January 1976

F - Retail Success Stores - Few Know About
B -A Matter of Ethics (past due accounts - Penney's)
A - Trouble Ahead for ESOTs
The Recession - We Did It To Ourselves
How EFTS Will Cut Retail Sales
Department Store Compacency
Names in the F.T.C.

February 1976

F - The Changing Pattern of Employment of Women
F - A Year of Progress for Publicly Traded Retail Stocks
B - A Matter of Ethics (giveaways to non-charge customers rather than steady-charge customers)
A - Our Forecast for 1976
College Professor Says "Let Employees Steal!"
FASB - Makes Work Committee for Accountants
Where Has the Cheap Labor Gone?
"Old Maids" Are Coming Back
Disclosures in Advertising
Do Cashiers Create Theft?
Department Stores Missing the Market Again (re. electronics market)
Double Standard at the S.E.C.?
Stress Is The Cause of All Disease - Preliminarily
Money From Retailers ($ to settle claims)
Do You Sleep Well At Night When Kiting Checks?

March 1976

F - Is LIFO Fair To Stockholders?
B - Watch Your Audit Committee!
A - Have We Earned 200 Years?
It Takes A Crook To Catch One
Retailers Are Keeping Track of the Wrong Letters
Will Accountants Improve Quality of Annual Reports?
Future Shock and the Businessman
Action by the E.E.O.C.

April 1976

F - Is McKinsey & Company Misleading the Food Chains?
B - Memorex is Trying to Bribe Your Office Manager
A - Department Stores Gradually Surrender to Customers
Mass Retailers Were "Five Times Blessed"
Will Your Hidden Liabilities Be Disclosed?
Current Personnel Practices In Dept. Stores
Pollution of the Statutes
What Have We Learned From Retail Failures?
All Gucci Customers Should Be Warned
"Bait & Switch" (Caroets "R" us)

May 1976

F - What Chance Does A Small Retailer Have?
B - A Matter of Ethics (arbitrary charges on vendors)
A - Are You Ashamed of Your Name?
Commercial Bribery
Is Lack of Job Satisfaction a Problem in Your Firm?
Distribution of Large Size Stores
Will Top Management Be Held Responsible For Its Acts?
Battle of the Business Schools
T. Eaton Co. is So Big Because...

May 1976 (continued)	Over-The-Counter Securities Review Summarizes 25 Years Government Charade Against the Consumer Why Reduce Energy Use - To Save Money or To Be A Good Citizen? An Economist For All Seasons
June 1976	F - High Shrinkage is an Indication of Management Failure B - A Matter of Ethics (Dick Rich's unrecorded $40,000 in contributions to political and other purposes) A - Applaud Memorex, Please Election Doldrums Pity the Independent - Or Should You? Cosmetic Consultants in Supermarkets? Is Sears Part of the Problem? The Impact of Current Value Accounting It Is Fortunate That Safeway's Advertising Is More Accurate Than President W. S. Mitchell's Speech-Writers Who Can Put Pressure on Manufacturers? The Deluge of Pro-EFTS Literature Once Shreve's Was Great Faded Glory (Cos. selling 80% or more below their all-time highs) Living With Inflation - Buenos Aires-Style When Is A Deductible Expense A Balance Sheet Debt?
July 1976	F - Look Who Is Trying To Kick Levi Strauss B - Are You Certain The Consumer Is Not On Your Side? A - Arthur Andersen Fights For You How Not To Persuade How Big Is Mail Order? The Money Machine At Last - Too Late Federated and Gimbels, Hand In Hand Unit Product Pricing The Changing Fields of Study in College Names in the F.T.C.
August 1976	F - The Future of Retailing B - How To Pump Up Profits A - The Editor Speaks (offers tape of NMRA speech) Who Can Buy Whom? Retailers and the Law The Forgotten Power of Institutional Advertising Should Credit Clearing House Be Permitted to Exist? Drugs and the Shoplifter
September 1976	F - How the Gilbert Brothers Rate Retailers B -A Matter of Ethics (Citicorp's conduct re credit balances) A - The Status of Hypermarche SEC Starts Study of Disclosure Can't Federated Do Better?

September 1976 (continued)

Where Will You Find New Credit Customers?
Apparel Recalls?
How Strong Are Balance Sheets of Leading Department Stores?
Which is Best - 10% Improvement in Turnover or 10% Improvement in Sales Per Square Foot
Like Peas in a Pod
How Stores Look to a Consumer Organization
Shell's Mini-Catalog
Gucci - More on Terrible Operating Procedure

October 1976

F - The Sad Tale of Publishing False Crime Figures
F - Visiting the Bank Card Annual Convention
B - A Matter of Ethics (good word for stand taken against vendor charges)
A - If Everyone Took An Economics Course, Would Life Be Easier for Businessmen?
What's Happening to People?
How Are the Indepednents Doing?
The Power of Scrawled Signs
Will Store Presidents Sign Anything?
Per Diem Rates v. Ethical Management
Commercial Bribery (ad in Chain Store Age)
Another Stong Mail-Order Guarantee
There Is No Perfect Strategy
The Better Business Bureau Reports on 1975
Watch Your Watch Concession
American Express Does Something Retailers Could Do

November 1976

F - Hate The Government - Theme of Major Retailers
B - A Matter of Ethics (Xmas gifts)
A - Problems with UPC/OCR-A
The Lesson From Sears' Two Consent Orders
The End of Stolen Credit Balances
Commercial Bribery
The Actualities of Electronic Funds Transfer
Credit Department Problems - Inefficiency or Restrictive Laws?

December 1976

F - Business Week Distorts Retail Financial Reports
F - The Polygraph and the Quality of Life
B - A Matter of Ethics (Ralph's violation of copyright laws)
A - A Season's Greeting
The True Community Store
Did Montgomery Ward Hit The Volume Panic Button?
The Perfect EFTS Squelch
Commercial Bribery
The Test of Credit Cards
Do You Discriminate Against Women By Not Discriminating?
The Things People Say (Ames Dept. Store quote)
What Makes One Wonder About Accountants
Remodeling Pays (Nutler Store Equip, Inc.)
Unaudited Statements to Stockholders
Should Retailers Be Compelled to Aid Tax Fraud?
Good System, Bad Goal (investment returns)
The "Tax Saving" Industry
A Red Star Story From Macy*s
How Ethics In Industry Drop
How Retailers Alienate the Public

RETAILING TODAY

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TROUBLE AHEAD FOR ESOTS

The Achilles Heel of the amazing new Employee Stock Ownership Trusts (ESOTs) is the requirement that the stock (whether purchased from the company or present owners) must be sold at "fair market value" (FMV). Unfortunately, the Internal Revenue Service has taken the position that any "letter determination" on the qualification of an ESOT will **not** include a determination as to the value of employer securities transferred.

The guidelines issued by the IRS require that employees must demonstrate a good-faith effort in establishing the FMV of non-traded stock, including the use of an independent, reputable outside oraganization to make a valuation.

The IRS has discolosed their thinking of the adjustment to be made in the case of stock contributed against the extra 1% investment tax credit that companies are allowed–the company must make up deficiencies resulting from overstating FMV by contributing additional shares, based upon a proper valuation at the time of the original contribution plus any dividends payable during the intervening period. This cure, however, is not available if the Company did not make a good-faith effort to value the stock; in such bad faith cases the company will lose the 1% additional investment tax credit and be subject to a civil penalty if they do not make up the deficiency within 90 days after notice of such failure.

Our "free enterprise" system, given such a wonderful opportunity, has brought forth streams of "willing" users and abusers of the ESOT plan. On one side are companies that know that their stock, if freely traded, would not trade at book value but who want to sell to their ESOT (either their own stock or new stock) at substantially above book value. On the other side are the "independent, reputable outside" individuals or organizations who established a reputation proving, in estate and gift tax cases, that such stock would trade at only 50% of book value but who now certify that it would trade at substantially more than book value.

There is little but greed on both sides. There is the greedy seller of the stock who has finally found a market without going public or a new source of equity capital at substantially less "give-up" of ownership than would be necessary to bring in capital from experienced investors willing to invest in a closely held company. There is the greedy "expert" who has always shaped his "opinion" to reflect what is wanted by the person who pays his fee.

RT has recently seen valuations of both retail and non-retail firms at substantially above book value–for companies that under no circumstance would trade at book value if there was a public market. The normal discount just for lack-of-market, in estate and gift tax valuations, ranges from 30% to 40% of the estimated value that would prevail if there was a market.

The November issue of STOCK DATA (Published by RT, $7.50/yr.) shows that at the end of November 1975, the

A MATTER OF ETHICS

America watched Rufus L. Edmisten as Deputy Chief Counsel of the Watergate Committee. One would think he understood the need for ethical conduct; but all he got out of it was a desire to advance himself. He did–and is now Attorney General of North Carolina.

His recent complaint against J. C. Penney Company, which got him national publicity, alleged horrible offenses. The complaint speaks of "harassing telephone calls," "immediate and irreparable injury" and "harassing, threatening and abusive calls" when "the customer has made regular payments."

As punishment he asked the "restoration of any monies collected and the cancellation of any debts still outstanding," plus payment of the cost of preparing the case, and a fine!

You may not have read the reply from Penney which led to lifting of the Temporary Restraining Order and denial of a Preliminary Injunction. Penney reported 189,000 accounts in the state of which 11,700 were delinquent. Telephone contact is not made until the account is at least 60 days past due. No harassing calls are made. Contact is made at places of employment only when the customer cannot be otherwise contacted.

Edmisten acted without contacting Penney. 5 days after the action was filed Penney received a copy. When the temporary injunction was denied, Penney had not been provided with any evidentiary matter supporting the complaint. They had received the names and addresses of the original 4 complainants and later a 5th name (out of 189,000 customers).

A newspaper story reported that Edmisten wished "to break new ground" and that other Southeastern states were "just waiting for the outcome of this case" to pursue similar action.

RThought: Sam Ervin travels the country preaching the virtue of our Constitution and the need for ethics in government, and a man who had an opportunity to learn at his side doesn't understand the meaning of the word ethics.

2. You are not given the opportunity to put in additional shares because the IRS holds that there was no "good-faith effort" to determine FMV (IRS claims you are presumed to have some idea of what publicly traded retail stocks sell for in relation to earnings) and therefore the ESOT does not qualify. The annual contribution to the plan is no longer tax deductible yet the outside financing source or the seller will continue to demand the payments that your company probably guaranteed.
3. Your employees now find that they were taken—stock was provided them at three times the FMV. This is likely to eliminate any incentive you expected to develop by making them owners. They might take the following collective action:
   a. Sue to make the selling stockholders or the company put in the additional shares even if the IRS will not recognize this as a cure. Imagine the local headlines if the newspaper reports that your employees sued you for fraud!
   b. Sue to require the Company, at the termination of the plan, to repurchase the stock at the same percentage of book value that it was sold to the ESOT. This would make an ESOT one of the most expensive forms of financing. If stock with a book value of $10 was sold at $15, and it earns and retains $15 per share over the next 10 years, then the Company would be required to repurchase the stock for $37.50 (150% of $10 plus $15). It will have cost your Company $22.50 in after-tax dollars for the use of $15, interest free, for 10 years, or 9.6% in after-tax dollars, roughly the equivalent of 20% in pre-tax dollars.

RThought: Would you buy a store without taking an inventory? Would you lease an empty location without checking the building? Would you hire an executive without interviewing him? If the answer in all cases is NO—then why are you so interested in rushing into an ESOT when the IRS has said they will not issue a ruling that the proposed selling price is at the "fair market value"?

A final RThought: The courts are developing the class-action precedent for recovery by your employees. Attorney David Gold in San Francisco, between mid-1974 and the end of 1975, recovered $110 million for stockholders of such companies as Memorex, Mattel, Equity Funding and Holiday Magic ($30 million from Mattel alone) citing the Federal law requiring full and fair disclosure in published financial statements (just like a Federal law saying the stock has to be sold at fair market value?). Goldman, Sachs has again lost a case (it was ordered to pay $500,000 to Franklin Savings Bank) because they didn't tell all they knew when they sold Penn Central notes just before its collapse (including out-of-court settlements, Goldman, Sachs has paid much more).

THE RECESSION—WE DID IT TO OURSELVES

One of the fascinating charts in the Business Conditions Digest, published by the Department of Commerce (G.P.O. Washington, D.C. 20420 $55.25 per year) shows the change in business inventories for nondurable goods (this includes manufacturing, wholesale and retail level) expressed as changes in billions of dollars.

When it shows that inventory was up $2 billion, that means that the inventories were increasing at a rate of $2 billion per year, allowing for seasonal adjustments (during some quarters the normal seasonal pattern is for the inventories to decrease—thus, if inventories remained level it would represent a seasonal increase).

In the 83 quarters between the first quarter of 1953 and 3rd quarter of 1973 the fluctuation in nondurable business inventories showed an increase at the rate of more than $5 billion a year only 3 times (2 quarters in 1953 and 1 in 1972) and showed an absolute decline only 4 times (2 quarters in 1966 and 1 each in 1965 and 1970).

Starting with the 4th quarter of 1973, the change in inventory was:

		$ Billions
1973	4th quarter	+14.1
1974	1st quarter	+ 8.2
	2nd quarter	+15.4
	3rd quarter	+ 3.0
	4th quarter	- 0.5
1975	1st quarter	- 5.7
	2nd quarter	- 16.3
	3rd quarter	+ 3.7

RThought: One wonders if the wisdom shown in prior recessions when fluctuations remained in fairly narrow limits was lost when computers, which controlled much of the 1974-75 inventories, replaced those incompetent, inefficient mechanisms called people? RT has yet to see that anyone has developed a program for introducing "common sense" into a computer. One must ask this question: If we did not have so many business computers would we have had such a rough depression in 1974-1975?

HOW EFTS WILL CUT RETAIL SALES

The world is unundated with seers who prophesize the future magic of Electronic Funds Transfer Systems (EFTS) but few of them really know what will happen. Virtually none of them consider the impact on business or the consumer. They remind me of the restaurant that plastered the wall above the coat racks with signs reading "Warning—the Management will not be responsible for lost coats." One man spent so much time watching his coat that someone stole his steak!

In Memphis everyone got together to see what would happen if funds were transferred instantly. Arthur Andersen & Co. conducted the survey, The Supermarket Institute published the results, and the banks (First National of Commerce and Union Planters National), food outlets (Krogers, Liberty Cash, Malone & Hyde) and department stores (Goldsmith's, Sears, Sessel's) cooperated.

The sample was significant—the 35 grocery stores and 8 department stores accepted 422,000 point-of-sale checks during the month of the study, representing 13.5% of the point-of-sale checks accepted in the Memphis area. The 35 grocery store locations represented 65% of the total Memphis grocery sales. Based on this study some very important facts were revealed.

6% of the checks written would not have been accepted if account balance was verified because the balance did not cover the check!

These checks were presented during the peak check-cashing periods. 5 p.m. to 7 p.m. on Thursday and 11 a.m. to 6 p.m. on Saturday (both periods when banks are closed).

Yet, most of these checks were covered when they arrived at the bank. Part of the problem was that the bank had not yet recorded deposits to the account (if you mail in a deposit, do you ever know for sure what day/hour it is credited to your account?).

The study was able to identify the factors likely to predict bad checks. The most serious problem (61% of the collection items) was with accounts open less than 180 days. Unfortunately, this cannot be learned from the check presented except from the check number (58% of the collection items had check numbers under 100). 35% of all collection items were drawn against closed accounts—which suggests the possible benefit of a central list of closed accounts.

The important (to retailers) conclusion of the study was that an individual's "check cashing history," if used as the basis of authorization, would cause less erroneous refusal at the point-of-sale than would "account balance verification" unless the banks adopt memo posting of deposits.

DEPARTMENT STORE COMPLACENCY

That is the title of the following item that appeared in the January 1976 issue of Joseph W. McNichols **Furniture Merchandising Newsletter** ($25/yr. P.O. Box 584, Palos Heights, Illinois 60463) and is reprinted with permission. Joe McNichols is widely read in the furniture field—and his observations on the weakness of department store furniture operations should (but probably will not) cause some soul-searching by top department store executives.

> **"Since 1967, many department stores have not kept pace with industry increases in the total sales of furniture and bedding. Several factors have caused this: 1. 'Soft goods' merchandisers have risen to responsible positions, and do not understand the tremendous dollar sales and profit potential of the furniture business. 2. Department store merchants spend huge sums of money to properly display fashion lines—dresses—furs, etc., and continue to display furniture as they did ten years ago. 3. Department store buyers proudly speak about the monthly prestige ads they run or what we call 'presentations' rather than innovative furniture promotions. Clearance furniture sale ads at 20% to 50% off are usually repeats of promotions that have been run for many years.**
>
> **"The only exception is bedding. Frequently department stores update their bedding format and copy, and do a commendable job of selling the advertised bedding, but often fail to sell the 'step-up' more profitable mattresses, box springs, and dual purpose. Next—their sales personnel are the original, 'Can I help you?' breed. They are poorly trained and will spend time extolling the fine reputation and origin of their department store, instead of explaining the benefits of the merchandise to the customers. It is no wonder that some department stores have abdicated their leadership role in the community in the sale of furniture and bedding. Management is no longer well informed and knowledgeable regarding changes that have taken place in our industry since 1967.**
>
> **"What does this mean to you—a knowledgeable non-department store furniture retailer? It means that today and in the years ahead you should be able to increase your share of the furniture sales and profits in your community, at the expense of your department store competition. This will hold true in 80% of the cities in America.**
>
> **"In recent meetings, some department store merchants have told us they intend to raise their maintained furniture gross markup to 'number' and 10%. If an item costs $200 landed, they will mark it a minimum of $449 retail. We advised them to reconsider this. They should cut expenses, instead of establishing an 'unbrella' to cover an inefficient operation."**

NAMES IN THE F.T.C.

Fisher Foods, Inc.: The FTC filed a complaint alleging unavailability, overpricing and overcharging of advertised items. It specifically alleges that a substantial number of advertised items were not readily available for sale or not readily and conspicuously available for sale at or below the advertised prices, or were sold at prices higher than advertised.

Mayfair Supermarkets, Inc. (New Jersey): A consent order has been agreed upon following allegations that advertised items were not readily available for sale at or below the advertised prices that requires Mayfair to (1) mark advertised prices on items customarily price-marked (2) offer rain checks when out of stock, and (3) post a notice at the entrance to each store with a copy of the ad, a list of items not available, and announcing that rainchecks are available.

Forest City Enterprises: A consent order has been agreed upon following allegations that pricing and savings claims on TV sets and appliances were deceptive. The order requires (1) not to misrepresent the duration of a sale (2) disclosure when the model offered has been discontinued and the year of discontinuance when the product was purchased after discontinuance or where it is learned the product was discontinued after purchase. The allegations included a charge that purported reduced prices were actually the regular selling price.

SHORT SHORTS

There are carryout boys! In November 75 RT **(There is No There, There!)** one line read "When was the last time you saw a carryout boy?" There was a a prompt reply from a Houston reader, "I see one every time I shop—all the stores here have boys available and two stores insist that they carry out your groceries. Randall's expects tips and Handy Andy refuses tips."

WORDS TO MANAGE BY

At the start of this Bicentennial Celebration, which, unfortunately, most celebrants don't understand (too many readers are treating this event phonetically—as the "Buy-centennial Sellabration") it might be well to look once again at the advice from a successful businessman from 200 years ago—also an author, editor, publisher, printer, insurance company founder, inventor, scholar, debater, diplomat and leader. That would be Ben Franklin.

Remember that time is money.

Early to bed and early to rise, Makes a man healthy, wealthy and wise.

Never leave that till tomorrow which you can do today.

Little strokes fell great oaks.

He that goes a borrowing goes a sorrowing.

Experience keeps a dear school, but fools will learn in no other.

Keep thy shop and thy shop will keep thee.

There never was a good war or a bad peace.

We must all hang together, or assuredly we shall all hang separately.

median P/E ratio of publicly traded retail stocks was as follows:

Market	No. of Stocks Listed	Median P/E	Return on Net Worth Necessary To Sell @ Book Value
New York Stock Exchange	122	8x	12.5%
American Stock Exchange	102	5x	20.0%
Over-the-Counter National List	147	5x	20.0%

If we allow a 30% discount for lack of a public market (the fact that the company establishing the ESOT has an option, which they need not exercise, to buy the stock does not create a market value) then closely-held companies, usually substantially smaller than publicly traded companies, would have to earn about 28% to 30% on first-of-the-year net worth in order for their stock to have a "fair market value" equal to book value.

Business Week (December 29, 1975) offered a chance to test market valuations—they published data on 893 major companies—all of the companies for which they could determine a "concensus" forecast of 1976 earnings. The quality of these companies is evidenced by the fact that the **smallest retailers** listed were:

Company	Volume (millions)	Share Value Market 12/5/75	Share Value Book	Fiscal Yr. End	Estimated Earnings per Share 1975	Estimated Earnings per Share 1976
Frank's Nursery	$46	6	7	Dec	1.15	1.25
Rockower Bros.	80	10	13	Dec	2.40	2.75
Heck's	135	13	12	Dec	1.80	2.00
Caldor	195	12	9	Jan	1.50*	1.75*
Eckerd Drugs	199	16	9	Mar	1.55**	1.75**

* Jan following year
** Mar following year

If you have been told by an "expert" that your company stock has a FMV of 50% more than book value, ask yourself how you compare with the above "smaller" retail firms.

For all companies listed by **Business Week** the rough decile groupings show the following relationship between market price and book value:

This % of Companies	Traded at or Below this % of Book Value
10.0%	44%
18.7	54
27.5	64
37.5	74
50.4	89
59.9	104
70.2	129
80.6	164
90.4	249
100.0	880

884 of the 890 firms could be analysed in the table below (in a few cases data was not complete or was obviously erroneous):

Group	Number Of Firms	Market Value As Percent of Book Range*	Market Value As Percent of Book Median	P/E Ratio Range**	P/E Ratio Median	Return On Equity
I	116	13%-49%	36%	4x-8x	5.5x	6.5%
II	168	50%-69%	58%	5x-8x	6.1x	9.5%
III	166	70%-89%	80%	6x-8x	7.0x	11.4%
IV	103	90%-109%	100%	7x-9x	8.0x	12.5%
V	122	110%-149%	128%	7x-11x	11.8x	13.2%
VI	82	150%-199%	166%	9x-13x	11.8x	14.1%
VII	73	200%-299%	244%	12x-17x	14.6x	16.7%
VIII	54	300%-880%	400%	17x-25x	20.7x	19.3%

* Indicates complete range
** Interquartile range—50% fall within this range

The table reads as follows, using Group IV as the example: "There were 103 firms selling at between 90% and 109% of book value, with the median for the group 100%. 50% of these firms traded at between 7x and 9x estimated 1975 earnings per share with the median for this group at 8.0x. Dividing the median percentage of book value (100%) by the median P/E ratio (8.0x) indicates a 12.5% return on book value for Group IV firms."

RThought: The evidence is overwhelming. The FMV of a minority interest in a nontraded stock of a small company that does not pay a dividend and where the management skill rests in one or two owner/stockholders can not be worth book value except in cases so unique that the Company is probably on the verge of going public. And if the Company is in such a unique position, management probably will not be looking at an ESOT which would cut the earnings upon which their public underwriting will be based.

This is true regardless of what small or large bank, what local or nationally known investment firm, what local or national accounting firm rushes forward and offers, for a fee, to give an "independent expert opinion" to the contrary. Remember, the "expert" may not be around a number of years from now when the IRS starts to question the value at which you sold stock to your employees.

One of the best methods of determining FMV is to find the price at which stock of comparable firms is traded. Normally, this is not possible for firms doing under $10 million. The "expert" probably dismissed such comparison on the basis that such comparable firms do not exist. But there are a good number of firms in the $10-$25 million bracket and they suffer from all the problems of limited management, limited market and limited price.

Consider for a moment what penalty may arise in the future. Let us suppose that you thought you sold 15% of your company to your employees at a share price equal to 150% of book value. IRS maintains, using dozens of valuations of similar companies in gift and estate tax cases, that the price should have been 50% of book value. Look at these possibilities:

1. You may be given the opportunity to correct the sale by putting more shares into the trust—three times the original amount.
   a. If the stock came from stockholders, they may not have enough stock left!
   b. If the stock was sold by the company, it will have to issue more shares.
   c. The net result may be that you really sold 35% of the Company (45% or 3 times 15% divided by 130%).

CREDIT OFFICE RATING

It looks like retailing is in good shape for billing a record Christmas. The Honor Roll is long and there are an additional 6 stores under 5 days. Only a few stores (Hink's, Sears-Alhambra and Sulka) appear to have a problem getting their bills out 2 weeks prior to the cycle closing for payments—as the new law requires.

The Honor Roll has some interesting names. Abercrombie & Fitch once was the subject of a column by Sylvia Porter because their billing was so slow (they were converting to a computer). Oshman's suffered through the same problems not too long ago.

HONOR ROLL

Company	Days	Company	Days	Company	Days
Jurgensen's	3.0	Abercrombie & Fitch	4.0	Montgomery Ward	4.0
Joseph Magnin	3.5	Harzfeld's	4.0	Sakowitz	4.0
Oshman's	3.7	May Company	4.0	Sears-Dallas	4.0
I. Magnin	3.8	Mervyn's	4.0		

CREDIT OFFICE RATING

Information From Reporters	OCT-NOV 1975 No. of Reports	OCT-NOV 1975 Days to Bill Average	OCT-NOV 1975 Days to Bill Range	AUG-SEPT 1975 No. of Reports	AUG-SEPT 1975 Days to Bill Average	AUG-SEPT 1975 Days to Bill Range
Abercrombie & Fitch (NY)	1	4.0	4	1	3.0	3
Breuners (Oakland)	2	6.5	6-7	1	7.0	7
The Broadway (LA)	2	7.0	7	2	6.5	6-7
Bullock's (LA)	1	8.0	8	2	4.5	4-5
Bullock's (No. Cal.)	6	7.3	6-10	5	7.6	6-10
Capwell's (Oakland)	6	6.1	6-7	7	6.1	6-7
Emporium (SF)	4	5.5	5-6	6	5.8	5-6
Foley's (Houston)	1	8.0	8	2	7.0	6-8
Grodin's (No. Cal.)	2	6.0	5-7	1	5.0	5
Gump's (SF)	1	7.0	7	2	5.0	5
Harzfeld's (KC)	1	4.0	4	–	–	–
Hastings (SF)	4	4.8	4-5	1	8.0	8
Hink's (Berkeley)	1	17.0	17	2	17.0	17
Joske's (Houston)	1	11.0	11	2	3.5	3-4
Jurgensen's (LA)	1	3.0	3	1	3.0	3
Liberty House (N. Cal.)	4	4.5	3-7	2	5.5	3-8
Livingston Bros. (SF)	2	5.0	4-6	3	5.0	5
Macy's (SF)	8	6.3	5-8	7	6.3	6-7
I. Magnin (SF)	6	3.8	3-4	6	4.2	4-5
Joseph Magnin (SF)	2	3.5	1-6	4	3.5	3-4
May Co. (LA)	1	4.0	4	–	–	–
Montgomery Ward (Oakland)	2	4.0	4	1	5.0	5
Palais Royal (Houston)	1	9.0	9	–	–	–
Penney's (Dallas)	1	6.0	6	–	–	–
Robinson's (LA)	2	4.5	4-5	2	5.0	4-6
Roos/Atkins (NY)	3	4.3	4-5	–	–	–
Sakowitz (Houston)	1	4.0	4	–	–	–
Saks (LA)	1	7.0	7	–	–	–
Saks (SF)	3	7.7	7-9	3	5.0	4-6
Sears (Alhambra)	4	9.0	7-13	5	7.0	4-12
Sears (Dallas)	1	4.0	4	1	5.0	5
Shreve & Co. (Minn.)	1	8.0	8	–	–	–
A. Sulka (NY)	2	11.5	9-14	2	12.0	12
TOTAL	79	6.3	1-17	71	6.1	3-17

Information From Stores	OCT-NOV 1975 No. of Reports	OCT-NOV 1975 Days to Bill Average	OCT-NOV 1975 Days to Bill Range	AUG-SEPT 1975 No. of Reports	AUG-SEPT 1975 Days to Bill Average	AUG-SEPT 1975 Days to Bill Range
Brock's (Bakersfield)	18	7.4	6.9	18	5.9	5-7
Holman's (Pacific Grove)	10	5.4	4-7	10	5.0	3-7
Iver's (Los Angeles)	10	4.5	4-5	10	4.2	3-6
Levee's (Vallejo)	20	5.5	2-9	20	3.0	2-4
Levy Bros. (San Mateo)	30	5.2	3-7	28	5.5	4-9
Mervyn's (N. Cal.)	20	4.0	3-5	20	4.0	4
Oshman's (Houston)	9	3.7	3-7	10	3.9	3-6
Penn Traffic (Pa.)	10	4.1	3-5	–	–	–
Routzahn's (Md.)	2	5.0	4-6	2	3.0	3
Wineman's (Huntington Park)	8	7.3	6-9	8	7.6	6-10
TOTAL	137	5.2	2-9	126	4.8	2-10

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

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

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

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

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

RETAIL SUCCESS STORES—FEW KNOW ABOUT

Case I
That would be **Les Schwab Tire Center** which was started in 1952 on $14,500, a home mortgage and a wife who, Schwab says, "Cried when she saw what I'd bought." Today it is doing over $30 million a year through 47 tire centers in the Northwest plus 27 franchise dealers—and it headquarters in a town most of the people never heard of—Prineville, Oregon. Schwab has proven that you don't have to start in a big town to build a big business—you just have big ideas.

Among Schwab policies are three that you might want to think about in relation to your own business.

First, they promote a program of changing tires **without charge** for any woman with a flat tire anywhere in "Schwab territory." Like many programs that other businesses were founded on (such as "Satisfaction Guaranteed") this is expensive—but effective. It is particularly effective because controllers, financial VPs and management consultants would normally show Schwab how much money he could save by eliminating the program.

Second, they buy a wide variety of brands and non-brands, plus doing their own retreading, so that they can offer the widest choice to customers (they draw a parallel with Safeway).

Third, 50% of profits go into a profit sharing plan and company stock is held only by people working in the firm—Schwab feels that doctors, lawyers and investors should not profit from the efforts of a Schwab employee.

Schwab has turned his attention to farming and ranching—and is particularly interested in an old, crippled bull who can't chase cows—he just stands still and the cows come to him. Schwab wonders if the bull knows something about promotion that might help Schwab serve more tire customers.

(RT is indebted to its Oregon reporter and the Portland **Oregonian** for this story).

CASE II
The California Grocers Association recently told the story in their magazine, **Grocers Advocate**, of the success of Nob Hill Foods, an "independent" food chain doing $80 million a year in towns that most retailers never heard of. Still a family business, with the founding brothers active, it was started in 1934 in San Marin (where's that?).

The Bonfante family has proven that the difference between a successful supermarket and a failure is more likely to be the management than the name of the company. The list below shows what they have done in stores that they have taken over.

Town	Year	Size (Square Ft)	Weekly Volume Under Prior Management	Weekly Volume Under Bonfantes
Cupertino	1974	22,500	$28,000	$ 75,000
Salinas	1973	22,500	25,000	140,000
Milpitas	1970	14,500	closed 1 yr.	112,000
Campbell	1972	24,000	27,000	148,000
Los Gatos	1970	20,000	14,000	170,000
Hollister	1971	12,000	19,000	74,000
Morgan Hill		16,000	opened new	112,000
Gilroy		70,000	opened new	226,000

The other unique feature of the report on Nob Hill Food is that there were not a lot of testimonial ads from suppliers, sort of "suggested" by the magazine. Instead there are 4 pages of advertising, paid for by Nob Hill Foods, listing more than 90 firms who are their suppliers, manufacturers, reps, purveyors and service companies—and in most cases the ads list the salesman who serves them. The Bonafantes saved a special half page for a single man who has serviced them for 40 years during which time he represented 4 different companies.

It is good to see that a successful retailer can remember the many who, even though profiting from the growth of Nob Hill Food, also contributed to it. There are too many times when they think they did everything all by themselves.

RThought: All of this was accomplished in the backyard of Safeway and Lucky Stores. If it is true that the major chains are going to force all the little guys to the wall, a few more forcings like this and we may have to worry about LuckSafe. Can you imagine what the Bonfante's could do if they were in a territory where A&P was withdrawing?

SHORT SHORTS

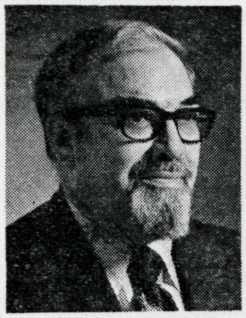
One of the joys of life is receiving the monthly letter from Wes Davis of Whirpool, but in his capacity as Secretary of the "Let's Have Better Mottoes Association," especially when he reports the motto for the month as:

SOME FOLKS CARVE OUT GREAT CAREERS
others simply chisel

NRMA becomes political front. In the January 1976 Employee Relations Bulletin, NRMA has undertaken to plug the campaign of Ronald Reagan with the claim they are issuing the statement "Just for the record." RT has long heard rumors about who actually runs NRMA but it now is becoming apparent. Members who thought NRMA was a trade association might well look to their support of it.

Macy*s California boosts the U.S.! The very first entry in their guide to cash register systems says "CASH—Acceptable at face value!" Imagine—by the grace of Macy's they are not making you pay more when buying for cash. RT doubts that any other store in the United States ever thought of including that simple fact in their training system. (Note: the booklet does not indicate whether checks, travelers checks or money orders are accepted at face value.)

You can advertise anywhere—even, as was found by Purity Stores (supermarkets) in California, on the back of the cash register tape! The slip offers 10% off on Kling's Candies, $3 off on any service charge of $10 or more at the local Chevrolet dealer, etc. The more you buy, the longer the tape, the more discounts you get.



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ROUTE TO

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OUR FORECAST FOR 1976

Most newletters would not put out their annual forecast as late as February. The "correct" time is just before the start of the year.

This year, however, everyone is forecasting wonderful things for 1976–talking of the continued recovery, the manipulation of the economy by government during an election year, the growing confidence of consumers and the parallel recovery in foreign countries. Thus, there was little for RT to add–except two quotations from Ralph Waldo Emerson that tell the whole story plus an **RThought**.

Emerson said:

> "This time, like all times, is a very good time if we but know what to do with it."
>
> "Can anybody remember when the times were not hard and money not scarce?"

RThought: Each year a retailer must struggle for what he gets. He has no patents or copyrights on which he collects royalties. He has no monopolies or true exclusives. He just has the constant work of pleasing a fickle citizenry who vote often and carefully with their dollars. No matter how good the times, if a retailer lets up he will have bad times; and no matter how bad the times, there are those who find the answer to what the consumer wants and for him it will be good times.

Remember–no matter how good the times are, some retailers will fail.

COLLEGE PROFESSOR SAYS "LET EMPLOYEES STEAL!"

It seems that it is possible to become a recognized author and professor and have the New York Times review your theories –even though one cannot distinguish who owns what property. Professor Laurence Zeitlin of the City University of New York, and reported to be a well-known industrial psychologist, writing in **Psychology Today**, says that "the dishonest worker is enriching his job in a manner that is very satisfactory for him." According to Professor Zeitlin, who doesn't have to pay the cost, he claims that this is a bargain–for $1.50 a day a company can increase employee motivation and keep labor turnover costs down.

It is amazing that a man can rise to be a professor and not understand that one does not take something that belongs to another. Perhaps Professor Zeitlin has been confused about ownership and found that the ability to exercise a little "controlled theft" has made him stay longer on a job and increase his motivation. Certainly, a professor wouldn't expound such an unusual theory as this, to be adopted by all businesses, without conducting the simplest of experiments–doing it himself. This is not like exposing one to a dangerous disease or risking one's life to land on the moon. It simply means taking a little property from City University of New York (a high official like a professor should be allowed more than the $1.50 a day that the little guys are allowed) and then he could ask himself at night if he feels better.

RThought: Retailers create part of this problem (as RT has long pointed out) by not calling "shoplifting" by its correct name: Stealing. There is nothing "lifting" about stealing. A

A MATTER OF ETHICS

If you are going to give away merchandise, should you give it to the customers who support your business month after month, year after year, or should you give it to the people who have never done anything for you?

It appears that more and more businesses are disregarding the customers that support them regularly while they stumble over each other trying to give special deals to the people who have supported their competitors.

In this day of Watergate, Gulf, Northrop and Lockheed, it is appropriate to draw a comparison with bribery charges that are being seriously discussed by our government. Is there any basic difference between offering $10 to a customer to patronize you instead of someone else and offering $450,000 to a Middle East general to select your aircraft for his air force?

Montgomery Ward has offered my mother, age 82, a "handsome Tote Bag" free by presenting the Gift Certificate with her first charge purchase. Montgomery Ward did not offer that to me–and I have a balance on my account with them.

Robert A. Berry, until recently President of Joseph Magnin Co., Inc. (a subsidiary of Amfac) recently offered a bribe to people who had **not** used their JM Charge Card–a Welcome Certificate that would "save $10 on the first $25 or more purchased." Bob didn't write to me even though we have three active JM accounts–my wife, my son and my daughter!

E. L. Burland, General Credit Manager for the Pacific Coast Sears, Roebuck and Co., sent a letter to an RT reader who had been trying for 2 years to get Sears to acknowledge that they had his name wrong (but address right) and that he had never, **never**, NEVER opened an account nor did he want an account. Before the law prevented it, Sears had sent him a credit card which he cut in half and returned. Now they were offering him a "6 piece Crystal Wine Service" with the next Revolving Charge purchase of $10 or more. Mr. Burland didn't offer that to me and I have a balance on my Sears account!

Bribery, apparently, has become the highest order of credit soliciting in the retail business; perhaps second only to the contempt and disregard felt for customers with active balances.

number of stores have caught professors in the act—and have been subjected to the pressures of family, business leaders, etc.—"Don't prosecute—you will ruin this man's life." Many—if not most—stores succumb to such pleadings.

It is obvious that there is little that students can steal from a professor—and therefore there is no economic penalty in what Professor Zeitlin argues. How does Professor Zeitlin plan to draw the line between allowed "controlled theft" at a place of work and "shopstealing" in the local supermarket or department store? When you visit a close friend, would Professor Zeitlin suggest that to stimulate the friendship that you take something worth about $1.50 off the sideboard in the dining room? If you need some flowers, it must be OK to steal about $1.50 worth from the public park.

Ugh!

FASB—MAKES WORK COMMITTEE FOR ACCOUNTANTS

For years, while collecting increasing fees arising from increasingly complex (and often poorly drafted) legislation prepared by fellow lawyers temporarily serving as legislators, lawyers have joked about particular bills as being "The Lawyer's Relief Act" as they rub their hands in glee over the profit they will reap.

Perhaps certified public accountants felt left out—they usually gain only through legislation affecting such laws as the Internal Revenue Code, the Securities and Exchange Act, and the Pension Reform Act. They apply constant pressure on legislative bodies to require that reports be "certified by an independent accountant."

Now it looks like the accountants may be going for a bonanza—through FASB—the Financial Accounting Standards Board. The FASB is reviewing the Accounting Principles Board Opinion No. 28 "Interim Financial Reporting" which held, fundamentally, that interim reports did not cover discrete periods and therefore did not require the participation by (and a fee to) an independent accountant. The FASB may well change that—and conclude that the time required for the earth to travel only one quarter of the way around the sun has suddenly been endowed with the attributes that warrant an accounting fee.

WHERE HAS THE CHEAP LABOR GONE?

Remember when the great complaint was that cheap foreign labor would destroy the American economy? Many "Buy American" campaigns were foisted on the public. Retail businesses bought more and more consumer goods overseas—so that the low price manufacturer of shoes, shirts, toys, radios or many other products disappeared from the American economy.

Now the labor cost pattern is changing—and there are no "low price" U.S. manufacturers left. We have to turn to other countries like Hong Kong, Taiwan, Indonesia, Korea who are temporarily "low labor cost" countries.

The following table shows how factory wages have changed in 9 industrial countries over the past 15 years, using the U.S. wage rate as 100:

Country	1960	1970	1975
United States	100	100	100
Canada	80	82	100
Japan	10	24	49
France	30	42	77
Germany	31	55	103
Italy	24	42	75
Britain	31	35	55
Belgium	31	49	111
Holland	24	47	102
Sweden	45	70	114

Germany will manufacture Volkswagens and Sweden will make Volvos in the U.S. to take advantage of our cheap labor rates.

"OLD MAIDS" ARE COMING BACK

A recent Census Bureau study highlighted the fact that we soon will have a surplus of old maids again. The table below shows, for selected ages or age groups, the percentage of women who, in 1960 and 1975, had never been married.

For This Age	This Percentage of Women Had Never Been Married in 1960	in 1975
20	75.8	80.1
22	51.6	61.9
24	33.4	40.2
25-29	20.8	22.3
30-34	11.9	11.1
35-39	8.8	8.6
40-44	7.3	7.2
45-54	7.4	6.3
55-64	8.0	6.5
65 plus	7.7	4.7

If the current trend away from marriage, as shown by the substantial increase in the percentage of women at ages below 25 who have never been married, continues for many years and if cohabitation does not produce lasting alliances outside of marriage, then we can expect by the end of this century to see an end to the long term decline in "old maids." This will have an impact on buying patterns, housing needs, urban-suburban population distribution, and many other things in our society.

DISCLOSURES IN ADVERTISING

RT regularly sees the New York Times, Los Angeles Times and three San Francisco area daily newpapers. The advertising in these markets include representation of virtually all the major department store chains and groups.

Two distinctions have become apparent over the years, both of them indicating more precise advertising policies on the part of the chains (defined as Sears, Penney, Wards and K-Mart), than on the part of other retailers.

First, there is the matter of disclosing model number on major appliances. The chains do this meticulously; department stores do it infrequently. In the field of stereo and hi-fi, the local specialty chains also give the full model number in almost every instance.

Second, there is the matter of available quantities. The Federal Trade Commission has brought complaints against a number of supermarkets and a handful of nonfood stores alleging that "in a significant number of ______'s stores, a substantial number of items listed or depicted in advertisements were not readily

THE CHANGING PATTERN OF EMPLOYMENT OF WOMEN

Between 1962 and 1974, women represented a growing portion of the labor market–increasing from 33.9% to 38.9%. In a number of occupations the increase was much more dramatic. The Table below has been extracted from a more complete tabulation in the November 1975 **Monthly Labor Review** ($22.35 per year, Superintendent of Documents, Government Printing Office, Washington, D.C. 20402):

	1962	1974
Accountants	18.7%	23.7%
Chemists	8.6	14.0
Lawyers & Judges	2.8	7.0
Physicians	5.5	9.8
Editors & Reporters	37.8	41.6
Public relations	20.0	28.8
Purchasing agents	10.7	17.9
Bill collectors	21.2	46.0
Vehicle dispatchers	9.1	24.2
Insurance adjusters	9.4	45.6
Shipping & Receiving clerks	7.6	15.9
Bakers	18.3	41.1
Compositors & Typesetters	6.3	19.9
Gas station attendants	1.5	5.3
Bus drivers	11.9	37.4
Taxicab drivers	3.7	11.5
Laborers (except farm)	2.6	8.1
Bartenders	11.5	32.6

Black employment also increased as a proportion of the labor force–9.1% in 1962 and 9.9% in 1974–and again there were occupations showing significant increases.

	1962	1974
Accountants	1.4%	4.4%
Engineers	1.3	4.6
Physicians	1.8	9.3
Social workers	8.5	16.4
Insurance agents	2.8	4.2
Managers	2.2	3.9
Brick & Stone masons	12.7	18.2
Crane & Hoist operators	10.0	17.9
Electricians	2.3	4.4
Machinists	1.5	5.6
Bus drivers	10.3	27.1
Guards & Watchmen	6.0	16.4
Police officers & Detectives	2.2	8.0

★ ★ ★

DISCOUNT MERCHANTS IN FRANCE HAVE THE SAME STRENGTH AS IN U.S.

The January 1976 issue of **Retail News Letter** published by the International Association of Department Stores reports on a study of 1974 apparel sales in France and once again it demonstrates that discount store strength is greater in children's wear (11.3% of all sales were made thru discount stores) than for men's (5.4%) or women's (2.7%). The biggest part of the apparel market in France is still held by independent retailers (roughly equivalent to our specialty store category) with 70% of all sales for men and women, and 53% for children.

A YEAR OF PROGRESS FOR PUBLICLY TRADED RETAIL STOCKS

The Table below compares the situation for retail stocks at the end of December 1975 with the end of December 1974. A substantially larger number of publicly traded stocks showed a loss for the trailing 12 months (67 vs 34) but the market was valuing retail stocks at a higher multiple (at the end of the year 39 were trading at a P/E ratio of 16 or higher vs 12 at the start of the year.) However, the P/E ratio placed on retail stocks was substantially below that reflected by the Dow Jones Industrial Average which stood at 11.4 at year end.

	N.Y. Stock Exchange		American Exchange		OTC National List	
P/E Ratio	12/74	12/75	12/74	12/75	12/74	12/75
Loss	13	23	13	22	8	22
1-2x	11	1	23	1	28	–0–
3-4x	45	8	42	23	57	28
5-6x	27	19	11	24	21	30
7-8x	10	23	2	10	12	24
9-10x	8	12	4	4	1	13
11-15x	6	19	1	9	2	8
16x +	5	19	3	5	4	15
Total	125	122	101	98	133	141
Median P/E	4x	8x	3x	5x	3x	5x
Mode P/E	4x	Loss	3x	Loss	3x	Loss

RThought: 1976 should see a decline in the number of companies reporting a loss for the trailing 12 months (partly because some have disappeared by delisting related to Chapter XI proceedings) and, hopefully, the market will favor retail stocks with a higher P/E ratio than that shown in December.

★ ★ ★

SHORT SHORTS

We no longer compensate skill. Then we wonder why people don't try harder to be better workers. In 1949, a journeyman in the building trades received a 51% higher hourly rate than a helper or laborer–in 1973 the premium was 32%. In 1949, a local truck driver received a 20% higher hourly rate than his helper–in 1973, only 11%.

Computers are finally creating completely new types of merchandise. The **Saturday Review** is the first to capitalize on it with a new heading in their classified section–"Computer-error Merchandise." The entry reads "36,500 labels for cans of parrot seeds have been pasted on cans of dog food, thanks to computer error. Will accept offers for lots of 1,000 or more. SR Box P.S." Query: does the box identification stand for "Plenty Sore?"

Can a British-controlled U.S. Company ruin the English language? Apparently that is what Cavenham Limited is trying to do through press releases from Grand Union Company. Consider this sentence from the press release following the annual meetings, "In addition to the stamp **de-entry** provision for the fiscal year ended March 1, 1975," Mr. Wood said that "stamp **de-entry** programs will result in further charge . . ." Who ever heard of a "**de-entry** program"? What happened to the word "termination"?

