DECEMBER 1987

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

JANUARY 1988

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

FEBRUARY 1988

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

MARCH 1988

F - How Objective Is Consumers Union?
F - Are Your Tests Biased?
B - Are You Going To Do Anythign About National Consumers Week?
A - The Short Public Life of Boys Markets
Question: Who Would Want to Honor Sears' Discover Card?
Tom Peter Says...
The Mystery of Pricing - I
The Mystery of Pricing - II
Follow Up: Color Tile and Improper Use of Polygraph
RT's Friendly Test of Models
How Many Catalogs Did You Get on Jan.8, 1988?
Electronics in Our Business World
How Do You Lose Money? Let Me Count The Ways
W - Words - That Mother Should Have Heard ("The Time Is Now")

APRIL 1988

F - What Makes A Takeover Target?
B - A Good Conduct Metal (Televents)
A - Old Fashioned Information for Store Owners
A Good Deal - For Circle K Stockholders
Is It Worth The Savings?
Are You Prepared to Handle A Crisis?
Two Approaches to Expansion
Here Goes The Profit in Credit Card Registration
A Call to Action - Convoluted Thinking
Do You Understand The Problem of Battered Women
W - What Does The Word 'Free' Mean?

MAY 1988

F - Chain Store Age Kills A Magazine -- With A Cheap Shot
F - The New Improved Directory of Discount Stores
B - Do Accountants Commit Sin?
A - If You Are A Retailer - "Think Customer"
Reading A Foreign Retailer's Annual Report
Once Again I Admire The Milton Petrie Brand of Charity
If You Send YTour Executive To A Business School Seminar...
Business Week Used To Be The Largest Business Publication
What Happens When An Employee Has A Crisis -- And No Leave Time?
The Short Life Expectancy of Discount Stationers
W - A Small Change Makes A Big Difference

JUNE 1988

F - Should You Hire A Stanford Graduate?
F - Team Development
B - Have You Lost The Common Touch?
A - Something to Think About
Macy Takes Another Step to Pay Off Debt
How Much Appreciation Should We Show Employees?
What's New in Food Store Advertising?
Can Graphics Conceal A Bad Year?
Do You Know Why EFT/POS Isn't Booming?
U.S. Retailers Succeed Where Banks Fail
W - About Assertiveness (Rabbi Hillel)

JULY 1988

F - Why Carry Men's Clothing and Funishings?
F - The Death of A Cooperative
B - Another Way to Help Education
A - Will Our Future Business Leaders Destroy Our Society?
Why Shouldn't She Be Replaced?
Commercial Bribery - Stouffer Style
How Many Names Does A&P Have?
A Most Expensive and Wasteful Ad Campaign
Trends in The Large Finance Companies
Stupid Computer Programming
Non-Price Competition is Better Than Price Competition
Doing Right - Or Wrong?
Computer Inefficiency
W - That May Describe Our Government

AUGUST 1988

F - Can You Compete With A Discounter?
F - Two Views On Sudden Increase In Shrinkage
B - Has Anyone Ever Written About You This Way?(Marcy)
A - An Affinity Card That Was Too Good
Another Law Not Applicable To The Limited
How Happy Is Your Catalog?
Guess Who Is Loyal?
Is Retailing An Art Or A Science?
And Retailers Think Employees And Customers Are Crooks?
The Day Jordan Marsh Launched The Polaroid Camera
The Greatest Store Catalog I Have Ever Seen
W - Words That Fit Me

TEMBER 1988

F - `Managing In An Increasingly Challenging Retail Environment' (RMI)
F - Cooperation
B - The Wrong Way To Prove Savings
A - You Can Get By Giving
How Fast Is Your Decision-Making Cycle?
Attorney General Cleans Up Levolor Advertising
Retailing Has The Same Problems Everywhere
Guess Which Retailer Does This?
IRS Is Still Lost In LIFO
Who Advertises `We Won't Be Undersold?'
The Oft Forgotten Part of Retail Success
From Time Past
K mart Is Really Trying Everything To Boost Sales
The Best Ad I Have Ever Seen
W - Words - Once Uttered With Pride (Sears)

OCTOBER 1988

F - Better Shopping Center Advertising
F - Will EFT+POS+MIS+Good Judgement Ever = NIP?
B - Please Help - A Kid (Covenant Houses)
A - More Free Advice to Men's Stores
`The Skeleton in Retailing's Closet'
Fraud - A $100,000 Loss Because No One Cared
Non-TV Electronic Retailing
I Had a Warm Glow
What Do Other countries Do About Pregnancy Leaves?
Have Any Retail Stocks Gone Up 50% This Year?
W - A Code Oft Not Understood ("The Code"-Robert Frost)

NOVEMBER 1988

F - A Letter You Might Use
F - The Collapse of Time
F - So Long, Jim (Jim Reynolds)
B - Who Cares About the Safety of Your Customers?
A - Let's Look at Sears
W - Words That Describe Resistance to Change (Paton)

DECEMBER 1988

F - How Would You Feel with a Negative Net Worth of Million? (Carter Hawley Hale)
F - Off-Price Shopping Centers in France
F - `Intrapreneuring'
B - A Challenging Plan for 1989
A - What Is a Home?
The World is the Same All Over
Liquor Barn - Empty Stores to Empty Shelves
According to Gospel
What Does a Square Foot Cost?
W - Words - To Be Reminded (Jack Moss/Key-Rec)

RETAILING TODAY

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I STILL THINK WHAT HECHINGER DID WAS RIGHT

In the October 1987 **RT,** the Box on the front page was headed *"Integrity"* and reported that Hechinger paid $3,560,777 interest on called debentures (interest that it was not obligated to pay).

A reader, who is a CPA, retired from one of the Big-8 CPA firms and, for many years, in charge of the audit of a billion-dollar retailer, said that my reporting was right but my analysis in **RThought** was incorrect when I concluded that this reduced its after-tax income by 22 cents.

GAAP keeps coming up with odd results; mine was logical but wrong. The reader wrote:

> **"Paying the interest did not cost them 22 cents a share in earnings but gained them 22 cents a share!**
>
> **This is because the FASB's Emerging Issues Task Force Issue No. 85-17 requires that the interest expense to the date of conversion [Note: The amount they were not required to pay], net of related income tax expense [Note: If they did not pay, there would be no related income tax expense], be accrued and credited to capital as part of the conversion. Thus, if the interest is not paid (and therefore there is no tax effect) 44 cents a share would have been charged to income rather than the 22 cents net of related tax that was charged on the payment. Sometimes good deeds bring their own reward from the FASB."**

RThought: I am always grateful to the many wise readers who keep educating me.

CAN MINNOWS LIVE WITH WHALES?

Let me define a "retail whale." For starters, I will use Sears, Roebuck and Company (Sears) and J. C. Penney Company (JCP). On this definition, I think there can be agreement.

Now, let me define a minnow. In the case of Sears, it could be Eye-Care Centers of America, operating 41 stores out of San Antonio, or Pinstripe Petites, headquartered in Minneapolis. In the case of JCP, it could be a not-yet-controlling interest in Alcott and Andrews or the J. C. Penney Furniture Gallery startup or the announced startup bed-and-bath chain.

It always seems so attractive to acquire (at a high price relative to volume or net worth) something a whale thinks has a great future. I don't argue that the price paid is either fair or unfair. Nor do I argue that the seller has to sell. But the dreams of the whale at the time of such an acquisition/startup far too often are not realized. Let's look at some of the problems.

The first, of course, is that an entrepreneur becomes an employee and then finds the decision-making process of whales particularly irritating. And this is even true when the intervention of the whale may be much less than it is for the employees of the whale who grew up in the whale.

Second is that the entrepreneur, with all the money or stock in hand, eventually has less commitment and less acceptance of

DID YOU KNOW THAT FEBRUARY IS BLACK HISTORY MONTH?

I suspect that none of the merchandising calendars put out by the various trade associations mention that February is Black History Month.

We know we should have more blacks in management positions. We know we should have blacks on our boards of directors. We know we should understand the merchandise needs (especially the beauty needs) of blacks. *But we don't.* We don't have enough black top executives. We don't have enough black board members. We don't think of special needs for black customers. The black world is waiting for us.

I regularly read **EBONY** (820 S. Michigan Ave., Chicago, IL 60605, $16/yr.) and was interested in how major American advertisers reacted to Black History Month. Some ran conventional ads—with black models (Martell Cordon Rubie, Pampers, Virginia Slims, Kool, Benson & Hedges, Delta, Kellogg (Corn Flakes), Coca Cola, More, Chrysler/Dodge, G.E. (stressing opportunities in engineering), Ford (Thunderbird), Amway, Newport and General Motors (Oldsmobile).

A few advertisers went a bit further. Kodak had three Olympiad photos—without identifying the people (one was Jesse Owens in 1932 when he humbled the German supermen). McDonald's showed its 1988 Black History Makers—a new program to encourage black teenagers in inner cities. Lipton Tea tried—but failed—on an all black page with a photo of two products and the statement around the edge, "If you don't know where you've been, you won't know where you're going." 7 UP offered a poster of black leaders—Martin Luther King, Wilma Rudolph, Jackie Robinson, Mahalia Jackson and George Washington Carver. Kraft ran a copy of the painting "Choir of Mankind" looking up for the "Possible Dream" and said that the original had been donated to the Martin Luther King Junior Center for non-violent social change. Sears ran a photo of a painting of Dr. King. Budweiser took three pages to salute the Great Kings of Africa—particularly Thutmose III, Pharoah, 1504-1450 B.C. Eastern Airlines mentioned blacks who once were in cities they now fly over. Pacific Bell modified a stock ad to include Dorothy Dandridge and "Scat Man" Crothers. Pepsi is backing the country-wide display of the Smithsonian's "Field to Factory" exhibition covering the 1915-1940 migration of blacks from the South. Toyota reported that of its 54 football "Leaders of the Year," they were Ignazio "Nacho" Albergamo of Louisiana State and Clyde Dawson of Grambling.

