commissioner of Weights and Measures. The law violated was—the California Business and Professions Code.

THE ULTIMATE IN COUPONS

Domino's Pizza has been one of the outstanding growth companies of the past decade. It introduced a completely new concept—fast delivery of pizza from small shops that are just large enough for an oven and a counter. Each shop costs a fraction of what a pizza restaurant costs and does not have to be in a heavy-traffic, high-rent area.

They recently put out a calendar in Denver—in conjunction with The Denver Post and TV Station 4. The calendar runs from August 1987 to July 1988 and has pictures of the Bronco football team for each month. At the back, there is a story about the Denver Broncos Youth Foundation, the location of 54 Domino's Pizza stores in and around Metro Denver (with a map) and the 1987 Bronco schedule.

At the bottom of each page are two coupons good only in that month. Each coupon is good for \$1.00 off any pizza plus a 50-cent donation in your name to the Youth Foundation.

RThought: Creativeness is not a one-time event (such as pioneering home delivery of pizza). It is constant application of new ideas and ideas that fit the community. In Denver, the love of its Bronco football team is higher than in most cities; this might not work in Salt Lake City which has no National Football League team and I am not sure of the love of its basketball team.

HOW COME INVESTMENT BANKERS OVERLOOK RETAILING?

FORTUNE magazine asked six major investment bankers to set forth their recommended \$100,000 portfolio. In September, they published a progress report. One would think that there was no publicly traded retail stocks.

Shearson Lehman Brothers (6 stocks in the portfolio), Wood Gundy (11 stocks), Thomson McKinnon (7 stocks) and L.F. Rothschild (11 stocks) could not find any retailers worth including; Twenty-First Securities (11 stocks) found two firms—General Cinema (with a major holding in Carter Hawley Hale) and Best Products; and Gruntal (8 stocks), found Woolworth and Borman's.

For nine months, from October 1, 1986, to June 30, 1987, the portfolios performed as follows:

Shearson Lehman	+ 38%
Wood Gundy	+ 38
Gruntal	+ 24
Thomson McKinnon	+ 24
Twenty-First Securities	+ 16
L. F. Rothschild	+ 10

And the retail stocks performed as follows:

General Cinema	+ 18%
Woolworth	+ 8
Best Products	+ 5
Borman's	— 9

But what about all the retail stocks that increased more than 40% during the same period? Why were they so invisible?

Businessland	+ 48%
Carter Hawley Hald	+ 81
Circuit City	+ 56
Costco Wholesale	+ 44
Deb Shops	+ 69
The Gap	+ 98
Gottschalk	+ 87
Great A & P	+ 80
Hannaford Bros.	+ 57
Hechinger	+ 42
Home Depot	+ 99
The Limited	+ 68
May Department Stores	+ 42
Mayfair Supermarkets	+ 77
Morse Shoes	+ 72
Nordstrom	+ 75
Paul Harris	+ 60
J. C. Penney	+ 51
Southland	+ 47
Stop & Shop	+ 46
Supermarket General	+ 51
U.S. Shoes	+ 47
Wal-Mart Stores	+ 62
Weis Markets	+ 40

RThought: A good retail analyst easily could be leading at the three-quarter mark with nothing but retail stock.

There has to be a reason for this lack of visibility—and perhaps it comes back to the retail companies and their financial public relations programs—or lack of them. Otherwise, how does one explain these top analysts picking such losers as:

Aristech Chemical	— 2%
AMR	— 1
GenRad	— 7
Algeme Bank	— 4
Freeport-McMoRan Energy	— 1
Howard Savings Bank	— 6
Xerox	— 5
Inland Steel	— 9
Champion Spark Plug	— 1
Advest Group	— 9
Federal Paper Board	— 6
Employers Casualty	— 3
Old Stone	— 2
First Ohio Bankshares	— 6
Marsh & McLennon	— 8
Public Service Enterprise Group	— 9
Public Service of New Mexico	— 8

RThought: During the same nine months, the Standard & Poors' 500 increased by 26%—partially because it included more retail stocks than the experts included.

COUNTERFEIT DIAMONDS MAY NOT BE YOUR BEST FRIEND

The National Advertising Division (NAD) of the Better Business Bureau (BBB) took exception, following a complaint (which usually comes from competitors) of the advertising of Van Pler and Tissany Fine Jewelers (think which two quality jewelers they were trying to sound like) that made these claims in ads:

“Science has finally counterfeited a perfect diamond. Thousands of jewelers and pawnbrokers fooled—it cuts glass.”

"In Diamond World, author Davis Koskoff stated, '...the CZ (as it is called in the trade) fooled most of the members of the famous New York Diamond Dealers Club when it was introduced.'"

"ABC's 20/20 news team fools New York Diamond Mart experts."

"The National TV show 20/20 visited the famous 47th Street Diamond Mart in New York looking for appraisals of some 'diamonds.' Several experts there looked at the jewels through their jewelers' loupes. Without any suspicion, they gave the Van Pler-type counterfeit diamond appraisals of several thousand dollars before a TV audience of millions of people."

RThought: After reviewing the material, the NAD suggested to the advertiser that the excerpts were inconsistent with the source materials. The advertiser agreed to revise or delete quotations and particularly the claims that professionals accepted them as real diamonds.

I would not want to bet on the accuracy of the revised ads.

CATALOGS TO MY RIGHT, CATALOGS TO MY LEFT, CATALOGS . . .

The September 1987 issue of **SAVVY** had seven full pages of ads for catalogs. **Catalog Publisher, Ltd.**, had a full page in color showing 18 catalogs, offering up to 12 free and "Yes, include discounts up to \$120." There is a guarantee—if you don't like a catalog, they will take your name off the mailing list.

Shop The World By Mail had color photos of 54 catalogs at prices ranging from \$2 to \$10 (10 at \$2, 28 at \$3, 9 at \$4, 5 at \$5, and 2 at \$10—the \$10 ones were Garrard, appointed as The Royal Jewelers of England in 1843—and European Car Conversion Corporation in Germany).

SAVVY got into the act with their Reader Service—nine catalogs presented in black-and-white and at prices from "Free" (Eddie Bauer) to \$5 for Lord & Taylor or Neiman-Marcus.

RThought: Soon there will be a subscription publication with nothing but ads for catalogs! This will be more convenient than selling catalogs along with magazines—and if you are a catalog buyer, you obviously will want to shop for your catalogs at home.

IDEAS FROM ANNUAL REPORTS

I read a lot of annual reports. Each year there are some new ideas; and many of them are applicable to other companies.

Paul Harris Stores, Inc.: On the inside of the front cover, it lists the firms making a market in its stocks. That permitted them to identify with such major investment bankers as Dean Witter, Merrill Lynch, Paine Webber and Shearson American Express. Note: They did have a good year with sales up 28% and net income (3.85% after taxes) up 29%.

Hechinger Company: From the letter to stockholders, "Hechinger hires good people and keeps them. In this age of job-jumping, we're proud to report that we've never lost a Store Manager to a competitor." Hechinger lists twenty officers, five of whom are women. The positions held by women include three senior vice presidents (GMM, Marketing and Human Resources), a vice president (DMM) and a corporate secretary. (Remember—this is not a women's specialty chain or a department store—it's "The World's Most Unusual Lumber Yard.") Finally, the numbers are good—for 15 years

as a public company, the compound annual growth rates for sales and after-tax profits are 22% and 28%, respectively.

General Host Corporation: The letter to the shareholders starts, "For General Host, 1986 was a year of considerable change and rapid growth tempered by losses at Frank's Nursery & Crafts." Five pages later, you learn that a 1985 operating profit of \$12.5 million the prior year changed to a \$8.3 million operating loss due to "a surge in expansion-related costs coupled with an unexpected deterioration in merchandise profit margins. The drop in margins did not become evident until problems were discovered in Frank's computerized accounts payable system which caused delays in recording payables, and then there was \$4.2 million of 1986 purchases that should have been recorded in 1985."

Grand Auto, Inc.: Why do letters have to start, "Senior management was consolidated and each area of the company was evaluated and re-focused. Communications within the company and with customers and suppliers was improved greatly. The result is a fresh responsiveness to the market and a new sense of excitement." Frankly, why should this be important news; isn't retailing a constant game of communications (when you have 113 stores) and being responsive to customers and suppliers? How else can you run a retail business?

Lowe's Companies, Inc.: the letter starts frankly, "1986 was supposed to be Lowe's best year ever. It was also the year Halley's Comet was to blaze unforgettably across our firmament in fiery glory. The comet came and went, but it didn't so much blaze as fizzle, and that's about what happened to our earnings." Off 13% on total earnings, 18% on earnings per share—all this was despite (perhaps why) the strengthening of the board to include Bill Andres, ex-CEO of Dayton Hudson; John Belk, Chairman of Belk Stores Services; Jack Shewmaker, Vice Chairman of Wal-Mart Stores; and, most recently, former Senator Russell B. Long. Note: Lowe's is the only annual report I read that gives you a 25-year comparison, starting in FY 1961, doing \$31 million; and through 1986, doing \$2.3 billion.

SHORT SHORTS

Here is how Ross Stores saves you money. From its ad in the (Portland) Oregonian, Friday, August 21:

Regular Department Store Price	\$28.00
Original Ross Price	14.00
Ross Clearance Price	10.00
Take 30% Off and Pay	\$ 7.00

RThought: Should I wait for next week?

WORDS TO INCREASE YOUR HAPPINESS— WITH THE WORLD

I was looking for something else that I thought was written by James Whitcomb Riley (1849-1916) when I ran across this wonderful thought from "Wet Weather Talk."

It hain't no use to grumble and complain,
It's just as easy to rejoice;

When God sorts out the weather and sends rain,
Why rain's my choice.

RThought: There are so many things in life that make people unhappy—and so many of them, like rain, cannot be changed. So why not follow this advice by saying, "That's exactly what I really wanted," and get ahead of the game.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549 • (415) 254-4434

ISN 0360-606X

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Published Monthly
 \$36 per year
 \$48 overseas

ROUTE TO

OCTOBER 1987

VOL. 22, NO. 10

I WAS WRONG

Years ago, when the firm was named Comp-U-Card and had more limited plans, I reported that they had joined with my previous champion, Macy's Red Star Store in Syracuse, New York (1940), in being one of the few retail entities where the cumulative losses exceeded the cumulative sales. Today, Comp-U-Card is CUC International (and may some day become CUCI Interstellar) and does have significant cumulative earnings—though they went into a couple of other businesses to do so. **RThought:** I guess the variety of businesses just emphasizes the innovativeness of Chairman, President and Chief Executive Officer, Walter A. Forbes.

FORD SETS PURCHASE OF U.S. LEASING

That story in *The New York Times* on October 12, 1987, brought back memories.

I remember when U.S. Leasing was started—with a couple of attorneys and some retired loan officers from the Bank of America. Its offices were small. Every deal had to go through one man—the treasurer—and when I would visit him, there would be proposed leases on his desk stacked 18-20" high, waiting for his review.

I knew they were leasing machine tools; I asked why they could not lease store fixtures to Mervyn's? After some thought, he said there was no reason why they couldn't—and they wrote its first lease for store fixtures to Mervyn's about 1958 or 1959.

Just think! A five-year lease that expensed the cost over five years instead of a ten-year write-off—with nothing appearing on the balance sheet or in the footnotes. This was better than discovering chocolate ice cream.

It wasn't too many years until a number of firms were in the leasing business—Bank of America, Crocker-McAlister, Greyhound—and they all wanted Mervyn's business. But each one had a different contract; and not only were some of the terms objectionable, but they made it difficult, if not impossible, to compare one lease with another.

At Mervyn's, we made another advance. We wrote our specifications for a lease and put it out to bid—once a year for all the stores we planned to open. I think the first one was for four stores at \$600,000 a store or \$2,400,000. The term was the interest rate was tied to the recent AA-bond-interest at the start of the lease, and we would pay interest only on the amounts received and paid for until the opening of the store. Then the amount would be converted to a five-year lease. We had the right to set the day of the month payments were due in order to keep them spread—and away from the tenth of the month.

INTEGRITY

A fundamental factor of integrity is that you do things that you are not required to do—either by law, contract or custom. You do these because you feel that it is the right thing to do: because if you did something else and someone challenged you by asking, "Was that fair?", you would be unable to answer, "Yes."

Such a thing happened at Hechinger Company, "The World's Most Unusual Lumber Yards." Let me quote from its August 14, 1987, release:

Hechinger Company...today announced that...it is calling an \$83,783,000 issue of 8-1/2% Convertible Subordinated Debentures...for early redemptions. Holders...have the option of converting...into 66.49 shares of Class A Common... The closing price...on August 13, 1987, was \$26.50. Debentures...not converted...will be redeemed at...\$1,115.86, including accrued interest...so that redemption price is substantially below the value of the...stock...which...was \$1,761.99 on August 13, 1987.

Under the terms of the Indenture Agreement, the Company is not obligated to pay accrued interest on Debentures which are converted... However, the Company has elected to pay all accrued interest from March 15, 1987, to the redemption date...on Debentures which are converted. In announcing the Company's decision, John W. Hechinger and Richard England, Co-Chairmen, stated, "We are a Company that firmly believes in fair play. We have had the use of the funds until conversion takes place and we believe it is fair and in the Company's best interest that we pay the accrued interest."

RThought: What was involved in that decision? A half year's interest at 8-1/2% per annum on \$83,783,000 is \$3,560,777.50. After 50% taxes, this represented 22 cents per share. The company had reported 92 cents the year before for its third quarter.

Harry and Harriet Homeowner, the characters in Hechinger's ads, can be real proud of their parents. I think most retailers would have opted for the other decision.

We also had the right to acquire the property for a nominal payment at the end of the lease.

We banked with the Bank of America; and when its lease department would not bid because it refused the buy-out provision, the B of A replaced the officer in charge; and in subsequent years, it got most of the leases.

RThought: So much for things we were told we could not do. We were told by our bankers and others that we could not lease store fixtures, but we did; we were told that leasing firms would not respond to a request for a bid on *our* terms, and they

did. For years we kept our fixed assets at less than 5% of assets, which always made our balance sheet look stronger.

I hope that U.S. Leasing under Ford will be as creative in the balance of its fourth decade as it was in its first decade. What U.S. Leasing did with Mervyn's then has made life easier for retailers ever since.

LOOKING AT CHRISTMAS FIGURES

On December 24, 1986, **Women's Wear Daily** ran a major article headed "After A Slow Start, Now A Frantic Rush."

Most of the articles than run in the weeks before Christmas, in both trade and general publications, are filled with what I call "the positive indefinite." "We are ahead of plan." "This is as we expected." "We are ahead of our expectations." Take all of these statements, put them together, add 25 cents and in most towns you can buy a newspaper.

What is overlooked is customer psychology. Retailers just look at last year's figures and expect (hope?) to show an increase every day with December 24 being all "plus" volume.

I have studied store records covering periods of fifty years in an attempt to develop a guide for planning sales in the Thanksgiving-Christmas period. When Christmas moves from Sunday to Monday, Monday to Tuesday, Tuesday to Wednesday, the week ending the prior Saturday continues to decline a bit each time; but when Christmas moves from Wednesday to Thursday, the prior week takes a major drop. Thus, I conclude that people wake up on Monday, December 22, and realize that Christmas is upon them.

RThought: Real panic comes in years like 1980 when Christmas was on Thursday; and, because of Leap Year, it was on Tuesday the prior year. The last time this happened prior to 1980 was 1951-52 and, before that, 1923-24—thus, it is likely to occur only once in the career of an executive. He or she can be excused for not recalling the facts from thirty years before. But it is unfortunate that retail literature does not record this any place except in **RT**.

RThought: Sometimes it is difficult to discern this pattern in these days of last-minute panic sales—like 40% off on everything on the odd-number of floors—which retailers have been prone to run.

PEOPLE ARE GOOD—I

(This title is used to document that most people are good—and we should never forget that.)

Just as the buggy maker and the horseshoer have passed into history, so will the typewriter repairman, who worked on manual typewriters. One who is retiring now is the one to whom I went for many years—Roy Hjersman in Walnut Creek (CA).