SHORT SHORTS

Is Singapore leading the way to a car-less downtown? Starting last May, motorists who want to enter Singapore by car during the morning will have to buy an extra license that costs from $60 to $80 a month–this gives the car a right to park in downtown Singapore. For $30 a month a car owner can buy a "dissuasion license" which will permit use of a perimeter parking area at the express bus station. Despite these heavy costs, Singapore is only aiming at a reduction of peak traffic by about 25%.

Couponing is returning–can stamps be far behind? A recent issue of the L.A. Times on a Thursday carried 24 manufacturers coupons with a total value of $3.43. In addition, 8 major chains (Safeway, Ralph's, Fazzio's, Alpha Beta, Smith's, Food King, Market Basket, Boys and Vons) carried store coupons while only 4 (Lucky, Gemco, Hughes, Mayfair) did not. Ralph's (Federated Department Stores) push coupons to the limit–offering 50% more on manufacturer's coupons (15¢ on a 10¢ coupon, for example).

"Shopping is becoming more a form of entertainment" said B. Paul Heidrick at the opening of the 3rd Bullock's in Northern California. A Bullock's customer sent RT the newspaper coverage with the notation "Last week on Bullock's 2nd floor in Palo Alto I waited 15 to 20 minutes to be entertained by a salesperson!"

Sadat blames a retailer for Sadat's anti-Zionist sentiments. In his talk at the National Press Club in Washington he traced his feelings to what he said was a refusal by a Jewish merchant 25 years ago in Cairo to sell him even a radio for his house. You now know how small a man is leading Egypt–and getting the support of a majority of the members of the United Nations. One might have thought that such instability disappeared with characters like Hitler and Mussolini.

As Sears tries to reposition itself (find those missing customers) one step has been to dramatically cut the advertising in Ebony with only one page of color and one of black-and-white in the December 1975 issue. However, they improved their relative position as Penney and others are absent.

Retailers have done it again–sold thousands of pets to children who lost interest in taking care of them, according to a report from Art Buchwald citing the American Society for the Prevention of Cruelty to Rocks!

Munford's should be happier this year with John Roscoe's "Dollars Per Day Survey" for convenience stores ($20/391 Castle Crest Road, Walnut Creek, CA 94595) now that they have risen from last among 13 firms to 10th place.

For all those retail companies contemplating sale of stock to an Employee Stock Ownership Trust (ESOT) at substantially more than book value–for a minority interest in a non-dividend paying, not-traded company–you may be interested in another external yardstick. Melville Shoe Corp recently agreed to buy Marshall's, a New England discount chain, for $40,000,000. One of the conditions for closing the sale is that Marshall's have a net income for the year January 31, 1976 of at least $5 million. This is a cash sale for complete control, with each share worth more than an untraded non-dividend share. And the requirement is that the purchase price be at less than 8 times earnings! You might use 8 times earnings to check the valuation suggested by your "independent experts" as the value for your untraded stock.

Ads offering a discount from bank credit cards are now appearing. In Los Angeles, the Len Kennett Golf Clinics, regularly selling branded golf clubs at a discount on bank cards, now quotes 3% less for cash or bank check. 4day Tire Sales, selling national brand tires at a discount, offers a 4% discount for cash or bank check.

Going the bank card way . . . add the name of Rich's which now becomes the largest department store to accept such cards (previously accepted by Richway and Rich's II boutiques). RT has long recommended that bank cards be honored just because the customers have indicated they like to shop that way just as they indicated years ago they liked to cash checks. No one questions (anymore) accepting checks as a method of payment even though it competes with the store's charge accounts! (Note: There may be exceptions, however, as indicated by the old retail story involving (take your pick) I. Magnin, Bergdor-Goodman or Neiman-Marcus, about a new clerk who had to ask her supervisor at the close of a big sale "Does this store accept cash?")

With John Piacentini it was a matter of principle. He owns 90 convenience stores in Oregon operating under the name Plaid Pantry. With the entire beer-soft drink business publishing material saying that the Oregon bottle bill was a failure, Piacentini felt differently. At his own expense he put up billboards outside the capitals of Florida, Illinois, Michigan, Colorado, Pennsylvania, Texas, New York, Washington, California, Ohio and the District of Columbia reading: "To the people of the NATION; DON'T LET ANYONE KID YOU. THE OREGON BOTTLE BILL IS WORKING! From 90 Plaid Pantry Stores, Portland, OR 97214. For information write . . . John Piacentini, Owner."

Have declining NYC sales forced major stores into the alternate press? Perhaps that explains the appearance of Macy's, Gimbel's and A&S in the Village Voice, for 15 of its 20 years a major news media to people who could have been customers of the Big Three. **RThought:** there are alternate presses in other towns, proof that not everyone reads just the monopoly daily press.

Do you rely on Prentice-Hall for information? That may be OK but watch out for their billing. They are sending out forms that look exactly like subscription invoices–called "SUBSCRIPTION EXPEDITER"– indicating an amount, in our case, of $52.72. They even put in a fancy "expediter number" like AA-FT-X-1182-A. The card is in the form of an IBM card, marked "Please do not fold-staple-tape-or mutilate." We noted the word "tape"– because our name was on a gum label that would jam an IBM sorter. You have to read carefully to find the words "If you wish to subscribe, please return this card with your check." Up until now I'll bet that you shared my belief that Prentice-Hall was an ethical company.

The future shopping center? The Kikar Levisky central bus terminal, all 2,600,000 sq. ft. is being completed in Tel Aviv, Israel. The 7-story ramp-enclosed main section will handle more than 20,000 buses a day operating on 150 different routes. To serve all of those people there will be 1,000 retail stores!

available for sale, not readily and conspicuously available for sale at or below the advertised prices, or sold at prices higher than advertised prices." Once the program is in full effect in the food industry, it can be expected that the FTC will look at other outlets.

Sears periodically includes the following in its ads: **"Sears Advertising Policy**. If we run out of any advertised item during the sale, or should an item not arrive due to production or transportation problems, we will reorder for you at the sale price or offer you a better item at the advertised prices. This does not apply to clearance and closeout sales where available quantities are limited." K-Mart indicates, "CLEARANCE! Limited Quantities. No Rain Checks."

It is customary for conventional department stores to indicate limited quantities only in clearance sales. For merchandise with two dimensions, (such as shoes, cuffed slacks, bras, dress shirts) it is becoming more common to show size charts in the ads.

RThought: Almost every store that advertises regularly could easily establish their own disclosure policy just as they have policies for indicating the store locations, store hours, and other recurring material in their ads. There is little reason why the FTC should have to bring all the big name retailers into line, one at a time, through the "complaint and consent order" process.

DO CASHIERS CREATE THEFT?

In retailing we are so accustomed to being suspicious and distrustful, we may not be aware that our own suspicions and distrust may create some of our problems.

Many schools that use "the honor system" during tests experience less cheating than schools that have proctors. The fact that no one is watching is the very reason why some people do not cheat.

It is possible that some retailer may yet work out a format of operations that will eliminate costly "protection staffs" and yet reduce shortages from internal and external theft.

To support the hope that such an approach may someday be developed, I cite as an example a restaurant, Communion Restaurant, established in the wino section of San Francisco. The story was told recently in **Briarpatch Review** –A Journal of Right Livelihood & Sharing-Based Economics (330 Ellis St., S.F., CA 94102 $6/yr.).

Communion Restaurant was started by two Briars (people who subscribe to the sub-title of the Review) with the hope of feeding people. It was designed to be operated by 2 people– and they did not want to waste one of them by having to be a cashier. Meals were originally 80¢ but they made too much money (more than the operators needed for living expenses) so they cut meals to 75¢ and then 60¢. You take all you want–but they ask that you do not waste. All regulars clean their plate–and they throw out less after serving 150 people than does a normal family of 4!

There is a change box at the door where people make their own change and pay for their meals. The following table shows why a cashier is not needed:

Month	People Served	Price of Meal	Expected Receipts	Actual Receipts	(Short) Over
1st	660	80¢	$ 528.00	$ 525.00	$ (3.00)
2nd	3,530	75¢	2,647.50	2,500.00*	(147.50)*
4th	4,030	75¢	3,022.50	3,020.00	(2.50)
7th	3,080	75¢	2,310.00	2,300.00	(10.00)
10th	3,000	60¢	1,800.00	1,900.00	100.00

*During the second month they noticed that money was short so they put up a sign "Do we need a cashier?" The next week the receipts were up to the proper level and have stayed there since.

RThought: Perhaps there are other places where cashiers are not necessary–but we may not have the imagination to identify them.

DEPARTMENT STORES MISSING THE MARKET AGAIN

For years Department Stores called themselves the purchasing agent for the public. And once upon a time they were. At the turn of the century it was common for department stores to have food, hardware, saddlery, and other long-gone departments. Yet when they became "king of the mountain" they developed the knack of missing important markets–forcing their customers to shop elsewhere. They have succeeded in missing almost completely the automobile, do-it-yourself, major appliance, and now the electronics market.

Bank of America, in their most recent Small Business Reporter (P.O. Box 37000, San Francisco, CA 94137, $8.50 for the next 10 issues) on Consumer Electronics Centers, reported that in 1974 TV sales came to $3.2 billion, tape recorders and blank tapes to $1 billion, stereo/hi-fi components to $800 million and phonographs to $398 million.

Into this void have stepped retailers like Tandy with their Radio Shack operation (smaller versions are Lafayette and Allied Radio) specializing in electronics and retailers like Pacific Stereo (a division of CBS doing about $100 million a year) specializing in stereo components.

The degree to which the major department stores have missed the stereo component market is demonstrated by the Christmas advertising. The Los Angeles Times in their Sunday, December 21st issue, carried over 1500 inches of space devoted to hi-fi components at $100 and up of which virtually none was from the major department store chains (Broadway, Bullock's, May Company). The national chains (Sears, Wards, Penneys, Kresge) had only spot items in omnibus ads.

The same situation was even more pronounced in the New York Times of the same date with 800 inches. None was from department stores (Macy's, Gimbel's, Bloomingdale's, Lord and Taylor, B. Altman).

RThought: When department stores constantly state that one of the important reasons for having their own charge accounts is to attract customers for big ticket purchases, why are the big ticket stereo purchases going to the specialty chains who honor only bank cards??????

DOUBLE STANDARD AT THE S.E.C.?

Roderick Hills, who has just become Chairman of the S.E.C., appeared before the committee considering the "Government in the Sunshine" Bill which would open all agency meetings to the public. S.E.C. requires that stockholders are fully informed about the operations of publicly-held companies and has, over the years, increased the amount of information required to be disseminated–regardless of the impact on the stock of the company.

Now the Chairman of the S.E.C. is arguing that the S.E.C. should be excluded from having to hold open meetings when the subject of discussion "if prematurely disclosed, might, in the view of the agency involved, have an adverse effect on the markets in which securities are traded or on the professional participants in and self-regulators of the securities markets."

RThought: The shoe fits–and pinches.

STRESS IS THE CAUSE OF ALL DISEASE–PRELIMINARILY

"How does one symptomize a threatening memo from the boss? Or boredom? What about the vague anxiety that employees feel for no other apparent reason than, for example, the boss doesn't say good morning?" Thus does **The Office** (August 1975) highlight the wide variations of the format of stress.

The National Institute of Occupational Safety and Health (NIOSH) has made a study of stress–involving policemen. They found that recruits, who had just passed demanding physical tests, experienced deteriorating health under the pressure of their job–and that the police job stress is often the cause of a high suicide rate, alcoholism, obesity (they eat to offset the alcohol) and even diabetes.

NIOSH reached an early conclusion–all disease is related to stress, though not necessarily job related.

Unfortunately the Federal Government is not funding major studies on stress–but millions are budgeted to study the problem of some 33 cancer deaths traced to vinyl chloride.

RThought: A high percentage of the readers of RT may be causing excessive stress in their own organizations–not saying good morning, the manner in which they issue instructions, the inadequacy of instructions. You may extend the life of your employees (and perhaps your own) if you have a qualified person analyze the stress conditions in your own firm. And you might even relax a bit–and drop a note to your Congressman urging him to study whether the reallocation of research funds to the study of stress might not benefit everyone.

MONEY FROM RETAILERS

$200,000 from Fred Meyer, Inc. as civil damages to settle a case brought by the FTC charging violation of a 1968 order prohibiting the inducing or knowing receipt of discriminatory promotional consideration. 6 suppliers were involved in the present charges.

$15,000 from Montgomery Ward to settle a claim that their Canoga Park, California TBA operation failed to do a complete brake job as advertised (the suit claimed they failed to rebuild calipers or wheel cylinders, bleed brakes or turn the drums despite promises that such work would be performed). $15,000 covered costs of investigation and the District Attorney's staff time.

DO YOU SLEEP WELL AT NIGHT WHEN KITING CHECKS?

If you do now, you may be interested in what is happening in this field.

In recent years, particularly when the prime rate reached 12%, great attention was given to accelerating cash flow. In some cases methods were developed to get cash flow **ahead** of the receipt of the cash. Sometimes this was done with the help of banks (in return for getting an account) who could show you how to take advantage of time delays in the banking system.

For example, some companies deposit in their central bank accounts a check drawn on a bank close to a branch store. However, they may deposit a check on Friday for sales that will be made Saturday and Sunday, the proceeds of which (barring a fire, earthquake or other disaster) will not be deposited until Monday. And on Monday or later, the check deposited the previous Friday (perhaps to cover checks written on the main account the previous Monday) will clear.

That may be in the past. TI Corp of California, one of the major title insurance companies in the United States, has been indicted on 10 counts of wire and mail fraud alleging that the company had manipulated and falsely inflated the balance in 7 of its bank accounts as part of a cash management program. The California Department of Insurance is expected to file a civil accusation.

TI Corp admits that they kited checks–they called it "a controlled program of management and investment of cash flow" and they used the money to purchase short-term investments.

The kiting reached a high of more than $100 million and they made an extra $1 million income.

TI President Richard Howlett said the action could be classified as a "lawful" abuse of the time delays in the check-clearing process. Yet, his company stands indicted on criminal charges.

RTease: Will you sleep well tonight?

WORDS TO LIVE BY

RT is pleased to offer the following from the wallet of Robert D. Davis, Vice President of Winn-Dixie Stores, Inc. He reports that the author is unknown but RT can observe that the author was a very wise man.

TAKE TIME

Take time to think, it is the source of power.
Take time to play, it is the secret of perpetual youth.
Take time to read, it is the fountain of wisdom.
Take time to pray, it is the greatest power on earth.
Take time to love and be loved, it is a God given privilege.
Take time to be friendly, it is the road to happiness.
Take time to laugh, it is the music of the soul.
Take time to give, it is too short a day to be selfish.
Take time to work, it is the price of success.

March 19, 1976

Marge Axelrad
MEN'S WEAR
7 East 12th Street
New York, New York 10003

Jo - put w/ February RT

Dear Marge:

You have my permission to use the article "Do Cashiers Create Theft" from the February 1976 issue of RETAILING TODAY on the proviso that the story about the restaurant mentions the original source, Briarpatch Review.

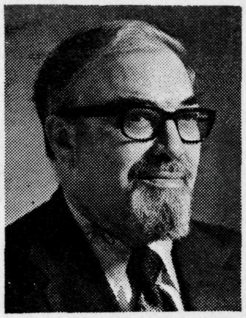
This is copyrighted by Portola Institute, Menlo Park, California, and the sub-title for their magazine is "A Journal of Right Livelihood and Sharing-Based Economics".

You may be interested that Mike Phillips, who wrote the article is a former Vice President of the Bank of California (about a $2 billion bank) who left the financial world to handle the financial affairs of Glide Memorial Church, an institution among the minorities and the many "other" sexual groups in San Francisco.

I have enclosed a photocopy of the article so that you can see the full story which is fascinating.

Sincerely,

Robert Kahn



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ROUTE TO

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HAVE WE EARNED 200 YEARS?

1976 was to be an important year in the life of 225 million Americans. This is the year when we celebrate 2 centuries of benefits flowing from the foresight and bravery of 56 people who, in Philadelphia, signed a document called "A Declaration by the Representatives of the United States of America, in General Congress Assembled." It is from this document that we date the founding of our country. Yet, it is doubtful if 1% of the readers of RT can identify 20 of those signators.

Most educated executives recognize the words in the preamble—"When in the Course of human Events, it becomes necessary for one People to dissolve the Political Bands which have connected them with another, and assume among the Powers of the Earth, the separate and equal Station to which the Laws of Nature and of Nature's God entitle them, a decent Respect to the Opinions of Mankind requires that they should declare the causes which impel them to Separation."

Note that the document was premised on a respect for the opinion of mankind. Would that our 1976 celebration was premised on proving to mankind that our forefathers were right in their decision and that our conduct has confirmed their hopes.

An equal number of RT readers (representing top executives in firms accounting for well over half the general-apparel-furniture segment of retailing and substantial portions of the food, drug and specialty segments) may recall the primary statements "We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness—That to secure these Rights, Governments are instituted among Men, deriving their just Powers from the Consent of the Governed, that whenever any Form of Government becomes destructive of these Ends, it is the Right of the People to alter or abolish it, and institute new Government, laying its Foundation on such Principles, and organizing its Powers in such Form, as to them shall seem most likely to effect their Safety and Happiness."

But, few will recall the warning that followed: "Prudence, indeed, will dictate that Governments long established should not be changed for light and transient Causes; and accordingly all Experience hath shewn, that Mankind are more disposed to suffer, while Evils are Sufferable, than to right themselves by abolishing the Forms to which they are accustomed." The same constraints exist today—yet we could come to a time when suffering at the hands of our own government reaches the point it reached in regard to King George the Third. This document would support the right of the people to abolish our present government.

The Declaration then sets forth a long bill of particulars and avers "In every stage of these Oppressions we have Petitioned for Redress in the most humble Terms: Our repeated Petitions have been answered only by repeated Injury."

The closing set forth two statements—its authority and its pledge.

The authority was expressed as follows: "We, therefore, the Representatives of the United States of America, in General Congress, Assembled, appealing to the Supreme Judge of the World for the Rectitude of our Intentions, do in the Name, and by the Authority of the good People of these Colonies, solemnly Publish and Declare, That these United Colonies are, and of Right ought to be, Free and Independent States, that they are absolved from all Allegiance to the British Crown, and

WATCH YOUR AUDIT COMMITTEE!

Most retailers have read of the under-the-table payments made by Lockheed and have said to themselves "Thank goodness that isn't the custom in our business."

But, they may have missed a key point.

Stockholders, the S.E.C. and many others place their trust in outside directors to pay special and unbiased attention to the proper conduct of the business. At Lockheed the outside directors failed. Two of these outside directors were Jack King Horton, Chairman of the Board of Southern California Edison, and Dwight Cochran, former Chairman of Kern County Land, now part of Tenneco. Both are leading citizens—often praised by community organizations and major universities. Yet, William G. Findley, the Arthur Young and Co. partner in charge, testified that both directors knew about the problem of bribes 3 years ago when Arthur Young called a meeting to discuss the 1972 audit.

There is a reason why the system of outside directors fails—Jack King Horton may be an "outside director" at Lockheed—but Horton is using Daniel Haughton, Chairman of Lockheed as an "outside" director on Horton's own Board! How independent can these back-scratchers be? And, both are on the Board of United California Bank as outside directors!

For that matter, how do the stockholders of Rich's feel—having had Lockheed Vice Chairman, A. Carl Kotchian, as an "outside" director on Rich's Board?

And, how will the universities take this? Haughton is a member of the University of Southern California Associates and Dwight Cochran is a Trustee of the University of Chicago.

that all political connections between them and the State of Great Britain, is and ought to be totally dissolved; and that as Free and Independent States, they have full Power to levy War, conclude Peace, contract Alliances, establish Commerce, and to do all other Acts and Things which Independent States may of right do."

But, most important to all of us was the pledge—the part we are all inclined to forget—"And for the support of this Declaration, with a firm Reliance on the Protection of divine Providence, we mutually pledge to each other our Lives, our Fortunes, and our Sacred Honor."

From Adams, John through Wythe, George—from these men and the men they represented—came a pledge that few of us today are prepared to make and virtually none of us are prepared to honor.

Retailers occupy a peculiar position in our society/economy. Retailers represent the "last three feet"—the width of the counter—over which the people as consumers meet the economy of an industrial nation. We stand with one foot in each camp—with the consumer and with the producer—and our job is one of middle-man. I think we enjoy, as a result of that position, a higher regard in the eyes of our countrymen than do many in industry or in government.

The masses have contact with us daily. They look at and read more of our ads than the ads of any other segment of our economy.

And today, in our 200th year, what are they seeing? The bulk of retailing has converted the 200 years—the "Bi" of "Bicentennial" to "Buy", and the "Cele" of Celebrate, meaning to honor or to commemorate, into "Sell" which means hand over your dollars.

We consider ourselves patriotic if we put red, white and blue in our windows and sell gadgets and gimmicks and flags with numbers on them like 1776-1976. And we turn loose the least sensitive and most crass publicists to generate traffic for our fairs and promotions as if to prove that all 1976 means to retailers is a gimmick—"Buy-centenial Sell-abration."

There is some question whether major retail executives really do believe that there are self-evident truths. A large number appear to believe that the right of the government to destroy people is greater that the right of the people to replace government. And as the pages of RT show, an unfortunately large number do not accept the authority of the present laws as evidenced by action against retailers by the FTC, EEOC and other agencies.

There are major retail organizations that spend hundreds of thousands of dollars a year to study new sites and to send buyers to foreign lands—yet, none appear to have spent any money preparing information on the history of the United States to be included in their ads—or in their store displays—in an effort to use their position of confidence with the consumer to boost confidence in our government—his, hers and ours. What little is being done is offered by such as Shell Oil (a child of British and Dutch parents), educational TV (despite starving by the Congress), and the TV networks (who may view this as an opportunity to increase their ability to manipulate mass thought).

Should such a simple expenditure be too much for the multi-billion dollar retailers like Sears, Safeway, Penney, A&P, Kresge, et al, then perhaps the trade associations like NRMA, SMI, MRI, MRA, NRHC and others might undertake it.

The task is so important—and the time remaining so short—that perhaps the entire retail industry, representing more than a third of our gross national product, should plead poverty to the educational institutions and the advertising associations and ask them "**Please**—give us the messages that we can use in this Bicentennial Year to help our customers, through our ads, understand what the United States is. **Please**—help us formulate a program that we as retailers can follow to show that we are thankful that 200 years ago a handful of men pledged 'to each other our Lives, our Fortunes, and our Sacred Honor' so that the people of our Country, including retailer and customer, could enjoy the rights with which their Creator endowed them . . . 'Life, Liberty and the Pursuit of Happiness'."

And, going beyond that, let each retailer look closely at what he is doing to make sure that he is holding bright and protected the promises made in Philadelphia on July 4, 1776.

IT TAKES A CROOK TO CATCH ONE

But Southland Corporation (operator of "7-11" stores) has gone even further. A $153,000 Law Enforcement Assistance Administration grant to Western Behavioral Sciences Institute of La Jolla (California) resulted in suggestions that cut robberies by 30% in a group of convenience stores in Southern California when compared with a control group. The researcher assigned to the study had the benefit of spending 25 years in prison, primarily for robbery. Together with 2 other ex-convicts he "cased" each store.

Suggestions included improving visibility from the outside, better lighting in the parking lot, and putting the cash register close to the front of the store.

RThought: Is there something new about keeping windows clear so that people outside, especially at night, can observe what is happening? Or maintaining an adequate light level in a parking lot? Or putting the checkout close to the front—so unusual activity **might** be observed? I think a great many persons not benefiting from 25 years in jail might have offered the same suggestions for less than $153,000 of taxpayers money.

RETAILERS ARE KEEPING TRACK OF THE WRONG LETTERS

For example, every retailer worries about "O.T.B." Even if they are not able to control their inventory, as demonstrated at the end of 1974, they know all the right words to say. How can one be a major retailer without talking knowingly about "Open to Buy"?

But how many retailers worry about "M.O.O.S."? None of them even recognize the initials—because this is the first time they have been used. They stand for "Movement Out Of Store." More times than not OTB is jammed up because no one is watching MOOS. It isn't what you buy that gets you in trouble; it is what you don't sell. If you don't know what is not moving, you are never going to avoid being overbought.

If an equal amount of attention was paid to MOOS, then OTB would be less of a problem.

IS LIFO FAIR TO STOCKHOLDERS?

In most publicly traded retail companies the active management owns only a small amount of the stock. The management gets its rewards through salary increases, bonuses and deferred compensation rather than through appreciation in the market value of the stock. On the other hand, stockholders do not even get an employee discount, let alone a salary, bonus of deferred compensation, although they do get dividends equal to a fraction of the profits.

A year ago, when many major retail firms were switching to LIFO, great emphasis was placed on the tax dollars that the management would save–to invest in programs that could boost the management's "take" out of the business. But, what about the shareholders? How did they come out as a result of switching from FIFO (First-In, First-Out method of inventory valuation) to LIFO (Last-In, First Out)?

The table below summarizes the position for the major retail companies. Three major chains (Sears, Kresge and Gamble-Skogmo) reported on FIFO both years. This is too few to consider as a group. Further, Sears and Kresge were subject to some special market pressures during the year.

Before looking at the figures, let me set forth the position I am seeking to test. When a company switches from FIFO to LIFO there is no change in the basic value of the assets–merely a change in the method of valuation. A year later the company should have shown the same progress as companies that used LIFO both years. We will look to see if this is true.

If the market was as smart as accountants claim it to be, then I would expect that the price/earnings ratio for companies reporting on LIFO (now reporting smaller profits for the identical performance) would be higher than when the Company reported on FIFO. We will look for this.

One of the comparative figures developed for this analysis was the combined selling price and the combined per-share earnings. We can look at how each group performed.

The table shows that the combined market price of the first group (on LIFO both years) increased from $168.62 to $308.50 or 83% while the combined price of the second group (which switched to LIFO last year) increased by only 35%. From this it appears that the stockholders in companies that switched to LIFO were placed at a disadvantage in the market–one might have expected the firms to perform as well as the first group. If so, the stock prices would have been about 35% higher had the company not switched to LIFO.

This points out that the expected increase in the price/earnings ratio for the companies switching to LIFO did not take place. The lower profits reported (and the cash savings available to the company) should warrant at least the price that would have resulted if the company had reported earnings on FIFO.

The table below shows the change in P/E ratio for both groups and for the Dow-Jones Industrials.

	Feb 75	Feb 76	Change Ratio	Change %
Stores on LIFO both Years	6.8x	10.8x	+4.0x	+59%
Stores that switched to LIFO	9.6x	15.4x	+5.8x	+60%
Dow-Jones Industrials	7.4x	12.9x	+5.5x	+74%

This shows that both price/earnings ratios increased by about the same percentage–and less than that reported for the D-J Industrials. However, the increased ratio for those that switched was applied without adjustment for the impact of LIFO on earnings. That is, the 15.4x P/E was applied to the lower reported earnings.

This is true despite the higher quality of the stocks in the group that switched (6 of the 8 were rated A- or higher compared with only 4 out of the 11 in the group that reported on LIFO both years).

CONCLUSION: The stockholders took a beating.

RThought: If saving cash is a problem, management should try a new exercise. Apply your February 1976 P/E to profits that would have been reported on FIFO. Based on the higher price, compute the number of shares you would have to sell to raise the same after tax-dollars. Use this percentage of new shares to reduce the computed stock price. If that computed price is higher than the price of the end of February, this course of action would have made money for your stockholders.

RThought: Does management have a responsibility to the stockholders when they make a change such as this? None of the companies had to make this change in order to insure the viability of the company. None announced that the cash savings would be passed on to the stockholders through increased dividends.

Company and % Inventory on LIFO	S&P Rating	February 1975 Price	February 1975 EPS	February 1975 P/E	February 1976 Price	February 1976 EPS	February 1976 P/E	Feb 75 to Feb 76 Change Price	Feb 75 to Feb 76 Change P/E
COMPANIES ON LIFO BOTH YEARS									
Allied (33%)	B+	$24	$4.23	6x	$51-1/2	$5.47	9x	+115%	+3x
Carson Pirie (100%)	B+	10-1/8	2.75	4	16-3/4	3.04	5	65	+1
Dayton-Hudson (100%)	B+	9-7/8	1.77	6	34-5/8	2.34	15	250	+9
Federated (100%)	A	36-7/8	2.63	14	55-5/8	3.14	18	51	+4
Garfinkel (50%)	A–	11-1/4	1.89	6	14-7/8	1.87	8	32	+2
Goldblatt (70%)	B	3-7/8	.47	8	4-5/8	.29	15	19	+7
Lane Bryant (100%)	B+	10-3/4	1.83	6	13-1/8	1.59	8	22	+2
Macy (57%)	A–	17	2.85	6	34-7/8	3.29	11	105	+5
May Co. (100%)	A–	27	3.22	8	39-3/4	3.44	14	84	+6
Wieboldt's (100%)	B	3-3/8	.50	7	5-3/4	.47	12	70	+5
Woodward-Lothrop (100%)	B+	14-1/2	2.66	5	27	3.66	7	86	+2
		$168.62	$24.80	6.8x	$308.50	$28.60	10.8x	83%	+4x
							Average	81%	+4x
							Median	70%	+4x
COMPANIES SWITCHING FROM FIFO TO LIFO									
Associated	A–	$22-3/8	$3.19	7x	$38-1/2	$2.70	14x	72%	+7x
Carter Hawley Hale	A	19-5/8	2.16	9	28-1/8	1.74	14	43	+5
Kings	B+	7-5/8	1.15	7	11	1.06	10	50	+3
Marshall Field	A–	20-3/8	2.57	8	23-3/8	2.01	12	15	+4
Merchantile Stores	A+	37-1/4	4.02	9	55-1/2	4.11	13	49	+4
Penney	A	55	3.08	18	54-7/8	1.91	29	–	+11
Rich's	A–	15-1/2	2.46	6	23	2.06	11	48	+5
Wal-Mart	NR	7	.60	12	15-1/8	.65	24	116	+12
		$184.75	$19.23	9.6x	$249.50	$16.24	15.4x	35%	+6x
							Average	49%	+6x
							Median	48%	+4½x

CREDIT OFFICE RATING

Christmas took its customary toll of the credit office and our Honor Roll for the December 1975-January 1976 period is unusually short—just 4 names!

HONOR ROLL

Company	Days	Company	Days
Rubenstein's	2.3	Joske's (Houston)	4.0
Oshman's	3.9	Jurgensen's	4.0

Let us hope that recovery will be rapid.

CREDIT OFFICE RATING

Information From Reporters	DEC-JAN 1976 No. of Reports	DEC-JAN 1976 Days to Bill Average	DEC-JAN 1976 Days to Bill Range	OCT-NOV 1975 No. of Reports	OCT-NOV 1975 Days to Bill Average	OCT-NOV 1975 Days to Bill Range
Bloomingdale's (NY)	1	8.0	8	--	--	--
The Broadway (LA)	2	10.0	10	2	7.0	7
Bullock's (LA)	2	8.5	6-11	1	8.0	8
Bullock's (No. Cal.)	6	7.5	6-8	6	7.3	6-10
Capwell's (Oakland)	10	6.3	6-7	8	6.1	6-7
Emporium (SF)	7	5.6	5-6	4	5.5	5-6
Foley's (Houston)	1	9.0	9	1	8.0	8
Grodin's (No. Cal.)	2	5.0	5	2	6.0	5-7
Gump's (SF)	1	11.0	11	1	7.0	7
Hastings (SF)	5	6.0	4-9	4	4.8	4-5
Joske's (Houston)	2	4.0	4	1	11.0	11
Jurgensen's (LA)	1	4.0	4	1	3.0	3
Liberty House (No. Cal.)	3	5.7	4-8	4	4.5	3-7
Livingston Bros. (SF)	4	6.5	5-9	2	5.0	4-6
Macy's (SF)	5	7.0	6-10	8	6.3	5-8
I. Magnin (SF)	4	5.0	4-7	6	3.8	3-4
Joseph Magnin (SF)	4	4.5	3-6	2	3.5	1-6
May Co. (LA)	2	6.5	5-8	1	4.0	4
Mtgmery Ward (Houston)	1	5.0	5	--	--	--
Palais Royale (Houston)	1	6.0	6	1	9.0	9
Robinson's (LA)	1	6.0	6	2	4.5	4-5
Roos/Atkins (NY)	1	7.0	7	3	4.3	4-5
Sakowitz (Houston)	1	6.0	6	1	4.0	4
Saks Fifth Avenue (SF)	3	6.3	6-7	3	7.7	7-9
Sears (Alhambra)	3	8.3	6-12	4	9.0	7-13
Sears (Dallas)	1	10.0	10	1	4.0	4
A. Sulka (NY)	1	14.0	14	2	11.5	9-14
TOTAL	75	6.5	3-14	71	6.1	3-14

Information From Stores	DEB-JAN 1976 No. of Reports	DEB-JAN 1976 Days to Bill Average	DEB-JAN 1976 Days to Bill Range	OCT-NOV 1975 No. of Reports	OCT-NOV 1975 Days to Bill Average	OCT-NOV 1975 Days to Bill Range
Brock's (Bakersfield	9	9.7	6-13	18	7.4	6-9
Holman's (Pacific Grove)	10	11.2	10-12	10	5.4	4-7
Ivers (LA)	10	5.0	3-6	10	4.5	4-5
Levee's (Vallejo)	19	5.2	3-8	20	5.5	2-9
Levy Bros. (San Mateo)	32	6.6	3-9	30	5.2	3-7
Mervyn's (No. Cal.)	20	4.5	4-6	20	4.0	3-5
Oshman's (Houston)	8	3.9	3-5	9	3.7	3-5
Penn Traffic Co. (Pa.)	10	4.5	4-6	10	4.1	3-5
Routzahn's (Md.)	2	4.5	4-5	2	5.0	4-6
Rubenstein's (Shreveport)	6	2.3	2-3	--	--	--
Wineman's (Hnt. Beach)	8	7.1	6-8	8	7.3	6-9
TOTAL	134	6.0	2-13	137	5.2	2-9

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

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

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

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

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

Then there is the matter of the "RO's." It is stylish to discuss **ROI**–that would be return on investment. But who is watching **ROS**?

ROI has become a part of the retail literature. Trade associations stylize the computation on a phony basis just so that everyone can work out a nice ROI for their business. For example, the National Retail Merchants Association urges the use of a modified form that compares gross margin dollars to inventory investment and considers it a departmental ROI. Yet the NRMA knows that the investment in receivables is likely to involve more dollars than the investment in inventory. Investment in receivables **by department** can be measured–if a store wants to: but since the trade associations do not urge it (and do not outline the procedure) the biggest dollar investment is conveniently forgotten.

If we would all forget about ROI and start concentrating on ROS, profits might go up. ROS stands for "Return on Space." It would seem simple to understand that in the **short** run the dollar investment in inventory and receivables (and even fixtures) can be changed but the amount of space in the store cannot. One can increase inventory by 50% in no time at all–as many retailers proved in the fall of 1974–but it takes much longer to increase store space by 50%.

Common sense would seem to dictate that to maximize your profits you concentrate on maximizing the return on the asset that, in the short run, cannot be changed. And this leads us to ROS–perhaps expressed as "Dollars of Contribution to Overhead per Square Foot of Selling Space." The instructions that should be given to management are simple–the Merchandising/Promotion part of the team are instructed to produce the maximum contribution to overhead per square foot of space provided to them; and the Operating/Control part are instructed to minimize the overhead.

Here's to more MOOS and ROS–and less OTB and ROI.

WILL ACCOUNTANTS IMPROVE QUALITY OF ANNUAL REPORTS?

The Auditing Standards Executive Committee has finally taken action on a deplorable situation that has existed for years. Statements are made in the front part of annual reports that are inconsistent with the audited report or, even worse, fail to even mention material facts set forth in footnotes to the audit report.

Although Statement No. 8 "Other Information in Documents Containing Audited Financial Statements" points out that the auditor's responsibility does not go beyond his audit report, it does say that the auditor cannot close his eyes to the other material in the report with which he is associating his certified statements. Therefore, the auditor should read the full report. If there are inconsistencies, they should be reviewed and may require either a change of the narrative section or the audit report or both. If the auditor feels the client should revise his portion and the client refuses, then the auditor must consider whether or not he will withdraw from the account and/or withhold his report. If the misstatement is material–and is not corrected–the auditor should consult his legal counsel to determine the appropriate action. This, obviously, could include such steps as a public news release on why the auditor has withdrawn, or, bringing the matter to the attention of the proper governmental authorities.

RThought: RT has long expressed the opinion that professional ethics required such action. We are pleased that this is now being specifically stated.

RThought: The Financial Accounting Standards Board is making progress on a statement in regard to the responsibility of the accountants to make fuller disclosure of the facts relating to pension and other employee benefit plans. RT has long criticized this weakness–many retail firms have unfunded vested interests in pension plans that are substantial in relation to both the stockholder's equity and the annual income of the company.

FUTURE SHOCK AND THE BUSINESSMAN

This was the theme of the 1976 St. Mary's College Executives Symposium attended by 300 Northern California businessmen. The sub-title was "How Changing American Society and Institutions Impact on the Private Enterprise System."

The keynote speech was given by Ernest Arbuckle, Chairman of the Board of Wells Fargo and Company and former Dean of the Stanford Graduate School of Business. It was Arbuckle who set the pattern and initiated the program that brought Stanford to its present rating as the outstanding graduate business school in the country.

Arbuckle carefully set forth the problems facing society–and business. He dealt with the trend toward egalitarianism and posed the problems of striking a balance between egalitarianism and rewards for accomplishment. He discussed the question of secrecy and disclosure–how much is too much and how much is too little. He outlined the problem of switching from caveat emptor to caveat vendor, and the growing tendency to conclude that "Big is Bad" at a time when so many necessary things in our economy can only be done by big business or big government.

And, he concluded with some observations of which I offer just one:

> **"There is much to be criticized in the corporate community, just as there is in other institutions, be they labor, education, governmental, or political. We'll do better recognizing our shortcomings, talking about them, and doing something to improve them than we will by rationalizing and defending questionable positions based on the status quo or historical practice. There is no denying that some firms have behaved irresponsibly, sometimes even reprehensibly. The post-Watergate exposure of illegal bribes and contributions by business firms, both before and after passage of the new campaign spending law, raised proper questions of the legitimacy of corporate practice and the ethical conduct of some firms. Responsible business leaders have taken action to eliminate this kind of thing. But positive action, in reaction to criticism, is not going to be enough in the future–the focus is going to have to be on initiatives taken by business which reflect an understanding of the new sociological and political reality within which it is now operating.**
>
> **It means being sure of our facts. Opinions are easy–facts are hard. Uncritical loyalties to weak ideas cannot make them strong. We must have a commitment to examine diverse views, . . ."**

RThought: If you would like a copy of this talk, send a self-addressed No. 10 envelope with 35¢ postage to "Future Shock" % Retailing Today, P.O. Box 343, Lafayette, CA 94549.

ACTION BY THE E.E.O.C.

During July-September 1975, the Equal Employment Opportunity Commission instituted 124 suits through 5 litigation headquarters. As one might expect, retailers were included.

Jitney Jungle Store No. 16 (McCarty–Holman Company). Jackson, Mississippi: EEOC alleges discrimination against blacks in recruitment, hiring, maintenance of race-segregated job classifications and discharge.

Roses Variety Store (No. 22), Smithfield, N.C.: EEOC alleges discrimination against blacks in recruitment, hiring and other terms and conditions of employment. Court approved consent degree outlines specific recruiting and reporting procedures designed to increase the number of store's black employees at all levels; part-time and seasonal employees will have same rights as full-time employees, blacks will not be discriminated against in layoffs, and there shall be no retaliation against employees exercising their Title VII rights. $1,753.11 backpay awarded charging party, a black woman.

The Kroger Co., Kansas City: EEOC alleges company discriminates against women in job classification and promotion.

D. H. Holmes Co., Ltd., Metairie, LA: EEOC alleges discrimination against women in discharge, promotion and other terms and conditions of employment, as well as retaliating against employees who opposed practices made unlawful by Title VII.

Solo Serve Co., San Antonio: EEOC alleges discrimination against blacks in hiring and other terms and conditions of employment.

Schwegmann Brothers, Inc., New Orleans: EEOC alleges discrimination against blacks in job classification and assignment, discharge and arrest record inquiries.

Knott's Berry Farm, Buena Park, CA: EEOC alleges discrimination against blacks, Asian-Americans, Spanish-surnamed Americans and Jews in recruitment and hiring.

PayLess Drug Stores (all California facilities): suit filed 1/10/74, consent decree 8/22/75 provides for more than $11,000 in backpay to charging parties and requires the store to establish a trust fund of $74,814.48 (the maximum differential in pay women as a class would have earned had the proper number of women been promoted to management positions within the relevant time). Requires the company to establish and maintain a management training program to prepare women and minorities for management positions, and that goals and timetables be set for management positions in all of Pay Less' 60 retail stores.

RThought: The list includes large and small retailers–and deals with sex and race discrimination–and retaliation. This law has been in effect a long time–management should have resolved how their company will operate under the law.

RThought: There is little consolation that among the names against whom action has been brought are some of the best known in American industry–General Mills, Dow Chemical, Cities Service Co., Ford Motor Company, Avon Products, Anaconda Aluminum, Liggett & Meyers, Singer Co., General Telephone, Mobil Oil, Playboy Enterprises, Texas Instruments, Holiday Inns, Adolph Coors, Kraftco, Union Oil, Blue Bell, Nissan Motors, Southern Pacific, Ralston Purina, Allied Chemical, Chesapeake & Ohio Railway, John Hancock Mutual Life Insurance, American Airlines and Greater Washington Education Television Association. Should your name appear–especially if it is because your employees do not carry out your policies–it will be embarrassing and perhaps costly.

SHORT SHORTS

Stanley Marcus is a candidate for the Board of Common Cause. HOORAH!

A measure of inflation–when I started in retailing, a Pitney Bowes salesman would check one ounce on a postal scale with a silver dollar. Now he does it with 9 pennies!

Attention all check kiters–the February 1976 RT dealt with the machinations of TI Corp. The penalties are now known. $35,000 fine by the State of California, $10,000 fine at $1,000 each on 10 Federal criminal charges, and an agreement to repay to their banks $1,300,000 to settle accounts ($1,300,000 exceeds the profit claimed). To this, one must add the cost of attorneys and the penalty that will come now that the public knows the top officers who planned and approved this escapade are crooks.

WORDS ONE MAN LIVED BY

The story that accompanied "Don't Quit" explains why the person submitting it must remain as anonymous as the author of the poem.

> "This poem was anonymously placed on my desk several years ago when I was having a particular problem with my present employer and was actively seeking another position. The poem made so much sense to me that I took the initiative in reconciling our problems. This culminated in the completion of a long term contract and the signing of a new and greatly beneficial contract for another three years just this past January–including a nice promotion and a substantial increase in compensation. Had I not heeded this advice, I could be just a controller in a retail establishment."

The letter was signed "Senior Vice President."

Don't Quit

When things go wrong, as they sometimes will,
When the road you're treading 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 bit,
Rest, if you must, but don't you quit.

Life is queer with its twists and turns,
As everyone of us sometimes learns,
And many a failure comes about
When he might have won had he stuck it out;
Don't give up, though the pace seems slow–
You might succeed with another blow.

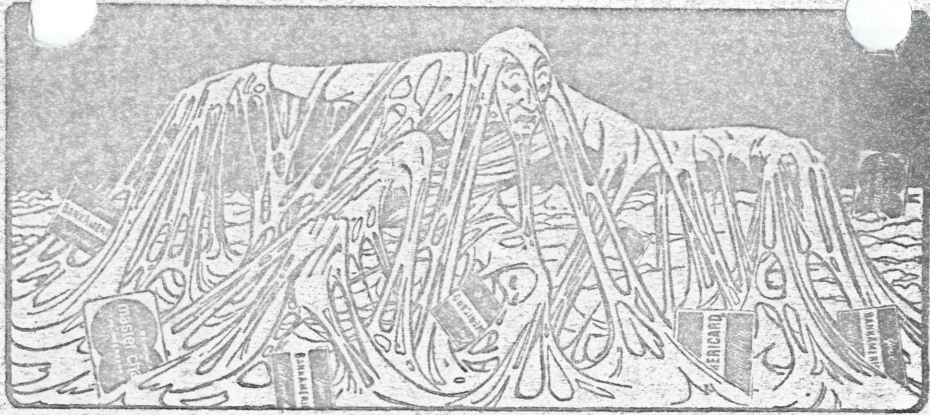
Success is failure turned inside out–
The silver tint of the clouds of doubt–
And you never can tell how close you are,
It may be near when it seems afar;
So stick to the fight when you're hardest hit–
It's when things seem worst that you mustn't quit.

UP YOUR CREDIT!

Getting the most from your credit card — Part II

File of March RT

By Sally Tockey



Although stores advertise 30-day accounts, credit card customers rarely receive a month's span to pay their bill. The chart below shows how long some local retailers take to mail out statements. Those showing the smaller number of days offer consumers a longer period of credit-free days.

Although Joseph Magnin's and Mervyn's nearly attained Honor Roll standing, Kahn's chart showed Gump's falling far short, and a Gump's customer had almost a week less time to pay a bill than the Magnin's or Mervyn's customer.

My personal experience with some of these stores supports Kahn's information, but lately I've noted Roos-Atkins has barely escaped breaking the Fair Credit Billing Act with my account. This law, which became effective Oct. 28, 1975, requires stores to give credit account customers an absolute minimum of 14 days to pay their account. Last month my bill from Roos-Atkins arrived on June 7, a scant 15 days before my June 22 payment date. Note that although the bill shows a 5-28-76 billing date and the 6-22-76 payment date it advertises a 31-day billing cycle.

Kahn cited Roos-Atkins as an example of what happens when a company sells its account receivables to a credit collector. Last fall Roos-Atkins notified its charge customers that the store had assigned Citicorp Custom Credit, Inc. in Huntington Station, New York, to collect its payments, Kahn said the delay is caused because first class mail generally takes four to five days from the West Coast (where Roos-Atkins customers are), to New York City, plus an additional day to Citicorp's office in Huntington Station.

All department stores receive a personal credit rating from Robert Kahn, editor of "Retailing Today," a newsletter sent to top store executives. Kahn told me he initiated his Credit Office Rating to alert store management about consumers who complained their statements were received so late they faced additional service charges before they could pay their bills.

