January 1973 F - National Advertising, National Brands and the Changing Pattern
B = Alexander's Cares for Their Employees
A - What Does "M.O.R." Mean?
The Story Fairchild Won't Publish
Logic (?) In Credit
California Grocers and Consumerism Point of Sale Systems - Food Style Missing the Recreation Market A Matter of Ethics - (Comparative Pricing) Magazine Ethics

Pebruary $1973 \quad$ S - Point Scoring
F - The Future of Consumer Credit
B - A Matter of Ethics (Employee vs. Boss Theft)
A - Proposed Federal Regulation of Private
Pension Plans
Visiting the Readers
Marriott, Master Merch ant?
Trade Associations We Can Do Without Speaking Out (Re. recent speaking engagements)
Another Flash?
8 Penalties Crow (Vendor shipping errors)
Observations of the Peripatetic Retailers
Winning a Convert (Re. mailing lists)
Keeping up with the Teachers
Constructive Suggestions - From the Banker's Association
March 1973 F - Can You Guarantee Satisfaction on a Home Improvement Job?
B - Catalog/Showroom Integrity
A - The Basic Laws of Business
Furniture Warehouses Losing Their Appeal?
One State Retailers ${ }^{\text {P }}$ Association Acts Lazarus Learned - That Indianapolis Isn't

Panting For Them
Department Stores and Bank Credit Cards
The Ladies Room as a Competitive Tool
Imagination in Complaint Handling
The Disappearing Discount Business
Spanning the Generation Gap Abuse Through the FBI Files

April 1973 F - Annual Reports and Auditors - Part I
B - Appreciating Customers
A - Making "Satisfaction Guaranteed" Come True
How Much Credit for the Cohabs?
The Galbert Brothers Rate the Retailers
The Booming Bank Cards
How Secure is Your Computer?
"Beware The Standard Lease"

April 1973
(continued)

Savings By Self Insurance? Not in Missouri
How to Get Ahead
Fingerprints on Checks
Which Airlines Oversell?
Atlantic Monthly - Business Principles From the Storm Sewer
The Traveling Credit Card Bustomer
The 1973 Hold-Out Calendar
Names in the FTC
May 1973

June 1973

July 1973

August 1973

F - Banks Steal
B - A Matter of Ethics (Re. Fraud-induced bankruptcy and law suits against CPAs/Investment firms)
A - The Arena of Mutual Distruct Fraud Compromises - The New Expense Center A Humble Offer She Just Couldn't Refuse For a Better America?
United Parcel's OtherrSide
A. Code of Collection Ethics

How to Select an EDP System Consumerism Elsewhere The Peripetatic Editor (items noted in ads) Whence Goeth the Consumer Movement

F - Annual Reports and Auditors $\Theta$ II
B - A Question of Ethics (should retailers sell the current shoe styles?)
A - Why Not Publish a Complete Annual Report?
The New Herd Instinct - Sell Catalog Stores Sloppy Sells:
Retailing and the Energy Crisis
Correction (corrects origin of Code of Collection Ethics)
Something Wrong with Bank Credit Cards? What's the Purpose of a Name? (re MRI's name)
Writing Off Credit Balances is Child's Play
at Harrod's
Are Iou an Active Director?
Puffing - An Art Whose Time Is Past?
Bank Credit Cards in Supermarkets?
F - Annual Reports and Auditors - III
B - A Clarification (re. MRI's name)
A - The Editor Speaks (Ethics in Consumer Credit)
Names in the FTC News Short Shorts (entire RT)
$\left\{\begin{array}{l}\mathrm{F} \text { - Information - Requested - Stored - Used }\end{array}\right.$
\{ F - Completed Staff Work
B - The New Outlook in Discounting
A - Winning Big Against the Landlord
Does the "Rule of 78" Abuse the Customer?
The Greatest Economy in the World!
Toward a More Complete Annual Report
A\&P Check Cashing Policy
Two Decades of Wage Increases
You Wonder Who Wrote It:
What? A Paper Shortage!

August 1973
(continued)

September 1973

October 1973

Novenber 1973

The Bad Side of Private Labels
Complaint Adjustment Plans Spread - In Some Industries
Do You Use a Fancy Name For Your Collection Department?
The Shopping Center Cycle
FTC Claims Credit for Declining Food Chain Acquisitions

F - Going Public in 1972
B - Dayton-Hudson Sets a Dangerous Precedent
A - What is the Use of Boosting the Prime Rate?
When is a Company Reade to Go Public?
Are Catalog/Showrooms a Viable Business?
Finance Charges and Bank Checking Account Charges
Legislatures in Action
Growth - 1933 to 1972
A Voice on Automatic Checkout Standards
Fair Employment Applications
From the Dow Theory Letters
Deferred Losses at Levitz?
F - What's Wrong With Convenience Stores?
B - A Matter of Ethics (Buyers taking kickbacks)
A - Consumer Protection Agency - Will It Arrive?
What Product Information is Available From The Government?
How to Annoy Widows
Restricting Information to People With 20/10 Eyesight
Don't Subsidize Storage of Cadillacs
Where Do Consurers Get All Those Ideas?
How the Consumer Looks At Private and National Brands
Will Gimbels Tell Macy?
Have You Ever Been Arrested?
Another View of the Energy Crisis
Getting Ready for a Bankers Convention Overworked Top Management
Names in the Courts
F -Energy Crisis - Shopping Without a Car
B - How Good Are Retail Ethics?
A - Energy, Environment - And Retailing
Games Executives Play
Disclosing the Cost of Fringe Benefits Which Products Are Hazardous?
Retailers Among the Top 100 National Advertisers
Is Red Devil, Inc. Bribing Your Buyers?
Mini-Talks Bri ghten Convention
Do Retailers Really Know What Consumerism Is?
Limitations on the Powers of Protection Personnel In Making Arrests

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December 1973 F - Tmproved Disclosure of Leases?
    B - Resolutions for the New Year
        1 - We Should Be Able to Go Public at l5 Times
        Earnings
    The Price of Thinking You Are The Master of
        All Retailing
    Take a New Look At Women Borrowers
    Thb Niracle of a 21 Times P/E Ratio and 12.43%
        Interest
    The West is Different - Still
    Names in the FTC News
    No Ethics in the Encyclopedia Business
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# RETAILING TODAY 

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JANUARY 1973

## WHAT DOES "M.O.R." MEAN?

The National Retail Merchants Association has, for many years, published an annual called the "MOR." The cover of the MOR indicates that this stands for "Merchandising and Operating Results," but a study of the content indicates that it also means "Myopic Overview of Retailing."

RT has long held the view that the MOR is the most destructive publication ever produced for department stores-and that the "myopic" views expressed through the MOR were instrumental in causing the gap into which the entire discount industry (now larger than the department store industry) quickly moved.

Let's look at what the figures in the 1971 MOR tell us. For a variety of measures the MOR presents figures for both "Median" and "Goal" performance. Let's use the words from the publication itself:
"The median is determined by selecting the ratio at the mid-point when all the results are listed from low to high" (Note: the "results" are a single figure for a department in a given store size range-and not the results of evaluating the over-all profitability of the department or store).
"A goal ratio is determined using the same listing as in the selection of the median. The listing is divided into four quarters or 'quartiles.' The published goal figure represents a performance level superior to that achieved by $75 \%$ of all companies in the sample. For ratios where a low result is desirable, the goal would be the lower quartile figure.. .Where a high result is desirable, the goal would be the higher quartile."

Now let's look at each column heading and see what the MOR is telling us.

Cumulative Markon \%: For every department, the Goal markon is higher than the median markon. There is no proof that buying at the same price but marking the goods higher is either (1) legal under price controls, (2) economically desirable to the society, or (3) financially beneficial to the stockholders. But NRMA tells retailers that this should be their "goal." Why? Just because they have arbitrarily decided that the industry should always take higher markons-so as to provide more opportunities for discount stores.

Markdowns (including employee discounts): In all cases, the goal is below the median. Yet markdowns are the result of many factors. Nobody takes markdowns all by themselves-they do it because merchandise did not sell or because they decided to give employees a discount (this really should be accounted for as a fringe benefit cost) or because they wanted to stimulate sales. Certainly, markdown figures, without relating them to the philosophy of management and the performance of buyers, has no independent meaning.

Stock Shortage: Again the goal is always below the median-and this is one of the few figures reported where logic can support the position taken by the NRMA.

## ALEXANDER'S CARES FOR THEIR EMPLOYEES

Most of the publicity about Alexander's criminal citation for opening the Fordham Road store on a Sunday for shopping by handicapped persons prior to Chanukah and Christmas concentrated on the question of Sunday selling. In the end, both the New York City administration and the complaining Retail Clerks Union were embarrassed-they had picked the wrong event to challenge-and the City's Corporation Counsel moved for dismissal of the charges.

Most stores would take the easy way out-and accept the dismissal.

But Milton Mermelstein, Alexander's Chairman, who is also an attorney, did not lose sight of the fact that it was not the corporation that had been arrested but James Walsh, their store manager, who had followed the instructions of the corporation. Mermelstein insisted on obtaining a ruling that there was no violation of the law-thus clearing Walsh's name. This would not have been accomplished by a simple dismissal on motion.

RThought: Retailers who are challenging Sunday opening laws should give attention to the question of exposing their store managers to arrest. The FBI and various state agencies maintain records of arrest in computer files that are available to far too many people. An arrest might adversely affect the store manager should he seek government employment, decide to run for an elected office, be considered for a promotion in the military reserve, or even transact business with a national bank. If the corporation, as a result of the decision of its officers, decides to challenge blue sky laws, it seems proper that a corporate officer be on the premises and accept the arrest-rather than creating a personal criminal file on the employee.

RT applauds the stand taken by Mermelstein which clearly delineated this problem so that other retailers can reflect on it.

Gross Margin (Including Cash Discounts): The Goal is always higher than the median-see comments on "Cumulative Markon \%."

Gross Margin \$ Return per \$ Average Cost Inventory: This represents a feeble effort to get some measure of return on capital. It is amusing that the only capital considered is inventory-when for most department stores the investment in accounts receivable is substantially greater than that in inventory. Further, there is a wide variation in the degree to which departments generate accounts receivable-roughly in proportion to the average salescheck of a department; that is, the higher the average salescheck, the more receivable investment generated. For example, Department 8200 Major Appliance produces a very low
return by this measure-and generates tremendous amounts of accounts receivable, compared with 9680 Sewing Notions, which also produces a below-average return by this measure, but relatively little investment in receivables.

Cash Discounts \% of Cost Purchases: Here the publication reports the gamesmanship of retailers and the willingness of suppliers to cooperate with them in their self-deception. For example, assume an invoice for $\$ 100$ with terms of $8 \% / 10 \mathrm{EOM}$. If the store pressures for higher discount, the supplier will be happy to write the order for $\$ 102.22$ at $10 \% / 10$ days, or even 10\%/10EOM. On the other hand, another buyer may ask for billing at $\$ 92$ Net 60 days. Which would you prefer?

Stock Turns (Times) at Retail: Again the goal is always higher than the median. Yet, the constant complaint of customers is that as assortments offered become increasingly wider in selection (color, size, models), more and more often stores are out of the desired product. One wonders why department stores still concentrate on this figure, without a corresponding measure such as the supermarket industry uses-the percentage of items out of stock at any one time.

Net Sales \% Change from Last Year: Again, the goal is always above the median. Since the object of most businesses is to do more business, assuming that more business means more profit (for negative examples, see Interstate, Kenton, Beck Industries, Federal's, etc.), this may be an acceptable measure.

Net Sales \% of Total Consolidated Store: Just because sales should be higher than last year, it does not follow that a department's \% of total consolidated store sales should be higher. After all, the most that total store sales can reach is $100 \%$ and they are there every year. (That reminds RT of the story of when Max Baer won his first fight-and his backers were waiting for him to come out of his dressing room. As they introduced themselves it was apparent that Max had sold more than $100 \%$ of himself. The conversation went this way, "Max, how much of yourself did you sell?" " $250 \%$, I still have $750 \%$ to go." "Max, there is only $100 \%$ !" "What do you mean only $100 \%$ ? Anybody who knows baseball knows that there is $1000 \%$ !"). Looking at department stores over $\$ 50,000,000$ and using just the goal percentages of major department groupings ( 1000,2000 , etc.), both upstairs and downstairs, the goal is to do $114.1 \%$ of total store volume each year! How crazy can financial executives be? If every department did $14.1 \%$ more, they would all have exactly the same percentage of total consolidated store sales.

Sales promotion costs (net) \% of Sales: Here the goal is below the median. This is simple to reach-quit advertising! If every year, every store attained the goal from the prior year, it would only be a few years until there was no more department store advertising. So why not quit now?

Selling Salaries \% of Sales (Main or Largest Selling Unit): NRMA logic dictates to the industry that the goal should be below the median. Perhaps those in the ivory halls (?) of NRMA have not heard the customers saying, "If they don't have any clerks in this store, I might as well shop at the discount store and save the money." One of the major complaints against department stores is the low level of clerk service. NRMA says "to be a goal store, cut it some more."

RThought: There are several approaches to goal figures-almost all of them better than the item-by-item, arbitrary-direction standards set years ago by NRMA. Such standards have hurt the industry long enough-by pointing many stores in the wrong direction.

If NRMA wanted to provide guidance to users of the MOR, they would ask themselves, "Which stores should we suggest that retailers emulate?" The basis of selection is likely to be the same
one that Forbes magazine came up with in the editorial in their "25th Annual Report on American Industry" (January 1, 1973) in which they said "In devising the Yardsticks, we began by asking ourselves: What constitutes good management? We decided the answer was: a high and growing return on stockholders' money, consistently achieved. It is this that our Yardsticks seek to measure."

If NRMA would take in each category the $25 \%$ of the reporting firms that showed the highest return on stockholders equity (if they are concerned about wide variations in leverage, they might use return on equity plus long-term capital less investments not used in retailing). These firms would then have their ratios computed separately from the other $75 \%$ of reporting stores-and the comparison of the "goal," based on the top $25 \%$ of stores, compared with "typical," based on the other $75 \%$ of the stores, would have some meaning. Management could determine whether the better profit stores did it with higher or lower gross margins, initial markup $\%$, advertising expense, salespersons salary, etc. What would happen in the industry if they found that stores producing the highest return on stockholders investment were those with above average advertising and payroll expense, slightly lower gross margins, higher return percentages and lower turnover? This would indicate an aggressive store, with a liberal return policy, carrying heavier stocks, which were advertised more heavily and served by departments with more sales staff. Then NRMA might be able to nudge the users of the MOR toward improving their operation.

RTip: This suggestion was first made to the NRMA and Controllers Congress more than 10 years ago-and has been suggested informally several times since then. It has no better chance of acceptance today-because the MOR concept has been inbedded in too many generations of retail management.

## THE STORY FAIRCHILD WON’T PUBLISH

A long-time RT reader, knowing that many other RT readers also subscribe to Fairchild publications, passed on this experience. When he received a bill for a renewal for 2 years for $\$ 40$, he seemed to recall a recent renewal. In checking, he found that his firm had renewed on June 8, 1971 for 2 years and again on September 15, 1972 for two years-and in December, 1972, was being billed again for 2 years at $\$ 40$. Considering that 2 years had shrunk to 15 months and then 3 months, he was concerned.

A request for a complete analysis of his account for the past 5 years, as well as the actual expiration date of their subscription, together with any appropriate refund, has, at this writing, gone unanswered. Some magazines are as secretive about their expiration date as are food manufacturers about disclosing the "pull date."

You might pull your Fairchild file and see if you have overpaid. Our reader also suggests that you check the Kiplinger payments.

RTip: Years ago a wise boss passed on a system that he had learned when he was a young man. Keep an index card on each magazine subscription and each club or group to which you give donations. In both cases, they are likely to try twice in 1 year; but the card gives the history of payments. It shows how fast the subscription rates are going up (RT started subscriptions in 1968 at $\$ 10$ and increased in 1972 to $\$ 12$ ) and eliminates the need to rely on the recollection of the charitable group as to how much you gave last year.

## LOGIC (?) IN CREDIT

At the 39th Credit Conference of the Credit Management Division, National Retail Merchants Association, Harry N. Jackson, Director of Credit, Dayton-Hudson (DH), is quoted as saying

## NATIONAL ADVERTISING, NATIONAL BRANDS AND THE CHANGING PATTERN

The script of retailing is changing. It was not too many years ago that department and specialty stores were the home of national brands. Under the marketing concept, the manufacturer did the advertising in national media (mainly magazines, but with some TV) in order to create demand for a brand name. The local department or specialty store then identified with the national brand name in their local advertising-and the customers knew where to go for that particular brand.

It did not bother Hart Schaffner and Marx (HSM) that their clothing was sold nationally by stores bearing some 2,000 or so different names. The only problem when selling through 2,000 different store names was when HSM wanted to list all of their outlets as part of their national advertising.

The chain department stores (Sears, Penney, Ward) were noted for their private label merchandise. Montgomery Ward, during the 1950's, did attempt to develop acceptance for national brand names-but they subsequently returned to private labels. The chain department stores developed customer loyalty-because of (1) the number of stores they had around the country, (2) their use of catalogs to supplement their store advertising, and (3) the high mobility of people who eventually turned to the national department store chains rather than experiment anew in each community with a department store of unknown quality and service.

Discount stores came on the scene and competed with department and specialty stores-by selling the nationally branded merchandise at lower prices than the conventional stores.

The marketing concepts were very clear then-but now they are muddy. In many a trading area Sears' Coldspot refrigerator is the top selling brand-outselling all of the national brands. In Chicago, more people wear Sears shorts than any other label. And Allstate tires and insurance certainly have national brand identification.

Department stores, on many items, were meeting the prices of discount stores on the national brands. Some specialty store chains had 2,000 or more stores operating under the same name throughout the country. Thom McAn and Radio Shack and Zale's approached Sears, Penney and Ward in customer identification.

The next step found the national chain department stores supporting their brand names with national advertising. More such advertising is appearing every year in magazines of national circulation.

Some retailers feel that they are doing national advertising when they take space in magazines like The New Yorker (for example, Bonwit-Teller, Saks 5th Avenue, Brooks Bros., Neiman Marcus, Lord \& Taylor, Tiffany, Marshall Field, Eddie Bauer, Norm Thompson, Shreve Crump \& Low, and others).

RT has just completed a study of the major magazines on the newsstands at the end of November-the start of the Christmas shopping season. The results are shown in the Table below.


This game cannot be played by Federated, Allied, BroadwayHale, Associated Dry Goods, May and the other department store groups-because their stores are not merchandised to the same customer through the same merchandise range.

But, three other trends are appearing.
First, both BankAmericard and Master Charge (and to a lesser extent, American Express) are advertising the convenience of their cards.

This leads to the second trend-which showed up in magazines like Photography and Modern Photograph - where large single-unit operations, carrying the national brands in cameras, can sell nationally with a feeling of confidence on the part of the bankcard shopper. This growth will represent a challenge to the volume done in discount and local camera stores-and it is made more effective by the use of an incoming WATS line where the customer can dial direct, without charge, from any place in the United States.

The third trend illustrates the flexibility of Sears' policy as to national brands. Sears was not able to establish their own brand in hi-fi equipment (Penney is attempting to do so), so they used national brands. Sears is probably the largest single outlet for Fisher and several other high quality hi-fi national brands.

What is a national brand? Today it includes a growing number of private brands. And as this happens, Sears and Penney, like Radio Shack and Lafayette Radio, will enjoy the same brand-name identification that has long been the backbone of conventional department and specialty stores.

## CREDIT OFFICE RATING

Despite the higher standards required to be listed on the HONOR ROLL, the list continues to grow.
HONOR ROLL

| Gus Mayer, Nashville | 2.3 | Bullock and Jones | 3.0 | Montgomery Ward-Houston | 3.5 |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Berkeley's | 2.5 | Maison Mendessole | 3.0 | J. Magnin | 4.0 |
| Harzfeld's | 2.5 | A. Sulka | 3.0 | Roos/Atkins | 4.0 |
| Gus Mayer, Beaumont | 2.6 | Mervyn's | 3.1 | Wineman's Huntington Park | 4.0 |

RT has been checking on the procedures of some of the fine performers. Les Haft, of Mervyn's, reports that all of their point-of-sale equipment is either NCR Model 4 or 280 units, with complete data capture including $100 \%$ account number input. Three days is standard processing time for descriptive billing through an NCR Century 200. Saul Kass of Harzfeld's reports that they prepare a salescheck on every transaction, with $100 \%$ account number input at time of sale. Information for descriptive billing is put into the system through add-punches in sales audit which is always completed the day following the sale and available for 2 nd-day computer processing.

## CREDIT OFFICE RATING

|  | OCT-NOV 1972 |  |  | AUGSEPT 1972 |  |  | OCT-NOV 1972 |  |  | AUG-SEPT 1972 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Information From Reporters | No. of Reports | Days Average | Bill Range | No. of Reports | Days Average | o Bill Range | Information From No. of <br> Reports <br> Stores  | Days Average | to Bill Range | No. of Reports | Days Average | Bill Range |
| Books Inc. (SF) | 1 | 20.0 | 20 | -- | -- | -- | Berkeley's (Fresno) 8 | 2.5 | -- | 8 | 2.0 | -- |
| Bullock \& Jones (SF) | 1 | 3.0 | 3 | -- | -- | -- | The Blum Store (Phil.) 8 | 6.1 | -- | 8 | 5.9 | -- |
| Capwell's (Oakland) | 9 | 6.2 | 4-10 | 6 | 8.0 | 6-9 | Brock's (Bakersfield) 40 | 6.6 | 4-10 | 40 | 5.2 | 2-8 |
| Dayton's (Minn.) | 1 | 7.0 | 7 | 2 | 5.5 | 5-6 | Buffam's (Long Beach) 18 | 6.3 | 5-8 | 9 | 6.7 | 6-7 |
| Donaldson's (Minn.) | 1 | 6.0 | 6 | 2 | 6.5 | 6-7 | Harzfeld's (Kansas City) 4 | 2.5 | -- | 8 | 2.6 | -- |
| Emporium (SF) | 1 | 11.0 | 11 | 5 | 11.2 | 9-13 | Holman's (Pacific Grove) 11 | 4.5 | 3-5 | 10 | 4.0 | 3-5 |
| Famous Barr (St. Louis) | ) 2 | 8.0 | 8 | -- | -- | -- | Levee's (Vallejo) 22 | 4.5 | 2-6 | 22 | 3.1 | 1-11 |
| Foley's (Houston) | 2 | 7.0 | 7 | 2 | 7.5 | 7-8 | Levy Bros. (San Mateo) 32 | 5.8 | 3-9 | 32 | 4.5 | 2-7 |
| Gump's (SF) | 5 | 9.4 | 7-13 | 2 | 7.0 | 6-8 | Gus Mayer (Nashville) 8 | 2.3 | -- | 8 | 2.9 | - |
| Hastings (SF) | 4 | 4.3 | 6-10 | 2 | 7.5 | 6-9 | Gus Mayer (Beaumont) 8 | 2.6 | -- | 8 | 2.1 | -- |
| Joske's (Houston) | 2 | 5.0 | 3-7 | -- | -- | -- | Gus Mayer (Louisville) 8 | 4.8 | -- | 8 | 4.6 | -- |
| Kushins (Oakland) | 2 | 9.5 | 9-10 | -- | -- | -- | Gus Mayer (New Orleans) 8 | 5.7 | -- | 8 | 7.2 | -- |
| Liberty House/ |  |  |  |  |  |  | Gus Mayer (Oklahoma City) 8 | 11.4 | -- | 8 | 4.8 | -. |
| City of Paris | 1 | 16.0 | 16 | -- | -- | - | Gus Mayer (Jackson) 8 | 6.9 | -- | 8 | 5.9 |  |
| Lord \& Taylor (NY) | 1 | 5.0 | 5 | 2 | 6.0 | $5-7$ | Gus Mayer (Memphis) 8 | 5.3 | -- | 8 | 4.1 | -- |
| Macy's (SF) | 5 | 6.8 | 6-8 | 9 | 6.2 | 6-7 |  |  |  |  |  |  |
|  | 7 | 4.6 |  |  |  |  | $\begin{array}{ll}\text { Gus Mayer (Baton Rouge) } & 8 \\ \text { Mervyn's (San Leandro) } & 9\end{array}$ | 4.3 3.1 | 3-4 | 8 | 5.8 3.4 | 2-4 |
| J. Magnin (Calif.) | 1 | 4.6 4.0 | 46 | 4 1 | 4.0 6.0 | 4 6 | $\begin{array}{ll}\text { Mervyn's (San Leandro) } \\ \text { Orbach's (Houston) } & 8\end{array}$ | 3.1 6.6 | $3-4$ $6-7$ | 8 9 | 3.4 7.1 | 2-4 |
| Maison Mendessolle (SF) | ) 1 | 3.0 | 3 | -- | -- | -- | Walker Scott (San Diego) 12 | 5.8 | 4-7 | 12 | 4.9 | 4-6 |
| Montgomergy Ward (Houston) | 2 | 3.5 | 3-4 | 1 | 5.0 | 5 | Wineman's (Monrovia) Wineman's (Huntington | 5.0 | 5 | 8 | 5.0 | 3-5 |
| Neiman-Marcus (Dallas) | 1 | 7.0 | 7 | -- | -- | -- | Park)  <br> Worth's Burton's (Conn.) 1 | $\begin{aligned} & 4.0 \\ & 8.3 \end{aligned}$ | $\begin{aligned} & 4 \\ & 6-10 \end{aligned}$ | $\begin{array}{r} 8 \\ 16 \end{array}$ | $3.8$ | $\begin{aligned} & 3-5 \\ & 6-11 \end{aligned}$ |
| Penney's (Oakland) | 2 | 5.0 | 5 | 3 | 5.7 | 5-7 |  |  |  |  |  |  |
| Penney's (Minn.) | 1 | 6.0 | 6 | 1 | 8.0 | 8 | TOTAL 270 | 5.8 | 2-10 | 262 | 4.7 | 1-11 |
| Penney's (Dallas) | 1 | 6.0 | 6 | -- | -- | -- |  |  |  |  |  |  |
| Roos/Atkins (Calif.) | 2 | 4.0 | 3-5 | -- | -- | -- |  |  |  |  |  |  |
| Sakowitz (Houston) | 1 | 10.0 | 10 | 1 | 8.0 | 8 |  |  |  |  |  |  |
| Saks Fifth Avenue (SF) | 3 | 8.0 | 7-10 | 6 | 7.8 | 6-10 |  |  |  |  |  |  |
| Sears (N. Calif.) | 5 | 5.4 | 5-6 | 5 | 5.4 | 5-6 |  |  |  |  |  |  |
| Sears (Dallas) | 2 | 7.5 | 411 | 2 | 4.0 | 3-5 |  |  |  |  |  |  |
| Smiths (N. Calif.) | 2 | 10.5 | 10-11 | 1 | 12.0 | 12 |  |  |  |  |  |  |
| Stix Baer \& Fuller (St. Louis) | 2 | 4.5 | 45 | 2 | 4.5 | 45 |  |  |  |  |  |  |
| A. Sulka (NY) | 1 | 3.0 | 3 | 1 | 6.0 | 6 |  |  |  |  |  |  |
| Wolff's (St. Louis) | 3 | 6.7 | 6-8 | 1 | 4.0 | 4 |  |  |  |  |  |  |
| TOTAL | 75 | 6.8 | 3-20 | 61 | 6.8 | 3-12 |  |  |  |  |  |  |

WHY A CREDIT OFFICE RATING? The Unruh Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated to bring this problem to the attention of influential people within store management.
WHAT HAPPENED - THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, at 5 working days between cycle closing and postmark date. Many stores have reported pride - both to management and credit and data processing personnel in being listed on the Honor Roll.
HOW IS TIME COMPUTED? We do NOT count the cycle closing date but do count the postmark date, and then deduct Sundays and those holidays observed by the preponderance of stores.
"A study recently completed indicated that a retailer's credit card is preferred on a 3 to 1 ratio [over bank credit cards] when both are available at the same store."

This information was used to prove that department stores do not need bank credit cards.

If this is the basis of DH's retail decisions, it is interesting. Since men, by about 40 to 1 prefer suits other than size 46 , would Dayton-Hudson defend not carrying size 46 ? Since customers prefer white sheets over pink by 3 to 1 , would DH defend not carrying pink sheets?

RThought: RT hopes that what the audience heard was "If $25 \%$ of my credit customers prefer bank cards over my card, I had better start offering them what they want before the store down the street does. Because when the store down the street offers bank cards I may find that my customers prefer my card by 6 to 1-because I lost the bankcard users and now have fewer customers."

NOTE: Thalhimer Bros., Richmond, Virginia's leading department store, apparently was not impressed by such arguments. The 130 year old retailer with 250,000 charge customers has announced that they will start honoring Master Charge in all 22 stores on April 15 th and that it would later add BankAmericard. Forbes \& Wallace, in western Massachusetts, is already honoring both cards, as is the rapidly growing Mervyn's department store chain in the San Francisco area.

## CALIFORNIA GROCERS AND CONSUMERISM

In the past the California Grocers Association has taken exception to observations made by RT. At their 1972 Convention the Executive Director reported on legislative action, particularly in areas in which consumer groups were active. The following quotation, offered without comment, relates to a bill requiring "open dating"; that is, requiring that the date of manufacture or processing, or the date for removal from the shelf (the nature of the date to be disclosed) be marked on packages in a form readily understandable by the consumer. This bill might be called the "Right to Fresh Food Bill":
"For all intent and purposes, the bill makes open dating on all packaged foods mandatory. Before it passed the Assembly, however, it was amended to exempt food packaged by retail stores and sold on the premises where packaged. The major import of the amendment is that prepackaged meats when packed at the store level are now exempt from the bill. Much of our opposition was eliminated with the retailer exemption; however, we still consider it to be unneeded legislation and will lend our assistance to manufacturers and others who have valid reasons to oppose the measure."

## POINT OF SALE SYSTEMS-FOOD STYLE

The various components of the food and supermarket industry, working under a series of ad hoc committees and assisted by McKinsey \& Company, are making progress toward the point where automated check-outs may be feasible on a wide scale.

Dymo Industries, MIS, National Semi-conductor, Nuclear Data, Pitney Bowes, RCA and Zellweger (Switzerland) all have prototype systems working in the field.

Universal Product Code (UPC) numbers are being establishedusing a 10 digit system that is compatible with the Canadian and pharmaceutical numbering systems. The first 5 digits represent the vendor and the last 5 the product. The Distribution Number Bank (DNB) has been established and is now assigning vendor codes-which are being used to some degree internally. The

Standard Symbol Group is working on the manner of presenting the code-and will make their report by March of this year.

Equipment manufacturers are working on scanners-which will all be able to read the UPC in the standard symbol design to be adopted.

The food industry sees tremendous potential benefits from a system that permits computer storage of product information combined with a scanner that will read the UPC from the product package. These include up to $25 \%$ faster check-out; $1 / 2$ of $1 \%$ of sales improvement in accuracy from handling coupons, stamps, bottles and sales tax; $2 \%$ improvement in gross profit on produce from use of electronic scales combined with computer pricing; improved control of markdowns; and elimination of under-rings (over-rings are usually corrected by the customer) which represent another $1 / 2$ of $1 \%$ of sales.

## MISSING THE RECREATION MARKET

Conventional retailers are missing the recreational market-while discounters and the chain department stores (Sears-Penney-Ward) increase their concentration on this field.

And what are they missing? Expenditures for 1970 and 1971 are estimated as follows:

| $\underline{\text { Recreational Equipment }}$ | $\underline{1970}$ | 1971 |
| :---: | :---: | :---: |
|  | $(000,000)$ |  |
| Bicycles | \$ 318 | \$ 348 |
| Boats | 940 | 997 |
| Fishing | 268 | 314 |
| Golf | 348 | 384 |
| Hunting | 584 | 601 |
| Motorcycles | 750 | 900 |
| Recreational Vehicles | 1,150 | 1,250 |
| Snowmobiles | 309 | 376 |
| Team Sports | 184 | 201 |
| Tennis | 28 | 30 |
| Tents and sleeping bags | 145 | 151 |
| Winter sports | 88 | 104 |
| TOTAL | \$5,112 | \$5,656 |

None of the figures above include the apparel worn during these activities, the supplies consumed, the rental of equipment for short time use, or the repair, maintenance and storage of equipment.

There is many a retail executive who made (or lost) money in Winnebago Industries as they went from $\$ 1$ (adjusted) to $\$ 48$ and down again, but who would never handle a mobile home item in his store. Nor are most retailers concerned with the fact that while only 500 snowmobiles were sold in 1960, more than 500,000 were sold last year and sales are expected to level off above 700,000 a year. In 1971, over 700,000 minibikes were sold in the United States, mainly for off-road use, and primarily by children under the age of $16.588,000$ of the $1,430,000$ motorcycles sold in 1970 were never registered, indicating that they were also used for off-road recreational purposes.

## A MATTER OF ETHICS

There are relatively few stores that do not use comparative prices-and these are probably the only ones who are completely honest in their pricing.

Top management may think that they have firm policies on comparative prices, but few companies can stand up under
intensive investigation (whether conducted by the FTC, your local attorney general, the BBB or the increasing number of consumer action groups). Both the FTC and the BBB have published guidelines for comparative prices-whether the comparison is with your own prior prices or with the prices charged elsewhere in your trading area. Some stores have included these guidelines in their own advertising guidelines.

But the determination of the comparative price to be used in an advertisement is usually left to the lowest executive level involved in the decision-which means the buyer. This is the very person who is trying to make himself appear good-and in most cases he thinks that a higher "savings" figure in the ad will pull more sales. In far too many cases-in many stores this means more than half the ads-the comparative prices quoted are absolutely unsupportable. The buyer grabbed them out of the air-or he used a manufacturer's list, despite knowing that no one sold at list prices. Our finest stores will allow items like Panasonic to be advertised as a "special" when sold at the fair-traded price, which is usually $10 \%$ to $15 \%$ below the "list price" although they know that $75 \%$ or more of the Panasonic products sold in their area are sold at the "low" or fair-traded minimum price.

It is not going to be possible to continue this practice much longer. It is really a shame that so many of the great names in retailing will have to change their policy-as the result of an embarrassing situation that will often leak out to the public (despite the attempts of the major newspapers to conceal the truth because you have corrupted the newspaper's integrity with your large advertising expenditures).

In Wisconsin the attorney general is requiring some 10 furniture stores to back up their comparative prices with written documentation. This is a good policy to establish for your companyalthough you better warn your advertising department that they will have to come up with some original copy when they no longer have comparative prices to use.

The public is getting cynical-they know that most of the comparative prices that a major store uses in their ads are dishonest-and they assume that this standard extends to other practices of the store.

## SHORT SHORTS

It was pleasant to open a package from Taylor Gifts, a small mail order house in Wayne, PA. Stamped below the address label was "Packaged by Mrs. Jones. Thank you for your order. We hope you are pleased."

What purchasing agent for the public is the first to support a Consumer Protection Agency? Senator Charles Percy reports that to be Marcor, parent of Montgomery Ward. There does not seem to be any rush for other firms to take the same step.

Why is it when you want a national brand tire you go to a discount store (Dunlop for example) but when you want an unknown brand tire you go to your national brand department store (Falcon or Vanderbilt, for example)?

Where did Ward's Guarantee go? Ward's is distributing to their stockholders a copy of the pocket-size 1875 Catalog. They are proud to point out the bold statement that A. Montgomery Ward made on the inside cover-"We guarantee all of our goods. If any of them are not satisfactory after due inspection, we will take them back, pay all expenses, and refund the money paid." Succeeding generations of management have whittled away at Mr. Ward's strong commitment until today there are so many "whereases" that it is hardly worth taking the piece of paper home with the purchase. And Wards, today, is unwilling to make this commitment in their newspaper advertising.

Your flight is 5 hours late? Or cancelled? The Civil Aeronautics Board suggests that you ask the airline about complimentary services-because the airline won't volunteer anything. If you had confirmed reservations, then the services can include meals during normal meal hours, hotel accommodations if the delay is during sleeping hours, and transportation to the hotel.

Mervyn's says it in words everyone understands! When Mervyn's, a rapidly growing Northern California department store chain, recently replaced a 35,000 square foot store with one of 62,000 square feet, (a move made despite the opening of a $1,500,000 \mathrm{sq}$. ft., 4 -department store Eastridge a few miles away), the 7 -column 19 " ad on the right hand page read "Thank You East San Jose for Helping Mervyn's Grow," and the identical ad on the left hand page was headed "Gracias al pueblo de San Jose del Oriente por haber ayudado Mervyn's a progressar," and this continued right down to the end of the letter from President (Presidente) John Kilmartin's letter where one closed "We'll all be waiting to serve you, Drop in soon!" and the other "Estamos listos para servirles. Visite nos cuando mas pronto posible."

## MAGAZINE ETHICS

RT has long played a waiting game with magazine renewals-they keep coming up with lower rates (Note: there is no reason to play this game on your own renewal of RT-we have only one rate structure).

In the case of a special interest magazine, it brought forth in a recent mail delivery, two conflicting offers. One admonished that this was the 5th renewal reminder-and offered renewal at $\$ 7$ for 1 year, $\$ 13$ for 2 years, $\$ 18$ for 3 years, or $\$ 26$ for 5 years. But the other offered a chance for a $25 \%$ savings -15 months at $\$ 5.65$ or 30 months at $\$ 9.99$.

RT is adept at 3 rd grade arithmetic-and opted for the 30 months at $\$ 9.99$ as against 24 months at $\$ 13$. And once again felt confirmation of its long-standing observation that there are no ethics in the magazine field.

## POEMS TO MANAGE BY

The late President Harry S. Truman put a poem in his wallet when he was a high school student-and carried it the rest of his life. It certainly explains much of his outlook and conductalthough one can never tell whether he acted as he did because he reacted to the poem; or whether he reacted to the poem because it was in keeping with his outlook. It was a portion of "Lockley Hall" by Alfred Lord Tennyson.
For I dipt into the future, far as human eye could see,
Saw the Vision of the world, and all the wonder that would be;
Heard the heavens fill with shouting, and there rain'd a ghastly dew From the nations' airy navies grappling in the central blue;

Far along the world-wide whisper of the south-wind rushing warm, With the standards of the peoples plunging thro' the thunderstorm;

Till the war-drum throbb'd no longer, and the battle-flags were furl'd In the Parliament of man, the Federation of the world.

There the common sense of most shall hold a fretful realm in awe, And the kindly earth shall slumber, lapt in universal law.

For those of a sentimental vein, it was in the same poem that Tennyson wrote:

In the Spring a fuller crimson comes upon the robin's breast;
In the Spring the wanton lapwing gets himself another crest;
In the Spring a livelier iris changes on the burnish'd dove;
In the Spring a young man's fancy lightly turns to thoughts of love.

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
EAST LANSING • MICHIGAN • 48824
DEPARTMENT OF MARKETING AND
TRANSPORTATION ADMINISTRATION

Mr. Robert Kahn
November 19, 1976
Robert Kahn and Associates P.O. Box 343

Lafayette, CA 94549
Dear Bob:
Thanks so much for the tape of your recent talk on ethics. As always, it was most stimulating. Now I'd like to ask another favor of you.

Bert Duncan and I are preparing a teacher"s manual which will accompany the forthcoming ninth edition of our college textbook. Modern Retailing Management. This free, limited-circulation manual will provide instructors with information and materials that they can use for class discussion.

We know that the instructors and their students would be very much interested in many things in Retailing Today. We would particularly like to direct theis attention to the thoughts that you have expressed in "What Does "M.O.Ro "Mean?" (January 1973, and in "The Deluge of PromEFTS Literature," June 1976. Consequently we would greatly appreciate your permission to reproduce those two articles in the manual now in preparation and in any possible future or foreign editions.

Needless to say, the quotations will be credited to you personally, to Retailing Today, and to Robert Kahn and Associates. We shall be glad to use any credit line you prefer. A copy of this letter is enclosed for your files, and we shall be very grateful for your help. I do hope that our paths cross soon again.

Sincerely


Stanley C. Hollander
Professor of Marketing

The permissionequested nove is hereby granted.


Principal and publishor

## (title)

RETAILING TODAY, publishod by Robert Kahn \& Associates, Lafayette CA

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

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## PROPOSED FEDERAL REGULATION OF PRIVATE PENSION PLANS

Senator Javits (R-NY), when introducing [with Senator Williams (D-NJ)] the Williams-Javits Pension Reform Bill (S-4-Retirement Income Security for Employees Act), summarized the objectives of the bill as follows:

Vesting: The bill assures that after a maximum of 8 years of employment, a worker would have a nonforfeitable right to $30 \%$ of accrued pension benefits. This would increase at an annual rate of $10 \%$ to reach $100 \%$ after 15 years. Workers age 45 or older on the effective date of the vesting requirements would be vested in service prior to such date in accordance with the foregoing schedule.
nding: Pension plan managers would have to accumulate Contributions at a rate sufficient to assure that unfunded benefit obligations could be paid in 30 years.

Federal Insurance: Every pension plan would be required to purchase Federal insurance to guarantee the payment of vested pension obligations in the event of premature plan termination.

Portability: Provision is made for an employee to take vested pension credits with him from job to job through a voluntary central clearinghouse fund administered by the Labor Department.

Fiduciary Standards and Disclosure: Existing law is strengthened to provide safeguards against corruption and conflicts of interest and more adequate communication to employees concerning their plan.

RThought: The proposed bill will increase pension costs for a number of reasons.

First, many existing plans have a much more limited vesting than is proposed ( $30 \%$ after 8 years, $100 \%$ at 15 years). The forfeitures applicable to employees who terminate (other than by retirement) are, in effect, used by the employing company to fund obligations in regard to the remaining employees.

Second, a time-limit has been set for funding pension obligations. At the present time there is no requirement to fund at all. The minimum period for tax purposes is 10 years; accountants tend to - commend either 30 or 40 years. The employer is required to y interest on the unfunded portion of the pension obligation, out this is normally much less than the cost involved in the actual funding.

Third, there will be a cost for Federal insurance.

## A MATTER OF ETHICS

In every kind of retail trade, top management is concerned about employee theft. Norman Jaspan, Saul Astor, Lincoln Zonn and others have appeared before every major retail organization telling about the problems of employee theft-and giving horrible example after horrible example.

But what about the Boss? You?
How honest are you?
Do you take merchandise without recording the sale? Do you have the Company pay your liquor and catering bills, which may or may not be proper business entertainment? Is there some confusion as to how much of your wife's expense on a "buying trip" got mixed into your own expense account?

What about invoices for direct purchases from vendorsshipped to your residence or picked up by your wife when she is in the market-are these always charged to your personal account?

How often do you clear your store charge account? If you are slow, are you dunned? Do you pay the same finance charge for late payment that you charge the other employees?

How about using company employees for personal benefit? Have you had one of the maintenance men spend a week or two paneling the playroom in a new house? Or perhaps your secretary spends a week or two each year addressing your annual Christmas card list?

When the kids need school supplies do you take a gross of pencils, a carton of paper clips, a pencil sharpener and perhaps a tape recorder home with you?

The story that Jaspan, Astor, Zonn et al fail to tell is the number of times employees are dishonest-because they watch what the Boss does. If you are not willing to live in a glass house, and be sure that every one of your personal transactions and all your relations with your Company will bear the closest scrutiny-then your Company is going to pay a high price. It is not only what you steal-it is what the hundreds who are watching you will steal-copying your example. The employees in every store have a pretty good idea about how honest the top executives are.

Fourth, costs of administration will increase for many plans because of the requirements of keeping employees informed (as well as the cost of completing new reports). Better informed employees (as well as employees with more vested benefits) may be less likely to leave covered jobs thus denying the employer the savings gained by reapplying previously paid but unvested amounts.

## VISITING THE READERS

During a recent trip to New York, two men, each a top financial executive of a major retail organization, expressed the view that RT spoke too strongly when making the accusation of stealing against those retailers who write off credit balances on accounts receivable.

The first executive felt that RT did not understand the problems of operating credit departments in stores with 250,000 to $1,000,000$ accounts. He pointed out that writing off unused credit balances was appropriate because (1) many duplicate credits were issued when a customer complained that a credit was not on his account, although issued before the closing date (without spending money to investigate the status of the original credit), resulting in double credit to the customer; (2) because of errors in account numbers, which could not be (or were too costly to be) traced, many customers received credits to which they were not entitled; (3) payment of credit balances would induce shoplifters to steal merchandise and return it for credit; and (4) many credit balances arose because of "on approval merchandise" that was never charged in the first place although a credit was issued on the return.

RT cannot agree that any of these warrant a store taking credit balances into their own income, especially since the company would allow any customer to buy against such a credit within a liberal time period without ever checking on the validity of the credit. RT would welcome thoughts on this matter from major stores.

The second executive felt that the industry was damaged when a publication such as RT used such language-and that some readers might misunderstand the degree of such activities. This brought to mind the need to explain the philosophy of RT-something that, with the expanding readership, probably should be done at least once a year.

## The philosophy of RT

You, the reader, are probably a major executive in your store. RT is written for major executives. Our research indicates that RT reaches one of the top 3 or 4 executives in retail firms representing in excess of $\$ 70$ billion in sales. These firms include department, specialty, food, drug, discount, building materials and many other types of stores.

The other readers of RT fall in a limited number of categories: accounting firm partners who deal primarily with retail stores; bank officers who deal primarily with retail stores or retail credit; university professors interested in the retail field; a limited number of editors/publishers of publications addressed to retailing, credit and/or finance.

Subscriptions have been turned down when received from persons who do not fit the general groupings above.

Under these circumstances RT feels that tough, often angry, expression on questions involving ethics or logic are more likely to stimulate thought among top management than would be a namby-pamby narrative that is so common in writing of, for, and to a trade.

## MARRIOTT, MASTER MERCHANT?

In the May 72 RT, the front page box had an item headed " Q : What would happen if Marriott operated Stores? A: All other retailers would have to raise their standard of service."

Willard Marriott headed the Committee putting on the 197 Inauguration festivities which cost $\$ 4,000,000$ (1969 cost only $\$ 2,500,000$ ) despite the fact that this time, being the incumbent, they had the use of many facilities (Smithsonian Institute, Kennedy Center) on a rent-free basis.

The Federal government does not foot the bill-except for small items like 3 battalions of troops, thousands of District employees, etc. Even with this help, there was a lot of money that had to be raised. And Mr. Marriott proved to be the merchant who could raise it.

He knew how to price- $\$ 500.00$ for a box seat at a concert (without even promising that Mr. Nixon would show up). $\$ 25$ for special license plates, and even charging for seats to watch the parade!

Perhaps Mr. Marriott's skills should be used more widely in government. Final reports indicate that not one of his money raising drives missed their target-which is better than the Air Force generals have done in Vietnam, or with the C5A.

## TRADE ASSOCIATIONS WE CAN DO WITHOUT

Clear Channel Radio Station KCBS' Consumer Advocate Fred Wilcox recently sent a message (several times) to much of the Western United States on the question of drug prices and pharmacists. Starting with a report in the Sacramento (California) BEE and an article in Consumers' Report, on the wide spread of prescription drug prices, Wilcox contacted both the President an "a spokesman" for the California Pharmaceutical Association The President claimed that "our program invites consumers to approach their pharmacist with any and all questions they may have about drugs or prescriptions." But "a spokesman" discouraged checking by telephone (the simple way) ". . . generally it is not advisable for a pharmacist to do this [i.e., quote prices] on the phone what with the handwriting of most doctors and possible mis-reading the prescription potency and amount by laymen." On the question of advertising drug prices "the California Pharmaceutical Association is opposed ... not only because the cost of such advertising probably would be passed on to the customer . . . but because the advertising might be harmful in an already excessively drug-oriented society."

RThought: Knowing the California Pharmaceutical Association (some years ago key personnel were fined for restraint-of-trade activities) the cost of advertising would be less than the cost of monopoly in the guise of professionalism. The pharmaceutical associations throughout the United States should recognize that they insult the intelligence of consumers with such statementsand provide the fodder on which stronger consumer organizations grow-with strong legislative muscle.

## SPEAKING OUT

An Editor should be allowed a few personal privileges. I have selected as mine the mention of my public speaking endeavors.

In January I addressed the Alumni Consumer Credit Management Conference, held at Arden House and sponsored by the ColumbiaGraduate School of Business, on the subject: "Is there a Place ff Ethics in Credit?" I believe this is the first time this subject has been discussed by this group. I was pleased with the response,

## POINT SCORING

$\underbrace{7}$T has long opposed point scoring as a method of determining ;ibility for charge accounts. This opposition has been based pon an analysis of the procedures followed. In the early days it appeared that most of the systems were based upon the codification of the credit manager's prejudices.

More recently a follow-up was made of the procedures followed by Professor Myers-after hearing his presentation in Los Angeles to the Financial Executives Division of the National Retail Merchants Association. Although the methodology represented a major step forward, it still did not appear to be sound. Too much weight was given to scientific sampling of charge account application data-data that could be 20 or 25 years old!

One of the advantages of being opposed to something that other people support (avidly, I might say) is that they try to prove you wrong. In this case RT came head on with vigorous advocates to point scoring-the people at Montgomery Ward. And after reviewing the procedures and approaches used by Wards-which are those developed by Fair, Isaac and Company, Inc., in San Rafael, California (some 30 airline miles from RT's headquarters but unknown to RT)-RT has been converted.

RT will not attempt to explain the procedure followed by Fair, Isaac, but it is important to enumerage the factors in their procedure that were persuasive:

1. They utilize all of the information available on the charge account application rather than pre-conceived socio-economic factors. This works effectively to eliminate bias in the final scoring system.
In developing their formula they limit their analysis to relatively recent charge account applications (those taken in the last 2 to 4 years).
2. The weighting of the factors that prove to be significant is developed independently for each firm.
3. They recommend (and many of their clients do) periodic up-dating of the scoring system.
4. Their system makes provision for further analysis of the account once it is opened so as to modify the original scoring as the account rates itself.

There are several sound arguments for point scoring that should be kept in mind:

1. Point scoring can be blind-so that the interviewer will not be unduly influenced by the race, color, sex, attire, attitude, or linguistic skill of the applicant.
2. Point scoring can be uniform-in a properly designed system, except for a narrow range of points where local discretion is allowed, the same applicant providing the same information to the same firm should always get the same response from the credit grantor.
3. Point scoring can be controlled-and this permits management to manipulate credit granting (as they do advertising, gross margin, markdowns, turnover and other factors) so as to maximize profits.

The latter point is the most important point to top management. Even those retail firms that are currently utilizing point scoring istems appear to be missing the opportunities presented by a poven and acceptable point scoring system (it is because of this potential that RT has long been seeking a sound method of developing point scoring).
(Continued on Reverse Side, Column 1)

## THE FUTURE OF CONSUMER CREDIT

The National Commission on Consumer Finance has submitted their report on Consumer Credit in the United States.

Their basic recommendations can be summarized by some quotations from the cover letter to President Nixon and the Congress, signed by Ira Millstein as the Chairman of the Commission.
". . . our Report recommends significant additions to the protection of consumers in the fields of creditors' remedies and collection practices. We have urged restrictions on remedies such as garnishment, repossession, and wage assignments. We have recommended abolition of the holder in due course doctrine, concessions of judgment, and harassing tactics in debt collections.
"As to our conclusion that free and fair competition is the ultimate and most effective protector of consumers, we have recommended the elimination of restrictive barriers to entry into consumer credit markets by permitting all creditors open access to all areas of consumer credit. . . . We have also urged that rate ceilings which constrain the development of workable competitive markets be reviewed by those states seeking to increase availability at reasonable rates."

In other words, free access to providing credit and removal of rate limits in return for broadened rights for the borrower.

RThought: RT often marches to a different drum-and sees in this proposal one of the major changes in the retail field-and the consumer credit field. At the present time the "separate office, separate corporation" provisions of state laws bar retail firms from making consumer loans through their credit office. Yet, the extension of credit through charge accounts and conditional sales contracts constitute a significant portion of consumer credit.

With entry into the field of consumer lending (as opposed to charge accounts) eased, it will be a simple matter for the major retailers with $10,000,000$ to $20,000,000$ accounts to become involved in consumer loans. The cost to Sears-Penney-Ward (SPW) to qualify loans to their established customers would be much less than the cost to a lender of the Household-Beneficial-GAC (HBG) type.

Both types of firms have equal access to money so this will not prove to be a problem. The SPW group has the advantage that borrowers visit their place of business for reasons other than borrowing or payment-or visit nearby stores in the same shopping center (the HBG-type are moving into more shopping centers).

The impact on the profitability of credit operations in retail firms would be dramatic-adding $\$ 150$ to the average balance presently owed by the customers of SPW would immediately make these operations highly profitable-since profitability is more directly related to the average balance owed than to the number of borrowers (charge account customers) or the total amount outstanding.

This, of course, would cause a problem for the smaller retailers who did not enter the small loan business-because Congress and State Legislatures would not be faced with the fact that SPW no longer claim they were operating their credit departments at a loss. But the smaller stores with smaller average balances outstanding would be operating at a loss solely because of their inability to compete effectively. Thus, there would be no reason for permitting any increase in finance charge rates since it would be argued that such a law would protect the inefficient.
(Continued on Reverse Side, Column 2)

Without point scoring, management is likely to outline their objective in credit granting as "extending the maximum amount of credit commensurate with an acceptable level of bad debt losses." The credit department interprets this to mean "we want the minimum credit losses." And credit managers may then paraphrase the old banking adage that "no lending officer ever got fired for the loan he didn't make."

Point scoring has been sold on the basis of two opposing agruments-and sometimes on both. One argument is that point scoring will reduce your losses without cutting your volume; while the other is that with the same level of losses you can have more volume. But to date no one has made RT aware of a retail firm that has said that because of the control provided by point scoring it is now possible to use marginal analysis to determine the point score level at which additional credit at lower standards (thus increased losses) matches the additional contribution to overhead from those additional sales. If this sounds like the first week or two of Econ I, it is-but it is a concept that has a place in retailing.

Let's look at some hypothetical figures.
Most articles on point scoring concentrate on changes in the loss ratios. In one such case there is the statement that with point scoring it would be possible to reduce potential delinquent accounts by $24 \%$ at a cost of only $5 \%$ of good business. As retailers we are not interested in cutting "good business."

Let's look at it another way. The figures below are hypothetical -used to illustrate a point.

TABLE I

| Acceptable | Credit Volume | Credit Losses |  |
| :---: | :---: | :---: | :---: |
| Point Score | Generated \$ | \% | \$ |
| 100 | \$100,000 | 1.0\% | \$1,000 |
| 90 | 111,000 | 1.5 | 1,665 |
| 80 | 122,000 | 2.0 | 2,440 |
| 70 | 135,000 | 3.0 | 4,050 |
| 60 | 150,000 | 4.0 | 6,000 |
| 50 | 170,000 | 6.0 | 10,200 |

The question that management has to answer is: what point score is acceptable for our firm?

Let us add one bit of information that management should know-that the contribution to overhead (Gross margin less variable expenses) runs $15 \%$ of sales. With this information available we can now construct the following table.

## TABLE II

| Change in point score | Additional Sales \$ | Contribution to Overhead \$ | Additional Credit Loss \$ |
| :---: | :---: | :---: | :---: |
| 100 to 90 | \$11,000 | \$1,650 | \$ 665 |
| 90 to 80 | 11,000 | 1,650 | 775 |
| 80 to 70 | 13,000 | 1,950 | 1,610 |
| 70 to 60 | 15,000 | 2,250 | 1,950 |
| 60 to 50 | 20,000 | 3,000 | 4,200 |

In Table II it is apparent that the contribution to overhead from the additional sales exceeds the additional credit losses (which result solely from changing the credit granting standards while keeping all other factors-advertising, gross margin, etc.constant) for all point score changes except the last change-the change from a score of 60 to a score of 50 .

Given these factors the Company should, in order to maximize profits, establish a cut-off point score somewhere between 60 and

50, despite the fact that the credit loss percentage will be somewhere between $4 \%$ and $6 \%$.

At a cut-off point score of 60 the Company will generate $\$ 50,000$ more sales than at 100 . The additional contribution to overb at $15 \%$ will be $\$ 7,500$ and the additional credit loss wil $\$ 5,000$, thus increasing the profit of the Company by $\$ 2,500$.

RTip: Please remember that these figures are hypothetical. RT is not saying that everybody should have a $4 \%$ or $5 \%$ bad debt loss rate. Or that point scoring changes of the magnitude shown can produce $50 \%$ or more additional credit volume.

## THE FUTURE OF CONSUMER CREDIT (Continued)

This also raises a serious question for the HBG group. The SPW group is currently operating at annual finance charge rates of $14-18 \%$ on the first $\$ 500-\$ 1,000$ of the outstanding balance and $8-10 \%$ on the amount above. This is considerably below the rates at which the HBG-type can make money on $\$ 200$ to $\$ 400$ loans. Their first enthusiasm about easy access and unlimited rates might soon change to charges against the SPW group of unfair competition!

Having listened to explanations of the report of the National Commission on Consumer Finance from Chairman Ira Millstein, Commissioner Dr. Robert W. Johnson, General Counsel Milton W. Schober, and Chief Economic Consultant Robert Shay, it is apparent that this possible result was not considered (at least, it was not discussed).

RT feels strongly that if the report is adopted approximately as recommended, within a few years Sears will dominate the consumer lending field. Sears could drive many of the industı banks, small loan companies, and personal property brokers out of business. Thus, a new form of oligoply would be created-and a new possibility for collusive or non-competitive rates would result. This might be more detrimental to the borrower than the present artificial limits.

## SHORT SHORTS

Hey, Sears! Watch that digit. On a recent purchase of an installed furnace from Sears the statement showed $\$ 255.00$ worth of foundation garments, bras, and girdles (Department 18) instead of $\$ 255.00$ installation of plumbing and heating (Department 187). That covers up a lot of stolen bras. Does this explain the low inventory shortage at Sears?

New Process Co. reported sales up, profits down by $32 \%$. The Wall Street Journal reported the company attributed the decline to increasing mailing and labor costs, start-up costs of a new distribution center and "lower response to mailings." RT (March and April 72) commented on the ethics of the advertising done by New Process and suspects that the customers, as they usually do, got wise to slacks that "look like $\$ 20$ slacks"-two legs, 4 pockets, zipper and waist band-but at $\$ 8$ a pair were nothing more than the slacks offered in many local stores for $\$ 7$ !

RThought: It is slower but more permanent and satisfying to build a retail business on honest values.

Banks never learn, they just try it in a different country. A grov of 6 major British Banks with 9,000 branches throughout $t$ country just mailed out $3,500,000$ unsolicited credit cards-the name of the card is "Access." The London Times reported that one of their staff members received 6 different cards, each with a different credit limit (from roughly $\$ 250$ to $\$ 1,250$ ).
both during the discussion period and during the following 24 hours.

This reaction again confirms a long-held belief that most retail Id credit executives are concerned about the ethical implication their conduct-but that because they think their fellow executive is less concerned, the subject is never raised. Once raised-and once each executive learns that the "hard-boiled, no-nonsense" executive sitting next to him is just as concernedthe door is opened for further discussion. It is only through such exchanges of ideas, such analyses of patterns of conduct, such reinforcement of shared goals, that the ethical standard of American business will be improved.

I also addressed the Retail Research Society on the subject "Analytical Thought for Retail Decision-Making." Here, the key thrust was that research divisions should plan to do half as many studies and devote the other half of their time to helping management learn better methods of problem-analysis. Research departments tend to work on minor problems-while executives, lacking proper tools for analysis, continue to make major, costly mistakes. The net result of such a re-allocation of research time should be an improvement in operating results.

## ANOTHER FLASH?

Coit International, Inc., once sold as high as 80 times earnings and was the darling of those who don't know retailing.

For the quarter ended December 1, 1972, Coit reported an improvement in gross profit of $2.6 \%$ (from $40.8 \%$ to $43.4 \%$ ) while the pre-tax profit rate dropped $2.1 \%$ (from $17.2 \%$ to $15.1 \%$ ).
his can be reduced to a simple formula-for every $1.0 \%$ increase in gross profit margin, the pre-tax profits drop $0.89 \%$. Applying this formula, when the gross profit margin increases $18.8 \%$ (to $59.6 \%$ ) the company will have no pre-tax profits!!

Because RT does not believe in financial forecasts, the timeinterval involved will not be predicted. But if one wonders about the pattern being evolved, study House of Fabrics (see RT December 1971).

## PENALTIES GROW

More and more concerns are reacting against vendor shipping errors by applying penalties (see RT December 1972, "Attacking the Return Goods Bottleneck").

Kauffmann's, in Pittsburgh, has just sent a form letter to all vendors pointing out that in all cases when buyers find it necessary to return goods because of early shipments, overshipments, no-order shipments and cancelled shipments, that there will be handling charges of $5 \%$ plus freight.

RTip: Many stores have, for years, protected themselves in the case of new suppliers by retaining sufficient merchandise out of the error-shipment so that the reduced amount returned plus freight both ways (and penalty, if one uses Kauffmann's approach) is equal to or slightly less than the original invoice.

رere is usually a better chance of getting your money out of a small quantity of merchandise put on the selling floor than from a credit-balance in your payable accounts.

## OBSERVATIONS OF THE PERIPATETIC RETAILER

On a recent trip to Chicago it was interesting to note that Baker Shoes were advertising on the Theater Page. A cute ad, typical movie page size, proclaiming their Brownie Suede will "thrill you to your toes! FRANTIC. Now Showing at the BAKERS near you."

Competition is heavy among the multi-outlet hi-fi stores. Tech HiFi offers 90 day progressive exchange privileges, 1 year speaker trials, and 5 year parts/ 3 years labor warranty-and observes "the sale ends when the customer is satisfied." Playback offers 5 year warranty, 1 year speaker exchange policy, 60 -day exchange, satisfaction guaranteed. MusiCraft offers 15 day moneyback guarantee, 60 day full exchange privilege, 5 year parts $/ 3$ year labor guarantee, 1 year speaker trial deal with full purchase price up to $\$ 200$ applied to costlier unit and 90 day interest free acounts.

Only Topps continues to advertise "Moneyback Guarantee" and this in the home of Montgomery Ward that commissions people to write books about them under the title "Satisfaction Guaranteed."

In Seattle, Sears has 3 stores open to 9 P.M. on Saturday night. Gerke's TV advertised during football season, "Any set ordered before noon Saturday, delivered Saturday afternoon." Woolworth continues to advertise "Replacement or Money Refund," but this offer has never been seen in a Woolco ad. Bon Marche was the only department store plugging the United Way campaign, but Quality Food Centers gave a 2" 8 -column boost.

K-Mart has a new sig-cut that includes "gives satisfaction always," but this did not appear in other cities. A\&P is offering "Double your money back Meat Guarantee if you are not completely satisfied with any meat purchase at A\&P WEO." Pay 'N Save, which now extends down into California, offers "Every Purchase guaranteed or your money back with a smile."

And Safeway is plugging several items. Their ads proclaimed that all items containing more than $3 / 4$ of $1 \%$ hexachlorophene have been removed from their shelves, look for open dates on Safeway brands of perishable foods, and we guarantee you tender and delicious meats.

In Salt Lake City and Dallas the news articles indicate that the United Way campaign is falling short-but there was no help or support in the ads of major retailers. In Salt Lake City virtually all of the ads omitted information on sizes available.

In Northern California, K-Mart has added Master Charge to BankAmericard and their own credit card.

## WINNING A CONVERT

For some years The Montclarion (California) newspaper has carried the "PRO AND KAHN" column written by your publisher, and the owner has been a reader of RT. In his personal column "Pardon my glove" he recently wrote:
"For many years The Montclarion would, on request, sell the right to use its list of subscribers for mailing advertising circulars of merchants or other enterprises. We needed the money, to be honest. Or a better way to say it is 'Honestly, we needed the money.'

[^0]"I agreed, but it took a little while to really get myself to do the right thing. I wrestled with the forces of greed and avarice and finally after two falls out of three, my better nature won. We don't sell our mailing list any more to anyone."

There is a message here for retailers-who have been provided the name and address of their customers for just one purpose: to establish a credit account and provide a place to mail the bill.

## KEEPING UP WITH THE TEACHERS

RT has long recommended that retailers, particularly national retailers, should subscribe to "Teaching Tools for Consumer Ed," a monthly publication of Consumers Union ( $\$ 3.50$ per year, Consumers Union of the U.S., Mount Vernon, NY 10550). They will then be able to see how their firms are being used as an example-in hundreds of consumer education classes throughout the United States.

The November 1972 issue dealt with several items. Under "Open Dating" they quoted a 1969 Rutgers Food Science Department report concluding "that open dating disadvantages outweigh" the consumer advantages at this time (while quoting Esther Peterson of Giant Food and a vice president of Safeway as disagreeing with the report). Pillsbury reported that open dating cut their product loss (probably because their own employees and those in their wholesale warehouses could properly rotate the stock).

There are some fascinating photographs with captions "Inscrutable Code. Food Fair's instant nonfat dry milk" and "Ashamed of its Age. First National Stores' bologna" and "Smudged and obscure. Stop and Shop's Daisy Donut." And there was an excellent picture captioned "Forthright and Complete. A\&P's frankfurter rolls" which showed a label with both unit price ( $59.2 \phi$ per 1 lb ) and package price ( $37 \phi$ ) with the clear disclosures "Store at room temp." and "Fresh sale thru April 7."

In the discussion of advertising on TV programs for children, there are some great quotes. General Foods expects to be applauded because "We bring the child to the breakfast table and encourage him to eat foods" (The term "food" is often loosely used). Charleston, SC program hostess, Lorraine F. Lee Benner, testified to the FCC that she sold products on her show that she wouldn't let her own daughter have.

RThought: As RT has long observed, there are few principles left in the field of making money-it requires leadership to apply the few that remain, nurture them, and see if we can not bring our society and economy to the levels that business and political leaders constantly claim that we aspire to seek.

## CONSTRUCTUVE SUGGESTIONS-

## FROM THE BANKER'S ASSOCIATIONS

The American Bank Association, the Consumers Bankers Association, and the national associations for BankAmericard and Master Charge, have agreed on proposed changes in Senator Proxmire's Fair Credit Amendments to Truth-in-Lending.

These include allowing the Federal Reserve Board leeway to regulate billing practices (so as not to freeze the present state-of-the-arts into the law), writing instructions on identification of sales broad enough to encompass existing computer descriptive billing techniques; allowing the customer not to pay on disputed items but requiring payment on non-disputed items; allowing bills
to be mailed 2 weeks, instead of 3 weeks prior to the end of the billing cycle (RT has long felt that 5 working days (less than 1 week) was sufficient, and 2 weeks or 12 work days is ample).

## SHORT SHORTS

Dayton-Hudson a slow learner? It was just about a year ago that D-H announced, when in a spiteful mood, that they would no longer accept applications for flexible charge accounts (RT Sep. 71) because of a restriction on finance charges. RT pointed out that the policy was silly. Clover Stores, shortly afterwards, announced the great discovery that discount customers needed credit to make large purchases (RT Jan. 72). And now D-H's Target Stores has announced credit in eight Minnesota stores with a silly statement that really is not becoming of D-H, "Our customers have expressed their desire for credit, particularly on major appliances, auto supplies, sporting goods and cameras." D-H must have their HBA and shoe customers trained-they don't want credit?

Add a room? Call Sears! Sears is going aggressively after the home improvement business-and the big words on their brochure are "Satisfaction Guaranteed." This is something new in the home improvement field. And Sears offers financing, design, free estimates, in-the-home selling, the works.

## WORDS TO MANAGE BY

The publication of the poem that Harry Truman carried in his pocket from school days brought the following words out of the wallet of a major West Coast retail executive-the copy was badly worn because of the years it had been carried. But our executive says he thought of them often as he climbed the ladder.

## DON'T QUIT

When things go wrong, as they sometimes will, When the road you're trudging seems all uphill, When the funds are low and the debts are high, And you want to smile, but you have to sigh, When care is pressing you down a bitRest if you must, but don't quit.

Life is queer with its twists and turns, As every one of us sometimes learns, And many a fellow turns about
When he might have won had he stuck it out.
Don't give up though the pace seems slow-
You may succeed with another blow.
Often the goal is nearer than
It seems to a faint and faltering man; Often the struggler has given up
When he might have captured the victor's cup; And he learned too late when the night came down,
How close he was to the golden crown.
Success is failure turned inside out-
The silver tint of the clouds of doubt,
And you never can tell how close you are,
It may be near when it seems afar;
So stick to the fight when you're hardest hit,-
It's when things seem worst that you mustn't quit.

- Anonymous -

NOTE: If you are carrying words of wisdom in your wallet-a would like to share them with other retail executives, RT would be happy to be the intermediary.

## Less is more

I was happy to read "Wynne's Law" (November, p. 23): ". . . negative slack tends to increase." It seems to be a corollary of a more basic law I discovered some years ago: "If one programmer can do it in one day, then two programmers can do it in two days."

The relationship between the two laws is this. As a programming task progresses, management worries about it and assigns more programmers to it. The larger the number of programmers, the longer the task requires. Hence a gradual increase in negative slack!

The obvious solution is to minimize the number of programmers on the project, which means taking a chance on another law: "If a project is completed on time, it is either a success, or the results are utterly useless."

I think programmer Wynne understands these related laws quite well. On the Polaris program he was able to meet a very rigid schedule through the simple expedient of not having all the help that would have made him miss his schedule.

Robert E. May Honeywell-Phoenix Phoenix, Arizona

DATAMATION welcomes correspondence about the computer industry. Please doublespace your letter when you write to 1801 S. La Cienega Blvd., Los Angeles, CA 90035.

## THE BASIC LAWS OF BUSINESS

Murphy's Law No. 1: If something can go wrong, it will
Murphy's Law No. 2: Nothing is as easy as it looks
Murphy's Law No. 3: Everything takes longer than you think it will

Weiler's Law: Nothing is impossible for the man who doesn't have to do it himself.

Chisholm's Law: Anytime things appear to be going better, you have overlooked something.

Finagle's Law: Once a job is fouled up, anything done to improve it makes it worse.

## Crane's Law:

Shanahan's Law:

Parkinson's Law: Work expands to fill the time available for its completion.

Peter Principle: In a hierarchy, each employee tends to rise to his own level of incompetence. Every post tends to be occupied by an employee incompetent to execute his duties.

Kahn's Law: When stock space is expanded, Buyers will buy merchandise to fill it.

## FURNITURE WAREHOUSES LOSING THEIR APPEAL?

One of the first signs of deterioration of a new method of distribution is when they revert to the old, frequently dishonest, advertising appeals. On February 28, the day before the California Inventory Tax Lien date, the ads for both Levitz (7 Giant Locations) and Wickes (3 Money-Saving Locations) in Los Angeles looked like old-time schlock furniture operations.

Levitz headlined "INVENTORY TAX SALE - We must pay a tax on all furniture in our inventory as of March 1st - Beat the Tax Collector" and announced that it would stay open until midnight! Wickes is up to the old gimmick of opening at 4 PM for a 6-hour sale! They say "We will be closed Wednesday until 4 PM to mark down prices for this money-saving spectacular." The reason: "We must clear our showroom ... now! Hundreds of thousands of dollars worth of merchandise must be moved out

## CATALOG/SHOWROOM INTEGRITY

The Consumer Affairs Foundation (CAF), founded by the Boston Better Business Bureau, has been checking out the pricing practices of catalog/showroom discounters - and they find plenty of dishonesty.

First, they found catalogers falsifying manufacturers' fair trade prices and particularly those of Panasonic products (the same has been true of many California catalogs) by showing comparison prices above the minimum. The number of non-discount stores selling Panasonic products, in fair trade states, above the fair traded price, can be counted on your fingers.

Second, the CAF points out that claims that catalog/showrooms are not regular retail stores takes a lot of truth stretching.

Third, when non-fair traded items are shown with "regular" retail prices, the prices printed, instead of being those at which the products are regularly sold in quantity, appear to represent exercises in imagination - The Kodak Pocket Carousel 100 Projector shown as "Regularly \$99.50," but offered at $\$ 72.37$, is sold by conventional retail stores in the Boston area in the $\$ 70-\$ 80$ range.
before our new Spring merchandise arrives ..." The Wickes advertising manager was probably shocked when he (she?) looked at the paper and said, "Why didn't I think of property taxes???"

RThought: This type of advertising has all the appeal of a shell game - apparently both firms have decided to test the patience of the Better Business Bureau!