Roy started in 1944 after release from the service. When he came to Walnut Creek, it was four-square miles and about 1,600 people. Today, I don't know how many square miles, but the population is over 60,000. Roy traveled miles to find enough typewriters to repair.

MORAL: Unknown to me all these years, and probably to all of his customers, were the years he taught typewriter repair to the inmates in San Quentin (one of our state prisons for dangerous criminals) and then helped them get jobs when they got out.

PEOPLE ARE GOOD—II

On September 20, Patty and I were returning from dinner at 10 p.m. I needed gas. I dropped off the freeway in a changing section of Oakland with hopes that one of four stations there was open. We went to Arco with an AM/PM convenience store. You pay in advance. The man ahead of me—a slight, unshaven, shoddy black—wanted \$3 worth of gas. He dug money out of his pockets, put it on the counter and turned. The Hispanic behind the counter said, "Hey, you gave me \$4." The black, as he turned to recover his \$1, said, "You're a good man. You will go to heaven." The Hispanic replied, "I hope there is room. It is getting crowded."

MORAL: You just cannot tell whether people are good by their color or garb or position in life. And particularly by their MBA.

UNWISE (OR STRONGER WORD) CREDIT PROMOTION

Recently Frederick & Nelson (under new, private ownership) ran what they must have thought was a great credit promotion. They already had tens of thousands of accounts in Seattle and elsewhere in Washington and Oregon.

But to get more, they offered \$100 to those who have other credit cards—but not one at F & N.

An angry, long-time F & N credit shopper (thus, not eligible) with a \$327 balance on his account, wrote to Arthur G. Henkens, President and CEO, and I quote in part:

We have every credit card anyone could want—and one we may never use again. **YOURS**. Clearly, years of patronage are not important to you but you probably expect our future purchases to compensate for the short margins you are offering new customers. . . you are likely to be the number one producer. . . for the Bon, Roche Bobois and Nordstrom's. . .

RThought: This was well said. When a store gets 60-70% of its sales on credit, one wonders how top management can think it smart to give \$100—or even \$5—to new accounts that might produce an additional 1-2% of its business. Having the money and position to lead a group in buying out F & N does not guarantee a supply of common sense and a sense of fairness. (See Box—page 1—on "Integrity" at Hechinger.)

FOUND—AN HONEST GUARANTEE "NOT TO BE UNDERSOLD"

The guarantee came from one of the great undersellers—Building #19—in Hingham (MA) with its branches: #19 1/2, #19 1/3, #19 1/4, #19 1/5, #19 1/6, #19 1/7, #19 1/8, stretching from Norwood (RI), to Manchester (NH). On the cover of its September 16 catalog: "The Lowest Price in New England on Every Single Item—or Free Bottle of Champagne (and we'll lower our price!)."

RThought: It is the emphasized section—about lowering the price—that I have not seen before and that represents "Integrity."

And another point.

Its copy is believable and makes you want to buy. "\$41 shirt for \$7.99!" They say, "When these famous mills have filled their orders of current numbers and find they have extras left over, or a color or style has been changed, or they have some

The word "polygraph" has a simple origin—it comes from the Greek word "polygraphos" joining the words "poly," meaning much or many, and "graphos," meaning something that writes or describes. A polygraph writes a number of lines—thus, it exactly matches the Greek definition.

Some, who push the use of polygraph in retailing, are totally unqualified people who cite someone else for information that cannot be documented.

For example, there was Ed Borda, in his column in **Chain Store Age—General Merchandise** edition (11/79), at a time when he was President of the Association of General Merchandise Chains. Congress was considering restraints on the use of polygraph tests. Borda wrote, "The Department of Commerce several years ago put the price tag for retail shrinkage at \$7.2 billion [Note: Using someone else's figures, this was arrived at by applying to all retail sales, including car dealers, the reported shortage shown in the National Retail Merchants Association's annual Financial Operating Results]; *the lion's share of that probably lies with employee larceny* [Borda cannot provide a single bit of valid evidence for this statement]."

For example, Bob Messina, as spokesman for the Employee Theft Resource Center which is run by American Hardware Mutual Insurance, prefaces his conclusions with the statement, "Employee theft on a national level has reached the \$40-billion-a-year mark... according to the U.S. Justice Department [Note: I have also seen this attributed to the U.S. Department of Commerce and the U.S. Chamber of Commerce]." I have twice documented the falsity of this statement to James Williams, President of NRMA, and twice he has assured me that he will not use it again. But I am prepared to document the falsity when he uses it for the third time; and he will again assure me he will not use the figure.

Messina also cites the American Polygraph Association as saying that about 2 million tests will be made in 1986, and only 50,000 people will not pass. I would observe that if only 2 1/2% of those tested are dishonest (and if 2 million is a fair sample of the 115 million in the work force), only 2.9 million employees are stealing; and if they steal \$40 billion, they average about \$14,000 a year. Do you believe that? If you don't, then why did a man like Bob Messina say that to you?

But one good evaluation on the use of polygraphs is overlooked.

Congress asked the Office of Technical Assessment (OTA) to review and assess the scientific evidence on the validity of polygraph testing. Note carefully that the OTA did not run any tests; they merely reviewed all the studies they could find, examined the methodology used and formed an opinion based on what they considered to be valid tests. Its "**Finding on Personnel Security Screening**" was summarized as follows:

OTA concluded that the available research evidence does NOT establish the scientific validity of the polygraph test for personnel security screening. OTA was able to identify only four studies [Note: The statement by Mr. Borda does not constitute a scientific study] directly relevant to personnel security screening use (one by the Department of Defense). None of these studies specifically assessed validity of polygraph testing for the purposes proposed by DOD or the administration, and all had serious limitations in study design.

A 1980 survey conducted by the Director of Central Intelligence's Security Committee concluded that the polygraph was the most productive of all *background* investigation techniques. However, this was a utility study, not a validity study, and had many qualifications.

OTA recognized that NSA [National Security Agency] and CIA believe that the polygraph is a useful screening tool. However, OTA concluded that the available research evidence does not establish the scientific validity of the polygraph for this purpose.

In addition, there is a legitimate concern that the use of polygraph tests for personnel security screening may be especially susceptible to: (1) countermeasures by persons trained to use physical movement, drugs or other techniques to avoid detection as deceptive; and (2) false positive errors where innocent persons are incorrectly identified as deceptive.

The full title of the publication is "**Scientific Validity of Polygraph Testing: A Research Review and Evaluation**" prepared by the Office of Technology Assessment of the Congress of the United States and is dated November 1983. It can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (or you can order it by phone—202-275-2051—and charge it to Visa or Mastercard).

I would suggest that any retailer, considering the use of, or now using, polygraph tests, should obtain and read this document and then make a decision on whether the use being made or contemplated has a valid base.

If you consider the people working for you as a key factor in your success, then, in fairness, you must do this.

Now Let's Look At the Other Side.

California has a law that says, in effect, no employer may *demand* or *require*, but may *request* or *permit*, any employee or prospective employee to take a polygraph examination.

The following appeared in the newspapers on October 10, 1987:

As many as 3,000 California job applicants and employees who may have been forced by Color Tile Company to take a lie detector test could be eligible for cash payments ranging from \$750 to \$28,000 as part of a settlement reached this week in a four-year-old class-action lawsuit.... Under terms of agreement, the company is prohibited from administering the lie detector tests over the next four years. In addition, those who were forced to take the test can collect damages based on whether they were an employee and how long they worked for Color Tile.

RThought: I don't know whether or not Color Tile would tell RT, but it would be interesting to know what happens to its shortage figure in California over the next few years. Or perhaps it could be a backward look since I presume that at least by the time of filing this suit four years ago, someone looked at the California law and brought its practice in line with California law.

RThought: I suppose that there is one undocumented measure of the validity of polygraph tests. Many people think that they work—and if a company has a policy of testing, then dishonest people might not apply; or if they find that a test is required, they may not show up for an interview.

RThought: The OTA report studied two other areas. On false negatives (test showing no lying), the study of countermeasures has been limited; and the results indicate that the validity of the test may be affected—that is, in testing for national security purposes, people could pass; and this would have very serious consequences.

continued

FEATURE REPORT *continued*:

On the other hand, false positives (test showing lying), even though only a small percentage, may cause serious problems. If you have 1,000 employees and one is guilty and if it is conceded that the polygraph is 99% accurate (no such claim has ever been made), then, in testing the work force, ten will show up as guilty with nine really being innocent.

Studies on validity (correct identification—see pages 39-43 of the report—which cite various studies under various control conditions) report from 50-100% accuracy with specific

figures of 98%, 83%, 81%, and 83-84% for guilty and 67-81% for innocent.

But let us assume 80% accuracy. In our prior example of one doer of a dastardly deed out of 1,000 employees, you could, with 100% testing, come up with 200 guilty people. Is that what you want?

As for pencil-and-paper tests, which claim accuracies in the 60-70% range, you would have 300-400—out of 1,000 shown as guilty.

—SHORT SHORTS—

No wonder people think stores make a 40% profit. Here is what a one-page ad by Robinson's of Los Angeles offered: \$42 American Designer Bath Sheets for \$19.99; \$700 Bergere-style wing chair for \$499; an \$800 6' x 9' imported, flatweave reversible rug for \$199; but why go on with the other items. **RThought:** This was not a clearance—just "Great Savings." And Robinson's remains in business. Ergo, there is a profit at these lower prices. If you were taking a college course in logic, concluding the retailer's profit was 40% would get you a passing grade. (Perhaps the conclusion that the use of the abbreviation "Reg," which means the price will go back up, is dishonest and also would get you a passing grade.)

I used to think magazines were deceptive in pricing (I always wait awhile after a subscription expires, and then they start offering me lower prices), but at least they put the price up front where you can find it. Not so with those who operate seminars—even when it is a reputable college. For example, try to find the prices of the *Mergers and Acquisitions Forum* being put on in New York City, Monterey (CA) and Boston by the *Johnson Graduate School of Management* at *Cornell University*. I searched and searched. It was not on the response coupon, the front page or the inside fold-out of four pages. Finally, I found it in the smallest type of the brochure on the back page in the middle paragraph. **RThought:** They know best what they are offering. At \$1,795 for two days, and they don't say whether that includes a room, I decided not to go!

Being done to as you did others—hurts. *Forum Furniture FAX* (4731 El Camino, Carmichael, CA 95608, \$99/mail, \$199 by FAX) reports that some Levitz stores will refuse to carry Bassett bedding if the local K mart stores carry the line and refuse to carry Sealy if the local membership club carries it. Levitz, when it was a discounter, once sued Thomasville, and the settlement got them the line. **RThought:** Will Price Club cite the Levitz case as precedent?

Attorneys General in Action: Washington versus J.C. Penney: The product was window-shade coverings. The AG alleged that customers of JCP thought they were getting a bargain when JCP advertised "50% off" when actually they were getting the regular price. On identical merchandise, JCP quoted the regular price at \$2,194, which came to \$1,097 at 50% off. An independent retailer quoted a regular price of \$1,083, and a third dealer offered the same blinds at "approximately \$600." **RThought:** The California AG is working to clean up the Levelor market in California. I noted a leading, local dealer went from 50% off to 60-70% off to no price comparison. I suspect someone acquainted him with the cost of fighting the AG with the "fact" background for his claim.

Pennsylvania loses battle to collect sales tax from L.L. Bean. A Pennsylvania court permanently enjoined the Pennsylvania Department of Revenue from trying to collect the tax. In the case of efforts against Bloomingdale's by Mail, Ltd., the same judge ruled that the department did not have authority to subpoena records from out-of-state employees. The basis of the decision was the U.S. Supreme Court decision in the *National Bellas Hess* (for the younger retailers, NBH was a discount chain in its final days) case that said a state could not collect sales tax if the retailer had no actual presence in the state. **RThought:** The judge said that the L.L. Bean and Bloomingdale's problem would have to be solved at the national level—and Congress is now discussing the matter.

The fight to meet Nordstrom continues. Macy's has changed its "sales people" to "associates" and now have a "Sales Associates' Days Sale." **RThought:** The headline would lead one to believe the sales associates selected and priced the items. But did they?

The absolute positive indefinite! Heard on the radio that someone was "on the verge of very nearly being somewhat significant." This was not a sportscaster—they have a special license to use such phrases.

Abuse of numbers. From the report of a talk by Isaac (Ike) Lagnado, Director of Research of Associated Merchandising Corp., to an NRMA meeting: "Department stores' sales will increase by 22.3% over five years." **RThought:** I trust that a director of research did not presume to predict five years into the future to the closest 1/10th of 1%; then the culprit (I hope) may be the reporter who divided two numbers, rounded in billions, given by Lagnado. Playing with my calculator, I can report that an increase of .1% from 22.3% is equal to .44834304933 of 1%. But that is only 10 digits. With a 12-digit machine, I could give you two more numbers. Phooey!

Pointing with pride—from the summary of the Marriott 1987 Annual Meeting:

For any of you who bought stock the day Marriott went public in 1953, a single share which sold then for \$10.25 is now worth \$6,100. That's an average annual appreciation of 21% over 34 years.

RThought: That is pretty darn good—and Marriott is right in reminding shareholders of this fact. Others, with similar close records, should do the same. Then, perhaps shareholders will be less concerned when the market goes down by 5%. If Marriott had a 5% drop—to \$5,800—the compound annual gain would be *only* 20.5%.

slight irregulars—they call us, and we take all they have, at once. Good for them, good for us—and even better for you.”

For \$19-25, loom-woven acrylic blankets at \$9.99, they say, “This very famous (and we mean FAMOUS) mill discontinued certain color NAMES—but we saw PLENTY (of what we call pretty & basic)—Royal Blues, Pink, Champagne, Brown, White, Coral and Grey! (how different can those colors be, after all???)”

RThought: You may not want to advertise this way or be in this business, but send for the 24-page September 16 catalog. Write to Jerry Ellis, Building #19, Hingham Industrial Center, Hingham, MA 02043, and say, “Bob Kahn sent me.”

RETAILERS ON THE ANNUAL OTC 500

OTC Review runs its listing of the top over-the-counter stocks *only* by market value. The total value was \$261 billion, up 15% from last year, and double the 1983 list—with Intel at \$5.4 billion, Apple Computer at \$5.0 billion, Genentech at \$4.0 billion, Berkshire Hathaway (owns \$100 million one-store, Nebraska Furniture) at \$3.9 billion leading the list. (Note: The problem with this list, as compared with the Fortune/Business Week/Forbes lists, is that there is leakage at the top level—when a company lists on the New York Stock Exchange, it disappears from this list.)

Position	Company	Market Value (Million)
18	Price Co.	1,973
34	Charming Shoppes	1,289
57	Pic 'N Save	974
87	Hechinger	692
128	Wetterau	536
210	Businessland	384
219	Lands' End	372
228	Rose's Stores	359
238	Seaman's Furniture	354
240	Dress Barn	352
260	Strawbridge & Clothier	329
264	Comp-U-Card International	325
275	Fred Meyer	314
283	Shaw's Supermarkets	306
292	Cullum Companies	297
295	United Stationers	295
312	Deb Shops	279
314	Dart Group	277
336	Costco Wholesale	266
376	Clothestime	233
283	Highland Superstores	231
402	Crazy Eddie	219
434	Parisian	206
468	Dollar General	198
470	Child World	197
474	Jacobson Stores	183
475	Service Merchandise	183
489	Trans World Music	179
494	Casey's General Stores	177

RThought: I am always surprised when I look at lists like this one. For example, would you think of Charming Shoppes if someone asked you to name the apparel merchandisers with a market value of over \$1 billion?

THE WHEELS WITHIN RETAILING

I have always been fascinated by the wheels within the “wheel of retailing.” I have watched stores switch from doing their own janitorial work to using an outside contractor and then back to doing it themselves. Each time, the reason given for the change is that it will save money. In past years, I watched department stores switch their toy departments from clerk-service to check-out to clerk-service. Each time, the reason given was that it would improve service and reduce expense.

Now there is a new one. Mervyn's, in a span of just a few days, will equip or replace more than 9,000 terminals so that they can scan the UPC code at the point of sale. Why? Their customers were unhappy with the time it took to complete a sale!