Kahn's most recent information showed the following average working days to get bills out:

Retailer	Oct.-Nov. 1975	Dec. 1975-Jan. 1976
Bullock's (No. Cal.)	7.3	7.5
Capwell's (Oakland)	6.1	6.3
Emporium	5.5	5.6
Grodin's	6.0	5.0
Gump's	7.0	11.0
Hastings	4.8	6.0
Liberty House	4.5	5.7
Livingston Bros.	5.0	6.5
Macy's	6.3	7.0
I. Magnin	3.8	5.0
Joseph Magnin	3.5	4.5
Levy Bros. (San Mateo)	5.2	6.6
Mervyn's	4.0	4.5
Roos-Atkins (New York)	4.3	7.0
Saks Fifth Avenue	7.7	6.3

Initially, Kahn says he received criticism from retailers for publishing this data and naming the stores. Now, he said retailers want to attain Honor Roll standing, an objective of four working days between a customer's monthly closing date and the postmark date on the bill. Volunteers inform Kahn about their own billing information for his Credit Office Rating.

More tips for credit card users:

1. Most stores set limits on regular 30-day accounts but offer long term credit with a 90-day account for large purchases such as furniture or appliances. For example, with Capwell's CAP account, I can pay a large bill in three equal monthly payments. I can ignore the finance charge they add into the billing on the second or third month, or I can pay the finance charge and have them credit my account later.

2. During the Christmas season, some large San Francisco-based department stores offer extended free credit if you use their "currency." For example, J.M. Dollars at Joseph Magnin's and Macy's "money" are mailed to regular charge customers in November for holiday purchases but no billing is made to a charge account until the following February.

3. If you have the cash and the retailer does a small local business, offer to pay cash rather than use BankAmericard or Master Charge in return for a discount. Retailers may pay a 2% to 6% service charge to banks based on the number of bank drafts compiled in a month, which they might subtract from your purchase. Most large retailers I checked, however, did not offer this discount even if they accepted both their own store credit and bank cards.

Some retailers give a discount if you pay cash rather than use your BankAmericard or Master Charge.

4. If you've paid for but returned merchandise, make sure you have that noted on your statement. Virginia Connelly, a consumer protection specialist, with the Federal Trade Commission said the FTC took action several years ago against a number of local stores for retaining credit balances after a customer had paid for but returned merchandise. Under the Fair Credit Billing Act stores must send out billing statements notifying customers of their credit balances, a practice previously not followed carefully.

5. In case of errors or questions about your statement inform the retailer on a separate sheet of paper, not on the bill. Do this within 60 days after your statement's postmark date. Retailers are required under the Federal Truth-in-Lending Act to promptly correct billing mistakes within 30 days, or correct them within 90 days. Further, you need not pay any part of the questioned balance until it is corrected or explained.

S.F. Bay Guardian 7/9/76

BITS AND PIECES

Shelving not shelved

EEOC pensions too?

OSHA need a warrant?

Arbitration good?

Corporate profits from current production declined $.4 billion in last year's fourth quarter to a seasonally adjusted rate of $112.7 billion. Department of Commerce figures also show before-tax book profits up $2.9 billion to $132.4 billion. The difference in the two figures comes from inventory gains and adjustments in Commerce's computations......In checking with dealers around the country we find sales holding steady and climbing. Every indication of a healthy sales picture, without the problems that accompanied past sales booms, is there. Good selling items included larger (more profitable) machines in general and specifically copiers and industrial shredders. Other good selling items from the non-traditional dealer areas were: OSHA supplies such as fire extinguishers and first aid kits (some dealers, however, report first aid kits a drag); luggage; and build-it-yourself shelving......Equal pensions would be assured for women under a bill the administration is considering submitting to Congress. It would require pension benefits be equal for everyone retiring after 1979. Currently, equal employer contributions can provide smaller benefits for women, because on the average they live longer and the funds must stretch further......The Occupational Safety and Health Administration is responding to complaints it processes work too slowly. It will start issuing guidelines instead of rules. That gives employers a break since you don't get cited for violating guidelines, as with rules......Safety inspectors may need warrants. If a recent ruling in a Texas federal court is upheld employers could object to surprise inspections and force delays. A Texas retailer refused to permit inspectors to enter his discount store. Labor asked the court to require an inspection. But the court held, when employers object, a search warrant is needed. The government must show there is reason to feel the law has been violated. The government is appealing, arguing that firms could stop safety enforcement......The next time you're writing a lease for the occupancy of your store, office or warehouse, be sure to put in a specified time period when the landlord must make an offer for the next lease period. And include a specific period of time that you have to accept, or reject, the offer. An arbitration clause is also helpful. If neither side can agree, the clause calls for mandatory arbitration. Each side nominates an arbitrator; if they can't agree, a third party is picked to rule......A bit of industry trivia. The Johnson from the Shipstads and Johnsons ice show sold typewriters in the Twin Cities prior to starting the ice extravaganza.

Questions asked

get a number of calls asking prices on items, where the dealer is located, how late they are open (particularly on a Saturday) and often with a request to have a salesman call.

The dealer who is now covering the entire state of Kansas, while he's not sure the WATS has been justified, does say that (coupled with an advertising campaign in out-of-town newspapers) he has boosted his out-of-city-sales from a negligible amount to about 20 percent of his total. That, he says, on the surface would seem to justify the WATS. Both dealers agree the public relations effect of the WATS has been tremendous and both have added the number to all business cards.

TRY THESE LETTERS IN THE ALPHABET OF COMPUTATIONS

Moos isn't cows

Here's a few new letters to live by. Try MOOS and ROS. Both of those we've stolen from "Retailing Today," a publication we avidly read and recommend highly to all our readers. According to RT, MOOS stands for Movement Out Of Store, and ROS stands for Return On Space. Robert Kahn, who publishes RT, advocates using MOOS instead of OTB, Open To Buy, because the fact that you haven't sold something is what gets you into trouble in your buying. If you know that you're selling something you know you're not going to be in a position to overbuy that something. MOOS may be the easiest method of paring inventory to the best level.

The ROS, RT suggests using as a substitute for ROI. There are too many ways, Kahn feels, to manipulate ROI and hence it is now a somewhat meaningless computation. Says RT, "In the short run the dollar investment in inventory and receivables (and even fixtures) can be changed but the amount of space in the store cannot. One can increase inventory by 50 percent...but it takes much longer to increase store space by 50 percent.

The instructions

"Common sense would seem to dictate that to maximize your profits you concentrate...on the asset that, in the short run, cannot be changed. And this leads us to ROS--perhaps expressed as, 'Dollars of Contribution to Overhead per Square Foot of Selling Space.' The instructions to...merchandising/promotion are to produce the maximum contribution to overhead per square foot of space provided...and operating/control are instructed to minimize the overhead." For those of you interested in subscribing to RT, write: Retailing Today, P.O. Box 343, Lafayette, Calif. 94549.

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DEPARTMENT STORES GRADUALLY SURRENDER TO CUSTOMERS

When both BankAmericard and Master Charge can report over 30 million card holders, one would expect that even the largest department stores are getting the idea that customers like bank cards. (Remember—department stores said, for many years, that discount stores would not be accepted.)

They have! More and more major stores are starting to honor the bank cards. Rich's claims to be the largest such conventional retailer (over $300 million annual sales). Woodward & Lothrop have announced they will honor both cards plus American Express—and Hecht and Garfinkel's will follow. Miller & Rhodes in Richmond, Virginia, will follow Thalhimers. Gimbel's has experimented with cards.

RThought: There are two more fronts to watch. American Express is running regular ads in Los Angeles (and perhaps elsewhere) boosting the use of their cards—although mainly for restaurant use ("Eat out tamale tonight. Great Idea. Eat out at a great California restaurant" together with a hand holding a card, all in 3 column 5 inch ads spread through the Los Angeles TIMES). With enough local use—many retailers will have to follow Woodies and Macy's and honor American Express.

The other front is the credit unions. Having started from scratch in a back office of a department store (Edward Filene started the first credit union in the United States early in the century), credit unions have reached the point where they are providing approximately 20% of all new car purchase financing. At a recent meeting of credit union executives they were advised to get into revolving credit and be ready with plastic cards for the day when electronic funds transfer arrives.

MASS RETAILERS WERE "FIVE TIMES BLESSED"

The question is: Did they appreciate it?

At each Mass Retailing Institute Annual Convention from 1971 through 1975, the members, through the support of DuPont Company Consumer Products Division, were provided an outstanding study of their industry. These studies provided, for all in the discount industry, information that few, if any, conventional retailers had.

The first study was "Consumer Buying Patterns in Self-Service Merchandise Stores" which reported the demographics of the discount customer and that customer's shopping pattern. The study told the discounters what customers liked and disliked about stores, how often they visited the stores, how far they traveled, what departments they visited— and on and on.

MEMOREX IS TRYING TO BRIBE YOUR OFFICE MANAGER

Lockheed, Northrop and the other 100 firms being investigated by the Securities and Exchange Commission are not the only firms that use bribery to build business. We continue to have it right here in the United States—and by firms that are so little concerned about commercial bribery that they advertise it in magazines!

Memorex ran an ad (THE OFFICE, February 1976, page 27) that started, "Do you buy magnetic cards for automatic typing? Do you buy toner for the office copier?" (Note that they refer to "the," not "your," office copier. The ad is aimed at an employee.)

It then offers a Regal Automatic Electric Coffee Maker if you buy 10 boxes of cards or 10 cartons of toner, a Rockwell Model 24RD calculator for 20 units of either and a Gourmet carving set by Ekco if you order 50 units of either.

The instructions? "Please call your nearest Memorex dealer and say 'I want to pick up my FREE gift from Memorex'." The company pays the bill—the free gift goes to your employee.

RThought: I would suggest that you issue instructions that under no circumstances will Memorex Mag Cards or Duplicator Toner be purchased, particularly if you are a large user. Otherwise, will you ever feel confident that even larger bribes are not involved?

In 1972, the study was "Personal Activities and Related Purchases of Self-Services General Merchandise Shoppers" which studied dozens of activities—and then queried the customers about where they purchased their related merchandise and why. The fields covered were sporting and field events, cultural and hobby activities, home maintenance and decorating, automobile maintenance, major appliances, home sewing plus a series of miscellaneous categories ranging from cosmetics to women's clothing. It highlighted that in many fields the customer went to discount stores for price—but to other outlets for variety, convenience, quality or a special brand.

In 1973, the report was "Where Shoppers Buy General Merchandise in Competitive Areas and What Prompts Their Decisions"—an expansion on the first two studies. In this study the industry learned about changing shopping habits, response to advertising (print, TV, radio and store promotions), a comparison of shopping habits of discount customers with customers of department stores, private label general merchandise chains, home improvement stores, and catalog/ showrooms. Added to this, the customers rated the various types of outlets for price, quality, employee helpfulness, selection, advertising and convenience of location.

In 1974, the subject was "The Store Manager: A Key to Improved Profit," in which the store manager was studied–his strengths and weaknesses, the success or failure of the manager in handling advertising, complaints, and vendor relations, the impact of the manager on in-store promotion and product mix. It went into his degree of control, the adequacy of his training and the adequacy of the support given him by central management. The study highlighted that top management could expect great benefits from greater input and better communication with and training of store managers.

In 1975, the report was "Guidelines to Effective Marketing Strategies for Self-Service Retailers." This was a survey of top management and came at just the right time–all retailing was concerned about what was ahead. There was almost a tie between three areas as the biggest single problem in the eyes of top management–(1) sales/profits, (2) controling increasing costs and (3) use of personnel. The biggest merchandising problem was inventory control–rated twice as critical as volume of sales or margins.

In the area of store operations there were another three problems–personnel, operational procedures and cost control. When personnel was studied alone, the key problem was providing training–just as important as the combined problems of government and union requirements and the lack of employee motivation.

In the area of distribution the problem was the quality of service to the stores–more than twice as important as the problem of actually operating the warehouse. A surprising 17% had no problems in this area.

And so the report went–through advertising/promotion, security, and other areas. When top management was asked its greatest strength, 44% said personnel; and when asked their greatest weakness, 50% said personnel! In looking at the performance of the discount industry against the non-discount competition, the general ratings were largely good or fair–in a few cases very good and never excellent!

In looking at competition, their major concern was other discounters followed by private label general merchandise chains and specialty discount stores. Much less concern was expressed about department stores and relatively little about home improvement centers, catalog showrooms and traditional specialty stores.

RThought: MRI sponsored the studies, DuPont financed them and assisted in the development, and Jim Head, of Ralph Head & Affiliates, conducted the studies. No other industry ever had such information produced for it–at no cost to the industry. And, many people attending the convention skipped the programs! RT knows that it wasn't because they had more or better information on these subjects flowing to them from their own business. RT knows that it was not because the people in the industry lacked confidence in the validity of the figures.

RT must conclude that many people holding key positions in the discount industry still have a fatal disease–"The Founder's Infallibility Syndrome." RT would have thought that this was cured by the passing of Robinson–Grayson, Arlans, Giant Stores, and dozens more that never became major publicly held companies. RT would have thought the problems of Unishops, Hartfield–Zody's, Miller-Wohl and others who barely survived would have raised a caution about this disease.

But, apparently, it has not.

In June, the Mass Retailing Institue will again convene their annual convention in Miami. RT will wait to see whether MRI, DuPont and Jim Head have gotten tired of producing unique, important, current, critical information for an industry that has tended to skip the session. If they have, RT will understand because it appears to have been a thankless task.

On the other hand, if the team again brings forth their customary good product, RT would hope that attendance will be 100%– and that the message, whatever it is, will be thoughtfully considered and applied to the conduct of each member's business. Perhaps top management will have a chance to drop a "Thank You" note to DuPont for putting more back into the industry than is done by most of the others who are taking out of it.

WILL YOUR HIDDEN LIABILITIES BE DISCLOSED?

Every major retail executive should be aware of the discussions taking place within the Financial Accounting Standards Board on the subject of Accounting and Reporting for Employee Benefit Plans.

Public hearings were conducted in February 1976, and it is anticipated that a final statement will be released during 1976.

As an example of the type of issues that should be of concern to major retail executives is the question of whether or not vested and/or potential liabilities under a pension plan should be consolidated with the financial statement of the employer. Not just the unfunded vested interests, but the larger liabilities which might be either the vested rights on termination of the plan or the ultimate rights on completion of employment.

Ask your CPA to provide you with a copy of pages 1 through 14 of the FASB Discussion Memorandum, dated October 6, 1975, entitled "An Analysis of Issues Related to Accounting and Reporting for Employee Benefit Plans."

CURRENT PERSONNEL PRACTICES IN DEPARTMENT STORES

This is the title of an article by Professor Irving Burstiner of Baruch College and published in the Winter 1975-6 issue of the Journal of Retailing ($3, New York University, Washington Sq., NY NY 10003). Questionnaires were sent to all persons listed as "Personnel Director" in Sheldon's 1974 Retail Directory for stores in the states of California and New York. 58 usable replies were obtained.

The summary of the questionnaires makes it hard to defend the identification of the departments as "personnel"–perhaps we should call them "hire departments" so as to disassociate the composite "personnel department" from the operation one visualizes when one hears the words "personnel department."

When seeking new selling employees, the departments do not require any academic information (97%), previous experience (83%), spend less than 10 minutes (38%) or between 10 and

IS McKINSEY & COMPANY MISLEADING THE FOOD CHAINS?

My inquiry started with an item in the January 1976 Executive Edition of **Chain Store Age** that quoted Lawrence Russell of McKinsey & Company of saying, "If you add a cent to each purchase, profitability (of supermarket chains) would more than double."

That didn't make sense to me so I wrote to Mr. Russell and he sent me a book entitled "Capital Crisis and Financial Strategies: McKinsey & Company Session, National Association of Food Chains" presented at the 42nd Annual Meeting October 12-15, 1975, in Washington, D.C. His coverletter disclaims the statement–indicating that what he had said was that if the average **item** (not purchase) of 80¢ was increased by one cent, then pre-tax profit would increase by 1.3%, "which would more than double industry profitability, improve cash flow, and ensure that the distribution industry remains economically viable."

As to the presentation, he said "we did the staff work and wrote most of the speeches." The learned speakers (Robert Bolinder of Albertson's; The Honorable John J. Rhodes, Minority Leader, House of Representatives; Douglas C. Kramlich, President of Krambo Corporation; Dan W. Lufkin, Chairman, Executive Committee, Donaldson, Lufkin & Jenrette: and Richard G. Meloy, First National Bank of Chicago) contributed significantly to our thinking and to the presentation."

Accordingly, my comments will be directed at McKinsey & Company and I will not identify the speaker uttering the statement or using the charts and figures.

However, I cannot continue without chiding **Chain Store Age** for not understanding that an additional 1¢ per **purchase** (about \$8) is hardly likely to double a chain store's profit.

I came to a grinding halt when I read "Our industry has to become more capital intensive. Exhibit VI shows why. For the average food chain in our data base, from 1969 to 1974, sales per employee rose more slowly than inflation, which means that real sales per employee declined–by 20% over the period. I know dollar sales per employee is not the ideal measure, but deflated dollar sales do give an indication of overall tonnage throughout."

Exhibit VI shows two white arrows pointing up: "\$ Sales per Employee" up 41%, and "Inflation" up 61% (inflation, according to the footnote, is the Consumer Price Index for Food). Then there is a black arrow pointing down showing "Real" Productivity down by 20%.

Doesn't McKinsey & Company know that you can't measure a change in two percentage figures by subtracting one from the other? If productivity per man-hour went up from \$100 to \$141, while the cost of food went up from \$100 to \$161, the productivity measure would be obtained by dividing \$141 by \$161–resulting in 88% of the former productivity or a decline of 12% instead of 20%.

Common sense should tell food industry executives that the price increases in food, as measure by the CPI, is not a good measure for recent years, especially during 1974. The relative weights of the products that make up the index remained unchanged while consumers changed the mix of their purchases. Chain operators know this–but apparently forgot it when mesmerized by such an outstanding panel.

In a calmer moment, however, and recognizing the large overlap of membership between the National Assocation of Food Chains and Super Market Institute, one can look at "The Super Market Industry Speaks–1975" and find the proof that McKinsey got everyone off to a bad start. Here one can obtain (page 15) the figures that show **both** sales per man-hour and sales per customer transaction. Dividing one into the other we can obtain a measure of transactions per man-hour–a much more accurate measure of "real productivity." And here are figures:

Transactions per man-hour:	
1969	5.71
1974	5.80
Increase	+1.6%

If those who heard this presentation had been told that productivity between 1969 and 1974 had increased by only 2%–instead of decreasing by 20%–then much of the balance of the presentation would not have made sense.

The same SMI publication also permits, by comparing sales per square foot and sales per customer transaction to develop a measure of the efficiency of the use of space as measured in transactions per week per square foot of space. And here are the figures:

Transactions/square foot/week	
1969	.69
1974	.62
Decrease	–10.1%

The constant use of the CPI to arrive at "real" figures is about as productive of usable figures as would be pricing the grocery department in terms of red, blue and white poker chips.

In presenting information about the food industry in the equity markets, much use was made of Standard & Poor's 500. It is amazing how disasterous a stock price chart appears that starts in 1967 and ends with December 1974! One would suspect that at least a portion of the audience would be aware of what had happened to stock prices since December 31, 1974. By the end of September 1975, the index had climbed by 26% or back to the 1969-1970-1973 levels (somewhat lower if the index is deflated).

McKinsey developed their own index based on 20 food chains, but the report does not indicate which 20 chains. Any index containing A&P would have to be thoroughly studied before the figures were used. If A&P was included, was each stock given equal weight? In such a case, the impact might not be too great. If the index was weighted by sales, the distortion could be great, and if weighted by market value (A&P traded in the 35-25 range in 1969 and in the 15-6 range in 1974) the impact would be distorting.

The general picture of a shortage of capital is also hard to reconcile with the concept of a free enterprise system. Capital investment, including investment from depreciation flow and retained profits, is only a fraction of the total income of the country. If one believes that the interest rate, responding to fluctuations in demand for capital, adjusts the way in which funds are distributed between consumption and investment, then there will always be enough capital to meet the requirements of those who wish to make captial investments at the going interest rate.

On the other hand, the high interest rate when demand exceeds supply of money, serves as a means of separating those investments that will be made now (regardless of interest cost) from those that will be postponed until interest costs are lower (projects that are less profitable).

If the supermarket industry does not expand because they are unwilling or unable to pay the cost of capital, then the normal (but moderate) growth of demand for food will gradually increase the profitability of the existing outlets/chains/plant investment. As profits increase, even if interest rates do not drop, operators will decide that a postponed project is now economically justifiable despite what may appear to be high interest costs. As the profitability of the industry increases, because of the reduced rate of store construction, the entire industry will be rated higher in the capital market. The industry will then be awarded a better (lower) interest rate relative to other industries.

Not being able to borrow money at 4% to make marginal store investments does not mean that there is a capital shortage–it just means that the industry cannot justify itself economically in the money market.

A final word on "shortage of capital" was offered to me by a senior partner in a firm that specializes in the sale and trading of bonds–government and industrial–who said "10 years ago no one could have predicted that we would be handling the weekly volume of bond placements that we are handling today–without any disruption of the market or great difficulty in placing new issues."

Because the premise is wrong does not mean the recommendations are wrong.

Russell, in his concluding talk, "Taking the Offensive in a Period of Economic Dislocation" laid down some rules that should be applied whether this is dislocation, relocation or allocation.

Here is what he urged:

A. Improve profitability (the easiest advice to give) by:
   1. Improving accounting processes so you have proper information.
   2. Returning to core businesses (by that he means the businesses you know–in the supermarket industry it seldom includes catalog/showrooms, discount stores, fabric chains–although there are exceptions).
   3. Increasing productivity (the problem here is not the goal but knowing the means of accomplishment).
   4. Disposing of marginal stores (marginal, as Russell uses it, means "losing" stores).

B. Increase cash flow by:
   1. Reducing in-store inventory (but don't run out of merchandise).
   2. Looking for new sources of capital.
   3. Availing yourself of cash-saving accounting and tax reporting (LIFO, etc.). (Before doing this, review "Is LIFO Fair To Stockholders?" in the March 1976 RT).
   4. Improving financial planning.
   5. Using return on funds as a criteria for new investments.
   6. Renegotiating debt.

C. Recover consumer and investment market confidence–work together as much as you can (keep in mind the anti–trust laws).

D. Influence Government (although the benefits expected appear to flow more to the industry than to the government or the consumers).

SHORT SHORTS

When will U.S. Shoe.Corp have a new name? General Shoe became Genesco, International Shoe became Interco and Brown Shoe became The Brown Group. With the appoinment of an apparel expert (Stanley Rutstein of Casual Corner) as President of U.S. Shoe can we soon expect the name to be changed to UNESCO?

Do you offer customers a choice of billing date? Alan Taylor, in his column in **Computerworld**, has long argued that computerized credit plans should make this choice available–and Bank of America does it with their **PersonaLine** program. The application reads "I/we wish each billing cycle to close on the ☐ 5th, ☐ 10th, ☐ 15th, ☐ 20th, ☐ 25th, ☐ end of month, subject to fluctuations due to weekends and bank holidays.

U.S. News & World Report joins Business Week in cheating subscribers –they ask readers to pay $3.90 per month to receive all the product of U.S. News and World Report in the form of a weekly newsletter. All the time readers thought that was what their magazine subscription bought.

Find a need and fill it was the motto of Henry J. Kaiser, the imaginative industrialist. But others find a need and fill it–and America's largest Cadillac dealer, Potamkin in New York City, is one who moved to fill a void. Cadillac finally brought out a compact model–the "Seville" and Potamkin promptly filled a need with stretch version! You can now order a compact limousine–The Custom Stretch Seville!

20 minutes (47%), on the first interview, knock-out applicants for such subjective qualifications as "poor communicative ability" (83%) and "job-hopping" (71%) and most (67%) do no testing at all.

Among the qualifications that no store mentioned as desirable were "considerate, curious, enterprising, independent, open minded, outspoken, patient, practical, respectful, self-controlled, self-reliant, thorough and tolerant." That almost seems like the Boy Scout Laws!

And when hired, the typical training took under 11 hours! Everything else is "on the job", usually unplanned and unsupervised. Combined with starting rates at or slightly above the legal minimum wage, it is easy to understand why the quality of employees that meet the customers is such as to drive the customers into the arms of self-service stores.

The summary, however, posses a challenge: "The key question for top management to consider is a simple one: Will the additional efforts required to correct these weaknesses be worthwhile; will they pay off?"

RThought: Every time I hear top management executives talk, they assert very positively that the effort will pay off–and they carefully avoid making the effort.

POLLUTION OF THE STATUTES

Businessmen constantly protest that it is becoming impossible to conduct business because of the multiplicity of laws and the restrictions placed on enterpreneurs who are just trying to make the free enterprise system work. Let's look for a moment at three laws signed recently by California's Governor.

AB 2198 prohibits a seller from assessing a finance charge against the outstanding balance for merchandise purchased on credit but not yet actually in the customer's possession! Seems like this law would be unnecessary, yet retailers constantly use systems that charge for merchandise when an order is entered for custom furniture, engraved flatware, monogrammed anything. I won't mention the leading store which years ago started dunning my aunt for nonpayment of a wedding gift of silver service for 4 months before it was delivered!

SB 948 requires that when one sells unassembled furniture that it must be so identified in all ads and if it is also available assembled, the assembled price must be shown. Now why is it necessary to have laws like this? Answer: because retailers try to entice customers by just overlooking little words like "unassembled."

AB704 now requires retailers to refund credit balances of over $1 on retail installment accounts with the specific statement that any unrefundable balances escheat to the state after 7 years. This bill became necessary when Carter-Hawley-Hale, one of the largest general merchandise retailers in the United States (headquartered in California), publicly defended their policy of stealing credit balances (on the theory that is was only a few cents per active charge account) when charged by the Federal Trade Commission with improper conduct. CHH really made this law necessary–although a large number of California retailers, at one time or another, considered this one of the fringe benefits of revolving accounts.

WHAT HAVE WE LEARNED FROM RETAIL FAILURES?

In July 1975, RT concluded a summary of the experts being brought in to help save W. T. Grant, as follows:

> **"RThought:** If Grant should fail, one will wonder about the capability of training at Sears, Wards, Singer, Touche, Booz-Allen, E&E, Dancer-Fitzgerald and Chase. Never have so many doctors been called–never have they had a retail patient so sick."

It is now clear that the net cost of Grant's failure would have been much less than the final loss if the Company had availed itself of Chapter XI a year earlier.

This is not a matter of 20-20 hindsight but one of watching and analysing a large number of retail failures–Arlans, Giant Stores, Mammoth Mart, Miller-Wohl, Hartfield-Zody, Daylin and others.

First one must ask a basic question–is there anything worth saving? In the case of Miller-Wohl all they had to do was dispose of the discount stores–a business they should not have entered. In the case of Mammoth Mart they had to get rid of a number of side ventures they should not have entered and some bad stores. The problems were much different with Giant Stores where records were inadequate, if not grossly inaccurate.

If there is a core or major division that can survive, then, like markdowns and cancer surgery, a fast first action is the proper step.

Unfortunately, the losers in an early Chapter XI are likely to be the landlords of the closed outlets. Under a Chapter XI procedure the landlords are generally entitled to three years rent (usually the minimum but that may be all they were getting–or not getting) less whatever they can generate during those three years through a new lease. Because retailers tend to get into trouble when times are not good, the vacated premise often is available when other chains do not want new outlets. A building, left empty for any period of time, deteriorates rapidly–and with it may go the entire center of which the discount store was a key unit.

This might well be corrected by modifying Chapter XI to provide recognition of a larger portion of the unexpired lease–perhaps the longer of 5 years or half the remaining life of the lease. This would increase the amount that could be claimed by the affected landlords–an amount which is always reduced because most settlements are only partial.

The major drawback of encouraging early Chapter XI proceedings is that it will encourage some firms to gamble on growth–open lots of outlets, file under XI, close the losers, and come out with a $100 million business. This tendency might be cured by treating management shareholdings different from non-management or public shareholdings when restructuring the Company.

RThought: There must be a better way. Our banking system will bear the largest portion of the W. T. Grant loss, other than shareholders, because they gave up rights in the pre-XI period while trying to salvage Grant. Just as they misjudged the previous management at W. T. Grant, they misjudged what could be accomplished by the new team.

ALL GUCCI CUSTOMERS SHOULD BE WARNED

In February 1972, RT reported the problem of an RT reader who purchased a $160 purse from Gucci in Beverly Hills, thinking he was following his wife's instructions. Gucci honored no credit cards and said it would take 3 weeks to open an account. Therefore he paid by check on the assurance of the clerk that if it was the wrong purse it could be returned. It was the wrong one–and was returned.

What he got back was not money but a credit slip that could be used "in any of our shops in the United States." For a San Francisco resident it was little use to know there were shops in NYC and Florida. Gucci's position was based on an unsigned salescheck put into the package when mailed that said "NO REFUNDS. When subject to exchange or credit, merchandise must be returned in original condition within 10 days accompanied by salescheck."

When the customer, on the next trip to Beverly Hills, asked if a credit would have been issued against a charge account, the store manager said "Yes." The customer sent a strong letter, with copies to the customer's attorney, Mr. Gucci, the City Attorney, Better Business Bureau and a radio station with a consumer affairs reporter. When none replied, the reader contacted RT. 6 days after a letter was addressed from RT to the Beverly Hills store manager, the customer recieved a call from an attorney in New York City saying a refund check was on the way.

RT thought this would warn away all its readers–but unfortunately, the warning does not reach people who would give gifts to RT readers.

Now comes a story that matches the previous story–even surpasses it.

Our reader received a gift of a Gucci item for Christmas–but it was not convenient to return it for exchange until January 10th (a Saturday) at which time the clerk advised him "January 8th was the last date for Christmas exchanges"! There was no notice included with the gift or ever given to the donee. Finally mangement agreed to make an exchange.

He selected a substitute item which he learned cost $40 less than the original gift. Gucci's refused to issue a credit slip for $40 for future use. They would only issue an even exchange and they admitted that Gucci would pocket the $40 difference.

But, fortunately, Gucci trapped themsleves. They now honor American Express and that was how the gift was purchased. Now there are rules that protect the unwary patron of Gucci–and the final result was a return of the merchandise and a full credit to the donor's account.

Score: Gucci has now lost both the donor, as a patron, and the donee as a prospective patron. Both, of course, are expressing their dissatisfaction to many people.

RT finds it inconceivable that a firm can reach the position of prestige attained by Gucci with policies such as have been exposed to RT. The only conceivable explanation is that they make a lot of "even exchanges" and thus boost their profit to offset the customers that don't return.

"BAIT & SWITCH"

The Federal Trade Commision (FTC), in issuing a final decision involving Carpets "R" Us, Inc., of Lanham, Maryland, included some words about "bait and switch" that should be understood by all retailers:

> "Although . . . proof of actual written or verbal disparagement is not essential to a finding of 'bait and switch', the record in fact contains several clear examples of disparagement by salesmen. Such desparagement by salesmen is not surprising because the salesmen directly benefitted from the sales of the more profitable merchandise–as complaint counsel correctly pointed out, two of the three salesmen during the period in question were officers and owners of Carpets "R" Us. Both disparagement by salesmen and a sales plan that discourages sales of the advertised product are indicia of bait-and-switch tactics. Further evidence is found in the minimal sales of the advertised carpeting."

The FTC did, however, relax one of the former standard requirements in such cases–the individuals involved will now have to report all future changes of employment for only 10 years instead of life!

RThought: Many stores that use incentives (commissions, PMs, etc.) construct the program to put a heavy emphasis on trading-up. Check your programs to insure that there is not such a wide spread that it becomes a disincentive to sell the lower price items and thus make your plan a "bait-and-switch" plan.

SHORT SHORTS

The future of food shopping as Changing Times sees it–"Now consider those computer price panels on grocery products. See how the little black lines parallel and never touch? That's an omen. Nobody ever again will make ends meet."

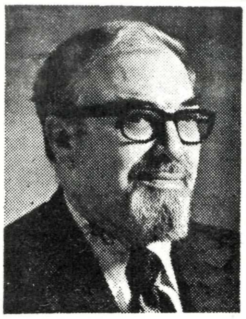
WORDS TO JUDGE PEOPLE BY

The following came from the Wallet of Sam Kasdan, Controller of Smiths of California–they are the words of a Rabbi from Pittsburgh, PA:

SOMETHING TO THINK ABOUT

> "Years ago I preferred clever people. There was a joy in beholding the phenomenon of a mind joyously creative, bearing thoughts quickly translated into words, or ideas expressed in a new way. I find now that my taste has changed. Verbal fireworks often bore me. They seem motivated by self-assertion and self-display. I now prefer another type of person: one who is considerate, understanding of others, careful not to break down another person's self-respect, and willing to arrive at a consensus of opinion. My preferred person today is one who is always aware of the personality needs of others, or their pain and fear and unhappiness, and their search for self-respect . . .
>
> "I once liked clever people. Now I like good people."

S. B. Freehof



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ROUTE TO

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ARE YOU ASHAMED OF YOUR NAME?

Amfac is proud! They identify their subsidiaries–Liberty House, J. Magnins, Airport Marina Hotels, Fred Harvey, and so forth, as Amfac Companies.

Federated is ashamed! They won't tell customers of Filene's, A&S, Boomingdale's, Ralph's, and many others that they are part of a massive holding company.

Penney is proud! They tell customers that The Treasury Stores are part of J.C. Penney.

Carter-Hawley-Hale is ashamed! They even took the name "Broadway" out of their corporate name.

Are you proud! or ashamed!?

COMMERCIAL BRIBERY

RT is introducing a new feature that will disclose firms using commercial bribery to obtain business. The business community deplored the conduct of Lockheed, Northrop, etc., in bribing top political figures in foreign countries to "grease the way" for sales of airplanes and other equipment.

Yet, it is a common practice in American business.

Top management may not be aware that it is happening so RT will bring it to their attention. We define "Commerical Bribery" as any time a vendor offers a special payment or gift to the person making the purchase decision so that the recipient of the gift will obligate his employer. Under such circumstances the employee buys what will bring him the best reward, not what will bring his employer the best buy.

Bic: Bic makes good pens and sells them at a fair price. But, they advertise "Buy 1 dozen accountant fine point pens and get 2 pairs of Bic pantyhose. Free." The instructions read "Order your pens in either Blue or Black, and request your pantyhose in petite to average or average to tall sizes." Unless your company sells pantyhose and can get the 99¢ selling price out of the pantyhose, RT recommends instructions that no Bic accountant fine point pens be purchased.

Pentel of America, Ltd.: Pentel, a Japanese Company, is apparently trying to get even for what Lockheed did to citizen confidence in the Japanese government. They are introducing the "Rolling Writer" which they modestly describe as "The Fantastic Pen from Pentel." Of course, they need a few bribes to get it going. So they make the following offer: buy 18 dozen at 89¢ each, you get a Shower Massage by Water Pik™ : buy 8 dozen and get an Equity Travel Alarm Clock. RT recommends that unless you regularly sell shower massage heads or travel alarm clocks, that you issue intructions that no Rolling Writers from Pentel be purchased.

A MATTER OF ETHICS

MEN'S WEAR, in their April 9th issue, dealt at length with the problems of arbitrary deductions, fees and charges imposed on vendors by retailers and indicated that the Inter Association Committee as spokesperson for men's, women's and children's wear associations, has called the matter to the attention of the Federal Trade Commission alleging violations of the Robinson-Patman Act.

RT has long been aware of this conduct. It seems that the same kind of mind that used to steal small credit balances from customers has had to find another way to steal in order to prove their value to their company.

As is typical of trade publications, but not of RT, virtually no names were mentioned. Vendors are not mentioned becauses the vendors fear retaliation by the stores who are taking advantage of them; stores are not mentioned because stores may cancel subscriptions to all Fairchild publications.

There is, however, one specific mention: ". . . most manufacturers are forced to accept the situation and are astonished at the apparent lack of uniformity in chargeback systems between Federated, Allied and May Co. stores, to name some of the majors mentioned in the market as the greatest offenders."

RT has a simple explantion why these companies are the major offenders–Messrs. Lazarus, Macioce and Goodman, their respective chief executive officers, are so busy giving talks about how we must restore moral conduct to our businesses and regain public confidence that they don't have time to bring their own business up to the standards they demand that others reach.

The shoemaker's child is the last to get shoes; the business moralist may be the last to conduct his business morally.

IS LACK OF JOB SATISFACTION A PROBLEM IN YOUR FIRM?

If you think it is, then get a copy of "Job Satisfaction: Is There A Trend?" put out by the U.S. Department of Labor (Manpower Research Monograph No. 30, Catalog Number L 1.39/3:30, $1.20, Government Printing Office, Washington, D.C. 20402).

This covers the research done in this field since the first study in 1935. A summary of the conclusions are of interest:

1. There is no evidence of a widespread decline in job satisfaction.
2. Satisfaction among blacks and minorities has been consistently lower than among whites.
3. Younger workers have been less satisfied.
4. Higher occupatonal skills have the highest satisfaction level.
5. Women workers have about the same level of satisfaction as men.
6. Below persons with a college degree, education has little relationship to satisfaction (except for a low level among those who did not complete college).
7. There is no way to increase job satisfaction.
8. Job-related stress, such as physical and mental illness, may be an early warning system for both employees and employers.
9. There is no evidence of a relationship between job satisfaction and productivity.

In a 1969-1970 study of working conditions the facets considered "very important to workers rating" varied widely between blue and white collar workers. Factors that white collar workers rated as of substantially higher importance were interesting work, opportunity to use special skill, and freedom to decide how to do the work. Blue collar workers gave more emphasis to receiving enough help and equipment to get the job done, clearly defined responsibilities, good pay, job security, good fringe benefits, friendly and helpful co-workers, a chance to make friends, enough time to get the job done, good hours, a surrounding where they can forget personal problems, and not being asked to do an excessive amount of work.

DISTRIBUTION OF LARGE SIZE STORES

The 1972 Census of Retail Trade shows the following number of large stores (over $2,000,000 per establishment):

Type of Store	Total Number All Sizes	Over $5,000,000	$2-5,000,000
All retail trade	1,709,555	9,239	26,781
Building materials & supplies	36,654	163	1,103
Lumber & other building materials	21,976	160	1,075
Paint, glass & wallpaper	8,432	3	28
Hardware stores	24,562	6	70
Retail nurseries, garden supply	7,436	–	5
Department stores	7,324	3,089	2,670
Variety stores	20,489	21	504
Grocery stores	178,379	1,687	11,333
Freezer & locker meat	732	1	9
Meat markets	7,558	2	8
Fish markets	1,533	1	2
Fruit & vegetable stores	7,317	2	5
Candy & nut stores	11,665	–	1
Retail bakeries	17,255	4	4
Dairy product stores	5,513	–	6
Car dealers–domestic only	21,695	2,597	4,499
Car dealers–imported cars only	3,698	90	1,072
Car dealers–domestic & imported	4,914	888	1,665
Car dealers–used only	28,416	8	66
Mobile Home dealers	9,185	8	103
Tire, battery & accessory stores	20,837	3	71
Other auto & home supply	6,250	–	29
Boat dealers	4,005	6	45
Recreational vehicle dealers	2,071	2	59
Motorcycle dealers	3,121	2	16
Gasoline service stations	197,220	7	124
Women's ready-to-wear stores	35,733	81	255
Women's accessories stores	7,902	1	7
Millinery stores	756	–	1
Corset & lingerie stores	793	–	2
Furriers	1,920	–	3
Men's & boys' clothing & furnishings	21,424	10	126
Family clothing stores	16,724	34	221
Shoe stores	24,856	–	18
Children's & infants' wear	3,412	–	–
Furniture stores	36,177	96	298
Home furnishings stores	24,976	2	47
Floor covering stores	8,827	1	39
Drapery & curtain stores	3,902	–	2
Household appliance stores	18,976	16	85
Radio & TV stores	11,834	14	58
Music stores	6,949	–	19
Record shops	2,345	–	5
Musical instruments	4,604	–	14
Eating places	221,850	32	262
Drinking places	94,778	1	3
Drug stores	42,872	38	444
Proprietary stores	2,438	2	4
Liquor stores	38,422	12	193
Mail order houses	7,294	89	129
Automatic merchandising machine operators	11,694	54	226
Direct selling	115,102	11	150
Florists	22,465	–	2
Cigar stores	4,044	1	7
Sporting goods	7,775	2	31
Bookstores	6,695	4	29
Stationery stores	5,827	1	2
Jewelry stores	23,495	12	46
Hobby & toy stores	8,947	1	51
Camera & photo supply	4,404	6	16
Gift & novelty stores	20,909	1	12
Luggage & leather goods	1,616	1	5
Sewing, needle & piece goods	17,462	–	8
Newsdealers & newsstands	2,549	–	5
Pet shops	2,214	–	1
Typewriter stores	842	–	2
Optical goods stores	5,047	–	2

WILL TOP MANAGEMENT BE HELD RESPONSIBLE FOR ITS ACTS?

The U.S. Supreme Court in a decision against John Parks, then President of Acme Markets, now President of American Stores, held that Parks was responsible for the failure of Acme to comply with sanitary provisions of the Food and Drug Act after the conditions had been brought to his attention (RT September 1975). The food industry immediately started a lobby to delete the provision of the law holding top management responsible for violations of which they had knowledge. (RT December 1975)

The trend is going the other way in other countries. In France, the President of a construction corporation has been charged with involuntary homicide because two laborers were killed on a construction job. The manager of an asphalt plant spent 2 days in jail following a charge of criminal responsibility in a fatal accident. The sentence was so short because the person killed was using the equipment without authorization.

WHAT CHANCE DOES A SMALL RETAILER HAVE?

Suppose you were told about a real estate man who had an idea about how a store should operate. This realtor talked with some retailers, all of whom told him the idea wouldn't fly. But he decided that it would–and was willing to put his own money behind his ideas.

And, suppose that it was July or August 1970 when you met this man and learned that during his first year he had done $538,000–and that in addition to his first small store of 3,517 square feet he had opened a larger store of 4,740 square feet 50 miles away! Let us further assume that this small retailer looked upon you as a successful big retailer and asked your help in projecting his business plan 5 years into the future.

After looking at his operation, observing his very limited merchandise line, and considering the general lack of retail experience, would you immediately come up with the following figures for his year ending June 29, 1975:

No. of stores	97
No of states covered	17
Total Sales	$68,948,000
Net Profit	$ 3,730,000

If you didn't come up with something close to this, you once again missed a chance to prove that you could tell which of the small businesses would become a big business.

For this is the story of The Gap, the brainchild of Don Fisher and just recently a publicly held company with a market value of approximately $100,000,000!

This is the first soft goods retailer doing over $100 million a year who can say it buys 75% of its merchandise from one source–an unrelated source. As a matter of interest, there are only a limited number of soft goods manufacturers who ship $35 million a year to one customer of any size!

In addition to having one main resource, The Gap has many unusual measurements. The table below shows how space is used effectively, with the stores grouped by year of opening:

			Store Statistics		
Opened during Year Ending	No. of Stores	Selling Area (Sq. Ft.)	Sales/Sq. Ft. FY 1975	Average Size	Sales/ Store
6/30/70	2	8,257	$155	4,128	$650,000
6/30/71	7	28,230	$233	4,032	$941,000
6/30/72	6	24,268	$203	4,061	$823,000
6/30/73	21	79,495	$223	3,785	$843,000
6/30/74	34	137,889	$189	4,055	$768,000

A footnote to the above table is that the company reports that virtually all stores were profitable during their first year of operation and have remained profitable. RT would add an observation that one of the strengths of management is shown by the relatively constant average selling space per unit–showing resistance by management to the pressure that has led so many successful retailers to increase the size of later stores until they prove for themselves that they have gone beyond the profitable size (I recall a talk one time by a top executive of The May Company, in Los Angeles, to the effect that they could never open a branch store of less than 300,000 square feet because they could not reproduce the assortment of downtown in less space. Today, May Company's newest stores are half that size!).

The Gap has done this in a cash business, catering to a market that many conventional stores miss, and operating with a turnover of more than 4.7 times despite a policy of carry heavier assortments with greater size ranges than do most all of their competitors.

When one considers the metropolitan areas over 1,000,000 that they have not yet reached, such as Buffalo, Cincinnati, Cleveland, Kansas City, Miami, Milwaukee, New Orleans, Pittsburgh, Portland (Oregon), Seattle and Tampa, one can see that there is still a significant growth potential for this company. Remember–just 5 years ago, The Gap would have been classified by everyone as a small business.

RThought: Whenever you hear a speaker complain about the problems of small business, note that he may forget to mention two important factors. First, many small businesses are just the right size for the people with small ideas who run them. It produces for them a living of varying quality as the product of their hard work. But hard work is not that uncommon in our society, even among those who do not venture into entrepreneurship.

Second, the speaker may forget all about the small businesses that become big businesses so fast that everyone forgets that once they were a small business, relatively indistinguishable from hundreds of small businesses surrounding them. In this category, in addition to The Gap, one would have to put such well-known retailers as Best Products, Brooks Fashion Stores, Channel Companies, House of Fabrics, Levitz, The Limited Stores, Longs Drug Stores (one of the original), Mervyn's, Minnesota Fabrics, Modern Merchandising, Pamida, Petrie (another original), Rite Aid, Service Merchandise, and Wal-Mart Stores.

SHORT SHORTS

Penney's says the reason they are losing money in their discount stores is that they look too good to be discount stores! That is what Chairman Donald Seibert told Dow Jones–but he must have been talking about some other Treasury stores than the ones I have visited.

What major company has the worst inventory control? That would be Color Tile stores, a Tandycraft chain. For the 3rd time in less than 2 years they have run reverse-cut ads screaming "Notice to the Public–Excess Stock MUST BE SOLD!" Each explanation is different (this time 3 stores not ready to open on schedule) but the problem is the same–perhaps this is why Tandy Corp spun off the craft stores?

1975 Mail Order Business Directory–the 10th Edition–now lists 5,800 mail order firms and says in the introduction, "The mail order field is growing at a phenomenal rate. Many small, one-man operations of several years ago have become giant corporations doing millions in mail order sales."

CREDIT OFFICE RATING

Improvement continues as stores get away from the Christmas load. Those with computers recover faster—perhaps a cost benefit of computers that isn't always figured in the study of the economics of computers.