## ONE STATE RETAILERS' ASSOCIATION ACTS

On February 1, 1973, the Pennsylvania Consumer Arbitration Service was established by joint agreement between Pennsylvania Retailers' Association and the Pennsylvania League for Consumer Protection, with the mid-wife assistance of the National Center for Dispute Settlement of the American Arbitration Association. The Service is a pilot program seeking to resolve consumer complaints through binding arbitration.

RTip: The council of Better Business Bureaus has developed a "National Program of Consumer Arbitration." For information write to $1150-17$ th St. N.W. Washington D.C. 20036.

RThought: This would be a good thing for more state and/or local retailer groups, or BBB's, to study. Despite the self-praise such associations heap upon themselves as "acting in the consumer's interest," few, do anything significant, permanent or helpful.

## LAZARUS LEARNED - THAT INDIANAPOLIS ISN'T PANTING FOR THEM

One of the problems for successful retailers is that they meet so many other retailers - and so many suppliers - who know them. People from New York and Los Angeles and High Point and Chicago - all know of that successful Lazarus store in Columbus. But the school teacher or plumber or policeman in Indianapolis (1) never heard of them, and (2) couldn't care less about them.

Gimbel's learned this when they thought New York couldn't get along without them - particularly after Gimbel's success in Vincennes, Milwaukee, Pittsburgh and Phildelphia. In the days when I was at Macy's we were told that Gimbel's opened in New York in 1919, made their first profit in 1929, and their second profit in 1939! In the 1920's all of the then-famous San Francisco stores thought that rapidly growing Los Angeles could not get along without a Roos Bros., Ransohoff, Livingston Bros, and others - so they all opened stores in L.A. And then they all closed stores in L.A.

In 1940, Macy's opened their first and only "Red Star Store" in Syracruse. The plan was to offer only the best-selling items, as determined in the New York store - and at a $20 \%$ markup instead of the $35 \%$ taken in NYC. The store lasted a bit more than a year - and lost more than its sales ( $\$ 275,000$ loss on sales of $\$ 225,000$ ). Syracuse wasn't waiting for Macy's - even when suits that were $\$ 19.94$ in NYC were priced at $\$ 17.94$ in Syracuse.

Bullock's-Northern California is wondering where the Southern Magic has gone - and perhaps Liberty House is missing some of the Hawaii accolades to which they had become accustomed.

William Giovanello, Lazarus President, is quoted as saying, "It's quite a blow to realize you aren't as well known as you think." I don't know whether or not they made this discovery before or after committing the Company to a new 300,000 square foot store (and two more at 150,000 square feet each); but it is lucky they learned it before they opened. Now they can plan for a tough fight.

RThought: One friend who had a successful men's store always said that the last persons he paid any attention to were his own friends who shopped in his store. Another friend, who was even more successful, always used to say that whenever his wife found something in his store that she liked well enough to buy, he immediately checked with the buyer to see why they were carrying it!

RTip: There are no chiefs of successful major stores who can still hear clearly the voice of the people. To avoid mistakes, send out impartial listeners to bring back impartial observations.

## DEPARTMENT STORES AND BANK CREDIT CARDS

It is wonderful to watch the brave department stores continue to deny the importance of the bank credit cards - and close their eyes to the use of these cards by their very own (or former?) customers. It is seldom that department stores look carefully at who has credit cards - they are so convinced that they completely dominate the market.

The Media General newspapers do excellent market surveys - and among their studies they measure the number of people who have credit cards. Let's take Tampa (where they have the TRIBUNE and the TIMES) as an example - and place a little different interpretation on the study of credit cards. Let's look at the percentage of people in Hillsborough County who do NOT have certain credit cards:

| Credit Card | $\begin{array}{c}\text { \% Over 18 } \\ \text { Years Old }\end{array}$ |  |
| :--- | :---: | :---: | \(\left.\begin{array}{c}\% of families with <br>

\mathbf{\$ 1 5 , 0 0 0} or higher <br>
Household Income\end{array}\right\}\)

Since there are $42.3 \%$ of those over 18 who have no card (and $26.5 \%$ of families with over $\$ 15,000$ household income), the columns can be deflated by subtracting $42.3 \%$ and $26.5 \%$, respectively, to find the percentage of the market that could be considered as prospects for each credit card.

Maas Bros, can feel quite happy - if they are content to have $50 \%$ of the families with incomes over $\$ 15,000$ not on their books or to miss $35.6 \%$ of the market that has credit cards elsewhere - but not Maas Bros.

The Media General Study for Richmond, Virginia, where they publish the Times-Dispatch and the News Leader, and where Thalhimer's has been wise enough to announce that they will honor both Master Charge and BankAmericard, the DO NOT HAVE'S look like the following:

|  | \% 18 years <br> old or older |  | \% of families with <br> $\$ 15,000$ or higher <br> Household Income |
| :--- | :---: | :---: | :---: |
|  | 72.9 |  | 46.0 |
| Thalhimer's | 73.8 |  | 38.0 |
| Miller \& Rhoads | 73.8 | 56.0 |  |
| Master Charge | 75.2 | 52.0 |  |
| BankAmericard | 77.5 | 60.0 |  |
| Sears | 85.6 | 68.0 |  |
| Humble-Esso (Exxon) | 86.7 |  | 68.0 |
| Penneys | 89.0 | 78.0 |  |
| Texaco | 40.3 |  | 16.0 |

Only $16 \%$ of the families with over $\$ 15,000$ income don't have any credit card - but there are another $30 \%$ who don't have Thalhimer's and $22 \%$ that don't have Miller \& Rhoads.

Where can the bank/travel credit card customer shop in New York?
On a recent stay in NYC, I checked the papers to see what type of merchandise I could buy - having only my American Express (AX), Diner's Club (DC), BankAmericard (BA) and Master Charge (MC) cards in my pocket. (I never did have a Carte Blanche (CB) card but will list them in any case). Here is what I found:

## CREDIT OFFICE RATING

Our list of stores reported on continues to grow. If you wish to send a report on your local stores, write to Bob Kahn, RETAILING TODAY, P. O. Box 343, Lafayette, CA 94549.

HONOR ROLL

| Gus Mayer, Beaumont | 2.0 | Berkeley's, Fresno | 3.0 | Mervyn's, N. Calif. | 3.4 |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Gus Mayer, Nashville | 2.4 | Miller Bros, Chattanooga | 3.0 | Montgomery Ward, Houston | 4.0 |
| Harzfeld's, Kansas City | 2.7 | Maison Mendesolle, SF | 3.0 | Montgomery Ward, Oakland | 4.0 |

## CREDIT OFFICE RATING

## DEC-JAN 1973

| Information From Reporters | No. of Reports | Days to Bill |  | No. of Reports | Days to Bill |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Average | Range |  | Average | Range |
| Abercrombie \& Fitch( N | NY) | 11.0 | 11 |  | -- |  |
| L. L. Bean (Maine) | 1 | 10.0 | 10 | -- | -- |  |
| Brooks Bros. (NY) | 1 | 5.0 | 5 | - |  |  |
| Bullock's North | 1 | 5.0 | 5 | -- | -- |  |
| Bullock \& Jones (SF) | 2 | 9.5 | 9-10 | 1 | 3.0 | 3 |
| Capwell's (Oakland) | 10 | 9.9 | 9-10 | 9 | 6.2 | 410 |
| Dayton's (Minn.) | 2 | 6.5 | 5-8 | 1 | 7.0 | 7 |
| Donaldson's (Minn.) | 2 | 5.5 | 5-6 | 1 | 6.0 | 6 |
| Emporium (SF) | 5 | 15.6 | 12-16 | 1 | 11.0 | 11 |
| Famous Barr (St. Louis) | ) | 5.0 | 5 | 2 | 8.0 | 8 |
| Foley's (Houston) | 2 | 8.0 | 7-9 | 2 | 7.0 | 7 |
| Gimbel's (NY) | 1 | 5.0 | 5 | -- | -- | -- |
| Gump's (SF) | 2 | 13.5 | 10-17 | 5 | 9.4 | 7-13 |
| Hastings (SF) | 2 | 10.5 | 10-11 | 4 | 4.3 | 6-10 |
| Hink's (Berkeley) | 2 | 15.5 | 13-18 | -- | -- | -- |
| Joske's (Houston) | 3 | 7.0 | 5-10 | 2 | 5.0 | 3-7 |
| I,iberty House/City of Paris (SF) | 4 | 11.5 | 8.20 | 1 | 16.0 | 16 |
| berty House/Rhodes (N. Calif.) | 4 | 8.5 | 7-10 | -- | -- |  |
| Livingston Bros. (SF) | 3 | 6.3 | 5-9 | -- | -- |  |
| Lord \& Taylor (NY) | 1 | 7.0 | 7 | 1 | 5.0 | 5 |
| Macy's (SF) | 10 | 8.7 | 7-10 | 5 | 6.8 | 6-8 |
| I. Magnin (SF) | 7 | 4.3 | 4-5 | 7 | 4.6 | 4.6 |
| Joseph Magnin (SF) | 5 | 5.0 | 4-6 | 1 | 4.0 | 4 |
| Maison Mendesolle (SF) | ) | 3.0 | 2-4 | 1 | 3.0 | 3 |
| Montgomery Ward (Houston) | 1 | 4.0 | 4 | 2 | 3.5 | 3-4 |
| Montgomery Ward (Oakland) | 3 | 4.0 | 3-5 | -- | -- | -- |
| Penney's (Oakland) | 3 | 6.3 | 5-8 | 2 | 5.0 | 5 |
| Penney's (Minn.) | 2 | 8.5 | 7-10 | , | 6.0 | 6 |
| Penney's (Dallas) | 1 | 6.0 | 6 | 1 | 6.0 | 6 |
| Podesta Baldocchi (SF) | 1 | 8.0 | 8 | -- | -- | -- |
| Roos/Atkins (SF) | 3 | 5.0 | 3-8 | 2 | 4.0 | 3-5 |
| Saks Fifth Ave. (SF) | 6 | 8.0 | 7-10 | 3 | 8.0 | 7-10 |
| Sears (N. Calif.) | 5 | 7.8 | 5-11 | 5 | 5.4 | 5-6 |
| Stix Baer Fuller (St. Louis) | 1 | 5.0 | 5 | 2 | 4.5 | 45 |
| A. Sulka (NY) | 1 | 8.0 | 8 | 1 | 3.0 | 3 |
| Talbot's (Mass.) | 1 | 7.0 | 7 | -- | -- | -- |
| TOTAL | 105 | 8.1 | 2-20 | 65 | 6.4 | 3-16 |


| formation From | o. of | Days to |  | No. of |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Stores | Reports | Average | Range | Reports | Average | Range |
| Berkeley's (Fresno) | 8 | 3.0 |  | 8 | 3.0 |  |
| Blum Store (Phil.) | 8 | 11.5 | -- | 8 | 6.1 |  |
| Brock's (Bakersfield) | 40 | 11.8 | 7-15 | 40 | 6.6 | 410 |
| Buffum's (Long Beach) | 9 | 6.6 | 5-8 | 18 | 6.3 | 5-8 |
| Harzfeld's (Kansas City) | ) 8 | 2.7 | -- | 4 | 2.5 | -- |
| Levee's (Vallejo) | 20 | 5.9 | 3-8 | 22 | 4.5 | 2-6 |
| Levy Bros. (San Mateo) | 47 | 9.4 | 6-19 | 32 | 5.8 | 3-9 |
| Gus Mayer (Nashville) | 8 | 2.4 | -- | 8 | 2.3 | -- |
| Gus Mayer (Beaumont) | 8 | 2.0 | -- | 8 | 2.6 | -- |
| Gus Mayer (Louisville) | 8 | 6.7 | -- | 8 | 4.8 | -- |
| Gus Mayer (New Orleans) | s) | 11.9 | -- | 8 | 5.7 | -- |
| Gus Mayer (Oaklahoma |  |  |  |  |  |  |
| City) | 8 | 8.9 | -- | 8 | 11.4 |  |
| Gus Mayer (Jackson) | 8 | 8.1 | -- | 8 | 6.9 | -- |
| Gus Mayer (Memphis) | 8 | 6.3 |  | 8 | 5.3 | - |
| Gus Mayer (Baton Rouge) | e) | 6.1 | -- | 8 | 4.3 | -- |
| Mervyn's (N. Calif.) | 8 | 3.5 | 3-5 | 9 | 3.1 | 3-4 |
| Miller Bros. (Chattanooga | ga) | 3.0 | 3 | -- | -- | - |
| Oshman's (Houston) | 8 | 8.0 | 6-10 | 8 | 6.6 | 6-7 |
| Walker-Scott (San Diego) | ) 12 | 8.3 | 7-10 | 12 | 5.8 | 4.7 |
| Worth's-Burton's (Conn.) | .) 32 | 11.5 | 10-14 | 32 | 8.3 | 6-10 |
| TOTAL | 283 | 8.4 | 3-19 | 268 | 5.7 | 2-10 |

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

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

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

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

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

| Store | Cards Honored per Ads |  |  |
| :---: | :---: | :---: | :---: |
| Brownings | MC | BA | AX |
| Franklin Simon | MC | BA |  |
| Allen Carpet | MC |  |  |
| Save Mart Appliances | MC | BA |  |
| Great Eastern Discount Stores | MC | BA |  |
| Hammacher-Schlemmer | MC | BA |  |
| Sachs Furniture | MC | BA |  |
| Alexanders | MC |  |  |
| Klein Sleep Shop | MC | BA |  |
| Bonds | MC | BA |  |
| Korvettes | MC | BA |  |
| Robert Hall | MC | BA |  |
| Willoughby-Peerless | MC | BA | AX |
| Liberty Music |  | BA | AX |
| Radio Shack | MC | BA |  |
| S. Klein | MC | BA |  |
| Seaman Furniture | MC | BA |  |
| Martin Paint | MC | BA |  |
| Arrow Electric | MC | BA |  |
| Aid Auto Stores | MC | BA |  |
| Rayco Car Service | MC | BA | DC |
| Goodyear Tires | MC | BA |  |

Macy's, of course, is apparently too proud to list AX in their NYC ads. But the stores listed above will certainly satisfy a great deal of the needs of the kind of people that Macy's-Gimbel's-Bloomingdale-A\&S think of as "their customers."

## THE LADIES ROOM AS A COMPETITIVE TOOL

Radio London recently put on a panel of mothers discussing the problems of shopping with small children in tow. Among the complaints was the fact that department stores rarely had the Ladies Room on the first floor and it was difficult to take strollers up escalators, often even more difficult to find space in an elevator. In the Ladies' Room, there was seldom a place to feed or change a baby in private, or a place to dispose of diapers.

RTip: One small town, successful drug store operator attracted the ladies from far and wide with an extravagant "toilet away from home"; they came to admire, and stayed to shop.

## IMAGINATION IN COMPLAINT HANDLING

A recent letter from a member published in the 45,000 family Berkeley Co-op NEWS reported the result of complaining to United Air Lines because their expected transcontinental breakfast flight in a 747 turned out to be other-than-a-747 and breakfast was coffee and a sweet roll. The writer's husband had assured her that her letter would do no good. But United replied with an apology, an explanation that mechanical difficulties required an equipment change, and a check for $\$ 10$ suggesting that she take her family out for breakfast at United's expense.
RTip: In a number of stores I have instituted the policy of sending a token gift (necktie for men, vial of perfume for women) with each letter of explanation or apology, all of which are signed by the President of the store. The letter expresses the thought that the store cannot at this late date eliminate the annoyance caused but that next time the customer wears the tie (or uses the perfume) he (she) will remember that the store was truly sorry. In cases where customers complain about the expense of trying to
correct something (trips to the store, carfare, telephone calls), a check is sent - but in many cases is never cashed.

Most customers have a well-developed sense of fairness; it would be well if stores developed their handling of complaints with this fact in mind.

## THE DISAPPEARING DISCOUNT BUSINESS

Mass Retailing Merchandiser (Jan. 73, 222 W. Adams St., Chicago, Ill $60606 \$ 7.50$ per yr.) is paying more and more attention to Catalog/Showroom operators. They ran a summary of operating statistics for the major publicly held companies and the table below shows the change in gross margin percentages for the two most current fiscal years:


Only 1 firm showing a true gross margin figure reported a lower percentage (Jewelcor) and only 2 in the mixed gross margin group (Best Products and Service Merchandise) reported a lower percentage.

RThought: The industry is not yet established, the firms are showing fantastic sales growth, and already the discount image is being erased. The future is like the past, only more so.

## SHORT SHORTS

Harrods Sale Policy. Their advertisements state "It has always been our policy to hold a genuine sale. We must clear end-ofseason items, soiled and slightly damaged articles and goods which are selling slowly, in order to make room for fresh merchandise. Manufacturers and suppliers also have to clear their existing stocks from time to time. This merchandise we buy at advantageous prices which we pass on to our customers. Whenever the goods are of imperfect manufacture this is made clear on all sales tickets." This sounds much more convincing than an "assistant manager's sale" or "celebrating the opening" of a store 400 miles away.

Bargains at Saks 5th Avenue. The London Sunday Times points out that a set of 4 plastic flower vases from France made 2 Christmas catalogs - Harrods at $£ 10$ (roughly $\$ 21.50$ ) and Saks 5th Avenue at $\$ 20$ ! Saks, a discount house?????

## SPANNING THE GENERATION GAP

For many years business executives have read the surveys that say that the brightest, best educated young people reject careers in business. Of those who do give business a try, many report that they are assigned to jobs without substance and that they are not given any responsibility. Others who try business deplore the lack of sensitivity on the part of top management.

There appears to be a way of spanning this gap - with good results for both sides - and Larry Phillips of Phillips-Van Heusen $(\mathrm{PvH})$, an apparel manufacturer with growing retail interests, is showing it can be done.

PvH has two special committees composed of up-and-coming young middle-management people (male and female, black, brown, and white) who have been given unusual powers.

One committee reviews the investments held by the multi-million dollar pension fund and it has the power to vote all of the stock held. For example, the committee gave the proxies on 2,000 shares of ITT to Clergy and Laymen Concerned, who were challenging ITT's war activities in Vietnam. In addition, the committee has the right to make recommendations (either to sell or to buy) although the final decision is made by the professional advisors.

The second committee meets regularly to review the ecological responses of the company. RT was able to sit in on a meeting when the members were reporting on their studies and investigations of the areas in which PvH could use recycled paper products without additional cost (perhaps even a savings). Their general charge is to review all of the activities of PvH and make recommendations on courses of action that will bring improvement to the environment. It is a lot more difficult job to find a suitable and economic replacement for a packaging material than it is to criticize the use of the least expensive material.

## ABUSE THROUGH THE FBI FILES

RT has long protested the maintenance - and especially the dissemination for other than police work - of the FBI files which indiscriminately accumulate records of arrests - without worrying about the ultimate disposition.

John J. Leonard has filed a class action against the FBI and Massachusetts authorities because one or the other disclosed, in response to an inquiry from the Boston Post Office, that he had been arrested for being in the company of persons using marijuana - although the charge was ultimately dismissed.

Leonard was not required to disclose this information on his employment application which merely asked for convictions other than traffic offenses. Leonard was never convicted.

The Post Office has a policy of rejecting employment where any "offense" is drug-related; and being arrested for being in the company of a person using marijuana, even though the charge was ultimately dismissed, meets the criteria. Thus, an official corporation of the United States Government equates dismissed charges with guilt.

But there is even more. The Post Office has a policy of giving a second chance to convicted felons (convicted of other than
drug-related offenses) and so a convicted felon would have a higher priority for employment by the Post Office than a service veteran, such as Leonard, whose "record" was a dismissed charge for the horrendous offense of "being in the company of a person using marijuana."

## FROM AN EXECUTIVE'S WALLET

The response from readers - with photocopies of their walletworn words of inspiration - has been beyond our hopes. It will become a regular feature - starting with one from Murray Krieger, Associate Professor of Retailing at Bronx Community College. It is an old favorite - but RT did not have a copy before now.

## A SOBERING THOUGHT

Sometime, when you're feeling important, Sometime, when your ego's in bloom, Sometime, when you take it for granted You're the best qualified in the room,

Sometime, when you feel that your going Would leave an unfillable hole, Just follow this simple instruction And see how it humbles your soul.

Take a bucket and fill it with water, Put your hand in it, up to the wrist, Pull it out, and the hole that's remaining Is a measure of how you'll be missed.

You may splash all you please when you enter, You can stir up the water galore, But stop, and you'll find in a minute That it looks quite the same as before.

The moral of this quaint example Is to do just the best that you can, Be proud of yourself, but remember, There is no indispensable man.

## POEMS TO MANAGE BY

Almost three centuries ago Alexander Pope, in his "Essay on Criticism" set forth the description of the man that managers should strive to be.

But where's the man, who counsel can bestow,
Still pleased to teach, and yet not proud to know?
Unbiased, or by favour, or by spite;
Not dully prepossessed, nor blindly right;
Though learned, well-bred; and though well-bred, sincere; Modestly bold, and humanly severe:

Who to a friend his faults can freely show, And gladly praise the merit of a foe? Blest with a taste exact, yet unconfined; A knowledge both of books and human kind; Generous converse; a soul exempt from pride; And love to praise, with reason on his side?

# Can You Guarantee Satisfaction On a Home-Improvement Job? <br> expand to stores in Los Angeles, 

(EDITOR'S NOTE: This material is printed with the permission of "Retailing Today." the national retail monthly newsletter published by Robert Kahn and Associates, P.O. Box 343 , Lafayette. Cal. Annual Subscription, \$12.)
"More and more massretailing companies are recognizing that one of the services they can provide is home improvement and remodeling. At the present time, most such work is done by small contractors who do not have the facilities, customer contacts, customer confidence, or financial resources to handle the increasing demand for home improvement and remodeling. And many mass retailers pride themselves on a policy of satisfaction guaranteed.
"In September, 1972, 'RT' reported that the FTC has brought action against E.J. Korvette, Inc., and their parent company, Arlen Realty and Development Corporation, because of the alleged false representations made by a controlled subsidiary, Mannix Industries, operating out of Korvette stores.
"And now Sears! Sears, Roebuck and Company has advertised satisfaction guaranteed since their start in 1886 (such a guarantee was the only way a mail-order, sightunseen business could be established). Today, Sears is the defendent in two class-action suits filed for more than $\$ 100,000,000$. And all because of a 'Sears Add-A-Room' operation.

## WHAT HAPPENED AT SEARS

"Sears entered into a licensing agreement with a California corporation, United Remodeling Systems (URS), to operate an Add-A-Room' program. This was successful in San Diego, and URS was given an opportunity to

Northern California, Seattle, and Hawaii. Sears was banking on the integrity of the original URS management and their proven success in servicing customers satisfactorily.
"To introduce the service Sears' customers were sent a brochure that proudly proclaimed, 'Sears presents the newest concept in Add-A-Room construction, and another dozen proclamations of the wonders of Sears, ending with the phrase, 'Satisfaction Guaranteed.'
"The contract was headed 'Sears Add-A-Room by United Remodeling Systems,' and 'A Sears Authorized Installer," and right below the place where the customer signed were the words 'Sears is your Guarantee of Satisfaction.' Sears required that each contract be backed by a performance and payment bond.

## THE CHAIN OF EVENTS

"Obviously, events did not proceed as planned. URS expanded faster than their capital would allow and sought financial support. If May, 1972, newspaper reports said that URS has been acquired for stock or for cash (reports conflicted) by United States Financial Corporation, a San Diego Conglomerate that was a favorite on the New York Stock Exchange. The bonding insurance was then placed with another subsidiary of United States Financial. Business boomed, but on January 15, 1973, United States Financial announced that the acquisition of URS had never been completed, and United States Financial was withdrawing their support.

## JOBS GUARANTEED

"The bonding company took the initial position that Sears had guaranteed the jobs, and that the bonds became effective only if both URS and Sears failed. There was some $\$ 2,000,000$ in uncompleted jobs, and Sears was faced with a problem. Their legal counsel saw the position as follows: If Sears proceeds directly on their 'SatisfactionGuaranteed' representation, the bonding company's position would be strengthened and Sears' stockholders might lose \$2,000,000.

The decision was made to take the stance that the bonding company was obligated, and therefore Sears carefully avoided any commitments under many representations that 'Sears is your Guarantee of Satisfaction. This left several hundred worried customers, who had paid $\$ 5,000$ to $\$ 15,000$ cash in advance, wondering where Sears was, and resulted in the class-action suits.

## WHATCANRETAILERS <br> LEARN FROM THIS

 EXPERIENCE?"1. A store that guarantees satisfaction cannot proceed
directly to serve their customer when it involves a bonded con tracting job, with jeopardizing performance by the bonding company. Therefore, a retailer must establish a new form of bond which will say clearly that the responsibility is first by the contractor, second by the bon ding company, and third by the retailer.
"It must give the retailer the right to assure the customer of satisifaction guaranteed, to press claims on behalf of the retailer's customers, and to acquire the customer's claim against the bonding company if the retailer, in his discretion, decides to satisfy his cutomers by performing the contract before final adjudication of rights under the bonds and that such action by the retailer will not prejudice the rights of either the customer or the retailer against the con tractor and-or the bonding company.
"2. Sears' license agreement with URS was defective because it did not require Sears' approval of a change of controlling interest in URS. Such a provision is common among license agreements between retailers and small concession operators Had Sears had such an agreement with URS, Sears could have required, as a condition of consent to transfer ownership, that United States Financial assume, in writing, the obligations of URS under the license agreement
" 3 . The customer must have more complete disclosure, at the time of entering into the contract of the parties invelved and their relative positions. In the case of Sears, merchandising executives (naturally) wanted the concessionaire to appear to be a department of Sears, with a minimum disclosure of identity as a separate corporation.
"4. Sears' license agreement called for review of all advertising materials but not necessarily the contract forms and the bond. Sears should have such power and all approved advertising material should clearly disclose the true natu ${ }^{-}$ and obligations of all the partie involved.

## CONCLUSION

" 'RT' feels that Sears handled this situation incorrectly $\$ 2,000,000$ is an imposing figure but the largest retailer in the world should have put their customers first. The legal department may avoid a $\$ 2,000,000$ loss, but the customers produce all of the profits.
"Sears makes a profit on a customer, not a transaction. With the publicity given the classaction suits, the word-of-mouth reports to other customers from those caught in this fiasco, and the extra costs incurred by Sears in pursuing their present plan, it is entirely possible that Sears will end up with a loss rather than saving $\$ 2,000,000$.'

## cial Discount Front

lost aboutt $\$ 2,50000$ for the fiscall year, amed thatt just closing out most of thesttores is costting aboutt $\$ 1,000,000$. It was fuarther prointect out that three Bosttom Babyy stioness alome lost allmest $\$ 1,000,000$ during their first elevem monthss of operation.

It appears that the parent discount group mettied somewhatt over $\$ 1,000,000$ for the year, during which ilt apened 13 mew stores. Im addiition to the stlant-up costs, Mannmetilh Mart lhad problems with the ligigh costt of competiing iim towgh New England. This caused the chaim to spend $\$ 500,000$ more for adtvertising in the last quarter tham originalliy budigeted.

## Classer Showed Gains of Over $20 \%$

Glosser Brothers, lime, a Westerm Pennsylvamiai deepartment store, amd Gee Bee discounit departument store and suppermarkett chain ammoumce record earningss amd sales for the filiscall year emding January $2 \pi 7,19 \pi / 3$. Total sales were $\$ 611,12 \pi, 494$ compared to $\$ 477$,we, 1114 in 1971. Net carnings were $\$ 1,4513,4413$ compared to $\$ 11,190,1822$ in 1974.

Glosser Broutherss, Ime. currentlly aperattes eightit sttores, as compared to siix locations im the previouss year. Addifitiomall locatioms iim Cumberllamd, Marylamd, Momaca (Beawer Valley), amd McKeesport,, Pemmsyllwamial hawe beem ant nounced for $195 / 3$. The comprany coniminues to activelly purswe addititiomall storesiite locatlioms.

## Vornado Sales Ind lanings 0ff

Elarnings amd salles were down at Vormadio, lime, qperattors off Two Guyss amm the Brainhtikrs Emponiumm chainus, primariily dure to completiom of salle of iitss weest Coast suppermarkett divisisiom. Sales for 52 wreeks ammoumtied to $\$ 793,045$, e32, imelludlimes leassedt departhmentit salles of $\$ 337,4418,439$ ass comparred to $\$ 892,1644,7352$, imUnding leeased-departumentt salless I \$ \$55, veas, 4227 for the comparrable is-week period.
The decrease in salless refilectiss the dispposition of the remaziming stores of the Calliflormian chain of Food Giament Supermmariketts, whichich
 Net earmingys for the flisceall yeear were $\$ 111,0 \mathrm{man}, 5 \mathrm{se}$ compmared to $\$ 12,059,529$, reportted for the previous year.

## Child World liss Record Sales

Chilld Worrid, aperattorss of 2 Iss discoumt toy amd juwenille furniture sttores, 7 Pllayy m" Lesanm, and 1 Chilldrem"s Bouttique iin New Einglamd, New Jerseyy, amed New York, showed record salles amod carninges for the fisceall year emit ing Febiruary 3, 1smik.
Elarmingss before exthraordimany
and the acquisition from Stop and Shop Companies, Inc. of their three Fum Stop stores located in Western Massachusetts and Commecticut.

## Ilollar General Says Gued Leases Scarcer

For the tenth year in a row, Doillar General, the small town discount metwork based in Scouttswille, Ky., showed increased sales and profits. Sales were $\$ 64,251,308$ for the year emdiing December 31, 1973 compared to the previous $\$ 60,945,103$. Net was $\$ 2,723,315$ compared to the previous \$2,4774,306.

During the year, Dollar General closed 43 poor performers while opening 88 new locations. The number of operating units by the end of the year was 544. This includes franchised locations, according to President Cal Turner, Sr. The net gain of 46 stores this past year was behind the net gain of 88 the previous year, because the opportunity for leasing store sites at favorable terms was not as good as during the previous year.
Dollar General likes to take short-term, low-rent sites in small towns, with the flexibility to close them down quickly and inexpensively if they don't pan out. They make their own fixtures, and can set up a store and inventory it in about a day.

## Prospectus Gives Details of Ward's Jefferson Acquisition

NIEW YORK, N.Y.-When Monttgomery Ward takes over the seven-store Jefferson's discount group of South Florida, it will not only upgrade all aspects of merchamdising, fixturing and presentlation but also apply the excellent Ward's shrinkage controll systems to its new property. This is what E.E. Dommelll, president of the Ward's suubsiidiliary of Marcor told securrity amalysts here.
Jeffersom has an inventory sharink of 4.8 per cent, while Wlard's claims a 1.5 per cent rate, abbout the best in the business. Thisis could do a lot for Jefferson's proffitt rather quickly. Jefferson's creditit salles are around 15 per cent, and W/ard's are 51 per cent, soome could look for a big push in thath dirirection, too.
Dommell states that Jefferson luas wery good rental rates, hard to duplicate in today's market. The Mufisom family controls 54.7 per cent off Jefferson and trades iltss 455,950 shares for Marcor commom stock.
Tenmes of the deal, spelled out im a just-issued prospectus, proxy stattemment, and notice of the ammuall meeting, are that each uutstamding Jefferson common sthare will be converted into .421 shlare of Marcor common, the samme terms agreed on back in Janumry. The prospectus also comflirmms other information about the merger and about Jefferson's eperations:

- Jeffliersom Stores, Inc., will Jefflersom Stores, Inc., will
become a subsidiary of Ward, amd Jeffierson President Julius Muffsom will become president amd chlieff executive officer. $\rightarrow$ Jullinus Mufison will receive an


Markss and Spencer, the "Sears in theretaill business in the United Amerricam wing of Slater Walker $S$
annual base salary of $\$ 60,000$; Raymond Mufson, $\$ 45,000$; Gerald Nathanson, $\$ 40,000$; and Jack Smith, $\$ 35,000$. Each has been a senior vice president at Jefferson.

Furthermore, Harry and Samuel Mufson, chairman and vice chairman respectively of Jefferson, will enter into consulting agreements with Ward at $\$ 25,000$ a year. All contracts have a two-year term.
Julius Mufson additionally wil receive a bonus not to exceec $\$ 30,000$ per year, based on im provement in operating results Retirement and stock-optior plans also are in effect. Edwari S. Donnell, president of Marco and Ward, receives as direc annual remuneration $\$ 205,810$. -Jefferson's seven stores, whic reported a first-quarter profit o $\$ 535,675$ on sales of $\$ 22.2$ millio have estimates that 70 per cent business last year resulted fro frol

## MAKING "SATISFACTION GUARANTEED" COME TRUE

RT was immensly proud when it received a letter from Mr. Tyler Carlisle, President of Carlisle's in Ashtabula, Ohio. At first, Mr. Carlisle did not want the letter printed-but ultimately gave in to our persuasion-with the caveat that, "If there is one thing we're learning, it is that a program of this kind is a completely continuing challenge and needs constant attention. We still have a long way to go ... I'm convinced that the program is the only way to go if we want to try to regain the confidence of our customers."

His original letter reads: "Perhaps a year and a half ago, I was impressed by your repeated comments that retailers were doing at best an inconsistent job in assuring customers that they would back up their merchandise.
"We discussed the matter and decided that we should develop a slogan expressing what we felt our responsibility to and our relationship with our customers should be. We finally decided on the phrase 'Our Goal is Your Satisfaction.'
"In August, 1972, we began a campaign to make this slogan a fact of life in our Company. It was directed principally to our Employees with store and departmental meetings plus a letter from me to every Employee.
"In addition, the slogan appears in every ad, on our merchandise bags, our shopping bags, our statements, on our store signs-every medium that is directed principally to our customers.
"We believe this has been and is a real success. One dramatic form the program has taken is in, I believe, greatly improved customer service. In all my time with our Company, I have never seen as many "Thank You" letters from customers complimenting a store or a particular salesperson or other Employee for extra-good service. It needs continuing attention but this program, in my opinion, played a real part in our successful results for 1972.
"I thought you might be interested in our story. We would not, I am sure, have taken this action if we hadn't read 'Retailing Today.'"

## HOW MUCH CREDIT FOR THE COHABS?

It is not too soon for top retail credit management to be thinking about how to qualify for credit those people who opt for cohabitation-rather than marriage.

Lloyd M. Levin (Lloyd M. Levin Creative Marketing, 316 W. Randolph St., Chicago, Illinois 60606) had a stimulating article in the January 1973 issue of Life Association News under the title of "Lifestyles and Life Insurance." He points out that "commonlaw marriages" of the 1920's and 1930's occurred mainly among

## APPRECIATING CUSTOMERS

RT has long deplored the policy of offering special discounts to-or applying a $\$ 5$ credit to the accounts ofinactive customers while doing nothing extra for the active customers who are the life-blood of the business.

Kauffman's, a Northern California men's chain, sent RT a copy of their Christmas expression to all their charge customers, both active and inactive.

First, there was a note from the President that read, "This letter has a single purpose-to carry out sincere greetings and grateful appreciation to you at this holiday season. You have given us the great privilege of serving you. You have conferred on us the benefit of your confidence. You have shown consideration and understanding when, on occasion, we might have slipped a little in fulfilling our high objectives.
"For all this, we sincerely thank you. Business certainly has its human aspects and this is an especially good time to let our hearts speak to our friends. We would like to put these words in gold-THANK YOU."

Second, every account received a coupon good for a $10 \%$ discount on their next purchase-including sale merchandise. And all purchases are unconditionally guaranteed or money back.

Third, they extended their account terms from 6 months to 1.2 months.

This is good merchandising-both short run and long run. And they later reported that the increase in December in both sales and profit was beyond belief.
the poor, while "cohabitation" today is much more common among the middle and upper class. One study shows that by 1975, one-third of the people in the age group from 18 to 35 (prime retail customers) will be living together-but not married.

The trend to stay single is growing. In 1960, the Census showed that $48 \%$ of the males between 18 and 35 were unmarried; by 1970, it had risen to $56 \%$. Even those who are married, are not staying that way. California reported 876 divorces for every 1,000 marriages; even conservative Illinois is reporting 460 divorces per 1000 marriages.

The balance of his article dealt with a questionnaire sent to 14 of the largest life insurance companies, of which 11 replied (the 11 companies represent $11 \%$ of all life insurance in force)-and he asked such questions as, "Will you issue life insurance policies on otherwise qualified applicants who are cohab'ing?" (all 11 said yes). One company felt that they had enough experience with such situations to conclude that policy renewals or continuations ran at about the same rate as legally married persons of the same age.

9 of the 11 would issue policies on a racially mixed cohab, although some would make a more detailed investigation. 10 of the 11 would issue a policy on a child born of a cohab.

When queried about the age group from which most cohab applications were drawn, 3 companies pegged the 26-30 age range and one said 30-35.

On the matter of drug use, 5 companies will issue policies on an infrequent (once a month or less often) user of marijuana (4 of which would issue at a higher cost). 3 companies would issue if usage was moderate (once a week), while none would insure a heavy user. The article notes that at least $50 \%$ of $18-35$ year olds have used pot at some time.

None of the companies would issue to a current user of hard drugs but all 11 would issue on a rehabilitated addict ${ }_{2}$ with certain requirements as to how long he had been "clean."

RThought: now that we find that the people who cohab, and their offspring, as well as the people who use pot and who have been rehabilitated as users of heavy narcotics, can get life insurance from the major companies in the United States, we must ask if the major retailers will give them credit!

RTip: If you want to discuss this matter further, write directly to Lloyd M. Levin-his business is marketing.

## THE GILBERT BROTHERS RATE THE RETAILERS

Each year Lewis and John Gilbert, America's foremost attenders of annual meetings, issue a report on their activities ( 1972 was the 33 rd annual report). Here is a quick summary of how retailers were ranked.

On the Honor Roll for well-conducted meetings were Alexanders, Allied Stores, Dominion Stores, Ltd., Federated, GambleSkogmo, Genesco (a great improvement over the 1971 meeting), Goldsmith Brothers, Grand Union, Hughes \& Hatcher, Kroger, McCrory, Macy, May, Phillips-Van Heusen, and Woolworth.

These retailers made the Honor Roll for post-meeting reports: Allied Stores, Arlen Realty \& Development, Federated, Grand Union, Hughes and Hatcher, Macy, Marcor, May, McCrory, Phillips-Van Heusen, Twin Fair, and Woolworth.

Marcor was rated as having the most attractive annual report among retail firms.

Those rated as having POOR post-meeting reports were Amfac, Broadway-Hale, Gamble-Skogmo, Garfinkel, Brooks Bros., Miller \& Rhoades, Kresge, and The Outlet Co.

Fairchild Publications were praised for providing "readers with detailed information which makes effective financial reporting. Fairchild is successful because most of its journalists attend annual meetings and pay attention to the questions shareholders ask."

Federated and Phillips-Van Heusen were criticized for not publishing income figures by groups, while retailers commended for giving proper breakdowns were Castle \& Cooke, Gamble-Skogmo, Interco, and Marcor.

Genesco was criticized for making such a jumble of their presentation that it was difficult to discover management's alibi for poor earnings; while May made their type so big, stretching from one edge of the page to the other, that it failed to be legible.

Grand Union distributed something called "A Consumer Bill of Rights" but won't let minority stockholders put proposals on the proxy. Objections were raised to high salaries at Arlen Realty and Development and Rapid-American when stockholders were not paid a dividend.

Allied Stores, Federated, Kroger, and Marcor admit operating from 1 to 6 airplanes.

Gamble-Skogmo, Genesco and Kroger voted down proposals that directors meet at least 10 times a year (they met 4, 6, and 7 times). May was criticized because 2 directors owned no stock, while Alexanders now has all directors owning at least 100 shares. Proposals to allow cumulative voting were defeated at Alexanders, Arlen Realty, Grand Union and May.

Macy eliminated pre-emptive rights, while Allied Supermarkets and Marcor defeated proposals to add pre-emptive rights. Dillon was praised for handling fractional shares on stock dividends by allowing the holder to either buy a fraction or sell his fraction, while National Shoes, Southland and Tiffany were criticized for automatically selling the fractions.

Phillips-Van Heusen was praised for setting up an employee committee to vote shares in the pension fund, as well as the 31,000 shares of PvH stock. Retailers giving pass-through voting rights to their employees for their own stock held in the pension or profit-sharing funds include Broadway-Hale and May.

## THE BOOMING BANK CARDS

It was not too long ago that NRMA gleefully picked up and distributed a study made by the National Association of Small Businesses, based on a questionnaire sent to their members, indicating that fewer small businesses were honoring the bank cards and that those who did honor the cards were doing a smaller percentage of their business on the cards.

One should not doubt surveys-but sampling surveys are not necessary when one can get the total count. For 1972, National BankAmericard, Inc., reported gross volume up $32 \%$ in the U.S. to $\$ 4.5$ billion and up $50 \%$ to $\$ 1.0$ billion overseas-for a combined figure of up $35 \%$ to $\$ 5.5$ billion. Master Charge reported total volume up $20 \%$ for 1972 to a new record of $\$ 5.9$ billion. Both cards are growing substantially faster than total consumer credit-which indicates that customers (and stores) must like the arrangement.

## HOW SECURE IS YOUR COMPUTER?

District Attorney Frank S. Hogan, of New York, has filed charges alleging embezzlement of $\$ 1,500,000$ from Union Dime Savings Bank by an employee who never had access to the computer except through a terminal in his branch. The bank apparently does not know how it was done-one official said, "No matt how it was done, it completely escaped our safeguards." The theft continued over a three-year period, during which the

## ANNUAL REPORTS AND AUDITORS - PART I

i has been two years since RT reviewed annual reports. Our study is made to find what is not disclosed-or to highlight what is hidden. Those firms that are not reviewed are mainly those that either have nothing unusual to highlight-or RT was unable to find out what was hidden.

There are two general points that bear comment.

## RETAIL METHOD OF INVENTORY

The accountants for most firms that use the retail method to value their inventory state, as part of the newly-required "Summary of Accounting Policies and Practices" roughly the following (taken from J. C. Penney Company-Peat, Marwick, Mitchell \& Co.): "Merchandise inventories in stores are stated at the lower of cost or market, determined by the retail method." RT intentionally selected an audit by PMM because James T. Powers, a partner in PMM and their top retail man, kindly assisted the National Retail Merchants Association by re-writing their handbook, "The Retail Inventory Method Made Practical" (1971). On page 4 he said, "Because of this averaging procedure, merchandise cost of sales developed under the Retail Method is not exact cost. In fact, as will be shown, 'cost' under the Retail Method, ignoring the effect of markdowns, will often give a $3 \%$ to $7 \%$ higher valuation than 'cost' developed from vendors' invoices." (Note: the reference to "ignoring the effect of markdowns" does not mean that taking markdowns corrects the situation-but that in a situation where no markdowns are taken, inventory still ends up overstated).

This distortion, resulting in a cumulative overstatement of invenory and net worth (and the payment of extra taxes), has continued for years with no attempt by the accounting profession to remedy it. This disgraceful performance by the profession is hardly in keeping with lofty goals professed for the Accounting Principles Board and the Financial Accounting Standards Board. The IRS, of course, makes no objection because retailers willingly pay extra taxes under this method!

## ACCOUNTANTS SIGNATURES

It always seems like a child's game to note the handwritten words "Touche Ross \& Co." or "Ernst \& Ernst", as though such are real living people. RT would much prefer a printed element for the firm name, followed by the true signature (and printed name) of the partner responsible for the report.

AMFAC (Haskins \& Sells). Despite writing off $\$ 3,221,000$ because of the closing of RhodesWAY, their aborted discount chain, AMFAC reported 30\% higher sales, $27 \%$ higher profits and $13 \%$ more earnings per share. Of course, they were helped by H\&S's interpretation of "generally accepted accounting principles" (GAAP) and the wonders of a natural resource company. Preopening expenses plus initial operating losses for the first 6 months are written off over 36 months. This boosted pre-tax profits by an even $\$ 1,800,000$-and it could have been more except for the restraint of the merchants in anticipating markdowns. Premiums paid for purchased companies are written off over 40 years, but bargains in companies purchased are taken into income over 5 years! Amfac owns 86,000 acres of land $(77,000$ of them in Hawaii) at a book value of less than $\$ 248$ per acre! So $+\rho$ produce their record profits they took an additional , $4,600,000$ capital gains which, being in the land business, they can report as ordinary income! Investment credits were up by $\$ 1,480,000$ over 1971. When you put it all together, Amfac managed an after-tax increase of $\$ 5,238,000$ on a pre-tax increase
of $\$ 5,252,000$. All companies wanting to pay only $\$ 14,000$ more taxes on $\$ 5,000,000$ more profits, study Amfac's report; then consult your accountant.

EDISON BROTHERS STORES, INC. (S. D. Leidesdorf \& Co). This rapidly growing and diversifying company continues to reflect family domination and a desire to tell the stockholders as little as possible. Just try to find out how many Chandlers, Bakers-Leeds or Burts shoe stores are operated or the number of leased departments. But even more important, with the major volume growth (but not the profit growth) coming in Jeans West, Handyman Home Improvement Centers, United Sporting Goods and Size 5-7-9 Shops, just try to find out how many of each were opened or closed during the year, or were in operation at the end of the year. Leidesdorf makes no comment about the impact on earnings of multiple corporation tax rates (although the reported effective Federal tax rate-which may also include state taxes but one cannot be sure-is up from $39.7 \%$ to $43.2 \%$ ). After tax profits increased by $\$ 1,972,000$ but no one thought it significant to comment on the $\$ 840,000$ increase in "Deferred charges, etc." -to triple the 1971 level. Total indebtedness is up $\$ 11$ million and cash and equivalents down $\$ 7$ million-without any comment. But the report ends with a picture of the 5 brothers, all looking fairly happy, which well they might be, given the look of success reflected by this 50 th anniversary report.
R.H.MACY \& CO. (Touche Ross). Macy's has some conservative accounting practices. At $7 / 29 / 72,56 \%$ of the inventory (up from $47 \%$ ) was reported on LIFO, which reduced pre-tax profits for the year by $\$ 324,000$. Investment credit is spread over the life of the asset (had it been on a flow-through basis, 1972 after-tax profits would have been increased by $\$ 350,000$ ). These two principles mean about $5 \phi$ per share lower reported profit. But at the other end, Macy's does not consolidate some $\$ 185,000,000$ of indebtedness (equal to $68 \%$ of their net worth) by the process of reporting the $100 \%$-owned Macy Credit Corp. on an equity basis. Looking at all of the indebtedness of Macy's, exclusive of deferred taxes, gains on sales and leasebacks, and contingent compensation (which are not currently tangible debt), we find that the debt to net worth ratio runs 1.70 to 1 (down from 1.80 in 1971), all of which is computed when receivables are at their low point (compared to stores on a January fiscal year). Macy's pretends to disclaim some liability by selling accounts to their credit subsidiary "without recourse," which may fool Touche Ross but not the public. It is interesting that GAAP permit Macy's to offset the Credit Corp. profits against parent company interest and combine the tax liabilities, to arrive at a profit including the credit company-without showing the debt on the "Macy and consolidated subsidiary" balance sheet.

MELVILLE SHOE CORPORATION (Peat, Marwick, Mitchell \& Co.). Considerable information is provided the stockholder, including the number of stores by types (including numbers opened and closed in 1972) as well as a projection of openings and closings for 1973 (good), and the growth in store divisions since acquisition. The footnotes give adequate information. Disclosure of the replacement costs of LIFO inventory (carried at $\$ 6.5$ million but with a replacement value of $\$ 15$ million) discloses that pre-tax profits were cut $\$ 1.2$ million because of LIFO (conservative). The footnotes on taxes discloses the use of multiple corporations (effective tax rates were $42.7 \%$ in 1972 , $41.2 \%$ in 1971 ) and that earnings per share would have been reduced $2 \phi$ and $5 \phi$, respectively, for 1972 and 1971 had consolidated returns been filed. (For comparison, see Edison Brothers Stores, Inc.).

PENN FRUIT CO. (Price Waterhouse). Penn Fruit has found a loophole in GAAP whereby operating losses can become extraordinary charges. Penn Fruit is expanding smaller (convenience) stores under the Red Robin name, and larger (up to $80,000 \mathrm{sq}$. ft.) stores under the Penn Fruit name-but they are writing-off middle-size stores! Their report states: "However, we have a number of stores that will not be profitable under today's wage levels ... believe that it is in the best interests of the company
. have adopted plans for phasing out of those supermarkets ... estimated loss on the disposition ... is reflected ... as an extraordinary charge!" The debt-to-net-worth ratio increased from .90 to 1.27 -without regard to indebtedness approximating their total net worth concealed in $50 \%$ or less owned affiliatesthe largest being one where the Penn Fruit Foundation, a closely related charitable organization, owns the other $50 \%$.
J. C. PENNEY COMPANY, INC. (Peat, Marwick, Mitchell \& Co.). Penney's continues to give more and more information in their annual report, as they shoot for the $85 \%$ of the population in the "middle income" range. The Financial Highlights reports profit as a percent of sales (up) and as a percent of stock holders' equity (down-due to converting debentures in 1971). Sales are reported by type of store, as are number of stores, square footage, and volume changes for comparative units. The credit information is as complete as that provided most management by their own credit department. It is apparent that the increasing average balance (unless interest rates rise to the 1968 levels) will soon reach the point where service charge income exceeds identified expenses. BUT the published consolidated balance sheet excludes the debt of J. C. Penney Financial Corporation ( $\$ 870$ million) with the result that the true debt-to-net-worth ratio, instead of being approximately 1.1 (desirable), is closer to 1.7 to 1 (extremely heavy). Penney's has allowed a little more white space, making the financial information easier to read; but they still make no attempt to reference explanations to the balance sheet and/or income statement.

THE SOUTHLAND CORPORATION (Touche Ross \& Co.). In addition to complete information on each type of store operated, the Company gives their estimate of the potential number of 7-11 stores they could operate in the 33 largest metropolitan areas, based on 1 store per 12,500 population. They have reached full penetration in only 4 areas-Washington, D.C., Dallas-Fort Worth, San Diego, and Tampa-St. Petersburg. This doesn't count growth in other areas like Great Britain where they operate 1,100 stores in two unconsolidated 50-50 corporations (confusingly named Cavenham-Southland, Ltd., and Southland-Cavenham, Ltd.). No comment is made on the effective Federal tax rate of $43.9 \%$ in 1972 , and $45.4 \%$ in 1971 -one must presume multiple corporations. This is one of the few companies still spreading investment credit over the life of the asset-flowthrough would have reduced 1971 earnings by $4 \phi$, but increased 1972 by $5 \phi$ for a $9 \phi$ swing. 10 -year history provides compound growth rates-and information on return on beginning shareholders' investments.

STEINBERG'S LIMITED (McDonald, Currie \& Co.). This company reported record profits and sales-but profits were boosted by an abnormal $\$ 2,080,000$ tax-free long term capital gain (probably taken in anticipation of a capital gains tax law in Canada). On the other hand, the reported policy on starting a catalog showroom-"our policy is to charge catalogue costs and
pre-opening expenses against the current year's operations"-is not one that most companies are going to follow. There are a number of interesting items in this report that have not been noted elsewhere. Two pages are used to report the background on 8 women executives. Selling space was reduced in several Miracle Mart stores to reduce fixed costs and improve efficiency. It was reported that gross margins in food operations remained unchanged for the year but were lower by $15 \%$ over the past 4 years. An organized program of meetings with customers and the general public was developed. And there is the conclusion "Reappraisal of our Company's goals has led us to believe that growth . . . can only be assured by greater understanding of the needs of both customers and employees and continued active concern for the organizational health of the Company."

UNITED STATES SHOE CORPORATION (Arthur Andersen). The retail subsidiaries use years ending July 31, which are combined with the parent company as of 3 months later. Among the interesting footnotes is the fact that unfunded prior service costs of the retirement plans are not being amortized and that the Company has guaranteed annual rentals of more than $\$ 2$ million for customers of the Company (independent shoe stores).

UNITED STATES STEEL (Price Waterhouse). RT has long criticized this report (RT April 70 and others) because of the failure of the accountants to disclose the difference between current value and LIFO value of the inventory. In April 1969 RT estimated that inventory was understated by $\$ 500$ to $\$ 1,000$ million. The S.E.C. now requires disclosure so the report now states "Under (LIFO) method, the current acquisition costs are estimated to exceed the inventory value of December 31, 1972, as shown in the ... Statement ... by approximately $\$ 600$ million!" RT was right. $\$ 600$ million represents, after allowing for $50 \%$ income tax, an understatement of net worth by $\$ 5.54$ per share on $54,000,000$ shares, or $8.4 \%$. But the $\$ 600$ million difference between book and market value is best measured by the amount reported as the LIFO value-only $\$ 791$ million, thus indicating a $43 \%$ lower valuation of inventory. RT repeats-this means profits have been understated by some $\$ 300$ million over the years-and the lower profits reported have been used as an argument for increasing steel prices and for resisting wage increases. Many a scrap iron tear has been shed over the low earnings of U. S. Steel.

THE F. W. WOOLWORTH CO. (Price Waterhouse). This report makes great reading-page after fascinating page, magnificently presenting the theme "Woolworth-the Local Merchant." The majority of readers will quickly grasp that earnings per share are up, both primary and fully diluted, and that sales are at a record level. He may even note that net income before extraordinary charges is up $\$ 2,584,000$ and after extraordinary charges is up $\$ 8,076,000$. There is a statement in the "Letter to Shareholders" to the effect: "These increases (in other divisions) were largely offset by a decline in domestic income from Woolworth and Woolco Department Store operations." The magnitude is not indicated until 27 pages later when, by some additional arithmetic by the reader, it is discovered that income taxes in the U.S., net of investment credit, dropped almost $\$ 15$ million! And the same note discloses that the IRS audit for 1960-67 resulted in "substantial adjustments" but confidently states that the settlement will be for less than what is proposed!
manual records (some alleged to be forged) agreed with computer records-and customer account balances at quarter-end agreed with what customers thought they had!

Jow, about your computer. Could someone write $\$ 150,000$ of checks through access to a terminal-or pay-off 1,000 charge accounts to which merchandise had been charged by fellow thieves-or create a fictitious staff of employees receiving checks every week? If the answer is "No," please explain why you are so sure.

## "BEWARE THE STANDARD LEASE"

That is the title of an article on the March 1973 issue of Datamation ( $\$ 1.50$ per copy, 1801 S. LaCienega Blvd., LA CA 90035) by Robert A. Bucci, legal counsel for ITT's Communications and Systems Division. He points out little things like binding you to price increases but not guaranteeing that you get the benefit of price cuts, allowing time over 200 hours a month "at the extra usage rate then in effect," and many more traps. If you are contemplating a lease with one of our magnificent, forward-looking, inspirational computer companies, RT is sure you will want to read this article in advance.

## SAVINGS BY SELF INSURANCE? NOT IN MISSOURI

A Missouri Judge ruled that Monsanto Chemical's self-insurance plan was illegal. He said Monsanto was actually engaged in insurance by offering company-paid medical and disability benefits but was not licensed as an insurance company. The suit was instituted by the Missouri Division of Insurance who sought $\$ 2.7$ million in penalties. Monsanto has been running the program since 1964 and said that if the decision stands it will cost them $\$ 500,000$ a year extra. The savings for 9 years at $\$ 500,000$ a year would still make the violation profitable-to the tune of $\$ 1.8$ million.

## HOW TO GET AHEAD

One of the best political cartoonists in Australia reported that he wanted to be an editorial cartoonist while working as a proof reader, so, "Every day I did a cartoon and pinned it up on a wall along a route which the editor took to, among other things, the toilet." Finally, the editor asked him to submit a cartoon-then another-then 5 -and then he became the regular cartoonist. There may be an idea here for many of us.

## FINGERPRINTS ON CHECKS

The technique of applying fingerprints to checks is improving just place your fingers or thumb on the back of a check - no ink or grease or other materials are used - and a latent print can be developed.

Some persons confronted with these devices consider such procedures as denigrating and an invasion of privacy. The supermarkets and stores using them are not publicizing them in a manner that will overcome such objections.

RT has long been a protector of privacy - and has criticized many invasions of privacy by retailers - but RT does not consider this to be an invasion. RT objects to the practice of passing on confidential credit or employment information to other businesses or to government agencies without a court order. It objects to compulsory submission to lie detector tests. But it has never objected to seeking from a customer full identification as simply and as quickly as possible.

Persons who cash checks are accustomed to showing a driver's license (which often carries a photo) or other such identification, as well as providing their address and telephone number to the check-casher. If the check-casher is satisfied with rapidly-applied, latent finger or thumb prints, this should be sold to customers as a convenience (similar to credit cards that imprint name/address/ account number) rather than an invasion of privacy.

## WHICH AIRLINES OVERSELL?

The Civil Aeronautics Board recently released the record of the number of passengers denied confirmed space - in other words, the victims of overselling. Although the industry-wide odds are not very great ( 5.5 times out of 10,000 passenger loadings), you may wish, when given the choice, to avoid the bad-performing airlines. The major airlines rank as follows:

| Pan American | 10.4 |
| :--- | ---: |
| TWA | 7.6 |
| American | 6.9 |
| United | 6.8 |
| Braniff | 5.6 |
| Continental | 5.5 |
| Western | 5.5 |
| Northwestern | 5.4 |
| National | 3.1 |
| Delta | 2.7 |
| Eastern | 2.5 |

The lowest were Trans-Caribbean and Aspen, both with O.O. which proves that it can be done.

## ATLANTIC MONTHLY - BUSINESS PRINCIPLES FROM THE STORM SEWER

I recently received a letter from Roy M. Green of Atlantic Monthly which started out "Dear Reader: You are one of perhaps two dozen people in your area who will receive this letter." That sounds mightly exclusive. Except that I received two such letters, with slightly different addressing, in the same mail!

I presume that when Roy M. Green speaks of " 2 dozen people in your area" he means the 10 houses around me.

Why should anyone subscribe to Atlantic Monthly when the staff includes people who write letters like Roy does? And does he think I believe that the subscription rate will go to $\$ 11.50$ in April? It will - but only for the few that Roy M. Green can dupe regularly by perpetuating the gutter ethics that all magazines seem to have adopted.

## THE TRAVELING CREDIT CARD CUSTOMER

On a recent trip to New York, every Alexander's ad prominently mentioned that they honored Master Charge - so I used my Master Charge at Alexander's. But Macy's never mentioned, in the several dozen ads viewed, that they honored American Express, so I did not believe that they would honor it and so did not shop at Macy's.

RThought: How many stores succeed by not advertising the services they offer?

## THE 1973 HOLD-OUT CALENDAR

Louisiana, Maine, South Dakota, West Virginia and Wisconsin persist in celebrating Washington's Birthday on February 22nd. South Dakota and Wisconsin are all that remain to celebrate Memorial Day on May 30th. And Louisiana, Mississippi, and Wisconsin are the last three to remember November llth as Armistice Day. Finally, Kentucky is the only state that has not accepted July 4th as a Holiday! Carry on, individualists!

## NAMES IN THE FTC NEWS

J. C. Penney: In December, 1972, the FTC provisionally accepted the consent order prohibiting further misrepresentation of flame retardant characteristics of its mattress pads and other designated bedding items. The complaint alleged that advertising did not disclose that the entire pad had not been treated, that treatment would not last for the life of the pad or that treatment did not provide complete protection.

Spiegel, Inc.: This time it is an order to stop using deceptive "free trial" offers. Their catalogs/circulars contain offers of free trials and $25 \%$ off - the cover says, "all orders are subject to Spiegel credit approval." But this does not disclose such other restrictions as the fact that the account must be up-to-date; and it must have been used within the past 12 months in order to get the free trial offer.

Credit Card Service Corp: A cease and desist order was issued to stop misrepresenting the value of service ( $\$ 5 / \mathrm{yr}$. insurance against charges after card is stolen) with statements such as that cardholders might "find themselves liable for thousands . . . or as much (in one case) as $\$ 175,000$." The company failed to disclose the new law effective January 24, 1971 that limited the liability.

RThought: How lucky some retailers are that the FTC did not also name retailers who, for a few bucks, let outfits like this send out mailings with the store's charge statements.
W. T. Grant: They made the list on two counts according to an announcement December 7th of a proposed complaint: First, it is alleged that Grant's misled consumers who signed coupon book contracts into believing that they were getting revolving accounts or that coupons were a form of revolving account, and of requiring that customers have coupon book accounts in order to obtain open end accounts. Second, it was charged that Grant's used procedures which led consumers to sign a "voluntary insurance agreement" in the belief that their signatures for insurance were required to open their credit accounts.
J. J. Newberry: The Administrative Law Judge dismissed charges relating to the sale of flammable fabrics, intended to be used for and advertised for curtains and draperies, but of a type that could have been used for wearing apparel (this is not a defense under the Flammable Fabrics Act), because of the voluntary changes made by Newberry in purchasing and testing procedures to avoid future inadvertent violations.

## SHORT SHORTS

The St. Petersburg TIMES is carrying a weekly editorial column called "Watch This Space" in which they report on the results of tests made of product advertising claims (mainly taken from TV). (For example, Pampers disposable diapers are no more absorbent than cloth ones.) But will they dare to check the claims of their retailer advertisers - such as "Lowest Price Ever" or "We Will Never Be Undersold?"

Keeping up with the bad side of business. To do so, subscribe to Media and Consumer, Box 1225 Radio City Station, NY NY 10019 \$14/yr. The "Clip Service" section reproduces articles on consumer problems from the press throughout the United Stater Here, in unfavorable light, you can read the names and activitic of Michigan car dealers, New York stores and their credit accounts, the sad story of the contents of a hot dog, Webb City, Procter and Gamble, Blue Cross and even a history of PM (born 1940 NYC, died same place 1948).

Sample computer form letters from England. When a customer of David Morgan Ltd., a big Cardiff department store, who had purchased a cactus but was billed for an umbrella, complained, she received the following: "Account customer please note. You have been served with your Cactus by our Rainwear Staff. We have unfortunately been unable to teach our Computer the difference between an umbrella and a Cactus. Therefore, on your next monthly statement, your Cactus will be described as an umbrella."

Better than occupant mailing? A local savings and loan association sent out an occupant mailing offering many free services addressed to "The Wise Family, - P.O. Box 343 "

## FROM AN EXECUTIVE'S WALLET

Mr. Sigmund Greenberg, Chairman of the Board of The Fair, Beaumont, Texas, was kind enough to open his wallet to us and shares this thought by Theodore Roosevelt:
"Far better it is to dare mighty things, to win glorious triumphs, even though checkered by failures, than to rank with those poor spirits who neither enjoy much or suffer much, because they live in the gray twilight that knows not victory or defeat."

## WORDS TO MANAGE BY

Once again we return to "Anon" for guidance in how to spend our time and money-through

## A Parable

"In Tetsugen's time the holy Buddhist books in Chinese had never been published in Japanese, and Tetsugen thought they should be prepared for his own countrymen. He planned to have several thousand copies printed from hand-engraved woodblocks, and went from town to town to collect donations so this great work could go ahead. After ten years he had the money he needed, and started to have the blocks cut.
"Just then the Uji River flooded, and there was famine in the land. Tetsugen took the money he had collected, and bought rice for the starving people. Then he started out to collect his funds again. Whether the donation was a little one or in coins of gold, he was equally grateful. After some years, he had the money again.
"Then an epidemic passed over the country. Thousands of families were left without support. So Tetsugen spent all the money he had collected, helping the helpless. When it was all gone, he started collecting it again.
"Finally his great project was accomplished, and he died content. Tetsugen's edition of the holy books in Japanese can still be seen But those who know, say the first two editions, which have never been seen, far surpass the third."
(Anon.)

# Bank Bids to Be Number One in Football...(p. 2) 

Gimbels Accepts Card For Special Promotion...(p. 7)

Floor Coverings<br>Charge Cards in Style ...(p. 8)

Vol. 1, No. 8 September 1973

INTERBANK CARD ASSOCIATION
an interchange of marketing information

## CITES MARKET PENETRATION FIGURES

## Bukowski Calls for Bigger Bank Marketing Programs

Chicago, ill. - Robert H. Bukowski, chairman of the board of Interbank Card Association, has called on all Interbank members/associations to amplify their marketing programs in the year ahead.

In an interview with MARKETPLACE, Bukowski noted that there is "vast room for growth" in the areas of cardholder and merchant Master Charge market penetration, which is now less than 50 per cent nationally. (The full text of the interview appears on pps. 4 \& 5.)

Bukowski, senior vice president, Continental Illinois National Bank and Trust Company, Chicago, based his comments on market figures showing:

- there are 34 million households in the United States with incomes of $\$ 10,000$ or more, but only 49 per cent have an Interbank charge card;
- expressed another way, there
are 17 million households here with incomes of $\$ 10,000$ or more which do not have a Master Charge card;
- 75 per cent of the households with incomes of $\$ 15,000$ or more do not have the card;
- there are 80 million Americans between the ages of 22 and 54 but only about 33 per cent of them have the card;
- each year, two million new households are being created through marriage and these too are potential cardholders;


## 44\% Accept Card

- there are 1.54 million retail establishments in the United States, but only 44 per cent accept the card (this is exclusive of chain and branch operations, grocery stores, and all services, such as: medical groups, transportation, hotels/motels, entertainment, education and personal services - of which there are 900,000 ); and
(continued on page 10)


## Focus Group Film On Dental Market Now Available

A comprehensive Interban. study of the dental profession as a market for Master Charge now is available to all member banks and associations.

The study of this potential market of over 100,000 dentists is based on two focus group sessions in which dentists discussed their usage of and attitudes toward various credit systems. It also includes a detailed statistical profile on dentistry in the United States.

## Marketing Tool

As a marketing tool for banks/associations affiliated with Master Charge, a 16 mm , color film highlighting the focus group sessions can be rented from Interbank for $\$ 25$, including shipping. A summary of key study findings will accompany each film.

To order the film and study summary, contact Kneeland Moore, Interbank Card Association, 110 East 59th Street, Ner York, N.Y. 10022. 0

# Bank Football Promotion Makes Points for Card In Prime Time 

birmingham, ala. - The First National Bank of Birmingham, in a strong bid to be Number One in football, produced two records before the season began.

The records are 45 RPM's featuring the "fight songs" and alma maters of the University of Alabama and its rival, Auburn University. The discs are being offered free throughout this foot-ball-lovin' state in a coordinated, multi-media Master Charge promotion.

## Goals Set

In bringing out this spirited music, the bank hopes to "psych up" its Master Charge program by "generating new cardholder applications, increasing outstandings and promoting 'good will' and community involvement," according to Jack L. McSwain, vice president.

In addition, the bank will be making extra points with its merchants by boosting sales on the card.

## Peak Season

The timing and theme were chosen carefully. Football is considered Alabama's most popular sport. August to December - the promotion period coincides with the peak retail buying season.

The limited edition records, said to be the only ones of their kind, were cut in the Spring by the respective University bands. In return, the band funds are receiving royalty payments from the bank.

## Free Offer

A free record is being offered to each individual whose card application is approved
and each cardholder who provides proof of $\$ 50$ in local purchases on Master Charge. Moreover, the records are being sold through the bank's 30 branches at $\$ 1.95$ each, including tax.

Since the unit cost per record is only about $\$ .75$, First National hopes to at least break even on its royalty, production and copyright costs through direct sales.

The program is being marketed in an extensive advertising campaign. Statewide television time has been purchased for a slot on the first ABC-network Monday Night NFL football game and for spots throughout the 31game season of NFL football on Sunday afternoons. Radio spots also are scheduled.

The newspaper advertising, a sample of which appears here, first ran in the Birmingham News special football tabloid and will continue to run in evening and morning papers.

The bank has rented "every bus in town" for its cards and
also is using outdoor boards and point-of-purchase materials at branches.

In addition, special mail pieces are included in all statements to active cardholders. The mailers - which also will be sent to inactive cardholders and with demand deposit statements - tell of the promotion and include football schedules of the two colleges.

As part of the overall marketing program, the bank also presented "gold records" on large wooden plaques to coaches "Bear" Bryant of Alabama and "Shug" Jordan of Auburn.

Television and radio appearances for both band directors have been scheduled.

## Employee Incentive

To help the program further, the bank is giving its employees one free record with every approved Master Charge application they bring in.

The entire package, including point-of-purchase displays and newspaper slicks, is being offered to some 25 correspondent banks throughout the state at a special affiliate price.

At the time of this writing, the program had been kicked off but the advertising had not yet begun. Nevertheless, requests for the records were pouring in from active cardholders. (1)


# Memo 

TELEVISION ${ }^{\text {audiences }}$ TELEVISION with a com. bined total of more than one billion adult viewers will get the "Relax... you've got Master Charge" message through spot commercials during the coming Fall and pre-Christmas sales "Superseason."

During the nine weeks from mid-October to mid-December, $a$ concentration of Master Charge commercials on major sporting events and during prime time programming will have a single goal - to help push card sales to new record highs.

The "Superseason" network package includes twelve 30 -


Available Through AD PAK II


Frames from "Bicycle" Spot
second spots in several major sports events including: The World Series; NFL football on Sunday afternoons and Monday night; the Liberty Bowl and college basketball. These Interbank messages will reach a projected audience of more than 100 million male viewers - prime prospects or cardholders.

In its prime time package, the marketing department has selected programming on different nights of the week in order to reach 90 per cent of the nation's television-owning households. When they watch the Walter Cronkite News, NBC Saturday Night at the Movies, Gunsmoke, Carol Burnett, Dean Martin, Dick Van Dyke, Flip Wilson and Ironside, America's TV viewers will be turned on to Master Charge.
"Relax . . . you've got Master Charge" is the uniform theme of this $\$ 2$-million television campaign. Messages will show that the card can be used for everyday shopping, special sale purchases and in emergencies. During the final phase of the drive, commercials will carry home the idea that Master Charge can be a convenience in buying "high ticket" goods during Christmas shopping days.

The newest message for the peak season is a spot called "Bicycle", in which a father doesn't have enough cash on hand to buy his son a bike they both like. As the father is looking through his wallet, the salesman spots the card. "Relax... you've got Master Charge", he says, and they buy the bike.
MAGAZINE advertising during the "Superseason" sumer publications. will position the card in these top conNewsweek, Nov. 5, 19 and Dec. 10; Time, Oct. 29, Nov. 12, Dec. 3; Playboy, Nov., Dec.; Esquire, Nov., Dec.; Money, Oct., Dec.; Better Homes \& Gardens, Nov., Dec., Ladies Home Journal, Oct., Dec.; Readers Digest, Oct., Dec.; and BH\&G Christmas Ideas.
TIE-INS to the coordinated national campaign are possible through the materials offered in AD PAK II - a complete advertising program available to banks at (continued on page 9)


Statement Stuffer


Outdoor Poster


2-in-1 Mobile Display

## Marketplace Interview:

## ROBERT H. BUKOWSKI, Senior Vice President Continental Illinois National Bank \& Trust Co., Chicago

(As chairman of the board of Interbank Card Association, Robert H. Bukowski has issued a call to action to all member banks and associations in an effort to increase market penetration by the card in 1974. He defines the current position of the card and suggests ways of improvement in the following interview with the editors of MARKETPLACE.)

M'Place: Do you feel that Master Charge has saturated its market?

Bukowski: Hardly. Fewer than 50 per cent of the people who should be cardholders are cardholders, and fewer than 50 per cent of the retailers who should be accepting the card are accepting the card.

I don't mean to say or imply that we've been a failure. In fact, our track record over the past five or six years has been that of the pacesetter. I think it is rewarding in many ways to be associated with the one bank card that is second to none in the United States by every major standard of market measurement.

At the same time, such vast room for growth remains in the American market that all banks and associations will have to keep running harder just to stay out front.


M'Place: What is the current market penetration of the card?

Bukowski: Among bank cards, the Interbank card has the largest number of domestic cardholders, the largest number of active cardholders and the greatest acceptance by merchants and service outlets. But, as far as we are concerned here, this is not good enough.

There are millions of households with annual incomes of $\$ 10,000$ or more which do not have the card. About 75 per cent of the households with annual incomes of $\$ 15,000$ or more, so I'm told, do not have Master Charge.

M'Place: Is this a viable market for Master Charge?

Bukowski: It is the market for our card. But too many card-issuing banks have failed to be sufficiently aggressive in their marketing programs and expenditures. Nationally, Interbank spends almost $\$ 4.5$ million in marketing support for the card. But in order to generate the greatest possible result from that expenditure, we must have far stronger local market support.

M'Place: There have been many excellent marketing programs in the past few years. Haven't they done enough?