I don't think the Air Force, Peugeot, Ford Motor Company or the Postal Service knew that most of the **EBONY** readers were black.

RThought: I have saved two for last—two that should be, but never will be, run in magazines having primarily a white readership. AT&T spoke of Lewis Latimer who drew the plans for Alexander Graham Bell's first telephone set and, as an associate of Thomas Edison, wrote the first textbook on the Edison electric system. Coors told me about Elijah McCoy who, in 1872, invented a revolutionary engine lubricator. It was so good that users demanded the "real McCoy." Both, of course, were black.

irritation and hours versus future increases in wealth from the stock of the whale. Whales do not grow as fast as minnows.

Third, the ex-entrepreneur suddenly finds that good key executives are harder to find because there is no longer the potential when the company goes public of a great gain for the sweat investment. The substitution of lifetime-salary workers molded in the tradition of a whale may kill the minnow.

I could list many minnows that were started by entrepreneurs and then bought by whales. Later I have watched the entrepreneur leave and the business go downhill.

Lucky Stores sold Pic-A-Dilly for the value of the leases after buying a rapidly growing, early off-price retailer. Almost every report on Dayton Hudson in recent months has felt it necessary to comment on the "possible recovery" at its acquisition, Mervyn's.

New concepts started by big companies do not have a great record. Only one Fedway store (Federated Department Stores) survived and that was known for years as Levy's in Tucson (AZ) and is now a branch of Foley's. And where are the Gold Triangles and Gold Keys started by Federated? What happened to The Plum started by Dayton Hudson?

The counter argument, of course, is that Target was started from scratch by Dayton Hudson as was B. Dalton, which changed the entire book-retailing industry.

JCP got its start in mail order through its acquisition of Treasure Island—but the part of its purchase that was closer to JCP's historic operation, Treasury Discount Stores, was less successful. One must recognize that Thrifty Drug has grown to $800 million under JCP—but not as fast as others in the drug industry.

RThought: There is no sense in swamping you with more examples, but perhaps some observations are helpful:

1. The impact of the acquisition of an entrepreneurial company usually cuts off the dreams of riches on going public held by the key executives who do not yet hold stock. Many may even feel that they were sold out by the entrepreneur who made the deal.
2. The impact on a small business of being inserted into a big business is seldom part of the due-diligence that the whale conducts prior to the acquisition. If a company has an executive vice president for advertising, it ought to have at least a senior vice president for small subsidiaries with authority to protect "his team" from the headquarters' culture.
3. It is better to acquire a company that is already public than one that is just ready to go public. If you want the company and the company needs funds, then buy a minority interest, let the company go public and then make a tender offer. It may cost more in the short term, but the chance of having a long-term return on your money is much greater. (I recently pointed out to a client that when he bought a company for book value, he really had to add to that price the equal or larger amount lost in one division before it could be sold.) An example of a better type of acquisition is that by K mart of Pay Less Drug Northwest—a $1-billion company, well established, publicly held and with a non-entrepreneurial management in place.

IT MAKES ONE WONDER ABOUT GAAP—AND CPA'S

In the course of a month, I look at many dozen earnings reports.

From these reports, I have distilled a maxim: A profit changes as a percentage of the prior year's profit; a loss is measured by multiples of a prior year's profit.

Let me illustrate. Assume Company "X" had a profit last year of $100 and an increase this year. It will rarely be more than 100%.

When Company "X" has a loss, however, it is almost always a multiple of the profit the prior year, in many cases, from 2 to 20 times. If the profit last year was $100, then the loss this year will be $200 to $2,000.

This is the "Kitchen Sink Syndrome," maxim. It ties in with the fact that there are really ONLY TWO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES: (1) **Publicly held,** which says that you over-report profits and over-pay taxes in order to keep the stock price up; and (2) **Privately held,** where you minimize reported profits in order to reduce taxes and keep the money in the business.

The scenario that leads one into the "Kitchen Sink Syndrome" is an operating loss that cannot be eliminated with a pencil. When that point is reached, someone will say, "Let's write off the goodwill we paid on Chain 'Z'. . . after all, we have had increasing losses every year since we bought it. If we are going to have a loss anyway, let's make it appear that we are being honest with the shareholders on the value of Chain 'Z'." Everyone will applaud and, despite the stressed financial condition of Company "X", the maker of the motion will get a special bonus. Those who follow, by suggesting a write-off of prepaid opening expenses, capitalized advertising, unamortized costs of acquiring leases, etc., get no bonus because they are just copycats.

The unfortunate thing about this scenario is that the CPA from the BIG-8 PARTNERS has known that Chain "Z" was worth less for many years and yet continues to place the BIG-8 PARTNERS' name below a certificate that says the balance sheet "fairly represents the financial condition of the company as of the dates indicated."

RThought: I have also noticed, in my consulting work, that Mr. CPA, from CPA Sole Practitioner, is more likely to feel uncomfortable with that certificate and argue with the CEO about what should be done. Yet, both *cpa's* are working under the same GAAP and the same Code of Ethics. The main difference is in the hourly rate.

RThought: This causes me a problem in another area. A great many people know of my activity in the retail field and ask me for advice on buying a particular stock. A typical caller will ask, "What do you think of Company "X"? I've been hearing reports [Note: Perhaps put out by Company "X"] that they are going to report very good earnings." I know that Company "X" has evidenced a tendency to manifest the "Kitchen Sink Syndrome," and I also know that this is not one of those diseases that creates its own immunity. I pull the company's report, look at the balance sheet, read all the footnotes and ask myself, "How big is its kitchen sink at this point?"

Because (1) the people calling are my friends, subscribers— or at least my acquaintances and (2) I am not publicly quoted, I usually include in my general comments on the company a history of any past "Kitchen Sink Syndrome" and anything that might indicate a reinfection.

WHICH AD APPEALS TO YOU MOST?

The product is the same—one of the most personal and most

REACHING ME BY TELEPHONE

I live and die by the telephone. For more than thirty years, I have had my office (now three rooms) in my home. There are four lines, terminating at all six phones. My wife (as did my children when they lived at home) takes messages. She usually knows where to find me.

I have never had a marketing plan; virtually every client has come to me by referral. Thus, any call could be a new client. And established clients are important—when they have a problem I want them to call me—I want to respond quickly. Even when out of town, I check the house and the answering service every night and return calls the next day.

With that background, let's look at what people are doing to me through the phone.

I would estimate that on a monthly basis I get the following calls: 8 to 10 calls from brokers who have some form of securities to sell me; 15 to 20 requests for funds of which I only recognize the name of fewer than half; an unbelievable number of discount phone companies (none of which will accept my statement that I am satisfied with my present service); and a few calls from stores, banks or credit-card companies.

My mother raised me to be polite; she would be disappointed in me if she observed the number of times I hang up on a caller. It took me two years before I stopped saying "You're welcome" to the recorded message, "Thank you for using AT&T." For years, I could not bring myself to do it; now, as soon as I identify the nature of the call, I say, "I don't want any," and down goes the receiver. When I get a recorded voice asking me to listen to an important message or any other statement by a computer voice, I hang up. I am not prepared to "interface" with an electronic memory.

How Does This Relate to Retailing?

STORES (NRMA magazine, April 1987) had a feature report on *"Turmoil in Credit: What's Next?"* It dealt with automation in credit offices. Remember, as you read this, that many of the stores being quoted are the same ones that say they are going to "stress service" more than in the past. For example, TBS International, Inc., of Richardson, Texas, reports that Mervyn's has been using its system with a recording for very early stages of delinquencies (15 days?). Phone calls, even recorded messages, are at least twice as effective as a letter. Mervyn's switches to collectors in the later stages. I have an account at Mervyn's—and you already know that I hang up on recorded messages—yet I presume that, if one came from Mervyn's (I don't think one has yet), the system would record that I received the message just because I picked up the phone and immediately hung up. I suppose that hurts my credit rating.

The GECC computer (I don't think I have an account with GECC, but you never can tell these days) says, "Hello, I'm calling to speak to Mr. Jones." (Note: "I" is a singular personal pronoun and improperly used by a computer). After a customer responds, the operator says, "I have an important recorded call for you from General Electric Credit." At that point, I would hang up. The article quotes the seller of the system (not GECC), "When you're paying a day's wages to have someone talk to 30 customers, that is very expensive." (Note: Once again the equipment suppliers really don't care what kind of service a store renders to its customers, and I doubt that a recorded message is what your customers would call "personal service.")

Even the attitude of credit managers is not really what management might want. In regard to putting more emphasis on early delinquencies (between two and three months), the article reports Bridget Arroyo, Divisional Collection Manager of Macy's California, believes that the customer is still salvageable at that point.

