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Are Labor Officials And Employees More Honest Than Retail Executives And Employees?
High Performance Retailers
When You Make Too Much Money, Do You Remember The Customer?
Retailers And The F.T.C.
Support of The BBB

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- F - Theory X? Theory Y? Theory $\frac{1}{2}X + \frac{1}{2}Y$?
F - For Those Who Think Unrestricted Markets Solve All Economic Problems. . .
B - Does Your Credit Department Discriminate Against Women?
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What Motivates A Buyer
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Would This Happen in A Department/Discount/Apparel Chain?
Are Independents Better Operators Than Chains?
Is It Better To Be Begged Or To Be The Beggar?
The U.S. Car Manufacturers Still Cannot Make A Good Car
What Is Small And Getting Larger?
Update (High Performance Retailers and Are Labor Officials And Employees More Honest Than Retail Executives And Employees?)
Imposing on The Retailer
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MAY 1981

- F - Is White Collar Crime Fact Or Fiction?
B - Nice Touches (CSAA)
A - What Is Your Responsibility To Your Customers?
The New Safeway
There Is A Reason Why The Independent Specialty Stores Survive
Is Downtown Dead Because Stores Want It That Way/
Does Prime Rate Mean Anything?
Commercial Bribery (Sunset Office Supply Co.)
Annoying Store Practices

JUNE 1981

- F - Satisfaction Guaranteed
- F - Are Current College Graduates Dishonest?
- B - Let's Salute A Man of Principles (Harold A. Kelly)
 - A - Catalog/Showrooms Improve Advertising Standards
 - Retailers Again Look for Liberal Arts Graduates
 - Financial World Selects Retail CEO Honor Roll
 - Montgomery Wards Uncovers Old Truth
 - NRMA Fair Dealing
 - Why The Chairman Is Called Chairman
 - How Bad An Investment Were Savings Bonds?
 - The Miracle of Point-of-Sale Devices!
 - Commercial Bribery (Atlas Pen & Pencil Corp.)
 - Imposing on The Retailers

JULY 1981

- F - What Is The Customer's Place in Retailing?
- B - I'm A Lucky Guy
 - A - You Must Order This Report (D-H Annual Report)
 - Pride of The Parent-To The Second Degree
 - Wealth and Poverty
 - Bank Credit Cards Without A Discount to The Store/
 - The Coincidences of History
 - Is There A Reason Why The Independent Specialty
 - Stores Survive? -- A Response
 - People Should Feel Silly Making Such Claims

AUGUST 1981

- F - Will Responsible Retailers Protect The Consumer?
- F - True To Style, Citibank Again Takes Advantage of The Consumer
- B - Thanks (To readers inquiring about RK's health)
 - A - Things I don't Understand About Our Banking System
 - The House of Fabrics Changes Its Ways
 - Split Vision on Ox-Goring
 - Rules and Regulations (John Martin/Australia)
 - Q: When Is A Gift Really Not A Gift?
 - A: When It Is A Gift Certificate from Shreve & Co., Jewelers Since 1852
 - What's Wrong with The Bankruptcy Law/
 - Hooray for Lowe's
 - Imposing on The Retailer
 - Reducing Rent Cost

SEPTEMBER 1981

- F - Who Is in The Catalog Business?
- B - Correction (Thalidomide)
 - A - Can Our Economy Survive-When Business and Political Leaders Don't Understand Numbers?
 - Sinking The Float
 - Will Expansion Be Taxed?
 - Paul Borman Speaks Out
 - Harold S. Larkin Read A Book
 - Eureka! I Have Found It!

OCTOBER 1981

F - The Finances of Buying A Legislature
F - How Does Free Enterprise Work in A High Technology World?

B - The Capitalistic System

A - Reaction To "Eureka! I Have Found It!"

Is Sears Roebuck Still A Retailer?

Abuse of Numbers (Wharton Econometric Forecast)

Will Your Post Office Accept Pre-Sort Mail on Saturday?

Does This Fit Your Company?

Catering to The Drug Habit

The "Not for Them" Generation

Electronic Retailing

A Missing Retail Custom

Chain Store Age Accuracy

Have You Visited Australia To See How Coles Does It?

DECEMBER 1980

NOVEMBER 1981

F - Will You, Too, Regret What You Do?

B - Is There Room for The Christmas Thought in Your Ad Budget?

A - Code of Fair Trading

Where Did The Jeans Market Go?

Are Consumers More Price Conscious?

Undisclosed Forecasts

Is There A little Pornography Among The Diamonds?

Abuse of Numbers-1 (FORTUNE Magazine)

Abuse of Numbers-2 (UP - SF Chronicle)

1980-1981 Food Chain Operating Results

Retailers and the FTC

JANUARY 1981

DECEMBER 1981

F - Q: Where Is The Department Store Customers Going?

A: Many are Going to The Home Improvement Stores

F - Computers Make More Jobs

B - There Is A Way to Make A Better World in 1981

A - Correction (FORTUNE article on K mart)

Do Longer Term Mortgages Help Overcome High Interest Rates

Just Because Retailers Can't Do Arithmetic Doesn't Mean That Customers Can't

Should Retail Conglomerates Split?

Service-L. L. Bean Style

Please Applaud The May Company

Abuse of Numbers (Convenience Store News)

More People Visit The Finance Companies)

What Teamwork?

Where Will The Children Come From?

Why Is This in An Action Line?

Spreading Off-Price Selling

FEBRUARY 1981



RETAILING TODAY

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ROUTE TO

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FIRE—WHEN *NOT* READY, GRIDLEY

Many people are conscious of fires in these days following the MGM-Las Vegas superfire. I have talked to well-travelled business executives who are going back to asking for rooms not above the 7th or 8th floor that can be reached by ladder trucks. I suspect that some may be checking the doors on the stairways to be sure that they can be opened from the stairwell.

But how many retailers are looking closely at their own stores? Christmas time was a good time to check your store—I hope you did. There is much more paper around, toys are stacked higher, inexperienced people are added to the staff, and virtually no store ever runs a fire drill. They don't even have evacuation plans.

You stock flammable fabrics and plastic toys and plastic covered furniture. In D.I.Y. stores you have paints and oils and solvents that, when the container is broken, can spread a fire rapidly.

And many of us have sloppy habits within our stores—habits that could cost the lives of our customers—or our employees—or ourselves. Do we need another major fire, such as happened at Macy's, before we check our own buildings, our own procedures, the training of our own staffs? That is a costly way to get our attention.

HOW DOES ONE DEFINE SERVICE?

In retailing it is easy to define "self-service" as in supermarkets and discount stores—but it is much more difficult to define "service" as in department and specialty stores.

My thinking was challenged by a long chat with a *Business Week* writer doing a major story on a major retailer. He asked my view of the comments of others that the subject company had so reduced sales help that the standard of service was driving business away—all in the name of trying to improve profits. As I thought about the subject company, I realized that adding more bodies would not help their service level.

I reached for a parallel example in another area. When he said he had taken courses in economics, I reminded him of the formula:

$MS = M1B \times V$, when
MS stands for total money supply
M1B stands for media in existence
V stands for velocity of circulation

1981 CORPORATE RESOLUTIONS

In the December 1980 RT some New Year's Resolutions were offered for you as an individual. But there can also be resolutions for you as a top retail executive. Let me discuss a few.

Let us address the old-fashioned idea of supporting your community. Once the main street merchant, the man who proudly put his name on his store, also provided personal leadership in his community. Those people are gone—John Wanamaker, Rowland Hussey Massey, G. Fox (even Beatrice Auerbach), Marshall Field, H. C. Capwell, the Filene's, Morris Rich. The job-jumping successors have not filled their boots.

But there is a way this function can be performed—and a retail firm has led the way. Through the interest of Wayne Thompson, the 35-year plan of corporate giving at Dayton-Hudson has been developed into a 5% Club. It is spreading beyond Minneapolis. There are plans for regional chapters. Those who do not feel they can go to 5% are invited to join the 2% Club. Why don't you inquire—write to Wayne Thompson, Sr. V.P., Dayton-Hudson, 777 Nicollet Mall, Minneapolis, MN 55402—and learn how your corporate foundation can start putting back into your community.

Second, consider some "Good Investments" in your community. I liked that title used in a Los Angeles Times editorial that reported 83 schools in the L.A. Unified School District had been adopted by businesses ranging from the giants to tiny ones like Lad 'N' Lassies children's shop in San Pedro. They are providing supplies, advice, tutors, other support. Years ago I knew a San Francisco grammar school teacher who taught near the Haight-Ashbury district. She mentioned she didn't have a dictionary in her classroom. One had been provided years before but was stolen; the district refused to provide a new one. I sent an unabridged one—and she later told me that in her 5th grade class she rewarded good work by allowing a child 15 minutes alone with the dictionary! You, too, can make investments like that.

Third, make your people available. Herb Fisher and his staff have reported at National Mass Retailing Institute meetings how the Jamesway store managers are encouraged to take leadership positions in their towns. They put on drives, open their facilities and parking lots for use by local organizations, and generally help get the things done that have to be done. Wal-Mart, in the small towns they serve, encourage their managers and assistants to be active in every community group and provide the time for them to do this. (Note: the editor is a director of Wal-Mart.)

Remember—at best, you are probably doing only 50% of what you should do and perhaps only 10% of what you could do—to make each of your communities a better place in which to do business.

Service in a service store can also be reduced to similar formula as follows:

$SS = P \times A$, when
SS stands for Service Standard
P stands for number of people
A stands for attitude of people

It is obvious that if the attitude towards service is zero, then even an infinite number of people will not produce any level of service.

Standard of service is a very elusive thing. Service retailers don't even attempt to measure it; yet customers measure it every single time they do business with a service store.

Think for a bit about the policy decisions made by service retailers that preclude ever attaining the "standard of service" they profess to desire and to which they so often give lip service (especially in their trade associations where there are no customers to set them straight).

First, they continue to do much of their hiring at or close to the minimum wage level, thus drawing from the bottom of the labor pool. They are then surprised that their labor turnover is so high; yet they should realize that many people took their job because no other job was available. Any reasonably well-dressed person who speaks proper English and can write almost clearly can get a job in any service retail store by saying, "I always wanted to be in retailing." Once in retailing, they start looking for the job they really wanted and are willing to leave retailing on 30 minutes' notice once they find that job.

Second, management loads many non-service functions on the people on the floor—functions that can be measured (such as inventory counts that must be completed today). The sales force rapidly knows what is first priority—counting merchandise, not providing service.

Third, management is convinced that people turnover cannot be reduced. Thus they "know" that providing product knowledge through training is wasteful because the people leave before a return on training can be obtained. As a result, many customers know more about the products being offered by the service store than does the sales force serving them.

RThought: Every service store has a sales force; few that I know of have a service force.

Abraham Lincoln said (and service retailers confirm), "You may fool all of the people some of the time; you can even fool some of the people all of the time; but you can't fool all of the people all of the time." To which Phineas Taylor Barnum added, "There's a sucker born every minute."

Service retailers charge for service that is not rendered; fraud is defined at law as "intentional deception to cause a person to give up property (the customer's money) or some lawful right." Thus one might observe that the fraud of service retailers is the source of self-service growth, where service is neither charged for nor rendered.

It is strange that this exists in a period when the proportion of discretionary income for many families (despite the current inflation) is rising and consumers constantly ask for more and better service in order to permit them to select wisely (and quickly) among the increasingly varied assortment of goods available to them.

I HAVE DISCOVERED THE MOST STUPID RETAILERS IN THE WORLD

If you want to study stupid retailers, come visit central Contra Costa County, an area about 25 miles east of San Francisco. In this nice valley that 30 years ago was farmland but which now is the home of Sunvalley, one of the largest shopping centers

in the country, and Broadway Plaza, an outstanding fashion center, any dishonest tendencies of the readers of the daily **Contra Costa Times** were well served by a series of front page articles on how to shoplift.

There were descriptions of devices to conceal merchandise approaches that had been used successfully in shoplifting and ego-satisfying interviews with a 14-year-old shoplifter who had 9 years' experience.

Where did they get all of their information? A little bit came from the police department personnel, but most of it came from "security personnel" in department stores who, with unusual modesty, asked that their names and the names of their stores not be disclosed in return for providing all the details. One even went so far as to grant permission to a reporter to shoplift in the officer's store so she could really learn how to do it. The integrity of the reporter was such that she went ahead and did it. The article reported how she overcame her fear of getting caught yet failed to report whether or not she returned the merchandise; presumably the kind security officer let her keep all that she could steal.

The article did not name any department stores, but the ones located within the trading area served by the **Contra Costa Times** are Macy's, Emporium-Capwell (Carter Hawley Hale), Bullock's (Federated), Liberty House (Amfac), Mervyn's (Dayton-Hudson), Sears, Wards and Penney's. Then there are the discount stores—K mart, Gemco and Treasury.

I can only suspect the so-called security officials feel that by stimulating shoplifting through publishing how to steal merchandise on the front page of a major daily newspaper their own jobs become more secure.

RThought: The owner/publisher of the newspaper is a very conservative person, and his paper has often addressed the declining work ethic of young people and the abuses of the welfare system. It seems strange to see such a paper sponsoring how-to-steal lessons on the front page. Perhaps this is part of the "free enterprise" system that says anything that makes money must be good; and it is easy to make money selling how-to-steal instructions for 25¢ a lesson. Perhaps we will have a series on how to pass bad checks, how to commit fraud with bank credit cards or how to run an abortion mill.

WHAT IS A CONSERVATIVE? WHAT IS A LIBERAL?

We go through life calling people Liberals or Conservatives, and yet we seldom can clearly express what we mean. Most often the definition is in terms of good guys (those that think like us) and bad guys (those that don't think like us).

Yet men of obvious intelligence seem to end up on the opposite side of many questions—Barry Goldwater vs. the late Hubert Humphrey, for example. Both are outstanding Americans. Both were selected by a major party as its candidate for President of the United States.

Would you be interested in a well-thought-out article on the difference between Liberals and Conservatives by Harvey C. Bunke, the editor of **BUSINESS HORIZONS**, published by the University of Indiana School of Business? I found it a clear statement—and so will you.

RT has a supply of reprints—just send a self-addressed, postage paid #10 envelope to "Liberal/Conservative," P.O. Box 24 Lafayette, CA 94549.

AT LAST—MANY STOCKS ARE SELLING FOR CLOSE TO BOOK VALUE!

Most privately held companies think that all publicly held companies sell at many times their book value. They live in fear of the time their principal stockholder dies and the terrible IRS will want to value the "goodwill" of their store (after all, the store has been in business 60 years!) at so much that the heirs will have to sell the store in order to pay the taxes.

The facts are somewhat different.

Each year **Business Week** publish their Investment Outlook Scoreboard. In their 1981 outlook, published in the December 29, 1980 issue, their criteria were industrial companies with sales of at least \$285 million for which 1981 profits are widely estimated. In addition they covered the 50 largest banks, retailers and utilities.

The list this year had 893 companies, of which 892 are tabulated below on the basis of the December 12, 1980 market price as a percentage of the most recently published book value per share. (Note: both market and book value were rounded off to the closest dollar so that in some cases the tabulated percentage could be off as much as 10%.)

Market Price As Percentage of Book Value	Number of Firms
0-29%	8
30-39%	16
40-49%	28
50-59%	62
60-69%	83
70-79%	63
80-89%	66
90-99%	58
100-109%	65
110-119%	53
120-129%	37
130-139%	26
140-149%	37
150-159%	29
160-169%	25
170-179%	15
180-189%	22
190-199%	15
200-249%	69
250-299%	37
300-349%	29
350-399%	18
400-499%	17
500-599%	8
600% and over	6

Total 892

The median percentage (half above and half below) was 109% of the book value. The middle half of the companies fell between 74% and 179% of book value.

For those who are interested in the poorest and best performers, here are the top 4 in each group:

BEST	%	WORST	%
Mitchell Energy & Develop.	871	Keystone Consolidated Indus.	19
Texas Oil and Gas	727	McLouth Steel	23
G&G	686	Republic Steel	27
Standard Oil (Ohio)	685	Armstrong Rubber	28

The retail and wholesale stocks show a widely divergent range of performance.

Department & Discount Stores

and National Chains	%	Specialty Retailers	%
Wal-Mart	431	Tandy	606
Macy's	119	Longs Drugs	221
Dayton-Hudson	108	Jack Eckerd	206
K mart	94	Melville	200
Carter Hawley Hale	86	Revco D.S.	200
May Dept. Stores	86	Rite Aid	200
Federated	82	SCOA	192
Zayre	71	Lowe's	169
Mercantile	63	Walgreen	138
Sears	63	Edison Bros.	135
Marshall Field	62	Best Products	133
Associated Dry Goods	61	Diamond International	109
J. C. Penney	60	Pay 'n Save	109
Allied Stores	59	Thrifty Drug	100
G. C. Murphy	47	U.S. Shoes	100
Median	71	Modern Merchandising	91
		Brown Group	85
Supermarket Chains	%	Zale's	85
Lucky Stores	167	Wickes	68
Cullum	156	Rapid American	64
Winn Dixie	156	Hart Schaffner Marx	52
Albertson	154	Median	133
Weis Markets	153		
Fred Meyer*	146	Food Wholesalers	%
Supermarkets General	108	Super Valu	273
American Stores	104	Fleming	150
Southland	100	Wetterau	123
Kroger	96	Flickinger	95
Jewel	94	Malone & Hyde	56
Safeway	75	Median	123
Fisher Foods	67		
National Tea	63		
Stop & Shop	47		
Great A&P	45		
Borman's	36		
Median	100		

*Subject to possible takeover offer

RThought: Supermarket chains and the department, discount and national chain store group both have medians below the median of the 892 **Business Week** stocks while specialty retailers and food wholesalers are significantly above.

If one computed the combined turnover of inventory and receivables, the slowest turnover would be the department, discount and national chain group (although the discount chains—Wal-Mart, K mart and Zayre—have significantly different turnovers than the others in the group). The specialty retailers, virtually none of whom have receivables, would have the highest combined turnover.

It has always been true that businesses that do not have to finance large assets in relationship to sales are able to produce a better return on equity—and the higher return on equity, even at the same price/earnings ratio, produces a market price that is higher in relationship to book value.

For example, two companies may sell at 6 times earnings. If one produces a 10% return on equity (department store range) and the other produces a 20% return on equity (a woman's specialty store range), then one will sell at 60% (6 x 10%) and the other at 120% (6 x 20%) of book value.

It is only when looked at in this manner that one realizes that the cause of transfer of much business from department stores and national chains (who have charge accounts) to specialty chains (who have no accounts) is attributable to the arrival of bank credit cards.

A STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

You can tell that credit business is picking up as Christmas approaches—fewer stores are on the Honor Roll. Here are the names for October-November 1980.

HONOR ROLL

Bullock's	2.0	Mervyn's	3.1
Rubenstein's	2.3	Gimbel's, Philadelphia	3.5
Liberty House, California	3.0	Bloomingdale's	4.0
Macy's, New York City	3.0	Penney's, Southern California	4.0

CREDIT OFFICE RATING

Information From Reporters	OCT.-NOV. 1980			AUG.-SEPT. 1980			Information From Stores	OCT.-NOV. 1980			AUG.-SEPT. 1980		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	1	5.0	5	2	4.0	4	Gimbel's, Philadelphia	36	3.6	3-5	36	3.5	3-4
Bloomingdale's (NY)	1	4.0	4	2	4.0	4	Levy Bros. (N. CA)	2	6.0	5-7	2	4.0	4
Bullock's (S. CA)	1	2.0	2	1	3.0	3	Mervyn's (N. CA)	30	3.1	3-4	25	3.2	3-5
Bullock's (N. CA)	6	6.7	6-7	4	6.0	5-7	Ross Stores (N. CA)	4	6.3	5-8	5	4.4	4-5
Emporium-Capwell (N. CA)	7	7.9	6-9	7	6.6	4-7	Rubenstein's, Shreveport	6	2.3	2-3	6	2.8	2-5
Foley's, Houston	1	9.0	9	2	8.0	7-9	Wineman's (S. CA)	1	5.0	5	1	5.0	5
Grodin's (N. CA)	2	11.5	10-13	2	5.5	5-6							
Hastings (N. CA)	1	9.0	9	--	--	--							
Liberty House (N. CA)	2	3.0	2-4	2	2.5	2-3							
Livingston Bros. (N. CA)	4	5.5	4-7	3	9.0	9							
Macy's (NY)	1	3.0	3	1	3.0	3							
Macy's (N. CA)	8	4.4	4-5	4	3.8	3-4							
I. Magnin (N. CA)	3	6.3	6-7	6	5.7	5-6							
Marshall Field, Chicago	2	4.5	4-5	--	--	--							
May Co. (S. CA)	1	6.0	6	--	--	--							
McCaulou's (N. CA)	1	5.0	5	--	--	--							
Montgomery Ward (N. CA)	1	5.0	5	--	--	--							
Penney's (N. CA)	2	5.5	5-6	--	--	--							
Penney's (S. CA)	1	4.0	4	1	6.0	6							
Penney's, Philadelphia	1	7.0	7	--	--	--							
Robinson's (S. CA)	1	7.0	7	--	--	--							
Sakowitz, Houston	2	15.0	7-23	--	--	--							
Saks 5th Ave. (NY)	3	7.3	6-8	1	7.0	7							
Sears (S. CA)	1	8.0	8	--	--	--							
Sears (N. CA)	8	7.6	7-9	7	9.0	8-10							
Shreve & Co. (N. CA)	1	9.0	9	--	--	--							
Weinstocks (N. CA)	1	8.0	8	2	5.0	5							
TOTALS	64	6.6	2-23	47	6.1	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.

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

LEARNING FROM CANADA

The Canadian Advertising Advisory Board has distributed some recommendations of the Metro Toronto Task Force with reference to the use of visible minority persons in advertising. They are a good guide for advertisers in the United States where the proportion of visible minorities is even greater.

It is interesting to note that this information was further distributed by the Retail Council of Canada in their December/January 1980/81 CANADIAN RETAILER. This is a subject I have not seen dealt with in U.S. retail trade association publications.

The recommendations were as follows:

1. Use all available talent of the visible minority group fairly and impartially.
2. Bring the level of minority group representation in line with population distribution.
3. Prevent the projection of stereotyped images of visible minority groups in order not to deny their dignity as equal citizens.
4. Discard all constraints of height and stature as well as of cultural background which violate the rights of minority groups; in particular, the condition that models be 5 ft. 8 in. tall, which discriminates against most visible minority groups as well as some Europeans.
5. Present people with different accents and reflect Canada as a proud society of diverse linguistic and cultural backgrounds.

RThought: What struck me were phrases like "not to deny their dignity" and "Canada as a proud society." Shouldn't we make the same statements about the United States?

THE DISCOUNT STORE FOOD SHOPPER

The San Diego Union and The Evening Tribune publishes a study it calls CASH—Continuing Analysis of Shopping Habits (\$10.00). The 1980 report on Grocery Store Customers reveals some interesting points that distinguish the food operations of two major discount store chains—GEMCO and FedMart—from the supermarket chains—Alpha Beta, Big Bear, Food Basket, Mayfair, Safeway and Von's.

Based on shoppers that report GEMCO and FedMart as their primary store, the shoppers buy much more per trip (\$60 and \$57 respectively vs. \$31-\$44 in the chains). Second, more of the shoppers are married (77% and 71% vs. 37%-65%). Third, the families are larger (3.3 for both vs. 2.3 to 3.2). Fourth, they have more children under 18 (1.3 and 1.1 vs. .6 to .9). And fifth, a higher percentage own their homes (67% and 63% vs. 25%-62%).

GEMCO shoppers have the third highest median family income (\$18,077)—exceeded by Von's at \$19,766 and Alpha Beta at \$18,444 while FedMart (\$16,667) is 5th behind Big Bear (\$17,609). The GEMCO shopper had the lowest median age (34.4 yrs. vs. 36.3-49.1) and had the lowest (52% vs. 52%-71%) daily newspaper readership, perhaps reflecting GEMCO's monthly membership mailing.

Mayfair is also unique in its market with primary shoppers reporting the lowest average sale, highest average age, highest median education, lowest family income (for the smallest median family size with the lowest median number of children under 18), by far the lowest home ownership (25% vs. 51%-67% for the others) and by far the highest daily newspaper readership (71% vs. 52% to 59%).

RThought: This may not be the way the respective managements planned their marketing; but it certainly shows that different marketing strategies produce distinctly different customer types.

ENERGY WASTE IN THE UNITED STATES

In the years to come a growing percentage of retail dollars will go into equipment and materials to reduce the use of energy in residential and commercial buildings. In both the years since the first energy crisis in 1973 and during the massive post-World War II building period, little attention was paid to energy efficiency.

I live in such a house—floor-to-ceiling, single-pane glass windows in most rooms and a total of 10 doors to the outside patio/walks that surround the house.

Recently, the Organization for Energy Cooperation and Development studied the energy use for residential and commercial structures (heat, lighting, cooling) and found the following use of energy, expressed in terms of equivalent tons of oil (in the U.S. much of this is natural gas) per person (not per household and in the U.S. households have substantially fewer people):

Country	Tons Oil Per Person Per Year
United States	2.01
Canada	1.95
Sweden	1.56
Netherlands	1.50
West Germany	1.29
France	.95
United Kingdom	.81
Italy	.56
Japan	.49

RThought: The conservation of energy in residential and commercial structures is one of the great challenges that faces the creativeness of our mass production/mass distribution economy. The consumer demand will grow geometrically as energy prices rise. Payment of energy bills robs United States consumers of money that used to be called "discretionary." After years of declining portions of personal income going into food, energy and housing, all three components are now on the rise.

Our buildings are not designed for easy retroactive improvement. Some steps are relatively simple. "Intelligent" thermostats (and thermostat-setters!) are here. But adding insulations to walls and windows, increasing overhang to reduce exposure to the sun, developing passive capture of solar energy—all of these are expensive. Installation of energy saving devices is more likely in owner-occupied quarters than in rental units.

"Energy audits" were first introduced in 1975. They have been sponsored by such diverse agencies as the Tennessee Valley Authority (a Federal agency) and the State of Oregon and private utilities such as Pacific Gas and Electric and Southern California Edison under pressure from the California State Public Utilities Commission.

Santa Clara County in California (better known throughout the world as "Silicon Valley") now requires a home energy audit for all homes constructed prior to February 22, 1975 that are sold through an escrow. There are now 16 county-licensed private auditors, and the report form follows the

county requirements—at a cost of about \$50. A heat-loss study, using infra-red measurements, is available at an additional charge.

RTthought: The purchaser of the house may not do anything about the report immediately, but it is likely to be used after he gets some of the utility bills. It is likely that D.I.Y. retailers will eventually get into this area—combining the report with an estimate on the cost and benefits of certain improvements, presented on both a D.I.Y. basis and through an affiliated small jobs contractor.

As department stores find that their increased concentration on high mark-up apparel results in fighting for a declining percentage of consumer expenditures, they may decide to reverse the trend of the past 20-30 years during which they have materially reduced the range of merchandise sold. On the other hand, it will be a benefit to the national chains (Sears, Wards, Penney, K mart) who have suffered during the years of growing sales of ego-satisfying high-style apparel. It will be especially beneficial to Sears which has developed more home improvement contracting services than the other national chains, especially if Sears reinstates its "Satisfaction Guaranteed" policy.

A REVISIT TO THE OLD HOWARD

In the October RT The Old Howard, Boston's most famous burlesque house, was mentioned in a story about pornography sent into thousands of homes by a major department store. It brought forth a wonderful story from a long-time RT reader of the same generation as your editor.

Maurice Cohen, who created Lechmere (now part of Dayton-Hudson) as one of our great hard-line discount stores, recalled the day when Ann Corio, one of the Queens of Burlesque, was to open at a 1:00 p.m. matinee at The Old Howard. On the bus to the High School of Commerce, he and some friends decided that if they cut classes in time to catch the show they could get home at their regular time and their parents would not be any wiser. Soon the idea spread through the school. At noon the lack of attendance was obvious—the cafeteria was empty. The principal, J. E. Downey, investigated.

Let Maurice tell the rest of the story. "When the curtain opened at 1:00 p.m., there was 'Jed' Downey speaking in his fatherly way from the stage of The Old Howard. He said there would be a 2:00 p.m. attendance taken in every class and if we were there, he would overlook the temporary absence. Otherwise every absent boy would have to deal with him and with his own parents. Needless to say, there was a grand rush out by the boys in order to get back in time.

"To the best of my knowledge, this was the only time when something like this happened. It was the day a high school principal stood on the stage of The Old Howard to greet his students."

COMMERCIAL BRIBERY

Industrial Lighting of Kansas City: An RT reader reports a telephone call from this firm wanting to give him an AM-FM radio but "just wondered if (our reader) still did the purchasing of light bulbs." Then the caller wanted to know if the radio should be sent to our reader's home or to the store! When our reader explained his thoughts about such a practice, he was told that the boss at Industrial Lighting just wanted to

show appreciation for his customers (which our reader was not!). In the end the caller hung up on our honest reader. **RTthought:** If you have any Industrial Lighting invoices in your file, find out who got the radio.

Gillette Company: Apparently the only way they can sell Flair and other Paper Mate products is by bribery. You might check your department and supply buyers—looking for Bushnell Sportpak (7x35 binoculars, AM-FM radio and a pair of sunglasses—\$93.00 value) given with a 6-gross order, GE Coffeemaker (\$39.00 value) with a 3-gross order or Toastmaster Toaster (\$19.00 value) given with a 1½-gross order.

National Office Supply Co.: Even in the heart of Ohio a store is not safe from this company. With their Word Processing and Computer catalog they offer, for a \$250 or larger order, a Moulinex electric knife, Black & Decker Jig Saw or a Kiddle (sic) Fire Extinguisher—just the things that are needed in every computer or word processing center. If you bought more than \$250 prior to July 31, 1980, you may have been taken; even since then, they might have renewed the offer.

RETAILERS AND THE FTC

Associated Dry Goods Corp.: Entered into a consent decree and paid a \$75,000 civil penalty for violating a 1975 order prohibiting the company from writing off or deleting credit balances due customers. The stores involved were Pogue's in Cincinnati, Sibley, Lindsay & Curr in Rochester and Denver Dry Goods. These stores offered 90-day accounts without finance charges. Finance charges were added that were supposed to be rebated if paid in 90 days. Associated failed to rebate the charges and failed to notify customers that they were supposed to initiate action to get a refund.

SHORT SHORTS

Hudson's says they will steal! Hudson's has advised their apparel suppliers that what Hudson's calls "unsolicited goods" (when the buyer authorizes an increase in one style and a reduction of another) will "not be paid for or returned." This appears to be a violation of New York law (where many vendors are located). There have been a number of stories about the adverse impact of the current recession on Hudson's and the decline of downtown business which forced the closing of their giant store—but one hardly expected that a division of Dayton-Hudson, which puts 5% of their pre-tax profits into good deeds, would have to resort to this manner of conduct.

A sign at Hyatt International at the Los Angeles Airport:

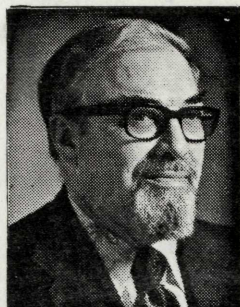
Success comes in	cans
Failure	cannots

WORDS FOR YOUR EXECUTIVE GROUP

It was Elihu Root (1845-1937) 1912 Nobel Peace Prize Winner, Secretary of War under McKinley, Secretary of State under Teddy Roosevelt, then Senator from New York and key planner of the Permanent Court of International Justice (World Court) who said:

I have observed that there are two entirely different theories according to which individual men seek to get on in the world. One theory leads a man to pull down everybody around him in order to climb up on them to a higher place. The other leads a man to help everybody around him in order that he may go up with them.

Thanks to Bits & Pieces for recovering this thought.



RETAILING TODAY

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ROUTE TO

FEBRUARY 1981

VOL. 16, NO. 2

WHY WERE RETAILERS SURPRISED BY THE LAST CHRISTMAS WEEK?

I was astonished to read the *Business Week* (Jan. 12, 1981) article entitled, "A last-minute Christmas gift" in which many leading retailers expressed surprise at the strength of the Saturday-to-Wednesday before Christmas. Some well-known names were quoted—Emil Hanner of Carson Pirie Scott, George Hanley of B. Altman, T. Robert Fiddler of D. H. Holmes, Teller Weinmann of Liberty House and William Hansen of Buffum's.

It was obvious that none of them had looked at the daily sales pattern for Christmas 1952, the last time that Christmas jumped from Tuesday to Thursday. Had they done so, they would have planned 1980 better—and perhaps not taken as many mark-downs that last week in the face of the customers storming their stores.

When Christmas moves from Wednesday to Thursday, customers consider it to be "a week later." When it moves from Tuesday to Thursday, they dramatically treat it as a week later.

Unfortunately, too few retailers really study the information available in their records to help them run their business; they are too busy with a myopic view of today, tomorrow and the same day last year.

THE CYCLE IS COMPLETE

The announcement read "Outlet Company and United Department Stores today jointly announced closing on the sale of Outlet Company's Department Store and Men's Wear Divisions to United."

My mind wandered back more than 30 years to the period right after World War II when my Father returned from a visit with Samuel Leask, the First, then nearly 100 years old. Sam was the founder of Leask's department store in Santa Cruz, California. Dad had succeeded Sam as President of the California Dry Goods Association in 1914 when, at 24, Dad became the youngest president of the Association.

As usual, they had been talking retailing—and Sam had been reading Fairchild's Financial Manual of Retail Stores, studying the details of each firm. He asked Dad, "How can a department store make 8% after taxes on sales?" and pointed to the report on The Outlet Company (\$1.2 million on \$15 million in sales for the year ending January 31, 1947). Dad couldn't answer—but asked me.

THE DEATH OF A VERY RICH MERCHANT

On January 30, 1981 Max J. Silver, a native of Poland, died at the age of 90 in Oakland, California where he had run his stores—first Silver's and then Roger's—for more than half a century. I don't think Max ever had more than three stores so he had time to spend on Oakland and the things his community needed.

He was a founder of the Oakland Home for Jewish Parents and served as its president. He also served as President (and in many other offices) of the Jewish Welfare Federation of the Greater East Bay and on the building committee that constructed an excellent community center that now serves a large neighborhood in Oakland. He was active for decades in the Masons and the Shrine, in Boys Clubs and in the Community Chest/United Way.

Max was a contemporary of my Father. For many years I had the pleasure of joining him at a no-host lunch table at the local club and of knowing of his many community projects.

I slowly realized that Max was one of the richest men I ever knew. He enjoyed a wealth that he could not measure. It was the wealth that was possessed by a man who, to my knowledge, never said an unkind thing about another person; and in 35 years I have never heard anyone say an unkind thing about Max.

He was active until just two months ago. An employee expressed it well when he said Max was more like a father than a boss.

Yes, Max was a very rich man while he was alive. Yet he left most of that wealth in the minds and hearts of the many friends he left behind.

I had been surprised by the same figure and knew the answer—just own a profitable radio station, omit the radio station revenues from gross revenues and report just the profits as "miscellaneous income."

For some years The Outlet Company has been moving more toward TV and radio—and now it is complete. President and CEO Bruce Sundlun, who only recently concluded that one needed a merchant to make a profit in a retail business, said we "will be able to expand further into the communications business."

The Outlet, Edward Malley, Denby, Hughes & Hatcher, Jacob Reed and some other old name retailers are once again back in the care of a retailer. Hopefully Allan Plapinger will nourish them carefully back to their old prominence.

RThought: In checking my oldest Fairchild manual (1955), I was struck by the public companies now gone, changed, or absorbed by others—Arnold Constable, L. S. Ayres, Bullock's, City of Paris, Davidson Bros., The Fair, Forbes & Wallace, Gilchrist Co., W. T. Grant, L. Hart & Sons, Hecht Co., Joseph Horne, S. Klein, Meier & Frank, Miller & Rhodes, Milliron's, H&S Pogue, Ed Shuster & Co., Scuggs-Vandervoort-Barney, Stix, Baer & Fuller, Webb's City, Raphael Weill & Co., Western Department Stores, Wolff & Marx, Younker Bros., Abercrombie & Fitch, Best & Co., Blauner's, Bond Stores, Dejay Stores, Diana Stores, Grayson-Robinson Stores, Holly Stores, Russeks Fifth Avenue, Davega Stores, Butler Bros., H. L. Green, National Bellas Hess, Katz Drug, Parkview Drug, and the list goes on.

SHADES OF LINGAN A. WARREN!

Most retailers today don't know the name of Lingan A. Warren, a giant of a man among retailers who tried to serve as the conscience of the consumer and the food industry when he headed Safeway Stores in the early post World War II period (replaced by Robert Magowan when the stockholders decided that the future was in making money and not in distributing food cheaper).

Warren had the confidence to enter into an employment agreement that provided him no salary—his compensation was based only on a share of the earnings. Despite that incentive to make money whatever way he could, Warren fought trading stamps and couponing. He fought stamps by cutting prices; and during one bitter war in Denver where some 200 items were sold at or below cost, he was fined personally for improper business conduct!

He tried to fight couponing two ways—by accurately determining the cost of handling coupons by food stores and forcing manufacturers to raise the allowance per coupon (then 2¢, as I recall) and by making it expensive for manufacturers by honoring the coupons on any item carried in the store whether purchased by the customer or not (those wonderful men of the food manufacturing giants who loudly proclaim that government should stay out of business ran to the government to make Warren's conduct a felony!).

Perhaps a new voice is rising in the food store field to pick up where Warren left off—the voice of Israel Cohen, the CEO of Giant Food in Washington.

The following are questions (and his answers) from their recent annual meeting and included in the report sent to shareholders.

- Q. What does it cost the company to handle manufacturers' cents-off coupons?
- A. We estimate that on top of the 7¢ we are reimbursed as handling fees from most manufacturers, it costs us an additional four cents to handle each coupon.
- Q. Is your campaign to persuade manufacturers to eliminate coupons having any success?
- A. Giant believes that there are many problems associated with the coupon system. While we will continue to redeem manufacturers' coupons, Giant feels that coupons are a very expensive promotional method that eventually adds to the consumer's food bill. We wish that food manufacturers would develop alternative promotional programs that would not be so costly.

RThought: As some food manufacturers practice the game, they raise the price to offset the coupon discount, spend large amounts on advertising, and force the retailer to take a loss in

handling the coupon. Because of the relative position of the manufacturer and the store, the manufacturer can economically compel the unwilling store operator to subsidize the operating profits of the manufacturer—to the extent of 4¢ per coupon handled, according to Mr. Cohen.

THE HEALTHY WEST

SUNSET magazine, the magazine that serves the needs of the Western States, also publishes a newsletter in which they try to document how the West is different. This is important now that California has 6 million more people than second-place New York, and that 6 million exceeds the population of all except a handful of states.

In the December 1980 issue (write to Armand Schwartz, Editor, Western Market Report, Sunset Magazine, Menlo Park, CA 94025 for a copy), they illustrate a number of differences all measured by comparison of the West (11 states) against the U.S.

Take active sports, Western participation against the U.S. average (100) is as follows:

Backpacking	227%
Downhill skiing	202
Camping	171
Racquetball	159
Jogging/running	128
Horseback riding	127
Rollerskating	125
Tennis	121
Swimming	111

Which probably explains the lack of some ailments and excess of others:

Sinus headaches	83%
Upset stomach	94
Nervous tension	96
Headaches	96
Muscle aches	112
Hay fever	132

And also some of the things we put in or on ourselves:

Cough drops	89%
Indigestion aids	96
Suntan products	114
Vitamins	125
Wine	194

RThought: We also average greater height, greater weight, and more education.

By the same virtue, there are areas where other parts of the country exceed us—such as the use of cough drops or indigestion aids. The national merchant organizations must understand the differences between areas, and reflect those differences in their merchandising.

HOW TO KILL THE BENEFITS OF BANK CARDS

You can start by honoring them the way Pay Less Drug Stores does. Here is the procedure experienced in one store and watched, painfully, in another 200 miles away. The sale was rung up on a Sweda register, the detail tape was advanced manually and the word VISA written on the tape below the transaction total. The receipt was marked VISA. The VISA sales slip was imprinted, detail copied on the slip including writing out the amount in words, the customer's driver license was asked for (no sign at checkout so customer could have it

A SHOPPING TOUR—JANUARY 2, 1981

or
Why some big businesses don't do too well, some middle
size ones also have problems, and some
small ones make a lot of money

There are a lot of things to be done that had been put off too long. So come with me on a 3-hour tour.

I went to our local, independent camera shop to see if they still loaned Polaroid cameras with the purchase of film because I wanted to take pictures of a specialty furniture shopping center to send to Joe McNichols, who publishes the Furniture Merchandising Newsletter. The employee—not the owner who probably would have loaned one to a 20-year customer—said, “We don’t do that anymore. We used to but people banged them up so badly we stopped.” I doubt that anyone ever figured the cost of cameras vs. the income from film sales, such as the \$15 sale I intended to make—but didn’t.

I wandered into Bryt’s Bake Shop next door where one of the owners instantly recognized me (5-year customer) and said, “We will be baking our special cookies again starting next week.” After exchanging some pleasantries I said I would be back next week.

Off to the Sunvalley Shopping Center (one of the 5 largest in the U.S.) and some shops along the periphery. My first stop nearby was in The Willows Shopping Center where a client is opening a new restaurant soon. As I entered the Center I passed creative cookware etc. and realized that they might have the now-damaged rolling blade vegetable dicer that was my wife’s favorite. It is now inoperable. Melanie (who never saw me before) was most helpful—but no dice on the dicer. When I mentioned it was German, she said, “Get me the name and I will see if we can get it—we can get most German items.” That’s probably a \$10-\$12 sale coming their way.

On to look into the good guy’s hi fi store because they carry the two-speed Panasonic/micro cassette pocket dictating machine that I was recommending to a client, and I wanted to be sure of the model and price of the one he should get. The sign said, “Closed for inventory—open 5 p.m.” They wouldn’t have gotten a sale, anyway.