# "Some banks sacrifice long-term growth in order to show greater immediate profits.' 

Bukowski: Many card-issuing banks and associations have taken a very active role in bringing in new cardholder accounts and merchants. There are banks which devote a large portion of their advertising dollar to account acquisitions, and this has paid off in many cases with increasing active membership rolls. But some have found that it is easier to sacrifice long-term growth in order to show greater immediate profits.
M'Place: Could you clarify that?
Bukowski: Let's level on this. In many banks and for many executives, the Master Charge Department is a stepping-stone to other positions. One can infer much from this. On the one hand, the executive in charge of the department can do his best to build accounts and merchant enrollments and to use that experience to build leverage for other bank positions. Or, he can concentrate all his efforts on showing an immediate profit. One way to do this would be to reduce essential operating expenses such as marketing, thus bringing in fewer new accounts and merchants. As charge volume continues to grow with the national average, the department may show a profitable bottom line profitable but not necessarily healthy in the long run.
M'Place: Do you have evidence that this occurs often?
Bukowski: I think the market penetration figures I quoted earlier are evidence enough. We could increase our cardholder base significantly by only signing, say, 10 per cent of these households.


And that's only half the story. There are more than 1.5 million retail stores in the country and only 44.4 per cent of them currently accept Master Charge. This does not include chain and branch outlets, grocery stores, professional services and other categories of which there are approximately $1,000,000$ outlets.

What Master Charge needs is stronger local market support.
M'Place: Do you have any recommendations?
Bukowski: Absolutely. We have to develop a consistent presence in the marketplace. Interbank member banks and associations have to speak with an authoritative and clearly heard voice - con-
sistently and over a long period of time.

I feel strongly that each member must carefully examine its budget for the upcoming year to be certain that sufficient funds have been allocated for marketing the card.

Interbank's national marketing programs, no matter how excellent and effective they are, cannot hope to go all the way in accomplishing the whole job. They must be supplemented at the local level by cooperative advertising programs, where the bank is in a multi-licensee market. Banks in single-licensee markets will have to do more to develop their own markets for the card.

That's the only way we can build our cardholder and merchant bases and that's the only way we can stay on top.
M'Place: Are there many members who share this concern?
Bukowski: Of course there are. This is a year when the cost of money has been high and the charge card business, in general, has taken a minor beating. But we're retailers and there are certain things we must continue to do in a retail market, and one of the most important is to maintain our presence.

By getting the message out - through cooperative advertising and whatever other marketing means are available banks will build the kind of promotional base that will give added impetus and growth as the market changes for the better.

When you're in a retail situation, you let the public know that you're there, right out in front. (1)

# Branch Banking's 'Spring Rally' Incentive Works 

WILSON, N.C. - A bank employee incentive program to increase the Master Charge cardholder base brought in more than triple the number of approved applications in 1973 than in 1971.

The program, Branch Banking \& Trust Company's annual "Spring Rally", resulted in some 2,000 new cardholders this year, as opposed to 1,400 last year and 600 in 1971, according to a report issued last month.

## What Research Showed

"Our research indicates that many eligible North Carolina residents do not have the card. That's why we are going after these potential new cardholders," explained Joseph C. Jeffcoat of the bank's marketing research department.

Since it was initiated in 1971, the program has been greatly expanded to include hundreds of prizes for 380 employees at the bank's 61 branches.

## Huw Contest Worked

In the contest, employees were eligible to win points for each approved application they initiated.

Some 263 prizes were awarded, including a stereo-radio-tape player, golf clubs and bicycles. $\mathbf{0}$

## Free Checking Account Offer Attracts New Cardholders

BRIDGEPORT, CONN. - The Connecticut National Bank has added several thousand new cardholder accounts to its rapidly expanding Master Charge base by offering free checking accounts in conjunction with the card.

In a continuing program which began in April, the bank not only is attracting new customers, but also is cross-selling effectively its cardholder and demand deposit accounts.
"By offering free checking accounts for our cardholders, we have been able to activate a significant number of inactive Master Charge accounts," reports Robert M. Haray, assistant cashier.

Under the free checking program, cardholders are covered by their Master Charge line of credit if they accidentally overdraw. Or, they can exceed their balances on purpose - up to an agreed amount of credit on the card. The amount of an overdraft is charged like a cash advance.

Connecticut National Bank will deposit into a checking account only the exact amount of

the overdraft. This keeps financing charges to a minimum, the bank advises its customers.

Free checking is being advertised in newspapers and on the radio in southwestern Connecticut. In addition, the program is explained through inbank materials and statement stuffers mailed to cardholder and demand deposit customers.

## Tellin' It Like It Is

"On a recent trip to New York, every Alexander's ad prominently mentioned that they honored Master Charge - so I used my Master Charge at Alexander's. But Macy's never mentioned, in the several dozen ads
viewed, that they honored American Express, so I did not believe that they would honor it and so did not shop at Macy's.
"RThought': How many stores succeed by not advertising the services they offer." - Reprinted with permission from Retailing Today, April - 1973.1

# Retailers, Bank Benefit from 'Rapid App' 

BALTIMORE, MD. - Retailers here are soliciting new Master Charge applications at a record rate and profiting from it, thanks to a system initiated recently by Maryland National Bank.

The system, called "Rapid App", permits merchants to phone in applications for potential cardholders and learn whether or not the applications have been approved - all within 15 minutes.

When a customer wants to make a purchase but doesn't have sufficient cash on hand, for example, a retailer can help him apply for a Master Charge card on the spot. Once the application is approved, the purchase can be made.

## No Discounts On These Sales

Merchants not only increase their sales through this system but they can boost their profitability, too. That's because the bank doesn't charge a merchant discount on the sales slip which accompanies the approved card application, regardless of the size of the purchase, according to Darrell D. Willis, the bank's systems/EDP liaison.
"This program definitely is increasing our cardholder base as well as merchant participation in our account acquisition program," stated Willis. "Our merchants are happy with it and so are we."

In the first month since it's introduction, "Rapid App" has produced an average of 25 new cardholder applications a day, a high percentage of which were approved. 1

## Gimbels Accepts the Card For Special Promotion

NEW YORK CITY - Gimbels, one of the nation's largest department stores, last month conducted a limited promotion in which Master Charge was accepted in payment for mail or phone purchases.

The promotion was conducted under an agreement with First National City Bank, reports Robert Smith, the bank's sales manager. With the exception of its Bridgeport, Conn., store, Gimbels is not now enrolled in a Master Charge plan.

## Sunday Supplement

In the promotion, a magazine format, 32-page supplement - advertising housewares for Fall '73 - was distributed with the Sunday New York Times (circulation 1,000,000 in the marketing area in which the supplement was distributed.)

Readers were told (on an order form attached to a selfreturn envelope) that they could purchase anything in the booklet by mail or phone and charge it to their Master Charge account or Gimbels Charge Account. (The order form and supplement are pictured here.)

## Special Line

Citibank set up a special line to authorize transactions over its mail and phone order system.

The promotion had just begun at the time of this writing, but early returns were said to be "very good."
(Ed. note: This is a good way to introduce stores to the card, if they are reluctant to sign for a full program. It also allows an increase in mail order business from consumers who do not have department store cards.) 0

If you
have this

you can use it
to purchase anything
in this booklet
by mail or phone.
Good news! We've made special arrangements to allow you to order any of these fabulous ideas for your home and charge them to your Master Charge Account.

Of course, if you have a Gimbels Charge Account you can use it to order anything in this booklet or purchase anything any time at the Gimbels store nearest you.


# In-Depth 

 SOFT FLOOR COVERING INDUSTRY: It's characterized by steady growth, 'high ticket' sales and a continuing need to permit customers to charge their purchases.Next to the house and the family car, the largest single purchase an individual is likely to make is carpeting.

And like the house and the car, carpeting is not the kind of purchase people are likely to pay for in cash.

Perhaps this is why just about every major carpet and rug retailer ( 99.3 per cent to be precise) offers consumers the opportunity to charge their purchases. Despite this high percentage, there's lots of room for banks to increase their Master Charge merchant enrollment and outstandings in this \$3billion industry. Fully 32 per cent of these retailers do not accept the card.

MARKETPLACE recently interviewed one of the most respected authorities in the soft floor covering industry ${ }^{*}$ to learn more about this fast-growing field and the increasing role of Master Charge in its development. The authority is Ira Ellenthal, editor and copublisher of Modern Floor Coverings magazine and recipient of many industry honors.
(*The soft floor covering industry includes carpets, rugs, carpet underlay and carpet tiles. It does not include linoleumorotherhardsurface floor coverings.)


## Survey Results

In a recent survey, Modern Floor Coverings learned the following about credit practices of retailers:

- 68 per cent of the major retail operations accept Master Charge;
- 74 per cent accept one or both of the major bank charge cards;
- 62 per cent operate their own internal credit systems;
- . 07 per cent do not offer any kind of charge service to their customers; and,
- of the stores which do not now accept bank charge cards, some 26 per cent, most cited "high costs" of bank plans as the reason.

The survey - which was not yet finalized at this writing was taken among owners or managers of establishments doing in excess of $\$ 250,000$ in
annual sales volume. Most of those contacted were from specialty stores, but some were buyers for department stores.

Because of the composition of the floor covering industry, it is difficult to determine the exact number of dealers and the figure is not reported by the U.S. Commerce Department. It has been estimated at between 20,000 and 30,000.

## Potential Growth Area

Thus, based on the survey, some 6,400 to 9,600 stores may not be accepting Master Charge.

A brief look at the Modern Floor Coverings circulation largest in its field - may further define the market. The total circulation of 18,500 includes: 10,564 floor covering specialty stores and contractors; 2,914 furniture stores; 938 department stores, 979 home improvement and building supply stores; and the balance manufacturers, distributors, etc.

## Specialty Stores On Top

According to Ellenthal, the "dominant element" of this industry continues to be the carpet specialty store.
"The department store share of this industry has dwindled in recent years," he points out.

## Industry Is Approaching \$3-Billion in Sales

This may be the year the soft floor covering industry surpasses the $\$ 3$-billion sales level.

Forecasters see total volume reaching $\$ 3.1$-billion in 1973, up 11 per cent from the $\$ 2.8$-billion total volume record set in 1972. If the forecast proves accurate, the industry will have more than doubled its sales since 1967.

Another substantial increase is projected for 1974, with volume expected to reach \$3.3-billion. 0
"Right now, 43 per cent of all industry sales are done by carpet specialty stores. Furniture stores are doing 28 per cent and department stores and others are below that level.
"At the same time, retailer interest in viable credit plans is on the rise," Ellenthal stated. "In ever increasing numbers, retailers are realizing the importance of making 'big ticket' items easier for consumers to buy. Because the larger stores are offering charge plans, the smaller shops are doing the same.
"The day of the retailer turning his back on credit has long since past. It's here to stay and increasingly important."

## Other Trends

There are a number of other trends in the soft floor covering industry that may be of interest to Master Charge plan managers. One of the most talked about developments is the rapid rise of franchise operations. "In Ohio, one operation put 50 people - who had no background in the industry - in the carpet business," according to Ellenthal.

In a recent spot survey, Interbank learned that Master Charge cardholders use their charge privileges to buy remnants, needlepunch carpet or such "add-on" items as vinyl runners and floor mats. Cardholders also often "step-up" to better quality merchandise when they can "put it on the card."

## Wall-to-Wall Still 'In'

Area rugs are in fashion among certain interior decorators, but the kind of carpeting most favored in America continues to be wall-to-wall, which accounts for 75 per cent of all carpeting sold.

And, no matter how you cut it, wall-to-wall carpeting is a major purchase that can give a bank's outstandings the plush look and soft feel of luxury. (1)

## Banks Find Ways to Build Profits Through Statements

A small but growing number of banks have converted their Master Charge statement envelopes from profit drains to profit makers.

They are using "bang-tail" remittance envelopes, which offer merchandise on the reverse side and back flap, and they are inserting "cents-off" household product coupons and/or merchandise offers in the statement envelopes.

In return, the banks are being paid for these efforts in cash and "good will" from the vast majority of cardholders who receive the envelopes.

Participating banks include: Industrial National Bank, Providence, R.I.; Maryland National Bank, Baltimore; First National City Bank, New York, and Colonial Bank \& Trust Co., Waterbury, Conn.

## How It Works

In the "cents-off" coupon offer, a packet of coupons redeemable for name brand food and household items is provided. Banks are paid a bulk rate per thousand for stuffing and mailing the packets.
"Bang-tail" envelopes (ones
with a double back flap) are designed to bank specifications, free of charge. Banks have a choice of which products are offered and receive a percentage of the sale.

## What They're Doing

Colonial Bank \& Trust Co. has a three part program: the coupons, retailers' stuffers offering merchandise and remittance envelope offers.
"On the average, we're making money on this program," said William F. Sortino, Jr., assistant vice president and manager of the Master Charge program. "We are supplementing the income of our card, promoting usage and encouraging cardholders to identify our bank's card as aggressive."

Earl Dennis, Master Charge marketing manager at Industrial National Bank, believes his bank's statements "are just now realizing their full potential."

The bank offers merchandise through its remittance envelopes, and through product offers. In addition, it recently began enclosing the "cents-off" coupons. Dennis says he's "satisfied with the income."
(continued on page 12)

## Memo

(continued from page 3)
reasonable costs. The materials designed to boost Christmastime volume on the card include: stuffers, posters, streamers, counter cards, merchandise tags, slicks and mats, a 2-in-1 mobile display, radio spots and TV commercials. All feature the "Relax . . .you've got Master Charge" national theme and all are closely adapted from national advertising materials.

In using AD PAK and AD PAK II, banks across the nation are setting a record this year. To date, Interbank has received 472 orders for these materials. In all of 1972, there were 232 orders.

If you would like another copy of AD PAK II or further information, contact Kneeland Moore, Interbank Card Association, 110 E. 59th St. New York, N.Y. 10022. (1

## Calls for Bigger Marketing Programs

## (continued from page 1)

- thus, almost a million retail establishments in the country are potential Master Charge merchants right now.


## "Consistent Presence"

To increase market penetration throughout the United States, Bukowski recommends what he terms "a consistent presence in the marketplace."

He charges banks and associations "to speak with an authorative and clearly heard voice - consistently and over a long period of time.
"By getting the message out, banks will build the kind of promotional base that will give added impetus and growth as the market changes for the better."

Bukowski went on to say that the national marketing programs of Interbank - no matter how excellent and effective - "cannot hope to go all the way in accomplishing the whole job.
'"They must be supplemented at the local level by cooperative advertising programs, where the bank is in a multi-licensee market," he said, adding, "Banks in single-licensee, markets will have to do more to develop their own markets for the card."

## Reynolds Reacts

Reacting to the market penetration figures, John J. Reynolds, president and chief executive officer, Interbank, said: "It is apparent that millions of consumers and thousands of merchants can and should be viewed as potential Master Charge customers.
"Banks should reassess current market potential and exercise sound marketing strategies to gain maximum advantage from these profit opportunities," he stated.
'"New advertising and sales promotion ideas must be developed. Nothing will happen unless banks make it happen." (1)


I've heard that early autumn is a good time to talk to clothing merchants about Master Charge. Is this true? And, can you offer any information which could help in enrolling these retailers? - J.N.A., Florida.

You must be reading the same business reports that we are. During past years, any season was appropriate for talking to apparel merchants about the card. But under present economic conditions, many of these retailers may be more receptive right now.

By and large, American apparel merchants are facing a serious crunch and Master Charge could help relieve some of the pressure. Prices at wholesale reportedly are up 10 to 15 per cent, but many retailers are reluctant to pass increases of this extent on to consumers.

Alternatives include cutting costs, on the one hand, and increasing turnover, on the other. By accepting the card, merchants can do both. The Master Charge nationwide cardholder base of more than 29 million people can be expected to bring more traffic ${ }^{\circ}$ into stores and stimulate additional sales. At the same time, the direct costs of a bank card plan are lower than the average cost of an in-house credit plan, put by the National Retail Merchants Association at seven per cent.

Even before the current crunch, the apparel industry has been described as "a sluggish giant." It accounts for a large share of total domestic retail sales but has been growing at a slow rate since 1970. Total volume in mens' and boys' clothing, womens' and girls' clothing and footwear reached \$21.9-billion in 1972, or about eight per cent of the $\$ 278.3$-billion total retail sales (less food stores and automobile dealers.)

But, according to The Conference Board, sales were up by five per cent in 1972 and about half of this gain was the result of higher price tags. Real volume actually was up by less than three per cent in 1972, two per cent in 1971 and not at all in 1970. There are somewhere between 100,000 and 200,000 of these apparel and footwear stores in the U.S.

Despite recent sluggishness, apparel specialty stores continue to be a major factor in this market. Department stores account for about 45 per cent of the total womens' and girls' clothing market and about 39 per cent of the mens' and boys' clothing area. Thus, there remains a large area for increased Master Charge acceptance in this industry.

Further information is available through the Interbank Reference Library. Among applicable articles are: "Where Credit Is Due: Bank Cards Gain Favor With Independents" - Earnshaw's Review, April 1973 (RL 011/41.8); and "Are Credit Cards for You?" California Men's Stylist, June 1972 (RL 011/41.5). ©

Have you a question on any aspect of Master Charge marketing? We'll be happy to provide the answer. Merely write to Kneeland Moore at Interbank Card Association, 110 East 59th Street, New York, N.Y. 10022.

## Shopping Center <br> UNTAPPED POTENTAL

Most in the health professions (physicians, dentists and others) do not accept charge cards in their offices ... of the ones that do, chances are they generate very little income for you ... WHY?

Because no one has ever conveyed to them the many advantages, as well as the savings to be realized by eliminating their open account system and replacing it with the bank charge card system.

It is now possible for you to convey this message and obtain large professional accounts in your area by:
1-Giving each of your professional prospects a copy of "How A Professional Uses A Charge Card System," a book written by a practicing professional in a language common to them.
2-Make a follow-up appointment to explain local details and get their acceptance.
3-Initiate your system in their office.
Order from: Reff-Ton Inc. P O Box 11458 Montgomery, Ala. 36111. Send me ( $\min 5$ ) of "How A Professional Uses A Charge Card System." $\$ 5.95$ ea. plus postage \& handling. Minimum offer good through October 15 only.
Bank Name $\qquad$ Your Name
Bank Address $\qquad$
$\square$ Payment enclosed
$\square$ Bill me

## YOU MUST ACT IMMEDIATELY TO GET IN ON THIS!

One of the most popular and successful statement stuffer items we have ever offered is the complete Highway Emergency Kit in a compact weatherproof vinyl case. This Item has extra appeal in the Fall as cold weather and increased after dark driving approaches. And, it's a great Christmas gift.
You can still get free customized brochures for October thru December use if you act now. Kit sells for $\$ 19.95$ plus shipping and you earn $\$ 4$. on each sale. Any size mailing accommodated. Call or write now for sample Kit and brochures.

Bob Fisher, Consumer Services Div. of NAC Credit Corp.

200 W. Baltimore St., Baltimore Md., 21201 (301) 837-0123

Advertising rates: $\$ 40$ per column inch, maximum 3 inches. Illustrations and logos may be used in 2" and $3^{\prime \prime}$ ads if supplied in glossy form. Closing date for ad copy is 10 th of month preceding issue date. Check payable to Interbank Card Association must accompany order. Address: 110 East 59th St., New York, New York 10022, Att: Kneeland S. Moore. MARKETPLACE is published 10 times annually. June/ July and December/January are double issues. Listings in "Shopping Center" do not necessarily imply Interbank's endorsement of goods and services advertised.

## Build Profits

(continued from page 9)

Darrell D. Willis, systems/ electronic data processing liaison with Maryland National Bank, points out that the "bangtail" envelopes have created favorable response from the bank's cardholders and no negative response from merchants.

## Pioneer in Program

Among the pioneers of this kind of program is First National City Bank of New York.
"If you're in the charge card business, you're in retailing, and you shouldn't be afraid to offer merchandise and coupons in this way," explains Robert E. Smith, manager of Master Charge sales and marketing.

Smith says the coupon program has been "profitable and very good public relations."

The bank also uses "lowprofile" merchandise inserts and "bang-tail" envelopes. 'When we started our remittance envelopes program three years ago, we thought we'd get a negative reaction. But the reaction has been good." $\mathbf{O}$

## Statistical Summary

## COMPARISON OF INTERBANK AND BANKAMERICARD MID-YEAR DOMESTIC STATISTICS

June 30, 1973

Cardholders<br>Accounts<br>Active Accounts<br>Merchant Outlets<br>Participating Banks<br>Outstanding Balances<br>Gross Dollar Volume<br>Sales Volume<br>Cash Advance Volume

| Interbank | BankAmericard | ICA's Lead |
| ---: | :---: | :---: |
| $29,276,515$ | $24,389,000$ | $20 \%$ |
| $17,788,022$ | $14,781,000$ | $20 \%$ |
| $10,718,096$ | $8,938,000$ | $20 \%$ |
| $1,063,869$ | 965,266 | $10 \%$ |
| 5,926 | 4,863 | $22 \%$ |
| $\$ 3,068,270,008$ | $\$ 2,410,329,000$ | $27 \%$ |
| $\$ 3,519,742,355$ | $\$ 2,636,885,000$ | $33 \%$ |
| $\$ 3,125,938,204$ | $\$ 2,381,400,000$ | $31 \%$ |
| $\$ 393,804,151$ | $\$ 255,485,000$ | $54 \%$ |

## COMPARISON OF INTERBANK AND BANKAMERICARD \% CHANGE FROM MID-YEAR '72 to MID-YEAR '73

## Cardholders <br> Accounts

Active Accounts
Merchant Outlets
Participating Banks
Outstanding Balances
Gross Dollar Volume
Sales Volume
Cash Advance Volume

## Interbank BankÄmericard

$+9.2+7.2$
$+7.7+7.3$
$+9.4+13.9$
$+12.2+8.0$
$+5.8 \quad+15.9$
$+28.2 \quad+25.1$
$+32.9+35.2$
$+34.1 \quad+36.5$
$+24.0+24.8$



## if you ask me

## Little Net From Prophet

(Third of a series)
"YOU KNOW, LEVITZ DID US ALL at least one favor," declared the chairman of an Associated Merchandising Corp. Furniture Study Group in addressing the opening session of merchandisers from that big department store organization last year. "They disproved forever the belief that the bigticket business, and particularly furniture, was unprofitable.

They also raised the challenge to us to dig into our own methods of accounting and distribution of expenses to find out how profitable or unprofitable we really are in comparison to Levitz. Obviously, that also challenged us to find new ways to eliminate expenses and new ways to produce sales

Those are brave and hopeful words and while they were uttered and listened to with great expectations, there is a good reason to believe that it could prove extremely embarrassing to the managements of most of those department stores if they had to make a public report of just how much each of them has REALLY accomplished in correcting their antiquated accounting theories for big-ticket merchandise like furniture and major appliances.

Department store buyers and merchandise managers have been pleading with top management of those stores for years to update their accounting philosophy which traditionally has made big-ticket merchandise look like the most unprofitable in the whole establishment - but with little success.

Tradition, it's been said, is the enemy of progress. And nowhere is tradition more firmly entrenched than in department store accounting. Each year, that tradition is nourished and renewed by the publication of the annual MOR figures, the "Merchandising and Operating Results," by the National Retail Merchants Association. But. declares Robert Kahn in the January, 1973 issue of "Retailing Today." "A study of the content of MOR indicates that it also means "Myopic Overview of Retailing." Then he goes on to say:
"Retailing Today has long held the view that the MOR is the most destructive publication ever produced for department stores - and that the 'myopic' views expressed through the MOR were instrumental in causing the gap into which the entire discount industry (now larger than the department store industry), quickly moved.

Let's look at what the figures in the 1971 MOR tell us. For a variety of measures the MOR presents figures for both 'Median' and 'Goal' performance. Let's use the words from the publication itself:
. 'The median is determined by selecting the ratio at the mid-point when all the results are listed from low to high.' (Note: the 'results' are a single figure for a department in a given store-size range ant not the results of evaluating the overall profitability of the department or store.)
. 'A goal ratio is determined using the same listing as in the selection of the median. The listing is divided into four quarters or quartiles. The published goal figure represents a performance level superior to that achieved by 75 per cent of all companies in the sample. For ratios where a low result is desirable, the goal would be the lower quartile figure . . . Where a high result is desirable the goal would be the higher quartile.'

Now, continues Kahn, "let's look at each column heading and see what the MOR is telling us.
"CUMULATIVE MARKON \% For every department, the goal markon is higher than the median markon. There is no proof that buying at the same price but marking the goods higher is either (1) Legal under price controls) (2) Economically desirable to the society, or (3) Financially beneficial to the stockholders. But the NRMA tells retailers that this should be their 'Goal'. Why? Just because they have arbitrarily decided that the industry should always take higher markon - so as to provide more opportunities for discount stores?"

In similar fashion he proceeds to blast each of other category headings . . . Markdowns . . . Stock Shortages . . . Gross Margin . . . etc. and then declares:

If NRMA wanted to provide guidance to users of the MOR, they would ask themselves: 'Which stores should we suggest that retailers circulate?" The basis of selection is likely to be the same one that Forbes Magazine came up with in the editorial in their 25th Annual Report on American Industry (Jan. 1, 1973) in which they said: 'In devising the yardsticks, we began by asking ourselves: What constitutes good management? We decided the answer was: a high and growing return on stockholders money, consistently achieved. It is this that our yardsticks seek to measure.'
'If NRMA would take in each category the 25 per cent of the reporting firms that showed the highest return on stockholders' equity," continues Kahn, " . . . these firms would then have their ratios computed separately from the other 75 per cent of reporting stores - and the comparison of the 'goal' based on the top 25 per cent of stores, compared with 'typical' based on the other 75 per cent of the stores, would have some meaning . . . Then NRMA might be able to nudge the users of the MOR toward improving their operation.
"This suggestion," he concludes, "was first made to the NRMA and Controllers Congress more than 10 years ago . . . (but) it has no better chance of acceptance today, because the MOR concept has been imbedded in too many generations of retail management."

Amen!
(to be continued)

## Textile Briefs

PHILIP S. ROBERTSON has been elected treasurer of Robertson Factories, Inc. He succeeds C.M. Van der Heide who has retired. Robertson has been with the company serving in various manufacturing, marketing and purchasing functions in California, New York City and now in Taunton, Mass., according to Sumner S. Gordon, vice president.

Robertson Factories is also moving its Royal-Fairclough Fashion Curtain Division from Boston to Taunton. Manufacturing will be done in the recently acquired. Butler Mill property and its modern 185,000 -square foot plant. The new plant will produce draperies for chain and catalog accounts.

ROLAND K. KNIGHT has been named executive vice president, consumer products division of the Bibb Co., a new post.
With Bibb since 1962, Knight was formerly executive assistant to William S. Manning, president. Knight will head up the merchandising team responsible for sheets, pillow cases, draperies, bedspreads, blankets and towels, and will make his headquarters in New York.

ELMER H. EDMONDS has been named controller of The Bibb Co., Macon, Ga., it was disclosed by William S. Manning, president. He was previously with Knit-Away, Inc., prior to which he was for 16 years in the administrative area of the Burlington House division of Burlington Industries.

JOHN BARCLAY, vice-president of Town \& Country Draperies, Buffalo, died at 46 . He is survived by his widow, Hilda, who is president of the firm.

## TAYLOR QUITS MACY

NEW YORK - Victor Taylor, merchandising vicepresident in charge of art needlework and all domestics at Macy's New York, has resigned, effective the middle of May. No successor has been named, according to a Macy's spokesman.

JAMES W. MAYNARD, president of Tower Mills, Inc., Burlington, N.C., was elected a member of the board of directors of Dan River Inc. In accordance with the board's policy, there must be 14 directors on the board, which there now are with the addition of Maynard, who replaces Frank Talbott, Jr. who retired.

CHARLES GELFOND has been named Eastern regional sales manager for Del Mar Loomerafted Woven Wood in California.
Gelfond will be responsible for directing all sales efforts of Del Mar's line of woven wood shades, draperies, doors and room dividers.
He will be based in Del Mar's offices in Bohemia on Long Isalnd.
Gelfond was associated with L. Anton Maix Fabrics and with Kravet Fabrics, Inc., where he served as general sales manager.

HERBERT S. DuCOVNA has been named vice-president and Niru Shah, assistant treasurer at Jerris-Mounds, Inc., Cincinnati. They were with the firm in other capacities. Jerris-Mounds, Inc., makes shower curtains, tablecloths, curtains, draperies and related home items.

## Courtaulds Plans Ulster Complex

LONDON - Courtaulds, Ltd., said it plans to establish a major spinning weaving and finishing complex in Northern Ireland.

The plant is to be located at Campsie near Londonderry and the first phase of the project is expected to cost about $\$ 25$ million pounds, Courtaulds said.
Courtaulds said the Campsie spinning unit will be designed to produce about 15 million pounds of yarn annually.

The company said construction of the first phase of the operation will begin this summer and is expected to be completed by late 1975.

The first phase will give employment to about 1,500 men. It said construction of the second phase is to be completed by 1977 and will increase employment to about 2,000 men.

## Correction

## Archaic Accounting

WILL DEPARTMENT STORE MANAGEMENT EVER GET AROUND to correcting its unrealistic, archaic accounting that continues to penalize big-ticket departments like major appliances and furniture as "unprofitable?" Or will it continue to let its stores lose their share of those markets to the specialty stores and mass merchandisers who seem to thrive on such business ?

Those questions, of course, have been asked for years, and today there's little or nothing to indicate a satisfactory answer is any more likely to be forthcoming than in the past. On the contrary, from various reports that have reached this observer, there is good reason to believe that today this longexisting deficiency is causing more problems and creating more difficulties for department stores than ever.

Faced with ever-increasing, intense competition from other types of outlets, buyers and merchandisers in department stores continue to find their efforts to meet it frustrated again and again by the "sacred cows" of outdated bookkeeping concepts with which their managements continue to shackle their operations. It is no secret that this longfestering irritation has become a major source of discontent and increasing resignations among department store personnel.

NO ONE IS NAIVE ENOUGH TO CLAIM that accounting philosophy and precedure of and in itself is the only factor that determines the profitability or unprofitability - of big ticket departments. Other factors play a vital role, of course.

But unless and until the basic accounting philosophy recognizes and makes due allowance for the distinctive characteristics of furniture and major appliance departments as distinct from most other departments, according to the irrefutable Voice of Experience, no real, significant progress or reform can be achieved.
How persistent if not pernicious this situation continues to be is reflected in a report of a group of financial executives of the Associated Merchandising Corp. who made a study of the profitability of the furniture departments of that big department store group last year.

The report showed that, in 1970, 27 AMC stores doing a furniture volume of $\$ 165$ million, showed a loss of $\$ 488,000$ - although nine of the stores were in the black. The 1971 showing was even worse for those 27 stores, on a furniture volume of $\$ 185$ million with a loss of $\$ 1,900,000$. On a median basis, the loss was 3.1 per cent and eight stores ended in the black.

While the committee chairman acknoweldged that "I know you (merchandise managers) question the results, particularly in that broad spectrum known as indirect expenses," in the end, as usual, the profitability buck was passed right back to the merchandise managers rather than revising the questionable accounting.
"TO FINANCIAL MEN," CONCLUDES THE REPORT, "IT IS CLEAR that the challenge to you is to make your existing facilities and methods of operation more profitable than the present through the application of merchandising techniques . . ."! Charts in the report show comparisons with Levitz and other furniture operations, the implications being that, regardless of the bookkeeping used, it
should be possible to come up with a nice profit merely "through the application of merchandising techniques." Of course nothing could be further from the truth.

The ramifications involved in this whole matter of department store accounting philosophy are, obviously, enormous and one can easily become bogged down in irrelevancies. To get right to the heart of the subject, I sought out an unquestioned expert Sam Flapel, former vice-president of the National Retail Merchants Association, who headed its Controllers Congress and is now sales manager for Dennison Manufacturing Co., New York.
"I would say the essence of all this can really be boiled down to one simple fact," he declared. "No matter what the system of accounting, its value is entirely dependent upon the understanding, intelligence and caliber of judgement involved in the utilization of this information.
"An abundance of mistakes and crimes have been committed ostensibly in relying on accounting information, but these are actually serious minuses of information and errors in comprehension and jugment.
"Because they deal with numbers, accounting statements suggest an ability to identify facts with finite preciseness; indeed they are often thought of as presentations of completely factual and absolute truths. But such, is not always the case, not because there is anything inherently wrong or an intent to mislead or deceive.
"Rather it stems from the fact that in the marshalling and accumulating of data, there are many judgments and decisions which need to be made and for which there is no one right answer. These subjective decisons affect the character of the resultant statements.
"THIS IS PARTICULARLY TRUE WHEN YOU ATTEMPT TO ALLOCATE direct and costs to various functions and departments," he continued. "Besides the subjective influences of the individual making these decisions, it also is an attempt to reflect management's thinking, objectives and manner of operation, so that here again you get differences among companies and an inadeuqate understanding of the underlying thinking during efforts to use the data.
"Departmental operating statements represent, in large measure, the result of many such decisions. Their use, therefore, is dependent upon management's objectives and development in the employment of such information.
"Also, you must recognize that while management may have clearly defined objectives, various other levels of management such as merchandise managers - who are merchants rather than accounting and analytically oriented executives - will not always be aware of the correct meaning and significance. Their differing comprehensions will influence the actions taken . . .," he declared.

That may well be. But the inescapable fact is that "their differing comprehensions" all too often penalize the department store merchandisers with an allegedly unprofitable operation while the specialty stores and others come out at the year's end smelling like a rose with a sweet profit!
(To be continued) anies fearful that heavy backlogs pould be wiped out by late-March ancellations that never came.
Two major suppliers who did not ntroduce anything at this market have been pleasantly shocked - the orders continue to flow in.

Kemp traffic was off very little, if any, and order writing stronger than anticipated, said Bill Leonard, vice-president and director of marketing.

KEMP'S NORMAL delivery is four to seven weeks. The backlog is so deep they are quoting 14 to 17 weeks on much-sought-after suites.

Material shortages are a factor rather than strictly production capacity. Workers are available for a 50 -hour workweek but production is possible on certain bedroom groups only 40 hours because materials are not available.

Stanley also held off completely on new merchandise here.
"We take the attitude every market is a buyers' market," said Jim VanVleck.

Attendance at Stanley has remained strong and order writing for the first three days topped the. first three days of Stanley's record October market, VanVleck said.

The project will be completed in two phases, according to Robert Gruenberg, general manager of the SFEB. offering a place available in the pa

$t$
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FAT SAUSAGE-SHAPED segments, fashioned from foam, make the seats and backs of a sofa, loveseat and chair group. The arm "sausages" overwrap the exposed beech frame, which is also offered in a rosewood finish, by Peem Oy of Lahti, Finland. The photo, shown above, should have appeared on Page 18 of Tuesday's special feature, "The Best of Finland 1973." Instead, a photograph of the room setting on the right in-advertently appeared in its place. (This vignette actually is part of a new seven room "Century House" at Powers Dry Goods Minneapolis. Note the large-sacle fabric on the sofa, which is repeated on the dividing backdrop, for added impact.)


## HFC Selling Dryer's Store in California

J Continued from Page One ,sources.
i Rasmussen did not identify the jbuyer or the terms of the transaction.

Commenting to FNS, Tuesday, Rasmussen said the retail furniture business had undergone "dramatic changes," but "there will always be ian important role for the serviceo lented merchandiser."

Retail furniture business has not Ten "adversely affected" by the nushrooming warehousehowroom phenomenon, lasmussen said.
"In fact," Rasmussen said after the company's annual shareholders meeting, "our experience has been that when furniture warehouseshowrooms came into our areas, some of our retailers have shown increased volume."

RASMUSSEN PASSED over chief executive officer's reins to Gilbert R. Ellis, president, at the following HFC board meeting but continues as board chairman.

Rasmussen told shareholders that total corporate earnings for

HFC in the first quarter ended March 31 will exceed last year's results but declined to estimate them. In the 1972 quarter, HFC had primary earnings per share of 79 cents and fully diluted earnings per share of 68 cents. He would not estimate sales, but City Products Corp., HFC's merchandising subsidiary, rose 10.7 per cent to $\$ 354$,364,000 in the first three months.
HFC also owns Huffman Koos, New Jersey; Barker Bros. and Gold's Furniture and Appliances in Southern California; Butler Bros. Department Stores, in Los Angeles and Seattle, Colby Home Furnishings, metropolitan Chicago and American Furniture, El Paso, Tex.
RESULTS FOR 1973 are expected to show continuing improvement resulting in "another year of record earnings," the HFC official predicted.
Last year, HFC reported total net income of $\$ 105,964,000$, up 15.7 per cent, with primary earnings of $\$ 2.42$ a share and fully diluted earnings of $\$ 2.08$, marking the 14th consecutive year of increased net income.

Rasmussen told FNS the 1972 dip in merchandising's share of total corporate net income to 29.8 from 31.7 per cent stemmed from Phase 2 and 3 problems of Von's Grocery Co. and a "poor year" for its refrigeration operations.
Household's City Products subsidiary is adding large store units in both the variety and hard goods division, projecting an addition of 3.4 million square-feet against 2.6 million in 1972, Rasmussen noted.

## Profits Climb 52.4\% At Higbee to Record

CLEVELAND - Higbee. Co. d reported a 52.4 per cent increase in. c earnings setting a record for its fiscal year ended. Feb. 3.

Net income was $\$ 3,378,771$ or $\$ 2.44$ a share compared with $\$ 2$,216.861 or $\$ 1.60$ a share in 1971.

Sales for the year were up 6.7 per cent to $\$ 149,471,969$ compared with $\$ 140,082,747$ last year.

## ifyou ask me <br> BY EARL LIFSHEY

## Big Store Bookkeeping Booboo

(Second of a series)
"THE BOOKKEEPING PROCEDURES used by department stores for big ticket home furnishings such as major appliances and furniture are completely outmoded and constitute a serious handicap to their survival in this business," the home goods merchandise manager of one of the biggest and best known department stores in America declared recently.
"All things being equal, selling an appliance or a piece of furniture in a department store should generate the same gross profit as in a specialty store, but the way the accounting is rigged against department stores that just can't happen. If Levitz or a Leath or a Kennedy \& Cohen can make a profit on such merchandise - and they do - why not a department store?
"The entire subject of interest on accounts receivable for example, is completely distorted by the department stores. Home furnishings pay a large share of expenses in running a credit operation - but fail to get credit for the income generated. Yet Leath in Chicago made a 5.2 per cent profit in $1971-5.8$ per cent of their sales were in in terest income."

Sam Flanel, former vice-president of the National Retail Merchants Association and head of its Controllers Congress, whom I quoted earlier, had this comment on that point:
"Stores like Levitz, like the early discounters, aren't concerned with the margin on an individual sale but rather the aggregate return on their investment. Since
they invest very little in displays and fixturing their investment in fixed costs is comparatively low. This coupled with a high volume operation and an efficient, low cost reorder system enables them to achieve a rather good return on their investment.
-IN CONTRAST, DEPARTMENT STORES tend to allocate occupancy costs to all departments on more or less the same basis. Inadequate recognition, however, is given to the savings in fixturing costs. In branch stores and shopping centers where the rent is usually a percentage rent, furniture departments pay the same rate as all other departments. The per square foot fixturing cost for furniture departments however are substantially lower than the cost involved for other selling departments," he continued.
"Department stores are conditioned to evaluating performance as a percentage of sales rather than a return on investment because they have never been able to satisfactorily identify the investment applicable to each department. For example, we do not know or have been unwilling to invest the time and money to find out how much of the money involved in receivables can be attributed to various selling departments. And related to that, of course, is the applicable cost of the entire credit operation and the share of the service charge revenue generated for every department.
"SIMILARLY, WHILE THE STORE knows its investment in inventory under the retail inventory method, they give no recognition to the extent to which that inven-
tory is financed by dating, consignment, locker stocks and the current amount of accounts payable. Nor does that adequately reflect any negotiating for additional cash discounts. In a specialty operation, all these questions are academic because there they can take the company's balance sheet and see the aggregate investment at a glance . . ." he added.

Just why, as Flanel points out, department stores have never been able to satisfactorily identify the actual investment applicable to each department is something no one can answer but they themselves and if any such explanation has been forthcoming I have yet to hear of it. Flanel adds this comment:
"More and more as high costs of doing business have become a serious problem and as companies have gone public, thereby having to give increasing consideration to the impact of performance on published results, they now try to so manage the company that the results will reflect the caliber of performance that investors and the financial community look to. This means a shift away from the emphasis on volume for volume's sake; from percentages per se, from the overly abused rationalization of doing things for 'policy' reasons and concentration on company profitability and return on investment."

BE ALL THAT AS IT MAY, it still leaves the question of what department stores are going to do about getting - regaining is more accurate - their diminishing share of the furniture and major appliance business? "Department stores, if they expect to remain as a dominant factor in the marketplace, must contend competitively for all categories of merchandise," a well known home goods vice-president emphasized in a recent discussion of this timely topic.
"The truth is that too many managements are kidding themselves into believing they can deemphasize the socalled 'loss areas' or categories and still remain dominant in their trading areas, but that is just sheer, unadulterated wishful thinking. The day of reckoning won't tolerate such nonsense - it's later than they think!"
(To be Continued)

## 2d Basco Pittsburgh Unit Set

CHERRY HILL, N.J. - Basco, Inc. will open a 34,000 -square-foot catalog-showroom in the Whitehall shopping center in Brentwood, Pa., its second in the Pittsburgh area, on May 12.

At the same time, Basco disclosed it will not be ready to
open its Santa Ana, Calif., showroom until fall, a postponement from the planned spring 1973 opening.

Also scheduled for fall opening is a new unit in the Philadelphia suburb of Montgomeryville bringing the Basco total to 12,
which also envisions the closing of the existing 23,000 -square-foot Cherry Hill showroom and opening a 43,000 -square-foot unit this fall on a 5.1 acre site adjacent to the Cherry Hill Mall.
Scheduled for spring 1974 is a 23,000 -square-foot showroom in Northfield, N.Y

## Gimbels Takes Warehouse Step

PITTSBURGH - Gimbels-Pittsburgh has moved a step closer to its new warehouse in Chartiers Valley Industrial Park to replace its present Manchester district warehouse here

For several weeks, signs at the old warehouse have advised customers visting the home furnishings warehouse outlet that the firm expects to move. Approval, sought about two years ago for purchase of the 62 -acre site in the industrial park for $\$ 775,000$, has been granted to the retail department store firm by the Urban Redevelopment Authority. The lone remaining hurdle is approval by local governments, not expected to be a problem.

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## BY EARL LIFSHEY

## Big-Store Myopia

(Fourth of a series)

NO ONE WHO REALLY KNOWS the score is fooled by the seemingly impressive growth of the major appliance business in department stores - from 2.2 million units in 1930 to 4.6 million in 1970.
'But, as an excellent recent study by the Retail Marketing Department of the Whirlpool Corporation reveals, WHEREAS IN 1930 DEPARTMENT STORES ACCOUNTED FOR 70 PER CENT OF THE TOTAL VOLUME BY 1970 THEY HAD SKIDDED DOWNHILL TO WHERE THEY ONLY HAD 17 PER CENT OF THAT BUSINESS! Today it's probably even less.

What is even worse, however, is the miserable profit performance charged against the major appliance departments in department stores. For what it's worth - and, as was pointed out here yesterday, there are those who don't think it's worth very much - the MOR or Merchandising and Operating Report of the National Retail Merchants Association for 1971 operations, shows the so-called median gross margin on major appliances as being only 21.6 per cent - far below the storewide gross margin figure of 39.5 per cent.

There are other - and inconclusive - figures, but all of them once again end up painting this merchandise as most undesirable because of its profitless performance. And, if that isn't bad enough, as this newspaper also reported (Nov. 9, 1972):
"Radio and Television were far down on the profitability ladder for department stores last year, according to the MOR figures . . . The poor profit picture is dramatically seen in the 19.0 gross margin figure registered by television as a category and the $23.5 \%$ by radio/audio."
"Equally bleak for TV and Radio is the dollar return on investment. TV gave department stores only a 1 per cent return on their investment dollar, showing $\$ 1.01$, while radio returned on $\$ 1.05$ for each inventory dollar invested." And so it goes.

AS A CASE IN POINT - and an example selected purely at random - take the performance of the major appliance department of the J. L. Hudson Company in Detroit. From Feb. 1, 1971 to Oct. 1, 1971, this operation showed a loss of about $\$ 956,000$ on sales of $\$ 5,032,-$ 200. The total expense charged against that department, according to the statement, is $44.3 \%$

In line with traditional department stores accounting, of course, each department is saddled more or less arbitarily with its presumed pro-rata share of total store expense. Accordingly, Hudson's major appliance department, for example, was charged 0.7 per cent of sales or $\$ 34,630$ for wrapping materials!

Is it any wonder big-ticket merchandise has come to be regarded as profitless and unwanted after being accorded such treatment? Is it surprising that department stores continue to lose their share of the hardgoods market?

What too many department store managements are apparently unable or unwilling to comprehend the difference in the terms of the major appliance business. For example, as the Whirlpool study points out: "Low cost and no-cost features like free floor planning - inventory financing - dollar financing - seasonal dating - and back-up warehousing."

Another significant factor is that the operational burdens of the major appliance business have shifted from the retailer to the supplier. To quote again the Whirlpool study: "When department store margins were 40 per cent the retailer was supplying freight . . . sales training product service . . . inventory financing . . . product pioneering leader models . . . fill-ins, etc. Now margins may be below 25 per cent but all of those burdens are now assumed by suppliers."
> "WHAT I HAVE NEVER BEEN able to understand," one veteran hard goods merchandiser recently commented to me about this overall situation, "Is how top management can measure their overall department store performance based on the 'return of investment' principal, but then proceed to evaluate individual departments within the stores on the basis of 'margin' per cent contribution only. It is that kind of thinking, I'm convinced, that explains why and how they forfeited the approximately $\$ 10$ billion industry to the discounters and/or mass merchants." Amen!

> If the big-ticket merchandise is really as unprofitable as department store thinking claims it is, how come Sears, Roebuck - which literally laid its foundation on hard goods - continues to be the world's leading retailer? If department store management wants to go its own myopic way that's its privilege. There's no doubt where all that will land them. But to quote Mr. Darwin, what we will see will be the survival of the fittest in this business as in all else.

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## Gimbels Takes Warehouse Step

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## RETAILING TODAY

MAY 1973

## THE ARENA OF MUTUAL DISTRUST

There are many in business who have reacted to Watergate an ated incidents now being exposed with the comment "Politic is a dirty business-what did you expect?"

It seems there are many who hold the view "Retailing is a dirty
business-what did you expect?"

Recently I was taking with the President of a major appare nanufacturer who commented that he placed little value on their very high level of back-orders. Hé explained that he thought mos etailers were placing orders beyond what they actually neede
and that as soon as they found out who was actually shipping, th retailer would use one excuse or another, legitimate or illegitimate, to cancel or reject the other orders. Although he did not state it outright, it was apparent that he felt that many run a business.

At about the same time, Joseph W. McNichols, in his FURN URE MERCHANDISING NEWSLETTER ( $\$ 19$ /yr. Box 584 ne of the few major areas where some buyers place duplicate orders, wait for the first shipment and cancel their duplicat orders with impunity." I think Joe might have said, with greate ecuracy, "Our industy is one of the follows this practice.

Joe follows his observation with a sound comment "During this eriod of material shortages, many manufacturers have give preferential shipments to those buyers who rarely cancel a order.

## FRAUD COMPROMISES-THE NEW EXPENSE CENTER.

Goodyear Tire and Rubber Co. settled a 15 -count criminal fraud charge in the Santa Barbara (California) Superior Court. With th customary deference shown to powerful corporations by judge
and district attorneys, and the usual contempt for the rights of the public to know, District Attorney David Minier refused to eveal the amount of the penalty-although others familiar witl
the case indicated that it was $\$ 80,000$ !
oodyear and 3 of their Santa Barbara employees had bee harged with making false representations in order to sell ball oints to customers who responded to the company's advertise ments for a $\$ 9.95$ front-end alignment for their cars. Some all joints and other parts!

As part of the settlement, charges were dismissed against the mployees. Since Goodyear was fined and the employees releas

## A MATTER OF ETHIC

RT is concerned about the current trend exemplified by the recent fraud-induced bankruptcy of Equity Funding Corporation. This bankruptcy has been followed by a series of suits against the accountants involved and
investment firms who recommended the stock

This rash of suits must be put into perspective. A substantial number of stockholders who were hurt held stock in Equity Funding because of greed-they were not
satisfied with proven performers, long-term performers, satisfied with proven performers, long-term performers, established performers. "hey had to grab for a get-richquick investment, a collapse of Levitz Furniture. Did any one really think that a "retail concept" was worth a market price of 100 times earnings? After the stock dropped $65 \%$ it was still selling for

But to return to our problem. When there is enough greed around, there will always arise a breed of man who will cater to it. These are the men who find that when they fhem. And there will always be brokers and investment advisors who find it easier just to follow the crowd and recommend the new "hot" stock, the get-rich-quick theme.
Nobody likes to be known as a sucker-so when the investment blows up in their face, to save their own vanity the losers start suits against everyone in sight. They profess they can prove that their natural great wisdom did not prevail because they were misled by someone they trusted. that they could hardly wait to buy the stock.
That brings us to the problem of retailing. Any retailer who is doing more than $\$ 25,000,000$ a year-involving perhaps
$3,000,000$ or more transactions-has a complex business. Soon auditors will not certify income statements and balance sheets unless they have checked almost every transaction. Retailers will not be able to afford such an audit-yet audits will continue to be required by the S.E.C.
and the stock exchanges. Because of the assault of the greedy, one must recognize that a man is a fool to become a C.P.A. in this day and age; and those who are now C.P.A.s must charge for the risks they bear.

## ed, some implication is created as to who was responsible for the conduct. <br> Hought: Perhaps Goodrich, in their drive for identity can now

 claim. We are the honest one.RTip: For those retailers with TBA Centers, especially leased ones, do you know for sure that only necessary jobs are recommended to your customers? A periodic shopping with a pre-inspected vehicle might help protect your reputation with your customers.

## A HUMBLE OFFER SHE JUST COULDN'T REFUSE

A new publication, Media \& Consumer (P.O. Box 1225, Radio City Station, NY, NY 10019, \$12 per yr) quotes, under the above heading, the following item from Ed Gorin's consumer column in The (Hackensack N.J.) Sunday Record of December 17, 1972. It illustrates how silly credit procedures can get. This happens to be an oil company, but it could have been a retail store.
"Humble Oil Co. replaced the furnace in this young lady's home and expected to sell the oil to go with it. She was asked to fill out one of those credit forms with her age, bank balance, salary, outstanding debts, etc., even though the purchase of the oil was strictly a cash-and-carry operation: you put the oil in the tank, you get paid-no credit involved.
"She refused to fill out the application, telling Humble her financial situation was none of its business. Humble told her she couldn't buy oil without it, so she told Humble what to do with its oil.
"Humble later relented, saying she could buy oil without the form. When she told Humble she had taken her business elsewhere, she was told the warranty of the furnace would be void. So now she's buying from Humble."

RThought: this matter should be brought to the attention of the state attorney general and the FTC as a practice in restraint of trade.

## FOR A BETTER AMERICA?

Point of View (2150 Rexwood Rd., Cleveland, Ohio 44118, $\$ 5 / \mathrm{yr}$ ) reports that Herbert Strawbridge, Chairman of Higbee's, recently told newspaper advertising executives that you "should insist upon at least equal right with your news division cohorts. If I were you, I'd claim first seat, and put them into the second seat. Your orchestra might play better ... remember, you, too, are protectors of freedom of the press by getting someone to pick up the tab for the majority of the expense of gathering and printing 'all the news fit to print'!"

Apparently Strawbridge went on to suggest that his store and other retailers should be flattered with "puff" stories or else papers should find some other source of income to support the expensive tastes of the papers.

RThought: The management at Higbee's has not been too effective. In recent years a very good price for their stock is about $80 \%$ of book value-and it typically trades at about $65 \%-70 \%$. Management has earned less than $5 \%$ on the book value of the common stockholders' investment (partially held down by reporting their inventory on LIFO)-but if the stockholders could just get their money out of Higbee's and into an insured saving account at $6 \%$ interest, they would have about $35 \%$ more income and $35 \%$ to $50 \%$ more market value. Under circumstances where management cannot produce the basis in truth for "puff stories," it may be appropirate to ask for compensatory help from the newpapers.

It seems consistent with the evidence of management skill at Higbee's that Mr. Strawbridge fails to mention that he uses a
particular newspaper because the readers buy it for the news content (not for the ads), that for a major retailer within a newspaper's area the paper usually represents the cheapest way of disseminating information about merchandise for sale, and that many observers and agencies are already concerned abou whether the bargain prices offered by newspapers to the larget retail advertisers constitute illegal discriminatory pricing.

## UNITED PARCEL'S OTHER SIDE

Many retailers receive a regular publication from United Parcel Service-full of homey advice on integrity in business and sound ethical practice, plus stories of how wonderful each and every employee is-and ending with an admonition to carefully print all labels for packages.

But there is another side of United Parcel-which Consumers Union shared with their 2,000,000 subscribers in the March 1973 issue (page 209) of Consumer Reports. A California daughter of an Illinois woman was frustrated because a TV set sent to Mother arrived broken, despite having UPS check the packing before shipment. The reasons given in Illinois for not considering the claim was that the packing material had not been held for inspection. CU wrote to UPS in NY and the Director of Corporate Communications saw that the claim was properly settled-and asked that any other complaints be forwarded to NY ( CU suggest a carbon copy to CU -as a help).

RThought: Will UPS now print on their freight bill, "In case your compalint is not handled to your satisfaction, write to Dan Buckley, Director of Corporate Communications, United Parcel Service, 643 West 43rd Street, NY NY 10036?" I hope so! But then, I have always been an optomist.

## A CODE OF COLLECTION ETHICS

The National Consumer Finance Association (1000 16th St. NW, Washington, D.C. 20036) has come up with a Code of Collection Ethics-that should be posted in every retail credit office. The code is practical, fair, and makes good sense:

1. Creditors should fully explain to their customers the terms of any loan or other credit transaction.
2. Creditors who mail bills to customers should do so as soon as possible after the billing cycle ends-at least two weeks before the next payment is due.
3. Calls or correspondence from a customer claiming an error in billing should be acknowledged promptly.
4. Consumer credit collection practices should be based on the presumption that every debtor intends to repay, or would repay if able.
5. Late charges should be assessed only to the extent necessary to recover overall expenses caused by the delinquency.
6. Customer complaints concerning collection practices should be investigated immediately.
7. Collections should be instructed to attempt to initially determine the cause of the delinquency and indicate willingness to arrange a mutually satisfactory repayment schedule, when appropriate.
8. Customers who show a sincere desire to repay their debi should be offered, if necessary, extended repayment schedules,

## BANKS STEAL

RT suspects that the amount of money stolen by retailers from their charge account customers, through the process of "writing off credit balances," is peanuts compared with the money being stolen under formal written procedures by our largest banks.

RTip: If you have a savings account, never, never, NEVER, let it go as long as 3 years without putting in $\$ 1$ to prove to the bank that you are still alive and know that you have the account.

Let's proceed with the story-and the thefts approved by the State (in this case, California) whose State Controller (a man who professes ambition to be Governor) blandly accepts the written statement of intentions of banks to steal (banks are required to file such statements by Section 1513 of the Code of Civil Procedure).

Before some of our banking readers get aroused by the use of the word "steal," one definition of the word does contain the requirement of dishonestry or illegality-but it also means "to get or take slyly, surreptitiously, or without permission; to take or gain insidiously or artfully" (Webster's New World Dictionary, College Edition). This is exactly what our finest bankers are doing-and they probably reap many millions of dollars a year, if not hundreds of millions.

Banks generally divide savings accounts into four categories: active; dormant; inactive; and abandoned. To generalize on policies adopted by California banks, an account is classified as dormant after 3 to 5 years without presentation of the passbook or otherwise making an entry that indicates that the owner of the account remembers that he has it. The fact that the bank has mailed quarterly statements, annual Forms 1099, and has no positive information that the account has been forgotten, carries no weight. The fact that there are active accounts in the same name has no bearing. These dormant accounts, that cost little to maintain, compared with an active account, become subject to a "maintenance charge" varying from $75 \phi$ to $\$ 2.00$ per month. Some banks apply the charge retroactively. Some banks restrict charges only to smaller accounts.

Generally, accounts become inactive at 5 to 10 years and in most cases interest stops. At 15 years, under state law, the accounts are considered abandoned and the balance remaining, after the bank has appropriated for itself whatever it wants to take, escheats to the State of California.

RT has recently opened savings accounts in Bank of America, Bank of California, First Western Bank, Security Pacific National Bank, United California Bank, Crocker National Bank and Wells Fargo Bank. All are state-wide branch banking systems with assets in excess of $\$ 1$ billion, and Bank of America is, of course, the largest in the world.

The process of opening an account is interesting-especially to a retailer who is subject to Truth-in-Lending regulations. Banks have no such requirements when opening accounts.

For example, when the signature card is signed the depositor is actually entering into a contract. In the case of Bank of America, this reads "The undersigned enter into this bank-depositor agreement with Bank of America National Trust and Savings Association and agree that this account shall be carried by said Bank as a savings account and that all funds on deposit in said account shall be governed by said Bank's by-laws, all future amendments thereof, all regulations passed or hereafter to be passed by its Board of Directors pursuant to said by-laws, and by all rules and practices as to interest and service charges of said Bank relating to said account." (Emphasis added).

In all cases the person opening these accounts asked for a copy of the signature card that had been signed; in several cases the employee opening the account had to check with a branch officer before giving the depositor a copy of the agreement he had signed!

Neither the Bank of America's signature card-contract nor the passbook indicate that on November 30, 1959, C. H. Baumhefner, Vice President and Cashier, filed with the State of California the intention of the Bank of America to charge all "inactive accounts" (not defined) $\$ 1.00$ per month if the balance was under $\$ 500$ (no charge if over $\$ 500$-probably because those people could afford the charge). Thus, Bank of America has advised the State of California that it intends to "steal" $\$ 180$, at the rate of $\$ 1$ per month for 15 years, from accounts that have a balance of less than $\$ 500$, before turning the remainder over to the State!

Wells Fargo Bank, in their internal instructions dealing with accounts determined to be dormant but where the customer reactivates the account, states "When a dormant account is reactivated or closed by the depositor, all maintenance charges against the account should be recredited to the account without discussion with the depositor." (Emphasis added). It would be embarrassing, wouldn't it, to have to explain how Wells Fargo Bank takes such money-after not mentioning one word about it on the signature card or anywhere in the passbook.

Some banks might protest that competitive pressures force them to take such dishonest action as stealing small accounts (from dormant and inactive accounts)-and justify it on the broad basis of responsibility to the stockholder-owners of the company. This is harder to justify in the case of First Western Bank, 99.9\% owned by World Airways, which is in turn owned $80 \%$ by Edward J. Daly, one of the richest men in the world. Of course, this may be why rich men become rich men.

In the case of First Western Bank, they apparently did not feel any obligation to advise the State of California when they increased their maintenance charge from $\$ 1$ per month, per instructions dated November 2, 1966, filed with the State, to $\$ 2$ per month, their current charge.

RThought: You might ask your local Better Business Bureau to investigate the practices of your local banks (and savings and loan associations) and compel the establishment of honesty in handling accounts (either full disclosure or abandonment of the "sly and surreptitious"-i.e., dishonest-practices). As major local advertisers, interested in the well-being of your customers, you may wish, as a community service, to summarize local bank's practices and distribute the information through ads and statement stuffers.

## SHORT SHORTS

Supermarches Montreal, SA has reported fantastic success with 4 stores in Paris. The 1972 annual report for Steinberg's Limited gives another story-the very polite general section of the report says "profitability has not kept pace with sales"; but the footnotes to the financials disclose a gross cumulative loss of $\$ 4,155,000$ from operations!
"Air Travelers' Fly Rights" by the Civil Aeronautics Board tells the traveler his rights when flights are oversold, when luggage is lost or misplaced, and more. You can order a copy for all your people who travel by air-by writing Consumer Product Information, Pueblo, Colorado 81009.

How does Rubenstein's of Shreveport do so well? They bill about 12,000 statements a month in 3 cycles from an active file of $25-30,000$ using a service bureau started by a retail store controller and backed by 4 stores in town (today, all the stores in town except one use the Bureau). The equipment has advanced from the nightshift on a computer owned by another service bureau to their own NCR Century 200. Input is by Friden add-punch for everything except file maintenance which is handled by the Bureau with alpha-input equipment. Monday's business is into the Bureau by Tuesday afternoon and can be on statements Wednesday! The Bureau has room for more customers-contact RT for further information.

Our Honor Roll continues to grow-despite the tougher standards of 5 working days between cycle closing and postmark. This month there are 14 stores.

## HONOR ROLL

| Rubenstein's | 2.0 |
| :--- | :--- |
| Gus Mayer (Nashville) | 2.5 |
| Gus Mayer (Beaumont) | 2.6 |
| Mervyn's | 2.9 |
| Berkeley's | 3.0 |

Miller Bros.
Wineman's (Huntington Park)
Ransohoff's
Wineman's (Monrovia)
Maison Mendessole

| 3.0 | Marshall Field | 4.0 |
| :--- | :--- | :--- |
| 3.0 | Roos/Atkins | 4.0 |
| 3.0 | Sears (Houston) | 4.0 |
| 3.3 | Talbot's | 4.0 |

## CREDIT OFFICE RATING

| Information From Reporters | FEB-MAR 1973 |  |  | DEC-JAN 1973 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | No. of Reports | Days to Bill |  | No. of Reports | Days to Bill |  |
|  |  | Average | Range |  | Average | Range |
| Brooks Bros. (NY) | 4 | 6.8 | 5-8 |  |  |  |
| Capwell's (Oakland) | 4 | 9.0 | 7-15 | 10 | 9.9 | 8-12 |
| Dayton's (Minn.) | 2 | 5.0 | 5 | 2 | 6.5 | 5-8 |
| Donaldson's (Minn.) | 2 | 5.0 | 5 | 2 | 5.5 | 5-6 |
| Emporium (SF) | 4 | 9.5 | 5-13 | 5 | 15.6 | 12-16 |
| Famous Barr (St. Louis) | 1 | 5.0 | 5 | 1 | 5.0 | 5 |
| Foley's (Houston) | 2 | 7.0 | 7 | 2 | 8.0 | 7-9 |
| Grand Passage (Switzer- |  |  |  |  |  |  |
| Grodin (N. Calif.) |  | 13.0 | 6-20 |  |  |  |
| Gump's (SF) | 1 | 12.0 | 12 | 2 | 13.5 | 10-17 |
| Hasting's (SF) | 2 | 11.5 | 10-13 | 2 | 10.5 | 10-11 |
| Hink's (Berkeley) | 2 | 14.0 | 13-15 | 2 | 15.5 | 13-18 |
| Joske's (Houston) | 1 | 6.0 | 6 | 3 | 7.0 | 5-10 |
| S. S. Kresge (Mich.) | 2 | 9.0 | 9 | -- | -- |  |
| Liberty House/City of Paris | 2 | 11.0 | 11 | 4 | 11.5 | 8-20 |
| Liberty House/Rhodes |  |  |  |  |  |  |
| Livingston Bros. (SF) | 1 | 6.0 | 6 | 3 | 6.3 | 5-9 |
| Lord \& Taylor (NY) | 2 | 4.5 | 4-5 | 1 | 7.0 | 7 |
| Macy's (SF) | 7 | 6.3 | 6-7 | 10 | 8.7 | 7-10 |
| I. Magnin (SF) | 6 | 5.2 | 4-9 | 7 | 4.3 | 4-5 |
| J. Magnin (SF) | 2 | 4.5 | 4-5 | 5 | 5.0 | 4-6 |
| Maison Mendessolle (SF) | ) | 4.0 | 3-5 | 2 | 4.0 | 2-4 |
| Marshall Field (Chicago) | ) | 4.0 | 4 | -. | -- | -- |
| Neiman-Marcus (Dallas) | ) | 7.0 | 7 | -- | -- |  |
| Penney's (Oakland) | 2 | 5.5 | 5-6 | 3 | 6.3 | 5-8 |
| Penney's (Minn.) | 2 | 7.0 | 6-8 | 2 | 8.5 | 7-10 |
| Ransohoff's (SF) | 1 | 3.0 | 3 | -- | -- | -- |
| Roos/Atkins (SF) | 1 | 4.0 | 4 | 3 | 5.0 | 3-8 |
| Sakowitz (Houston) | 1 | 9.0 | 9 | . |  |  |
| Saks Fifth Avenue (SF) | ) 4 | 6.8 | 6-8 | 6 | 8.0 | 7-10 |
| Sears (N. Calif.) | 3 | 6.0 | 5-7 | 5 | 7.8 | 5-11 |
| Sears (Houston) | 1 | 4.0 | 4 | -- | - | - - |
| Selber Bros. (Shreveport) | t) | 6.0 | 6 | - | $\cdots$ | -- |
| A. Sulka (NY) | 1 | 5.0 | 5 | 1 | 8.0 | 8 |
| Talbot's (Mass.) | 1 | 4.0 | 4 | 1 | 7.0 | 7 |
| Wolff's (St. Louis) | 2 | 5.5 | 4-7 | 1 | 10.0 | 10 |
| TOTA | 79 | 7.1 | 3-20 | 89 | 8.2 | 2-20 |


| Information From Stores | FEB-MAR 1973 |  | DEC-JAN 1973 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Days to |  | No. of | Days | Bill |
|  | Average | Range | Reports | Average | Range |
| Berkeley's (Fresno) 8 | 3.0 |  | 8 | 3.0 |  |
| Blum Store (Phila.) 8 | 8.7 |  | 8 | 11.5 | - |
| Brock's (Bakersfield) 40 | 9.4 | 5-13 | 40 | 11.8 | 7-15 |
| Holman's (Pacific Grove) 10 | 5.2 | 4-8 | 11 | 12.1 | 10-14 |
| Levee's (Vallejo) 20 | 6.4 | 4-8 | 20 | 5.9 | 3-8 |
| Gus Mayer (Nashville) 8 | 2.5 | -- | 8 | 2.4 | -- |
| Gus Mayer (Beaumont) 8 | 2.6 | -- | 8 | 2.0 | -. |
| Gus Mayer (Louisville) 8 | 4.9 | -- | 8 | 6.7 | - |
| Gus Mayer (New Orleans) 8 | 9.7 |  | 8 | 11.9 |  |
| Gus Mayer (Oklahoma City) 8 | 6.3 |  | 8 | 8.9 | -- |
| Gus Mayer (Jackson) 8 | 5.8 | -- | 8 | 8.1 | - |
| Gus Mayer (Memphis) 8 | 6.2 | -- | 8 | 6.3 | -- |
| Gus Mayer (Baton Rouge) 8 | 5.3 |  | 8 | 6.1 |  |
| Mervy n's (N. Calif.) 8 | 2.9 | 2-3 | 8 | 3.5 | 3-5 |
| Miller Bros. (Chattanooga) 8 | 3.0 |  | 8 | 3.0 | 3 |
| Oshman's (Houston) 8 | 7.4 | 7-8 | 8 | 8.0 | 6-10 |
| Rubenstein's (Shreveport) 6 | 2.0 | 2 |  | -- |  |
| Walker Scott (San Diego) 12 | 8.1 | 5-9 | 12 | 8.3 | 7-10 |
| Wineman's (Monrovia) 9 | 3.3 | 2-7 | -- | -- | -- |
| Wineman's (Huntington |  |  |  |  |  |
| Park) 9 | 3.0 | 2-4 | -- |  | -- |
| Worth's-Burton's (Conn.) 32 | 8.3 | 6-11 | 32 | 11.5 | 10-14 |
| TOTAL 242 | 6.3 | 2-13 | 219 | 8.3 | 3-15 |

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

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

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

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

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.
refinancing arrangements, or similar methods that would help re-establish their solvency.
9. If the customer does not respond to an offer to help make alternative arrangements, the collector should explain the seriousness of continuing delinquency and advise the customer of the courses of action open under the contract and under the law.
10. While collectors have an obligation to disclose honestly to debtors and endorsers the remedies that may be invoked against them, legal action should not be cited unless it can and will be used.
11. Telephone calls should be placed between the hours of 8 a.m. and 8 p.m. unless other times are more convenient for the customer.
12. Outside collection agencies, attorneys, process servers, and other agents employed to collect delinquent accounts should be furnished with written instructions on how customers are to be approached, which practices are sanctioned and which are not.
13. Credit grantors should be particularly careful in handling delinquencies due to a customer's dissatisfaction with the goods or services financed.

## HOW TO SELECT AN EDP SYSTEM

According to COMPUTERWORLD (2/28/73), Don DuVal of International Reservations Corp offered the following 11 Commandments for evaluating on-line computer systems-but they basically apply to all computer systems:

1. Allow enough time.
2. Define your requirements before you talk to vendors.
3. Establish standard definitions of desired features.
4. Provide prospective vendors with written definitions of your requirement and problem areas.
5. Don't exclude suggestions from vendors. Sometimes they know a better way.
6. Determine vendor's track record-how many installed, were they on time, how about reliability; were reliability problems due to infant mortality or are they longstanding?
7. In the case where you must buy a new and untried product, consider an independent engineering study.
8. What kind of documentation can the vendor provide before you order?
9. Consider the financial stablity of the vendor.
10. What kind of delivery schedule can it provide?
11. Get competent legal help with contract and conduct of relations after contract is signed. Don't wait until you are in trouble.

## CONSUMERISM ELSEWHERE.

In Great Britain, attorneys arguing their own unfortunate cases are establishing precedents which will benefit many other consumers.

Case I: a 15-day ski trip promised: "many skiers"(no other person at the hotel the 2nd week), "English speaking hotel owner" (not true), "close to skiing" (not true), "skis available" (only short sizes), "afternoon tea and cake for 7 days" (potato chips!), "evenings of yodelling" (5 songs). After originally winning recovery of half of the cost, the Court of Appeals finally awarded double the cost as damages plus legal costs.

Case II: a used car purchased for a trans-Alp tour to Yugoslavia was returned to the seller 12 times for repairs, 4 times for overheating. The seller's defense was that not much was wrong "considering it was a mass-produced car!" The judge disagreedallowed recovery of purchase price, interest on money, out-ofpocket and legal expenses. Fortunately, the purchaser had not signed away his rights under the "Sale of Goods Act," which permits a standard contract term (soon to be banned) deleting a warranty of suitability.

## THE PERIPETATIC EDITOR

On a recent trip around the country, the following items were noted in ads:

In New York City the major dealers in traffic appliances are the savings banks (NY, Greenwich, Manhattan, Prudential, etc.) with full-page ads of give-away appliances. Sears in NYC approves of the "Satisfaction Guaranteed" program (apparently an optional item at district level) while Woolworth continues to put it in every ad.

More and more New York stores (Macy, Associated Food, Key Food, Bohack) are protecting themselves from sloppy ad-setting. Macy's wording reads "We regret we cannot be responsible for typographical errors in the publication of this advertisement." There was a day when newspapers assumed responsibility for the accuracy of their work-but that seems to have passed. But it leaves open to question how Macy's or others prove that the error was made in typesetting the ad. One suspects that all errors are typographical (obviously, since they were printed) which would argue that Macy's is perfect-and RT knows of no one who will argue that in the affirmative.

Mail and phone minimum orders are going up. $\$ 5$ at Gimbels and A\&S. A\&S adds $35 \phi$ handling.

In Cincinnati, Steinberg's advertises "If we're ever sold out of any advertised product ... it doesn't happen very often ... we guarantee delivery of that product or its equivalent at the advertised price. You can always buy with confidence at Steinberg's." Perhaps it is policies such as this that permits Steinberg's to say, "We are one of the nation's largest appliance, TV and stereo dealers!"

The only store in Los Angeles that advertises Satisfaction Guaranteed is K-Mart. They use the sig-cut "Kmart-gives satisfaction always." Sears does not include it in their adsperhaps wisely, since they did not honor it for many weeks when big dollars were involved in the Add-A-Room program.

In Chicago, K-Mart joins Sears in avoiding any mention of satisfaction guaranteed-and one presumes all the officials of Sears read the Chicago advertisements and approve of the deletion. And the same comment can be made about Montgomery Ward and Co.