Because of my long association with Mervyn's, particularly in the years prior to the merger with Dayton Hudson, I am familiar with some of this history.

When Mervyn's installed a computer, it threw out all of the old NCR Model 21's, 6000's, etc., and installed Model 51's, with punch-paper tape fed into an NCR 100 computer. We were assured that the NCR 100 could handle everything for a store the size of Macy's California. At the time, we were much smaller. And yet, in a short period of time, we needed more capacity—and that started the series of computer replacements.

Then the paper tape didn't work—we had to use people (cost) to splice the tapes so that a full reel could be fed in at one time. And soon punch-paper tape was replaced (all stores at the same time—as is being done now) by electronic registers.

We succumbed, as did Woodward Stores in Canada, to the pitch for the NCR black-and-green bar code. NCR forgot to tell us when they abandoned this—but was meeting our expansion requirements with rebuilt units. I learned this accidentally when talking to a consultant.

We then switched to OCRA-A, and all terminals had wands. Then came the great savings—we could enter information faster by manually entering a short SKU.

RThought: I mention all of this because, in November, Mervyn's completes the cycle from manual-to-wand to manual-to-wand—and I suspect that other stores have gone the same route.

RThought: Mervyn's is also switching from clerk-operated area registers to what they call major “cash-wrap” areas—four to six to a store plus individual cash-wrap registers in shoes, cosmetics, jewelry and intimate apparel.

RThought: One of the new positions created is “customer service manager,” which takes me back to my “training squad” days at Macy's 34th Street (the only Macy's—some 47-years ago). The service manager (one per department) with his/her white-carnation was a position of power—blue pencil and all.

WHAT'S NEEDED IN THE NEW RETAIL WORLD

I have previously spoken on the stimulus I get from reading **Boardroom Reports** (330 West 42nd St., New York, NY 10036, \$49/yr.). In the June 15, 1987, issue, an article based on an interview with Richard Winger of the Boston Consulting Group is titled “How to Sell to Today's Affluent Consumer.”

Winger points out several weaknesses in our present distribution system and offers examples of successful adaptation to the present market condition.

First, he points out that consumers no longer want the same thing. SRI International has, for years, provided a VALS (Value and Life Style) report dividing consumers into a variety of groups of which the "Copiers" are no longer the majority of the market. Winger states it a different way: the affluent customer wants broad assortment, products focused on lifestyle and identifiable values. He cites an example of this: Oreo cookies greatly outsell any individual Pepperidge Farm cookie, but the assortment of Pepperidge Farm cookies exceeds the sale of Oreos.

Second, he cites the structure of our distribution system. Our factories are organized for volume manufacturing of identical items, and the stores are forced to order large quantities many months in advance. This often means that the goods, when they reach the store, do not sell.

Third, the manufacturer is operating on stale information. There is no flow of daily sales information to the manufacturer—although it is starting to be available to the retailer.

He points to the example of Benetton, which has been a fantastic success in almost every country it has entered. Benetton receives daily information from every store by SKU number. It keeps goods finished but not yet dyed. It knows colors needed based on the sales of individual stores and can ship within days rather than months.

Fourth, he points to the development of boutiques. General-merchandise retailers perhaps do not recognize it in the food field where supermarkets are giving an increased percentage of store space to boutiques—they call them in-house bakeries, flower departments, service delicatessens, service meats, and cheese departments. Over the past decade, the space allocated to special departments in supermarkets has increased from 25% to 50% of store space.

Furniture manufacturers are going the same route. Ethan Allen (part of Interco, which also owns substantial retail operations) chose the free-standing route. More furniture *manufacturers* are eliminating "item buyers" and going to boutiques—sometimes putting in their own departments.

Everyone recognizes what has been done with designer labels in apparel departments.

RThought: One of the problems with independent stores, many of which are closing, is that they are staffed with people who are item buyers, an operating procedure that may have worked for 100 years but is not working today. I can recall discussions with a store that had three principal buyers and no merchandise manager. When I urged that they hire a merchandise manager qualified in its merchandise, the reply was, "We already have three merchandise managers." Despite a long-established name, it is now in re-organization.

SHORT SHORTS

Now I know why Macy's and Emporium-Capwell are offering such broad discounts—percentages of entire departments. As I walked down Market Street in San Francisco near both stores, I was struck by signs on a competitor's window—Maxferd's—saying, "Since 1884—PRICES SLASHED!" "Sale Up To 80% OFF." **RThought:** Maxferd's a pawn broker.

Look who dropped SafeCard? The *Miami Herald* on September 25, 1987, reported that American Express was not renewing its contract with SafeCard at the expiration date on December 31, 1987. Upon the announcement, the price of SafeCard stock dropped \$2 1/8 to \$15.75, far below the all-time high of \$51.50 reached earlier this year. The company no longer has a \$1-billion-market value. Peter Helmos, President and Founder, minimized the impact, saying that though American Express represented 10% of 1986 volume, it only brought in 4% of the profit. He said that the contract wasn't particularly profitable. (On October 20 the price was \$6 1/2.)

How do you implement a "Satisfaction Guaranteed" policy? I wrote to Gary Comer, Founder and President of the immensely successful Lands' End (market value \$372 million—see article "Retailers on the Annual OTC 500"), complimenting him about his policy statement on satisfaction and the story of one such return that was properly handled. I shared one of my experiences of the same type. In his reply, he made a statement that might help others to establish a "Satisfaction Guaranteed" policy:

In my opinion, it is unfair to everyone to allow decisions to be made whether a return should be accepted. We have stuck to this since 1963, and I know it is right, whether it has paid off or not.

RThought: His point is simple. If your policy is "Satisfaction Guaranteed," then no decision is necessary on any return. There is just a simple question: "What would you like us to do?" Then do it.

One must always plan for the future. In San Francisco, there is a house, Raphael House, that provides a place for homeless families and helps them to re-establish themselves. Now in its tenth year, they asked the founder, now emeritus, what her goals were for the next five years—and she outlined them.

RThought: I should point out that Mrs. Francis J. Rigney, Sr., is 95-years old! Do you, at your age, which I presume is less than 95, have plans for your accomplishments over the next five years?

WORDS FROM A MAN—WITH COMMON SENSE

Common Sense was the most famous writing of pamphleteer Tom Paine—but he also made other good observations, such as:

"A long habit of not thinking a thing wrong gives the superficial appearance of being right."

That was recalled in a 1980 publication by The Ethics Resource Center, a project of American Viewpoint, Inc. Tom Paine was pointing out that King George was depriving the colonists of their basic rights—and it was so accepted that people thought it was right. It draws a parallel with the amount of corruption we have today—and the way people tolerate it.

How many times have you heard people say that all politicians are crooks? Have you stood up and said, "No"?

How many times have you heard that retailers abuse their customers and reap tremendous profits? Have you responded to that statement?

Even worse, do you accept those expressions of opinion as the basis for some of your own conduct so you are no longer "morally straight" as you promised to be as a Boy or Girl Scout?

RThought: We get what we tolerate—and we deserve what we get.

CARLYLE & CO. JEWELERS
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Corporate Offices: 4615 Dundas Drive
Greensboro, North Carolina
919-294-2450

November 30, 1987

Retailing Today
Robert Kahn And Associates
P. O. Box 249
Lafayette, CA 94549

Dear Bob:

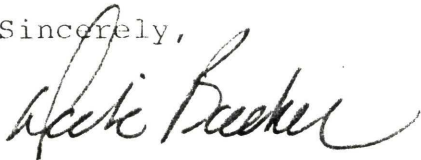
I'm a regular reader of "Retailing Today." I agree with you on one point: Anyone can use statistics to prove his own point of view. That's particularly true of your October 1987 feature report on polygraphs.

I have a few questions for you:

1. If polygraph is so "unreliable," why do government agencies rely on it? It it's good enough for government agency security purposes, why isn't it good enough for business?
2. What do you offer that's BETTER than polygraph for screening out thieves, rapists, drug abusers, and others who threaten assets, employees, and customers?
3. What do you offer that's MORE reliable for verifying who's telling the truth and who's lying when a company investigates a loss?

We're in business to STAY in business. Our experience says the use of polygraph helps us do that. It IS a deterrent to dishonest applicants. It's also an assurance to our employees that when there's a loss, they'll have the opportunity to verify their statements with a scientific instrument; they won't be subject to action based on possibly biased and/or subjective analysis. If you have something more "reliable" than polygraph that will do this, I want to know about it.

Sincerely,



Richard I. Backer
Executive Vice President -
Corporate Development

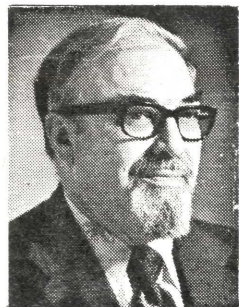
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RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

NOVEMBER 1987

VOL. 22, NO. 11

THINGS NOT SAID ABOUT THE 1987 CRASH

Dear Reader:

I am so concerned about the current misunderstanding of both the strengths and the stresses in our society and our economy that for the first time I am devoting an entire issue to a single subject. I hope it will be helpful to you in your thinking. I hope it will be reassuring on many points.

I would be interested in your comments and reactions.

Sincerely,

Bob Kahn

Perhaps you lost a good part of the value of your stocks on October 19 when the Dow Jones Industrial Average (DJIA) market dropped over 500 points; so did I; and so did many of your customers.

Since then the press has been playing the game of "Will we or won't we have another 1929-type depression?" But did you note the age of the people who are giving us the "facts" about 1929? Few were there, and MBA's are not required to take a course in "Financial History."

Unfortunately, there are so many things being said that are wrong or incomplete—or even stupid—that we could have a "stupidity-caused" depression.

I will discuss:

1. The difference between margin requirements in 1929 and those in 1987, and the significance of that difference when interpreting the 1987 Crash.
2. The importance of looking at the Gross National Debt (GND) in constant dollars and the rate of change in the GND rather than at the deficit in current dollars.
3. How to measure stock prices to determine whether prices are too high.
4. How programmed trading works and why it affects certain stocks more than others.
5. What happened to 86 stocks (the larger ones in their type of retailing) between the high on August 25, when the Dow Jones Industrial Average hit a peak, and the low on October 19—the day of the 506-point decline.
6. The difference in economic and financial information available in 1929 and 1987—and what it means.
7. My views on how the 1987 Crash may affect retailing.

The TV program had a chart showing that in 1929 the drop in the DJIA from the August-September high to the October low was 40%; and in 1987 the drop was 36%. The program failed to discuss the margin requirements in 1929 and 1987, which is necessary for a proper interpretation. Since they did not, I will start with that point.

The Importance Of The Change In Margin Requirement

In 1929 the margin requirement was nominally 10% (firms bid for customers by setting a lower margin). There was no regulatory body. Each brokerage house set their own rules.

In 1987 margin is regulated. An investor can borrow against the value of the stock to make a purchase. Not all stocks can be used as a basis for borrowing—only those approved by the SEC.

In 1929 an investor could buy \$1,000 worth of securities with \$100 cash and \$900 borrowed against the stock purchased. The DJIA dropped 12% on October 29, 1929. If the account was fully margined and the stocks were typical of the index, they dropped 12% the first day. Most brokers issued a margin call when the margin reached 5%. Many investors were wiped out before they could be reached with a margin call. The brokerage house would sell out the account as fast as it could—and often the security was sold for less than the loan on the stock. This left the brokerage house with a claim against the account holder but many were never collected.

Even when the brokerage house received a check to cover a call, the check might not have been good. This increased the loss by the brokerage house. I know; my Father was a limited partner in an established (1869) firm that became insolvent because checks given to cover margin calls were not good.

Let's look at the 1987 margin requirements. The amount of margin is set by law, but brokerage houses set their own standards for how fast one must cover a margin call.

Today one can borrow only 50% on approved securities. When the margin gets below 30%, a call *must* be made. To buy \$1,000 in securities today, you must put up \$500. If you were fully margined and your stock dropped 23% on October 19, 1987 (matching the market), the stock value would be \$770 = 35.1%) and thus no margin call. For this reason, there were few immediate margin calls and little selling of securities to cover margin as happened in 1929. The value of the security would have to drop below \$741.29 (a drop of 28.6%) to trigger a call.

714.29

At the point where a call must be issued, the brokerage house still has security of 30% or three times the minimum security of 10% in 1929!

In 1987 there were a few unfortunate situations reported in the press when people could not meet margin calls, but they were rare compared to 1929. The 1929 margin calls were attempts to save the brokerage house, but they also resulted in further pressure on stock prices. And in 1929 investors who had other assets against which they could borrow (real estate, businesses they owned, life insurance) could not make a loan in time to help.

In 1929 the 65 Dow Jones stocks (industrial, transportation and utilities) represented a much higher percentage of the stocks traded each day (about 40%) and so the DJ averages were a good measure of the impact on stockholders. Today the DJ represents a much smaller percentage of daily trading (under 16% on October 19 when volume was 604 million) and is a less valuable measure.

RThought: We had no "panic" in the 1987 market because of the current margin requirements. The requirements flow from the Securities and Exchange Commission which was created after studying the 1929 Crash. Few people were sold out. Many brokers gave as much as a week to cover a margin call.

Was The Size Of The National Debt The Cause Of The Market Break?

It was a major factor. While we were telling other countries what they had to do (and, in Third World Countries, charging interest they could not pay) to get their economies under control, we were making no progress with our own economy.

It is useless to try to place blame. The facts are:

1. We have a President who (a) pushed through his tax cut (though not as deep or as fast as he wanted it) that was supposed to greatly increase total revenue but did not, and (b) has maintained that he will never sign a bill for a tax increase.
2. The budgets called for massive increases in defense spending. The Administration and the Congress could not agree on where to make offsetting cuts: welfare programs, research programs (Star Wars), education, mental health or other support services.
3. The Democratic House would not go along with the Republican Senate on an economic plan.
4. The government submitted budgets that were not balanced. The revenue was grossly overstated (I feel intentionally) in order to show a smaller deficit. Neither the Congressional Budget Office nor the Office of Budget and Management made truly honest forecasts. After adopting a budget, Congress passed additional spending bills that further increased the deficit.

Because of (1) the intransigence on both sides, particularly the President who speaks only in absolutes, (2) the dishonest presentation of estimated budget income and (3) the split between the Presidency and the Congress, we have added deficit after deficit to the national debt. Most years the deficit has absorbed most or all of our domestic savings. To finance our economy and the national debt, we needed massive investments by Japanese, Arabs, Europeans and others. To attract such money, the interest rate had to be kept high. The Federal Reserve Board did this, but the high rate discouraged much expansion and modernization of industry.

For most of the past 15 years, economists have looked at the wrong measure of our money supply—M-1. It is only recently that the broader M-2 has been used as the key measure. M-1 was badly distorted by the many new money instruments:

money-market funds, interest-bearing checking accounts, small denomination CD's and other changes. As a result, the Federal Reserve made bad decisions.

Let me try to describe the 1929 Crash a little better than current commentators are doing. This is based on an article in the **Minneapolis Star** on October 24, 1929, and a chapter in the book, "**ONLY YESTERDAY**," by Frederick Lewis Allen, published in 1933 (Vol. 15, **Annals of America**).

There was a break in stock prices in early September 1929, followed by a recovery, and then by a continued decline. By October 4, U.S. Steel had dropped from \$261 to \$204 (22%) and RCA from \$114 to \$82 (28%). People were thinking in terms of the price breaks in June 1928, December 1928, March 1929 and May 1929 that were followed by a recovery. In retrospect, people felt those 1928-29 breaks had been good times to buy.

Herbert Hoover was meeting with Great Britain's Prime Minister, Ramsey MacDonald, at Rapidan Camp (now Camp David), talking about the prospects for peace—and limiting naval strength of the major countries (U.S., Great Britain, France, Italy and Japan), which later led to the famous "5-5-3-3-1 ratio" for the size of their navies. 1921-2

On Tuesday, October 22, the Monday gains were lost. On Wednesday, October 23, many people started to liquidate—volume was 6 million and the tape ran almost two hours late (there were no electronic terminals with current figures). On Thursday, October 24, there was a flood of selling—selling by owners—not short selling (in 1929 there was no "uptick" rule—that stock could be sold short only after an upward price movement). The tape was four hours late, and the volume was 12.9 million shares. Heavy selling—but with steadier prices—prevailed on Friday and Saturday (the exchanges were open six days).