So I went next door to check on my client, Simon Stores, with a large (45,000 sq. ft.) hardware store, and their battery display in the front reminded me that I needed a 9 volt battery for a gadget in our San Francisco office. I opted for the special package of 2 for \$1.89, placed right next to the identical battery in single blister packs for \$1.29. Then slightly over 5½ minutes waiting in the checkout line with 5 people ahead of me. Only two registers were operating. It appears the cashiers also answer the telephone, page people in the store, and make change for \$1 bills for employees who go to the head of the line while the customers who support the entire establishment wait their turn.

Off to Sunvalley to Hastings (subsidiary of Hart Schaffner and Marx—sells at 52% of book value, lowest of all specialty retail stocks listed by *Business Week*—per Feature Report, RT Jan. 81). I wanted to buy one of the Ambassador cossack-styled hats in real dyed mouton lamb for \$39.00 that they advertised New Year’s Day. I was concerned, as a warm-blooded Westerner, about 7 degree weather in New York City at the NRMA convention. The salesman didn’t know of any ad, finally found the hat (I took an extra large in brown) but when a suit sale opportunity came along turned me over to another salesman to write up the sale. I probably made a mistake approaching the salesman—nobody approached me

and I had to interrupt his conversation with the cashier—because he was probably “first up” on the big ticket stuff. I remember when Clipper Craft suits sold for \$39 and that was a big ticket.

I completed my stroll through Sunvalley and stuck my head in the door of Oshman’s who were having a ski sale (might as well start the sale early when the snow doesn’t start at all). Was impressed by a sign inside the door saying in big letters WE CARE and carrying a picture of the store manager. It told the message that management wanted told—except it apparently didn’t mean much to the manager. The sign was filthy and generally didn’t convince me that they really cared.

As I went out the end of Sunvalley, I went through Sears, one of their larger stores. I passed the catalog counter and realized that I forgot to bring the card that has been on my desk for some time telling me they have a new Spring catalog for me. Asked one of the clerks if I could get one without the card and was rather curtly told, “You will have to pay a \$2 deposit” as she turned away from me. Well, the Penney catalog arrived by mail the other day so I guess I can use that one.

I only started shopping at Sears in San Francisco about 1930 when I got my first driver’s license and would take the family car down to get new tires—because of their wonderful guarantee. It may only be a few hundred dollars a year—year after year after year after year—and they won’t miss it with all of their billions in sales. Maybe they really don’t want to make more sales.

And then to the local Social Security Office with a letter dated September 6, 1980 (I procrastinate at times) telling me that there was a way that I could apply for early retirement benefits and would not have to pay the \$100 per month plus for my wife’s Medicare insurance. I really hit a jackpot with Pat Huddy, Claims Representative. She was bright, interested in me, wanted to help me as much as she could, told me the law changed just that day and she would get the new instructions. She was sure that I did not have to apply just so that my wife could get hospital insurance. She explained it all, and I wandered away thinking, I wonder what sort of attitudes people bring in with them that lead them to believe that government workers are sullen and insulting and just collecting pay.

On the way home I stopped at our local 30,000 sq. ft. Safeway to get some Häagen-Dazs ice cream and found again an almost empty coffin chest—4 packages in 2 flavors. So I went to the local 2,400 sq. ft. Southland 7-11 where I can park almost on top of the register, there is no line at the checkout and the price is the same. They had a couple of dozen packages in 5 flavors. On the way I passed our local drug store and noted the sign on the newspaper rack: “San Francisco Sunday Examiner-Chronicle will be \$1.00 effective 5/4/80.”

RTThought: Look up at the title of this Feature Report. Figure out which big businesses are in trouble, which middle size ones may have problems, and which of the little ones will make a good profit. Then wonder for a minute how the atmosphere in a Social Security Office produces a bright and chipper Pat Huddy taking care of a late customer at closing time on Friday.

A FEATURE REPORT

COMPETITION CARRIES A PRICE—THAT MAY BE TOO HIGH

The United States is in love with competition. The current accepted truth is that if everything is decontrolled the world will suddenly be wonderful. Businessmen, in seeking their own immediate benefit, will automatically bring greater benefits to all who patronize them.

One of the companies that is twisted and torn on the ragged blade of competition is American Telephone and Telegraph Company and its many subsidiaries. Specialized microwave communication systems such as MCI and Sprint (Southern Pacific) proclaim loudly how they can save money for businesses—implying that they are more efficient operators than Ma Bell. Regulatory agencies cry that AT&T makes far too much money on their long-lines or long-distance service with which MCI and Sprint are competing.

The computer service utilities—though not regulated—cry that AT&T should be kept out of the field to avoid using AT&T's tremendous market position and financial resources to drive all competing share-time and other computer utilities out of business.

I want to return to the claimed "savings" gained by using MCI and Sprint (Note: RT uses MCI and it was thinking about that very use that brought forth the questions being raised here).

MCI does save money—but it requires that I dial an additional 12 to 14 digits (larger systems have this built into their private exchange), and it can only be done on a touch tone phone. They assume in telling me that I am saving money—and I grant that assumption by using their service—that my time has zero value. Perhaps they know better than I do the true value of my time.

The biggest saving they offer me is on short credit card calls—where the minimum 3-minute charge of AT&T seems unnecessarily high. AT&T could reduce this at touch tone phones by allowing me to do the same thing as MCI does—dial in my credit card number and thus eliminate the intervention of an operator, a costly service.

But MCI and Sprint are both selective as to the regions they cover. I can call the 617 area code—but only part of it. I get numbers in the Boston Metropolitan area—but let me want one 50 miles away, and I have to go back to AT&T. MCI doesn't even know that area codes 503 (the entire state of Oregon) or 206 and 509 (the entire state of Washington) exist. If I want to call there, I must use AT&T.

Then there is the question of directories—MCI doesn't publish any. To find a number I must have an AT&T telephone book. Or lacking a telephone book, I must call AT&T information service—at no charge to me. MCI provides nothing like an 800 number service.

So what do I conclude? MCI and Sprint, as energetic entrepreneurs arguing the virtues of "competition," can show me a savings against AT&T just so long as they have the right to serve only the high traffic routes and just so long as no one imposes any requirements on them that they provide telephone books or provide directory service or offer convenient pay telephones or many other services now provided by AT&T.

I guess I could live with all of that in the name of competition, just as I live with the wonderful efficient service of United Parcel Service (UPS) against the Postal Service while allowing UPS to service only the high traffic routes and leaving the fill-ins to the four corners of the country (plus Alaska and Hawaii) to the Postal Service.

But then I thought about why MCI and Sprint can provide these wonderful miracles. I realized that it was because of the miracles of the electronic age. But wait a minute. Where did that electronic age start? In the Bell laboratories of the American Telephone and Telegraph Company, with the development of the transistor, the first advanced solid-state electronic device. Three Bell scientists received a Nobel prize for this.

It is not inherent in publicly regulated monopolies that they do basic research; but it has been inherent in AT&T for decades—perhaps from the very beginning. Certainly the government telephone monopolies in Great Britain, Germany and France have not undertaken basic research matching AT&T. Yet the fact remains that much of our electronic age is due to the basic research done by the regulated monopoly. More recently Bell Labs has brought us fibre optics which carry thousands of channels of communication far more efficiently than copper wire. This will produce its own technological revolution—undoubtedly resulting in entrepreneurial competitors who will serve the heavy traffic market now served by AT&T—at a savings. Just so long as they don't have to serve everyone.

RTThought: Is it possible that reducing the monopolistic grant to AT&T (and other regulated communication companies) may eliminate basic research at Bell Laboratories? The only cost to us—could be our technological leadership in the world.

SHORT SHORTS

One long-time reader writes—"I am going to come right out and (say) that 'impavid' properly characterizes your editorial standard." And all this time I thought that I was just a curmudgeon.

Each year more and more farms are converted into highways, tract homes and shopping centers. Soon we'll have a crisis in food production. Right? Wrong—says the research department of the Federal Reserve Bank of St. Louis. We did reduce croplands (as opposed to range land) from a peak of 360 million acres in 1930 to 286 million in 1969 but since then it has increased again to 337 million. More land is available to economic development by new methods—when needed. In addition, yields per acre continue to rise.

RETAILING TODAY — FEBRUARY 1981

Another sexist organization? Chain Store Age Executive Edition reports that the National Academy of *Lady* Polygraphists has a chairman.

Have you grown obsolete on the job? Paul Armer who started as a data processing manager in 1947 at the Rand Corp. think-tank and then spent the decade of the 60s heading the computer center at Stanford—a career that put him at the top of his field—is now a teacher. He changed when it took him 48 hours to recognize that an employee was giving him a technical "snow job." He has since espoused the Paul Principle—one that has long existed in retailing: "People become incompetent at the level in which they once performed well because they become obsolete."

ready) and the license number entered on the slip plus telephone number. The expiration date was circled. Then the book of bad numbers was located and a minute or two spent trying to find the card number on a page of substandard size print. Finally the merchandise was bagged.

Not once did the clerk look at the name embossed on the card so as to thank me by name. In the meantime I could feel the angry breath of the customer behind me who was delayed at least 3 or 4 minutes by what looked like a single item transaction! I presume that only by paying minimum wages to cashiers with low mechanical aptitude can a business justify this use of time.

RThought: When you finish laughing at Pay Less, have someone check the procedures and time delay in your own stores.

OPERATION FEEDBACK/RALPH'S STYLE

Too many retailers think the job of an executive is to sit in an office miles away from customers and deduce what customers want by the application of extrasensory perception (ESP).

There are other executives who conduct surveys of customers.

And there are a few executives who ask the employees who are in daily contact with the customers to tell them what the customers want.

Ralph's Grocery Company, the billion dollar subsidiary of Federated Department Stores in Southern California, is one of the latter, perhaps because President Patrick Collins started as a stockman and cashier rather than as an MBA showing dissatisfaction with not being an executive vice president in 3 years.

The mechanics of OPERATION FEEDBACK are simple. Yellow single-sheets (that fold into a postage-paid mailer) are available in every store, office and warehouse. Provision is made for a direct reply to the employee at his home, and space is provided for the employee to indicate whether or not the employee wants the suggestion published or wants to discuss it personally.

A successful OPERATION FEEDBACK depends less on the incoming form than it does on what happens when the suggestion is received.

Collins reports that in the first eight weeks of the program approximately 50 letters were received concerning a wide range of subjects. Collins personally read every letter, had the basic suggestion retyped with all identification of the employee removed and forwarded it to the responsible senior vice president for comment. After the comment is received, the employee is notified of the comment within seven days.

RThought: Note how little expense is involved in getting so much information. Often one hears that all an outside management consultant does is go around and ask the employees a lot of questions and then feed it back to top management in a report. After all, if the inside management doesn't use this tool, then the outside consultant has every right—even an obligation—to use it!

RThought: RT suspects at times that top retail executives have a serious ego problem. They think that if a lowly checker or sales clerk or marker makes a suggestion that saves the company thousands of dollars or increases sales by tens of thousands of dollars it detracts from themselves as executives.

In high technology industries this is called the NIH (Not Invented Here) Factor. It occurs most commonly among companies that are so enamored with their past successes that they consider themselves as the sole receivers of all messages from the mountain top.

SAFE HOTEL LIVING

Most retailers do a lot of traveling. Your editor made 40 trips last year, covering about 140,000 miles, and spending perhaps 100 nights in hotels.

We all can benefit from some rules to follow away from home—combining the efforts of the Washington Post and a World War II graduate from the U.S. Navy Fire Fighting School at San Diego.

1. Always get a room below the 10th floor, which is the highest reach of an aerial fire ladder.
2. Don't stay in unsprinklered hotels.
3. Carry a flashlight—always. There are no lights working during a fire.
4. Before you go to bed, check the location of the fire exits in all directions. No one knows where the fire will be. Count the doors between your room and the exit.
5. Leave your hotel key where you can grab it quickly.
6. Before opening your door, feel the surface to see if it is cool. Open the door carefully and be prepared to close it if hot air, smoke or flames rush through the crack.
7. If there is smoke in the hall, crawl and count doors until you reach the fire stairway exit.
8. If trapped in your room, fill the bathtub with cold water and use water to wet towels or to wet the door.
9. Stuff wet towels or clothing under and around the hotel room door to keep out smoke.
10. If you have to open a window, hang a light-colored bedspread outside to signal for help.

RThanks: The ex-Navy fire fighter is now Chairman of the Board of Hechinger's, the world's most unusual lumberyards—Dick England.

REDUCING GOVERNMENT REGULATION

One of the actions expected of Mr. Reagan—and already under way—is to reduce the impact of government regulations on business. The horrors of such cost have been orchestrated by business for a number of years—often led by such companies as those who prefer the cost savings of disposing of waste by dumping it into streams that become someone else's water supply or who see profit in extending the shelf life of food products by using chemicals that may kill the purchaser or who desire to conceal information about financial operations of a company until top management has unloaded its own stock.

Having raised your blood pressure with such antagonistic remarks, let me point out that because some regulation is badly handled does not prove that all regulation is bad; just as because some regulation is good (like regulations requiring cars to drive on the right-hand side of the road so we will miss each other) does not mean that all regulation is good.

There are some discussions that are not taking place. For example, I do not hear anyone trying to establish criteria to distinguish necessary from unnecessary regulation. I hear people arguing that regulating them is unnecessary but regulating other industries is necessary—but I find it difficult to use that criteria with confidence that it will be similarly applied by every other person as objective as I am.

I am also concerned about some of the conclusions reached in studies of the cost of regulation. For example, Arthur Andersen was retained by the Business Roundtable (the representative of the very largest firms in our society) to make a study of the **Cost of Regulation** (using as a sample only 48 firms, 14.6% of which—a fancy way of saying 7—are listed by Fortune in their “Roster of Wrongdoing” as convicted or admitted violators of major laws).

One of the authors of that report was Michael E. Simon, who used the report as the basis for an article in the *Journal of Contemporary Business*.

Mr. Simon, in his great wisdom, passed on this thought: “Participants noted that incremental costs of regulation ultimately are passed on either to the consumer in the form of higher prices or to the shareholders in the form of diminished dividends.” Apparently it is the ability to note such wisdom that produces partners in Arthur Andersen!

I have racked my brain to find out where else costs might be passed on—and have only thought of one other place—reducing government income from taxes by reducing profits.

Then I wondered where rising accounting fees charged by Arthur Andersen end up and was forced to the conclusion that they went to the consumer in higher prices, to shareholders in diminished dividends or to government in reduced tax income.

RTThought: I was thus forced to the conclusion that there is exactly no difference in our economy between the high cost of compliance with governmental regulation and the high cost of creating millionaire accounting firm partners—and perhaps both costs should be eliminated.

COUPONS—BREEDING GROUND FOR FRAUD

Mushrooms need a dark room and moisture in order to grow. Fraud based on food store coupons only needs the existence of coupons combined with the typical loose store/central office handling plus the easy access to many dollars of coupons in every special food section in the local newspaper.

Price Waterhouse, in their **Retailing Update** for December 1980, has an excellent summary of the “Use and Abuse of Coupons” by Kenneth R. Baum, a Senior Audit Manager specializing in the retail food industry. For a free copy write to William U. Westerfield, Chairman of Retail Industry Services, Price Waterhouse, 153 East 53rd St., New York, NY 10022. Say Bob Kahn sent you.

SEARS ATTORNEYS—BAD LOSERS?

RT has previously reported the \$10 million judgment that Sears lost because the west coast counsel wouldn't let the company fix up partially remodeled houses when Sears Add-A-Room went bankrupt. They thought they were going to save \$1 million!

The Allstate Insurance Company attorneys must come from the same school. Following an adverse California Court of Appeals decision which said certain Allstate policyholders might have been improperly denied coverage, they printed in a number of newspapers and a number of times an **IMPORTANT NOTICE** advertisement of a couple of thousand words. Just to help their blue-collar, middle class clientele clearly understand that they might have been abused by Allstate (you

thought you were in good hands) they include simple declarative sentences like the following:

Therefore, if you (or one of the persons listed at the beginning of this notice who may be entitled to this additional protection) were operating an automobile and had an automobile accident as described in A, B, or C above, and the operator's injured family member asserted or asserts in the future that the operator was or is legally liable for such injuries, the operator may have been or may be entitled to have Allstate defend any lawsuit brought against the operator and to have Allstate pay some or all of any damages that the operator was or may become legally obligated to pay as a result of the accident, or that the operator paid in settlement of any such claim.

RTThought: Don't bother to count—there are 121 words in that sentence. Just what a factory worker who is proud of graduating from high school picks for reading during TV announcements.

RT BOOK OF RETAIL RECORDS

Category—Buyer's Blooper: A mark-down of \$53,700 on a single Russian Lynx Coat according to a Bloomingdale's ad on January 1, 1981 in the NY Times. Originally (per ad) \$89,500 reduced to \$35,800.

RETAILERS AND THE COURTS

I. Magnin (Federated Department Stores): The U.S. District Court explained that it will cost I. Magnin \$1.8 million for terminating three long-time employees solely because of age. Philip D. Cancellier, age 53, 25 years with IM, ex-VP, former salary \$70,000 awarded \$800,000; John Costello, 56, 16 years with IM, ex-DMM, at \$45,000 awarded \$600,000; and Zelma Smith, age 54, 18 years with IM, ex-buyer, at \$35,000 was awarded \$500,000. This works out to roughly 12 years' severance pay for each person for terminating solely because of age. Federated has indicated whether they will appeal.

Montgomery Ward: RT sends this month's abuse of process award to the security department in the Fremont Hub Store (Fremont California) that insisted on prosecuting for petty theft charges two alien men who stole a 5¢ (repeat 5¢) washer. The court did convict the 18-year-old son of one of the men of brandishing a weapon—he picked up a tire iron and monkey wrench to protect his father when he thought the non-uniformed security men were going to attack his father. Cost to Alameda County for a jury trial: about \$3,000. Great judgment.

SHORT SHORTS

More retailers in the coins, gold and silver business. In a recent issue of the Chicago Tribune, under stamps and coins, were ads by Carson Pirie Scott and Sears.

WORDS TO GUIDE A GREAT STORE

It was Oliver Wendell Holmes, Sr., the poet, essayist, physician and father of Oliver, Jr. (of the U.S. Supreme Court and protector of the Old Howard in Boston) who gave us many great works including the poem, *The One Hoss Shay*. But it was in the first chapter of his first work, *The Autocrat of the Breakfast Table* (1858), that he wrote:

I find the great thing in this world is not so much where we stand, as in what direction we are moving: to reach the Port of Heaven, we must sail sometimes with the wind and sometimes against it—but we must sail, and not drift, nor lie at anchor.

Of course, it was in the same book that he said, “Man has his will—but woman has her way!”

STERLING LANIER

3/6/81

Dear Mr Kahn:

Thank you for allowing me
to reprint your "Shopping Tour"
article.

For your reference I have attached
a copy of the memo sent to
our managers.

Cordially,

Sterling Lanier

WHL
2/8/81

RECORD
FACTORY

A SHOPPING TOUR-JANUARY 2, 1981

A FEATURE REPORT

TO: ALL STORE MANAGERS
FROM: STERLING LANIER
RE: "A SHOPPING TOUR" ARTICLE
DATE: MARCH 5, 1981
MEMO: 1412

Attached is an article entitled "A Shopping Tour-January 2, 1981" which appeared in Retailing Today published by Robert Kahn and Associates.

In the article Mr. Kahn related his observations as a customer shopping various retail outlets, many of which are very familiar to us.

I know you will find Mr. Kahn's remarks most interesting. In a chain which prides itself on friendliness, cleanliness, and service, what would Mr. Kahn write after a visit to your store?

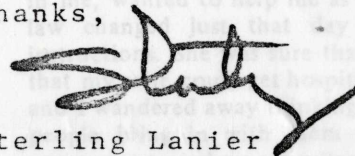
The road to retail failure is littered with the remains of our competitors who offered the best in dirty stores; half empty racks; and surly, disinterested clerks.

To paraphrase an old slogan-

Service is our most important product.

As Len O. says - JFDI

Thanks,


Sterling Lanier

A SHOPPING TOUR—JANUARY 2, 1981

or
Why some big businesses don't do too well, some middle
size ones also have problems, and some
small ones make a lot of money

here are a lot of things to be done that had been put off too long. So come with me on a 3-hour tour.

I went to our local, independent camera shop to see if they still loaned Polaroid cameras with the purchase of film because I wanted to take pictures of a specialty furniture shopping center to send to Joe McNichols, who publishes the Furniture Merchandising Newsletter. The employee—not the owner who probably would have loaned one to a 20-year customer—said, "We don't do that anymore. We used to but people banged them up so badly we stopped." I doubt that anyone ever figured the cost of cameras vs. the income from film sales, such as the \$15 sale I intended to make—but didn't.

I wandered into Bryt's Bake Shop next door where one of the owners instantly recognized me (5-year customer) and said, "We will be baking our special cookies again starting next week." After exchanging some pleasantries I said I would be back next week.

Off to the Sunvalley Shopping Center (one of the 5 largest in the U.S.) and some shops along the periphery. My first stop nearby was in The Willows Shopping Center where a client is opening a new restaurant soon. As I entered the Center I passed creative cookware etc. and realized that they might have the now-damaged rolling blade vegetable dicer that was my wife's favorite. It is now inoperable. Melanie (who never saw me before) was most helpful—but no dice on the dicer. When I mentioned it was German, she said, "Get me the name and I will see if we can get it—we can get most German items." That's probably a \$10-\$12 sale coming their way.

On to look into the good guy's hi fi store because they carry the two-speed Panasonic/micro cassette pocket dictating machine that I was recommending to a client, and I wanted to be sure of the model and price of the one he should get. The sign said, "Closed for inventory—open 5 p.m." They wouldn't have gotten a sale, anyway.

So I went next door to check on my client, Simon Stores, with a large (45,000 sq. ft.) hardware store, and their battery display in the front reminded me that I needed a 9 volt battery for a gadget in our San Francisco office. I opted for the special package of 2 for \$1.89, placed right next to the identical battery in single blister packs for \$1.29. Then slightly over 5½ minutes waiting in the checkout line with 5 people ahead of me. Only two registers were operating. It appears the cashiers also answer the telephone, page people in the store, and make change for \$1 bills for employees who go to the head of the line while the customers who support the entire establishment wait their turn.

Off to Sunvalley to Hastings (subsidiary of Hart Schaffner and Marx—sells at 52% of book value, lowest of all specialty retail stocks listed by Business Week—per Feature Report, RT Jan. 81). I wanted to buy one of the Ambassador cossack-styled hats in real dyed mouton lamb for \$39.00 that they advertised New Year's Day. I was concerned, as a warm-blooded Westerner, about 7 degree weather in New York City at the 'RMA convention. The salesman didn't know of any ad, finally found the hat (I took an extra large in brown) but when a suit sale opportunity came along turned me over to another salesman to write up the sale. I probably made a mistake approaching the salesman—nobody approached me

and I had to interrupt his conversation with the cashier—because he was probably "first up" on the big ticket stuff. I remember when Clipper Craft suits sold for \$39 and that was a big ticket.

I completed my stroll through Sunvalley and stuck my head in the door of Oshman's who were having a ski sale (might as well start the sale early when the snow doesn't start at all). Was impressed by a sign inside the door saying in big letters WE CARE and carrying a picture of the store manager. It told the message that management wanted told—except it apparently didn't mean much to the manager. The sign was filthy and generally didn't convince me that they really cared.

As I went out the end of Sunvalley, I went through Sears, one of their larger stores. I passed the catalog counter and realized that I forgot to bring the card that has been on my desk for some time telling me they have a new Spring catalog for me. Asked one of the clerks if I could get one without the card and was rather curtly told, "You will have to pay a \$2 deposit" as she turned away from me. Well, the Penney catalog arrived by mail the other day so I guess I can use that one.

I only started shopping at Sears in San Francisco about 1930 when I got my first driver's license and would take the family car down to get new tires—because of their wonderful guarantee. It may only be a few hundred dollars a year—year after year after year after year—and they won't miss it with all of their billions in sales. Maybe they really don't want to make more sales.

And then to the local Social Security Office with a letter dated September 6, 1980 (I procrastinate at times) telling me that there was a way that I could apply for early retirement benefits and would not have to pay the \$100 per month plus for my wife's Medicare insurance. I really hit a jackpot with Pat Huddy, Claims Representative. She was bright, interested in me, wanted to help me as much as she could, told me the law changed just that day and she would get the new instructions. She was sure that I did not have to apply just so that my wife could get hospital insurance. She explained it all, and I wandered away thinking, I wonder what sort of attitudes people bring in with them that lead them to believe that government workers are sullen and insulting and just collecting pay.

On the way home I stopped at our local 30,000 sq. ft. Safeway to get some Häagen-Dazs ice cream and found again an almost empty coffin chest—4 packages in 2 flavors. So I went to the local 2,400 sq. ft. Southland 7-11 where I can park almost on top of the register, there is no line at the checkout and the price is the same. They had a couple of dozen packages in 5 flavors. On the way I passed our local drug store and noted the sign on the newspaper rack: "San Francisco Sunday Examiner-Chronicle will be \$1.00 effective 5/4/80."

RT Thought: Look up at the title of this Feature Report. Figure out which big businesses are in trouble, which middle size ones may have problems, and which of the little ones will make a good profit. Then wonder for a minute how the atmosphere in a Social Security Office produces a bright and chipper Pat Huddy taking care of a late customer at closing time on Friday.



RETAILING TODAY

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ROUTE TO

MARCH 1981

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WHO CARES ABOUT PRODUCTIVITY?

It is great to discuss the fact that what America needs is a good 5% increase in productivity every year. It is another thing to get anyone to do anything about it.

Let's look at a number of situations as they exist today.

One way to increase productivity is to run more volume through an existing plant; and then further increase productivity by investing in faster equipment. This can be supplemented by improving the design of a product—so that it uses fewer parts or parts that can be assembled faster.

The great example of high productivity was the mass production of automobiles by Henry Ford. Yet today the auto industry is so afraid of another instant conversion to Keynesian economics (remember a President named Nixon?) and overnight price controls that they regularly increase their prices for fear of getting caught with a low window sticker price. They do this even though they know that the increase will reduce sales.

Then they all play the game of "Rebates." Even General Motors has succumbed to rebates. Of course, the imports haven't had to do that because they continue to design cars that people want, invest in improving plant efficiency and manage their businesses for the long run rather than trying to boost quarter-to-quarter earnings per share.

What do you think would happen if a discounter took control of an auto company? Perhaps a Cunningham or a Walton or a Goldberger who are dedicated to efficient low-cost distribution? They would question the entire distribution process and the pricing structure (the sticker prices on car windows do not meet the FTC standards for honest advertising, even though they are mandated by law).

It is getting late in the 1981 model year. Why not permanently reduce prices on 1981 cars? Someone has to start holding prices. There must come an end to the statement of oil companies and car manufacturers and many others who, while professing that our competitive enterprise system best serves the consumer, repeatedly say, "I had to increase my prices; my competitor forced me to do this by increasing his price!"

Let's look at another facet of distribution where productivity doesn't have a chance. The December 15, 1980 *Advertising Age* (740 Rush St., Chicago, IL 60611 \$1 per issue) had an excellent article by William Nigut, Sr. entitled, "Is the Boom on Cents-Off Couponing Going to Burst?"

Nigut argues convincingly that the growth in coupons from 48 billion in 1976 to 90 billion in 1980 is nothing but a plan by manufacturers to keep slow moving items on supermarket

Q: WHAT DOES THE SHADOW OF A REYNOLDS LOOK LIKE?

A: NACS PLUS NACSCORP

Explanation: Each successful organization is the shadow of one man. In 1945 Russell Reynolds started in Chicago with \$3,000 and 125 college stores paying \$10 to \$50 per year dues. He recently retired as General Manager of the National Association of College Stores leaving two corporations, one doing a wholesale paperback book volume of \$7 million plus handling millions in magazine subscriptions; and the other servicing virtually all the college book stores—both those operated by or as part of a school and those operated independently in areas around the schools.

It has been my pleasure to work with NACS, to know the people and to address a number of their local and national meetings. NACS will go on to new records under Garis Distelhorst, the new General Manager, who will now create his own shadow.

shelves while imposing a penalty cost on retailers above the reimbursement made for handling the coupons. Neither action contributes to improved productivity—in the store or in the manufacturing of the product.

Although one would think that coupons are intended to stimulate immediate sales, a study of expiration dates (many have no expiration date and almost half are good for 10 months or more) confirms that this is a manufacturer's attempt to hurt a store's relationship with a customer who brings in a 10-month-old coupon for the flavor of syrup that normally moves 2 packages per week per store.

Supermarket operators who are beginning to get good product movement data from scanners now know how badly they have been taken.

Finally, there is a simple question of whether retailers want productivity or profitability. Let me pose two alternative staffing structures.

	3 Sales People	5 Sales People
Sales	\$100,000	\$150,000
Gross Margin @ 40%	40,000	60,000
Expenses		
Sales people @ \$7,000 each	21,000	35,000
Variable expense @ 5%	5,000	7,500
Fixed expense	10,000	10,000
Total Expense	36,000	52,500
Profit	\$ 4,000	\$ 7,500

Which would you pick? The high productivity 3-sales person setup with \$33,333 sales per sales person or the lower productivity 5-sales person setup with only \$30,000 sales per sales person? I think I know the answer. You would take the 87% higher profit.

CLEVELAND RETAILERS TRY TO PASS TAX BURDEN TO CUSTOMERS

For some years I have read *point of view* published by Roldo Bartimole (3344 Meadowbrook, Cleveland, OH 44118/\$15 per yr.) covering the Cleveland scene. I was startled to see so many retail firms giving money to a fund that proposed, among other things, to increase city tax revenue (Note: They were successful. Ed.) during this recession by increasing the regressive city payroll tax from 1.5% to 2.0%. Certainly more of that money will come out of discretionary income than any other place—and look at the seekers of discretionary income and the amounts that they contributed:

Bi-Rite Markets	\$ 500
Forest City Enterprises	5,500
Halle's	400
Higbee's	1,200
May Company	700
Sears Roebuck	100
Sherwin-Williams	3,500

As far as Cleveland is concerned, Sherwin-Williams is more of a manufacturing company than a retail company, and Forest City has major real estate investments.

RThought: How come retailers seem to "go along with the business crowd" so often without thinking whether their action is best for their customers? A manufacturer who produces in one city but depends upon customers nationwide certainly has a much different attitude toward what he wants to do in his home town than does a retailer who depends entirely upon continuing local patronage.

RThought: The big eight accounting firms were even larger donors, perhaps pressured by their major accounts. Here is their record:

Arthur Andersen	\$3,450
Cooper-Lybrand	750
Deloitte-Haskins & Sells	1,900
Ernst & Whinney	5,325
Price Waterhouse	1,900
Touche Ross	1,900

CIRCLE K WINS "DOLLARS PER DAY SURVEY"—AGAIN

For the 6th time in 10 years, Circle K showed the highest profit per day per store in the publicly traded convenience store industry at \$73.47 compared to 13th place Munford at \$2.22 (but an improvement from a 1979 loss).

This survey, based on data obtained from annual reports, Forms 10-K and other published sources (much of which is reproduced or quoted extensively in the report) is a labor of love by John Roscoe, operator of a chain of ShortStop stores in Northern California that is larger than some of the publicly traded companies.

This year's report traces the overall progress in comparison with inflation as measured by the national Consumer Price Index—and finds little real progress. For example, based on an average for the reporting firms in the first survey of Daily Sales of \$495 per store, they would need \$968 per store per day to

match inflation—and they report just \$10 more or \$978 per store per day.

If more convenience stores look like gas stations (Sun, Arco and other companies are expanding convenience store chains in lieu of gas stations), it is because the surveyed companies have increased the percentage of stores with gasoline from 21% in 1974 to 43% in 1980. Because of the different methods of handling the ownership of gasoline and the storage/pumping equipment, firms are not directly comparable.

Pages 115 to 122, where Roscoe comments editorially, make the report truly worthwhile. Roscoe claims that the industry should not be called "convenience stores" but "small food stores." That is their true future at a time when supermarkets are getting more super—and farther apart—and gasoline is more expensive. People will then shop for many food items in small food stores instead of big food stores.

The report sells for \$50—write John Roscoe, 391 Castle Crest Road, Walnut Creek, CA 94595 and say that Bob Kahn sent you.

OH, YE'LL TAK' THE HIGH ROAD AN' I'LL TAK' THE LOW ROAD AN' I'LL BE BIGGER THAN YE!

Perhaps this item should not start from a quote from Loch Lomond but with the heading "Great Opportunities Missed."

Women's Wear Daily (Feb. 2, 1981) reported that some chains are moving out of budget basement and listed such great names as Federated, May Company, Associated, Frederick & Nelson, Halle Bros., Maas Bros. and Emporium-Capwell.

Emporium-Capwell? They gave up a \$10 million business in the basement of the Emporium in return for a mess of pots and pans.

After more than 30 years of neglect as branches were built under both names on both sides and both ends of San Francisco Bay, basement operations are finally so unimportant that they are abandoned for a few more points of gross margin.

Obviously when all of these great department stores, both individually and as national chains, conclude that budget basements are dead, basements must be dead. Or does a unanimous decision mean that nobody understands the true situation?

The budget basement operations in and around the San Francisco Bay are really healthy, growing, and tremendously profitable. Based on investment, they produce a much higher return on equity than the upstairs Emporium-Capwell stores. In volume they probably double the Capwell upstairs volume and exceed the Emporium upstairs volume.

The only unusual thing is that they are owned by Dayton-Hudson Corporation—and called Mervyn's!

I started working with Merv Morris in January 1957 when he was completing his 7th year in business in the little community of San Lorenzo and had relocated once and expanded about 6 times—growing from \$88,000 the first year in 2,400 square feet up to \$1.4 million in 16,000 square feet.

Merv had a simple statement of his merchandising position—to be a J. C. Penney (then only a soft-goods chain) with national brands and credit.

AT SEARS DOES $1/2 + 1/2 = 2?$

In recent months great attention has been given to Sears and attempts to revive the king of retailers. The downgrading of the retail activities within the Sears structure has been noted.

In *Business Week* (BW) (Feb. 16, 1981) there was an extensive review under the heading "How Sears became a high-cost operator"—and BW was not referring to a high-cost insurance company.

It seems obvious that K mart, within this decade, will pass Sears in volume. But that doesn't mean that Sears should go into liquidation.

BW commented, "Indeed, the only bright spots in an otherwise dismal scene are Sears' insurance and real estate operations, areas that have little to do with the company's traditional retailing business."

A point not made in the article is that the financial and other activities of Sears at January 31, 1980 represented some \$3.4 billion or approximately half of the \$7.5 billion book value of Sears.

With the present performance of the merchandising activities, the management of Sears in fulfilling their obligation to the shareholders has a difficult problem: should they redeploy assets from merchandising into non-merchandising operations based on the current expected returns in each section; or should they gamble that investment in merchandising will produce a return at least equal to that expected from the non-merchandising activity. Chairman Edward Telling says opportunities with the greatest potential will get the assets.

In this day of concentration on short-term results by executives who have a strong desire to retain their jobs, this will make it very difficult to restore the merchandising activity to its former profit levels.

RThought: Sears suffers because its stock is followed by retail analysts who usually cannot evaluate the non-merchandising (insurance, savings and loan, shopping center development) activities. The analysts specializing in those fields don't follow Sears because they usually don't have the background in merchandising.

If Sears split into two companies, then two different sets of analysts would follow each company. Each stock would more correctly reflect the current operations and the future. Even changing the name of the non-merchandising activities to Allstate would enhance the market connection between the stock name and the non-merchandising divisions.

For an analogy, does one think that Tandy would be performing as well today, consisting almost entirely of Radio Shack, if the corporation still contained what are now four separate corporations—Color Tile, Tandycraft, Tandy Brand, and Stafford-Lowden Printing? Would the market value of the old Tandy equal the combined value of the separate companies now traded on their own? I think the obvious answer is NO.

SHORT SHORTS

Small is not only beautiful—but growing. Howard Green of Howard L. Green & Associates, Inc., in his talk to the Retail Research Society on "Regional Shopping Center Issues in the 80's" pointed out that the number of business organizations employing 9 or fewer people increased from 3.0 million in 1963 to 4.4 million in 1972.

There would be many happy people if Sears split into Sears, Roebuck & Co. and Allstate Financial. The combined market value of the companies would undoubtedly jump. The stockholders would be happy (do not forget that the employees own about 25% of the stock); the analysts would be happy (a clearer situation to analyze) and thus new investors would be happier; and the management of the diverse activities would be happier because their mission would become less complex.

RThought: Should this ever happen, I would suggest to Sears a number of priorities that were not discussed in the BW article. The authors were kind enough to summarize their article with a quote from me, "Sears forgot its primary purpose is to please the customer, by stocking the right goods and sticking by its principle of Satisfaction Guaranteed. Those things will be hard to regain."

The reporter did not include anything from our discussions that this must start with restoring the pride that store level people once had in Sears. Splitting the two companies would give the merchandising management a good platform—because the rise I expect in the market value of the separate stocks would greatly increase the value of the holdings many employees have through the Profit Sharing Plan.

They could be challenged to continue to increase the value of their own investment by their performance at the leading edge—the point where store person and customer meet.

Until the attitude of the employees is changed, until the employees can feed back to management their suggestions for improved service to Sears customers, the full recovery cannot start. Changing advertisements, integrating national and local advertising, changing merchandise mix—none of these will be effective until employee attitude has changed.

The first national ads on "Satisfaction. Guaranteed" said nothing about whether the people in stores are ready to perform their part.

This is a difficult task. The first massive efforts will show little results. Management may be tempted to abandon the effort. At times like that I hope they will remember some time in the past when pushing a car that was stalled—how hard they had to push just to get the car moving at all; how much easier it was once inertia had been overcome. Or perhaps they might think of their V-8-6-4 Cadillacs that need all 8 cylinders to get going but which run so well on 4 at 55 miles per hour on the freeway.

RThought: Just think what would happen if Dayton-Hudson spun off Target-Mervyn's-B. Dalton. The department store company might drop from 8x earnings to 6x while the T-M-B.D. group would rise from 8x to 10x (= Best Products) 11x (= Jack Eckerd, Revco or Rite Aid) or even 20x (= Wal-Mart).

Money cost—as governed by Jimmy Carter. The weighted average prime rate for the Bank of America for 1976, the year Carter was elected, was 6.90%. We then had: 1977 - 6.81%; 1978 - 9.05%; 1979 - 12.23%; and 1980 - 14.54%. What about the years before? 1975 - 7.85%; 1974 - 10.77%; 1973 - 8.02%; 1972 - 5.25%.

A STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

As the days got shorter, so did the Honor Roll. But there are some surprises.

HONOR ROLL

J. Magnin	2.0	B. Altman	4.0
Rubenstein's	2.6	Macys, N.Y.	4.0
Mervyn's	3.0	Wineman's	4.0
Gimbel's, Philadelphia	3.6		

CREDIT OFFICE RATING

Information From Reporters	DEC. 1980-JAN. 1981			OCT.-NOV. 1980			Information From Stores	DEC. 1980-JAN. 1981			OCT.-NOV. 1980		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	2	4.0	4	1	5.0	5	Carlisle's (Ashtabula)	2	5.5	4-7	--	--	--
The Broadway (S. CA)	1	9.0	9	--	--	--	Gimbel's (Phila.)	36	3.6	3-5	36	3.6	3-4
Brooks Bros. (NY)	1	10.0	10	--	--	--	Levy Bros. (N. CA)	3	4.5	3-6	2	6.0	5-7
Bullock's (S. CA)	3	4.3	4-5	1	2.0	2	Mervyn's (N. CA)	30	3.0	2-4	30	3.1	3-4
Bullock's (N. CA)	3	7.0	5-11	6	6.7	6-7	Ross Stores (N. CA)	3	5.3	5-6	4	6.3	5-8
Emporium-Capwell (N. CA)	9	8.3	6-12	7	7.9	6-9	Rubenstein's (Shreveport)	6	2.6	2-4	6	2.3	2-3
Nan Duskin (Phila.)	1	6.0	6	--	--	--	Wineman's (S. CA)	2	4.0	4	1	5.0	5
Grodin's (N. CA)	1	5.0	5	2	11.5	10-13							
Gump's (N. CA)	1	10.0	10	--	--	--							
Hastings (N. CA)	1	11.0	11	1	9.0	9							
Joske's of Texas (San Ant.)	3	8.6	7-10	--	--	--							
Livingston Bros. (N. CA)	5	6.8	5-9	4	5.5	4-7							
Lord & Taylor (NY)	1	11.0	11	2	10.5	10-11							
Macys, (NY)	1	4.0	4	1	3.0	3							
Macys, (N. CA)	10	4.4	3-8	8	4.4	4-5							
I. Magnin (N. CA)	7	7.6	6-10	3	6.3	6-7							
J. Magnin (N. CA)	1	2.0	2	--	--	--							
Penney's (N. CA)	2	6.5	6-7	2	5.5	5-6							
Penney's (S. CA)	1	6.0	6	1	4.0	4							
Robinson's (S. CA)	1	7.0	7	1	7.0	7							
Saks 5th Ave. (NY)	5	7.4	3-10	3	7.3	6-8							
Sears (N. CA)	1	7.0	7	8	7.6	7-9							
Smiths (N. CA)	3	6.0	4-8	--	--	--							
Wanamaker's (Phila.)	2	8.5	8-9	--	--	--							
Weinstock's (N. CA)	2	4.5	4-5	1	8.0	8							
TOTALS	68	6.7	2-12	52	6.7	2-13							

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.

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

Every time he saw a new department store open, (Capwell's in Hayward, Macy's in San Leandro, both in his back yard) he enthused at the opportunity they were providing him. At times he found it hard to believe that they would hand over a market—a market that was an important part if not the core of the post World War II suburbs with the young vet families with lots of children, trying to build their future.