HONOR ROLL

Company	Days	Company	Days
Joseph Magnin	3.0	Hess's (Allentown)	3.6
Maison Mendessolle (SF)	3.0	Iver's (Los Angeles)	3.9
Routzahn's (Maryland)	3.3	Jurgensen's (Los Angeles)	4.0
Oshman's (Houston)	3.4	I. Magnin (SF)	4.0
Penn Traffic Co. (Johnstown)	3.5		

CREDIT OFFICE RATING

Information From Reporters	FEB-MAR 1976 No. of Reports	FEB-MAR 1976 Days to Bill Average	FEB-MAR 1976 Days to Bill Range	DEC-JAN 1976 No. of Reports	DEC-JAN 1976 Days to Bill Average	DEC-JAN 1976 Days to Bill Range
The Broadway (LA)	1	8.0	8	2	10.0	10
Bullock's (LA)	1	7.0	7	2	8.5	6-11
Bullock's (No. Cal.)	4	6.5	5-8	6	7.5	6-8
Capwell's (Oakland)	8	5.9	4-7	10	6.3	6-7
Dunhill (NY)	1	10.0	10	--	--	--
Emporium (SF)	4	6.3	5-8	7	5.6	5-6
Foley's (Houston)	1	8.0	8	1	9.0	9
Gump's (SF)	1	6.0	6	1	11.0	11
Hastings (SF)	2	5.0	5	5	6.0	4-9
Joske's (Houston)	1	5.0	5	2	4.0	4
Jurgensen's (LA)	2	4.0	4	1	4.0	4
Liberty House (No.Cal.)	2	4.5	4-5	3	5.7	4-8
Livingston Bros. (SF)	2	5.5	5-6	4	6.5	5-9
Macy's (SF)	6	6.5	6-10	5	7.0	6-10
I. Magnin (SF)	3	4.0	3-5	4	5.0	4-7
Joseph Magnin	1	3.0	3	4	4.5	3-6
Maison Mendessolle (SF)	3	3.0	3	--	--	--
May Co. (LA)	2	5.0	5	2	6.5	5-8
Palais Royal (Houston)	1	10.0	10	1	6.0	6
Penney's (LA)	1	6.0	6	--	--	--
Robinson's (LA)	1	5.0	5	1	6.0	6
Roos/Atkins (NY)	1	6.0	6	1	7.0	7
Saks Fifth Avenue (SF)	1	6.0	6	3	6.3	6-7
Sears (Alhambra)	3	8.3	4-16	3	8.3	6-12
A. Sulka (NY)	1	12.0	12	1	14.0	14
TOTAL	54	5.98	3-16	69	6.6	3-14

Information From Stores	FEB-MAR 1976 No. of Reports	FEB-MAR 1976 Days to Bill Average	FEB-MAR 1976 Days to Bill Range	DEC-JAN 1976 No. of Reports	DEC-JAN 1976 Days to Bill Average	DEC-JAN 1976 Days to Bill Range
Brock's (Bakersfield)	18	6.9	5-9	9	9.7	6-13
Hess's (Allentown)	8	3.6	2-4	--	--	--
Holman's (Pac. Grove)	10	4.3	3-6	10	11.2	10-11
Iver's (LA)	10	3.9	3-5	10	5.0	3-6
Levee's (Vallejo)	20	5.6	3-7	19	5.2	3-8
Levy Bros. (San Mateo)	32	5.2	3-8	32	6.6	3-9
Mervyn's (No. Cal.)	20	4.1	3-5	20	4.5	4-6
Mont. Ward (No.Cal.)	16	4.2	3-6	--	--	--
Oshman's (Houston)	9	3.4	3-4	8	3.9	3-5
Penn. Traf. Co. (Johnstown)	10	3.5	3-4	10	4.5	4-6
Routzahn's (Mrylnd)	3	3.3	3-4	2	4.5	4-5
Wineman's (Hnt. Park)	8	7.0	6-8	8	7.1	6-8
TOTAL	164	4.8	2-9	128	6.2	3-13

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

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

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

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

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

RThought: Is there any logical reason (other than control of the political/justice system industrial/commercial magnates) why management executives should not be held responsible for injuries to or death of workers because of executive's neglect or disregard of legal standards of conducts?

BATTLE OF THE BUSINESS SCHOOLS

The results are in on the 1975 graduates at Harvard and Stanford. The placement record again puts the schools neck and neck—the median salary at Harvard was $17,900 and at Stanford $17,700.

This is about as close as the results of the survey reported in the December 1975 issue of the MBA magazine, when all major schools were ranked by two groups: the Deans of business schools and current MBA graduates. They were ranked separately for academic quality and employment value. In both cases a score of 10.0 would be the maximum (unanimous) and 1.0 would be the lowest (unanimous).

	Deans			MBA graduates	
Academic Quality					
	1	Stanford 9.51	1	Stanford	9.18
	4*	Harvard 8.69	2	Harvard	9.01
Employment Value					
Tie	1	Harvard 9.75	1	Harvard	9.78
Tie	1	Stanford 9.75	2	Stanford	9.02

*The Deans rated Chicago (8.94) and Sloan-MIT (8.73) as 2nd and 3rd before Harvard!

RThought: Soon the Harvard Clubs around the country (including my own) can advertise "We WERE No. 1!"

Compared with the 1974 study, Harvard was dropped from 2nd to 4th by the Deans on Academic Quality, and the MBA graduates switched the two in Academic Quality. Employment value was the same in both years.

T. EATON CO. IS SO BIG BECAUSE . . .

Eaton's is the world's largest privately held retailer and probably Canada's largest non-food retailer with sales reported well above $1 billion. One of the reasons for their success is that they are not afraid of the consumer.

They have published 12 new consumer booklets that help their customers shop Eaton's (and Eaton's competition) more effectively:

This series of "What you should know about buying. . ." covers
. . . a sewing machine
. . . above ground pools
. . . bicycles
. . . carpeting
. . . draperies and drapery hardware
. . . linens and bedding
. . . personal care appliances
. . . snowthrowers
. . . tents and camping equipment
. . . portable appliances
. . . portable power tools
. . . power mowers, composter/shredder, rototillers

RThought: If Company policy is to educate the consumer, then the buyers will be forced to buy the kind of products that consumer analysts and consumer product testing labs recommend. In the long run, this should bring improved value to the customer, eliminate poor quality products, and simplify selling and advertisng.

OVER-THE-COUNTER SECURITIES REVIEW SUMMARIZES 25 YEARS

Celebrating their first quarter century they briefly summarized the OTC market for each of the years. Naturally they selected some retail stocks as new issues during a particular year—and the progress is interesting (they didn't mention the retailers that came and went).

Year	Firm	Issue Price (Adjusted for splits)	Current Price
1951	U.S. Shoes	2	26
1957	Vornado	3	6
1959	Borman Food Stores	8	3
1959	Albertson's Inc.	4	22
1961	Kings Dept. Stores	5	10
1962	Zayre	9	12
1965	Weiss Markets	10½	21
1965	Jack Eckerd	1½	29
1968	Petrie Stores Corp.	10	72
1968	Levitz Furniture	7½	5
1968	Rite Aid Corp.	8	15
1969	Pamida	6	8
1969	Pier 1 Imports	3½	8
1970	Brad Ragan	7½	16
1971	Mervyn's	7	34
1971	Nordstrom Best	24	31
1972	National Convenience Stores	17	10
1972	Hook Drugs	22	15
1972	Sigmor Corp.	17	12
1973	Peavey Co.	16	18
1975	Tops & Trowsers	¾	7½
1975	Brooks Fashion Stores	11	22
I can't help mentioning a favorite—			
1957	Hewlett Packard	½	115

GOVERNMENT CHARADE AGAINST THE CONSUMER

"Charade" is defined as a game in which a word or phrase to be guessed is acted out and that is what apparently was involved in the White House Conferences on Consumer Representation Plans held for 17 government departments and agencies. Information was accumulated from 12,000 consumers, business and government atttendees (all were hand selected, but not all of whom were allowed to talk) and 1,900 written statements. From this will be selected those comments that agree with the government's pre-planned action and will be used as support. Then the final plans, little changed from pre-conference announcements, will be implemented at a new program for the Consumer.

RThought: If business, particularly retailers who bear the brunt of consumer dissatisfaction, feel that these meetings will ameliorate the resentment against business practices, they are likely to be disappointed. The end result appears to be that (1) there will be no reform of abusive practices (2) there will be little consumer input into Federal government decision and policy-making and (3) there will continue to be a decline in the opinion held by the public of goals, standards and ethics of the business sector.

WHY REDUCE ENERGY USE– TO SAVE MONEY OR TO BE A GOOD CITIZEN?

The country was first asked to reduce energy usage as a sign of good citizenship–now it has become an economic necessity as energy costs have risen. More and more annual reports are commenting on the efforts to keep energy usage down–but they also report that despite dramatic decreases in usage the total cost of energy consumed has risen faster than inflation, sales or profits.

Many retailers may have thought that cutting energy use was something that only big retailers could tackle. They are wrong.

The Office of Energy Conservation and Environment has published two helpful documents–Conservation Paper Number 20 (Guidelines for Saving Energy in Existing Buildings–Building Owners and Operators Manual ECM 1) and Conservation Paper Number 21 (Guidelines. . . Engineers, Architects and Operators Manual ECM 2) which can be ordered from the Government Printing Office, Washington, D.C. 20402. Paper 20 is identified as catalog number 041-180079-8 for $5.05 and Paper 21 is 041-18000-80-1 for $5.25.

Here are a few examples from the manuals. A 100,000 sq. ft. store in NYC reduced the volume of air circulated by changing a pulley ratio (cost $500) and saved $5,940 a year. A 50,000 sq. ft. store in Los Angeles raised the chill water temperature from 42° to 48°F (no cost–a manual change) and saved $1,120 a year. A 25,000 sq. ft. supermarket in NYC cleaned the condensor coils for the frozen food refrigerators, reducing condensing temperature from 115°F to 95°F (negligible cost) and saved $3,780 a year. A 100,000 sq. ft. Dallas department store descaled the condenser tubes in the air-conditioning ($1,200/yr. maintenance cost) and save $3,480 a year.

AN ECONOMIST FOR ALL SEASONS

Recently, I was listening to the tape of a program at the January 1975 National Retail Merchants Annual Convention in which prominent economists gave their view of 1975. You will recall that there was much talk about "another 1932."

Walter Cooper, Operating Vice President and Economist for Federated Department Stores offered the following advice:

> "For 1975, I think the priorities are very clear in retailing and in the department store industry. We must have aggressive volume development. We must have improved inventory liquidity. We must have acceleration of turnover. We must have effective cost controls. And, we must aim to maximize productivity in our investment in stores and staffs.
>
> "We have to have selectivity in the mangement effort, in the merchandising effort and in the control effort. Fundamentally, successful retailers in 1975 can and must not only survive, they must thrive in 1975."

RThought: So what was unusual in 1975? Isn't this the same advice that would be given in 1976, 1977, 1978, ad infinitum?

SHORT SHORTS

They are closing Goldsmith Bros. on Nassau Street–and it brought back the memories of being trapped on the 4th floor in 1941 when the public address system announced "There is a Macy shopper in the store, there is a Macy shopper in the store". . . and they proceeded to describe me! I felt like a trapped criminal with the police on both sides. I couldn't get out of the store fast enough. They beat me–using psychology.

Do executives appreciate stock options? In at least one case, not enough to share the profits with Uncle Sam. Joel Esquith, senior vice president of Macy's of California was indicted for filing false Federal Income Tax returns; the charge is that he failed to report 7 sales of stock obtained under his options and reported one sale as a long-term instead of a short-term gain–all over a period of 4 years. The penalty could be $20,000 and 12 years in prison.

MY utility company is reminding me of all the "Authorized Pay Stations" where I can pay and save 13¢ postage–are you reminding your customers of where you have put convenient bill payment boxes so they can save 13¢? Or are you doing everything the way you did it when it cost 3¢ to mail in a payment?

Why not put up convenient "Save-a-Stamp" Bill Payment Boxes?

WORDS TO LIVE BY

Red Cloud Indian School, Pine Ridge, South Dakota, which teaches Sioux Indian children, has distributed, in a form suitable for framing . . .

AN INDIAN PRAYER

O' GREAT SPIRIT,
Whose voice I hear in the winds.
And whose breath gives life to all the world,
hear me! I am small and weak, I need your
strength and wisdom.

LET ME WALK IN BEAUTY, and make my eyes
ever behold the red and purple sunset.

MAKE MY HANDS respect the things you have
made and my ears sharp to hear your voice.

MAKE ME WISE so that I may understand the
things you have taught my people.

LET ME LEARN the lessons you have hidden
in every leaf and rock.

I SEEK STRENGTH, not to be greater than my
brother, but to fight my greatest
enemy–myself.

MAKE ME ALWAYS READY to come to you with
clean hands and straight eyes.

SO WHEN LIFE FADES, as the fading sunset,
my spirit may come to you
without shame.

TOUCHE ROSS & CO.

1633 BROADWAY
NEW YORK, NEW YORK 10019

August 31, 1976

Mr. Robert Kahn
Robert Kahn and
Associates
Lafayette, CA

Dear Bob:

Ron Siegel told me about the Dannemann Fabrics reference. I want to add my own word of appreciation.

I would say that our response to your item on Ron's shortage talk have reached 200. I have never seen that many in my years of experience. Thanks again.

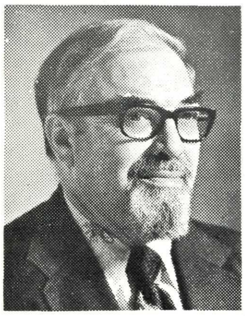
We may be holding our Retail Conference (December 7-8) in New York instead of Chicago. Does that present any problem to you?

Cordially,

Bill

William D. Power

WDP:rtp



RETAILING TODAY

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ROUTE TO

JUNE 1976 VOL. 11, NO. 6

APPLAUD MEMOREX, PLEASE

In the April 1976 RT we highlighted Memorex because of their ad offering your office supply buyer a coffe maker or pocket calculator if he would use your money to buy Memorex products. The item was passed to Memorex; C. Patrick Mundy, General Manager of the Word Processing Division, responded—the following quote is from his letter:

> "We have examined the promotional program which your article refers to and the program has been completed and will not run again. It is our objective to build a company of complete integrity and I regret that this program created an improper impression. You can be assured that all future programs will be carefully reviewed to eliminate any questionable business practice."

Thank you, Mr. Mundy.

ELECTION DOLDRUMS

Everyone was excited about business this year—until May. Then everyone complained. The one explanation not explored is the impact of an increasing number of Presidential Primary elections (in the past, most states selected delegates through party conventions) and the constantly changing leads. Reagan is out, Reagan is in; Carter doesn't have a chance, Carter is leading, can we beat Carter?

Looking back at 1968 vs. 1967 and 1972 vs. 1971, one can see a weakening of sales near convention time—which we may have again. Perhaps one of the prices we will pay every four years, for a more democratic method of selecting convention delegates, is softer sales during the primary period as well as during the convention period.

	1972 v 1971		1968 v 1967	
	Apparel Stores	Department Stores	Apparel Stores	Department Stores
January	+1.0%	+8.0%	+4.5%	+10.1%
February	+5.6	+12.9	+10.7	+16.7
March-April	+4.0	+7.7	+5.8	+11.5
May	+5.4	+12.8	+6.8	+12.2
June	+3.9	+10.0	+3.3	+6.5
July	+0.6	+8.8	+9.1	+18.3
August	+7.5	+12.3	+12.5	+16.8
September	+10.3	+11.4	(1.2)	+5.0
October	+10.5	+12.3	+12.3	+15.1
November	+8.3	+10.2	+11.0	+15.4
December	+5.9	+8.9	+0.9	+12.9
TOTAL YEAR	+5.7	+10.2	+6.2	+12.6

A MATTER OF ETHICS

It was a little over a year ago that RT mourned the passing of Richard Rich and praised his contributions to the betterment of Atlanta. There were few successful community projects without Dick Rich.

Today we learn that for 12 years he had an unrecorded fund that channeled some $40,000 of contributions to political and other purposes.

RT is certain that Richard Rich was convinced that these contributions were as important to his community as were his public efforts. He certainly never considered himself a law-breaker.

Was Richard Rich alone in his illegal conduct? The answer is "No." RT is aware of other retailers who are doing or have done the same thing. They would be shocked to be accused of criminal conduct.

This is a problem facing our business community today. Top executives feel that some laws do not apply to them. Top officials at Bergdorf Goodman and Saks 5th Avenue, together with their firms and Bonwit Teller, were fined and sentenced for price fixing. Now the records of those meetings have been released. Andrew Goodman is disclosed as the leader in this conspiracy. Parent company, Carter-Hawley-Hale, is trying to use dollars to preclude a public trial.

On the West Coast, I. Magnin and Saks 5th Avenue have been indicted on similar charges and pleaded no contest.

J. Magnin executives admit that for years they stole $60,000 a year in customer credit balances, a practice that ended only when it was brought to the attention of top management at Amfac who instantly corrected the situation.

Gimbel, Carter-Hawley-Hale, Associated Dry Goods, Genesco and Lerner were all accused by FTC and admitted stealing customer credit balances. Montgomery Ward was stopped from deceptive sales of credit life insurance. Sears was charged with "bait and switch"—and acquiesed before a public trial could take place.

RThought: I have named a dozen firms and leading retail citizens, all publicly disclosed for immoral and/or illegal conduct. Not one of them considers himself or his company as a criminal. **That is what is wrong with our retailing community today.**

PITY THE INDEPENDENT—OR SHOULD YOU?

1975 was a year when it must have been rough on the independent store. The chains—still expanding, still well financed—had all the benefits.

Or did they?

The table below compares the change in sales volume, 1974 vs. 1975, by type of store broken down between firms operating 1 to 10 stores and firms operating 11 or more. I think you will agree that the figures do not indicate the big chains had any special advantage.

Type of Store	% Sales Done By Firms With 11 or More Outlets	Change in Sales from 1974: 1 to 10 Outlets	Change in Sales from 1974: 11 or more Outlets
Durable stores	5.7%	+8.3%*	+3.7%
Non-durable stores	42.8	+9.4 *	+8.2
Food stores	52.7	+10.6 *	+9.3
Grocery stores	55.8	+11.1 *	+7.6
General Merchandise	81.7	+6.3	+7.4
Department stores	89.2	+8.1	+8.7
Variety stores	80.5	+2.1	+3.8
Apparel & Accessories	25.5	+7.9 *	+6.1
Women's apparel	24.9	+9.0 *	+8.5
Women's RTW	26.2	+10.2	+11.5
Shoe stores	43.7	+3.3	+3.7
TBA	24.8	+10.8 *	+3.4
Drug stores	39.2	+6.2	+9.8
Liquor stores	22.0	+7.4 *	+4.6

*8 groups where independents did better

COSMETIC CONSULTANTS IN SUPERMARKETS?

That's what **Chain Store Age** (February 1976) reports. A&P is contemplating some service cosmetic sections while Giant Foods has already incorporated some in their combination stores. Studies indicate that women have no objection to shopping for cosmetics in their supermarket **IF** the supermarket has an adequate assortment of the items, colors and brands that the customer wants. The studies show that the most important factors in determining where cosmetics are purchased are selection (34%), convenience of store (30%) and price (24%).

IS SEARS PART OF THE PROBLEM?

Everybody talks about the responsibility of corporations—big corporations—especially tremendous corporations like Sears Roebuck—to the society in which they exist.

That may be true—and Sears executives may do their share of talking. But acting is a different matter.

If a store isn't profitable, close it. If that means laying off the minority employees that work in the store and who are drawn from the community around the store, tough luck. Sears is doing it more and more often.

Sears "stonewalled" it against the Mission District in San Francisco when they closed a 50 year old store. Although they claimed that it was because the store was losing money (they failed to apply any of their magic tools to make it more profitable), they refused to document the case. This only gave credit to the rumor that Sears was retaliating against the union—since the union struck Sears' two San Francisco stores for many months just prior to the closing. Sears, incidentally, is still paying rent on the store.

Now, the Los Angeles TIMES gives prominent coverage to the closing of a store at Vermont and Slausen. As the article says "One slice of inner city is left unserved." A year ago some two dozen local merchants formed the Vermont Slausen Merchants Association to try to do something—public spirited Sears didn't join. Now Thrifty Drug and Pep Boys will probably pull out.

If someone burns the neighborhood, who will be blamed? Certainly not Sears. They just did what was best for their stockholders.

THE IMPACT OF CURRENT VALUE ACCOUNTING

Both the Securities and Exchange Commission and the Financial Accounting Standards Board are moving inexorably toward the adoption of "current value accounting"—a process by which balance sheet items will be reported at current rather than historical costs.

The changes in balance sheet items from year to year will then be reflected as cost or income items on the income statement. The final profit figure for the year will be the net change in the value of the stockholders' equity. Some distinction will be made between operating profit and profit (loss) resulting from the changing value of assets.

The most drastic change for retailers will come in the application of replacement cost in lieu of historic cost of fixed assets. Older retailers with large (500,000 square foot and up) downtown stores, many of which still have fixtures installed 40 to 50 years ago and long since fully depreciated, will suddenly reflect much higher balance sheet figures for fixed assets (the one time increase will be handled outside the income statement) and much higher depreciation charges for the current year.

On the other hand, the firms with relatively new stores or limited fixed assets, such as Petrie, Wal-Mart, Jack Eckerd, or Mervyn's will not be as greatly affected. Those "new" retailers who have opted for building ownership such as Standard Brand Paints and, more recently, Longs Drug Stores, will probably have an impact more like that to be experienced by Allied, Federated, Carter-Hawley-Hale and other older firms who own large downtown stores.

IT IS FORTUNATE THAT SAFEWAY'S ADVERTISING IS MORE ACCURATE THAN PRESIDENT W. S. MITCHELL'S SPEECH-WRITERS

Mitchell was proud enough of his comments at the annual meeting to include the following in the first quarter report to stockholders. "Let's take another look at these figures—government 'earned' $10.21 per share on their ZERO investment in the Company. You as stockholders received $1.90 per share."

First, Safeway reported earnings of $5.74 per share and paid $1.90 in dividends. If the stockholders didn't "get" the $3.84 retained by Safeway (was it stolen from the owners by the management?), then who did get it? Second, apparently Mitchell doesn't, in this Bicentennial Year, consider the costs and

HIGH SHRINKAGE IS AN INDICATION OF MANAGEMENT FAILURE

I don't think I can set forth this fact more directly than I have in the title of this report.

When a company reports high shrinkage rates, one must immediately conclude that the incumbent management is not competent. There is no other explanation. It is mechanically impossible for large stores or store groups to have theft rates (employee and customer combined) that reach figures of 4% or 5%.

Try to visualize a shrinkage rate of 4% or 5%. Stand in a store someday and watch customers come in, buy merchandise, take it out with them. Now say to yourself—if we have a 5% shrinkage rate, it means that for every $20 sold, someone is taking $1. It takes thousands of customers to make your day. How can thefts reach a level of $1 for each $20 or $25 of sales?

They can't.

I don't care what examples Messrs. Jaspan and Zonn use. Anyone can put together specific examples of thefts by customers and shoplifters. It makes for a good book and a great talk at a trade show. It gets a lot of publicity.

The local police department makes a lot of Brownie-points with the retail community when they talk about all the shoplifting that is being done by dope addicts and professional boosters. The men in the half-way house who brag how easy it is to take the local retailers are telling only half the story—their successes. They don't tell you how often they walk into a store and walk out without taking something.

The Department of Commerce has gotten into the act. It publishes national figures, based upon anybody's estimate, claiming that billions upon billions are stolen each year and implying that management is helpless to stop it. Even the trade associations—and particularly the National Retail Merchants Association—contribute to the deception by equating their reported "shortage" figures with theft.

The sum total of all of this is the following:

1. The amount purported to be stolen is as exaggerated as the reported early demise of Mark Twain.

2. It fools only one group—retail management. They relax even more because they presume they are not expected to be able to cope with the massive deterioration in public morals.

3. It produces sales of protective devices like Sensormatic—which represents management's admission of its incompetence in the control of inventory.

How does one prove that management is the cause of shortage? That has been a problem—up until now. I have just had the opportunity to review the record of a man who has toiled in the field of retail controllership and retail management for more than 4 decades. The figures below show the performance of this man in retail companies where his responsibility included inventory control. The table shows the shortage rate for the year prior to his arrival with a company—and the shortage rate for the year he left. A comparison is made with published median figures for the appropriate size and type of store:

Store size	Year	Actual Shortage	Comparable Median Shortage	% Variation from Median
$100,000,000+	1949	1.9%	1.45%*	+31%
Department Store	1955	1.1%	1.25%*	(12%)
$20-50,000,000	1954	1.9%	1.2% *	+58%
Department store	1966	0.6%	1.4%**	(57%)
$10-20,000,000	1966	2.5%	1.4%**	+79%
Department store	1968	1.2%	1.5%**	(20%)
$1-5,000,000	1973	5.1%	1.3%**	+292%
Specialty store	1975	1.4%	1.5%***	(7%)

*Harvard Report "Operating Results of Department and Specialty Stores".

**NRMA "Financial and Operating Results".

***1974 NRMA figure, 1975 is not available but could be higher.

Lest one think that this man is one of those single-skill freaks, like people with unusual memories, let me also give the profit performance record on his most recent job!

Year	Pre-Tax Profit as % of Sales
1973	2.8%
1974	5.5%
1975	11.5%

One of his first steps to improve profits was to eliminate Sensormatic!

In the process of researching this article I became aware of the stupidity of the NRMA approach to "goal" figures—done by a computer without intelligence. In the 1973 FOR I found for Specialty Stores between $1,000,000 and $5,000,000 that the median shortage rate was 1.28% and the goal was 1.56%! ! !

RThought: Four times in four different stores in four different parts of the country, one man has shown that shrinkage can be reduced by management. At no time did he find a mass of thieving employees or suddenly increase the number of shoplifters apprehended. He did not hire additional protection personnel. All he did was change the attitude within the business and train the people.

Training and attitude—things management with high shortages doesn't understand.

Touche Ross has come to the same conclusion in their new booklet "Reducing Inventory Shortage—A Management Problem". Co-author Ron Seigel has been kind enough to offer copies to RT readers—write to:

Mr. Ronald Siegel
TOUCHE ROSS & CO.
1633 Broadway
New York, New York 10019

see letter
Bill Powers-
200 Requests

Ron Siegel reports that he is now able to estimate the shortage rate for a company by evaluating the attitude of the management and staff without being shown any figures.

A FEATURE REPORT

RT will again offer, as a text for your training program, a copy of "58 Areas of Management Failure (Formerly Called 58 Causes of Inventory Shrinkage)"—a list developed before computers but covering the other causes of shortage. Write to:

Management Failure
%RETAILING TODAY
P.O. Box 343
Lafayette, CA 94549

RThought: Retailing has trained lots of merchants—but it has lost the art of training controllers. RT finds people who know something about computers or accounts payable or payroll or even open-to-buy, but few who know anything about "controllership." And, many of those who are in controller departments are unwilling (probably because they are unable) to assume responsibility for inventory shortage. One could fill an encyclopedia with the reasons given why inventory shortage can be blamed on the merchants or the operations people or the advertising department or the attitude of employees or the absence of ethics among our populace.

UPC MAY BE INJURIOUS TO CONSUMER'S HEALTH

That is what Drs. John Allen and Gilbert Harrell of Michigan State University and Dr. Michael Hutt of the University of Vermont reported to the Public Policy Subcommittee of the Ad Hoc Committee on a Uniform Product Code, as summarized by a NARGUS National Affairs Report.

The study compared conventional stores (normal price marking) and experimental stores (eliminated price marking when using UPC scanners). Here is what they found:

1. The percentage of people who could identify the price of items at the point of purchase (standing in front of the shelf) dropped from 96% in conventional stores to 88% in experimental stores.

2. In both types of stores about 13% of the shoppers used unit price information in making a decision. (Note: the report says "only 13%" in a continuation of the disparagement of this service—but an objective person would say that a service used by 1 out of 8 customers should be considered important. What percentage, for example, use your restrooms?)

3. At the checkout, conventional store shoppers could give the correct price 71% of the time compared with 56% in the experimental stores. And when wrong the error was greater—an average of 4.4% in conventional stores and 8.4% in experimental stores.

4. Shoppers in both types of stores took the same time to make selection—1.3 minutes.

RThought: The evidence in this survey is not conclusive or final. It does indicate a problem that should be studied further. But it raises several serious questions.

1. When prices are not placed on the product there appears to be a statistically significant drop in price awareness.

2. Lack of responsiveness to price in food stores, if the supermarket industry is truly committed to competition, is detrimental to the consumer.

ing money (most have not indicated that the savings will be passed on to the consumer) or to producing an environment where price sensitivity is reduced and competition can be restricted to non-price areas.

Unfortunately, the recommendation now being made to supermarkets by trade assocoiations is—"continue price marking because of the continuing pressure for legislation" and not because it is good for customers or because it insures future price-competition.

SHORT SHORTS

Only retailers would take this headline seriously . . . because they are impervious to excessive advertising claims. **Supermarket News** (5-17-76) headline "Spartan Hails 'Sale of Century', Mulls Four Such Programs a Year!"

The wages of "bait and switch" are jail—30 days for a sewing machine salesman who offered a "$300" sewing machine at $87.50, but who made it work improperly by removing parts!

Explanations that don't hold water—UCB style. United California Bank wrote in December 1975 to an RT subscriber who queried them about increasing their finance charge by switching to the Average Daily Balance Method. The reply said "You may be interested to know that this method was adopted by UCB August 1, 1974, because of increased costs and did defer an increase in the finance charge rate." But, on August 1, 1974, the prime rate in California was 12%—in December 1975, the prime was 7.25%. Shouldn't a bank that raises finance charges to cover increased costs cut them to reflect reduced costs—like a 4.75% drop in prime?

Another example of the "Buy-centennial Sell-ebration," showing a lack of understanding about the anniversary we mark this year, is the selection by the International Consumer Credit Conference (ICCC) of what they call a "Bicentennial Theme" of "Give Credit To America". The United States would be improved if the ICCC devoted part of their convention to a discussion of the meaning of such simple statements as the preamble to the Constitution and first third of the Declaration of Independence, together with a few minutes on each of the first 10 amendments to the Constitution. But, obviously, ICCC isn't interested that much in the United States.

What will Alpha Beta do to be believed? A leader in discount supermarketing in California, they constantly advertised "You will like the total better" and ran radio/TV commercials interviewing people who have saved. Now they are cutting their discount prices to offer "the last word in low prices". What will they do for an encore? Perhaps "We are now cutting our low prices which were cut from our discount prices which were below everyone else in town?" Set it to music and see how it sells.

lives invested in wars to free and protect the United States, in establishing laws and courts, and in providing an economy in which Safeway can do business as an investment worth recognizing. Frankly, Mr. Mitchell, how many people died during the past 200 years to give you the right to make that remark?

WHO CAN PUT PRESSURE ON MANUFACTURERS?

The trade press can. A few are doing it. Most don't.

In December, 1974, RT reported on the rating of 45 case goods and 24 uphostery goods manufacturers by the National Home Furnishings Association (NHFA). Survey respondents were asked to rate each firm on 3 factors: dependability quality control, and complaint handling. Five ratings are permitted: excellent, very good, good, fair, or poor. Subsequently, **Media & Consumer** a publication for consumer affairs reporters, worked out a rating system by adding the percentages of excellent or very good ratings and subtracting the percentage of fair or poor (good was disregarded). (Example: a rating of 25% excellent, 35% very good, 25% good, 10% fair and 5% poor, would result in a score of 45 (25+35–10–5=45). NHFA published both the results for all manufacturers–including some that were horrible.

Men's Wear has now gone part way by publishing the names of men's wear firms with generally good deliveries (no rating was given on quality control, promptness of response to inquiries, conformance with shipping instructions or other important facets of service) and has published the "good" names which are listed below:

Dress Slacks
Corbin
Jaymar Ruby

Sport Shirts
Aetna
Bon Homme
Donegal
Elton Meltzer
Gates
Joel
Merrill Sharpe
Mr. Witt
Oxford
Pulitzer
Thane

Casual Pants
Farah
Levi Strauss

Sports Wear
Aurora International
Chip-Chip
Cortefiel
Damon
Europe Craft
Fantastic (Canadian firm)
Forum
Joe Gordon
Induyco
Jantzen
Maharajah-Sir
Media
Monsieru Lauro
New Traditionals
Puritan
Tumi Imports

Clothing
Stanley Blacker
Bill Blass
Cricketeer
GGG
Hart Schaffner & Marx
Palm Beach

Leathers
Beged-Or
Shott
Star

Dress Shirts
Arrow
Eagle Shirtmakers

RThought: With the advent of POM (Purchase Order Management) retailers utilizing computers now have the capability to do several things that could materially improve merchandise flow. First, they could, for critical items (such as holiday or advertised items) prepare a reminder notice to be mailed to suppliers. Receivings could be rated for delivery (early, on-time, late, conformance with shipping instructions (totally, partially, not-at-all), completeness of order (perhaps expressed in % short-shipped). This information could be summarized seasonally and used by merchandise personnel in working with–or dropping–suppliers.

RThought: All trade associations shoud be interested in exchange of such information between members.

THE DELUGE OF PRO-EFTS LITERATURE

RT sees far more material being published supporting the establishment of Electronic Fund Transfer Systems than opposing it. The same was true when the Uniform Product Code (UPC) was being planned. Public opposition to UPC did not arise because the public didn't pay attention to the limited news in the general press.

RT observes a constant flow of comment by businesses seeking to save money–particularly the banks–by eliminating the handling of paper. This is how they justify their argument.

1. We will soon be inundated with paper. (This cry has been heard for more than a decade but alternative methods have been developed so that now the Federal Reserve Board is looking forward to overnight inter-clearinghouse movement for the entire United States).

2. The process is within the present "state of the arts"of computer systems–we just need slightly larger systems and a method of pre-programming people (half of whom have an IQ below 100!).

3. We will save much money (with the implication that the savings will go to the stockholders of the companies providing the EFTS and not to the public.)

RT notes a lack of concern about the consumers side. Let us look at a couple of problems:

1. Many billings or statements, particularly from charitable organizations or others where the consumer has infrequent contacts, bear a statement that says "Your cancelled check is your receipt" (no more cancelled checks under EFTS) or "Check box if you wish a receipt." Under EFTS the banks may save money but will pass this expense to others.

2. The Internal Revenue Service (IRS) accepts cancelled checks as proof of payment. Just marking your bank statement in your own handwriting that you paid someone on a certain date or an entry (without giving the full name of the payee) showing a check number or other limited information, such as is now done on what is improperly called "descriptive billing", will hardly satisfy the IRS that you and I know so well.

3. No writers have considered the problen of a charge account customer, without benefit of a cancelled check, trying to prove that a payment was made on account by mail but that the store made a mistake. It is obvious that advocates of EFTS have concluded that we have reached a new age of business where the only mistakes are made by the customers!

4. None of the writers analyse the possibility for the less than honest segment of our community to take advantage of the new EFTS system.

For example, how will someone with a checking account be protected against forged signatures when the original check is held in some remote location? How will a stop payment be handled—or mishandled by a bank? What will stop someone hooked into the EFTS from running through a massive number of phony withdrawals against someone else's account, collecting the cash and folding the business—this will be even more lucrative than the process now used by some criminal elements of buying old established businesses, ordering large quantities of merchandise on credit, and then suddenly closing the store and stealing merchandise? Most criminals are aware that dollar bills take up a lot less space than TV sets and are much easier to pass and at closer to face value.

RThought: Until RT sees representatives of the people involved in the EFTS study/research/promotion sector it will continue to criticize such proposals in the hopes that readers of RT, who have an imput into the EFTS sector will consider the consumer/citizen/public.

ONCE SHREVE'S WAS GREAT

Then Dayton-Hudson bought it. Now a fine jeweler, once mentioned in the same breath with Tiffany, Cartier, Shreve-Crump-and Low, and a few others, it is now just another very ordinary retailer. Perhaps Shreve's should be classed as a "credit jeweler" rather than as a guild shop. They have discontinued the patterns they manufactured for generation after generation. People who have had their calling card plates at Shreve's for generations are moving to retailers who give better service.

And, now Shreve's has joined the list of retailers who are willing to give something to their non-customers that they refuse to give to the people who still support them. They are offering inactive charge customers a $5.00 credit toward a charge of $25.00 or more. Who says Dayton-Hudson is good for a fine store's reputation?

FADED GLORY

Over-The-Counter Securities Review recently published a list of companies who were selling at 80% or more **below** their all-time highs. A number of retail companies were on the list. The list does not, of course, include the names of those firms that have fallen 100% below their all-time high such as Arlan's, Giant Stores, etc.

Company	All-time High	Recent Bid	% Decline
Applebaum's Food Markets	$31.88	$3.63	89%
Arden-Mayfair	27.88	2.12	92
Baza'r	29.00	1.63	94
Beeline Fashions	42.50	4.75	89
Danners, Inc.	13.63	2.50	82
Duddy's	12.00	1.25	90
Fingerhut	28.00	4.25	84
Howard Stores	41.75	1.38	97
Keystone Centers	12.75	1.25	90
J. Michaels, Inc.	25.38	2.88	89
National Shoes	21.12	2.75	87
Penn Fruit	25.25	0.88	97
Rose's Stores	385.00	60.00	84
Sam Solomon	19.63	3.25	83
Sterling Stores	26.75	4.63	83
Unicapital Corporation	24.25	3.12	87
Victory Markets	18.50	3.50	81
Weisfields, Inc.	29.75	2.50	92

RThought: A couple of the firms were once described as "concept" firms—unique approaches to retailing

LIVING WITH INFLATION—BUENOS AIRES-STYLE

A recent New York TIMES article reported the following:

"The merchants, for their part, are far from as euphoric as their customers. Depleted stocks must be replaced at ever higher costs. Interest (charges) from banks, or, more likely, suppliers, is staggering.

"Moreover, staffs must be kept after hours and often on Sundays to change price tags. Indeed, many large department stores have started closing at midday for the same purpose. Executives use that time to buy foreign currencies before their pesos melt further."

Such is the life of the retailer—living with 335% inflation.

WHEN IS A DEDUCTIBLE EXPENSE A BALANCE SHEET DEBT?

Answer: when it is owed by your ESOT.

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants has recommended to the Financial Accounting Standards Board that when an Employee Stock Ownership Trust (ESOT) borrows money and buys stock (thus, showing a boost in net worth of the Company) that the guarantee of the debt of the ESOT by the Company be recorded as a debt and recorded as a reduction of the shareholders' equity. The net result of this would be that the company would get the cash—but not have any improvement in net worth to report to credit grantors, landlords, etc. The net effect would be to substitute long term debt for current debt.

The sole remaining advantage of an ESOT would be the ability to repay the debt (thus reducing the guarantee) out of pre-tax rather than after-tax dollars.

Even with the lack of increase in net worth, the new shares outstanding would be included when computing the earnings per share—thus the same net worth and the same earnings would result in a lower earnings per share figure!

WORDS TO MANAGE BY

Bud Eldon of Hewlett-Packard, whose wife, when they first married, forgot that his first name was Charles, offers the following quotation from John Gardner, founder and prime force behind Common Cause.

> "We must learn to honor excellence in every socially-acceptable human activity—and to scorn shoddiness, however exalted the activity. An excellent plumber is infinitely more admirable than an incompetent philosopher. The society which scorns excellence in plumbing because plumbing is a humble activity—and tolerates shoddiness in philosophy because it is an exalted activity—will have neither good plumbing nor good philosophy. Neither its pipes nor its theories will hold water."

MICHIGAN STATE UNIVERSITY

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
DEPARTMENT OF MARKETING AND
TRANSPORTATION ADMINISTRATION

EAST LANSING · MICHIGAN · 48824

Mr. Robert Kahn
Robert Kahn and Associates
P.O. Box 343
Lafayette, CA 94549

November 19, 1976

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 their attention to the thoughts that you have expressed in "What Does 'M.O.R.' Mean?" (January 1973, and in "The Deluge of Pro-EFTS 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 permission requested above is hereby granted.

Robert Kahn ______________________ (signed)

November 24, 1976 ______________ (date)

Principal and publisher
______________________ (title)

RETAILING TODAY, published by Robert Kahn & Associates, Lafayette CA
______________________ (suggested credit line)

From Where I Sit

by Samuel Feinberg

High shrinkage rates signify 'management failure'

Retail management's acceptance of high shrinkage rates as an inevitable cost of doing business is really a reflection of top-executive incompetence and failure. The problem is not insoluble, as often believed, but rather, largely a matter of continuous training at all management and employe levels.

This is the contention of Robert Kahn, business counselor, Lafayette, Calif. In his monthly Retailing Today letter, this iconoclastic commentator charges:

"When a company reports high shrinkage rates, one must immediately conclude that the incumbent management is not competent. There is no other explanation. It is mechanically impossible for large stores or store groups to have theft rates (employe and customer combined) that reach figures of 4 or 5 percent. If we have a 5 percent shrinkage rate, it means that, for every $20 sold, someone is taking $1. How can thefts reach a level of $1 for each $20 or $25 of sales? They can't.

"Anyone can put together specific examples of thefts by customers and shoplifters. It makes for a good book and a great talk at a trade show. It gets a lot of publicity.

"The Department of Commerce has gotten into the act. It publishes national figures, based upon anybody's estimate, claiming that billions upon billions are stolen each year and implying that management is helpless to stop it. Even the trade associations contribute to the deception by equating their reported 'shortage' figures with theft.

"The amount purported to be stolen fools only one group — retail management. They relax even more because they presume they are not expected to be able to cope with the massive deterioration in public morals. It produces sales of protective devices that represent management's admission of its incompetence in the control of inventory."

As proof of the correctness of his stand, Kahn cites the record of a man who has occupied controller and management posts with four retail companies in different parts of the country. While with a department store in the $100 million-plus category, he helped reduce the shortage rate from 1.9 to 1.1 percent in seven years. In a department store in the $20-to-$50 million range, the shortage figure was cut from 1.9 to 0.6 percent in 13 years. In a department store in the $10-to-$20 million range, the shortage percentage was reduced from 2.5 to 1.2 in three years.. In a specialty store in the $1-million-to-$1,500,000 group, the figure was cut from 5.1 to 1.4 percent in three years.

Kahn compares these actual shortages with substantially higher median shortages reported for comparable types and volume classifications of stores in Harvard and NRMA findings and questions the validity of those figures.

"At no time," Kahn contends, "did this man find a mass of thieving employes or suddenly increase the number of shoplifters apprehended. He did not hire additional protection personnel. All he did was change the attitude within the business and train the people."

Laurence N. Garter, partner, and Ronald Siegel, manager, retail services, Touche Ross & Co., the accounting firm, reach the same conclusion in a new booklet, Reducing Inventory Shortage — A Management Problem.

Garter and Siegel advise, "All shortage affects profit, even that portion which retailers commonly refer to as 'book' or 'paper' shortage. 'Book' or 'paper' shortage can conceal merchandise profitability, store profitability, cash shortages, theft and fraud and lack of control. It creates an atmosphere that leaves the company vulnerable to theft and fraud. Therefore, it is important to restrict shortage to its narrowest possible dimension and the smallest practical unit."

Touche Ross' findings of a recent case of a less controlled situation:

In accounts payable, retails are entered on invoices from the accounts payable copy of the purchase order. There is no requirement to check the retail to the store's retail. In many instances, the store does not enter the retail on the receiving paperwork. Returns to vendors are not charged back to the vendor until a credit memo is received. Unmatched RTVs under $100 at cost are never charged back to the vendor if the vendor does not issue a credit memo. RTVs from stores are not numerically accounted for. Control of RTVs is not effective. Most items in the log are unaccounted for because they are not marked off until processed; many are never processed. Credit memos from vendors are not properly researched or followed up to assure that all vendor credits have been recorded.

> "When a company reports high shrinkage rates, one must immediately conclude that the incumbent management is not competent. . ."
>
> — Robert Kahn

In sales audit, supporting media for sales reductions and cash substitutes are not accounted for and, therefore, are not able to assure that media are reviewed. Beginning and ending register transaction numbers are not checked unless there is a discrepancy. Merchandise credits and refunds have only one employe signature. These signatures are not checked or reviewed.

In the distribution center, warehouse pick sheets are sent to data processing and then to accounting without transmittal advices to control the movement of the paperwork or to identify the loss of media. There are no controls to assure the accuracy of transcribing the pick sheets to the input sheets. There are no controls to determine if the keypunching of the billing register agrees with the input sheets or pick sheets. Reports sent to the warehouse of missing pick sheets are not documented or followed up to determine the cause of the lost pick sheets.

Price changes: Stores utilize two forms to record price changes — store and buyer authorization. Frequently, buyer-authorized markdowns are submitted on both forms. Price change forms are not accounted for by the accounting office and, therefore, there is no system for assuring all are received.

Shortage control environment: Production emphasis versus control. Speed of merchandise movement versus control. Avoidance of conflicts. Lack of challenge and motivation.

Garter says the booklet "is intended to put in perspective the fact that the need for management attention does not end with the implementation of security programs and sophisticated systems.

"We have found three common characteristics among retailers with good shortage results: 1) Well-planned security programs. 2) Well-designed systems and procedures. 3) A supportive, disciplined environment comprising positive and concerned management attitudes, employe training, employe attitudes, compliance with systems and procedures and management information and follow-up.

to the Editor

WWD 7 E 12th St. New York, N.Y. 10003

10.6.76

The tunnel view of apparel manufacturing that, "It's time to abandon the concept of a bigger piece of a bigger pie," and focus on efficiency, expressed by Emanuel Weintraub, is too production-oriented. Today's primarily market-oriented women's wear producers grow, earn up to 14 percent plus after taxes, and the retailers they serve do well, too. They merchandise soundly, seek efficiency afterward. After all, no matter how well we cut and sew, low-wage Colombia, Costa Rica and India can do it cheaper with their methods, much cheaper using ours.

First, progressive U.S. producers market and merchandise effectively. This minimizes at the start the impact of imports; they even import themselves, where appropriate. Next, they deliver new, fresh things to the stores up to 12 times a year in full mix, on time, quickly and at acceptable quality and price — and cost. Then, they move so rapidly they can and do cut 90 percent and, for a few, 100 percent to order. So, they've little markup erosion. Finally, both the stores they serve and these producers of women's wear and now some children's and men's wear believers make good profits — with volumes that keep growing.

Bertrand Frank
New York

•

Your recent story on Sept. 14 by Caroline Bernstein that there is a "Demand for Quick Spring Fabrics" shows that once again you have been misleading the textile industry.

Remember the midi? Well, dear editor, I suggest you have Messrs. Don Edwards, Jim Gordon, Dave Caplan and your writer Bernstein take out a "sample bag" and see what is really happening in the industry.

Salesmen out of work, lack of direction by the big mills, consumer resistance in the stores, etc.

This is a real world out there. Not simplistic answers.

I suggest further that you call the ILGWU and they will tell you that their workers are unemployed to the tune of 45 percent.

Sam Gordon
Out-of-work salesman
New York

•

I would like to thank Denny Arvanites of The May Co. for his letter. Although he intended to criticize my article in Retailing Today, kindly cited by Sam Feinberg on Aug. 11, entitled "High Shrinkage is an Indication of Management Failure" — he used such terms as "simplistic pontification" and "Pollyanna dreams through myopic eyes" — he actually confirmed my argument by the type of questions he asked.

For example, he asked, "What about the markdown record? Was some of that which had previously been classified as shortage subsequently and properly recorded as markdowns?"