RThought: Taking the last point first, I think that a check of the percentage of 60-90 day, delinquent accounts that ultimately are written off raises questions whether the attitude attributed to Ms. Arroyo is warranted by the facts. I have always thought those good friends of ours who happen, at the moment, to be 60-90 days slow are going to provide us with many more thousands or millions of dollars in sales in the future—if we can just be sure some over-anxious credit person (or computer), who management may mistakenly measure by some abstract "collection statistics," does not (1) drive them from us forever and (2) give them all those terrible stories about us that they like to tell their friends.

RThought: Is there anything in the credit contract or common or statute law that says I, as a charge customer, have to consider a computer or recorded message the same as a person or that a computer can be a legal agent or employee of a store and thus I have to listen to it? I understand that some systems even demand that listeners make some kind of response by pushing buttons if they have a touch-tone phone!!!

RThought: I am not impressed with the amount of information available to human callers. I have had calls from the Bank of America, for example, about "payments on your mortgage." When I ask "Which one?", the person at the other end answers, "Yours." I have to point out that I have two—and it always means they are calling in regard to the one I have with my daughter (so she could buy a condo and on which she makes the payments). She has a habit of delivering it to the bank at the last minute (don't others do this?). The call is usually made on the day the payment is due. My daughter has subsequently shown me receipts, showing that the B of A had her check in its possession on or before the due date.

RThought: What bothers me most is that the normal retail structure does not have a customer representative somewhere **IN** top management whose job it is to think of every procedural or operating change in terms of how customers will respond. I have known a great person in such a position in a major chain—but he retired when he found his efforts less and less effective. I have heard him respond to changes in check-cashing procedures in an attempt to reduce losses that would greatly annoy writers of all good checks (99%?). Have you ever checked to see if your check losses run as much as 1% of the checks handled? If you can determine which checks were other than payments on accounts (which can be reversed), it would be even less. Yet in a big company many people working in the collection area tend to consider all check-writers to be potential criminals. They also know they are judged less by how many customers they keep and more by how many dollars they can cut bad checks regardless of the cost (delay at register, clerk time, customer annoyance, etc.) of the proposed cure.

RThought: Most of all, what I read of automated systems involving customers overlooks the most important fundamental of retailing:

YOU CAN LOSE CUSTOMERS FASTER THAN YOU CAN GAIN THEM

ABUSE OF NUMBERS—INDUSTRYWIDE

I am sorry for Peter Berlin—he is not an ex-controller so he has been taken in by "controller thinking."

Retailers carry figures out to two decimal places only because they started doing them by hand. This was even before IBM could multiply and divide on a punch-card tabulator.

I have never seen a retail figure followed by an estimate of accuracy. We see it all the time in candidates' polls; the description will indicate accuracy as, for example, 65% probabilty of the true answer being within ± 6%. When Candidate A has 34% (it could be as low as 28%) and Candidate B has 30% (it could be as high as 36%), then Candidate B may really be ahead.

In the October 1987 issue of **SHRINKAGE CONTROL,** Berlin takes some figures from the 23rd Annual Report of Operating Results of Mass Retail Stores put out by Cornell University. A major headline across the front page of the newsletter reads:

IMRA Study Shows Shrinkage Moving Upward In Mass Retail Stores

TABLE I

Discount Store Stock Shortage
As % of Total Owned Sales

1980-81	1.41%
1981-82	1.53
1982-83	1.55
1983-84	1.51
1984-85	1.55
1985-86	1.51
1986-87	1.56

The figures in the table do not match the headline—sort of like the headlines that advertising departments write, such as "Lowest Price Ever," "Last Chance" and "Never Again." Or perhaps like the ads that promise service or instant credit or that famous "We will not be undersold" (without the qualification "if you catch us").

Let me state clearly:

THERE IS NO STATISTICAL DIFFERENCE FOR THE PERIOD 1981-1987

Berlin does make a significant point when he reminds readers that "the average was heavily weighted by large retailers whose volume exceeded $1 billion." He is thus reminding us of the 50% rabbit sausage—made from one rabbit and one horse!

A $1-billion retailer counts for as much as one thousand $1-million retailers.

Let's look at the significance of the .05% change in shortage from 1985-86 to 1986-87. If the store has a turnover of four times, the shortage expressed as a percentage of average retail inventory would be .2% (inventory turnover times shortage as a percentage of sales equals shortage as a percentage of inventory).

The first question, of course, is "Can you (do you) count your inventory that accurately?" Let's look at some numbers:

1. You do $1 billion.
2. With a turnover of four times, your inventory would average $250 million at retail.
3. An accuracy of 0.2% would mean that the ending physical inventory was within $500,000 of the book inventory before any theft or error.

If your stores average $8 million, then $1 billion sales means 125 stores. The $500 thousand is an error of $4 thousand per store for an entire year.

And you take inventory while the store is open and with help relatively untrained in inventory methods. The total variance could be in counting the inventory.

RThought: I think I have made my point.

But Peter made an even stronger point—in the same issue. Sharing the first page is a story headlined *"When Shrinkage Was Made 'Enemy Number 1'."* It is about the accomplishments of Mark, Fore and Strike—a fifteen-store chain of women's apparel stores in Florida.

Over a period of four inventories (from 4/30/85 to 9/30/86), it brought its shrinkage down from 3.81% to 1.95% (I will admit that this is a SIGNIFICANT DIFFERENCE). But, in the article, CFO John Erdle reported that, in addition to changing inventory-taking methods, new procedures and forms were developed to help tighten controls over price changes and inter-store transfers—the two most common sources of paperwork errors. As to the overall significance, Erdle is quoted as saying, "I would say that [paperwork] was at least equal to what we achieved with internal and external theft."

Let's see how that works out. The shrinkage was down 1.86 percentage points (pp). About one-third of that would be about 0.6 pp. THAT IS SIGNIFICANT. But it did not improve profits. It just meant changing the numbers on the upper part of the income statement without changing the bottom line. With the "apparent" shortage reduced by 0.6 pp, Mark, Fore and Strike will now report a 0.6 pp lower-gross margin, a 0.6 pp lower-shrinkage allowance and the same gross margin and pretax profit (please—don't hold me to the minor differences in timing when reducing paperwork errors).

RThought: As soon as we stop considering all our employees as crooks and think of the top five in management as incompetent because they (1) do not install proper record-keeping systems or (2) do not enforce compliance with proper systems, we will have taken the biggest step possible to eliminate shrinkage.

SHORT SHORTS

The toy sales/profit pattern was the same all over the world. **INSIDE RETAILING** (Box 981, Darlinghurst, NSW 2010, Australia, $A255/yr.) reported in its 11/30/87 issue that sales were flat and profits were up—for lack of heavily promoted TV toys which in prior years were sold at no margin or a loss.

A wonderful statement from a company report is from the November 30, 1987, news release with third-quarter results from U. S. Shoe Corporation: "Negative comparisons were amplified by reduced results in the Ups 'N Downs Division..."

expensive items a person can wear. As a gift, it is often a once-in-a-lifetime buy; as a purchase for oneself, it usually represents a lot of saving or the splurging of an annual bonus.

The upper ad uses a reverse block to stress "SAVE" and then repeats the sale theme again. Nothing but price comparisons (which may or may not be correct), no payment until March 1988 (with minimum purchase of $35—emphasized on a page on which the lowest priced item is $1,199), and, in the copy (reduced) which you cannot read, there is an essentially technical description of each fur with a single word added, such as "Sumptuous," "Luxurious" or "Elegant." It might have taken fifteen minutes to modify the information from the buyer; the layout took another fifteen minutes; and, add three minutes for the headlines, and you have it.

The lower ad starts with "Warmest Wishes" and is followed by "Why give her something else, when at 'X' you can afford the gift of her dreams?" There is a price without a comparison. After the technical description, the copy continues, "She deserves the very best. And at 'X', we can help you give it to her. Our classically styled blue fox jacket from Bill Blass is just what she always wanted, and now it's one of many fine 'X' furs specially priced for holiday gift giving. Visit us today and see how extraordinary values can turn extraordinary dreams into reality."

RThought: It may have been company policy not to use a price comparison or a reverse-block headline. But it took some thought for the copy.

I agree with reader Marshall Kline of Los Angeles (Marshall Kline Buying Office) who said, "I'd go to the lower ad first;" and he added that he doesn't think a consumer believes that the upper company stays in business selling coats at 60% off.

The ads from the **Los Angeles Times** (12/6/87) illustrate May Company (upper) trying to compete with Nordstrom (lower).

SMALL STORE SPECIAL

WHO CAN LEARN ANYTHING FROM NEW ZEALAND RETAILERS?

Perhaps we can.

Forget that this is a country of 3,000,000 people and 60,000,000 sheep! Forget that this is a country with a declining population and massive government regulation of business.

Just look at what one community did. A large number of the apparel retailers got together and leased space in the Overseas Passenger Terminal. They laid out their excess or markdown merchandise in small areas—without any identification of the stores (although some customers recognized either specific merchandise or sales people). Fitting rooms were scarce, but enough portables were provided.

And they advertised one big sale.

The idea was developed by the Wellington Regional Retailers Association. They talked about doing it once a year; their member-participants are now talking about doing it at the end of each season.

RThought: This can be done in any city but perhaps better in medium-size cities than in large or small ones.

There are additional advantages—*you are not forcing your mistakes onto your customers who would otherwise be looking at your fresh merchandise.*

It gets all the merchandise out in a short period of time.