That abandoned basement business now stretches from Oregon to Texas and will do \$800 million for the year ending January 1981 and should comfortably pass \$1 billion by January 1982. Probably the largest basement business in the upstairs world!

RThought: They say that opportunity knocks but once—but for Mervyn's it knocked every time department stores refused to provide upstairs treatment for budget line merchandise. It knocked every time a department store made a decision based on gross margin percentages rather than gross margin dollars per square foot.

Of course, it never knocked for department stores because they were already inside—waiting for some other opportunity.

WHY IS HUGO MANN'S MAGIC NOT WORKING IN THE U.S.?

In Germany Hugo Mann has been tremendously successful with his "hypermarkets" under the Wertkauf name. They are now doing more than \$1 billion a year—just about the volume of FedMart.

According to a *Fortune* article (Dec. 1, 1980), Mann was attracted to FedMart on a vacation trip to Southern California because the FedMart stores were a combination of food and general merchandise, the same as his hypermarkets. Mann was interested in developing retailing outside of Germany because the restrictions on new buildings limited hypermarket construction.

But the less limited building environment in the U.S. is just the reason why the hypermarket does not work here—the city planning codes do not permit the creation of a quasi-monopoly such as results in Germany (and England and France) when the granting of permission to build one superstore (generally over 50,000 sq. ft.) means that no other superstores will be allowed in the general vicinity. With the only efficient plant in the community (even if in a big empty field outside the central area), there is considerably less difficulty in driving huge volume through the hypermarket.

Carrefours in France averages \$800 per square foot of space for their entire chain, but they usually have no nearby competition.

When Oshawa tried the first (and only) hypermarket in North America, their monopoly was almost instantly broken by a Steinberg's Miracle Mart store within a mile. The result was that the Oshawa hypermarket was eventually operated as an uneconomic too-large discount store.

Hugo Mann is persistent. Undoubtedly he will end up producing a profit at FedMart. But FedMart will operate much more like U.S. discount stores than like German hypermarkets. Of course, it will first be necessary to be satisfied with top management at FedMart long enough to restore morale and to convey to customers a clear merchandising position.

ARE LABOR OFFICIALS AND EMPLOYEES MORE HONEST THAN RETAIL EXECUTIVES AND EMPLOYEES?

The answer to that question seems to be "Yes!"

The Contra Costa-Napa-Solano LABOR NEWS (February 1981) carried the results of a study made by the International Association of Machinists of the percentage of collected premiums paid out on surety bonds for various industries. This information was compiled by the Surety Association of America.

This is what they found:

Industry	% Paid Out
Financial Institutions	61%
Mercantile Business	51%
Governmental Agencies	40%
Labor Unions	34%

RThought: Doesn't it seem strange that local papers, and even national magazines, headline many examples of corruption in labor unions—but seldom in mercantile or financial institutions. Could a bias be showing?

HIGH PERFORMANCE RETAILERS

The table below is taken from the January 5, 1981 issue of *FORBES* and lists all 28 retail firms (from a group of more than 1,000 major publicly held corporations) that had a 5-year average return on equity in excess of 20%.

Company	5-Year Average R.O.E.
Tandy Corporation	47.5%
Food Town Stores	35.0%
Service Merchandise	33.4%
Avon	32.1%
Wal-Mart Stores	31.0%
Best Products	30.4%
Toys "R" Us	30.2%
SCQA Industries	29.4%
Petrie Stores	29.4%
Melville	28.7%
Bruno's	25.9%
Caldor	25.8%
Edison Brothers	24.6%
Lucky Stores	24.5%
Dillon Companies	24.4%
Niagara Frontier Services	24.4%
Dayton-Hudson	24.3%
Albertson's	23.6%
National Convenience Stores	23.1%
Big V Supermarkets	23.1%
Longs Drug Stores	22.3%
Revco D.S.	21.4%
American Stores	21.2%
Circle K	21.2%
Rite Aid	21.1%
Winn-Dixie	20.7%
Weis Markets	20.6%
Pay Less Drugs North West	20.1%

RTest: Which ones, if any, were run solely by professional management over the past 5 years? Send answers to RT.

WHEN YOU MAKE TOO MUCH MONEY, DO YOU REMEMBER THE CUSTOMER?

Manufacturers Life Insurance Company recently increased death benefits under older policies, according to **The Insurance Forum** (Box 245, Ellettsville, IN 47429 \$20/yr).

In recent years Manufacturers has been earning much more interest than the assumption used as a basis for setting rates for older nonparticipating policies—and experiencing a lower death rate. Effective January 1, 1981 the death benefit on policies written prior to 1948 will be 25% greater than stated in the policy; for policies written between 1948 and 1959 the benefit will be increased 15%; and for policies written between 1960 and 1965 the increase will be 10%.

The amount of extra death benefit, if any, will be reviewed each year.

As Editor Joe Belth says it: "We also hope that other companies will emulate the program so that ManuLife's action will be the beginning of an industry-wide effort to improve the position of the owners of long-duration, nonparticipating cash-value life insurance policies."

RETAILERS AND THE F.T.C.

Albertson's: As a settlement of the claim by the F.T.C. that the 1978 acquisition of the Fazio stores in the Los Angeles/Orange County market decreased competition (Albertson's was 9th largest and Fazio's 7th; combined Albertson's became 6th), a consent order provides that for the next 10 years Albertson's cannot, without prior FTC approval, purchase 5 or more stores in any state in which Albertson's now does business (15 states) or within 500 miles of an Albertson's warehouse or 300 miles of an Albertson's store.

SUPPORT OF THE BBB

It is with continuing amazement that RT observes the lack of support given by major retail businesses to the Better Business Bureau. One would think that with the present attitude of much of the public about (against?) large business firms that the leading retailers would have a policy of continued public support of the BBB.

Recently, the Better Business Bureau of the East Bay (serving two counties with 1.7 million people) ran a full page ad and listed 316 sponsoring firms. Many were tiny organizations—doing \$250,000 or less—who still had enough commitment to the concept of the Better Business Bureau to help pay for the ad.

Let's look at the list carefully.

Among the supermarkets, Safeway Stores supported the effort but not Lucky Stores, Alpha Beta, Albertson's or the Berkeley Co-op. Among drug chains, Longs Drug Stores was listed but not Pay Less, Thrifty or Walgreen. Among department stores, Emporium-Capwell was supportive but not Liberty House, Macys, Bullock's or Mervyn's.

And then there were the ones that were missing completely—those wonderful national leaders—Sears, Penney and Wards! And among the discount chains there were none—not one. No K mart, Gemco or Treasury.

No wonder our customers wonder—about retailing's commitment to good business conduct.

SHORT SHORTS

Safeway does a great thing for handicapped shoppers. Head food clerk Kermit Berge noticed customers in wheel chairs having difficulty handling shopping carts so he designed one they could use. By now Safeway should have one in every store in the United States and Canada. Hopefully Safeway will make this design available to other retailers.

Recently 4 men in Los Angeles were arrested for pornography—for distributing pictures of young girls in their underwear, taken when the girls were not aware of it. Sales were in the tens of thousands, in the U.S. and several foreign countries. Yet department stores do this all the time—in full color.

WORDS OF AN OFFER— I HOPE YOU CAN REFUSE—

The letter below, from just old George, was published in **The Officer** (Reserve Officers Association of the U.S.) with thanks to the Fountain Valley (California) Chamber of Commerce who don't recall where they found it.

A Letter from George

Hi! My name is George. I'm an all-around handyman and I'd like you to feel free to use my services for any and all chores, errands, and duties which you may be too busy to perform. Anytime there's something that needs doing and you'd rather not, you just let old George do it.

I'll write to your congressman for you; I'll write your newspaper editor; I'll serve on the school board in your place; I'll do anything you're too tired or too preoccupied to do. With me around, you can be as lazy as you like. Or you can just have fun. The more the merrier, I always say. My services are available to you for all the tedious, time-consuming things which you'd rather duck doing.

You haven't time to vote? Let George do it. You haven't time for jury duty? I have. There is certainly no need for you to concern yourself with attending civic meetings. You don't want to accept committee assignments and extra responsibilities anyway. You let old George tend to those things.

Now, you ask, why should you leave important jobs to somebody you've never met? Well, that's a reasonable question, so let me put your mind at ease. I'm no beginner. Maybe I'm not as famous as Krushchev, but if it hadn't been for me, you'd never have heard of him. And that goes for Mussolini and Stalin and Hitler, too. I made those guys! And the big time racketeers in the United States. You name 'em; without me those guys would be nothin'.

Why do I want to run errands for you? Don't you see I get a kick out of electing presidents for school boards and unions and countries. All these things you used to do before you took up other more important things.

Don't feel like you're imposing. I'm glad to be of service. Helping you, I'm really helping myself. How do you think I have been able to take over and run a third of the world already? Because nobody else wanted to bother. They said, "Let George do it." So I did it.

Now I'm taking over in lots of cities and counties in the United States and I figure it's just a matter of time until I'll take over this country, too. I want to thank you for making it possible.

Remember now; if there is ever any way in which I can be of help, I'm at your service. You just have fun and don't worry about a thing. I'll do your worrying, too.

I'll bill you later.

Sincerely,
George



RETAILING TODAY

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MORE ON SUPPORT OF THE BBB

In the March 1981 RT there was an article entitled, "Support of the BBB" in which comment was made on an advertisement that appeared in the major San Francisco East Bay newspaper listing 316 sponsoring firms.

RT asked why other stores were not members.

B. Charles Wansley, who heads the local Better Business Bureau/Eastbay has responded (as has his counterpart in San Francisco and the head of a San Francisco merchants association) pointing out that the firms listed do not constitute the total membership.

It would have helped if the ad had stated that it was sponsored by only a portion of the member firms.

In order to straighten out the record, the list below shows the firms RT deduced were not members—and their correct status:

Lucky Stores	Member
Alpha Beta	Non-member
Albertson's	Non-member
Berkeley Co-op	Non-member
Pay Less Drug	Member
Thrifty Drug	Non-member
Walgreen	Non-member
Liberty House	Member
Macys	Member
Bullock's	Non-member
Mervyn's	Non-member
Sears	Member
Penney's	Member
Ward's	Member
K mart	Member
Gemco	Non-member
<i>(but may claim through Lucky Stores)</i>	
Treasury	Non-member
<i>(but may claim through Penney's)</i>	

RTThought: In those cases where RT deduced the wrong fact from the advertisement, we are pleased to correct the information and hope that you will, as members, help make future ads clearer as to the basis of listing only 316 firms.

And for those firms where RT correctly deduced that they were not members, a bit of contemplation on their responsibility might be appropriate. One reason we have so many laws is that so many of the firms that argue that business can police itself are unwilling to pay even a small amount of money to help fund that self-policing.

DOES YOUR CREDIT DEPARTMENT DISCRIMINATE AGAINST WOMEN?

I am sure your answer is NO. Business Week recently reported on the current situation under the Equal Credit Opportunity Act. The FTC received 5,000 complaints in the past fiscal year. Local organizations report even more complaints. The Women's Credit Rights Project at the University of California received 8,000 telephone calls in two years.

Bloomingdale's has paid \$50,000 under a consent agreement for discriminating. The FTC has attempted to clarify the administration of the law, especially as to how and what income has to be considered. Banks and retailers are the most frequent problem areas—because they dispense the most individual credit.

RTThought: Why not have signs in your credit office areas saying, "If you feel you have been discriminated against in being granted credit, write to me at . . ." Give a P.O. box number and have the letter addressed to you as President of the company. This is what you would do if your employees claimed they were subject to discrimination. Why not use the same kind of channel for your customers?

WHAT MOTIVATES A BUYER

Hardware Retailing undertook a survey of buyers in hardware and home improvement stores to see what motivates them. Top management usually figures that money is the most important motivator—despite the fact that virtually no surveys show money in first place or even second place. Hardware-home improvement buyers are not any different. Based on the survey and an evaluation of the results by some experienced hardware retailers, here is the list:

1. Their company enjoys a strong image and good reputation in the industry.
2. Top management recognizes their expertise and asks them to make recommendations for additional product marketing and promotional programs.
3. Their company conducts an effective promotion program of advertising supporting the lines they buy.
4. Top management projects an attitude of success and leadership, suggesting it is a great company.
5. One of their vendors provides a gross margin that is slightly higher than the gross margin for other lines of its type.
6. Top management provides back-up and support, in the form of individual help and assistance with vendor management as needed, about delivery or other problems.
7. Top management lets them schedule visits to key vendors at their convenience to assist in getting to know their sources better.

8. One of their vendors offers a unique sales proposition in the form of a special offer, special packaging, as one exclusive promotion for their firm.
9. Top management advises that their performance on a good line is not up to par and improvements must be made.
10. Top management comes back from a convention or business meeting with a strong suggestion that they add a new product which is compatible with other lines handled and which might create good customer demand.

RThought: If you want to read the entire study, send \$3.00 for the August 1980 issue—Hardware Retailing, 770 North High School Rd., Indianapolis, IN 46224.

WHY ARE SMALL STORES MORE PRODUCTIVE THAN LARGE?

In the February 9, 1981 *Menswear* (7 East 12th St., New York, NY 10003 \$1.25), Lori Berger had an article on "The Retail Paycheck," extracted from proxy statements of major companies. But included in the article were two tables (not connected with the question of top executive pay) taken from the recently published 1977 Census of Retail Trade—Miscellaneous Subjects (Report RC77-S-2 Supt. of Documents, Government Printing Office, Washington, DC), one dealing with sales size and payroll expense and the other with sales size and floor space size.

RT has extracted two important figures from these tables that illustrate relative productivity.

Which stores are most likely to have a low payroll percentage?

Payroll %	Store Size			
	\$25,000,000 and up	\$10,000,000 \$24,900,000	\$5,000,000 \$9,999,000	Under \$5,000,000
Less than 12%	28.0%	39.1%	37.6%	50.9%
12.0-13.9%	21.8%	27.9%	32.5%	16.8%
cumulative	49.8%	67.0%	70.1%	67.7%
14.0-15.9%	22.4%	16.2%	15.9%	16.1%
16.0-19.9%	17.3%	13.0%	10.0%	9.9%
20.0% and up	10.5%	3.8%	4.0%	6.3%
Total	100.0%	100.0%	100.0%	100.0%

The answer? Small stores. More than half the department stores doing under \$5,000,000 keep their payroll below 12%, a figure attained by only slightly more than a quarter of the larger stores.

The next question is—is a busy small store more productive than a less crowded big store?

The second table broke down volume groups by the size of the store and reported, among other things, sales per employee.

Sales Per Employee by Store and Volume Size

Size of Store	Store Volume			
	\$10,000,000 \$25,000,000		\$5,000,000 \$9,999,000	
	Dollars	Index	Dollars	Index
100,000 sq. ft. plus	\$47,164	100	\$38,940	100
75,000-99,999 sq. ft.	53,539	113	47,045	120
50,000-74,999 sq. ft.	54,889	116	50,375	129
Under 50,000 sq. ft.	67,851	143	53,963	138

The results clearly show that doing the same volume in a store of less than 50,000 sq. ft. produces about 40% more sales per sales person than doing it in a store of more than 100,000 sq. ft.

RThought: It is only recently that many retailers realized that low real estate costs during the 1960s were leading them to

build inefficient plants—too large for the volume. The store planners may have enjoyed it; but the people staffing the store were not productive, the inventory investment was too high (because of filling space), and depreciation and the cost of utilities (as well as common area and other charges related to gross leasable area) were too high and uncontrollable in many cases.

WOULD THIS HAPPEN IN A DEPARTMENT/DISCOUNT/APPAREL CHAIN?

Jack Brandwein in his March 1981 *Forum* (single copy \$4—4731 El Camino Ave., Carmichael, CA 95608) devoted an entire issue to "The Role of the Representative in the Home Furnishings Industry." He said it was written by his subscribers, 2% of whom were polled (50% of that 2% replied).

The general theme is that reps are important to both the company they represent and the stores they serve. But they must be more than order takers.

Many frank thoughts were expressed by retailers, by reps and company salesmen, and by the heads of the manufacturing company.

But I was most touched by the story about Virgil Casemore, who owns Economy Furniture in Baton Rouge, Louisiana. When one of the reps that he valued was sick, Virgil, at his own expense, worked the territory for the rep so that the rep could meet expenses while ill. Virgil found that he got an unexpected reward when calling on other retailers—who recognized what he was doing; they talked to him about things they were doing and Virgil ended up making some significant improvements in his own business!

RThought: Who in your organization would even think of doing this—let alone do it? Is business better if people do things like this?

ARE INDEPENDENTS BETTER OPERATORS THAN CHAINS?

The Current Business Report—Monthly Retail Trade report for December 1980—has been issued, including estimated total retail sales by type of store plus total retail sales for chains (11 or more stores).

The statisticians at the Department of Commerce have told me they have some concern about relating the two figures, yet the figures are the best information available. If one subtracts the estimated volume for chains from the estimated total volume, the result should be the estimated volume for non-chains.

For 1980 both chains and non-chains had the same increase in volume in the following types of retail stores:

Department Stores	+6%
Apparel & Accessory	+6%
Shoe Stores	+8%
Women's Ready to Wear	+6%

In the other 5 categories of stores, the non-chains did better than the chains in 4 cases—and worse in one case:

	All	Chains	Non-Chains
Variety stores	+10%	+ 6%	+26%
Grocery stores	+11%	+10%	+11%
Family clothing	+ 7%	+ 6%	+ 7%
Auto and Home	+13%	+ 5%	+15%
Drug stores	+12%	+14%	+10%

A FEATURE REPORT

THEORY X? THEORY Y? THEORY $\frac{1}{2} X + \frac{1}{2} Y$?

In 1960 Douglas Mac Gregor wrote "The Human Side of Enterprise" in which he postulated that there were two (and only two) management theories: Theory X based on the assumption that people were stupid and lazy and therefore must be controlled by a reward/punishment management philosophy; and Theory Y which said that they were smart and ambitious and only need leadership.

In the January 1981 issue of *Administrative Management* (51 Madison Ave., New York, NY 10010, \$3) Jeanne Polston Greene of Louis A. Allen Associates brought their study of this dichotomy up to date. Lou Allen, a fellow Certified Management Consultant, teaches professional management throughout the United States and in many other countries. In 1972 and again in 1980 he conducted a survey among recent graduates of his program about their attitude toward and about people.

He found among these managers a general rejection of Theory X—saying people are not dumb and lazy; and also a general rejection of Theory Y—that people are smart and only need to be led. Other studies made over the years—of students, particularly—and Allen's own study of non-U.S. managers show that relatively more (although still less than 20%) feel that Theory X is most representative.

For example, managers feel (about 80%) that people are neither very bright nor very dumb. Practically none (under 2%) feel that people have no ambition, but only about 20% feel that people have great ambition.

All the studies agree that few people (1%) have a desire to help others although a consistent 22% have a desire to help themselves and others. Under 12% of people are motivated solely by economic factors or solely by social factors—most are motivated by a complex of social, economic, psychological and biological factors which vary for each individual.

RThought: The answer becomes simple—management is a complex task.

Successful management methods must get the best from the few who are lazy and dumb and the somewhat larger group who are bright and need only to be led, but with the greatest success going to the managers who can find the right way to stimulate the majority by causing each individual to respond to an appeal to his own combination of characteristics.

Spending your life trying to find a single "magic button" that can be pressed in every employee to get phenomenally effective results is time wasted. I am reminded of my Great Uncle Albert Elkus, who ran a men's store in Sacramento for almost half a century back in the days when the local paper sold the bottom inch of the front page as an ad. He had the space for years and his ad always read, "Every man is odd—but we can fit him."

It seems to me the challenge of management is clear. The manager determines where he is and where he wants to go. He looks at the people that he has available to make the journey and then decides how he will motivate each one individually to work with the others collectively to get the organization from here to there. He may have the luxury of being able to replace a few who cannot be motivated, but trading in all of the people for a new batch of people offers no assurance of improving the probability of success.

It is unfortunate in retailing that so many boards of directors feel that by replacing one man at the top that a new man, by applying Theory X through a new series of orders/instructions, will be able to change immediately the direction, market position and profitability of an organization of thousands of different people including hundreds of executives, each responding to his own mixture of stimuli. We see this in the turnover of CEOs in multi-billion dollar failing businesses or in the firing of a COO in a billion dollar business after less than a year because "he was not producing results."

There is, of course, a parallel. We have greatly increased the skills required of a top retail executive and of a school teacher, but we have not made any change in the requirements to be on a retail board of directors or on a school board. We thus tend to be consistent throughout our society, consistently wrong.

SHORT SHORTS

Concessionaires into the spotlight, please! *Business Week*, (Jan. 16, 1981), under Personal Business, rates fur coats for warmth. The source is Irwin Ware, identified as the lessee of the fur salon in I. Magnin & Co.'s Chicago fur salon.

Can you pass this test? Do you sell bras and slips that go with the size 20-22 dresses you sell? Saks Fifth Avenue fails this test—they don't carry bras and slips larger than 38.

A thought to ponder, heard on the radio: Death would be terribly unfair—if it did not come to everyone.

How can Bloomingdale's be so successful with sullen models? A recent mailing had 81 female models whose faces were visible. 71 were sullen, sour or angry, 5 had a hint of a smile and only 5 had a true smile. Thus 88% were unhappy with the whole deal! Of course, the model for women's shoes, whose face was not shown, might have been smiling at the idea of a naked male model with a fetish for women's feet shown kissing her foot.

Sloppy Montgomery Ward advertising. I keep meaning to save all the "Important Notices" run by Wards saying there was a mistake in an ad or insert in a certain paper. In one case they ran 2 notices on one insert with 7 price errors and 4 miscoded pictures. They always "regret the inconvenience." I think they should comment on their own embarrassment. But they have gone too far—in a correction on the price of Peugeot Sport Mopeds they misspelled the make as "Peuteot." Doesn't anyone check anything anymore? At Wards?

What happens if your pay rates are discriminatory? Lawson Milk Corp., which operates bakeries and convenience stores in addition to milk plants, was sued by the Equal Employment Opportunity Commission (EEOC). EEOC charged that for 16 years Lawson has paid lower rates to women for identical work done by men at higher rates. EEOC wants to impose a major penalty—bar Lawson Milk from distributing all products that are tainted by being produced by people paid a discriminatory wage. The theory is simple—if companies can continue to ship while paying illegal wages, they will never have a reason to pay legal wages.

FOR THOSE WHO THINK UNRESTRICTED MARKETS SOLVE ALL ECONOMIC PROBLEMS...

One of my favorite publications is "Research Reports" published by American Institute of Economic Research (\$35/year, Great Barrington, MA 01230). In a recent review of "Knowledge and Decisions" by Thomas Sowell, they quoted from a 1945 essay by F. A. Hayek on the nature of a market price system as something more than a meeting of supply and demand.

"We must look at the price system as ... a mechanism for communicating information if we want to understand its real function ... The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.

"... (T)here is something fundamentally wrong with an approach which habitually disregards an essential part of the phenomena which we have to deal: the unavoidable imperfection of man's knowledge and the consequent need for a process by which knowledge is constantly communicated and acquired. Any approach, such as that of much of mathematical economics with its simultaneous equations, which in effect starts from the assumption that people's knowledge corresponds with objective facts of the situation, systematically leaves out what is our main task to explain." ("The Use of Knowledge in Society," The American Economic Review, September 1946.)

RThought: The concept of market decisions was first put forth in a comprehensive manner in 1776 by Adam Smith in his book "The Wealth of Nations." 1980 advocates of Adam Smith conveniently overlook the changes in our economy since those days.

If one will stop a moment, they will recall that in 1776 the consumer was faced with far fewer products to purchase. The products were all simpler items (such as cotton cloth, simple hardware, tobacco products, lumber, foodstuffs, candles, china and glass) which did not change dramatically from year to year, perhaps even from generation to generation. There was not the sudden flow of complex items such as TV, home computers, phonevision, fuel injected and turbocharged cars, brand-name drugs, or signature jeans. Because fashion did not change rapidly in 1776, knowledge of what was in fashion did not require a complex information gathering system.

In many cases the seller of the product was also the manufacturer. Thus it often was made with the objective of building reputation through repeat business rather than making a profit at the point of sale to a re-seller rather than at the point of sale to the ultimate consumer. The seller could not respond to a complaint by saying, "Thank you for letting me know—I will never buy from them again."

It should be apparent to every retailer that even his buyers, who confine their full time to just a limited portion of the consumption demands of a simple consumption unit—an individual—really know very little about products they buy. If buyers did know more, would as many stores be taken in by counterfeit 8-tracks and cassettes, improperly engineered or designed table appliances, unsafe toys, defectively manufactured tires, fabrics purported to be color-fast that are not, down jackets not filled with down and many more products of poor or undisclosed content?

The grandmothers of the present housewife learned from their mothers much of what they needed to know about the products that they would buy for daily use. The only fabrics available in olden days were wool, cotton, linen and silk. Acetates had not yet been developed, and mixed fibres were not common. She could "handle" a piece of cloth and tell what the fabric was—and she could inspect the weave, selvedge and other features with an expert eye.

She bought basic ingredients, usually unpackaged, from which she produced the final dishes served to her family and few chemicals were involved in the distribution process. (In many cases she grew much of the foodstuff herself.)

Communication was limited and transportation was difficult. Therefore, the market in which an individual consumer and individual seller operated was a very local, even neighborhood, market; and the theoretical "unlimited buyers and unlimited sellers" were very small in number. In many cases the buyer was familiar with all of the sellers of a given product in the market available to her in light of transportation limitations. And also with the seller, who likely knew the price of every competitor.

Thus Adam Smith conceived of his market answer to economic decisions at a time when the consumer's knowledge of product and market was at its highest. In the United States that knowledge was even higher than in Smith's England because our population was proportionately more literate and our newspaper structure disseminated more information.

The Industrial Revolution had not arrived.

Since Smith wrote his book, "progress" has destroyed his basic assumptions—the assumptions upon which economists created an "economic man" to study.

Manufacturing, technology, instant communications, advertising, and deteriorating effectiveness of teaching (probably due more to the distraction of the student than to the lack of availability of knowledge) have combined to make the assumptions of Adam Smith of "perfect knowledge" far less valid. Consider these factors:

1. Identical products are carried in diverse types of outlets so neither buyer nor seller can have perfect knowledge of prices and supply.
2. Shoppers buy locally, regionally, and nationally, and by mail and phone as well as in person.
3. Products rely for performance on mechanics and electronics beyond the comprehension of both the buyer and seller.
4. Shoppers move to new communities with great frequency (and sellers change almost as fast) so that knowledge of transactions yesterday may not be a guide for decisions tomorrow.

Hayek would be even more accurate today, 36 years later, in concluding that our present price system does not serve as mechanism for communicating information.

RThought: A good little fighter can often beat a good big fighter—if he is faster on his feet.

IS IT BETTER TO BE BEGGED OR TO BE THE BEGGAR?

I listened closely to campaign talks of Ronald Reagan when he ran for President. I wanted to understand how he planned to reduce the size and cost of government.

I didn't hear a single word about putting the government into begging, but apparently that is one of the economies.

It helps the ego of many a man to look prosperous enough to be picked by a beggar as a target. And so it was with Malcolm Forbes when he reproduced a begging letter from the White House—some folks hired as "Special Assistants to the President for Policy Development." They wrote to Forbes saying that the Reagan Administration advocates austerity and "therefore, we would very much appreciate it if we could receive a complimentary subscription."

RThought: If the only source of diverse viewpoints available to the President's "Special Assistants for Policy Development" is those that respond to their begging, they won't get much diversity.

RThought: Begging in the White House is becoming too much of a pattern for people who believe in the work ethic. Remember how Jimmy Carter got a swimming pool! And Eisenhower a herd of steer for his Valley Forge spread.

THE U.S. CAR MANUFACTURERS STILL CANNOT MAKE A GOOD CAR

Consumer Union has again rated the maintenance records of the more popular 1980 model cars. The tabulation below compares the 1980 models with the 1979 and 1977 cars. This time we show the details for each manufacturer by car line.

CHRYSLER COMPANY

Car	Much Better	Better	Average	Worse	Much Worse	Total
Chrysler	0	2	0	0	0	2
Dodge	2 ²	0	2	0	0	4
Plymouth	1 ¹	1 ¹	1	0	1	4
TOTAL	3 ³ (33%)	3 ¹ (33%)	3 (33%)	0	1 (10%)	10 (100%)
1979	0	1 (14%)	1 (14%)	2 (29%)	3 (43%)	7 (100%)
1977	0	0	0	1 (10%)	9 (90%)	10 (100%)

FORD COMPANY

Ford	1 ¹	0	2	7	4	14
Lincoln	0	0	0	1	1	2
Mercury	0	0	4	1	0	5
TOTAL	1 ¹ (5%)	0	6 (29%)	9 (43%)	5 (24%)	21 (100%)
1979	0	4 (20%)	7 (35%)	4 (20%)	5 (25%)	20 (100%)
1977	2 (17%)	3 (25%)	5 (42%)	2 (17%)	0	12 (100%)

GENERAL MOTORS CORPORATION

Buick	0	0	4	3	2	9
Cadillac	0	0	0	2	3	5
Chvrolette	0	0	5	2	8	15
Oldsmbl	0	1	6	2	2	11
Pontiac	0	0	2	1	5	8
TOTAL	0	1 (2%)	17 (35%)	10 (21%)	20 (42%)	48 (100%)
1979	0	7 (16%)	19 (43%)	8 (18%)	10 (23%)	44 (100%)
1977	1 (3%)	4 (13%)	17 (55%)	5 (16%)	4 (13%)	31 (100%)

NOTES: ¹ means one car reported is imported from Japan.
² means two cars reported are imported from Japan.
³ means three cars reported are imported from Japan.

Chrysler is the only one that appears to show improvement even when one eliminates the 2 Dodges and 1 Plymouth that are really Japanese imports. Ford did much better in 1977 and 1979, especially if one disregards the import that got a "much better" rating. GMC continues to decline in quality.

Now let's look at the imports.

GERMAN IMPORTS

Car	Much Better	Better	Average	Worse	Much Worse	Total
Audi	3	0	0	0	0	3
BMW	1	0	0	0	0	1
Mercedes	2	0	0	0	0	2
Vlkswn	2	3	2	0	0	7
TOTAL	8 (62%)	3 (23%)	2 (15%)	0	0	13 (100%)

JAPANESE IMPORTS

Datsun	5	1	0	0	0	6
Honda	4	0	0	0	0	4
Mazda	3	0	0	0	0	3
Subaru	2	0	0	0	0	2
Toyota	6	0	0	0	0	6
TOTAL	20 (95%)	1 (5%)	0	0	0	21 (100%)

OTHER FOREIGN IMPORTS

Renault	1	0	0	0	0	1
SAAB	0	1	0	0	0	1
Volvo	2	0	0	0	0	2
GRAND						
TOTAL	31 (82%)	5 (13%)	2 (5%)	0	0	38 (100%)
1979	22 (81%)	4 (15%)	1 (4%)	0	0	27 (100%)
1977	13 (72%)	4 (22%)	1 (6%)	0	0	18 (100%)

RThought: If the time and management effort spent by the car manufacturers and the labor unions trying to get the government to restrict the import of Japanese cars (they should also worry about French, German and Swedish cars) was spent in trying to assemble their own cars better, there might not be any need for the government to "protect" the American people by forcing them to buy an inferior American car instead of a superior import at a higher price than when the imports are providing true competition.

WHAT IS SMALL AND GETTING LARGER?

Answer: the convenience store industry.

Frost & Sullivan (108 Fulton St., New York, NY 10038) recently published a 1979-1989 analysis of the convenience store industry. They expect volume, exclusive of gasoline, to increase from \$10.7 billion to \$29.7 billion with the number of stores rising from 35,000 to 54,000.

Most of the industry is now concentrated in the sunbelt, but growth will increase in the north and in central cities where convenience store chains are just experimenting with formats to serve walk-in customers.

Frost & Sullivan finds many favorable factors. Convenience stores are mostly patronized by young people—and the 20-34 age group is the fastest growing segment of our society. Drink mixes, snacks and yogurt sales are expanding rapidly. Microwave ovens are boosting in-store fast food delivery, in some cases 24 hours a day.

The development of retort pouches that do not require freezer cases will boost sales of many products. Costs will be reduced as more goods are provided in smaller size cases, moving to stores from central warehouses and wholesalers, rather than being brought by high cost routemen.

RTThought: Some years ago I failed to make friends when addressing the National Association of Convenience Stores when I pointed out that more than half their sales came from gasoline (contaminating the air in our central cities), cigarettes (each package carrying a warning of danger to the smoker's health) and beer, wine and liquor (alcohol being our biggest drug problem).

It will be good to see more food sales supplementing pinball machines, rental equipment, magazines and pet food, regardless of whether it is fast foods served ready to eat or easily prepared food to be served at home.

It is going to be necessary to offer more complete food lines if convenience stores are to replace the holes-in-the-wall that now serve many densely populated central city neighborhoods.

UPDATE

In the March 1981 RT under High Performance Retailers, extracted from *Forbes* magazine's listing based on 5-year average return on equity, Weis Markets was listed 27th out of a list of 28 firms reporting over 20% average R.O.E.

Hugh Ashcraft Jr., Chairman of Harris-Teeter Super Markets points out that Weis Markets is unduly penalized by their success—resulting in an equity of \$185 million with \$90 million invested in marketable securities. If the marketable securities were distributed to the shareholders, thus reducing the equity by a like amount and reducing the net profit by the income from marketable securities, then the 5-year average R.O.E. would probably be in the 25-29% range, improving their position on the chart from 27th to somewhere between 8th and 12th.

Henry Elser, Chairman, National Ice Corporation, regarding the item "Are Labor Officials and Employees More Honest than Retail Executives and Employees," points out that the low percentage paid out on fidelity bonds covering Labor Unions (34% of premiums) as against Mercantile Business (51% of premiums) doesn't indicate that union employees are more honest but that unions are being overcharged!

IMPOSING ON THE RETAILER

RT is starting another regular category of reporting—under the title of "Imposing on the Retailer." It will be aimed at the silliness imposed upon retail subscribers to the trade press because of a combination of unqualified reporters/writers and reviewing by editors by equally unqualified people as well as nonsense appearing in annual reports.

Chain Store Age, General Merchandise Edition, March 1981: In reporting the first half profits of Tandy Corp. when sales increased by 18% and earnings by 34%, the article concluded: "Tandy achieved these results despite (emphasis added) a 14% climb in cost of products sold and a 17% jump in S, G&A expenses." **Dear CSA:** About the only way profits can increase more than sales (assuming no unusual tax offsets) is by the cost of products growing slower than sales or expenses growing slower than sales—or both!

Men's Wear, March 16, 1981: In an extended article on merchandise entitled, "Trouble in the Middle" by Stan Gellers, in addition to being written largely in slang or other imprecise words, the writer starts with some statements that raise questions of a serious nature. In reporting that "some recent facts coming out of the Census Bureau are incredible," the article, in dealing with family income, states, "The median

income has almost doubled between 1978 and 1980. At last count it was \$15,064." **Dear MW:** (1) The 1980 median family income was not published at your deadline date—give the Census Bureau a while to collect data after people file their income tax and know themselves what they made, and (2) current Population Report P-60 No. 123 published June 1980 on "Consumer Income: Money Income of Families and Persons in the United States: 1978" reports the all-families, all-race income at \$17,640, up 10.2% from \$16,009 in 1977, both above your reported figure.

The MW article continues, "Over 50% of the U.S. working households beat the medium (sic—presumably median which was correctly used elsewhere in the article) figure." **Dear MW:** By definition, the median in statistics means the number at which half the numbers are larger and half are smaller. There is, of course, an MW precedent in the store that always sold at cost and explained that it made a profit by buying at less than cost!

And the point at which I quit reading read, "The initial dollars may have been there, but in the past year, the demands on discretionary income gulped increasingly larger portions of the pay check leaving less money for apparel." **Dear MW:** I really think you meant the demands by non-discretionary items such as food, housing, basic transportation, energy; what remains after providing basic costs is the discretionary portion of the income—and you are right that apparel comes in that category.

COMMERCIAL BRIBERY

U.S. Pencil & Stationery Company: I have done business with this company, and they make good pens—but it is distressing to see them offer "Gifts worth up to \$600—free with your order." They could be a non-tempting company if they just stayed with their offer of a 7% discount or 7% additional goods. But in their February 1981 catalog, they are offering a Toshiba Color 19" TV with an order for 2100 Comet pens for \$995.00. Or perhaps a Toshiba Stereo Music System (1200 Comet pens) or a Columbia 10-speed bike (550 Comet pens).

WORDS TO MANAGE BY

I always enjoy reading "Bits & Pieces" edited by Marvin Gregory and published by The Economics Press (\$10.68/year, 12 Daniel Rd., Fairfield, NJ 07006). In a recent issue he offered these words from renowned businessmen:

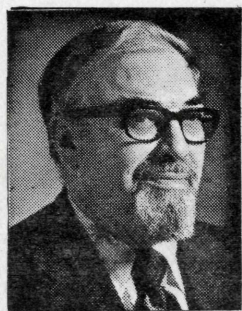
Marshall Field: Goodwill is the one and only asset that competition cannot undersell or destroy.

Peter Drucker: No executive has ever suffered because his subordinates were strong and effective.

Plato: When men speak ill of you, so live that nobody will believe them.

Marshall Field: Twelve things to remember . . .

1. The value of time
2. The success of perseverance
3. The pleasure of working
4. The dignity of simplicity
5. The worth of character
6. The power of kindness
7. The influence of example
8. The obligation of duty
9. The wisdom of economy
10. The virtue of patience
11. The improvement of talent
12. The joy of originating



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ROUTE TO

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WHAT IS YOUR RESPONSIBILITY TO YOUR CUSTOMERS?

This article is presented as an illustration of an unexpected disaster that can strike a store—a disaster for which there can be no advance preparation.

It is based on a true situation. The real names are used to drive home the magnitude of the situation. As you read this, ask yourself: "What would we have done in our firm?"

Macy's and Emporium-Capwell, each operating 19 stores in the San Francisco Bay Area, have used National Ticket Service (NTS) for 15 years. NTS operates by making reservations for the customer, taking cash or writing a charge ticket for the sale, issuing the customer a voucher that is exchanged at the box office for the actual ticket and remitting the money collected to the event putting on the show.

Other ticket services such as Ticketron actually issue a computer-prepared ticket.

On April 8, without warning, NTS closed all 38 offices. This made the front page of the April 9 morning newspaper. The article contained stories of slow payment by NTS to the box office managers and promoters. There was immediate question as to whether the vouchers would be honored, as the customer had paid cash or had already been billed on a charge account.

The key paragraph in the article read:

"Macy's also said that all tickets purchased through Macy's for future events will be honored. The Emporium/Capwell chain had no comment on the matter."

Question: Which response was the best? What would your firm have said?

The following day, April 10, an article reported that a court order had been sent out to entertainment centers instructing them to honor will-call ticket vouchers from outlets at both department store chains.

The key paragraphs read:

"A spokesman said Macy's will do everything in its power to assure that its customers' vouchers will be honored.

"Emporium-Capwell spokesmen said the same, adding the company also will take legal action to protect customers who pay the going rate for tickets to events at theaters, concerts or sports arenas, then are given vouchers to be honored at will-call windows."

Question: Is the Macy statement stronger or weaker than the original Macy statement? Does legal action on behalf of the customers fulfill the responsibility of the firm?

NICE TOUCHES

The manager of a branch of the California State Automobile Association on being transferred to a new office after 25 years at one office took out an ad in the local paper to thank his many friends and clients for "all of your kindness and support. It goes without saying that I will certainly miss you all." When did a branch store manager do that?

The luxury, high price, gourmet supermarket—when sending out new credit cards—included the following statement in the cover letter: "In the event you have any problems with the new billing, please feel free to call us at 111-3333 and we will quickly correct any situation that arises."

Two days later the owner of NTS was reached and his story, with much emotion, was told—but no reassurance was given by him that the tickets would be honored.

Four days later the newspaper reported that an arrangement had been worked out in court for the NTS tickets sold by Emporium-Capwell to be honored. The Macy's situation had been taken care of by the court order mentioned above. This was Emporium-Capwell's legal action, and the E-C attorney said that the store may have to pay as much as \$25,000 to cover unpaid vouchers. He said further, "Our concern was that Emporium customers with tickets not be turned away when they show up at an event."

RThought: The greatest fool can ask questions the wisest man cannot answer. But here are some of the questions that come to mind and are unanswered by the articles in the local papers:

1. The ticket office is really a concession although identified as the store's box office. Can the store take a position of not being bound to deliver to the store's customer what was promised in the store's name?
2. NTS represented the promoters and box offices. Are the promoter and box office bound by the acts of their agent?
3. The financial stability of NTS was, undoubtedly, checked before entering into the concession licenses 15 years before—why wasn't it checked periodically since then?
4. Can a store reject the interests of a customer in one type of transaction and expect customers to continue to have confidence in the store?

RThought: Life is never simple. The "right answer" is often hard to find. But what would your firm have done? And would you have been proud of both what they did and how they did it?

THE NEW SAFEWAY

Everyone in the food business should read the 1980 annual report for Safeway to understand just what is likely to happen at the world's largest food chain in the next few years.

The action is dramatically different from that at Sears, the world's largest general merchandise chain; they must recognize that K mart is probably going to pass them.

The relaxed, we-don't-know-it-all-even-if-we-are-the-largest attitude exudes from every page.

In the letter from Peter Magowan, he makes some statements that I have seldom read in annual reports. Here are a few:

"We have gone outside the Company to supplement our expertise in certain areas. In the past year we have hired specialists in variety merchandising, pharmacy operations, cosmetics, natural foods and other fields. In addition, we have retained consultants to study possible new layouts and designs for our stores and to assist us in our marketing and promotion efforts."

"We have found alternate uses for stores we might otherwise have had to close, and in the process have created new opportunities for internal diversification."