That was exactly my point, Mr. Arvanites. Too many retail executives, unable or unwilling (a form of management failure) to establish procedures that accurately record markdowns, excuse high shortage with exactly your question.

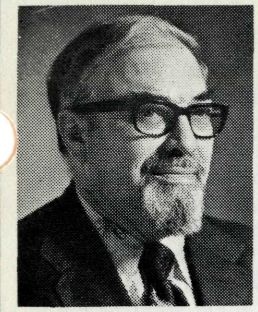
You asked, "What happened to initial markup and cash discount? Did they perhaps decline when subjected to the burden of 'padding' in order to artificially reduce the shrinkage statistic?" Do you mean, Mr. Arvanites, that you would tolerate an executive in your store who "pads" figures? I am surprised that top management does not want both accurate initial markup and accurate shortage figures.

Mr. Arvanites must be aware of my outspoken position on integrity in retailing — it extends to integrity in the figures made available to persons in Mr. Arvanites position. Good management will produce accurate markdown, initial markup and discount figures. They will train personnel so that "bastions of security" are not required. They will display merchandise attractively without putting the family jewels in a self-service department next to the front door without a checker present.

And good management will have accurate — and usually lower — shortage figures together with higher profits.

Thank you, Mr. Arvanites, for making my point for me.

Robert Kahn
Publisher and Editor
Retailing Today
Lafayette, Calif.



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
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ROUTE TO

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ARTHUR ANDERSEN FIGHTS FOR YOU

There have been times over the years when RT has been annoyed or angry with positions taken by Arthur Andersen (AA)—but RT has always admired their devotion to their principles as they saw them.

Recently, AA has become embroiled because of a petition filed with the Securities and Exchange Commission (SEC) seeking revocation of the SEC's Accounting Series Release (ASR) No. 177; and for reasons related to the problems arising from ASR 177, a revocation of a portion of an earlier release, ASR 150. AA also asked the SEC to define a fundamental but, to date, undefined term, "substantial authoritative support", used in ASR 4.

The main problem found by AA in ASR 177 was the requirement that accountants must make their own independent decision on what is the best way for you to report your business. ASR 177 states in part that the SEC believes "that professional accounting judgment can be applied to determine whether an alternative accounting principle is preferable." In retailing that would mean that each CPA firm would have to determine whether LIFO or FIFO was preferable—and then all clients would have to comply with that determination or face an exception in their audit report. Before ASR 177 the accountant had to determine whether or not **your** determination to use either LIFO or FIFO was a reasonable one.

Although ASR 177 would only come into play when a change was made in accounting principles, the next step, mandating the accountant's selection between alternative treatments, would require only a minor change in wording.

Business Week indicated that some other accounting firms (Touche and PW were mentioned) supported AA in its stance on ASR 177, but criticized AA for challenging ASR 150.

It was Dr. John C. Burton, Chief Accountant of the SEC, who, according to the Wall Street Journal, charged AA with launching "A fundamental attack on the whole standard-setting mechanism as it now exists." But Dr. Burton is probably the person who acts most arbitrarily in this area and who represents the greatest potential for upsetting accounting practices. RT does not say that his objectives are wrong—it is just that he is prone, when discussions within the profession do not go his way, to issue rulings that force it his way. Recently we have seen assaults on the power of some of the key people in the Congress; perhaps we will see it is some of the independent agencies.

RThought: This issue affects you. RT would suggest that every retailer should get from the local AA office, even if you are not their client, a copy of two issues of their Executive News BRIEFS (Nos. 10 and 11) issued in June 1976. AA sets forth their position in more detail than RT has done here.

This is not a battle that AA should have to fight alone—it can affect every major firm and ultimately it can affect the right of management to present their financial statements in accordance with current generally accepted accounting principles.

ARE YOU CERTAIN THE CONSUMER IS NOT ON YOUR SIDE?

Henry Quinto, President of Levy's in Tuscon, reported on the success of their local S.T.E.M. (**S**hoplifters **T**ake **E**verybody's **M**oney) program initiated by the local merchants. This program stresses and re-stresses that "Shoplifting is Stealing"—through signs in stores, newspaper ads and radio and TV commercials. But, he also reports that the Tuscon Consumers Council reported the program in their newsletter and concluded "We can help S.T.E.M. change community attitudes from one of apathy to one that is more realistic—i.e., shoplifting is stealing and its results are affecting each one of us." The same issue reported a local men's store was enthusiastic about the results after a year and a half of using Knogo for inventory control.

RThought: Have you tried to enlist your local consumer activist group in your campaign to stop shopstaling? You need all the allies you can get.

HOW NOT TO PERSUADE

The June 1976 RT contained an article "The Deluge of Pro-EFTS Literature." And this, in turn, brought a call from a representative of one of the major bankcards.

I guess his initial approach annoyed me—he wanted to know if I was interested in learning how Electronic Funds Transfer Systems were going to help the consumer. We exchanged a few words about whether or not my mind was open as I reached for a copy of the June issue.

I suggested that we start by having him answer the four specific questions I raised. I asked how I was going to support a claim for a tax-deductible contribution if the check was not returned to me. He said that I would have an itemized statement showing the payee, date and amount of the check.

I asked if the Internal Revenue Service had given them a ruling that this would be acceptable for tax purpose. He replied that they had even better authority—their own attorneys! I suggested that differences between the conclusions of attorneys is what prompts many of our law suits and that in the area of taxes only IRS rulings and court decisions are final—and then perhaps only for a short period of time.

It was apparent that he resented my aspersions on their attorneys and shortly the conversation ended.

RThought: Let's assume the following checks were issued. I use the Girl Scouts an an example, mainly because I am one (looks are deceiving).

Shown on the bank statement		Known to me and not to bank	
Payee	**Amount**	**Purpose shown on check**	**Deductible?**
Girl Scouts	$ 2	Annual membership	No
Girl Scouts	18	Case of cookies	Partially*
Girl Scouts	40	Sustaining Membership	Yes
Girl Scouts	80	Camp for daughter	No

*Deductible to the extent price exceeds value of cookies received.

Our kindly bank credit card salesman is telling me that I can deduct $150 as a charitable contribution—when only $40 is properly deductible. I wonder if the bankcard will provide tax defense for their customers?

GB 140

RThought: Two of the big bank card issuers in California—Bank of America and Security Pacific—recently lost a case to the State on the question of whether they owe the State some $13 million of interest not paid to accounts that later escheated to the state. I suspect the bank attorneys advised the banks that they didn't have to pay it. (Note: there are two levels of appeal left—the final score may not be in).

HOW BIG IS MAIL ORDER?

Maxwell Sroge Company, Inc. (303 East Ohio Street, Chicago, ILL 60611) makes the following estimate of the volume done by mail in 1974 by various products:

	(Millions)
Insurance	$870
Magazine subscriptions	670
Books	600
Ready-to-wear clothing	435
Home furnishings	350
Home study courses	300
Records and tapes	300
Photofinishing	200
Crafts	190
Electronic consumers goods	115
Foods	100
Sporting equipment	95
Health foods	75
Gardening and Nursery Products	50

And, if you wondered about the distribution of coupons offering something "off" on a purchase, the estimate is that more than 27 billion were distributed—about 1 every 3 days for every man, woman and child in the United States.

THE MONEY MACHINE

There is no other retailer like Petrie Stores. At yearend they had a net worth of $110 million of which $98 million was in cash! Despite the heavy cash invested in short-term securities, which returned much less than their other assets (about 6%), they produced a return after taxes on their net worth at the start of the year of 33%! In a highly competitive field they produced a profit after taxes equal to 10% on sales! As they have grown larger, their performance has been better—with earnings on sales after taxes increasing steadily from 6.1% in 1966 to 10% in 1975. Based on the average number of stores open each year, sales per store over the last 8 years have increase from $468,000 to $983,000—a compound rate of 10% per year—so growth has come both from more stores and better productivity.

AT LAST—TOO LATE—

There may be one characteristic that is typical of major department stores. They persist in doing things too late.

Congress, when considering the bills that brought retailing under the Wage and Hour Law, was willing to consider the special conditions in retailing—and work out a compromise. Among compromises that were considered reasonable by some Congressmen were special provisions for computing overtime (so as to avoid the problem with PMs and commissions.) But the industry persisted in 100% resistance. "We will battle you to the death—retailing is a local industry"—they said; and they died.

Retailing was almost as unanimous in its resistance to bank credit cards. "Our Cards are stronger," they said; "Bankcards are more expensive," they said; "We provide our credit customers with special benefits that they value," they said. And so it went.

But the independents and the small store chains took a different attitude. They said "Come shop with us—use your Bankcard— and get the benefit of higher credit limits than your department store offers and the greater selection of merchandise that we as a group offer you.

Now it is changing. Look who honors bankcards: Thalhimer Bros, Rich's, and now John Wanamaker and Miller & Rhoads. Let's see what John Marchant, President of Miller & Rhoads had to say—"We simply could no longer stand by and ignore our competition in specialty stores as well as department stores in our trading area—practically all of whom honor these cards—I am convinced bankcards are fast becoming a way of life and we might as well get on the bandwagon now that at a later date."

Why, John? Why not wait a little longer? Each of the bankcard systems now have only 30,000,000 cardholders each. Surely that isn't positive proof. How good is the leadership in department store retailing if it is reduced to jumping on someone else's bandwagon?

FEDERATED AND GIMBELS, HAND IN HAND

Federated Department Stores, the Jewel of the Lazarus Family, whose Mr. Fred was venerated by retailing, and Gimbels, the product of the family that developed the first department store in the United States, have pleaded "no contest", which the court interpreted as a guilty plea, when imposing the maximum penalty—a paltry few dollars. This made the illegal conduct of I. Magnin and Saks 5th Avenue, their respective Northern California subsidiaries, one of the best investments either company ever made.

The indictment read:

> **"Beginning at least as early as 1963, the exact date being unknown to the Grand Jurors, and continuing therafter until April, 1974, the defendants and co-conspirators engaged in a continuing combination and conspiracy in unreasonable restraint of the aforesaid interstate and commerce, in violation of Section 1 of the Sherman Act, as amended prior to December 21, 1974. The aforesaid combination and conspiracy has consisted of a continuing agreement, understanding, and concert of action among defendants and co-conspirators to raise, fix, maintain and stabilize prices charged by defendants for the sale of women's clothing in Northern California.**

LOOK WHO IS TRYING TO KICK LEVI STRAUSS

When the Federal Trade Commission filed a complaint against Levi Strauss alleging that Levi fixed resale prices (illegal with the end of Fair Trade) and required stores to buy unwanted merchandise to get the best selling items, the first group to cheer was some of the discounters.

Discount Store News (DSN) reported the glee in the industry with a headline "Chains Cheer Complaint by FTC vs. Levi." One chain merchandiser, who didn't have the guts to let DSN use his name, was quoted as saying "This is one of the happiest days of my life. This should be the forerunner of opening branded merchandise directly to discounters. The results could reduce the cost of branded goods to the consumer by 15% to 20%. This is the most significant apparel finding by the FTC since the day of its inception and it has to affect every manufacturer of branded goods."

enterprise

Let's look for a moment at what the discount industry thinks they are. Most think they are the last bastion of "free interprise" in the retail field. They are ready to show the world how good they are by tearing down something that someone else built.

There are relatively few discounters in the same league as Levi Strauss. Let's look at the facts. In 1966, Levi did about $150 million and 1975 they did $1 billion (the first and only apparel firm to sell so much apparel). Profits increased from $8 to $65 million.

And, how did Levi do it? They sold their merchandise to 16,000 different accounts operating 25,000 to 30,000 stores. Levi sold more stores than any other line ever has. In some cities there are hundreds of stores selling Levis. There is one store carrying Levis for every 7,400 people in the United States—few food brands reach that level of distribution.

Look at the potential number of stores for Levis. The 1972 Census of Retail Trade reports the following number of stores in operation for a full year:

Department Stores	7,324
Men's and boys stores*	17,880
Family clothing stores*	12,935
Women's clothing and specialty stores*	30,738

*Over $50,000 annual sales

There might be a total of 70,000 and Levi reached 30,000 of them!

Everyone has tried to "knock off" Levi. J.C. Penney runs ads that read "Compare today's best selling jeans with our Plain Pockets. The big difference between us and them is the pocket. And the price. J.C. Penney Plain Pockets. Only $10." The illustration of the rear view is identical—stitch for stitch—**except** for a little bit of red swen into one right rear pocket. Guess whose? Yet, Levi continues to boom.

sewn

At the recent National Mass Retailing Institute (new name) I broached this question when speaking on **"Can you have an ethical and profitable business?"**. Many in the audience thought it was their God-given free-enterprise right to have the government force Levi to sell to everyone so that discounters could pick and choose the styles on which to cut prices. They saw no merit in a free-enterprise system saying "Levi has the right to pick which 30,000 stores they want to sell ."

I asked a number of them a simple question: "If there was a McDonald's in your town doing $900,000 a year do you feel that McDonald's must give you the right to open a competing stand directly across the street?" To a man they said McDonald's should not be forced to do that. Yet, when it comes to Levi, they demand that Levi sell them so that they, as discounters, can put their ads even closer than across the street—on a facing page in the local newspaper—to try to transfer the business from the firms who jointly benefited with Levi in a program that built the world's largest apparel firm.

In fairness, RT must report that a later issue of Discount Store News reflected what they called "a smaller part" of discounting with a headline that read "Dissident Reaction: Some Discounters Boo FTC Complaint vs. Levi Strauss."

RThought: I must admit that I am not completely objective. It was in 1928 or 1929 that I saved 95¢ to buy my first pair of Levis from Weinstein's in San Francisco. I went through school with Pete and Wally Haas—high school and college. Their parents and my parents were friends—and it even goes back to grandparents. In the years after World War II, I worked at Smiths—Largest Mens' and Boys' Store West of Chicago. We used to sell our monthly Levi allotment in one day—people stood in line starting at midnight—and some sold their place for $10 to let someone else have the right to buy a pair of Levis for a couple of bucks with a 19% markup.

But, that does not explain my present view. You cannot compel General Motors to give you a Chevrolet franchise across the street from the one in your town. You cannot compel an oil company to sell you gasoline across the street from their most successful station. Yet, Levi has sold more direct competitors than any firm in apparel history. Their sales have expanded at the rate of 25% per year for 10 years and Levi added fantastic plant footage so that they can make more goods.

J.C. Penney can copy Levi and cut the price—and yet not stop Levi.

And, now I offer a thought. The quick-buck guys who are waiting to get two or three big days from the hottest Levi items by selling them at or close to cost and "breaking open the market" are going to be out of Levis almost as fast as they got into them. Like bullies, they may leave some bloodied merchants around their town—but 5 years from now the discounter will be out of the Levi field and the firms that have helped both themselves and Levi to reach their present position will be doing business with each other.

CREDIT OFFICE RATING

10 stores have again proven that customer statements can be prepared and put into the mail within 4 working days—congratulations! If you would like to add your store, write to RT, P.O. Box 343, Lafayette, CA 94549.

HONOR ROLL

Company	Days	Company	Days
Maison Mendessolle (SF)	2.5	Oshman's (Houston)	3.4
Bullock & Jones (SF)	3.0	Iver's (LA)	3.8
Routzahn's (MD)	3.0	Holman's (Pacific Grove)	3.9
Penn Traffic (Johnstown)	3.2	Joske's (Houston)	4.0
Joseph Magnin (SF)	3.3	May Co. (LA)	4.0

CREDIT OFFICE RATING

Information From Reporters	APRIL-MAY 1976 No. of Reports	APRIL-MAY 1976 Days to Bill Average	APRIL-MAY 1976 Days to Bill Range	FEB-MARCH 1976 No. of Reports	FEB-MARCH 1976 Days to Bill Average	FEB-MARCH 1976 Days to Bill Range
Breuners (Oakland)	1	5.0	5	- -	- -	- -
The Broadway (LA)	2	6.5	6-7	1	8.0	8
Bullock's (LA)	2	5.5	5-6	1	7.0	7
Bullock's (No. Cal.)	9	8.1	6-10	4	6.5	5-8
Bullock & Jones (SF)	1	3.0	3	- -	- -	- -
Capwell's (Oakland)	8	5.9	5-6	8	5.9	4-7
Emporium (SF)	2	7.0	7	4	6.3	5-8
Foley's (Houston)	2	6.5	6-7	1	8.0	8
Grodin's (No. Cal)	3	5.7	5-7	- -	- -	- -
Hastings (SF)	3	4.3	4-5	2	5.0	5
Hink's (Berkeley)	1	14.0	14	- -	- -	- -
Joske's (Houston)	2	4.0	4	1	5.0	5
Liberty House (No. Cal)	1	5.0	5	2	4.5	4-5
Livingston Bros. (SF)	3	5.7	4-7	2	5.5	5-6
Macy's (SF)	3	6.0	6	6	6.5	6-10
I. Magnin (SF)	4	4.8	4-7	3	4.0	3-5
Joseph Magnin (SF)	4	3.3	2-5	1	3.0	3
Maison Mendessolle (SF)	2	2.5	2-3	3	3.0	3
May Co. (LA)	1	4.0	4	2	5.0	5
Mtgmery Ward (Houston)	2	4.5	4-5	- -	- -	- -
Robinson's (LA)	2	5.5	5-6	1	5.0	5
Roos/Atkins (NY)	1	6.0	6	1	6.0	6
Sears (Alhambra)	4	7.0	4-10	3	8.3	4-16
Sears (Dallas)	2	4.5	4-5	- -	- -	- -
Shreve & Co. (SF)	1	6.0	6	- -	- -	- -
A. Sulka (NY)	2	11.0	10-12	1	12.0	12
TOTAL	68	5.9	2-14	47	5.9	3-16

Store

Information From Reporters	APRIL-MAY 1976 No. of Reports	APRIL-MAY 1976 Days to Bill Average	APRIL-MAY 1976 Days to Bill Range	FEB-MARCH 1976 No. of Reports	FEB-MARCH 1976 Days to Bill Average	FEB-MARCH 1976 Days to Bill Range
Brock's (Bakersfield)	18	6.7	5-8	18	6.9	5-9
Hess's (Allentown)	9	4.8	3-6	8	3.6	2-4
Holman's (Pacific Grove)	10	3.9	3-5	10	4.3	3-6
Iver's (Los Angeles)	10	3.8	3-5	10	3.9	3-5
Levee's (Vallejo)	20	6.0	4-8	20	5.6	3-7
Levy Bros. (San Mateo)	32	4.3	3-7	32	5.2	3-8
Mervyn's (No. Cal)	20	4.5	3-5	20	4.1	3-5
Mtgmery Ward (No. Cal)	32	4.4	3-7	16	4.2	3-6
Oshman's (Houston)	13	3.4	2-4	9	3.4	3-4
Penn Traffic (Johnstown)	10	3.2	3-4	10	3.5	3-4
Routzahn's (MD)	3	3.0	2-4	3	3.3	3-4
Wineman's (Hntgtn Park)	8	9.8	7-14	8	7.0	6-8
TOTAL	185	4.8	2-14	164	4.8	2-9

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

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

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

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

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

"In formulating and effectuating the aforesaid combination and conspiracy, the defendants and co-conspirators did those things which they combined and conspired to do, including among other things, the following:

a. Met and engaged in telephone conversations to discuss prospective markups and retail prices for the sale of women's clothing to customers of defendants;
b. Exchanged markup charts used by defendants in establishing the retail price of women's clothing sold to customers of defendants:
c. Established agreed upon markups and retail prices for the sale of women's clothing to customers of defendants; and
d. Adhered to agreed-upon markups and retail prices for the sale of women's clothing to customers of defendants."

RThought: Think back to the times without number when top executives of Federated and Gimbels lectured to the retail industry about how we must raise our standards. Think of the awards that were given to top executives in these companies. And think of all the little guys who listened–who weren't as successful but who were obeying the law.

RT knows that Federated, particularly, didn't have to indulge in this kind of conduct to be successful. If it was not necessary for survival, then it must have been indulged in out of greed. The greed could well have been on the part of people whose compensation and promotion was tied to "bottom line" performance. These people get only a small fraction of that improvement. Yet, it is most unlikely that executives at the corporate group president or vice president level were unaware of this conduct. They are the ones who should go to jail–just like the vice president at General Electric. But, with the plea of no contest and the payment of a paltry $50,000 each, the truly immoral persons are not even named publicly.

UNIT PRODUCT PRICING

A recent check of five major food chains (Safeway, Lucky Stores, Alpha Beta/American Stores, Albertson's and Ralphs/Federated) illustrates some of the problems of unit pricing.

The first problem is that Luckys and Ralphs do not use unit prices–apparently price-per-package is a workable unit for them. But, there are interesting discrepancies between the other chains. The most interesting was the handling of 150 count sandwich bags–Safeway elected to show price comparisons in price per 50 count while the other two used "price per 100 count." Perhaps the next competitive step will be to make prices seem lower by using price per 37 count or 28 count?

I wonder about the informative value of pricing toilet paper in price per square foot (Alpha Beta) or price per square yard (Albertson's) as compared with price per 100 count (Safeway).

RThought: Much of the food industry is opposed to unit pricing–even among those who do put unit prices on their shelf tags. The basic objections are cost and technical–yet the technology is the same technology that will make the uniform product code/optical scanning electronic cash register systems work. It almost seems to be a matter of internal sabotage to pick illogical units of pricing such as cost per 50 count or per square yard of toilet paper. RT is rather certain that the Federal Trade Commission would not consider it in restraint of trade if one of the national organizations (National Association of Food Chains, Supermarket Institute or NARGUS) suggested some logical units of pricing.

THE CHANGING FIELDS OF STUDY IN COLLEGE

The Bureau of Census has just released their update report on "Major Field of Study of College Students: October 1974 (Current Population Report Series P-20, No. 289 issued Feb. 1976, GPO, Washington, D.C. 10402, $1.10). In comparison with 1966 there has been an overall increase in enrollment of 47%–and a dramatic change in major fields of study. The total number enrolled has dropped in several fields–Physical Science (-41%), Math or Statistics (-29%) and Engineering (-23%). And, an equally dramatic increase in other fields: Agriculture and Forestry (+43%), Health/biological sciences (+33%), Social Sciences (+20%) and Business (+19%).

When looked at in terms of distribution, the percentages below show the percentage of students each year enrolled in that field:

Field	1974	1966
Biological Science/medicine	14.9%	11.2%
Business/commerce	18.2	16.4
Education	15.3	10.7
Engineering	5.4	9.9
Math/statistics	2.2	4.4
Physical sciences	1.8	4.2

RThought: The industrial strength of the United States since World War II has been based more upon research and development than on plant investment. Other countries have neglected this field–relying on copying U.S. developments. With the declining enrollment in the sciences and engineering, the United States position can be expected to decline in coming years.

Our free-enterprise system is saying "we don't make enough money off of new ideas/products so let's not develop them." The government is saying "Pure research doesn't have a fast payoff so let's drop it." Colleges are saying "we don't have the funds for basic education, let along to do research." And, so the students are saying–"look at the unemployment in those fields–let's go where the money is." And a decade or so from now we may be saying "How come everyone else is ahead of us?"

NAMES IN THE F.T.C.

Levitz Furniture Company: Has agreed to a consent order resulting from an FTC complaint charging that Levitz misrepresented furniture as made of solid wood when it was constructed wholly or in part of veneer or plastic, advertised "Spanish", "Italian" and "French" furniture when it was made in the United States, claimed false price reductions in their sales, and offered used or repossessed merchandise to customers without disclosing that it was not new. (Note: Robert Elliott, President, avers that for the most part the allegations were based on technical interpretations of FTC advertising guidelines –but Mr. Elliot should understand that lacking higher guidelines within Levitz, these are the only ones we have.)

Pay Less Drug Stores Northwest: The FTC has accepted by unanimous vote the consent order relating to the allege failure to have advertised items readily available for sale at or below the advertised price.

Pay'N Pak Stores, Inc.: consent order issued following complaint alleging failure to have advertised items available for sale at or below the advertised price.

SHORT SHORTS

Could discounts fill quiet periods? The telephone company offers reduced rates at nights and on weekends. Transit companies offer discounts to Senior Citizens and others for off-peak usage. Theaters have lower prices for matinees. Bowling alleys have reduced daytime rates. Airlines have reduced midnight fares. Sambo's restaurants offer a discount to persons over 60 who join the Early Diners Club (dine between 3 p.m. and 7 p.m.). Is there an imaginative retailer who is using this approach to produce extra sales at no extra cost on Tuesday morning? There are various groups of people—senior citizens, housewives, students, shift workers—who can adjust their shopping times in response to an incentive. If Tuesday morning is the slowest day of the week—but you still need a minimum crew to open—why not develop some regular Tuesday Morning Shoppers?

More control over in-store collection procedures? The Chief of California's Bureau of Collection and Investigation Services complains that many of the worst offenders are the credit grantors who are not now regulated. Many of the offenses reported would result in suspension for a regulated collection agency. The phrase above was "not now regulated" which should not be confused with "won't be regulated in the future."

Are you merchandising to the Senior Citizens? This is the most rapidly growing segment of our population and a substantial portion have an adequate income (40% have more than double the income defined as poverty level). But, they need special garments and special service appropriate to their age. Those with arthritis frequently cannot wear conventional garments. Those with poor eyesight need labels with larger letters so the can follow instructions on care of the garment. Many need garments without hooks and eyes, or laces. It is inevitable that designers will start designing for this market—if you can start merchandising to it.

Why? Why do retailers pass on savings to customers when the invoice price of the merchandise is lowered, but now when they increase their operating efficiency and reduce the cost of operation?

Many publications are worried about 23 million "functional illiterates" reported recently by the U.S. Office of Education. They forget to remind readers of something constantly pointed out to RT readers—that 15% of the population has an IQ below 85—and *it is in this area that one finds many, if not most, of the functional illiterates.* Second, when comparing with other countries, keep in mind that the reported figures are for illiterates; all countries have the problem of persons technically literate who, for a variety of reasons, are "functional illiterates" within their society.

Virtue is its own reward. One long-time reader recently sent us a copy of a letter that his firm uses once a year when they refund credit balances on charge accounts, together with the wish that the check be used in one of their stores. Our reader was frank in saying that up until four years ago the company took into income all credit balances that had remained open for more than a year. In the past two years the refund letter has resulted in reactivating approximately 50% of the accounts!

"Though to err is Human, to mess things up consistently requires a computer," thus spake a writer in The (London) Times' series of letters on why the computer-prepared letter saluted The Rev. R.W.D. Dewing as "Dear The Dewing." How would your computer address him? Or, try "The Reverend F.P. Coleman, Rector, St. Andrews-by-the Wardrobe" which came out "The Reverend St. Andrew-by-the-Wardrobe."

Why *not* cooperate with the Postal Service? I am always amazed at the arrogance of many retailers when I receive a letter that is headed "ABC Store, Unknown City, Small Time State." I know that everyone within 20 miles of the store knows exactly where your store is—but my post office has to guess at the first and even second digit of the ZIP Code. Of course, such people are the first to complain about increased postal charges. RT feels that every letterhead, if you wish to be a Good-Citizen Retailer, should have your complete address and ZIP Code as well as telephone number. Feed your ego by pushing to the head of the line in your own employee cafeteria or some other way.

Who's proud in Miami? Jordan Marsh advertises "A unit of Allied Stores." Gold Triangle, a discount operation advertises "A division of Federated Dept. Stores, Inc." although Federated apparently is not so proud of Burdine's.

WHOOPS! Paul Harris Stores and Dollar General Corporation set new records for errors. Paul Harris printed their annual report and forgot to print the accountants certificate! Dollar General forgot to list their directors! I wonder if either ever forget to run the "grand opening" ad for a new store? Or perhaps ordered major appliances instead of apparel?

"Putting your money where your mouth is"—an old expression, but seldom witnessed in practice. Arthur Andersen & Co. through their Foundation, has pledged $1,000,000 (in addition to their $1,200,000 a year present level of support of accounting education) to emerging schools of professional accounting as assistance during their "start-up" years. Sears Foundation has, for many years, supported the Distributive Education programs in communities where Sears has stores. But is anyone else in retailing showing this kind of foresight?

If you think Lowell Thomas is gone—think again. When he says he wants to attend to his business interests, that might include Fairchild Publications, a part of Capital Cities Communications, Inc. of which Thomas is the co-founder and principal stockholder.

Will specialization never cease? The Sunglass, all 523 sq. ft., opened in the Glendale Galleria, to sell just sunglasses!

WORDS TO MANAGE BY

Although Bob Elliott, President and CEO of Levitz, calls the following words "my credo" and included them in both the Levitz Annual Report and the report on the Annual Meeting, they are old words—and true words. I know one CEO's office that has had them on the wall for more than 20 years and they were well known words when he picked them as his credo.

You can well use these words as your own credo . . .

> A successful merchant does not build a business. He builds an organization . . . and the organization builds the business. It is done successfully in no other way.

RT would welcome any help that readers can give on the origin of this expression of a basic truth.

OFFICE PRODUCTS America's leading magazine for marketing office supplies, machines and furnishings
HITCHCOCK PUBLISHING COMPANY / HITCHCOCK BUILDING / WHEATON, ILLINOIS 60187 / PHONE 312-665-1000

August 12, 1976

Mr. Henry Quinto
President
Levy's
3435 E. Broadway
Tucson, Arizona 85716

Dear Mr. Quinto:

In reading the July issue of Retailing Today I came across an article about your S.T.E.M. program. I would like to run an item in our magazine (in the newsletter column, the first four pages in gold in the enclosed copy). Could you please send me more information on the S.T.E.M. program--enough for a three or four paragraph item such as we run in the newsletter?

Sincerely,

Thomas J. Trafals
Editorial Director
OFFICE PRODUCTS Magazine

TJT/jn

bcc: Robert Kahn ✓

Put w/ July Issue in Binder

ARTHUR ANDERSEN & CO.

1717 EAST NINTH STREET
CLEVELAND, OHIO 44114
(216) 781-2140

September 2, 1976

Mr. Robert Kahn, Editor
Retailing Today
P. O. Box 343
Lafayette, California 94549

Dear Bob:

I just today, a little belatedly, saw your July, 1976 issue of Retailing Today. I want to thank you very much for your forthright position taken in support of Arthur Andersen & Co. in our challenge to the SEC in the publication of ASR 177 and ASR 150. One problem we have had over the years is getting people to join us in asserting leadership, particularly when to do so challenges the status quo or government bodies. We very much appreciate this strong support from someone so well respected as yourself and your fine publication, RT.

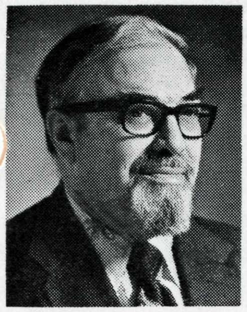
I certainly enjoyed seeing you at the MRI Convention in Miami this past June. Hope we have the chance to cross paths again soon.

Best personal regards.

Sincerely,

Tom Tracy

Thomas A. Tracy



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ROUTE TO

AUGUST 1976

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THE EDITOR SPEAKS

I was honored to be asked to address the National Mass Retailing Institute on the subject **"Can you have an ethical and a profitable business?"** Many of the principal and principled owners and chief executives of discount chains attended. Instead of attempting to summarize a 1 hour presentation in a 6 page newsletter, I recorded the talk. If you wish a cassette recording of the talk please send $8.00 to RETAILING TODAY, P.O. Box 343, Lafayette, CA 94549.

WHO CAN BUY WHOM?

The recent announcement of an agreement between Federated Department Stores and Rich's immediately brought forth speculation about additional acquisitions in the non-food retail field. The most prominent possibility mentioned was Marshall Field by Dayton-Hudson. As is typical, elusive executives in both firms were unavailable for comment.

Women's Wear Daily, citing "Wall Street" as their source, indicated that additional takeover candidates were Best Products, Highbee, J.B. Ivey, Marshall Field, Mervyn's, Service Merchandising, Sakowitz, Strawbridge Clothier, Thalhimer's, Wanamakers, Woodward & Lothrop and Younker Bros.

RT feels that this list is not complete—and that it fails to identify the rules of the game.

RT will attempt to identify the players—both acquirers and acquirees. When a number follows the name, it represents the price/earnings (P/E) ratio as reported in the June issue of STOCK DATA (Published by Robert Kahn & Associates, $7.50/year, Box 343, Lafayette, CA 94549). "d" indicates the firm operated at a loss.

The likely acquirers:
The logical firms are:
- Allied Stores (7)
- Associated Dry Goods (9)
- Carter Hawley Hale (9)
- Dayton-Hudson (10)
- Federated Department Stores (13)
- Gamble-Skogmo (5)
- Interco (9)
- Macy's (7)
- May Department Stores (10)

The Unlikely acquirers, although they have made past acquisitions, are:
- Kresge (19)
- Marcor (9)*
- Penney (15)
- Sears (19)

HOW TO PUMP UP PROFITS

The G.C. Murphy Company has the following footnote in their report for the Second Quarter ending June 30, 1976. It partially explains how they can show a profit on sales of 1.7% for the quarter compared with profits for all 1975 of 1.8%:

> 1. Historically, the Company's sales in each of the first three quarters of the year have been less than sales in the fourth quarter, which includes the Christmas season. In contrast, certain fixed overhead expenses such as rentals and depreciation remain relatively constant throughout the year. **(Note by RT**: does this mean GCM has no percentage leases?) In reporting the results of operations for interim periods, the Company follows the practice of amortizing the estimated total of such expenses in relation to estimated sales for the entire year. Estimated gross profit rates are used to determine cost of goods sold in accordance with the conventional retail method. **(Note by RT**: what is the "conventional retail method" that involves estimates?)

Coopers & Lybrand is their accountant—and is now required to review their procedures. This apparently prompted this disclosure which has not been made in the past. The next thing we know someone will be averaging markdowns throughout the year because markdowns tend to peak in clearance months or deferring payroll costs until December when the payroll cost is normally lower, or perhaps accruing shrinkage at a lower rate in the slow months and a higher rate during the Christmas period. The opportunities for imaginative accounting are still unlimited.

- Woolworth (6)

*policy under Mobil may be different

And, there are a few firms that just **might make acquisitions:**
- Jack Eckerd (15)
- Edison Brothers (8)
- Hart Shaffner & Marx (11)
- Melville Shoes (11)
- Sperry & Hutchinson (8)
- Supermarkets General (6)
- Zales (6)

In looking at the list of acquirers, the firms with the higher P/E ratios have the best chance of winning a bashful store. They can, because of their higher P/E, offer a higher market value in stock on a tax-free exchange than can a company with a lower multiple. This is what gives Federated (13) their strong position—Rich's stockholders stand to double the market value of their stock (Rich's sold at only 7 times earnings at the end of June) and this came about without diluting Federated stockholders.

Here is an example of arithmetic. Assume that two potential acquirers and a prospect store all show $1 per share earnings. The acquiree is selling at 5 times earnings and the acquirers are Federated and Allied selling at 13 and 7, respectively. If both offer a share for share exchange, accepting Allied would boost the market value of the acquiree's stock by 40% while accepting Federated would boost market value by 160%!

Non-prospects for acquisition:
The list below of retail firms that, because of their high P/E ratio, appear to be safe from potential takeover:

Best Products (12)
Limited Stores (22)
Longs Drug (23)
Mervyn's (15)
Petrie Stores (17)
Revco Drug (16)
Rite Aid (14)
Standard Brand Paints (20)
Wal-Mart (15)

Before you comment on the type of firms listed as protected, keep in mind that Penney and Federated acquired food chains, Melville and Penney acquired drug chains, CHH acquired a mail order house and a book chain, Dayton-Hudson acquired a Hi-Fi chain, a catalog showroom (since sold) and jewelry stores, Marcor acquired both a department store group and a discount chain, Woolworth has acquired men's clothing and shoe chains, and Penney's acquired a major mail order outlet.

Publicly traded prospects—conventional
This group of potential acquirees include department stores and apparel chains:

Alberts (5)
Carson Pirie Scott (5)
Crowley Milner (5)
Dillard (6)
Elder-Beerman (5)

Evan's Inc. (4)
Garfinckel (7)*
Goldblatt (6)
Good (L.S.) (16)**
Gorin (4)

Hess (4)
Higbee (5)
D.H. Holmes (8)
Hughes Hatcher (7)
J.B. Ivey (9)

Jacobson (8)
Lane Bryant (6)
Loehmann's (7)
Marshall Field (9)
Miller-Wohl (9)

Nordstrom (10)
Outlet (5)
Sage-Allen (5)
Strawbridge Clothier (5)
Thalhimer (6)

Walker-Scott (22)**
Wanamaker (NA)
Wieboldt (7)
Winkelman (5)
Woodward & Lothrop (6)

Younkers (7)

*Some might consider an acquirer but their size also puts them in acquiree status.
**Don't be confused by the high P/E—it is the result of very tiny earnings.

If you want to play matchmaker, be sure to match prospects with acquirer firms having a higher P/E ratio—this puts the odds in your favor. And be sure you don't plan any matches where the Federal Trade Commission is likely to call "foul" such as they would if May Company, which already owns Hecht's in Washington, tried to acquire Woodward & Lothrop.

Private prospects—conventional:
In addition to the above stores, there are a number of privately owned desirable department or apparel stores or chains that obviously have to be included. In this I would list:

Adam, Meldrum & Anderson
B. Altman
Anita Shops
C.R. Anthony*
Belk Bros.

P.A. Bergner
J.L. Brandeis
McCurdy's
Pizitz
Popular Dry Goods

Sakowitz
ZCMI

*Limited public market—files with SEC

Congolomerate retailing
If you feel that the future in retailing lies with the conglomerate, then there is another list of companies that you might consider. Don't forget what the shoe companies (Melville, Interco, Genesco, U.S., Edison Bros. and SCOA) have done. They have acquired apparel, home improvement, drug, discount, sporting goods and department store chains:

Catalog Showroom Chains
Modern Merchandising (4)
Sam Solomon (2)
Service Merchandising (9)

Fabric Stores
FabriCenters of America (6)
House of Fabrics (9)
Minnesota Fabrics (5)

Shoe Chains
Volume (5)
Wiener Corp. (7)

Furniture Chains
John Breuner (5)
Levitz (63)*

Building Material Chains
Hechingers (8)
Payless Cashways (12)
Scotty's (14)

Drug Store Chains
Gray (5)
Pay Less Drug (6)
Pay Less Drug Stores NW (8)
Pay'n Save (10)**
Sav-On-Drug (9)

Discount Store Chains
Alexanders (5)
Caldor (8)
Heck's (9)
Kings (7)
Kuhn Stores (6)
Pamida (7)

Miscellaneous
Child's World (9)

THE FUTURE OF RETAILING

Sam Kline, recently retired from Kline-Kinsler, the top buying office in Los Angeles, and now a columnist for the **California Apparel News,** once again is responsible for concentrating my thoughts on the future of retailing. He did a column on this subject recently and asked for my reaction.

Let me try to deal with the future in several segments. In some cases my projections are the simple kind–the future will be very much like the present only a little different. On the other hand, there appears to be some changes in direction that may not have been observed.

People

The split between creative entrepreneurs and professional management is widening. I am not sure that the two groups are compatible. Professional management tends to standardize companies and thus create a situation where other professional managers can enter comfortably, although not always productively, moving from one store to another or from one store group to another. Very few professional managers are truly creative–more of them appear to be "movers-arounders." By that I mean, they tend to make their store like some other store or they talk in bold terms of attracting a new clientele group while retaining the old one. A number of major stores have undergone such changes of clientele, following each top management change, perhaps 3 or 4 times during the past decade. One wonders about the loyalty of the customers who find departments, locations, merchandise and advertising constantly changing.

The entrepreneurs, on the other hand, continue to develop new concepts, new ideas, new convictions based on the feeling that something is missing from the retail scene. Such ideas grow dramatically large–such as the pant shops. Others appear on the fringes of retailing–such as the Franklin Mint and other purveyors of "collectibles," or the growth of small catalog (not necessarily the same as small volume) mail order houses. I regularly get catalogs specializing in (1) knocked-down, finished and unfinished pine furniture, (2) hard to find tools, (3) assortments of cards, readers boards and posters, (4) scientific kits and materials, (5) foreign car parts, (6) accountants supplies, and (7) macramé and other sewing materials. I have clients developing special businesses for airline personnel, closeouts of apparel items, intensive mail order of new electronic items and other specialized retail fields.

The young will always see new opportunities to serve a segment of our economy that the established businesses don't see. The individualist has the ability to think small–and use a rifle; while the professional manager usually opts for the mass markets–and uses a shotgun. The professional needs to look at what many others are doing so that he can decide what he wants to do; he seldom can develop his program completely independently.

Corporate structure

The entrepreneurs will continue their two-road progress: a few will take the high road to success but many will take the low road to failure. The successful ones will grow dramatically. In a high percentage of cases they will outgrow their own management ability. A number will be able to extend their days of successful independence by bringing aboard some of the professional manager types that are common in the established stores–solely for the purpose of gaining the special skill that professional managers have. There is no desire on the part of any of these entrepreneurs to re-invent the wheel.

Only a handful of the entrepreneurial ventures will grow to maturity under the originating management. These will become the Petries and the Longs–pure growth without acquisitions and with continued excellence in their field.

More often they will be acquired by larger retail (or even non-retail) firms. Here the list is very long–Jeans West, Size 5-7-9 Shops, The Handyman and United Sporting Goods went to Edison Bros.; Rickel and Value House to Supermarkets General; Waldenbooks and Sunset House to Carter Hawley Hale; Builders Emporium indirectly to Vornado; Toys-R-Us to Interstate; Foxmoor, Consumer Value Stores and Marshall's to Melville Shoe; Aaron Brothers to Chromalloy American; the list could go on and on.

Unfortunately, entrepreneurs don't work well as subordinates to professional management. The typical result (more than half the cases) is that the "spark" dies that made the entity unique, professional management reduces the operations to its lowest common denominator, and profits often are followed by losses. The losses are often followed by liquidation and/or disposition. For examples just recall White Front and Interstate; Super S Drug and Safeway; the Daytex fabric stores and Super Valu; Happy Stores and Kroger, and many more.

Many of the displaced entrepeneurs will try again; only a few will have a second success.

Conventional stores

The national chains (Sears, Penney and Wards, but not Kresge) will move further into services. They will use national advertising to move into areas that will elude the store groups (Allied, Associated, Federated, May, etc.). But at some time in the 1980's, as a promotion tool or as a result of consumer legislation, the latter group will begin to develop a national identity.

Department stores, on the other hand, will continue to prune their merchandise selection. Filene's, properly classified as a departmentalized specialty store, appears to be the model of the future department store. There are three reasons for this trend. First, soft-goods professional managers dominate the top management of conventional department stores. Second, the rising cost of space (partially the result of a race for opulence) will force the elimination of departments producing low gross margin or department contribution dollars per square foot.

The continued emphasis on higher and higher markups to cover higher and higher costs (practiced by some department and apparel specialty stores) together with the same tendency in many discount groups (they also are "trading up") will create the opportunity for a new batch of low markup stores to develop. Even the empty factories (low cost locations with adequate parking), the origin of supermarkets during the depressions and discount stores in the post World War II period, will soon be available if the government policy continues to be one of sacrificing employment on the alter of the anti-inflation Gods.

Conventional miscellaneous or specialty stores will continue their fluid movement. Appliance and TV stores are disappearing while record and tape stores continue to appear. Imported gift operations continue to multiply. Wallpaper is being taken out of the insignificant category, and being sold as a specialty item. Hobby-oriented outlets will continue to develop—backpack equipment, hang gliding, outlets for special-body autos, recreational vehicle accessories—and on and on.

In many of the hobby fields the first retail development will be through mail order—such as now service the people who rebuild Model T or Model A Fords. The mail order outlets—catering to a thin but national market—will precede the development of store outlets in the major metropolitan areas. But much of the volume will remain in mail order.

How to order and pay

We are just beginning to see the widespread use of IN-WATS (Incoming Wide Area Telephone Service) combined with ready credit (BankAmericard or Master Charge) shipping through a reliable package delivery service (United Parcel) and sold with a Satisfaction Guaranteed or Your Money Back. Look some time at the price ads in the photography magazines—offering just the combination of services set forth above. More of the small catalog mail order houses are pushing incoming telephone orders (over $10).

Buying at home through your TV set is still in the Science Fiction area and will still be Sci-Fi 10 years from now.

New specialty magazines will reach the new special markets.

What won't happen?

Cooperatives are more than a decade away. Not until our society is stratified, as in the European countries, will Americans concentrate as hard on spending their money wisely as they do now in earning more money. Cooperatives represent a means of working together to make a dollar go further—but it takes a sizeable number of people to keep one going.

Hypermarchés are not for the United States. They need the semi-monopolistic position that is provided in Europe by planning restrictions on opening large size stores.

There won't be any answer to the question of who should carry the inventory—stores or manufacturers. In the long run, the stores will be forced to carry the inventory that in the past was carried by manufacturers. This may result in the revival of the wholesaler in a number of classifications.

The pressure on stocking inventory at the retail level will bring benefits to two groups of stores. First, are those stores that devise effective computer inventory control systems (but most computer merchandise systems in place today are not good ones). Second, are those smaller stores where top management still has a feel of what customers want (something that seldom gets through to buyers who spent their days in their office, in buying offices or reading computer print-outs. Print-outs seldom can give you information on the items you should have bought—they only provide information on what you did buy).

Supermarkets will abate the trend toward larger stores—on the average. Larger (50-60,000 sq. ft. stores) are placed farther apart—creating gaps that will be filled up stepped-up convenience stores of perhaps 4-7,000 sq. ft. instead of the present, almost uniform 2,400 sq. ft. When this happens, convenience food stores may even start carrying food!

Who will make the money?

In the next decade I think store management is going to have to be both ethical and hungry to make money. In the past decade the key factor was primarily being hungry—although many successful stores did combine their ambition with a well developed conscience. But the "glass house" days are coming for all businesses—and perhaps soonest to retailing which deals directly with the people who will be forcing the change.

Established firms will have a great advantage over new firms as the entry price to get into retailing rises. As a result of the media consolidating into regional media, fewer and fewer firms will be able to start cold. They won't be able to enter the business. It won't get to the cost of the automobile manufacturing or steel fabrication industries, but it is going to be far beyond many of the entrepreneurs. Department stores, home-improvement stores, men's clothing, shoes and other fields with slow-turning inventory will be particularly protected from the newcomers.

SHORT SHORTS

Borman's, Inc. is running scared. At their 1976 Annual Meeting they adopted a resolution that would require a vote of 75% of the outstanding voting stock to approve a merger, a disposition of the company assets, the issuance of new stock or to modify or repeal the by-laws. It is interesting that this change was adopted at a meeting where only 73% of the shares outstanding were represented.