Paraphrasing an old saying, "Darn clever, these New Zealanders."

But, best of all, with all of the festival spirit that such events develop, you may even get a better price!

(Note: **The Merchant,** December 1987—a publication of the [New Zealand] Retail and Wholesale Merchants Association.)

ARE YOU UP ON THE FAX?

FAX transmits copies of documents (typed pages, forms, drawings—the latter with some loss of clarity) at the cost of a direct-dial telephone call, which, on local calls, can be less than postage. I send two or three pages to my San Francisco office for 12-16 cents, depending on the time of day.

I find the following advantages:

1. If it is work that I have just produced, I can FAX it to

another person, which enables both of us, within a matter of minutes, to be looking at the same thing when we talk. Have you ever tried to describe a chart or four columns of numbers over the phone?

2. It is much better than Federal Express because you know it has been received when the last page comes out of your machine.

3. You can call ahead that a message will be sent so the other party can go to the machine and pick it up (this provides security for confidential messages).

4. The addressee can review it and think about it before calling to discuss it or sending a message back (I have exchanged up to four FAX messages each way in one day when working with a client).

5. A FAX message is not as intrusive as a telephone call.

6. All that is needed is a dedicated business line (in San Francisco, it is $18.18) and a FAX machine (good ones for a single office or smaller business are available for under $1,000). Include your FAX number on your calling cards, letterheads and invoices (I am sure a disagreement on a vendor's invoice can be cleared faster—and documented better—if handled by FAX if for no other reason than forcing both parties to organize their thoughts).

7. Your machine can be on 24 hours a day. I send many messages between 9:00 p.m. and 2:00 a.m. so my clients will have them when they come in the next morning (and I can go to bed knowing I met a deadline).

8. You can communicate all over the world—exchanges with Japan or Australia or France are easy—and help offset the complications of the time differences.

RThought: I knew it would happen to retailing. Just as Joe Sugarman put the "800" telephone number and bankcard together to create a new form of retailing, FAX is following the same path.

An ad by Olden Computer in **The New York Times** (January 3, 1988) said, "FAX US YOUR ORDER," and gave its FAX number. Others may have done this, but I had not seen it before. For example, in the same paper, I saw ads for competitors—Focus Camera, Focus Electronics (different address), S & W Computers and Electronics, Bi-Rite Photo and Electronics, 47 Street Photo, Sixth Avenue Electronics City, Hanover Video Discount, East 33rd and Uncle Steve—but none listed a FAX number.

But you may ask, "How can my customers send something FAX when they don't have a machine?"

You may have seen—but never visited—the little shops called "Mail Boxes Etc USA" or "Mail Box Plus" or "Private Mail Box." An increasing number offer FAX service. There are the many copy offices as well that offer FAX. But many of these two groups are open only Monday to Friday or Saturday and from 8:00 or 9:00 a.m. to 5:00 or 6:00 p.m.

There are an increasing number of 24-hour locations that provide FAX for regular customers and will do it for walk-ins as well. They are called *"hotels."* In Florida, for example, the spring 1987 FAX directory (now out of date) showed twenty-one Howard Johnsons, five Hiltons, five Holiday Inns, four Sheratons, a number of Radissons and Days Inns and other chains.

RThought: I would not be surprised to find a FAX machine available to the public at every hotel and motel charging more than $25 a night—along with a sign in front (just like the one that says "Telephone") saying "FAX." AT&T might undertake such a program to pick up the long-distance revenue.

HOW IMPERSONAL CAN A RETAILER BE?

I nominate J. C. Penney Company for first prize. On December 10, I found in my mail box an envelope that appeared to be a Christmas card addressed to "Home Owner" followed by the name of the street on which I live (no number) and without a postage stamp.

First, this is a clear violation of Postal Regulations 151.1 and 151.2. The former defines my officially approved mail box as an "authorized depository for mail," and the latter says that it "may not be used to deliver any matter not bearing postage." It is not uncommon for a friend to leave something in your mail box—but a $14-billion retailer to leave something to an entire street?

The cheerful message, as I interpreted it, was to help me generate commissions for sales people by using the services of J. C. Penney Custom Decoration.

RThought: The printed message, "May your Home be filled with happiness and good cheer during the holidays and all through the coming year," is as insincere as any I received. There was a $25 gift certificate. I guess the true value of all of this was clearly set forth in the copy on the coupon, "Cash value 1/20 of 1 cent," which appeared just before Penney's address in New York City.

SHORT SHORTS

A slogan I have never understood. Safeway's "You work an honest day—you get an honest deal at Safeway." I do shop at Safeway, and no one has ever questioned me about how I spent the day—I could have robbed a bank or snatched a purse from an old lady!

WORDS—THAT TELL ABOUT LEADERS

Recently, while reading the history of The College of the Ozarks, which is celebrating its 150th year, I came across the full quotation from Theodore Roosevelt—speaking to those who try, and then try again.

> **It is not the critic who counts; not the man who points out how the strong man stumbled or the doer of deeds could have done better. The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly; who errs and comes short again and again because there is no effort without error and shortcoming; who does actually strive to do deeds; who knows the great enthusiasm, the great devotions, spends himself in a worthy cause; who at best knows in the end the triumph of the achievement; and who, at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat.**

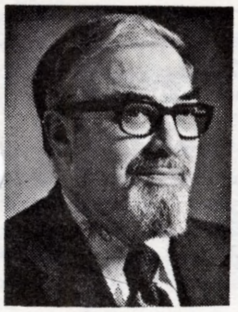
RThought: I often wonder to myself if I have become "the man who points out how the strong man stumbled or the doer of deeds could have done better." You can judge me better than I can judge myself.

My purposes in writing **RT** are three:

1. I try to comment honestly and openly on the current retail scene. Most of the trade press cannot do this!

2. I try to bring to you studies and analyses that either are original in **RT** or that have appeared in publications you would not otherwise see.

3. But, most of all, I want to raise the ethical standards in retailing. I would like to see them higher in every kind of business and/or society—but it is only about retailing that I feel fully qualified to comment.



RETAILING TODAY

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ROUTE TO

FEBRUARY 1988

VOL. 23, NO. 2

HOW WAS 1987?

The newspapers just report the seasonally corrected change in "retail sales." That is a total figure, including car dealers, service stations and restaurants.

Recently, as a result of the games that car manufacturers are playing with special deals (which destroy seasonal corrections), the all-inclusive monthly figure does not mean much.

But a comparison of total 1987 a.[1] 1986 is as follows:

Everything	+3.5%
Without auto group	+4.1
Building materials, hardware, garden, etc.	+2.6[2]
Auto dealers and auto supply	+1.5
Auto dealers alone	+1.3
Furniture, home furnishings	+2.8
General merchandise	+5.6
Food stores	+2.4
Gasoline stations	+3.1
Apparel and accessory stores	+5.0
Eating and drinking places	+5.4
Drug stores	+7.4[3]

[1] The "a." is an abbreviation for the word "against." California has made English the official language and I fear arrest if I use an abbreviation for a Latin word. They might bring me to court in the Case of California v. Kahn (the Supreme Court recently told me they were going to continue to use "v.").

[2] Despite house construction being off significantly in 1987.

[3] Perhaps due to October and other headaches in 1987.

RThought: The seasonally corrected figure for department stores in December was 5.5% over 1986—not bad. Autos were *off* 10.4%, food up 0.2%, gasoline stations up 8.8%, apparel up only 1.2% and furniture *down* 3.6%. In the GAF (General, Apparel and Furniture) group, department and discount stores were clearly the winner.

But drug stores were up 5.7%—that economic headache just won't go away.

CONSUMERS UNION SAYS: 'DO AS I SAY, NOT AS I DO'

I must admit to a bias in favor of Consumers Union. Mother was a subscriber from the days, in the 1930's, when the staff split off from Consumer Research and formed the present non-profit corporation; and I have had a personal subscription for more than 35 years.

But when they do wrong, it is just as wrong as if it were done by an organization that said, "To heck with standards, let's make money." (CU has had to make money in recent years—it had financial problems.)

DO YOU HAVE A POLICY ON AIDS?

I think many businesses, including retailers, do have a policy: Let's stick our head in the sand like an ostrich.

But that won't work.

The estimates of the number of people who have AIDS vary but all run in the millions. And it is not just a case of people in San Francisco or New York. California does have about 25% of the reported cases—but most people forget that California has about 12% of the nation's population. If California has twice its share, perhaps your state has only half. Does that really make you feel comfortable?

In retailing, we have a problem that manufacturing firms do not have—a majority of our employees come in contact with the public.

A policy on what to do if one of your employees has AIDS is not something that can be marked "TOP SECRET" and kept from public knowledge. The disease is not passed through casual contact but by unprotected sex, tainted blood used in transfusions, cross contamination through re-use of needles by drug users and similar contacts. But putting a notice on the bulletin board saying AIDS is not transmitted by casual contact is not going to make all of your people comfortable.

What is needed is an honest look at the problem. I don't know of any retail trade association that has had a seminar to educate retailers on AIDS. I have not heard of a single association that has formed a committee of top management to develop a policy guide. I am not sure the people in charge of personnel or human relations have the power to draft a corporate policy on AIDS. But out of such seminars and committees could come a better understanding and better policies.