"We have tried to be more accessible to suppliers, the press and the financial community. At the same time, we have taken a more active role in industry affairs and have worked hard to improve communications with our employees."

In the body of the report one learns that the Office of Corporate Strategic Planning and Development will initially serve as liaison between management, internal groups and consulting firms.

Pharmacies are being added (205 in 1981 to bring the total to 305 at the end of the year) as are 3,000-item health food centers (700 by the end of 1981). Older and smaller stores have been converted to 26 Food Barns (warehouse type operations) and 8 Liquor Barns (warehouse liquor operations) with one store being used as an experimental home improvement center.

Consultant Ione Giggey Hult is given credit for training cosmeticians to staff new cosmetic centers in superstores.

A gourmet store will open shortly (if not open already) in Marin County, a high income area at the north end of the Golden Gate Bridge; and in Washington, D.C. experiments are being conducted with Town House stores (convenience stores) in high density residential areas.

They have surveyed 33,000 employees in 6 divisions about their thoughts on job satisfaction, working conditions, feelings about Safeway, opinions on training programs, prospects on advancement and other points. A special annual report for employees has been distributed. A "plain English" handbook on employee benefits has been prepared and distributed.

RThought: We read about the number of miles required to stop a supertanker—it may be 20 miles. Consider the problem of accelerating and changing directions of a \$15 billion 2400-store chain with 150,000 employees on 3 continents—yet just getting started, moves a company halfway toward their target.

THERE IS A REASON WHY THE INDEPENDENT SPECIALTY STORES SURVIVE

The following appeared in the *Business Newsletter* published by Menswear Retailers of America, written by past president Ed Caplan. Caplan heads a local chain of men's stores in and around Alexandria, Louisiana.

"Most of [meeting the challenge of the 80's] amounts to getting back to basics—being more particular about our procedures of hiring, taking more time to train our people in our way of doing things, and then keeping our personnel motivated.

"We are having regular store meetings with all selling personnel and for most of these we bring in a manufacturer's sales representative to explain what we bought from him and why. He also gives pointers in selling his product. This is followed up by a sales contest with merchandise from the manufacturer as incentive prizes. It makes our people feel more involved and sales are reflecting positive results.

"Also, we set a monthly sales goal for each store—a figure based on last year's sales plus expectations . . . a realistic figure to achieve with a little extra effort on the part of our sales personnel. We then tell them we will put 4% of all sales over this goal into a kitty which we divide up among the salespeople at the end of the month."

RThought: Thirty-five years ago I was running such store meetings in a single men's store doing \$4 million (roughly equal to \$12-\$15 million today). There were some things that made such meetings easier to plan in 1946. There were no night or Sunday openings and people worked 5 of the 6 days—BUT everyone worked Saturday including extras who worked 8 hours. The people reported for work at 9:00 a.m. and the store did not open until 9:30—the half hour, each morning was used for stock work, re-pricing, etc. But Saturday morning was either a departmental or store-wide meeting. We planned carefully, as does Ed Caplan, to make the best use of that time.

I can remember being persuaded of the quality of Samsonite by a full description of the product by their rep—the grooves where the top and bottom came together to make it water-resistant, the replaceable liner so that stained ones did not have to be tolerated forever, the pad molded into the hinges so that they would not come loose—and finally the strength, demonstrated by the rep (200 lbs. plus) standing and bouncing on the case.

In the smaller specialty chains the entire store can know what the goal is for the week or the month and can feel that they contribute to reaching that goal. Recognition is direct—the next pay check after the end of the period carries the reward to the salesperson. Contests are a way of life—and they keep up interest.

The buyer often is the department manager in the main store—and he is responsible for both buying and selling.

Ed Caplan is right when he says the answer is "going back to basics."

RThought: Can this be done today? Can this be done in a larger chain? Can this be done in a department store?

I think the answer is "yes"—with qualifications.

IS WHITE COLLAR CRIME FACT OR FICTION?

My favorite columnist, Sam Feinberg in *Women's Wear Daily*, recently had a column entitled "White-collar crime: The reported incidents account for only a fraction of estimated losses."

Sam used the best available information—which, unfortunately, isn't worth very much. People quoted in the article cited Commerce Department estimates that white collar crime cost the nation \$50 billion in 1979; and when asked for a source for their figure, the Commerce Department often cites as one source the National Retail Merchants Association (which claims they have never produced such figures). Further investigation reveals that the Commerce Department took the NRMA shrinkage figures and applied them to all retailing—and then called all shrinkage "white collar crime."

Perhaps it is appropriate that the federal government never heard of bookkeeping errors—they may want to claim a monopoly on such errors.

What really bothered me, however, were some of the statements attributed to Robert F. Royal, Chairman of Royal-Schutt International, which is dedicated to helping companies fight white collar crime.

Mr. Royal predicts that the loss will reach \$200 billion by 1984, and that 10% will occur in retailing. With no documentation whatever, Mr. Royal breaks down retail shortages as 50% due to employees, 25% due to shoplifting and 25% to marking and bookkeeping discrepancies.

RT does not accept these figures.

RT knows that the vast majority of the people making entries into a store's retail inventory method haven't the slightest idea of what the system is or what they are doing. For those firms that are on a cost basis, there is an equal lack of knowledge among the people making entries.

Stores are unable to train people in the steps necessary to document routine merchandise transactions, even if they wanted to train them; and most stores don't want to spend too much time on training because the turnover is so high.

Inventory shortage can be reduced. For proof I offer the story of what has been accomplished at Wal-Mart Stores over the past three years. (Note: I offer this with pride—as a newly elected director of Wal-Mart.)

Three years ago the average shrinkage was 2.2% of sales. For the year ending January 1980 this was reduced to 1.82%, and for the year just ended in January 1981 it was 1.42%.

Based on Mr. Royal's statements, there must have been a large number of dishonest employees and shoplifters apprehended. But that didn't happen.

David Glass, Executive Vice President of Finance, wrote: "The apprehension of shoplifters or dishonest associates has not

increased significantly but our approach to the program has not been to see how many people we can catch committing a dishonest act but rather to eliminate the potential for occurrences . . . Interestingly enough, we actually are spending fewer dollars in the pure security function now as compared with three years ago (expressed as a percentage of sales) and are relying upon all of our associates to help us with the problem with, I believe, much greater success than we could achieve through additional security personnel in the stores."

So much for the cops-and-robbers approach to reducing shrinkage.

What did Wal-Mart do?

They decided that they would split any savings on shrinkage on a 50-50 basis with all of their associates working in a store that met a shrinkage improvement standard.

The starting point for the computation each year is the average shrinkage over the prior three years. A goal is set at a lower figure. Based on the actual year-end shrinkage figure, the savings at cost is determined and half goes into a pool for the associates. Associates have shares based on hours worked during the year: 1 share for full-time employees with the company all year, a ½ share for part-time employees working all year, etc.

To qualify the employee must be in a store for the full year and that store's shrinkage must be below the standard if in the prior year the shrinkage at the store was at or below the 3-year average for the company. If the prior year record of the store was above the 3-year company average, then the store must attain a reduction in the shrinkage rate of 20% (if it was 4.0%, then they must reach 3.2% to be paid for their effort).

Inventories are taken on a rolling basis, and the 12-month moving average is computed. This information, together with a store's performance when they are inventoried, is one of the best-read publications at Wal-Mart and appears on every employee bulletin board.

The maximum an associate in a store can get is \$200. Non-store personnel can get 75% of what an associate gets. That amount is then reduced by the percentage of stores that do not reach the goal. For example, if the maximum of \$200 is earned, then the non-store associates would get \$150—if all the stores hit their goal. If 10% fail to reach the goal, then the \$150 would be reduced by \$15 to \$135.

If half the shortage reduction produces more than the amount needed to pay the maximum bonus, then half of the excess is retained to improve the company's profit and the other half is put into the profit-sharing plan as an extra contribution.

RTThought: High shrinkage reflects management failure. The corrective action must reach every employee and stimulate every associate to watch customers and employees and to record data properly. Hiring more cops will not do the job.

A STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

RT welcomes a new report from Routzahn & Sons, Frederick, MD.

HONOR ROLL

Liberty House	2.0	Bullock's, S. CA	4.0
Rubenstein's	2.1	Grodin's	4.0
Mervyn's	2.2	Levy Bros.	4.0
Waldoff's	3.0		
Bullock's, N. CA	3.7		
Routzahn & Sons	3.8		

CREDIT OFFICE RATING

Information From Reporters	FEB.-MARCH 1981			DEC. 1980-JAN. 1981			Information From Stores	FEB.-MARCH 1981			DEC. 1980-JAN. 1981		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	2	4.5	4-5	2	4.0	4	Gimbel's (Philadelphia)	36	3.5	3-5	36	3.6	3-5
Bamberger's (NY)	1	6.0	6	--	--	--	Levy Bros. (N. CA)	2	4.0	4	2	4.5	3-6
Bloomingdale's (NY)	3	6.6	6-7	--	--	--	Mervyn's (N. CA)	30	2.2	2-4	30	3.0	2-4
Brooks Bros. (NY)	2	5.0	4-6	1	10.0	10	Ross Stores (N. CA)	4	4.8	4-5	3	5.3	5-6
Bullock's (S. CA)	1	4.0	4	3	4.3	4.5	Routzahn & Sons (Frederick, MD)	4	3.8	3-4	4	3.5	3-4
Bullock's (N. CA)	3	3.7	3-4	3	7.0	5-11	Rubenstein's (Shreveport)	6	2.1	2-3	3	2.7	2-4
Emporium-Capwell (N. CA)	8	6.2	5-8	9	8.3	6-12	Waldoff's (Hattiesburg)	1	3.0	3	--	--	--
Grodin's (N. CA)	1	4.0	4	1	5.0	5	Wineman's (S. CA)	1	5.0	5	2	4.0	4
Gumps (N. CA)	2	5.5	5-6	1	10.0	10							
Liberty House (N. CA)	2	2.0	2	2	3.0	2-4							
Livingston Bros. (N. CA)	4	5.0	3-6	5	6.8	5-9							
Macys (N. CA)	4	4.5	4-5	10	4.4	3-8							
I. Magnin (N. CA)	6	5.5	4-7	7	7.6	6-10							
Penney's (N. CA)	3	6.0	6	2	6.5	6-7							
Penney's (Philadelphia)	1	7.0	7	--	--	--							
Saks 5th Ave. (NY)	1	7.0	7	--	--	--							
Sears (Spokane)	1	5.0	5	--	--	--							
Sears (N. CA)	6	7.0	6-8	1	7.0	7							
Smith's (N. CA)	2	11.5	11-12	3	6.0	4-8							
Wanamaker's (Philadelphia)	2	6.5	6-7	2	8.5	8-9							
TOTALS	58	5.4	2-12	52	6.3	2-11	TOTALS	84	3.1	2-5	80	3.5	2-6

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

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

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

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

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

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

The major qualification is that there be stability of executive personnel within the total store. With the constant churning of buyers (reports of 25% per year are common) and department managers (perhaps even greater turnover) combined with a nucleus of departmental sales staff that changes relatively slowly, the on-again, off-again programs that start and stop with changes of buyer/department manager are likely to hurt more than they help.

Management of such a program has to be made the responsibility of a stable management level of the company—perhaps the store manager level where turnover is slower and where often the assistant manager succeeds the manager.

The benefits of such a program come from continuity much more than originality or spontaneity. And that continuity comes from commitment by top management (which, itself, changes far too often in many stores).

RThought: The owner/manager of a specialty store or smaller group of such stores is permanent, does attend to business and can provide continuity. This gives him a powerful tool his big competitor may not have.

IS DOWNTOWN DEAD BECAUSE STORES WANT IT THAT WAY?

Gimbel's reduced the size of their downtown Philadelphia store by 50% as did Jordan Marsh in Boston. Dayton-Hudson closed the downtown Detroit Hudson store and got out of the downtown Lipmans store in Portland, Oregon.

It certainly is true that downtown is dead. Except, of course, in San Francisco and New York City where Ed Finkelstein showed what could be done with a plant named Macy's; and in Boston and Philadelphia where Jim Rouse showed what could be done with a little imagination at Faneuil Hall in Boston and The Galleria in Philadelphia (the same towns in which those major chains, Allied and Gimbel's decided they had to cut back by 50%).

Now let's look a bit at some other things that are true about many major downtown areas. Daytime employment is up as more and more office space is built. Much of the space is used to provide desks for women because so many married women are working these days. Women have always been the most important shoppers at department stores. Many department stores are located near the places of employment of their customers—the women working in offices!

That should create a wonderful opportunity. Merchants who are supposed to be creative should be having a field day aiming special promotional efforts at the thousands of women who come into town everyday. So let's look at what the merchants do.

The first thing that downtown stores do is set their hours with downtown customers in mind. Most offices operate from 8:00 a.m. to 4:30 p.m. or 8:30 a.m. to 5:00 p.m. Department stores apparently don't want to be out of step—so they open at 9:30 a.m. (after all the women shoppers are safely at their desks); and they close about 5:30 p.m., before most of the women can get from their office to the store with enough time left to shop.

Of course, they are open one or two nights—if the working women could just remember which night.

The whole world was surprised when the Water Tower in Chicago discovered that if they stayed open later at night they got a lot of the downtown workers as customers!

Some years ago I was talking to the head of The White House, the department store in San Francisco closest to the financial center of town with its thousands of potential customers. I asked why his hours were 9:30 a.m. to 5:30 p.m., and he said because all the downtown stores have agreed on hours. The Emporium and Macy's were far away from the financial center and had little chance of getting those shoppers after work so they sort of snookered The White House into closing early—forcing the financial center employees to shop at department store branches in the suburbs. Of course, The White House didn't have any branches!

More recently I met with the staff of a major downtown department store, also located close to all the major office buildings. We were discussing how to increase business in the downtown store in the face of opening their own branches in the suburbs. We discussed the standard explanations for declining volume such as tearing down housing in the central city and the flight of middle income families.

I wondered out loud what was happening in the downtown store about 7:00 a.m. each day when downtown workers could stop by on their way to work for classes in personal grooming, style shows, sewing classes and many more events. Well, the store was locked at that hour! Only an oddball like Bob Kahn would be talking about utilizing a vacant plant (with a large conference room) at 7:00 a.m.—and even suggesting that there should be something going on every single morning of the week!

The next question, of course, was how would you promote such events? It wouldn't make sense to run ads in the newspaper and perhaps pull too many people from the suburban branches. So I offered the thought that if it were my store I would hire a service relations person to call on all the offices in all of the office buildings in the downtown area. She or he could start on the 89th floor and work down.

In each office the service relations person would explain that the store was holding events every morning that employees in the office might like to attend. Would there be an office manager or some other person to whom the store could send the announcements—just a nice, neat 8½ x 11 sign to put on the office bulletin board?

It ought to take about a year for one person to visit all the offices—which is just about right because then it would be time to start visiting all of them again. This time the store would tell the same story, because many office managers might have changed. And the representative could pick up ideas for events the employees in that office might want, leave applications for charge accounts, and generally do a good public relations job.

I realize that I am assuming that the people who enjoyed all these special programs would want to shop at that nice downtown store. And so I suggested that the store hours downtown really should be from 11:00 a.m. (almost anyone shopping between 9:30 a.m. and 11:00 a.m. could transfer to after 11:00 a.m.) to 8:00 p.m. That gives a nice 3 hours or so after work—Monday through Friday—in which to get shopping done. And it is a lot more convenient to do when already downtown—no special trip to a shopping center during crowded periods and no extra gasoline used. As an added feature, the customers would be going home after the peak commuter traffic when travel is much more relaxing.

RTthought: I predict that most downtown stores will continue to be open most days from 9:30 a.m. to 5:30 p.m. just to prove to the thousands of people working downtown that the stores really don't want or need their business.

DOES PRIME RATE MEAN ANYTHING?

Many merchants today are pleased with their status at their bank because their interest rate fluctuates with prime. As the media always tell us, "prime is the interest rate charged the bank's most creditworthy borrowers." Prime or prime plus $\frac{1}{4}\%$ or $\frac{1}{2}\%$ certainly should make you a "creditworthy customer."

But does it? Probably not.

The entire banking attitude shows contempt for the borrowers—except the very big borrowers—and is evidenced by an article appearing in the March 1981 *ABA Banking Journal*, official publication of the American Banking Association, under the title "The prime rate is whatever we say it is!" presented as a special report on commercial lending.

Foreign banks base their interest charge on LIBOR (London Interbank Offered Rate) which is normally much below our prime. So the really creditworthy U.S. borrowers may be getting money at LIBOR or LIBOR + $\frac{1}{4}\%$ or $\frac{1}{2}\%$. Did your bank mention this to you?

A report on New York bank lendings as of May 1980 showed that 67% of the dollar amount of the loans were being made at rates below prime. This may not be as true in other banking areas. But it reflects the fact that very large borrowers have the alternative to go into the acceptance note market at rates well below prime rates, even after including the additional internal administrative costs of issuing and redeeming acceptance notes.

Of course, as retailers we have always recognized the ethics of the side street merchant whose hand-painted signs, well worn from the weather, promised "everything at cost." When asked how he managed to stay in business so long if he sold for cost, he replied, "I buy below cost."

RTthought: I was raised on a different standard of borrowing. I can remember my Father telling me about his first trip east (probably about 1910) with my granduncle in the days when western department stores were not sold on open credit. All buying was done against domestic letters of credit on an eastern bank. Kahn Bros. banked with a Philadelphia bank so the train trip to New York was via Philadelphia.

Dad sat quietly while Uncle Fred talked with the president of the bank who asked about how business was and what plans they had for the season ahead. Finally he asked, "How much will you need this trip?" Uncle Fred said \$200,000 and the banker said fine. Then Uncle Fred asked what the interest rates were; and the banker said, "From 5% to 7% to which Uncle Fred replied, "We'll pay 6 $\frac{1}{4}\%$," and they shook hands.

Dad couldn't wait until he got outside to ask why Uncle Fred had not said 5%. And Uncle Fred explained simply: "When Mr. Straus at Macy's is paying 5 $\frac{1}{2}\%$, and Mr. Wanamaker is paying 6%, 6 $\frac{1}{4}\%$ is right for Kahn Bros."

Uncle Fred knew—and taught Dad—that a firm's success was not based so much on how much you paid for borrowed money but how much borrowed money you had available. The lender has to make a fair profit.

But that was in the days when everything was handled openly and with more knowledge by both parties of the full facts in the money market. Banks were less massive—and the lending officer had more knowledge of rates, more knowledge of the store and more authority to make decisions.

COMMERCIAL BRIBERY

Sunset Office Supply Co., Inc.: This outfit goes all the way—with a separate coupon to indicate where the Premium should be sent! Dealing in national brands—Bic, Rubbermaid, 3M, Wilson Jones, Swingline, Avery, Huron, etc.—they start with orders over \$3,000 getting one round-trip airline ticket anywhere in the Continental U.S., dropping to a Color TV set for an order over \$2,000, and then down through a black and white TV, GE Oven Toaster, Hamilton Beach Food Processor and lesser items for orders below \$600. Let's hope the sun sets on Sunset.

ANNOYING STORE PRACTICES

Joske's San Antonio works to keep overpayment on charge accounts. Inadvertently our account was paid twice. The statement for March 16 was not mailed until March 30 (14 days). It was correctly stamped with our options—but no return envelope was provided as is done when we owe Joske's money. Also there were no stuffers to try to entice me to buy something.

Spiegel's makes service inquiry difficult. When you want to order merchandise, Spiegel's offers an 800 number to call at no charge. When it is 3 weeks since you ordered and were promised 1-week delivery, the 800 number refuses to help. To get an answer you must pay for the phone call. Our reader who reported the matter had to pay \$4.50 for a long distance call—part of her final transaction with Spiegel's.

SHORT SHORTS

One must recognize the long relationships that exist in New England, some stretching back more than 200 years. A John Q. Adams still serves on the Board of John Hancock Income Securities Corporation!

You need have no concern about renewing your RT subscription because the editor is overweight. The U.S. Gerontology Research Center in Baltimore has concluded that being overweight can extend one's life span.

My wife's Eccobay wool-blend (10% wool) garment tag read, "Designed from its inception exclusively for you." Said she worried what would happen if she didn't buy it. It was the wrong size!

WORDS TO BUILD A BUSINESS BY

I am grateful to my "clipper of British newspapers" for an article by Robert Heller in *The Times* (London) that brought to my attention the "general maxims of practical business management" that Konosuke Matsushita evolved in the days following the start of his electrical supply company with just two employees—and which still guide it now that there are more than 100,000 employees at Matsushita:

"Make quality products, constantly strive to improve, take care of regular customers and maintain good relations with suppliers."

Just 18 words.



RETAILING TODAY

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ROUTE TO

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CATALOG/SHOWROOMS IMPROVE ADVERTISING STANDARDS

RT has long criticized the creation, often out of thin air, of comparison prices by the catalog/showroom firms. There is absolutely no effort to comply with guidelines for price comparisons established by the Federal Trade Commission and the Better Business Bureau.

The Federal Trade Commission has a great deal of time and money to pick on ethical businessmen like Joe Sugarman of JS&A Group (a client) for not complying with the mail order law on notification in case delivery will not be made within 30 days. The most recent charge is that the JS&A notification letter used for the past 2 years does not comply with the law despite the fact the JS&A attorneys took the letter to the FTC before using it and the FTC, before several competent witnesses, approved the letter.

The FTC stated before a meeting of the National Mass Retailing Institute held in Washington, D.C. some years ago that they would not take action against the catalog/showrooms for violation of guidelines because the FTC was convinced that catalog/showroom prices were lower.

Thus the world cannot count on the FTC to enforce its own guidelines. This situation exists despite a number of surveys that indicate that catalog/showrooms are not always such low price retailers.

It appears that the phoniness of price comparisons has gotten so bad that it even bothers some of the catalog/showroom operators. It appears that they can no longer live with themselves and follow the original practice of concealing the selling price in what appears to be a stock number.

Best Products Company, Inc. has gone so far as to show their price in equal prominence with the conjured up comparison price in a statement such as "Your Price \$7.94 \$11.95."

Consumer Distributing has gone even further with their selling price more prominent than the comparison price as in "Consumers Price \$23.97 \$29.99."

But Service Merchandise has gone to the extreme—of showing only their selling price without any comparison.

Thought: Perhaps Service Merchandise will once again prove that "honesty pays" and perhaps we can add "complete honesty pays outstandingly."

LET'S SALUTE A MAN OF PRINCIPLES

Harold A. Kelly resigned as President of Bi-Low supermarkets (119 stores) when the decision was made to sell beer and wine in the stores. He said:

"It's just that Harold Kelly can't be part of selling beer and wine. I can't do it and have inner peace. This is the only reason why I left. I have to be able to live with myself. I'm not judging anyone—it's just that I must be able to sleep when I put my head on the pillow at night."

RThought: I hope that there is a proper place in the retail field for Harold Kelly. We cannot afford to lose men of principles from retailing—they tend to be scarcer and scarcer. Harold Kelly recognizes the final test for all personal conduct when he says, "I must be able to sleep when I put my head on the pillow at night." May he always be able to sleep soundly.

RETAILERS AGAIN LOOK FOR LIBERAL ARTS GRADUATES

Each year *Changing Times* publishes a survey of job openings for college graduates. The 1981 survey covered 124 companies including 13 retail firms.

For each firm surveyed, the report shows the area of educational specialization that the firm is seeking—accounting, business, computer sciences, engineering, liberal arts, mathematics, physical sciences and others.

RT has long argued that one of the reasons for the decline of basic values (liberty, individual rights, contribution to and participation in the governmental process) is due to the increased specialization of college graduates (thus they know nothing about the society that they will be in for the next 40 years). This specialization is nothing more than the business of education responding to the baser interests of the users of their products—the employer.

This puts education in the position of the purveyor of pornography and the employer in the position of the purchaser of pornography—both pornography and the education of college students being businesses that appeal to the baser instincts of the customer.

Against such a background it is interesting to note that only 19 out of the 124 firms covered are seeking liberal arts graduates—all 13 retail firms plus 6 of the 111 non-retail firms.

The retailers are: The Gap, K mart, Macy's, Merry Go Round Enterprises, G. C. Murphy, Bullocks/Shillito's/I. Magnin's of

Federated, Gimbel's Pittsburgh of BATUS, Joske's of Allied, Lord and Taylor of Associated, Osco Drug of Jewel, and Venture of May Co.

The 6 lonely non-retailers were Burke Marketing Services, Inc., Commercial Union Insurance Co., Mellon Bank, Pacific Telephone and Telegraph Co., United States Air Force and the U.S. Office of Personnel Management.

FINANCIAL WORLD SELECTS RETAIL CEO HONOR ROLL

Each year **Financial World** selects the outstanding chief executive officers in a long list of industries—some 53 for 1981—of which 3 are retail categories.

The top CEO for this year is one known to almost all retailers—Peter Haas of Levi Strauss.

In the retail fields the following were selected:

	Number 1	Runners Up	
Department & Chain Stores	William Andres Dayton-Hudson	Ed Finkelstein R. H. Macy & Co.	Sam Walton Wal-Mart
Food Chains & Wholesalers	Lyle Everingham The Kroger Co.	W. E. McCain Albertson's	Sigfried Weis Weis Markets
Specialty & Other Stores	Phil R. North Tandy Corp.	Charles Lazarus Toys R Us, Inc.	Francis C. Rooney Melville Corp.

RThought: 3 of the 9 are RT readers.

MONTGOMERY WARDS UNCOVERS OLD TRUTH

At the 1981 NRMA Annual Convention, Montgomery Ward Corporate Credit Sales and Marketing Manager James P. Anderson reported the discovery of some truths in credit promotion—that must have been discovered for the first time 80 or 100 years ago. They were discovered by me in the late 1940s and have been previously reported in RT.

Mr. Anderson reported that a simple letter to active accounts acknowledging the patronage of the customers, including a reminder of his credit limit, drew a 13.8% increase in credit sales over a control group not receiving the same letter. Mr. Anderson said, "These active account mailings first gave us the perception that our customers like to be contacted by Wards. And the more we contact them the better they respond."

In the 1940s in an attempt to reactivate charge accounts in a major men's store, we ran a test comparing three approaches with a control group. One approach involved a telephone call with the sole programmed statement being the opening one: "This is Miss Jones at Smiths and in looking through our accounts I noticed that you had not made a purchase since _____ (actual date was used). We wondered if there was anything we had done to disappoint you?"

The second approach was an "Our half/your half letter." The third approach offered a \$3 credit against a reactivating purchase.

By far the largest dollar volume came from telephone calls even though the cost per account contacted was much higher. Checking the additional volume in each group over the control group, the cost as a percentage of the increased volume was **lowest** for the telephone calls (and you must recall that a first class letter in the late 1940s was only 3¢).

RThought: Many customers explained that they (or their husband) had gotten their first pair of long pants at Smiths or that they were buying for cash for various reasons—but the attention of a personal telephone call brought them back into the store as credit customers.

RThought: RT will again wonder out loud why retailers with computerized accounts receivables, including automatic dunning, don't have an automatic "Thank You." It is so easy to send out a letter to customers who between November and October the following year did not miss making payments in more than 2 months when they had a balance—and say to them, at the start of the Christmas Season, "Thank you for the way you handle your charge account with us. We hope that we will always be able to please you with our service and merchandise as much as you please us in the way you handle your account." James Anderson would join me in saying, "You will make money by doing this."

NRMA FAIR DEALING

The Credit Management Division of the National Retail Merchants Association has announced the publication of uniform voluntary rules of conduct for retail creditors to follow when collecting their debts. RT was interested in the following quotation from **Creditalk** Newsletter:

Established in the belief that it is the responsibility of the retailing industry to deal with its customers in a fair and ethical manner, the Code is based on the principles contained in the Federal Fair Debt Collection Practices Act.

RThought: Isn't it interesting that NRMA is *unwilling* to make an announcement like the following:

Established in the belief that it is the responsibility of the retailing industry to deal with its vendors in a fair and ethical manner, the Code is based on the principles contained in the Uniform Commercial Code.

Just how fair is an organization that believes in being fair only with people who buy from their members—and doesn't believe in being fair with the firms that their members buy from?

WHY THE CHAIRMAN IS CALLED CHAIRMAN

If you are the Chairman of some Board, do you know why you are called that? My assistant, Annabelle Farrell, brought me the following tidbit contained in **American Antiques**, which, of course, is a book about antiques—in America!

"It is hard to realize, for instance, that when Elder William Brewster of the Plymouth Plantation was a lad in England, many elementary devices . . . were relatively novel features of the ordinary English home. Chairs were not widely used. As in the Middle Ages, they were generally reserved for persons of importance, the others sat on stools or benches. At a time when tables often consisted of removable boards set upon trestles, he who occupied the principal seat had the distinction we recall in the phrase 'chairman of the board.'"

HOW BAD AN INVESTMENT WERE SAVINGS BONDS?

Now that the Series E bonds have come to an end (but may be traded for Series HH bonds which pay interest rather than accumulate), let's look at the figures. In 40 years from May 1941 to 1981 the value of an \$18.75 savings bond increased to \$90.59, a tax-free increase (so far) of 4.02% a year. Consumer Price Index increased from 48 to a 279 (196100) or 4.41% a year. There are not a lot of 1941 investments

SATISFACTION GUARANTEED

One of the pleasures of reading the hundreds of mail order catalogs that RT receives is reading the absolute statements guaranteeing satisfaction—something that store retailers too seldom mention and even less often carry out.

Here are a few samples from the past few weeks.

The Talbots (one of the larger mail order operations and a client): On page 2, signed by William De Jonge, the President, is this statement:

The Talbots Guarantee

Since 1947 our guarantee has been the same: "If for any reason you are not satisfied with your purchase, please return the merchandise and we will replace it or refund your money, whichever you prefer." Whether you shop in our stores, or through the catalog, we want you to be pleased. If for any reason you're not, please let me know.

This has the highest priority for every person at Talbots. Bill answers each letter personally.

L. L. Bean (now doing over \$125 million a year and growing):

100% Guarantee

All our products are guaranteed to be 100 percent satisfactory. Return anything purchased from us that proves otherwise. We will replace it, refund your money, or credit your charge card.

Norm Thompson (who competes with L. L. Bean from the west coast):

You be the Judgetm Guarantee

When we say "You be the Judgetm" we mean just that! Every product you purchase from Norm Thompson must live up to YOUR expectations, not ours. If at any time a product fails to satisfy you, return it to us, postage prepaid, and we'll either replace the item, or refund your money in full, whichever you wish.

This is definitely not a 2-week guarantee. It's good for the normal life of the product. (You being the judge of what that normal life should be.) We'll stand behind everything we sell to the fullest extent . . . no ifs, ands, or buts.

Note that they have even trademarked their statement "You be the Judge."

Hammacher Schlemmer (with 132 years of satisfying customers):

At **Hammacher Schlemmer**, we believe the customer isn't always right—but shouldn't have to suffer for it.

So, if you send for something from us, and then decide it wasn't exactly what you wanted or expected, we'll simply take it back.

Maybe the color wasn't quite right; maybe you decided you might not use it very often after all. It won't matter. We won't ask you a lot of questions. We won't have you fill out a complicated form and we won't restrict your return privilege to a certain number of days.

This is what Hammacher Schlemmer has been doing for 132 years, and we suspect it is unique. Just as we've done it

longer than anybody else, so we've learned to do it better. Our guarantee doesn't simply mean your commercial grade Cusinart or baseball computer or champagne recorker must reach you intact. It means you must like it . . . and keep on liking it.

The above is just part of a letter in the catalog from Dominic Tampone, the President.

Brookstone (they specialize in hard-to-find tools):

Guarantee

You must be delighted—or you get your money back. We sell only high-quality products, and we describe them truthfully. Each is carefully tested in actual use before acceptance for our catalog. We use these products ourselves.

But you are always the final judge. If for any reason or no reason, you want to return an article to us, please do so. We will gladly exchange it or return your money promptly.

Hanover House (which sells lots of inexpensive items that could easily fall short of expectations):

HANOVER HOUSE NO-NONSENSE MONEY BACK GUARANTEE

Our merchandise is unconditionally guaranteed to please you in every way or your purchase price refunded. (Personalized items excluded.)

New Hampton General Store (another catalog with many small items):

IRONCLAD GUARANTEE: You must be satisfied. If for any reason you are not happy with your order, return it for a prompt refund. We back our products 100%, as we have for over 45 years.

RThought: We could go on with page after page of such guarantees. It is the backbone of much of the mail order business, and mail order business is growing much faster than store business.

Note how absolute the statements are. Yet an analysis of the returns will disclose that the number that might be considered abusive of the retailer is so small as to be insignificant.

Store retailers are inclined to remember forever the one person eight years ago who brought back a washable garment that had been improperly washed or the plastic implement that was placed too close to the stove and partially melted. From those isolated incidents they project that all customers are out to abuse the retailer.

Note the number of cases where the president signs his name to the statement. It seems that store retailers are embarrassed to personalize their position—they put their names in ads so seldom. Or perhaps they stay on the job such a short time that the advertising manager never learns their name.

Sears recently spent hundreds of thousands in magazine ads on "Satisfaction Guaranteed" and yet, some of their divisions won't put it in their tabloids.

There is a lesson here—that store retailers probably will not learn.

A FEATURE REPORT

ARE CURRENT COLLEGE GRADUATES DISHONEST?

In 1964 William Bowers of the Bureau of Applied Social Research, Columbia University, under an HEW grant, published a report entitled *Student Dishonesty and Its Control in Colleges*.

The Summary of Findings said, "Perhaps the most alarming finding of the study concerns the prevalence of academic dishonesty on American college campuses. Our data show that at least half the students in the sample have engaged in some form of academic dishonesty since coming to college. This is probably a conservative estimate for the sample, and an even more conservative one for the population of students attending regionally accredited colleges and universities across the country. Our data show that the magnitude of the problem is grossly underestimated by members of the campus community."

After telling adults what they really wanted to hear in the 1960s—that young students were no good—the subject matter was dropped. Mr. Bowers did indicate that cheating was less at schools with an honor system.

He attributed much of the cheating, especially that done by those who recognized cheating as morally wrong, to the pressures and competition within the school—partially peer group and partially the academic standards of the school.

Having attended Stanford where there was an honor system administered by a student court, I didn't believe (1) that it was that great a problem at Stanford and (2) that Stanford had changed so much in the 25 years or so from my days there.

It happens that Stanford has continued to make their own studies—doing major research projects in 1961 (part of the Columbia study), 1976 and 1980.

Stanford certainly is a school with high academic standards and great competition. For the class entering next fall, there are 15,000 applicants for 1,500 freshman positions—despite tuition costs approaching \$10,000 a year. And the honor system is still in effect.

In every type of dishonest act that students were queried about (copied a few sentences of material without footnoting in paper, plagiarized from published material in papers, padded a few items on a bibliography, etc.)—a lower percentage in the 1980 sample reported doing the act than was done by the 1961 class.

RThought: Though bars may not a prison make, an honor system may produce an environment that produces honest people. Remember that it was at Harvard Business School that they introduced a course in how to cheat—and they do not have an honor system.

As a student at Stanford, I can remember reading 1 or 2 times a year, an announcement on the bulletin board that said, "A certain student X (Note: the names were never disclosed) having been found guilty of violating the honor code, will be suspended for one quarter to be readmitted on showing of constructive use of the time and will be required to take 15 additional units in order to graduate." That was really punishment.

SHORT SHORTS

Are you really concerned about protecting customers from fire? San Francisco (which has had experience with fires, like in 1906) passed a retroactive fire standard ordinance in 1977 and gave high rise building owners until July 1980 (3 years) to file plans for compliance. Work was to be completed by April 26, 1981. On November 25, 1980, the City Fire Marshall reported that Macy's downtown store was one of 11 major buildings that had done nothing.

Memories are short at American Express. Right after one charter cardholder had just gotten a renewal for the 23rd time, there came a supposedly typed letter from David Hill, VP, starting: "Quite frankly, the American Express Card is not for everyone ... because we believe you will benefit from Card-membership, I've enclosed a special invitation for you to apply for the most honored ..." There was a day before computers when a business knew a customer that had patronized them for 23 years.

"Let's spend Saturday shopping on Wall Street"—may soon be the cry of Manhattanites. Perhaps not Wall Street, but the World Trade Center with about 230,000 square feet of retail space including Alexander's (68,000 sq. ft.), Lamston's (9,000) and Lerner's and Plymouth Shops (7,000 each). The 140,000 square feet of retail stores excluding Alexander's and the food stores did \$24 million (\$170/sq. ft.) in 1980 on a Monday-to-Friday schedule. For 3 women's stores the average was \$315/sq. ft. With Alexander's now open plus all stores being open Saturdays and holidays (no Sunday's yet), those figures will grow.

How do you know the people aren't there? Professor Eric Weld studied Cleveland and discovered that the Cleveland Metropolitan Area had a greater outflow of population in the first half of the 1970s than any other area (Wayne County passed them by the end of decade). Yet during this period the number of households increased, the number of jobs increased and the number of people over 20 remained unchanged.

still around that show the same record. And with higher exemptions and double exemptions over 65, non-taxability of Social Security payments, and higher standard deduction, much of this income can still come out tax free.

THE MIRACLES OF POINT-OF-SALE DEVICES!

I stayed at a hotel that had an advanced Data Terminal System Model 500 Terminal in the newsstand. When I bought a single item, it rang up the check shown below (the name of the gift shop has been obliterated to protect the innocent) in exactly 15.18 seconds! I asked the clerk how often she worked with the register drawer open, and she said usually in the morning when everyone was buying a newspaper! The time was lost in printing everything letter by letter, line by line. DTS should redesign the receipt to get the name on one line, forget the town, put the date on the same line as the register number, skip the THANK YOU and forget putting down the time of the transaction. That should get the machine time for a single-item, even-change transaction down to about 8 seconds—which is still too long!

XXXXXXXXXXXX
XXXXXXXXXXXX

SALT LAKE CITY UTAH

03/18/81

#00030

22 22 SUND	.90 H
SUBTOTAL	.90
TAX	.05
TOTAL	.95

CASH	.95
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THANK YOU
#11515 C222 R02 T22:00

COMMERCIAL BRIBERY

Atlas Pen & Pencil Corp.: For 2500 Blockbuster Pens at 37¢ each someone can get a 19" G.E. Color TV; or for 200 gross pencils at 9¢ each, they can get a 10" portable G.E. Color TV. The only redeeming features of this temptation to your employees are: (1) they offer in lieu of premiums a 5% discount and (2) they do not provide a place on the order form for the premium to be sent to instead of to the store.

IMPOSING ON THE RETAILERS

RT continues its campaign of highlighting incompetent reporting by the retail trade press. With the large sum of money generated from the retail industry by the retail press, retailers are entitled to competent writing.

Retail Week, April 1, 1981: The following sentence was almost half the item reporting on fiscal year results for Morse Shoe, Inc. . . .

"Following the changeover in accounting methods to the LIFO inventory valuation, which gave the company fiscal

year 53 weeks rather than the previous 52, an overall improvement was noted for the fiscal 1980 net earnings of \$16.0 million, an increase of \$979,000."

There is no way that adopting of LIFO valuation of inventory changes the number of weeks in a year—except in the mind of reporters who are assigned to write about something about which they know nothing.

SHORT SHORTS

On the political front, Mr. Reagan is moving rapidly toward the House of Representative elections in 1982—he is appealing for \$8.7 million for the "National Republican Congressional Committee's Comprehensive GOP Victory Plan." The Democrats haven't even figured out what happened last November, let alone reaching a decision to all play on the same team.

From Forbes (10/13/80) for 50 Years Ago, General Foods revealed negotiations to distribute frozen foods "through the 17,000 retail stores of The Great Atlantic & Pacific Tea Company, the world's largest chain." Forbes observed in 1930 that this could change our food habits! RThought: With 50 years for more progress since the item appeared, who else has developed a 17,000 store chain?

Award winning annual reports says Financial World include Dayton-Hudson, K mart and G. C. Murphy (department and supermarket chains and food wholesalers), Tandy, Lowe's, and Melville (specialty retailers) and Interco, U.S. Shoe and Munsingwear (apparel, but the first two are also major retailers). RT is pleased to note that of the 9 classified as retailers, the Chairman or President of 6 read RT.

Double standard at NRMA? Consumers' research Magazine reports that NRMA has cooperated with AHAM (Association of Home Appliance Manufacturers) to establish jointly sponsored Major Appliance Consumer Action Panels for the settlement of disputes between manufacturers and final purchasers of home appliances. NRMA is the same organization that will not co-sponsor dispute settlements between their members and vendors. This must indicate a belief that impartial settlement is OK for the other guy but not for the community business leaders that constitute the NRMA membership. For them, "right is might" and must be protected at all costs.

Retailing is so simple—says Control Data. In fact, CDC will open 200 (count 'em—200) retail outlets by the end of 1981. There will be two types—computer stores (8 were opened in 1980) and general business service centers offering financial, advertising, insurance and marketing service (12 were opened in 1980). Simple—just open 3 or 4 a week of a store that does not have a proven prototype. Does anyone want to bet on CDC accomplishing this?

Cobbler, stick to your last. Herbert Alan Leeds, in a letter to the Forum section of the OAG/Frequent Flyer, wrote, "The most glaring failing of the air transport industry is its absolute lack of consideration for the business passengers, who are the keystones of their business." Yet Mr. Leeds comes from the retail industry (he formerly headed the Richards division of City Stores in Miami) where the entire department/service specialty store industry has neglected the customers who are charged 15-20% extra for service—but often don't get it. I hope that Leeds Business Counseling, Inc., is as clearly pointing out the problems of delivering service by sections of retailing as he is in pointing out the problems of the airlines.