The new warranty? It was printed as a fancy certificate about the size of a dollar bill, with a "K" in each corner, and read "WARRANTY—The Kash Klip is carefully handmade of top quality materials throughout. If you can find a flaw in it, return it to me and I'll gladly replace it with a brand-new Kash Klip. The Ross Perma-magnets are magnetized in our own plant and are warranted to retain their strength for the life of the clip. (signed with an illegible signature), The Kash Klip Company." Sounds great? But no address—not even a state, let alone a city or street.

RETAILERS AND THE LAW

Levitz Furniture: The FTC accepted the consent order prohibiting Levitz from making false and misleading representations concerning price savings, comparable value, prior use of its merchandise, warranties and furniture composition, and from failing to make full refunds to customers whose defective or damaged furniture cannot be promptly repaired. **Note: a key item required Levitz to cease advertising reduced prices on items which have been advertised at substantially the same price within the preceding 30 days, unless Levitz discloses that the item is being offered as a repeat sale price.** If this becomes an FTC rule, it will have a tremendous impact on tire, appliance, TV, building materials and other categories—for such big chains as Sears, Penney, Wards and others.

Alden's (Gamble-Skogmo): Maryland Attorney General alleged Aldens contacted employers of alleged debtors before obtaining final judgment and illegally disclosed information affecting those debtors' reputations to persons who had no legitimate need for the information. Alden signed order agreeing to discontinue such practices and to pay $300 investigation costs.

Fox Stanley (10) (Photo)
Frank's Nursery (7)
Frederick of Hollywood (5)
Gordon Jewelry (6)

Grand Auto (7)
Lafayette Radio (7)
Motherhood Maternity (d)
Oshman's (13) (Sporting goods)
New Process (11) (Mail order)

Pier I Imports (d)
Seligman & Latz (6) (Beauty salon and jewelry depts.)
Tiffany (8)

*High P/E due to very low earnings
**Might be considered an acquirer

RThought: the game of acquisition is not over. It is still a basic method of growth. (see the FEATURE REPORT on the future of retailing and the importance of acquisition).

In addition to the stores listed, there are dozens of stores and chains in the under $50 million range who hold desirable positions in a market and who would fit into many expansion plans. Typical of these stores are Miller & Paine, Salk & Linhoff, Gottschalks (California), Boston Stores (Calif.), Buffums (David Jones of Australia could change their mind), and Neustetters.

THE FORGOTTEN POWER OF INSTITUTIONAL ADVERTISING

Budd Gore, in his **Retail Marketing Newsletter,** (Box 2456, Gainesville, GA 30501, $48 yr.) recently reminded his readers that good institutional advertising, eliminated by most retailers "to save money," can be a powerful marketing tool. Rich's, Atlanta's leading store, runs a full page ad on the cover of the second section every Monday morning in the Atlanta CONSTITUTION. This is where Rich's can talk to the people throughout its market area–stressing and re-stressing its policy on satisfaction guaranteed, its support of local activities, its commitment to good citizenship in the community they serve.

They have been doing this for only 50 years! But, it has been a hard fight to protect the space from merchants who are paid a bonus based on performance improvement from year-to-year. Many have remarkably little interest in the market position of their employer from decade-to-decade.

RThought: There is much merit to Gore's explanation of why much institutional advertising had disappeared "Too much of it was lousy ... pure waste of space, time and money." Perhaps this reflects the fact that top management, which seems to jump from company to company every year or so, has forgotten that stores must be nurtured from decade-to-decade.

SHOULD CREDIT CLEARING HOUSE BE PERMITTED TO EXIST?

Credit Clearing House (CCH), a division of Dun & Bradstreet (D&B), represents a distinct threat to a substantial number of retail businesses doing all or a large portion of their business in the apparel field.

A recent experience involving a long-time client has raised serious doubts in my mind as to the quality of credit advice offered by CCH. Unfortunately, if a firm provides information to D&B (which usually involves an interview or meeting with a D&B analyst) there appears to be no way to stop CCH from using that information. Five weeks ago I asked CCH to let me know how my client should submit data to D&B with instructions that will forbid the use of that data by CCH. As of this writing, CCH has not replied.

The business involved is a chain of women's stores started some 32 years ago and under the present management for the past 22 years.

D&B gave the firm what I considered a fair rating–3A3, generally prompt and discount, history clear, condition fair and trend up. Out of the blue a vendor advised my client that CCH had reported "not recommended for credit!"

Inquiry indicated that CCH had reached that conclusion based on the same information that D&B had used in preparing their analysis. A check of my literature on D&B showed that D&B publicly stated the following in regard to CCH:

> **The Recommendation Service . . .**
> is one of the most important features of Credit Clearing House. For each inquiry, there is a specific recommendation taking into account the actual dollar amount of the particular order.
>
> For example, if an order is for $5,000, the recommendation indicates if it is advisable to ship all or part of the order, or whether "credit is not recommended for this transaction." **Each recommendation is based on information drawn from the Dun & Bradstreet Reports, the Master Buying Record, and from personal contact between CCH consultants and suppliers, banks, credit men across the country, and through direct contact with the retailers themselves.** (emphasis added)

In a telephone conversation with the President of the CCH Division he admitted that when changing the rating on my client they had (1) used the D&B Report, and (2) checked the Master Buying Record which showed discount and prompt. But they had not (3) contacted suppliers, (4) contacted the store's bank, (5) contacted credit men across the country or (6) made direct contact with the retailer!

Despite this almost total failure to follow what they advertise as their procedure on "each recommendation"–thus, making suspect all advertising by D&B as to any of their procedures–CCH took precipitous action.

To further illustrate the confusion in the CCH Division, the analyst handling the account offered to act as a reference for my client. If any vendor would call him in New York City, the analyst would be happy to express a "personal opinion" that the vendor would be paid! The President of the CCH Division confirmed that they permitted their analysts to have such "personal opinions" and to make them available to suppliers! This availability of "personal opinion" is not disclosed in the brochures I have in my file.

One of the key points raised by CCH was that my client was undertaking expansion (adding a store) on a short-term credit line. The audit report indicated that the company had a credit line, unused at the prior year-end, of $350,000 which was reviewed annually. My client had advised CCH that the bank had increased this line to $600,000 for the purpose of opening a major branch, undertaking some remodeling, and leaving the normal $350,000 short-term line available. The bank has had a relationship with my client for many years. At the end of the year there was to be a review and a portion of the $600,000 would be placed on a long-term basis.

The bank officer, when finally contacted by CCH, felt completely frustrated because no matter how he explained the above facts, the CCH "expert" kept saying "But then they are undertaking an expansion with only a short-term line of credit?"

In another area of analysis I explored the ability of the top people in CCH to analyze financial statements. As one might suspect from the line of credit, the relationship between my client and his bank is an excellent one. Over the years the bank has made money available for expansion (fixtures and leasehold improvements) at rates materially below the cost of leasing. As a result, the fixed assets and long-term debt are both larger than if the company had used non-capitalized financing leases (which are disclosed only in a footnote). When I asked the analyst if their opinion would have been any different if the fixtures had been leased and both fixed assets and long-term debt materially reduced in relation to net worth, he indicated that it would have.

Roy Foulke–where are you when Dun and Bradstreet needs you? Foulke, a Vice President of D&B (now retired–perhaps dead), wrote a book–"Practical Financial Statement Analysis." It came out in 1945 with revisions in 1950, 1953 and 1957. As far as I know that was the end–and no one at D&B has gone beyond the 14 ratios that Foulke used (13 in the case of retailing) despite the development of off-balance sheet financing, subordinated debt instruments, recourse and non-recourse assignment of receivables, shopping center leases providing only a shell plus allowance provisions, large liabilities for past service pension costs and many more changes.

After all of these discussions and after providing additional favorable financial data, CCH did check and confirm current prompt payment. They then reaffirmed their recommendation "NOT RECOMMENDED FOR CREDIT!"

RThought: I talked to the people at CCH starting with the President of the Division. The talks were lengthy. I came to a simple conclusion. I do not believe that I can ever again feel comfortable knowing that people with this limited ability to analyze companies can make decisions that will stop merchandise shipments to my clients. RT will keep you posted on how you can avoid being caught in this morass–known as Credit Clearing House.

DRUGS AND THE SHOPLIFTER

The following letter appeared in the **British Medical Journal** (17 Jan. 76). It might be well, in this land of the Chemical Feast, that your protection department be made aware of the observations by Dr. Todd. It might avoid a false arrest or other suit following acquittal of shoplifting for lack of intent.

> Sir, I am disconcerted by the fact that no fewer than 5 alleged supermarket shoplifters about whom I have been asked to provide a psychiatric report have been under the influence of drugs at the time of the incident in the store. The drugs had in all cases been legitimately taken for a therapeutic purpose. At first sight the persons concerned had deliberately and dishonestly tried to cheat the owners of the store by putting certain goods in their own shopping bag and offering payment only for other goods that they had placed in the special receptacle provided by the supermarket. The shoppers had seemingly made no attempt to conceal their actions, and the articles removed from the suspected person's bag had often included items seldom, if ever, used by him or her. This suggests that the state of mind of these people while shopping in the store had varied from marked absentmindedness to mild confusion. These five constitute a relatively high proportion of my small series of shoplifters. They had previsouly had an unblemished record of honesty. It is noteworthy that one of them had earlier shown herself to be over-sensitive to calmative drugs, for she had on one occasion become completely confused as a result of taking a normal dose of drugs prescribed by her doctor; while another had, years earlier and when under drug treatment for depression, passed through a phase of leaving behind in shops goods for which she had paid.
>
> It seems not unlikely that these persons had no criminal intent but were the victims of two factors which, acting in concert, impaired their concentration sufficiently to have rendered them liable to make serious mistakes when shopping in supermarkets. The first of these factors is that they were suffering from an anxiety-depressive state, a condition prone to render the subject abnormally preoccupied. The second is that the drugs prescribed to assuage the patient's symptoms further augmented their blunted concentration.
>
> It would appear that persons taking calmative and antidepressive drugs should be warned about the apparent danger of shopping in a supermarket while under the influence of drugs (alcohol could doubtless have a similar affect).
>
> J. Todd
>
> High Royds Hospital
> Menston, West Yorkshire

SHORT SHORTS

Candidate for poorest run retail chain in America? It must be Color Tile, a Tandycraft Company . . . The headline reads "NOTICE TO THE PUBLIC. Excess Stock Must Be Sold! Several new stores won't open on schedule! We're forced to clear out more than $150,000 in excess stock from our warehouses NOW! Help us–Help yourself to fantastic savings TODAY!" In May 1976 RT reported they had run the same ad for the 3rd time in 2 years–and this is the second use of the explanation that stores did not open on schedule. Advertising like this does little to enhance the credibility of Tandy, Tandycraft or retailing in general.

Creative merchandising. Beneficial Corporation breaks down their operations into Finance (Loans and Insurance) and Merchandising (Western Auto and Spiegel). The first quarter of 1976 showed a profit jump of 140.4%! Here is what they said: "Western Auto's first quarter 1976 Net Income of $10.7 million, on sales of $204 million, reflect a 210% increase from 1975's Net Income of $3.4 million. This was the best quarterly sales and earnings performance in Western Auto's history." There I stopped. How can any mass retailer have their best quarter in history in the first quarter? I re-read it. I looked for gimmicks. Then I read on, "The increases were principally attributable to strong consumer demand, particularly for citizens band radios sold by Midland, a Western Auto subsidiary . . . Midland reported first quarter 1976 Net Income of $6.3 million compared with $200,000 in 1975. The first quarter 1976 amount is greater than its Net Income for all of 1975!"

WORDS TO MANAGE BY.

Dwight D. Eisenhower held two of the top management positions available during his lifetime–Commander in Chief of the Allied Forces in Europe and President of the United States. His thoughts on leadership should be helpful to all of us.

> "In order to be a leader a man must have followers. And to have followers, a man must have their confidence. Hence the supreme quality for a leader is unquestionably integrity. Without it, no real success is possible, no matter whether it is on a section gang, a football field, in an army, or in an office. If a man's associates find him guilty of phoniness, if they find that he lacks forthright integrity, he will fail. His teachings and actions must square with each other. The first great need, therefore, is integrity and high purpose."

Appears to be stimulation by August 76 Rr.
① use of P/E ② Stores checked were in Rr as targets

ACQUISITIONS

Will Rich's sale uncork new buy-outs?

☐ Now that Federated Dept. Stores has announced its intent to purchase Atlanta-based Rich's, the Federal Trade Commission's "enforced" moratorium on expansion-by-acquisition appears ended.

Rumors abound that either Carter Hawley Hale (Los Angeles) or Dayton-Hudson (Minneapolis) is on the verge of tying up with Chicago's venerable retail prince, Marshall Field.

But most retail observers discount the rumored C-H-H bid, citing the belief that the FTC would "never approve" Neiman Marcus and Fields operating in the same market controlled by the same parent—no matter how autonomously. This would be viewed as clear-cut restraint of trade. That's always been a no-no in the eyes of the FTC.

The question, of course, is not who's going to buy Marshall Field or whether the FTC would approve (if indeed the department store chain is up for sale). The real mind-boggler is whether other aggressive and cash-rich department store merchants, May Dept. Stores, Carter Hawley Hale and Dayton-Hudson among them, are content to let Federated stand muster alone in face of impending FTC scrutiny . . . and maybe by watching from the sidelines . . . risk losing a chance to skim some of the "cream" regionals as a result. Or will they make a quick dip-in-the-bucket of their own and force the FTC to make a landmark "class" decision that would irretrievably alter America's regional retail landscape.

Our guess: The big guys, with an eye for national expansion, won't stand idle and watch. They'll act . . . and likely force the issue into the open within the next six months.

On this premise an acquisition candidate check-off is in order. Since both Carter Hawley Hale and Dayton-Hudson have recently announced plans to go nationwide in the years ahead, logic dictates that the prime prospects be viewed in terms of compatability with either of these prospective foster parents.

Sunbelt Attraction: Neither Dayton-Hudson nor Carter Hawley Hale has big-store distribution in either the mid-Atlantic or Southeastern states. With the "Sunbelt," including the Southeast, growing faster than the rest of the country at large, the hottest prospects here have to be viewed first.

Thus Dayton-Hudson's priority list must include the following "cream puffs."

- **Woodward & Lothrop,** Washington, D.C. (11 stores-'75 sales $218 mil., recent stock price/earnings ratio—6) ✓
- **Thalhimer's,** Richmond, Va. (24 stores-'75 sales $103 mil., P/E 6) ✓
- **Hutzler's,** Baltimore, Md. (5 stores-'75 est. sales $84 mil.) NO
- **Strawbridge & Clothier,** Philadelphia (16 stores-'75 sales $240 mil., P/E 5) ✓

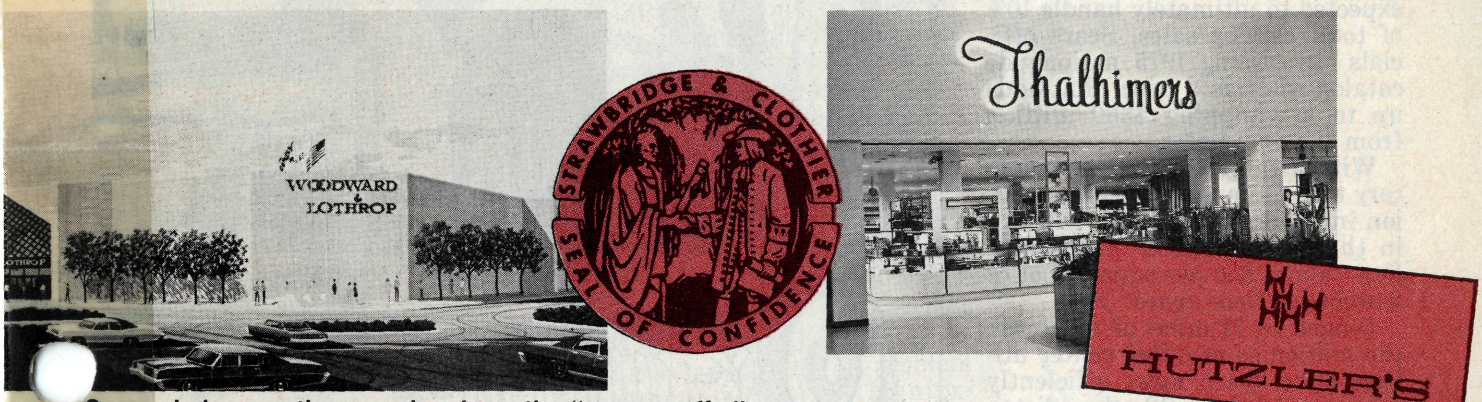
Each of these four department store chains is a natural for Dayton's and fits an easy-to-follow format: (1) Each store group has an established local market position—a must in chairman Kenneth Dayton's eyes. (2) Each group has a strong merchandising tie-in with the Minneapolis department store chain that includes monthly exchange of sales and merchandising trend shifts, and shared membership in AMC—Associated Merchandising Corporation—a collaborative buying group in N.Y. (3) There is no direct market competition which would result in restraint of trade charges by the FTC.

But there's a rub: Federated Dept. Stores also belongs to AMC and, like Dayton-Hudson, presently lacks big-store representation in each of these four major markets. So a real struggle for local command could develop rapidly and may even be already underway in fact.

No doubt Dayton-Hudson's merger experts, aware of this, are microscopically combing the list of prospects with similar credentials elsewhere as a hedge against being shut out in these four markets.

Companies with "under-valued" P/E ratios like Carson Pirie Scott ✓ (Chicago-27 stores-'75 sales $342 mil., P/E 5), Higbee (Cleveland-8 ✓ stores-'75 sales $160 mil., P/E 5) and privately controlled companies like J. L. Brandeis ✓ (Omaha-13 stores-'75 sales est. $100 mil.), H. C. Prange (Wisconsin-21 stores-'75 sales est. $122 NO mil.) and Buffums (Los Angeles-7 ✓ stores-'75 sales est. $51 mil.) have to rank foremost on Dayton's "take-a-hard-look-at" list.

C-H-H looks East: Carter Hawley Hale, by lack of direct association, may be out of the bidding for any of the aforementioned chains. But the West-coast merchant would seem to have at least equal footing in negotiating for such old-line and firmly entrenched regional masters as John Wanamaker (Philadelphia-12 ✓ No P/E mssn stores-'75 sales est. $215 mil.) and Hess's (Allentown, Pa.-6 stores-'75 sales $94 mil., P/E 4). ✓ Both of these regionals have a strongly unified fashion and promotional image compatable with C-H-H ob-



Some chains see these regionals as the "cream-puffs."

□ Whether any or all of the major department store chains are looking to fill their larder with only a "select" one or two companies in new markets or pack in a fistfull of regionals all-at-one-time is pure speculation. There are, however, a number of other prospects that could be ripe for plucking.

Could these regionals be up for grabs?

Chain	Market	Stores	1975 sales
Dillard's	Arkansas, La.	31	$199 mil.
Nordstrom's	Seattle	11	120 mil. (est.)
Younkers	Des Moines	25	119 mil.
D. H. Holmes	New Orleans	9	110 mil.
Elder Beerman	Dayton	14	106 mil.
J. B. Ivey	N.C., Fla.	22	90 mil.
Pizitz	Birmingham	8	40 mil. (est.)

Perhaps the choicest of all could be Nordstrom's, the fine fashion department store chain in Seattle. The 11-unit group with '75 sales estimated at $120 mil., would be a natural complement to Dayton-Hudson's Lipman's division operating in neighboring Oregon. Acquisition of Nordstrom's would also fit neatly into Carter Hawley Hale chairman Ed Carter's announced scheme to expand into the northwest.

Possibly, Nordstrom's could be willing. One or more of the regional department store's owners may be thinking sell-out in view of their major investment in the infant Seattle Sea-hawk National Football League franchise. □

jectives.

Yet Carter Hawley Hale would seem to be out of the running in netting more conservative B. Altman, the classy New York City independent (6 stores-'75 sales est. $200 mil.). Wags insist C-H-H could never get FTC to approve acquisition since Manhattan's Bergdorf-Goodman is also in the C-H-H family.

Federated, because of Bloomingdales and Abraham & Straus, can not be considered a prospective B. Altman parent either.

But interestingly, Dayton-Hudson or May Dept. Stores would likely receive FTC blessing on an Altman acquisition since neither giant has any sort of foothold in the "big apple."

Some will hold back: Of the major department store chains, however, May Dept. Stores could be the least aggressive in testing the FTC at this time. It was the St. Louis-based chain's acquisition of Meier & Frank (Portland, Ore.) and G. Fox & Co. (Hartford) in 1966 that triggered the decade-long moratorium in the first place.

Associated Dry Goods seemingly has other fish to fry before tossing out new lines. Under the tutelage of newly appointed chairman Dick Pivirotto and president Bill Arnold, the New York-based fashion department store company is concentrating on straightening out internal productivity problems and may not have the cash or corporate manpower to take on new acquisitions at this time.

Allied Department Stores appears bent on putting capital to work for market intensification rather than broad-scale expansion through acquisition. Allied is already operating in eight "Sunbelt" markets and five mid-Atlantic markets. Once the New York-based chain clears up its problem experiment with J. B. Hunter-Almart (the discount store arm), president Tom Macioce could be looking for new horizons to conquer. But this may be a year or two away.

All in all, it adds up to an upcoming era in retail history that can only be compared with the impact of the U.S. Supreme Court decision in the late 1920's that branded chain store operations legitimate and propelled the U.S. into the present day style of big volume retailing. □

anita shops
2151 north soto street
los angeles, california 90032

August 25, 1976

Mr. Robert Kahn
c/o Robert Kahn & Associates
P.O. Box 343
Lafayette, Ca. 94549

Dear Mr. Kahn:

Just finished reading your August 1976 publication, Volume 11, #8. I don't know whether to be flattered at having my name included in such distinguished company, or whether to be annoyed at the publicity.

However, my real reason for writing is to obtain your permission to reproduce the portion relating to Credit Clearing Houses for the purpose of sending it directly to a couple of Geniuses in Dun and Bradstreet, so they will know I'm not the only one who thinks they are a bunch of incompetents.

Thanking you for your cooperation, I remain

Very truly yours,

ANITA SHOPS, INC.

Charles P. Colby
President

CPC:mo

August 28, 1976

You should be complimented by the mention of your firm----you have an outstanding firm, and I am sure that many others recognize it.

Please feel free to use the material on Credit Clearing House with appropriate credit but please recognize that my criticism of not of the regular D&B staff but of the inane conduct of CCH.

I am sure that with your growth in a private company you have encountered the same problems as my client.

Sincerely,

Bob Kahn

Photocopy retained

ARNOLD E. KINSLER

Kline Kinsler KK resident buyers

108 WEST NINTH STREET
LOS ANGELES, CALIF. 90015
PHONE 213-626-4181

September 17, 1976

Mr. Robert Kahn
P O Box 343
Lafayette, Calif 94549

Dear Bob:

I am commenting on your September publication, with regards to the Future of Retailing...which as your article implies was touched off by Sam Kline's recent column on the same subject.

To begin with, I have considerable confidence in your handling of this subject because of the authenticity you imply on every level. Still, must come back to my own contentions that none of us really has a crystal ball..and what was true once can be true again, just as what was false once will be false again. I am circulating the article around our office to our divisionals for their comments and we will have a meeting on the subject one of these days at which time notes will be kept and a records of our reactions sent along to you.

As you know, Bob..retailing has been my life..there is truly nothing more exciting or stimulating to my knowledge in this world for me. I have often said it and will repeat it now..."I have never had two days alike since I entered this business." Frankly, we cannot think of any other industry that can make a similar statement. And, in projecting our thoughts towards the future of retailing we are more than satisfied with the fact that everything that happens seems to happen again on an up-dated level. And, as long as there are consumers that need merchandise for whatever purposes they might suit, there will be retail stores to ppovide them with their requirements.

The major subject of your September issue dealing with acquisitions is an absolute classic. You have covered the spectrum in the most concise and professional manner we can possibly imagine and frankly you have hit the mail right on the head in all of your conclusions.

Since this letter now sounds like nothing more than a "fan" letter, I guess I ought to close..but do want you to know how much we enjoyed with what you had to say.

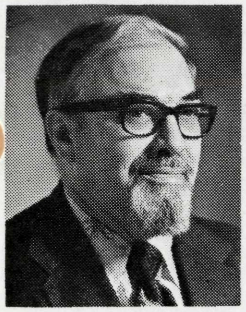
Warmest personal regards.

Sincerely,

Arnold

Arnold E.Kinsler
Kline-Kinsler

AEK:FDF



RETAILING TODAY

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ROUTE TO

SEPTEMBER 1976 VOL. 11, NO. 9

THE STATUS OF HYPERMARCHÉ

It was only a couple of years ago that all the prognosticators (except RT) were proclaiming the hypermarché as the "store of the future." (RT Feb 74 "The Hypermarché in the U.S.A.") RT stated then, "The first such outlet in any area is likely to be successful, given competent management. This will be particularly true if the press continues to print articles fantasizing the potential savings offered by hypermarchés. But the same publicity will bring competition . . ."

2½ years later there are no speakers at conventions telling retail trade associations that the future belongs to the hypermarché. There are no organized trips to Europe to see them. Jewel Company closed down their study group. Only Hypermarché Laval remains on the North American Continent like the early evidence of the Norse explorers—alone and unmultipled.

Now comes the Oshawa Group Limited's annual report for their year ending January 24, 1976 with the following very frank statement:

> "A combination of improved gross profit and stringent cost controls resulted in a significant reduction in the net loss of Hypermarché Laval in 1975. Nevertheless, this operation continues to be a severe drain on earnings and it became increasingly evident that the Hypermarché in its present form was not economically viable . . . The planned changes coupled with sustained concentration on cost control and the sharing of advertising and promotional costs by two units (Hypermarché II will open Fall 1976) rather than one, suggests further improvement in operating results this year."

SEC STARTS STUDY OF DISCLOSURE

The announcement by Roderick M. Hills, Chairman of the SEC, of the appointment of an Advisory Committee on Corporate Disclosure, chaired by SEC Commissioner A.A. Sommer, Jr., contained one of the typical Washington D.C./Madison Avenue touches when it referred to the Securities Act of 1933 as the "Truth in Securities" Bill.

The following extract of the charge sets forth the area of work:

> "The present study will not be confined to an examination of the Commission's disclosure requirements, but will embrace the entire corporate disclosure system that has developed in this country—partially in response to the requirements of the acts administered by the Commission, and partially in response to other forces . . . It will seek to identify more precisely those who make investment decisions; the information they actually use in making such decisions; the extent to which such information is found in or secured from the Commission files and documents required to be prepared and distributed by Commission requirements; . . . If indicated by the study's conclusion, the Committee will make recommendations for change in the present regulations relating to disclosure, including

A MATTER OF ETHICS

RT reported (Sep 75) the conduct of Citicorp Custom Credit which took over the accounts receivable of Roos/Atkins (a West Coast subsidiary of Genesco). They computed finance charges on a true average balance—purchases are included from the day of purchase (even though funds may not yet be disbursed) but payments are not recognized until received by Citicorp. Received where? In Huntington Station, New York 11746! This can be one day further than NYC, and substantially longer than delivery to a West Coast address. Citicorp further stimulates finance charges by requiring payment 25 days after the cycle closing.

This accusation of unethical conduct was brought to the attention of Citicorp by a Citicorp customer—but the procedure was not changed.

There are two ethical problems here—for Citicorp, which is chiseling, and for Genesco, whose customers are being abused.

Citicorp is headed by Walter B. Wriston who often speaks on the free enterprise system. On November 12, 1974, he told the Commercial Club of Boston "There is no question that there are shoddy practices in every profession and that our economy produces goods which are often vulgar or poorly made. The beauty of the system is that if the consumer doesn't want to buy them, the businesses that produce them will either shift to new products or they will fail."

On March 11, 1976, to the Management Conference of the University of Chicago he quoted Bronowski "The ascent of man is not made by lovable people. It is made by people who have two qualities: an immense integrity and at least a little genius." One would hope that Citicorp would offer retailers at least a modicum of the former even if lacking in the latter.

RT has learned that Citicorp Custom Credit was offered a lock-box service on the West Coast. Citicorp turned it down because a lock-box would cut finance charges generated. RT believes that Genesco was never made aware that a way existed to end the abuse of their customers.

RThought: How long will Citicorp be permitted to continue this penny-ante chiseling. How long will Genesco tolerate this without placing pressure on Citicorp?

means for better dissemination of information filed with the Commission and making such filings more relevant to the needs of investors."

Retailing–which will be impacted as much as any other segment of our economy–is represented by Deborah E. Kelly, Director of Investment Research of Lowe's Companies, Inc. Although an OTC company (it has the largest market value of any retail OTC company), Lowe's has, for years, put out one of the most complete and informative annual reports.

Other representatives are from Academia (economics, banking a dean of a business school), Law (2 active and 1 faculty), Accounting (2–one of whom has retired from his firm), investment bankers (2); and corporations (Standard Oil of Indiana and Berkshire-Hathaway) in addition to the sole retailer.

RThought: The result of this study should make major changes in what and how information is to be disclosed by public corporations. If you wish to be kept informed about the action of this committee write to Michael Rogan, Attorney-Advisor, Advisory Committee on Corporate Disclosure, Securities and Exchange Commission, Washington D.C. 20549 to be placed on their mailing list.

CAN'T FEDERATED DO BETTER?

Department store groups such as Federated, Allied, May and Associated pride themselves on allowing each of their groups to go its own way. As a result, the groups often re-invent the wheel.

A recent experience with Bullocks–Northern California illustrates this point–and demonstrates that knowledge of the wheel is not passed from one Federated division to another.

Here are the facts. Bullocks has a country club billing system based on an IBM card salescheck imprinted by a Unitote-Regital EPOS register. The statement is an IBM card. Billing is often slow. 1976 data in the Credit Office Rating shows such paired dates of cycle closing and postmark dates as 6/26-7/9; 7/14-7/27 and 7/26-8/9.

The individual account that prompted an inquiry into Bullock's operations had the following facts. Cycle close 6/14, payment due 7/14 with balance of $25.56. Nothing paid. Cycle closed 7/14–payment due 8/14 showing balance of $92.66. Payment was mailed 8/13 and should have been delivered on 8/14.

A dun letter was received, dated 8/18, showing the amount owed as $125.62. A telephone call on 8/19 brought forth the following information: First, the $125.62 was the balance as of 8/14 although the statement had not yet been mailed! The semi-weekly computer print-out of the status of accounts did not show a payment. On 8/19 the $92.66 payment did show on the CRT screen but not on the 8/17 print-out. Presumably it would be on the 8/20 print-out.

RThought: Slow mail delivery is a weak excuse that, apparently, the credit person contacted was programmed to offer. There is the possibility that mail accumulated over the weekend at the P.O. Box is not promptly processed or that personnel was inadequate to handle the work. When RT checked with another major firm, which asked not to be identified, it was learned that the reason they will never make the Honor Roll is that they hold each cycle open for 3 days after the closing date for late arriving payments (leaning over backwards to be fair to customers) so that billing is normally on the 5th or 6th day.

RThought: Certainly Federated must have dunning systems that do not dun balances not yet billed to the customer. The statement being dunned had a postage meter date of August 20 and contained only a "gentle reminder" card.

Late RThought: A late check developed the information that the check mailed on 8/13 was in the customer's bank account on 8/19.

WHERE WILL YOU FIND NEW CREDIT CUSTOMERS?

Spencer Nilson, in his excellent semi-monthly newsletter, THE NILSON REPORT ($125/yr., P.O. Box 49936, Los Angeles, CA 90049) reports that Preston State Bank in Dallas has revived their "Presto Charge" to fill the gap–a big gap–left by Master Charge. Preston's Senior V.P., William R. Buckley, calculated that 54% of all MC applications have been turned down and 83% of turndowns were because of lack of any credit history!

RThought: Most department stores have turndown rates much below 54%–but sometimes the turndown rate is misleading. People that you may really want to have on your books may not even apply. If someone has been turned down for Master Charge, do you think they will apply at your store?

Retail stores have different problems than bankcards of control, authorization and use. But who is advertising "Turned down by Master Charge? BankAmericard? If you think you are credit worthy, come see us." What has happened to the "Junior Accounts" and the "Under 21 Accounts" and the other special accounts that retailers pushed to get young people to start building a credit rating? Such accounts should be easier–rather than harder–in these days of computer systems. Unfortunately, such accounts fell through the cracks and disappeared in the early days of computer installations for a variety of reasons that are no longer valid.

APPAREL RECALLS?

Just like recalls of cars, the Consumer Product Safety Commission (CPSC) issues recalls on unsafe products. Recently it ordered Michael Milea/Peter Sinclair to recall cotton sportswear tops which may be dangerously flammable. The "unisex" cotton pullovers in various styles, designs and colors were sold in the summer and fall of 1974. The retail outlets mentioned were G. Fox in Hartford, Jerold Men's Shops in Massachusetts and the Garb-Age Stores out of Iowa City, Iowa.

Under a consent order signed with CPSC the retailers have agreed to notify customers who may have purchased these tops by putting warning statements in monthly billing statements, through signs posted in the stores announcing the recall and by placing ads in the local newspapers. The firms then have the option of either replacing the tops with those that are not flammable or of refunding the purchase price to the customer.

RThought: This is an expensive reminder that the store remains liable in many cases when products are sold that do not comply with the Flammable Fabrics Act, regardless of the small print on the back of your purchase order. Remember–the guy who chisels on fabrics probably doesn't have anything to lose if sued.

HOW THE GILBERT BROTHERS RATE RETAILERS

The 36th Annual Report of Stockholders Activities at Corporation Meetings During 1975 is now available ($15, Lewis D. and John J. Gilbert Corporate Democracy, Inc., 1165 Park Ave., NY, NY 10028).

The table below shows how retailers were rated on two key points–the post-meeting report to shareholders and the manner in which the meeting was conducted.

Before studying the retail names, keep in mind that the Gilbert brothers and their associates attend meetings of only a few retail companies. Many major firms are not mentioned (Note: many companies are happy when no Gilbert attends!).

In the table, **HR** means "Honor Roll", **Inter** means "Intermediate," **Poor** does not need a translation, and "– –" means not rated.

	RATINGS	
COMPANY	Post Meeting Report	Conduct of Meeting
Alexander's	–	HR
Allied Stores	HR	HR
Allied Supermarkets	Poor	HR
Arden Mayfair	–	HR
Arlen Realty	–	HR
Castle & Cooke	Inter	–
Cook United	Poor	–
Dillon Companies	HR	–
Dominion Stores Ltd.	HR	HR
Evans Products	HR	–
Federated	HR	HR
First National Stores	Inter	HR
Gamble-Skogmo	Inter	HR
Garfinckel	Inter	–
Genesco	–	HR
Grand Union	HR	HR
Great A&P	HR	HR
Hughes & Hatcher	HR	HR
Interco	Poor	–
Kroger	HR	HR
Lane Bryant	Poor	–
Lionel	Inter	–
Lowe's	HR	–
Macy's	HR	HR
Marcor	HR	HR
May Dept. Stores	HR	HR
National Shoes	Inter	HR
Outlet Co.	Poor	–
J. C. Penney	Inter	–
Phillips-Van Heusen	HR	HR
Safeway	Inter	–
Sears	Inter	HR
Shop Rite Foods	Poor	–
Twin Fair	HR	HR
Woolworth	HR	HR
Zale's	Poor	–

But, they offer other comments about retail firms.

Bertin C. Gamble, Chairman of Gamble-Skogmo, lost his temper when questioned by Lewis Gilbert, while Jonathan Scott of A&P kept his.

Cook United had a court reporter at the annual meeting and then failed to transcribe the notes. Kroger rejected a Gilbert resolution to make a transcript of the annual meeting available on request at a cost of $3 or less.

Castle & Cooke got praise for putting out an attractive annual report at only 53¢ a copy (others cost close to 1$). Shop Rite Foods failed to number their pages and failed to disclose their telephone number.

The Wall Street Journal, trade press and local press are doing a better job of covering annual meetings, and are covering more retail meetings.

Gilbert objected to the deal Macy's made with Ed Finkelstein when they moved him from San Francisco to New York–Macy's bought his San Francisco home and furnishings for $265,000 (approximate cost) with the stipulation that if the property was resold within a year at a higher price Finkelstein would receive the excess. Obviously, this is a one-way deal that a shareholder would not like.

Sears defended giving additional stock options to keep executives–although admitting that top executives leave anyway. Gamble-Skogmo was criticized for a program of lending money under the "Key Executive Stock Purchase Incentive Loan Program" at not more than 6% and limited to not more than $1,500,000 to any one person. Evans Products loaned a total of $1.4 million to several executives to bail them out of the banks when the price of Evans stock collapsed and the bank became "uneasy."

Hudson's Bay Company, Shop Rite Foods and Tiffany and Company were criticized because they had directors owning fewer than 100 shares.

May Department Stores was chided because they had no woman director. Kroger was criticized because they failed to disclose all the directorships held by their directors, while Genesco agreed to comply with this procedure in the future.

Allied Stores continues to resist comulative voting. D.H. Holmes was severely criticized for going to staggered terms for directors with the proxy clearly stating "One of the effects the proposal may have is to give management a veto power over mergers regardless of whether the transaction is desired by a majority of the shareholders, and thereby assist management in the retention of their present positions." Would you like that kind of management working for you?

A few retailers were protecting management and status quo by raising the percentage vote required for a merger. Gamble-Skogmo moved to 70%, D.H. Holmes went to 75%. The President of the United States can be overridden by a two-thirds vote–but not Bertin Gamble or the management at Holmes.

Are the Gilbert brothers good for corporations? RT feels the answer is clearly "Yes." When they attend meetings they are prepared, conduct themselves with decorum and bow to the majority wish (although often returning the next year to try again). They have a sound program aimed at improving Corporate Democracy–a program that any (or every) company could adopt:

1. They want annual meetings held at convenient locations.
2. They want better and more informative Annual Reports and more and better post-meeting reports.
3. All directors should own a minimum of 100 shares.
4. Existing shareholders should have pre-emptive rights on new stock issues.
5. Shareholders should maintain a watch over executive compensation to see that shareholders are fairly treated.
6. Corporations should permit cumulative voting so that small holders can cumulatively pool their votes to get representation.
7. When stock is held for employees the vote should be passed through to the employee.

CREDIT OFFICE RATING

We have a new model for small stores. Mason's in Fall River, Massachusetts reports that they have a single cycle, ending on the last day of the month, and that statements are in the mail by noon on the first working day of the next month! They wrote "you may find this interesting"–a major understatement. A telephone call developed that they have no electronic POS–but data from saleschecks are keyed into their computer within 2 hours after the sale, as are payments. The 5400 active bills are run off, stuffed and mailed and everyone is ready for the next month.

The HONOR ROLL figures below may look a bit anemic compared with Mason's.

HONOR ROLL

Rubenstein's	2.0	Iver's	3.3
Maison Mendessolle	2.3	Hess's	3.5
Joseph Magnin	3.0	I. Magnin	3.7
Routzahn's	3.0	Sears Dallas	4.0
Penn Traffic	3.2	A. Sulka	4.0
		Oshman's	4.0

CREDIT OFFICE RATING

Information From Reporters	JUNE-JULY 1976 No. of Reports	JUNE-JULY 1976 Days to Bill Average	JUNE-JULY 1976 Days to Bill Range	APRIL-MAY 1976 No. of Reports	APRIL-MAY 1976 Days to Bill Average	APRIL-MAY 1976 Days to Bill Range
B. Altman (NY)	1	7.0	7	--	--	--
Bloomingdale's (NY)	1	7.0	7	--	--	--
Breuners (No. Cal.)	1	8.0	8	1	5.0	5
The Broadway (LA)	2	8.0	7-9	2	6.5	6-7
Bullock's (LA)	2	6.5	6-7	2	5.5	5-6
Bullock's (No. Cal.)	7	8.7	7-11	9	8.1	6-10
Bullock & Jones (SF)	1	6.0	6	1	3.0	3
Capwell's (Oakland)	7	6.1	6-7	8	5.9	5-6
Emporium (SF)	5	6.2	6-7	2	7.0	7
Gottschalk's (Fresno)	1	11.0	11	--	--	--
Hastings (SF)	1	5.0	5	3	4.3	4-5
Liberty House (No. Cal.)	1	5.0	5	1	5.0	5
Livingston Bros. (SF)	1	7.0	7	3	5.7	4-7
Macy's (No. Cal.)	8	7.4	6-9	3	6.0	6
I. Magnin (SF)	3	3.7	3-4	4	4.8	4-7
Joseph Magnin (SF)	2	3.0	2-4	4	3.3	2-5
Maison Mendessolle (SF)	3	2.3	2-3	2	2.5	2-3
Montgmery Ward (N. Cal.)	2	7.5	6-9	--	--	--
Roos/Atkins (NY)	1	7.0	7	1	6.0	6
Saks (SF)	1	8.0	8	--	--	--
Sears (Alhambra)	5	4.8	4-5	4	7.0	4-10
Sears (Dallas)	1	4.0	4	2	4.5	4-5
Al Sulka (NY)	1	4.0	4	2	11.0	10-12
TOTAL	58	6.3	2-11	54	5.9	2-12

Information From Stores	JUNE-JULY 1976 No. of Reports	JUNE-JULY 1976 Days to Bill Average	JUNE-JULY 1976 Days to Bill Range	APRIL-MAY 1976 No. of Reports	APRIL-MAY 1976 Days to Bill Average	APRIL-MAY 1976 Days to Bill Range
Brock's (Bakersfield)	18	6.0	4-8	18	6.7	5-8
Hess's (Allentown)	8	3.5	3-4	9	4.8	3-6
Holman's (Pacific Grove)	10	8.2	6-10	10	3.9	3-5
Iver's (Los Angeles)	11	3.3	2-4	10	3.8	3-5
Levee's (Vallejo)	20	8.6	5-12	20	6.0	4-8
Levy Bros. (San Mateo)	30	5.4	2-8	32	4.3	3-7
Mervyn's (No. Cal.)	20	4.2	4-5	20	4.5	3-5
Oshman's (Houston)	8	4.0	3-5	13	3.4	2-4
Penn Traffic (Johnstown)	5	3.2	3-4	10	3.2	3-4
Routzahn's (Maryland)	2	3.0	3	3	3.0	3
Rubenstein's (Shreveport)	6	2.0	2	--	--	--
Wineman's (Htgtn Pk)	8	8.5	6-10	8	9.8	7-14
TOTAL	146	5.5	2-12	153	4.9	2-14

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

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

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

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

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

RThought: How may pullovers bought in 1974 are still around?

HOW STRONG ARE BALANCE SHEETS OF LEADING DEPARTMENT STORES?

For 23 years, Henry S. Kahn (not related), Senior Vice President of Harris Bank in Chicago, has published his Annual Retail Study providing comparable data on larger department store groups and other leading general merchandise retailers. Over the years these reports have improved greatly. A major effort is made to have the published figures as comparable as possible. For example, credit subsidiaries are consolidated with the parent.

The two areas not adjusted are (1) elimination of LIFO reserves and (2) adjustment for the degree to which equipment and plant are leased rather than owned. In adjusting Mr. Kahn's figures in the table below I have converted all balance sheets to FIFO by adding the LIFO reserve to assets and 50% of the LIFO reserve (assuming a 50% tax rate) to stockholders' equity. In lieu of adjustment for the degree of utilization of leasing, I have shown the percentage of fixed assets to total assets–the interquartile range is relatively small with 50% of the firms falling between 35.7% and 41.1%.

Company	Stockholders' Equity as % of Assets	Fixed Assets as % of Assets
Marshall Field	63.9%	41.1%
Mercantile Stores	60.4	35.7
Rich's	59.6	33.5
Federated Department Stores	55.4	41.5
Associated Dry Goods	54.2	38.1
Garfinckel	53.6	29.3
Dayton-Hudson	49.9	34.8
Woodward & Lothrop	47.8	44.2
Carter-Hawley-Hale	45.0	29.4
Gimbel's	41.2	36.9
May Company	39.3	39.7
Carson Pirie Scott	38.5	43.5
Allied Stores	37.9	38.8
Wieboldt	36.2	46.5
City Stores	33.4	29.6
Macy's	31.5	36.9

RThought: A good balance sheet objective is to have stockholders' equity equal to or exceeding all debt (D&B reports the median ratio of debt to worth for 280 department stores in 1975 was 89%)–which, in the table above, would be represented by a 50% figure. Seven stores (counting Dayton-Hudson) equal or exceed this figure. If deferred taxes on revolving accounts and other theoretical liabilities are excluded, then about nine of the sixteen firms would meet this test. But the surprising thing is the overall range–with Macy's equity percentage at 31.5% being less than half of that of Marshall Field (63.9%).

RThought: In some cases fixed assets may be substantially understated–as in the case of a store owning a good building at a desirable location that was built at a cost of $6 or $7 per square foot.

LIKE PEAS IN A POD

That would be the way to describe BankAmericard and Master Charge as the figures below, taken from the data at the end of March 1976, indicate:

	BankAmericard	Master Charge
Participating banks	7,058	7,483
Merchant outlets	1,239,824	1,239,119
Cardholders/account	1.65	1.63
Average sale transaction	$25.08	$25.46
Average cash advance	$112.89	$114.64
Average outstanding balance	$353.27	$357.07
Delinquency:		
30-59 days	1.8%	1.7%
60-89 days	.7%	.6%
90 and over	1.2%	1.2%
Total	3.7%	3.5%

But, Master Charge is larger:

Active Accounts	12,058,885	14,713,766
Gross Dollar Volume	$2,349,735,000	$2,888,001,778
Retail Volume	$2,128,074,000	$2,592,681,854
Cash Advance Volume	$ 221,661,000	$ 295,319,924
Outstandings	$4,260,052,644	$5,253,795,266

RThought: A caution on reading their news releases. The big number they always mention is the number of cardholders–31.8 million for BankAmericard and 37.4 million for Master Charge. I am certain that you immediately translate that into accounts–which is wrong. Divided by approximately 1.65 to get the number of accounts–and only 63% or 64% of those will be active.

RThought: BankAmericard has changed their policy and will now allow Master Charge banks to issue BankAmericard. Perhaps soon there will be only one card. As a monopoly a single card would become subject to substantial government regulation.

WHICH IS BEST–10% IMPROVEMENT IN TURNOVER OR 10% IMPROVEMENT IN SALES PER SQUARE FOOT?

That was one of the studies made by Professor Robert Lusch of the University of Oklahoma (Oklahoma Business Bulletin, Mar 76, $6/yr. U. of Oklahoma, Norman, OK 73069).

The table below shows what happens in both cases:

	Inventory Turns		Sales/Sq. Ft.	
Type of Outlet	Typical ROE*	Improved ROE*	Typical ROE*	Improved ROE*
Drug stores	14.6%	15.5%	14.6%	25.8%
Food chains	7.5	8.3	7.5	17.2
Discount stores	8.1	8.5	8.1	13.2
Hardware stores	11.1	11.9	11.1	17.1
Home Improvement	12.2	12.6	12.2	18.0

*ROE means "After Tax Return on Equity"

The table illustrates that improved sales per square foot brings a giant boost in ROE. Unfortunately, management can boost inventory turnover easier than they can boost sales per square foot.