Several companies in the San Francisco area have developed "compassionate, humane and pro-active" policies according to Dr. Albert Bowers, CEO and Chairman of Syntex Corporation, a pharmaceutical company that has long done research on AIDS. Many **RT** readers do business with one of these companies, Levi Strauss. Dr. Bowers says that it has an excellent program.

RThought: If you write to Levi Strauss, Attention: Corporate Communications, 1144 Battery St., San Francisco, CA 94111, and mention **RT,** they will send you a kit.

CU publishes several periodicals in addition to **Consumer Reports**; one of these is **Consumer Reports Travel Letter.**

For a year or so, they have been running the post card below:

Just recently, I read the card. The savings is compared with the "single-copy cost of $60." I could not recall ever seeing it on a newsstand. In order to mail second class, they have to publish each year a "STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION." In answer to the question of "Sales through dealers and carriers, street vendors and counter sales," Robert Cross, Publisher, certified that the correct answer was "None."

RT readers are aware of the law on phony comparisons (even if some of them violate it regularly). CU should be more conscious of it than you, because they claim to be completely ethical. They knew, all the months they ran the post card insert, that they did not regularly make significant sales at the "single-copy cost of $60." They knew they had paid circulation in October 1986 of 57,200, against an average for the 12 months ending October 1986 of 38,700.

RThought: ***Apparently CU has been successful in increasing circulation of the Travel Letter. It is unfortunate that it has done so through advertising that is contrary to the FTC and Better Business Bureau guidelines.***

I have written to the President and Executive Director of CU but have yet to receive a reply.

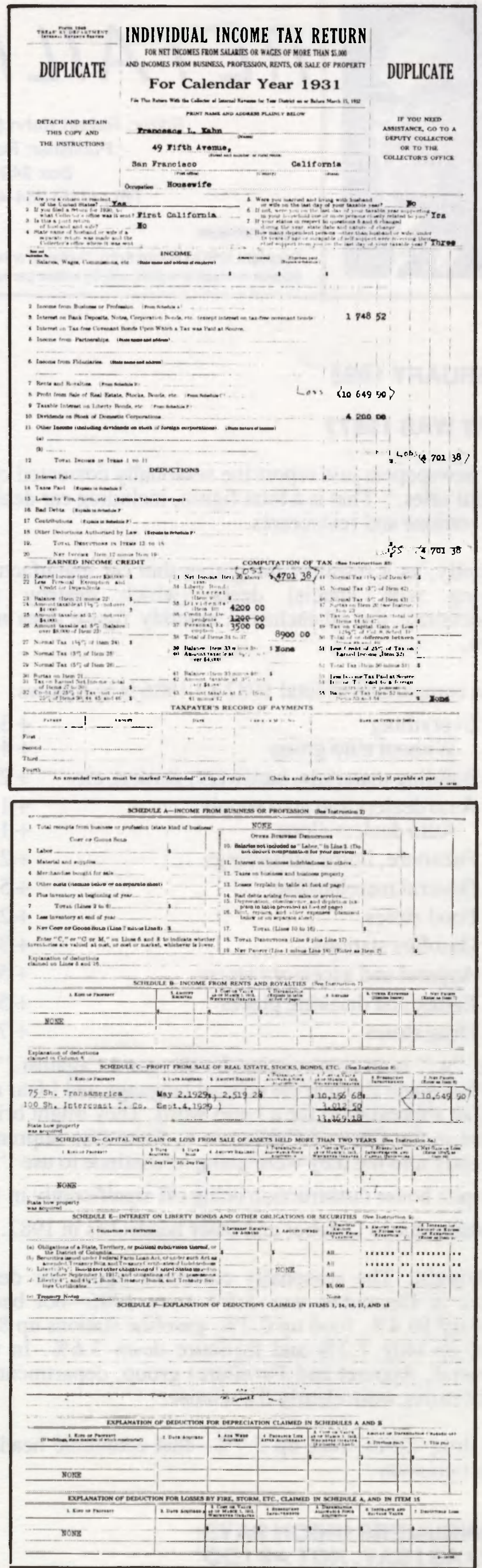
(**Late News:** I heard. They feel the comparison is valid because in response to mail requests they sell a few hundred single copies each month. You be the judge. It is a shame to see a great organization convince itself that it can talk in the clouds and merchandise from the gutter.)

WHEN LIFE AND INCOME TAX FORMS WERE SIMPLER

In going through some of my mother's papers, I came across her Federal Income Tax Return for 1931.

Mother was divorced and rearing three kids—the oldest just into college, me starting high school and my brother in junior high.

The capital loss of $10,649.90 was on 75 shares of Trans america and 100 shares of Intercoast Trust Company (which had been spun off). She paid $13,169.18 in 1929 and sold for $2,519.29 in 1931. Though this was a dollar decline of 81%, it was a decline of only 76% in constant dollars because of deflation.



DUPLICATE

INDIVIDUAL INCOME TAX RETURN

FOR NET INCOMES FROM SALARIES OR WAGES OF MORE THAN $5,000 AND INCOMES FROM BUSINESS, PROFESSION, RENTS, OR SALE OF PROPERTY

For Calendar Year 1931

DUPLICATE

DETACH AND RETAIN THIS COPY AND THE INSTRUCTIONS

PRINT NAME AND ADDRESS PLAINLY BELOW

Francesca L. Kahn

49 Fifth Avenue,

San Francisco California

Occupation Housewife

IF YOU NEED ASSISTANCE, GO TO A DEPUTY COLLECTOR OR TO THE COLLECTOR'S OFFICE

1 Are you a citizen or resident of the United States? Yes

2 If you filed a return for 1930, to what Collector's office was it sent? First California

3 Is this a joint return of husband and wife? No

5 Were you married and living with husband or wife on the last day of your taxable year? No

6 If not, were you on the last day of your taxable year supporting in your household one or more persons closely related to you? Yes

8 How many dependent persons ... on the last day of your taxable year? Three

INCOME

1 Salaries, Wages, Commissions, etc.

2 Income from Business or Profession

3 Interest on Bank Deposits, Notes, Corporation Bonds, etc. 1 748 52

4 Interest on Tax-free Covenant Bonds Upon Which a Tax was Paid at Source

5 Income from Partnerships

6 Income from Fiduciaries

7 Rents and Royalties

8 Profit from Sale of Real Estate, Stocks, Bonds, etc. Loss (10 649 90)

9 Taxable Interest on Liberty Bonds, etc.

10 Dividends on Stock of Domestic Corporations 4 200 00

11 Other Income (including dividends on stock of foreign corporations)

12 Total Income in Items 1 to 11 Loss (4 701 38)

DEDUCTIONS

13 Interest Paid

14 Taxes Paid

15 Losses by Fire, Storm, etc.

16 Bad Debts

17 Contributions

18 Other Deductions Authorized by Law

19 Total Deductions in Items 13 to 18

20 Net Income Item 12 minus Item 19 Loss (4 701 38)

EARNED INCOME CREDIT

COMPUTATION OF TAX

33 Net Income (Item 20 above) Loss (4701 38)

35 Dividends 4200 00

36 Credit for Dependents 1200 00

37 Personal Exemption 3500 00

38 Total of Items 34 to 37 8900 00

39 Balance None

55 Balance of Tax None

TAXPAYER'S RECORD OF PAYMENTS

First

Second

Third

Fourth

An amended return must be marked "Amended" at top of return

Checks and drafts will be accepted only if payable at par

SCHEDULE A—INCOME FROM BUSINESS OR PROFESSION

1 Total receipts from business or profession NONE

SCHEDULE B—INCOME FROM RENTS AND ROYALTIES

NONE

SCHEDULE C—PROFIT FROM SALE OF REAL ESTATE, STOCKS, BONDS, ETC.

75 Sh. Transamerica May 2,1929 2,519 29 10,166 68 (10,649 90)

100 Sh. Intercoast T. Co. Sept.4,1929 3,012 50

13,169 18

SCHEDULE D—CAPITAL NET GAIN OR LOSS FROM SALE OF ASSETS HELD MORE THAN TWO YEARS

NONE

SCHEDULE E—INTEREST ON LIBERTY BONDS AND OTHER OBLIGATIONS OR SECURITIES

NONE

SCHEDULE F—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 13, 14, 16, 17, AND 18

EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES A AND B

NONE

EXPLANATION OF DEDUCTION FOR LOSSES BY FIRE, STORM, ETC., CLAIMED IN SCHEDULE A, AND IN ITEM 15

NONE

RThought: I guess we did not know how bad things were. We had friends. Life was simpler. I never heard any kid complain "But there's nothing to do." Of course, there were things to do. On the street, we played roller-skate hockey or baseball (bare hands hitting a tennis ball) or went to the playground for

ANOTHER QUESTIONABLE PRICE PROTECTION GUARANTEE
RT OFFERS A SOLUTION

The top half of the full-page ad has a red circle, saying, "PRICE PROTECTION"; and in the center, crossed out by a diagonal black line (from the international traffic signs), is the word "GUARANTEE."

The copy then reads:

A SIMPLE SOLUTION

Our Price Protection Guarantee protects the price that you pay at Lechmere two ways;
BEFORE YOU BUY. . .
If you see a lower price offered by any local retailer (verifiable written proof required) on the same model that Lechmere sells, we'll gladly meet that price.*
AFTER YOU BUY. . .
If you find a lower price (either regular or advertised price) on the identical model of merchandise you purchased at Lechmere, we'll refund the price difference to you, if presented with verifiable written proof within 30 days of purchase.*
If you buy any advertised item at Lechmere and see the identical item in a Lechmere advertisement at a lower price within 30 days, we'll refund the difference.