## WHENCE GOETH THE CONSUMER MOVEMENT

"Of Consuming Interest" (P.O. Box 986, Court House Station, Arlington, VA 22216, \$36/yr.) issued a Special Supplement in April titled "The Grassroots-A New Location for the Consumer Movement." The report is based on interviews with Congressman Benjamin Rosenthal; Betty Furness, Consumer Affairs Commissioner for NYC and recently chairman of the national meeting of meat boycotters that resulted in formation of the National Consumer Congress; Helen Nelson, former Consumer Counsel in California and now President of the Consumer Federation of America; Colston Warne, President of Consumers Union; Donald Perkins, Chairman of Jewel Company and the Food Advisory Panel to the Cost of Living Council; James Button, Senior VP of Sears; H. Bruce Palmer, former President, and Elisha Gray, Chairman, of the Council of Better Business Bureaus; Herbert Denenberg, Insurance Commissioner of the State of Pennsylvania; and Lee Bloom, VP for Advertising of Lever Bros.

From these interviews "Of Consuming Interest" concluded several things. First, that the emphasis on action and legislation will probably switch from the Federal to the State level. In some areas, failure to pass state legislation (no-fault auto insurance, for example) will be used as an argument for Federal legislation. Second, pressure can be brought more directly on State Legisiators.

The organizational development is occuring, at the present time, at the local and state level. Some state groups are reaching the point where they have effective full-time paid lobby organizations at the Capitol.

Subscriptions to Consumer Reports (Consumer Union) have doubled in the past 5 years-a clear indication of consumer interest in more information on the products that people buy.

The Council of Better Business Bureaus is making progressslowly. The National Advertising Review Board may soon acknowledge that the public has an interest in advertising and let the public communicate with the Board. Local Bureaus are expanding their service, developing arbitration panels, and extending toll-free telephone lines.

Sears, Jewel and Lever Bros. executives all reported expanding activity on the consumer front by their own firm and by competitors in the retail field.

RTip: RT has long suggested that retailers should subscribe to this publication to keep informed of action on the consumer front. The April 25 th issue would be a good starting point.

## FROM AN EXECUTIVE'S WALLET

C. N. Reiger, Controller, at Scarbrough's, Austin, Texas, shares the following which he clipped from the Wall Street Journal, January 2, 1970. (RT always welcomes contributions).

Landrum R. Bolling, president of Erlham College, Richmond, Indiana, writing in the autumn issue of the Earlhamite magazine:

For some time now I have been compiling my own secret set of rules on How to Survive and Be Happy Though Surrounded by

College Students. I pass them on to the Earlham alumni family, not as an infallible guide, but as a set of suggestions for the preservation of civility and sanity. Here they are:

1. Listen: You won't learn much from young people if you all the talking. You'll be surprised at how much sense they talk, however senseless they may look.
2. Keep smiling: A large percentage of us of the older generation unconsciously or deliberately glare, sneer or frown when we look at college students. Most of them are remarkably perceptive; they know when we're hostile. It is difficult for most people, young or old, to communicate with others who are clearly antagonistic.
3. Don't ask them why they look the way they do. If they can't explain it to their parents, they can't explain it to you. Anyway, they don't really know.
4. Don't tell them how hard and how joyfully you worked in your youth. Theirs is a different world; they have no conception of the world through which we lived in the Depression and in World War II and little curiosity to learn about it. Sad or wrong, but it's true.
5. Level with them. They are amazingly open and honest, if you approach them in a spirit of openness and honesty. And there's little or nothing you can't talk about.
6. Don't try to be one of them. Among the most pathetic creatures over 30 are those synthetic adolescents who try to dress, talk, act and look like college students. Oh, there's an occasional middle-aged folk singer who can get away with it. Most of the rest of us, on or off the campus, can't.
7. Share with them your own highest hopes and finest pur poses. It will surprise and delight them to discover that plenty of old people are idealists too. They have been fed too much nonsense about the lack of social purpose among their elders.
8. Believe in them. They'll sense it when you do. And, as in all generations, they will respond, eventually, to that belief.

## POEMS TO MANAGE BY

This poem should really be called the "Sole Proprietor's Ode" but instead it is called

## INVICTUS

by
William Ernest Henley (1846-1903)
Out of the night that covers me, Black as the Pit from pole to pole,
I thank whatever gods may be For my unconquerable soul.
In the fell clutch of circumstance I have not winced nor cried aloud.
Under the bludgeonings of chance My head is bloody, but unbowed.
Beyond this place of wrath and tears Looms but the Horror of the shade,
And yet the menace of the years Finds and shall find me unafraid.

It matters not how strait the gate, How charged with punishments the scroll,
I am the master of my fate:
I am the captain of my soul.


## WHICH IS COMPETITION?

- The papers quote Kresge chairman, Bob Dewar, as saying: We have always assumed that Sears, Penney, and Ward would represent important competition. But the toughest K mart competitor is in fact another discounter, Zayre's.

Evidently Dewar takes the traditional concept that competition is based on price and presence. But price may be only the most visible ingredient. Certainly the "feel" of competition is strongest when you leaf through the local ad pages and see another store undercutting you. But I wonder if present day consumer marketing can be measured that way?

Is Sears not a strong competitor to K mart because their price points do not clash? What about the factor of assortment? To what extent does K mart lose business to Sears on say hand tools because Sears offers a wider choice although at different price points? To what extent is Ward's competitive with Zayre's on appliances because Ward maintains its own service organization? Or take apparel. What is the competitive weight of say fixturing hangwear or fitting room facilities or department layout?

To segment competition as those stores who run similar businesses is to say there is such a thing as a discount store customer, or a drug store customer, or a department store customer. I refuse to accept the idea that customers assign themselves into such closed end retail boxes. Prestone can be bought in drug stores and dentifrices in food stores and pantyhose is more universally distributed than postage stamps.

The age of universal distribution (everybody getting into the other guy's act) has all but destroyed histor-
ical competitive store categories.
On mass-merchandise, high-velocity lines, competition is pervasive. And by "competition," I mean all the factors that influence the buying decision. Of which price is but one.

Let's deal with still another competitive factor: credit facilities. Bob Kahn in his current bright newsletter (Retailing Today) reports that a Tampa survey showed that among the households with $\$ 15,000$ or more income, half do not have charge accounts with the leading department store (Maas Bros., an Allied division). But $35.6 \%$ of these households have other types of credit cards, including BankAmericard, Master Charge, etc. So what is the competitive factor of a shopper who has a bank card which is honored by some competitive retailers. Does she elect to pay cash for her

Maas Bros. purchase or is she diverted to the smaller store who accepts her bank credit card?

As you know, Macy's now accepts American Express cards, but doesn't push it. Bob Kahn details the situation and I'll quote him: "On a recent stay in NYC, I checked the papers to see what type of merchandise I could buy-having only my American Express (AX), Diner's Club (DC), BankAmericard (BA) and Master Charge (MC) cards in my pocket. (I never did have a Carte Blanche (CB) card but will list them in any case.)
"Macy's, of course, is apparently too proud to list AX in their NYC ads. But the stores listed above will certainly satisfy a great deal of the needs of the kind of people that Macy's-Gim-bel's-Bloomingdale-A \& S think of as 'their customers."

| Store | Cards Honored per Ads |  |  |
| :--- | :--- | :--- | :--- |
| Brownings | MC | BA | AX |
| Franklin Simon | MC | BA |  |
| Allen Carpet | MC |  |  |
| Save Mart Appliances | MC | BA |  |
| Great Eastern Discount Stores | MC | BA |  |
|  |  |  |  |
| Hammacher-Schlemmer (Home Furn.) | MC | BA |  |
| Sachs Furniture | MC | BA |  |
| Alexanders (Discount apparel) | MC |  |  |
| Klein Sleep Shop | MC | BA |  |
| Bonds (Apparel) | MC | BA |  |
|  |  |  |  |
| Korvettes | MC | BA |  |
| Robert Hall | MC | BA |  |
| Willoughby-Peerless (Cameras) | MC | BA | AX |
| Liberty Music |  | BA | AX |
| Radio Shack | MC | BA |  |
|  |  |  |  |
| S. Klein (Discount) | MC | BA |  |
| Seaman Furniture | MC | BA |  |
| Martin Paint | MC | BA |  |
| Arrow Electric | MC | BA |  |
| Aid Auto Stores | MC | BA |  |
|  |  |  |  |
| Rayco Car Service | MC | BA | AX |

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## New waste compactors with plenty of swallow...



Now stores, supermarkets, and shopping centers can have big-compactor "swallow" and capacity without buying more machine than they really need.

Anchorpac's A-series compactors bridge this expensive gap. You can feed them boxes, crating, and other bulky materials (wet or dry) without breaking them up first.

Refuse is hydraulically crushed to $1 / 4$ its original volume into a sealed, locked-on metal container. No scattering or littering. No eyesore. Ends incineration and pilferage. Frees trash holding areas for more productive use. Saves on the number of costly pickups required. Fully compatible with your hauler's equipment.

Ask him about Anchorpac, a pioneer in compaction. Our machines are known for their long, trouble-free operating life. And with the backing of a multi-million-dollar industrial corporation, you can be sure we'll be around to service tomorrow what we sell today.


# Meclial 

Philadelphia's Supermarkets: The Beginning of a National Scandal?

See Pages 8 and 15

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## Clip Service

The first story reprinted
here (both are from The Philadelphia Daily News) describes the
sales pitch at one airport's flight insurance
concession. The second tells what happened as a result of that story: several of the saleswomen quit, protesting the tactics they were pressured to use and telling of the complaints they had been receiving from customers.
Flight insurers also got into trouble last year, when New York's insurance department ordered them to increase the benefits or lower the prices of their policies. Instead, the companies, fearing that other states might follow with similar demands, pulled out their vending machines and sales desks from the state's airports.

- The Philadelphia

Daily News, 1973.
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permission.

## The Travel Insurance Game <br> Expensive Policies Come First at Airport Desk

By Gunter David
(4/18/73) If you want to take out life insurance for air travel, you can buy as little as $\$ 15,000$ worth for 50 cents, or $\$ 150,000$ worth for just $\$ 5$.

But you wouldn't know it, to judge by the sales pitch at the insurance counter operated by Mutual of Omaha at Philadelphia International Airport-the only insurance company doing business at the airport.

Sales persons start by offering combination life and accident insurance for the trip. It costs $\$ 32.50$
for two weeks, $\$ 13.75$ for three days, and other amounts for different periods. Such a policy provides $\$ 250,000$ in life insurance and $\$ 50,000$ in accident insurance.
It's only after some prodding that you can obtain the cheaper rates. If you don't ask for lower rates, you won't be told about them.
"If a salesman wanted to sell you a car, he wouldn't start with a Volkswagen," said Mrs. Sue Ann Lutz, sales trainer for the company "We start with the best protection available."

A sales person who identified herself as Mrs. McDonough, said,
"We always start up with the maximum."
Peter McKernan, regional manager, said in recent years strict

## If you don't ask for lower rates, you won't be told about them.

in-flight insurance has been "de-emphasized" in favor of more inclusive policies.
"But l'll have to remind the sales people to be sure to tell the public
that we have the cheaper flight policies," he added.

Mutual of Omaha, which obtained the exclusive insurance concession at the airport April 1, also operates coin machines that offer the cheaper policies.
If you want insurance just for the time you spend in the air, ask for "straight flight insurance."

You already may be insured against accidents through your own insurance policy.

Check it before you leave the house for the airport.

## Saleswomen Quit after Paper's Story

$(4 / 30 / 73)$ Six of the nine saleswomen have quit their jobs on the only flight insurance counter at Philadelphia International Airport to protest what they say is the "high pressure and evasive sales tactics" of their employer, Mutual of Omaha.
A company spokesman has denied the allegations.
In a letter of resignation, manager Margaret McDonough of Folcroft said:

The entire sales presentation is directed at meeting sales quotas by evasive tactics, i.e., not presenting all types of policies to the customer for his selection, but rather to take him for as much as you can get.
"We have recently received many complaints and have been subject to verbal abuse by irate customers who quite often would not
purchase any insurance."
The resignations followed a recent article in the Daily New's detailing the sales practices at the Mutual of Omaha counter
Mrs. McDonough said the resignations came after numerous vain efforts on the part of the staff to get the company to alter its method of offering the most costly insurance first and lower rates only upon request.
The saleswomen at the desk normally begin by offering customers a combination life and accident policy costing $\$ 32.50$ for
two weeks, she said. It provides $\$ 250,000$ in-flight life insurance and $\$ 50,000$ accident insurance By comparison, she said, the company can offer the air traveler $\$ 15,000$ worth of in-flight insurance for as little as 50 cents. But the customer has to ask.

The saleswomen were put on a commission basis and given sales quotas to meet, Mrs. McDonough said.

The women previously worked for Continental Insurance, which operated the counter and had sole concession for flight insurance at the airport for more than 20 years. The concession is granted by the city to the highest bidder.

Mutual of Omaha, through its
subsidiary, Tele-Trip, obtained the concession effective April 1.

Thomas Hanrahan, Tele-Trip sales vice-president, said the company sets no quotas, just "goals. Commission is paid in addition to an hourly wage as an "incentive," he said.
customer maximum service. If he wants less, he can tell us, Hanrahan added.

In addition to Mrs. McDonough, the women who quit are Mrs. Frances Paci of Southwest Philadelphia; Mrs. Johanna Fitzpatrick, Mrs. Bernadette Mansi and Mrs. Lynne Culin, all of Glenolden, and Mrs. Ruth Gallagher of Springfield, Delaware County

## Some Information Auto Dealers Don't Like To Give

By Susan Schwartz
You may be able to overload a 1973 Datsun 240Z, a Saab Sonnett III, a Toyota Corona or a Porsche without worrying too much about the tires.

But don't try it with a new Mercury or Ford station wagon. You are all too likely to have a blow-out.

You can stop a 1973 Alfa Romeo on the closest the auto industry comes to a dime: 144 to 148 feet from a speed of 60 miles an hour. It takes almost 100 feet more to stop a 1973 Pontiac Grand-Am or LeMans, Oldsmobile Cutlass, Buick Century or Chevrolet Chevelle.

The federal government has once again published without fanfare what may be one of Detroit's best-
kept secrets: measures of how well the current year's cars stop and accelerate to pass, and how much overload the tires can carry.
The federal Department of
Transportation (DOT) requires
One salesman told a shopper that the figures can be had only when you buy the car.
every auto dealer in the nation to have copies of these figures for any car he sells and to give them to any customer who asks for them. In fact, getting the information
is likely to require persistance or even threats. One Bellevue car salesman told a shopper that the figures can be had only when you buy the car.

A Seattle salesman said no such information existed until the "shopper" insisted he was legally required to have it. Then he came up with copies.
Other salesmen said they have never heard of this federally required consumer information, or that the car manufacturers never sent copies to the dealers.
Spokesmen for the DOT's National Highway Traffic Safety Administration admit the rule isn't enforced. There are just too many dealers, they explain.

The figures-seldom included in the colorful brochures handed out
freely in auto-dealers' showrooms can help a shopper compare cars and tell him what to expect of his new car when he buys it.
Some things the figures show: Nearly all models of Fords and Mercurys had tire-reserve-load capacities of 2 per cent or less. In other words their tires, when inflated properly, have only a narrow 2 per cent of their strength left as a "reserve" when fully loaded. Ford and Mercury had the worst showing of any manufacturers in these tests

Small cars tended to score highest. The 1973 Datsun S30 had almost a third of its tire-strength left as a reserve when fully loaded.

The Checker did best among large cars, with a 20 per cent tire reserve for all models. Next among

Stanford Sesser
Sidney Shainwald
(Service on the Media \&
Consumer Board is voluntary
and unpaid)
Magazine Staff
Editor: Francis Pollock
Associate Editor: Carol Oleson
Research Editor: Stephen Compton
Production Editor: Douglas Newton
Administrator: Nan Pirnack
Research Assistant: Maureen Shea
Design: Push Pin Studi
Printing: Simpson/ $\mathbf{M}^{*}$

American cars came Dodge Colt coupes, hardtops and sedans, with a 17.5 per cent reserve. But Toyota Corona, a competing small car, did slightly better with 18 to 19 per cent on its sedans.

The shortest stops from 60 miles an hour were by Alfa Romeo, Porsche, several models of Renault, Saab Sonnett III, Citroen SM, Fiat 850 sport cars, Jaguar convertibles,

Volvo 1800 ES and several models of Mercedes-Benz.
Worst at braking at high speeds were 1973 Subarus. Subaru sedans and station wagons required 243 feet to stop from 60 miles an hour

General Motors scored worse than Ford or Plymouth, with many GM models at the bottom of the braking-power list.

Not surprisingly, Citroen, Alfa Romeo, Jaguar, and Porsche were "hot."

American Motors models generally did well. But for each big company, some or many models didn't fit the pattern.

Subaru, Volkswagen, Ford Pinto
> and Chevrolet Vega were among the most sluggish at passing. But a shopper would learn more by comparing figures for the particular models he was thinking of buying.

> The information-available from the National Highway Traffic Safety Administration-is titled
> "Performance Data, New 1973
> Passenger Cars and Motorcycles.

# Decision to Expose Advertiser's Practices Expected to Cost <br> St. Petersburg Papers $\$ 235,000$ 

## Background: Why We Blew the Whistle

Robert Mellis, The St. Petersburg Times' newsfeatures editor, prepared this backgrounder on the paper's expose for Media \& Consumer .

The Porter Appliance Co. story began in January of 1973 as a spinoff from another consumer-oriented feature The St. Petersburg Times produces. Once a week we run a column called Watch This Space in which we put advertising claims to the test. If we find the claim to be true we say so. If we find it is untrue, we say so.

At the beginning of the year, while checking into another local appliance company's advertisement (it offered a hi-fi set on special sale at $\$ 20$ more than the manufacturer's suggested retail price as advertised in a national magazine), Times reporter Michael Marzella was taken to task by the appliance dealer. The dealer complained, in substance, "Why are you picking on me? I'm at least willing to sell the stuff I advertise. If you check on Porter Appliance you'll find they advertise television sets and other appliances they are unable to deliver because they're simply not available."

So we checked Porter Appliance. We checked and rechecked and re-rechecked. And on each occasion we found it was impossible to buy a television set advertised for $\$ 58$. On each occasion, the sales personnel steered us upward to higher-priced merchandise, while downplaying the $\$ 58$ set's worth. This bait and switch technique violates the state of Florida statutes on consumer protection.

When we confronted Edwin Porter, the president of Porter Appliance, with our findings he indicated these violations were inadvertent and unintentional. "We have some overzealous salesmen
and it's going to cost them their jobs," he said
Although we ran no other stories on the Porter affair, we continued to keep an eye on the store's advertising.
In late April, 1 received a phone call from a former assistant manager of a Porter Appliance store in Lakeland, Fla. He had been fired, he said, after he started refusing to follow the Porter plan for increasing sales. When he left the company, he took Porter's sales course and other memos with him. The 14-page course instructed new salesmen on how to sell to different categories of buyers"black boy, Jew, non-talkative type, etc."
Consumer reporter Joy Hart was assigned to talk with the former employee who spoke in detail of the techniques used by Porter Appliance to bait and switch customers.
One of Porter's memos, written as a result of the original story by Marzella, stated, "Bate [sic] and switch is the American way." Joy Hart helped the ex-employee draw up an affidavit which he signed, affirming that the story he told us was true. Before running the story in the paper, we confronted Po' Boy Porter (as he calls himself in his ads) with the new revelations. He admitted that the sales techniques were his.
The final step was to show the story to the publisher of the Times with a request for a statement for publication. John B. Lake, the publisher, announced we would no longer run Porter ads in the Times or its sister paper, The Evening Independent. The company estimates 1973 revenues from advertising by the Porter Appliance Co. would have amounted to $\$ 220,000$ for display and $\$ 15,000$ for classified.

## How Porter's Sells Its Appliances

By Joy Hart
"Bate (sic) and switch is the American way."
That statement appeared in an unsigned memo to "all sales managers and salesmen" at Porter Appliance Stores on Jan. 25, only a few days before Edwin Porter signed an "assurance of voluntary compliance" with Florida law regarding advertising and merchandising practices.
merchandising practices.
The memo says that its purpose is "to clarify our selling policy." And it explains, "We are all interested in making a profit and selling up not down. Bate [sic] and switch is the American way This will be accomplished!"
On Jan. 29 the Florida Division of Consumer Services filed the document for voluntary compliance in the Hillsborough County Court. Prompting its action had been several alleged violations of Florida statutes, including the offering of television sets to the public which were not to be sold and switching customers to higherpriced sets. "Bait and switch" priced sets. "Bait and switch"
selling tactics are a violation of Florida laws on trade practices and consumer protection.

These practices, commonly referred to as "bait and switch," referred to as "bat and switch,
had been exposed in an article by had been exposed in an article by
Times reporter Michael Marzella on Jan. 16. "I was unaware this was going on," Porter told the Times then. "We have some overzealous salesmen and it's going to cost them their jobs."

The consumer division had
informed Ports enf its intent to
file for an injunction, but decided to issue only the assurance of voluntary compliance, which is not an admission of violations.
"The reasons that we accepted the assurance was that he persuaded us that these apparent violations
were inadvertent and unintentional," explained Bill McMahon, assistant director of consumer services. "His reasons appearing to be reasonable, we accepted the assurance rather than take him into court."
Despite Porter's assurances, Ron Koenig, an assistant sales

## Some Selling Tips

## from Mr. Porter's Sales Manual

"The Redneck: Easy to sell. What are the payments? Ask what he does for a living. Get away from the product. Pitch yourself, the service, and then the product for about five or ten minutes. Then get on common ground with him. He'll buy every time."
"The Black Boy: He can be white, too. They'll buy anything. PAK* him, but make sure you're right. Don't let him down. If you promise him, keep it. Go down to his level. Sell him with payments."
"The Jewish Buyer: Make a friend out of him . . . Kid him. PAK the devil out of the product . . . Be prepared to cut. He's the hardest to sell. After you're friends with him, insult him . . . You can't hurt his feelings. High pressure him. He's not interested in service, only price."
"The Sharp Young Buyer: Say hello . . . Call him by his first name, give him your name. This man is interested in service. Pitch service, but make a friend out of him . . . If it's a wife and husband, appeal to the lively one, the one who has the opinions. If she says, "Honey, I like this," don't talk to her any more . . . She's sold. Don't waste your time. Pitch him, or vice-versa."

* Public Acceptance of Kicked-up prices, a practice by which the salesman quotes a fictitiously high selling price for an item, then reduces it in hopes of making customer think he's getting a good deal.
for the salesman is the advertised leader. "Our sales philosophy, then, is to take the customer to the advertised merchandise, pitch it and offer to sell it. You establish the advertised merchandise as a tremendous value."

Then, the salesman is told to move on to step five. "After establishing the value of the advertised merchandise, ask the customer. 'How do you like that?' Listen to the selling keys.
"Then tell the customer that you have an even better value. Take him to the top of the line; pitch it, using features, benefits, demonstration and proof."
For example, Koenig says Porter's has advertised one Emerson air conditioner for $\$ 178$, but it has only four of the appliances, one for each of its stores. And it has "no intention whatsoever of stocking it," he says. (Emerson went out of the appliance business a few months ago.)

Porter doesn't stock many of the products he advertises, Koenig says. If a consumer is persistent and insists on buying the advertised product, "nine times out of 10 he won't get the advertised product, but he will get a more expensive product."
But Koenig says a customer would have to be "pretty persistent" to end up buying a product at the advertised price. During the last week that he worked for the company salesmen at all four of the Porter stores cut the total number of advertised leaders they sold

## to 30 .

When a doorbuster or one or two
of an item are advertised for sale of an item are advertised for sale, salesmen immediately mark "sold"

St. Petersburg Times reporters recently investigated the deceptive sales practices of a local appliance dealer. Upon completion of the investigation, the Times publisher announced the paper would no longer accept the merchant's advertising. The decision is expected to cost the paper $\$ 235,000$ a year in ad revenues.

## © The St. Petersburg

 Times, 1973. Reprinted with permission.on the newspaper ad before they put it up for display in the store. And that's in the morning, before any customers have come to the store.

After the Times story appeared in January, Porter instructed his salesmen that they should never say the store is out of an advertised product, Koenig says.

The letter clarifying Porter policy explains, "Your sales manager or delivery will substitute another item for the same price. A deviation from this policy is cause for immediate dismissal.
"Remember this is very important and no appeal will be considered or no second chance will be given."
Koenig says that he didn't know about Porter's policies when he was hired by the store in January, but he admits, "After I was there for a while, I saw what was going on."

He stayed because "the possibility of making money was there," he explains. "That doesn't mean I had to like what I was doing. But this is the dream of Joe America: Гo make money."

Although he began as a salesman, he soon was promoted to assistant sales manager. He supervised other salesmen, made sales himself, interviewed prospective salesmen and taught classes to new salesmen. During the five months he worked at all four of the Porter stores.

He says he was told he was being

## Porter's has advertised one Emerson air conditioner for $\$ 178$, but it has only four of the appliances, one for each of its stores.

fired because he hadn't sold enough service policies. But he believes the real reason is that he was known as a complaine:
Koenig says Porter's isn't the only store in town that uses high pressure techniques and questionable, if not illegal, tactics Instructions from the Porter sales manual, which Koenig says was written by Porter and John Bee, general sales manager, are very specific. Each step of the sales process is outlined.

If a salesman can't close a sale, he's supposed to call a take over or T.O. "The importance of a T.O. cannot be emphasized enough," the sales manual explains. "Failure to use it calls for an explanation to your superior, and possible dismissal."

The T.O.'s job is to make another attempt to sell the product. "The
T.O. man will evaluate the situation and then try to close," the manual says. "When the 1.O. man decides to drop the price and says, 'Write it up at an even $\$ 200.00$, start to write without further comment."

Prices can be lowered because they have been "PAK-ed," Koenig says, explaining that PAK refers to "Public Acceptance of Kicked Up Prices." He says he knows of one instance in which a customer paid an additional $\$ 500$ PAK above the low price that could have been quoted for the item.
But the PAKs aren't as high now as they used to be. Porter began earlier this month putting price tags on the items in his store. But each item still has a PAK which increases its cost $\$ 20$.
That means $\$ 20$ above the high price of the item. Koenig's price book lists a 19-inch color portable at $\$ 569.95$ for the low price and at $\$ 579.95$ for the high dollar. It also shows a mark up or gross margin of 33.5 or 34.6 per cent on both prices.

Koenig estimates that the mark up is from 35 to 40 per cent on all the items in the store. And people pay the prices.

The Porter method does work, Koenig says.
"People are really gullible and they will buy. Especially if you get on common ground with them and spend a half hour talking to them."
It's emphasized in the sales manual - in sentences printed all in capitals - that "all people are confused when buying" and that "people love to buy and spend money."

But Porter explains more explicitly how he feels about his customer

## Selling." (Reprinted in part in

 the accompanying box.)Porter salesmen rely heavily on a friendly approach. "Successful selling consists of 15 per cent product knowledge and 85 per cent personality and your ability to lead," says the sales manual.
If a sale is made, the next step is to try to sell the customer a second appliance. "You will sell 15 per cent of your customers a second appliance before they leave the store," the manual says. "This may make the difference between hamburger and steak for your family

McMahon, the assistant director of the division of consumer services, told the Times that he is investigating Porter again. Here are some of the other practices Koenig says McMahon should discover:
$\square$ Porter doesn't have the 24 -hour service he advertises on signs in his store. "Any of the salesmen, if you catch him off guard, will admit that it takes three days to get service," Koenig says.

ㅁ All of the Porter stores discriminate against women, Koenig says. "If you come in there (for a job interview) and you don't have a fantastic shape on you, forget it. And you've got to have good legs."
While he was assistant manager at the Lakeland store, he hired two women, but he chose them for their personalities and job qualifications, he says. "Figure wise they never would have passed at the other stores."
$\square$ Porter regularly runs classified ads in newspapers. These ads use fictitious names and list Porter's number for people to call if they're interested in the particular product that's advertised.
"I've answered those calls myself," Koenig says. "The week before I quit in Lakeland I got lots of those kinds of calls.'
Anyone who sells an item gets a 3 per cent commission plus spiffs (one spiff equals $\$ 5$ and one or more are awarded when certain products are sold) plus 40 per cent of each PAK. An exception is that the commission on advertised leaders
is only 1 per cent.
Salesmen and take-over men don't get any regular salary although assistant managers get $\$ 50$ a week and maagers get $\$ 125$.

Koenig says he usually worked 80 to 110 hours a week while he was at Porter's and his average gross salary was $\$ 220$ each week. He says the average salesman makes $\$ 250$ a week.
$\square$ Employees are fined for not following the company's policy. For example, a salesman can be fined $\$ 20$ for not returning a customer's call. And it could cost him $\$ 30$ for lying to a customer although "I've never seen anyone fined for lying," Koenig admits. $\square$ Koenig says Porter uses polygraph tests frequently. Prospective employees have to take one, and a recent memo explained that receptionists might be given one to make sure they are counting all the customers that come into the store.
"I shall at any time challenge Porter to a polygraph test as to the authenticity of my statements in this article," Koenig concluded.


Superimposed on this ad for the Porter Appliance Co. are three memos disclosing some of the procedures of the store. After investigating the selling techniques of the company The S Petersburg Times refused to carry the store's advertising.

## Dealer Says He 'Has to Compete’

The sales manual, the papers and the memo about "Bate and switch is the American way," are his, Edwin Porter, owner of Porter Appliance Stores, conceded Monday

Porter says, however, that the manual which refers to special sales treatment for "rednecks," "black boys" and "Jews" is two years old now and obsolete.
Asked in an interview how salesman Ron Koenig could have gotten one of the manuals since he went to work there only last January, Porter said he did not know.
"We are in full compliance with
the law," Porter says. "If anyone feels they have been taken by Porter, I would like to see them come forward."

The reference to "bate and switch," Porter says, was meant to refer to the "free enterprise system."
"I don't mean that bait and switch is free enterprise. Bait and switch is a dirty word now. Letting the customer make his own choice is free enterprise.
"We let the customer make his own decision as to what to buy. That's a selling procedure. I wouldn't call that 'bait and switch The choice is left to the customer.

Porter, a tall, attr $\mathrm{I}^{\prime \cdots}$ man in
his early 30 s , says he does not think a dissatisfied customer of Porter's can be found in Tampa or St. Petersburg.

He says that if a salesman used pressure to get a customer to switch to a higher-priced appliance, that would be a "moral crime. This is not the practice at Porter Appliance."
But he contends it is not illega to show customers "all of our ware rather than the one itemized item."

The American public, he says, is "for sure not ignorant. If you slight, cheat or take advantage of one customer he will tell his friends
and they will leave you in droves." His stores sell everyting they advertise, Porter says, adding 3,000 advertised items had been sold since Jan. 17.
"We feel so strongly about our customers we will give them anything they want, but you have to bring them into the store," he says. "I have to compete with these people."

He was referring, he says, to other appliance firms that advertise heavily to attract customers.
"Are you (the Times) going to stop everybody or are you going to break Porter Appliance?" he asked.

# The Cost of Legal Services <br> Emerges as Major Consumer Issue 

The Problem as Some See It

The problem of soaring legal fees has been approached from many perspectives-from the Harvard Law Review's application of straight economic theory to minimum-fee schedules, to a more pragmatic study by The Cleveland Plain Dealer on the enormous jump in the cost of legal services and the effect on various income groups.

Perhaps The Louisville Courier Journal most succinctly stated the crux of the problem. "Most Americans wouldn't think of ordering a car or a television set without first asking the price," wrote Larry Werner in a commentary on how to shop for an attorney. "But do they know how much a lawyer will charge to draw up a will, to represent them in court on a traffic charge? . . . Generally not. The same people who bargain-hunt for beef often don't know a lawyer's fee until he sends a bill."
However, the increasing attention being given to legal fees has generated some remedial action.

In New Jersey, the practice of paying municipal lawyers "with a small retainer and then paying fees on a piecework basis" is slowly being revised, according to Public Issues, a newsletter of the Center for Analysis of Public Issues.

Under this payment system, the newsletter says, "the actual total of fees can be enormous."

The same is true for the individual, The Cleveland Plain Dealer
found. Lawyer's fees in the Cleveland area have risen 95.4 per cen in the last ten years, the paper said. Among the individuals and groups affected by the increase were: "The parents of a 6 -year-old boy who could not afford the retainer for a lawyer to file a malpractice suit against a dentist who dropped a clamp down the boy's throat;" and "a group of retirees who do not have access to the law in their fight against a proposed high-rise in their residential neighborhood because hiring a lawyer would be too expensive."
According to an estimate by the American Trial Lawyers Association, about 30,000 legal problems go unsolved each day because individuals cannot afford legal counsel.
Much of the economic problem of legal services has been attributed to minimum-fee schedules. The Harvard Law Review outlined the arguments for the schedules: "They raise professional income, augment the quality of services rendered, provide price information for clients, attorneys and judges, and help enforce the proscription against solicitation." The Review concluded that "minimum-fee schedules probably lead to serious resource misallocation and to a constricted supply of legal services." The Review adds that arguments in support of the schedules are "of dubious validity" and "must be balanced against important countervailing considerations." In short, the Review concluded, "minimum fee schedules should be abandoned."

## Justice Department Eyes Fixed Fees

By Wayne E. Green
Government antitrusters hear it nearly every time they bring pricefixing charges against someone.
"It's usually something like, 'When the hell are you gonna get the lawyers'? " says a top official in the Justice Department's antitrust division. "My response is that law enforcement takes time."
Apparently, the time has come. Tired of complaints that lawyers get preferential treatment, the department is changing its longheld view that the legal profession is exempt from prosecution under U.S. antitrust laws. It has begun investigations of minimum-fee schedules maintained by local, county and state bar associations across the country. These schedules list flat charges for legal services, such as $\$ 75$ for drafting a simple will, and the bar associations, to varying degrees, expect their members to charge no less.
At some point, the department almost certainly will file a pricefixing suit challenging this timehonored method of charging clients. That's chilling news for the legal profession, already shaken by the success of a private suit against fee-fixing by some Virginia attorneys, and it's having widespread effects.
Some state bar associations have already dropped their fee schedules, and dozens of local versions are also disappearing. Some bar groups are considering less rigid "value guides" as possible safe substitute methods, and others are switching to straight hourly charges. But some attorneys, resenting the department's change of mind, are urging the profession not to panic.
The turn of events pleases potential clients who would like to price-shop for lawyers to draw wills and handle divorces and perform other services often controlled by set fees. In Virginia, there already are signs that certain real estate settlement fees may be declining.

Thus, far, the antitrust division has taken only preliminary steps. It has sent informal questionnaires to bar associations in New Jersey, California and several other states asking about their pricing practices. It has also issued formal investigative orders to bar cheups in

Massachusetts and Louisiana
demanding documents on minimum-fee schedules that have existed there
But the highest-ranking antitrust officials publicly have warned lawyers that a price-fixing suit may be ahead.
"I think the legal profession has been given sufficient warning," says Thomas E. Kauper, assistant
an informal compulsion not to undercut the rate schedules. And a few note that lawyers who try to increase their business by
"intentionally and regularly"
charging less than the minimum may be disciplined by the bar for unethical solicitation.
A schedule may suggest fees for everything from handling a minor traffic case to drafting a complicated

## Judge Bryan held that the 'mere existence of an agreement which restricts competition by price-fixing' is illegal.

attorney general in charge of the antitrust division. "Fee-fixing by lawyers can run afoul of the antitrust laws. It may well be that our next warning will be in the form of a complaint."

Traditionally, the department has assumed that lawyers' minimum-fee schedules didn't affect interstate commerce and so weren't subject to federal regulation. Moreover, fraternal bonds have seemed to deter the government prosecutors from attacking their fellow lawyers. But in recent years the courts have broadened their interpretation of interstate commerce, and the department has brought pricefixing charges against other businesses that call themselves professions, including accountants, architects and civil engineers. The actions have raised pressure for a parallel assault on lawyers'

## minimum fees.

The schedules surfaced as early as 1872 (in Sedgwick County in Kansas) but didn't begin to flourish until the 1950s. The basic idea was to provide lawyers with adequate compensation and discourage them from soliciting business by discounting prices. Frequently, lawyers could be disciplined by the bar for undercutting the minimum-fee tables.

That rigid aspect has gradually eased. Many schedules now are described as suggested guides and note that it's up to the individual lawyer to determine what a reasonable fee is for a particular service. Still, many lawyers feel
pension and profit-sharing plan. The now-abandoned tables issued by bar associations in Alexandria, Va., and in neighboring Arlington and Fairfax counties specified such minimums as $\$ 350$ for an uncontested divorce and $\$ 600$ for a contested one; $\$ 75$ for drafting a "short-form" will and $\$ 100$ for a longer version; and a scale of 5 per cent for handling probate of an estate valued up to $\$ 25,000$ (with a minimum fee of $\$ 250$ ), 4 per cent of the next $\$ 50,000 ; 3$ per cent of the next $\$ 100,000 ; 2$ per cent of the

## Many lawyers feel an informal compulsion not to undercut the rate schedules.

next $\$ 250,000$, and 1 per cent of all above $\$ 425,000$.

It was this schedule, plus one issued by the Virginia State Bar, that drew a private antitrust lawsuit from Lewis Goldfarb, a Virginia resident who is a lawyer with the Federal Trade Commission. The suit was prompted by Mr. Goldfarb's experience in buying a home. To obtain a mortgage, he had to retain a Virginia attorney to conduct a title search. Nineteen lawyers quoted him a fee of $\$ 522.50$ for the title search on his $\$ 54,500$ home; all refused to undercut that price, so he paid it.

Represented by Alan B. Morrison, a lawyer ircredie of Ralph Nader's
organizations, Mr. Goldfarb then sued in U.S. district court in Alexandria. He argues that the Virginia bar groups had illegally fixed home-buying settlement costs at an artificially high level, in violation of antitrust laws. On behalf of himself and other buyers, he asked for treble damages of $\$ 1.2$ million.

The bar associations in Alexandria and Arlington County agreed to abolish their minimum schedules, but the state bar and the Fairfax County bar contested the suit. In January, District Judge Albert V. Bryan Jr. struck down the county schedule, ruling that "minimumfee schedules are a form of pricefixing"; the county bar is appealing that decision. However, the judge didn't abolish the state fee table, implying that the state bar is an arm of the state government and thus immune from antitrust prosecution. That part of the ruling is being appealed by Mr. Goldfarb and the question of damages has been delayed.

The decision already has affected settlement costs. One Washington lawyer buying a home in Virginia was recently quoted a title-search fee of $3 / 4$ of 1 per cent on the purchase price of his house. The prior fee schedule had specified 1 per cent of the first $\$ 50,000$ of the loan amount or purchase price (whichever was greater), and $1 / 2$ of 1 per cent of the amount between $\$ 50,000$ and $\$ 100,000$.
The benefits are mixed. On a $\$ 50,000$ home, the title-search fee would be $\$ 375$, compared with $\$ 500$ before. On a $\$ 100,000$ home, the fee would be $\$ 750$ in either case. With no minimum schedule, however, the homebuyer may turn up another lawyer who is willing to do the job cheaper.
Of broader significance is the national impact of the Virginia case and the Justice Department's muscle-flexing. At least five states
-Florida, Georgia, Tennessee, Delaware and Massachusettshave dropped their fee schedules, and several others, including Louisiana, are considering it. Massachusetts withdrew its schedule in January after receiving the department's "Notice of Civil Investigative Demand," seeking all the state's fee-schedule records dating from June 1, 1967.

Minimum-fee schedules, the legal profession's equivalent of a union wage scale, have been subject to increasing review recently. The Justice Department has begun an informal investigation of the practice, and prospective clients have taken local and state bar associations to court over the alleged price-fixing nature of the guides.
This report from The Wall Street Journal is one of many on the subject that have appeared in the media. To illustrate the problem, The San Francisco Bay Guardian reviewed "Romancing Fees into the 20th Century," a film that colorfully documents the methods one lawyer uses to establish his fees.
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permission.
"We just couldn't endanger the funds of the association by continuing it," says Carl A. Modecki, executive director of the Massachusetts Bar Association, referring to the possibility of a damage suit. He says many local and county bar groups in the state are following. Fee schedules also have been abandoned in Atlanta, heveland, Philadelphia and Pittsburgh, and by numerous county bar associations in New York and New Jersey
"I think they're going to fall, one by one, all over the country, says David Webster, an attorney who represented the Arlington County Bar in the Goldfarb suit.

Almost no one in the legal fraternity admits to using a minimum-fee schedule any more. One exists in Mobile, Ala., but Alex T. Howard Jr., a Mobile attorney, says: "Frankly, it just isn't followed." Here in Washington, there has been an advisory fee guide for several years, but "I doubt if many lawyers here even have a copy," says John Powell, a past president of the D.C. Bar
Association.
These attorneys contend that
most legal tasks don't lend themselves to fee-fixing. Besides, they say, most fee schedules are outdated and unrealistically low. "A good lawyer knows what his time is worth," says one Miami attorney. "The only people who use a fee schedule are those who

## Almost no one in the legal fraternity admits to using a minimum-fee schedule any more.

are afraid to belly-up and charge the proper fee.'
Even so, more than 30 states and hundreds of local bar associations still have minimum-fee schedules, and there's considerable disagreement over whether they should be eliminated.
Paul M. Smart, a Toledo, Ohio, lawyer, contends that "the bar is overreacting to the challenge to the fee guides." He argues that the "mere existence of a fee guide,
standing alone, shouldn't be any ground" for antitrust violations. And, at a meeting of the American Bar Association in Cleveland, Mr. Smart urged the ABA to initiate a computerized program to develop economic data on which to base legal billing practices.
Other defenders contend that fee schedules are useful as guides, especially for young lawyers just entering practice. The proponents also argue that such schedules give both attorneys and clients some guidance as to what is considered a reasonable fee.
But in striking down the Fairfax County schedule, Judge Bryan held that the "mere existence of an agreement which restricts competition by price-fixing" is illegal. And he said that a client who sees a fee schedule doesn't have "any better idea that the fee or price was reasonable after he had seen the schedule than he did before."

Judge Bryan also attacked the argument that minimum-fee schedules are immune from antitrust action because they don't affect interstate commerce. Noting that a "significant" portion of funds
for the purchase of homes in Fairfax County comes from outside Virginia, the judge said "this alone" warrants application of the Sherman Antitrust Act.

Alerted by this decision and by the antitrust division's warning, lawyers must decide what to do about the remaining minimum-fee schedules. Some bar associations are considering substitutes, known as relative value guides, in which different legal tasks are assigned unit values based on such things as their importance, degree of difficulty and time-consumption. It's then up to each individual lawyer to convert the value into whatever dollar value he believes is reasonable. Such arrangements already exist in Kansas and in some Ohio cities.
"What we're coming to is a situation where charges will be made on the basis of time," says Mr. Modecki, the Massachusetts bar director, adding that lawyers will have to do much more to justify their fees. "Lawyers always used to send out bills saying things like, 'for professional services- $\$ 13,000$. Now, they'll have to explain it."

## Lawyers Learn How to Dress Up Their Bills

By Carol Lawson
"Romancing Fees into the 20th Century," a color film presented at the August 1972 ABA convention in San Francisco, was produced by the ABA's Economics of Law Practice Committee. It gives lawyers a crash course in the art of increasing their incomes.
The "star" of the film is Atty. J.
Harris Morgan, from Greenville,
Tex. who speaks with all the enthusiasm, fervor and conviction of a used-car salesman.
The key to making more money, said Morgan, is a technique called Effort Projection. Morgan advises lawyers to:
$\square$ Send clients copies of depositions. (And for an extra special impression, bind the copies in a folder.) Morgan cited a 1968 survey of Georgia lawyers showing that lawyers who sent their clients depositions earned a median income of $\$ 22,000$, while those who didn't earned a median income of $\$ 17,000$. Thus, he claims, his eye lighting
up, this technique can up a lawyer's income $\$ 5,000$.
$\square$ Give the client your undivided attention when he is in your office. "This means the phone must be turned off." It also means a lawyer should clear his desk so the client sees his file receiving the lawyer's full attention.
ㅁ Make the bill "look like effort by its physical characteristics. Use verbs. No paragraphs. Move from work product to work product. Use semicolons, not periods." The general idea, he gushes, is to make the bill seem like "a bargain for such a vast amount of service." He also advises lawyers to "project genuine interest" by adding the sentence, "I appreciate your confidence," at the bottom of the bill.

- Send a "courageous bill" when the results are bad. "Don't reduce the res."
fees.
fees."
$\square$ Send a bill 72 hours after the completion of service. "In my office, we usually dictate a bill as soon as the client leaves. Then we wait

72 hours to send the bill so the client gets home before the bill arrives. Some who don't know me would consider me venal."

Morgan also advises lawyers to develop personal characteristics of friendliness, courtesy, a businesslike manner, the habit of keeping the client informed and an attitude that is never condescending.
How does one go about setting fees? "Most basic minimum fee schedules are $20-40$ per cent too low. They will starve you," he says And timekeeping is crucial. "A lawyer who keeps time records earns 40 per cent more than those who don't."
Morgan advises lawyers to set fees by "how we look at ourselves. What we are worth to the people in our society. Clients are not primarily interested in your hourly rates. They will pay for service. Therefore, it is up to the lawyer to decide how much he wants a year.
"Every lawyer who practices law in the U.S. can earn a minimum
gross of $\$ 55,000$. This is the lawyer who projects effort, who uses all of these techniques."
Morgan noted a recent survey showed the average lawyer has 1,300 chargeable hours a year. There are four to five chargeable hours a day. At $\$ 40$ to $\$ 50$ an hour, this fee schedule will produce $\$ 55,000$ annual gross.
"But that $\$ 55,000$ will starve you. Therefore, you must charge $\$ 50$ to $\$ 60$ an hour to earn $\$ 55,000$ because you only really have 1,000 chargeable hours" if a lawyer is involved in other activities.

Morgan's final charge: "We are the regulators of society in the federal system. It's in the public conscience of this country that you be prosperous. Every lawyer in America should be prosperous!"

The audience responded with enthusiastic applause.
Postscript: The ABA judged this film of sufficient merit to show it twice at the convention - the only film so repeated.

A collection of quoted
material that may be
of interest to readers of interest to readers
of Media \& Consumer.

## They Said It

## News Watchdog Should Bark

From Dear Abby's column: "Dear Abby: Concerning that woman in Twin Falls, Idaho who wrote complaining that no doctors in that town would deliver her baby without full payment in advance: she said a neighbor of hers who had been seeing a doctor all along suddenly found that he refused to deliver until he was paid in full.
"I was a bit surprised that she hadn't gone to the newspaper. A newspaper is the public watchdog. It is the obligation of newsmen to bark when the general welfare of the public is endangered.
"Sounds like a weak bunch of money-hungry newsmen up there who are afraid to let anything in their paper that may make an advertiser unhappy. The advertisers then become the controlling element of the press.
"This situation should be fully covered in stories and editorials. Each doctor in the town should be contacted by a reporter and his
story put into print. In this action it is likely that one or more will turn up that do not subscribe to the mercenary policy described.
"What is our society coming to if money, or the lack of it, determines if you have the right to live or die? Nowadays, the colleges that give these doctors their education and the hospitals in which they get their experience are largely supported by our tax dollar.
"If the newsmen in that area lack the intestinal fortitude to get this story in and get it in accurately, they have no right to call themselves newsmen. They lack commitment to the profession and to the public they serve. They are an insult to professionals in the field.

That woman should camp on the managing editor's desk until he puts one or more competent reporters on the story and either proves her wrong or exposes the situation for what it is. This is the obligation of the paper to the community
"An Old School Managing Editor"
"Dear Old: Hold it! The TimesNews in Twin Falls vactly
that. With no prompting from me or anyone else.'

FTC Unfair, Ad Man Says
Thomas Dillon, the president of the advertising agency Batten, Barton, Durstine, \& Osborn, recently attacked the Federal Trade Commission's procedures in issuing complaints against advertisers. Speaking at the annual meeting of the American Association of Advertising Agencies, he said:
"The cards are stacked against you, although you may not be aware of it and certainly the public and press are not aware of it."

The papers are issued, he said, "without any prior notification to you, without any testimony from you, and arrived at secretly at a time unknown to you. You are then put through a $\cdot$ legal process whereby the very administrative body which accused you is also the initial body to which you must appeal. "I suggest to you that this runs counter to the basic principles of American justice."
From The New York Times, (5/21/73).

## Answer Critics by Shaping Up, Business Told

"Criticism of corporate activity is manifest currently in consumerism, in the movement to introduce social legislation into stockholder meetings and to reform board memberships, and (more dangerously) in apathy or antipathy among the young. The most practicable response to this criticism by those holding corporate power is to seek to justify limited government by using power responsibly - the ultimate obligation of free persons in any relatively free society.
"If organizations cannot be made moral, the future of capitalism will be unattractive - to all of us and especially to those young people whose talents we need. It is not the attack of the muckrakers we should fear but the apathy of our corporate citizenry."
-From an article, "Can the Best Corporations Be Made Moral?" by Kenneth R. Andrews in Harvard Business Review, No. $=$ Iune 1973.

# 'You Face a $11 / 2$ Per Cent Finance Charge If You Don't Pay Within a Month . . .' But What If They Mail Your Bill Late? 

Most customers with department store charge accounts are accustomed to having to pay their bills within a month of closing or get hit with a $11 / 2$ per cent (per month) finance charge.

But what happens when the store doesn't mail its bills on time? Suppose it closes out your bill on Aug. I but doesn't mail it until Aug. 15. Putting aside the time it takes the mailman to deliver the bill, you might expect to have a month from Aug. 15 before getting socked with the finance charge. After all, the delay was the fault of the department store
Don't bank on it. Pay by Sept. 1, or else.
As $M \& C$ reported in its January issue ("Debt Takes a Holiday as Stores Hype Their Credit Business"), 65 per cent of department store profits derive from their lending activities (charge accounts) a figure supplied by the National Retail Merchants Association.

Just how much department stores make in finance charges as a result of delayed billings is anybody's guess, but one could assume the figure is substantial

The dimensions of the problem are suggested by Robert Kahn, a California business consultant who also publishes his own monthly newsletter, Retailing Today. Every two months the
newsletter carries a feature titled, "Credit Office Rating," which is a compilation of reports on how long it takes department stores to get their bills in the mail.

According to Kahn's most recent report (reprinted in part below), the average reported delay between bill closing and mailing (excluding Sundays and holidays) was 8.3 days for Worth's-Burton of Connecticut, 9.4 days for Brock's of Bakersfield, Cal., and 8.1 days for Walker Scott of San Diego. Those stores that get their bills in the mail within four days make Kahn's honor roll.

Kahn started compiling his ratings 10 years ago when, he says, "consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills." Noting that consumer groups were proposing laws that would have been impossible to meet with equipment and procedures then being used in major stores, Kahn devised the "Credit Office Rating" as a way of bringing the problem to the attention of influential people within store management
$M \& C$ believes Kahn's rating chart is especially applicable to local situations and suggests its adaptation by newspapers that would like to find yet another effective way of serving readers.

Department store billing practices are not usually the stuff of which news stories are made. But the accompanying material should suggest that late billing is indeed a serious enough problem to merit greater attention from newspapers. Such attention may help to bring about greater responsiveness on the part of department stores.
Much of the material that appears here was prepared for $M \& C$ by Robert Kahn, a California business consultant, who also publishes Retailing Today, a monthly newsletter.

- Retailing Today, 1973 Reprinted with permission


## How Newspapers <br> Can Keep Tabs on <br> Billing Practices <br> of Local <br> Department Stores

By Robert Kahn

A Credit Office Rating, as has been run by Retailing Today for many years, can be established easily by any local newspaper. Though the initial reaction of the stores may be unfavorable, most credit managers and controllers will eventually accept the reporting as a challenge and will work to improve the performance of their store.

The starting point can be the employees of the newspaper and other friends. Retailing Today has used for many years a two part postcard with provision for the credit office reporter to enter the name of the store from which he or she purchased, the closing date shown on the statement and the postmark date on the envelope

Cards are mailed-in monthly, and a return card is sent with the blank portion of the two-part card being used for words of encouragement, thanks for the report, comment on individual store performances, etc.

At the start a standard of five days or less for Honor Roll rating should be used. Eventually so many stores will reach five day that it will be necessary to reduce the standard to four days

Do not include bank credit cards oil company cards or travel credit cards because their cycle closing date refers to an office date and they include only charges that have reached them by that day. Individual stores use their closing date to mean that they are billing all transaction prior to that date rather than just records that are in the billing office

Also exclude utility billings, doctors' offices, and others that are not basically charge accounts.

## CREDIT OFFICE RATING

STATISTICAL SUPPLEMENT
How does Rubenstein's of Shreveport do so well? They bill about 12,000 statements a month in 3 cycles from an active file of $25-30,000$ using a service bureau started by a retail store controller and backed by 4 stores in town (today, all the stores in tow own NCR Century 200. Input is by Friden add-punch for everything except file maintenance which is handled by the Bureau with alpha-input equipment. Monday's business is into the Bureau by Tuesday afternoon and can be on statements Wednesday! The Bureau has room for more customers-contact RT for further information
Our Honor Roll continues to grow-despite the tougher standards of 5 working days between cycle closing and postmark. This month there are 14 stores.

|  |  | HONOR ROLL |
| :--- | :--- | :--- |
| Rubenstein's | 2.0 | Miller Bros. |
| Gus Mayer (Nashville) | 2.5 | Wineman's (Huntington Park) |
| Gus May'er (Beaumont) | 2.6 | Ransohoff's |
| Mervyn's | 2.9 | Wineman's (Monrovia) |
| Berkeley's | 3.0 | Maison Mendessole |



CREDIT OFFICE RATING

|  | FEB-MAR 1973 |  |  | DEC-JAN 1973 |  |  | FEB-MAR 1973 |  |  | DEC-JAN 1973 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Information From Reporters | No. of Reports | $\begin{gathered} \text { Days t } \\ \text { Average } \end{gathered}$ | Bill Range | No. of Reports | $\begin{gathered} \text { Days t } \\ \text { Average } \end{gathered}$ | Bill Range | Information FromNo. of <br> ReportsStores | $\begin{aligned} & \text { Days to } \\ & \text { Average } \end{aligned}$ | Bill Range | No. of Reports | $\begin{gathered} \text { Days t } \\ \text { Average } \end{gathered}$ | $\begin{aligned} & \text { Bill } \\ & \text { Range } \end{aligned}$ |
| Brooks Bros. (NY) | 4 | 6.8 | 5-8 |  |  |  | Berkeley's (Fresno) | 3.0 |  | 8 | 3.0 |  |
| Capwell's (Oakland) | 4 | 9.0 | 7-15 | 0 | 9.9 | 8-12 | Blum Store (Phila.) | 8.7 |  | 8 | 11.5 |  |
| Dayton's (Minn.) | 2 | 5.0 | 5 | 2 | 6.5 | 5-8 | Brock's (Bakersfield) 40 | 9.4 | 5-13 | 40 | 11.8 | 7-15 |
| Donaldson's (Minn.) | 2 | 5.0 | 5 | 2 | 5.5 | 5-6 | Holman's (Pacific Grove) 10 | 5.2 | 4-8 | 11 | 12.1 | 10-14 |
| Emporium (SF) | 4 | 9.5 | 5-13 | 5 | 15.6 | 12-16 | Levee's (Vallejo) 20 | 6.4 | 48 | 20 | 5.9 | 3-8 |
| Famous Barr (St. Louis) | 1 | 5.0 | 5 | 1 | 5.0 |  | Gus Mayer (Nashville) | 2.5 |  | 8 | 2.4 |  |
| Foley's (Houston) | 2 | 7.0 | 7 | 2 | 8.0 | 7-9 | Gus Mayer (Beaumont) | 2.6 |  | 8 | 2.0 |  |
| Grand Passage (Switzer- |  |  |  |  |  |  | Gus Mayer (Louisville) | 4.9 |  | 8 | 6.7 |  |
| land) | 1 | 8.0 | 8 |  |  |  | Gus Mayer (New Orleans) | 9.7 |  | 8 | 11.9 |  |
| Grodin (N. Calif.) | 3 | 13.0 | 6-20 |  |  |  | Gus Mayer (Oklahoma City) 8 | 6.3 |  | 8 | 8.9 |  |
| Gump's (SF) | 1 | 12.0 | 12 | 2 | 13.5 | 10-17 |  |  |  |  |  |  |
|  |  |  |  |  |  |  | Gus Mayer (Jackson) Gus Mayer (Memphis) |  |  |  | 8.1 |  |
| Hasting's (SF) | 2 | 11.5 | 10-13 | ${ }^{2}$ | 10.5 | 10-11 | Gus Mayer (Memphis) | 6.2 5.3 | - | 8 | 6.3 |  |
| Hink's (Berkeley) | 2 | 14.0 | 13-15 | ${ }^{2}$ | 15.5 | 13-18 | Gus Mayer (Baton Rouge) | 5.3 2.9 | 2-3 | 8 | 6.1 3.5 |  |
| Joske's (Houston) | 1 | 6.0 | ${ }_{9}$ | 3 | 7.0 | 5-10 | Mervyn's (N. Calif.) | 2.9 3.0 | 2-3 | $\begin{array}{r}8 \\ -8 \\ \hline\end{array}$ | 3.5 3.0 |  |
| S. S. Kresge (Mich.) | 2 | 9.0 | 9 |  |  |  | Miller Bros. (Chattanooga) | 3.0 | 3 |  | 3.0 |  |
| Liberty House/City of Paris | 2 | 11.0 | 11 | 4 | 11.5 | 8-20 | Oshman's (Houston) | 7.4 | 7-8 | 8 | 8.0 | 6-10 |
|  |  |  |  |  |  |  | Rubenstein's (Shreveport) | 2.0 |  |  |  |  |
|  |  |  |  |  |  |  | Walker Scott (San Diego) 12 | 8.1 | 5-9 | 12 | 8.3 | 7-10 |
| (N. Calif.) | 2 | 9.5 | 9-10 | 4 | 8.5 | 7-10 | Wineman's (Monrovia) 9 | 3.3 | 2-7 |  | -- |  |
| Livingston Bros. (SF) | 1 | 6.0 |  | 3 | 6.3 | 5-9 | Wineman's (Huntington |  |  |  |  |  |
| Lord \& Taylor (NY) | 2 | 4.5 | 4-5 | 1 | 7.0 |  | Park) | 3.0 |  |  |  |  |
| Macy's (SF) | 7 | 6.3 | 6-7 | 10 | 8.7 | 7-10 | Worth's-Burton's (Conn.) 32 | 8.3 |  | 32 | 11.5 |  |
| I. Magnin (SF) | 6 | 5.2 | 4-9 | 7 | 4.3 | 45 | OTAL 242 | 6.3 | 2-1 | 219 | 8.3 | 3-15 |
| J. Magnin (SF) | 2 | 4.5 | 4-5 | 5 | 5.0 | 4.6 | WHY A CREDIT OFFICE RATING? The Unruth Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing |  |  |  |  |  |
| Maison Mendessolle (SF) | ) | 4.0 | 3-5 | 2 | 4.0 | 2-4 |  |  |  |  |  |  |
| Marshall Field (Chicago) | ) | 4.0 | 4 |  |  |  |  |  |  |  |  |  |
| Neiman-Marcus (Dallas) | 1 | 7.0 |  |  |  |  |  |  |  |  |  |  |
| Penney's (Oakland) | 2 | 5.5 | 5-6 | 3 | 6.3 | 5-8 |  |  |  |  |  |  |
| Penney's (Minn.) | 2 | 7.0 | 6-8 | 2 | 8.5 | 7-10 | laws that would have been impossible to meet with equipment and procedures in major stores. The CREDIT OFFICE RATING was initiated |  |  |  |  |  |
| Ransohoff's (SF) | 1 | 3.0 | 3 |  |  |  |  |  |  |  |  |  |
| Roos/Atkins (SF) | 1 | 4.0 | 4 | 3 | 5.0 | 3-8 | to bring this problem to the attention of influential people within store management. |  |  |  |  |  |
| Sakowitz (Houston) | 1 | 9.0 | 9 |  |  |  |  |  |  |  |  |  |
| Saks Fifth Avenue (SF) | 4 | 6.8 | 6-8 | 6 | 8.0 |  | WHAT HAPPENED-THEN AND SINCE? Initially, I was criticized for publishing the data and especially for naming stores. Since then the reports |  |  |  |  |  |
| Sears (N. Calif.) | 3 | 6.0 | 5-7 | 5 | . 8 | 5-11 |  |  |  |  |  |  |
| Sears (Houston) | 1 | 4.0 | 4 | -- | -- | -. | have been accepted for their intended purpose and many stores have sought to attain the Honor Roll objective, established from the beginning, |  |  |  |  |  |
| Selber Bros. (Shreveport) | t) | 6.0 | 6 |  |  |  | sought to attain the Honor Rolc objective, estabiished from the beginning,at 5 working days between cycle closing and postmark datc. Many stores |  |  |  |  |  |
| A. Sulka (NY) | 1 | 5.0 | 5 | 1 | 8.0 | 8 | have reported pride-both to management and credit and data processing personnel in being listed on the Honor Roll. |  |  |  |  |  |
| Talbot's (Mass.) | 1 | 4.0 | 4 | 1 | 7.0 | 7 |  |  |  |  |  |  |
| Wolff's (St. Louis) | 2 | 5.5 | 4-7 | 1 | 10.0 | 10 |  |  |  |  |  |  |
| TOTAL | 79 | 7.1 | 3-20 | 89 | 8.2 | 2-20 |  |  |  |  |  |  |

HOW IS TIME COMPUTED? We do NOT
observed by the preponderance of stores.
OW ARE THE FIGURES COLLECTED?

similar report and I will be glad to assist any such group.
RETAILING TODAY - MAY 197

The most recent "Credit Office Rating," from the May issue of Retailing Today. Columns on the left are compiled from information supplied by recipients of the bills; those on the right are submitted by store credit managers. who peered along the racks in the meat display case.
"That's negligence," Simone
said of the market. "I should be in here twice a week."

Even when a store is brought to court for flagrant violations (as happened 18 times in the Philadelphia area over the last
year), the penalty is minimal Under the state's General Food Law, dating from 1909, fines for sanitation violations are limited to a maximum of $\$ 100$ for the first and second offenses.
"Sometimes it's cheaper to pay the fine than comply," Kimble said.

Simone also wishes he carried a bigger stick. "Personally, I think the fines are too light," Simone said

## Lab Tests Yield Nauseating Results

Excessively high bacteria levels were found in 12 out of 12 raw hamburger samples purchased at random by the Bulletin from markets here.

All the samples failed at least one of two different bacteria tests performed by LaWall and Harrisson, an independent testing laboratory at 2505 Christian St.

Eight of the 12 samples had total bacteria plate counts exceeding one million per gram, the maximum level which Dr. Donald D. Abbott, director of the laboratory, said was acceptable. (The government has not yet established legal limits for bacteria in meat.)

Consumer Reports, which did a study of hamburger in 1971, reported that bacteria levels of one to five million per gram "might cause mild intestinal distress," but that 10 million "indicated putrefaction."

One of the hamburger samples tested had reached this stage. The sample came from the Pantry Pride at 27 th and Girard, with a plate count of $11,520,000$ bacteria per gram.

An even more specific index of the wholesomeness of meat is the coliform bacteria (bacteria from the colon) count which usually indicates fecal contamination and often the presence of disease causing bacteria.

None of the samples tested fell safely below the 100 per gram level which Dr. Abbott and other food technologists regard as an acceptable limit.

Coliform counts in the meat test ran as high as 14,600 per gram from the Haverford Penn Fruit.

Similar surveys of hamburger in Minneapolis, Chicago, Dayton, and Washington, analyzed by Media and Consumer in April, found that putrefying meat was sold in those cities with "disturbing frequency."

How safe are such hamburgers? According to Ronald Smith, assistant chief of food for Philadelphia's health department, thorough cooking will destroy most harmful bacteria in hamburger.

Smith says he never eats rare hamburger and doesn't recommend the practice. "As far as I'm concerned, if it's rare, it's raw. I shoot it again and put it back on the fire," Smith said.

However, the very young, the very old, or the ill could die as a result of food poisoning, Smith said. The lowest level, 210 , came from Society Hill Prime Meats. Several other samples fell in the 8,000 to 12,000 range.

According to Dr. Abbott, coliform contamination can be caused by poor slaughtering techniques where the animal's intestine is accidentally slit, contaminating the meat, as well as by unsanitary conditions well as by unsanitary
where the meat is cut.

Although the survey was only a spot check and far from complete, dirty hamburger was found both in supermarkets located in affluent neighborhoods (like Haverford, Gladwyne and the Chestnut Hill area) and in markets serving inner city residents in West Philadelphia and Germantown. One of the cleanest samples was purchased from a smaller butcher shop in from a smalle
Society Hill.

## Nearly All Fail

The two best indications of the wholesomeness of meat are the total bacteria plate count and the coliform count. Food technologists generally recognize 1 million bacteria per gram as an acceptable limit for the total plate count and 100 bacteria per gram as the limit on coliform (bacteria of the colon).

The hamburger samples were picked up at supermarkets in metropolitan and suburban Philadelphia on Tuesday morning, May 29, after the long Memorial Day weekend, and on Monday morning, June 4, also after a weekend when equipment should have been thoroughly cleaned and the meat should have been freshly ground.
Immediately after purchase, the samples were put on ice and rushed to the laboratory.
In all cases, the cheapest grade of ground beef was purchased, with one exception where only chuck was available.
The following chart shows the results of the meat testing done by LaWall and Harrisson Laboratories. Total Bacteria Coliform
A\&P, Rte, 23, Gladwyne Total Bacteria
Plate Count
per gram $\begin{gathered}\text { Coliform } \\ \text { Count } \\ \text { per gram }\end{gathered}$
A\&P, Rte, 23, Gladwyne per gram
576,000 A\&P, Spruce and 5th Sts. 6,400,000 $\quad 3,800$ 832,000 ACME, Sedgwick and Germantown Aves.
$1,600,000$

CONSUMERS WAREHOUSE, 60th and Woodland Ave.

1,920,000 8,000 $\begin{array}{lrr}\text { PANTRY PRIDE, 27th and Girard } & 11,520,000 & 8,200 \\ \text { PANTRY PRIDE, 301 W. Chelten Ave. } & 2,048,000 & 10,000\end{array}$ 2,048,000 THMARK, lvy Hill road and

2,880,000
12,600
14,600
Cheltenham Ave.
Cheltenham Ave.
PENN FRUIT, 379 Lancaster Ave., Haverford $2,880,000$ SOCIETY HILL PRIME MEATS,

318 S. 5th St.
768,000
THRIFTWAY, 531 Germantown Pike, Lafayette Hill
$1,280,000$
WILLIAM PENN SHOP, Benjamin Fox Pavillion, Jenkintown

960,000
Note: The sample from the William Penn Shop was ground chuck because no ground beef was available. The Penn Fruit ground beef sample was ground to order when none was found in the display case.

## Stores Blame Problems on Ignorance Rather Than Negligence

Human error and old equipment are the cause of dirty meat departments, Philadelphia-area supermarket executives say.

But individual meat managers in the stores pleaded ignorance rather than negligence when dirty conditions were found by Pennsylvania agriculture Pennsylvania agriculture
department inspectors. Unsanitary conditions in supermarket meat departments are widespread here, according to state agriculture department reports.
"As long as you have people you're going to have problems," said William F. Bronsdon, sanitation engineer for Acme Markets.
"If sanitation is poor, it's the fault of the meat manager and supervisor. We wage a constant battle that involves training and supervision. It's eternal vigilance."

Spokesmen for Penn Fruit, A\&P and Food Fair (owners of Pantry Pride) had the same explanation. (None denied the findings of state food inspectors.)
"Poor sanitation is a sign of no supervision or occasional laxity in a particular store," said Myron Kaplan, vice president and treasurer of Penn Fruit.
"People aren't perfect, and a slip in the routine can occasionally happen," said a spokesman for Food Fair.
"Poor sanitation is caused by human failure," said Fred Miehlke, assistant meat supervisor for the 190 area A\&Ps. "Everyone feels that he's overworked and doesn't have the $\quad$ to do all the work."

Among the "unsanitary" conditions found by state inspectors in the meat departments of Philadelphia area supermarkets, were "flaking paint on ceilings," "walls littered with dried meat," "contaminated, rusty cutting tables," "wet shelves impregnated with bad odor," "meat grinders that had not been taken apart the night before for cleaning," "rusty deli coolers," "green contaminated wooden molding," and "dirty electric meat cuttings saws."
independently owned stores, also blamed outdated equipment for sanitation problems.
"In my stores, it was mostly equipment, not sanitation, that was the problem," Smith said. "I think the newer stores have fewer problems."

Speaking for Thriftway, vice president Lawrence Rothwell said he doubted that any Thriftway store had suffered a "lapse of sanitation." But he said there had been some equipment problems in

## 'I thought my meat department was clean but when this meat inspector started writing his report I was amazed at what he found moldy meat

Great Scot Markets blamed old equipment rather than negligent personnel for that chain's sanitation problem.
"I think outdated equipment begets unsanitary conditions," said John Farnen, vice president of Great Scot Markets.

When a state meat inspector found unsanitary conditions and old equipment in one Great $\operatorname{Scot}$ store here, the meat department was completely renovated within 24 hours. "We were at fault and we corrected it," Farnen said. "Old equipment is hard to clean."

Dan Smith, director of Shop 'N' Bag Markets, a group of
the older stores.
"In the older stores it's been necessary to spend a considerable amount of money to comply with what the inspectors want," Rothwell said. "If something is wrong when the inspector comes in, our people will comply immediately."

Although most supermarkets have sanitarians who check on store cleanliness and instruct store personnel, meat managers found with dirty departments pleaded ignorance rather than negligence.
In one instance, the meat manager of a center city market was seen listening intently as state inspector

Jack W. Simone explained how to use vegetable oil to lubricate the machines.
"I've been with this chain 26 years but I'm getting an education," the meat manager said. "The inspector's giving me ideas I've never heard. But you can't argue with a man when he's right.'

Another meat manager, in an anonymous letter to the Bulletin, wrote:
"I am a meat manager in a large supermarket . . . I thought my meat department was clean but when this meat inspector started writing his sanitation violation report I was amazed at what he found He found dirt, dried blood, moldy meat, and he sure did sock it to us on this ... Me and my co-workers are now proud of our department because of him. We now have white painted ceilings, clean walls, new stainless meat cutting tables Our department is now kitchen Our dep
clean."

Another meat manager blamed the chain's policies for the state of his department. "All they want is product," he said. "They don't allow you time to clean."

Ronald Smith, assistant chief of food and milk inspection for Philadelphia's health department, compared the food inspection process to the boss looking over your shoulder.
"After a while you stop noticing the dirt around you," Smith said. "It's like letting your work slip because the boss isn't around."

Media \& Consumer

## Merchants Head Surprises Editors with 'Right on' for Price Charts

Qualified support for the idea that newspapers should regularly print comparative price charts has recently come from a most unlikely source, the president of the National Retail Merchants Association, Herbert Strawbridge.

Strawbridge thus joins the growing ranks of consumer leaders and journalists who feel that consumers can make better decisions in the marketplace if newspapers inform them beforehand of the various prices charged for similar goods and services.

Strawbridge, who is also chief executive officer of Higbee's, a Cleveland department store, expressed his views on the subject during a panel session on consumer reporting May 2 at the annual convention of the American Society of Newspaper Editors in Washington.

Shortly after describing his efforts to clear up what he felt to be a misleading bicycle ad his own store had run, Strawbridge was asked what his reaction would be if an editor were to publish a weekly comparative price list for bicycles.
"Delighted," Strawbridge responded. "There is no reason, in my opinion, that we have to be always on the same price level with everybody else. You can publish in my particular case the prices of competitors and so on.

He cautioned, however, that the comparisons must be fair and must take into account any services must take into account any serv
that are offered along with the prices of the goods.
"You'd be right on," he added, emphasizing his support for the comparative price charts.
Serving on the same panel with Strawbridge was Pennsylvania Insurance Commissioner Herbert S. Denenberg, whose own activities in recent years have sparked much journalistic interest in comparative price charts. Denenberg, whose "shopper's guides" to such things as life insurance, surgery, dental care and auto insurance have been reprinted widely, expressed some doubt about the likelihood of other retailers sharing Strawbridge's views.
"If you do comparative pricing, it does disturb the retailers," Denenberg told the editors. He added, however, "I would think newspapers are in a strong enough position where they can reject the pressures of advertisers, and if an advertiser wants to give a newspape a bad time, it would seem to me that a newspaper could give the advertiser a worse time.
It seems safe to suggest, though, that it may be some while before newspapers get into comparative pricing with the same vigor as $P M$ did in New York City in the 1940s. Writing in the January issue of $M \& C$, Sidney Margolius, who had served as PM's consumer editor, noted:
"Instead of a woman's page that covered fashions, we had a comparison shopping page in which our reporters compared prices of the same goods at various stores This page was one of our most popular features. We even used to promote price wars among stores such as Macy's and Gimbel's, which claimed they wouldn't be undersold, and we would cover the price wars we helped start by stationing reporters in the stores to phone in the latest prices."