The table does illustrate the benefits of thinking small–it is better to undersize a store than oversize it. The higher return on net worth in a spectacularly successful store that is too small will finance an additional store or the expansion of the first store.

HOW STORES LOOK TO A CONSUMER ORGANIZATION

The Cleveland Citizen Action Foundation puts out an excellent publication—"**bait & switch**" ($5/yr., 532 Terminal Tower, Cleveland, OH 44113). In their September 1976 issue they reported on the results of shopping for a high-efficiency room air-conditioner. They selected the models from ratings conducted by **Consumers Reports**. And, they couldn't find the models!

Let me quote the story on one store—"May Co. told us a most unusual story to explain not carrying the high-efficiency model. A salesman at May Co. told our investigator that high efficiency models were only necessary in areas where there were frequent brownouts (a low voltage condition caused by more demand for electricity than available supply, such as happened on the East Coast). Cleveland doesn't have this problem.

"The Cleveland Electric Illuminating Company (CEI) later told us that this simply wasn't true. CEI recommended the high EER units because of the energy savings, but the consumer had to make the decision between the higher initial cost and the higher operating cost.

"Mr. Hedberg, Vice President for Advertising and Public Affairs of May Co. told **bait & switch** that they had little call for the higher efficiency models and that the energy savings were simply not attractive enough to consumers to be worth the actual price. However, the May Co. salesman we talked to was not aware of the actual energy savings provided by this model, so they could not give reliable information on comparative operating costs to our investigator. Presumably, the salesman's comment does not reflect the official policy of the May Co."

RThought: Isn't this a horrible story? First, one would suppose that a major retailer would comply with desires of our government to encourage conservation of energy. Not making the high EER units available is a strange way to help. But even more, the high price unit presumably has a higher dollar gross margin. Normally, this would be the basis of stimulating interest in selling the high EER models. Many retailers complain about needing more gross margin dollars—but apparently some are unwilling to work to get them.

Let's look at the matter in another light. If the May Co. was capable of training salespeople in how to sell air-conditioners, which apparently they are not, the salespeople would have a world of information available on the advantages (for the individual and for the country) of buying a high EER air-conditioner even if it does cost more. The store would have more gross margin dollars, the salesman would make more dollars in commissions, and the customer would ultimately save money on electricity. All parties could be satisfied knowing that they were working to reduce the consumption of energy without reducing the standard of living.

Apparently, Mr. Hedberg, the VP for Advertising, didn't give such a plan a try. Yet he probably ran in a few "institutional" ads about how The May Company does its part as a good citizen.

SHELL'S MINI-CATALOG

Shell is going after mail order with a vengeance. Look at the variety offered—executive flight bag ($17), dictionary ($20), sabre saw ($40), Panasonic portable five inch TV ($140), knife set ($20), sleeping bag ($38), Singer vacuums ($45 to $120), Hamilton Beach mixers ($40 and $48), sewing machine ($200), Optical Tapemeasures ($20 to $50), Sunbeam Crocker Frypan ($40), Pollenex Whirlpool Bath ($100 and $140), RCA portable TV ($150), Keystone Auto-Flash Camera ($50), and 3-pc. matched luggage set ($30).

RThought: Have you considered selling gasoline and oil?

GUCCI—MORE ON TERRIBLE OPERATING PROCEDURE

Sam Kline, recently retired founder of Kline-Kinsler buying office in Los Angeles and now a columnist for **California Apparel News**, recently offered the following report on Gucci:

> "Gucci has come in for considerable criticism as the 'rudest store' and it has taken another step to support its reputation. A very substantial customer returned an item to the Beverly Hills store and received a credit for $82.68, which was put on her long standing charge account. Not finding anything she needed, she reminded the management that the law now requires stores to make cash refunds. This was referred to the Gucci New York Office, whereupon a check for the amount was forthcoming with a letter advising that her account was being closed."

RThought: If you believe in ethical conduct in retailing, would you allow your wife to spend money with Gucci? (Please don't say you can't stop her).

SHORT SHORTS

Aaron Goldberg is gone. The loss will be great for his family, his loved ones and the many people who worked with him at King's. But an entire industry will miss the wise counsel that he offered to one and all, year after year, at the annual conventions of the National Mass Retailing Institute. I was one of those who benefited from listening to him.

Could discounts fill quiet periods? This question was asked in the July 1976 RT—and Glosser Bros. answered, "Yes, We are doing it!" Alvin Glosser, Senior VP, reports that they are giving a 10% discount to Senior Citizens on Tuesday mornings in their Cumberland, Maryland store—and Tuesday is identified as "Senior Citizen Day." The discount is given on regularly priced non-food items. Senior Citizens are identified through laminated cards with color photos. The program was started in Cumberland because it is the Glosser's only downtown discount unit; but it is now being extended to Beaver Valley and may be extended to the entire chain.

"Retail Theft," not Shoplifting. That is what Pennsylvania calls it in a bill that would require fingerprints to be taken and all first offenses recorded in files available to all courts in Pennsylvania.

WORDS TO MANAGE BY

RT is indebted to D. Dale Browning, Senior Vice President of the Colorado National Bank of Denver, for an old English saying that he used to end his talk at the American Bankers Association's 1976 Bank Card Division Convention:

> What was, was.
> What is, is.
> What will be, will be—what you make it.

October 6, 1976

Received telephone call from:

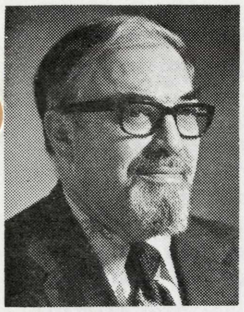
John Mazzorana
Citicorp Custom Charge
Roos/Atkins
2 Huntington Quadrange
Huntington Sta, NY 11746
516-293-1362

Had received RT from Genesco. Discussed background. He is fried of Warren Truitt. He is studying lockbox, would consider extra money up front to imrpove service. His study showed 4 days to NY, normally 203 days in bay area---I disagreed.

Outcome---I would contact source and see if they wanted to make a proposal for lockbox. He agreed there would be no retaliation.

Called Stuart R. Stafford, Marketing Manager
COMPUTING & INFORMATION SCIENCE CORPORATION
Tulsa Oklahoma---918-583-5791.

Passed on information. Expressed thought no retaliation. Suggested when he submitted proposal he sends clear copy to me.



RETAILING TODAY

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ROUTE TO

OCTOBER 1976 VOLUME 11, NO. 10

IF EVERYONE TOOK AN ECONOMICS COURSE, WOULD LIFE BE EASIER FOR BUSINESSMEN?

That thought has often been expressed. A recent article in the **University of Michigan Business Review** (Sep 76, $8/yr. Ann Arbor, Michigan 48109) tried to answer that question.

Written by Larry Crosby, a marketing researcher turned doctoral student, Assistant Professor Thomas Kinnear and Professor James Taylor, both of The Graduate School of Business, the conclusion was that it made little difference.

The tabulation below shows the answers to two key questions, broken down by the education of the respondent. They come from a recently conducted National Survey on the American Economic System conducted by Compton Advertising, Inc., which used a sample of almost 2,000 people. 68% had not had any courses in economics, 14% had had economics in high school and 18% in college.

Question: "Now, I'd like to ask your opinion of government regulation of economic activities. Do you think that at the present time there is too much, just the right amount, or not enough government regulation?"

	No Courses	High School Courses	College Courses
Not enough	43%	44%	42%
Too much	21%	22%	27%
Right amount	20%	20%	12%
Qualified—not enough & too much	13%	12%	16%
Don't know/no answer	3%	2%	3%
	100%	100%	100%

Question: "What economic activities, if any, do you feel the government definitely should regulate? Again, there are no right or wrong answers. We are interested in you opinion."

	No Courses	High School Courses	College Courses
Business/Industry	35%	38%	51%
Food Industry	11%	11%	6%
Energy/Fuel/Oil	8%	12%	13%
Utilities	8%	6%	14%
Prices	28%	23%	17%
Foreign involvement	11%	13%	14%
Wages	10%	7%	8%

Conclusion: It seems apparent that economic education is not a panacea for what is currently buffeting American business.

A MATTER OF ETHICS

RT congratulates the Women's Sweater and Sportswear Group of the National Knitted Outerwear Association for taking a stand against economic bludgeoning practiced by some of the biggest names in retailing.

What abuses? Abuses like unilateral deductions from invoice payments, special handling charges and penalties imposed on suppliers, charging vendors for the cost of distributing merchandise to branches, applying economic pressure to obtain discriminatory advertising allowances, compelling suppliers to provide "specials" for store promotions, cancellation of signed orders before final shipment date, unwarranted returns of merchandise.

These practices have gone on for years. Each store, as it gets larger than some suppliers, proceeds to apply muscle to those suppliers. For many executives in retailing, this is one of the rewards of getting larger.

RThought: It is a shame that the chairman of the group, Theodore Fell, of Sidney Gould, Ltd., did not name the names of stores involved. There could be a shocking similarity between the 100 largest stores listed by the National Retail Merchants Association and the 100 most frequent abusers of vendors.

WHAT'S HAPPENING TO PEOPLE?

We have gone through the past half century isolating individuals into a limited number of metropolitan areas. Most people are lonely. And, an increasing number of people are being further isolated as a small cadre of technologists force systems on people who, in an incresing number of cases, are unable to cope with systems.

Bankers push the joy of Electronic Funds Transfer on a society where 20% of the people, according to national studies, are unable to cope with the non-electronic systems of the world. 11% of the current high school graduates are functionally illiterate and that percentage will increase rather than decrease over the years as growing numbers retreat from their present marginal state of literacy. And, Chain Store Age (General Merchandise Edition, Sep 76) does not realize this when they treat two symptoms in one issue.

Symptom 1: Walter Schruntek, in trying to learn from the failure of an automat-type food outlet (the OK Supermarket in Tokyo,) offered the following:

> "Machines don't work for food selection. We paid too much attention to the efficiency and performance of the machines," a spokesman for the Japanese chain admits now. "The clinical dispensers, activated by plastic credit-billing cards were too impersonal—they took away those intangibles of choice and real-touch."

Symptom 2: An entire supplement—"1976 Home Horticulture Manuguide or "Why their share of the pot will grow," the story of how to get in on the fantastic growth of sales of plants and accoutrements. Two articles touched my theme—"Will the plant become our 'best friend'?" and "Play a tune for your plant?" The plant fad is strictly metropolitan area stuff—plants are alive and something that one can relate to; something one can watch as they change, day by day, in a world that tends to reject one more each day.

RThought: There is no difference at all between a situation where people reject automated shops and plastic cards and where they respond emotionally to growing plants. Unfortunately, it does not auger well for the future of our world.

Now that I have had a moment of your time to express this thought, you can return to the "good business" of further automating your business or extending your EDP system.

HOW ARE THE INDEPENDENTS DOING?

According to the Department of Commerce report for the first 7 months of 1976, the independents are doing OK—or even better. Here is a comparison of the sales volume change from the first 7 months of 1975 for chains (11 or more stores) and independents (10 or fewer stores.)

Type of Store	Chain	Independent
Food store	+ 7.9%	+ 8.6%
Department stores	+11.7%	+12.6%
Variety stores	– 6.2%	– 4.6%
Apparel stores	+ 3.7%	+ 9.7%
Tire, battery, auto	+ 1.2%	+13.0%
Drug	+16.1%	+ 4.2%
Liquor	+ 6.4%	+ 4.0%

The only independents who are trailing the chains are drug and liquor stores.

THE POWER OF SCRAWLED SIGNS

There is much to be said for the wax pencil or the broad-tipped felt pen when it comes to sign making. And there is something to be said for the store where anyone can make a sign (assuming he can spel!)

Some of the warehouse food stores are using this approach. A recent story on Jewel Companies new low-price food outlet, "The Budget Store," contains a photograph of a hand-written store hour sign on the front window.

Unfortunately, they put too fancy a sign above the canopy saying "BUDGET Food Store"—they should have let a clerk hand-print a blank piece of plexiglass to replace the sign that formerly said "Jewel."

This brings to mind an experiment that I conducted many years ago in a low-end store. The merchandise manager wanted to invest in a Reynolds Printasign machine costing several thousand dollars. At the time all signs were made by the department managers who were supplied with blank card stock and two wax pencils—red and black.

We conducted a test on the self-service bargain tables—setting up two identical tables with sheets and pillow cases. Identically worded signs were put on the tables—one made by the department manager and the other by a professional signmaker. At the end of the week the hand-lettered sign outsold the professional sign by 2½ to 1.

The merchandise manager argued that the better-selling table was located closer to the aisle so we restocked the tables, reversed the signs and ran the test for another week. The result? The handlettered sign outsold the professional sign about 2 to 1.

RThought: Retailers place too much emphasis on untested ideas about what moves merchandise. Too few retailers ever test one concept against another. As a result they are unaware that against a mass of perfectly printed signs (which are not read—just accepted as part of the background like the decor on the wall), a hand-written sign stands out like a firecracker display on the Fourth of July. Test it. Try it. You'll like it. Until the boss tells you that such signs are not in keeping with the dignity of the store and "we must maintain an image."

RThought: The people at Building No. 19 Sales know this even if they don't know how to spell. Ann and Hope knew it in the early days. Please don't remind RT that Raymond's "ye old gas pipe racks" are no longer with us. Uncle Ez is long gone.

WILL STORE PRESIDENTS SIGN ANYTHING?

Recently Macy*s California sent three letters to our house signed by Phillip Schlein, President. We get 3 of everything because we now have 3 accounts—with the introduction of descriptive billing without identifying the card used, the only way to know who charged what was to get each family member (except me) their own account.

The mailing offered us a chance to "rediscover" California through a magazine called **"New West."** Mr. Schlein said **"New West"** is filled with the kind of stimulating, exciting new ideas, and **fine taste** (emphasis added) I hope you find so enjoyable when you shop at Macy*s."

But the description of the magazine suggested that I would want to read it only . . .

"If you're fascinated by . . . new sex and true gossip . . ."

"If you're curious about . . . how much money a massage-parlor operator . . . really makes . . ."

"If you appreciate . . . cheap restaurants . . ."

I guess Mr. Schlein knows the "fine taste" of Macy*s better than I do.

I wrote to him more than a month ago in which I asked "I really must wonder whether you looked at the material that was going to go out with your signature." No reply has been received.

PER DIEM RATES v. ETHICAL MANAGEMENT

Men's Wear (Fairchild Publications) is to be congratulated for headlining the article **"Are Your Buyers Forced to Beg?"** (June 25, 1976). No wonder buyers beg—when the article contains quotes from people such as Jack Yost, General Merchandise Manager of Liberty House, S.F., that their per diem of $44 a day in NYC is "just barely adequate" and continues "but rooming together cuts down on an individual's expenses and makes the amount more comfortable"? Who does Yost room with on his trips? Even California's Governor Brown had to pay $26 a day at the McAlpin and that hotel was ready to both collapse and be closed.

Mighty Federated gave away some of the secrets on how to make money—the article cites, from souces outside the store,

THE SAD TALE OF PUBLISHING FALSE CRIME FIGURES

In August 1975, the U.S. Department of Commerce published a booklet called **"Crime in Retailing."** The introduction said in part, "This booklet reports the results of an analysis of currently available data on the effects of crimes against retailers. It covers only 'ordinary' crimes—burglary, robbery, vandalism, shoplifting, employee theft, bad checks, credit card fraud, and arson."

The admission of gross inaccuracy is hidden further in the introduction when the authors state "Firm data on the cost of crimes against retailers are sparse and sporadic in nature . . . In this report, we have estimated the amount of loss suffered by retailers on the basis of information from many sources."

They quickly came to the conclusion that "Retail merchants lost an estimated $5.8 billion to crime in 1974, an 11% increase over 1973. Considering current trends, losses for 1975 are expected to surpass $6.5 billion." Now it just so happens that the estimates are based on fixed percentage of sales of each type of outlet and thus the estimates increase proportionately to increased sales.

The Department of Commerce has ordained as fact that crime will always take 3% of general merchandise and apparel volume, 3.5% of drug stores, 1% of food stores and 1.2% of other types of stores (home furnishings, furniture, appliances, radio and TV and hardware stores).

It is presumed that all inventory shortage is theft—either customer or employee. What do they cite as authority? Menswear Retailers of American once said in their Newsletter that "shoplifting losses ranged up to $100,000 per store in 1972!" Just what does that mean—and what does it prove? Mass Retailing Institute said they surveyed over 6,000 discount department stores and estimated that 900,000 shoplifters and 18,000 employees were apprehended for theft in 1972. How does that convert to 3%? Despite stating that shoplifting increased 73% in the period 1967-72, they report "Approximately 55,000 shoplifters are apprehended **each** year in New York City alone"—thus indicating a level rather than a growing problem.

Now consider the data published on robbery and burglary in terms of incidents per 1,000 retail stores. A number of cities reported, for 1972, more robberies and burglaries of retail stores than the total number of retail stores! The rate per 1,000 stores was 1,441 in Atlanta, 1,227 in Philadelphia, 1,090 in Detroit and 1,009 in Newark!

Let's look at a couple of these cities. Based on 32,300 reported retail establishments in Philadelphia, the rate of 1,227/1,000 stores indicated 39,600 burglaries and robberies in retail establishments alone. The 1972 FBI report on "Crime in the U.S." indicates a total of known burglaries and robberies in Philadelphia of only 30,892! So, the Department of Commerce is reporting that there were 8,000 more burglaries and robberies in retail establishments than the total number reported by the Philadelphia Police to the FBI!

In Newark the indicated number of burglaries and robberies of retail establishments was reported as 6,600 out of the 15,828 reported by the Newark Police to the FBI—42% of all burglaries and robberies just in retail stores.

Based on a selection of extreme statements from limited samples (some, like MRAs, probably should never have been printed) and unsound statistics put together by persons not competent to write on retailing, printed under the imprimatur of Rogers C. B. Morton as Secretary of Commerce, and extracted in press releases sent to all the newspapers in the country, the net result is grossly inaccurate statements repeated time and time again.

Let's look at the lack of understanding of retailing evidenced by the recommendations on how to keep crime losses down.

They suggest a program of merchandise accountability. "An employee who receives custody of merchandise should be held responsible and should have authority to require a receipt from any employee to whose custody it is transferred." Want to try that one?

To combat shoplifting they suggest a cheerful "May I help you?" to give notice to a thief that he has been seen by an alert observer. "On goods that are particularly susceptible to theft, hidden duplicate price tags or coded prices may be attached, so that the cashier will know the correct price." Where do you put that tag on costume jewelry?

RThought: Why do trade associations cooperate in the publishing of such material—they are listed as a source. Why does the Department of Commerce publish material they are not competent to prepare? Why does the department then put out a master book—"The Cost of Crimes Against Business" and then quote as authority " . . . in a survey of convenience stores by **Convenience Store Merchandiser**, employee theft was held responsible for 75% to 85% of all inventory shrinkage!" If this is true, how come I see convenience stores near schools with signs "Not more than 3 students in the store at any one time"?

RThought: Even the worst junk can contain something good—which thus makes the book worth the $1.10 charged by the Government Printing Office. Appendix A contains two "Criminal Description Sheets," one to record the general description of a robber and the other to record facial characteristics. Reprints of these two sheets should be in every retail store—to be filled out immediately after an incident in order to provide the police with the best possible description.

A late RThought: Why, after contributing to this gross inaccuracy, does NRMA, in the September 1976 issue of **STORES**, quote this document as authoritative?

VISITING THE BANK CARD ANNUAL CONVENTION

RT was privileged to attend the 1976 Annual Convention of the Bank Card Division of the American Bankers Association —the theme was "New Opportunities for Bank Card Managers."

The convention was held in an "up" climate. Nicholas Ferrante of Security Pacific National Bank (California) pointed out: 60 million people carry bank cards, volume is growing at a 25% compound rate, the cost of money and bad debts are both declining, the usefulness of the bank card system is being extended to debit-cards (which offer a chance for new income), and there is a stampede by department stores to bank cards.

Banks were generally reporting that bank card operations are in the black—and many expected greater profit as the move toward annual membership charges or minimum service charges expands. It should be pointed out that there were a few wise bankers warning their colleagues that if they were making a reasonable profit without such charges they would do well to restrain themselves.

Unfortunately, some discussions on how to extract money "painlessly" from customers reminded me of sessions among department store controllers when the subject was "Miscellaneous Income." The controllers talked about increasing pay toilet charges from 5¢ to 10¢, increased forfeitures on cancelled layaways, how to raise the "service" charge from 1% to 1½% (which helped bring forth both Truth-in-Lending and limits on finance charges), and making a profit on the vending machine in the employee's lounge.

I was particularly distressed by one speaker who described how his bank introduced an annual fee. At card renewal time their material said a fee would be charged to get a new card. Although the state law clearly allowed the customer to continue his regular payments (even though he could not make new charges), the bank created the impression that if the customer did not opt for the annual charge then he would have to pay up his balance in full. The speaker seemed pleased with what had been done—and RT was upset that not one banker in the room had the guts to get up and say "That wasn't honest." RT is sure a number felt that way.

Bankers were concerned, however, about the spread of "duality," their term for handling both Master Charge and BankAmericard. It is obvious that duality will create problems —particularly by eliminating competition between the two card systems. When competition is gone, government regulation will not be far behind.

The banks are concerned about several other subjects—and well they should be.

The first is the matter of Electronic Funds Transfer (EFT). J. Rex Duwe, President of the American Bankers Association, in his opening address urged bankers to pay more attention and learn more about EFT and to be alert to both the short-run problems and the long-run benefits. He cited three areas of delay: issues still being adjudicated by the courts (are terminals branches and who can control terminals?), whether customers will accept EFT assuming EFT can be offered on an economical basis, and what legislation will the National Commission on EFT propose.

Mr. Duwe (and later Dr. John Benton, Executive Director of the National Commission on EFT) raised the same question "How can we ensure proof of payment under EFTS?" Both gentlemen may not have gotten the word from National BankAmericard, Inc., that NBI attorneys have ruled there is no problem. RT readers will recall that following an article (June 1976) raising this very question, NBI castigated RT (reported July 1976).

Second, there is the matter of educating people to use EFT. That must start with convincing them that EFT is for their own good. Long gone are the arguments that paperwork is going to inundate the world and that by the year 19XX the demand for bank clericals will exceed the projected civilian labor force.

Finally, there are serious privacy problems. The privacy session was based on a printed list of questions that might arise in any bank: Can you sell or use the list to sell services or merchandise? What safeguards are there that terminals will not be used to learn things that the operator should not know? Plus many more. There were two opposing views—those who thought banks had a duty to protect privacy and those who thought that when a person voluntarily enters into a banking relation (deposit account, credit card, trust department activity, etc.) he waives the right to privacy.

RThoughts: First, banks are not addressing a basic problem when they consider the future of EFTS: Do American people have the intelligence to handle the system? The same week the newpapers reported that 11% of current high school graduates are functionally illiterate? This percentage rises as the marginally literate regress from lack of interest and practice. We forget that 50% of the population has an IQ below 100, 15% below 85.

Second, what the banks are doing will impact retailers greatly—and negatively. Although final answers may rest with the National Commission on EFT, the bankers see no reason to share control of the EFT system with non-bankers.

Third, more plastic cards are in your future. At the moment the banks are only willing to exclude Sears and Penneys as bank card prospects—and they know even Sears and Penneys will be forced to accept debit cards when that day comes.

Finally, there is the old English saying quoted by Dale Browning, of Colorado National Bank:

> What was, was.
> What is, is.
> What will be, will be—what you make it.

that Sanger-Harris of Dallas allows $40 a day for room and board. Steve Spiegelglass must be a divisional merchandise manager who does not go to New York City; otherwise how could he say that their per diem is thought to be "sufficient to cover costs, and buyers to not have to dig into their own pockets." No, Mr. Spiegelglass–they have a choice of a deluxe dinner at Chock Full O'Nuts or scrounging off your resources.

RThought: A quarter century ago I learned from a wise, small retailer, Sherwood Swan, how to handle this situation. His first rule–which was sometimes hard for the women buyers to accept–was that he would fire any buyer who accepted any gratuities from any resource. This meant learning to pick up the check (often for both) when out with a resource. To back this policy he allowed an unlimited expense allowance. A buyer spent what he thought was necessary and itemized it when he returned. The Company paid his full cost.

The Company did indicate what hotels were to be used. If the merchandise manager was in the market with the buyers, they would all have breakfast together and he would pick up the check.

In our internal records we kept track of the total cost for each trip–transportation, incidentals, hotel and meals. The latter two were also recorded on a "per day" basis. Buyers proved to be consistant from trip to trip–but all buyers did not spend at the same level.

RThought: The very concept of per diem, particularly at the $40 and $44 level for buyers but on a reimbursement basis for merchandise managers and above, indicates a combination of contempt for your people combined with a lack of confidence in their honesty.

Just because you think you per diem is the highest in your town, such as Hughes & Hatcher does, doesn't mean that the company's costs are being paid by the company and not by the employee.

COMMERCIAL BRIBERY

Again it is an ad in Chain Store Age appealing to the store manager. This time it is Krylon Aerosol Spray Paints offering a Sony 3-Band Portable AM-FM radio (Retail value $30) in return for an order for 20 or more cases of pints of 70 or more cases of car colors; and a Hamilton Beach "Little Mac" (Retail value $20) for 15 to 19 cases of pints or 55-69 cases of car colors.

RThought: Why do magazines accept these ads? Don't they become co-conspirators against the very businesses that support them as trade journals?

ANOTHER STRONG MAIL-ORDER GUARANTEE

My experience with specialty mail order houses in the matter of returns, adjustments and refunds has been outstanding. They put to shame many of the stores where a customer is put on the defensive, is often told that the problem was his fault, and many times has to involve more than one person to complete the adjustment or refund.

Just recently I have started receiving the catalogs of **Frostline Kits** from Broomfield, Colorado. Frostline also has stores in California, Minnesota, Utah, Washington, Massachusetts, Michigan and New York. Frostline sells kits of material from which you can make your own gear–down vests, ski parkas, down booties, hunting jackets, ponchos, sleeping bags, tents and even back packs. The letters section of the catalog contains such statements as "My 12 year old son made one of your jackets for the 4-H Dress Revue . . .". Or, from the equipment director of a wilderness backpacking and mountaineering service, "The results of these tests (of your equipment) made me so confident, and the money saved . . . was so much that Alpine Appreciation is completely outfitting" with your equipment.

This is Frostline's guarantee: "SIMPLY STATED. You're never stuck with a FROSTLINE kit. Kits may be returned for full refund before, during or after construction. Your satisfaction is guaranteed. Dale Johnson, President."

RThought: The letters printed give full name and town so that someone wanting to check personally can do so.

THERE IS NO PERFECT STRATEGY

The point often forgotten in retailing is that there is no perfect strategy that a retailer can follow forever. Some, like 5¢ and 10¢ stores, may have a very long life; others like hypermarchés, may never get off the ground.

"Discount" is only a successful and profitable retail strategy as long as most other stores are not "discount." When the first supermarkets went "discount," they greatly improved their market penetration and profit; but when everyone turned "discount," there was little to distinguish one "discount" food chain from another.

As RT reported months ago, competing food "discounters" started looking for ways to distinquish themselves from other "discounters." Thus came such gimmicks as double the value of coupons, cutting discount prices, the use of premiums (dishes, books, etc.) and finally the use of games. Just as always–merchants say that this time they do not expect the trend to rise to the heights that games and premiums reached in the years immediately preceding the "discount" trend. But, no one explains how they avoid rising to such heights–just as no one explains how they can avoid getting to the cut-throat level of price-cutting that has taken place in a large number of metropolitan areas.

Don't be surprised to see major chains re-introduce S&H Green Stamps as a competitive tool and that should bring a revival of Blue Chip as an anti-Green Stamp program.

There is no doubt that any plan that successfully shifts a portion of the market–that is, brings plus volume through transfer–can produce enough additional gross margin income to cover the incremental costs of the plan and improve profit (or decrease a loss). It only becomes an expense when competitors adopt the same policy with the result that not only does the transfer end but some reverse transfer may take place as shoppers find their "most convenient" store offering the gimmick that prompted them to move to the innovator.

RThought: There is just one strategy that might be considered perfect and that is the strategy of being the first in each market to change strategy. Be the first to go discount, the first to offer double value on coupons, the first to add merchandise premiums, the first to put in games, the first to put in stamps, and then start the entire cycle over again by being the first to eliminate all the garbage and "Go discount"–with everyday savings!

THE BETTER BUSINESS BUREAU REPORTS ON 1975

The Association of Better Business Bureaus reports an increased proportion (from 64.7% to 66.7%) of the inquiries asking for information on companies in advance of doing business with them.

As to complaints after the fact, the "top 10" offending types of business, with the percentage of complaints generated, are:

1.	Mail order companies	15.3%
2.	Auto Dealers	5.9%
3.	Miscellaneous service establishments	4.6%
4.	Miscellaneous retail stores	3.8%
5.	Home furnishing stores	3.6%
6.	Department stores	3.3%
7.	Magazines ordered by mail	2.8%
8.	Home maintenance	2.8%
9.	TV servicing	2.3%
10.	Appliance stores	2.3%

The settlement rate on complaints increased slightly (from 75% to 76%) with the easy and hard settlers as followers:

Easy Settlers		Hard Settlers	
Food stores	89.1%	Advertising solicitors	52.2%
Department stores	87.9%	Legal services	54.8%
Credit card companies	86.8%	Paving contractors	57.0%
Banks	86.5%	Vacation certificate firms	61.1%
Hospitals/Clinics	86.3%	Roofing contractors	62.7%

WATCH YOU WATCH CONCESSION

Cleveland Citizen Action Foundation, Inc., publishes one of the best consumer newsletters RT has seen—called **"bait & switch."** In their February issue they reported their experience in getting estimates on watch repairs.

First, they had a Mido automatic wristwatch cleaned and overhauled—and then had the roller jewel loosened. Their watch expert advised that a qualified repairman could easily identify the problem and a fair charge for repair would be about $5.00.

They then contacted watch repair shops and jewelers to see if they would give repair estimates while the customer waited. Fewer than a third would do this. 11 shops were visited. Only 3 correctly identified the problem and quoted prices of $4, $7.50 and $10.

Among major retailers, May Company Downtown said it needed a roller jewel (correct) and adjustment of the automatic balance (not necessary) for $22.95. May Company-Cedar Center said it needed an overhaul for $23 while Higbees Downtown said it needed an overhaul for $32.50. Only Shaw's Jewelers, which would not state the problem, quoted a higher price ($35.00) than the department stores.

RThought: RT assumes that most watch repair operations in department stores (but not in jewelry stores) are concessions. RT knows of no department store that is qualified to check the type of work performed by the watch concessionaire (other than an analysis of complaints) nor one that would think to check. The concessionarire knows this—and thus realizes that he is free to abuse your fine reputation if he desires. Perhaps that is why the watch repairman doesn't argue too much about the percentage you ask—you may be giving him a license to shoot down your customers.

AMERICAN EXPRESS DOES SOMETHING RETAILERS COULD DO

American Express is now sending all cardholders, at the time renewed cards are issued, an "Important Notice" that outlines their policy of "making available, at a modest charge, the full or partial list of its Cardmembers . . . to carefully selected firms for the sole purpose of offering merchandise or service we feel may be of interest to Cardmembers."

American Express professes to "carefully select" such firms which, in the past, have included "publishing houses, business reviews, financial institutions and well-established merchandise companies."

The most important statement is the following:

> "It has always been our policy to remove from the list the name of any Cardmember who does not wish to receive advertising material . . . If you wish to restrict the use of your name in the future, please complete this form and return to . . . "

The return form offers two options—elimination from non-affiliated companies and elimination from American Express direct mail material.

RThought: Probably few Cardmembers ask to be deleted—but at least American Express has indicated a sensitivity to a complaint expressed by many consumers and has provided a simple technique to meet the complaint.

THOUGHTS THAT ARE MISSING TODAY

The following thoughts have been lifted from the catalog for the Lynchburg Hardware and General Store, Lynchburg, Tennessee, Herb Fanning, Proprietor and successor to Lem Motlow, nephew of Jack Daniel of bottle fame:

Sittin' Round the Hardware and General Store

I was sittin', restin'
And talkin' today
With a friend who stopped
As he passed my way.

We talked of neighbors
The weather and the crops
Of men who left the farms
To work in the shops.

Of the girl who married
The boy from the Bay.
Of work being done
On the new highway.

Of sickness and health,
Of money and things,
Of Government spending
And the trouble it brings.

And then we turned to friends
As all talkers do
And the pleasantest of all
Were our thoughts of you!

Commercial
Security
Association
Incorporated

ADDRESS ALL CORRESPONDENCE TO SECRETARY-TREASURER
P.O. BOX 5226, POSTAL STATION A, TORONTO, ONTARIO M5W 1N5

Binder of Oct 76 RT

Send to :
C. Venning
233 St. Marks Road,
Toronto M6S 2J1, Ontario
Canada

March 3, 1977

Mr. Robert Kahn,
Robert Kahn Associates,
Box 343
Lafayette,
California 94549
USA

Dear Sir,

One of our members sent us a photostat of a feature report " The Sad Tale Of Publishing False Crime Figures " that appeared in the October 1976 issue of " RETAILING TODAY ".

Because of its interest to our 350 in-house senior security officers and police officers we ask your permission to reprint it. Full credit will be given to the magazine and Robert Kahn Associates.

Please can you send me a copy of the issue so we can have that report reprinted. We feel this is the simple way as sending 350 copies from your reprint service would involve custom papers and possible custom [illegible].

I do not have a copy of the original article.

Looking forward to an early reply

yours truly,

Colin Venning

Colin Venning
Chairman,
CSAI

March 9, 1977

Mr. Colin Venning, Chairman
COMMERCIAL SECURITY ASSOCIATION INCORPORATED
P. O. Box 5226 - Postal Station A
Toronto, Ontario M5W 1N5
Canada

Dear Mr. Venning:

I am more than happy to grant permission to reproduce the article "The Sad Tale of Publishing False Crime Figures" which appeared in my newsletter, RETAILING TODAY, of October 1976.

I am enclosing a fresh copy of it so that you can make a clear reproduction.

I might suggest that in doing this it would be easiest to cut off the masthead including the issue date and volume number and place it above the title of the article.

As you can gather from the tone of the article, I am very much concerned about crime losses in any business -- but I am even more concerned about irresponsible reporting of non-facts.

Sincerely,

Robert Kahn

Commercial Security Association Incorporated

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CSAI

OP management newsletter

For Dealers & Dealer Management By The Editors of OFFICE PRODUCTS Magazine

ASKS FOR ESTIMATE DON'T GIVE 'EM BILL

There are more ways, now, to run afoul of the consumer protection laws than the proverbial stick can shake at. One way--for particular caution by machine dealers and furniture dealers who do repair work--is to promise an estimate before doing the work, then make the repairs and try to charge for the repairs. You'll run afoul of the consumer laws just like a Colorado television dealer who is out $100 worth of repair work and court costs. To check for information on the consumer laws check your local Better Business Bureau, Consumer Protection Agency and/or state attorney general.

A LITTLE KNOWLEDGE DANGEROUS FOR BUSINESS?

A good number of businessmen--dealers included--like to think that the reason the public clamors for regulation of business is that the public is uneducated. The reasoning goes that education brings an understanding of the value of the free enterprise system. Not so according to a survey of 2,000 people by Compton Advertising. College educated survey respondents were divided about the same as the rest of the population when it came to deciding whether the government regulated economic activity not enough, too much or the right amount. However, some 51 percent of those with college courses in economics thought the government should regulate business and industry more! Of those with high school courses only 38 percent were in favor of more regulation, and only 35 percent of those with no courses favored more regulation.

Probably Dec'd in Oct 76 RT

ANALYZE THE VENDORS YOU MAY BUY RIGHT BUT NOT BE RIGHT

One of the sayings that has somewhat dropped out of popular use is, "buying right." Too often, as it is too well known, there is no bottom price. And too often because dealers (understandably) want to buy right, price becomes an overriding factor in choosing a vendor. Price shouldn't be the only factor, perhaps not even a major factor. The vendor's performance, which affects price, should be considered. How? Here's a quick "laundry list" of the things you should look at when evaluating a vendor's performance. After the list there's a couple of hints from dealers who actively pursue a vendor analysis program.

Discount trade-off

Is there a trade-off between quantity discounts (or the bottom line price) and the cost of placing orders, the investment in inventory needed to reach a maximum discount, the costs of storage? Can you order from the

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vendor so that you'll maintain a balanced inventory resulting in a high service level but not an overstocked inventory position? What are the lead times for ordering; if the vendor says the lead time is x days, how accurate is that and does he monitor that accuracy? How do the product brand names stack up against others? How good is the product quality? What types (and how often) of deals are available? Are the slower moving items available from wholesalers, is the entire line available from wholesalers?

Monthly varies

One of the most salient points about vendor analysis is that it should be an ongoing activity. Performance of vendors can vary from month to month. Set up some sort of scoring system. Then you can talk to your vendors and say, "Here's your performance, and here's how it stacks up against the rest of the industry." Do that for both good and bad. Don't isolate performance within a single month. Although monthly analysis is necessary, because performance will vary a single month's performance presents a distorted view. Include an analysis of competitive aspects such as brand name recognition, customer resistance and/or acceptance of products, ability to make substitutions with, or for, retail price points, and quality comparisons with other product lines.

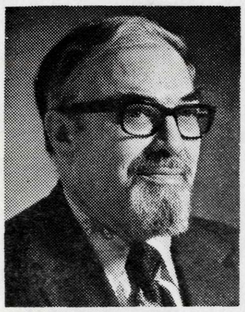
A LITTLE CHANGE BRINGS A LOT OF CHANGE FROM CPA

It never ceases to amaze us when we hear stories of how dealers make small switches in accounting procedures and receive big benefits in improved operations and/or profit pictures. Twelve months ago, in this newsletter, in an item titled, "Deal With Your Banker As Though You Were That Guru In The Sky," we told the story of a dealer who seldom sees his banker. He hired a controller who does all the negotiating while the dealer remains aloof from all discussions. The banker sees the controller all the time. The controller uses the dealer/president to close--just like selling a pencil, chair or calculator. The dealer is introduced with a flourish and a, "Here is the president of our company." That automatically sets the dealer up as an expert, puts him on a level with (or above) the banker and establishes him as the person the banker wants to do business with. It also makes the dealer the person who can say "no" with immunity and will force the banker to sell to him.

Guru in the sky

A bill and statements

After reading that article, another dealer of almost identical size (both were medium size dealers) decided to try it. He, however, decided that he couldn't really afford to bring a controller onto his staff.



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NOVEMBER 1976 VOL. 11, NO. 11

PROBLEMS WITH UPC/OCR-A

Everyone would like to have complete product information in machine-readable form on every item they sell. Then scanners could accumulate product movement error-free (at least, in theory). Most "data utopias" are based on this approach.

Most retailers deal with only one product code and forget that there are almost a dozen others–National Drug Code, Health Related Items Code, Publication Code, Alcoholic Beverage Code, Stationery & Business Supplies Code, Electrical Supplies, Air Conditioning, Plumbing, Distribution Industries and the General Service Administration.

Most retailers forget that there are many manufacturers who do not sell hundreds of millions of dollars in 3 sizes of coffee cans–most sell only hundreds of thousands of dollars spread over hundreds of sizes and models.

Most retailers forget that the same manufacturer may sell to a number of different types of outlets, each with its own code. In addition to two or more retail codes, a product may be listed by the General Service Administration.

And finally, retailers forget that many manufacturers' codes involve some logical grouping of part or style numbers that have some meaning to the people working with the products. This means that many manufacturers, who collectively represent a significant portion of store sales are faced with the problem of incorporating 4 or more codes on their labels (their own logical code, 2 or more industry codes and the GSA code).

Label printing costs become fantastic–because machine-readable codes require precision printing–and that means buying labels in larger quantities and eliminating the "blank" label that can be imprinted as needed.

COMPUTERS and **PEOPLE** in their January 1976 issue ($11.50/yr, $2/issue, 815 Washington St., Newtonville, MA 02160) had an excellent article showing the projected cost for a small but important supplier. Waldes Kohinoor, Inc., on Long Island, manufactures retaining rings, grooving tools and hook-and-eye tapes. They do a volume of about $15 million in 17,685 separate and distinct parts (which are packaged in an average of 6 quantities per part).

They estimate the one-time cost to move to the Uniform Product Code (without considering the cost of GSA or another industry code) would be more than $1,400,000, or 10% of annual sales!

A MATTER OF ETHICS

This is the time of year for ethical retailers to be reaffirming their policy that gifts to store personnel from vendors are contrary to store policy, must be refused (an employee who keeps a gift risks discharge), and are unnecessary to the relationship between store and vendor.

In 1975, R. H. Macy & Co. ran, in **Women's Wear Daily** (and perhaps in other publications), a letter to this effect, signed by Donald B. Smiley, Chairman and Herbert L. Seegal, President. This is to be commended–and hopefully it will start a trend.

But this should not replace letters from store principals or CEOs to their counterpart in vendor firms carrying the same message.

And, of course, the refusal of gifts applies to the CEO and those close to him at the top of the pyramid. Sometimes this is overlooked.

RThought: It is bad enough to have Citicorp defend their practice of stealing credit balances from bank card customers by saying, "we were just doing what the retailers do." Let's not have Lockheed making the same claim in Japan, the Netherlands and elsewhere around the world.

Just a few examples. It costs $25 each for a film master of each UPC code. Assuming they do not have to get a different film for each package size, that is $25 times 17,685 or $442,125! If a different code number is necessary for each size package then they require 106,110 codes at a cost of $2,652,750!

Providing an initial supply of labels for each product would cost approximately $250,000 including the labor costs of writing the specifications, checking and proofing. Relabelling their present cartons and boxes would require either shutting down for 2 weeks (losing $600,000 in sales) or providing extra labor. The estimated cost of this is $364,000 (all boxes must be relabelled so that the program can be switched at one time from the old numbers to the new ones).

Program modification is estimated at $63,000, replacement of catalogs (they have 175,000 in circulation) is estimated at $270,000 and new price books would run $19,000.

This does not cover the costs under Murphy's Three Laws (No. 1–If something can go wrong, it will; No. 2–Nothing is as easy as it looks; and No. 3–Everything takes longer than you think it will).

RThought: Companies doing $15,000,000 are an important part of our system. An infinite variety of slow-moving merchandise is necessary to satisfy our infinite variety of customers. Assortment and variety of items and package sizes are inherent in our competitive economy. Are we being realistic in assuming that machine-readable product codes can be broadly applied in retailing beyond the grocery departments in supermarkets?

THE LESSON FROM SEARS' TWO CONSENT ORDERS

Part I—"Bait and Switch"

There are thousands of merchants around the United States who should be learning a lesson from the recent "bait and switch" consent order entered into by Sears with the Federal Trade Commission (FTC).

At the time the FTC filed the charges in 1974, RT was collecting data on the conduct of Sears because of an unusually high number of reports from competing retailers that advertised big ticket items were "nailed to the floor."

What are the facts?

First, one must keep in mind that for years—perhaps decades—retailers have looked up to Sears almost as much as did Sears customers for good values, high ethical standards and good citizenship. It was hard for many competitors to really believe what they were seeing and what was being reported to them.

Second, Sears has changed drastically in the past 10-15 years. Gone is the close-knit feeling of the employees, gone are the dramatic stories of riches for the participants in the profit-sharing plan, and gone is the management's acceptance of obligation toward employees. It is hard to tell which came first, but certainly the abandonment of many of the employees by management had its impact on the employees that remained. When stores are closed and virtually none of the employees are relocated, then all remaining employees get the message.

Third, Sears has come upon hard-times of late—more in the stock market, where the short-sighted investment community demands a new record every quarter or else they publish reports suggesting owners dump the stock, than in actual performance. There have been bad years for auto insurance and there have been mistakes in the merchandising direction taken by Sears. But this is not a case that can be compared with the decline of The Great Atlantic and Pacific Tea Company from their towering heights above the food industry.

The cure sought by Sears' top management was and is a short-sighted one. They increased the pressure for "bottom line performance." That is the standard demand developed in retailing (and all business) by the modern, professional, tough, effective executives. Gone are the people who say "the name of the game is pleasing customers" or "the name of the game is integrity and honesty." That isn't said by the giant retailers now in the hands of professional management—that is more likely to be said by the little guy in the family-owned business. And, those are the people that professional management prey on like a pirahna.

This brings us to the case at hand—the consent order banning "bait and switch" tactics.

When this charge was first made public in 1974 (the investigation started in 1971), Arthur Wood, Chairman and CEO of Sears, called the charges "ridiculous" and "ludicrous." He said that such action was contrary to the policies of Sears and that Sears would "vigorously oppose" the FTC. After 11 days of hearings, which included testimony from 18 former employees, Sears threw in the towel and asked the FTC to enter into discussions of a consent order.

Gone was the bravado. Gone was the confidence that Sears policies were being complied with in the stores. And gone was some more of Sears' image.

The original settlement proposed by the FTC included a requirement that Sears modify their incentive compensation plan which places very heavy pressure on commission salesmen to sell-up. This requirement was not in the consent order—but it certainly must be addressed by Sears.

But the consent order, which will not be final until December 20, 1976, does require that salesmen make an offer to sell the advertised model before going into a step-up, that adequate stock be on hand to back each ad and that the ad be prominently posted (if a radio or TV ad, the copy is to be posted).

What can be learned from this sad experience?

1. Pay attention to little incidents—they may be the tip of a big problem. Two years before the FTC filed their charges Sears had entered into a consent decree with the State of Wisconsin on similar charges. Sears should have realized that if it could happen in one state it could happen in all 50 states. But apparently this was not enough to prompt thorough investigation of the problem.

2. Management must look carefully at the impact of strong policies. Wood said, when this issue first became public, that store personnel might have been cutting their inventories too close. They cut their inventories in response to pressures from above. When they are also under pressure to improve gross margin and store profit it is only natural that they will go short on the low-markup goods and long on the high-markup goods. Unless top management prescribes minimum on-hand quantities for low-margin promotional items, the natural course of events will be just what happened.

3. Management must recognize that strong compensation incentives to trade-up will produce bait-and-switch activity. When management panders to the selfish interests of employees, they must accept the penalty. A progressive incentive system—higher commission on higher markup goods—never improved the honesty of the sales effort. If Sears elects to remain on the plan, they are going to have to use an army of test shoppers to see that the FTC consent order is carried out (when approved, the order provides for a penalty of up to $10,000 for each separate violation of the order).