Just bring your Lechmere receipt and the Lechmere ad to our Customer Service Desk for your refund.

42 Years of Service to New England Customers

L E C H M E R E

*Does not apply to: Mail orders, manufacturer's rebates, going-out-of-business sales, floor samples, one-of-a-kind or limited quantities, or when advertised items are not available from other retailers.

RThought: First, is this really "A Simple Promise?" Judge for yourself.

Second, is this a true commitment to a guaranteed lower price or is this a reward for those who catch you breaking your promise? You are seeking the loyalty of all who shop with you—but is this the way? Would the founder have done this?

Third, it requires every shopper to be a bookkeeper—save every tag for 30 days, watch every ad in every paper.

Fourth, many ads do not show model numbers. The ad at a lower price may have used the same cut; but when the ad is presented to Lechmere, will they say that this is not "verifiable written proof" as required? So, must a customer go to a store in order to get the store to add the model number to the ad and have someone sign the ad for the customer? Or will the customers just stop shopping with you?

(Late Note: In a Montgomery Ward ad that ran in the Reno **GAZETTE-JOURNAL** on Friday, February 19, the so-called "guarantee" was followed by an explanation that MW may be the "exclusive distributor of certain national brand products". Apparently the Nevada Attorney General is making Nevada retailers, including ones owned by multi-billion dollar international companies that preach economics and politics to us from editorial-page ads, do honest advertising. I also note that the mattress comparative price described by Breuners (subsidiary of BATUS) in its California ads as "Regular" are described in its Reno ads as "Original."

Fifth, how does Lechmere clear merchandise? When they take an additional mark down, they cannot advertise the new lower price for 30 days. And if they do it before 30 days, it will be a one-liner in a clearance ad so that the customer will have to come in and check the model number (have you ever tried to get a model number over the phone? from a discount store?) to prove he or she is due a refund.

Sixth, what is "any local retailer?" I think Lechmere has ten stores and those ten are spread from Manchester (NH) to Warwick (RI) to Albany (NY)—and has announced stores for Atlanta (GA).

Other than these six areas, I don't see too many weaknesses or too much unfairnesses in this ad.

Is there an alternative?

There is. It is called *"integrity."* Once upon a time, many retailers were concerned about integrity—they worked hard to earn a reputation for integrity—and often gained by it.

My thoughts go back to my days at Macy's in New York in 1940-41. Macy's advertised "Pay Cash—Pay Less—Save 6% by Buying for Cash" (until the FTC made Macy's start, "It is our endeavor to save you 6% . . .").

Macy's spent hundreds of thousands of dollars on comparison shopping.

In literature readily available, the full policy was clearly explained:

1. Undersell by 6% stores offering service and credit (Gimbels, Hearn, Stern, Wanamaker, Saks, etc.).
2. Match the price of stores offering service but no credit (Ohrbach and Alexander).
3. Sell for 5% more than stores offering neither service nor credit (Klein's on the Square).

If any report of a lower price reached Macy's management by any means (ads, complaint, statement in department, observed by employee), a trained comparison shopper was sent out to check the price (the customer did not have to bring in "proof"); if correct, *the price at Macy's would immediately be cut* to a price in accord with the policy above.

Do you think that convinced the 12,500 people who, in those days, worked in the single store at 34th and Broadway? You're darn tootin' it did. *I was proud to work for a company that made every effort possible to carry out that policy.*

Do you think Macy's was trusted for its integrity by its customers? You can be darn sure it was.

The price wars with Gimbels were classics. The newspapers gave them front-page coverage. For example, I can remember the "Battle of the Modern Library Books." The small size books were listed for 95 cents, but Macy's regularly sold them for 79 cents. Gimbels started selling them at 79 cents. It didn't take long for Macy's regiment to go into battle. The scouts (comparison shoppers) verified the price. Macy's cut its price to 74 cents. A scout stationed in Gimbels reported that Gimbels matched the price. The battle swung back and forth; and when the price got below cost, platoons of salespeople were taken off the Macy's floor, given money and sent to Gimbels to buy books which were then sold at Macy's for 6% less. Gimbels bought from Macy's. When the price got below cost, Macy's pulled in a special weapons company that started stamping Macy's Red Star in each book. By afternoon, almost every Modern Library book in Gimbels had a Macy's Red Star in it! Finally, Gimbels withdrew, licking its wounds, and Macy's once again had preserved its integrity.

That was Macy's policy—so that is what they did. In those days, you spelled Macy's I-N-T-E-G-R-I-T-Y.

Another example was the Arrow collar wars—but few RT readers recall the days when Arrow sold neckband shirts to which you could attach a paper (or celluloid or cloth) collar (it gave a fresh look without sending the shirt to the laundry). As I recall, this war started at about 15 cents and got to three for 1 cent. Macy's did not give up.

And then there was the battle of the rowing machines—that lasted until Macy's found out that the only people buying them were the employees of a vendor a couple of blocks away. He was making money selling them back to Macy's and Gimbels.

Solution: Integrity! That is the key. There are a few large retailers that have it, but most don't.

FEATURE REPORT

COULD WE HAVE A SERVICE ECONOMY WITHOUT INCREASED FACTORY PRODUCTIVITY?

In the January 16, 1988, **Weekly Newsletter** of the Federal Reserve Bank of San Francisco (call 415-974-2246 for a free copy), Brian Motley of its research department wrote, ''The Shift to Services.'' I want to turn the article around a bit—to be helpful to retailers.

We are all aware that an increasing percentage of consumer expenditures are made for services.

We also know that most service industries are not subject to automation—we still like humans to serve us our ''Big Mac'' or cut our hair or be our attorney. So the growth of service industries has required a massive increase in employees. But where do they come from? They come from the closed factories, of course.

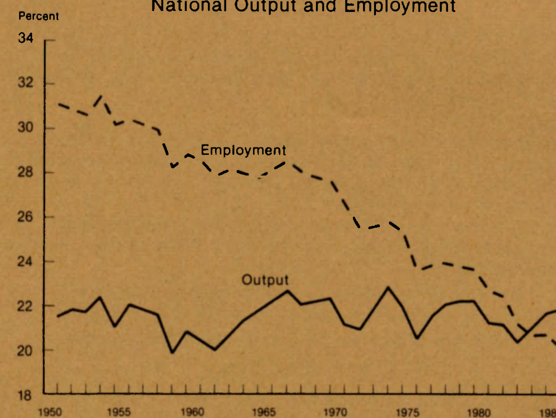
Chart 1 compares service industry's percentage of revenues and percentage of employment.

For the 36-year period, the percentage of the national output of service increased from a low in 1953 of 39.6% to 53.1% and the percentage of employment from 39.1% to 53.7%.

Chart 1
Share of Service Industries in
National Output and Employment

Chart 2 shows similar figures for manufacturing. But here the pattern is different. Manufacturing production fluctuated over the 36 years from a low of 20.0% to 22.9% of national output, during which time the employment in manufacturing as percentage of the labor force dropped steadily from the Kor■■ War peak in 1953 of 31.5% to 20.1%.

Chart 2
Share of Manufacturing in
National Output and Employment



The 11%-plus of the work force no longer needed in manufacturing provided the bulk of the 13.5% increase in employment in the service industries.

RThought: When we look at the decline in living standards over the past decade, measured in constant dollars, it is largely due to the lower average pay, which is in the $4-6 range in service industries compared to the $8-12 range in manufacturing.

The manufacturing figures do not include the jobs we hav sent overseas. If those jobs could have been retained in the U.S. and if we evidenced the same demand for services as Chart 1 shows, we would have found wage rates in services much higher as it bid for labor.

Let us not confuse the decline in manufacturing jobs with the importance of manufacturing production in our gross national product. This is overlooked at times in the cry for protection of industry, which is mostly a call for protection of high pay jobs.

SHORT SHORTS

When I read ''Our furniture is nutritional'' on the side of the truck saying, ''Nader's of Carson [CA],'' I had to maneuver in traffic to read the rest, which said, ''If you don't buy our furniture, we will starve!''

I think I know why Spiegel is so successful. In its Spring '88 catalog, I found 27 smiles on models—in the 40 pages devoted to apparel. The usual count for a fashion catalog would be zero—or a bit below. **RThought:** Twenty-seven are a lot of smiles, since it is hard to get a smile on jewelry, watches or shoes that are not shown on models.

How can food retailers do honest merchandising with suppliers like Gatorade? A reader asked me if I had ever read the label. I said, ''No, but I would.'' On the lemon-lime and orange drinks, it brags about being a *thirst quencher*, uses the names of fruits and says, *''No fruit juice. No caffeine.''* **RThought:** Once again, 2 plus 2 comes out 0. (Late Item: One of my assistants attached a note to this, ''Some time look at the ingredients of Cool Whip—yuk!'')