## Burger Bacteria

 Found in TennesseeJoining the list of newspapers and stations that have done surveys of ground-beef purity, The Nashville Tennessean reported recently that "Half of 30 ground beef products purchased . . . at area retail food stores contained" coliform bacteria, which authorities say poses "a potential health hazard'." Twentyone samples had other bacteria in amounts experts considered excessive. Five samples had total bacteria counts of 10 million per gram-a level at which most food technologists agree that putrefaction has begun. One sample had a count of 160 million per gram. But Tennessee, the paper pointed out, has no standards for bacteria levels. State authorities blamed the situation in part on disagreements among scientists as to what the levels should be

The Tennessean also found that fat content in four samples exceeded state standards. The paper listed the stores from which samples came, the findings for each store's samples, and the responses of the managements (4/15/73).

## Product Rating Service Readied For Educators

Schools and universities often spend small fortunes each year in the purchase of equipment needed for the business of education: audio-visual equipment, laboratory supplies, furniture and so on. As a great deal of this equipment is designed for institutional use and thus not likely to be evaluated
by the consumer-ratings magazines, educational purchasing agents have had little objective information by which they could choose among competing products.

The situation may be changing, thanks in part to a $\$ 190,000$ Ford Foundation grant to the Educational Products Information Exchange Institute, a non-profit organization of school administrators. Since 1967, EPIE has been attempting to advise educators on how to make more intelligent purchasing decisions in its monthly magazine, Educational Products Report. It has been hampered, however, by its inability to do laboratory testing on any products.

The Ford grant will help EPIE expand into a full-scale laboratory testing program, and the information it produces as a result should be good news for educators and taxpayers.

## Spain's Dairymen Lose Battle with Press

Consumerism, which has been on the rise in Spain, won a significant victory there recently.

A stream of press stories on fines levied for adulterated or shortweighted foods, including milk, so aroused the Dairy Association that last fall, when sales began to drop, it asked the government to stop the reports, according to The New York Times. "The newspapers," it says, "protested, in turn, that what had to stop was the adulteration, not the information about it, and the association retreated with a call for greater vigilance over the quality of milk products." $(4 / 2 / 73)$

The editors and correspondents of Media \& Consumer read several hundred publications and transcripts in our search for outstanding consumer-interest material. Since space limitations prevent us from reprinting more than a small part of what we find, we are initiating this new feature of brief extracts to provide our readers with more of the information we come across.

## Clipline

Strangled by IRS, Group Says -The Center on Corporate Responsibility says that the IRS has refused to grant it a taxexempt status, and is therefore suing IRS to force it do so. (Washington Post, 5-4-73)
How to Get Credit Cards-People without credit records have a hard time getting cards. One reporter tells how she got her card. (St. Petersburg Times, 5-1-73)

Trade Groups-A garage owners association in the Tacoma area has formed a board to arbitrate consumers' complaints. Similar boards have also been formed by the appliance and TV dealers and by the used-car dealers. So far, the garage and used-car boards seem to be working well. (Tacoma, Wash., News-Tribune, 3-25-73)

## The Hidden Costs of Condominiums

Consumer complaints have created pressure in Florida for an end to the stiff 19-year leases some developers retain on recreational facilities and land around condominium developments. (Business Week, 4-28-73)

Men's Clothing-The men's clothing industry is going through a price explosion that could make all others seem skimpy.
(Newsweek, 5-7-73)
When the Bill is Wrong - "the larger and more remote the store or
organization issuing the credit card, the more likely there will be a billing problem." Third in a series on credit. (Chicago Today, 5-31-73)
The New Consumer Product Safety Act-A discussion of the law. (Case and Comment, Mar-Apr, 1973)

Dog Food is Cheap-"What evidence there is suggests unit pricing is poorly understood and seldom used." (The New Republic 3-17-73)
Houses That Never Got There -How promises of getting govt. surplus houses that were never delivered swindled people out of thousands of dollars. And how available consumer protection proved inadequate. (Raleigh New's and Observer, 4-29-73)
Mail-Order Insurance Rings Up the Profits - "There is an emerging case that the economics of direct response are irresistible and that its ethical problems ... can be solved." (Fortune, 11-72)
Hamburger Content - The Agriculture Dept. has recommended that the public be told whether a hamburger is all meat or part soybean and has proposed standards for two types of meat patties. (UPI, 5-6-73)
In Quest of a National Health Plan -Pa. Insur. Comm. Herbert Denenberg summarizes problems of health costs, what he has done to control them in Pa., proposed govt. plans and their deficiencies. (The Progressive, 5-73)

NHTSA Compliance Test Program Criticized - The Gen. Acct. Office says the public has "little assurance" that the cars it buys comply with federal safety standards and blames the $\mathrm{Nat}^{\prime} \mathrm{l}$ Hwy. Traffic Safety Adm. testing program. (Status Report, Insur. Inst. for Hwy. Safety, 5-7-73)
Nat'I No-Fault Bill-won't pass this fiscal year but it is an eventual odds-on favorite. (No-Fault Insurance Report, 5-10-73)
The Grassroots-A New Location for the Consumer Movement - and a product of the recent meat boycotts. (Of Consuming Interest, Spec. Supplement, 4-73)
High-Priced Dietary Eggs Called Waste -"Dietary" eggs, the ads for which imply a lower cholesterol intake for consumers, actually have just as much cholesterol as other eggs, poultry experts say. (The Arizona Republic, 5-27-73)
How Unscrupulous Florida Land Dealers Are Bilking Millions of Americans out of their Life Savings (The National Tattler, 3-18-73, 3-25-73, 4-1-73)
'Soyburgers' on Griddle to Beat Sizzling Prices-The Army is testing hamburgers containing textured vegetable protein from soybeans on the troops. (Army Times, 5-16-73) More Talk than Action on Consumer Complaints - so consumerists say of the new consumer relations officers in many companies. (Business Week, 5-19-73)

The Finding and Filling of a Nonexistent Need-How the Marriott Corp. is trying to convince the American public that it needs Marriott's new salad dressing. (The Washington Post, 5-17-73)
Ecopornography Raises Its Ugly Head-The word "ecology" is being put into ads for products that have nothing to do with ecology (Advertising Age, 5-7-73)

Dieters Warned on New Drug An appetite-suppressing drug for dieters-brand name Pondimin, soon to be approved by the FDAis no more effective than amphetamines and can be dangerous, a medical journal warns. (Washington Star News, 4-17-73)
Consumer Movement in Caribbean
-A vocal, combative consumers' movement is growing in the English-speaking Caribbean. (New York Times, 5-6-73)

Who Can Swallow those Food Tips from Uncle Sam?-The tips from the Agriculture Dept. and Mrs. Knauer may be good, but "there just aren't that many lima bean lovers around any more." (New York Daily News, 4-14-73)
Homeowners Outraged by NewHouse Defects and Delays on Repairs-Some picket or go to court; builders blame the boom, call many gripes exaggerated. (Wall Street Journal, 4-4-73)

## Journalism Review

## Enter the Specialist Consumer Reporter

While consumer journalism is here to stay, there is a great need for better-trained and more specialized consumer reporters. This is the point made in the accompanying article by Sidney Margolius, whom The New York Times recently described as "the dean of consumer writers." Margolius has been reporting about and commenting on consumer matters for over three decades, initially as the first consumer editor for $P M$ and subsequently as an author and nationally-syndicated columnist. The following is excerpted from this year's Consumers Union Lecture, which Margolius delivered on May 31 at the Consumer Journalism Conference at Northwestern University.

## By Sidney Margolius

Consumer journalism is a young profession, the youngest branch of journalism, but already it is making a significant contribution to stemming the many deceptions and diversions that cause the massive waste we have in society today. Without the new interest of the press and often radio and sometimes TV, we probably would not have achieved the useful advances of the past 12 years such as truth-in-lending and other credit reforms on federal and state levels; the new product safety law; advances in regulations governing auto and tire safety; some reforms in food and cosmetic packaging; unit pricing and open dating of foods; the 1962 drug amendments requiring that drugs be proven efficacious as well as safe; the exposure and increasing regulation of multiple distributor investment schemes, and many other moneywasting deceptions whether actually illegal or barely inside the law.

What consumer journalism has accomplished, however, is just a beginning to what really needs to be done, including the massive task of finding ways to curb the present galloping or at least trotting inflation.

An executive of a leading news service said to me recently that he believes there is no turning back for consumer journalism; that consumer news is here to stay as a permanent feature of the American press; that readers themselves want

One New York TV journalist who recently did a series on saving money told me he got some of his material just by reading ads for
Moneysworth; not even reading the publication itself.
competent information to help them with the problems of living in a complicated economy and an increasingly perplexing and even threatening social and physical environment.

Consumer journalism is a hard and demanding field. I know. I'm one of the survivors. There are few established sources of information and patterns to follow, as there may be in other fields of reporting. We have to deal with apathy and sometimes sophistry from great officials. We have libel on our minds constantly. We often face threats of suits by promoters such as Koscot and high-pressure land selling and home improvement companies. Sometimes we must
cope with pressure on our publishers and advertising departments from local retailers and banks. We are troubled by our own self-censoring worries
Even with these constant worries, we have come a long way since a major New York newspaper in 1948 refused even to take ads for a book that recommended term insurance instead of the wholelife insurance that most insurance companies prefer to sell. Now even Consumers Union can advertise its Consumer Reports, but it was many years before any paper would accept its ads.

But we still have a long way to go, both in developing sophisticated information sources and in coping with economic pressures. We have a way to go even to get our own papers and TV and radio stations to learn how to screen the misleading ads that still appear in classified columns; some help wanted ads, for example, that are headed "Executive Trainees Wanted" but really are trying to trap young people into investing in multiple distributor franchises.

What the new consumer journalism now needs urgently to develop is greater expertise. A new reporter assigned to cover consumer affairs sometimes does not know where to turn. I get a call at least once a week from other reporters around the country asking where they might get information on the consumer problems of older people; or how to set up a market basket for comparing food prices; or how to compare meat grades and so on.

Because of the lack of established techniques, the new consumer reporters themselves tend to rely on the more publicized consumer organizations. But often they find that the people manning these new groups and sometimes even government consumer officials are not much more experienced than they. Agriculture Department officials tell us that food is a bargain on which we spend only 16 per cent of our income. Who is to challenge the basic sophistry of that claim?

The press makes celebrities and the new consumer journalism has done its share of concentrating on consumer personalities, especially those located in Washington, and sometimes overlooks local sources of expertise in the established agencies and community services. It is fantastic sometimes to see how reporters overlook local experts as in family service agencies and turn to instant celebrities for consumer guidance and leadership.

As consumer journalism matures and the journalists themselves gain specialized experience, I hope they will not be afraid to tackle what on the surface seem like unglamorous stories, such as explaining consumer goods quality standards to the public. One eye opener occurred several years ago during the hearings on the National Committee on Product Safety. At one hearing we had a crucial argument among witnesses about the need for safety standards, which are one kind of quality standard, and a particularly urgent kind.

At the same hearing we also had Larry Czonka, the football player testifying about the injuries he suffered because of inadequate helmets. To my own dismay, Czonka got all the stories. The reporters paid little attention to the conflict over standards, failing to even use Czonka to dramatize the standards question. I asked one of the most experienced and dedicated consumer journalists why he had devoted his story to Czonka instead of the obviously more important standards issue. He replied, "I want readers too."
Ironically, the same newspaper that played up Czonka rather than safety standards recently
published an 11,000-word series on Consumers Union in which it criticized CU for often doing test reports on relatively trival items.

So if the public seems more interested in pro football than in product standards and their potential effect on family finances and the quality of life itself, this isn't just the public's fault. It's ours too. Sometimes we ourselves don't take the trouble or don't know how. We tend to say the public is not interested, and that is a self-fulfilling prophecy because we don't really give the public a chance to be interested. The fact is, once you understand some of the basic consumer issues yourself, it is not hard to find ways to dramatize their importance

> While some stations and newspapers try to provide more extensive consumer reporting, it is not really possible to provide adequate consumer news and service with just one reporter and a page a week. There is too much happening and too much real research required.

to the individual reader or listener in terms of problems in shopping for a rug or repairing a washing machine.
Today we do have a new public - a more questioning, more educated public that wants serious answers and is willing to do some thinking.
To help develop the kind of experienced and motivated consumer journalist that the public deserves, I think we need to inform our editors and publishers that this is a highly specialized field. Sometimes the tendency is to look around the city room and see a person who doesn't seem to be doing much and announce, "You're now the consumer reporter." One large Eastern newspaper a few years ago got a new outdoors editor and simply put its old one into the business news department. Another big paper recently made a long-time foreign correspondent its food editor.

At the minimum, consumer reporters need to stay with this broad field long enough to know at least more than their readers about the subject. The readers know when they are getting superficial generalities or detailed, knowledgeable information.

Some of the consumer material provided on TV is excellent but a lot awful. One New York TV journalist who recently did a series on saving money told me he got some of his material just by reading ads for Moneysworth; not even reading the publication itself. Similarly, the reports each month on the cost of living index usually merely repeat the handout from the Bureau of Labor Statistics, mouthing each time that the index now is 131 and, "this means you now pay $\$ 13.10$ for items that cost you $\$ 10$ five years ago."

While some stations and newspapers try to provide more extensive consumer reporting; it is not really possible to provide adequate consumer news and service with just one reporter and a page a week. There is too much happening and too much real research is required.

When I was consumer editor of PM in the 1940's, 1 had 13 reporters at one time and as much as two tabloid pages a day. As a result, consumer news
was one of PM's main drawing cards at a time when we had few other distinctions to offer in a highly competitive field.

In the final analysis, consumer journalism is primarily local. There is too much tendency to rely on Washington for spot consumer news and to treat Washington-based consumer news as more significant. The truth is, by the time consumer problems get an audience in Washington they have been breeding for several years. I can cite
numerous instances; for example, that the high prices of antibiotic drugs already had been exposed in some local papers by 1954, long before the Kefauver hearings in 1960; that many local authorities were working to stem the pyramid schemes long before the FTC and SEC even began to investigate; that the meat boycotts every time originated in grass roots communities and caught Washington by surprise; that local organizations and legislators were working on such problems
as flammable clothing, auto and tire hazards, credit gouges, and so, long before word got to
Washington.
I am grateful for this opportunity to share some of the reflections an old consumer journalist watching the new consumer journalism grow up. It is a heartwarming experience to see it happening, and I am as certain as some of the other observers that there will be no turning back now.

## CBS' 'You and the Commercial': Two Views

The CBS documentary "You and the Commercial" was based on the premise that television viewers may be influenced by advertising "in ways they may never have imagined," according to narrator Charles Kuralt.

From this premise, the program, aired on April 26, went on to examine the many facets of the advertising industry. Noting the philosophy of the Leo Burnett agency that "what every product needs is an image," the documentary described the staggering amount of detailed research conducted by advertising agencies to test and measure the effectiveness of commercials.

It also noted some of the tentative conclusions of
this research. The success of a commercial, Kuralt
said, seemed to be in whether the viewer remembered it, rather than whether they liked it. "Research often tells advertisers," Kuralt said, "that entertainment, not information, sells best."

And, interwoven with the entertainment are the product claims, that "litany of superlatives and promises that in advertising is called puffery." The segment of the report that dealt with the Federal Trade Commission's views on advertising claims drew the most criticism from the industry.
The industry and the FTC are at odds on several points. The FTC feels an ad may be literally true but still be misleading or unfair to the consumer. It also feels that differences between products are often only in the way they are advertised because
of government standards imposed on those products or because product formulations are similar.

The show concluded with a discussion of advertising philosophy and impact by social critic Dr. Erich Fromm, and Alvin Achenbaum, executive vice-president of J . Walter Thompson.

The following criticism of "You and the Commercial" is excerpted from a letter by James J. McCaffrey, chairman of the board of directors of the American Association of Advertising Agencies, to Richard S. Salant, president of the CBS News Division.
The accompanying rebuttal is written by Ivan L. Preston, professor of journalism at the University of Wisconsin specializing in advertising.

## Preston: ‘Biased Program Correcting Biased Advertising’

## By Ivan L. Preston

CBS News' April 26 program, "You and the Commercial," was biased and that was just fine. Call that a novel proposition? Call it objectionable? Many will, I imagine, but I propose it is a perfectly reasonable response to a documentary that has angered so many members of the advertising industry.

To begin with, the program was not about advertising generally. It was about annoying, offensive, deceptive advertising only. Advertising Age editorialized (April 30) that "Not a single 'good' commercial was shown," as though CBS had

## The program was about annoying, offensive, deceptive advertising only.

failed in a presumed attempt to show a balanced group of both good and bad ads. CBS neither tried nor failed such an attempt; it set out to discuss the seamy side and fully succeeded.

Given this purpose, one might say the network was eminently fair and objective in the considerable share of time it granted to industry representatives. I counted in the transcript a total of 130 typed lines for Messrs. Foster, Allport, and Achenbaum. The critics from government and society, Pitofsky and Fromm, had only 118 lines. Admittedly, the bulk of the ads shown, along with the tone of most of Charles Kuralt's comments, were damaging to advertising's image. But as I have read and heard stated from several sources, the negative slant of the program could easily have been a lot worse.
Nonetheless, I would just as soon not try to defend the hour's objectivity. I'm willing to concede the program was biased in that any viewer who learned about American advertising from just this source would not have been properly informed of the industry's good points and genuine contributions
to society.
However, I think it virtually mandatory to observe that surely not one single viewer was learning about advertising for the first time, with that program as the sole source of their knowledge. Not only has the American public constantly been receiving views of advertising from other sources, but the views presented by these sources have overwhelmingly presented the positive side and repressed the negative. On network television, in particular, there is virtually never a presentation of the negative side.
I am not speaking merely of discussions of advertising in saying the positive side has been emphasized. I am speaking primarily of the ads themselves, each of the millions of which carries the latent message that advertising is a good and acceptable thing. Considering the fantastic volume of these representations, one can scarcely argue that American viewers would have been guided unduly in formulating their personal opinions of advertising by one hour produced by CBS News.

That's why 1 think the bias provided by "You and the Commercial" was just fine. It counteracted in a fair (and quite modest) way the biases favoring the industry that are the usual fare we receive from television. Though the program was biased when taken alone, it actually was correcting bias when taken in context. It was clearly moving the public toward balance rather than away from it.
Naturally, the industry has ignored this point in its protests. Nor has it acknowledged that there will have to be many more such programs before balance is reached. Despite CBS' small step, there is virtually no danger to the ad industry that the overall volume of representations about advertising on television will ever provide an objectively fair proportion of negative comment. The overall bias which "You and the Commercial" failed to support will most likely never be dislodged.
Within this context I find it amusingly ironic to read of a petition brought recently to the Federal

Communications Commission claiming that the National Association of Broadcasters has violated the Fairness Doctrine by running a series of spots called "Radio Free America." The petitioners, United Church of Christ and Consumer Federation of America, charge that the spots lack the consumer viewpoint in stating that American broadcasting

## The industry is telling CBS it is outraged at the treatment it received.

is "free" since it is supported by advertisers rather than by government.

The American system is contrasted in the spots to Hitler's appropriation of German broadcasting for his evil purposes. Nothing is said about more acceptable modes of government control, as typified by the BBC. Nothing is said of the limitations on freedom inherent in advertiser support. No criticisms of broadcast advertising are acknowledged at all.

Now here is a large and powerful industry organization using the public airwaves to present a fully biased representation of the role of advertising in our lives. Isn't that a funny thing to have happen in the wake of all the protests about the CBS documentary! The irony will be lost on the advertisers, of course, because they are accustomed to having their own way in the media.

This is the real message of the protests: the industry is telling CBS (and any other media thinking of getting out of line) it is outraged at the treatment it received. Someone like Media \& Consumer would be expected to criticize, but for CBS to bite the hand that feeds is unthinkable. The network should avoid bias presumably, but the industry's message is really that it should go back to the bias it normally dispenses.

It was all to the good that CBS tried a different bias for a change. In my opinion it was entirely fair and appropriate for it to do so. May it happen again!

## McCaffrey: 'Incomplete Journalism’

## By James J. McCaffrey

Speaking for myself, the 4A's (American Association of Advertising Agencies) and McCaffrey and McCall, I think the program was-in the main-accurate. There were relatively few misstatements of fact.

On the other hand, "You and the Commercial" had a point of view going in - one which was clearly biased against our business. This is perfectly
legitimate, of course, although many times the average viewer thinks that what he or she is getting in such a telecast is balanced on a given question. Balanced it was not.

I have no wish to complain about the network's point of view. You have every right to say what
you think. And if this is what you think, fine.

But I do think that accuracy helps, whether you're editorializing or merely reporting the news straight. And while none of the inaccuracies I note | The program added to the |
| :--- |
| impression many people have |
| that accusation by FTC is |
| tantamount to guilt. |

is terribly important of itself, in the aggregate they add up to something more. Try these:
$\square$ Cigarette commercials have been off the air for some time now. Yet Marlboro is used as an
example of how advertising is put together.
Admittedly, print advertising for Marlboro, but in the context of a show about television commercials this leaves the association of television and cigarettes in the viewer's mind.
$\square$ The sandpaper shaving in the Rapid Shave commercial occurred in 1960. The Libby-Owens/ Ford commercial ran in 1959.

The real world of responsibility and regulation in advertising has changed markedly since then. In neither case was this made clear enough. Again the implication was that you were talking about today.
(If I sound somewhat sensitive about this, it's because it's precisely what we in the advertising
business are often chastised for. We're told to operate on the thesis that we're responsible for the impression the viewer gets from a commercial, without reference to the specific accuracy of the points we make. You ought to live by these rules, too.)
$\square \$ 22$ billion per year is an accurate figure for the total money spent in all advertising in a recent year, not what was spent in national advertising on television only, as was implied
$\square$ You left the viewer with the idea that the Continental Baking people have been found guilty of some sort of deception in their "Builds Strong Bodies Twelve Ways" campaign for Wonder Bread
Even a person who follows such affairs casually would know that the original FTC findings were reversed some time ago. The producer had plenty of time to correct this between the time that decision was handed down and when your program went on the air
$\square$ The program added to the impression many people have that accusation by FTC is tantamount to guilt

FTC's record in proving its charges is remarkably bad. It doesn't help advance truth by implying that it's remarkably good.

- The "invidious influence" dig at advertising is really so passe that I'm surprised a valid news program would even mention it. It went out with Vance Packard, and you know when he went out Even the novice doesn't believe that advertising "manipulates" people's minds and makes them buy things they neither want nor need. Yet Kuralt
kept sounding the alarm throughout the show. $\square$ I wonder from whom in the advertising business the statement "Entertainment is better than information" came? Or was this a contribution by the producer or writer? Advertising people don't believe it, because research says it isn't true.
$\square$ Corrective advertising and counter-advertising were presented as faits accomplis. The facts are


## I believe the major advertisers were wrong in declining to be interviewed and in trying to impose upon CBS News their own ground rules.

that the former has yet to be tested in the courts as to legality, and it's suspected by even its most vocal original proponents as being ineffectual. The latter is still being examined as a policy by FCC.

Nobody took the time to point this out.
$\square$ Kuralt added to this bias by his Iago-like performance in reading his lines. The shadow, as well as the substance, of "You and the Commercial" made me think that it was prepared by people who were anxious to assert their machismo by proving to their coffee shop friends that they really hadn't joined the filthy, old establishment.
$\square$ I believe the major advertisers were wrong in declining to be interviewed and in trying to
mpose upon CBS News their own ground rules. You were absolutely right in drawing this to the viewer's attention.

- The FTC constantly defines advertising's purpose as full information. We think they're wrong. Advertising is advocacy, and the consumer understands this. We don't ask you to agree, but we do suggest that you might have indicated the FTC view is not universally held.

As I said in the beginning, I suppose each of my objections could be said to be minor when looked at individually. On balance, the program told the truth about some of the things which happen in our business.

But my basic problem is with things which were not said. In this day and age, the error of omission is often more dangerous than a flat misstatement of fact.

I'm not often in a position to judge the accuracy of a television news program. In this case, I am, and I'm not being arrogant when I say I know more than the people who wrote, produced and approved the thing. It was simply a piece of incomplete, if not prejudiced, journalism. As such it was not very strong support for your contention that you ought to be let alone to do your job of informing the public without fear or favor.
Although I'd have been happy if "You And The Commercial" had never seen the light of day, I don't think it has done any long-term irreparable damage. I just hope you guys didn't do it as a means of proving to your various detractors that you really are a gutty bunch.

## Some TV, Radio Shows <br> Give Consumer Views an Airing <br> This report from The National Observer surveys

some outstanding consumer programs on the air.

## By Bill Marvel

It was rather like a commercial. There was the Volvo parked in front of the Volvo assembly plant in Halifax, Nova Scotia. There was the on-camera pitchman standing beside the car describing some of its salient features.
For instance: It takes three to four weeks to get parts for the car. And when the parts finally come, the service is lousy

The pitchman happened to be both the car's disgruntled owner and a correspondent for The Marketplace, a coast-to-coast television program that aims to inform Canadians on what they eat, drink, drive, wear, and drug themselves with. The program has not been greeted enthusiastically by businesses; Volvo, in fact, has sued over the Halifax broadcast.

Television viewers this side of the border aren't likely to see anything resembling a Volvo anticommercial. For one thing, there hasn't been anything like The Marketplace coast-to-coast on U.S. television since the night Marshall Efron took apart the chemical ingredients of a•frozen Morton Lemon Cream Pie on the Public Broadcasting Service's late, lamented Great American Dream Machine.

A survey by The National Observer turned up only a handful of local television and radio stations in the United States doing real, hard-nosed consumer reporting. Most often, viewers who tune in their friendly neighborhood channels for shopping advice or warnings must make do with announcers reading the latest Department of Agriculture handouts on what vegetables to buy this week - or with bland, often unspecific warnings lifted from Better Business Bureau bulletins. What many stations call consumer broadcasting turn out to be action-line-type operations, in which viewers phone or write in their problems with mail-order merchandise that fails
to arrive and the like, which the station then solves.
The nation's occasional consumer-news programs often suffer from underexposure. Typically they are carried by educational television or public radio which means that hardly anybody ever sees or hears them, especially not the poor and lower-middle-class consumers who most need this kind of information. Or if such a program is carried by a commercial station, it is often relegated to the wee hours of a Sunday morning or it is sandwiched, a
few seconds at a time, into the regular nightly news Perhaps the day will come when the consumer reporter is as much a part of every station's equipment as the weatherman. When that day arrives, part of the credit must go to Jock Ferguson, producer of The Marketplace, who has proved that people will watch consumer broadcasting if it's made worth watching.
Ferguson is an investigative reporter who turned his full-time attention to consumer affairs in 1971, when the Canadian Broadcasting Corp. invited him to submit a pilot film for a proposed series. That series became The Marketplace. With the first season just ended, one consumer advocate is already

describing Ferguson as "the best consumer reporter on television."

Ferguson brushes away lawsuits, real and imagined, like so many pesky mosquitos from the Canadian tundra. "In a way, a lawsuit will be interesting," he muses. "The legal precedents for product slander and libel haven't been tested yet."
Besides Volvo, The Marketplace has taken on mighty GM, the drug industry, food packagers, and the Canadian minister of consumer and corporate affairs. A GM school bus was parked in the studio, for example, while experts probed its innards for defective parts. The minister also parked in the studio while Ferguson probed him for defective

Ladies and Gentlemen:
Here before your very eyes on the Consumer Game we're going to demonstrate the Mittushka-Kilner-Andre-Victor manufacturing process for great and important American food items. We will begin by throwing in a little bit of meatthat's enough meat-and then we throw in a chicken-no more than 15 per cent chicken. Then we throw in some fat (U.S.D.A., government inspected fat)up to 30 per cent worth of fat. O.K. Now we move in and we throw some beef stomach in. Alright - then we add some beef lips-O.K.-throw that all in. Now we add water-we're allowed up to 10 per cent water. O.K. Some nonfat drymilk solids. We certainly wouldn't want any wet milk solids in there. Then we add soy protein, a very healthy item found only in health stores. We can have up to I believe 3 per cent of that. Now we want some seasoning in there: A little salt and some other stuff. O.K., we have a spleen-Yes, sir, a spleen. O.K. and now some beef hearts. Beef hearts are very, very good. O.K., have I forgotten anything? Yes, we just have some more of this stuff. Now we put all this stuff in the machine and we turn on the gear and out comes that Great American Food Product: (trumpets) THE HOT DOG.

[^1]attitudes. "I gave him a hard time," Ferguson admits, "to make him aware of how far he had to go."
Though these tactics might seem heavy-handed,
The Marketplace is by no means a heavy program. Rich with irony and sarcasm, each show follows a magazine format, covering from three to a dozen topics, reports from a network of free-lance correspondents, and "quickie" items to vary pacing and keep viewers awake. The result is that during its first five months, despite what Ferguson describes as an awkward time slot, 10 p.m.
Thursdays, The Marketplace doubled its audience to an estimated one million of Canada's 12 million potential viewers. "In an earlier time slot we could double that," Ferguson says.

In light of The Marketplace's success, Ferguson believes it may be exportable. "I've been trying to involve CBS in a similar program," he says, "but CBS isn't interested." If additional evidence were needed that a hard-hitting consumer program can win a decent share of the television audience, it is available from WTOP, a CBS-affiliated station in Washington, D.C

WTOP's Caution!, one of the few consumer programs being broadcast during the prime evening hours, regularly attracts 18 per cent of the total audience watching television during its time period ( $7: 30$ p.m. Saturdays), a performance that has landed the show a sponsor, General Foods. That Caution! immediately precedes All in the Family doesn't hurt, of course, but the program's producer host, George Allen (not the Washington football coach), has also made sure that Caution! is worth watching and sponsoring.

Like Ferguson, Allen is an investigative TV reporter specializing in consumer affairs-in other words, a member of a very select group. Another member, Marvin H. Zindler, Houston's crusading deputy sheriff who made a name for himself by threatening to jail perpetrators of consumer fraud lost his job in a recent election. Now he exposes some of those frauds on Channel 13's nightly news there. And in Minneapolis, WCCO's Larry Schmidt has discovered paint chips and rodent droppings in hamburger and has persuaded Betty Crocker to relabel a "butter pecan" cake mix that contained neither butter nor pecans.

Michael Hirsh, producer of The Consumer Game on WTTW, Chicago's public-broadcasting channel, says a report on that program got the Food and Drug Administration (FDA) to ban a toy rifle for excessive noise. And Pittsburgh's Bev Smith has exposed jerry-built housing and crooked waterproofing outfits during her broadcasts over WIIC there.
One of the best-known such news people is Los Angeles' Treesa Drury, who has been consumerreporting since her days on radio in Michigan in the 1950s. She gets 40 letters a week from viewers, more than any other member of the news team on $K H J-T V$, where she does a consumer segment on the evenings news every day and a half-hour interview program on Tuesday afternoons. Among other matters, Miss Drury regularly reports on weights-and-measures violations in Los Angeles area supermarkets and health-code violations in area restaurants, a service that viewers apparently love but one that unnerves the station's advertisingsales department.

Many stations shy away from consumer reporting that names names-among them the names of advertisers. WIIC in Pittsburgh has already lost two accounts because of Bev Smith's reporting: a manufacturer of backyard swimming pools and a roofing firm. Not all stations are timid, however George Allen says that Caution?'s new sponsor will not get any special consideration. "As a matter of fact," he says, "if the FDA were to attack General Foods for something, we'd go out of our way to report on it."
It's not always the large corporation such as General Foods that wields the biggest club against local stations, however. "Large corporations are so big that there's nothing that any single station can say that could hurt them," says Chicago's Michael Hirsh. "And you can pretty well pick on the corner grocery store with impunity. It's that middle-level corporation where you run into trouble."

Not all trouble comes trom advertisers. The boards of directors of most public-broadcasting
stations are composed of community and business leaders, the same leaders who own and manage some of the firms the stations' consumer reporters may expose.
"The local telephone company has asked for a rate increase," says the producer of one public channel's consumer news. "But the director of the phone company is on our board, so I'll think twice before I do anything on it." Board members also have friends in business, as one reporter learned when he tried to run a documentary on shortweighting at a local supermarket chain.
"That's impossible," snorted the chairman of the station's board after viewing the film. "I know the president of that company. Charley wouldn't allow such a thing." The documentary ran, along with a six-minute videotape giving Charley's version of the incidents.

Few stations muckrake for the sake of muckraking,

## Many stations shy away from consumer reporting that names names-among them the names of advertisers. WIIC in Pittsburgh has already lost two accounts a manufacturer of backyard swimming pools and a roofing firm.

however. Even the boldest consumer reporters view sensational exposures as an aid to their ultimate goal: educating the consumer.
"Very often consumer reporting that emphasizes frauds just scares people." says Miss Drury in Los Angeles. "You can scare people just so much and then they become apathetic." Miss Drury often points her viewers toward products she believes are taking positive action; she recently gave a pat on the can to Del Monte when that company began nutritional labeling.

Caution?s George Allen combines a report on soaring food prices with tips on wise shopping and instructions on how to join a Washington-area food co-operative called Glut. Viewers are told where to go and whom to call or write. It's the kind of commercial money couldn't buy.

One of the most polished consumer programs, Consumer Survival Kit on Baltimore's public station WMPB, offers viewers a package of goodies
at the end of each show: pamphlets, booklets, charts, a list of government consumer agencies, a guide to further reading on each program's subject. The program gets far more requests than it can fill.

Vince Clews, Survival Kit's producer, describes the program's purpose: "What we are doing is constructing an entertaining half hour that informs. I don't want a sensational series, because people will come to expect sensationalism. Then the first time you're not sensational, they'll turn you off."

Instead, Survival Kit mixes solid information with a series of blackouts, illustrating some of the hazards in shopping, or spoofing popular commercials (Julius Caesar is offered a headache remedy that contains "not two or three, but six times the amount of active pain ingredient" as the other brand); a short true-false quiz; a "Paperwork" segment, in which repair bills, contracts, and other documents are explained in clear English; a "Caveat Emptor" segment, warning of possible areas of fraud (an aspirin investigation turned up bottles that were as much as 20 tablets short). Finally there is "Who Can I Turn To?". which offers the phone numbers and addresses of authorities with whom complaints may be lodged.

A few stations handle complaints themselves in Hot Line, Action Line, or Consumer Ombudsman programs. Most are innocuous, but a few have real bite. WOSU, Ohio State University's public-radio station, has a staff of five full-time and two half-time investigators to field some 100 problems a week. "Our goal," says Keith D. Smith, executive producer of WOSU's "Radio Ombudsman Service," "is adult education. We try to take a specific problem and show how a person should proceed to solve it." Unlike many action lines that do not name offending products, WOSU fingers villains such as a drain solvent that dissolved one woman's sink and part of an adjoining counter top. The woman got $\$ 300$ damages, and the solvent manufacturer printed clearer instructions on the product's label.
(See M\&C's June issue ["Consumer Ombudsman Keeps Them Listening in Ohio"] for WOSU feature.)
Perhaps the ultimate in audience participation is the thrice-weekly "Great Consumer Contest" on Los Angeles' $K A B C$, a college course on consumermanship offered for credit through 25 Southern California community colleges. At last count some 4,800 students were signed up for the course, which is broadcast at 7 a.m.
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## Interesting Coincidence Dept.


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Reader's Digest
May, 1973

## It's a Fact-

"Believe It or Not!"
Though Robert Ripley died in 1949, his
successful cartoon feature lives on, thank successful cartoon feature lives on, thanks to a
veteran researcher whose indefatigability is, well, unbelievable

Condensed from
SATURDay Revie
Saturday Review
Wiliam Allen


## Editorials

## A Moment of Truth for Journalism

No one can estimate how many people get sick or how many die because their supermarket has sold them tainted meat: meat that's sat too long in a back room infested with vermin or other varieties of filth, or that passed through a grinder layered over with a malevolent green slime.

That such conditions can lead to sickness (or death in the case of the aged, the very young or the debilitated) is hardly open to question. However, the sickness and death that comes from bacterially polluted meat is much harder to track down than, say, botulism. But the problem is no less real, and what The Philadelphia Bulletin found in supermarkets there virtually dictates that newspapers and stations in other cities must look at their food stores with the same relentless dedication they've applied to other problems recently,
There's good reason to believe Philadelphia is not the only city whose supermarkets serve as breeding grounds for filth and disease. A few-a very few newspapers and television stations have looked at the situations in their locales. Their findings have suggested that some supermarkets are just as unsanitary and just as dangerous to human use as those in the City of Brotherly Love. (Among the others, according to media reports, are St. Petersburg, Dayton, Minneapolis, Chicago, Nashville and Washington.)

## Most reports were far less

 complete than the Bulletin's, but they were at least beginnings. (The difference was that most of the others only explored the bacterial condition of ground beef-an almos perfect yardstick by which to measure a supermarket's sanitary performance - but the Bulletin made a point of studying inspection reports as well.)Newspapers and stations must face up to the consumer facts of life and take as hard a look at their supermarkets as the Bulletin did. If they're clean, and there's no doubt that many will come out with flying colors, they deserve all the favorable publicity the paper or station can bestow on them. If they're dirty, consumers are entitled to the facts in a no-nonsense way. (And the media should also be prepared to do follow-up spot checks every few months.)

Such reporting, incidentally, is relatively easy to do: some money invested in laboratory testing, some persistence in getting health authorities to release inspection reports (after all, they are public records), and the guts to stand up to the bigequt advertisers.

To make it even easier to do such reporting, Media \& Consumer will print in its August issue a complete guide to reporting on supermarket sanitation. The guide will show not only how to force the disclosure of inspection reports if health officials refuse, but how to have meat tested for bacterial indications as well.

The guide will be made available to every daily newspaper editor and every news director of major broadcast outlets. So individual consumers who are concerned about this problem can do something about it themselves if so inclined it will also be made available to
any consumer requesting it
Filth in supermarkets is no less a story than anything else that's peddled as news these days. Media \& Consumer believes consumers have a right to the facts, and that their news media have an obligation to look into it with the same relentless concern for the truth that they apply to other matters.

## Speaking of Commitment

The St. Petershurg Times and its sister paper, The Evening Independent, have told a leading advertiser he's no longer welcome, a decision that's expected to trim $\$ 235,000$ a year in ad revenues (see page 3 ). The drastic step was taken because the publisher and the editors were convinced the advertiser was deliberately misleading consumers and had no intention of mending his ways.

That's the kind of journalistic courage that makes newspapers great.

## The Game of Deadly Numbers

As any holiday weekend approaches, the National Safety Council ritually issues another prediction of highway deaths. The usefulness of these predictions has been increasingly questioned of late. Joining the chorus is World, which carried this piece as part of a special issue on auto safety.

## By Susan Heath

Safety Belts-They're a Nice Way to Say I Love You! This gushy message may not appeal to you, but you'll soon be seeing and hearing it everywhere. It is the keynote of the National Safety Council's latest campaign against death on the highway. In a big switch to love-and-suasion, the Safety Council plans to shut off its stream of exhortations and death-obsessed ads: Speed Kills! Slow Down and Live! The Life You Save May Be

## Your Own!

This new theme may provide relief from the relentless warnings and scare tactics for which the nation's largest safety organization has become famous. But it does not portend a change in the National Safety Council's image as a scold. Nor does it mean the NSC is getting' out of the death-prediction business. With its change of tactics the council has simply added to the pile of slogans and statistics it has been building for nearly sixty years, a pile that demonstrates how little the organization has actually done to cut down the appalling bloodshed on American highways.
It was back in 1913 that the National Safety Council was set up by a group of Chicago industrialists after the commotion over the fatalities of the previous year, when 3,100 people died in or under the 950,000 -odd cars then in operation. Since then, the everincreasing death toll has seemed to confirm the need for this organization and its efforts "to determine and evaluate ways to prevent accidents and mitigate injury and economic loss, and provide leadership for adoption methods and procedures that best serve the public interest."
Although the council-with its $\$ 4.5$ million a year budget - conducts numerous auto-safety programs, its death predictions have always held center stage. The statistics are most publicized when the council solemnly estimates how many people will die during a holiday weekend. Ever since 1946, when the wire services persuaded the Safety Council to pep up their lagging news copy by making death predictions, the council has been hooked on the publicity. Rare is the American who has not winced listening to these portentous radio warnings of impending accidents.
Howard Pyle, council president since 1959 , sees the predictions as a rallying point for action in behalf of auto safety. "When we provide the news media with these provocative statistics over holiday weekends," Pyle says, "our objective is to remind people that accidental death remains one of the most persistent and inadequately controlled evils in our nation today. We are seeking their cooperation in ending this unnecessary tragedy."

Despite the council's declared intention its fatality estimates are attacked by traffic-safety experts and other observers, who judge them to be a waste of time and money and often misleading. One critic, Daniel P. Moynihan, describes the predictions as a heads-we-win, tails-you-lose proposition: "The council gets enormous publicity from its predictions," Moynihan says, "with no risk whatever to its reputation. If the toll should exceed the prediction, it only proves how right the council was to warn against carelessness. If it should fall below. the mark, it only proves how effective the warnings were.
"Furthermore," Moynihan points out, "the council's concentration on death distracts attention from the
fact that automobile accidents maim their victims much more frequently than they kill them. For every death there are 125 injuries - many of them involving permanent disability."

Another critic of death predictions, Dr. David Klein, professor of social science at Michigan State University, says the campaigns are "utterly nonsensical" because they "give people the feeling that if you drive to Detroit from Lansing on a Wednesday, you're safe as a house, but don't try it on a holiday weekend. It's a kind of scare tactic, and no scare tactic works." Klein goes on to say that holiday fatality rates are not significantly different from usual weekend rates, and that a simple way to arrive at a three-day holiday forecast is to multiply the daily rate by three.

Dr. Klein is convinced that death predictions and safe-driving campaigns, which emphasize the individual's responsibility in auto accidents, have been ineffective. In Causation, Culpability, and Deterrence in Highway Crashes, a Department of Transportationsponsored study of the causes and consequences of highway crashes and traffic violations, Dr. Klein and co-author J. A. Waller conclude that: Punishment e.g., speeding tickets and fines - is but a slight deterrent to the unsafe driver; drivereducation courses and "safe driving" campaigns do not produce safer drivers; and alcoholics tend to drive no matter how badly they're punished, short of imprisonment. In short, Dr. Klein does not believe any effort aimed solely at the driver will solve the problem: "Human behavior is extremely hard to change, and it is much easier to change such things as the design of the automobile or the design of the highway. There's little evidence that you can change a bad driver into a good driver."

Have the predictions actually contributed to traffic safety? The answer seems to be no. For although deaths and the death rate (number of fatalities per 100 million miles of travel) have been declining for the past thirty years, there is no evidence that this is the result of the Safety Council's death predictions or any other program. The Safety Council itself has no accurate way of measuring the effectiveness of its predictions. Its research director, Dr. Thomas Planek, claims merely that the "publishing and airing of death tolls certainly has no negative effect. Certainly no one is driving faster and more carelessly to fulfill the American dream of being a statistic."

Apparently a lack of negative effect is sufficient reason for the National Safety Council to continue playing its game of deadly numbers. In so doing, the council is ignoring the muted criticisms of its younger staff members, who find the whole death-prediction business atavistic and embarrassing.
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A compilation of editorials, columns, letters and other commentaries.

## GM: 'Polluting Young Minds'

## A commentary by Ralph Nader

 from The New Republic.General Motors is disturbed that somehow millions of school children believe that air pollution can seriously harm their health. To change their minds, GM has launched a brainwashing campaign to tell them that auto air pollution isn't so bad and will soon disappear

The first stage of the auto giant's strategy is an 18-page booklet entitled "What is Air Pollution? A Story of Air Pollution and Cars. It is narrated by a Professor Clean who wears, incidentally, a very prominent "GM" belt buckle. The booklet is being offered free to 62,000 elementary schools in classroom quantities. GM's public relation staff reports a first printing of one-half million copies, and that's only a beginning.
Using crayon pictures by $9-$ and 10 -year-olds to illustrate points, the GM booklet attempts to define air pollution, where it comes from, how cars pollute and all the amazing things the car makers are doing to eliminate auto emissions. Along with Professor Clean, there is Harry Hydrocarbon, Charlie Carbon Monoxide, Ollie Oxide of Nitrogen and Pete Particulate Matter as the chief characters of this country's largest corporate polluter's story.

One important omission from the booklet is any treatment of what air pollution does to undermine human health. No mention, for example, is made of air pollution's causing disease (such as lung ailments), soiling, damaging property, harming natural beauty and recreation and endangering transportation. The various pollutants from autos are portrayed as little pixie "demons" that are very often harmless, sometimes annoying but generally geing away fast.

Harry Hydrocarbon is described as a "harmless demon" if he is just by himself. The traditional GM line
that hydrocarbons are a problem only in places like Los Angeles is emphasized. This is not true, of course, as numerous medical and public health research findings have shown. Furthermore the children are not informed by this corporate anesthetic that hydrocarbons contain cancercausing elements.
It is not surprsing, though still ignoble, that GM would stoop to such levels of manipulation. After all, for years it has produced over half the motor vehicles and over 25 per cent of the air pollution (by tonnage) in the nation. For years it colluded with other domestic auto companies to restrain the
development and marketing of auto pollution control systems, according to Justice Department documents obtained from the auto industry in an antitrust case. (The case was settled in 1969 with a promise by the companies not to collude anymore.) For decades its massive treasury has been applied to styling and horsepower, at the expense of safety and new kinds of engines that would prevent pollution and give motorists more fuel for their dollar.
These are some of the facts that the school children should learn and discuss. They should also know what the GM booklet badly leaves out, for instance:
$\square$ Carbon monoxide is a poisonous gas and is harmful in very low concentrations. (Instead the children are told that CO is blown away by the wind except in cities with lots of cars crowded together where too much of Charlie Carbon Monoxide is "not a good thing to have.")
$\square$ Lead is not the only particulate that comes from cars as GM claims Nor is lead used only in "some of the gasolines today." Lead is a component of most of the gasolines burned currently. And enormous quantities of harmful fine particulates of rubber and asbestos are given off from automobiles; the auto industry has given no thought or research to them.

- The booklet concludes by saying that "Air Pollution from cars has become less and less in the last few years." This is deliberately misleading. Pollution controls on recent-model cars degrade rapidly in effectiveness after a few thousand driving miles while consuming even more gasoline Ignored as well is the fact that more cars registering more


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A page on "the futu mileage on the roads have offset any alleged controls on new cars.
Of course GM does not mention the mass transit approach to controlling air pollution nor does it indicate how many better kinds of engines can be used to replace the polluting infernal internal combustion engine.
School principals and elementary school teachers can obtain much more accurate and serious materials about air pollution from the Environmental Protection Agency and numerous private conservation and environment organizations. They might also ask that GM recall these booklets and stop polluting young minds.
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## Consumer Attorney

 Was Too Good for JobWhen one state strictly enforces its consumer protection laws, businesses have the choice of pressuring the government to take a softer stand or moving elsewhere. Recently, Arizona's consumer protection chief discovered how the latter works. He was forced to resign.
His resignation prompted the Mamaroneck (N.Y.) Daily Times to comment on the obvious need for more uniform enforcement of consumer protection laws.

What happens when an energetic consumer protection chief interprets a consumer fraud act literally
and goes after offenders, winning virtually every case and compelling restitution to customers of more than $\$ 200,000$ ?

Jack McCormick, Arizona's of chant attorney general in charge He's been forced to resign.
It's obviously one thing to pass a law that looks good on paper, convincing voters that the state is really going after offenders. But laws are only as good as the enforcement machinery, and as good as the acceptance and support they get.

McCormick found that the timehonored system of issuing a warning to offenders of consumer statues merely says to businesses, "You can engage in unlawful activity, knowing that the most you will have to do is stop."
As for acceptance and support, McCormick found when he started an investigation of hospital pricing policies, "that anybody who is anybody serves on a hospital board of directors and their reaction to our inquiry was one of defense and protection."

There is another side to the story of consumer advocates charging out in shining armor to do battle with frauds. When one state jurisdiction is particularly gungho, business can simply move elsewhere to find more relaxed attitudes. This possibility naturally is upsetting to state officials and wage-earners alike.
But this is a problem that must be met by interstate cooperation. In that context, McCormick's boss, Arizona Atty. Gen. Gary Nelson, is chairman of the consumer protection committee of the National Association of Attorneys General. It might be better for Nelson to persuade other states to build up their effectiveness against consumer frauds, rather than to kick out his subordinate - one of the apparently few doing a good job.
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Published by Robert Kahn and Associates, Business Counselors. P.O. Box 343, Lafayette, California 94549 (415) 254-4434

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## WHY NOT PUBLISH A COMPLETE ANNUAL REPORT?

There is a trend to include more information in annual reportsby just a few companies who want to stay a bit ahead of the requirements set down by the S.E.C. and the accountants.

If one writes to most companies and asks for an annual report because he is interested in the Company-he gets it. But that is all the information he gets.

Few, if any, companies send the most recent proxy statements. Yet this is the only source of much important information-such as how much directors and officers are paid, how many shares they own, what profit-sharing, pension and other fringe benefit schemes exist for the key people.

But even if the companies did send a proxy statement, no company shows a "this year-last year" comparison for these key figures. If you want to find out whether the President got a raise, you must find last year's proxy statment. If you want to find out whether directors are increasing or reducing their holdings, you must find last year's proxy statement.

Insider trading is an important indicator. Professionals watch it closely. The SEC requires that reports be submitted-but only to the SEC. The Wall Street Journal publishes just a few changes in holdings. But the important little guy-who everyone hopes will return to the market-now says "to hell with it"-because this along with other information is not made available to him.

Is there any reason why a quarterly report should not contain a record of all changes of insider holdings? After all, it is public information.

Then, there is the question of disclosing more information by divisions. Federated does not publish sales for A\&S, Bloomingdale, Filene's, Lazarus, etc.-but NRMA and Women's Wear Daily publish them annually. The thousands of Federated stockholders, who are entitled to this information, are left in the dark; but all the trade knows.

Why should legal actions be disclosed only in footnotes to the annual reports, instead of in the stockholder letter and in quarterly reports? After all, it is a matter of public record. Why shouldn't all the stockholders know?

RThought: Reading of hundreds of "Letters to stockholders," signed by our greatest names in retailing, indicates the low regard most CEOs have for stockholders. RT realizes that there is not a single publicly held retailer who is really trying to put in the annual report all the information a stockholder or prospective stockholder is entitled to know. But then this type of ethics is seldom considered in the business world today.

## A QUESTION OF ETHICS

Should retailers sell the current shoe styles?
Moneyworth (Apr 30,73, 110 W 40th St., NY NY 10018, $\$ 5 / \mathrm{yr}$ ) in the feature article, "The High Heels Trip," discusses the present "high style" heels (The Monsters, The Killer Clogs, The Perilous Platforms and the Drop Dead Heels). The article quotes the President of the Podiatry Society of New York State as saying "These shoes are dangerous."

The article sets forth the problem of falls resulting from lack of balance and pelvic distortions that can trigger serious back problems. Business has increased for podiatrists, chiropractors and osteopaths-proof of the success of the style.

And now we have high heels on men's shoes. Rob Cochran, President of Flagg Brothers (Genesco) says he is putting $\$ 100,000$ of high heels in each store. Bernard Kniff of Nunn-Bush (Weyenberg Shoe Mfg. Co.) reports men's high heels represent $15 \%-20 \%$ of his business.

The sportswear editor of Seventeen fell off her clogs, broke every bone in her foot, and got back the $\$ 32$ that her clogs cost together with an apology!

RThought: Do retailers, particularly those who cater to high and new styles, have a responsibility to refrain from selling styles that are injurious or dangerous to their customers? Let us forget, for the moment, that the editor of Seventeen might well have brought a class action against the retailer and manufacturer for the cost of her medical care and additional damages.

It took Federal legislation to get retailers to stop carrying toys that are obviously dangerous. Will it take Federal legislation to ban unsafe styles? Or is retailing mature enough to place the well-being of their customers ahead of profits? When the shoes are carried by Thom McAn, Flagg Brothers, and Miles, there is a good chance that the same firm also made the decision to manufacture them.

Are retailers of such low moral standards that they can justify selling dangerous styles on the grounds that "everyone else is doing it?"

## THE NEW HERD INSTINCT-SELL CATALOG STORES

In September 1972, under the heading "The Herd Instinct in Retailing," RT observed, after setting forth the history of firms rushing into new forms of retailing with which they were totally unfamiliar, that "Catalog showroom stores are perhaps the most amusing-everyone is getting into the business in a big rush. They are all buying the same catalogs from a very limited number that are available. It looks like the big profit will be in printing the catalogs (and perhaps in building the buildings) ... Anybody can copy-most of the true 'originators' in retailing are long dead. Even the firms that originate are not guaranteed success-so why should success come to the copy cats?"

RThought: The new "herd instinct" appears to be a must to get out of catalog stores while the getting is good-Dayton-Hudson led the trend, with Mammoth Mart, Robert Hall Villages and Alexanders following suit. The copy cats who remain will entertain us over the coming years as they explain their "non-recurring losses," just before they rush to copy another great new idea in retailing.

RT contines to ask-why not try to do what you know best? You might even develop a Lerners or a Petrie or a Southland or a Rite Aid. Would that be so terrible?

## SLOPPY SELLS!

The recent stories and discussions of Building 19, an aggressive salvage-discount merchant, with sloppy hand written signs, brings to mind a study undertaken for a client some years ago. For years my client provided each department manager with a wax pencil, a supply of cards and the sign holders. When the department manager wanted a sign, he made his own!

This produced an interesting variety of signs-none of which could ever be mistaken for a professional sign. And it kept overhead costs down.

The merchandise manager wanted to hire a sign maker and buy the necessary equipment for making signs. The question posed was simple: "How long will it take for the increased sales from the signs to pay for the equipment?"

It was decided to make a test by using two tables in the bargain table area-each would have an identical display of sheets and pillow cases. One table had a professional sign-and the other had a department manager sign. The wording and price were identical. The clerks in the bargain table area were instructed to stay away from customers unless specifically called.

At the end of the first week it was discovered that the table with the department manager's sign had outsold the professional sign by a ratio of 3 to 1 . The merchandise manager protested that the successful table was closer to the main aisle with heavy traffic-so the tables were set up again, but the signs were reversed. The next week the department manager's sign outsold the professional sign by $2 \frac{1}{2}$ to 1 .

So what was done? The store hired a signmaker, thus reducing their sales and increasing their costs.

RThought: There never was any requirement that a retailer be logical. Emotion has provided a fair degree of success for many people in retailing. Please don't confuse us with the facts.

## RETAILING AND THE ENERGY CRISIS

RT suspects that it is the rare retail executive who is thinking about the impact of the growing energy crisis on his business.

George Scott, Chairman and CEO of Walker Scott in San Diego, was kind enough to share with RT a letter he sent to his key executives asking their response to a series of questions. Mr. Scott pointed out that despite a survey that showed that $67 \%$ of the American public thought that the energy crisis was an "arranged" crisis, Mr. Scott, as a member of the San Diego Transit Commission, knew that no oil company would bid on the fuel needs of the bus system.

Mr. Scott wondered about branch stores and shopping centers that depended on people coming by cars-and would they come with no gasoline (World War II gasoline rationing took place when most shopping was done at the focal point of an existing public transit system). And how will workers get to work? If mail and telephone orders are promoted, would United Parcel and others have gasoline for delivery? Did Walker Scott have to maintain the same level of lighting, air-conditioning, parking lot lighting, and other uses of energy-and if reduced, would they have to increase the number of guards? Did buyers have to make as many trips to markets if airline flights were reduced to save fuel?

As a true merchant, Mr. Scott closed on a positive theme:
"Out of evil comes good; maybe we can get business, yet cut some costs; it is up to us to be ingenious and not to hold or wring our hands but to stir up our minds, ideas, visions. Now is our hour! I accept the challenge, even though I believe the Government poorly handled this entire matter."

RThought: Have you started what Mr. Scott has started? If not, isn't today the latest possible date for you to start?

## CORRECTION

RT is indebted to George Jones, Customer Relations Manager, Montgomery Ward, for pointing out that we improperly reported the origin of the "Code of Collection Ethics" in the May 1973 RT. RT attributed the Code to the National Consumer Finance Association (NCFA)-when it should have been credited to the Sub-Council on Credit and Related Terms of Sales of the National Business Council for Consumer Affairs. The action taken by NCFA was to "endorse" the code. Do you?

## SOMETHING WRONG WITH BANK CREDIT CARDS?

Certainly not when one looks at the increasing number of cards in use and the rapidly growing volume transacted on cards. A growing part of the volume is in cash advances-the small loan activities of banks.

But, if retail credit departments want to make a point of difference in their favor they might look at the recent report of Joseph T. Rigo, ombudsman for the New York ACM, as reported in Computerworld for May 2, 1973. An ACM member had a bank card that used descriptive billing. He objected to a $\$ 15$ item identified as "FL MT LAMONT" and a $\$ 40$ item called RETAIL PURCHASE. The "LF MT" proved to be an abbreviation for the Florence Motel and "LAMONT" was an abbreviation for Missoula Montana. Logical? Anyone should be able to figure it out.

Mr. Rigo concluded that descriptive billing should be sufficiently detailed to permit the person to know what is being billed; the

## ANNUAL REPORTS AND AUDITORS - II

RT is expanding the coverage of annual reports. Because the accounting profession, the financial publications, and the retailing publications do not carefully study these reports and express an opinion on whether certain "generally accepted accountin principles" are either "good" or "bad," RT is assuming that responsibility.

RT feels that capitalizing pre-opening expenses, is "bad;" that failing to consolidate finance subsidiaries is "bad;" that inadequate footnotes or footnotes that are not cross referenced to items on financial statements are "bad." RT feels that LIFO is a conservative approach-but should be fully disclosed; and that amoritizing investment credits over the life of the asset is conservative.

When RT is silent on inventory valuation, it means the company uses FIFO on a retail basis; on investment credit, it means that the credit is taken when the asset is put into use; and on pre-opening expenses, it means that the policy is not disclosed among the accounting principles.
"Good" and "bad" are subjective terms-but this summary of annual reports of major retail firms should give top retail executives a chance to see how the "other guy" handles controversial procedures. With the growing number of financial analysts who read RT, it is hoped that they will join in commenting on accounting policies used by retailers as either "good" or "bad." Someday there may not be any more "bad" accounting policies.

## How to read an annual report

RT studies hundreds of annual reports and has evolved a simple approach-much like reading a newspaper from the back. First, read the summary of accounting principles. Then read the footnotes to the financial statements. Then study the numbers that make up the financial statements, making approximations of internal ratios like current, quick, debt to net worth, return on net worth and return on assets. Next, read the letter to the stockholder-and finally, the blurbs that fill out the balance of the material. If you have time, study the pictures carefully to see displays, equipment used, neatness of stock, what customers are wearing, age of cars in parking lots, etc.

## And a word to accountants.

You don't have to sign off on a report. And the S.E.C. demands an explanation if you are replaced. Power may be so strange to Big 8 firms that they are not yet sure how to use it.

RT hopes accountants will learn quickly.
Acme Markets, Inc. (Peat, Marwick, Mitchell). A footnote provides "During the last quarter of fiscal 1973, the company closed 67 small, low-volume supermarket units which, because of a change in merchandising emphasis, including the dropping of trading stamps, were no longer competitive. Provisions for losses attributable to discontinuing these operations ... \$1,062,000 after tax ... has been shown as an extraordinary charge." This continues a growing, dangerous precedent, abusing the concept of "extra-ordinary." Acme operates over 700 stores, normally closes 30 plus-minus stores per year, and should have reported this as a normal cost.

Albertson's, Inc. (Touche, Ross). Footnotes are not numbered and cross referenced (bad). Report indicates "complete physical inventories are taken as least four times each year." (good).

Allied Stores Corporation (Touche Ross). Footnotes are not cross referenced (bad). Credit subsidiary is included in consolidated state (good-continues long-standing practice). Revolving credit increased from $64 \%$ to $69 \%$ of outstanding receivables. Unfunded pension liability for prior service is $\$ 12$ million ( $31 / 4$ years' contributions). President Macioce opines, "It is our opinion that the financial position of the Company is the strongest it has been for the past several years" despite the fact that debt is more than twice stockholders equity ( 1 to 1 is considered sound ratio).

Arden-Mayfair, Inc. (Lybrand, Ross Bros. \& Montgomery). Change in results from nominal profit to nominal loss brought comment from Chairman Mathewson and President Crosson, "Factors contributing to this loss include false starts in the organization area, deteriorating morale, and excessive turnover (refers to personnel-RT)." Bernard Briskin who worked out takeover by tiny Teleautograph Corporation, gave up masterminding a sick food chain and went back to "teleautographing."

Associated Dry Goods Corporation (Touche Ross). Newly started credit subsidiary with nominal debts is not consolidated (start of terrible precedent not becoming the outstanding history and practices of ADG). $22 \%$ of inventory on LIFO (conservative-but amount of LIFO-FIFO difference not disclosed). Pre-opening expenses charged to month of opening (good).

Broadway-Hale (Price Waterhouse). Consolidation does not include credit subsidiary thus deleting $\$ 66$ million from liabilities on consolidated statement ( $23 \%$ of net worth). Footnotes not numbered and referenced to balance sheet (bad). Store opening expenses charged to year of opening (good). Value of vested benefits in pension plan exceeds assets by $\$ 5$ million ( 1 yr . contribution). Charts showing growth of equity, assets, sales and earnings do not reflect poolings (misleading).

Caldor, Inc. (S. D. Leidesdorf). Pre-opening expenses are amortized over a period of 3 years from store opening date (badespecially when combined with announced increase in expansion rate).

City Stores Company (S. D. Leidesdorf). The letter to the stockholders says about the financial position of the company: "The Lansburgh's closing will result in the elimination of the last major drain on the Company's profits and will substantially buttress the Company's already strong financial position. With the continuing availability of its bank lines totaling $\$ 78,000,000$ and its increased liquidity, the Company is in a position to agressively take advantage of growth opportunities . . ." City does not consolidate its credit subsidiary (bad) which has $\$ 49$ million of debts ( $61 \%$ of net worth). More than half the inventory is reported on LIFO and notes disclose value is $\$ 8$ million below FIFO (conservative). Pension plans are unfunded-liability recorded is $\$ 4$ million, making employees general creditors if trouble develops. Plan covers employees with over 15 years service and does not provide vesting. Estimated liability, if vested, would be $\$ 11$ million. Consideration for employees, if finances are as strong as indicated, would indicate that funding is appropriate. Company has decided to go into warehouse furniture business under "an experienced furniture retailer." W\&J Sloane now has 21 regular stores and 20 "clearance outlets" which must say something about the buying performance!

Carson, Pirie, Scott (Arthur Andersen). Credit subsidiary not consolidated (bad-conceals $\$ 37$ million in debt, equal to $61 \%$ of
net worth). Published statement already shows $1 \frac{1}{2}$ to 1 debt to net worth (marginal). Pre-opening expenses amortized over 5 years following store opening date (terrible!). Inventory reported on LIFO (conservative) with letter to stockholers clearly disclosing impact ( $11 \phi$ after taxes vs $13 \phi$ in prior year). Pension fund assets nominally exceed vested benefits (good). Company appears to want to be something different-with expansion into food and drink service, country clubs, subdivisions, and selling 1,600,000 hot dogs!

Dayton-Hudson (Ernst \& Ernst). This report is a pleasure to read-because of the completeness. The notes are clear and referenced; data is broken down between retail and real estate; and operating information is given on divisions and even store groups within the retail activity. The financial notes disclose that all subsidiaries are consolidated except joint ventures (good), LIFO is used on most of the inventory ( $\$ 2.8$ million pre-tax impact on operating results, and lower value of inventory by $\$ 11$ million). Pre-opening and development costs are charged as incurred (good). Policy is to fund retirement costs accrued to date (only one of several funds is not funded). Company operates a Savings and Stock Purchase Plan, contributing $50 \phi$ for each dollar employee contributes. Pretax loss on venture in catalog showroom was $\$ 2.7$ million (good reason to withdraw).

Federated Department Stores, Inc. (Touche Ross). I hope Federated never comes up with any problems-because even the most astute analyst cannot garner much information from their annual report. Even the pictures are not identified as to store! Credit subsidiary is not consolidated (bad) despite the fact that unconsolidated debt is only $3 \%$ of net worth; apparently Federated wants to do something wrong! Inventory is mainly on LIFO, understating value by $\$ 49$ million and pre-tax profits by $\$ 3.1$ million. Total debt to net worth is under .7 to 1 -probably strongest of any retailer over $\$ 1$ billion. Company should begin to breakdown sales by food, discount, and even operating groups (Fairchild Publications publishes for the trade the information with pretty good accuracy every year-perhaps Federated thinks they should hide it from their stockholders).

First National Stores (Price Waterhouse). LIFO is used on inventory (unusual for food chain-conservative) and company pays a penalty. Pre-LIFO profit was $\$ 1.03$ per share last year while after was $3 \phi$ ! Standard and Poors comes up with a fantastic $\mathrm{P} / \mathrm{E}$ ratio! Inventory is stated at $\$ 17$ million below average cost by $\$ 6$ per share after allowance for $50 \%$ taxes! Despite pressures of A\&P, dropping stamps, Phase II and the losses from discontinued operations, FINAST came in with a small profit-which is progress.

Gamble-Skogmo, Inc. (Peat, Marwick, Mitchell). The capital structure of this company is unique, consisting of $\$ 115$ million subordinated income notes (interest of $7 \%$ to $10 \%$ is paid, if earned) and $\$ 211$ million of convertible preferred and common stock. Although interest on capital notes is paid only if earned, the notes do have a fixed maturity date. Finance subsidiaries are not consolidated (bad) with result that $\$ 223$ million of debt $(68 \%$ of capital, $106 \%$ of stockholders equity) is off the balance sheet. Intangible assets from before 1970 are not amortized ( $8 \%$ of capital, $12 \%$ of equity). Vested pension benefits are fully funded (good). Value of common stock is clearly set out (good in view of complex structure). President's letter says "Never before have the operating companies been as liquid. At year end, they owed nothing to short-term lenders and reported $\$ 68$ million in cash" but disregards tremendous non-consolidated debt in finance subsidiary. Complete information is given on the number of stores operated under each name (for example, House of Fabrics dealers opened 4 and closed 3 , to end with 28 ), but nothing is told
about sales volume or profitability. As usual, only good decisions were made, according to the narrative. And it is a little surprising that only in a footnote does one find mention of a $\$ 12$ million judgment awarded against the company! The Company says this will not have a significant effect. This is a brave statement for a company with $\$ 211$ million equity to make. And a company which reduced equity during 1972 by substantial treasury stock purchases (no surplus reconciliation is provided).

Garfinckel, Brooks Brothers, Miller \& Rhoads (Coopers \& Lybrand). $40 \%$ of inventory is on LIFO (conservative) reducing current profits by $7 \phi$ per share, understating inventory by $\$ 2.9$ million. Policy to fund pension costs accrued is stated but no disclosure of current status of funds vs. vested interests. Report is remarkable in that the number of shares of common stock outstanding is not disclosed!
Gimblel Brothers, Inc. (Touche Ross). One subsidiary is on LIFO. On pension plan, past service cost is being amortized over 20 years (good) but funds currently below past service needs by $\$ 13$ million. Footnote about future requirements, not mentioned in narrative, indicates obligation over next three years, of $\$ 68$ million for expansion exclusive of normal replacements and renewals. With present total debt substantially in excess of net worth and the 1973 depreciation flow already approximating long term debt payments, the proposed takeover may be quite welcome.

Goldblatt Bros., Inc. (Arthur Anderson). 72\% of inventory on LIFO (conservative), reducing stated value by $\$ 3.6$ million and pre-tax profits by $\$ 400,000$. Pre-opening expenses amortized over 2 years following opening date (bad). Company agrees on death of officer to lend up to face value of insurance policy $(\$ 520,000)$ to estate for 10 years, interest free, secured by common shares of company or marketable securities (unusual). Profits boosted $\$ 300,000$ per year due to bargain purchase of H. P. Wasson \& Co. Company is going many directions-warehouse furniture sales and do-it-yourself outlet, although report extolls "Expanding our Flair for Fashion."

Grand Union (Coopers \& Lybrand). Costs in excess of net assets for pre-1971 acquisitions not being amortized ( $5 \%$ of net worth). Pre-opening costs expensed as incurred (good). Company policy to fund pension costs as accrued (good) but no disclosure of status of funds. Company is going many new directions-despite limited past success with GrandWay. Tripled (6 to 18) E-Z Convenience stores. Opened 5 catalog salesroom operations, bought jewelry concessionaire, and rapidly expanding Family Center (super-supermarket) concept.
W. T. Grant Company (Ernst \& Ernst). Consolidates financial subsidiary (good). Company funds pension costs accrued-but does not disclose status of vested obligation vs funds on hand (bad). Store expenses written off in year of opening (good). Unearned credit insurance premiums dropped from $\$ 12$ million to $\$ 81 / 2$ million during year, perhaps reflecting tighter administration of laws requiring full disclosure of voluntary nature of this coverage. Balance sheet continues to be heavily unbalanced with total debt, excluding deferred taxes, almost double net worth. Year ended with sales up $20 \%$, receivables up $14 \%$ and inventory up $34 \%$. Combined with drop in accounts payable of $18 \%$ this indicates that company may have been heavily overstocked January 31 st, despite statement in stockholder letter that inventories "are in good relationship to planned sales."

The Great Atlantic \& Pacific Tea Company (Haskins \& Sells). Pension plan assets exceed the actuarial liabilities for benefits accrued (good). Total debt (including deferred taxes) approxi-
mates net worth, giving A\&P, despite $\$ 51$ million loss, a stronger balance sheet than most competitors (balance sheet is remarkably similar to Safeway, except for lower fixed assets-reflecting failure to bring stores up-to-date). A\&P is going through their 4th major change in 113 years-from single store to hundreds of horsedrawn wagons to more than 12,000 corner stores, many with credit and delivery, to 5,000 supermarkets and now to WEO discount stores. A\&P closed 404 stores in their most recent fiscal year, more than most chains have ever opened! With a policy "Always do what is honest and fair for every customer" and a sound balance sheet, the predictions of A\&P's death appear premature.

House of Fabrics (Haskins \& Sells). A new record was set at House of Fabrics-profits increased by $3 \%$ on a $13 \%$ sales increase, despite a drop in gross margin from $48.6 \%$ to $48.1 \%$ (H of F's first such drop). But there appears to be trouble-with sales up $12.7 \%$ and inventory up $17.5 \%$, H of F started January 1, 1972, with inventory equal to $78 \%$ of the cost of goods sold in 12 months ending January 31, 1973 (changed fiscal year). With higher inventories, H of F looks like it seeks to be the first public traded company with a stockturn of only once a year! Their report says, "Home sewing has become much more fashionable
." but can fashionable goods be offered with a 1 -time stockturn?

Hudson's Bay Company (Peat, Marwick, Mitchell). This company, with a book net worth of $\$ 196$ million Canadian, carries as an investment $4,000,000$ shares ( $21.2 \%$ of outstanding) of Hudson's Bay Oil and Gas Company Limited (HBO\&G) at a cost of $\$ 10$ million. Footnote indicates Toronto stock exchange January 31st closing of $\$ 511 / 2$ per share-but PMM fails to multiply and show market value which reveals unrecognized gain equal to total net worth- $\$ 196$ million! Company recognized share of income from $25 \%-40 \%$ owned companies-but not from HBO\&G. This share at undistributed income was equal to $25 \phi$ per share which should be added to reported earnings of $\$ 1.16$ ! After year-end, the Bay moved into another such situation with an exchange for stock, valued at $\$ 36$ million, in publicly-traded Siebens Oil \& Gas Ltd.

Interco, Inc. (Peat, Marwick, Mitchell). Adopted Feb. 28 fiscal year from Nov. 30 (good move considering amount of retail activity). Only $7 \%$ of inventory on LIFO-but reduced stated value by $\$ 13$ million (not clearly disclosed in notes). Startup expenses charged as incurred (good). Investment tax credit reported over life of asset (conservative). Actuarial value of pension benefits exceeds assets by $\$ 5.6$ million. Balance sheet is exceptionally strong-debt to net worth ratio .6 to 1 ( 1 to 1 is sound). Excess of investment over equity of subsidiaries equals $3 \%$ of net worth (good). Breakdown by groups shows shoes still producing $52 \%$ of profits, only $44 \$$ of sales. Footwear group should be broken down into manufacturing and retail, since 873 stores and departments are operated.