Remember Levitz, the concept retailer? Take it home in the carton. Assemble it yourselves. Rent a trailer at Levitz if necessary. Delivery is an extra charge. In the process of making a silk purse out of a sow's ear, Bob Elliott, President/CEO, reported in their 3rd quarter 1980 report, "Levitz began a new marketing program to meet our customers' growing demand for higher quality furniture. As part of our Classic House selection of higher priced merchandise, we have installed a new Thomasville gallery comprised of bedroom and dining room suites . . . sales . . . have exceeded our expectations."

If Honeywell information on their computers is no more accurate than their use of military ribbons in their ad in *Fortune* (April 20, 1981)—don't believe them. Ribbons are supposed to be worn in a certain sequence—those awarded for valor or meritorious service in order of precedence and those for theater service in order of the date of the service. Of the ribbons shown in the ad, the highest was the Navy Cross, next to the Congressional Medal of Honor to a Navy man. It was buried in the middle of the 11 rows. The Purple Heart, which should have appeared 5th (middle of the second row) appeared in the middle of the 10th. Others were shown upside down. One hopes Honeywell is more careful assembling computers than they are assembling ribbons, sometimes awarded posthumously.

There are 8.5 million households headed by women. It is an intelligent market, too. 21% have some college and 37% are high school graduates. 63% have children under 18, 73% are in metropolitan areas, and 60% are in the labor force. Only 20% have household incomes of \$20,000 or more with 30% between \$10,000 and \$20,000. Between 1970 and 1979 this segment of our community increased by 51%. Within this group, the number of households headed by women and having one or more children increased by 81%!

The FTC rules governing availability of warranty information under the Magnuson-Moss Warranty Act, didn't work for any kind of retailer—department store, hardware store, discount, home improvement center or ski shop. But it was the National Mass Retailing Institute—the discount store organization—that filed the petition with the FTC to repeal or modify the rules.

Do we really put ourselves in the position of the countries that are now oil rich—but have nothing else? A recent article in the *Journal of Contemporary Business*, published by the University of Washington, started with these quotations from Saudi Arabians:

"What should we do when the oil runs out, go back to our camels?"

"Either Saudi development plans work, or it's back to the desert in unairconditioned tents."

"We have finite hydrocarbon resources which we want to exchange for development . . . Economic development is a long-term process and it needs time to convert developing countries into developed ones."

"We say that our fathers rode on camels, and that our sons will travel by Concorde, but their sons will travel by camel again."

Is Salem smoking up a new investment? If you thought Salem was a cigarette, think again. In *Metropolitan Home* (formerly Apartment Life) they took facing foldouts—6 pages in full color. When folded, it is a normal high Sierra scene for Salem—but when the pages are folded out, there are 3 pages of merchandise offered by Salem High Country Outfitter, out of St. Paul, Minnesota, plus a full-page order form, complete with

an 800 telephone number. The items include chamois shirts, rucksacks, parkas, flannel shirts, a kayak, belts and buckles, down vest, hooded sweaters, trail compass and a butane lighter. Put that in your cigarette holder and smoke it!

For those who wonder if a credit granting executive has better judgment than a point scoring system, write Fair, Isaac Companies, Attn: Mary Pellegrino, 55 Mitchel Blvd., San Rafael, CA 94903 for the Fall/Winter issue of *ViewPoints*. It contains a study of about 4,000 loans made by United California Bank in 1976 and tracked through to 1978 at which time the accounts were classified as "not bad" or "bad." Of those loans, 2,085 were normal approvals (met minimum point score); 896 were under cutoff approvals (grantor approved when below minimum point score); and 977 were forced approvals (granted over objection of loan officer). There is a detailed analysis by point score brackets and reasons for override/objection, but the key result is that the normal approvals were "not bad" by a ratio of 14.7 to 1; while the under cutoff approvals had a ratio of only 5.6 to 1; and the forced approvals had a ratio of 6.9. The later group showed that a number of objections to approval related to information not available in 1973 when the point scoring system was developed and were sound ground for turning down.

RT no longer plugs Apartment Life—because the name has been changed to *Metropolitan Home*. Same price—\$9.97; same address—1716 Locust, Des Moines, IA 50336; same 800/247-2160 telephone to enter a subscription.

WORDS FOR THE CURRENT SCENE

The following seems an appropriate summary of our times:

"I don't like to lose. I never have. I never will. The thought is repugnant to me. Because defeat means only one thing—failure to meet your objective. The trouble in America today—in business, in government, and in organizations—is that too many people are afraid of the active life, competition, and hard work. The result is that in some circles, people have come to sneer at success if it means training, sacrifice, and hard work."

Of course, the man who wrote this died in 1919. I am thankful to Jerry Panas of Jerold Panas & Partners, Inc., for reviving it as a theme statement for one of his Boardroom Essays.

But there were some other things that **Theodore Roosevelt** said that also bear repeating.

"There is a homely adage which runs, 'Speak softly and carry a big stick; you will go far.' If the American nation will speak softly yet build and keep at a pitch of the highest training a thoroughly efficient navy, the Monroe Doctrine will go far."

"The first requisite of a good citizen in this Republic of ours is that he shall be able and willing to pull his weight. No man is above the law and no man is below it; nor do we ask any man's permission when we require him to obey it. Obedience of the law is demanded as a right, not asked as a favor."

"Every man holds his property subject to the general right of the community to regulate its use to whatever degree the public welfare may require it."

And finally, he spoke to people like me when he said:

"Men with the muckrake are often indispensable to the well-being of society, but only if they know when to stop raking the muck."



RETAILING TODAY

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ROUTE TO

JULY 1981

VOL. 16, NO. 7

YOU MUST ORDER THIS REPORT

I have never made such a strong statement about a publication in the 16 years of RT.

The report is the 1980 Annual Report of the Dayton-Hudson Foundation. It gives the history of corporate giving by Dayton's and Hudson's going back long before they joined—and even before there was an income tax. It shows how a concept of “doing good” can grow into a powerful force for “community good.”

Write to Mr. Peter Hutchinson, Chairman and CEO, Dayton-Hudson Foundation, 777 Nicollet Mall, Minneapolis, MN 55402 and say Bob Kahn sent you.

It also tells about Wayne Thompson, the recently retired Senior Vice President of D-H for Environmental Development as well as head of the Foundation. It gives dozens of examples of just what Father Keller was writing about when he founded the Christophers and wrote his first book, “You Can Change The World.” The Christopher theme is: “It is better to light one candle than to curse the darkness.”

As an aside, I have known Wayne since the days when he was the City Manager of Oakland. Oakland is still benefiting from his wisdom. For example, when a new Hall of Justice was built, he prevailed in locating it in the middle of a run-down area. He argued that with one large, good building the neighborhood would gradually be developed by private capital. I drive by there regularly, and there are few trips when I do not see steel skeletons or very tall cranes some 20 years later.

Not only has Dayton-Hudson proven that they can change the world in which they operate, Wayne Thompson has shown how other people can be persuaded to become involved in bettering the world. In the Twin City area alone, 45 companies have joined Dayton-Hudson in pledging 5% of their pre-tax income for charitable purposes. A 2% club is well under way for those companies that are just in the process of rethinking their community obligation.

Not only does the 1980 Annual Report tell what can be done, it tells how it can be done.

RThought: RT feels honored that it goes to the chief executive or one in the top management group of retail firms representing more than half the retail volume in the United States (excluding auto dealers, service stations and restaurants). We have not disclosed this figure before. We do it now because if each of you will send for the report, read it and give serious consideration to doing the same thing in your firm, the changes would be dramatic in hundreds of communities throughout the United States.

I'M A LUCKY GUY

I have always told my children that as we go through life we must do things to help other people, to make our community and world a better place in which to live, and basically to love thy neighbor as thyself.

In the process we put good will into a savings account. Unfortunately, we don't get a quarterly statement showing how much we have accumulated. We only find out when we have to make a withdrawal.

I made a withdrawal recently and was astonished by how much I had in that account.

In mid-May I had four seizures. One withdrawal (the help of a friend) from that account got me into the hands of the head of the Neurology Department at Stanford University Medical Center, one of the top four or five researchers in the field of seizures. Today, he is not concerned (nor am I) after reviewing brain scans and EEGs. I am on medication that will control seizures and won't see him for four months.

It has made a number of changes in my life. For example, I don't know when I will drive again (it would be unconscionable to expose innocent parties to a risk that I could have another seizure). My wife and son have picked up some of the load. My partner in a financial consulting firm has driven, and is willing to continue to drive, many additional miles every week so that we can make our appointments.

A number of business and social friends have offered their services anytime I should need them. My clients and others with whom I have meetings have been uniformly helpful in adjusting times and places and of dropping me off at a helpful place after the meeting.

Probably the outstanding offer has been that of a fellow retail consultant—one whom I have known for several decades—who called to ask if he could help by filling in for me or working with my clients **without charge for his time**. He said he would be happy to do so.

RThought: My first reaction to the seizure was “How terrible!” What I have learned is how rich I am.

In these days of federal cuts of social programs and states adopting propositions 13 and 2-1/2, we will no longer have the quality of living you and I want in our communities unless the private sector does more than it has done in the past. We cannot have a good retail business if we do not have a community that provides for its citizens. They can go elsewhere, but we cannot move a 100,000 square foot store. **WRITE TODAY. RIGHT NOW.**

PRIDE OF THE PARENT—TO THE SECOND DEGREE

KENT'S, a variety chain, advertises "Operated by P. N. HIRSCH & CO. an INTERCO Company." Certainly there is no intent to deceive anyone about the ownership of KENT'S, nor is there an attempt to project KENT'S as a locally owned store.

ALLIED STORES, in all of their advertisements, identifies their stores as "An ALLIED store." It is clear to the customers of Joske's or The Bon, for example, that the local department store is part of a well-respected national group.

EVANS PRODUCTS identifies their retail stores (Grossman, Hubbard & Johnson) as "An EP Evans Products Company." Amfac identifies their menage with the statement "An Amfac Company."

RThought: Apparently Federated, Woolworth, May Company, Dayton-Hudson, Carter Hawley Hale, Associated Dry Goods and others have something that they are not proud of because what other reason is there for not disclosing the parent company? That something is evidently only related to customers. They brag to stockholders, banks, investment bankers and security analysts about how wonderful their variously named subsidiaries are.

WEALTH AND POVERTY

This book is reported to be the economic guide for the Reagan Administration. American Institute for Economic Research, which reviews a book infrequently, devoted the entire June 15, 1981 Research Report to a review of George Gilder's book (published by Basic Books, Inc., NY 1981, 306 pages \$16.95).

They start their review with the statement: "Perhaps the single most valuable contribution of **Wealth and Poverty** is its impressive argument that capitalism is the substantial hope of material progress for the poor of the world. Mr. Gilder is at his best in describing the self-serving reasons why politicians, academics, and other elites continually support non-capitalist approaches to national economic problems. Why, in his words '... modern governments pretend to promote economic growth, but in practice doggedly obstruct it.'"

Business Week also reviewed the book favorably, and I presume that many other publications have or will.

Perhaps this is the time to pause and put some things into perspective. The United States was created in 1776 during a period of mercantilism (control of business by the government). In fact, the basis of the Declaration of Independence was resentment and resistance to mercantilism as practiced at that time in England—to the advantage of England and the detriment of the colonies.

Concurrently, Adam Smith was writing his book "Wealth of Nations," published in 1776 in England arguing against mercantilism and in favor of allowing economic decisions to be made in the marketplace, reserving to government only three functions:

1. Providing of a fair system of courts to adjudicate differences.
2. Providing for the defense of the country from foreign powers.
3. Providing those enterprises for which it would not be profitable for a group of men to undertake for private

gain but which, on being established, would bring significant gain to the community at large (for years this consisted largely of orphan asylums, old folks homes and boot hill cemeteries).

Adam Smith did not use the term "capitalism." That first came into being in a book that said there was a much better way—Das Kapital by Karl Marx—long after our country was established.

When one criticizes politicians for the basis on which they make decisions (which I have often done), one must look at the authority under which they act. In our Federal government, against which many complain these days, the Constitution sets forth the rules of the game.

At no point in the Constitution nor in any of the amendments is there a decision of the people that capitalism is the official policy of the United States government.

We have had more than 200 years since Adam Smith wrote his book to pass such a constitutional amendment—but we have not. There is some question in my mind whether such an amendment could pass—although it is fair to point out that in many surveys made restating the Bill of Rights in different language, none of the first ten amendments (and particularly the First Amendment) would be supported by a majority of the present population.

That leaves us with the Constitution as a guide for politicians—and it is a guide that does not mandate capitalism. The Declaration of Independence set forth the feeling of the populace against which one should read the Constitution. So what do these documents say—documents that most adult business leaders have not looked at for a decade or two or three—and which they didn't learn too well when they were looking at them?

The Declaration says:

We hold these Truths to be self-evident, that all Men are created equal, that they are endowed by their Creator with certain inalienable 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 ...

Of course, problems exist because "created equal" and "Pursuit of Happiness" were not defined, but that was not the purpose of the Declaration. It also said:

Prudence, indeed, will dictate that Government long established should not be changed for light and transient Causes ...

This raises the question of whether the sudden and dramatic changes being instituted by the Reagan Administration, and the unprecedented deferral of the Supreme Court to the Congress starting with the question of drafting women, flies in the face of the admonition of Thomas Jefferson, Sam Adams, John Hancock and the other signatories who ended by saying,

... we mutually pledge to each other our lives, our Fortunes, and our sacred Honor.

The Constitution starts with a preamble saying:

We, the people of the United States, in order to form a more perfect Union, establish justice, insure domestic tranquility, provide for the common defense, promote the general welfare and secure the blessings of liberty to ourselves and our posterity do ordain and establish this Constitution for the United States of America.

Nothing mandates capitalism, nor revokes the statements and pledges of the Declaration of Independence.

WHAT IS THE CUSTOMER'S PLACE IN RETAILING?

Recently I had an opportunity to participate in a seminar for a group of leading Japanese retailers visiting the United States. The American speakers, in order of presentation, were: Gerald Gallagher, Executive Vice President of Mervyn's; Steven Jacobs, President of Atherton Industries (Pic-A-Dilly stores); Betsy Sanders, Regional Vice President for California, Nordstrom's stores; and Richard I. Hersh, President of the National Mass Retailing Institute.

The first three speakers described their companies and the philosophies on which they were built. I consider each of these companies to be outstanding firms. Mervyn's, a unique junior department store that has not been duplicated elsewhere; Pic-A-Dilly was able to grow from an idea to \$85 million in about 3 years; and Nordstrom's, though third in volume as a specialty chain behind Saks Fifth Avenue and Lord & Taylor, is most often described as the fastest growing of the three and the most creative—thus the best.

I was struck by a common theme. All three companies started their explanation from the viewpoint of the customer. This particularly impressed me because just a few weeks earlier I was privileged to sit in on a discussion between the head of a large foreign department store group and his counterpart in a major American group. Almost their entire discussion stressed merchandise assortment, selection and presentation, including such things as dropping old departments and developing new ones, relocating departments, adding to the merchandise range, improving fixturing and watching what competitors were doing in that area.

Back to the speakers, how has each company concentrated on the customer?

Mervyn's calls the head of each store the Store Director. He has two major responsibilities: first to serve the customers and second to see that the salespeople are properly selected, well trained and properly compensated for their contribution to the company (Mervyn's has never paid a commission to a salesperson or an incentive bonus to an executive). They have worked to simplify the job of the Store Director by eliminating as much paperwork as possible, work that would keep him off the selling floor. They do not count shipments from the distribution center; most of the stock counting is done by 3 counters assigned to each store (this means faster and more accurate counts; but, more importantly, this means that the staff of salespeople scheduled to be on the floor are actually there serving the customer).

Their return and exchange policy is simple—"No questions asked." Frankly, I think this should be copyrighted. Mervyn's produces sales of \$200 per square foot of total selling space.

Their merchandising function has also been simplified. The buyers only buy, while the distributors are completely separated from the buying function. A buyer will be criticized as much for buying too little as they are for buying too much. Each buyer has substantial information on which to do his planning plus the assistance of his merchandise manager and general merchandise managers. Their tabloid advertising, which now is at 4,500,000 copies a week, puts 1400 pages of tabloid advertising into every home in their trade area every year. It is distributed 3-1/2 weeks after the date of the weekly advertising meeting that selects the items and sets the prices.

Pic-A-Dilly is an off-price women's apparel chain similar to Hit or Miss in the Northeast. They operate very plain looking stores of about 4,000 square feet with about 30 dressing rooms across the back and a cash register and turnstyle control at the front. No impulse items are allowed on the checkout counter—the counter is for the purpose of completing sale.

The staff of each store is small, perhaps a manager and an assistant manager plus 3 or 4 full-time people and varying numbers of part-time

people. Once again the job of the store manager is to see that the customer's inquiries or problems are immediately resolved and that the employees are properly selected and trained and their morale is high. The primary function of the people in the store is to be alert to the needs of customers in this plain, self-service store and to receive and put merchandise away.

Merchandising decisions are made centrally and all goods go through the distribution center.

Nordstrom's is a completely different type of store. They have never been centralized. Each group of stores (Seattle, Portland, Alaska, Utah, Orange County and soon San Diego) has their own buyers.

Buyers, when in town, spend 3 to 4 hours a day on the selling floor. They write in their own book (and are paid regular commissions on top of their salary and bonus). This permits the regional manager to check their "sales per hour" (based on 40 hours) to be sure they are on the floor—and selling.

Nordstrom's entered the Orange County (California) market about the same time as Neiman-Marcus and quickly developed a substantially larger volume in approximately the same size store despite the fact the name of Neiman-Marcus was so well known. (Incidentally, Neiman-Marcus is a centralized operation with all buying done in Dallas.)

Retailers immediately predicted that Nordstrom's would lose money because of the inventory that they carried, the depth of stock, and the length of time into the season that they carried it. But people overlook the fact the Nordstrom family is first a shoe retailer and second an apparel retailer—and with shoes you can't sell a 6AA if all your dollars are in 7C shoes.

Their inventory per square foot is twice typical stores, but they also get twice the sales per square foot of selling space. Their selling payroll is substantially (like 30% or 40%) above typical figures. But none of their customers complain that they can't find someone to help them.

Every person in Nordstrom's is on an incentive. Salespeople get paid the higher of their hourly earnings or their commissions. All management has a goal that is not changed during the year (their motto is: "A deal is a deal") that provides a large bonus if the goal is attained and then smaller amounts for each .1 of 1% above goal.

Their organization chart shows the importance of the customer—she is shown at the top (does your organization chart even show the customer?) with gold stars before and after the word. The customer is then shown as being supported by salespeople; the salespeople are supported by department managers; the department managers are supported by buyers, store managers and regional managers; and they, in turn, are supported by the board of directors. The shape is a triangle standing on its point. The line above each group has hands drawn in to further emphasize that the function is one of support.

This company produces almost 5% after taxes on sales while carrying the personnel expense to support a 30% a year growth.

RThought: In most organization charts the customer is not shown; the board of directors is at the top; and higher levels are spoken of as supervising rather than supporting lower levels. Sometimes an accolade is paid to the front line troops by calling them associates rather than salespeople.

RThought: Where do you put the customer in your thinking? Are you constantly looking for good buys or hot locations or new fixtures or cutting expenses or reducing inventory or tightening up on credit—rather than looking at how the customer is served and actually talking to real live customers? Introduce yourself to some and find out how many helpful ideas they have for you.

A STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

The trend is good. Of the 35 reported stores, 11 made the Honor Roll this month. Another 7 stores reported over 4 days but not over 5 days. Thus 50% of the stores are providing the kind of service that customers have the right to expect. We welcome The Popular to both the report and the Honor Roll.

HONOR ROLL

Liberty House	2.0	Gimbel's	3.5
Mervyn's	2.1	B. Altman	4.0
Routzahn	2.8	Montgomery Ward	4.0
Brooks Bros.	3.0	Sears-Houston	4.0
Bullock's	3.0	Waldoff's	4.0
The Popular	3.2		

CREDIT OFFICE RATING

Information From Reporters	APRIL-MAY 1981			FEBRUARY-MARCH 1981			Information From Stores	APRIL-MAY 1981			FEBRUARY-MARCH 1981		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	1	4.0	4	2	4.5	4-5	Gimbel's (Phila.)	36	3.5	3-4	36	3.5	3-5
Bamberger's (NY)	2	5.0	5	1	6.0	6	Levy Bros. (N. CA)	2	5.5	5-6	2	4.0	4
The Broadway (S. CA)	1	9.0	9	--	--	--	Mervyn's (CA)	15	2.1	2-3	30	2.2	2-4
Brooks Bros. (NY)	1	3.0	3	2	5.0	4-6	The Popular (El Paso)	11	3.2	2-4	--	--	--
Bullock's (S. CA)	2	3.0	2-4	1	4.0	4	Ross Stores (N. CA)	3	4.3	4-5	4	4.8	4-5
Bullock's (N. CA)	3	6.7	6-7	3	3.7	3-4	Routzahn & Sons (Frederick, MD)	4	2.8	2-4	4	3.5	3-4
B. Dalton (S. CA)	1	8.0	8	--	--	--	Waldoff's (Houston)	1	4.0	4	1	3.0	3
Emporium-Capwell (CA)	9	5.3	5-6	9	6.1	5-8							
Foley's (Houston)	1	6.0	6	--	--	--							
Grodin's (N. CA)	1	5.0	5	1	4.0	4							
Gumps (N. CA)	1	5.0	5	2	5.5	5-6							
Hammacher-Schlemmer	1	14.0	14	--	--	--							
Hastings (N. CA)	1	6.0	6	--	--	--							
Joske's of Texas (San Antonio)	1	10.0	10	--	--	--							
Liberty House (N. CA)	1	2.0	2	1	2.0	2							
Livingston Bros. (N. CA)	2	9.0	8-10	4	5.0	3-6							
Macys (N. CA)	2	4.5	4-5	4	4.5	4-5							
I. Magnin (N. CA)	6	4.2	3-5	6	5.5	4-7							
May Co. (S. CA)	2	5.0	5	--	--	--							
Montgomery Ward (N. CA)	2	4.0	4	--	--	--							
Nordstrom's (S. CA)	2	6.5	6-7	--	--	--							
Penney's (N. CA)	2	8.0	6-10	3	6.0	6							
Robinson's (S. CA)	1	5.0	5	--	--	--							
Sakowitz (Houston)	1	5.0	5	--	--	--							
Saks 5th Ave. (NY)	1	7.0	7	2	6.5	6-7							
Sears (Houston)	1	4.0	4	--	--	--							
Sears (N. CA)	6	6.8	5-10	6	7.0	6-8							
J. Wanamaker (Phila.)	3	7.0	7	2	6.5	6-7							
TOTALS	58	5.8	2-14	49	5.5	2-8							

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

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

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

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

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

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

A high percentage of our political fights has been over such issues as the Tenth Amendment which says, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." Or the rights of women (not mentioned in the Constitution). So far we have settled most differences within the political structure of the balance of power between the Executive, the Legislature and the Judiciary. However I suspect that on many issues the citizenry is split on a 5 to 4 basis the same way many "settled" issues have been settled by the Supreme Court.

RTought: There is no mandate for Federal Legislators to do other than follow the Constitution. There is the same charge to the Executive and the Judicial branches.

When considering matters relating to the principles that "all Men are created equal" or legislating to "promote the general welfare," there is no reason to consider whether or not the action taken is consistent with capitalism.

Capitalism is something that is defined in the mind of the advocate, and each advocate sees it somewhat differently. We do not now have (and perhaps never had) the capitalism that Adam Smith saw. We forget that Adam Smith premised his argument on the assumption of perfect knowledge on the part of both the buyer and the seller and on a market consisting of a large number of both. If the facts ever did support his premise, that time has long passed into our present situation of oligopoly (few sellers) and oligarchy (few buyers).

BANK CREDIT CARDS WITHOUT A DISCOUNT TO THE STORE?

That is what was accomplished in Denmark according to the Retail News Letter of the International Association of Department Stores.

For several years the banks in Sweden have been negotiating with the associations representing private and cooperative retailers. The retailers resisted the proposed discount of 2.5% when banks buy the transactions. The stores argued that the cards mainly replaced checks and so provided economies to the banks for which the stores should not be charged.

The banks have agreed to go ahead with a fee to be charged to the card user rather than to the store.

RTought: Did American retailers overlook something, or are we too unorganized to do something like this?

THE COINCIDENCES OF HISTORY

Carter Hawley Hale, in their report for the first quarter of 1981, included a history of Thalhimers.

William Thalhimer, the founder of the store, was a 33-year old history professor at Heidelberg University when he, with two friends, decided to come to the United States. With one of them, he had plans to open a store in Pittsburgh. But Thalhimer detoured to Richmond to visit his sister, met her roommate, fell in love, stayed in Richmond, married the roommate and started Thalhimer's.

The other man continued to Pittsburg and started Kaufman's. The third stayed in New York City and started Stern's.

What brought to mind a recent coincidence in our family. While re-reading the diary of my great Grandfather, Bernard

Baum, written in 1902, I came across a name that meant nothing to me when I first read it 30 years ago. In the post Civil War period, Grandpa Baum bought a 6-year old horse for \$125 from a man named Jacob Kuhn. I immediately called my friend Jack Kuhn, chairman of Kuhn's-Big K Stores, and asked him if his Grandfather was named Jacob. He said, "Yes, I was named for him. Why do you ask?" I told him that our families had done business together more than a century ago.

IS THERE A REASON WHY THE INDEPENDENT SPECIALTY STORES SURVIVE? – A RESPONSE

An article with this title appeared in the May 1981 RT. It basically argued that independent stores continue to survive because they don't have to return to basics—the good ones stay there all the time. They are able to train salespeople in the product they sell. They can get salespeople to maintain "PT Lists"—I suspect that most of the young, rapidly advancing department and chain store executives cannot tell you what a PT List is.

On to the response.

In this month's Feature Report there is information about how three successful enterprises give primary attention to the customer. Something not mentioned about Nordstrom's is that every salesperson gets personal calling cards. They are supplied with forms for keeping information on customers such as likes and dislikes, birthday, sizes, last purchase, etc. They are provided stationery, envelopes and postage for thank you notes after they make a sale—and they write to advise customers when new merchandise is coming in or going on sale that they particularly like. They are encouraged to telephone customers.

In other words, the third generation of Nordstrom's now running the store never forgot or abandoned the principles upon which the first and second generations built the business. That may be why Orange County went for them 2 to 1 over Neiman-Marcus—although the old-time Neiman-Marcus people certainly did (and new ones are encouraged to do) the same things.

But another response came from a senior executive from a major retail firm who wrote:

It is important for specialty stores to have better product knowledge and service than their competitors. I think the same problem exists with us big stores. Our central offices have so many specialists who really don't know what we do. I am constantly amazed by the ignorance of the vast majority of the central office support (?) staff about the entire business of retailing. Typically, they know little about merchandising, advertising, accounting (you mentioned the ignorance of how the retail inventory method works among even buyers and merchandise managers) and even about the kind of customers we serve.

I think it is easy to throw rocks, but I think the fault is with top management. We have done a lousy job of teaching our central office people about *our* business. Some of us are now trying to correct this with audio-visual instruction about what our stores do. Who knows—we might even find someone in the central office who is interested enough to go to work where we make our money—in the stores.

We need more of this kind of education. Do you know anyone who is doing it? If you ever visit our area, I would like it very much if you could drop in and spend some time with me.

RTought: There is little that I can add to these two responses.

PEOPLE SHOULD FEEL SILLY MAKING SUCH CLAIMS

The one that should be blushing is the National Coalition to Prevent Shoplifting which recently reported that in 1979 the total take of shoplifters, **not including thefts by store employees**, was \$16 billion in 1979—OR 5% OF TOTAL RETAIL SALES!

Just imagine that. In every store in the United States, \$1 out of every \$20 is being shoplifted! Of course, this must be official because it comes from an organization supported by a \$500,000 grant from the Department of Justice; and the Department of Justice would never, Never, NEVER tell us something that was not completely true and accurate.

So let's look at the figures a moment. \$16 billion can be 5% of only one number—\$320 billion. But the Department of Commerce in their Survey of Current Business reports that retail sales in 1979 were estimated at \$894 billion. Something is wrong here. What happened to the other \$574 billion above the \$320 billion? Or perhaps the \$16 billion is right and the percentage should be 1.8% for shoplifting. **THAT** would make more sense.

On the other hand there are some classifications that we seldom think of when the total retail figures are published. For example, do you think of car dealers as retailers? The government does. Imagine, 5% of the cars being shoplifted—perhaps a little old Camaro slipped into a booster bag under some professional's skirt. If we eliminate car dealers, we are down to \$733 billion and \$16 billion is now 2.2%.

Then there are restaurants. I can understand deadbeats—but shoplifting a McDonald's for 5%? Impossible! In some other places the service is so slow that you could make off with all their napkins and silverware, but that isn't taking the food they prepare. Cut them out and you have \$653 billion and \$16 billion has become 2.5%.

Then there are service (or non-service) stations. We don't think of them as retailers so perhaps we ought to drop them. I doubt that 5% of their gasoline is slipped into somebody's false tank. (Some claim that 5% of your gasoline is siphoned out of your tank by their new nozzle.) Take off that \$73 billion and we are down to \$580 billion. \$16 billion would be 2.8%.

Now we have a problem. Either the \$16 billion or the 5% is wrong.

I don't know many stores, except poorly run discount stores, that even reach a storewide shrinkage rate of 5% (which includes dishonest employees but is probably made up mainly by internal errors and poor systems).

RTThought: RT has checked out these phony figures before. The government says they get them from the NRMA, and the NRMA said they never had such figures. But the NRMA is not particularly concerned about correcting them because they like to quote the government figures, citing that infallible National Coalition to Prevent Shoplifting. Security directors like such figures because it helps them to boost their budgets—more men, more one-way mirrors, more closed circuit TV—and more opportunities to use such statements as proof that the younger generation (always credited with the bulk of shoplifting) are worse than the generation before (except, of course, for the kids of people who own or work in stores).

RTThought: Someday someone will really tell the truth. Perhaps Wal-Mart (Note: The editor is a director) will get some attention when they bring their shortage under 1% in a chain of self-service stores doing over \$2 billion—and they will do it with proportionately fewer people in their security department than when they started their program and fewer arrests for shoplifting or for internal theft. But they will have plugged a lot of procedural errors that end up in an all-encompassing figure we glibly called "shrinkage." One must remember that shrinkage was common when we had pure wool garments but now most are synthetic!

SHORT SHORTS

A publicly active retailer. With a 70% landslide victory, Jack Evans, President of Cullum Companies, was elected Mayor of Dallas. Even while heading one of America's largest cities, he will continue as president of one of America's 100 largest retailers through attending the weekly executive committee sessions and planning meetings. Dallas has started a great tradition with a former Mayor having been the President of Texas Instruments, one of America's leading technology companies.

Do retailers do marketing? A recent article by Sam Feinberg easily leads the reader to the conclusion that very few do. Walter K. Levy, a management consultant working in this field, feels that if management delves deep enough into what Levy calls "retail tier analysis" they may discover segments of the market that are **underserved by competitors**. RT would add, based on comments by customers, that if management would talk to the people now coming in their stores they would find an even larger group that is **underserved by the store they are in!** Why try to get the other store's customers when you aren't taking care of your own already?

WORDS TO LIVE TOGETHER BY

Sid Heller is a long-time friend and an expert in insurance for retailers. I have used him many times to help clients and he now is with Bayly, Martin & Fay. He saw the following rules (except for No. 13 which he added) on a handwritten sheet in the office of a man that he was visiting. He was kind enough to share them with me so that I could pass them on to you.

GOLDEN RULES

1. If you open it, close it.
2. If you turn it on, turn it off.
3. If you unlock it, lock it.
4. If you break it, repair it.
5. If you can't fix it, call someone who can.
6. If you borrow it, return it.
7. If you use it, take care of it.
8. If you make a mess, clean it up.
9. If you move it, put it back.
10. If it belongs to somebody else and you want to use it, get permission.
11. If you don't know how to operate it, leave it alone.
12. If it doesn't concern you, mind your own business.
13. If you ask for a decision or an opinion, don't argue with the answer.



RETAILING TODAY

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ROUTE TO

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THINGS I DON'T UNDERSTAND ABOUT OUR BANKING SYSTEM

Look at the facts that are thrown at us almost everyday in the newspaper.

1. The money supply is growing too fast so Federal Reserve Chairman "You haven't seen anything yet" Volker will continue to fight it by raising interest rates.
2. The United States is losing the race to Japan, Germany and other countries because our productivity is not increasing fast enough.
3. Our productivity isn't increasing because we are not saving enough and thus there is no money for business to use to upgrade their plants and equipment.
4. Our banks and savings and loans are being crippled by the rapid growth of the money market funds which have drained money from savings and checking accounts.
5. When price controls were removed from oil, the oil industry promised that their extra profits (called by most of the citizens "windfall profits") would be reinvested in more exploring and drilling and research on alternate sources of energy, especially in the United States, so that by the end of this century we would be self-sufficient.
6. Mr. Reagan wants to eliminate all government small business loans because the private sector will take care of everybody.

Isn't that about what you have read?

Then I read that Du Pont or Mobil or Seagrams is going to buy Conoco, Inc. for about \$7 billion, with \$3 to \$4 billion going out in cash—which will be borrowed.

Bank of America, Chase and Morgan are putting together a \$3 billion credit line for Conoco in case the Du Pont deal falls through so Conoco can go out and buy something. Chase is also putting together the largest credit line in history, \$5.5 billion, for Texaco, who apparently wants to buy either Conoco or Cities Service (or perhaps both?).

RT has no objection to mergers where stock is exchanged for stock because it doesn't use available funds needed for improving the productivity and efficiency of our economy and starting/building businesses that will provide jobs for the 7% or more unemployed (plus those scheduled to be replaced by robots). But I see several ramifications of the kind of loans discussed above.

1. Lending of this magnitude almost automatically means that less will be available for small businesses. Jack Brandwein, in his excellent newsletter, FORUM, For The Home Furnishings Industry (4731 El Camino Ave., Carmichael, CA 95608 \$44/yr) warns his readers, who are thousands of typical independent furniture stores, that they are soon going to have problems financing their receivables. He says,

THANKS

That one word is much too short to express my appreciation to the many readers who wrote or called to inquire about my health. In my rush to report the joy of finding that I had so much in my savings account of goodwill—and from your reaction I find I have even more than I first thought—I failed to report that I was operating at almost a normal pace and probably will end up, in October, when I expect to be able to drive again, a better product than I was before the seizures.

The stay in the hospital—with intravenous feeding plus heavy drug dosages followed by a 1400-calorie diet—changed my eating habits completely. It wasn't planned that way—it just happened. Since leaving the hospital I have continued to lose weight without much effort and found that both coffee and sweets have little appeal. The result is that I have now lost about 35 pounds and am wearing some 1970 suits—which are much too loose.

I am back swimming—about 1,000 yards a day—but not quite so fast as before. When I first came out of the hospital, I was exhausted after 200 yards.

Public transportation works pretty well and walking never hurt anyone.

Soon I will be as ornery as ever.

"Financial institutions are moving away from financing retail installment or revolving credit."

2. Buying a going oil company for cash doesn't add anything to the productivity of the country.
3. Buying a going oil company may even contribute to unemployment by eliminating some duplicating facilities.
4. Buying a going oil company will not provide more oil by 1999.
5. Most stockholders who get cash for their stock are probably going to put the money into money market funds rather than the banks which doesn't help provide funds for improving our country's plant and equipment. Others will put it into tax-exempt bonds, which only helps to cover the federal deficit. And some will buy other publicly traded stocks—which also does nothing to help new businesses.
6. The desperate banks and savings and loan institutions, in order to get the money back from the money market funds, will have to pay higher and higher rates on jumbo certificates of deposit which will maintain or increase the cost of money to banks; and this, in turn, will maintain or boost the bank's interest rate. This is both inflationary and discourages business from making capital expenditures to increase productivity.

RTThought: Where am I wrong? Will some reader tell me what the economic benefit is to the United States of using major amounts of money to buy existing companies?

Will someone explain to me whether Bank of America, to get money to participate in a \$3 billion loan, should be taking it away from the little people—as suggested in their ad in a college yearbook “Depend on us. More California College students do.” I am sure they get more money from students than they lend to students.

THE HOUSE OF FABRICS CHANGES ITS WAYS

For years RT thought the House of Fabrics would be the first publicly held company to reach the magic figure—of having an opening inventory equal to the cost of goods sold for the following year. Thus they would attain the magic of a one-time inventory turn.

For a number of years we traced the growth of the inventory and wondered about (1) the willingness of their bank to lend so much money (2) the willingness of the management to borrow so much money, and (3) the number of the mark-downs that were being avoided by leaving slow-moving stock in inventory at prices not acceptable to customers.

It was with great pleasure that RT read the statement of Mr. David I. Sofro, Chairman, in the report that first quarter 1981 earnings rose 50% (following an increase of 310% in the 4th quarter of 1980). As always, management has an explanation of the changes in profits. Most recently the decreases have been blamed on increased interest costs and/or a more competitive market resulting in a gross margin decline.

Mr. Sofro made the following excuse for such rising profits: “The company’s strong profit performance is the direct result of decreasing its inventories from a peak of \$73,000,000 to approximately \$45,000,000 over the past two years. This reduction in inventories has permitted us to eliminate our short-term loans from a peak of \$17,000,000 and provided us with capital to invest in certificates of deposit and marketable securities in the amounts of \$8 to \$10 million.”

SPLIT VISION ON OX-GORING

There is an old saying, “It makes a difference whose ox is gored” (Martin Luther who lived 1483-1546 but whose quotation did not arise until the publication of his works in 1854).

Mobil Oil, in the July 19, 1981 “Observations” column which appears in many newspapers throughout the country, protested strongly the manner in which business is portrayed by prime time TV. The Media Institute reported that in analyzing 50 top prime time shows, two-thirds of the corporate characters “are portrayed as foolish, greedy or criminal” and that “almost half of all work activities performed by businessmen involve illegal acts.”

Mobil Oil concluded, “But we do think television owes you more than a distorted, fuzzy image of people in business as just ‘crooks, conmen and clowns.’”

Rev. Donald E. Wildmon, founder of the National Federation For Decency, in his June 1981 **Conservative Digest** column is greatly upset that it was the Public Broadcasting System, when presenting Emile Zola’s “Therese Raquin” on Masterpiece Theatre, that first showed explicit sex and a full frontal nude scene. Reb. Wildmon felt that your tax dollars should not be spent to support such activities.

But he did comment, “Of course, your tax dollars were supported by a sponsor, Mobil Oil. (On PBS they call them ‘grants.’) Mobil felt that Americans needed to know how animals have intercourse, so they showed us.” He concluded with the idea that Mobil would be happy to have your thoughts, gave the address for Chairman Rawleigh Warner, Jr., and pointed out that Mobil also owns Montgomery Ward and Hefty Trash Bags.

RTThought: It is difficult to judge TV, whether from Mobil’s viewpoint or Rev. Wildmon’s. Phaedrus, about the time of Christ, said, “Things are not always what they seem” which Gilbert in “H.M.S. Pinafore” polished a bit into “Things are seldom what they seem, Skim milk masquerades as cream.” Or are we back with Cervantes in “Don Quixote” where he said, “The pot calls the kettle black”? Enough quotations for now.

RULES AND REGULATIONS

Geoffrey Coles, CEO of the John Martin Company in Adelaide, Australia (5 department stores plus a chain of discount stores for sales of about \$US 300 million) was kind enough to send the reprint of their “Rules and Regulations” first posted in the 1860s and recently reprinted.

INTRODUCTION

1. IN presenting this copy of Rules and Regulations, we seek to offer a guide to a uniform and persevering habit of business, and a correct and diligent employment of time, without which individuals or companies do not prosper.
2. THE penalties attached to the Rules are intended to make them more impressive, and to secure attention to important items of duty, which otherwise get neglected or carelessly overlooked. To the young or inexperienced, the assistance afforded hereby is especially valuable, but any who allow themselves to be fined more than once for the same rule, should remember that they are thereby entailing a loss upon the concern, not only by the injury done to the stock, or the customer, which the fine implies, but by increasing the Counting-house work and expenses. There are, of course, many points of duty too general to be defined by Rules, but should be learned intuitively, while there are many habits which are acquired by association and previous experience that are forbidden by all rules of good taste and judgment.
3. NEVER address a lady as “miss” instead of “Madam.”
4. NEVER allow customers to feel that others are receiving more or better attention than themselves, and avoid all eccentricities of manner.
5. POLITE attention and agreeable manners are of great value.
6. EVERY transaction must be perfectly straightforward, and all misrepresentation or trickery must be carefully avoided.
7. NEVER conceal a defect of damage in a piece of goods, because the customer does not notice it, or think to ask if it is perfect. Avoid using the word “warranted” in the sale of any kind of goods. We procure the best makes of their respective kinds, but cannot warrant them.
8. WASTE nothing, especially “Time,” the wish being to shorten the hours of business as much as possible, which cannot be done unless each one economizes time, and makes the utmost of it.

RTThought: I particularly like Item 7.

The 20” x 30” posting continues with a great many rules, most of which are accompanied by the statement of the fine. Many retailers would like to use that system today.

For every 5 minutes late arriving, on lunch break, or leaving early — 6 pence.

For omitting something from the customer’s package or including something that was not purchased — 6 pence.

WILL RESPONSIBLE RETAILERS PROTECT THE CONSUMER?

We are watching the Reagan Administration dismantle, piece by piece, much of the consumer protection put together in the past 20 years. In the case of the funeral industry which once had widespread unconscionable practices (such as embalming without permission, charging for caskets when the family wanted cremation, etc.), *Consumer Weekly* (June 29, 1981, 813 National Press Bldg., Washington DC 20045 \$15/yr) reports that the Federal Trade Commission is acting as spokesman for the industry! Despite calling for public hearings, the staff is making private promises in writing to the lobbyist representing the funeral industry that the final rules will be even less restrictive than those put up for public response and hearing.