It cost Bloomingdale's $2,500 to settle with a Montgomery County (MD) an allegation that Bloomingale's advertised sale items that did not represent a genuine price reduction. *But worst of all for Bloomingdale's* was that it had to agree that in the future it would not compare the current price of an item with a former price unless there had been *substantial sales* of the item at the former price or the item had been offered for sale at the former price for a *reasonably substantial* period of time. **RThought:** There goes the mattress advertising program! (Source: **Consumer Protection Report**, National Association of Attorneys General)

If you think you have tax problems, consider the following tax ruling: If you acquired cows after February 24, 1986, that have been artificially impregnated, you must allocate the cost between the cow and the embryo!!! (Rev. Rul. 87-105, 1987-43, IRB 13)

Voltaire wrote (1694-1778): ''Thanks to work we keep at bay three great evils: boredom, vice and need.''

touch football. There were intense interblock rivalries. We were on the 0-99 block on (upper) Fifth Avenue in San Francisco and competed with (upper) Sixth, (upper) Seventh, (lower) Fifth (100-199 block) and (lower) Seventh Avenues.

We would ride our bikes to Golden Gate Park (about ten blocks to the interesting part of the park). We could spend hours in the de Young Museum, Steinhart Aquarium, Hall of Africa, Museum of Natural Science and the Japanese Tea Garden. Or we could go to Spreckels Lake and sail the 3-foot model boats we had built.

Or we could sail a kite in the part of town that had no houses—thus no electricity or telephone wires.

If we had 10 cents, we could see a double feature of westerns—Tom Mix, Buzz Barton, Hoot Gibson, Colonel Tim Tyler and many more.

You really can't be poor with all those things to do—and no charge for most of them!

ABUSE OF NUMBERS—BY BUSINESS WEEK

In a **Business Week** article on Renault (9/28/87), John Rossant, the **BW** reporter in Paris, wrote (and his editors took no exception):

> **"In fact, senior executives say privately that net profit this year will be at least \$660 million and possibly as much as \$833 million."**

The estimate has a range of 33% (833 divided by 660 = 133.8%); but he used a figure accurate to the closest \$1 million—or .12 of 1% (1 divided by 833 × 100).

What the "senior executives" probably said was that they "expected a profit of at least 4 billion and possibly 5 billion francs." I am sure such a statement makes more sense to you than does the one that was printed.

Either the correspondent or the editorial staff thought the readers would not know the exchange on francs and so helped by dividing the numbers by the then exchange rate.

RThought: My argument is with the **BW** editors. A graduate of a journalism school may not be current on his multiplication or division—but certainly editors should know enough to challenge such precise numbers. Alas! Retailers and CPA's do the same thing—and they have no editor whom I can blame.

LET THEIR WORDS BE RECORDED FOREVER

I always wonder if retailers understand how silly many of their comments sound when reporters make their customary pre-Christmas reviews of business. They also call me from 25 or 30 papers—stretching as far east as Memphis and Dallas. Many have asked particularly about the impact of the "Crash of '87." My standard reply has been that I would have expected December sales, excluding automobiles (they are surprised that "retail sales" include other than department and specialty stores), might have been up 3% to 5% but I expected them to be up only 1% to 3%. They were, of course, disappointed that I had not predicted something cataclysmic.

(**Late Note:** Advance figures for December show −0.6%; but if autos are excluded, it was +3.5%. GAF [General, Apparel and Furniture] was up 3.3%.)

From the December 12 San Jose (CA) **Mercury News**: Ernie Arms, National News Director of Sears, Roebuck said, "We're very pleased. Sales are stronger than anticipated. This past weekend was particularly strong. Our forecast was revised upward [from what?]." (Sears ended with +3.2%.)

Bill Dombrowski of Carter Hawley Hale in Los Angeles: ". . . are beating our expectations. We're actually very pleased. We're going to show a profit for the quarter." (CHH had +3.1%.)

From the November 30, 1987, **Contra Costa Times:** George Hite, VP of Public and Consumer Affairs, said of Target, "It appears that we are once again going to have one of those Christmases that retailers lose their fingernails over [which Christmas was different?]. People are sitting back hoping retailers will slash their prices at the last moment in order to move inventory [that's right, George, but who trained them?]." (Dayton Hudson had a 19.1% increase; Target was not disclosed separately.)

From a **New York Times** article reprinted in the **San Francisco Chronicle** (12/28/87), William McDonald, SVP Broadway—Southern California—Saturday, December 28, said that it was "a pretty phenomenal day." The same article quoted Philip Miller, Chairman and CEO of Marshall Field, as saying that the same Saturday was a "flat day" because of traditional light shopper traffic in the city center on Saturday. Carl Sanger, spokesperson for Federated said that business on the last pre-Christmas weekend was "below what we had hoped it would be [does that mean planned, last year, what was needed to clear the overstock?]. But last week things picked up significantly." (Federated ended with +6.0%.)

On the same date, in the **San Francisco Chronicle's** Bay Area wrap up, Peggy Mendelson, GM of the local Neiman-Marcus, was quoted as saying, "Fashions change, and we've got to get rid of winter goods. Shoppers will get some good values in January [an honest statement—but others cut prices before Christmas]." Tim Thompson of Gump's: "Sales increases were in the double-digits. We thought the October 19 crash might have some implications for our Christmas season, but it didn't materialize . . . *we did it totally at full-price.*" Don Uselmann, Manager of Saks Fifth Avenue, said that sales were "just okay . . . below my expectations though they were better than last year." Ralph Wilson, Manager of Emporium-Capwell's main San Francisco store, said that we "exceeded last year but were below our plan." Kathy Blackburn, spokesperson for Mervyn's, was quoted as saying "only a little bit over" last year (when it had 24 fewer stores). (Note: Blackburn was probably, I hope, referring to same-store sales but failed to make that clear to the reporter.) "It was a very tough Christmas. There was some reluctance on the part of consumers." (Were middle-income, blue-collar families impacted by October 19?)

RThought: Would doomsday arrive if a retailer said, "We were up 10% last week over last year" or "Our plan was a 6% increase, and we are (circle appropriate word) below/on/above plan." What in the world would your competitors gain by releasing that "secret" information? For most large companies, that information will be out on a monthly basis—after the end of the 4-5-4 week period.

HEILIG-MEYERS DIDN'T DO IT— AND PROMISES NOT TO DO IT ANY MORE

On November 19, 1987 (one month after the Crash), Heilig-Meyers (H-M), one of the large furniture chains, signed an agreement with the Attorney General of North Carolina and paid \$70,000 to cover the cost of being investigated. The document, of course, recites that H-M made *no* admission of wrongdoing, and signed just to save expensive litigation costs.

Here is what the Attorney General thought H-M did and what H-M said they would not do in the future.

1. H-M created reference prices by (a) estimating the wholesale price on an item that H-M "would perceive to be comparable" (this implies that the items carried by H-M are not sold by others, so substitutes must be used), (b) add 10% for freight, and (c) multiply by 2! The State of North Carolina claimed that H-M went further and claimed comparability when the goods were "not even comparable to the [goods in] other stores." **H-M SAID IT WOULD:** Not claim an item as comparable until it "documented a methodologically sound and statistically significant market survey" made within 90 days prior to the ad.

2. The State said that H-M represented price comparisons with "manufacturer's suggested retail" and "implied" that these were H-M's former selling prices. **H-M SAID IT WOULD:** Not use a comparison for non-identical items unless it "clearly and conspicuously disclosed" that the comparative item was different; states that the comparable item was of the same grade and that such comparable items were widely available at the price shown.

H-M will do a few other things. It will retain for two years all documents substantiating price claims and will make such information available to the State within ten days.

On the other hand, **THE STATE AGREED** that if more lenient terms on comparative price advertising were allowed to any person those terms should become applicable to H-M and that the State would take no action on advertising run before the date of the new agreement.

RThought: Hooray!!! Attorneys General are supposed to enforce laws—although few find the time to enforce trade practices and consumer protection laws.

There is a simple solution to this. ***Each State should establish a fund from penalties (in this case, the cost could have been $170,000 instead of $70,000) to support the necessary attorneys to enforce business practice and consumer protection laws.*** This is simple fairness—the unethical among us should pay for their own wrongdoings.

YOUR CPA MAY ASK YOU MORE QUESTIONS—SOON

The American Institute of Certified Public Accountants has been directed by its members to take some stronger stands on ethics. Deloite Haskins & Sells, in its **Weekly Review** (2/1/88), said:

> 92% voted for a new code of ethics with ethical goals positively stated and rules that are enforceable. (This means that funny rulings like the one some years ago—later withdrawn—that permitted a CPA to take a commission for talking a client into an oil well investment because a CPA was not expected to be an expert on oil wells, and thus was outside the functions of a CPA.)
>
> 94% want streamlined enforcement of the new code.
>
> 90% want mandatory continuing education for members in public practice (auditing public companies), and 74% voted for the same for those not in public practice.

RThought: What does that mean to you? It may mean that your CPA may now be required to ask more questions, such as, "You paid $22 billion over book value for Subsidiary XYZ, and it has been losing $100 million a year. Do you still claim that the recorded value has not declined and that the unamortized balance should continue to be amortized over 40 years?" That's just an example, of course. It is totally unrelated to such examples as how long Mobil carried Montgomery Ward at above book value while its "chief communicator," Herb Schmertz, used editorial ads to lecture the world on Mobil's good conduct, especially when the world took steps to hurt Mobil's profit.

DO COMMUNISTS FACE PROBLEMS BETTER THAN REPUBLICANS/DEMOCRATS?

Vietnam is faced with problems. They have corruption in government. They are restricted by out-of-date thinking by old-line leaders. Past economic reforms have borne no fruit. Things are moving too slowly.