4. Department and store managers are going to have to be checked much more carefully. They, too, are on an incentive system. When each layer has its own incentives, who is going to stand fast and say "that is dishonest" when someone suggests that the promotional TV sets be connected to a bad antenna system or that a sewing machine be poorly adjusted so it will do a poor job. The man who will make a larger bonus if the higher price model is sold? Very seldom. And less so since Sears employees have modified their view of management's loyalty to them.

HATE THE GOVERNMENT–THEME OF MAJOR RETAILERS?

RT is concerned everytime a group of major retailers get together–or are brought together by a magazine in a "round-up" type article. Chain Store Age did just that recently in their Executive Edition (Oct 76) under the heading "Chains struggle with govt." (Sic).

RT has recently criticized the government for phony figures ("The Sad Tale of Publishing False Crime Figures," RT Oct 76) but the government can really plead "We are only doing what top retailers do." The article may not have quoted correctly–but Chain Store Age did attribute the remarks to specific people.

The article starts out, "The U.S. Office of Management and Budget estimates the **total cost** of Federal regulation as high as $130 billion annually" and proceeds to say, "It means increased staff dealing with government agencies, filling out forms, monitoring and interpreting regulations and fighting those that are allegedly unfair, and increased operating costs complying with new laws."

Let's look at those figures for a minute. That is more than 9% of the 1974 Gross National Product of $1,400 billion. Obviously it is not all paperwork and reports. This probably includes such things as excess costs because airline and other transportation rates are regulated, income taxes are collected, and minimum wages are established.

The National Association of Food Chains picked up the idea–and published a table showing the annual federal forms for "a typical food chain" and reported that more than 20,000 man-hours are required to complete the forms. NAFC forgot to tell us what they consider a "typical" food chain. Perhaps Winn-Dixie or Albertson's?

Richard E. George, EVP-Finance for Jewel Companies, Inc., picked up the theme (he was on the NAFC task force) and, apparently misquoting the figures, said, "Not counting tax filings, we estimate a **typical** supermarket chain spends 13,700 man-hours a year filling out federal forms" (emphasis added). Positive, factual statement–but not worth the paper it is written on.

Not to be outdone by NAFC, Supermarket Institute (SMI) put out their own chart. SMI surveyed 6 geographically dispersed food chains, ranging from 3 to 300 stores, and showed that the cost for compliance with government regulations ranged from $857 to $13,648 per store. SMI **thought** they were showing how expensive government regulation is–but they really showed how inefficient some chains are. If one chain can comply for $857 per store per year wouldn't you wonder about the management of a chain that said it cost $13,648 per store per year?

J. L. Stell, President of Lucky's made two protests. One was factually wrong. "I don't think anyone can use all that information and it's old by the time it's published. We have to telephone 800 stores every Monday, at substantial cost, for their weekly sales figures, which have to be rushed off to the Census Bureau on Monday night. That information doesn't even get published for 5 or 6 weeks." Mr. Stell–the Weekly Retail Trade Report, including those figures, is published every Thursday for the week ending the preceeding Saturday. I have my copy the following Monday. Most metropolitan newspapers report the information and the stock market goes up and down based on that information.

Later, Mr. Stell protested an $85,000 environmental impact report for a warehouse in a "rural part" of California that added $9,000 a year to the rent. Mr. Stell apparently felt that the size of the warehouse wasn't important. $9,000 is $9 per foot on a 1,000 square foot warehouse but under a penney a year on a 1,000,000 sq. ft warehouse (Lucky has two this size).

Donn B. Miller, EVP for Carter Hawley Hale protests "There's been a deflection of energy from commercial service to customers to (compliance with) regulations that don't contribute to better customer service." Apparently Mr. Miller forgets the millions of dollars his firm has recently paid back to customers following disclosure of illegal price maintenance agreements and stolen credit balances. CHH might argue that maintaining artificially high prices and stealing credit balances actually improved commercial service by streamlining it!

Mr. George, of Jewel Companies, expands his logic when he says "We have a tough time understanding the needs of local consumers at headquarters–that's why our divisions are autonomous. If we have a hard time in Chicago figuring out what consumers what in Champaign, Illinois, it's got to be 10 times more difficult from Washington." Mr. George could do a much better job of figuring out consumer needs if Jewel Companies succeeded in getting as many people to write to them with complaints as will write to their Congressman, Senator or a government agency with a consumer protection function. The government has succeeded in generating communications from dissatisfied citizens; retailers have not.

But there were some excellent thoughts expressed (hopefully they will not be lost in the venom spread through much of the article). Donald V. Seibert, Chairman of Penney's said, "If you think about the governmental process, with the right to appeal, you shouldn't get to the point of paranoia." J. G. Michaux, representing Federated Department Stores in Washington, said, "It's up to the industry to **work with Congress** to determine what's reasonable. There's a need for a long-term continuing relationship" (emphasis added).

And, Richard Dreher, of Dayton's, said "A lot of concern has been a long time coming and should have happened before this. Retailers never even thought about things like toy safety." (And, RT would add that there are hundreds of dead and maimed children because retailers failed their customers.)

RThought: Government is not going to go away. Continued expressions like those of George, Stell and Miller are fodder for consumer and environmental activists. It is probably that the statements are more damaging to retailing than are most of the efforts of the outsiders. Retailers are not alone–sit in on a meeting of bankers or manufacturers and the same mistakes are being made. Everyone talks about how effective and efficient management is in our private sector. A great defense against abusive legislation is to run non-abusive businesses.

CREDIT OFFICE RATING

RT is pleased to see a growing HONOR ROLL listing. When RT first set a standard of 5 working days between cycle closing date and postmark date on customer statements, many firms thought it was not possible. Today a large number of firms meet the new standard of 4 working days.

HONOR ROLL

Company	Days	Company	Days	Company	Days
Maison Mendessolle	2.0	Routzahn's	3.0	Hess's	3.9
Rubenstein's	2.3	I. Magnin	3.3	Joske's (Houston)	4.0
Hink's	2.6	Montgomery Ward (Houston)	3.5	Macy's (NY)	4.0
Bullock & Jones	3.0	Iver's	3.5	Sears (Dallas)	4.0
Jurgensen's	3.0	Oshman's	3.7	J. Magnin	4.0

CREDIT OFFICE RATING

Information From Reporters	AUG-SEPT 1976 No. of Reports	AUG-SEPT 1976 Days to Bill Average	AUG-SEPT 1976 Days to Bill Range	JUNE–JULY 1976 No. of Reports	JUNE–JULY 1976 Days to Bill Average	JUNE–JULY 1976 Days to Bill Range
Bergdorf Goodman (NY)	1	8.0	8	—	—	—
Bullock's (N. Cal.)	8	6.5	5-10	7	8.7	7-11
Bullock & Jones (SF)	1	3.0	3	1	6.0	6
Capwell's (Oakland)	10	8.0	7-10	7	6.1	6-7
B. Dalton (LA)	1	8.0	8	—	—	—
Emporium (SF)	5	6.4	5-8	5	6.2	6-7
Foley's (Houston)	2	9.0	8-10	—	—	—
Gottschalk's (Fresno)	1	12.0	12	1	11.0	11
Grodin's (No. Cal.)	1	10.0	10	—	—	—
Hastings (No. Cal.)	3	4.3	3-6	1	5.0	5
Joske's (Houston)	2	4.0	4	—	—	—
Jurgensen's (LA)	1	3.0	3	—	—	—
Liberty House (No. Cal.)	1	6.0	6	1	5.0	5
Livingston Bros. (SF)	1	6.0	6	1	7.0	7
Macy's (NY)	1	4.0	4	—	—	—
Macy's (SF)	6	7.2	6-9	8	7.4	6-9
I. Magnin (SF)	3	3.3	3-4	3	3.7	3.4
Jospeph Magnin (SF)	3	4.0	3-5	2	3.0	3-4
Maison Mendessolle (SF)	1	2.0	2	3	2.3	2-3
Montgomery Ward (N. Cal)	3	5.3	5-6	—	—	—
Montgomery Ward (Houston)	2	3.5	3-4	2	7.5	6-9
Palais Royal (Houston)	1	10.0	10	—	—	—
Penney's (LA)	1	9.0	9	—	—	—
Saks (NY)	1	7.0	7	—	—	—
Sears (Alhambra)	2	5.0	5	5	4.8	4-5
Sears (Dallas)	1	4.0	4	1	4.0	4
A. Sulka (NY)	1	7.0	7	1	4.0	4
TOTAL	65	6.2	2-12	49	6.1	2-11

Information From Stores	AUG-SEPT 1976 No. of Reports	AUG-SEPT 1976 Days to Bill Average	AUG-SEPT 1976 Days to Bill Range	JUNE-JULY 1976 No. of Reports	JUNE-JULY 1976 Days to Bill Average	JUNE-JULY 1976 Days to Bill Range
Brock's (Bakersfield	20	5.4	5-8	18	6.0	4-8
Hess's (Allentown)	8	3.9	1-5	8	3.5	3-4
Hink's (Berkeley)	18	2.6	2-4	—	—	—
Holman's (Pacific Grove)	1	8.0	8	10	8.2	6-10
Iver's (Los Angeles)	10	3.5	3-4	11	3.3	2-4
Levee's (Vallejo)	20	6.1	3-9	20	8.6	5-12
Levy Bros. (San Mateo)	32	4.6	3-10	30	5.4	2-8
Mervyn's (No. Cal.)	20	4.2	3-5	8	4.2	4-5
Oshman's (Houston)	10	3.7	3-5	8	4.0	3-5
Penn Traffic (Johnstown)	10	4.6	3-6	5	3.2	3-4
Routzahn's (Md.)	2	3.0	3	2	3.0	3
Rubenstein's (Shreveport)	3	2.3	2-3	6	2.0	2
Wineman's (Hntgtn Pk)	8	8.1	7-12	8	8.5	6-10
TOTAL	162	4.6	1-12	166	4.9	2-12

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 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.

RThought: It has all been hung out in the Sears case. But much of what has been described above may be going on right now in your own company. Is your own incentive compensation plan interfering with the ethical standard you think you are maintaining? If you had been Arthur Wood and knew of the situation in Wisconsin that led to a consent order, would you have assumed that this was the only state in which you had a problem?

Do you really think that "the name of the game is profit" and that this means profit in the shortrun?

If the law is changed so that corporate executive who knows of illegal conduct (such as bait & switch, unclean food operations, overstated and unsupported advertising claims, employment discrimination, inducing illegal price concessions) is subject to and is jailed and fined, would you, who today claim to be law-abiding executives, suddenly change your own conduct?

These are tough questions—but they must be answered. Going to church or temple regularly will not make you any more honest or more ethical than your daily performance before your fellow man.

Part II—Restrictive Shopping Center Leases

Sears has also signed a consent following charges by the FTC that Sears, as a major tenant and/or a developer, excluded tenants that would compete with Sears or would have offered discount prices; maintained control over ranges of prices, fashions and quality that could be offered; set limits on floor space available by type of tenant; controlled advertising; established radius limits on other stores owned by tenant firms; and controlled store hours.

The consent order entered into by Sears meets all of these points and Sears agrees not to enforce existing agreements or create new agreements that conflict with the consent order. The Order will become final December 27,1976, unless public comments should lead the Commission to review its position.

Once again Sears had made the wrong kind of comments in response to questions about this latest move by the government to bring Sears into compliance with laws. Arthur Wood, Chairman of Sears, is quoted as saying that "this is the latest of a series of orders against selected retailers (NOTE: Remember that Sears' volume approximates 1% of the Gross National Product. Ed.) who have been following industrywide practices in the setting up of shopping center leases." One report attributed to a Sears spokesman a complaint that the FTC had been moving against other retailers on these points for the last 5 years and that it would have been more appropriate if the FTC had issued a general order governing the entire industry.

One wonders how long the government has to move (and win) against other retailers before Sears begins to understand that they have been misinterpreting the law. There is nothing in the American system of common law that requires the government to issue such rules. When the courts (or authorized quasi-judicial agencies) make a finding in one case, it becomes precendent for all similar conditions.

Wood expressed his most bitter objection to the allegation that Sears was involved in price fixing. But it will be hard to convince any retailer that lease terms banning discount stores from shopping centers (apparently common in Sears/Homart leases) do not involve price-fixing.

During these same 5 years, even a relatively small consultant in the retail field—me—could advise his clients that clauses such as store hour requirements, unreasonable (price-line) restrictions on merchandise and similar provisions appeared unenforceable at law. But Sears, with all their staff attorneys, apparently took the position that everything they did was OK unless the United States Government made a personal call on Mr. Wood.

Sometimes Sears does things right—like they used to do most of the time. Recently Sears ran an ad in Tuscon for a $99.95 CB transceiver at a sale price of $84.88. By mistake the ad contained a picture of a $300 unit. The store sold the 6 high-price units in stock and then issued rainchecks (limited to 1 to a household) to others who came in. The situation was aggravated by the CB'ers who, obviously, had their own means of spreading the word.

It is true, as a spokesman said, that Sears went far beyond the requirements of the law. But then, most ethical retailers have long realized that the requirements set by the law are really an undesireable minimum.

THE END OF STOLEN CREDIT BALANCES

As a result of Federal Trade Commission action, some of the largest and best known retailers are refunding stolen credit balances to the rightful owner. When RT started challenging this dishonesty many readers thought that this was just a case of writing off small balances. Carter-Hawley-Hale issued a statement pointing out what a small percentage of their total credit volume was involved, thus seeking to establish the general principle that stealing small amounts from small people is honest business.

The recent release of information on the refunds to persons who had credit balances over $1 "written off" between June 30, 1972 and June 1975 (in some cases through September 1975) permits us to compute the **average credit balance stolen.** Here is how these merchants line up:

Bergdorf-Goodman	$35.28
Saks Fifth Avenue	30.06
Neiman-Marcus	22.72
Lord & Taylor	20.10
Gimbels	15.25
Associated Dry Goods other than L & T	15.18
Broadway	12.02
Weinstock's	11.36
Emporium-Capwell	8.73
Lerner Shops	6.24

RThought: Can you imagine writing off credit balances averaging over $35 and considering yourself honest? Then repay 4 years later without interest?

Still to come: Genesco fought the complaint as it applied to Bonwit Teller and now awaits a ruling.

COMMERCIAL BRIBERY

Papermate, a division of **The Gillette Company,** claims that Flair is number one in retail sales but their sales method certainly cannot be considered number one (perhaps it is considered "razor sharp?"). A recent advertisment in **Office Product News** (October 1976) (and now being repeated in newspapers) offered a Springfield Weather Station (value $10.95) with an order for 1 gross, a 3/8" Skil drill (value

$34.95) with 3 gross, a Gillette Office/Home Safety Kit (value $63.94) with 6 gross and a Craig AM/FM stereo 8-track player system (value $149) with 12 gross. The advertisment is aimed at the person who places the order and not at the company who pays for the order—the ad says "To order your Flair Pens and bonus offer, call your nearest Papermate representative."

RThought: Do you really need Flair in your office or on your store counters?

SHORT SHORTS

Malcolm Forbes resorted to intentional distortion of Mr. Carter's income tax payments (investment tax credits reflect compliance with the Ford policy of stimulating the economy) as he turned his magazine into a political front for Mr. Ford during the election. Once Forbes put his magazine first among business publications by being objective—now he has resorted to selective abstractions out of context in order to present an incomplete and inaccruate statement. Malcolm Forbes should think a moment about his responsibility to practice journalism in a manner that will produce a better tomorrow. He might recall these words: "Upon our children—how they are taught—rests the fate—or fortune—of tomorrow's world." Who said this? Bertie Charles Forbes, his Father.

THE ACTUALITIES OF ELECTRONIC FUNDS TRANSFER

Probably the largest single Electronic Funds Transfer System (EFTS) now operating is the transfer of Social Security (SS) payments directly to an individual's bank or savings account. This has been developed jointly by the banks and SS with considerable publicity.

This is the simplest system possible. Once a month on a fixed date a predetermined amount will be transferred to a specified account in a specified institution. Changes of amount are infrequent; changes in account are infrequent; termination of arrangements are infrequent.

This should work perfectly—but over 800 people wrote the House Banking Committee telling how it worked (or didn't work) for them. Virginia National Bank stopped sending deposit slips to confirm the arrival. A Los Angeles bank would not make the money available for a few days waiting to see if the deposit was good! Another bank started imposing a $1 service charge if customers called in to check their balance if the balance was under $100 (the customer just wanted to know if the deposit had arrived).

The Committee then learned that SS (probably in pointing out savings in cost to the bank if using the system) advised banks that if they stopped sending out deposit slips that they should notify the depositor if a payment is not received!

RThought: In this case, Representative Henry Reuss is representing the consumers before the U.S. Treasury Department—but in most EFTS proposals the consumer will be ineffective until abuses by the operators of the systems become so great that consumers will be able to force new legislation.

CREDIT DEPARTMENT PROBLEMS—INEFFICIENCY OR RESTRICTIVE LAWS?

One of the popular melodies sung by credit managers and retailers is the horrible burden that new laws have placed on them. Everything from the failure of the midi-skirt to the high unemployment rate has been attributed to Truth-in-Lending and some closely related Acts.

Are the problems with the legislation or with management? RT previously reported the problem with Bullock's of dunning for a balance not yet billed. Now comes the case of Saks Fifth Avenue who can't identify a customer that has lived at the same address for almost 2 years, is employed by a major university, has a many-year-old credit card with American Express and long-standing accounts in San Francisco and New York stores.

The tale started with a typed fill-in of a form letter that says "We have carefully reviewed your application but regret that we are unable to establish an account for you at this time." When the applicant asked "Why?" the response was ". . . we were unable to obtain a credit report on your name as given on the application."

One of the reasons that there may be no record is that the accounts are old and never have been a day late nor has a finance charge ever been paid. That's the very kind of account that credit departments apparently are unable to handle—no record.

The applicant advised Saks that she thought she could get along very well with the wares from I. Magnin and that she had just received, without question, a credit card for Neiman-Marcus.

Apparently they have a better file on the applicant in Dallas than they do in her long-time permanent residence, the San Francisco Bay area.

RThought: Once again, someone in the credit bureau is so tied to a computer that they don't even read the contents of the application. One would think that confirmable employment at a major university combined with a complete lack of negative information might have suggested that the applicant was creditworthy. Or does the public expect too much from credit departments?

WORDS TO JUDGE ONE'S SELF BY

I am indebted to my sister, Elinor Kamath, who once served as RT's secret European reporter, for the old Persian poem that sets forth a means of categorizing people.

He who knows not and knows not that he
  knows not is a fool—shun him
He who knows not and knows that he knows
  not can be taught—teach him
He who knows and knows not that he
  knows is asleep—wake him
He who knows and knows that he knows is
  a prophet—follow him.

old Persian poem

U.S.A. - Stolen credit balances on charge accounts

In his bulletin "Retailing Today", Mr. Robert Kahn has drawn attention to the action of the Federal Trade Commission which has alleged that certain department stores had stolen the money which customers had overpaid on their charge accounts. The stores concerned agreed to make refunds to customers after the Commission said they had not adequately notified some of their customers that they had the right to cash refunds from overpaid accounts. Under the agreement refunds were made to all those who had a bill over-payment or credit balance of more than one dollar during the period June 1972 to June 1975.

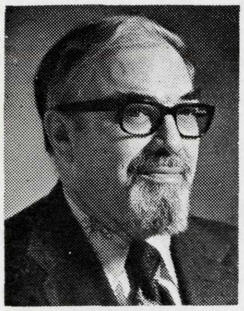
It was not clear from earlier information how much money and how many customers were involved, but "Consumer News", published by the Office of Consumer Affairs and the Department of Health, Education and Welfare, has now for the first time made public details of the final payments of these refunds. It shows that 3.4 million dollars and 192,000 customers figured in them. Its figures are as follows:

Department store firm	Amount refunded (thousand dollars)	No. of customers refunded	Average per customer (dollars)
Associated Dry Goods (other than Lord & Taylor)	572	37,681	15.18
Bergdorf-Goodman	210	5,945	35.28
Broadway	126	10,475	12.02
Emporium-Capwell	77	8,837	8.73
Gimbels	645	42,262	15.25
Lerner Shops	100	15,981	6.24
Lord & Taylor	441	21,951	20.10
Neiman-Marcus	241	10,600	22.72
Saks Fifth Avenue	1,060	35,267	30.06
Weinstock	32	2,818	11.36

U.S.A. - Arlen leases W.T. Grant stores to other retailers

The closing of many hundred W.T. Grant stores following the disappearance of the firm has meant that numerous shopping centres have been left with empty premises and that other retailers in those centres have feared for the effects of these empty stores on their own trade. Arlen Shopping Centers of Chattanooga, Tennessee, a subsidiary of Arlen Realty, took immediate steps to reassure other merchants in its centres that they would not be abandoned and that they were all partners in choosing new tenants. Members of its staff visited all the retailers in all the centres.

Arlen owns and/or manages about 200 shopping centres in the United States, in which there were 20 Grant branches, most of them anchor stores. They represented a total of 1.5 million square feet (139,000 square metres) of space which had to be filled.



RETAILING TODAY

Editor: Robert Kahn CMC (Certified Management Consultant)
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ROUTE TO

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A SEASON'S GREETING

This is the time of year when we wish each other happiness and joy. And it is the time of year when we make resolutions to improve our own conduct.

Let me express to each of you my best wishes for a happy 1977, a year in which I hope we will all contribute to making this a better world. As others benefit by our efforts, so shall we.

We can not make our lives only a matter of making money and spending it–we must put something back into our community if we want to continue taking something out. If you don't do something to make the world around you a better world, then what right do you have to expect someone else to do it?

Sure–if you won't do your share, I'll just have to do more than my share. And fortunately there are many others like me who are willing to bear the load that you should carry–but don't want to.

There is no such thing as a world that can be paid for by our taxes, operated by people who do it for a salary, and serving those who won't even say "thank you".

Let me give you a few simple rules for the coming year.

1. Never go to bed mad. It will destroy you more surely than it will destroy the object of your anger. It is especially bad if you go to bed mad at one in your family–someone with whom you can easily make up.

2. That brings us to the rule for a happy marriage. Remember that marriage is a 60-60 proposition. If you both think it is a 50-50 proposition you will find that most of the world can flow through the gap between your concepts of the mid-point. But if you accept that it is a 60-60 proposition–that each of you is going to go more than half-way–then you are certain to be able to find a meeting point.

3. Remember that there are 20 ways to do any job–5 are perfect, 10 are good and 5 are wrong. More time and effort is wasted arguing which of the 5 perfect ways one should do a job than in any other source of argument.

PEACE.

A MATTER OF ETHICS

Ralphs Grocery Company is the largest part of Federated Department Stores–one of the leaders in advocating higher ethics in retailing. Federated gives the Fred Lazarus Jr. Award each year for the outstanding contribution by a retailer to the betterment of his community.

In the meantime, Ralphs, in a copyrighted ad stating "All Rights Reserved," using a full page in the September 20, 1976 issue of the Los Angeles Times, headlined "Leading Consumer Magazine Picks Ralphs Frozen Orange Juice NUMBER ONE*". The asterisk refers to a statement "*Consumer Reports Magazine, August 1976, pages 435-442. See full article for complete ratings, analysis and full details."

Note that Ralphs carefully copyrighted their ad and reserved all rights.

But they totally disregarded the rights of the Consumers Union who attempted to protect their own rights from just such greed by stating as follows:

> "Contents of this issue copyright © by Consumers Union of the United States, Inc. All rights reserved under international and Pan-American copyright conventions. Reproduction in whole or in part is forbidden without prior written permission **(and is NEVER permitted for commercial purposes).**" (Emphasis added).

RThought: Apparently the law of the United States does not apply to Ralphs–or at least they operate that way. One is forced, as was a recent judge in a California case, to resort to the word "Chutzpa"* to describe the conduct of Ralphs in copyrighting their violation of the copyright of the Consumers Union of the United States!

*Leo Rosen in the "Joys of Yiddish" (1968) 92, defines "chutzpa" as "gall, brazen nerve, effrontery, incredible 'guts,' presumption–plus–arrogance such as no other word and no other language can do justice to."

THE TRUE COMMUNITY STORE

One can run a community store in the midst of a gargantuan metropolitan area–even when that area is Southern California. Ezra Hinshaw has proved this with his Hinshaw Stores in Whittier and Arcadia.

The conviction of Mr. Hinshaw that you cannot take out of a community unless you also put back in is bourne out by both the store motto–"Pro dio, domo et patria" (For God, Home and Country)–and by a couple of outstanding special promotions.

Each November the store runs, backed by major institutional ads, their day of church support–the customer indicates on the back of the cash register tag the church of his choice and Hinshaw's send the church 10% of the purchase.

And each even year in November there is an Election Day event. The presentation of the numbered stub from a ballot entitles the customer to a 10% discount. In much of California the number is pulled from the right hand corner of the paper ballot and given to the voter–some of us pin this to our outer garment and wear it for the balance of the day as a reminder to others to vote.

What have you done lately to benefit your community? To stimulate people to vote?

DID MONTGOMERY WARD HIT THE VOLUME PANIC BUTTON?

There was a time when retailers had a "Courtesy Night" for charge customers. They offered 10% off on everything in the store except price controlled items. Montgomery Ward mailed a series of discount coupons ranging from 10% to 25% that were good only on Sunday, October 17th. The 25% DISCOUNT applied to all men's sports shirts, costume jewelry, pictures, diamonds, roofing, auto batteries, bras & girdles, bedspreads, lamps, grandfather clocks, paint, boys' jeans, men's dress slacks, draperies, light fixtures and carpeting.

20% was allowed on 18 categories, 15% on 16 and 10% on 17.

Apparently feeling this was not enough of a discount they sweetened the ad with a few half-off prices!

All of this was combined with an additional 3 hours of selling–from 9:00 a.m. to 5:00 p.m.

THE PERFECT EFTS SQUELCH

This comes from a talk by F. T. "Fritz" Biermeier, Vice President for Information Services of Supermarkets General Corporation, given to the 1976 Operations and Automation Conference of the American Banking Association:

> "I am rather excited about being here today. I have the opportunity to announce a new service that Pathmark will be offering in the New York area. The concept started in the Boston area and our concern about the loss of share of market has prompted us to consider it in the New York area
>
> "Exactly what am I talking about? Pathmark would like to put a small frozen food case in the lobby of each of your banks.
>
> "All we really need is a small controlled environment for the compressor and a small amount of floor space. Of course, we would want you to sell only Pathmark frozen foods.
>
> "We think we have something here. It will increase your traffic. It will make the consumer happy. Think of the thousands of additional places where the consumer will be able to get food–and right there when she is going in to get her money. That's the nice part of it.
>
> "We are only going to charge you a small amount for this. We aren't quite sure of the economics yet but if A&P does this in our area we are really concerned that we might lose our share of the market.
>
> "I think that this gives you an idea of the perspective that retailers have of some of the things being proposed to them these days."

RThought: Fritz got several great laughs–but he made his point. You might use this story the next time your banker tells you how he is scheming to pass his expense on to you–and then make you pay extra for doing his work. I suspect they think they can repeat the success they had in pushing the check-cashing costs on to the supermarkets. But there is an old saying applicable when something unfavorable happens to a person: "Do me in once, **shame on you**; do me in twice, **shame on me**."

COMMERCIAL BRIBERY

National Blank Book Company of Holyoke, Massachusetts, a subsidiary of **Dennison Manufacturing Company**, is advertising as follows "Stand by, Eagle Dealer . . . this is NBB with the CB Freebie Offer you can't refuse!"

If you call a WATS number they will tell you how you can get either a mobile or hand-held CB Transceiver free with a purchase of a special selection of National Data Processing or Micrographic supplies. Nothing in the advertisement restricts the offer to the company paying for the NBB merchandise–it is made to the person who makes the phone call.

RThought: National Blank Book Company is an old and reputable company–as is the parent company, Dennison. They don't need to resort to commercial bribery to do business.

THE TEST OF CREDIT CARDS

An RT reader recently was the victim of a purse-snatching while in Boston, far from her home. One of her comments was "I think the worst of all was the loss of my identity! Unbelieveable that little cards and driver's licenses are so essential to being 'you.' "

She reported the following performance. National City Bank replaced her traveller's checks very promptly. American Express had a new card waiting for her in NYC when she arrived a few days later. Master Charge said that no replacement would be issued until her return home. Her comment: American Express is well worth the extra cost.

She also wondered about the legal right of Avis to raise an American Express ticket to $170.80 when it was only for $113.08 when she signed it!

RThought: Master Charge doesn't tell you the things they don't do–like prompt replacement. And American Express doesn't tell you that they let firms pick whatever amount they want to get paid without regard to your signature.

DO YOU DISCRIMINATE AGAINST WOMEN BY NOT DISCRIMINATING?

That was the question posed by the requirement in Regulation B implementing the Equal Credit Opportunity Act which banned the use of sex as an item in a credit scoring system.

The **Credit Research Center** undertook to test whether or not combining data without regard to sex for purposes of developing a credit scoring system would result in approval of more or fewer applications from women. Working with some 2,000 applications for a bank credit card, they used two-thirds, selected at random, to develop 4 scoring systems–a legal one excluding sex as a variable, a pooled model with sex as a variable, a separate model for women and a separate model for men.

The results showed that at all cutoff points more women would be granted credit using the separate model for women than would be approved using the legal system that excluded sex as a variable.

BUSINESS WEEK DISTORTS RETAIL FINANCIAL REPORTS

Business Week (Oct. 18, 1976) had a major report on Federated Department Stores and contained therein was a table of figures purporting to show that "Federated outpaces other department store groups".

The table gave the following data and approximately half the figures were wrong or mislabelled:

Sales: accurate
Cost of Goods Sold in $ and %: **wrong**, because the figure used also included varying combinations of occupancy, buying, alteration costs and other costs in addition to cost of goods (do you believe that Federated had a cost of goods sold of 71.9%?)
Selling, general and administrative expenses in $ and %: accurate only if you assume that things like buying, occupancy, allowance of bad debts and a few other items do not belong in this category.
Net income in $ and %: exactly as reported in the annual report—but subject to varying application of accounting principles.
Number of stock turns per year: **absolutely and completely wrong!**

Let's look at 4 stores for the table that is supposed to show how good Federated is. Here are the figures used to compute the stock turns:

Store	Cost of Goods As Reported (000,000)	Ending Inventory Per Annual Report (000,000)	Stock Turns (times)
Federated	$2,669	$383.1	7.0x*
May Dept. Stores	1,412	261.2	5.4x
Allied	1,192	252.0	4.7x
Associated	1,008	217.5	4.6x**

*BW Showed 7.1x based on cost of goods as reported at $2,733 million.
**BW Showed 4.7x. Source of difference not detected.

Three major errors are involved in the reported figure for turnover:

1. The cost of goods figure contains cost factors that (a) are not uniformly computed by all firms and (b) which are not included in the inventory valuation **(thus overstating the turnover).**

2. All four firms use LIFO valuation but with different starting dates, and thus the degree to which inventory is understated in current dollars varies between firms. **The turnover is overstated most for the firm longest on LIFO (Federated).**

3. Turnover is naturally higher in supermarkets (only Federated has supermarkets—Ralphs Supermarkets is their largest division) and discount stores. **The turnover is overstated most for the firm with the highest percentage of food/discount volume.** The percentage of food/discount volume by company is as follows:

Federated	26%
May Dept. Stores	16%
Allied	5%
Associated	10%

Published data does not permit adjusting to comparable figures based solely on department store volume or separately by department/discount/food store—but adjustment can be made to correct for LIFO by adding the LIFO reserve to the reported inventory and subtracting the 1975 increase in the LIFO reserve from the cost of goods sold, thus converting both figures to FIFO. The results then become:

Store	Cost of Goods as Reported Corrected to FIFO (000,000)	Ending Inventory on FIFO from Annual Report (000,000)	Computed FIFO Stock Turns (times)
Federated	$2,728	$481.8	5.7x
May Dept. Stores	1,415	322.6	4.4x
Allied	1,192	274.0	4.4x
Associated	1,004	243.6	4.1x

The increase in inventory resulting from conversion to FIFO was as follows:

Federated	26%
May Dept. Stores	24%
Allied	9%
Associated	12%

RThought: There are two conclusions: (1) Federated isn't as good as Business Week thinks and (2) Business Week's staff is dangerous when left alone with reports they don't understand. Probably hundreds of thousands of BW readers thought the statistics meant something.

SHORT SHORTS

Barbie helps older dolls, There was criticism when Barbie Dolls developed a more mature figure—but that was the start of something that will help thousands of women. Ruth Handler, formerly of Mattel, Inc., is now active in Ruthton Corporation—providing what she calls a **"new, daringly different breast prosthesis."** This new venture is a result of her own problems—following a mastectomy 6 years ago-with prostheses then available on the market. Her company utilizes "mastectomees" as salespeople, fitters and at other positions in the company.

When Hammacher Schlemmer says "Complete Satisfaction Guaranteed" on their catalog items they mean a prompt refund on returned items plus a card that says "Dear Customer: Enclosed you will find our refund check. Our policy for over a hundred years has been "COMPLETE SATISFACTION GUARANTEED." We strive to please and we hope that we may serve you again in the near future. Cordially, Dominic Tampone, President."

Diners Club sells the "oink"! They used to say the packaging houses/pharmaceutical firms sold everything in a pig except the "oink". But Diners Club, which appears to be selling the imprint made by their postage meter, has found a way to sell the "oink".

A FEATURE REPORT

THE POLYGRAPH AND THE QUALITY OF LIFE

A strange combination of words for a headline to an important article. But the polygraph does raise major questions about the quality of life—questions which top retail management has found a way to avoid.

National Home Center News (425 Park Ave., NY NY 10022 $8/yr) recently dealt with the subject matter and found the states split. 13 states ban the use of polygraphs (Alabama, California, Connecticut, Delaware, Hawaii, Maryland, Massachusetts, Minnesota, New Jersey, Oregon, Pennsylvania, Rhode Island and Washington) while 20 states license the use of polygraphs.

The polygraph is typical of the "technological progress" that we are making—like Electronic Funds Transfer, computer information exchange based on social security numbers, and massive government files set up by the Army and FBI on citizens who have not committed any offense. The use of technology is like the man who was asked why he climbed Mt. Everest—"Because it is there," he replied.

How does this usage come about? As businesses grow they split into segments. New departments are created. One of the departments that ultimately develops is the security department. The specialist in charge of this department is seldom selected because of his sensitivity to human beings, his concern for the development of the total company, or his understanding of the inherent rights (including the right to privacy) of our citizens (and non-citizens).

The executives are measured by external factors—how many shoplifters or dishonest employees are caught, how much money do they spend, what was the shortage, and on and on.

This is why Dan Shoup, security manager for Scotty's Home Centers can defend his use of polygraph screening of all employment applicants on grounds of economy and say "Some companies spend lots of time contacting past employers and checking out references. That means a lot of correspondence and expense, not to mention the time delay." Polygraph tests cost only $20 to $30.

People fail the tests—up to 30%. Protection departments are inclined to claim that they saved the company money by eliminating that 30%. And they report that few applicants refuse to take the test (if the employment application indicates that a polygraph test is required, most people who object don't complete the application; those that do complete it, against their better judgement, probably are painfully aware that they are part of more than 7 million without jobs and they compromise their principles to get back into the economy).

RThought: Through all of this, top management succeeds in ducking the moral issue—by passing the buck to the "professionals" in the security and personnel departments. I am reminded of the experience of a client many years ago that turned him against polygraphs. There had been a rash of thefts from the employee locker rooms and one employee was accused. He agreed to take a polygraph test and a well qualified expert said the employee failed. He was terminated. Two days later the executive saw a young kid coming out of the employee's locker room, accosted him, caught him with an employee's wallet and the kid confessed to the other thefts. The polygraph had failed. One individual's life was sorely damaged. An executive made his decision.

RThought: While considering this question, ponder how you would answer the question raised by a Sears security executive when he asked "Would you want your daughter subjected to something like (a polygraph test)? That's why Sears doesn't use them.

THE THINGS PEOPLE SAY

An Ames Department Store spokesman was quoted in the October 4th issue of Discount Store News, relative to opening a "revolutionary new type of hardgoods operation" about November 1st (the date might change), as saying "Some of our ideas for the store haven't even jelled yet"? **RThought**: is this the way to create the image of a management planning for a significant investment?

WHAT MAKES ONE WONDER ABOUT ACCOUNTANTS

On November 5, 1976, Danners, Inc., issued a release saying that the cost of merchandise computed under LIFO had been understated by $45,373 ($.06/share) and $215,728 ($.32/share) for the two prior fiscal year endings (5% and 20% respectively). The release merely said that it was "as a result of an error in the computation."

The accountant for the firm was not named—but a check of the annual report indicates that it was Ernst & Ernst.

Two questions come to mind. First, how did such an error get past the independent public accountants executing their responsibility to the shareholders? Second, when the news release was made, why did it not contain a statement by the accountant whose work proved to be inadequate?

REMODELING PAYS

Nutler Store Equipment, Inc., of Louisville, Kentucky, studied the results of remodeling 25 office product stores. Gross profits increased by more than 40%—dollar sales by 25% and average individual sales by 10%. Part of the result was due to remodeling but the same dealers also instituted active advertising programs on a regular basis, worked to improve their margin and kept their shelves and bins full of merchandise (made easier by properly designed fixtures installed in the remodeling).

UNAUDITED STATEMENTS TO STOCKHOLDERS

This is a new feature in an attempt to disclose liberties taken by chief executive officers in their letters to stockholders wherein statements are made which appear to be inconsistent with the published figures.

Cullum Companies, Inc., 1st Quarter, 1977: Charles G. Cullum said of their record profit (up 128% from prior year), "We attribute our earnings gains to increased efficiency and improved merchandise methods". The pre-tax profit was up $1,322,000. The improvement in gross margin from 19.1% to 20% produced an additional $1,640,000 on the 1976 volume or more than the profit improvement. Selling, general and administrative expenses actually increased from 18.0% to 18.4%.

Send $1 to Credit Research Center, the Krannert Graduate School, Purdue University, West Lafayette, Indiana 47907 for Working Paper 8 by Gary G. Chandler and David C. Ewert: "Discrimination on the Basis of Sex Under the Equal Credit Opportunity Act."

RThought: The Credit Research Center under Bob Johnson, Director, and Bill Dunkelberg, Associate Director, is doing a great job. To keep up with their work, ask to be placed on the mailing list for **Monitor**, a bi-monthly newsletter.

SHOULD RETAILERS BE COMPELLED TO AID TAX FRAUD?

That is what the California State Legislature has decided and Governor Jerry Brown approved it.

AB 219 provided that after March 1, 1979, retail sellers who have annual sales in excess of $150 million on retail installment accounts must provide the buyer with a statement of finance charges **assessed** in the previous year.

The Internal Revenue Code does not allow consumers to deduct finance charges **assessed** (unless they report on an accrual basis, which few consumers do). An individual reporting on a cash basis is permitted to deduct finance charges actually **paid** during the year.

Yet California will now require that retailers put into the hands of consumers a document that will be used to chisel on income taxes.

RThought: How do we get integrity in our society when both houses of the legislature of the largest state pass such legislation (despite the fact that RT pointed out this situation to key legislators)? Then the bill is signed by a governor who constantly pats himself on the back for his high ethical standards. When he said that California "should lower their expectations" few people thought that they should lower their expectations of ethical standards from a former Jesuit.

GOOD SYSTEM, BAD GOAL

I recently received a sample issue of INSIDE RETAILING published by Lebhar-Friedman ($45/yr., 425 Park Ave., NY NY 10022) which contains some interesting analyses and comments on retailing. But it also illustrates the point that many technically sound approaches to retail planning end up by establishing inadequate goals. Unfortunately there is so much concentration on the technique of establishing the goal that no test is made of the adequacy of the goal.

In illustrating a firm that operates on an "investment-return doctrine" it disclosed that the company seeks for their stockholders a pre-tax and pre-interest return on net worth of at least 20% (the illustration shown was based on 21%). If we assume that borrowed money equals 50% of net worth (a conservative ratio) and that effective interest (including compensating balances and fees) is 8%, then interest is 4% of net worth (8% x 50%) and pre-tax return would be cut 17%. Assuming a tax rate of 50%, or slightly less, this would produce an after-tax return of 9%.

STOCK DATA ($10/yr., Robert Kahn and Associates, P.O. Box 343, Lafayette, CA 94549) shows that median price/earnings ratio for New York Stock Exchange companies (appropriate for comparison with their example of a company with $300 million equity) runs in the range of 7 to 8 times. Given an 8 times price/earnings ratio the stock would sell at 72% (8 x 9%) of book value!

Is this what stockholders really want? Is this what the company really wants—a return that puts the price of their stock below book value so that new stock cannot be sold without diluting the present stockholders?

And, if the company follows a policy of paying out dividends equal to 30-40% of earnings, the profit retained in the business will be about 6% (9% less 30-40%) which will finance a growth rate of only 6% a year (about the rate of inflation) unless the company can devise a better utilization of assets (such as selling off accounts receivable and absorbing the cost of outside ownership through replacement of the investment in receivables into inventory/fixture investments of new stores).

RThought: RT believes that "investment-return" is fundamental in planning. But a company should look at its present (or reasonable) price/earnings ratio, and divide that into 100 in order to determine the percentage after-tax return required to support a price equal to book value. The goal should then be set at producing an after-tax return above that amount, producing a market price above book value, which then permits access to the equity market as a source of funds for future development of the company.

THE "TAX SAVING" INDUSTRY

An RT reader sent along the sales material for Prentice-Hall's mailing to "top financial officers in closely held corporations" offering "Ten Tested Ways to Increase Travel and Entertainment Expense Deductions"—as an inducement to subscribe to the P-H Treasurer's Letter.

The goodies are highlighted as follows:
1. Deduction for Your Spouse's Expenses
2. The 'Best' Way to Handle Car Expenses
3. Maximum Deductions for Out-of-Town Expenses
4. Clinching Deduction for Home Entertainment
8. Mixing Business and Pleasure
9. 'Dolling Up' Your Office

P-H reports very narrow decisions that do provide maximum tax savings. But the inducement to hundreds of people will be to force their records to match that outlined condition whether or not the circumstances are exactly the same.

RThought: From the above list one can deduce what will be in the Tax Reform Act of 1980. If that Act increases the complexity of the tax law as much as the Tax Reform Act of 1976 we may not be able to voluntarily assess taxes any more.

A RED STAR STORY FROM MACY*S

KCBS is a 50,000 watt clear-channel AM station that covers all of Northern California—and it has a consumer action editor. A Stanford professor had to turn to KCBS to get help. Here is his story.

He had a charge account at Macy*s California and enrolled in the Literary Guild Book Club. When he returned two books valued at $7 and Macy*s failed to credit his account, he refused (as a matter of principle) to pay the amount demanded. Macy*s, in their great wisdom, retaliated by closing his account.

He thought nothing of it until he applied for an American Express Card and was turned down. In response to his inquiry he was advised that it was on the basis of a report from TRW and TRW reported that he had bad credit at Macy*s. His appeals to Macy*s apparently brought a typical response–none. TRW could do nothing until Macy*s changed their input.

KCBS finally reached someone at Macy*s and he agreed to change the rating–it wasn't worth the cost of doing a lot of investigating on an old $7 write-off.

TRW said it would normally take 30-60 days to make a correction but they would expedite it. And the TRW executive explained that recently he had been turned down on a credit application as a result of a report from TRW that his own credit was bad–he said it was a case of a company that forgot to send him a bill and when he didn't pay the amount not billed the company reported him as delinquent.

RThought: The TRW executive probably thought he was being cute–like telling a racist joke to John Dean. But RT wonders about the future of EFTS in the hands of TRW and Macy*s. Between them they may be able to bring the entire economy to a standstill.

HOW ETHICS IN INDUSTRY DROP

Sam Feinberg (WWD 10/20/76) interviewed Lester B. Korn, President of Korn/Ferry International, a major executive recruitment firm. Korn's comments are of interest because they go to the heart of ethics in retailing.

Korn is quoted as follows: "Demand for upper-level executives has centered in three basic areas: 1) the CEO responsible for long-range policy and profit protection; 2) the COO responsible for profits on a day-to-day basis, and 3) merchandising and operating heads." Such teams are given 2 or 3 years to produce results.

Korn continues "Headquarters has made it clear it is willing to pay handsomely for individuals to whom it can delegate divisional autonomy. Having placed its bets on the table, the corporate top echelon will step in only if greater return on sales and investment fails to materialize in a reasonable period."

RThought: Korn sees the situation clearly–hold out tremendous financial gains for the executive who produces results–fast. Fire him if he doesn't. Under the guise of delegating complete authority, close your eyes to how the person operates. This produces management that squeezes suppliers for illegal price concessions, introduces arbitary deductions from invoices for "markdown allowances" or "store distribution costs," and on and on.

This is not producing "professional management," it is developing a climate in which success too often goes to the dishonest and the conniving.

When Korn says "Without question the kind of executives most desired by corporations as a whole in the period through 1980 will be one who can produce profits" he encapsulates the essence of what retailers today are calling "professional management".

When Korn says that retail executives will have to cope with "steadily rising pressures related to social responsibilities," he means that they should be able to resist responding to such pressures and find new ways to give lip service to responsibility while developing devious counter methods. When the Food and Drug Administration held a food chain president liable for knowingly permitting an unsanitary condition to continue in a warehouse (a Supreme Court decision), the entire food industry started lobbying to change the law and relieve the CEO of such liability. (But top executives in the folding paper box industry are going to jail.)

Remember–Korn never said that professional retail management should demonstrate socially responsible conduct–merely that they should be able to cope with the pressures for social responsibility. Starting the game with this objective in mind, professional retail management is very likely to further tarnish the reputation of business.

HOW RETAILERS ALIENATE THE PUBLIC

When Rosalynn Carter said that she would wear the same dress to her husband's inaugural ball that she wore for his inauguration as Governor some 6 years ago, energetic reporters started out to get the response of the "world of fashion" (whatever that is).

They found this typical bad spokesperson as the head of the gown salon at Saks Fifth Avenue in San Francisco. She said "It's a terrible blow. Fashion is an enormous industry–it feeds a lot of people–and can be quickly affected by people not making purchases." Just what retailing needs–spokespeople who urge waste for the sake of waste just to maintain jobs.

RThought: It is unfortunate that retailing does not have spokespeople with the wisdom of some of the fashion leaders. Said one leader "She won't get any criticism from me. I think it's wonderful that she's doing what she feels is the right thing for her." Said another "Since when should anybody be criticized for buying–or not buying–clothes?"

Fashion really has no place in our economy in this day of limited natural resources if it is based only on wasteful use of these resources. It would be better to urge people to select styles carefully so that they can get satisfaction from them for as long as possible–like for 6 years.

WORDS TO MANAGE BY

RT is indebted to Sam Kasden for spotting the following item in United Parcel's PICK UP–and they spotted it on the wall of a store executive.

MY COMPETITORS–I THANK YOU

"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 efficient, 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."