In the field served by *RETAILING TODAY*, there have been many practices of which no one could be proud and which are now gone. For example, some of the finest names in retailing did not bill credit accounts with credit balances—and would steal that balance if it was not used within 90 to 180 days. Although the FTC brought a number of famous retailers to task, the practice was far more widespread than those few firms subjected to legal action.

It was not too long ago that I knew credit managers who bragged that their objective was to have no black accounts. Today accounts must be evaluated on a non-discriminatory basis. The credit manager of one of the major retail chains as spokesman for the National Retail Merchants Association argued that it was appropriate to deny credit to divorced women on the basis that if they would not honor their marriage contract how could merchants expect them to honor their credit contracts. It is hard to believe that in the 20th Century the credit manager of a multi-billion dollar retail organization would argue that all divorces are based on the failure of the woman to honor the contract.

The examples of discrimination in employment by retail firms, based both on sex and race, are too numerous to recount. It appears to be the objective of the Reagan Administration to remove rules in that area. One would hope that responsible retailers would continue non-discriminatory employment practices without being compelled to do so. There was a day when a merchant stood before his community, fully identified by his name on the store, and was responsible for his ethical conduct. Today there are no Bullocks at Bullocks, Wanamakers at Wanamaker's, Marshall Fields at Marshall Field's, Fredericks or Nelsons at Frederick and Nelson, Richs at Rich's, Macys at Macy's—there is just rotating professional management.

Fortunately there are Daytons at Dayton's, Hudsons at Hudson's, Thalhimers at Thalhimer's, Petries at Petrie's, Waltons at Wal-Mart, Nordstroms at Nordstrom's—who continue to feel that personal responsibility.

The Consumer Products Safety Commission is another target for extermination. Then it will be possible for retailers to go back to unsafely designed tricycles, dolls with pins and wires that can maim children, playpens designed so that a child can be strangled, lawnmowers that can maim the user—but will they? One hopes not.

RThought: Perhaps some of my thoughts about protecting the consumer are distorted by the activities of my sister. Some years ago when she was living overseas, she reported for a medical journal. She was the first person to report in the United States the fact that thalidomide, released in several countries without adequate tests (those that did test did not test the effect on the fetus in a pregnant woman), was causing hundreds of children to be born with partial or missing limbs, no ears and many other deformities. Although the United States cannot be proud of the testing it did, the government was able to ban the sale of thalidomide. To Senator Kasten of Wisconsin, who argues the market will put out of business companies that cheat or hurt you, I ask whether he can conceive of the market putting Merrill-Richardson out of business if it had distributed thalidomide in the United States as it intended to do and 10,000 or 20,000 deformed children resulted.

RThought: Retailers have an opportunity to prove the effectiveness of the market—but it will take a major change. First, responsible retailers are now going to have to do more testing and analysis on their own to determine whether products offered to them as a great bargain will hurt their customers (remember—children's garments treated with TRIS are still available at bargain prices—and many retail firms strive to offer bargains without disclosing all the facts about them.)

But most important, the good guys are going to have to take a stand against the bad guys. Should you tolerate, in your trade associations, companies that you know cheat, are dishonest in their advertising, buy products that can kill or hurt the user? Or should you have in each trade association an ethics committee that can, on the complaint of one member, investigate another? If the complaint is confirmed, will the association then expel the member with appropriate publicity to that member's peers and to consumers in his trade area? Will you also disclose non-members in your type of retailing?

Or will you, as now, get together yearly at conventions with fellow merchants you know to be liars and cheats, have a good time with them, drink with them, and look forward to next year?

SHORT SHORTS

Has anyone seen Nebraska lying around some place? It is amazing how careless computers can be—and equally amazing that people no longer make errors. I have proof. When I received a directory of discount stores from Chain Store Age, there was a letter enclosed that said, "We have enclosed a supplement covering the State of Nebraska. Due to a computer error, the entire State of Nebraska was not published . . ." (! ! !). Do you remember when people programmed computers and took responsibility for the errors in programming? P.S. The Wall Street Journal misplaced Nebraska in their 800 telephone net.

It is interesting to watch stores gingerly raising their finance charge from 1.5% to 1.6% per month, including notice that purchases made before the change will still be charged at 1.5%. Full disclosure was made to every customer. When stores went from 1.0% to 1.5% the managers talked among themselves, to others who had done it (to find out how many complaints there were) and then went ahead and did it, sometimes without any announcement. They only responded to those that complained. Perhaps when Mr. Reagan wipes out Truth-in-Lending all the honest retailers can go back to the way they operated in the 1950s and never tell the customer anything.

A FEATURE REPORT

TRUE TO STYLE, CITIBANK AGAIN TAKES ADVANTAGE OF THE CONSUMER

RT has often complained about Citibank because they located their credit card office (at least, the location to which payments are mailed) in Melville, New York. This is out on Long Island, and not even a major community in that area of Long Island. Sort of a suburb of a suburb. The population was under 10,000 in 1970.

The post office often takes an extra day to deliver mail to Melville compared with delivery in New York City.

Why is this important? Just two reasons.

First, an extra day raises the average daily balance on your account against which your finance charge is computed. Second, if that day puts you past the deadline, which usually is 20 days or less after receipt of your statement, then there can be a penalty or late charge.

To make even more money, Citicorp is building a massive headquarters for their credit card operation in Sioux Falls, South Dakota because South Dakota passed a law saying that banks can charge credit cardholders any interest or membership charge they wish regardless of where the cardholder lives. Citibank is required to set up a "full service bank" but they aren't required to have things that you and I might think are part of such a bank—such as checking or savings accounts.

Glen Ritterbusch, the Director of Banking and Finance for South Dakota, has been quoted as saying, "That's why they put the building where they did. It's the worst possible place in the world (in a cornfield near a truck stop) to put a bank in relation to working with the public."

I just checked the Official Air Line Pocket Guide for July 1981. Here is the list of incoming flights to Sioux Falls:

Monday-Friday &		
From	Sunday	Saturday
Chicago	3	2
Denver	4	4
Minneapolis	6*	5
Phoenix	1	1
Total	18	12

*One flight does not fly Sunday

Remember—virtually all mail going over 600 miles goes by air.

RThought: Citicorp appears to be placing their office nearer to the geographic center (not the population center) of the United States, but one guesses that their aim is to substantially increase account average balances and late payment penalty income. Perhaps we are fortunate that they did not select Aberdeen, South Dakota (2 flights daily, 1 on Saturday). New York City/Newark has flights by the hundreds carrying mail into 3 airports. I think most cardholders would accept the time loss in getting to Melville compared with Sioux Falls.

As an aside, I have only been through Sioux Falls once, but the weather is not dissimilar to that in Durango, Colorado (4 flights daily). In going to Durango I have encountered weather such that flights could not get through for 2 days (perhaps more—I gave up). Snow storms that close the Sioux Falls airport are going to be "like money in the bank" to Citicorp.

RThought: Is there a fair way to handle this situation whereby Citicorp can charge higher finance charges without unnecessarily abusing their 5.8 million cardholders? There is and it is a simple banking procedure. If they established 3 payment receipt operations, one in the East, one in the Central area and one on the West Coast, they would be within normal overnight delivery for all of their cardholders in the "lower 48." With 5.8 million cardholders it probably would not cost much more, in this day of electronic transmission, to process the payments on a fair basis. It doesn't make much difference to a computer in Sioux Falls whether the input terminal is on the floor above or in New York City, Chicago or San Francisco.

Citicorp might well argue that they can get and train all the people they want in Sioux Falls at minimum wage, and it would cost more as I suggest. But the bottom line is that Citicorp is not really concerned about being fair with their 5.8 million cardholders. By contrast, Sears, Wards and Penneys are concerned—and they maintain regional credit offices—more than 3.

SHORT SHORTS

Short and blunt at Wickes Companies. In the 1981 first quarter report, which included a summary of the annual meeting and the questions asked (a wonderful process due solely to the efforts of Lewis and John Gilbert), there was the following exchange with Mr. McNeely:

Q: I understand you have replaced Carl Wunderlich with Robert Quayle as President of the Aldens, Inc. subsidiary. Mr. Quayle is very well regarded, but could you tell us why Mr. Wunderlich was replaced?

A: We also think highly of Mr. Quayle. Mr. Wunderlich was replaced principally on the basis of performance. He had served as the head of Aldens for quite a while but the performance in recent times was not up to the standard we would like to see.

A wonderful way to end a news release—"Mervyn's is an active participant in the Dayton Hudson Corporate giving program. Dayton Hudson contributes 5 percent of its taxable income to community, social, health and cultural programs in the communities in which it operates." Can you issue such news releases?

RETAILING TODAY — AUGUST 1981

Mixed metaphors of retailing. Robert Suslow, Chairman of BATUS Retail Division, in projecting the future for Saks Fifth Avenue, said in a few years Saks will be "at the top rung of retailing in terms of the bottom line." Reminds me of my successful defense of the English language in getting the California Department of Highways to stop calling all structures "bridges," including the tunnels!

The BEST answer. An interview of Andy Lewis, President and C.O.O. of Best Products, in *The Discount Merchandiser* (July 1981) concluded with his observation "We don't think it necessary that business portray itself as interested only in profits, with no sense of humor."

Stores are like hotels and both have deteriorated in the United States. I realized this when one of my favorite columnists wrote, on return from his vacation, "We said our goodbyes to the Villa d'Este's director, Mario Arrigo, a neat, smiling man who wears the same uniform daily—gray suit, blue shirt, quiet tie. In Italy, the managers of grand hotels are to be seen in the lobbies, greeting the guests as they come and go. American managers tend to remain invisible, perhaps for good reason."

For selling goods on condition of exchange without proper consent being obtained — 3 pence.

Any assistants soiling, losing, or damaging any goods or articles, must pay for or make good the same, to the satisfaction of the company.

For expectorating on the floor — 1 shilling.

For leaving the premises during business hours without consent — 2 shillings 6 pence.

RThought: Ah, me.

Q: WHEN IS A GIFT REALLY NOT A GIFT?

A: WHEN IT IS A GIFT CERTIFICATE FROM SHREVE & CO., JEWELERS SINCE 1852

I recently received a letter starting "We don't often have the chance to write and thank you for doing business with Shreve & Co. But we would like you to know how much we appreciate having you as a customer. To show our appreciation, we're happy to present you with a Gift Certificate for \$25.00."

My thought at that point was that we would use it on the next wedding present—since we probably would get it at Shreve's anyway. But then I read on. "This certificate may be applied toward any purchase or purchases totaling \$150 or more at Shreve & Co."

Now I realize that it really wasn't a gift certificate but a 17% or smaller discount. That was a bit of distortion—but it still had some value.

Four paragraphs later I learned that I had to use it by August 1, 1981, less than 30 days later.

And then I realized that it was just another sale that they were ashamed to call a sale. Thus the Q & A at the heading of this article. As kids we called this Indian Giving—giving something and then taking it back. The Indians were around when the Shreve family founded the store in 1852—and as long as the family and heirs owned it, I recall no Indian Giving.

WHAT'S WRONG WITH THE BANKRUPTCY LAW?

The basic weakness in the new bankruptcy law is that it doesn't impose any obligation on debtors.

In the good old days bankruptcy was related to the assets available to satisfy debts, and property exempt from creditors' claims was relatively minor. If the assets were insufficient to pay the debts, the debtor could go to jail until they were paid. This latter provision was eliminated in the 19th century, the amount of exemptions was increased, and supervised payment plans were introduced as an alternative to bankruptcy (Chapter XIII for individuals and Chapter XI for businesses). The old law reflected the fact that when it was passed most credit was granted on the basis of assets.

But times change. Today most credit is granted on the flow of current income with the expectation that the debt will be paid off from future income (this is why the job history and current income is so important) and not out of any accumulation of assets.

The result is that high income earners with few assets (leased car, rented apartment, rented furniture, etc.) can load up on debt for the purpose of self-indulgence (clothing, travel, vacation) and then declare bankruptcy, eliminating all of their obligations. It doesn't make any difference whether the debtor's income is \$10,000 a year or \$100,000—there are no assets.

The court is powerless to compel the debtor to make payments over a series of years until his debts, or a reasonable portion thereof, have been paid.

Today most cases coming before the courts do not require a complete relief from all debts; most debtors could pay a significant portion of the debt.

What is needed is an amendment to act requiring that the degree of forgiveness adjudicated by the court be appropriate to the facts in the case being considered.

RThought: For an excellent discussion of this point, get the Spring 1981 issue of the *QUARTERLY REPORT* published by the Conference on Personal Finance Law, 111 Broadway, New York, NY 10006. \$2.50 should cover a single issue including handling. Subscriptions are \$5/yr.

HOORAY FOR LOWE'S

They have recently reclassified their expenses so as to include buying, warehousing and occupancy costs with Selling, General and Administrative. They sent out a complete restatement for the past three years, by quarters.

RT has always felt that retailers who grouped buying, warehousing and occupancy with cost of merchandise were intentionally withholding important information from their stockholders (although often discussing true gross margin—though perhaps not giving the figures—with those financial analysts who were friendly and pushed their stock).

There used to be an old principle that the owners ought to know as much as the insiders—and one of the things they are entitled to know is how the gross margin is affected during changing economic times.

Lowe's also introduced a new technique in presenting the impact of LIFO on their operations, using the following format:

	Fiscal 1980 Total Year (In Thousands)
NET SALES	\$883,614
Cost of Sales (FIFO)*	671,228
LIFO Charge	6,686
Cost of Sales (LIFO)	677,974
Gross Profit	\$205,640
Expenses:	
Selling, General Administrative	\$144,312
Depreciation	10,320
Employee Benefits	10,528
Interest Expense	4,203
TOTAL	\$169,363
Pre-Tax Earnings	\$ 36,277
Provision for Income Taxes	17,386
NET EARNINGS	\$ 18,891

**Supplemental Information*

RThought: Now the owners of Lowe's (25% is owned by employees) will, for the first time, have a better understanding of their company.

It is time for disclosure of true gross margin to become "generally accepted accounting procedures" for the retail industry. If the Big Eight accounting firms were not so gutless, they could accomplish this very simply. Unfortunately, as they

re-emphasize that they do not prepare the financial statements of the company but merely "review" those that are prepared by the company, they open the door for more and more concealment of key information.

Many accountants forget that, in most cases, they are elected by the shareholders at the annual meeting and are responsible to the shareholders. Even when elected by the directors, they forget that actions by the directors are supposed to be in fulfillment of the directors' primary obligation—to the shareholders.

IMPOSING ON THE RETAILER

RT continues the campaign to highlight poor reporting by trade publications that impose on the intelligence of the retailer or actually convey misinformation.

STORES July 1981: The major article was the analysis of the "Top 100 Stores." One presumes that the data was researched as indicated although one is inclined to assume that there is an error in reporting that Goudchaux in Baton Rouge does 70% more sales per square foot than Bloomingdales.

However, this article is not footnoted and thus one cannot compare apples with apples and oranges with oranges.

In the table headed "Some Performance Comparisons" and in the figures on square footage of the stores, this particularly stands out. For example, the annual reports of Allied Stores and Federated clearly state that store sizes are gross square footage; while Dayton-Hudson, in a desire to show better performance, reports square footage after deducting office, warehouse and vacant space (the latter would be largely the unused portion of the downtown Hudson store).

The table shows only Marshall Field as reporting gross margin after buying and occupancy expenses have been deducted, but the Allied and Federated annual reports clearly show that the figure published as "cost of sales" also includes buying and occupancy expenses.

Then the article has some simply absurd figures—in a table reported to have been excerpted from an article by Professor Emeritus Theodore D. Ellsworth of NYU (I suspect that he did not prepare the figures used). I have no fundamental objection to attempting to correct sales per square foot by using the Department of Commerce index of purchasing power based on the 1967 dollar (although all stores using LIFO know that a better price index is the one that relates only to department store type merchandise), **but I do have serious objection** when they try to compute the "sales per dollar of cost inventory" by converting only the sales figures to 1967 dollars **and not the inventory.**

Just think. In 1979 you got back \$2.88 in 1967 dollars for each dollar of inventory in 1979 dollars. (Can you show me a 1967 dollar?) I assume that at retail one must consider that one had about a 1.5 time turn on that basis. **Nuts.**

RThought: Retailers have a right to expect competent writing in trade publications, especially those published by a large trade association. Mr. Edward S. Dubbs, who is described as STORES' authority on compiling retail statistics, should be replaced with someone who understands retail statistics.

REDUCING RENT COST

Menswear Retailers of America puts out an excellent Business Newsletter for their members. It has a great many practical

ideas for men's stores, provides current information on sales trends, and generally stimulates store owners to do a better job.

In a recent issue they reported a small store taking the following action:

After arguing at length with the landlord over interpretation of our lease: whether rent paid based on sales was to include bankcard transactions before or after the discount was taken by the bank, we finally relented and paid the higher rent . . . with our Visa card. Needless to say, we got our point across.

WORDS EXPLAINING WHY WE OPERATE DISHONESTLY

RT is thankful to Dick Coplan, who publishes *The R.S.S. Furniture Digest* (P.O. Box 7567, Baltimore, MD 21207 \$30/yr). He started his June 1981 issue with the following quotation from "Hippolytus" written by Euripides, the Greek playwright, in 428 B.C.

PHAEDRA: "I do not think we suffer for any flaw of intellect—most of us have a mind able to see what is right. No, it is more like this; we know what we ought to do, our reason is still there to tell us. We simply do not do it . . . a failure of will, perhaps, or perhaps we value some pleasure more highly than our duty."

It was only a few years later (399 B.C.) that Socrates was charged with speaking and arguing against the common practices of Athens and was found guilty in these terms:

"Socrates is guilty of crime, first, for not worshipping the gods the city worships, and for introducing new divinities of his own; next, for corrupting the youth. The penalty due is death."

This is not the place to draw a parallel with the Moral Majority but to point out that Socrates had a "mind able to see what is right." He refused pleadings of his friends to repent or escape. He considered it the duty of every citizen to obey the law and so drank the hemlock. In "Phaedo" Plato is quoted as saying,

"Thus died the man who of all with whom we are acquainted was in death the noblest, in life the wisest and most just."

In the United States 2100 years later, Benedict Arnold was a traitor; while Nathan Hale, refusing to turn against his country, expressed himself just before being hanged:

"I only regret that I have but one life to lose for my country."

RThought: What Phaedra said is as true today as it was 2400 years ago. The General Electric Vice President who went to jail for illegally setting prices with his competitors saying, "I only did what my predecessors did," knew that he was doing wrong.

In retailing, Andrew Goodman, in keeping minutes of meetings at which Bergdorf Goodman, Saks Fifth Avenue and Bonwit Teller illegally set minimum gross margins, recorded that the other conspirators need not be concerned because no one would see the minutes. The minutes were disclosed when the government moved against the illegal conduct of the conspirators.

In retailing, it was true among all the famous name retailers who formerly stole credit balances from small customers to the extent of millions of dollars. Each participant in each subsidiary and in the parent company knew the nature of their act, that it was wrong, and that they desired "some pleasure more highly than our duty."

"The more things change, the more they remain the same."

—Alphonse Karr, 1849.



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CAN OUR ECONOMY SURVIVE—WHEN BUSINESS AND POLITICAL LEADERS DON'T UNDERSTAND NUMBERS?

I suspect that most businessmen, accountants, financial people and politicians do not have the slightest understanding of numbers. Yet each uses numbers as though the numbers are significant.

Almost any publication will publish any numbers that any writer puts down because the editorial staff is not capable of understanding the numbers.

Let's look at a few of the numbers that business uses and does not understand.

Every week the Federal Reserve Bank announces the size of the money supply and then the bond market plus the stock market shoots up or down. The magic figure is M1B. (I won't confuse you by explaining the difference between M1A and M1B and how the money market funds make both suspect.)

M1B is always reported to 4 significant figures—thus to the closest \$100 million dollars. With M1B in the range of \$400.0 billion dollars that implies an accuracy of plus or minus about 3/100ths of 1%! And how is M1B determined? It is a hodge-podge of weekly reports from some large banks (there are publicized cases of errors of as much as \$2 billion), monthly reports from medium size banks and quarterly reports from smaller banks.

I have a vision of the gnomes at the Fed pulling a daisy apart and saying, "The market up, the market down, the market up" to decide how they shall estimate the figures. Most weekly figures are later revised, often by a magnitude equal to the originally reported change. Periodically the entire base is reviewed and gradually adjusted to the truth—but this often comes years later.

The Federal Reserve Board has no moral right to issue money supply figures more often than monthly—but then one never looked at the Federal Reserve Board for moral leadership.

Next we have the monthly report of retail sales. I seldom see any caution expressed about the composition of the figure. The press, both trade and general, treat it as though it refers to store sales. How often have you seen someone caution that about a third of retail volume is auto, restaurant and service station sales? These sales often move in a different direction than store sales. These figures are also guesses based on reports from larger firms—a few years ago all figures were "revised" for about a 10-year period.

But there is an even more serious problem with another figure—the monthly and quarterly figures for the Gross National Product (GNP). These are seasonally adjusted figures.

CORRECTION

Even an editor's sister can get mad about something that was published. My sister did so when I mentioned her study of thalidomide as one reason for my heightened concern about protecting the consumer.

She asked (demanded?) several corrections.

1. The statement that the drug was released "in several countries without adequate tests" was correct. I was wrong in saying "those tests did not test the effect on the fetus in a pregnant woman." Tests are not made on pregnant women. A correct statement would be "no tests were conducted on pregnant animals for the effect on the fetus." However, when thalidomide was introduced, it was not customary to make such tests. Today it is obligatory in all drug-producing countries.
2. She said the correct description is "malformed" and not "deformed" and that the number should be thousands not hundreds since close to 4,000 are alive today.
3. The Food and Drug Administration never banned thalidomide—but repeatedly asked for additional information on the applications from two subsidiaries of Richardson-Merrell (not Merrill-Richardson) and ultimately the application was withdrawn after the facts came out elsewhere.

RThought: I don't believe that there are any doctors or medical scientists among RT's readers so perhaps most readers failed to grasp the errors. It demonstrates what happens when I wander too far from retailing and economics. On the other hand, you may have gotten more information on thalidomide as a result of this correction than you would have gotten as a stockholder in Richardson-Merrell.

Do you know what that means? In essence it means that the monthly or quarterly figures for a period of years have been averaged as a percentage of the yearly total and then that average percentage is used to determine what the annual total would be. They do this by dividing the percentage into the raw figure (which may not be accurate) to determine the annualized figure.

Retailers are in a perfect situation to experiment with seasonal figures—and some may be doing something in this area. Average your February sales as a percentage of the fiscal year, then the March sales, etc. Suppose you find that February sales range from 6% to 8%—(weather, up or down trend of business, promotion patterns, etc., can affect this figure) and you determine that the average for February is 7%. Now all

you have to do to find your annual sales for the fiscal year starting in February is divide the actual sales by .07—and you have it. But do you believe it?

You know the problem with the wandering Easter, the changing opening dates for school with its impact on your August and September, the date of Thanksgiving and the impact on your daily sales rate between Thanksgiving and Christmas—and on and on. Would you project your annual sales by using the seasonal pattern of the monthly sales in your business? I doubt it.

I analyzed the change in the components of the CPI for May 1981 against May 1980.

You may not understand how this is computed. Prices are collected on representative items in each category of expenditure for a “typical” family. Then the prices, using the pattern of consumer expenditures in 1967 (remember 1967?) are weighted according to the importance of that category in the expenditures of the “typical” consumer.

You probably don’t remember 1967—but with the price-changed weighting the index now applies the following weights to the following major portions of the CPI:

Food	18.309%
Housing	45.519
Apparel and Upkeep	4.854
Transportation	18.955
Medical Care	4.717
Entertainment	3.647
Other	3.999
Total	100.000%

By analyzing this weighting, it is possible to break down the increase in the CPI. This is how each component contributed to the 9.78% increase in prices from May 1980 to May 1981:

Food	1.74%
Housing	4.26
Apparel and Upkeep	.26
Transportation	2.47
Medical Care	.42
Entertainment	.26
Other	.37
Total	9.78%

Almost 44% of the increase was due to housing! And within the Housing component there is an item called “Finance, taxes, insurance” which produced 1.65% of the 9.78% increase—or 17%. Of course, very few people are buying houses these days because mortgage rates are too high—but the CPI assumes that they are doing it just like in 1967!

Why are the mortgage rates so high? Because the Federal Reserve Board is **increasing interest costs in order to bring the inflation rate down!** Why does the CPI give so much weight to the mortgage rates (taxes and insurance have not gone up significantly as the Proposition 13 fever spreads)? Because that is the way they established the CPI and they don’t know how to change it.

If you want to satisfy yourself that housing finance costs are too heavily weighted, poll your own employees and find out what percentage are paying a higher mortgage interest rate this year than last?

The increase in transportation costs represents more than a quarter of the increase. Yet people are not buying cars—so the

weight should be less. And the expenditures on gasoline are much less—as shown by the 40% drop in imported oil.

Despite this silliness in the CPI we do three other things with the figure. Two illustrate the lack of understanding of businessmen about the numbers they use. First, they write leases that call for a full CPI adjustment of rent even though the landlord will probably be paying the same (or lower) interest rate for the 25-year life of his mortgage. Second, we write this adjustment into wage and salary increases—and then give a “productivity factor” on top! The auto industry has been paying cost of living adjustments (it sounds more tasteful when it is called a COLA) and productivity increases for years. Now they complain about the lower Japanese labor cost per car.

But the third thing we do is convert the monthly CPI to an annualized basis. The CPI has a seasonal adjustment in it (car prices used to be lower at the end of the model year than at the beginning, fresh produce used to be lower during the summer than the winter, January and July are always clearance months so prices have to be adjusted, etc.).

What does that mean? If the government reported figure (again, always to 4 significant figures or an accuracy at the 270 level of plus or minus 4/100ths of 1%) goes up by .6 of 1%, the newspapers immediately compound the rate for 12 months and conclude that the inflation is now at a 7.4% rate. The headlines say “SINGLE DIGIT INFLATION.” Then next month the figure is at .8 of 1% increase which they compound to 10%, and the headlines read, “INFLATION JUMPS TO DOUBLE DIGITS.” The change from the corresponding figure a year ago can be more or less than the annualized rate.

Seldom does the announcement say that prices are 6.5% higher than the corresponding month ago—they always project the monthly rate (really an imprecise guesstimate using a questionable methodology) to the annual rate.

Now let’s look at the people in our society who are supposed to be experts in handling numbers—like the Big 8 accounting firms. Shouldn’t we have confidence in their compilation and reporting of figures? **The answer is NO.**

NOTICE: This is the first time that RT has challenged methods in this field. Accordingly the firm name is not used. In all future cases the name of the accounting or consulting firm will be used when statistics have been abused.

A cardinal rule of presenting statistics is that an answer cannot be more significant (accurate) than the least significant figure used in the data. To determine the number of significant figures one must disregard zeros between a number and the decimal point as shown in the table below from “Elements of Statistical Method” by Albert E. Waugh:

Number	Significant Figures
200.	1
20.	1
2.	1
.2	1
.02	1
.002	1
210.	2
217.352	6

Recently I read two analytical studies by the same Big 8 firm. In one case the sample size was between 750 and 800. Even when segmented, the smallest group was 300. Figures in the

WHO IS IN THE CATALOG BUSINESS?

Conventional retailers often talk about the days of electronic selling—interactive two-way closed circuit selling through community antenna and pay-TV setups.

Conventional retailers often talk about how they are studying the “future” of retailing.

It is my impression that outside of store retailing the fastest growth area is catalog selling—I now receive catalogs from more than 150 different catalog houses. I don't count in that total the Sears-Penney's-Wards-Spiegel-Alden catalogs, nor do I count the catalogs from local stores that bring more in-store response than mail-phone response.

There always have been some store retailers who had a significant catalog/mail-phone order activity such as Lane Bryant, Neiman-Marcus and Tiffany. Their catalogs are distributed beyond the market area of their individual stores.

Recently I studied the directory of mail order firms published by Chain Store Age because it showed the ownership of many of the catalogs I receive. Like others, I am led to believe that each catalog represents an individual entrepreneur concentrating in a particular area of merchandise. In fact, the catalogs go to great lengths to create that impression. Is there anything that you have ever seen in the L. L. Bean catalog that conveys the impression of a business approaching (or perhaps it has passed) \$150 million a year? Yet that is what we learn from the occasional article on catalog firms in the Wall Street Journal or Forbes. If publicly held, they would be a popular stock on the New York or American Stock Exchange.

I thought that I might find many conventional retailers in the catalog business—but I didn't. Sure, Brooks Brothers, part of Garfinkel, Brooks Bros. Miller & Rhoads (perhaps part of Allied Stores when you receive this) does a national catalog business. I was surprised to learn that Saks Fifth Avenue, son of BATUS, grandson of British American Tobacco, owns Linen Pavillion (est. sales-\$8 million). That ended the list.

Who are the big owners of catalog firms?

General Mills (NYSE) owns Bowers & Ruddy Gallery (coins), Eddie Bauer (sporting gear and apparel), Lee Wards Creative Crafts, The Talbots (classic clothing) and H. E. Harris (stamps and coins) representing something on the order of \$150-\$200 million in sales. MCA, who gives us movies and TV serials, owns Spencer Gifts (\$200 million). Quaker Oats, who gives us cereals and pet food, owns Herrscher (needlework) and Brookstone (hard-to-find tools and upgrade gifts) doing about \$50 million.

Must all your shoppers have shallow thoughts? That, apparently, is what the Taubman Company thinks. Despite the Supreme Court decision in *Robins v. Pruneyard Shopping Center* that says individuals may distribute leaflets and solicit signatures in shopping centers, Taubman's Hilltop Center in Richmond, California, barred them. Taubman's Vice President Paul Nelson argued that if shoppers think “deep thoughts” while wandering around a shopping center it would deter buying!

Southland Corporation helps clerks identify robbers by putting color coded tape on door frames of 7-Eleven stores—it helps them estimate the height of a robber leaving the store.

Harlequin Books, subsidiary of Torstar (Toronto Star holding company) traded on the Toronto and Montreal exchanges, owns Miles Kimball (\$40-\$50 million range). Parker Pen (NYSE) owns Norm Thompson, a West Coast L. L. Bean. Pitney Bowes (NYSE) owns Grayarc (printed labels) and Drawing Board (stationery supplies), probably at the \$100 million plus range.

American Can (NYSE) owns Butterick Fashions and Fingerhut (\$250 million plus). Beatrice Foods (NYSE) our largest “food company” owns Day-Timers. Bear Creek (OTC), which we think of as fancy fruits from Oregon, owns Shopping International. Franklin Mint (NYSE) owns Eastern Mountain Sports. Standex International (NYSE), a miniconglomerate with emphasis on high technology, owns Yield House (finished and kit furniture). Stuart McGuire (OTC) owns Hennikers, Leather Crest and International Gem Finders Society.

RThought: Why should one think that conventional store retailers will be able to capitalize on electronic selling in the future if they haven't been able to capitalize on catalog retailing in the present? There is no basic reason why electronic selling has to be done from a local store. With the high cost of preparing proper film presentation of merchandise, The Talbots could just as easily run advertising on all the cable systems and fill the orders the next day out of their operation in Hingham, Massachusetts, with more promptness and more accuracy, and with greater assurance of being in stock, than when the customer deals with the local department or specialty store.

RThought: There are many catalogs that I receive and have received for years that appear to me to be logical candidates for acquisition by conventional retail conglomerates. Up until now, daringness among the major retail conglomerates has consisted of having a discount chain—just imagine! (One did own and sell a catalog showroom and another has a piece of Comp-U-Card of America.)

RThought: In this day of concentrated interest on specialty retailers and the great search for small chains with a “concept” that can be replicated many times, the big retailers tend to overlook what the catalog retailers have learned. Catalog retailers are opening specialty stores based on their catalogs! Norm Thompson has 3, Eddie Bauer has 15. The Drawing Board is opening as the stationery store in major office buildings. Spencer Gifts has stores in the hundreds. Carroll Reed has 9 stores, Eastern Mountain Sports has 23, Yield House has 10, and The Talbots 15.

SHORT SHORTS

Unique pricing—there is something new under the sun. In a buffet-type restaurant the price of dinner is \$5.50 Monday through Thursday, \$5.75 on Friday, \$5.95 on Saturday and \$6.50 on Sunday. Children 2 to 12 are charged \$1.00 plus 25¢ per year. No food can be taken home and “Extra charges will be made for unnecessary waste of food—no exceptions!”

When considering a privately funded substitute for employee disability insurance, do not forget the penalty to employees who use itemized deductions. Such amounts deducted from their pay are treated in many states as nondeductible personal expenses. See Revenue Rulings starting with 81-191.

A STATISTICAL SUPPLEMENT

The trend in credit office performance is favorable—with the composite time for stores reported by reporters dropping from 5.9 days for April-May to 5.3 days for June-July and for stores reporting direct dropping from 3.2 days to 3.0 days. It is hard to recall that when RT first started collecting this information 5 days was so unique it was designated as "HONOR ROLL" performance.

HONOR ROLL

Waldoff	2.0	Gimbel's, Philadelphia	3.6
Mervyn's	2.1	B. Altman	4.0
Rubenstein's	2.3	Livingston Bros.	4.0
Bullock's, S. CA	2.7	Ross Stores	4.0
The Popular	3.0		

It is strange that Bullock's needs 2.7 days in Southern California and 8.0 days in Northern California.

CREDIT OFFICE RATING

Information From Reporters	JUNE-JULY 1981			APRIL-MAY 1981			Information From Stores	JUNE-JULY 1981			APRIL-MAY 1981		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	1	4.0	4	1	4.0	4	Gimbel's, Philadelphia	36	3.6	3-5	36	3.5	3-4
Bloomindale's (NY)	1	5.0	5	--	--	--	Levy Bros. (N. CA)	2	5.0	5	2	5.5	5-6
The Broadway (S. CA)	2	6.0	5-7	1	9.0	9	Mervyn's (N. CA)	30	2.1	2-4	15	2.1	2-3
Bullock's (S. CA)	3	2.7	2-4	2	3.0	2-4	The Popular, El Paso	8	3.0	2-7	11	3.2	2-4
Bullock's (N. CA)	1	8.0	8	3	6.7	6-7	Ross Stores (N. CA)	4	4.0	4	3	4.3	4-5
Emporium-Capwell (N. CA)	7	4.7	2-6	9	5.3	5-6	Routzahn & Sons, Frederick, MD	5	2.8	3-4	4	2.8	2-4
Finger's, Houston	1	6.0	6	--	--	--	Rubenstein's, Shreveport	6	2.3	2-3	6	2.7	2-3
Hastings (N. CA)	1	5.0	5	1	6.0	6	Waldoff's, Hattiesburg	1	2.0	2	1	4.0	4
Joskes of Texas	1	6.0	6	1	10.0	10							
Livingston Bros. (N. CA)	1	4.0	4	2	9.0	8-10	TOTAL	92	3.0	2-7	78	3.2	2-6
Macy's (N. CA)	11	4.5	3-7	2	4.5	4-5							
I. Magnin (N. CA)	8	6.1	4-15	6	4.2	3-5							
May Co. (S. CA)	1	5.0	5	2	5.0	5							
McCaulou's (N. CA)	1	6.0	6	--	--	--							
Montgomery Ward (N. CA)	3	4.7	4-6	2	4.0	4							
Neiman Marcus, Dallas	1	5.0	5	--	--	--							
Nordstrom's (S. CA)	1	7.0	7	2	6.5	6-7							
Penney's (N. CA)	3	6.7	6-7	2	8.0	6-10							
Penney's (S. CA)	1	6.0	6	--	--	--							
Sakowitz, Houston	1	6.0	6	1	5.0	5							
Saks 5th Ave. (NY)	1	8.0	8	1	7.0	7							
Sears (S. CA)	1	7.0	7	--	--	--							
Sears, Philadelphia	1	6.0	6	--	--	--							
Sears (N. CA)	3	5.3	5-6	6	6.8	5-10							
Wanamaker, Philadelphia	1	6.0	6	3	7.0	7							
Weinstock's (N. CA)	2	4.5	4-5	--	--	--							
TOTAL	59	5.3	2-15	47	5.9	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.

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

report were reported in even percentages such as 32%, 78%, etc. In a very limited number of cases the figures were reported in 3 significant figures such as 28.7%—but there were 3 significant figures in the basic data.

In general, the presentation was correct. Many tables showed categories with fewer than 100 (2 significant figures) within a subgroup of the 300 to 750. Those figures should have been reflected to the closest 2 significant figures—such as 48%.

In the other report from the same firm, there were fewer than 100 reports being analyzed. The number of reporting firms was published only once—and from there on all figures were in percentages. The most that could be in any breakdown would have 2 significant figures.

Thus all percentages should have been reported as even percentages such as 28%. That was not the case—the CPA firm apparently sought to create a false sense of accuracy by reporting 3 significant figures (such as 62.5% for 10 out of 16). In several cases fewer than 10 firms reported—or 1 significant figure. The report showed 2 or 3 significant numbers.

If you will just remember that 4 out of 7 can be represented as 57.1429%—and could be carried out even further—you will understand the foolishness of what was done. In correspondence and telephone conversations with the firm, they defended the report as statistically sound.

Magazines can do an even worse job of using numbers. I read a report in C-STORE BUSINESS.

It was headed “An extensive research project—the first of its kind anywhere—by C-STORE BUSINESS” and was headed “Gasoline and C-Stores: Who Sells What?” C-Stores, incidentally, are convenience stores of the 7-Eleven type.

The first table that really stopped me was the following:

Size of Companies in study: Number of C-Stores

No. of Stores	Refiners	Jobbers	C-Store Chains
250 or more units	50.0%	--	10.3%
100-249 units	--	3.5%	10.3%
50- 99 units	25.0%	10.3%	19.1%
25- 49 units	25.0%	24.1%	22.1%
Fewer than 25 units	--	62.1%	38.2%

A quick glance at the other tables showing “Refiners” revealed that all percentages were multiples of 25%—indicating only 4 refiners in the study. The use of percentages—especially shown to 3 places—was not statistically warranted and was, in fact, misleading.

I then wondered about the “Jobber” group and quickly concluded that there were 29 firms in the table below with the percentage relationship indicated:

No. of Stores	No. of Firms	% of Firms
100-249 units	1	3.448%
50- 99 units	3	10.345%
25- 49 units	7	24.138%
Fewer than 25 units	18	62.069%
Total	29	100.000%

In rounding the conventional way the total would have been 99.9% so they rounded 3.448% to 3.5% instead of 3.4% to make the column add to 100.0.

Thought: Just wait until everyone has a computer. Consider the junk numbers that will be thrown around by businessmen, CPAs, publications and politicians.

Our society will not fail because of lack of productivity or lack of technological leadership or crass materialism or massive non-participation in government. It will fail because society—private and public—is run on numbers and the people using numbers don’t have the slightest idea what they mean.

RThought: Many retail conventions ask economists to talk on where the economy is going. I have yet to hear one tell the audience about the inaccuracies in the data on which they base their talk. Yet not one of the retailers would give his clerks an elastic tape measure to measure goods for customers.

The retailers listen, often don’t understand what is said (although they may understand the ordinary usage of each word) and leave accepting the speaker’s conclusion.

RThought: What is needed today is a seminar on “The Meaning, Use and Abuse of Numbers”—it would be popular.

SINKING THE FLOAT

The days of covering the 10th of the month checks on the 17th or 18th may be disappearing fast. In August the Federal Reserve started charging for clearing checks—and that immediately brought competition.

First Tennessee Bank in Memphis started First Express which will service banks with overnight delivery of checks via, of course, Federal Express which just happens to use Memphis as their operating base. First Express offers banks increased availability of funds (the reciprocal of check issuers having to cover faster), more reliable transportation (Federal Express planes are bigger and more numerous than the Federal Reserve fleet) and lower overall costs.

RThought: You better have more credit available than before when sending out checks on the 10th.

WILL EXPANSION BE TAXED?

The Reagan Administration wants to stimulate the growth of the economy; and although they speak in terms of new factories and new machinery, that should also include new stores and new banks to serve a growing population. This suffered a setback recently in a case in the Fourth Circuit Court (Maryland, Virginia, North Carolina and South Carolina).

The court decision in the case of NCNB Corp. v. U.S. 6/18/81 (CA4) involved the expansion plans of the North Carolina National Bank. Banks, except for the process of obtaining permission to open branches, go through the same type of studies as retailers—location studies, growth studies of cities and areas, estimated income and costs including the impact of a new branch on the operation of an old bank.

Retailers routinely charge off these expenses as incurred even though the stores to be opened as a result of the study might be 3, 4 or even 5 years in the future. It is generally considered to be an “ordinary and necessary expense” of running a bank or retail organization.

The IRS and the Fourth Circuit saw it differently. The Court held that to arrive at correct net income the bank should “reduce gross revenues for the year by the costs of producing those revenues.” Their logic was that a 1933 Supreme Court decision saying that expenditures made to build one’s standing or credit rating was a capital expenditure that provided benefits in the future even though it created no tangible property. In 1971 the Supreme Court said that the fact of a future benefit was not the sole factor to consider.

The Internal Revenue Code was changed in 1980 to provide that a corporation could write off startup expenses over 60 months if such costs were related to the expansion of the business. The Fourth Circuit argued that expenses related to future growth are not ordinary and necessary expenses for the production of income in the year in which incurred and thus would not fall within the 1980 amendment.

RThought: One often wonders where the IRS agents get their ideas—and why their supervisors permit the issues to go to trial. One of my clients was challenged on a similar basis some years ago for what we called “pre-opening expenses”—the cost of recruiting and training the original staff, setting up and stocking fixtures and opening charge accounts in the area of the new store. The IRS agent maintained that these were not ordinary and necessary costs for **running** a store. We argued that we were in three businesses: running existing stores, selling merchandise on credit and opening new stores. The latter involved a substantial part of the efforts of the company. The matter was subsequently dropped in negotiations—but apparently that agent moved back to the Fourth Circuit area.