On Tuesday, October 29, everything fell apart. White Sewing Machine had fallen from \$48 to \$11 (77%)—and with no buy orders, a messenger boy put in an order for White at \$1 and had it filled!

To help overcome the rising fear, corporations declared extra dividends; wealthy men, like John D. Rockefeller, J.P. Morgan, John J. Raskob and others, announced they were buying stocks. Richard Whitney, Vice President of the New York Stock Exchange, announced the Exchange would be closed Friday and Saturday to try to catch up on the work.

Table I shows what happened to some of the stocks:

Company	High Price 9/3/29	Low Price 11/13/29	% Decline
American Can	181 7/8	86	-53%
AT&T	305	197 1/4	-35
Anaconda Copper	131 1/2	70	-47
Electric Bond & Share	186 3/4	50 1/4	-73
General Electric	396 1/4	168 1/8	-58
General Motors	72 1/4	36	-50
Montgomery Ward	137 7/8	49 1/4	-64
New York Central RR	256 3/8	160	-38
RCA	101	28	-72
Union Carbide & Carbon	137 7/8	59	-57
United States Steel	261 3/4	150	-43
Westinghouse	289 7/8	102 5/8	-65
Woolworth	100 3/8	52 1/4	-48
UNWEIGHTED AVERAGE LOSS -54%			

The 1929 Crash was just one of several problems facing the country that combined to end of the Coolidge-Hoover period of prosperity. The Federal Reserve was restricting money and forcing interest rates up. Unemployment was already rampant

throughout the balance of the world. Trade barriers were being erected. **Variety**, the irreverent newspaper for the entertainment industry, ran their famous headline:

Wall Street Lays An Egg

It was against this background that President Hoover made his famous Reagan-like statement:

"...the fundamental business of the country, that is, production and distribution of commodities, is on a sound and prosperous basis."

Unfortunately, the "business of the country" was *not* sound.

There were many signs that the economy had passed its peak prior to the 1929 Crash. Financial crises had occurred in Europe in the 1926-28 period. They had a lesser impact on our economy because of (1) our isolationism and (2) we were not yet a truly international economic power.

Value of mined products had peaked in 1920 at \$6.0 billion and had declined to \$4.7 billion in 1929.

The value of new construction (1957-59 dollars) declined from \$33.2 billion in 1927 to \$29.2 billion in 1929.

The rate of increase in the percentage of homes with telephones was slowing. In 1927 39.7% had phones. This peaked at 41.6% in 1929 and declined to 31.3% in 1933.

New housing starts peaked in 1925 at 937,000 and declined each year: 1926 at 849,000; 1927 at 810,000; 1928 at 753,000; 1929 at 509,000; 1930 at 330,000 and 1933 at 93,000.

On the other hand, car sales increased from 3.0 million in 1927 to 3.8 million in 1928 and to 4.5 million in 1929 but dropped rapidly to 1.1 million in 1932. But the driving habit was established, and gasoline sales rose from 11.1 billion gallons in 1927 to 14.1 in 1929 and to 15.5 in 1931. (Note: Newer cars were getting poorer mileage with V-8 engines.)

Let Us Turn To The Question Of The Deficit

We talk about the deficit—but the real problem is the Gross National Debt (GND). Each deficit adds to the GND. Recently Arthur Laffer was quoted (*The New York Times*, 11/1/87), "If the budget deficit was the problem in the recent crash, why was the market high a year ago, when the deficit was at \$220 billion? Today, it [the deficit] is below \$150 billion and the market collapses." The *Times* printed that—but they forgot the truth in "the straw that broke the camel's back."

The Consumer Price Index (CPI) (1967 = 100) for 1948, when Harry Truman was elected to a full term, stood at 69.6 while at the end of 1986, it was 323.4.

In order to understand the GND and the change in it, there are two necessary calculations:

1. Convert the debt at the end of each year to constant dollars by using the average CPI for the year.
2. Measure the compounded rate of change in the constant-dollar figures. I have elected to do this by presidential periods; but one might do it for other time intervals with the same general results.

Presidency	Years	Number of Years	Compounded Annual % Change
Truman	1948-52	4	-1.99%
Eisenhower	1952-60	8	-0.23
Kennedy/Johnson	1960-68	8	+0.99
Nixon/Ford	1968-76	8	+0.82
Carter	1976-80	4	-0.60

First, you may be surprised that the fluctuations (except for the Truman years which benefited from continuing World War II taxes beyond the time when expenses dropped) are in the range of plus or minus 1%.

The drop during the Carter years is really a corollary of the high inflation rate. But inflation did mean that the debt existing before 1976 could be paid off in lower value dollars.

What has happened during the Reagan Administration and why does the world consider it to be so serious? Here are the figures:

Reagan	1980-86	6	+9.65%
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The rise has been at an astronomical rate—unprecedented in our prosperous post-World War II years. To much of the world, it appears to be total fiscal irresponsibility. Other countries are concerned because our monetary policies affect them.

In their post-market-crash statements, the Reagan Administration has been stressing that they should get the credit for the years of prosperity, the reduced unemployment rate and the increase in the number of people employed. But those cannot be separated from the excessive growth in the GND.

All of us in retailing have seen the new-concept retailer flash across the screen with rapidly (50% per year or more) growing sales, yet it never produces a profit and ends up in Chapter 11. This is a good comparison for what has happened to our country in recent years. The retailer's rapidly growing sales matches the growth of the Gross National Product; the rapidly growing number of employees is the corollary to increased work force and the declining unemployment, while the failure to produce a profit is the same as the deficit, and one year's loss adds on to the others like the rising GND.

There is a Chapter 11 for such corporations to help them reorganize; there is no such help for the United States—the job must be done by our elected officials.

If they fail to do so, economic forces will do it for us. We call it a depression.

The period following World War I up through the first six years of Roosevelt's presidency (pre-World War II) included both prosperity and stress.

Presidency	Years	Number of Years	Compounded Annual % Change
Harding/Coolidge	1920-28	8	-1.91%
Hoover	1928-32	4	+8.27
Roosevelt	1932-38	6	+10.79

During the worst years of the Great Depression (1932-38), the compounded annual change in GND in constant dollars (10.79%) was 12% more than the growth during the first six years of the Reagan presidency and during what is hailed as our greatest period of prosperity.

To compare periods, we should look at the ratio of the GND to the GNP at the end of each presidency period.

Presidency	Years	Number of Years	GND as % of GNP
Harding/Coolidge	1920-28	8	18.1%
Hoover	1928-32	4	33.6
Roosevelt	1932-38	6	43.9
Truman	1948-52	4	75.0 ¹
Eisenhower	1952-60	8	57.8 ¹
Kennedy/Johnson	1960-68	8	42.8 ²
Nixon/Ford	1968-76	8	36.3

Presidency	Years	Number of Years	GND as % of GNP
Carter	1976-80	4	33.5%
Reagan	1980-86	6	49.9

¹Contains residual debt from World War II and Korea.

²Johnson followed a policy of guns AND butter—yet the debt during the eight Kennedy/Johnson years declined as a percentage of GNP.

Were Stock Prices Too High?

Some blame the Crash on the high stock prices. These prices are reflected in the Dow Jones Industrial Average (DJIA). One of the key measures of prices is the price/earnings ratio (P/E). Table II shows the end-of-the-month P/E of the DJIA starting with January 1985.

TABLE II

Month*	1985	1986	1987
January	11.8x	17.3x	18.2x
February	12.0	18.8	18.7
March	11.2	18.7	20.2
April	11.7	18.5	19.7
May	12.2	19.5	18.1
June	12.4	19.6	19.4
July	12.0	18.3	19.7
August	13.0	18.4	21.0
September	12.9	17.1	20.3
October	13.6	18.2	
November	16.2	16.0	
December	17.1	16.2	

*The P/E ratio is published on Monday for the week ending the previous Friday. The figure for each month is from the Friday closest to the end of the month.

There was a major jump in the P/E in November/December 1985, reflecting, among other things, the drop in the interest rates. At the end of 1986, when the interest rate was showing indications of upward movement, the P/E dropped. In 1987, it reached peaks in March, July and August; but in three of the eight months, the P/E was below 1986.

On a weekly basis (Table III), the DJIA P/E peaked at the end of the week of October 2.

TABLE III

Week Ending	DJIA - Close 1987	DJIA - P/E This Year	DJIA - P/E Last Year
September 11	2608.74	20.7x	17.0x
September 18	2524.64	20.0	17.0
September 25	2570.17	20.4	17.1
October 2	2640.99	20.9	17.2
October 9	2482.21	19.7	17.3
October 16	2246.74	17.8	17.8
October 23	1950.76	15.5	17.7
October 30	1993.53	15.8	18.2

It is a coincidence that on the Friday before the 500-point drop in the DJIA the P/E ratio was exactly the same as the year before. And the year before, people were not strongly protesting the high prices of stocks. What the same P/E meant was the 25% increase in the DJIA from about 1800 in 1986 to 2250 in 1987 was matched by a 25% increase in the earnings.

You can make your own decision on whether or not a P/E in the 20's is high enough to cause a crash by studying Table IV, the annual average P/E by years from 1920 to 1986 and in more detail for 1987.

TABLE IV

Year	DJIA - P/E*	Year	DJIA - P/E*	Year	DJIA - P/E*
1920	9.9x	1944	14.3x	1969	15.4x
1921	NMF	1945	16.1	1970	14.8
1922	10.2	1946	14.1	1971	16.1
1923	11.4	1947	13.2	1972	14.2
1924	9.2	1948	17.4	1973	10.7
1925	9.6	1950	7.6	1974	7.7
1926	13.3	1951	9.7	1975	10.6
1927	20.0	1952	10.9	1976	10.1
1928	14.2	1953	11.4	1977	10.0
1929	15.6	1954	11.8	1978	7.3
1930	21.4	1955	12.4	1979	6.8
1931	NMF	1956	14.8	1980	7.3
1932	NMF	1957	13.2	1981	8.2
1933	NMF	1958	17.4	1982	14.3
1934	25.1	1959	18.4	1983	14.0
1935	18.9	1960	19.2	1984	10.7
1936	16.1	1961	21.7	1985	16.1
1937	14.5	1962	17.3	1986	16.4
1938	22.0	1963	17.3	1987	
1939	15.7	1964	18.0	Q-1	18.2
1940	12.3	1965	17.0	Q-2	19.2
1941	10.5	1966	15.1	Jul	19.7
1942	11.6	1967	16.3	Aug	21.0
1943	13.8	1968	15.6	Sep	20.3

NMF = Not Meaningful Figure—either a composite loss or a composite P/E of 50 or more.

*Average for year.

We are always influenced by the most recent history—because we lived it. If your “experience” started in the post-war period (1946 to 1972), you would think the normal, annual average P/E ratio should fall between 13 and 18. On the other hand, if your “experience” started in the 1973-to-1986 period, you would consider a range of 7 to 14 as normal.

Another major measure of stock prices is the “Equity Risk Premium.” This is the spread between the *expected return* on common stocks and the *yield* of 30-year Federal government bonds.

If the expected return on equity investments is 15% and the yield on 30-year Federal governments bonds is 9%, then the risk premium is 6%. A 4% risk premium is considered parity. If the risk premium is greater, as in the example above, the preference would be for stocks; if less than 4%, it would be for bonds.

This is an important measure for money-fund managers, especially funds, such as pension funds, that do not pay a capital gains or income tax and enjoy a commission of 5 cents per share or less. They can readily shift massive amounts of dollars between equities and bonds without paying a tax.

During the period 1982-87, the risk ratio fluctuated widely. Through the third quarter of 1983, there was a substantial *premium*. From then to the end of the fourth quarter of 1985, there was a relative stability around the 4% parity range.

For most of 1986, there was a substantial premium for stocks; but starting with the first quarter of 1987, there was a precipitous decline culminating at the time of the 1987 Crash at 15% equity *PENALTY*.

Was The Crash Caused By Programmed Trading?

What is programmed trading? Basically it is a form of ar-

bitrage. Traders, through computers, have available the computation of the Standard & Poor's 100 index (the large stocks in the Standard & Poor's 500), and the price of options for the Standard & Poor's 100 index as traded on the Chicago Board of Trade.

When a certain spread is reached (it varies by trader) between the index and the price of the option on the index, they buy one and sell the other, making a profit on the spread. They may not buy all 100; they may have their own shorter list that they feel moves closely with the index. They have two great advantages: (1) their margin requirement is only 10% and (2) they can, in effect, sell short without the limitation of the "uptick" rule.

If your company's stock (Avon, K mart, The Limited, Sears, Tandy, Toys "R" Us, Wal-Mart) is in the S&P 100, it may be subject to wide, intra-day fluctuations that are totally unrelated to any change in the performance of your company or in the economy in which you do business.

I am a director of a company in the S&P 100, and I am concerned about my fiduciary responsibility to the shareholders who are suffering from this situation. I am particularly concerned about the 100,000-plus Associates that directly or indirectly (through our profit-sharing plan) own stock in the company.

I do not question the right of S&P to publish an index. There are many indices of stock price, and they are helpful, single-number measures of a mass of price movements. And I do not question the right of people to act as arbitrageurs.

What I do object to is the combination of the S&P index and the Chicago Board of Trade's options on the index that permits arbitrageurs to make (and occasionally lose) large amounts of money while causing the shareholders that I represent unnecessary worry, risk and penalty.

One can argue that the market moderated in the days after the drop of 500 points when the New York Stock Exchange requested (they could not order) program traders not to trade.

Table V shows the intra-day range (the high as a percentage of the lows) for the 30 stocks making up the DJIA. Do we have an orderly market when the high of the DJIA is 157% of the low? Do we have an orderly market when the median (half higher and half lower) for individual stocks is 141%? Or when half of the stocks fall between 122% and 156%?

At the bottom of Table V is information on the other major indices showing a range from 141% to 153%.

Will small investors stay in the market when they cannot watch their stocks all day long and do not know, even if they check, whether the price will go 20% higher or lower before the end of the day?

Laszlo Birny of Saloman Brothers reported that in recent years the DJIA moved up or down by 2% on the average of once a month and by 5% *once a decade*. But for the seven trading days from October 16 to October 26, six moved by more than 2% and on four days by 5% (it only seemed like four decades!).

It will be interesting to see if the officials can determine the number of the 600-million-plus shares traded on October 19 that were traded by programmed traders. And if they know, will they tell us?

TABLE V
VOLATILITY OF DJIA STOCKS ON TUESDAY, OCTOBER 20, 1987

Company	High	Low	Close	Change	High as % of Low
Allied Signal	36 1/4	31 7/8	36 1/4	+ 8 5/8	116%
Alcoa	47 7/8	34	37	- 5 1/2	141
American Express	29 1/4	20 3/4	24 1/4	- 1 3/4	141
American Tel & Tel	28 3/4	25	27 1/2	+ 3 7/8	115
Bethlehem Steel	13 3/4	10 1/2	12 7/8	+ 1 1/2	131
Boeing	42 1/4	34	39	+ 1/2	124
Chevron	46 1/2	5 1/2*	44 3/4	+ 3 1/2	845*
Coca Cola	51 1/8	14 3/4*	36 1/2	+ 6	359*
duPont	89	75	83 1/2	+ 3	119
Eastman Kodak	65 3/8	42	52	+ 3	156
Exxon	42 7/8	32 5/8	39 1/2	+ 6	131
General Electric	47	40	45 3/8	+ 3 1/2	118
General Motors	60	50 3/4	59 3/4	+ 9 3/4	118
Goodyear	46 3/8	35	42 3/8	- 1/8	133
IBM	122	110 1/8	115	+ 11 3/4	111
International Paper	41 3/4	27	32 3/4	- 1 1/8	155
McDonald	44 1/2	31 3/8	39 3/8	+ 3	142
Merck	169	5 7/8*	158	- 2	2877*
3M	63 1/2	45	58	+ 6	141
Navistar	7 1/2	3 5/8	4 5/8	- 1/4	207
Philip Morris	99 3/4	77 1/8	89	+ 7/8	129
Primerica	36 3/4	29	30	- 4 1/8	127
Proctor & Gamble	78	64	75	N.C.	122
Sears	39	26	33	+ 2	150
Texaco	38	23 1/2	30 5/8	- 1 7/8	162
USX	34 3/8	21	25	+ 3 1/2	164
Union Carbide	26 1/4	15 1/2	20 1/4	- 4 3/4	169
United Technology	42 5/8	31 3/4	40	- 1	134
Westinghouse	50	40	47 1/2	+ 7 1/4	125
Woolworth	36 7/8	33 7/8	34 3/4	- 2	109
DJIA	2722.42	1738.74	1810.01	+ 102.27	157
NYSE Industrials	231.05	153.47	158.26	+ 4.79	151
S&P 500	336.77	224.84	236.83	+ 11.00	150
S&P 400 Industrials	393.17	257.81	270.05	- 33.88	153
NASDAQ Industrials	484.52	333.85	333.85	- 35.88	145
AMEX	365.01	258.16	258.16	- 24.34	141
Value Line	289.02	200.01	200.01	- 11.73	145
Wilshire 5000	3299.44	2310.29	2370.91	+ 60.11	143

*Low is as printed by **The Wall Street Journal** on October 21 but appears to be wrong.