King's Department Stores, Inc. (Peat, Marwick, Mitchell). Simple, inexpensive report may indicate why the Company always reports profitable operating. Depreciation life appears shorter than most other discounters (good). Pre-opening expenses charged as incurred (good). Actuarial value of vested benefits exceeded funds available by less than 1 year's contribution (good). Balance sheet exceptionally strong with ratio of debt to net worth of .3 to 1 (1 to 1 is good).

Kelly, Douglas \& Company, Limited (Clarkson, Gordon). Depreciation recognized is faster than for US companies (good). Directors' remuneration is disclosed (good-US companies do this only in proxy statement). President and Treasurer personally sign the financials on behalf of the Board (good practice). President's
report is quite frank-after reporting that food prices dropped some years ago as a result of overstoring and competition . . . said "The food industry's return to normal profits in order to survive was naturally accompanied by a fairly dramatic increase in prices, to the consternation of consumers, who bitterly complained to both politicians and the media."
S. S. Kresge Company (Price Waterhouse). Merchandise inventories are valued by retail method but "stock on hand more than a year is written off" (since still priced and displayed, this is contrary to IRS regulations and may cause problems with local property tax authorities). Leased department sales are excluded from reported total sales (conservative). Pre-opening costs are charged off as incurred (good). Policy is to fund pension costs as accrued but relation of fund assets to vested interest is not disclosed, "Most leases on K-Marts are gross leases where lessor pays property taxes, insurance and specific building and parking lot maintenance and repair costs" (good if minimum not too high). Debt to net worth ratio of .8 to 1 leaves substantial room for additional growth-Kresge was overcapitalized when it started into discounting and has remained conservatively capitalized. Management estimates that only $40 \%$ of US population is convenient to a K-Mart and aim in 2nd decade is to reach $80 \%$ ! K-Mart is hiring more college graduates-1,085 in 1972 vs 357 in 1970; and has 2,900 people in 5 to 7 year training program.

Lane Bryant, Inc. (Coopers \& Lybrand). Inventory valued on LIFO (conservative but LIFO value not disclosed (bad). Investment credit amortized over the life of the asset (conservative). Pension costs are funded as accrued but relationship of fund assets and vested benefits not disclosed (bad). Pre-opening expenses are expensed as incurred (good). No significant information is given on number of stores, sales, profits, etc., for operating divisions (Lane Bryant, Town and Country, Smart Size, Mail Order, Coward Shoe, etc.)

Lerner Stores Corporation (S.D. Leidesdorf). This outstanding company rolls on year after year setting an example for all women's apparel chains, with the market value constantly inhibited by a fear of what Riklis will do next. Games are played with financing receivables through McCrory Credit Corporationplus loans to credit corporation making complete analysis difficult if not impossible. Uses multiple tax returns but impact on net profit not disclosed (bad). Effective tax rate was up from $44.3 \%$ to $45.7 \%$-ultimate phaseout could raise taxes another $3 \%$ to $5 \%$, ( $25 \phi$ to $50 \phi$ per shares). Average number of shares each year not disclosed (bad).

Levitz Furniture Corporation (Laventhol, Krekstein, Horwath \& Horwath). The cover of the report says "The mark of a concept" but the stock market says otherwise. Even at $\$ 7$ per share, market value is $73 \%$ above book value-and many good companies would like to trade places. Pre-opening expenses are deducted for tax purposes but not for financial reporting, and method of handling not disclosed (terrible!). There are still stock options not exercised at $\$ 1.25$ per share! Pension plan not established until 1973. Tangible debt to net worth .8 to 1 (sound). Gross profit continues to climb-38.78\% to $39.15 \%$-which dims image as discounter. Sales per square foot appear to be continuing along decline (bad). Profit of $22 \%$ after taxes on opening net worth is still exceptional. Inventory seems in better control than prior years. Levitz may have lost its glamour on the stock market but it is not likely to disappear from dozens of communities.

Lucky Stores, Inc. (Price Waterhouse). All poolings are combined retroactively for all figures shown in report (good). Pre-opening expenses are charged to the year in which the store opens (good). Real estate subsidiary is included in consolidated statement
(good). Debt to net worth ratio is relatively high at 1.5 to 1 (1 to 1 desirable). Gross margin staying steady (good). Company stresses work being done in Truth-in-Meat-Labeling, single unit pricing, open dating, no limit on purchases and limited nutritional labeling. But no significant breakdown in volume by geographic divisions for food stores or by type of store-discount store, auto stores, fabric stores, etc., separate from food.

Mangel Stores Corporation (S. D. Leidesdorf). Licensed department sales are not included in net sales (good). Pre-opening expenses are written off during the year in which new stores are opened (good). Liability for substantial deferred compensation is disclosed without explanation. No pension fund is mentioned (may not have one).

Manhattan Industries, Inc. (Lybrand, Ross Bros. \& Montgomery). Pension plans are disclosed but relationship between liabilities and funds not disclosed (bad). Extraordinary loss, apparently uninsured, from flood equal to $4 \%$ of net worth. Breakdown provided of sales and profits between manufacturing and retail, with retail increasing faster and profit contribution increasing from $29 \%$ to $42 \%$ of total (would have been less except for flood loss). Debt to net worth increased from 1 to 1 to 1.3 to 1 (weakening).

Marcor, Inc. (Arthur Andersen). Footnotes are not referenced (particularly bad in view of the large number). Credit subsidiary not consolidated (bad), with $\$ 983$ million of liabilities ( $103 \%$ of net worth!). Pre-opening and relocating expenses amortized over 36 months following store opening (bad). Store closing costs and unamortized investments are charged to expense at time of closing (good). Bad debts are written off if no payments for 9 months or if notice of bankruptcy, fraud or confinement in an institution (good). Assets of pension plans plus accruals on balance sheet cover vested interests (good). Sales per square foot of selling space disclosed by age of stores (good). Disclosure on credit operations are constructive and complete, including estimate that finance charges exceeded credit expenses (no mention is made of income for credit life and casualty insurance which Ward's, at times, has pushed with excessive enthusiasm). Credit sales increased during the year (contrary to general trend of recent years). Retirement plan funds plus accruals exceed vested benefits (good). Wards shows $\$ 173$ million as acquisition costs in excess of book value ( $18 \%$ of net worth). Debt, excluding deferred taxes, totals $\$ 1,290$ million on the balance sheet and $\$ 2,273$ million including the finance subsidiary, which, in relation to tangible net worth of $\$ 784$ million, represent ratios of 1.6 to 1 and 2.9 to 1 ( 1 to 1 is desirable).

Marshall Field and Company (Arthur Andersen). $17 \%$ of inventory is reported on LIFO ( $\$ 14$ million) without disclosing difference from FIFO value and change during year (bad). Investment credit taken over life of the asset (conservative). No disclosure of whether funded pension plans exceed vested benefits (bad). Pre-opening expenses are charged off as incurred (good). Balance sheet has no intangibles (good). Company is overcapitalized (debt to net worth ratio of .5 to 1 ) and in a position to undertake the heavy commitments being made in real estate ventures (unlike others moving in the same direction).

May Department Stores Company (Arthur Andersen). Footnotes are numbered (good) but somebody forgot to cross reference them to the financial statements (completely inexcusable). Credit
subsidiary is consolidated (good). Inventory reported on LIFO (conservative) understating inventory by $\$ 29$ million and current year pre-tax profit by $\$ 2.7$ million. Investment tax credit taken over life of asset (conservative). Preferred stock subject to sinking funds have been acquired to meet requirements through years 1988 to 2043 (one advantage of depressed stock prices). Pension plans are all substantially funded (good). Partnership with Consumers Distribuıng Company to blitz U. S. with catalog/ showroom stores (high risk) is disclosed in stockholder letter as "50/50 joint venture" but footnote discloses that May takes all the losses, Consumers Distributing takes half the profit (misleading). May is obligated to advance up to $\$ 50$ million ( $11 \%$ of net worth) without indicating if any funds are to be put up by Consumers Distributing Company. Credit subsidiary putchases receivables at $31 / 2 \%$ discount (showing that bank plans might be cheaper!). Data on sales by department stores vs discount stores and sales per square foot (not disclosed whether selling or total space) can be dug out of the report (with work) but should be in tabular form. Eagle Stamp Company expanded into Youngstown, contrary to the trends of most stamp companies.

McCrory Corporation (Haskins \& Sells). Footnotes are not referenced to financial statements (bad). Excess cost of investments over book value ( $21 \%$ of net worth) are not amortized. But purchase of Newberry's at $\$ 23$ million less than book value is being added to profit over 10 years. Have not recognized a $\$ 1.6$ million loss on the purchase of stock and warrants of parent company, Rapid-America (sometimes called Riklis-izing). The general financial statements are amazing. Consolidated sales are $\$ 1,227$ million (including Newberry for part of the year plus McCrory, McLellan, and Green variety stores, S. Klein and Britt department stores, Lerner Shops, OTASCO auto and home stores plus 148 stores in Canada) with profits of $\$ 17.5$ million. And all of this by a company having a net worth of $\$ 99$ million and total debt of $\$ 250$ million ( $\$ 430$ million including the credit subsidiary) for a debt to net worth ratio of 2.5 to 1 ( 4.3 to 1 ) when desirable is 1 to 1 . RT does not have the heart to compute ratios based on tangible net worth which is only $\$ 78$ million. The pictures in the report are of the beautiful new stores rather than the old H.L. Green store on Market Street in Philadelphia with a green grocer on the sidewalk in front! And finally, McCrory has the biggest "sundry" account on record- $\$ 13$ million-completely unexplained (bad).

Mercantile Stores Company, Inc. (Arthur Andersen). Comments are not identified or cross referenced to financial statements, although a substantial portion of the report follows the heading "Financial and Operating Review" (very bad). Accounting policies are not set forth and thus the report appears to be in violation of current requirements (bad). Finance subsidiary is not consolidated (bad). \$42 million of debt in finance subsidiary ( $30 \%$ of net worth) are not consolidated. An extensive disclosure is made of the membership, contributions and market value of Pension and Savings and Profit Sharing Plans but not one word is said about the ratio of such amounts to the liabilities of the pension funds (bad). The annual report states that half of the increased credit sales(and $90 \%$ of outstanding balances) related to revolving accounts which have "a greater risk of delinquency". So the reserve for bad debt is reduced from $5.2 \%$ to $5.0 \%$ ! Yet, write-off policies are very conservative which makes $5 \%$ reserve look high. No intangibles on balance sheet (good). The debt to net worth ratio is so low that one wonders why the Company does not consolidate the finance subsidiary and give stockholders the full picture.

The hunting expedition is explained as follows: "In issuing the orders, the Commission emphasized that it is not filing complaints against the companies nor is it suggesting that they are guilty of violations of any of its rules or regulations: it is merely gathering information as a part of its continuing program to determine what substantiation exists to support major advertising claims."

RThought: RT once again suggests that responsible and ethical retailers should use such superlatives as "lowest price ever," "lowest prices in town" or "we will not be undersold" with great caution. And there are some retailers who should look carefully at the documentation to support their claim of "Satisfaction guaranteed."

## BANK CREDIT CARDS IN SUPERMARKETS?

The Business Review, Federal Reserve Bank of Dallas, October, 1972, contained an article "Bank Credit Cards-Do Grocery Stores Provide a Potential New Market?" Prepared by the Research Department, this article argues an unusual position-one that retailers might find surprising.

The article gives a summary of the history of bank credit cards-their explosive growth and their recent slower rate of increase. It summarizes discussions with leading supermarket chains which clearly indicates that supermarkets are not interested in credit cards (a few tests have been inconclusive), especially with banks buying the paper at a discount of $2 \%$ to $5 \%$. No mention is made of the problems that arise at checkouts.

A study of 440 householders revealed that, over-all, most customers do not want credit on food (most are already concerned about excess credit). The highest demand comes from "food purchasers" (the person in a household chiefly responsible for food buying) who are under 30 , with incomes between $\$ 5,000$ and $\$ 10,000$ (although relatively high interest is also shown by high income families), by non-whites and by those who do not have credit cards (may not be eligible).

But the surprising thing about the article is the overall tonebecause fewer than half the bank credit card programs in the Dallas District are profitable and because all program managers thought they could handle double the current work load with less than $50 \%$ extra cost (the typical figure was $25 \%$ ), it appears to be the position of the Research Department of the Federal Reserve Bank of Dallas that banks should investigate and push credit cards in supermarkets so as to make the bank cards profitable and move closer to the cashless society!

RThought: RT has confidence that banks are more conscious of their responsibility in the field of credit than is the Research Department of the Fed. of Dallas.

## SHORT SHORTS

McGraw-Hill's computer has an IQ of 48! This is a bit below idiot. A recent mailing, apparently taken from our business name of Robert Kahn and Associates, was addressed to "Mr. Robert Kahn Assocs." The Computer was smart enough to abbreviate "Associates" to "Assocs." (which is better than Reader's Digest does-it cuts it to "Ass."!)-but not smart enough to drop the "Mr." Therefore, the "personalized letter" (which is an insult to any executive, but Business Week apparently prefers to insult executives) was addressed "Dear Mr. Assocs:" One wonders about the accuracy of Business Week's news.

## FROM AN EXECUTIVE'S WALLET

This month we share the well worn words from the wallet of Aldo J. Battistoli, Operations Director for the Clover Division of Strawbridge \& Clothier in Philadelphia.

## A PRAYER FOR THE MATURE LIFE

Lord, Thou knowest better than I know myself that I am growing older, and will some day be old.
Keep me from getting talkative, and particularly from the fatal habit of thinking I must say something on every subject and every occasion.

Release me from craving to try to straighten out everybody's affairs.

Make me thoughtful, but not moody; helpful but not bossy. With my vast store of wisdom, it seems a pity not to use it all-but Thou knowest Lord, that I want a few friends at the end.

Keep my mind free from the recital of endless details; give me wings to get to the point.

Seal my lips on my many aches and pains. They are increasing, and my love of rehearsing them is becoming sweeter as the years go by.
Teach me the glorious lesson that occasionally it is possible that I may be mistaken.
Keep me reasonably sweet; I do not want to be a saint-some of them are so hard to live with-but a sour old person is one of the crowning works of the devil.

Help me to extract all possible fun out of life. There are so many amusing things around us, and I don't want to miss any of them.

## Amen.

RT welcomes contributions to "From an Executive's Wallet."

## POEMS TO MANAGE BY

This month's poem comes from a newsletter "published at intervals by Kano Laboratories" in Nashville, Tennessee, called "Genious at Work." The origin is apparently so lost in antiquity that is is not even attributed to Anonymous. (Thanks to Sam Kasden of Smiths of California.)

## IF I KNEW YOU

If I knew you, and you knew me, 'Tis seldom we would disagree. But, never having clasped hands, Both often fail to understand That each intends to do what's right, And treat each other "honor bright." How little to compalin there'd be If I knew you, and you knew me.
Then let no doubting thoughts abide Of firm good faith on either side; Confidence to each other give-
Living ourselves, let others live.
But any time you come this way
That you will call, we hope and pray.
Then face to face, we each shall see
Then I'll know you, and you'll know me.

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

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## THE EDITOR SPEAKS

It was to the 61st Annual International Consumer Credit Conference at Atlanta-the subject was "Ethics in Consumer Credit," the first time the subject of ethics has ever been on their program. The response was excellent. As has been the experience with such presentations in the past, it opened up considerable discussion. This confirms that many executives welcome an opportunity to discuss ethical questions-but are reluctant to open the subject themselves. Perhaps we need a book today "All you ever wanted to know about ethics but were afraid to ask."

The ethical areas discussed covered a wide range of credit activities-what happens when the FBI asks to see a credit file on a.customer but has no search warrant; what right does a credit grantor have to sell the names and addresses of his customers; what right does a store have to steal credit balances; what right does a credit grantor have to design computer systems that do not nermit retroactive adjustments to correct errors made by the grantor; and what right do credit grantors have to dump data from their computer directly to a credit information agency computer without editing with the result that erroneous information is released?

Then there is the question of how credit life and casualty insurance is sold; how closely should one evaluate the methods used by their collection agency; should special gifts be made to inactive accounts but not to active accounts; how do you use point scoring; and, finally, for the executive concerned, who do you have to satisfy-and how you know whether or not you are doing right.

## NAMES IN THE FTC NEWS

Pay Less Drug Stores Northwest, Inc., have entered into a consent order prohibiting them from making deceptive safety claims for safety helmets and they have agreed to publish recall notices and make cash refunds to deceived purchasers who return the helmets. Pay Less advertisied that the El Dorado 77, Titan and GP-2 polycarbonate shell safety helmets were "the world's safest helmets," when no helmet with a shell of polycarbonate has ever passed certain rigorous safety tests.

Korvettes-NAC Credit Corp: A consent order was issued prohibiting Korvette's, a division of Arlen Realty, and NAC Credit Corp, a subsidiary of Arlen, from issuing credit cards without a prior request or application for the card. The method used by Korvette-NAC was to include within the text of a sales contract language to the effect that the consumer requests a Lorvette's credit card. The signature on the contract was then claimed to constitute an application for a credit card.

RThought: no wonder retailing has a bad name-when a $\$ 600,000,000$ a year retailer stoops to act like this.

## A CLARIFICATION

In the June RT there was an item headed What's the Purpose of a Name? in which RT stated specifically its opinion that " $(\mathrm{d})$ iscounters gave their trade association a misleading name-"Mass Retailing Institute."

It has been brought to the attention of RT that some persons reading the article quickly gathered the impression that RT was accusing MRI of dishonest advertising. This was not the intent-and it is not what the article states. The thrust of the article was that discounters who, in almost all cases, are committed to the highest standards of disclosure in presenting themselves to their community through their advertising efforts, should not want a name that could be considered misleading.

RT has often expressed the view that MRI is doing a creative and innovative job as a major retail trade association. But RT has yet to hear a customer say "Let's go down to the mass retailer and get some new tires."

## SHORT SHORTS

S. 1512 may become famous as Truth-in-Advertising. Introduced by Senator Frank Moss (Utah), it would require advertisers, on request by individuals, to furnish documentation of claims concerning safety, performance, efficacy, characteristics and comparative prices.

A new approach to honesty in advertising. Roberts, the Hart Schaffner \& Marx (HSM) men's store on Reforma Avenue in Mexico City, was having a customary January clearance sale with big window signs " $20 \%$ to $50 \%$ off." But they backed it up with photocopies of the "Certificados ante notario publico" notarized statements as to the truth of the reductions. How many United States stores (including those of HSM) swear before a notary public as to the honesty of their claimed clearance reductions?

Where are those kids? By the Fall of 1970, the new population growth (excess of births minus deaths) was more than 150,000 per month. By the end of 1972 , it was under 100,000 per month, and dropping at the rate of 25,000 per year. If this continues, we could have Zero Population Growth in 4 years-despite all the talk that it won't come until the next century. Never underestimate the power of a pill. Or legal abortions.

## FEATURE REPORT (continued)

latest year a "Reserve for deferred compensation" of \$1,140,613 was tucked away under "Other liabilities" but the new President did not wish to comment in his Letter on who was going to get this money. There is no mention of any pension plan so one must assume that the Company does not have one. A stockholder cannot determine how many stores the company operates and there is no historical data (even the prior year has been restated).

Petrie Stores Corporation (Touche Ross). RT always reads this statement with great interest-as reassurance that such companies do exist. At January 31, 1973, the company had a net worth of $\$ 61,300,000$ and held cash and cash equivalents totaling $\$ 46,900,000$-more than $76 \%$ of their net worth! The current ratio remains at about 5 to 1 , while the cash and cash equivalents represent more than $3 \mathbf{1 / 2}$ times all liabilities. Store opening costs are expensed as incurred (good). This company, which has enjoyed outstanding growth, outstanding profits, and oustanding market acceptance, is also outstanding in the participation of women at the top level. The list includes the President, 3 Senior Vice Presidents and 3 Vice Presidents. 4 out of 10 Directors are women. Perhaps other retailers might have done better if they had granted more opportunity to-and thus enjoyed more of the profit productivity that can be produced by-women!

Rich's, Inc. (Arthur Andersen). This Master Retailer of the South sets forth the most complete statement on the retail method yet observed-"Inventories are priced using the retail inventory method which involves pricing individual items at current selling prices and the reduction of the amounts so determined to the lower of cost (on a first-in, first-out basis) or market by the application of departmental markup ratios." This is an accurate statement of what they do-however, no mention is made that this produces a value in excess of cost. Pre-opening expenses are charged in the year incurred (good). A good statement is made on service charges ("Customer service charges are computed on the monthly receivable balance and are recorded as income when billed)." The statement on their pension plan reveals the method of computation (entry age normal cost) and that vested benefits do not exceed assets (both good) but does not disclose if there is any unfunded past service liability. Return on common equity is shown at $13.22 \%$ (good) and is computed on average equity for the year (conservative). Ten year history does not disclose number of stores or square foot of store or selling areas. No breakdown is provided between Rich's and Richway.

Safeway Stores, Incorporated (Peat, Marwick, Mitchell). Ultimately this company, which long ago passed A\&P in profits, will pass A\&P in sales. Summary of accounting policies is set forth before rather than after the financial statements with the comment "The Company believes that the accompanying financial statements may be read with greater understanding by reference to the following concise description of accounting policies and procedures followed." Gains on conversion of foreign currencies are recognized only to extent of previously recognized losses (conservative). Safeway is amortizing pre-1970 excess cost of investment in subsidiaries over 40 years (excel-lent-and most unusual!). $51 \%$ of inventories (warehouse and supplies) are costed on first-in, first-out while $49 \%$ (stores) are costed by retail method (good disclosure). Company contributes full normal cost to retirement plan and there is no unfunded past service liability (good statement-latter provision assures assets in excess of vested interests). Narrative section provides coverage of action to disclose product information (open dating, unit pricing, nutritional values and needs, litter control) as well as community activities (4-H support, nutrition seminars and affirmative action
program). By the end of 1973, entire Company will be on central computer for general ledger as well as store ordering and warehouse replenishment-ready for electronic checkouts now being tested

Sears, Roebuck and Co. (Touche Ross). This monster whose $\$ 54$ million in finance charges (which exceeds the sales of all except a handful of retailers) are included in sales (unusual), includes profits from insurance and other subsidiaries ( $19 \%$ of pre-tax profit) but does not include their revenue in sales-thus boosting after-tax profits percentage when related to reported sales. Sears Roebuck Acceptance Corp is consolidated (good). It has been a good number of years since Sears has had a 2 to 1 current ratio-they wouldn't know what to do with the cash. Revolving credit continues to grow faster than installment accounts. Sears plays games in reporting their tax percentage by adding $\$ 224$ million of local taxes, largely property, to state and federal income tax to reach a $60 \%$ combined tax rate against an unsupported "income before taxes and unconsolidated subsidiaries" (next they will include sales and excise taxes collected!). As reported, the effective income tax rate of Sears is substantially below $50 \%$. Credit sales dropped slightly ( $52.7 \%$ to $52.3 \%$ ). Average balance on revolving accounts of $\$ 165$ and on Easy Payment Accounts of $\$ 335$ produced enough finance charge income to exceed costs (including taxes) attributed to credit by $\$ 39$ million. Out of $11,400,000$ accounts, 152,096 were delinquent 3 or more months and 4,047 had less than one full monthly payment in previous 6 months. (Credit information disclosure is excellent). Total liability for minimum fixed rentals was $\$ 663,000,000$ which was stated at present value as $\$ 386,000,000$ (anticipating future requirements, but does not disclose basis of discounting to present value). Pension plan (separate from the famous profit-sharing plan) had assets exceeding vested benefits but has unfunded past service costs of $\$ 44,839,000$ (under $5 \%$ of pre-tax profits). No breakdown of sales by retail and mail order (Penney's is far ahead), by regions or by types of outlets (poor). Return on average shareholders' equity shown (good).

Simpson's Limited (Price Waterhouse). Inventories reported at lower of approximate cost and realized value (good-should be below retail method value). Unfunded obligations to pension plan for past services estimated at $\$ 12$ million ( $36 \%$ of pre-tax profit-high). Total remuneration to outside directors and to 15 officers, of whom 6 are directors, is disclosed separately (good). 10 year history does not disclose number of stores or store space (bad), shows common shares price range (good), does not show return on shareholders' equity (should). Investment in SimpsonsSears Limited, which is now a much larger company than its Canadian parent, equals $43 \%$ of shareholders' equity (this is a non-working asset) and has a market value substantially higher than book value. Employees Profit Sharing Retirement Fund now owns $7.5 \%$ of outstanding shares. Simpson's is 100 years old-and they must regard their 1952 joint-venture with Sears, starting with $\$ 100$ million of mail order volume, and now having sales of $\$ 894$ million, as one of the great investments of all times.

Simpson-Sears Limited (Price Waterhouse). This report starts from both ends-one direction in English and the other in French. Canada does not require a disclosure of accounting principles. Inventory is valued at lower of approximate cost or realizable value (below cost under retail method-good). Unfunded past service obligations to pension plan is $\$ 8,786,000$ ( $18 \%$ of pre-tax profits-moderate). Remuneration of directors and officers shown separately. Not all outside directors are compensated. Ten year history does not show number of stores or catalog centers, store area, stock prices or return on shareholders' equity (important shortcomings). Company has low shareholders' equity in relation

## ANNUAL REPORTS AND AUDITORS-III

is the final installment, for 1973, of the analysis of the annual reports of the major retail firms (with a few interesting non-retailers included). This expanded series has generated interest on the part of some firms to have their annual statements reviewed-and RT has been happy to do this for those who have submitted them.

But, as an encouragement to others who may wish to have an informed outsider review their annual statement, RT will be happy to provide that service for a modest fee, based on the time involved.

There are many contests which are based on format and style-this analysis is based on content.

Kenton Corporation (Arthur Young). This company is in trouble. The annual report represents a serious challenge to the accountant. Management is under pressure to present a picture that offers a chance of survival. RT questions whether the accountants met the challenge. The facts are as follows: Kenton showed a loss before taxes from continuing operations of $\$ 9,670,000$ and from discontinued operations of $\$ 2,233,000$ plus an after-tax extraordinary charge of $\$ 7,500,000$ for a final after-tax loss of $\$ 17,253,000$. The book value of stockholders equity is reduced to $\$ 8,697,000$ against liabilities (exclusive of reserves) of $\$ 65,518,000$ ! Assets include $\$ 14,210,000$ of "Excess cost of purchased companies." If the "excess cost" is considered worthless, the shareholders equity becomes a negative $\$ 5,513,000$.

冫e summary of significant accounting policies states "The excess cost over fair value of the net assets of purchased companies which arose in transactions initiated prior to the effective date of Accounting Principles Board Opinion No. 17 is not being amortized and will be amortized only to the extent that management believes there is a permanent decline in value or a definite term of existence is indicated." (Emphasis added). During fiscal 1973 Kenton disposed of three companies previously acquired by pooling (Ben Kahn Furs, Handy Associates, Kenneth Jay Lane) which would have no impact on recorded "excess cost" and one company acquired by purchase (Georges Kaplan). The remaining one-third of Cartier, Inc., was acquired by purchase with the excess cost, if any, not disclosed. The net result for the year was a decrease in "excess cost" by $\$ 235,000$, which may have applied to Georges Kaplan.

The company now consists of FBC Discount Stores (the original company), Republic-Cellini (acquired by pooling and reported to be profitable), Kenton Mail Order (started by Kenton) and Cartier, George Jensen, Mark Cross, and Valentino Couture (all acquired by purchase). These last four companies apparently represent the "excess cost" of more than $\$ 14,000,000$-and Arthur Young accepts the determination of management that despite losses of $\$ 9,670,000$ from continuing operations that there has not been a permanent decline in value! Arthur Young gave a clean audit certificate to this Company, with a negative tangible net worth of $\$ 5,513,000$ !

A word about the stockholder letter from Lorence A. Silverberg, the new Chairman and President. The letter says, "At the same ${ }^{+i} m e$, Kenton acquired the remaining one-third interest in Cartier, c., for $\$ 2,550,000 \ldots$. ." The footnotes to the audited statement Indicate that owning the additional one-third interest for 5 months, including Christmas, "did not have a material effect on the 1972 consolidated results of operations." This would indicate that Cartier is not producing significant profits. The purchase is
presented in the letter in a manner that would lead a careful and prudent reader to presume the acquisition was voluntary. In view of the critical condition of the Company, this must have been a bargain. But the prospectuses of June 25, 1970, and May 4, 1971, state "The owners of the remaining voting common stock of Cartier have an option to sell such interest to Kenton for $\$ 2,550,000$ at any time through November 1972. (Emphasis added).

RT feels that not a single stockholder, reading the letter from Mr. Silverberg, learned that Kenton was required to make this purchase; and that the $\$ 2,550,000$ may represent more of a white elephant than a good buy.

Morse Shoe, Inc. (Peat, Marwick, Mitchell). This is a company in transition-from discount departments to owned retail outlets, and from retail to wholesale and jobbing. Fortunately, it operates with an extremely stong balance sheet. 1972 saw good results from negotiating with the IRS-a potential liability disclosed in the 1971 report at $\$ 7,978,000$ was settled for $\$ 676,000$. The statement includes all subsidiaries (good), buildings are depreciated on the declining balance method (conservative), and pre-opening expenses are charged to the year in which incurred (good). Notes on the pension plan do not disclose amount of past service liability or relation of assets to vested interests (bad). Excess of purchase price over assets of 1972 acquisition to be written off over 20 years (conservative- 40 is allowed). The Company is in transition and stockholders should be given a full statement of the number of retail outlets by type and the number opened and closed during the year in order to fully understand the Company. Further, the Company should disclose the discount outlets by store name. One gathers the impression from the aggressive move into wholesaling that this is a low-cost method of maintaining gross volume during the transition period.
G. C. Murphy Company (Coopers \& Lybrand). This well capitalized but conservative company has had more apparent growth than real growth. In 10 years, sales increased by $60 \%$ while the Consumer Price Index increased by $34 \%$. Stores increased slightly from 510 to 517 , while average selling area increased from 12,469 to 15,952 . Sales per square foot appear to have increased from $\$ 42.25$ to $\$ 53.65$. But, when corrected for the change in Consumer Prices for all commodity goods this shows a drop of more than 5\%. The report includes all subsidiaries (good), excess of cost over underlying assets in not being written off (normal and is only $6.3 \%$ of net worth), inventories in the warehouse are valued at "lower of latest invoice cost or market" (increases profits during rapidly rising prices and, as in 1972, during a major expansion of warehouse facilities) and pre-opening expenses are written off over the first full year of operation (not so good). Only half the store leases provide for percentage rent (should boost profits during rising prices). Pension plan has no unfunded past service (excellent) and assets exceed vested benefits (good).

National Tea Co. (Arthur Andersen). Inventories other than in retail stores are valued at "lower of average cost or market" (conservative). Gain or loss on sale or disposal of land, building, fixtures or equipment is included in income, according to statement of significant accounting policies. Despite this, when the decision was made to close the Pittsburgh/Youngstown division an extraordinary loss was reported of $\$ 26.9$ million, which leaves the suggestion that accounting policies are not firm or that they should read "gain from sale" rather than "gain or loss from sale or other disposal." A footnote discloses that in the

## CREDIT OFFICE RATING

The competition gets more intense-as more stores strive for the HONOR ROLL which this month includes:

## HONOR ROLL

| Berkeley's (Fresno) | 2.0 |
| :--- | :--- |
| Rubenstein's (Shreveport) | 2.2 |
| Gus Mayer (Nashville) | 2.3 |
| Wineman's (Huntington Park) | 2.4 |
| Maison Mendessole (SF) | 3.0 |


| Montgomery Ward (Houston) | 3.0 |
| :--- | :--- |
| Roos/Atkins (SF) | 3.0 |
| Gantos (Grand Rapids) | 3.0 |
| Gus Mayer (Beaumont) | 3.0 |
| Miller Bros (Chattanooga) | 3.0 |


| Wineman's (Monrovia) | 3.0 |
| :--- | :--- |
| Mervyn's (N. Calif.) | 3.5 |
| Ransohoff's (SF) | 4.0 |
| Stix Baer Fuller (St. Louis) | 4.0 |

## CREDIT OFFICE RATING

APRIL-MAY 1973

| Information From Reporters | No. of Reports | Days to Bill |  | No. of Reports | Days to Bill |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Average | Range |  | Average | Range |
| Abercrombie \& Fitch (NY) | Y) | 7.0 | 7 | -- | -- | - |
| Bloomingdale's (NY) | 1 | 6.0 | 6 | - | -- |  |
| Brooks Bros. (NY) | 1 | 7.0 | 7 | 4 | 6.8 | 5-8 |
| Capwell's (Oakland) | 7 | 5.1 | 4-7 | 4 | 9.0 | 7-15 |
| Dayton's (Minn) | 2 | 6.5 | 5-6 | 2 | 5.0 | 5 |
| Donaldson's (Minn) | 2 | 6.5 | 6-7 | 2 | 5.0 | 5 |
| Dunhill's (NY) | 1 | 8.0 | 8 | -- | -- |  |
| Emporium (SF) | 2 | 8.0 | 6-10 | 4 | 9.5 | 5-13 |
| Famous Barr (St. Louis) | 1 | 5.0 | 5 | 1 | 5.0 | 5 |
| Foley's (Houston) | 2 | 7.5 | 7-8 | 2 | 7.0 | 7 |
| Grand Passage (Switzer- |  |  |  |  |  |  |
| Grodins (N. Calif.) | 2 | 8.0 | 7-9 | 3 | 13.0 | 6-20 |
| Gump's (SF) | 3 | 7.7 | 6-9 | 1 | 12.0 | 12 |
| Hasting's (SF) | 2 | 12.0 | 11-13 | 2 | 11.5 | 10-13 |
| Hink's (Berkeley) | 3 | 7.3 | 6-8 | 2 | 14.0 | 13-15 |
| Joske's (Houston) | 2 | 5.5 | 5-6 | 1 | 6.0 | 6 |
| Livingston Bros. (SF) | 1 | 5.0 | 5 | 1 | 6.0 | 6 |
| Lord \& Taylor (NY) | 1 | 5.0 | 5 | 2 | 4.5 | 4-5 |
| Macy's (SF) | 6 | 5.8 | 5-6 | 7 | 6.3 | 6-7 |
| I. Magnin (SF) | 9 | 4.1 | 4-5 | 6 | 5.2 | 4-9 |
| J. Magnin (SF) | 4 | 7.8 | 5-13 | 2 | 4.5 | 4-5 |
| Maison Mendessolle (SF) | ) 3 | 3.0 | 3 | 3 | 4.0 | 3-5 |
| Montgomery Ward (Houston) | 2 | 3.0 | 3 | -- | -- | -- |
| Montgomery Ward |  |  |  |  |  | -- |
| Penney's (Oakland) | 1 | 5.0 | 5 | 2 | 5.5 | 5-6 |
| Penney's (LA) | 1 | 5.0 | 5 | -- | -- | -- |
| Penney's (Minn) | 2 | 7.0 | 7 | 2 | 7.0 | 6-8 |
| Ransohoff's (SF) | 1 | 4.0 | 4 | 1 | 3.0 | 3 |
| Roos/Atkins (SF) | 3 | 3.0 | 3 | 1 | 4.0 | 4 |
| Saks Fifth Avenue (SF) | 3 | 6.3 | 6-7 | 4 | 6.8 | 6-8 |
| Sears (N. Calif.) | 5 | 6.8 | 6-8 | 3 | 6.0 | 5-7 |
| Sears (Dallas) | 1 | 5.0 | 5 | 1 | 4.0 | 4 |
| Stix Baer Fuller (St. Louis) | is) | 4.0 | 4 | -- | -- | -- |
| A. Sulka (NY) | 1 | 7.0 | 7 | 1 | 5.0 | 5 |
| Talbot's (Mass) | 2 | 5.0 | 5 | 1 | 4.0 | 4 |
| Wallach's (NY) | 1 | 6.0 | 6 | -- | -- | -- |
| Wolff's (St. Louis) | 2 | 5.5 | 4-7 | 2 | 5.5 | 4-7 |
| TOTAL | 84 | 5.9 | 3-13 | 68 | 6.9 | 3-20 |

APRIL-MAY 1973 FEB-MAR 1973

| Information From Stores | Days to Bill |  | No. of Reports | Days to Bill |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Average | Range |  | Average | Range |
| Berkeley's (Fresno) 4 | 2.0 | -- | 8 | 3.0 |  |
| Blum Store (Phila.) | 6.6 | -- | 8 | 8.7 |  |
| Brock's (Bakersfield) 40 | 8.3 | 7-10 | 40 | 9.4 | 5-13 |
| Gantos, Inc. (Grand | 3.0 | 3 |  |  |  |
| Holman's (Pacific Grove) 10 | 4.2 | 3-6 | 10 | 5.2 | 4-8 |
| Levee's (Vallejo) 20 | 4.4 | 3-6 | 20 | 6.4 | 4-8 |
| Levy Bros. (San Mateo) 32 | 10.1 | 7-14 | 32 | 12.1 | 9-15 |
| Gus Mayer (Nashville) | 2.3 | -- | 8 | 2.5 | -- |
| Gus Mayer (Beaumont) 4 | 3.0 | -- | 8 | 2.6 | -- |
| Gus Mayer (Louisville) 4 | 5.9 | -- | 8 | 4.9 | -- |
| Gus Mayer (New Orleans) 4 | 6.1 | -- | 8 | 9.7 |  |
| Gus Mayer (Oklahoma City) 4 | 5.8 | -- | 8 | 6.3 | -- |
| Gus Mayer (Jackson) 4 | 5.6 | -- | 8 | 5.8 | -- |
| Gus Mayer (Memphis) 4 | 4.4 | -- | 8 | 6.2 | -- |
| Gus Mayer (Baton Rouge) 4 | 8.0 | -- | 8 | 5.3 | -- |
| Mervyn's (N. Calif.) 8 | 3.5 | 3-4 | 8 | 2.9 |  |
| Miller Bros. (Chattanooga) 8 | 3.0 | 3 | 8 | 3.0 |  |
| Oshman's (Houston) 4 | 7.3 | 7-8 | 8 | 7.4 |  |
| Rubenstein's (Shreveport) 6 | 2.2 | 2-3 | 6 | 2.0 | 2 |
| Walker Scott (San Diego) 12 | 5.5 | 4-8 | 12 | 8.1 | 5-9 |
| Wineman's (Monrovia) 5 | 3.0 | 2-4 | 9 | 3.3 | 2-7 |
| Wineman's (Huntington | 2.4 | 2-3 |  |  |  |
| Worth's-Burton's (Conn.) 16 | 7.9 | 6-9 | 32 | 8.3 | 6-11 |
| TOTAL 207 | 6.3 | 2-14 | 274 | 7.0 | 2-15 |

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

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

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

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

START YOUR OWN REPORT. Every store should keep this data on every cycle and establish their own goals. Other geographic areas should start a similar report and I will be glad to assist any such group.
to both volume transacted and total liabilities (which are about twice equity-desirable ratio is 1 to 1 ). Receivables are financed on long-term notes. During 10 years equity has dropped from $39 \%$ of assets to $34 \%$.
ann The Stop \& Shop Companies (Peat, Marwick, Mitchell). The accountant's letter points to an argument still existing about a $\$ 10,798,000$ ( $16 \%$ of shareholders' equity) claim against insurance companies following an August 1969 fire. All subsidiaries are included (good). Inventories in stores are valued by retail method, in warehouses at standard cost (under rising prices, standard cost is conservative). Store opening expenses are charged off as incurred (good). However, more than $\$ 2$ million of research, development and start-up costs for the meat processing and packaging plant have been deferred and will be amortized over 5 years (hopefully expense savings will offset this charge). Assets in retirement plan are sufficient to cover vested interests. Past service liability, if any, not disclosed. Ten year history makes excellent disclosure of all 5 types of stores showing opened, closed and in operation at the end of the year-but no information on store or selling space, and no information on volume (although volume is shown for latest 2 years else where in report) or profitability by division. Stop \& Shop is decentralizing while Safeway is centralizing! The report stressed commitment that the consumer has the right to know true prices, have unit pricing, open dating, safe products, nutritional information - with stress that Stop \& Shop did these things before they were required to because they were good business.

Supermarkets General Corporation (Touche Ross). The report includes all subsidiaries (good). Inventories are partly on LIFO (conservative-percentage on LIFO not shown although LIFO difference is disclosed). Excess of assets over cost for 1969 purchase being amortized over 10 years at $\$ 303,000$ per year (but pre-1970 excess purchase price not being amortized). Preopening expenses amortized over 36 months and warehouse and system development cost over 24 months (bad-deferred costs increased $\$ 610,000$, with $\$ 530,000$ attributable to stores, warehouse and systems). Vested pension interests do not substantially exceed fund balances (several funds) (good) but unfunded past service, being amortized over 10 to 40 years, totals $\$ 7,695,000(117 \%$ of pre-tax profit and $12 \%$ of net worth). Ten year history shows return on average equity (good). Five year history shows sales and operating profit contribution for 5 types of operations together with complete information on number of stores, selling square feet and average sales per square foot (excellent). Company reported impact of price war (A\&P not mentioned) on food profits, stressed posting of prescription prices, and 60-day price protection program on 400 private labels.

Thrifty Drug Stores Co., Inc. (Arthur Andersen) (8/72). This is a clean, consolidated balance sheet, with all assets and debt showing, and the company still shows a ratio of tangible debt to net worth of only 1.03 to 1 -and it would be less than 1 to 1 if their outstanding investment in Blue Chip Stamps (market value of $\$ 3,219,000$ vs cost of $\$ 31,000$ ) were reflected at current value. The report discloses that for the past 18 years, stores open for 2 or more full years have shown an increase over the prior year.
U. S. Industries, Inc. (Ernst \& Ernst). The "Year in Review" section proudly proclaims "Our balance sheet ... stronger than ever. Stockholders' equity increased to $\$ 524$ million ... Total assets exceed $\$ 1$ billion for the first time ..." They fail to mention that during the year intangibles (excess of cost over net assets of purchased businesses, plus data banks, deferred charges and intangibles) increased from $23.7 \%$ of total net worth to $25.7 \%$ ! With a few more high-price purchases both intangible assets and net worth could be increased even more. As of the end
of 1972, $12.9 \%$ of all the assets of U.S. Industries were intangible-a remarkable quantity of "nothing."

Unishops, Inc. (Touche Ross). Audit opinion is qualified "subject to the resumption of profitable operations and the Company's ability to generate sufficient working capital to meet its financial obligations." All subsidiaries are included (good). Prior service pension costs (amount not disclosed) are being amortized over 20 years (unable to judge importance). Funds plus accruals exceed vested benefits (good). Pre-opening expenses amortized in 12 months following opening (no disclosure of amount so unable to judge). Subsequent to the year end, strict conditions were laid on the Company by the banks providing credit of which one unusual provision says, "the profit or loss of the Company for the cumulative period from January 1 to the end of any month in said period shall not deviate by more than $25 \%$ from the projections provided under the Agreement" (RT wonders if they make $50 \%$ more money than planned if Touche Ross considers that a default?). The report gives a complete breakdown of operations by merchandise category, number and square foot of stores, and type of outlets-it just doesn't tell you which operations lost how much money although a lot of blame is put on the Bobbie Sue women's and children's department (in 2 years sales went from $\$ 7$ million to $\$ 46$ million). Perhaps Unishops is a good example for others-because you are the best operator of men's departments doesn't prove that you can operate women's and children's, domestic and fabrics, shoes, hardlines, health and beauty aids, and stationery departments-plus 39 discount stores.

Vornado, Inc. (Peat, Marwick, Mitchell). Includes all subsidiaries (good). Information on depreciation policy is limited (bad). No pension plan mentioned so presumably does not have one. Only a 5 year comparison given but it includes number of stores and total store area and warehouse area. Half of West Coast stores were sold early in the year and owned sales declined by $9 \%$ while inventory increased by $10 \%$ ! The Company operates full-line discount stores, building supply centers, catalog/showrooms, eyeglass centers, and ice cream outlets-but gives no breakdown of sales or profits.

Walgreen Co. (Arthur Andersen). The accounting principles set forth disclose that pre-opening expenses are charged off as incurred (good) but that drug store inventories are valued at the lower of average cost or market (a procedure that defers the cost of markdowns until the time of sale). The balance sheet does not disclose any intangibles-rather, it understates the value of investments in other companies-cost of $\$ 325,000 \mathrm{vs}$ market or book value of $\$ 6,930,000$ (an understatement of about $6 \%$ of Net Worth). Debt to net worth, after adjusting for deferred taxes and understated value of investments, increased from 1.15 to 1.21 to 1 , against a desired ratio of 1 to 1 . The ratio would be worse if the balance sheet reflected the data for 6 subsidiaries that are not consolidated. The President's report emphasizes the impact of certain retail policies. From 1962 to 1972, the number of prescriptions filled per year increased from $7-1 / 4$ to 25 million-and they stress that any pharmacy will give prices over the phone. Increasing emphasis is being placed on radio advertising to attract young people. New stores are being concentrated in existing trading areas.

George Weston Limited (Clarkson, Gordon). Consolidation does not include the properties (real estate) company or Loblaw's; the latter because of large minority holdings at two levels below Weston (also Loblaw's is substantially larger than the Company). Excess cost of acquired companies amortized over 20 years but excess value of acquired companies amortized over 5 years (typical but bad). Investment in Loblaw carried at cost, which is substantially below market value, but the proper caveat is
included that because "these securities represent control of the company |Loblaw| the amount that would be realized if the securities were to be sold may be considerably more or less than the market value indicated above." Fees paid directors and compensation paid officers is disclosed. Sales, but not profits, are reported by divisions. Nine year history is shown, with limited information.

The Wickes Corporation (Coopers \& Lybrand). Includes all subsidiaries except Wickes Acceptance Corporation (bad-claimed to be minor but no amounts disclosed). Excess cost over assets being amortized over 40 years. Depreciation policy disclosed only in general terms (incomplete). "Costs of certain larger productsmajor relocations, start-up costs of new businesses, development of new systems, and similar items-believed by management to have long term benefits and which are not part of the Company's normal business are deferred and written off over the future periods in which benefits are expected to be realized." (Bad and in year ending January ${ }^{\prime} 73$, deferred charges increased $\$ 4,380,000$ or $15 \%$ of pre-tax profits and $\$ 3,220,000$ related to furniture stores, permitting claim that furniture only had a $\$ 63.000$ pre-tax pre-central expense loss!) Furniture store opening costs are amortized over 2 years, and other deferred furniture divisions costs are amortized over 5 years total deferred to date in furniture division is $\$ 5,962,000$. Pension past services costs not disclosed (but shown in a recent debenture prospectus as $\$ 9,504,000$ equal to $32 \%$ of pre-tax profit-bad) but are amortized over 30 years. At year-end vested benefits exceeded funded amounts. Breakdown of sales and pre-tax earnings by divisions is good except for propensity to defer charges. From statement to stockholders "Midway through the past year we made a hard decision to close our Manufactured Housing Operations, which were operating at a loss. Sales accounted for less than one percent of Wickes' revenues and the facilities are now more profitably utilized in the manufacture of building components." one would not suspect that division losses ran $50 \%$ of sales for past 2 years!

Winn-Dixie Stores, Inc. (Peat, Marwick, Mitchell). Financial notes disclose that all subsidiaries except foreign ones are consolidated. Depreciation on plant and equipment is principally by sum-of-the-years-digits (conservative). The profit sharing plan does not provide for past service benefits (eliminates deferred contingent liabilities). Debt to net worth remains extremely low at .37 to 1 (desired is not more than 1 to 1 ). The Company carries an unusually high amount ( $\$ 4,200,000$ face value) of life insurance on key men. Forty-one stores were closed and the expense treated as ordinary expense (see Penn Fruit and National Tea for treatment as extraordinary expense). An employee stock offering brought the number of employee stockholders to 9,810 , equal to $49 \%$ of the full-time personnel. 224,797 shares $(12,900,000$ outstanding) were bought by employees during the year.

Woodward \& Lothrop Incorporated (Coopers \& Lybrand). Inventory valued at LIFO under retail method (conservative). Pre-opening expenses charged to year in which store opens (good). President's letter says "We are pleased to report increased
earnings for fifth consecutive year" but earnings increase of $\$ 77,000$ against pre-tax decrease of $\$ 1,523,000$ is due largely to $\$ 188,000$ increase in investment credit and $\$ 390,000$ tax benefit from gift of appreciated land to local government jurisdiction! Ten year history is detailed but does not show return on shareholders' average equity or square footage of stores operated. Sunday openings downtown were reported to be profitable. Pension plan benefits were increased creating a new unfunded past service liability which is less than the excess of the current value of assets over basis on which reported. And during the year Woodies took over 107 -year-old candy manufacturer, added men's tuxedo rentals, and in 8 months built up drapery cleaning volume to $\$ 22,000$ per month.

Zayre Corp. (Coopers \& Lybrand). Consolidation excludes Layre Credit Corporation (bad). Excess purchase price has not been amortized (undesirable). Pre-opening expenses charged over 12 months following opening (undesirable). Pension past services costs being amortized over 30 years but neither amount nor relation of assets to vested interests disclosed (incompletc information). Increased earnings was less than increase in investment tax credit which fact was disclosed in letter to shareholders (good). Ten year summary discloses number of various types of outlets but not sale or profits by type of outlet, nor total store area. Return on shareholders' equity not disclosed. Total debt to net worth is heavy and would be heavier if credit subsidiary consolidated. Other Assets and Goodwill equal $10 \%$ of net worth, further increasing ratio of total debt to tangible net worth. Liabilities of $50 \%$ owned real estate development company not disclosed but must be large since 24 shopping centers are involved (bad).

## SHORT SHORTS

American retailers trail Australian Credit plans. Despite the predominant attitude in American retailing that all worthwhile ideas started in the United States, few can compete with the credit terms offered in Australia. In a recent tabloid run by Grace Bros., emphasizing "The Apartment" (presenting views of sample apartments in major apartment complexes) they offered the following credit:

| Buy | $\$ 200$ | $\$ 400$ | $\$ 600$ | $\$ 800$ | $\$ 1000$ |
| :--- | :---: | :---: | :---: | :---: | :---: |
| Repay Weekly | $\$ 1$ | $\$ 2$ | $\$ 3$ | $\$ 4$ | $\$ 5$ |

Look who urges honest advertising? One would expect that appointees to the National Business Council for Consumer Affairs, Sub-Council on Advertising and Promotion (an official part of the U.S. Department of Commerce) would be representatives of firms with impeccable advertising records. But this is not so-the Sub-Council includes Hobart Lewis, President and CEO of The Reader's Digest Association, Inc. RT has yet to see an honest renewal promotion for that magazine. And there is their deplorable record, as laid out by the FTC, on delinquent account collection practices and contest procedures.

## WORDS TO MANAGE BY

In 1934, a man was preaching in a small church near his summer home in Heath, Massachusetts. Howard Chandler Robbins was at the church and was very much impressed by the sermon. After the services were over he asked if he could have a copy of the prayer-and the preacher handed him the original with the words, "Here, take the prayer. I have no further use for it." That was 39 years ago-and in the interval the prayer was published, part of it has been adopted as the motto for Alcoholics Anonymous, the government distributed millions of copies to service men during World War II, the National Council of Churches has reprinted it, you find it on posters and wall carvings and placards and greeting and Christmas cards in thousands of stores throughout the land today. Who was the preacher? Reinhold Niebuhr. What did he say that day in 1934 ?
> "Oh God, give us serenity to accept what cannot be changed, courage to change what could be changed, and wisdom to distinguish the one from the other."

Note: The story comes from Courage to Change: An Introduction to the Life and Thought of Reinhold Niebuhr by June Bingham.

# Sears, Roebuck and Co. <br> PACIFIC COAST ADMINISTRATIVE OFFICES <br> 900 SOUTH FREMONT AVENUE <br> ALHAMBRA, CALIFORNIA 91802 

July 17, 1973

July 23, 1973

Mr. Mr. Nat B. Read, Jr.,
Rob Director of Communications
P. SEARS, ROEBUCK AND CO.

Leaf 900 So. Fremont Street
Alhambra, California 91802
Dear Mr. Kahn
I found your aneclow ar wait Balances at Mrrod's's very
amu Dear Mr. Read:
I really oan't give you permission to reprint the anecdote about
TodHarrod's but since I quoted directly from The Advertiser in Adelaide, So. Australia - why not give them the credit? I hate to take credit for somebody else's story.

But thank you for asking.

Sincerely,


Co. permission anecdote in its internal


> Hit B. Read, Jr.

Mrector of Communications

Robert Kahn

## Sears, Roebuck and Co.

PACIFIC COAST ADMINISTRATIVE OFFICES 900 SOUTH FREMONT AVENUE

ALHAMBRA, CALIFORNIA 91802

July 17, 1973

## Mr. Robert Kahn

Robert Kahn and Associates
P. O. Box 343

Lafayette, California 94549
Dear Mr. Kahn:
I found your anecdote on "Credit Balances at Harrod's" very amusing. Would you be kind enough to grant Sears, Roebuck and Co. permission to reprint this anecdote in its internal employe communications media, with credit to Retailing lit Today?


Nat B. Read, Jr.
Director of Communications
abr


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

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AUGUST 1973

## WINNING BIG AGAINST THE LANDLORD

In the April 1971 RT there was an article under the title "Who Fights Illegal Leases?" that read as follows:
"Not the big companies or the national chains. The big companies do not get imposed upon; the national chains that try to get into every major shopping center are so afraid that they will get 'black listed' by some developers if they protest terms in a lease that they refuse to exhibit any integrity or ethics.


#### Abstract

"But recently a group of small tenants in Sun Valley Shopping Center, (Concord, California), one of the largest enclosed-mall shopping centers in the world, took on the landlord in court. The lease provided that the landlord would supply electricity and that additional rent would be charged to cover the cost of electricity determined by an engineered analysis of the expected usage, charged out at the rate that would have been paid if the store had its own meter. The lease provided for an up-side adjustment but no decrease below the figure set prior to the opening of the store and installation of the fixtures.


"The landlord, in effect, acted as a wholesaler and charged tenants without showing meter readings (in many cases there were no meters) in violation of the California Administrative Code.
"But the point of the story is simply to define another area in retailing where ethics have disappeared in too many cases. The real estate department has to get a lease in every major center and so they accept terms that are improper-and they won't ever be identified with any protest for fear that the landlord will not let their company into the next center developed."

The suit has just been decided-and the jury awarded each of the three contesting tenants-an independent dress shop, a barber shop and an ice cream stand- $\$ 15,000$ ! The persons who have to pay? Names to conjecture with in the world of shopping centersBayshore Properties and 3 officials of the firm-A. Alfred Taubman, Arthur Rubloff and Charles Allen Jr.

RT recalls that at the time of the original article there was a tentative demand (never pressed) that RT retract the article.

The fact remains that there are probably 50 to 75 national or major regional chains in Sun Valley Shopping Center, most or all of them being abused through the same lease form, yet none would argue with Messrs. Taubman, Rubloff and Allen. Just as nobody in the Watergate mess ever asked any questions or wanted to hear any answers.

## DOES THE "RULE OF 78" ABUSE THE CUSTOMER?

The "Rule of 78 " is coming under discussion for two reasons. First, there is a question of whether or not the disclosure, under Truth-in-Lending that pre-computed charges are rebated accord-

## THE NEW OUTLOOK IN DISCOUNTING

RT has long maintained that with the passage of years discounting will become more like department stores; rather than vice versa. Discount stores continue to upgrade, place more emphasis on style. The industry is concerned about customer reaction to the quality of merchandise offered.

And beneath all of this is the constant fight for more and more gross margin-both dollars and percentage.

The FTC recently ruled that fair-trade manufacturers cannot prevent wholesalers in the 14 non-fair-trade states from selling to retailers in the 20 signer-only states, after which such retailers cannot be prevented from selling below the fair trade price. The Inquiring Report for Discount Store News (July 16, 1973) asked the question: "Fair Trade Ruling: Any Effect on You?"

A spokesman for Arlans replied: "I would rather not see fair trade prices disturbed. Right now everyone is fighting to obtain markon dollars. If fair trade prices are done away with, markon will have to be made up elsewhere. If our competition does it, we might be forced to seek protective action."

From Howard Bros. Discount Stores: "We plan to stay with our competition. We will abide by the fair trade prices as long as our competition does."

From Heck's: "We carry only three lines of fair trade items ... but we have never signed any contracts ... The manufacturers take our word that we will hold their suggested prices."

From Mr. Wiggs: "We do not carry that much fair traded merchandise . . . If possible, we will, I think, cut prices on fair-traded items but first we will have to evaluate the impact it would have on our business."

It is easy to see that the merger of NRMA and MRI is getting closer and closer and closer. Now all together, gang, "We love fair trade-just as long as we can buy the brand name merchandise, right?"
ing to the "Rule of 78 " in the event of early payment, is adequate disclosure. Second, whether the "Rule of 78 " is just another way by which business takes advantage of creditors by rebating less than should be rebated.

As to the first question, the Board of Governors of the Federal Reserve System has ruled that rebating under the "Rule of 78 "
may be disclosed by a reference to the method without having to include a mathematical formula or narrative setting forth the method of computation. The right of the Board to require such disclosures, when not mentioned in the original Act, has been upheld by the courts as part of their power to establish regulations for the implementation of the Act.

The question of whether or not the "Rule of 78 " is abusive to the credit customer has had less discussion-although the point is often raised as part of the criticism of our credit system. It has been the basis of several class action suits, none of which, to the knowledge of RT, have reached a final conclusion.

Let us examine the difference that would arise in the case of a loan or financed balance of $\$ 1,000$ which is paid off at $\$ 90$ per month for 12 months. The total repayment would be $\$ 1,080$. In terms of an add-on contract this would be $8 \%$ add-on; in terms of a mortgage rate (annual percentage rate) this would be $14.47 \%$ on the unpaid balance.

The table below shows the rebate of part of the $\$ 80$ finance charge under both methods-and the amount, on this $\$ 1,000$ loan, by which the "Rule of 78 " refunds less than a refund computed on the mortgage basis:

| Months <br> remaining | Refund under <br> "Rule of 78 " | Refund under <br> Mortgage Method | Refund reduced <br> by use of <br> "Rule of 78 " |  |
| :---: | :---: | :---: | :---: | :---: |
|  |  | $\$ 80.00$ |  | $\$ 80.00$ |

If the add-on was $10 \%$, the difference would peak at $88 \phi$.
Statisticians, when they find the difference in cents and dollars is so small, then start talking in percentages. In the table above, the understatement of refund under the "Rule of 78 " starts at $27 \phi$ or .4 of $1 \%$ if prepaid with 11 months remaining, and rises to the horrendous figure of $4.67 \%$ ( $5 \phi$ on $\$ 1.07$ !). If prepaid with 1 month remaining!

Most contracts that provide for a refund recognize the cost of handling a refund (a cost recognized in most state laws). Many provide a minimum amount before there is an obligation to make payment (often $\$ 10$ ). On a $\$ 1,000$ contract repayable in 12 monthly installments, these rules would eliminate refunds if prepaid with 3 or fewer months remaining, and so the maximum error would be in the range of $3 \%$ (33申) on an $8 \%$ add-on schedule.

## THE GREATEST ECONOMY IN THE WORLD!

We are constantly being told by high public officials that we have the greatest economy in all the world-producing more goods for more people-etc., etc.

But Britain has the Supply of Goods (Implied Terms) Act of 1973 which has been effective since May 18th. This negates all of the restrictions and negative terms set forth by the manufacturer and/or seller.

Which?, the "Consumers Report" of England, says that even without a guarantee, if a TV picture tube gives out a week after purchase you can go to the vendor and demand that he fix it without cost to you and that he provide you with another set while he is doing it. If he refuses, you are entitled to take your set elsewhere for repair, rent another in the meantime, and recover the cost of both from the seller.

In the case of a faulty car, you are entitled to free repair and also the cost of renting a replacement car. This becomes particularly expensive to the seller when the breakdown occurs on a vacation trip-the replacement car can be costly.

## TOWARD A MORE COMPLETE ANNUAL REPORT

In June, RT wrote "Why Not Publish a Complete Annual Report?" and among the suggested additions was information normally contained only in the proxy statement regarding shareholdings of directors and officers and compensation of officers.

RT has now received the 1972 annual report for The Citizens and Southern National Bank (RT has long considered this to be one of the outstanding reports in the country and probably the most complete report issued by any bank). Three pages are devoted to information on directors and officers including their shareholdings, compensation (officers only) and all directorates held in profit-making enterprises not affiliated with the bank.

C\&S is one of the fastest growing banks in the United States and today ranks among the largest. Certainly the constant increase in the amount of information presented to their stockholders (which includes an exceptionally high percentage of their own employees) has contributed to this growth.

Retailers might well look at other information contained in the C\&S Annual Report. Net loan losses are reported by department and by affiliated banks (losses in Charge Account Service increased from $\$ 818,000$ to $\$ 1,588,000$ and are projected at $\$ 770,000$ for 1973). There is a forecast of the 1980 balance sheet showing total assets of $\$ 7,245,000,000$ compared with the present $\$ 2,499,000,000$, based on a set of corporate goals and 60 strategies (involving 137 specific action steps) to accomplish the goals.

Operating income and expenses are reported in far more detail than that provided by any retailer. (For example, Heat, Light and Power was up from $\$ 1,025,052$ to $\$ 1,259,876$ ). The 6 -Year Summary also includes a projection for 1973 as well as the following key information: breakdowns of income and expenses, stockprice range and year-end price, price/earnings ratio based on year-end price, return on average equity, yield on average loans and yield on average securities brokendown by taxable and tax-exempt, (the latter are shown at the taxable equivalent).

## A\&P CHECK CASHING POLICY

A\&P got some national publicity on their check cashing policy when Senator Lowell P. Weicker, Jr. (Connecticut) addressed the National Press Club in Washington, D.C., during a lunch-time break in the Watergate Hearings. Senator Weicker was telling of the complete anonymity he enjoyed during his first year in the Senate. During the summer of 1972 he was taking his family to their summer place in Massachusetts and stopped at an A\&P to pick up some food. He suddenly realized that he left Washington in a rush without cashing a check. When he approached the checker he presented as identification his United States Senate Identification Card with his picture and signed by the President of the United States and the Vice President. The checker looked

## INFORMATION-REQUESTED-STORED-USED

Guilty until proven innocent? That isn't the way our American system is supposed to work. The recently concluded Phase I of the Watergate Hearings has brought forth a number of discussions on this point.

Mr. Maurice Stans made an eloquent plea when called to testifyclaiming that he could not get a fair trial on the indictment then pending against him because of the publicity that would (and did) attend his giving of testimony on TV.

Mr. Stans is presumed to be innocent until proven guilty-and RT feels confident that the jury at his trial will approach the testimony with that view in mind.

But what about retailers? Do they give this right to their employees and prospective employees? Most employment applications that RT has seen ask "Have you ever been arrested? Arrest is no more a proof of guilt than is the fact that Maurice Stans has been indicted. In fact, it may even be less proof. An arrest often follows from the limited interpretation of the law and a specific situation by a single police officer; whereas an indictment results from at least a modicum of weighing of evidence in a formal proceeding involving 16 to 23 grand jurors.

Illinois has already passed a law (apparently the only way to protect the civil rights of retail-and other-employees from the willingness of employers to disregard the basics of our legal system) which prohibits asking, on employment applications, whether the applicant has ever been arrested (although employers are not barred from asking about convictions). Government is going to interfer with business-just as long as business interfers with the basic rights of individuals.

RTip: Take a look at your own employment application. RT suggests that the wording should read as follows: "Have you ever been convicted of an offense (exclusive of those committed as a minor for which the records are or could be sealed) for which your punishment was a fine of more than $\$ 50$ or confinement for more than 30 days?" (NOTE: RT would be interested in receiving and publicizing "fair" employment applications.)

FBI abuse of individuals is resisted. For a number of years the FBI has been putting together something called the NCIC (National Crime Information Center) which is an attempt to computerize all the bad information in the world (at least, that part known to the FBI). Despite the professions of a former FBI director and attorney general that raw FBI data is not supposed to be released, raw data is released daily, without significant control (or any record) of access to the data, from some 45,000 terminals connected to the FBI NCIC computer.

Here is how that system works. David Harkness was arrested on May 28, 1973, for being AWOL since January 1972. He had previously been arrested for the same offense on June 26, 1972! In fact, Harkness had been discharged from the Marines on May 3, 1972. The Des Moines Police Chief is quoted as saying that the police are not to blame for making the arrest because they were only following the computer's instructions. The FBI says they are not at fault because the party putting the information in the computer is responsible for removing it when it is no longer current or when it is discovered to be inaccurate! But in the meantime, Harkness languished in jail-and has no assurance that he will not be arrested a 3rd, 4th or even 5th time!

The Marines allow as how they may be able to straighten out the NCIC computer in 60 to 90 days-but give no assurance that it will be done.

## COMPLETED STAFF WORK

Business is inclined to look down upon the quality of military administration. Everyone talks about the "inefficiency" and "over-staffing."

But business often overlooks the good in military administra-tion-and part of that good is understanding the concept of staff work.

The memorandum that follows was first distributed in September 1942-when the Army, the Army Air Forces, the Marines and the Navy were undergoing rapid expansion. And at that time I was a young first lieutenant, already 6 months overseas. This memorandum was distributed to the officers under my supervision in Iran, again in the Phillipines, during reserve training prior to Korea, again in Morocco, and in 1966 to my clients. And today, almost 31 years later, it bears further distribution.

## HQ. OFFICE INSTRUCTION) WAR DEPARTMENT NO. 80-19) HEADQUARTERS ARMY AIR FORCES WASHINGTON, SEPTEMBER 17, 1942

## ADMINISTRATIVE PRACTICES COMPLETED STAFF WORK

1. The following exposition of "Completed Staff Work" is published for the information of all members of this Staff.
2. This matter is not published as a directive. However, it has a great merit and it is believed that an occasional reading of this treatise and a continual effort to practice this doctrine will be of immense value in building up really good staff work.

## COMPLETED STAFF WORK

3. "Completed Staff Work" is the study of a problem, and the presentation of a solution, by a staff officer, in such form that all that remains to be done on the part of the head of the staff division, or the commander is to indicate his approval or disapproval of the completed action. The words "Completed Action" are emphasized because the more difficult the problem is, the more tendency there is to present the problem to the chief in piece-meal fashion. It is your duty as a staff officer to work out the details. You should not consult your chief in the determination of those details, no matter how perplexing they may be. You may and should consult other staff officers. The product, whether it involves the pronouncement of a new policy or affects an established one, should, when presented to the chief for approval or disapproval be worked out in finished form.
4. The impulse which often comes to the inexperienced staff officer to ask the chief what to do, recurs more of ten when the problem is difficult. It is accompanied by a feeling of mental frustration. It is so easy to ask the chief what to do, and it appears so easy for him to answer. Resist that impulse. You will succumb to it only if you do not know your job. It is your job to advise your chief what he ought to do, not to ask him what you ought to do. He needs answers, not questions. Your job is to study, write, restudy, and rewrite until you have evolved a single proposed action that is the best one of all you have considered. Your chief merely approves or disapproves.
5. Do not worry your chief with long explanations and memoranda. Writing a memorandum to your chief does not constitute completed staff work, but writing a memorandum for your chief to send to someone else does. Your views should be placed before him in finished form so that he can make them his views simply by signing his name. In most instances,

The NCIC is so bad that Governor Francis Sargent of Massachusetts sent a "Dear Elliot" letter to Attorney General Richardson which is condensed as follows: "I am writing of my growing concern regarding the FBI's national criminal information system and its proposed interlocking with the state criminal information system ... I have strongly supported Massachusett's substantial commitment of Law Enforcement Administration Assistance funds to build a state-wide . . . system . . . designed to interface with the FBI's . . . computerized system. The Massachusetts . . . system has been designed to provide internal and external safeguards against potential abuse. Unfortunately, I have seen no similar action on the part of the Department of Justice, the Attorney General, or the FBI to construct equivalent safeguards for the NCIC. To be frank, recent revelations . . . do not inspire confidence. There are serious doubts that internal control and self-policing by line operating agencies or administrators can guarantee the integrity of something as sensitive and potentially abusive as an interfacing national/state criminal information computer system. For this reason I am hesitant to encourage Massachusetts to participate . . . When (corrective) measures are taken, please be assured that Massachusetts will cooperate . . .'

Now guess the reaction of the Federal government? They assured the security of the system? They agreed that it could and should be improved? They repeated the great words about protecting the individual-uttered by Gray, Kleindeinst and others at the Watergate Hearings?

Not on your life! They filed a suit seeking an injunction that would allow blanket federal access to Massachusett's information, even for federal agencies not authorized by Congress to use the FBI information! (Apparently the goal of some people in government, planning for 1976, is "bondage to bondage in 200 years").

In addition, Governor Sargent was threatened with withholding of $\$ 30$ million in Small Business Administration loans and disaster aid.

And that brings us to the drive for a Uniform ID Number. INA (formerly Insurance Company of North America) and Travellers Insurance (and perhaps others unknown to RT) are now including one's social security number in their policy number, especially on homeowner policies. Brokers and agents are not offering resis-tance-since few really feel they have any obligation to protect the rights of their customers. In addition, few may want to tangle with giants like INA and Travellers who apparently are starting their own program to trample on the rights of individuals.

One of the side benefits, of course, will be to simplify full identification of "targets" for IRS investigations. While working on a net worth case, IRS can just give the insurance company your social security number to see if (1) you have a policy (2) how much you value your property at and then (3) whether you could have accumulated that much out of the income you reported.

Retailers are not far behind-with more and more asking for social security numbers on their charge account applications. Yet the purposes for which the social security number can be used are limited-Social Security Administration publications state "Questions about the use of the tax identification numbers should be taken up with the nearest Internal Revenue Service of fice." -and insurance policy and charge account numbers are not one of them. But since there is no penalty in the law for misuse-and since the prevalent attitude among many businesses is "might is right" or "get away with all you can," everyone pats themselves on the back as they attempt to turn the social security number into an illegal universal identification number.
completed staff work results in a single document prepared for the signature of the chief, without accompanying comment. If the proper result is reached the chief will usually recognize it at once. If he wants comment or explanation, he will ask for it.
6. The theory of completed staff work does not preclude a "rough draft" but the rough draft must not be a half-baked idea. It must be complete in every respect except that it lacks the requisite number of copies and need not be neat. But a rough draft must not be used as an excuse for shifting to the chief the burden of formulating the action. Avoid submittal of hastily prepared inaccurate material lacking concise, specific, workable recommendations.
7. The "completed staff work" theory may result in more work for the staff officer, but it results in more freedom for the chief. This is as it should be. Further, it accomplishes two things:
8. When you have finished your "completed staff work" the final test is this: If you were the chief would you be willing to sign the paper you have prepared, and stake your professional reputation on its being right?

By command of Lieutenant General ARNOLD:
/s/ George E. Stratemeyer
OFFICIAL
GEORGE E. STRATEMEYER

WILLIAM W. DICK.
Colonel, A.G.D.,
Air Adjutant General.

## SHORT SHORTS

A sign in a neighborhood hardware store-"We correct Do-ItYourself Projects."

New heights in retailing. Not since the days of the Woolworth Building has a retail name been on the tallest building in the world-and now it is Sears-in Chicago instead of New York.

Dow-Jones, a stranger in the computer age? Dow-Jones, through the Wall Street Journal and other media, brings the business world stories about the wonderful progress that computers have made. But they apparently figure that good computer systems are not necessary in their own business. Wall Street Journal recently sent me an offer to subscribe to WSJ for just $67 \phi$ a week. It was addressed to "R Assoc," apparently a computer's analysis of "Robert Kahn and Associates."

Arbitrate! That's what is being done by retailers in Harrisburg, PA-Sears, Bowman's and Pomeroy's have all agreed to use the Pennsylvania Consumer Arbitration Service established by the Pennsylvania Retailer's Association, the Pennsylvania League for Consumer Protection, and the National Center for Dispute Settlement (part of the American Arbitration Association). All 3 stores have committed themselves in advance to use and be bound by this procedure.