PAUL BORMAN SPEAKS OUT

Supermarket News (July 20) reported the remarks of Paul Borman, President of Borman's Inc. of Detroit, to suppliers and vendors attending a luncheon to celebrate Borman's first \$1 billion year. Borman joined Israel Cohen of Giant Food in openly discussing the unethical and often illegal conduct of suppliers in their distribution of goods. Not only does it work against the consumer, but it can ultimately destroy the smaller firms in the distribution system—to the even greater detriment of the consumer and society.

Mr. Borman attacked several common practices. First, he challenged the basic pricing system involving cuts in margins to cover discounting and incentive programs. When goods do not move fast enough (often because of the high price) quantities are distributed under “incentives” in only a part of the country. This produces diverters who then make a profit by moving the goods back into areas not included in the original incentive program.

Those stores that patronize diverters thus gain a price advantage over their competitors—and often the users are the big outlets getting advantages over the small outlets.

Then Mr. Borman attacked the special incentives given to non-food retailers. If one visits a Longs Drug Store and watches the checkout, it is hard, on the day after their tabloid breaks, to convince one's self that it is not a food store. Longs does about 10% of their volume in food, not counting candy. They use high margin food items as leaders to bring in traffic for their non-food items.

RThought: Keep it up, Paul Borman. Perhaps more retailers will start talking out about improper trade practices.

HAROLD S. LARKIN READ A BOOK

If the name Harold S. Larkin doesn't ring a bell and the name **Modern Retailer** has no meaning, then you might skip to the next item. But for those in discounting who remember Harold, who knew his publication and who watched as he moved around with almost zero vision, the headline should bring a warm feeling.

For many years Harold reported on the discount industry but ultimately surrendered to the broader coverage of **Discount Store News** and **Discount Merchandiser**. He was a friend of practically every one of the discounter pioneers in New England.

When he wrote to me recently in response to my illness, his letter had a line that read, “It is only recently that an eye operation has returned a considerable amount of vision.”

It is more than considerable. He can see the ball in a basketball game and even in a softball game. He has read his first book in 12 years, and his publishing/trade show business is booming with 6 magazines and 6 trade shows a year.

RThought: Often we are just too busy to write to old friends—but Harold is at 210 Boylston, Newton, MA 02158.

EUREKA! I HAVE FOUND IT!

The heading above is redundant—Eureka! the California State Motto, means “I have found it.”

I have found something that I have pleaded for lo these many years, most recently in the June 1981 RT under “Montgomery Wards Uncovers Old Truth.”

For the second time in my 45 years of paying bills someone has thanked me for the way I handle my account. Frankly, I am rather proud of the way I pay my accounts and it hurts that no one seems to notice. It is true that at times, because of travel or carelessness or uneven cash flow, I have failed to pay every balance in full each month. A 5- or 6-week trip can cause problems. But if every person paid the way I do, there would be no collection departments, no reserves for bad debt and no concern about the misuse of credit.

The first person who acknowledged this to me was a druggist by the name of Ted Murphy (he operated a small 15' front pharmacy). One day he said to me, “Bob, I've been meaning to tell you how much I appreciate the way you pay your bill.”

The second was a company somewhat larger—EXXON. When I received my new credit cards, there was an attractive blue-bordered card that said **Thank You**. When I opened it, this is what it said:

“EXXON

‘Thank you’

You're the kind of customer Exxon is proud to have. We appreciate the fine manner in which you've maintained your account.

Sincerely,
(Signature)

R. C. Kiddoo
Vice President, Marketing”

RThought: Isn't it interesting that the largest corporation in the world can notice how I pay my account—but Macy's, Emporium-Capwells, Mervyn's, Sears, McCaulou's, Penney's, Little Daisy, Ace Hardware, Pool Tech, Shell Oil, Standard Oil, Bill's Drugs, Shreve's, Bullock's, I Magnin and all the others have never noticed?

I talked with Exxon about their standard. They send the card every two or three years when renewing credit cards. If an account has fewer than **two months per year** of not paying in full, a card is sent. This was my first renewal. The program has been under way for several years.



RETAILING TODAY

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ROUTE TO

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REACTION TO "EUREKA! I HAVE FOUND IT!"

One reader sent an observation: "I have never been behind with my Exxon bill, but I have never received the 'Thank You' letter, either. Does RK pay in gold, maybe?"

The other was more pertinent—from Dan Cooper at Peat Marwick Mitchell in NYC, who sent a copy of his bill from Consolidated Edison. Across the bottom it says, "We very much appreciate customers like you who pay bills on time." Dan observed, "With computerized receivable systems which many retailers have, it doesn't even take a staffer to thank customers for paying on time. You can program it. Con Ed does it and they have no competition. Retailers have many competitors and don't do it."

IS SEARS ROEBUCK STILL A RETAILER?

Sears, starting with September 1981, will be reporting their sales on a calendar quarter basis instead of the customary retail quarters. They have indicated that the change is based on putting all companies on the same fiscal year so that a consolidated tax return can be filed and the losses of one company can be offset against another.

RThought: None of the financial analysts that I have read have pointed out that Sears' fiscal year ending December 1981 will not contain a period of heavy January markdowns. January is normally a loss month with major retailers. Those with inventory problems have excessive losses as they try to convert leftover fall merchandise into dollars.

This is a one-time boost for Sears—perhaps something that Sears' management needs as the declining profits of Allstate about offset the improvement in retailing profits.

RThought: The recently announced acquisition of Coldwell Banker, the largest real estate firm, is another step away from retailing. Stop Press: Purchase of Dean Witter Reynolds with depreciation money from retail stores confirms this move.

ABUSE OF NUMBERS

On September 30, 1981 the Associated Press ran an article that said the Wharton Econometric Forecast had made a 3-year projection based on Reagan programs enacted and announced and had reached the following conclusions:

1. Forecasted real growth (this means constant dollars) for 1982 of 2.78% and for 1983 of 3.74%.
2. Predicted inflation would stay "about 8.5%" for the next several quarters and then "drop below 7%" in the second quarter 1983.
3. Tax cuts would reduce growth in federal revenues from 7.2% in 1982 to 6.4% in 1983.

THE CAPITALISTIC SYSTEM

One of my favorite magazines is **Business Horizons** published by the Graduate School of Business, Indiana University. One of the key reasons is "The Editor's Chair" column by Harvey C. Bunke. The Sep./Oct. 1981 (\$3, Bloomington, IN 47405) column was headed "Anti-Business Sentiments and the Intellectual Community."

His thoughts were provoked when he was a Visiting Fellow at Oxford University. In Blackwell's famous book store he noted that there were many books on economics devoted to Marx, Marxism, Communism and the Soviet system but few on capitalism. Just then the story broke about Sir Anthony Wedgewood Blunt, who had been a Soviet spy against his own country during World War II. When asked why, he said he was enchanted by the idealism of Marxism with its promise of a pristine orderly world devoid of misery and with men living in peace, harmony and dignity.

Mr. Bunke points out this appeal to intellectuals. It is furthered by television which so often dramatizes the deficiencies of our free enterprise system and, until one or two recent programs, TV made no effort to explain the real working of our system.

Mr. Bunke's writings took my thoughts in a different direction. I suddenly realized that part of the problem is that the product is misnamed. Socialism appeals to the masses—we live as social beings and should have a socialism system. Even commune, from which Communism comes, has a broad appeal of good feeling.

But the Capitalistic System just mentions one of the three equally important elements in the system—capital, labor and land. It could just have easily been called the Laboristic System or the Landistic System, both of which would have been identified with a larger portion of the participants.

The capitalists of the Capitalistic System are relatively few. Those who are capitalists through pension plans or moderate investments or savings do not think of themselves as other than part of the working force—that is, part of labor.

What would have happened if Adam Smith had called his answer to mercantilism the "Opportunity System"—highlighting through the name its most appealing feature? I leave that to your thoughts—which I hope I have stimulated.

Let's look at these figures that were published in hundreds of newspapers, without question, and accepted by millions of readers, without question.

Determining the value of a constant dollar is, at best, a haphazard thing. There are a variety of ways of doing this (cost of living indices, Gross National Product [GNP] deflator, wholesale price index, etc.), none of which are universally accepted as accurate. The reported gross national product in current dollars is not accurate within 1%. In constant dollars it is less accurate. And Wharton is predicting the change in the GNP within 1/100th of 1%!!

When predicting inflation, which is an inherent part of predicting the change in the GNP, the figure offered is accurate to only 1/2 of 1%!

As to the reduced rate of increase in federal revenues, this depends on many factors that cannot be predicted. For example, banner wheat and corn crops, which are controlled by the weather, may boost farm income and taxes paid; changes in the relative values of foreign currency are often a result of a decision by the other government rather than ours and can affect imports and exports thus impacting custom duty income, corporate profits and taxes and total employment; and changes in Federal Reserve Board policies can run car and house sales up or down like a yo-yo (especially if Mr. Volcker decides he wants a Republican House of Representatives and stimulates the economy during the fall 1982 Congressional campaigns).

RThought: If Wharton Econometric Forecast was a responsible organization, recognizing the ready access they have to the Associated Press and other news-disseminating organizations staffed by writers rather than statisticians, they would say something like "We think real growth in 1982 will be about 3% and in 1983 about 4%." Of course, AP might not print that and future revenues of Wharton Econometric Forecasts depend upon getting this free publicity.

RThought: The trustees of University of Pennsylvania should seriously review whether they want to permit the use of the name of their Wharton School of Finance in conjunction with fraudulent dissemination of information. If the people involved in these forecasts want to continue such work, they should do it under their own name and not do it so as to reflect unfavorably on the University.

WILL YOUR POST OFFICE ACCEPT PRE-SORT MAIL ON SATURDAY?

Mervyn's, a part of Dayton-Hudson, mails about 1.5 million pre-sort charge account statements a month through the Hayward (California) Post Office. They were recently advised that effective immediately the office would not accept pre-sort mail on Saturdays because it "does not have the budget."

David Hogue, Director of Accounts Receivable, contacted the Western Region Office expressing his surprise that they could not accept pre-sorted mail with proper postage already applied. He pointed out that their mailing service, used for more than four years, had never had a pre-sort shipment refused or returned because of an error. He pointed out the alternative—deliver 100,000 pieces of unsorted first class mail on 2 or 3 Saturdays a month. He asked if the Postal Service would really save money.

Two days after mailing the lesson in logic, Mervyn's was notified by the Hayward Post Office that it had authority (they said the only post office in the United States granted such authority) to accept pre-sorted mail on Saturday.

RThought: Mervyn's has passed this information on to RT to help provide other retailers with a precedent.

DOES THIS FIT YOUR COMPANY?

The article started this way:

If it is true that 90% of home appliance retailers do not know what the word strategy means and therefore do not have one by which to trade, they may have to find out fast and devise one.

That 90% is Doug Condon's guesstimate of the number of dealers who do not know what they are doing and why, do not know what business they are in, do not have a positive plan of action, do not know what the people in their area think about their stores.

It is my impression that 90% or more of the retail firms in the country, including some very large publicly owned companies, do not know who their customer is. If they do know, that customer is a result of the customer's action and choice—the customer came to the store because of what the store did on a traditional basis and not because the management consciously sought out that customer.

If the store does know who their customer is, they do not know the demographics of that customer, especially whether the customer represents a declining market (non-working wives) or an expanding market (senior citizens), even though much of that information can be obtained for a few dollars a year from the United States government.

If they did obtain it, it may be filed without reading. If it is read, it is often misunderstood because retailers are not notorious for understanding statistics (see RT September 1981 "Can Our Economy Survive—When Business and Political Leaders Do Not Understand Numbers").

Oh, yes. The publication in which the above statement appeared was RETAIL NEWS, the Official Organ of the New Zealand Retailers' Federation. The more we look, the more retailing is the same around the world.

CATERING TO THE DRUG HABIT

I think I have detected the basis on which food store management determines whether they will cater to the needs of the dope users in our society. It depends upon whether or not their market share is increasing or declining.

Southland has a compounded growth rate for the past five years of about 22%. Safeway's growth rate has been a bit under 10%.

In 1979 Jere Thompson, President of Southland, explained his decision to discontinue the sale of cigarette papers with this statement:

"I don't believe people use them to roll cigarettes—and if there are any that do, it's less than 1%. And that's not what convenience stores are for—that smaller clientele. It's my personal decision, and I'm going to stick to it."

But Safeway is willing to cater to the dope trade—there are Zig-Zag papers as an impulse item at the registers in a 30,000 sq. ft. Safeway in the middle to upper income area in which I live. I have never seen a single person in my hometown roll a cigarette—out of tobacco. There were 3 full boxes of Zig-Zag papers the last time I went through the line.

RThought: I know that Safeway is trying to regain market share and has become much sharper on pricing. But do they really need that cigarette paper business? And can they close their eyes to why people buy cigarette papers?

THE FINANCES OF BUYING A LEGISLATURE

California is the largest state in the Union with about 10% of the population. It requires full disclosure of campaign finances under the Fair Political Practices Act.

The Commission under that Act has recently issued a report detailing the source of financial contributions to the 191 candidates of major political parties who ran in 1980 for the 20 State Senate and the 80 State Assembly seats open that year (in 9 districts the incumbent was so strong that the other party did not run a candidate against him).

State Senators serve for 4 years and Assemblymen for 2 years.

The table below shows the source their funds divided into (1) reportable funds (contributions of \$100 or more) broken down by sources inside or outside the district and (2) non-reportable funds (contributions of less than \$100). The total was \$15,337,666 or an average of slightly more than \$80,000 per candidate—running for offices that pay under \$30,000 a year plus a car, car expenses, liberal retirement and other fringes.

Source of Contributions for 1980 Candidates
for California Legislature

	Outside District	Inside District	Total
Political Action Committees	38.8%	2.1%	40.9%
Business Entities	11.0	7.7	18.7
Political Organizations	6.9	1.4	8.3
Transfer from Other			
Candidates and Elected			
Officials*	9.5	0.3	9.8
Individuals	2.8	10.0	12.8
Total Itemized	69.0%	21.5%	90.5%
Under \$100—Not Itemized			9.5%
TOTAL			100.0%

* This figure is higher than usual because there was a fight between two candidates in the same party for the Speakership of the Assembly. Each raised large amounts of money which they transferred to other candidates that would support them for Speaker. To this extent the total "raised" is overstated by this duplication.

RThought: This is where democracy in the United States is headed. Sold to the highest bidder.

In California it is legal for corporations to contribute to candidates. Retailing was well represented among the "business entities" that "contributed" to candidates outside the district in which the retailer was headquartered or in which it had retail stores.

They did not contribute because the candidates were smart or carefully analyzed issues facing the state or attempted to represent the people in their district. They contributed

because those candidates tended to or promised to vote favorably on bills that would financially benefit retailers—not retail customers or retail employees or the growth of competition among retail firms in a free enterprise system but legislation that would improve the profits of retail firms.

It wasn't just the retailers that did this—it was the farmers and the manufacturers and the miners and the oil industry and the travel agencies, both as individual businesses and through Political Action Committees (PACs).

Many contributed because a candidate promised to vote as they wished on a single issue whether it be abortion or hardline justice or protecting the coastal and other environmental areas of the state.

This, in truth, is the money-driven form of government that we try to sell to the rest of the world as the "true democracy that has lasted longer than any other independent government."

I know of no such contributions to John Adams or Thomas Jefferson. George Washington was, of course, elected like 9 of our legislators—without opposition.

RThought: My dictionary defines democracy as "1. government by the people, either directly or through elected representatives; rule by the ruled. 2. a country, state, community, etc. with such a government. 3. majority rule. 4. the acceptance and practice of the principle of equality of rights, opportunity and treatment; lack of snobbery: as, there is real democracy in this school. 5. the common people."

We really don't believe in this.

We believe in getting the most for ourselves. A smaller and smaller percentage of our people, particularly those fortunate enough to have the benefits of higher education, ever think of democracy or are concerned about "government by the people." They are more concerned about the accumulation of wealth and using wealth already accumulated to bend the government for their own benefit.

The figures in the table show it. None of the 40.9% of the money from PACs or the 18.7% from business enterprises or 8.3% from political organizations or 9.8% transferred from other candidates or officials (this totals 77.7% of the money used by candidates to seek election) has any concept of democracy behind the contribution.

I don't know about the 12.8% from individuals or the 9.5% non-itemized, but my limited knowledge of donors is that few are driven by any desire to preserve and improve our democracy.

SHORT SHORTS

Does Macy's carry shoes? Macys California is using a weekly 40-page slick magazine insert (the texture of a Parade or Family Magazine) covering practically all departments. In a recent ad for Jordache jeans and tops (young men, boys, big boys) one model is wearing "Sprouts" athletic shoes—the private label of the Athletic Shoe Factory, started by the founder of Pic-A-Dilly. Will Macy's someday carry boys athletic shoes?

Can you do \$2 million a year without registers, clerks or vending machines? Westgate Systems in Eau Claire, Wisconsin does it through their Honor Shoppes. In firms employing fewer than 50 people they provide coffee break items. A coin box is provided with each tray and people make their own change. This eliminates \$800-\$3,000 in vending machines. Loss rate is about 16%, less than the allowance figured into the cost. They now have 7 franchises!

A FEATURE REPORT

HOW DOES FREE ENTERPRISE WORK IN A HIGH TECHNOLOGY WORLD?

I ask that as a question—because I do not know the answer.

The theory of free enterprise working for the good of everyone by letting the market make the decisions is predicated on the assumption of knowledgeable buyers and knowledgeable sellers. If a seller puts out a good product, buyers will flock to him if his price is the same as that of a poor product—or if the price differential is less than the perceived benefits of the superior product.

On the other hand if the product is not good—then, according to the natural selection process, the free enterprise system argues that “the producer of inferior products will be driven from the market.”

But will they?

In a population of 222 million people who buy many products only once, a company selling a \$25 product that is worthless—although described as a world-shaking technological breakthrough—can develop a \$50-million-a-year business with sales to 1% of the population. And the company can do this every year for generations as long as the life expectancy of the population stays under 100 years.

In fact, there are a few of these companies in our economic system today although I doubt any have reached \$50 million per year.

I have seen essentially the same “gasoline savers” advertised in Popular Mechanics, Popular Science or Modern Mechanix for the 50 plus years that I have been reading each. Apparently the firms make enough profit to stay alive after paying for full-page ads. And they apparently sell their product despite the fact that the three magazines periodically report on tests they or others have conducted that show the gasoline savings are marginal or non-existent.

With the rise in the cost of electricity new types of savers have come along that claim they will save hundreds of dollars every

year doing things like reducing the electricity demanded by an electric motor when it is not working at full load (remember that Exxon was going to save us 1 million barrels of oil a day with a device developed by Reliance Electric—and now abandoned) or by eliminating random “waves” in the cycle pattern.

Consumer New\$weekly (National Press Building, Suite 813, Washington, DC 20045 \$25/yr.) summarized from the General Accounting Office Report their finding on most energy-saving devices:

“Sellers generally are not responsive to consumer requests for information to support questionable claims;

“Data supplied by sellers to support claims are often inaccurate, not relevant or highly technical and therefore difficult to understand or evaluate; and

“Consumers often cannot learn through experience and switch to more effective products because energy savings are not measurable and purchases are often costly and made infrequently.”

RThought: I challenge the top executives of retailing to evaluate whether an energy-saving device that reduces electricity used by their own refrigerator or air conditioner actually saves energy. And if it does reduce the use of electricity, can they tell whether it does so in a manner that shortens the life of the appliance?

Will ceiling fans normally save on heating bills? Will coating on windows usually save on heating in the winter and cooling in the summer? Can you save significant money by recovering heat from the flue of your fireplace? Will a wood-burning stove save you money? What is the payout on a solar hot water heater and in what climates (and with what trees or mountains around your residence)?

RThought: Retailers who carry such devices and repeat such claims in their ads may sell a few while creating doubts in the minds of a larger number of potential or current customers.

SHORT SHORTS

Citibank into cloud seeding? One RT reader, in response to the analysis by RT of the limited flights into Citibank's new bankcard center in Sioux Falls, South Dakota and the winter weather problems (all of which will increase average balances and late charges) observes, “Do you suppose Citibank will try cloud seeding to be certain Sioux Falls is soaked in every day in the winter?”

It is easy to tell where convenience stores flourish. Convenience Store News recently published a directory and there were 9 columns of firms in Texas, 5 in Florida, 4 in Georgia, 3½ in Tennessee, 3 in North Carolina—and finally we get out of the South with 3 in Pennsylvania. It is surprising how many parent firms now have “Oil” in their name—there goes your corner gas station and the good mechanic you thought you had.

Montgomery Ward is the only retailer I know that has a standardized format for announcing errors in their ads. I see it in local papers and when I travel. Most other retailers get the ad right the first time.

The simplicity of computer identification. I received a statement for auto insurance from one of the largest insurers in the country—and they had a series of 60 numbers across the bottom of the return portion—I guess to identify me. As I deciphered it, 30 numbers were repeated twice and 26 numbers were shown elsewhere on the return portion.

Public admission of incompetence—by Dun & Bradstreet. On renewal of OAG Pocket Edition for December 1981–November 1982, the invoice states, “Your remittance must be received by Oct. 27th in order to insure uninterrupted service on your subscription.” This is not consistent with their constant bragging about computerization of their company.

THE "NOT FOR THEM" GENERATION

We have a habit of confusing the meaning of the word "generation" (a period of time of about 30 years between the birth of one generation and that of another) and the word "decade" (a period of 10 years).

Thus we called the 1960s the "drop out generation" and the 1970s the "Me generation."

Continuing that abuse of the normal meaning of words (called poetic license), I believe that the 1980s will be the "Not-for-them generation."

During the 1970s we saw an increased concentration on materialism. Selfishness (wanting to spend all the money on the earners) was a major part of the declining birth rate. Not only do children require attention and place responsibilities on parents but they divert some of the family income from the "Me" people who earn it.

That culminated in the election of President Reagan, who promised everything to the "Me generation"—lower income tax rates, lower capital gains rates, reduced corporate tax rates, cutting the budget (presumably to balance it—although I note that Mr. Reagan emulated Mr. Carter in promising a balanced budget only in the last year of his term) with massive increases in defense spending to protect the "Me generation" from outsiders who are "have-nots" and might want some of that materialism.

In order to produce all of these goodies for the "haves" of the "Me generation" someone had to be cut—and that, of course, was the poor. I have even heard some of the "Me generation" suggest that this is OK because the poor never had anything anyway!

President Reagan promised a safety net—but as is the case with most political promises, he was not very precise. I think the aged, the poor, the handicapped, the hungry children and others presume that the mesh might be small enough to provide safety for someone as small as a child. Few envisioned that the mesh would be so coarse that aged couples, holding onto each other, would fall through—and not even be able to grab a rope.

As I listen to the "Me generation" around me, they seem to applaud the move—sort of a Robin Hood policy of taking from the poor to give to the rich. They strongly believe in "Not for Them."

RThought: Retail executives will share in some of the special goodies such as the favorable treatment of stock options—and some will count their millions of capital gains as they try to hold retail wages at the legal minimum (below the poverty level). This will, of course, be good business—for the "Me generation." In the meantime they spend more time passing on price increases, also considered good business. The "keystone margin" is giving way to what John Praeger calls the "flint stone margin."

Few remain who think they were put on earth for anything other than self-indulgence.

ELECTRONIC RETAILING

On September 30, 1981 the Wall Street Journal published a study of the Qube interactive-active cable TV system operated by Warner Amex Cable Communications in Columbus, Ohio.

Retail pundits who make headlines by predicting that the future of retail shopping is through interactive systems, selecting from catalogs at home or responding to direct advertising from their arm chair, are never people who live in Columbus and use the system.

Like all prophets, those furthest from Columbus talk most about it as the system of the future.

In January 1981, I listened to a presentation on Qube at the Retail Research Society in New York. Not once was any mention made of the conclusion that the Wall Street Journal reporter reached—the most profitable of 6 pay-per-view channels (grossing more than the other 5 combined) was the one that brought dirty movies into the home for private viewing. In fact, housewives objected to billings listing viewing dates and times which thus disclosed what the housewife was watching.

RThought: A Qube representative observed, "Raising expectations too high is a legitimate complaint." They were helped by articles written in the 1960s that predicted every home would have one within a decade—the common range of projection. The same articles are still appearing, sometimes by the same authors, still forecasting the arrival within a decade.

I have concluded that forecasts for 10 years ahead are made feeling that most people forget them—except me.

A MISSING RETAIL CUSTOM

I was in San Diego one day in September and, as always, was reading the local papers. The following 3 column x 5" boxed ad caught my eye:

*In Fond Memory
of
PAUL H. HOWARD
Advertising and Promotion
Director
of the
WALKER SCOTT
COMPANY
For the past 24 years*

RThought: The San Diego Union was thoughtful enough to place the ad at the lower right-hand corner of a page with no other ads on it. But the important thing is that the management was thoughtful enough to run the ad.

George Scott is no longer active in Walker Scott and Doug Dicker and his associates bought control because they thought they could make the store more profitable. Apparently Doug also brought with him the standards of a responsible small town retailer—standards he learned in his family's business in Redding, California.

CHAIN STORE AGE ACCURACY

The August 1981 Executive Edition professed to report on LIFO under the headline "Retailers, IRS face off on LIFO changes" by John Friedman.

It contains the following sentence as an explanation of LIFO: "If, say, a retailer pays \$1 for an item but it costs \$2 to replace, he can carry it on his books under the LIFO system for \$2." **Just exactly backwards.** The sentence describes FIFO.

RThought: LIFO has been around retailing for a long time. Macy's tried to file on LIFO using an index at the start of World War II—and then fought the case through the courts. That was 40 years ago. Retailing is entitled to have a business press whose writers either understand LIFO or don't write about LIFO—and editors who know enough to protect the reader.

HAVE YOU VISITED AUSTRALIA TO SEE HOW COLES DOES IT?

I am always amused that so many Australians visit the United States regularly to find out how they can improve their operation. I have never known of a United States retailer going to Australia for that purpose.

Would you go if you knew there was a retailer there who is doing the equivalent of \$60 billion in the U.S.?

G. J. Coles and Coy Ltd. just reported their sales for the year ending July 26 at \$3,240 million. Of course, that is in Australian dollars which cost us \$1.15 each—so in U.S. dollars it would be \$3,726 million.

But then Australia has only about 14 million people against our 222 million—so one must multiply that by 16 which means \$59,616 million. Let's call it \$60 billion.

They operate variety stores that look like the old-fashioned Woolworth stores (the Woolworth Stores in Australia look like something else). Their big growth has been in K mart stores, originally a joint venture with the U.S. K mart, but the U.S. K mart was smart enough to trade their half interest for something over 20% of the total Coles company.

SHORT SHORTS

Nonsequiters: Giant Food, Inc. said in their second quarter report, when they experienced their second quarterly loss in 45 years, "The 15.6% sales gain over the prior year was in line with Giant's expectations when it cut prices April 5, 1981. Subsequent to that date, however, earnings were adversely affected by a wave of competitive price cutting in the Washington and Baltimore markets." Did Giant really believe that the competition (Safeway, A&P, Greenbelt, etc.) would roll over and play dead letting Giant get their 15.6% increase?

Inventory shortage—and how it happens. Only in supermarkets are the cashiers really set up to make a price check on items that are not marked or where the customer questions the price. In most other stores at which I shop, including those on retail method, the clerk almost always rings the lower price—I presume "to please the customer." Recently I bought a small stepladder in Simon's, a major hardware-DIY store. When I got to the checkout, the cashier saw a price ticket on her side at \$69.95; and on the side I was looking, I saw \$25.99. I said, "If it is \$69.95, I don't want to buy it. Can you check the price?" She immediately said, "I'll ring it at \$25.99."

RThought: I am ashamed to mention Simon's because I am on their Board of Directors. The clerk didn't know whether or not she was creating a \$44 shortage—and didn't particularly care. I was the one who went to the very back of the store after the sale was rung and checked the price. The price on the display model was \$25.99. Had it been \$69.95 I would have had the sale voided and would not have taken the stepladder. But not too many customers will do this. (When we put it in the kitchen to replace a badly beat up, non-anodized ladder of the same size, I noted the price tag was still on the old one—\$4.99 at a promotional drug store many years ago.)

When does something "free" cost \$1.89? When it comes from Texaco. A reader sent a mailing, non-personalized, offering a GENUINE OPAL OR TIGER EYE STICKPIN FREE ... because it was such "a pleasure to do business with a loyal customer like yourself ..." The offer is replete with non-val words like "lovely gold tone." To get this FREE GIFT, just send "\$1.89 to pay postage, ordering processing and handling." One is reminded that the personally delivered free peanuts on airplanes cost the airlines under 10¢ a package.

How can women's apparel ever be sold by TV when a print catalog can't straighten out sizes? On one page of the Serendipity catalog "small" means 4 to 6, "medium" 8 to 10 and "large" 10 to 12. A few pages away petite is 6 to 8 (larger than small!), small is 10, medium is 12 and large is 14 to 16!

Competition in the free market—as soon as one major retailer raises their finance charge from 1.5% a month to 1.6% another one raises. I can hear them saying, "Competition made me do it." Perhaps the day will come when some retailer will handle finance charges like other things he sells—and have a post-Christmas sale where everything bought in January will carry a finance charge of 1.1%. Imagine! 31% off 1.6%!

Is the last grand BTS Sale coming? Between 1970 and 1980 the enrollment in schools dropped 19%—from 3.9 million to 27.4 million. And during that period the discount stores took much of the department and specialty store children's business.

WORDS FROM MY OWN WALLET

In February 1951 the Air Depot Wing in which I commanded the Technical Supply Squadron was called to active duty. As the top rated unit of 11 such wings throughout the United States, we were one of 2 that remained as a unit and later were sent to Morocco to open a depot.

As 200 civilians were sworn into active duty (in most cases, again) it seemed appropriate to provide each man with a T.S. card. This wallet-size card has squares around the perimeter where the First Sergeant can punch it on appropriate occasions. There are such slogans as "Too-bad Soldier," "Try Singing," and "Terribly Sorry" but none give the true meaning of T.S. The card clearly states, "The Chaplain reserves the right to refuse a punch on this card. Note: 1st Sgt. not eligible for punch."

As each man was sworn in he was presented with his T.S. card, with the first punch given by my First Sergeant. This was all done with the hope that he would read the following which was on the back:

A COPIED PRAYER, YOU MAY LIKE IT TOO

Teach me that 60 minutes make an hour, 16 ounces a pound and 100 cents a dollar. Help me to live so that I can lie down at night with a clear conscience and unhaunted by faces of those to whom I may have brought pain. Grant that I may earn my meal ticket on the square and in earning it may do unto others as I would have them do unto me. Deafen me to the jingle of tainted money. Blind me to the faults of other fellows and reveal to me my own. Keep me young enough to laugh with little children and sympathetic so as to be considerate of old age. And when comes the day of darkening shades make the ceremony short and the epitaph simple, "Here lies a man."

Note: It was a great outfit that performed their duties with pride and efficiency. Yet they had to endure my idiosyncracies. Each six months when I read to them the Articles of War as required, I also read them the story of "Carrying the Message to Garcia" by Elbert Hubbard.

AB

Par of Nov 81 RT

Dear Mr. Kahn,

Imagine our surprise
to find mention of our
store in your interesting
newsletter of November 1981!

Mrs. Kahn was kind enough
to bring us a copy recently
and we found the pages of

Alexis

information to be very
timely.

Thank you for quoting me
and for giving small
specialty stores a
positive plug!

Yours,
Ellen Enold



RETAILING TODAY

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ROUTE TO

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CODE OF FAIR TRADING

I am always amused at the attitudes of retailers in different countries. In the United States you are not allowed to be a retailer unless you firmly believe that everything that the United States does is the best, that no other people have creative ideas, and that to learn what is new in retailing all you have to do is visit Blooming's or Macy's New York (if you are a department store), Barney's (if you are a men's store) or a new box store (if you are a supermarket).

It is true that retailers from all over the world come at great expense to visit the United States to get new ideas, and I have worked with groups from Japan, Australia, France, Germany and other countries.

But few American retailers ever visit other countries to find out how they do a better job than we do—higher productivity per square foot on lower gross margins and, in many cases, at relatively higher pay rates.

One other thing other countries do is worry about the ethical standards of their industry. The following is the Code of Fair Trading adopted by the Retail Traders' Association of New South Wales (the state encompassing Sydney).

Adoption of this code by the Retail Traders' Association of New South Wales places an obligation on all Members to adhere sincerely and fully to it both in letter and spirit.

1. Members shall give equal, courteous, polite and attentive service to all customers without regard to volume or frequency of purchases.
2. Members shall ensure that advertisements, signs, and promotional literature prepared by them or on their behalf are truthful and informative, and without any tendency to deceive or mislead.
3. Members shall describe products accurately and without misrepresentation, both verbally and in writing.
4. Members shall not illustrate or display articles which differ from those actually on sale.
5. Members shall promptly investigate complaints and take necessary or appropriate steps to redress any wrong.
6. Members shall not use unfair or misleading comparisons in order to induce purchase of one brand or product rather than another.
7. Members shall not knowingly make available for sale any item likely to endanger the safety of its user.
8. Members shall inform manufacturers or distributors and relevant authorities if they have reason to believe that a product will endanger the health or safety of a user.
9. Members shall take immediate steps to withdraw from sale any item recalled by a manufacturer or proclaimed unsafe.

IS THERE ROOM FOR THE CHRISTMAS THOUGHT IN YOUR AD BUDGET?

Too many (98% of all stores) run sale, sale, sale right up to closing time Christmas eve and then go off and count the money. The tradition of a Christmas Wish in the newspaper arriving Christmas Day has disappeared—and then we wonder why our customers think of us as just being interested in their money.

NRMA in their August 1981 issue of *Newspaper Newsletter* showed two ads that conveyed a Christmas thought—one by Bloomingdale's and the other by Hills Department Stores (a discount chain). Both were beautiful and thoughtful. **You could do the same**—just like you did in your store when the person after whom the store is named was alive. He, regardless of his religion, felt warmth and good wishes toward all of his customers and was thankful for their patronage.

RThought: Today we are annoyed because people have forgotten how to say "Thank You." As retailers we helped teach them how to forget.

10. Members shall take all possible steps to inform and educate employees dealing with the public on the application of this Code.

RThought: Do any United States retailer associations have a similar code?

WHERE DID THE JEANS MARKET GO?

The Department of Commerce Current Industrial Report for Men's Apparel shipments by U.S. manufacturers through August 1981 shows the jeans market slipping rapidly—and the neat look coming back.

The table below summarizes the changes:

UNITS SHIPPED (Millions)			
Item	1981	1980	%Change*
Jean-type slacks	105.4	141.3	-25.6
Jeans and dungarees	64.2	83.0	-22.7
Jean-cut casuals	41.3	48.9	-15.6
Suits	9.9	9.4	+ 5.6
Sport and dress coats	12.4	11.6	+ 6.3
Trousers	82.1	79.8	+ 2.8

*Computed on figures reported to closest 1,000

RThought: Jeans are cheaper than suits, sport coats and trousers. Sales should be stimulated by the fall into a recession. But they are not. Perhaps we may even see the return of the crew cut!

ARE CONSUMERS MORE PRICE CONSCIOUS?

I have been fascinated by **The Shopper Report**, published by The Consumer Network, Inc., 3624 Science Center, University City, Philadelphia, PA 19104 (\$75/yr.) even though written primarily for manufacturers who market major national brands.

It reports many things that will be helpful to the retailer—through insight into the views of consumers. As the publisher's name implies, it works through a network of consumers who report each month on a number of selected products, brands, ads, stores and issues. The answers are summarized in two numbers—one indicates, on a scale of 1 to 10, the strength of feeling by those members of the panel who reported; and the other figure indicates the breadth of interest or the percentage of the panel that were interested or familiar with the subject.

Let me give you a few items reported in the August issue. When asked where they would like to see food companies invest more of their dollars, they overwhelmingly opted for **better quality at the same price**. The score was 9.0 or a high agreement and 84% responded to the question. On the alternative of "Larger Size (packages) at the Same Price" the score was 8.2/66%, only slightly better than the response to "Smaller Sizes at Lower Prices"—6.9/68%. The least favored response was to the alternative of "Lower Prices—Even with Less Quality" which scored 5.3/70%.

In the packaging area shoppers protested perforated slot openings on cardboard household product boxes—"They just can't be opened without brute force or a stab with a sharp paring knife." Borateem got the lowest rating, only slightly ahead of Tide and Clorox.

The panel also answered questions on what could be considered political issues—there was high disagreement with the cancellation of the embargo on grain to Russia.

A special survey made for a supermarket indicated high interest among blue collar workers in trading stamps—stamps usually revive during a recession period.

RThought: Although written for the manufacturers, there is a lot of insight that is of value to all retailers.

Write Mona Doyle, Editor, for a sample copy and tell her that Bob Kahn sent you.

UNDISCLOSED FORECASTS

RT is becoming increasingly conscious of disappointing performance by retail companies that are explained as being "in line with plans." Unfortunately, those projections are seldom, if ever, disclosed to the outside stockholders (although they often form the basis of insider decisions to sell stock).

RT will report on these statements by companies with the hope that either the management will share the forecasts with the company owners or cease using it as a cover for disappointing performance and insider trading.

Revco D. S.: The first quarter ending August 22, 1981 showed a sales increase of 23% and net earnings increase of 7% explained as follows: "Results for the period **are in line with our forecasts**, which indicated that the gain in earnings would

not be as great as the sales gain because of increased costs associated with financing the Skillern acquisition and a higher LIFO charge to earnings."

The forecasts were not given to the shareholders.

The Gap: The second quarter report starts, "The Gap's financial results for the second quarter and first half of fiscal year 1981 **were in line with our expectations**." For the second quarter total sales were up 6.7%, comparable stores down 0.8% and the loss increased from 0.3% of sales to 0.5%. The report closes with a statement: "I am pleased to report that The Gap's sales in the third quarter **are currently running ahead of plan**"—but that plan could be for a big loss that is turning into a not quite so big loss.

IS THERE A LITTLE PORNOGRAPHY AMONG THE DIAMONDS?

During the past year Zale's has disposed of their sporting goods and drug store divisions (their choice) and their shoe division (an offer they could not refuse). Their publicity indicates that they are concentrating on what they know best—jewelry stores, whether a Zale's, a Guild store or a catalog/showroom where you enter through a plush discount jewelry store to get to the discounted appliances, electronics and sporting goods.

But they do have a non-jewelry division that is expanding rapidly—the Aeroplex division which operates stores in airport terminals (in their second quarter report they announced 9 stores for Lambert St. Louis International Airport).

I walked by one recently in the United Airlines section of the San Francisco Airport—it appeared to be about 25 feet wide and 15 feet deep—a small unit. But it was obvious that there are heavily into skin magazines. No one walking that concourse could miss the array of Hustler, Oui, Gallery and others on the top shelf across the back—the most visible items from the concourse (the ends of the gondolas faced the concourse and were lower than the skin shelf). Playboy was on the second shelf.

RThought: I don't think they carried Screw—but that may come. The ads for all skin magazines stress their high markup—although not the double-keystone basic to the jewelry field.

ABUSE OF NUMBERS — I

FORTUNE, in their September 21, 1981 issue, had a major article entitled "K mart's Plan to be Born Again, Again."

I have corresponded with the editors on some of the numbers used in the table and find a lack of understanding of retailing that makes a comparison between Sears, K mart, Wal-Mart, Target and Caldor not only less than useful but misleading in several ways. The comparative figures and the weakness are pointed out below:

Sales: For Sears the reported sales included \$6.2 billion in non-retail income although the reported "sales" figure for Sears was not used in computing the other figures in the table (sales per square foot, sales growth, gross margin or overhead%).

Number of stores: I think they got this right—but that doesn't take much expertise.

WILL YOU, TOO, REGRET WHAT YOU DO?

Retailers have become paranoid about inventory shortage. It has reached the point where decisions are being made that will lead to great sadness for an increasing number of fine executives who consider themselves to be honorable executives and who are considerate of the human beings with whom they deal daily—their employees and their customers.

Yet they are being hyped into an escalating war against internal and external theft—which is reported to be due entirely to the increasing dishonesty in our society.

Who is doing the hyping? Most frequently it is someone who has a service to sell which they claim will reduce theft. It can be those who profess to have a written test that will preclude the hiring of potential thieves—without telling you that it will also preclude the hiring of many honest people. It is the maker of electronic detection devices, special mirrors, or undercover services. Each has his own little thing to sell you at a profit IF he can get you concerned enough about all those dishonest customers and employees.

The press is full of statistics thrown about as to the amount of theft (shortage); and figures from the FBI, Department of Commerce and other sources are quoted—which, when checked, are based on a few figures like those the National Retail Merchants Association (NRMA) and the National Mass Retailing Institute (NMRI) include in their reports on shortage.

Retailers are hyped by responsible partners in major accounting firms who have “management advisory services” to sell or seminars to conduct. As an example, Women’s Wear Daily of October 1 cited Bill Westerfield, head of the Retail Industry Services at Price Waterhouse as follows: “... but one accountant offered some ballpark figures. External theft accounts for approximately 60% of shrinkage; internal about 25% to 30% and faulty record keeping or ‘paper losses’ for 10%.” Price Waterhouse is one of the Big Eight accounting firms with a reputation for accuracy and integrity throughout the world. Bill knows he cannot document these figures and says the reporter quoted them without the related caveats.

Because of this background many major executives feel that it is necessary to increase “protection services.”

Let us see what happened in one case.

Pay’N Save out of Seattle operates 129 drug stores, 70 home centers, 23 junior department stores and 11 sport shops doing, as of January 1981, \$823 million. I know the top management of the firm, and they are honorable and ethical human beings.

They entered California by taking over from Safeway the unsuccessful Super-S Drug Stores, one of which was in a section of Berkeley that has a very mixed population. On September 20, 1981 a 37-year-old man ran out of the store with a \$4.50 package of cold medicine. A 20-year-old armed

guard, an employee of Delcon Security, Inc., and not of Pay’N Save, shot the man in the back and killed him. Delcon says that the guard was trained by the company and licensed by the State of California.