Table VI shows similar information for the retailers doing \$5 billion or more as listed by **FORTUNE** among the 50 largest retailers for 1986. The range is less than for the DJIA stocks (Table V). The median is 135%, and the middle half falls between 114% and 135%.

The lower range may reflect that only two (Sears and Woolworth) are in the DJIA and three are in the S&P 100 (the basis of the option used by most program traders).

If you add 10% or 15% to employee payroll deductions in a company's stock-purchase plan, how do you think they feel when the difference between the high and low in a single day can be 40% to 50% of the low?

TABLE VI
VOLATILITY OF LARGEST RETAIL STOCKS
ON MONDAY, OCTOBER 19, 1987

Company	Sales \$ Bil. ¹	High	Low	Close	Change	High as % of Low
Sears ^{5 4}	44.3	39	26	33	+ 2	150%
K mart ⁵	24.2	29 3/8	21 5/8	26 7/8	+ 1 3/8	136
Safeway	20.3	Now private				
Kroger	18.4	25 3/4	23 1/2	25	+ 5/8	110
J.C. Penney	14.7	45	36 1/2	43	+ 4	123
American Stores	14.0	55 1/2	48 1/2	53 3/4	+ 4 1/4	114

Company	Sales \$ Bil. ¹	High	Low	Close	Change	High as % of Low
Wal-Mart Stores ²	11.9	29 7/8	23	27 1/8	+ 1/2	130%
Southland ² Federated Dept. Stores	11.1	59 1/2	44	47	+ 12 1/2	135 ²
May Dept. Stores	10.5	41 3/4	37	39 3/8	- 5/8	113
	10.4	29 1/4	22 1/4	28 3/4	- 3/4	131
Dayton- Hudson ³	9.8	33	21 1/2	28 3/4	- 1 1/4	153 ³
Lucky Stores	8.8	24 1/2	21	21 7/8	- 7/8	117
Winn-Dixie	8.2	42	40 3/4	40 3/4	- 3/4	103
Great A&P	6.6	34 1/4	30	30 3/4	- 1 1/2	114
Woolworth ⁴	6.5	36 7/8	33 7/8	34 1/4	- 2	109
Supermarkets						
General	5.6	Now private				
Albertson	5.4	26 1/2	22 1/4	23	- 1	119
Zayre	5.4	19 7/8	14 3/8	18 3/4	+ 3 1/8	138
Melville	5.3	55 3/4	46 7/8	48	- 5 1/4	119
Marriott	5.3	Do not agree with classification as "Retail"				
Allied Stores	5.0	Now private				

¹As listed by **FORTUNE** as the 50 largest retailing companies.

²Market was concerned whether it could complete leverage buyout.

³In termination of takeover offer by Dart/Haft.

⁴In DJIA

⁵In S&P 100

Everybody says that they are going to do something about this so that innocent parties are not hurt. Congress will have committee hearings; the SEC will study the impact of computer trading on the market; the New York Stock Exchange, the Chicago Board of Trade and the National Association of Security Dealers are all making promises that the problem will be thoroughly studied. And as certainly "it must follow, as the night, the day" (Hamlet, Act I, Scene 3—I don't want to get caught like Senator Biden was!), nothing will happen.

But I think there is another way for an S&P 100 company (or a group of them) to solve the problem. It (they) could bring an action to bar S&P from using the price of its (their) stock in the index!

This may very well solve the problem of program trading by destroying the index—but is my responsibility to an index or to an arbitrageur or to our shareholders? I think the answer is clearly the latter.

To those who say that S&P might retaliate by cutting ratings on a company's securities, do not forget that Moody's also rates our securities. If an unreasonable spread (lower ratings) persists between Moody's and S&P on companies that forced S&P to discontinue using its name in the index, there are, I believe, adequate legal remedies.

What Happened Between August 25 and October 20?

On August 25, the DJIA hit an all-time high; and on October 20, it hit a post-crash low. Table VII shows the intra-day *high* on August 25 and the intra-day *low* on October 20.

TABLE VII

Company	August 25	October 20	% Decline
National Chains			
(N) K mart (S&P 100)	47 1/8	21 5/8	- 54%
(N) J. C. Penney	65	36 1/2	- 44
(N) Sears (DJIA/S&P 100)	59	26	- 56
Food Chains			
(N) Albertson's	65 1/8	22 1/4	- 66
(N) American Stores	84	48 1/2	- 42

Company	August 25	October 20	% Decline
(N) Great A & P	42 3/4	30	- 30
(N) Kroger	37 7/8	23 1/2	- 38
(N) Lucky Stores	35 1/4	21	- 40
(N) Stop and Shop	35 3/8	21 1/2	- 39
(N) Von Companies	13 1/4	6	- 55
(N) Weis Markets	36 3/4	30	- 18
(N) Winn Dixie	49 1/2	40 3/4	- 18
(A) Giant Food	41 7/8	24 1/8	- 42
(O) Bruno's	22 3/4	16 5/8	- 37
(O) Cullum	30 7/8	15 1/4	- 51
(O) Farm Fresh	13 7/8	9 1/4	- 33
(O) Food Lion "B"	20 3/4	15	- 27

Department Stores

(N) Carson Pirie Stores	53 1/2	33	- 38
(N) Dayton Hudson	53 3/4	21 1/2	- 60
(N) Federated Dept. Stores	54 5/8	37	- 32
(N) May Dept. Stores	49 1/2	22 1/4	- 55
(N) Mercantile	51 7/8	34 1/4	- 34
(A) Dillard	54 5/8	34	- 38
(O) Nordstrom	36 1/2	19 1/2	- 47
(O) Strawbridge & Clothier	50	34	- 32

Discount Stores

(N) Hills	12 3/8	6 5/8	- 46
(N) Jamesway	13 7/8	6 1/2	- 47
(N) Wal-Mart (S&P 100)	42 3/4	23	- 46
(N) Zayre	31 1/2	14 3/8	- 54
(O) Meyer (Fred)	16 1/2	11 3/4	- 29
(O) Rose's Stores	16 1/4	10 1/2	- 35

Food Wholesalers/Retailers

(N) Fleming	44 7/8	26 1/2	- 41
(N) Super Valu	28 5/8	16 3/8	- 43
(N) Wetterau	53	19	- 64
(A) Godfrey	30 5/8	19 3/4	- 36

D.I.Y.

(N) Home Depot	41 3/4	13	- 69
(N) Lowe's	28 1/2	16 1/4	- 43
(N) Payless Cashways	21 7/8	12 1/8	- 45
(N) Scotty's	14 7/8	10 1/2	- 29
(N) Standard Brand Paints	30 1/4	16 3/4	- 45
(A) Wickes	21 1/8	7 1/4	- 66
(O) Hechinger "A"	26	15 1/2	- 40

Membership Clubs

(O) Costco	12 1/4	7 3/8	- 40
(O) Pace	7 7/8	4 5/8	- 41
(O) Price Co.	51 1/4	29	- 43
(O) Warehouse Club	4	2 1/2	- 37
(O) Wholesale Club	6	3 5/8	- 40

Catalog Showrooms

(N) Best Products	12 5/8	3 7/8	- 52
(O) Service Merchandise	9 1/8	3 7/8	- 58

Shoes

(N) Brown Group	43 3/4	28	- 36
(N) Edison Bros.	19	30	- 23

Consumer Electronics

(N) Circuit City	18 5/8	7	- 62
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Company	August 25	October 20	% Decline
(N) Tandy (S&P 100)	50 1/8	30 1/2	- 39%
(O) Best Buy	19 1/8	9 1/8	- 52
(O) Good Guys	5 1/2	2 5/8	- 52
(O) Highland Superstores	15	8	- 47

Apparel Stores

(N) The Gap	75 1/4	17 1/2	- 77
(N) Hartmarx	33 5/8	22	- 35
(N) The Limited (S&P 100)	49 1/8	9 7/8*	- 80
(N) Petrie	37 7/8	21 3/4	- 43
(O) Deb Shops	19 3/4	10 3/8	- 47
(O) Merry-Go-Round	16 1/8	9 3/4	- 40

*I don't believe this number, but it was printed. I think it should be 19 7/8 and, in which case, it would be - 60%.

Specialty Shops

(N) Gordon Jewelry	18 1/4	12	- 34
(N) Oshman's	16 1/4	12 3/4	- 22
(N) Toys "R" Us (S&P 100)	41 3/4	22	- 47
(N) Tiffany's	41	18	- 56

Drug Stores

(N) Longs	37 7/8	25 3/8	- 33
(N) Rite Aid	41 3/4	28 1/2	- 32
(N) Walgreen	43 7/8	25 5/8	- 42
(N) Pay 'N Sav	7 1/2	4 1/4	- 43

Off-Price Stores

(N) Burlington Coat	28 5/8	16	- 44
(N) Family Dollar	16 7/8	7	- 59
(O) ClothesTime	19 3/4	7	- 65
(O) Dollar General	11 5/8	7 1/2	- 35
(O) Dress Barn	19 1/4	7 1/2	- 61
(O) Pic 'n Save	25	12 1/4	- 51
(O) Ross	10 3/4	4 1/4	- 60

Miscellaneous

(N) Avon (S&P 100)	37 5/8	24 3/4	- 34
(N) Circle K	18 5/8	7	- 62
(N) Interco	52 5/8	46 7/8	- 43
(N) Melville	82 5/8	46 7/8	- 43
(N) Southland	75 5/8	44	- 42
(N) Woolworth (DJIA)	57 1/4	33 7/8	- 41
(A) Home Shopping	14 1/4	7 1/4	- 49
(O) Businessland	13 3/8	9 3/8	- 30
(O) Dairy Mart "A"	11 3/4	7 1/4	- 38
(O) Lands' End	53 1/2	16	- 70

(N) = New York Stock Exchange (O) = OTC National Market
(A) = American Stock Exchange

A simple summary of the 86 stocks shows a range from - 18% to - 80% with the median decline at - 45%. The unweighted arithmetic average is - 45%. 75% of the stocks were between - 31% and - 55% and 53% between - 36% and - 50%.

I have heard a number of top analysts, when talking about companies that carry a high P/E, say, "I can never forget their high P/E." They think that, in a down market, the high P/E stocks will drop proportionately more. I think we have had a down market between August 25 and October 20, 1987, so let's look at companies that have had high P/E ratios (28-times-plus at the end of August):

Company	% Decline
(N) Home Depot	- 69%
(N) The Limited (S&P 100)	- 80*
(N) Wal-Mart (S&P 100)	- 46

Company	% Decline
(O) Businessland	- 30%
(O) Costco	- 40
(O) Food Lion	- 27
(O) Nordstrom	- 47
(O) Price Co.	- 43

*As already mentioned, I don't believe the low for The Limited of 9 7/8, even though *The Wall Street Journal* showed a high of 24, a low of 9 7/8 and a close of 21 5/8. If they failed to print a "1" making the low 19 7/8, The Limited's decline would be 60%.

Based on a 60% decline of The Limited, the unweighted arithmetic average decline was - 45% (the same as the total list). With The Limited at 80%, the unweighted arithmetic average would be - 48%. I am not sure the difference from the total list is significant using such a small sample.

On the lower end of the P/E range, (14 times or less at the end of August), were the following companies:

Company	% Decline
(N) Best Products	- 52%
(N) K mart (S&P 100)	- 54
(N) Lowe's	- 43
(N) Mercantile	- 34
(N) Sears (DJIA/S&P 100)	- 56
(N) Woolworth (DJIA)	- 41
(N) Zayre	- 54
(O) Good Guys	- 52

The unweighted arithmetic average for these companies is - 48%, again not significantly different from the overall average of the group of - 45%.

Now, let's look at those companies that at the end of August had a loss for the trailing year:

Company	% Decline
(N) Carson Pirie Scott	- 38%
(N) Gordon Jewelry	- 34
(N) Southland	- 42
(O) Dairy Mart	- 38
(O) Pay 'N Save	- 43
(O) Ross	- 58
(O) Service Merchandise	- 58
(O) Warehouse Club	- 37
(O) Wholesale Club	- 40

The unweighted arithmetic average was - 43%, again not significantly different.

It would appear that a drop in the DJIA from intra-day high on August 25 of 2,746.65 to an intra-day low of 1,616.21 on October 20 (- 44%) had about the same impact on retail stocks (- 45%).

I have not attempted to get a statistically sound sample of the retail stocks, but it appears that:

Group	% Decline
86 Retail Stocks - Median	- 45%
Unweighted Arithmetic Average	- 45
8 Stocks with End of August P/E of 28x or more	- 48 ^{1 2}
8 Stocks with End of August P/E of 14x or less	- 48 ¹
9 Stocks with Trailing-Year Losses	- 43 ¹

¹Unweighted arithmetic average.

²Only - 45% if The Limited low on October 20 is at \$9 7/8.

Measured in the same manner (intra-day high to intra-day low), the DJIA dropped 41%. Retailers came out a bit worse.

NOTE: Should you be concerned about all of the management people whose stock options are "under water?" The 1987 **Tax Reform Act** solved their problem. They no longer have to exercise the high-price options or let them expire before using the low-price ones. The company can, if it wishes, cancel the high-price ones and issue new, lower-priced ones.

Alas! They cannot do that for the shareholders. But it is more important to have incentives for management than for owners, or so management says and stockholders approve.

Economic Information

The greatest difference between 1929 and 1987 is the amount of business statistics and economic information available.

Today we wait eagerly for a monthly analysis of the labor force, showing the seasonally adjusted number of people employed and unemployed, broken down by almost any category one would want—geographic, age, sex, race or occupation. Every ten days we get car sales for the period ending four days earlier. Retail sales information is available within 30 days of the end of the month—and I could go on and on and on.

But what about 1929-30?

President Hoover did not believe what was happening. On March 8, 1930, he said:

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

On June 4, 1930, a delegation of bishops, bank presidents and manufacturers called on the President to again talk about the unemployment; and Mr. Hoover assured the delegation that they must be misinformed about the seriousness of unemployment.

During this time, there was a ^{advising} committee headed by Colonel Arthur Woods ~~who was working to advise~~ the President. They did not believe the figure put out by the Hoover Administration of 2 million unemployed. Metropolitan Life Insurance ^{agreed to use their agents} (in those days, much of Met's insurance was in small, weekly-payment policies to cover a proper funeral) to conduct a count. Conducted in 1931, the committee estimated the unemployment at 5 million. Shortly after that time, the Hoover Administration had the Bureau of Census make a survey; and the Bureau raised the figure to 6.05 million.

Today any businessman can get more information on the economy from the two brown pages in every issue of **BUSINESS WEEK** than any industrialist or even the government could get in 1929. Many wrong decisions were made in 1929-30 for lack of information. We may make wrong decisions today, but they will not be because of lack of information.