IBM, like John Mitchell, should caution "Watch what we do, not what we say." At the same time that IBM is passing out brochures entitled "Bottlenecks of Justice" which lauds IBM plans to speed the administration of justice, the Department of Justice is accusing IBM of devious plans to delay justice in the now $41 / 2$ year old anti-trust suit. If you have ever been subjected to IBM pressure, you are probably looking forward to a decision in this case.
at it a moment and said "What's that? You have to have an A\&P check cashing card!" During the question and answer period a listener asked, "Did you get your cash from A\&P?" to which the Senator replied, "No, and they got their groceries back."

## TWO DECADES OF WAGE INCREASES

The table below shows the percentage increase from 1951 to 1971 in average hourly and average weekly earnings of production or non-supervisory workers on private payrolls.

| Industry | Hourly <br> Earnings | Weekly <br> Earnings |
| :---: | :---: | :---: |
| Total private industry | 137\% | 119\% |
| Retailing | 142 | 103 |
| Mining | 110 | 132 |
| Construction | 183 | 177 |
| Durable goods manufacturing | 130 | 124 |
| Non-durable goods manufacturing | 126 | 125 |
| Wholesale | 141 | 136 |
| Finance, insurance and real estate | 126 | 122 |

In all cases except mining the increase in weekly earnings is less than the increase in hourly rates, reflecting a shortened workweek over the past two decades. But, in the case of retailing it is more serious than in other industries. In 1951 the average weekly pay in the retailing industry was $74 \%$ of the weekly pay for all production/non-supervisory workers, but by 1971, this had dropped to $68 \%$, despite the fact that the average hourly rate had increased from $73 \%$ of the national average to $75 \%$.

Since most workers pay their bills out of their total weekly pay, rather than just their hourly rate, this is one of the reasons why retailing finds it harder and harder to attract quality people despite increasing the hourly rate.

To put the pay increases in perspective, the Consumer Price Index increased by $56 \%$ during the same two decades.

## YOU WONDER WHO WROTE IT!

One wonders about the intelligence and analytical ability of advertising people and forms designers in retail establishments.

Capwells (Broadway-Hale) has the following three sentences to start the introduction to their 44th Anniversary Sales (RT has photographs of the company more than 60 years ago-so there is also an arithmetic problem)-"Capwell's is pleased to send YOU, a valued charge customer, first notice of our. 1973 44th Anniversary Sale. Use your convenient BCA or Regular Account. If you are new to the East Bay and want to open an account, check the Credit Application in the mail order coupons." (Emphasis added). If this advance notice is one of the special benefits of having a charge account, then why are they plugging new accounts?

Liberty House/Rhodes (Amfac) apparently is trying to save money by using a single statement form for the central billing for stores in California, Oregon, Washington, Arizona, New Mexico and Texas. Their Truth-in-Lending disclosure reads as follows: "Your finance charge, if any, is computed on the previous balance before deducting payments or credits, except the State of Arizona which computes the Finance charge on the previous balance after deducting payments or credits. The Finance charge, which will be the greater of a minimum charge of $50 \phi$ or an amount determined by applying a periodic rate of $11 / 2 \%$ of the previous balance as above determined up to $\$ 500.00$ and $1 \%$ in excess of $\$ 500.00$ being annual percentage rates of $18 \%$ and $12 \%$
respectively. The State of Washington only, a periodic rate of $1 \%$ on previous balances being an annual percentage rate of $12 \%$." (T-in-L emphasis removed and RT emphasis added). With most of their charge customers in California-numbering into the hundreds of thousands, one wonders why Liberty House/Rhodes flaunts the fact that they offer a lower finance charge rate in Washington and significant savings under the adjusted balance method to customers in Arizona? Perhaps to show how much California customers are discriminated against-and to prompt more consumer pressures? It is simple with a computer to setup Arizona and Washington on separate cycles and use their own statement form with the appropriate T-in-L disclosure.

## WHAT? A PAPER SHORTAGE!

RT thanks Jack Moss and Key-Rec Ideas (Shipment No. 28) for alerting us to the shortage of paper-and warning that it takes a long time to build, and bring on line, new paper making plants. Jack particularly points out ". . . the bulk of the paper used in business forms (register bond) is a lesser grade paper which the mills give a lower priority for manufacture. The wise purchaser should check his inventory and place orders as early as possible."

RTip: Do what Jack says-check your inventory, increase the quantity level at which re-order action is started, allow longer delivery time.

RThought: The shortage of paper will never restrict the supply of red tape.

## THE BAD SIDE OF PRIVATE LABELS

There is increasing talk about the benefits of private labels-no direct competition, higher markup, blind pricing, fool the public into thinking the reputation of the store appnes absolutely to every product under the private label.

But there is a bad side-and it's name is "Federal Trade Commission." The FTC has asked for, and received, and is now making available to the public-the substantiation of advertising claims for tires from Sears, Penney, Wards and Kresge. Even Macy's got stuck with defending the advertising of "Vanderbilt," which is a stencil-label (private-brand) of a concessionnaire!

## COMPLAINT ADJUSTMENT PLANS SPREAD-IN SOME INDUSTRIES

The Major Appliance Consumer Action Panel (MACAP), established by the manufacturers of major appliances, has been successful in providing a mechanism for settlement of consumer product complaints. The knowledge of this organization is spread-ing-and the volume of activity is growing.

The U.S. Office of Consumer Affairs is pressing other industries to follow this lead. The Carpet and Rug Institute has announced that it will establish the Carpet and Rug Institute Consumer Action Panel (CRICAP).

There have been problems in developing a similar program for the home furnishings industry. Only the Southern Furniture Manufacturers Association is ready to go ahead.

One of the drawbacks is that the retailer groups are not ready to support such a program. The National Home Furnishings Association (NHFA) is starting to collect complaints that their own members have as consumers-but NHFA apparently is unwilling to listen too closely, as an industry, to the complaints of their own customers. Preliminary evaluations seem to indicate that one
of the key problems is commission salesmen-and the promises (which cannot be met) that such salesmen make in order to "close the sale."

## DO YOU USE A FANCY NAME FOR YOUR COLLECTION DEPARTMENT?

At various times RT has noted that retailers use special envelopes for their collection notices-perhaps with a return address of "Office of the Comptroller" or some other special name, not clearly identifying the firm.

American Oil Co. recently asked the Federal Trade Commission (FTC) if the establishment of a wholly-owned subsidiary corporation for the purpose of collecting consumer indebtedness to American Oil, without identifying American Oil Co. as the owner, would violate the FTC Guides Against Debt Collection Deception. The FTC responded that it would violate the guides-and that this was precisely the type of deception intended to be prohibited by the requirement against representation "that debts have been turned over to an attorney or an independent organization engaged in the business of collecting past-due accounts" unless such attorney or organization are, in fact, independent.

## THE SHOPPING CENTER CYCLE

In the days when assessments for suburban land were low-and assessors valued the parking lot in the shopping center as just one step above farm land-shopping centers used free parking to beat the downtown stores to death. The magic of shopping centers was unlimited free parking.

The May 1973 issue of Chain Store Age, Executive Edition, contained an editorial "Pay Parking Clears Out Non-Customers" and heralds the success of charging $25 \phi$ for the first hours with a validated ticket (Bal Harbour Shops, Florida) vs $50 \phi$ per hour unvalidated and the first three hours free with a parking receipt but $50 \phi$ an hour thereafter (Fresh Meadows, Queens).

One of the unfortunate side-effects is that the revenue does not pay the cost of operating the lots on a pay-basis, so the extra charge is borne, of course, by the tenants (it seems the landlord never pays-just collects excess rent).

RThought: $50 \phi$ an hour is as high as parking in many downtown areas. These areas will thank the shopping center industry for sending back the customers they stole 20 years ago. The current generation of shopping center tenants has enjoyed free parking so long (like Americans who have enjoyed democracy so long) that they really don't understand what will happen when parking is no longer free. This appears to be the next stop to be taken in the name of progress.

## FTC CLAIMS CREDIT FOR DECLINING FOOD CHAIN ACQUISITIONS

In 1967, the FTC directed retail food chains to submit for prior approval any mergers involving firms with sales in excess of $\$ 500$ million or which would result in firms of that size. As a result, the number of acquisitions has dropped, particularly acquisitions by the 20 largest companies. FTC admits that other factors may have had an influence-but the FTC also feels that the spread of food discounting, which FTC feels benefits the consumer in the form of price competition, also was stimulated by the need for expanding chains to break into new markets through competition rather than by purchase of existing outlets.

The table below shows the merger pattern:

| Year | All Food Companies |  | 20 Largest Chains |  |
| :---: | :---: | :---: | :---: | :---: |
|  | No. of Acquisitions | Sales of Acquired Co. $(000,000)$ | No. of Acquisitions | Sales of Acquired Co. $(000,000)$ |
| 1950 | 5 | \$ 4 | 2 | \$ 3 |
| 1954 | 24 | 76 | 7 | 37 |
| 1955 | 55 | 559 | 23 | 465 |
| 1958 | 74 | 517 | 41 | 361 |
| 1963 | 51 | 568 | 27 | 463 |
| Policy changed |  |  |  |  |
| 1965 | 28 | 558 | 5 | 61 |
| 1966 | 40 | 539 | 6 | 110 |
| 1968 | 16 | 587 | 2 | 225 |
| 1969 | 46 | 805 | 12 | 308 |
| 1970 | 24 | 124 | 9 | 19 |
| 1971 | 23 | 461 | 6 | 60 |

RThought: Such success will probably lead to more industry-wide restraints on acquisitions by leading firms.

## SHORT SHORTS

Conspiracy against the Village Voice? The Voice runs 100 -plus pages every week, much more than half of it advertising. Waterbeds, 10 -speed bikes, shoes, furniture, records, tapes, books, theater, art galleries, travel and many pages of want ads. The only major retailing names seen in recent months are Abercrombie \& Fitch and Sam Goody. Have Macy's, Gimbel's, Korvettes, Alexander's, Kleins, et al, independently decided that either (1) all readers take another paper or (2) no readers patronize the conventional stores?

## FROM AN EXECUTIVE'S WALLET

This month we offer well worn words from the wallet of Chuck Highbaugh, Controller of Kauffman Enterprises in Sacramento, California:

## Plus 10,000 Triplicate Copies

"It's absolutely phenomenal that Dick Jorgensen, the ad exec. has just discovered . . . that the Lord's Prayer has 56 words . . . Lincoln's Gettysburg Address, 266 words . . . The 10 Commandments, 297 ... Declaration of Independence, 300 .. but in issuing an order regarding the price of cabbage the U.S. Gov't. required 26,911 words!"

## WORDS TO KEEP IN MIND WHEN MANAGING

A slightly different stance is being taken for this month-by bringing words that we might well recall when we think the world is collapsing around us.

> "The world is passing through troubled times. The young people of today think of nothing but themselves. They have no reverence for parents or old age; they are impatient of all restraint; they talk as if they alone know everything and what passes for wisdom with us is foolishness with them. As for the girls, they are foolish and immodest and unwomanly in speech, behavior and dress."
> RT thanks the London Guardian of October 14, 1970, for digging up these words of Peter the Hermit, uttered in the year 1274. He is scheduled to repeat them on the 700th anniversary.

August 3, 1973

Mr. Robert Kahn
Robert Kahn and Associates Post Office Box 343
Lafayette, Calif. 94549
Dear Mr. Kahn:
It was good speaking with you on the telephone earlier this week. Thank you very much for granting us permission to quote from page 3 of the April 1973 issue of Retailing Today in MARKETPLACE.

Because you asked me to write this letter to refresh your memory on our conversation, I will say again that MARKETPLACE is a publication distributed to banks which issue Master Charge cards.

The quote, as I read it to you, will appear in this way:
"On a recent trip to New York, every Alexander's ad prominently mentioned that they honored Master Charge -so I used my Master Charge at Alexander's. But Macy's never mentioned, in the several dozen ads viewed, that they honored American Express, so I did not believe that they would honor it and so did not shop at Macy's.
"RThought: How many stores succeed by not advertising the services they offer?" -- Quoted with permission from Retailing Today, April 1973.

We currently are planning to use this quotation in our August issue, which will be printed two to three weeks from the above date.

Once it is printed, I certainly will send a few copies along to you, as you requested.

Thank you very much for your cooperation.
Cordially,

# RETAILING TODAY 

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

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## WHAT IS THE USE OF BOOSTING THE PRIME RATE?

One of the basic monetary controls is the prime rate-the rate at which money is loaned by banks to their best qualified lenders. Since the start of 1973 this rate has risen from $6 \%$ to $10 \%$ (at this writing) with less effect on the borrowing than was expected.

Banks have agreed that the increased rates will be applied only to the larger borrowers. The increase has not been applied proportionately to smaller borrowers (car loans, personal loans, home improvement loans, etc.).

But the larger borrowers have two reasons for not letting the changes in prime rates affect their basic demand for money. First, many have built their capital structure on a certain level of borrowing-even retailers as large as Sears borrow heavily (in their case through the acceptance market instead of banks-but at an interest cost closely related to the prime rate) to finance receivables. Regardless of the prime rate, Sears will not change their emphasis on credit and thus will not significantly change heir borrowing level. The extra interest cost is small compared to the gross margin dollars that flow from credit sales. Second, most large borrowers have defeated the impact of the prime rate on costs and profits by relating the interest rate that they pay to the current prime rate. Thus a drop in the prime rate in the future will not leave them paying the long-term higher interest rate in effect when the loan was initiated.

We find in our present situation that the almost weekly increases in prime rates has changed relatively few plans involving commercial or short-term (as compared to mortgage or long-term) borrowing. It does serve, however, to seriously disrupt the money market, to shift profits from operating companies to lenders and money sources, to accentuate the speculative shift of money between countries and thus to impact the international market, to depress the stock market and to cause great concern amongst the citizenry.

Yet, our fiscal experts and our government tell us that increasing the prime rate is one of the ways by which we can effect control on our economy.

The weakness of the impact of changes in prime rates on the demand for money illustrates again that once a control tool is used often enough, man will find a way to minimize the effectiveness of the control. In this case it was simple-let the interest charged by the lender fluctuate with the prime rate; thus, the penalty of a high prime rate will apply for only a short period of time. This decreases earnings temporarily, often with a magnified effect on the price of the stock. Thus, the penalty is passed on from the corporation to the small stockholder.

The small stockholder sees heavy losses and gets out of the stock market, which then declines abnormally because of a lack of

## DAYTON-HUDSON SETS A DANGEROUS PRECEDENT

When D-H announced their 1973 2nd quarter earnings, the earnings per share were off from 18 to 11 cents-but the $18 \phi$ last year excluded $7 \phi$ of extraordinary gain (last year was actually $25 \phi$ ). D-H then hastens to add that retail earnings were off only $11 \phi$ to $10 \phi$-if one exludes the results of real estate operations which were off from $7 \phi$ to $1 \phi$.

D-H, for several years, has followed the practice of hiding any mention of increased real estate profits in the footnotes, and disclaiming any drops in real estate profits in the message to the stockholders. The basis for not mentioning the increases is that real estate is a regular part of the D-H operation and thus the recurring profits are really part of the business; except that the following year, when matching profits do not appear, they carefully explain that one should really only watch the retail performance.

The net result, of course, will be to evèntually establish a lower quality level for the profits of D-H and this is hardly a service to the public stockholders-or to the Dayton or the Hudson families.
demand for the stock; and the government cries that we must re-establish confidence on the part of the little man in the stocks of our major businesses!

RThought: If the Federal Reserve Bank would require that the initial interest rate on a loan cannot be changed for 1 year (in the case of short-term notes this would apply to successive renewals), then changes in the prime rate would once again have the intended impact on borrowing.

## WHEN IS A COMPANY READY TO GO PUBLIC?

Paysaver Catalog/Showrooms, Inc., went public October 26, 1972, at $\$ 5$ per share or 15 times earnings. The audit statement (by a local firm) indicates that the inventory was valued "at cost" with a footnote reference that indicates that the accountant used the retail method to adjust the inventory figure of a company that merged into Paysaver but had a different fiscal year.

Paysaver was one of those companies with a jumping gross margin-audited figures for the years ending May 31, 1970, 1971 and 1972 showed gross profit increasing from $17.39 \%$ to $19.88 \%$ to $23.94 \%$ ! For the 3 month period, the gross margin increased from $21.73 \%$ to $24.08 \%$.

Yet, when the operating results were announced for the year ending May 31, 1973 (a drop in earnings of $46 \%$ despite a sales increase of $52 \%$ ) the firm also announced they were adjusting the 9 month report to $\$ 58,000$ from $\$ 93,000$-because the year-end inventory showed a gross profit on "only" $24 \%$. The Wall Street Journal says "Inventory was originally calculated at $25 \%$ of gross profit, the normal percentage." (emphasis added).

Nothing in the history of this company (as disclosed in the prospectus) indicates any basis upon which the principal stockholders, the Polep Brothers, had any right to assume that $25 \%$ was the "normal" gross profit. In fact, it appears that the management of this firm is not sufficiently experienced in retail accounting controls to warrant getting $\$ 1,000,000$ of public investor money.

Perhaps the SEC should require that retail firms, before going public, operate for a minimum of 3 years on the retail method or some other method that accurately reflects gross profit on a continuing basis.

## ARE CATALOG/SHOWROOMS A VIABLE BUSINESS?

It is true that the catalog/showroom method of doing business enjoys a large number of operating economies, among which is a much lower inventory shrinkage rate than that experienced by conventional or self-service stores and lower labor costs. These are needed to overcome some of the higher costs such as advertising.

But it appears that catalog/showrooms are promoted on the basis of two premises which appear to be contrary to our lawsalthough such laws are not currently being enforced by the Federal Trade Commission against Catalog/showrooms.

First, it appears that such businesses operate without regard to FTC guide lines on price comparisons-guide lines that have been enforced by the FTC against almost all other types of retailers. (See RT Mar 73, "Catalog/Showroom Integrity"). In fact, the FTC has been quoted as saying there is nothing illegal about printing fictitious prices that are purported to be regular prices. Unity Buying Service, Inc., for example, says the following, "IMPORTANT. Our Printed Prices. The price printed at the far right is a guide to the prices asked in many stores for comparable merchandise, nothing more. There is no such thing as 'the' price except for a fair trade article. In this catalog, all other prices can be no more than approximate guides, though we have made our guides as realistic as possible. There are tens of thousands of items, sold by tens of thousands of stores. Prices vary from day to day, in area to area and store to store. A complete check-list of prices would reach from here to the moon! Nevertheless, our printed prices are an earnest effort to provide a realistic guide for comparison in a fast changing world . . . nothing more."

If a Washington D.C. store used such a disclaimer in their ads, a complaint would be filed the next day!

But Unity has two additional prices. To the left, adjacent to the item code, is another number. In an accompanying "Factory Price Book" this is identified as "Dealer Cost" (without identifying what dealers pay this price regularly), and then an even lower price is shown which is "Your Cost"-to which you must add $6 \%$ (plus, of course, freight and applicable sales tax).

Let's check an item against a local ad. Thrifty Drug is advertising the regular $\$ 24.95$ Polaroid Square Shooter II at $\$ 19.95$. Unity says that $\$ 24.95$ is the "price asked in many stores" and then purports that dealer cost is $\$ 22.50$ but unity will sell it for $\$ 18.75+6 \%$ or $\$ 20.09$ ! This is above the price advertised locally
and without considering the shipping costs on a 2 pound package of $50 \phi$ to $70 \phi$.

No local merchant or national retail chain is permitted to use th' type of price comparison, with or without the lengthy disclaim loosely attached to the front of the catalog.

The second advantage for the catalog/showroom operators is that they claim to be wholesalers and, in many cases, purchase identical items at lower prices than do other retailers who buy direct from the same manufacturer.

RThought: No form of retailing has survived long without an honest base. No retailer can survive long by using misleading comparisons (there are many examples of retailers-even large ones-who destroyed an image of integrity and value through constant price misrepresentation-the $\$ 50,000,000$-plus Roos/ Atkins chain, part of Genesco, has recently proven this point). No retailer can long survive solely because of improper cost differentials. The FTC once attacked the problems in dual distribution (Eastman sold all their retail stores, and many automotive parts distribution groups have changed).

In the long run, the retail customer comes back to integrity-and fair treatment. It was Honest Abe who said, "It is true that you can fool all of the people some of the time; you can even fool some of the people all of the time; but you can't fool all of the people all of the time." I don't think that catalog/showrooms, even when backed by the millions of May Department Stores, will prove Mr. Lincoln wrong.

Consumer Distributing, a venture where May Department Stores bears all the loss but gives half the profits to a Canadian partner (It was Barnum who said, "There's a sucker born every minute"), is trying to explain to the public what they call "Our Un-Secret Code" in the following words: "The price at the far right is NOT THE PRICE YOU PAY; it is a suggested manufacturer's list price or one computed under customary trade practices." And to think that the FTC went after' retailers who used to say "Giant $89 \phi$ toothpaste-only $66 \phi$." The retailers claimed that the $89 \phi$ was just for identification.

## FINANCE CHARGES AND <br> BANK CHECKING ACCOUNT CHARGES

RT has been disappointed over the years that it has been unable to persuade retail credit grantors that, when appearing before legislative bodies considering bills to lower finance charges, they should make a stronger comparison between retail revolving credit finance charges and monthly charges made by banks for checking accounts.

Some years ago (1967) RT published a special paper entitled "Do Customers Pay Interest on Revolving Charge Accounts?" This was widely distributed to legislators and others then discussing the original Truth-in-Lend Bill (copies are available on request).

A comparison was made based on a man having a checking account and a bank credit card with the same bank. Let's look at a quick summary.

The customer with a checking account pays for his own bank checks-while the retailer or credit card firm pays for the saleschecks used in the credit card account.

The handling process for a check and a credit sales slip are approximatly the same-except that the customer, having paid fo MICR coding on his check, provides the means by which the bank check can be handled less expensively than the credit sales slip.

There are few privately held retailers who do not dream of going public. Those firms that are young, aggressive and rapidly growing see a public underwriting as the payoff after years of hard work and struggle. Not only do they see the personal rewards of ${ }^{2}$. ding (after selling a portion of their shares) stock valued at
$v$ times the book value; they also see the sale to the public as
eans of simplifying the problem of obtaining funds for the growth that they can see ahead.

More stable and long established companies look forward to the flexibility that comes from being able to improve personal liquidity without having to sell all of their stock. These firms think in terms of the public acceptance that should come because of their 50,75 or even 100 year history.

In 1972, a number of retailers went public-new and old, conventional and non-conventional retailers. The principals of each business sweated out the deal-finding an underwriter, going through the agony of prospectus preparation, arguing about the price ("The XYZ Company sells at 35 times earnings, why shouldn't we get at least 25 times?"), the "due-diligence" meetings, and then the final day.

Before the underwriting, the principals have been harassed by friends (both real and long forgotten) and suppliers (both those who give them a good deal and those that treated them like a
slow-pay account) who plead "Can't you get me 1,000 shares? My broker says all he can get is 100 shares."

If the stock goes up 3 or 4 points immediately after the underwriting, most of your "good friends" and "loyal suppliers" will take their profit and go home. What then remains, as your basic core of stockholders, are those people who may know your company (even be your customers), who like your management, and who have decided to be an investor in your company for a somewhat longer period of time. You may even meet them in your daily tours.

And what happened to them? The table below covers 44 firms that went public in late 1971 (November and December) or 1972, the price at which they went public, and what their stock sold for recently. In only 5 cases was the stock selling (bid price) for more than the original offering price while 39 sold for less. All stock prices are down-and the market has been weak-but that doesn't make it any easier for the shareholders to accept it.

The principals have found they don't have the liquidity they thought they would have. The SEC has put roadblocks in the way of selling. Even if you are permitted by law to sell 1,000 shares, the price may drop two points if that large a block is offered.

But worst of all, for those who still look forward to going public, most underwriters have noted this pattern for retail stocks and won't, for a while, get too enthusiastic about another retailer.

| COMPANY |
| :--- |
| Barry's Jewelers |
| W. Bell |
| Combine Camera Stores |
| Consumers Building Marts |
| Courtesy Drug Stores |
| Dannie's Mobile Homes |
| Danneman Fabrics |
| Duddy's |
| Duckwall Stores |
| E\&B Supermarkets |
| Eastern Newsstand |
| Ellman's |
| Empire Apparel Stores |
| ERB Lumber |
| Flah's |
| Frederick's of Hollywood |
| Handy Dan Home Imp Centers |
| Hechinger Company |
| Heilig-Meyers |
| Hook Drugs |
| Jacobson Stores |
| Judy's |
| Kennedy and Cohen |
| Laneco |
| Lil' Champ Food Stores |
| Main Dollar Stores |
| National Convenience Stores |
| Naum Bros. |
| S. E. Nichols |
| Pacemaster |
| Panelrama Corporation |
| Paysaver Catalog Showrooms |
| Pic 'N Pay Stores |
| Pic 'n' Save |
| Piece Goods Shops |
| Rosso's Carpet Warehouses |
| Sage-Allen |
| Sam Solomon |
| Service Merchandise |
| Shop \& Go |
| Sigmor |
| Super Dollar Stores |
| Unity Buying Service |
| Weston's Shoppers City |
| W |


| TYPE OF BUSINESS |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | DATE | PRICE | BID | ASK |
| Conventional Jewelers | May | 5.00 | 4.50 | 5.50 |
| Catalog/showroom | July | 12.75 | 2.62 | 3.12 |
| Photo-sound depts. in discount stores | Jan. | 6.75 | 1.50 | 2.50 |
| Home Improvement | June | 9.25 | 3.75 | 4.25 |
| Discount drug stores | Nov. 71 | 10.75 | 1.37 | 1.75 |
| Mobile homes | Sept. | 8.00 | 3.87 | 4.37 |
| Fabric stores | Dec. 71 | 8.00 | 2.50 | 3.25 |
| Tire sales | Dec. | 12.00 | 5.25 | 6.00 |
| Discount \& variety | May | 15.25 | 13.00 | 13.75 |
| Supermarkets | Feb. | 7.50 | 1.00 | 1.37 |
| Off Bldg. newsstands | Dec. 71 | 5.00 | 3.75 | 4.50 |
| Catalog/showroom | Nov. | 16.00 | 8.00 | 8.50 |
| Men's and women's | July | 5.00(1) | 1.12 | 1.62 |
| Improvement | March | 16.00 | 4.25 | 4.62 |
| Women and children | Dec. 71 | 10.00 | 3.62 | (2) |
| Women's apparel | April | 11.00 | 4.00 | 4.75 |
| Home Improvement | Nov. | 16.50 | 6.50 | 7.25 |
| Home Imp and Hardware | July | 16.00 | 7.87(3) | 8.37(3) |
| Furniture chain | Sept. | 15.00 | 6.75 | 7.25 |
| Prescription drug stores | Oct. | 22.00 | 16.75 | 17.75 |
| Jr. Dept. stores | Jan. | 20.00 | 10.75 | 11.75 |
| Junior look apparel | June | 12.50 | 2.00 | 2.75 |
| Major appliances \& TV | Aug. | 10.00 | 14.50 | 16.00 |
| Supermarkets and discount stores | April | 11.50 | 18.00 | 18.75 |
| Convenience stores | March | 5.00 | 7.75 | 8.25 |
| Self-serve variety | Oct. | 13.00 | 6.75 | 7.25 |
| Convenience Store | March | 17.00 | 9.00 | 9.75 |
| Catalog/showrooms | March | 8.75 | 2.25 | 2.87 |
| Discount stores | Aug. | 12.00 | 4.00 |  |
| Convenience \& gasoline | April | 5.00 | 3.25 | 4.00 |
| Building materials | Oct. | 10.50 | 4.50 | 6.00 |
| Catalog/showrooms | Oct. | 5.00 | 1.75 | 2.25 |
| Self-serve shoes | Nov. | 13.00 | 5.62 | (4) |
| Closeout stores | April | 14.50 | 6.50 | 7.50 |
| Fabric shops | April | 13.50 | 2.50 | 3.00 |
| Carpet showrooms | Feb. | 5.00 | 1.00 | 1.50 |
| Women's apparel | July | 11.50 | 2.75 | 3.75 |
| Catalog/showrooms | June | 15.00 | 6.75 | 7.50 |
| Catalog/showrooms | Nov. 71 | 14.00 | 16.50 | 17.50 |
| Convenience stores | Nov. | 12.00 | 8.25 | 9.25 |
| Service stations | Nov. | 17.00 | 6.87 | 7.37 |
| Small discount stores | July | 8.50 | 3.00 | 3.50 |
| Discount mail order | March | 16.50 | 24.00 | (4) |
| Discount stores | June | 10.00 | 2.75(3) | 3.50(3) |

## CREDIT OFFICE RATING

13 stores have again proven that customer statements can be prepared and put into the mail within 4 working days-congratulations!
HONOR ROLL

| Maison Mendessolle | 2.0 |
| :--- | :--- |
| Rubenstein's | 2.2 |
| Gus Mayer (Nashville) | 2.4 |
| Gus Mayer (Beaumont) | 2.7 |
| Mervyn's | 3.0 |


| Wineman's (Monrovia) | 3.0 |
| :--- | :--- |
| Joske's (Houston) | 3.0 |
| Roos/Atkins | 3.0 |
| Wineman's (Huntington Park) | 3.3 |


| J. Magnin | 4.0 |
| :--- | :--- |
| Montgomery Ward (Houston) | 4.0 |
| Ransohoff's | 4.0 |
| Routzahn's | 4.0 |

## CREDIT OFFICE RATING

## JUNE-JULY 1973

## APRIL-MAY 1973



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

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

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

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

The same type of information is provided on both monthly. statements-except that the amount of disclosure required on a checking account is less.

Both require rendering of a monthly statement. In the case of the checking account, this is more likely to require extra postage than in the case with a credit card.

During the month the bank, in the case of a checking account, has available its customers' money to lend to others and the bank makes a profit; in the case of the credit card, money has been advanced to the customer.

Now let us finally assume that during the month the minimum balance in the checking account, on the books of the bank, was $\$ 80$ while the previous balance on the credit card account for the same month was also $\$ 80$.

In the case of the checking account (where the customer has paid for his own printed media, the transaction has been cheaper to handle but more transactions may have been handled, and the bank has made money by re-lending the balance in the checking account) the bank imposes a minimum service charge of up to $\$ 3$ for the month-and everyone thinks this is perfectly proper.

In the case of the credit card account the bank imposes a finance charge of $1-1 / 2 \%$ of the previous balance or $\$ 1.20$ (often far less than the service charge on the checking account) and everyone cries "USURY!"

RThought: Retailers are approaching revolving credit the wrong way. They should learn from the banks who are smart enough to get their $\$ 1$ to $\$ 3$ per month by using a flat monthly charge. Retailers should obtain approval, based on the cost of handling credit accounts and disregarding the cost of money (which is really a small part of the cost of providing most retail revolving credit, except during relatively infrequent periods of excessively high interest costs), to charge a flat monthly fee for the service provided. For example, retailers should nave the right to charge $\$ 1$ per month for providing the convenience of a credit account for each month during which there is a balance that is not paid in full.

This service charge is substantially less than most banks charge for checking accounts-and the bank's checking account charges are accepted as reasonable.

## LEGISLATURES IN ACTION

RT has published the Credit Office Rating for years-hoping that it would stimulate retailers to pay attention to the performance of their billing departments. Most companies do pay attentionbut subsidiaries of such retailing giants as Broadway-Hale and Hart-Shaffner-Marx apparently don't care. New York has enacted a cure-if statements are not in the mail by 15 days prior to the end of the free payment period, the retailer can not collect a finance charge! When it is money out of the retailers pocket, rather than a total disregard of customers and basic concepts of fairness, great retailers (Mr. Edward Carter was so recognized some time ago) like Broadway-Hale and HSM will suddenly start crying "foul!" while they hasten to do what they could have done years ago. And had they done right by their customers, we would not have this type of repressive legislation.

Laws are being passed that penalize stores that do not respond to problems or complaints from customers (Connecticut, Minnesota, New York). Finance charge rates were cut in a number of states (Alabama, Iowa, New Hampshire, Tennessee), usually to $12 \%$ but some to $10 \%$ ( $1 \%$ or $.83 \%$ per month).

## GROWTH-1933 TO 1972

Thirty-nine years is not too long a time-many readers of RT can recall retailing in 1933, a sorry year for most stores.

I was looking through "Principles of Retailing" by Barker and Anderson, published in 1935, and noted a tabulation of "Net Sales and Net Profit of Chain Department Stores for 1933." Let's look at the top 5 publicly held chains in those days (changing Hahn Department Stores to Allied) and see what progress has been made.

| Store | $\begin{aligned} & 1933 \text { Sales } \\ & \text { (000 omitted) } \end{aligned}$ | $\begin{aligned} & 1972 \text { Sales } \\ & \text { (000 omitted) } \end{aligned}$ | \% Increase |
| :---: | :---: | :---: | :---: |
| Federated Department Stores | \$82,551 | \$2,665,000 | 3,128\% |
| May Department Stores | 76,470 | 1,467,931 | 1,820 |
| Gimbel Bros. | 72,878 | 812,184 | 1,014 |
| Allied Stores | 70,828 | 1,482,955 | 1,994 |
| Associated Dry Goods | 44,620 | 1,130,004 | 2,433 |

And what about profits?

| Store | $\begin{aligned} & 1933 \text { Profit } \\ & \text { (000 omitted) } \end{aligned}$ | 1972 Profit (000 omitted) | \% Increase |
| :---: | :---: | :---: | :---: |
| May Department Stores | \$2,905 | \$ 47,867 | 1,548\% |
| Federated Department Stores | 1,444 | 108,600 | 7,421 |
| Associated Dry Goods | 202 | 42,686 | 21,032 |
| Allied Stores | 25 | 28,040 | 112,060 |
| Gimbel Bros. | (626) | 25,312 | not appl. |

Note that in those days Macy's was not a chain, giants like Dayton-Hudson had not been put together (although Hudson's was one of the largest stores in the country), Hale Bros. was doing $\$ 13$ million, Interstate $\$ 21$ million, Wieboldt Stores $\$ 18$ million. In 1933, the bright star among the public companies was Goldblatt Bros. with a profit of $\$ 1,271,000$ on sales of $\$ 23$ million!

The same section of "Principles of Retailing" mentions a book by Edward A. Filene, "A Model Stock Plan." How long has it been since the head of a major retail firm has written a book on retailing? In fact, how long since one wrote any kind of book?

## A VOICE ON AUTOMATIC CHECKOUT STANDARDS

The 58th National Conference on Weights and Measures (Minneapolis, July 22-27, 1973) endorsed a recommendation on now the new automated checkouts should operate-in order that the consumer is protected. The recommendations include: all the numbers shown (price, weight, etc.) should be clearly visible to the customer as the items are processed, the numbers should be displayed long enough for the customer to be able to read them, and the numbers displayed should be clearly identified as to what they mean.

## FAIR EMPLOYMENT APPLICATIONS

Mr. George Scott. Chief Executive Officer of Walker-Scott, San Diego's Leading Department Store, has forwarded his firm's employment application which, since 1970, has asked:
"Have you ever been convicted of any crime? (Adults only Respond)."
"Have you ever been sentenced or imprisoned? (Adults only respond)."
(There is an interesting question at the end of the application, calling for an essay answer: "Write a short statement as to why you want to work for Walker Scott Company and why you think your services would be satisfactory.")

The American Bankers Association (1120 Connecticut Ave. NW, Washington, D.C. 20036) has an excellent publication called "The Annotated Employment Application." Any employer-including retailers-could benefit from reviewing their present application form against this publication because it contains a discussion of specific points where one must comply with a variety of Federal Acts-Title VII of the Civil Rights Act of 1964, Age Discrimination Act of 1967, Fair Credit Reporting Act, Fair Labor Standards Act, and certain key rulings and court decisions.

Their recommended wording regarding any criminal record reads, "Have you ever been convicted of a criminal offense involving dishonesty or breach of trust (including but not limited to robbery, embezzlement, forgery, perjury, tax evasion, etc.)?" The narrative section indicates that offenses committed as a "youthful offender" or "juvenile delinquent" should not be considered.

RThought: If you write to ABA, ask that they include their booklet describing available publications and other materials-you will find such interesting publications as "A Bank Director's Job" (\$2.00), "Inside Collector's Guide" (\$2.50).

## FROM THE DOW THEORY LETTERS

Richard Russell, who writes this market newsletter, makes an observation that is of interest to retailers, "I have been saying that Americans are loaded with things they don't need (many of which don't work), purchased with money they don't have, and financed at interest rates they can't afford."

## DEFERRED LOSSES AT LEVITZ?

In the 1973 Report to Shareholders of Levitz, covering the Annual Meeting, a question was asked about inventory methods: "What adjustments are made in the values of such inventories to reflect out-of-style or damaged goods?"

The answer cited was: "We are not on the inventory system that most department stores are on. The sale of each item in our inventory immediately reflects the gross profit generated by that item. The sale of a damaged item would thus reflect a very small profit. Any write-offs we have are therefore reflected daily in our profits." What is not mentioned in the answer-but is implied by the description of the method-is that slow-moving and out-ofstyle merchandise continues to be valued at original cost despite any retail reductions that might have been made. This would seem to indicate an overvalued inventory-and thus an overstatement of profits. Laventhol Krekstein Horwarth \& Horwarth have stated "Inventories are stated at lower of cost. (specific identification) or market?"-but apparently there is no market for obsolete styles!

## SHORT SHORTS

Safeway advertises "Discount with a difference" but until recently RT never fully understood the difference. While in a Safeway store RT observed a man who came to the cashier's office to pay for a Sunday newspaper. When told that the price
was $50 \phi$ he was taken aback-and pointed out the printed price of $35 \$$. The cashier called someone else who confirmed that the price was $50 \phi$ and the customer, with his annoyance unabated, paid $50 \phi$ and walked away. RT checked all the racks in town and all sold the Sunday paper at $40 \phi$. RT never thought that "discount with a difference" meant charging $25 \%$ more!

Downtown dead? Not in Spokane, where Marshall Field is adding $50,000 \mathrm{sq} . \mathrm{ft}$. to the downtown headquarters of the Spokane subsidiary, The Crescent, while Penney's is building a new store, and Nordstrom's will remodel the old Penney location. And in a couple of years Marshall Field will have a new downtown Chicago store in their co-ventured Water Tower Place, the greatest effort yet to develop a verticle shopping center.

## NAMES IN THE F.T.C.

The Kroger Co. FTC provisionally accepted a consent order prohibiting Kroger from inducing and receiving discriminatory special promotional allowances for a 5 -year period (RThought: if this conduct was wrong, why bar it for only 5 years?) and Kroger must refund all payments solicited from suppliers for its 1968 Atlanta Division's Kroger Revolution Anniversary (\$22,000 involved).

## FROM AN EXECUTIVE'S WALLET

This month we offer some words from Al Klaber (who was the co-founder of the Credit Office Rating many, many years ago-we started with just our own charge accounts) of Desmond's in Los Angeles.

## GRATEFUL COMPETITOR

The plaque on the wall of a store executive bears an inscription dedicated to the valuable help he has received from his competition. It reminds him that:
"My competitors do much more for me than my friends do. It seems my friends are too kind to point out my weaknesses. My competitors, however, go to great expense to advertise any of my weaknesses.
"My competitors are most efficieņt, diligent and attentive. They stimulate my search for ways to improve both my product and my service.
"If they could, my competitors would take my business away from me. They keep me on the alert to retain what I have.
"If I had no competitors, I would be in trouble. I would become lazy and incompetent. I benefit greatly from the discipline they enforce upon me.
"My competitors, I thank you. You have been very beneficial for my business."

## WORDS TO MANAGE BY

Machiavelli couldn't have been all bad if he gave advise like this:
"It must be remembered that there is nothing more difficult to plan, more uncertain of success, nor more dangerous to manage than the creation of a new order of things. For the initiator has the enmity of all who would profit by the preservation of the old institutions, and merely lukewarm defenders in those who would gain by the new ones."
-Machiavelli The Prince (1513)


# RETAILING TODAY 

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

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## CONSUMER PROTECTION AGENCYWILL IT ARRIVE?

Not if most of retailing has its way.
The Consumer Protection Act has been reintroduced in the 93rd Congress, co-sponsored by the original 3 Senators Percy (R-Ill), Ribicoff (D-Conn), and Javits (R-NY) now joined by Senators Magnuson (D-Wash), Moss (D-Utah) and Cook (R-Ky). Senator Percy, in a recent article in the Ripon Forum (September, 1973) said "In brief, the fight for consumer protection is a battle for quality goods and services, for fairness in advertising and promotion, for honesty in the marketplace."

When speaking before meetings of the Financial Analysts, almost every major retailer describes the objective of his firm in the same words as Senator Percy-but only Marcor is publicly supporting the Bill.
.T can understand why Sears is not backing it-see RT March 1973 for how Sears failed to back their statement "Sears is your guarantee of satisfaction" on their home improvement department. RT can understand why May Department Stores is not backing it-now that they have invested millions in a catalog/ showroom venture that depends upon unproven representation of comparative prices.

But RT is at a loss to understand why all the others who profess to be for the consumer are not taking an active position-the Giant Foods, the J.C. Penneys, the major discount and food chains.

## WHAT PRODUCT INFORMATION IS AVAILABLE FROM THE GOVERNMENT?

To find out, write to Consumer Product Information, Public Documents Distribution Center, Pueblo, Colorado 81009-and ask for a copy of "Consumer Product Information-Winter 1973." You will find such publications as "Precautions for safe use of Sunlamps," mandatory labeling requirements for fiber content of fabrics and furs, money-saving main dishes, designs for low cost wood homes, and many more.

## HOW TO ANNOY WIDOWS

One of the most faithful and senior reporters for the Credit Office Rating recently wrote to RT asking a question. It seems ike such an absurd question that RT might have passed over -except for the authenticity of the source.

She asked "Why do stores insist on making charge cards out to a deceased husband when the account has been in the name of Mrs. A. B. Jones for years?"

## A MATTER OF ETHICS

When buyers steal from stores-by taking kickbacks or expensive gifts from suppliers-the blame could often be placed on top management.
There are some individuals who will be dishonest under any circumstances. But there are many more people who are dishonest only when they think that no one cares or when they think that "everyone is doing it." The United States has just suffered such an experience with a Vice President. In his resignation address to the nation he said that what he did was not dishonest but just the custom in politics in Maryland. He made the further defense that despite the "gifts" which should have been reported as income, he never approved a contract for a firm that was not qualified to do the work.
What is your response to a buyer who (1) did not report the gifts from your suppliers as income and (2) told you that despite the gifts, he never bought goods for you that was not a fair value? You would probably fire him-and then call Attorney Herbert Robinson who is developing a specialty practice in this area.
The excuse for many such gifts is Christmas. This is the time when you, as top management, should be making clear to all your suppliers and to all your executives the policy you have established for your firm.
One such letter included the following language: "We deeply appreciate the thoughtfulness that sometimes prompts a manufacturer to express his appreciation for a long and pleasant relationship by sending a gift at this particular season of the year. However, the acceptance of such expressions is not acceptable. In the event any gifts are received, they will be returned to the sender as further manisfestation of our belief in the soundness of this policy."

Another says, "Because the spirit of the season tends to stimulate expressions of generosity in tangible ways, may we remind you that our corporate policy prohibits the acceptance of gifts from anyone with whom we do business."
The head of a retail firm said his policy was simple: "Our people can accept anything they can eat or drink in 24 hours." He added that one buyer was now trying to eat a wrist watch!
There is, of course, a corollary to this policy. Simply stated, it propounds that your executives will not follow your written policy if they know that your personal conduct is different. If they know or suspect that you accept gifts-or if they know that you are passing out gifts to important political figures or others-your written policy will not be observed.

Do you know? Does your store do this? In the case of our RT reporter, her husband died 23 years ago! All of her accounts have long read "Mrs."-but apparently those responsible for preparing address plates and credit cards don't pay attention to the store's records.

She commented, "I loved Livingston Bros. until I received their card" because this account, from the day it was opened, was in the name of "Mrs."!

RThought: Our reporter raises an interesting question: "If the stores keep putting the account in the name of my deceased husband, despite my efforts to have them use the right name, am I legally liable for the bill?"

## RESTRICTING INFORMATION TO PEOPLE WITH 20/10 EYESIGHT

RT has long been under the impression that many of the best retail spenders in the Miami Area are senior citizens-retired to spend their days and money in Florida. RT has also been under the impression that many such people experience a natural decline in their eyesight.

Thus, it is surprising to find that the Miami Herald permits ads with a typesize which defies reading except in a very bright light or by using a magnifying glass. Now that the ads have been reviewed with a magnifying glass in the well lighted office some 3500 miles away, RT knows that Sears was listing the telephone number to be used when calling their Northside Store from South Broward and the telephone of the Twin City Mall store if called from North Palm Beach or Lake Park(?). The blur across the bottom of the ad, tells about a 24 hour, 7 -day Catalog Service!

RT now also knows the address and hours of Burdine's Auto Service Centers.

## dON'T SUBSIDIZE STORAGE OF CADILLACS

The item in the August 1973 RT on "The Shopping Center Cycle" mentioned the success of charging $25 \phi$ for the first hour of parking in the Bal Harbour Shops Center in Florida-and this brought a reply from owner Stanley Whitman and a full history of this charge.

The story is fascinating for two reasons: first, the center has charged for parking since the day it opened in 1966; and second, Mr. Whitman represents the type of independent thinking that brings new ideas into our business.

Actually, Bal Harbour Shops started as a parking lot! In 1958, when most of the land was empty, Mr. Whitman made a deal with a local taxi company that they could park their vehicles on the lot in exchange for operating the lot which had coin-operated gates. The parking charge was $50 \phi$ a day.

In 1966, when the first shops were built, he saw no reason to eliminate the parking charge-much of the space was used by employees of hotels along the beach. It would also avoid the necessity of charging the stores with the cost of maintaining the parking area. The day after F.A.O. Schwarz opened the first shop-F.A.O. Schwarz started screaming about the parking charge (apparently they hadn't read their lease too carefully).

The original parking charges were $10 \phi$ per hour to customers, $50 \phi$ per day to employees and $50 \phi$ per hour to all others. The present rates are $25 \phi$ per hour to customers, $75 \phi$ per day to employees.

Several interesting points came out of Mr. Whitman's history First, when the customer rate was $10 \phi$ per hour, a new sales tax was applied to parking charges which raised the cost $1 \phi$ per hour. When the odd-penny was passed on, the customers con plained-but they stopped complaining when the price was raisth to $15 \phi$ ! Second, complaints and resistance to increases seldom lavt more then a few days. When the employee parking was raised from $60 \phi$ to $75 \phi$, several hundred employees signed petitions protesting-but not one employee stopped parking (the closest alternative parking was several blocks away at $90 \phi$ for 9 hours).

But the most important item in Mr. Whitman's letter was the following: "Our gate attendants . . . are all trained and constantly retrained that they are the first and the last contact the customers have with Bal Harbour Shops. They are never to argue with customers. The customer is always right. Should the customer refuse to pay the parking charge our attendant is to accept this with a smile."

RThought: Perhaps the last message is the secret to getting the Cadillac-Mercedes-Mark IV owners to pay what could otherwise be a $50 \phi$ per sq. ft . GLA common area cost to the shops-and yet result in a Center producing more than $\$ 120$ per sq. ft. GLA-and increasing!

## WHERE DO CONSUMERS GET ALL OF THOSE IDEAS?

I know that most RT readers do not read the "Business Notices" section of the Want Ads-so let's visit the front page of a Sunday Want-Ad section in a major newspaper.
"BANKRUPTCY. Join the $1,000,000$ consumers who filed bankruptcy in the last 5 years and got out of debt. Stop wage attachments, suits, harassments. Keep home ( $\$ 20,000$ equity)nt clothes, all household equipment, $\$ 2,000$ plus dozens of oth c items after bankruptcy. Call or write for FREE information. American Bankruptcy Council."
"DIVORCE. Do your own with our book by Attorney C. Sherman for $\$ 5$ or our trained staff can help for $\$ 55$. The WAVE PROJECT."
"California Corporations. Form yourself with simple kit. Free Info. Kathed."
"HORSE RACING. Professional Winning information. Results and Scratches."
"Poker-Pan-Lo Ball 10 a.m. to 2 a.m. 7 days. Artichoke Joe's."
"PLASMA DONORS. Earn up to $\$ 40$ per month, $\$ 10$ per week, $\$ 5$ per plasma collection."
"BALD OR THINNING HAIR. Dial taped message."

## HOW THE CONSUMER LOOKS AT PRIVATE AND NATIONAL BRANDS

The Fall 1973 issue of the Journal of Retailing contained an article somewhat dryly entitled "Purchase Behavior and Brand Choice Determinants for National and Private Brand Major Appliances" by Professors James Rothe of SMU and Lawrence Lamont of the University of Colorado.
The report included a comparison of 1966 and 1970 survege made by the Denver Post which reported that the preference fr private brands is rising in every category (this may partially

## WHAT'S WRONG WITH CONVENIENCE STORES?

This is the title under which your editor addressed the annual convention of the National Association of Convenience Stores.

A long-time reader of RT who owns a chain of convenience stores was on the program committee. He called me and said, "Our conventions are getting to be too routine. I figure you could get all the guys mad in about 30 minutes. Do you give talks at conventions?" Who could turn down such an invitation?

Before saying "Yes," I reviewed the convenience store industry to be certain that there was something that I wanted to say about it. What I observed led me to undertake the assignment with great enthusiasm.

My files disclosed that convenience stores have not changed too much since Professor Earl Brown of Michigan State described them in the January 1961 issue of Food Topics. He said they averaged about 2400 square feet (this has almost become a standard-a $40^{\prime}$ by $60^{\prime}$ building), 10 to 15 parking spaces, emphasis on national brands, prices higher than supermarkets, no fresh meat (but some deli items), long hours, and requiring about 1,000 families in the neighborhood without too much supermarket competition. Even then Professor Brown was putting emphasis on the fact that these units are fixed cost operations-so unit volume is the key to profits.

Many in the convenience store industry are convinced that it is the hottest thing in retailing. This idea is pushed by 3 or 4 trade bublications that regularly tell the "industry" it is the fastest oowing segment of retailing! In fact, operators are being told that they are a "concept" business. I took the liberty of reminding them that they are next in line behind some other great concept business-such as furniture warehouses, fabric chains, and discount stores!

As I have travelled throughout the country I have seen an increasing number of empty discount stores and service stations-but I haven't seen many empty convenience stores-YET!

Progressive Grocer put out their annual study and told the convenience store industry that it had increased its sales by $21 \%$ while the grocery sales had only grown by $7 \%$. At the lunch session, following my presentation, the publisher presented the annual report to the audience-and told them that by 1980 they would be doing $9.9 \%$ of the total grocery business compared with their present $3.7 \%$.

His figure is absolutely correct! That is, if you assume that convenience stores will continue to increase at the rate of $20.6 \%$ per year while grocery sales increase by only $6.8 \%$. But I had previously reminded the audience-which was largely enthusiastic, eager young entrepreneurs (the convenience store owners) surrounded by older and wiser men (the suppliers to the industry) that most of the operators would still be in business in the year 2000 and all they would have to sell in the year 2000, if they do maintain their relative growth rate, is $116 \%$ of the total grocery sales in the U.S.! As a betting man, I offered to wager that they wouldn't even reach $99 \%$-but there were no takers.
ost of the operators are on a growth binge. Whenever I was stroduced to someone he was likely to respond, "I have 10 stores-but we have 4 more under construction right now!" It was
said almost apologetically. Only once did I talk to someone who operated only one store-and was happy and content (even though two Munford Stores had opened recently at opposite ends of the town).

When the Convenience Store Journal queried the chief executives of the industry, 29 replied that they had not reached their 1972 sales expectations. The reason for not meeting the goal was attributed to longer supermarket hours ( $31 \%$ ), unable to open new stores fast enough ( $29 \%$ ) and new competition ( $23 \%$ ).

It seemed appropriate to report the history of another great "concept" retail industry-the original post-World War II "concept" industry. You don't remember? Supermarkets!

In 1956, the supermarkets, according to the annual report then being issued by Harvard and now being issued by Cornell, showed a profit after taxes of $14.68 \%$ on net worth. By 1972, that had dropped to $5.63 \%$ ! Some glamour.

If someone is saying, "But A\&P and the great loss they took on their WEO program has affected that figure," then let's look at the previous year when the return was an unhealthy $8.93 \%$.

The convenience store industry is very proud of its growthpresent estimates indicated there are about 18,000 stores. This means that the industry finally exceeds the number of stores reporting to the management committee of A\&P in 1930 and 1931! And the interesting thing is that if one applied a price change index to the $\$ 80,000$ per store volume enjoyed by A\&P in those years, it comes out to about the $\$ 200,000$ a year sales volume of the present convenience store. One can thus conclude that the entire industry is about the size that A\&P was more than 40 years ago.

It should be pointed out that in the last half of the 1920s, A\&P by themselves, opened stores faster than the entire industry is doing today!

But the surprising thing is that no one in the industry is looking carefully at the major merchandise categories upon which this tremendous "growth" and "concept" is being built. Beer (and wine, when permitted) is the largest volume and the largest profit category. Cigarettes are the 2nd largest profit category and the 3rd largest sales volume. In many companies, where they have gone heavily into gasoline, it is (or was) approaching third in profits.
I pointed out the future of these three items-so that the owners could properly evaluate the prospects for continuing this fantastic growth.

First is beer. The United States is finally recognizing that alcohol is its most serious drug problem. The only reason alcohol is not being attacked more aggressively is that virtually every state plus the federal government get so much tax revenue from alcohol that they are unwilling to try to cut consumption-and then have to find a new tax source.

Second is cigarettes. The Surgeon General and the Products Safety Commission are both getting ready to try to restrict cigarettes because they kill people. (But cigarettes are protected in the same manner as alcohol-they produce lots of tax revenue).

And finally there is gasoline. The Environmental Protection Agency is going around the country, as required now by law, outlining plans for communities which will require reducing the usage of private automobiles by as much as $93 \%$ by 1977! That means a great future for gasoline stations! Is this why the oil companies are pawning them off on the innocent convenience store industry? I think it was Barnum who said, "There's a sucker born every minute."

These facts seem rather obvious to me-but apparently no one in the industry has really looked at this situation. I heard a man in the front row groan, as I reviewed these 3 categories, "They're half my volume!"

It also happens that consumers are spending a smaller and smaller portion of their income on food and alcohol-and on tobacco.

Convenience stores face a problem on site locations because of the growing energy crisis. The sequence works out about as follows. The shortage of gasoline and the problem of air pollution are going to force the construction and use of more and more fixed rail rapid transit systems. This means that more and more people will have to cluster around the rapid transit systems-and much more closely than they do around the freeway exits.

This clustering will mean that there will be fewer and fewer developments that open up a 1,000 -home tract a mile or so from the nearest other tract. As the spaces between tracts are filled in-rather than new tracts being dropped at random-there will be more "supermarket territory" and less "convenience store territory."

This process of filling in between developments will be hastened by the increased control exercised by planning bodies. It also will be encouraged by municipalities and special districts who find it increasingly difficult to provide utility, water and garbage service to widely located developments.

And then there is the matter of labor and unions. The supermarket industry is the most highly unionized segment of retailing. The convenience store is probably the least unionized. The industry, through franchising, has tried to make this a family business-as a means of protecting against unionism. This approach, however, often brings poor management and instability.

The convenience chains that press for franchises have some of their least profitable stores on a yo-yo. One month it is company operated and the next is is operated by a franchisee and the following it is company operated agian. The franchisee has limited freedom of decision making; all the accounting and control is vested in central management. And one of these days unions will get interested (when the number of potential dues paying members is great enough) and will win an action to have the franchisee and his or her family members considered to be employees of the franchising company.

Our local Labor journal runs little items like, "I am sure that members of our food division would be perturbed if they found that (you) were buying groceries at Short Stop, 7-11 or Handy Pantry."

And so it became necessary to summarize "What's wrong with the convenience stores?"

1. Convenience stores are currently enjoying a growth rate th they cannot maintain. People must remember that growt curves are S-shaped and flatten off or even decline at the top; they are not straight 45 degree rising lines.
2. All concept businesses must come to an end-some with a fatal crash and others by settling down to being just another industry. In either case, the adjustment can hurt.
3. Overstoring and competition will grow-despite some aggressive attempts within the industry to reduce direct competition.
4. Other companies, often with large resources, will enter the convenience store business. This is already apparent with many of the supermarket chains. Many of these entrants into the industry will not be successful with convenience stores (there is nothing magic about retailing that assures that supermarket chains can successfully operate convenience stores). When these new entrants collapse, they are likely to hurt the other convenience store chains in the same market.
5. The major product categories are all suspect. Alcohol is a drug. Cigarettes kill through lung cancer. And gasoline kills through contaminating the air.
6. Labor will soon be attracted by the number of employees in metropolitan areas and will seek more people paying dues to the local (and thus to the business agent and the officers).
7. An finally, the changed patterns of transportation, followed by more controlled use of land, together with the movement back into the cities, is likely to mean that the conveniend store, which now blankets suburbia, will find that supermarkets have replaced them; and that their new market will be in central city areas-in the basement and on the ground floors of apartment buildings (just like A\&P was in 1930!).

## NAMES FROM THE F.T.C.

Goldblatt Bros., Inc. FTC provisionally accepted a consent order barring further violation of Truth-in-Lending. Goldblatt's was alleged to have failed to notify credit customers of their 3-day right to rescind transactions in which Goldblatt's acquired a security interest in the customer's homes by virtue of a confession of judgment clause in Goldblatt's installment contracts. Goldblatts has since discontinued using this contract.

Food Fair Stores, Inc.'s subsidiary, Amterre Development, Inc. (which operates 48 shopping centers and 36 free-standing properties in 9 states totalling $9,000,000$ square feet) has been issued a complaint alleging restrictive lease provisions that eliminate price competition, exclude discount stores, control and eliminate discount sales and otherwise restrain sales. The FTC contends that the terms of the leases tend to fix, establish and maintain prices at which, or price ranges within which, shopping, center tenants must sell merchandise and that they encourag each tenant to enforce price restrictions against its competitor.
reflect the growth of new private label appliance companies such as Penney and K-Mart).

First, the article shows that the source of information used in aking a purchase decision varies significantly between the two $y$ pes of brands. Previous personal experience is the best source for both private and national brand purchases. However, Consumer Reports-type bulletins ranked $\# 2$ as the source of information for those who prefer national brands-while in-store promotional displays were rated \#2 by the private brands. This suggests two things: first, if purveyors of national brands paid more attention, their in-store promotional displays could be made more powerful (send your department manager to Sears and Penneys to study theirs) and second, every appliance department in every outlet should have a subscription to Consumer Reports and Consumer Bulletins. Be careful that clerks do not use the issues to sell appliances-only to learn what the publications have found to be the good and bad points of the brands you sell. Using the reports to advertise or to sell merchandise can bring a suit for violation of copyright.

Both groups of customers rated newspaper and magazine ads in 6 th place and TV and radio ads in 7th place.

There is another major difference in the factors that determine brand selection. Both groups of buyers rated product reliability as the most important factor-but in 2nd place the national brand buyer rated brand reputation (private label buyers rate this 4th) while private label rated price as 2nd (national brands rated this 5th). Previous experience was rated 3 rd for national brand buyers-but 6th for private brand buyers (which indicates great confidence in the quality put out under private labels).

And finally, in determining which store to patronize, private $i{ }^{i}$ rand buyers went because of a special sale (knowing that they pme regularly-weekly?-in stores with private labels) while national brand buyers look first at repair service (larger stores often do a poor job). Both groups rated store credit policy and selection offered as the 4 th or 5 th reasons.

The article concluded that the two segments of the market are significantly different. RT would add its own interpretation that this is only because the national brand advertisers haven't looked closely enough at-and copied often enough from-the private brand stores.

## WILL GIMBELS TELL MACY?

Will Gimbels tell Macy the results of their test of Master Charge? The September 1973 issue of Marketplace, published by the Interbank Card Association, reported that Gimbels included a 1,000,000-circulation 32-page housewares supplement in the NY Times and authorized Master Charge on a limited basis-for mail or telephone orders only.

RThought: Gimbels claims to be the original department store in the United States (remember Vicennes, Indiana) and there may yet be another "first" for the Gimbels. But RT wonders why, if this was a test, they did not simultaneously test BankAmericard.

## HAVE YOU EVER BEEN ARRESTED?

RT has written on this question many times. RT has strongly opposed including this question on employment applications.
his may be RT's last article on this question-now that the law is being clarified and the clarified law is being enforced by the

Equal Employment Opportunity Commission. RT is grateful to Issie L. Jenkins, their Assistant General Counsel, for an excellent summary.

Based on Gregory v Litton Systems (316 F. Supp. 401), it is unlawful to make either oral or written inquiry about the arrest record of an applicant, absent a showing of necessity, since minorities are arrested more often than whites.

The principle of excluding questions about information that is biased on a racial or sexual basis has been set forth in many other cases. You cannot ask about a high school diploma when there is no proof that a high school diploma is indicative of future job performance. The same is true in regard to questions about the applicant's credit rating, or the child care provisions from female job applicants, or setting height and weight requirements when such are not related to job performance, and a number of other questions.

The key sentence in his letter reads "The EEOC has taken the position in light of Griggs v Duke Power Co., 401 U.S. 424 (1971) that any employment criteria that operate to exclude a protected class and is not predictive of job performance violates Title VII unless the policy is justified by business necessity."

The question of "justified by business necessity" is not just a matter of executive decision. The EEOC published in the Federal Register (August 1, 1970, pages 12333-12336) specific "Guidelines on Employee Selection Procedures."

Although this guideline relates to the use of tests, it does set forth the method and standards required to establish the validity of the decision to ask any question.

## ANOTHER VIEW OF THE ENERGY CRISIS

Senator Peter H. Dominick of Colorado addressed the Board of Directors of the National Home Furnishings Association. Included in his comments was the observation that some sources believe that by 1980 we will be paying $\$ 2.80$ a gallon for gasoline, the only cars permitted will be those that get over 35 miles per gallon, and cars will be completely banned in many areas.

## GETTING READY FOR A BANKERS CONVENTION

The 99th Annual American Bankers Association Convention was held in Chicago October 5th to 10th-and two retailers showed up in the September 1973 issue of BANKING. I Magnin was unimaginative. They ran a background of their name (looked like a background that could be used on a shopping bag) and a "We welcome . . . have a happy stay!" slogan. Then there was Bonwit Teller-with 2 pages and a headline that said, "Furs with Bonwit Teller Touch - there's nothing like them in all Chicago!" And the ad included a simple "name and address" application for a charge account.

RThought: A really smart merchant would have honored BankAmericard and Master Charge at a bankers convention!

## OVERWORKED TOP MANAGEMENT

RT has commented several times on the fact that nothing seems to get done in a business unless it has "top management support." One wonders what middle management or departmental management is supposed to do if they cannot accomplish anything new without the support of top management.

This demand by middle management for a crutch (see Completed Staff Work," RT August 1973 for an alternative approach) was emphasized in a recent issue of "Update" the monthly periodical of Buyers Laboratory. The subject was "word Processing" (WP), what it is and how to install it.

The Toro Company was quoted as saying "Installing the W.P. concept requires the support of all management." Maine National Bank said "Top management support ... will be necessary to make it work." Syracuse (N.Y.) Schools said "Another significant aspect is that the implementation of this type of systems demands support from top management." Farmland Industries said "A most important element is top management support."

It is true that 3 companies were quoted on W.P. without mentioning the need for a crutch-but that may have been due more to the condensation of the quotations than a true measure of capability on the part of the middle manager responsible for installing and operating word processing.

## NAMES IN THE COURTS

K-Mart Enterprises (subsidiary of S.S. Kresge Co., listed NY Stock Exchange, rated A by Standard \& Poors) agreed to a consent judgment in Superior Court in California and promised to refrain from false advertising. The complaint alleged that the store placed false and misleading prices on a portable TV set in a flyer and then asked the printer to give them a letter saying that the incorrect price was a printing error. Other changes alleged advertised merchandise that was not on hand and offering different items than advertised. And K-Mart paid $\$ 10,000$ to settle the case!

Uniroyal Tire Co. paid $\$ 80,000$ to settle out of court a charge of selling private label (Co-op HiLevel SPD) tires that failed to meet test standards. Half of the 25,000 tires sold under this label failed because of tread separation! Uniroyal repurchased the inventory from National Cooperatives but rather than destroy the unsafe tires Uniroyal resold the tires to other dealers!

## SHORT SHORTS

Gimbels proves the advantage of a Manhattan branch. One of the advantages of putting a branch store on Manhattan Island would appear to be improved response to the existing advertising in the New York newspapers. But Gimbel made Gimbels East so different that it now must run a separate advertising campaign. Combined with Gimbel-owned Saks Fifth Avenue, Gimbels now has 3 major campaigns for 3 major stores located within 50 blocks on a single island.
Loehmann's revives a lost art-pride in employees. On September 16, 1973, they ran the following ad in the New York Times: "The Loehmann's family of fine fashions proudly congratulates Helen Schultz, Claire Sturm and Carl Hausler on their Fortieth Anniversary with the company." And they ran the ad where the customers would look for a Loehmann's ad.

American Express Card is getting more mentions in the New York Times ads-from Rogers Peet to Barney's. But Macy's continues to be ashamed of the fact that they honor the card.

A\&P has a broader guarantee. Their ad states "A\&P offers an unconditional money-back guarantee. No matter what it is, no matter who makes it, if A\&P sells it, A\&P guarantees it." They also state a broad "Raincheck" policy! "If an advertised special is ever sold out, ask the Manager for a Raincheck. It entitles you to the same item at the same price the following week. Or if you wish we'll give you a comparable item at the same price."

Giant Food identifies items in their ad as either "Advertised Bonus Special" or "Everyday Price."

Safeway ads grow more interesting. The ad run July 12, 1973, in the Washington Post was, according to the ad, copyrighted 1960 -some 13 years earlier. Looking at the prices advertı (like sliced bacon at $\$ 1.09$ per pound) one must commend the research done 13 years ago. And a satisfaction guarantee or money-back refund is extended only to meat!

Why doesn't Bullock's use their computer's capability? Every new installation of point-of-sale equipment is accompanied by stories of the great things that the system CAN do. But the user seldom uses the full capability. While shopping Bullock's Northern California recently, I observed the application of their American Regitel alpha-numeric point-of-sale equipment. The computer carefully printed out the words "cash," "beads jewelry," "tax," and "total." The sales slip can be as long as is needed. Automatically there is an inch of blank paper between the tax figure and the total. But no one appears interested in having the computer print out something like "Thank you" or (since it was a cash transaction) "We would be happy to open a charge account-visit our credit office on the second floor" or "We are having a special sale of hosiery through Tuesday"-or any of hundreds of possible messages. American Regitel spent a lot of time designing capabilities-that Bullock's may not have the capability (or imagination) to use.

## FROM AN EXECUTIVE'S WALLET

This month we offer thoughts from the wallet of Charles "Bud" Eldon, a senior manager for Hewlett-Packard:
> "It is not the critic who counts, nor the man who points out how the strong man stumbled, or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly, who errs and comes short again and again; who knows great enthusiasms, the great devotions, and spends himself in a worthy cause; and who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat."

Anonymous

## WORDS TO MANAGE BY

In the aftermath of the admission of felonious conduct by the former Vice President, it might be well for the future of the United States, our most important management effort, to look once again at the Preamble to the Constitution:
"We, the people of the United States, in order to form a more perfect Union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare, and secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America."

Note that this was an act of "we, the people." Neither absolute power nor immunity from the law was given any branch of government, any organization, or any man.

But what is not set forth with sufficient clarity is that th Constitution will not work unless each of us is willing to expe time and effort to keep it functioning. Someone should say, "T first 186 years are the hardest."


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NOVEMBER 1973

## ENERGY, ENVIRONMENT-AND RETAILING

The full-color crystal ball (reflecting improved technology for the traditional soothsayer) is coming up cloudy.

Since World War II, retailing has raced to build more and bigger shopping centers, used more air conditioning, lighting and heating, and has been dedicated to an economy of more cars. Just to prove we are inherently wasteful, we are already creating slums now out of shopping centers built in the early 1950s.

We have convinced ourselves that we must constantly increase lighting intensity. We have trained our customers to think that moderately lighted stores ( 75 foot candles for example) are "dirty, unattractive." This is particularly true for supermarkets and discount stores.

Now retailing faces a shortage of energy-one that may mean less power available for heating, for cooling, for lighting. With gasoline rationing it may mean fewer customers who make 20 to 40 mile round trips. With the higher price of energy that may be charged to the consumer-for home and car-he may have less money to spend in our centers.

And even if he wants to come, the Environmental Protection Agency may block new construction of centers with their multi-thousand car parking lots because of the impact on the quality of the air.

Perhaps this will be a happy time for retailers-to use the phrase that Coca Cola made famous, "the pause that refreshes." Perhaps retailers can stop expansion for expansion's sake-the drive of many major national chains to open a store in every center "to protect our position." This is often followed by explanations in their annual reports of the impact during the early years of the new outlets on current profits of the company-but promising great things in the future. If fewer new centers are opened, perhaps the "future" that stockholders are waiting for will finally come.

Certainly existing centers should show better growth rates if new and more advanced centers are not opened near them. Higher store temperatures in the summer and lower in the winter, with many lights turned off, could cut utility usage more than enough to offset higher utility rates. And perhaps the United States will attain the goal set by President Nixon-"Energy independence by 1980."

## GAMES EXECUTIVES PLAY

Stanley M. Herman, a management consultant from Redondo Beach, California, wrote an article in the November 1973 issue of the Michigan Business Review (Graduate School of Business Administration, Univ. of Michigan, Ann Arbor, Michigan

## HOW GOOD ARE RETAIL ETHICS?

In the aftermath of Watergate, everyone is analyzing business ethics. And everyone has an opinion. Let's read what is being reported by Business Week.

Mary Gardiner Jones of the FTC says "Business really has no respect for government. The businessman is used to getting decisions the way he wants them to go, the end is what counts, the means are rationalized. He doesn't think he is doing anything wrong; it's just looseness." This is the attitude of a person appointed to watch over business conduct in the areas of competition, advertising, warranties, pricing and other business practices.

Economist Paul Samuelson said "A pro-business Administration committed these acts but most businesses simply don't run their affairs like that." But apparently he forgets the conduct of ITT, the corporations that used corporate funds for political contributions, the major grain brokers who played footsie with the Department of Agricultureand on and on.

The American Management Association reported that a 3,000 man survey found a majority of those executives questioned felt under pressure to compromise personal standards to meet company goals, But apparently these are weak individuals-since they always have the option of quitting.

Dean Harold Williams of the UCLA Graduate School of Management points out "The question is where you draw the line and whether the individual executive is capable of recognizing what is really right for himself and his company."

Professor (of Social Ethics) Roger Shinn, Union Theological Seminary, points out that "John Mitchell associated winning the election with the good of the country" and observed "What bothers me is the narrow way (businessmen) define ethical considerations. They should think about the responsible use of power."

RTip: If you want to know who to listen to-try J. Irwin Miller, Chairman of Cummins Engine Co., who told his top executives that his policy is $100 \%$ honesty, even if he loses by it, even if it hurts. It is by far the simplest policy to follow.

There are a few in retailing who follow this meticulously -a larger number who think they do-and an unknown number who make decisions solely on what will make the most money.

48104-copies free on request) entitled, "Eight Running Games for Executives." The names of the games are fully descriptive of their concepts-and you should recognize all of them, having watched as they are played as a way to defer or avoid making a decision:

## 1. More Data Needed

2. It Never Should Have Happened in the First Place; or It's Not My Problem It's Theirs
3. Power, Power, Who Has the Power
4. Waver
5. What Will Harry Think?
6. Yeah, But. . . .
7. Wash Out
8. Consultants

The article is worth sending for-and reading.
RThought: Years ago I worked under a wise man by the name of Harold B. Wess, then Executive Vice President of Macy's in charge of Division V or Research, later Director of Development for Alexanders, and now emeritus professor from American University. The problem facing the Research Division was to see that new ideas were not killed or rejected because of obvious defects. Accordingly, each time a new idea was introduced for study by the Division, he would gather the executive researchers into his office and present the concept to them. He would then set a time limit, ranging from 1 hour to an entire day, depending upon the novelty and the complexity of the idea, during which we could only offer suggestions to improve or strengthen the idea.

After this period of positive evaluation and improvement, he knew that we were (1) fully acquainted with the idea and (2) the idea had been improved - or the obvious weaknesses had been eliminated-and we were, for the first time, in a position to properly evaluate it.

Harold Wess was a very wise man. It is hoped that this little article will pass on some of his wisdom.