I can understand the shock that the top management of Pay’N Save experienced when they learned that a human life had been taken over a \$4.50 bottle of cold medicine. I know they did not sleep that night and still may not be able to erase this event from their mind.

The neighborhood was incensed. Informally, and then formally, they picketed the store. A Berkeley Councilmember, who lives across the street from the store, participated. When Pay’N Save was invited to attend a neighborhood meeting, they did not attend. I suspect that management was advised by good-intentioned attorneys that if they did attend it might be interpreted as acknowledgment of responsibility. I can just hear an attorney explaining that Delcon was covered by insurance and this was their responsibility because they were an independent contractor. If this is what happened, it is one more good-intentioned attorney that really does not understand the relationship between people, between stores and customers, between states and citizens, on which our society is based.

Pay’N Save did attend the second meeting. Out of that came an agreement that did not erase the terrible thing that had been done—a 37-year-old man dead and a 20-year-old youth charged with murder. Out of it came an agreement to . . .

- ... Close the store on October 3 in memory of the slain man and pay the employees a full day’s wages for the day.
- ... Contribute \$10,000 toward the defense of the 20-year-old guard.
- ... Remove all armed guards from their California stores (they were in only 3 such stores—one each in Berkeley, San Francisco and Sacramento).

RThought: This does not bring back the life of one man. Nor will it erase the events from the memory of the members of top management who authorized armed guards. At the time of the decision it seemed so logical. Our shortage is high. We are not experienced in using armed guards so let’s hire them from a competent guard service. Perhaps the presence of armed guards will serve as a warning to people, employees or customers, who might otherwise steal.

Each reader of RT is in a position to see that decisions are not made that take a life for \$4.50—the executive that makes it in his own firm, the accountant who expounds on inventory shortage, the academician who instructs people going into retailing.

It is unfortunate that the Berkeley community feels the Pay’N Save action resulted from their picket. It resulted from the grief of good human beings.

A STATISTICAL SUPPLEMENT

CREDIT OFFICE RATING

This month the Honor Roll was so long that I looked back at the first issue of RT (then called Client Memo) to see how much progress had been made. In December 1965, 5 days merited Honor Roll status—and there were only 5 stores listed (out of 35 reporting). Only 2 would make the Honor Roll today.

When RT first started reporting on Credit Office performance, there were no accepted standards—and prime was running under 6%. Today there is a standard.

HONOR ROLL

Bullock's (S. CA)	2.0	Breuner's	3.0	Sears (Dallas)	4.0
Mervyn's	2.2*	Waldoff	3.5	Weinstock's	4.0
Rubenstein's	2.3	Gimbel's	3.6	Levy Bros.	4.0*
The Popular	2.6	Bloomingdale's	4.0	Ross Stores	4.0*
Bullock's (N. CA)	3.0	Livingston Bros.	4.0	Wineman's	4.0*

*Current or past clients

Information From Reporters	AUG.-SEPT. 1981			JUNE-JULY 1981			Information From Stores	AUG.-SEPT. 1981			JUNE-JULY 1981		
	No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range		No. of Reports	Days to Bill Average	Range	No. of Reports	Days to Bill Average	Range
B. Altman (NY)	1	8.0	8	2	4.0	4	Gimbel's (Philadelphia)	36	3.6	3-5	36	3.6	3-5
Bamberger's (NY)	1	7.0	7	--	--	--	Levy Bros. (N. CA)	2	4.0	3-5	2	5.0	5
Bloomingdale's (NY)	3	4.0	4	2	4.5	4-5	Mervyn's (N. CA)	30	2.2	2-4	30	2.1	2-4
Bonwit Teller (NY)	1	7.0	7	--	--	--	The Popular (El Paso)	15	2.6	2-4	8	3.0	2-7
Breuner's (N. CA)	1	3.0	3	--	--	--	Ross Stores (N. CA)	3	4.0	4	5	4.2	4-5
The Broadway (S. CA)	2	5.5	5-6	2	6.0	5-7	Routzahn & Sons						
Brooks Bros. (NY)	1	5.0	5	--	--	--	(Fredericksburg, MD)	7	4.2	3-7	5	2.8	3-4
Bullock's (S. CA)	2	2.0	2	3	2.7	2-4	Rubenstein's (Shreveport)	6	2.3	2-3	6	2.3	2-3
Bullock's (N. CA)	1	3.0	3	1	8.0	8	Waldoff's (Hattiesburg)	2	3.5	3-4	1	2.0	2
Emporium Capwell (N. CA)	9	4.6	4-6	7	4.7	2-6	Wineman's (S. CA)	1	4.0	4	--	--	--
Gump's (N. CA)	2	5.5	5-6	--	--	--	TOTALS	102	3.0	2-7	93	3.0	2-7
Livingston Bros. (N. CA)	3	4.0	2-6	1	4.0	4							
Macys (N. CA)	8	5.3	4-8	11	4.5	3-7							
I. Magnin (N. CA)	5	4.2	4-5	8	6.1	4-15							
Marshall Field (Chicago)	1	8.0	8	--	--	--							
May Co. (S. CA)	1	5.0	5	1	5.0	5							
McCaulou (N. CA)	1	8.0	8	1	6.0	6							
Montgomery Ward (N. CA)	2	4.5	3-6	3	4.7	4-6							
Nordstrom's (S. CA)	1	8.0	8	1	7.0	7							
Penney's (N. CA)	3	7.3	7-8	3	6.7	6-7							
Penney's (Philadelphia)	2	8.0	8	1	8.0	8							
Saks 5th Ave. (NY)	1	6.0	6	1	8.0	8							
Sears (S. CA)	1	6.0	6	1	7.0	7							
Sears (Dallas)	1	4.0	4	--	--	--							
Sears (Philadelphia)	2	5.5	5-6	1	6.0	6							
Sears (N. CA)	3	6.7	6-7	3	5.3	5-6							
Shreve & Co. (N. CA)	1	11.0	11	--	--	--							
Smith's (N. CA)	1	10.0	10	--	--	--							
Weinstock's (N. CA)	1	4.0	4	2	4.5	4-5							
TOTALS	60	5.6	2-11	55	5.2	2-15							

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

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

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

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

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

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

Sales per square foot: The table does not indicate whether this is based on selling space, gross store space or space including warehouse (after all, if you do your own warehousing, you can reduce backstore space and raise sales per square foot based on gross store square footage). The footnotes merely said that the sales per square foot were calculated by Goldman Sachs (not a very revealing definition). Even worse, they did not disclose that Goldman Sachs is the investment banker for Dayton Hudson and that Goldman Sachs biased the figures in favor of Target (a D-H company). D-H, in their annual report, computed sales per square foot including the space in Ayr-Way stores acquired during the year. **Goldman Sachs did not consider the Ayr-Way stores, to quote the letter from FORTUNE, "since the Ayr-Way stores were in the process of being remodeled and upgraded"!**

Note: The fact that Goldman Sachs can make this computation but a stockholder who received all the Dayton Hudson news releases, quarterly and annual reports, and 10-K cannot find this information merely highlights how companies give information to financial analysts (who usually don't own any stock) that they do not give to the shareholders.

Sales growth: This should be a simple figure to compute except, again, a decision to bias the figures in favor of Target, which was reported to have the highest growth. This time **no mention was made that Target had acquired Ayr-Way during the year and that this accounted for a substantial part of their growth.** Of course, D-H is much more honest than FORTUNE and in monthly and quarterly news releases reports sales increases with and without Ayr-Way as well as for same stores. D-H didn't want people to misinterpret their sales growth, but FORTUNE didn't care.

Gross margin: This was defined as "Gross margin, expressed as a percentage of sales, is the difference between sales and the cost of merchandise plus certain costs of running the store, such as heat and light"!

Wal-Mart and Target figures are shown as estimated, but the reason for estimating is not disclosed. Wal-Mart is the only one that publishes a true cost of goods sold figure as defined in accounting texts, accounting manuals and guides for such organizations as NRMA, NMRI, MRA, NRHA and many others. Target is estimated because separate figures are not published. However, an estimate carried out to 1/10th of 1% seems to indicate that someone (probably Goldman Sachs again) had information not generally provided to the public. (Note: I am a director of Wal-Mart—which has nothing to do with my concern about abuse of numbers—I try to see that Wal-Mart does not engage in such abuse.)

Our correspondence disclosed that FORTUNE contacted Wal-Mart about their occupancy expense and added that to the cost of goods sold in "estimating" the gross margin. You must remember that occupancy cost to FORTUNE means expenses "such as heat and light" without ever considering rent, taxes or maintenance. Sears, K mart, D-H (Target) and Caldor all include occupancy **and buying** in cost of goods while Caldor also included warehousing in cost of goods.

FORTUNE came up with 3 apples, 1 banana and 1 cherry which isn't a winner on any slot machine.

RThought: You can't even trust FORTUNE to make a fair comparison. It isn't because they don't want to, they just don't have the competence to report on the subjects they pick, and they apparently are unwilling to find or use the independent competent experts that are available. When

working with an investment banker, the first questions should be (1) are you the banker for any of the firms in this report and (2) are you issuing advisory reports on any of these companies. If the answer is yes to either question—then check their work with someone else. In this case, Goldman Sachs made their client look great.

ABUSE OF NUMBERS - II

In reporting the origin of investments in tax-exempt All-Savers Certificates, the United Press (in the San Francisco Chronicle) reported, "... the government estimates that as much as 33% of the total ... is new money and about 67% is merely being switched from old, less attractive savings deposits." (RThought: The report probably said one-third and two-thirds, but typesetting equipment at newspapers is not capable of showing 1/3 or 2/3 as a single symbol so the implied accuracy was enhanced by using 33% and 67%.) The Los Angeles Times, a paper that rewrites "briefs" from news services, reported, "sales ... at \$13 to \$14 billion, but much ... coming from existing accounts ... giving ... net new deposits of \$3 to \$4 billion."

RThought: Numbers are abused just in the process of fitting information to word processing capabilities without regard to the change in meaning resulting from the changed presentation.

1980-1981 FOOD CHAIN OPERATING RESULTS

Cornell has released their 13th Annual Report on supermarket chain results (B-22 Mann Library Bldg., Ithaca, NY 14805 \$20.00) and it gives an insight into changes for 25 identical firms that have been submitting information for more than 5 years (61 firms were included in the total report).

The major change in the report was the elimination of imputed interest at 6%—an anachronism that goes back 50 years or more in retail statistics.

For the identical stores gross margin was up (.45 of 1%), more than enough to cover the increase in total operating expenses (.33 of 1%) of which the largest increase was payroll (.21 of 1%). However, the operating improvement (.12 of 1%) was boosted by a reduction in the tax rate (.08 of 1%) with the result that after tax earnings increased to .88 of 1% (up .20 of 1%).

On a long-term basis the interesting trend is that utilities now cost more (1.20%) than property rentals (1.14%). Over a 13-year period total utility costs have increased from .78 of 1% to 1.20% while property rentals (largely the impact of inflation on stores with fixed rate leases) have dropped from 1.73% to 1.14%.

Over the 13 years the cost of promotional events (stamps, premium plans, giveaways to churches, etc.) have dropped from 1.55% to 0.34%, largely occurring in the 1972-76 period when many chains dropped stamps.

Under the present economic conditions some chains may well resort to stamps again—not to increase total food sales but to shift sales between firms.

More than 30 years ago Lingan Warren, then CEO of Safeway, fought stamps because he felt they are not in the best interest of food customers.

RETAILERS AND THE FTC

Aldens, Inc.: This \$250 million mail-order operation was part of Gamble-Skogmo at the time of the alleged actions and is now part of Wickes. The complaint was based on such conduct as a letter to past due accounts that read in part:

"It is possible a local investigation will be made regarding your financial status, in order to determine the most expedient means of obtaining payment in full. Your employer, both past and present, references, neighbors, local merchants and credit bureau may all be asked to report."

Aldens has agreed for five years to include a notice to all charge customers stating that third parties will be contacted only if necessary to locate the customer and will not, without written permission, discuss or threaten to discuss the debt with any person other than the customer or his attorney. Aldens may contact debt-collection and credit-reporting agencies in attempting to collect debt.

Kroger Co.: As a result of the investigation of the **Price Patrol** comparative advertising campaign run during 1972-78, the FTC has held that Kroger may not claim in their advertising that their prices are generally lower by comparison with other stores unless the statistics used for the claim are properly developed. Kroger generally excluded from their comparison fresh meat, dairy products, produce and private label merchandise without disclosing this fact. They can make claims only if the list of products used for making the comparison is a sound representation of the products that customers regularly buy.

RThought: A spokesman for Kroger said that the decision was "really technical nit-picking." There is no nit-picking involved when the second largest food chain in the country resorts to biased shopping lists to make broad advertising claims. In this case the FTC was not dealing with a purveyor of patent medicine working in a medicine show but a retailer whose millions of customers reasonably expected the price comparison to be a fair one.

SHORT SHORTS

Federated Department Stores receive some free advertising—that may not help employee morale. **60 Minutes** gave major coverage to the age discrimination suit won against I. Magnin and additional publicity to the suit by John Staley, Sr. V.P. for Personnel against A&S. The most damaging statement against I. Magnin, not refuted by management, was that only 3 people had survived to draw the supplemental pension benefits held out as an inducement for loyal service.

The catalogs keep coming. Periodically I have gotten the Harvard Coop catalog and now one from Stanford Alumni Association. Gifts listed include Travel/Study trips and Executive management courses.

Your credit card competitors. Diners Club has come out with a 24-page catalog of medium to high price items (\$6,996.00 for an earth station to receive directly from a satellite). Citicorp has long run their Citidollars catalog covering toys to TVs at discount prices.

Proof of how the small specialty store survives. My wife recently received the following handwritten note: "Dear Mrs. Kahn—It was my pleasure to help you recently in our store. I hope you are enjoying your beautiful spring suit—weather permitting!—and that you will let us help you again." She will go back again.

Is management succession a problem? The Bank of America publishes a series called the **Small Business Reporter** and recently published one entitled **Management Succession**. You can obtain a copy for \$2—write Small Business Reporter, Bank of America, Dept. 3401, Box 37000, San Francisco, CA 94137.

Things are seldom what they seem, skim milk passes off as cream . . . and the EPA classifies the Rolls Royce Camarque as a compact car and the Corniche as a subcompact! Based on interior measurements.

The cost of Chapter XI—for Topps and Trowers, whose peak sales were \$36 million, the total for attorneys and accountants was \$953,981 plus expenses!

How to get prompt mail delivery? Levy Bros. in San Mateo reports relatively few problems on late delivery of direct mail promotions since they put the date delivered to the post office and the name of the receiving post office prominently on the face of the mailer.

WORDS THAT HAVE BEEN FORGOTTEN

It is difficult to understand how religious people can forget words that they know are important to them, words that are a fundamental part of their belief.

The United Nations estimated that in 1979 there were approximately 4.3 billion people in the world. Of these, they estimated that approximately 2.6 billion were affiliated with a religious organization. Three of the religions meld in the area we call the Middle East. On a worldwide basis Christians number about 1 billion, Muslims about 600 million and Jews under 20 million.

The leaders of the countries that comprise the Middle East profess to be religious men and many are devoutly religious. There are four men who represent a common tie between these three religions—Adam, Noah, Abraham and Moses. To all three religions these four are recognized as men selected by God to bring a revelation to mankind on earth. Moses, a major prophet to the Muslims, brought the Ten Commandments to the world and interpreted them.

To avoid offending any faith by quoting a single phraseology (each faith having one or more accepted wordings), let me quote the forgotten commandment in my own terms with a little enlargement.

You are commanded to love and care for all the other members of the human race just as you love and care for yourself. The stranger shall be cared for. Let there be no poor amongst you since they will share your tithe.

Certainly war, and particularly war initiated by people who profess belief in what Moses taught, does not meet this test. Nor does murder and execution, especially when professed to be done by religious faithfuls for religious purposes against observers of the same rules. Even more, the teachings are not served when businesses (particularly those headed by men who profess to be religious men) distribute products that can harm, operate businesses that are unsafe, or inadequately dispose of waste that can be injurious.

Would that we all remember all the teachings of Moses, each as we were taught them.



RETAILING TODAY

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ROUTE TO

DECEMBER 1981

VOL. 16, NO. 12

CORRECTION

In the November RT I commented on the part of the FORTUNE article on K mart that analyzed sales per square foot for a number of retailers. The figures were prepared by Goldman Sachs and in reporting on Target Stores they excluded the sales and space of the recently acquired Ayr-Way stores. I then had a Note in which I stated that Goldman Sachs had this information but that a stockholder who recieved all Dayton-Hudson (DH) reports and releases did not.

Mr. Douglas Ewing, DH director of financial relations, has properly pointed out to me that separate sales for the Ayr-Way stores were reported in the Annual Report and that the "Retail Square Feet" (not defined) for Ayr-Way stores by city was reported under store openings in the DH Third Quarter Report.

Thus, as Mr. Ewing points out, any shareholder could have made the calculation reported by Goldman Sachs by using those two reports, and it was not information provided by DH to analysts and not to shareholders.

DO LONGER TERM MORTGAGES HELP OVERCOME HIGH INTEREST RATES?

Changing Times (Kiplinger Washington Editors, Inc., Editors Park, MD 20782 \$15/yr) reported on the Beers Curve—the result of an analysis by a realtor as to whether taking a longer mortgage helps. He concluded that the higher the interest rate, the shorter the term should be.

One example shown was for a person with \$20,000 income which qualified him for an 18% mortgage on which the payment would be \$416.67 per month. The table below shows the results:

Term of Loan	Amount Borrowed	Total Payments Over Term of Loan
10 years	\$23,125	\$ 50,000
15 years	25,873	75,000
20 years	26,998	100,000
30 years	27,647	150,000
40 years	27,756	200,000

RT thought: Is it worthwhile to pay an additional \$150,000 interest to be able to borrow an additional \$4,631? This clearly underlines how higher mortgage rates are destroying the housing market.

JUST BECAUSE RETAILERS CAN'T DO ARITHMETIC DOESN'T MEAN THAT CUSTOMERS CAN'T

I. Magnin sent out an 8-page mailing for Princess Marcella Borghese, and it professed to offer a gift valued at \$41.00 with any purchase of \$7.50 or more (only 2 of the 30 items advertised were below \$7.50).

THERE IS A WAY TO MAKE A BETTER WORLD IN 1982

In 1981 did you do as much as you could have done for your family, your friends, your community, mankind? I ask myself that question each year, and I suspect that your answer is the same as mine—No.

The year 1981 was not a year of which I am ashamed—yet I know that I could have done more. And this is the time of year when I resolve to do better in 1982—won't you join me?

In this day when everyone worries about stress—and people make money by increasing stress through teaching assertive management—it might be well to make it a rule never to go to bed mad. This is important within your family—not only as it relates to your spouse but also to your children. My wife and I have had this rule for years—one of us must make the move to apologize, to span the gap, before we go to bed. We have done this for almost thirty-six years.

The second rule applies to partnerships—whether marriage or business. A partnership must be a 60-60 proposition. Only when each party is committed to going 60% of the way does it become possible for partners to meet each other. Whenever either or both think a partnership is a 50-50 proposition, they somehow never are able to meet.

In dealing with other people, try to remember what Kipling wrote—"There are nine and sixty ways of writing tribal laws [laws], and every single one of them is right." If we listen more carefully to the other person and evaluate whether his way will accomplish our objective, we will eliminate one of the great time wasters in human relations. In any situation there are 5 perfect ways, 10 good ways and 5 wrong ways of doing something. Why argue about which perfect way something should be done?

The Golden Rule is thousands of years old and is part of the writings of the Judeo-Christian, Moslem, Hindu, Shinto, Taoist, Buddhist and Confucian beliefs—virtually a universal endorsement. We should accept it as a personal daily guide.

In case you think your efforts are not important, please join with me in being a Christopher—an organization of millions but without structure other than belief in the motto that Father Keller set forth—"It is better to light one candle than to curse the darkness." Like the moth is attracted to the flame, people of good will are attracted to the effort that you make. Do good things—and you will be surprised how many people come forth to help you.

And finally, when you go to bed each night, think back on the day then ending. Judge yourself. Did you provide the helping hand? Did you do a good turn? Did you spend the day the way you know you should have spent it? I hope you will always be able to answer "Yes."

May your holidays be merry and may the New Year bring you happiness.

The gift consisted of sample sizes of regular items. In two cases the size of the jar is shown as 5/10ths of an ounce. I realize that a 5/10th oz. container does not sell for 1/24th of a 12 oz. size or 1/4th of a 2 oz. size (except when labeled the "Large economy size" which often sells for more per ounce than the smaller sizes).

However, the claim of a \$41.00 value is beyond reasonable belief. Since the sizes shown are not normally sold, there is no established price on which to base the \$41.00 and in one or more items the quality may not be the same.

RThought: I presume that I. Magnin gets a good response from such an ad. If so, it proves that they have such a high reputation with many of their customers that the customers will believe the most outlandish claims. But that does not eliminate the question of whether I. Magnin should have made the claim. If the products are any good, wouldn't the offer of the assortment of products without placing any value on the assortment attract about as many customers without damage to I. Magnin's conscience?

SHOULD RETAIL CONGLOMERATES SPLIT?

This is a lesson for Sears (see RT 3/81 "At Sears Does 1/2 + 1/2 = 2?"), Dayton-Hudson, and others which is found in the talk by Douglas Manning, CEO of Tandy Brands, to the New York Society of Security Analysts on February 9, 1981. He started his talk as follows:

"I am very pleased to be here to acquaint you with Tandy Brands. The story began with our birth in October of 1975 when Mr. Charles Tandy decided that certain divisions of Tandy Corporation were hurting his price/earnings multiple, and so he elected to spin them off. I guess we were the prime example of what ailed the Tandy Corporation multiple. After the spin-off, Tandy's multiple was 13 while Tandy Brands had considerable more difficulty holding the lofty multiple of 3."

Let's look at the record. Adjusting for stock splits, this is what has happened to these two stocks since October 1975:

		Oct. 31, 1975	Oct. 31, 1981	Compound Growth
Tandy Brands:	Price	1-5/8	14-1/4	44%/yr.
	P/E ratio	7x	9x	
Tandy Corp.:	Price	2-7/8	36-3/4	53%/yr.
	P/E ratio	10x	21x	
Dow Jones	P/E ratio	10.0	6.6	
Tandy Brands	P/E as % of Dow	70%	136%	
Tandy Corp.	P/E as % of Dow	100%	318%	

SERVICE—L. L. BEAN STYLE

Recently I took a phone call for an associate—from L. L. Bean. He had ordered all cotton chino pants in a 31" waist, 32" inseam. The call was to tell him that they only came in 33" inseam.

In my typical joking manner I said, "He is going to have to find a tailor or put his wife to work."

The response on the other end of the line was immediate—"You better be sure that he washes them before he shortens them—they are not sanforized."

RThought: Do your salespeople and telephone people know your merchandise that well?

PLEASE APPLAUD THE MAY COMPANY

This applause is late but still should be delivered.

In the dozens of statements I saw about first quarter 1981 sales and earnings for those retailers to whom credit is important, I feel the only complete statement was made by David Farrell of the The May Department Stores Company. He said that it was important to recall that last year's results were affected adversely by the imposition of credit controls. The lack of restrictions in 1981 contributed significantly to the improvement.

It might be well for the SEC to mandate that whenever an alibi is given for one quarter's performance it be repeated with appropriate update in the report for the corresponding quarter in the following year.

Virtually all retailers to whom credit was important attributed the poor first quarter earnings last year to Mr. Volcker's desire to play with the economy in a poorly conceived and theoretically unsupportable experiment.

The impact of the credit restrictions imposed by the Federal Reserve Board continued into the second quarter last year and were not, to my knowledge, acknowledged as a significant factor in any improved performance reported for the second quarter of 1981.

ABUSE OF NUMBERS

Some abuse of numbers is plain stupidity—and often perpetrated by writers that should know better. Convenience Stores News (CSN) in their September 15, 1981 edition (254 W 31st Street, New York, NY 10001 \$10/yr.) had a lead article entitled "Financial analysts look at the convenience store industry as an excellent growth opportunity." It included many tables showing the relative performance of publicly held convenience store companies.

Guess which convenience store company has the most sales, the largest net income and the most assets? If you said Southland Corporation, you are wrong. That honor goes to Consolidated Foods.

I am willing to bet you never would have guessed Consolidated Foods. This is the company that has Electrolux vacuum cleaners, Fuller Brushes, and many other non-food operations plus Lawson Milk Company. Lawson does operate convenience stores—but represents well under 10% of the total sales of Consolidated Foods.

CSN should know better. CSN does know better. But they published it anyway (perhaps they could have included Sun Co., Atlantic Richfield and Cities Services Corporation all of which are super-large corporations who have convenience stores stuck away in a vest pocket).

RThought: Top retail analysts such as Stu Robbins of Paine Webber and Walter Loeb of Morgan Stanley might not have been so willing to be quoted if they knew the kind of article that was going to surround their comments.

MORE PEOPLE VISIT THE FINANCE COMPANIES

The National Consumer Finance Association (representing companies such as Beneficial, Household, Dial, Finance America, etc.) reported the result of their annual study of who does business with their members. The people patronizing

**Q. WHERE IS THE DEPARTMENT STORE CUSTOMER GOING?
A. MANY ARE GOING TO THE HOME IMPROVEMENT STORES**

Home Center Magazine had a study made of 1,500 families that own their own home. This makes up a substantial part of the middle and upper income families in the United States.

They found that some 85% of families had at least one person that was a do-it-yourselfer and almost 20% of those persons were women! (Watch for women shopping in department stores with paint on their hands or grease under their fingernails!)

With increased do-it-yourself attention to homes—both because the cost of gasoline makes going away more expensive and because heat losses in the home cost a lot of money in gas, oil or electricity, the homeowners are confronted with the high cost of contractors or craftsmen. White collar workers are more important in the do-it-yourself market than blue collar, probably because they outnumber blue collar workers to begin with.

Where do they find the things they want? In the home improvement stores.

What kind of things are they getting? In many cases they are getting wood stoves. One do-it-yourselfer reported that after installing a woodburning stove he cut his use of oil from 1,350 gallons in 1979 to 425 gallons in 1980 (no adjustment for degree-days).

A study by the National Retail Hardware Association of what people were doing to save energy compared the 20% most aggressive conservers with the 20% least aggressive conservers (nearly everyone is conserving in some way) and found these differences:

Energy Conservation Actions

	Aggressive Conservers	Limited Conservers
Installed a wood stove	100%	5%
Used the car less often	91%	0%
Insulated, weather stripped	96%	59%
Bought a car with better gas mileage	50%	38%
Took a vacation closer to home	54%	27%
Closed off part of the house	51%	23%
Turned down the heat	93%	83%

This clearly shows that most of the respondents are still in love with their car. The total population tends **not** to buy cars with better mileage or take a vacation closer to home (less than 50%). Installing a wood stove is a characteristic of the aggressive conservers. Virtually none turned to solar, wind or other sources of energy.

But some things are coming back. Remember the smelly kerosene stoves we used in tents and vacation cabins? These were pushed during the football season. Howard Cosell pushed Kero-Sun heaters on ABC and so did the Today Show on NBC. The Sunday NBC NFL Football, the ABC Good Morning Show and the CBS Sunday Morning News all pushed Corona heaters. Don't forget that all models are UL-approved, and interior designers have created designs that will go with any home.

RThought: Did department stores sell wood stoves and kerosene heaters and other bigger ticket energy savers? (They did sell quartz heaters.) Would this hurt their apparel sales? Department stores might even move some outdoor jackets, comfy alpaca slippers and other warming items into a new "be warm at home" boutique.

SHORT SHORTS

4day tire stores are going strong. They advertise "Open only during the 43 most efficient selling hours. We can cut prices by developing maximum sales with 1 shift overhead." They have developed enough sales that they now have 20 stores in California plus 1 each in Dallas, Tucson and Kansas City. What are the 43 magic hours? Wednesday to Friday, 8:30 to 8, Saturday, 8:30 to 5. And they have 4 prices for every tire—the first price with the manufacturer's warranty and the second with the 4day guarantee (a fixed mileage guarantee against treadwear, road hazard, material defects or workmanship defects) which costs 5% more. These are cash or check prices; a bank credit card sale costs 2% more in each case.

Pick your catalog! The Catalog Collection had a 2-page full color spread in Signature (the magazine published by Diners Club) showing the following 20 catalogs, together with a return card to order a catalog: Omaha Steaks, Pennsylvania Station, Stuart Maguire, Old Village Shop, The Swiss Colony, First Edition, The Talbots, Adam York, Norm Thompson, The Sharper Image, Serendipity, International Male, Hennikers, Brownstone Studio, Inovision, Monarch Trading, Artisans of China, Old Guilford Forge Cutter Bill and Thompson Cigars. In total, a very large specialty store—I would estimate 5,000 to 10,000 SKUs.

A FEATURE REPORT

COMPUTERS MAKE MORE JOBS

For years economists have argued—do computers reduce employment or do they create new jobs?

It is important to address this question now because soon we will be arguing whether robots reduce employment or create new jobs. Computers may give us an insight.

In the case of computers and computer technology the pioneers in that effort created a special position dedicated to increasing employment to offset any possible savings elsewhere in the system. They called that person a programmer.

He is the person who trains people to answer questions by saying, "The computer made a mistake." Some of my best friends are computers, and I know that they never made a mistake (unless they are bombed or set on fire—excepting, of course, a head crash now and then).

I could, of course, make this into a book but repetitious incompetency on the part of programmers becomes a bit boring after a while.

Here is an example. Let's take the Pacific Telephone Company and an attempt to correct a name on a statement. There is a corporation called Kahn and Harris, Inc., and it had a single telephone line. As it grew up, the telephone line wanted company so two more lines were ordered to go with it. (Telephone lines, like kids, don't want to grow up alone.) It should, of course, have been billed to Kahn and Harris, Inc. But it wasn't. It was billed to R. Kahn and R. Harris.

After some months I decided that we might as well make a correction and marked the new name on the copy of the bill returned with the check. On the next month's bill, among the miscellaneous items, was an entry "process change order \$22.00." I called the number given for questions about billing;

and the voice at the other end, when given the problem, spent a few minutes with a CRT (the product of a programmer) and reported to me that this was a charge for processing a change order. He got annoyed when I pointed out that I was literate—and if I had not been literate I would not have known enough to call him and ask him what the change order changed.

I also wondered why it was for \$22.00 when a printed notice with the same statement announced a rate increase (those come about every month) stating that effective 11 days after they processed this change order the cost of processing would **increase** to only \$21.00. When I explained that the billing had been wrong for 18 months, he told me that they had to charge because I should have corrected it back when someone knew what happened! ! !

I did ask if Pacific Telephone had a suggestion award system, and he said they did. I told him that he could make a suggestion that would end all the rate problems for Pacific Telephone—always enter the account name wrong on a new account and then collect \$22.00 for correcting it! I don't think he is going to put that in the suggestion box.

Eventually a supervisor called and said I was right and "the computer had made an error." The rate was \$10.00 when the change was made and not \$22.00. I again explained that it was their mistake in the first place and it should not cost me anything. Finally she pulled the original installation order—and agreed with me.

I told her that to make life simple—and to avoid a dun (programmed by some programmer) we would pay the entire bill this month and look for a credit next month.

She said, "We probably can't get the credit on this month—it is the 23rd now and your cycle closes the 13th. This has to be processed by hand—so look for it a month later!"

SHORT SHORTS

If you think designer labels are important to Sears, then look even lower on the price scale. Haband, the large menswear (now plus some women's wear) mail order retailer, has introduced designer label (Jim McClane) brushed denim jeans at \$25.95—for two pair! Plus, of course, \$1.65 toward postage (they use UPS) and handling. Haband president Duke Habernickel attributes this move to learning that the snootiest French restaurant in town, which always had required proper attire, would now admit people in jeans—if they were designer jeans.

Chiselers from Hong Kong—may be trying to slip past your accounts payable. A long-time reader sent a copy of what appears to be a statement (so labeled) from Market Research International in Hong Kong, complete with remittance advice, for \$350. The entry is as follows: "Apr. 10, 1981 US020828 \$350.00." In the lower right-hand corner it says, "This pro forma subject to business terms on reverse." The light print terms on the back indicate that the statement is for a directory (unnamed) and provides for arbitration of any dispute—in Hong Kong!

finance companies are definitely more up scale than you might have thought. Note the changes in the table below:

	1980	1979
Borrowers with annual incomes over \$24,000	20.0%	8.0%
Borrowers with incomes below \$12,000	27.4%	47.7%
Borrowers under 35 years	50.3%	61.0%
Proprietors, managers and office workers	12.2%	6.2%
Average Loan	\$2,102	\$1,810

RThought: Keep in mind that this was not a good year for car sales—a substantial part of the business done by these firms.

Do you recognize your customers here—53% with incomes between \$12,000 and \$24,000 (vs. 44% last year), and now attracting more of the over 35 crowd?

WHAT TEAMWORK?

Arnold B. Aronson, chairman of the board of Saks Fifth Avenue, said in his keynote address to the annual Conference on Human Resources in Retailing:

"Teamwork is as integral to the American way of thinking as the very language we speak. It's the fundamental philosophy behind every quality circle and we, as a culture, cultivated that philosophy. We didn't borrow it from anyone. And we certainly don't need to re-learn it from the societies who learned it from us."

RThought: This is the very type of thinking that is making it impossible for retailers—and other major executives—to face up to the problems facing United States industry.

What teamwork do we have? Teams start with top management—and in United States retailing almost every single major retail executive (except those who founded their own company or who have acquired a major or controlling position in a company) stands ready to leave his or her present job in response to the blandishments of the headhunter. Probably a quarter of all top management (that is a collective estimate and is not necessarily true of each individual company) has a résumé out to someone.

Retailing's most recent proof of teamwork—as it actually operates—is the manner in which Stephen Pistner put together his "team" at Montgomery Ward—plucked from top management of other firms, including his former employer, where they presumably were part of the teams that Aronson points to with pride as being "as integral to the American way of thinking as the very language we speak."

The language we speak is much simpler—"How much will it cost to get him to leave that company and come with us?" The next question is "How long will he stay?"

Companies that are unable to develop their own executives take (steal?) executives from other firms with the expectation that those executives will bring with them the secrets of the business that cannot be deduced from the outside.

Can there be teamwork amongst employees when there is no teamwork amongst management? And can there be teamwork in management when 4 jobs in 10 years is considered evidence of stability?

WHERE WILL THE CHILDREN COME FROM?

Bureau of Census continues to project an increase in the birth rate (which now is substantially below the 2.1 total births per woman needed to maintain zero population

growth). At the same time the Bureau puts out reports confirming that increased fertility is unlikely.

Retailers tend to accept the census projections of a new baby boom—the children of the post-World War II baby boom. Retailers like to operate on the basis of a constantly growing market.

On the other hand, the Bureau of the Census issued Current Population Reports, Population Characteristics, Series P-20, No. 365 entitled "Marital Status and Living Arrangements: March 1980" (Government Printing Office, Washington, DC 20402, \$4.25).

All parts of the report confirm that the expected baby boom will bust.

The median age at first marriage for men in 1980 was 24.6 years, the highest since 1920; while the median for women was 22.1, the highest since 1890. On the other hand, the low points were during the post-World War II years. The median age for men stayed in the 22.5-22.8 year range from 1949 to 1966; while the median age for women stayed in the 20.1-20.6 from 1947 to 1967. Whether marriage at a later age is the cause or the effect of lower births per woman is less important than the correlation of later marriages and fewer children per woman.

Normally there are fewer children born to people who never get married. The table below shows the percentage of women by age brackets for 1980 and 1970 who reported they have never been married.

Age	1980	1970
20-24	50.2	35.8
25-29	20.8	10.5
30-34	9.5	6.2

RThought: If women get married later, if more never get married, and if those who do get married have a job, the expectation of a baby boom is unrealistic.

The number of unmarried couples living together has increased from 523,000 to 1,560,000 between 1970 and 1980. But the likelihood of children has dropped. In 1970 37.5% of the couples had children under 14 living with them; while in 1980 that figure had dropped to 27.2% (the children may not have been a product of unmarried couples but of a prior living arrangement.)

WHY IS THIS IN AN ACTION LINE?

I am always amazed that customers must use Action Line columns to straighten out affairs with larger retailers. In this case it is Speigels. A customer ordered a set of dishes and a completer set for \$132. The dishes arrived but not the completer set which arrived later with everything smashed. Speigels was notified and a replacement was received, but the bill then showed two completer sets. This was challenged but finance charges continued, and eventually there were threats from a collection agency. Further correspondence produced another completer set and another bill but never an answer to a letter.

Speigels, in competing for the "Outstanding Gall of the Year Award," reported to Action Line that "your many letters apparently helped to complicate matters as they did not all go to the same department and the departments didn't communicate with each other." Action Line action was necessary to get everything together.

RThought: I am always amazed that so many retailers seem to put their **least competent** people on two key jobs—answering the phone and handling complaints. But if you wonder about the success of mail order outfits like L. L. Bean, The Talbots, Eddie Bauer and other rapidly growing specialty mail order firms, you will find that they put their **best** people at the important points of contact with the customer—and thus do things right—and cheaper.

SPREADING OFF-PRICE SELLING

Sausalito Designs sells modern furniture through seven outlets in the San Francisco Bay Area plus a warehouse. Until they published their recent "PUBLIC NOTICE" they were a conventional operation, trying to sell at list price, holding lots of sales and open seven days a week at stores in or near shopping centers.

Their "PUBLIC NOTICE" announced that all that was changed.

Here are the pertinent parts of their "PUBLIC NOTICE":

- "1. We have drastically cut our operating expenses (almost 30%) by only opening 5 days a week and no nights—Tuesday to Friday 10 to 7, Saturday 10 to 6.
- "2. We have cut our freight costs from manufacturers by operating our own trucks (almost 40%). Almost all of our factories are in California. As much as 20% of the price you pay for furniture from eastern factories is in freight (our freight costs are about 3%)."

There will be no more sales. Manufacturers' catalog (suggested) prices are shown only for comparison. A cash discount is offered. Prices are FOB their central warehouse.

RThought: Reducing operating costs by 30% is beneficial only if sales are reduced by less than 30%. If prices are simultaneously lowered significantly, sales may have to increase to provide an improvement in profit.

It would seem, since furniture is one of the major husband-wife (roommates?) decisions, that a better choice of days would have been open Wednesday to Sunday, closed Monday and Tuesday. A better choice of hours would have been 11 to 8.

The offer of a cash discount, should have been more aggressively stated in the "PUBLIC NOTICE."

SHORT SHORTS

Do you have a circulating customer correspondence file? The Talbots do! This very successful mail order operation (plus 23 stores) uses such a file as a means of keeping top executives in touch with reality. It includes both nice things and nasty things—as well as reports of telephone conversations from their telephone operators. This gives top management a current feel of what is happening at the customer interface—something chains or single stores of large size often miss because executives sit in offices far from the nearest customer.

General Motors proved it—why not copy it? In the days of 20% prime and 18% mortgages, General Motors stimulated car sales with 13.8% car financing. Roger B. Smith, chairman, said in their third quarter report, "The linkage between sales and interest rates was evidenced by the strong pickup in sales which resulted when General Motors Acceptance Corporation

offered a **preferential** financing rate of 13.8% at participating dealers." Don't you have customers deserving a preferential financing rate?

Bullock's moves Savile Row! While going through the n Bullock's store at Mariner Island (San Mateo, California) a listening to the waterfalls through downspouts as a result of heavy rainfall on the dramatic soft roof, I was struck by some men's sweaters at \$89.00—under the name of Savile Row. The cleaning instructions stopped me—they were in Chinese! The sweaters were from China. Does England know that Savile Row has moved? (Note: Fortunately, there was an English translation of the care instructions.)

10% off Radio Shack Computers without arguing? The personal computer market is changing. Join Comp-U-Card of America (777 Summer Street, Stamford, CT 06901). Of course, just a 10% discount makes dishonest their claim of "Save 20%-40% (and sometimes more!) off of Manufacturer's Suggested List Price." But dishonesty has become standard to retailing. **Late News:** Even bigger discounts are available on Texas Instrument computers as TI moves out of the personal computer market.

Is your computer any smarter than the one at Macys of California? An enclosed letter starts, "Our records show that your account is now two payments in arrears. Please remit the total amount of the two missed payments (emphasis added) and the required minimum payment shown in the enclosed bill." The lower right-hand corner of the statement shows:

Minimum payment	\$10.00
Past due amount	10.00
Total payment due	13.78

Apparently the front end of the computer doesn't know what the tail end knows—that only \$13.78 is owed. **Great programming.**

If you don't want to be insulted by a computer, change your name from McNutt. Fingerhut did one of those fancy computer fill-ins that only an illiterate would think was personal. Trying to sell a set of cutlery to a family named McNutt, they suggest to them that to show off their carving skills they ask friends to "come to the Nutt house for dinner." When Reader's Digest, despite several written protests, continued to abbreviate Robert Kahn and Associates as Robert Kahn Ass and addressed me as "Dear Mr. Ass," (please—no comments from readers) I filed the appropriate notice with the post office that I considered this to be pornographic material—and Reader's Digest would then have to pay a fine if they mailed to me again in that manner. I have not heard from Reader's Digest for several years.

WORDS TO LIVE BY

I have long been a supporter of the American Friends Service Committee. It is guided by the following quotation from John Woolman, the Quaker mystic and abolitionist:

"There is a principle which is pure, placed in the human mind, which in different places and ages hath different names. It is, however, pure and proceeds from God. It is deep and inward, confined to no form of religion nor excluded from any, where the heart stands in perfect sincerity. In whomsoever this takes root and grows, of what nation soever, they become brethren, in the best sense of the expression."

It follows that between brethren there should be no violence but that peace and justice should guide their life.