RThought: I offer the following conclusions:

1. As a result of the higher and better regulated margin requirements (except for program traders) in 1987, the stock market drop—though painful—will do far less damage than the one in 1929. Considering the widespread "gambling" in the 1929 market, I think the percentage of the adults directly touched by the 1929 break was higher than it is in 1987.

2. In view of the much greater information base available to government and business today, everyone has better

knowledge of what is happening; and we can (or should be able to) make better decisions.

3. The rate of growth of the Gross National Debt, in constant dollars, is not discussed in public and is not understood; as long as this is not discussed publicly, we will not understand why we must take serious steps to get the annual rate of increase (in constant dollars) under 1% per annum. It is doubtful that this will be accomplished under the present Administration.

4. Were stock prices too high? Perhaps by 10-15%, but not in need of a 36% correction (to October 30). However, future stock prices will, I believe, show a P/E ratio more in line with actual performance (proven growth) and alternate investment opportunities. Technology and unique companies may have to show more past performance in order to get a high P/E ratio—rather than being rewarded in advance.

5. Program trading may not have caused the fire in the first place—but the traders certainly threw gasoline on the fire.

What Will Be The Impact on Retailing?

Barring mistakes in handling the economy (like being frightened by possible inflation and tightening the money supply), or establishing trade barriers (rather than encouraging our manufacturers to provide what the world wants with quality that matches their international competitors), we should be all right.

There is an old saying that it is a recession when your neighbor loses his job, a depression when you lose yours and a panic when your wife loses hers! I don't see the depression stage. Retail sales will drop in durable goods that are postponable (cars, stereos, VCR's, furniture). But, today, the manufacturers of most of those goods are not as labor intensive as they were in 1929 or even 1960 (and many are not in the U.S.); and thus total employment will not be hit as heavily as it was in the 1930's. It will, however, be hard on the newly public retailers of consumer electronics. They may face a rough 12-24 months. Today the labor-intensive firms are those in personal service; and it is unproductive to cut the staff in a properly run McDonald's or Wendy's or beauty salon when you still have customers.

For those firms whose customers include families with incomes of \$250,000 or more, I am inclined to the view that much of the patronage of those customers will continue as in the past. But for families with incomes of \$75-250,000, there will be an impact. There will be postponement and trading down from, say, a Saks or a Neiman's or a Bergdorf Goodman's to a Macy's or a Bullock's or a Burdine's. And for children's clothing, many may go back to long-established, quality suppliers, such as J.C. Penney (I trust its quality is still there).

On many items, there will be more willingness to try the discount stores—and this might well benefit the upgrade discounters, such as Target and Bradlees.

But the winners will, as always, be the stores that have the ability to listen to their customers, measure where they are, accept new ideas and continue to develop a relationship with their employees/associates that produces a team effort. It will not go to the autocrats, the ones who know without measuring, the ones who don't know their customers and the ones who play "me, too" without knowing why what they are copying was done.

(I would like to thank my partner, Bob Harris, of Kahn & Harris, Inc., and my broker, Peter Coy, of Hambrecht & Quist, for reviewing this article, pointing out mistakes and making helpful suggestions.)

Quest Real Estate

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11/30/87

Den Bot -

Good report on the 1987 crash. I agree with you that the sky is not falling.

What is scary is allowing computers - that can't think - make decisions that can cause so much damage.

I don't have much confidence that Congress will accept the deficit reduction plan. Too many don't want to make the hard unpopular decision in an election year.

Steve had lunch with a William Miller in Singapore who is working with one of Steve's clients. Miller's opinion was:

~~Reagan~~ Reagan policies had done a lot of damage but that the situation could be corrected with a reduced budget deficit, looser monetary policy, & further devaluation of the \$. He predicted the dollar would fall to 120-100 yen. He thought the \$ was too high & the monetary policy to tight under Volcker.

Miller was the former Sec. of Treasury & chair of the F.R.B.

Best wishes

Don G.

Nov 27, 1987.

Dear Bob,

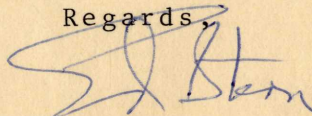
Happily, as of October 20 that is, my investments are all hanging on the racks, and my losses are always taken as markdowns.

But, your November Newsletter was most interesting. I'm going to give my copy to an in-law who is 26 and who was touting Limited stock to me back in August. As you point out, he is one who doesn't have a long experience.

I wish you'd have mentioned the farm economy in your background for the 1929 crash. As I recall, we were depressed from about 1922 on, with most of North Dakota's banks needing extra infusions of Capital from 1924 to 1926, long before the 29 crash.

I'd forgotten "Only Yesterday"--great reading. I think I'll try to find it and read it again.

Regards,





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December 1, 1987

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

Dear Bob:

I found your November 1987 issue of Retailing Today useful and interesting. Some observations:

1. Say's Law was dominant in 1929 (Galbraith, Economics in Perspective, Houghton-Mifflin, 1987). A shortage of demand could not exist. There could be "...no case for publication action to enhance demand" (p. 222). Whatever the pros and cons of Keynesian theory, this would not be tolerated in 1987.
2. Feldstein (former Council of Economic Advisors) after crash "saw" a decline in yen vs. dollar to 100 yen to the dollar. I think Bergsten saw 115 yen to the dollar. Any substantial belief of this type (given what I infer the costs of hedging are) would limit international buying of stocks.
3. The Congressional Committee's thoughts regarding taxing some takeover techniques (as I remember the Picken's argument) probably is useful in looking for a precipitating if not fundamental ~~cause~~ cause.

Hope all is well.

Sincerely,

Rog
Roger Dickinson
Professor of Marketing

RD/rr

THE ECONOMIC HISTORIANS' VIEW: Comparing the Collapses

Moses Abramovitz: No Panic Now

EVERY serious depression in business, and virtually every recession in American economic history, has been accompanied by a serious decline of stock prices. Not every serious decline of stock prices has led to a depression or even a recession. Moreover, when the two came together, it cannot be said that the stock market collapse was the cause of the business contraction. They responded to common causes. Viewed over a year or two, in fact, the reverse was more important. Business contraction, when it came, pushed stock prices down.

In the past, many of the great stock market declines were incidents of more general financial panic. Recurrent waves of bank failures and a great decline in the money stock were central features of the Great Contraction from 1929 to 1932. Reduced spending meant reduced employment in a vicious cycle that led to further reductions in demand for goods and workers.

The great stock market collapse of 1987 has had an impact on the nominal wealth of people that rivals and may transcend that of the stock market decline in the fall of 1929. The final significance of the decline, however, cannot be judged simply from its speed and the



A ruined investor after Black Thursday, Oct. 24, 1929.

mass of wealth affected.

The present stock market crisis, in contrast to the past, is not an incident of a general financial and banking panic. If the Federal Reserve continues its policy of monetary ease and support of financial

institutions, there will be no such panic. The old vicious circle of income and spending declines is now substantially muffled by the very size of government employment and expenditure and by income supports such as Social Security.

Some general business recession may be unavoidable, but if policies here and abroad are reasonably wise and vigorous, we can escape a great contraction of jobs and incomes. The essential policy ingredients are the following:

- Monetary expansion to reduce interest rates, support business investment and ease the problems of third world debtors.

- A definite plan to increase tax rates and reduce spending. Contractionary fiscal policy is the regrettable necessity imposed by the large Reagan deficits. Without it, the actual deficit would now increase substantially under the impact of even a modest recession, and the tasks of supporting the dollar, attracting foreign finance and reducing interest rates might become impossible.

- Expansionary monetary and, where possible, fiscal policy in West Germany, Japan and other big economies operating at low capacity. Failing such action the Fed's task of reducing interest rates will be greatly complicated.

- Relief for third world debtors and resistance to protectionist measures. Income and demand must be sustained in the third world, and international trade must not be hampered.

The directions of policy are not hard to define. We must hope that governments here and abroad are equal to the job.

John A. Garraty: Contradictory Signs

AT first glance, there are many similarities between the extraordinary collapses of stock prices that occurred in October 1929 and the declines we have recently experienced. Both hit after extended bull markets and amid general prosperity that tempted investors to ignore underlying weak spots in the economy: agriculture, coal mining and textiles in the 1920's, agriculture again and the smokestack industries today.

Alarm over the economic policies of other nations was also a factor in both periods. Irritation

John A. Garraty, chairman of the Columbia University history department, is author of "The Great Depression."

with the Allies' reluctance to repay money we had lent them during World War I has a parallel in bitterness over the West Germans' refusal to stimulate their economy in order to encourage the importation of American goods and the presumed selfishness of Japan in blocking our imports, despite our ravenous consumption of Japanese autos and electronic products.

Yet there are many differences between the situation today and 1929, and unfortunately they do not all point in one direction, and thus do not indicate either that the current collapse will be self-correcting, or that it will mark the start of serious recession.

One encouraging difference is that today a larger percentage of money invested in the market is

controlled by professional fund managers. Presumably these experts are less likely to panic (partly because they are managing other people's money) and more ready to bargain-hunt when stocks fall steeply. Fund managers have to do something with all that money. Pouring too much of it into the bond market pushes down interest rates and thus encourages investing again in stocks.

On the other hand, today we owe the rest of the world billions. In 1929 the rest of the world owed billions to us. And there is a kind of chain reaction today. When prices fall in New York they tend to fall the next day in Tokyo and London, and news of these declines sends Wall Street into another nose dive. Finally, we have to worry about

the disaster that followed the 1929 crash, a danger that people of that day were blissfully unaware of. To them "panics" were old hat — the country had gotten through the panics of 1819, 1837, 1857, 1873, 1893 and 1907 in relatively short order. A whole decade of hard times did not seem a possibility. Yet these facts are balanced by what we learned from the Great Depression. We have unemployment insurance and bank deposit insurance and we surely won't make the stupid mistakes that were made in the 30's, like raising taxes and cutting Government expenses in a desperate effort to balance the Federal budget. But wait a minute . . . What about the big budget deficit? What about inflation? What about . . .

Kindleberger: Watch Prayerfully

IN the cascade of comment on the stock market debacle of the last two weeks, it is hard for an economic historian who has written on 1929 and on 18th and 19th century booms and crashes to find some to say that is not entirely balanced. Nonetheless I try:

- There will be much blaming back and forth as to whether the bust started here or abroad. The same question arose in 1836, 1857, 1873, 1907 and 1929. While October 1987 looked "made in the United States," some pundits had expected the break to come in Japan and move here, rather than vice versa.

- Milton Friedman has written that the fact that the United States started the depressions of 1920 and 1929 is demonstrated by the fact that gold movements in both episodes were running from Europe to the United States. Keynesians blame 1929 on the downturn in housing and auto sales. The fact that markets turned down in scores of countries in days, however, makes clear that neither monetarism nor Keynesianism is much help in understanding either the 1929 or the 1987 crash. Gold flows affecting money or spending changes take weeks or months to spread internationally. Investor psychology is to blame. Investors overshoot in one direction, and when their expectations are reversed — slowly or precipitously — they overshoot in the other.

- Some economists say that the

Charles P. Kindleberger is professor of economics emeritus at the Massachusetts Institute of Technology.



New York Stock Exchange Archives

The New York Stock Exchange in 1853, with members in assigned seats.

crash of 1929 reflected a realization that the Smoot-Hawley Tariff Bill would set off a trade war. Last week, in a radio interview, a young analyst blamed the crash of Oct. 19 on Congressional protectionism. The search for such scapegoats derives from the theory of rational expectations, which states that markets always reflect the correct asset values and that sudden price changes must be based on unex-

pected news rather than on excessive speculation. One casualty of the week — along with half a trillion dollars of paper profits — was the theory of rational expectations.

- Must depression follow a stock market implosion? Not necessarily. The 1929 collapse of stock prices was followed by falling commodity prices which caused banks to fail. As the collapse spread from one national market to another, it

produced the Great Depression.

This time the danger seems to lie elsewhere — in luxury real estate, consumer spending for big-ticket items, with companies that have issued junk bond debt, third world debt and consumer debt. But while all of these markets may walk a nice edge, it is quite unpredictable which one or more, if any, may stumble and tip the economy into depression. Watch prayerfully. ■

Eugene N. White: Parallel Dilemmas

THE parallels between the crash of the stock market in 1929 and 1987 are too strong to ignore. Nevertheless, the recent collapse does not necessarily portend a new Great Depression. The 1929 crash shook the economy, but was other problems — some similar to today's dilemmas — that caused the collapse.

The boom and bust of the stock market in the 1920's originated in a post-World War I redirection of international capital flows. New York took over London's role as the world financial center and lent

heavily to Europe and Latin America. Like today, lending peaked when debtor nations found repayment difficult. Funds that were previously invested in foreign bonds moved into the stock market, helping to unleash the speculative bubble that popped in 1929.

The crash stunned Wall Street. However, the financial system was partly insulated by the Federal Reserve Bank of New York's prompt assistance to New York City banks, which channeled credit to brokers when other sources of funds disappeared.

Shortly after the 1929 crash, however, the Federal Reserve Board made a grave error. It censured the New York Fed for its liberality and reverted to a tight money policy. As the economy had

already entered a recession, this put increased pressure on the banking system.

In the 20's, there was a wave of mergers and commercial banks diversified by moving into investment banking — much as they are doing today. These developments led to stronger financial institutions that weathered the Depression fairly well. The problem was that the Fed, inured to numerous rural bank failures, did not recognize the need to ease credit, thus preparing the way for the Panic of 1930. While one prominent New York bank failed, the panic's principal victims were rural banks.

The Fed of 58 years ago should not alone be blamed for allowing the crash to be transformed into the Great Depression. Like their

contemporaries, American manufacturers in 1929 clamored for protection from foreign competitors. Congress granted their wish with the Smoot-Hawley tariff of 1930. This inaugurated a trade war. As world trade and incomes collapsed, many countries were unable to repay their debts and defaults ensued. American banks held few foreign bonds and were spared a blow that today's banks fear. Instead it was the bondholding public that was burned.

It seems unlikely that the crash of 1987 could have been prevented any more than the crash of 1929. The real lessons are to be found in the mistakes of the Federal Reserve and Congress that added to what had been a serious but not fatal shock to the economy. ■

Eugene N. White, associate professor at Rutgers University, is author of "The Regulation and Reform of the American Banking System, 1863-1929."

11-24-87

Bob -

Have just finished reading your
Nov. issue re: the stock market crash.
Old friend, you have just added to my
education - one of the best expositions of
basic economics I've heard since the days
of Ted Koppel at biz school.

a hearty well done,

Al Pitzer

Put w/ 11/87 RT

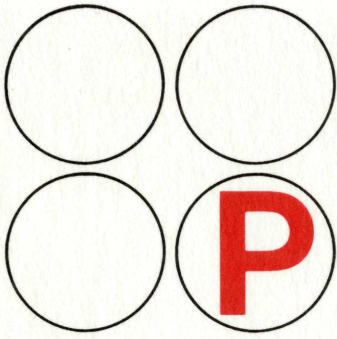


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December 22, 1987

Mr. Robert Kahn
Editor
RETAILING TODAY
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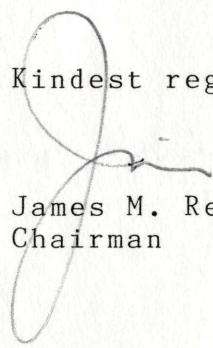
Dear Bob:

I just finished reading your November 1987 analysis of the stock market crash. Very workmanlike, thoughtful and thorough.

I'm taking the liberty of circulating it to some selected friends, with your kind permission.

Season Greetings!

Kindest regards,


James M. Reynolds
Chairman

JMR:b



HERMES ASSOCIATES

December 31, 1987

Mr. Robert Kahn
Robert Kahn and Associates
Box 249
Lafayette, California 94549

Re: "A Matter of Resolution"

Dear Robert:

I like your subject "A Matter of Resolution" so well that I made a copy of it to include in my daily record of events for January 1, 1988, to review often as a formula for a good way to live. Thank you!

Best wishes to you and yours for a happy, healthy and prosperous 1988.