## DISCLOSING THE COST OF FRINGE BENEFITS

Most retailers are very conscious of the increasing cost of "fringe benefits." However, most retailers are less conscious (than other industries) of the current percentage relationship of such fringe benefits to total payroll.

And virtually no retailer (RT does not know of any but presumes that there might be one or two) discloses this information completely and effectively to their employees.

In this day of computers, the disclosure is within the capability of existing equipment if the desire of management exists. The time to make such a disclosure is when W-2 forms are distributed in January.

Even companies without computers-and whose payroll records are maintained by hand-can make such a report to their employees. The report should go something like this:

[^2]"You are aware, of course, that this paid compensation included pay for holidays, vacation, and sick leave--time when you did not work but for which payment was made under Company policy (or union agreement).
"Let's look at the total amount paid by the Comapny on your behalf and for your benefit.

Compensation shown on W-2
\$6,550
Company's portion of Social Security (5.85\%)
Unemployment insurance-state and federal ( $3.28 \%$ maximum) ( $3.28 \%$ of $\$ 4,200$ )

138 (1)
Hospital, Surgical and Major Medical Insurance
360 (2)
Dental Insurance
144 (2)
Group Life Insurance
Group Disability Insurance
Workmen's compensation Insurance
Pension Plan
185 (1)
Profit-sharing Plan
Employee discount granted

1,200 (3)
\$9,193
(1) computed as percentage of payroll up to fixed limits.
(2) look-up from tables based on coverage, dependents, etc.
(3) could come from accounts receivable when discount is taken in credit office; in other cases could be computed as a percentage of payroll, on a per capita basis, or based on a sampling analysis (whatever procedure is used, the method of computing should be disclosed)."

RThought: You know that you have paid or provided this amount. The employee probably knows that he has received most of the benefits outlined but doesn't know the total. Why be so modest that you conceal the facts?

## WHICH PRODUCTS ARE HAZARDOUS?

The Consumer Product Safety Commission has released a list of consumer products that appear to pose the greatest threat of injury to consumers. The list is based on information from 119 hospital emergency rooms, and the top 50 items were estimated to account for about $3,600,000$ injuries to children during fiscal 1973.

Here are the products that retailers might carry (the other causes were activities, building, etc) and their ranking:

```
1 Bicycles
4 \text { Cleaning agents}
6 \text { Beds}
8 Swings, slides, etc.
1 1 \text { Power lawnmowers}
1 9 \text { Non-upholstered chairs}
20 Storage furniture
21 Cutlery
22 Clothing
2 3 \text { Paints and solvents}
2 4 \text { Household chemicals}
27 Glass bottles & jars
28 Washing machines with
        wringers
29 Matches
30 Ladders and stepstools
31 Sun and heat lamps
```

Bicycles
4 Cleaning agents
6 Beds
8 Swings, slides, etc.
19 Non-upholstered cha
20 Storage furniture
21 Cutlery
22 Clothing
23 Paints and solvents
27 Glass bottles \& jars
machines with

30 Ladders and stepstools
31 Sun and heat lamps

32 Home workshop<br>34 Pens, pencils and desk items<br>35 Pins and needles<br>36 Cans, including self-opening ones<br>37 Upholstered furniture<br>38 Furnaces and floor heaters<br>39 Hot water heaters<br>41 Baby Cribs<br>42 Roller Skates<br>43 Pots and pans<br>44 Fishing equipment<br>45 Jewelry and watches<br>47 Irons<br>49 Wagons and ride-on toys<br>50 Minibikes

## ENERGY CRISIS-SHOPPING WITHOUT A CAR

Look carefully at the list of 59 names below and see if you can dentify the common tie-before reading the answer.

Abbey Press<br>Alsto<br>Brookstone<br>Wallace Brown<br>Harriet Carter<br>Casual Living<br>Child Craft<br>Clymers of Bucks County<br>Conception Abbey<br>Joan Cook<br>The Country Gourmet<br>Downs<br>Walter Drake<br>Helen Gallagher-Foster House<br>The Gallery<br>The Game Room<br>Greenleaf Studios<br>Haverhill's<br>Figi's<br>Harry and David<br>Pfaelzer<br>Alfred Dunhill of London<br>Eddie Bauer<br>Cable Car Clothiers<br>The Exclusive Cutlery Shop<br>Hammacher Schlemmer<br>Harvard University Press<br>Publishers Central Bureau<br>The Drawing Board<br>Fidelity Office Supply<br>General Wholesale Products<br>Holiday Gifts<br>Lewis \& Conger<br>Magic Mold<br>New Hampton General Store<br>Jay Norris<br>Old Guilford Forge<br>Old Pueblo Traders<br>R\&S Sales<br>Postalmatic Company<br>Carroll Reed<br>Sleepy Hollow Gifts<br>Spencer Gifts<br>The Stitchery<br>Suburbia<br>Sunset House<br>Taylor Gifts<br>The Tog Shop<br>Williams-Sonoma<br>The Swiss Colony<br>Wisconsin Cheese Makers Guild<br>Wisconsin Cheese Man<br>Liberty House \& Rhodes<br>Macy's<br>F.A.O. Schwarz<br>Shreve<br>Yale University Press<br>Myron's<br>U.S. Pencil \& Stationery

Have you figured out the connection? The list could have been longer but some catalogs were destroyed before the collection was started.

All 59 of these firms sent me a Christmas catalog! Imagine the shopping that my wife and I and our children can do and do do from the quiet confines of our home.

Let's look at what is happening in the 5 groups shown above. But, first, let's identify the groups as: small-item mail order house, mail order food dealers, retailers with a mail order annex, book publishers, and suppliers to business.

The biggest-and growing-group is the first group. Many are highly specialized (Child Craft, Old Pueblo Traders, The Stitchery) and others deal in categories of merchandise that is seldom, if ever, found in stores even in major areas (Abbey Press, Old Guilford Forge, Williams-Sonoma). This group is offering more and more conveniences. 25 of the 36 honor both BankAmericard and Master Charge (Child Craft, apparently as a means of restricting their volume, only honors Master Charge). 14 of the 25 also honor American Express, 4 honor Diners Club but only 1 honors Carte Blanche. 6 offer their own charge account (including Guilford Forge which fails to make the disclosures required by Truth-in-Lending). 6 offer prizes, free goods or premiums, with major prizes up to $\$ 50,000$.

Jay Norris is offering a special deal on cars. Taylor Gift was the only one to include a questionnaire with the order form, seeking information on how the catalog and service could be improved. Many provided space to suggest names of potential customers. (Do you ever ask that of your charge customers???)

There is growing emphasis on establishing credibility. Many indicate the number of years they have been in business. Others indicate that they are members of the Direct Mail Association, the New England Mail Order Association, a local chamber of commerce, listed in D\&B-and a growing number list their bank as a reference. Guarantees of satisfaction are common. Two firms are using in-coming WATS telephone numbers for orders over a minimum with payment made through credit cards. Another 11 are set up to accept customer-paid calls for orders charged to credit cards.

The food dealers are less likely to honor credit cards-this year only 2 out of 5 . But the food dealers are set up to handle deliveries to meet a certain date (such as Thanksgiving, a birthday, Christmas, etc.)

The stores with supplementary mail order are split-only Dunhill, Liberty House, Macy's and Schwarz do not honor the bank cards. On the other hand, Shreve, with items from $\$ 5$ to $\$ 33,440$, honors both bank cards and Amex. Schwarz offers a $10 \%$ discount if postmarked before October 31st. Eddie Bauer lists their TWX number. And Macy's, as usual, makes no mention of American Express. But the worst offense seems to be Dunhill'son their Dunhill 18 kt gold Rollagas lighter complete with rubies, emeralds, saphhires and diamonds, which weighs a few ounces and sells for $\$ 2000$, they still demand $\$ 1.25$ for delivery outside the local area! (Doesn't anyone in management read the catalogs before they are printed?)

The book publishers show what is perhaps the start of a trend. Yale University Press is now honoring the bank cards while Harvard Press offers a $\$ 20$ book as a premium with all orders over $\$ 95$.

The 5 suppliers to business are going further and further into gifts that duplicate the other catalogs. Basically these firms bill on open account to established customers or D\&B rated firms. However, U.S. Pencil does honor the bank cards and Amex, while the Drawing Board and Fidelity encourage customer-paid phone call orders.

RThought: There is no way you can send someone out to check the number of catalogs that are coming into my house-and you are even less likely to know what orders I place. The package, in more and more cases, sneaks up to my house in your brown United Parcel Service truck.

For many small items, I can see the item much more clearly in its own picture on a page with 8 to 12 other pictures than I can see it against a jumble of other merchandise that I am passing at a slow walk.

And if I have a question about the merchandise, I can usually get more information from the paragraph with the picture than I can from the run-of-the-mill salesclerk. And it takes me less time to fill-in and mail my order than it does, in some of your stores, to get my purchase recorded.

Not all of your competition is the shopping centers or the catalog/showrooms. Some of it is right in my mail box-more than 59 of them this Christmas. And I never had to use my car.

## CREDIT OFFICE RATING

The credit offices in your stores are doing an amazing job-especially as more and more of them concentrate their attention on giving your customers the best possible break by getting your statements out as fast as possible. This month RT is proud to report a new record-18 stores on the Honor Roll. Another 8 stores would have been on the Honor Roll under the original standard of 5 days. An one store reached the ultimate record-1 day for F.A.O. Schwarz in San Francisco!

## HONOR ROLL

| F.A.O. Schwarz | 1.0 | Ward's (Houston) | 3.0 |
| :--- | :--- | :--- | :--- |
| Rubenstein's | 2.0 | Roos/Atkins | 3.0 |
| Gus Mayer, Nashville | 2.4 | Livingston Bros. | 3.5 |
| Berkeley's | 2.5 | Gus Mayer, Baton Rouge | 3.5 |
| Maison Mendessolle | 2.5 | Gus Mayer, Oklahoma City | 3.5 |
| Gus Mayer, Beaumont | 2.9 | Mervyn's | 3.6 |


| Wineman's | 3.6 |
| :--- | :--- |
| Levee's | 3.8 |
| Gus Mayer, Louisville | 4.0 |
| Abercrombie \& Fitch | 4.0 |
| Bullock \& Jones | 4.0 |
| Sears (Dallas) | 4.0 |

## CREDIT OFFICE RATING

|  | AUG-SEPT 1973 |  |  | JUNE-JULY 1973 |  |  | AUG-SEPT 1973 |  |  | JUNE-JULY 1973 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Information From Reporters | No. of Reports | Days t Average | Bill Range | No. of Reports | Days Average | Bill Range | Information From No. of <br> Reports <br> Stores  | Days to Average | Bill <br> Range | No. of Reports | Days Average | Bill <br> Range |
| Abercrombie \& Fitch (NY) | Y) | 4.0 | 4 | 1 | 7.0 | 7 | Berkeley's (Fresno) | 2.5 |  | 8 | 4.5 |  |
| Brooks Bros. (NY) | 2 | 7.5 | 6-9 | 3 | 6.3 | 5-8 | Blum Store (Phil.) | 6.6 |  | 8 | 9.4 |  |
| Bullock's (LA) | 2 | 5.5 | 4-7 | -- | -- | -- | Brock's (Bakersfield) 40 | 9.2 | 6-11 | 40 | 8.4 | 5-13 |
| Builock \& Jones (SF) | 1 | 4.0 | 4 |  | -- |  | Holman's (Pacific Grove) 10 | 8.8 | 7-11 | 10 | 5.2 | 3-7 |
| Capwell's (Oakland) | 4 | 7.3 | 7-8 | 7 | 7.0 | 5-8 | Levee's (Vallejo) 20 | 3.8 | 3-7 | 20 | 4.4 | 2-7 |
| Desmond's (LA) | 2 | 4.5 | 2-7 | 1 | 6.0 | 6 | Levy Bros. (San Mateo) 32 | 5.1 | 3-8 | 32 | 7.3 | 4-12 |
| Emporium (SF) | 2 | 10.0 | 9-11 | 3 | 7.3 | 6-9 | Gus Mayer (Nashville) | 2.4 | -- | 8 | 2.4 | .- |
| Foley's (Houston) | 2 | 7.5 | 7-8 | 1 | 8.0 | 8 | Gus Mayer (Beaumont) | 2.9 | -- | 8 | 2.7 | -- |
| Gump's (SF) | 3 | 8.3 | 7-10 | 2 | 8.0 | 6-10 | Gus Mayer (Louisville) | 4.0 | -- | 8 | 6.4 | -- |
| Hastings (SF) | 2 | 20.0 | 20 | -- | -- | -- | Gus Mayer (New Orleans) | 11.0 | -- | 8 | 10.2 | -- |
| Hink's (Berkeley) | 2 | 8.0 | 8 | 2 | 9.5 | 7-12 | Gus Mayer (Oklahoma City) 8 | 3.5 | -- | 8 | 7.3 |  |
| Joske's (Houston) | 2 | 7.5 | 7-8 | 1 | 3.0 | 3 | Gus Mayer (Jackson) | 6.7 | -- | 8 | 6.5 |  |
| Kushins (Oakland) | 1 | 9.0 | 9 | - | -- | -- | Gus Mayer (Memphis) | 9.0 | - | 8 | 5.7 |  |
| Liberty House (Oakland) | 3 | 6.7 | 6-7 | 4 | 5.3 | 5-6 | Gus Mayer (Baton Rouge) | 3.5 | - | 8 | 4.4 |  |
| Livingston Bros. (SF) | 2 | 3.5 | 3-4 | 1 | 5.0 | 5 | Mervyn's (San Lorenzo) | 3.6 | 3-4 | 8 | 3.0 |  |
| Lord \& Taylor (NY) | 2 | 6.0 | 5-7 | - | -- | -- | Rubenstein's (Shreveport) 6 | 2.0 | 2 | 6 | 2.2 | 2-3 |
| Macy's (SF) | 6 | 6.0 | 6 | 4 | 6.0 | 6 | Walker Scott (San Diego) 12 | 5.7 | 4-8 | 12 | 6.0 | 5-8 |
| I. Magnin (SF) | 9 | 4.3 | 4-6 | 7 | 4.3 | 4-6 | Wineman's (Huntington |  |  |  |  |  |
| Joseph Magnin (SF) | 2 | 4.5 | 4-5 | 1 | 4.0 | 4 | Park) | 3.6 | 3-4 | 8 | 3.3 | 2-4 |
| Maison Mendessolle (SF) | 2 | 2.5 | 2-3 | 2 | 2.0 | 2 | TOTAL 216 | 5.8 | 2-11 | 216 | 6.2 | 2-13 |
| Montgomery Ward (Houston) | 2 | 3.0 | 3 | 1 | 4.0 | 4 |  |  |  |  |  |  |
| Peck \& Peck (NY) | 1 | 25.0 | 25 | 1 | 24.0 | 24 | WHY A CREDIT OFFICE RATING? The Unruth Act (in California) controlling revolving accounts went into effect about 1963 just as the Office of Consumer Counsel was created. Consumers were complaining that they received statements so late that they had an additional service charge before they could pay their bills. Consumer groups were proposing |  |  |  |  |  |
| Penney's (Oakland) | 2 | 5.0 | 5 | 3 | 5.3 | 5-6 |  |  |  |  |  |  |
| Penney's (Dallas) | 2 | 5.0 | 5 | -- |  |  |  |  |  |  |  |  |
| Robinson's (LA) | 2 | 4.5 | 4-5 | 1 | 5.0 | 5 |  |  |  |  |  |  |
| Roos/Atkins (SF) | 2 | 3.0 | 3 | 1 | 3.0 | 3 | laws that would have been im | possible | meet | with equi | pment an |  |
| Routzahn's (Maryland) | 3 | 5.0 | 4-6 | 1 | 4.0 | 4 | cedures in major stores. The C | REDIT OF | FICE R | RATING | was initia | ted to |
| Sakowitz (Houston) | 1 | 9.0 | 7 | - | 7.7 | 79 | bring this problem to the att | tention of | influen | tial peop | le within | store |
| Saks (SF) | 3 | 9.0 | 7-10 | 3 | 7.7 | 7-9 | management. |  |  |  |  |  |
| FAO Schwarz (SF) | 1 | 1.0 | 1 | -- | -- |  |  |  |  |  |  |  |
| Sears (Alhambra) | 2 | 4.5 | 4-5 | 2 | 7.5 |  | lishing the data and especially for naming stores. Since then the reports |  |  |  |  |  |
| Sears (Dallas) | 1 | 4.0 | 4 | 1 | 6.0 |  | have been accepted for their intended purpose and many stores have |  |  |  |  |  |
| Shreve \& Co. (SF) | 1 | 16.0 | 16 | 2 | 12.0 | 5-19 |  |  |  |  |  |  |
| TOTAL | 76 | 6.6 | 1-25 | 56 | 6.4 | 2-24 | five working days between cycle closing and postmark date, and now reduced to four days because of the large number of stores that have attained five days. Many stores have reported pride-both to management and credit and data processing personnel in being listed on the Honor Roll. |  |  |  |  |  |

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

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

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

## RETAILERS AMONG THE TOP 100 NATIONAL ADVERTISERS

7ly 5 retailers or firms with major retailing interests made the op $100^{\prime \prime}$ list. The firms, together with their total expenditures .or national media such as magazines, business publications, spot and network TV, spot and network radio and outdoor advertising, are:

## National Expenditures <br> (in millions) <br> $\$ 92.0$ <br> 29.9 <br> 13.0

Rank/Company
7 Sears
37 Rapid-American
84 Penney 15.2
89 Woolworth 13.5
90 Great A\&P
Virtually none of the expenditure was for business publications, network radio or outdoor.

The pattern on use of major media items is as follows, (in millions of dollars):

|  |  |  |  | Network <br> CV | Spot <br> Radio | Network <br> Radio |
| :--- | ---: | ---: | ---: | ---: | ---: | :---: |
| $n$ |  | Mags | Spot TV | TV |  |  |
|  | $\$ 23.1$ | $\$ 20.1$ | $\$ 36.4$ | $\$ 11.4$ | $\$ 0.8$ |  |
| Sears | 7.5 | 0.8 | 2.2 | 16.3 | 0.3 |  |
| Rapid-Am. | 2.6 | 5.2 | 5.6 | 1.8 | - |  |
| Penney | 0.0 | 12.6 | -- | 0.9 | - |  |
| Woolworth | 0.2 | 10.3 | 2.2 | 0.4 | - |  |
| Great A\&P |  |  |  |  |  |  |

With the growing importance of national media in consumer advertising, the potential to use such media by retailers operating nationally under the same name (Sears, Penney, Wards, K-Mart, feway, A\&P, Lerner, Thom McAn, etc) is substantially greater tan it is for retailers operating under different local names (Federated, Allied, Associated, Broadway-Hale, Dayton-Hudson, U.S. Shoes, etc.)

With the high (and perhaps increasing) mobility of the American population, and their attendant need to constantly establish new retail store relations in each new community, a major benefit accrues to the firm that uses the same name and has a uniform national merchandising philosophy. The man who has a Sears, Penney or Wards credit card from Town A may use it in that Company's store in Town B with no special action necessary; while the man who is a customer of a Federated or Allied unit, for example, in Town A probably doesn't even know that Federated or Allied owns a store under a different, name in Town B. If he does know it, he still cannot go in and imnediately charge on his credit card from Town A-but he probably will get pretty good treatment (this is a presumption that may not be confirmed by the acts of a specific employee who may not know what stores Federated or Allied owns elsewhere).

## IS RED DEVIL, INC. <br> BRIBING YOU'R BUYERS?

If you carry Red Devil paint brushes you might check your stores to see if you are overstocked-with Deal \#1 Paint Brush Center (cost to you \$387.55) or Deal \#2-Brush/Roller Center (cost to you $\$ 388.01$ ). If you did spend your money on such a deal, try to find out what happened to the GE Executive Recorder (regular $\$ 87$ value) that someone in your organization may have received.
he way the deals work is this-the purchasing Company pays for che merchandise but the buyer may get the $\$ 87$ value recorder for himself!

In these days of Watergate and public disgust with big-business ethics, one wonders about the wisdom of Red Devil running 2 pages, in full-color, in the October 1973 Discount Merchandiser. The coupon asks for 3 addresses-the address to which the bill for 1 or more "deals" is to be sent; the address to which the Red Devil merchandise is to be shipped; and finally, the address where the GE Recorder(s) are to be sent! The latter address doesn't even show a place for Company Name! Is it not obvious that Red Devil doesn't expect the GE Recorder(s) to go to the Company that is paying for the merchandise?

RThought: Promotion or sales managers who are openly willing to use this form of inducement for store buyers will continue to use this method just as long as the major outlets for their Company's products do not remonstrate.

## MINI-TALKS BRIGHTEN CONVENTION

The National Association of Convenience Stores introduced "Mini-Talks" at their 1973 convention-and they proved an instantaneous success. Other convention program committees could well pick up the idea.

A "Mini-Talk" is a 4 to 5 minute talk on a single subject (at a typical convention, one often finds a speaker automatically assigned a 15 to 20 minute slot-and he really has only one thought). With this time limit, each talk was well prepared and tightly written. The format permitted 6 good ideas to be conveyed from the speakers ( 3 were store operators and 3 were industry suppliers) to the audience in a half hour.

The "Mini-TAlks" were given in lieu of a luncheon speech. After lunch, each of the speakers was assigned a room and persons interested in more information could meet informally with the speaker and discuss the subject in more detail.

RThought: As an inveterate convention-goer, I will happily accept 6 "Mini-Talks" for 1 luncheon speaker any time.

Rthought: It is, perhaps, appropriate that a convention of "mini-supermarket" operators should introduce "mini-talks," another "convenience" from the "convenience store" industry.

## DO RETAILERS REALLY KNOW WHAT CONSUMERISM IS?

Stores Magazine, the official publication of the National Retail Merchants Association, ran an article in July summarizing efforts of retailers under the positive heading "Retailers do practice Consumerism."

For example, Davison's, the Macy subsidiary in Atlanta, took part in a 2-day Consumers Workshop! The workshop concluded that consumer legislation was needed!

For example, Higbee's in Cleveland listed a wide-ranging program including such things as "Consumer Protection" which covers labeling sleepwear, monitoring toys, drugs and cosmetics-which sounds strangely like obeying the law.

For example, Woodies in Washington, says it concentrates its consumerism efforts in home furnishings where 15 employees helped at least 96,000 customers with complaints last year alone. If the M.O.R. 7000 series of departments accounted for $9.3 \%$ of Woodies $\$ 169,000,0001972$ sales, the division totalled about $\$ 16,000,000$. If the Average transaction was $\$ 50$ (no longer published) then there were 320,000 transactions and the 96,000
complaints represented a $30 \%$ complaint rate! A better consumer program would have been to cut complaints in half!

For example, Martin Paint Stores is having in-store seminars to help staff deal with customer complaints.

For example, Hudson's in Detroit is having "The Year of the Customer" with three major steps-fashion merchandise at the right price in the proper depth, informed and courteous sales and service personnel, and prompt and efficient service!

RThought: Jean Jacques Rousseau (who died 200 years ago!) wrote: "At length I recollected the thoughtless saying of a great princess, who, on being informed that the country people had no bread, replied, 'Let them eat cake.'" But it wasn't a thoughtless princess-it really was a great merchant prince. And his successor merchant princes continue to misunderstand the problem.

Not one of the stores undertook a campaign to end the vestiges of fair trade (the Mass Retailing Institute did). Not one of the stores backed an industry drive to simplify and expand warranty protection. Not one of the stores tried to use their advertising power to educate consumers and to support local consumer programs. Not one of the stores suggested putting some real teeth into the local Better Business Bureau.

RThought: Until retailers put quality for the dollar before initial markup percentage, until retailers put safety before sales volume, until retailers put accurate labeling before advertising department adjectives, the consumer will continue to fight the retailer. The consumer will win-and the winning will mean laws and commissions and regulations that provide the consumer with about $50 \%$ of his original objective, but in an inefficient, unequal and expensive manner.

We must stop telling the consumer to "eat cake" and work on increasing the supply of bread.

## LIMITATIONS ON THE <br> POWERS OF PROTECTION PERSONNEL IN MAKING ARRESTS

The protection department personnel in most stores makes arrests of shoplifters and others under the general power of a citizens arrest. Having made the arrest, they frequently proceed immediately with an interrogation-which may be extensive.

The protection department is particularly interested, in the case of employee dishonesty, in developing as much information as possible with the twin objectives of recovering items when this can be done and establishing proof for a claim against a bond.

RT thanks Attorney Robert Wahrhaftig, a long-time RT reader, and counsel to several distinguished California retailers, for bringing RT's attention to a recent California case, People v. Haydel (1973) (App. 109 Cal. Rptr. 222) which highlights the dangers in this area. A jury had found Haydel and his wife guilty of grand theft and the case was appealed. Haydel was employed by a downtown Sacramento department store. A security officer apprehended Haydel at the will-call dock behind the store while putting merchandise in his car. His wife and $31 / 2$ year old child were in the car.

The security officer had the wife and child taken to the store's personnel office and held while Haydel was questioned. Haydel was concerned about his wife and child, and signed one
confession with the understanding that they would be permitted to go home.

The crux of the case is that the wife and child were held in the personnel office for approximately $61 / 2$ hours, and Haydel wac interrogated for 5 hours before the local police department even called.

The Court pointed out that while Section 837 of the California Penal Code does authorize a citizen to make an arrest for a public offense committed in his presence, Section 847 then directs that he take the arrested person to a magistrate or peace office "without unnecessary delay." As the court says, the law "frowns on detention of one citizen by another any longer than necessary."

The net result of the ruling by the Court of Appeals, 3rd District, was the the conviction was thrown out because of the excessive time spent by the security department to obtain a confession for the maximum amount possible. It is entirely possible that this reversal and dismissal may be followed by a substantial claim for damages for false arrest, false imprisonment, and even assault and battery.

RThought: Your protection department is constantly on the cutting edge of new law-courts are paying more and more attention to the rights of individuals while protection departments try harder and harder to provide the maximum protection for the assets of the Company. You cannot expect protection department personnel to be attorneys-but you had better be sure that your Company counsel provides continuing instruction and advice to the protection department and that the head of the department understands enough about the law, and the risk to the Company arising from violation of the law, to know when to seek guidance from your counsel.

## FROM AN EXECUTIVE'S WALLET

John Roscoe, President of Short Stop, Inc., in Concord, California, corrected the source of the October entry from Bud Eldon of Hewlett-Packard. John says that "Anonymous" may have repeated it but that Theodore Roosevelt said it first; John had to memorize the statement when at the USAF Officer Candidate School. Roscoe also entered this month's item-but like a typical busybody editor, I prefer an older translation to the American Version submitted.

## From the "Tao Teh King" by Lao TzuXVII

The most intelligent leaders bring about results without making those controlled realize that they are being influenced.
The less intelligent seek to motivate others by appeals to loyalty, honor, self-interest, and flattery.
Those still less intelligent employ fear by making their followers think they will not receive their rewards.
The worst try to force others to improve by condemning their conduct.
But since, if leaders do not trust their followers then their followers will not trust the leaders.
The intelligent leader will be careful not to speak as if he doubted or distrusted his follower's ability to do the job suitably.
When the work is done, and as he wanted it done, he will be happy if the followers say: "This is just the way we want' it."


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## DECEMBER 1973

## WE SHOULD BE ABLE TO GO PUBLIC AT 15 TIMES EARNINGS.

These words were spoken many times during the past few years-and still represent the goal, hope, ambition-dream-of hundreds of retail firms.

But the present market is not very charitable.
The analysis that follows is based on the stocks traded Tuesday, December 4, 1973-which proved, at this writing, to be the next to lowest day in the current slump (recession, depression, panic?)

The figures below must be read with two factors in mind. First, only stocks traded on December 4, 1973, are included. Second, companies that have had a loss (or no earnings on the common stock) for the most recent 12 months are not included-because, obviously, there is no price/earnings ratio. It is based on 1,392 companies traded on the New York Stock Excahnge and 910 on the American.

| Price/Earnings | New York Stock Exchange | American Stock Exchange |
| :---: | :---: | :---: |
| 1 times | --- | 0.44\% |
| 2 | 0.79\% | 3.52 |
| 3 | 5.24 | 11.98 |
| 4 | 9.20 | 15.70 |
| 5 | 14.01 | 16.58 |
| 6 | 13.00 | 9.23 |
| 7 | 11.57 | 7.03 |
| 8 | 8.84 | 6.37 |
| 9 | 6.82 | 4.51 |
| 10 | 5.60 | 3.19 |
| 11 | 2.95 | 3.30 |
| 12 | 1.94 | 2.97 |
| 13 | 2.44 | 1.10 |
| 14 | 1.44 | 0.99 |
| 15 | 1.94 | 1.65 |
| 16-20 | 5.24 | 3.85 |
| 21-25 | 2.73 | 2.20 |
| 26-30 | 2.16 | 1.87 |
| 31-35 | 1.22 | 0.55 |
| 36-40 | 1.22 | 0.55 |
| 41-50 | 0.57 | 0.88 |
| 51-60 | 0.43 | 0.33 |
| 61 \& higher | 0.65 | 1.21 |
| TOTAL | 100.00\% | 100.00\% |

A word of caution should be rasied about the stocks that are selling at 40 times earnings and higher. If a stock is selling at $\$ 1.75$ and had a $1 \phi$ loss, it would not have been tabulated. But if

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## RESOLUTIONS FOR THE NEW YEAR

This is the time of year when plans and projections for the coming year are being finalized, reviewed, put into operation. I had a Grand Uncle who ran a men's store in Sacramento for many years. In those days the Sacramento BEE sold the bottom inch across the front page. It was here that he ran his slogan "Every man is odd-but we can fit him."

Every year is odd-but we can make it a better year.
In 1974, it will be more important for you, your community, your state and your country-to be a good citizen as well as a good merchant. We are going to have to re-think many of our ways of acting, responding, doing business,-and living. We must adjust to a limit on energy and resources that will become an increasingly common part of our daily living. We are fortunate that we can learn to do this because someone turned off the spigot-and not because of the sudden discovery that the barrel is completely empty.

Many of our competitive efforts will have to be channeled in new directions. Instead of thinking how brightly lit our store can be-we will think how little lighting we actually need. Instead of seeking a constant 72 degree temperature year-round, we will have to think how cold can we take it during the winter and how hot in the summer. Instead of thinking how long we can stretch our store hours, we will have to think what are the minimum hours we need to serve our customers and maintain jobs for our employees.

Instead of thinking about how many places we can go, we will have to think of how many we don't have to visit. Instead of thinking how fast we can make a trip in our car, we are going to have to think about how much we can cut down the amount of gasoline used.

It will be a strange world-and each night as we go to bed we will have an opportunity to think back and review how we spent that day. We will be alone and we cannot hide the truth from ourselves. Did we do the right thing as a good citizen and as a worthy human being-plus being a good merchant and an effective executive?

My wishes to you for the coming year are that each night, when you are alone and make this review, that you will be able to say to yourself: "I spent this day as I know I should have spent it."

If you can say this to yourself every day-even almost every day-then you will have a good year and the world will be better because of you.
it had earnings of $1 \phi$ a share, it would be reported to have a $\mathrm{P} / \mathrm{E}$ ratio of 175 ! This explains a number of the high price-earning stocks-the earnings reported were nominal and the stock is selling at liquidating value.

The median (middle point, or where half of the stocks showing earnings are above that $\mathrm{P} / \mathrm{E}$ ratio and half are below) was 7 times on the New York Stock Exchange and 6 times on the American.

However, this tabulation does not tell the story of retailing. The retailer is interested in the $\mathrm{P} / \mathrm{E}$ ratio for retail stocks-not for glamours or for service industries or for cyclical industries.

The following tabulation reflects the distribution of retail stocks, broken down into food and non-food companies. The food group includes 17 on the NYSE and 9 on the ASE (there were 4 on the NYSE and 5 on the ASE that reported no earnings for the most recent 12 months). The Non-food group includes 73 on the NYSE and 46 on the ASE ( 2 on the NYSE and 8 on the ASE had no earnings for the most recent 12 months).

| Price/Earnings Ratio | Food Companies |  | Non-Food Companies |  |
| :---: | :---: | :---: | :---: | :---: |
|  | NYSE | ASE | NYSE | ASE |
| 2 times | -- \% | - - \% | 2.7\% | 4.4\% |
| 3 | --- | --- | 5.5 | 21.7 |
| 4 | 5.9 | 11.0 | 5.5 | 21.7 |
| 5 | -- - | 56.0 | 23.1 | 30.4 |
| 6 | 11.8 | 11.0 | 15.0 | 6.5 |
| 7 | 11.8 | 11.0 | 11.0 | -- |
| 8 | 23.5 | 11.0 | 6.9 | 6.5 |
| 9 | 23.5 | -- | 5.5 | 2.2 |
| 10 | --- | --- | 2.7 | --- |
| 11 | 5.9 | --- | 5.5 | 4.4 |
| 12 | --- | --- | 1.4 | --- |
| 13 | 5.9 | --- | 1.4 | 2.2 |
| 14 | -- | -- | 1. | -.- |
| 15 | --- | --- | 1.4 | --- |
| 16-20 | 5.9 | --- | 6.9 | -- |
| 21-25 | 5.9 | --- | 1.4 | --- |
| 26-30 | -- | --- | 2.7 | --- |
| 31-35 | --- | --- | 1.4 | --- |
| TOTAL | 100.0\% | 100.0\% | 100.0\% | 100.0\% |

The median for food companies was 8 times earnings on the NYSE and 5 on the ASE (although the number of firms in each group is too small to make the median a significant figure) while the median for non-food companies was 6 times earnings on the NYSE and 5 times earnings on the ASE.

RThought: There were unhappy people in 1962 when the new-issues market collapsed-and there are unhappy people now who were unable to go public in 1971 or 1972. But just as surely as the earth goes around the sun, another time will come.

## THE PRICE OF THINKING YOU ARE THE MASTER OF ALL RETAILING

The recent Chapter XI filing of Unishops, described by Fairchild Publications as the "biggest retail bust in history," once again brings to mind the problems that arise when the management of a company thinks that because they are outstanding retailers in one field that they automatically are outstanding retailers in all fields.

Unishops was an outstanding operator of leased men's and boys', in which their founding management had long experience.

Chapter XI is now attributed to the horrible drain of the Bobbie Sue women's and children's apparel division and the growing drain of the discount store division. Both were expanded rapidly-rather than cautiously.

Unishops becomes merely the latest of a long string of collaps Probably the first of the current series was Grayson-Robinson (G-R) a successful women's traffic-window shop operation, competing with Lerner's. G-R thought that with their experience in retail stores that they could lick the world with leased departments in discount stores-G-R is gone, and Lerner's, which stayed in their own backyard, has been a tremendous success.

Giant Stores had to be in every kind of retailing-discount stores, catalog/showrooms, convenience food stores, etc. Arlan's was an outstanding success when primarily a soft-goods discounter, but they had to be a full-line discounter and in every market.

Even the firms that survive have had to swallow hard when they ventured too far outside their field. Dayton-Hudson was wise enough to get out of catalog/showrooms almost as fast as they got in. Their previous experience in rapidly expanding their book store chain-at zero profits-probably served as a caution to them. A study of Edison Brothers shows that the additons of a number of non-shoe chains has boosted their volume but not their profits-which continue to come, to an increasingly disproportionate extent, from shoe retailing. Amfac's venture into RhodesWay discount stores cost them millions.

It is true that in some cases the acquiree survived the acquirer. An outstanding example would be Builder's Emporium, now part of Vornado. Vornado liquidated the Unimart discount stores and Food Giant supermarkets to end up with a building materials firm.

RThought: There is little need to make a complete list of example of publicly held retail companies that have followed this course. What is important is that successful retailers look carefully at the area of their success. Do not conclude that all retailing is the same. Do not think you are the magician that can cater to all kinds of people, through all kinds of outlets, in all kinds of markets. Look realistically at the capability of your management team. Do not think that an unsuccessful retail operation offered at a bargain price can be turned around instantly through your magic.

In this game, the penalty of losing is a double penalty. First, when your magic does not work you suddenly find that your acquisition or new venture is a cancer that is growing explosively. Second, as you concentrate on controlling the cancerous portion of your business, you suddenly realize that your original successful business is withering from lack of attention.

## IS THERE A PARALLEL?

The new magazine MONEY (December 1973) had an interesting article on First Family Finances-about Nixon and real estate investments. It contained the following statement: "In $1961 \ldots$ Nixon decided to settle in Trousdale Estates, a new development in Beverly Hills. . . . Lots ranged from $\$ 35,000$ to $\$ 125,000$, but the Nixons got a lot and a half in a prime location for $\$ 35,000$, less than half the price of smaller sites nearby. Developer Paul Trousdale said he was willing to be generous in exchange for the publicity value of having the former Vice President and his family as residents."

The article then explained that in 1967, Nixon bought two Kd Biscayne lots for $\$ 37,600$-though the offering price was $\$ 73,000$.

## IMPROVED DISCLOSURE OF LEASES?

This is what the S.E.C. professed to be doing when they issued Rule 3-16 of Regulation S-X. The full title of the release was "Notice of Adoption of Amendments to Regulation S-X Requiring Improved Disclosure of Leases."

Yet, the S.E.C., by their action, seem like the dunce who was made an executive and then said, "Don't confuse me with the facts, I've already made up my mind."

What did the S.E.C. say?
First, it gave a reason for acting: "In its release ... the Commission noted that it was acting to provide adequate information to investors in regard to an important and dramatically growing form of asset acquisition and financing."

Second, it said: "Subsequent to . . . the Commission's proposal the Accounting Principles Board . . . issued its Opinion No. 31 . . The disclosure called for ... was substantially less than that identified in the Commission's release as needed by investors."

Finally, it said, "The additional disclosures required by the amendments are felt necessary to enable investors to compare meaningfully the capital and asset structures and the operating results of companies making use of different methods of acquiring and financing assets."

It should be noted that this is the same S.E.C. that does not require retailers utilizing a separate credit corporation to publish a consolidated balance sheet so that comparison can be made with retailers who own their receivables. This is the same S.E.C. that for years permitted U.S. Steel Corporation to conceal the difference between the LIFO and FIFO value of their inventory, thus permitting U.S. Steel to hide more than a half billion dollars of value.

This is the same S.E.C. that still has not faced up to the concealed values on the balance sheets of natural resource companiesvalues that could run above a billion dollars! The S.E.C. is perfectly happy to let Amfac reflect 86,000 acres of land (77,000 of which are in Hawaii) on their balance sheet at less than $\$ 250$ per acre! Similar situations exist in major oil companies who never reflect the value of their proven oil reserves.

This is the same S.E.C. that is not concerned about the fact that I.B.M. has never disclosed the value of their patents, virtually all the cost of which has been expensed.

## Are financing leases and direct ownership the same?

The S.E.C. is saying, in effect, that if the lessor recovers his investment and an economic return (not defined) through a lease covering more than $75 \%$ of the economic life (not defined) of the property, then the financing lease must be disclosed in a manner that presumes that a financing lease and direct ownership are interchangeable. But the S.E.C. does not say this explicitly, because it would be an untrue statement.

We find the S.E.C. in the position of foisting on the investing public an untrue comparison-but one which will eventually be accepted as a truth by investors, analysts, and even retailers (just as the constant repetition by the accounting profession that the retail method of inventory, when markdowns are currently taken, is the equivalent of a cost or market valuation of inventory).

How do financing leases and direct ownership differ? The S.E.C. has indicated that they are requiring disclosure in order to "enable investors to compare meaningfully the capital and asset structures . . . of companies making use of different methods of acquiring and financing assets" so let us look first for the situations when this comparison would be important.

Leverage and capital structure are seldom analyzed critically when a company is operating profitably, when it has operated for a number of years with a certain form of leverage, or when the economy is advancing. But capital structure does become a factor when it might mean the difference between total loss to the stockholders and some possible recovery should the company have to go into Chapter X or XI.

A financing lease-which is legally a lease-is handled differently in a Chapter X and XI. In both situations the lease can be cancelled and the assets subject to the lease are then returned to lessor. The fact that the current cash value of the equipment may be substantially less than the unrecovered cost has no bearing. In Chapter X, lease payments, less recoveries by the lessor, are generally recognized for a period of 1 year while in the case of Chapter XI they can be recognized for a period of 3 years. However, there cannot be any deficiency claim against the bankrupt estate.

If the asset was financed by a mortgage or conditional sales contract, the options available are somewhat less. The holder of the secured paper "forecloses" on his property and terminates the remaining payment-except when there are provisions for a deficiency recovery permitting a claim against the bankrupt business for unrecovered cost after liquidation of the asset.

If the assets are financed by debt not directly secured by the asset (unsecured loan, debentures, etc.), the situation changes once again. The full amount of the debt instrument remains an obligation of the Company, assuming its position in the array of claims of creditors. The fact that the assets, purchased with the borrowed funds, are liquidated for substantially less than the unpaid balance of the debt does not in any way eliminate the claim of the lender against the asset (unless there is specific contractual liability for the deficiency).

Let us look at an example-assets valued at $\$ 1,000,000$ leased for 10 years at $\$ 160,000$ a year (roughly $10 \%$ interest). Let us assume that at the end of the first year the Company goes bankrupt and the value of the assets has dropped to $\$ 500,000$.

Under Chapter X, in addition to recovery of the assets, the lessor could have a claim for $\$ 160,000$ (one year's rent) less any income derived from the asset during the year. Under Chapter XI the claim could be up to $\$ 480,000$ ( 3 years) less any income derived during 3 years.

In the case of a secured obligation that has no deficiency provision, the security holder takes the assets and no claim is made against the remaining assets. If there is provision for a deficiency, then the secured holder would show $\$ 920,000$ still unrecovered of which $\$ 500,000$ would be obtained by liquidating the asset and $\$ 420,000$ would be an unsecured claim against the other assets of the company, co-equal with other unsecured creditors.

Finally, the lender who is unsecured would be a general creditor for $\$ 920,000$. The assets would be sold for $\$ 500,000$ with the $\$ 500,000$ going into the general pool for payment to creditors in the order of their priority.

To call these three situations interchangeable is much akin to making gold out of lead. Yet we have outlawed alchemy as a fraud.

## What is a financing lease?

"... a financing lease is defined as a lease which during the noncancelable lease period, either (i) covers $75 \%$ or more of the economic life of the property or (ii) has terms which assure the lessor full recovery of the fair market value . . . of the property ... plus a reasonable return on the use of the assets invested, subject only to limited risk in the realization of the residual interest in the property and the credit risks generally associated with secured loans." Again it should be pointed out that the S.E.C. has not defined "economic life of the property" or "a reasonable return" or "limited risk" or "residual interest." Otherwise, everything is quite simple!

What is the economic life of a specially designed building leased for 31 years and depreciated over 40 years! Does one anticipate no energy crisis and thus a continued supply of fuel for air conditioning and heating since no outside air can enter the building? And what is the "residual value?" Do you assume a $3 \%$ to $8 \%$ a year inflation factor, in which case a $10 \%$ residual value could have a higher value in depreciated dollars than the original cost of the building! And if we assume, as a result of not allowing for inflation, that a residual value in dollars of original worth are "recovered," what is "a reasonable return" where the imputed interest factor (or cost of money) is known to be $9 \%$ ? Should it be $15 \%$ or $20 \%$ on the average amount invested, or $5 \%$ or $6 \%$ ? If you use a minimum life for depreciation of 40 years but the IRS would accept 50 years or 60 years because it produces more tax money for the government, can the lessee assume a 50 year or 60 year economic life with equal logic? The bulk of our downtown department store buildings that are still being used (and some produce substantially above $\$ 100,000,000$ in sales in a single building) are practically all more than 50 years old and show no signs of collapsing.

What about store fixtures? If you have a financing lease that runs 7 years (the shortest lease that permits full investment credit) do you use the guide-line life of 10 years? If you can disregard salvage for income tax purposes because it is estimated at less than $10 \%$ of original cost, can you disregard it for computing the "reasonable return on the use of the assets invested?"

## What is going to happen?

To date, RT has seen only one document making these disclosures and that was a prospectus for Best Products Co., which was effective before the December 1st starting date and as a result it was not reviewed on this point by the S.E.C. In this prospectus, Best revealed a reduction of $1 \phi$ per share in earnings for their year ending June 30, 1972 (from $76 \phi$ to $75 \phi$ ) but an $8 \phi$ ( $6 \%$ ) reduction for their 1973 year (from $\$ 1.24$ to $\$ 1.16$ ). Best leases most of their fixtures on 7 to 8 year leases and they capitalized them (straight-line depreciation) over the same number of years.

Had Best Products elected to assume an economic life for fixtures of 10 years, the capitalization of the lease, using straight-line depreciation over 10 years and interest over 7 years, would have produced an increase in profits for the first 7 years-in a growing
amount-and a decrease in profit for the 8th thru 10th years! Had Best assumed an economic life of 12 years, the increase in profits would be very large. This assumes that Best concluded that the lessor was satisfied, in view of Best's financial rating and loan risk, with a relatively small "reasonable return" (this return could always be boosted by assuming a higher salvage value).

Don't laugh at a 12 year life for fixtures, Broadway-Hale is reporting (in the fine print of the footnotes) that they are leasing store fixtures for up to 15 years!

Federated Department Stores is telling security analysts that they see little impact on their earnings as a result of this rule, despite leasing approximately $50 \%$ of their store space, because they have concluded they do not have financing leases.

## Other special problems.

Let us suppose that you lease a store to be added to a 5 year old shopping center. How do you know the cost of your store? Do you include some portion of the original grading, parking, entry areas, etc.? If so, at what price? What if the landlord won't tell you or can't identify the cost from his records?

What happens in a shopping center where the lease clearly recovers all the cost, produces a reasonable return, and lasts more than $75 \%$ of the economic life-but the landlord would not under any circumstances sell you the land and let you build on it? Can it be said that leasing was truly an alternative to owning? Yet, the basic premise of the S.E.C. is that a financing lease is an alternative.

What happens in the case of a lease providing for a minimum against a percentage of sales? The S.E.C., in their great wisdom, says ". . . registrants are urged to look at the economic substance underlying the lease ..." to determine if "... the lessor is virtually certain (not defined) to recover his investment plus a fair return." Let us assume that you are $99 \%$ certain that during the first year of a 30 year lease you will produce excess rents double the minimum rents. How many years are you willing to predict that same performance? Yet your past performance may have made the lessor quite comfortable (but not virtually certain) about recovering his cost plus return despite the low minimum rent.

RThought: S.E.C. is in the process of perpetrating a major fraud on the public, especially in the retail field. With the wide discretion permitted, three retailers with identical facts will reach contrary conclusions. One retailer will report that he has no financing leases because of the technical points of the rule. Another retailer will be able to show that his earnings would be substantially higher if he capitalized all leases, thus showing that by leasing he is really being conservative in reporting their profits! And then there will be firms like Best Products Co. who report that their profits would be reduced.

Unfortunately, RT does not think that the Financial Accounting Standards Board is likely to produce a much better solution.

## SHORT SHORTS

Saving energy? Mervyn's, a Northern California department store chain, reports that the quest for energy savings led them to turn off both the heat and air conditioning in their stores-and let nature take its course. With the heat from lights and customers, store temperature stayed in the comfortable range during November. They do not yet know the final energy savings.

It is interesting that these legal "bargain sales" might easily be intended to cover the passage of money to Mr. Nixon for whatever benefits the seller might seek. This is part of the "ethics" that the citizenry is now demanding be changed. The plications of "buying" influence are much too great.

RThought: RT shares the revolt of the general citizenry to transactions undertaken in this manner-including purchases of land and buildings from Mr. Nixon after he was President at prices that may well have been above the fair market value.

But RT cannot help but feel that Mr. Nixon may well have learned this technique from watching the major department store chains and groups buying land in shopping centers at bargain prices-the quid pro quo for putting a store in the center.

Can this type of economic pressure be acceptable for retail firms listed on the New York Stock Exchange, even ones listed in the Dow Jones average, and unacceptable for politicians?

## TAKE A NEW LOOK AT WOMEN BORROWERS

That was the title of the article in the August 1973 issue of BANKING, published by the American Bankers Association. They suggested that banks should review the following five questionable assumptions that exert a major influence on banks' granting of credit to women:
Assumption 1: Single women who work will probably get married and leave the work force, thereby surrendering their income.
Assumption 2: Married women are poor risks because they will get pregnant and leave the work force.
Assumption 3: Legal restrictions on a married woman's ability to make contracts prevent bankers from extending credit to married women without their husbands' consent.
Assumption 4: The divorced woman is an indolent collector of limony.
assumption 5: Our bank doesn't discriminate against women in its lending policy.

With very little effort you can adapt these assumptions to your own credit granting-and get the same startling answers that most banks got-if they were honest with themselves. Because the assumptions are not true.

## THE MIRACLE OF A 21 TIMES P/E RATIO AND $12.43 \%$ INTEREST

The November 1, 1973, offering by Best Products Co., Inc., of 350,000 new shares at $\$ 28$, illustrates just how much normal arithmetic has been upset in these days of high interest rates.

Many people, remembering that earlier in 1973 Best was selling for $\$ 40$ per share, (at this writing it is under $\$ 10$ ), might feel sorry for the company. But Best had no other choice-as the prospectus said, ". . . the Company has financed the increased amount of inventory necessary to support such increased sales from public offerings of Common Stock in addition to retained earnings." With 7 showrooms opened in the prior fiscal year and 13 planned for the current year, more equity was absolutely necessary. Even with new money, the Company will be heavily leveraged when their July 1974 report is issued.

But don't feel too sorry-because $14 \%$ more stock outstanding will boost earnings per share just because of interest savings!!!

Best reports that it borrows at the prime rate (at the date of the rospectus this was $9.75 \%$ ). However, with the requirement for compensating balances the effective interest cost was $12.43 \%$. If we assume that Best will average an effective interest cost of $11 \%$
over the next year, then the net proceeds from the sale of $\$ 9,200,000$ will save $\$ 1,012,000$ interest cost-which is $\$ 506,000$ after taxes of $\$ 1.45$ per share on the new shares.

Since Best reports only $\$ 1.24$ for the year ending June 30, 1973, and $\$ 1.33$ for the trailing year ending October 6, 1973, the existing shareholders will not be adversely affected-an unusual situation with an underwriting.

RThought: Given this arithmetic, and the tremendous investment required for the announced future openings, why didn't Best sell more stock?

## THE WEST IS DIFFERENT-STILL

The Newsletter of Sunset Magazine (Menlo Park, CA 94025) continues to stress the difference in the West-one which retailers having national ambitions might well study. For example, for the first 9 months of the 1973 model year, the largest selling car, on a national basis, was the Chevrolet Impala-but it didn't even make the top 10 for the 9 western states!!! The West thinks small-with Pinto, Volkswagon, Datsun, Toyota, Vega, and Mazda ranked 1, $2,3,4,5$, and 8 . Other cars in the top 10 nationally that do not make it in the West are Olds Cutlass and Plymouth Valiant; the 3 western replacements are Datsun, Mazda and Chevrolet Monte Carlo.

## NAMES IN THE FTC NEWS

Gimbel Brothers, Inc. entered into a consent order prohibiting it from entering into or enforcing agreements, including lease agreements, enabling it to control the identity, size or location of other retailers in shopping centers. The detailed provisions specifically forbid Gimbels from acting to deny admission of discount, catalogue or other department stores to shopping centers, specifying the prices charged or price ranges of merchandise of other retailers, or restricting the expansion of a shopping center. Gimbels may negotiate on the mix of stores in the center, by types, but may not specify price ranges or give names of actual stores as examples.
W. T. Grant Co. signed a consent order prohibiting them from using deceptive tactics to sell their coupon book credit plan and requiring Grant to make written disclosures to consumers about the nature of the plan. The original complaint alleged that through advertising, sales floor solicitations, and the practices of credit employees, consumers who signed coupon book contracts were misled into believing that they were signing a revolving (open end) credit agreement, or that the coupon book account is a form of open end credit. Further, employees allegedly told some customers (1) they had to open a coupon book account before they could get an open end account; or (2) that their signatures for "voluntary insurance agreement" was necessary to obtain credit. Comissioner Jones dissented from the order because ". . . in my judgment it does not redress the basic unfairness of the Grant coupon plan which places low income customers under very disadvantageous credit terms which they have not means to avoid."

## NO ETHICS IN THE ENCYCLOPEDIA BUSINESS

The Grolier Society (Listed on the New York Stock Exchange, rated B+ by S\&P, rated zero ethics by the FTC) lost another case, this time in the Superior Court of California in San Luis Obispo. The State of California took them on for their new practices-and the problem is best described by quoting from the first count of the complaint (the Judge held that the complaint was proven):
"The People allege that ... (Grolier) with intent to induce members of the public to enter into contracts to purchase publications ... did violate (the) Business and Professions Code
by developing and carrying out a scheme to mis-lead the consumers with a sales pitch which was false and mis-leading. Among the specific allegations made were that (Grolier) solicited customers by telephone to have them attend a meeting, and by phone advising them that it was not the intention to sell books; that the presentation would take only a short time; that Grolier sponsored television programs; that by attending they would be given a free vacation certificate; that it was the intention of Grolier to introduce a new consumers' buying program to help fight inflation; that persons contacted could save up to $69 \%$ on products that they would buy through the new program; that sales meetings were held and the presentations were made to persons who were induced by telephone contact to attend; that at the presentation the salesmen stated that they were not selling encyclopedias and other books, but only a consumer buying service; that this was an opportunity not available to the general public; that the customer was especially selected by (Grolier); that there would be a substantial savings in using the buying service, that the buying service was financed by Grolier by using the money formerly spent for media advertising; that the price for the buying service for a 10 -year membership was $\$ 500$; and that Grolier would advance the $\$ 500$ providing the customer would agree to repay Grolier in a lesser period of time, in which event Grolier would give the customer a number of books; that in fact the customer was paying the regular price or more for the books; and that the reason for the offer of the books was for advertising and public relations purposes for Grolier, in lieu of national and regional advertising in the media; that in return for the encyclopedias and other books, the customer was to write Grolier a letter explaining how he felt about the books, and allow Grolier to use the letter in advertising; and that the consumer display the books in a prominent place in the customer's home; that Grolier was not interested in such letters or displays; that the request was a device to mis-lead customers. And that such practices not only were deceptive, but were done in a malicious, oppressive, and fraudulent manner."

In addition they violated Truth-in-Lending and other laws.
Reading the decision, which summarized the conduct of Grolier, makes one wonder about the standards of the NYSE-perhaps they would even list Mafia, Inc. and S\&P would give them an A-rating.

## SHORT SHORTS

An Apology. In the October 1973 RT there was a Short Short item about Bullock's use of the American Regitel POS terminal and the failure to use the empty space between the sales tax figure and the total. This capability had been outlined to RT in a presentation of the capability of this equipment in an "on-line" installation. Mr. Robert B. Aldridge, the controller for Bullock's Northern California, has advised RT that their terminal output is to a punch card sales-check with the customary limitations involved therein and that on a six item sale there is no space. Further, Mr. Aldridge advises that American Regitel is far behind in delivering more important software. This mistake by RT is a perfect example of jumping to a conclusion based on inadequate information.
Camera stores meet discount competition by offering written lifetime guarantees on equipment, according to Photo Marketing (Aug 73). This forces the dealer to carry only good quality items-but the higher selling price made possible by such a guarantee from an established and reputable dealer more than covers the cost of servicing the cameras.

Many Happy Returns-this is the slogan that Walker Scott (San Diego) used to emphasize their return policy, as they announced the opening of their new branch in the Mission Valley Shopping Center.

Post Exchanges and commissaries go promotional! Once stricted to providing necessities at remote military stations, their health and beauty aids and household products suppliers are now providing them with voluntary price reductions (passed through), cents-off coupons, point-of-purchase materials, special contests, give-aways and all the fringes. Will cooperative advertising be next?

Space allocation reflects concerns. A. C. Nielsen Co. reports that the typical discounter ( 68,000 sq. ft. selling area) devotes 55 linear feet of shelf to shampoos, 51 to hair spray, 48 to deoderants and only 44 to headache remedies. Perhaps most of America would rather look and smell good-than worry about what is happening.

New Process never changes. Despite a drop in price of their stock from $\$ 70$ to $\$ 8$ and a major drop in their earnings, they continue to use the same advertising approach. The approach challenges the intelligence of the consumer "The Luxury $\$ 100$ Look" and "Looks like $\$ 100$ Costs only $\$ 44.85$." Not one bit of information is given on why John L. Blair, President of New Process Company, is so much smarter than every other merchant in the land and can offer such bargains.

From Butterfield and Butterfield, famous San Francisco auction house, when a bidder opens a charge account: "Just a note to let you know we're happy to have you as a charge customer. That makes you much more than a number to us!"

## WORDS TO MANAGE BY

2400 years ago a wise man wrote an oath that has guided many thousands of people in the conduct of their daily life. The thoughts behind the words can be changed to serve almost every occupation and professsion, although Socrates called it . . .

## THE PHYSICIAN'S OATH

I swear by Apollo Physician, by Asclepius, by Health, by Panacea, and by all the gods and goddesses, making them my witnesses, that I will carry out, according to my ability and judgement, this oath and this indenture. To hold my teacher in this art equal to my own parents; to make him partner in my livelihood; when he is in need of money to share mine with him; to consider his family as my own brothers, and to teach them this art, if they want to learn it, without fee or indenture. I will use treatment to help the sick according to my ability and judgment, but never with a view to injury and wrong doing. I will keep pure and holy both my life and my art. In whatsoever houses I enter, I will enter to help the sick, and I will abstain from all intentional wrongdoing and harm. And whatsoever I shall see or hear in the course of my profession in my intercourse with men, if it be what should not be published abroad, I will never divulge, holding such things to be holy secrets. Now if I carry out this oath, and break it not, may I gain forever reputation among all men for my life and for my art; but if I transgress it and forswear myself, may the opposite befall me.

## Taking a hard look at your business

Businessmen frequently mount the amparts to proclaim that they're meeting their social responsibilities by doing a good job of satisfying consumer needs. This often comes down to equating social responsibility with a rising sales curve: "They're buying our products, so we must be doing something right."

We were reminded of this simple syllogism when we saw a recent issue of Retailing Today, the incisive, gutsy newsletter published every month by the Lafayette, Calif., management consultant, Bob Kahn. (We've recommended this letter before in these pages and we have no hesitation in doing so again-it's available for $\$ 12$ a year from P.O. Box 343, Lafayette 94549.) Bob took a searching look at one of the fastest-growing segments of the retail scene-convenience stores.

Moving into a void left by supermarkets, the 7 -Elevens and their imitators have been growing at the phenomenal rate of $20 \%$ a year. They now do $3.7 \%$ of the total grocery business. Some are predicting that they will do $10 \%$ by 1980 . Theit advantages to the shopper are obvious: Longer hours, quicker service. However, Bob noted that this amazing growth is based latgely on a few major merchandising categories: First, beer; second, cigarettes; and third, in those utlets which have installed pumps, gasoine. For many convenience stores, that's half the volume right there. Bob's comments:

Beer. The United States is finally recognizing that alcohol is its most serious drug problem. The only reason alcohol is not boing attacked more aggressively is that virtually every state plus the federal goversment get so much tax revenue from alcohol that they are unwilling to try to cat coasumption.

Cigarettes. The Surgeon General and the Product Safety Commission are both getting ready to try to restrict cigarettes

## Business \& Society

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Published every other week by MRM Publishing Co., Inc. Anmual subscription price: $\$ 75$. Each additional subscription within a company or organization: \$25.
Address all circulation inquiries to: 89 Beach St., Boston 02111. Editorial office: 1629 Beach St, San Francisco 94123. Telephone: (415) 567-6240.
because they kill people
Gasoline. The Environmental Protection Agency is going around the country outlining plans for communities which will require reducing the usage of private automobiles by as much as $93 \%$ by 1977. That means a great future for gasoline stations. Is this why the oil companies are pawning them off on the innocent convenience store industry?

International Harvester, along with other farm machinery manufacturers, is enjoying a glorious year. Eamings are running $50 \%$ ahead of last year when they almost doubled from $\$ 45$ million to $\$ 86$ million.

This prosperity will easily cushion any penalties IH may have to pay as a result of one of the most massive safety violation actions ever brought against a company.

In its fiscal ' 72 annual report Harvester said:
"Profit responsibility and social responsibility are inseparable in business enterprise. Neither one can exist without the other."

A new suit by the Justice Department casts doubt on this inseparability. In a year when it's making more money than it ever has before, IH has been charged with 390 separate violations of federal safety reporting laws.

IH is accused of delaying for more than one year the notification of 250 customers of a safety defect in some 400 buses. The Justice Department also charged IH with another delay in notifying 119 customers of a safety defect in 600 on-and-off highway vechicles. Numerous other violations of the National Traffic and Motor Vehicle Safety Act are alleged. Civil penalties of $\$ 390,000$-or $\$ 1,000$ for each violation-are sought.

In last year's annual report Chairman Brooks McCormick told shareholders that the company had implemented a "new concept of product reliability management" that entailed, among other things, a "quicker remedial response to discovery of product deficiencies."

What will he tell them this year?

## Harvester's harvest

There are, of course, other dimensions to the convenience store industry (and Bob Kahn goes into these as well) but these remarks left us wondering how many companies do this kind of analysis of their product mix, projecting it forward.

Reginald Jones, chairman of General Electric, told shareholders last month that "managements today are measured primarily on two counts." The first is ability to earn a profit. And the second, he said, is "their effectiveness in allocating the resources of the company to business activities that are responsive to the neęds and standards of society." The problem is to identify those "needs and
standards" - and here you are in the realm of opinion. Ralph Nader and others don't feel that GE is being responsive to the "needs and standards of society" by building nuclear power plants. To the smoker who forgot to buy cigarettes at the supermarket and who lusts for a Marlboro at 10:30 p.m., the convenience store is filling a great need. It's easy to be righteous but there are no easy answers. What's important is to look at your business through the eyes of a social analyst and raise the proper questions. One can't begin to identify "needs and standards" until one at least starts to think about them in the way that Bob 兴ahen has thought about convenience stevor.

## The great ripoff company: Colgate-Palmolive

Of the 14 companies we selected at the start of 1973 to grace our "social irresponsibility portfolio," five have at least come forward with evidence to the contrary. They are: American Brands, American Can, Du Pont, Kraftco and Texaco. Each felt the designation was undeserved-and we were glad to hear from them.

However, if there's one company that's doing everything it can to stay on the list, it's good old Colgate-Palmolive. The ninth largest advertiser in the U.S., Colgate has long been successful because it was the first to tap overseas markets for such products as soap and toothpaste. It does more than half of its business abroad.

On the home front Colgate has a record remarkable for its lack of product innovation. Among its recent flops or near-flops have been Colgate 100 mouthwash, Bright Side shampoo and Hour After Hour deodorant. It did have a winner last year in Irish Spring deodorant soap.

Colgate used to be the leader of the toothpaste market until Procter \& Gamble put sume money into caries research to come up with its fluoride brand, Crest. Colgate has since copied that move (the company is adept at copying) but now it's moving into national distribution with Peak toothpaste to capitalize on the nostalgia and back-tonature fads. Peak's major ingredient, you see, is baking soda. Another breakthrough for the Colgate labs.

That's not all. Colgate has its ear to the ground to keep up with current events. So it's promoting its Cold Power detergent with a save-energy theme. You get the point? If you use Cold Power in your washing machine, you'll save on hot water, which will in turn save on fuel. "Get America out of hot water" blares the Colgate commercials.

When it comes to patriotism, Colgate takes second place to no one. Think, though, of the contribution it could make by phasing out its entire line of products.

Efforts to combat the energy crisis, foretold 20 years ago but virtually swept under the rug until now, may help both to reduce wastefulness and restore depleted profits.

Donald B. Smiley, R.H. Macy \& Co.'s chairman, observes, "Many benefits are often born of adversity. It has long been certain that the energy crisis would occur, only the timing was uncertain. The fact thatit came earlier than expected could also mean that it will be less severe. There is more time to plan and more possibility of eliminating waste and inefficiency now than might be the case five years hence."

Robert Kahn and Howard L. Green, management consultants, stress the adverse effect of the automobile age on the energy crisis and some positive prospects for downtown areas and suburban shopping centers.

Since World War II, Kahn points out, "Retailing has raced to build more and bigger shopping centers; used more air conditioning, lighting and heating, and been dedicated to an economy of
must "affect where most of us live in relation to where we work, shop and play.

Most American metropolitan areas," Green reminds, "are children of the automobile age. Settlement has been thrust outward along major highway arteries on the wings of plentiful and cheap automobile fuel. In the process, mass transit has been allowed to degenerate. Thus, we have ended up with congested freeways and empty buses - an intolerable situation.
"Regardless of the short-term consequences of this winter's energy shortage, energy as inexpensive as we have had in the past is not likely to be available again within the forseeable future. The uses of energy for driving, for new construction and for production are going to have to shift in their priorities."

In a talk he gave to the commercial investment division of the Detroit Real Estate Board, Green placed the energy crisis in perspective with the value of urban land.

Speaking of the under-use of land and buildings in the central city and the future social and economic costs of mobility, Green

# Energy crisis may restore profit as it reduces waste 

more cars. Just to prove we are inherently wasteful, we are already creating slums now out of shopping centers built in the early 1950s. We have convinced ourselves we must constantly increase lighting intensity.
"Now," continues Kahn, who writes a monthly bulletin, "Retailing Today," at his Lafayette, Calif., headquarters, "retailing faces a shortage of energy - one that may mean less power available for heating, cooling and lighting. With gasoline rationing, it may mean fewer customers who make $20-\mathrm{to}-40$ mile round trips. With the higher price of energy that may be charged to the consumer for home and car, he may have less money to spend in our centers."

Kahn also warns that the Environmental Protection Agency may block new construction of centers "with their multi-thousand ear parking lots because of the impact on the quality of the air."

Perhaps, he suggests, retailers will stop "expansion for expansion's sake - the drive of many major national chains to open a store in every center 'to protect our position.' This is often followed by explanations in their annual reports of the impact during the early years of the new outlets on current profits of the company but promising great things in the future. If fewer new centers are oponed, perhaps the 'future' that stockholders are waiting for will finally come.
"Certainly, existing centers should show better growth rates if new and more advanced centers are not opened near them. Higher store temperatures in the summer and lower in the winter, with many lights turned off, could cut utility usage more than enough to offset higher utility rates.'

Kahn also calls attention to the fact that, in a period of energy crisis, he can, at least in theory, get along without using his car for shopping by ordering from Christmas catalogs he has received from 59 firms. About 10 of these firms fall into the category of conventional retail stores with mail-order adjuncts. The remainder are in four other groups: small-item mail-order houses, mail-order food dealers, book publishers and suppliers to business firms.

Kahn fastens his keen eye upon the worth of the catalı $g$ vis-avis shopping in the stores: "For many small items, I can see the item much more clearly in its own picture on a page with eight to 12 other pictures than I can see it against a jumble of other merchandise I am passing at a slow walk. And, if I have a question about the merchandise, I can usually get more information from the paragraph with the picture than I can from the run-of-the-mill salesclerk. And it takes me less time to fill in and mail my order than it does to get my purchase recorded in some stores."

Green, retail and land-use consultant of Bloomfield Hills, Mich., agrees with Kahn that automobiles have overriding (pardon the pun) significance in any discussion of an energy crisis that
predicted emergence of four long-term patterns: 1) Utilization of some of the empty (or soon to be vacant) land everywhere in the city for both residential and commercial purposes. 2) More intensive use of the city's existing retail, commercial and industrial facilities, that are vacant or obsolete, for such types of retailing as home centers and catalog showrooms. 3) Reevaluation and upgrading of existing office buildings and shopping centers to keep pace in facilities, parking, lighting and, especially, tenant mix with changing needs of the market and more modern competitive centers. 4) Slowing of growth at the far edges of the metropolitan area to a rate substantially less than has been since the early 1920 s to recognize that outward development is likely to decline as the distance to work increases.

Green visualizes "restoration of the balance between outward growth and inward resettlement ... to a central city that is an integral part of metropolitan growth.

## From Where I Sit <br> by Samuel Feinberg <br> - by Samuel renters

0ne upon a time, there were retailers who de veloped a particular method of selling, a particular type of merchandise and proceeded to build a sound, growing business on that base. They watched other retailers using other techniques to distribute other types of merchandise but, realizing they knew nothing about those merchants' operations, continued to go their own way - and let the other guy go his way.

However, observes consultant Robert Kahn, a former department store owner himself, that was long ago - before the 1950s

Since then, retailers have shown both a herd instinct and a conviction they could run any kind of business even in cases where they are not really successful in their basic operation. Kahn deems it not at all strange that so many retailers in all fields appear to have lost their firm hold on particular consumer audiences - if they ever had one.

Take discounting. This type of retailing had a number of fantastic successes in its early days. Korvettes was an example. But the combination of limited management abilities and gluttonous appetites of the discount pioneers inevitably led to overexpansion and under-capital ization, to a series of failures and bankruptcies

In a period of mediocre results, perhaps a handful of dis $\mathbf{I}_{\text {counters have enjoyed sales and profit improvements }}$ S.S. Kresge's K mart division has led the field, propelling the parent company from 11th place in general merchandie volume in 1963 to third position.

At the outset of modern discounting history, the conventional department stores scorned the newcomers and predicted their rapid demise. They were both right and wrong - right in sensing the flimsy structure being built by so many of the interlopers and nouveau riche; wrong, in their timing.

Most traditional retailers are spiritual descendants of

Louis Kirsten, a co-founder of Federated Department Stores, who as head of Filene's of Boston propounded the philosophy: "You don't have to be first with anything. You can always jump in after someone else has tried it and you'll make less mistakes and more money that way."

The traditionalists finally saw fit to invade discounting. Their ranks, drawn from apparel, variety, and supermarket retailing, include Federated, Allied Stores, May Department Stores, F.W. Woolworth, W.T. Grant, Dayton-Hudson, L.S. Aves, Rich's, Strawbridge \& Clothier, Interstate, Grand Union, Food Fair, Hartfield,

## Aiming for higher profit with rifles, not shotguns

Lane Bryant, Mange and the Bell and Nugent specialty stores that were the beginnings of Zayre. Add J.C. Penhey to the fray, besides R.H. Macy, Gimbel Bros., Carter Hawley Hale, Associated Dry Goods (aside from Ayres' discount subsidiary), and Mercantile Stores, there's scarcely a giant conventional chain left.

Of course, times have changed. The not-so-secret waporn being adopted by an increasing number of retailers is a watering down of a great many ideas into a mix of people, merchandise, services, price lines, location, and ambience that just might transform too many occasional shoppers into frequent "repeat" customers. The mer-
markup and large investment requiring lots of space and service." Instead, that Federated division is aiming at fashion leadership as a requisite to greater profitability which Goldfeder ranks with return on investment and share of the quality market before he considers gross sales volume.

Every Federated store principal and merchandising head and executives of many other companies are Bloomingdale watchers. Yet, Melvin Jacobs, president, Fed aerated's Burdine's division, and previously for 25 years at Bloomingdale's, says: "I don't want to, or think I can, transfer a Bloomingdale's to Florida - what we need is a Burdine's applicable to this state.'

Edward D. Donnell, president, Montgomery Ward, reports "our own game plan is to have Ward's grow at an above-industry profit rate. If we have a goal, it's to be the most profitable retailer in the country.'
chants - not to be confused with the shopkeepers - hope to translate all this into higher net profit, a goal largely denied them through physical expansion alone. They're taking aim with rifles rather than shotguns.

Thomas M. Macioce, president, Allied Stores, which is closing a number of units of its Almart/Hunter discount chain, makes it clear the others will be retained only if they do not impair the profit ratio of the parent commany's department stores.

May's chairman Stanley J. Goodman emphasizes that size of itself is not the chain's objective. It's "the quality of earnings" in which they're interested, in provement of net without resort to the inordinate reduc tion of expense and capital-budget expenditures that spell immediate loss of direction and, long-range, compromised identity and goals.

Bullock's chairman, Howard Goldfeder, former May Co. California president, and before that a Blooming dale's executive, gives his view: "We're interested in dominating only the areas we want to be in. We avoid such things as major appliances on the basis of their low
Think ins yorare the Masferta


[^0]:    "A number of people took issue with us because they said they gave us their name and address for one purpose only-that was to subscribe to The Montclarion. They resented having a lot of other muck come to their home as a result of this action.

[^1]:    dog accompanied by Michael Hirsh's ringing commentary (opposite).

[^2]:    "The enclosed W-2 discloses the amount of compensation you were paid during 1973-the compensation that you report on your income tax return. But that is not all that you received from the Company.