Sincerely,

Your friend and fan,
J. Rees Jensen

JRJ:ef

A MATTER OF RESOLUTION

It is resolution time. Forget the resolutions to become a millionaire (multi-millionaire? billionaire?) and think of the ones that will make you a happier and better individual. You can accomplish them without help from anyone. Well, not exactly. It does help to have a supportive spouse and family, as I have. These are the people who do not think you are crazy—just because you do what you think is right. In fact, they sort of take pride in it.

1. **Listen to the other person.** It is amazing how much they know.

2. **"Seek out good and praise it."** This is a phrase from writer Alex Haley. When you think good things about other people, call (or, even better, write) and tell them. Telling your lunch companion doesn't let them know.

3. **Don't forget that the Golden Rule appears in every religion in the world,** either as "Do unto others as you would want them to do unto you" or "Do not do unto others as you would not want them to do unto you."

4. **Be honest in everything you do.** Then you won't have to remember what you told and to whom.

5. **Never carry anger over to the next day.** Make an agreement with your spouse never to go to bed mad. One has to offer the olive branch. It is better for sleep than a sedative.

6. **Look for the forest instead of the trees.** More than half the good ideas in the world get buried by initial "it won't work" thoughts.

7. **Remember that marriage is a 60-60 proposition.** Only then is there a chance for it—if each thinks they have gone 60% of the way to solve a difference.

8. **Forget hatred—it consumes you and has no effect on the hated person.** You know that. So why hate people, groups, or objects?

9. **Remember the rules you learned when young.** I learned "A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean and reverent. I didn't learn that just to last from age 12 to age 14—but as a guide to the end of time.

10. **Practice these rules until they are a habit—like combing you hair.** Tom Paine wrote, "A long habit of not thinking a thing wrong gives the superficial appearance of being right." The corollary is "A long habit of doing a thing right makes it easier and easier to do."

RThought: Please don't say to yourself, "I can't do it." You know you can; and you know inside that you should and that you want to. A great and brave group of Americans had a motto, "Go for broke;" they did impossible things. You can do impossible things.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549 • (415) 254-4434

ISSN 0360-606X

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Published Monthly
\$36 per year
\$48 overseas

ROUTE TO

DECEMBER 1987

OLIGOPOLY AT WORK

Oligopoly is just short of monopoly. The definition of oligopoly is "a market situation in which each of a few producers affects but does not control the market."

There is an example of oligopoly in Australia. It has very active competition in consumer electronics. As saturation is approaching in the VCR market and there is no new item to keep boosting sales, margins have dropped. In Australia, they buy and sell companies with much greater freedom than is done in the U.S. The only real restraint is that a stockholder who has more than 20% of a company (there are many holders with 19.9% of a company) must make an offer for the entire company. The company cannot buy back its own stock or take other defensive moves as in the U.S.

Until recently, two buying groups represented stores accounting for about 50-55% of the market. Both bought at a low price on a group basis.

One aggressive retailer, Greg Smith, decided to build Billy Guyatts (that is the name of the chain!) into a billion-dollar (Australian) retailer. That would be about \$US 700 million. He has already reached \$US 550 million and expects to reach his goal by the middle of 1988.

One of his objectives is to use his position to raise his gross margin by 4 percentage points (pp), and he claims to have raised it 2 pp so far.

He hopes it will be followed by the remaining competitors, but they say they have not yet experienced a 2 pp gain.

Let me put Billy Guyatts in perspective. The only consumer electric chain in the U.S., doing more than Billy Guyatts, is Circuit City at \$1 billion. But when you consider that our population is 14 times that of Australia and that 14 times \$US 550 million is \$US 7.7 billion, you get a figure Circuit City has never even dreamed about in its wildest imagination.

RThought: Once again we see the goal of retailing—embrace competition but practice oligopoly whenever possible. I will watch to see if a 4 pp gain is reported.

AN HONEST "WE WILL NOT BE UNDERSOLD" PLEDGE

Every couple of months I get a chance to read the tabloids of the only merchant who always sells the "sizzle" of his merchandise—and that's the circular from Building #19, located in an old World War II building in Hingham (MA) and run by that blithe spirit Jerry Ellis.

Jerry (in eight stores named #19, #19 1/2, #19 3/4, #19 7/8,

Red = more stores by Ellis -

Put in Business, please

VOL. 22, NO. 12

A MATTER OF RESOLUTION

It is resolution time. Forget the resolutions to become a millionaire (multi-millionaire? billionaire?) and think of the ones that will make you a happier and better individual. You can accomplish them without help from anyone. Well, not exactly. It does help to have a supportive spouse and family, as I have. These are the people who do not think you are crazy—just because you do what you think is right. In fact, they sort of take pride in it.

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9. **Remember the rules you learned when young.** I learned "A Scout is trustworthy, loyal, helpful, friendly, courteous, ~~kind~~ obedient, cheerful, thrifty, brave, clean and reverent." I didn't learn that just to last from age 12 to age 14—but as a guide to the end of time.


10. **Practice these rules until they are a habit—like combing you hair.** Tom Paine wrote, "A long habit of not thinking a thing wrong gives the superficial appearance of being right." The corollary is "A long habit of doing a thing right makes it easier and easier to do."

RThought: Please don't say to yourself, "I can't do it." You know you can; and you know inside that you should and that you want to. A great and brave group of Americans had a motto, "Go for broke;" they did impossible things. You can do impossible things.

#19 1/6, #19 1/7, #19 1/8 and the newest, #19 1/9) runs a classic salvage/overrun operation and will sell anything. Under all the flamboyant exterior, there is an astute merchant and leader.

I have put together three items from the most recent circular. First, read the "Help Wanted" ad. Do you write ads like that? Or are they more like the Alcott & Andrews, Eddie Bauer or Price Club ads (selected randomly from the November 22, 1987, *San Francisco Examiner*)? Which ad do you think will attract the best people?

HELP WANTED



**WE CAN
MAKE
BEAUTIFUL
MUSIC
...TOGETHER**

I don't care about your education, your work history, your taste in music. I do care about common sense, sense of humor, tolerance, pride, and empathy for both fellow-worker and our customers.

**YOU LEAD PEOPLE
... YOU MANAGE THINGS!**

Full-Time/Part-Time

- **CASHIERS**
- **SALES CLERKS**
- **STOCK PERSONS**
- Full-Time
- **DEP'T MANAGERS**

Growth potential is actually unlimited including partnership for those who really develop into leaders. Our Fringe Benefits Package is one we're proud of!

APPLY IN PERSON TO STORE MANAGER:

AT THE BUILDING #19 NEAREST YOU!

RETAIL

CASHIER-FT/PT

Your enthusiasm along with the desire to accommodate customer needs is essential to your success. Top performers can move into a commissioned sales position.

For immediate consideration call or apply in person:
LINDA KANEKO
(415) 981-2121

**ALCOTT &
ANDREWS**

124 Geary St. (Off Grant)
San Francisco, CA 94108
equal opportunity employer

RETAIL

EDDIE BAUER

A leading specialty retailer of quality outdoor & recreational clothing & equipment is accepting applications for full & part-time: Sales, Cashiers & Stock Positions.

We offer a generous merchandise discount. If qualified & interested please call or apply in person to: Sue Sciamanna at Eddie Bauer, 220 Post St., SF CA 94108. 415-986-7600. Eddie Bauer is an equal opportunity employer.

EDDIE BAUER

Retail

PRICE CLUB NOW HIRING


451 So. Airport Boulevard
South San Francisco, CA
Temporary-Parttime help
Cashier Asst's - Stockers
APPLY IN PERSON

I called Jerry about the part of "Remember our 2 Finger Oath" that says, "... and we'll lower our price." Among

the BUILDING #19 Circular vol. **XXIII** NO **42**

EDITOR-IN-CHIEF: **BILL ELOVITZ**
COORDINATOR: **BOB CELLINI**
— **CARTOONISTS** —
MAT BROWN BOB MILNAZZO
PAUL BUTLER PAUL O'CONNOR
— **SENIOR WRITER & FOUNDER** —
JERRY ELLIS
— **TYPING BY CAROLINE** —
— **FREE ADVICE FROM MURRAY & A CAST OF THOUSANDS**

OUR PLEDGE TO YOU!!



We run bargain stores, pure and simple. (Well, I KNOW that you wouldn't shop in a mess like ours with haphazard displays, winding aisles, no charge accounts or credit cards (but helpful sales people) UNLESS our prices were cheap. They are! Come in and see for yourself!

REMEMBER OUR 2 FINGER OATH...

We guarantee all our merchandise with a 30 day no hard time money back if not satisfied (with sales slip). Find the same item selling cheaper (elsewhere in New England) and we'll reward you with a bottle of FREE champagne (and we'll lower our price)...

all the "we will not be undersold" pledges that I have read, this is the first such statement. The others settle by refunding the difference—or perhaps 120% or 150% of the difference—but *continue to sell at the higher price*? These are not "schlock" outfits—they include Montgomery Ward, for example.

Jerry's response to my explanation of the "we will not be undersold" pledge of others was, "When you do that you undermine your own employees. People don't lie well; and if you don't change your price, you are making them lie."

RThought: I couldn't think of a better argument—honesty and ethics are abstract (and sometimes foreign) concepts; Jerry immediately addressed the fundamental issue.

ON THE POLYGRAPH FRONT

A suit was filed in Northern California against The Federated Group, a major consumer-electronics chain (its financial problems led to its recent acquisition by Atari). Within the past year or so, it has opened a number of stores in Northern California and thus is doing a lot of hiring.

The suit alleges that an individual was forced to take a lie-detector test, which she took, because she needed the job (not an uncommon reason for an applicant doing so). She claims that even after taking the test she was refused a job because of her refusal to reveal whether she had ever seen a psychiatrist.

It is a class action on behalf of all employees and job applicants who were forced to take the examination.

The attorney recently settled a similar class-action suit against Color Tile, a national chain.

RThought: It is against the California Labor Code to use a polygraph to screen employees. Being a Los Angeles-based company, one would think that The Federated Group was familiar with California law.

We complain about the disruptive effect of attorneys—but could the boss be a major contributor to the problem by acts that are blatant violations of the law?

CRACKING DOWN ON CONTINUOUS ADS

You know the kind I mean—they run week after week without enough intervals between ads to establish any price other than the sale price as the regular price.

The item below was carried in **FORUM FURNITURE FAX**, edited by Jack Brandwein (8177 East 44th St., Tulsa, OK 74145, FAX 918/622-8189, \$199/yr.; weekly FAX or mail):

All FORUM PUBLICATIONS have repeatedly cautioned subscribers about regulatory agency actions with regard to misleading advertising. Read these excerpts quoted from THE BUSINESS JOURNAL*. It tells you what happened in California last Friday. This is not the end. Manufacturers who cooperate with rebates and participate in ad planning may be named in future litigation.

John Breuner Co. has agreed to pay a \$160,000 civil penalty, settling charges by the Sacramento County district attorney's office that the furniture retailer engaged in false advertising at its three Sacramento and Fresno stores. The settlement wraps up a 24-month investigation and is the largest penalty for "continuous-sale" advertising yet collected by the [Sacramento County] district attorney.

"The \$160,000 settlement with Breuners is significant because it sends a message to retailers that the district attorney's office will

HOW TO RESTORE INTEGRITY

The major challenge to retailers that we used to call "full-margin" retailers (and, to some, off-price and/or low-margin retailers) is to re-establish their reputation for honesty.

Customers today do not believe most "regular" prices; and, as a corollary, they don't believe the sale markdowns.

They don't believe the guarantees of not to be undersold—especially when they read closely and find that, if the store is undersold, it only corrects the price to the alert customer and not to all customers that come in after that date. (There are one or two honest policies—for one, read "An Honest 'We Will Not Be Undersold' Pledge," in this issue.)

The ads today that promise "service" are run long before the promised service is in place.

The claim for merchandise quality is often disproved by the experience of the customer.

I have evidence that the task of restoring integrity can be accomplished. It comes from Ed Hinnfeld, who headed Gimbel's in Pittsburgh in the early 1970's when it was struggling (sales declining, minimal profit, and demoralized staff).

But let Ed tell the story in his own words:

A meeting was held with all supervisors and managers at which time they were grouped into committees of six, each group with a chairman. They were asked to write down "what would you do as the head of this company to improve performance?" The suggestions of these groups were then shared with all. After the first four or five reports, the recommendations became repetitive. Now, before I share with you their suggestions, let me also share something equally as interesting. I wrote to the spouse of every married supervisor and manager asking the same question. We received a 75% response. Their answers were the same. Now this is a summary of the answers.

(a) Our company lacks credibility with the customer and employees.

(b) We have thousands of dollars of orders placed with the vendor, but the paperwork has not been submitted internally because of budgets.

(c) We have thousands of dollars of unrecorded markdowns or markdowns taken and the paperwork not submitted because of budgets.

(d) We have hundreds of price comparisons that are not legitimate.

(e) How can our employees believe in management when they see management allowing or approving such gross dishonesty?

(f) We want to know what is expected of us, and we would like to be recognized when we achieve what is expected.

With much concern, we took a very bold position—

(1) We announced "no price comparisons for one year."

(2) We recorded every order and markdown in the company.

(3) We adopted a mission and policy statement that began with "Each and every decision made in this company by each and every employee must first meet the test of total and unquestionable integrity. If this test cannot be made, we will not proceed."

The results were absolutely phenomenal. The sales volume abruptly began to increase. The morale of the employees showed a dramatic improvement. Our share of market showed consistent improvement; in fact, within three years, we had a six-percent gain in share of market as reported by University of Pittsburgh. It was a very impressionable period in our lives.

It is my opinion that all retail companies are desirous of credibility. It is so unfortunate that the industry has placed itself in such an awkward position that the fierce need for promotion, sales, price comparisons, and attention-getting methods to attract customers is the backbone of survival. No matter how sweet the taste of huge sales and sale days may be, there is also a sweetness to know that all of us, customers and employees, respect integrity and our personal lives are much more fulfilled when we practice the rules of the Good Book.

After leaving Gimbel's and later heading up The Garr Consulting Group, now owned by Touche Ross & Co., I had the privilege to consult with many major retailers. Whatever the cost seemed to be, it was always worth such price for us to practice unquestionable integrity. I'm sure this reputation was a major consideration in Touche Ross acquiring Garr.

Respectfully,



Edwin Hinnfeld
Chairman/Executive Committee

RThought: Ed gives the "thought" better than I can.

— SHORT SHORTS —

I love letters to the editor, especially those in *The New York Times*. After Senator Biden had withdrawn from the race for President, E. Oscar Kosberg of the Bronx brought up Lincoln's statement: "... government of the people, by the people and for the people" at Gettysburg in 1863 (you will recall the address supposedly written on the back on an envelope). In 1830, Daniel Webster said, "... people's government, made for the people, made by the people and answerable to the people." George Seldes attributed to John Wyclif (also spelled "Wycliffe") as part of the first English translation of the Bible, "This Bible is for the government of the people, by the people and for the people." **RThought:** It says that this statement was attributed to Wyclif as part of the prologue of the 1382 version of the Bible, but Bartlett's could only find an 1580 manuscript which did not have the statement.

F.A.O. Schwarz tops Neiman-Marcus "His and Her" gifts with a present for your child: "Star in your own video cartoon" for \$180,000. **RThought:** How much time should one allow for delivery?

When founders or their families guarantee satisfaction, it goes much further than when financially oriented MBA's do. **Chain Store Age—Executive Edition** (Aug. 1987), in a story on Gottschalk's (a chain of department stores in the California Central Valley), quoted Chairman/CEO Joe Levy;

There was a girl who was getting married, and she saved up all of her pay to buy a \$600 dress from one of our competitors. Unfortunately, the wedding was called off two weeks before the scheduled date. The store that she purchased the dress from would not take it back. I told her to bring it to me because I would take it off her hands.

RThought: I can give dozens of stories of this kind—but they all seem to come from the stores where the founders are still running them or the entrepreneur who took them over is still there or a second generation of a family is involved. **THIS IS ONE OF THE SECRET WEAPONS THESE STORES HAVE. CAN YOU IMAGINE SEARS OR MACY'S OR SAKS FIFTH AVENUE DOING THIS?** I could imagine this at Neiman-Marcus as long as there is a Marcus there. I may be sighting some other stores—if so, I apologize.

FEATURE REPORT

IS ALL SHORTAGE THEFT?

Arthur Young (AY) issued a press release on November 20, 1987, headlined (its words) "RETAILERS GAIN SLIGHTLY IN THE BATTLE AGAINST THEFT, BUT STILL LOST MORE THAN \$1.5 BILLION LAST YEAR."

The amount of \$1.5 billion is a big theft figure. AY is looking for national publicity. It hopes the article will start, "Arthur Young, one of the Big-8 accounting firms, reported that retailers lost billions."

The \$1.5 billion applies only to the reporting firms. In paragraph 3, that is shown as 115 retail companies operating more than 38,000 stores with aggregate sales of more than \$125 billion in 1986 (1.2% shortage).

The release reports that a lower percentage of sales was spent on loss-prevention programs. AY partner, Stephanie Shern, is quoted as follows:

In the upcoming holiday shopping season most consumers may vaguely sense that retailers are looking for shoplifters, but they won't be aware of the vast extent of the strategies being used by retailers to prevent losses. We believe that the many programs that retailers have been instituting are helping shave the amount of losses.

In our discussions with retailers, we have found that employee training programs are providing one of the most effective methods TO COMBAT THEFT [emphasis added]. Usually the best defense against losses is a well-prepared and well-trained staff.

The press release then discusses the rise of "written codes of ethics for employees—but that only 37% of sales associates were aware of them (is the reader to presume the employees were not aware that it is wrong to steal?)."

Finally, the report says that retailers have moved to more formalized internal audit programs "geared to identify potential problems" with audit personnel "dedicated to security and loss prevention."

I must compliment Stephanie Shern for not mentioning in the release, and not including in the full report, the traditional summary of estimates of the causes of loss—broken down between internal and external theft—and accounting errors that formerly appeared.

Let's look at some figures for a moment. The table below shows the markdown percentage for the nine major departmental groups in the NRMA Merchandising and Operating Results. There has been some change in how a department is classified—and many departments have disappeared (notions, major appliances, domestics, etc.), but the group numbers still make a point:

MARKDOWNS AT RETAIL BY MAJOR DIVISION—NRMA

Group	Merchandise	1971*	1975*	1985*
1000	Adult female apparel	13.5%	13.9%	24.1%
2000	Adult female accessories	7.4	7.0	10.8
3000	Men's and boys' clothing	7.5	8.9	18.1
4000	Infants' and childrens' clothing	8.9	9.2	18.6
5000	Cosmetics and drugs	3.0	2.9	1.1**
6000	Recreation	5.4	5.9	11.6
7000	Home furnishings	7.5	8.5	11.6
8000	Other hardlines	6.0	5.8	6.8
9000	All others	6.8	6.5	10.0

* Year ending December or following January.

** Shortage was 0.8%.

Now, why do I think these figures are important?

The assumption that all or most shortage is attributable to theft assumes that all record keeping is accurate.

I believe that assumption is wrong.

I believe that most of the shortage reported (an industry average of 1.7%) is the result of inability to accurately record the increasingly frequent changes in retail prices, even accepting that we can never be perfect, we could be much better. And we will become much better just as soon as we quit using the alibi that shortage is due to internal or external theft; in other words, caused by someone else. (See point "10" in the box on front page.) As Pogo said long ago, "We have met the enemy, and they is us!"

More than 20 years ago, Sam Shaffer, then Vice President-Controller of May Company, Los Angeles, was telling other controllers that its experience was that shrinkage increased about 1/10th of 1% for each branch added. There was more merchandise in transit—and not counted when prices were changed; there were more arrivals of merchandise during a sale which made the before-and-after counts wrong.

We know that stores that install price lookup are surprised at the variance of the price on the goods compared with the price that should have been there.

The retail method of inventory was not designed for the number of price changes made today. When first introduced in the early 1900's (and not accepted for tax purposes until the mid-1920's), most goods were sold at regular price, sales were relatively rare (looking at gross margins, most were offering "low everyday prices"), and markdowns were used to dispose of merchandise that was not moving. Many advertised items were special purchases, often without a regular price comparison.

Let's look at some older figures—from what was called "The Harvard Report" and now is the NRMA Financial and Operating Results Report:

	1931	1932	1934	1942	1945
Markdowns	8.6 %	8.5%	5.7%	2.95%	3.5 %
Shrinkage	1.75	1.8	1.8	0.8	1.45

1931, 1932, and 1943 were Depression years. Unemployment was 15-30%. If ever there was economic pressure toward internal theft or shoplifting, those were the years. The shortage was what it is today—with all our computers, protection departments, mirrors, two-way lookouts, closed-circuit TV and guards. When markdowns dropped to virtually nothing in 1942 (because of the shortage of goods), shrinkage virtually disappeared. And these were the days when stores ran with short staffs because most salespeople were either GI's or Rosie the Riveters. By 1945, more merchandise was available, markdowns were up a bit and so was shrinkage.

RThought: When we cannot keep track of price changes, when salespeople and department managers and buyers (and MMs and GMs) don't know when they are creating shortages with their pencils, and when non-retailers continue to design computer programs, we ought to recognize the true cause and quit trying to brand all of our employees and customers as crooks.

I wouldn't work for most of the companies that brag about their anti-theft, anti-shoplifting programs—and particularly those that lobby for the right to subject me to a polygraph at their will. I don't have to be treated that way. There are many employers that will still treat me with respect—until I do something that warrants a change in their attitude. I have told students: "In retailing, trust everyone and challenge everything."

The responsibility of management is to challenge, not to accuse without a basis.

go after continuous-sale cases," says Sal Spinosa, supervising deputy district attorney. "Advertising abuses of this kind are occurring, and to the extent that we have the resources [they have \$160,000 more] and the time available, we want to and will go after these cases," he vowed.

The settlement, filed Nov. 13 in Sacramento County Superior Court, imposes advertising and record keeping restrictions on the San Ramon-based furniture chain for at least two years. It does not, however, constitute an admission of wrongdoing by the firm. "It was in the best interest of Breuners to settle the matter in an amicable fashion," said Larry Gross, Breuners' senior vice president of marketing.

Breuners is not alone with advertising litigation problems. "On July 21, the office's consumer protection division filed a \$300,000 civil suit against Furnishings 2000. Although the prosecutor's office initiated settlement negotiations with the store, those negotiations broke down over disagreements about the size of the penalty," said Justin Puerta, deputy attorney.

"Both the district attorney's office and Furnishings 2000 are in the process of collecting depositions on the case," Puerta said. He predicted the case won't reach trial for several years. Gordon Bowley, an attorney who represents Furnishings 2000, refused to comment on the case. Bowley founded the consumer protection unit during his tenure with the district attorney's office. FORUM PUBLICATIONS is aware of other firms under investigation.

*Send \$2.50 for the complete story of the John Breuner case to the BUSINESS JOURNAL, 2030 J St., Sacramento, CA 95814.

RThought: It had to come. The Attorney General of California and the district attorneys in the other counties in which Breuners operates have been derelict in their duty in not attacking this kind of advertising—not just by Breuners but by many other major retailers in and out of the furniture industry.

The oldest thing I have in my file on Breuners is a D & B Report dated August 31, 1965, which gave Breuners an Aa A1 rating (old form, top rating) and started the summary:

This company has operated under the same family control for over a century. Significant growth has been evident and the company enjoys a position of prominence in Central California.

Started by John Breuner in 1856 in Sacramento (CA), serving the Gold Rush pioneers, it also manufactured furniture. The desks still used by the California Senate were made by Breuners in 1868. When Breuners went public in 1968, it was headed by Bill Breuner, a grandson of the founder. It was under Bill that Breuners developed its Wayside Store—about 100,000 square feet split 40% selling and 60% warehouse.

RThought: I think the downward trend in accuracy of advertising started when Breuners, then a public company, was acquired by Marshall Field—and it has continued under the successor, BATUS Retail Group.

I have often said that how low the ethical standards of a store go is directly proportional to the length of time since someone with the name on the outside of the store has been in charge of the store. Faster this time.

To Bill and Wally and all the other Breuners around—I share your unhappiness with the state of affairs—131 years after grandfather John started with a small store.

ACCOUNTANTS' REPORT— MANAGEMENT DISTORTS

Amfac, in its undated news release, No. 20, received October 23, 1987, said that net income for nine months was \$15,867,000 compared with a net loss in the same 1986 period of \$22,736,000. CEO Ronald R. Sloan (now gone), perhaps

taking his cue on accuracy from another Ronald, was quoted as, "We are beginning to see the earnings growth at most of our businesses that we have been striving for . . ."

In reporting Amfac Resorts' revenues, the report said, ". . . revenues increased 7% principally reflecting the sale of a 20% joint-venture interest in the 434-room Waiohai Resort and ownership interest in the 139-room Poipu Beach Hotel on Kauai to Stouffer Hotel Company. . . ."

It also mentioned ". . . the favorable effect of the 1987 change in pension accounting."

After four pages of narrative, there is, in smaller print, a page of comparative figures for three and nine months, followed by a page of notes.

Note 1 indicates that Spawn Mate, Inc., was acquired in May on a pooling basis, and the results include for January through September.

Note 2 says that the pre-tax gain in nine months on the property sales was \$13,915,000, but property sales are not disclosed separately in the statement; they were treated as "ordinary income."

Note 3 says that the pre-tax gain mentioned above on the hotels was \$13,116,000 and was included with "room and restaurant income."

Note 4 says, in the third quarter, it had a gain of \$1,717,000 by adopting FASB Standard 87 on accounting for pension.

Note 5 reports a \$7,900,000 estimated loss in 1986 associated with close-downs in the Health Care and Electric Divisions.

From the numbers given in the notes, let's look at the "profit" picture:

	9 Months 1987	9 Months 1986
Income (loss) from continuing operations	\$ 15,867,000	\$ 2,097,000
Add back 1986 reserve		7,900,000
Deduct accounting change on pensions	(4,539,000)	
Deduct gain on property sale	(2,855,000)	(13,915,000)
Deduct gain on sale of hotels	(13,116,000)	
Roughly comparable results	\$(4,643,000)	\$ (3,918,000)

RThought: I get a much different impression of the progress in the continuing operations than I did from reading Mr. Sloan's statement. I don't think the use of figures in this manner helps maintain confidence in any figures any public corporation releases. (This may have had a bearing on the sudden departure of Mr. Sloan.)

HOW ARE CHRISTMAS SALES GOING?

Word of mouth is "great." People call me from all over the country—*Newsday*, *Dallas Times Herald*, *Memphis Commercial Appeal* and many local and state papers. They want either facts or quotes for a retail story or leads on where to get specialized information. It is fun—and the quote or lead is gladly given. (They never get a quote from RT on individual

stores; but sometimes I do send selected general-research studies.)

And I read many stories about Christmas retail sales. The Saturday morning papers after Thanksgiving were full of statements, like "Our greatest day ever." Those statements were probably made about midway through an 11-hour day—certainly long before all the figures were in.

Most of the quotes were from department stores—and I suddenly realized that department stores are not where the Christmas action is today. Sometimes they do quote large specialty stores that many classify as department stores, such as Neiman-Marcus, Saks Fifth Avenue or I. Magnin.

I wondered where the action really was—and the table below shows what I found for the period 1978-86.

In the table, the classifications include stores as follows:

General Merchandise: Department, discount, general and variety stores.

Apparel: Men's and boys' clothing and furnishings, women's clothing, ready-to-wear, furs, accessories, family clothing stores and shoe stores.

Furniture: Furniture and home furnishings, floor coverings, household appliances, radio and TV, consumer electronics and music stores.

Analysis of December Sales
(by type of store in current dollars)

Year	Xmas-Day of Week	Days Between Thanksgiving and Xmas	CPI 12/31	% Change	General \$ Mil.	% Change	Apparel \$ Mil.	% Change	Furniture \$ Mil.	% Change
1986	Thursday	27	331.1	+ 1.13%	\$24,038	+ 3.61%	\$11,420	+ 9.98%	\$9,443	+ 13.78%
1985	Wednesday	26	327.4	+ 3.77	23,201	+ 2.19	10,384	+ 8.72	8,343	+ 14.41
1984	Tuesday	32	315.5	+ 3.95	22,703	+ 6.04	9,551	+ 3.10	7,292	+ 8.37
1983	Sunday	30	303.5	+ 3.80	21,410	+ 9.91	9,264	+ 14.13	6,729	+ 21.24
1982	Saturday	29	292.4	+ 3.87	19,479	+ 6.19	8,117	+ 4.72	5,550	+ 10.96
1981	Friday	28	281.5	+ 8.94	18,344	+ 9.26	7,751	+ 7.37	5,002	+ 0.89
1980	Thursday	27	258.4	+ 12.40	16,790	+ 6.12	7,219	+ 9.73	4,958	+ 9.21
1979	Tuesday	32	229.9	+ 13.31	15,822	+ 4.60	6,579	+ 2.16	4,540	+ 8.79
1978	Monday	31	202.9	+ 9.03	15,126	+ 6.72	6,440	+ 16.33	4,173	+ 13.03
1977	Sunday	30	186.1	Base	14,173	Base	5,536	Base	3,692	Base

RThought: We can look at these figures two ways. First, in 1977 the total December sales of apparel/furniture equaled 65% of department-store sales; in 1986 that had grown to 87%. Or we can say that, during the nine years, the sales of department stores in December increased by 170% against 206% for apparel stores and 256% for furniture stores.

There are several reasons for this. On the department-store side, they have built smaller stores and have dropped many departments—furniture, appliances, TV, consumer electronics, yardage, notions, etc. Some of the departments that were dropped are represented by strong chains falling in the

furniture category. Another factor is the greater skill of many of the salespeople in apparel and furniture stores compared to those in most department stores. A third factor is that both apparel and many furniture specialty stores need less capital per dollar of sales and thus can expand more rapidly. Their capital requirements are further reduced in many cases by not having charge accounts; they either honor only bankcards or have a private-label card or both. Because of the rapid growth with less investment, many apparel and some specialty furniture stores have proven attractive to venture capitalists and have found it easier to raise money from the public.

SHORT SHORTS

Boutiques in the air. TWA has opened little stores with 18 articles—gifts or items you might have forgotten and games—on wide-body (747 or 767) flights. Its goal for the first year is \$14-18 million. **RThought:** Publicize flights that are less expensive than TWA. (Source: **Retail News Letter**, International Association of Department Stores, Oct. 1987.)

Stockholders vote to deceive themselves! That is what is being done by Tenneco, Inc.—and it probably will go through. It may also be done soon by major retailers who have not, in the past, consolidated their financing and/or real estate subsidiaries. The Financial Accounting Standards Board adopted Standard No. 94 in October 1987; and, in November, Tenneco sought to reorganize. Tenneco is making the financing subsidiary the parent company! Then they will come under financing company rules. **RThought:** Sears, Penney's, Carter Hawley Hale, Dillard's and many more have unconsolidated financing subsidiaries; Federated Department Stores and others have unconsolidated real estate subsidiaries.

WORDS ABOUT—MISSING ETHICS

In 1835, **A** Frenchman, Alexis de Tocqueville, visited the United States—time has proven that his powers of observation and projection were unique among all who have observed the United States. His book, "**Democracy in America**," (1835) is still quoted—most recently (for me) in **The American Scholar** in an article entitled, "Confessions of a Reluctant Yuppie," by Peter Baida. He wrote:

Thinking about the Yuppies I know, I find myself recalling the chapter . . . entitled "Why There Are So Many Men of Ambition in the United States But So Few Lofty Ambitions." Every American is eaten up with longing to rise but hardly any of them seem to entertain very great hopes or aim very high. . . . They are much more in love with success than with glory. . . . Democratic society has less to fear from boldness than from paltriness of aim.

RThought: Perhaps we have changed less than I thought; perhaps I have thought too much about a few ancestors and too little about the "robber barons" that established some of our great family fortunes—and about the retailers who would then, as now, throw out honest pricing as ineffective.