In June 1987, the National Assembly changed leadership—naming Pham Hung the Prime Minister and Vo Chi Cong the President, replacing the last of the Communist Party founders in top government. Then they drafted a code on criminal procedure to reduce corruption and arbitrary justice. Now they have proposed laws that will allow wholly owned foreign enterprises and guarantee full repatriation of profits.

The present government publicly acknowledged that the changes have moved too slowly. They want to move faster.

RThought: So you don't believe communists? They can't be trusted? How many times have we, in the United States, been promised by our government that it will face up to the problems caused by the twin deficits—budget and trade? Can Hanoi miss the mark more than we do? Let's watch and see.

It will be interesting to see how many U.S. firms elect to open plants in Vietnam "to take advantage" of cheap labor.

(From **Sing Tao International** [12/24/87], published daily Hong Kong and by satellite transmission in San Francisco.)

WORDS—ON WHY CUSTOMERS QUIT YOUR STORE

The billboard below is from Jack and Ty Brandwein's **Furniture Forum** (8177 E. 44th St., Tulsa, OK 74145, $120/yr.):

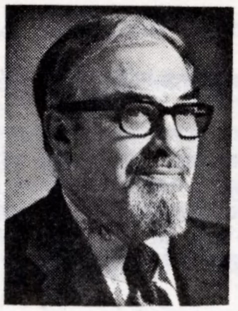
WHY CUSTOMERS QUIT

1% Die
3% Move Away
5% Other Friendships
9% Competition
14% Dissatisfaction—
BUT
68% Quit because of Attitude of indifference toward a customer by some employee.

We found this in our files. We put it on the wall of our San Francisco office and virtually every person that walked in wanted a copy. Use it as a theme for your next sales meeting.

This advice is just as good in 1988 as it was in 1980 when we last printed it.

RThought: I am going to save this to use again in 1998 and in 2008 (I'll be 90 then) because it will still be true.



RETAILING TODAY

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THE SHORT PUBLIC LIFE OF BOYS MARKETS

Boys Markets is a $500 million chain in the Los Angeles area. It was acquired on a leveraged buyout by Riordan, Freeman & Spogli (RFS), a firm specializing in leveraged takeovers followed by public offerings, in April 1986.

For rough purposes, RFS paid about $101 million of which $85 million was in cash:

- $ 9.4 million from sale of capital stock
- $10.0 million from subordinated notes issued to Boys' supplier, Certified Grocers of California, Ltd.
- $54.4 million from bank borrowings
- $11.1 million excess cash already in Boys

Certain Boys employees bought 2,300,000 shares at 87 cents a share.

RFS ended up with 5,520,000 shares (60%) for which it paid about the same price. In May 1987, Boys went public at $10.25 per share and reached a high of $19 before October 19, 1987. During February 1988, it drifted along in the $7 range—until the following days:

Date	Price
February 22, 1988	$ 7
February 23, 1988	6 7/8
February 24, 1988	6 3/4
February 25, 1988	6 3/4
February 26, 1988	7 1/4
March 1, 1988	11
March 2, 1988	11 1/4
March 3, 1988	10 3/4
March 4, 1988	12 1/8

On March 4, Boys announced a tender offer had been made for all stock at $12.50. This means that the management group who paid 87 cents in April 1987 will, by April 1988, receive $12.50 for a compounded annual appreciation of *287%!* Management's shares (2,300,000) are worth $29 million and the RFS shares are worth $69 million.

RThought: Some people thought the future for leveraged buyouts was past.

The jump in price on March 1 from 7 1/4 to 11 is a perfect example of trading on inside information. If those who bought are identified, they could be sued by those who sold. Probably someone in RFS, Boys or the underwriter leaked news.

QUESTION: WHO WOULD WANT TO HONOR SEARS' DISCOVER CARD?

The question above was asked many times when Sears rolled out its DISCOVER card in late 1985.

ARE YOU GOING TO DO ANYTHING ABOUT NATIONAL CONSUMERS WEEK?

I'll bet you don't know when National Consumers Week will be? Answer: April 24-30, 1988.

I'll bet you don't know who is sponsoring it? Answer: The United States Office of Consumer Affairs.

The theme this year is "Consumers Buy Service."

Virginia Knauer, Special Advisor to the President for Consumer Affairs, asks all companies to participate—you can call Kelley Elkins on her staff, 202-634-4329, for information. If you would like your event included in the publicity before the week, she must have your plans by April 1, 1988. They ask that you send a report on your event by June 1 so it can be included in the Final Report.

RThought: We once bragged that we, the retailers, were the purchasing agents for our customers—and our customers are what Consumers Week is all about. Not many retailers get involved—and so it rests on the consumer groups that usually are more likely to oppose us than support us. They will make this a national event.

There are few exceptions. The poster that I received said, "Prepared by Sears, Roebuck and Co. in cooperation with the United States Office of Consumer Affairs."

Credit Card Management (March/April 1988; 118 N. Clinton St., No. 402, Chicago, IL 60606; $98/yr.) has now reported on the success of the DISCOVER card.

At the end of two years, Sears has 12.5 million accounts against a plan of 7 million and receivables of $3.8 billion against a plan of $1.7 billion. The $3.8 billion figure put Sears in third place among third-party issuers after Citicorp ($10 billion) and Bank of America ($4.7 billion).

But of greater importance to retailers is the fact that the DISCOVER card is honored at 735,000 locations and the median-family income of the cardholders is $36,000 per year.

Sears (starting with a base of its own credit cards) has used unique marketing but has also used some gimmicks that other card issuers have not copied. There is no annual fee (yet). The cardholder gets an annual rebate of 1% of card usage.

Despite the large number of DISCOVER cardholders who have Sears accounts (75%—but then a lot of your cardholders have a Sears account), only 20% of the transactions take place at Sears; and Sears has maintained its receivables outstanding at $14 billion (though retail sales have grown during the two years).

Sears does not (yet) shine in every category. The average account balance is about $600 compared to an industry average of about $1,000.

Sears is marketing financial services to DISCOVER cardholders (money-market checking accounts, car financing, insurance) which Visa and MasterCard are not doing (partially because each bank holding a Visa/MasterCard franchise establishes its own program for the cards it has issued).

RThought: I recall the many merchants who said that they would never honor a card put out by Sears. There is an old favorite song that I can hear in the background, "I'll **never** say **never** again, again, because here I am in love again."

Today DISCOVER card is a fact. It won't go away.

Do you want a crack at the Sears customer base (remember 75% of DISCOVER cardholders have a Sears account)? What better way than to honor DISCOVER card.

RThought: Are these stores your competitors? K mart, Montgomery Ward, Woolworth and Dayton Hudson? They honor the DISCOVER card. (Note: The garage in my San Francisco office building accepts only Chevron, American Express and DISCOVER cards. It refuses Visa or MasterCard.)

TOM PETERS SAYS . . .

In an article in **SUCCESS** (March 1988; 342 Madison Ave., New York, NY 10173; $14.95/yr.), Tom Peters answers all of the people in retailing who explain why they are unwilling to train their sales staff by saying: "It is a waste of money. They aren't going to stay long."; "As soon as they can get a job above minimum wages, they will leave."; "Most are young women and they will get married." Take your choice.

Tom writes: "Treat all employees as potential career employees. Some managers fear to spend on training because the employees may leave. Statistics show that turnover is less, the more training they get; interest in their development seems to inspire loyalty."

RThought: I recall a meeting I held with a senior executive of a very well-known fashion store and his staff. I commented on the high turnover in retailing, and the director of personnel took offense. She claimed that the store's turnover among sales personnel was less than in other large stores. The senior executive added that all of the turnover occurred in the half that were new employees; the only turnover in the top earners was death or retirement. He pointed out that the top sales people were not being replaced. When they were gone, its store would not be the same in the eyes of the customers.

This store should be *training*. The training, as Tom notes, indicates an interest in them—but it also indicates that management feels that there is a place for them in the future of the company.

Not training properly means a poorly qualified staff. But a poorly qualified staff means customers eventually leave. It is amazing how long customers will stay with a store and suffer all the abuse they receive. Not training produces a short-term improvement in profits—sales continue and expense is low—but in the long run, customers leave and the business fails.

SHORT SHORT

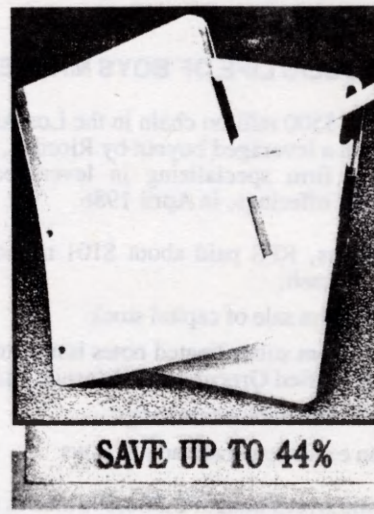
An "Oxymoron" (Definition: A figure of speech in which opposite or contrary ideas or terms are combined): Bachelor of Science in Business Administration.

THE MYSTERY OF PRICING — I

I know that pricing is an art—but does it have to be illogical?

Often, in a supermarket, the "large economy size" costs more per ounce than the small expensive size. Sometimes there is a reason. I challenged our local drug store owner one time. As part of his "Back to School" sale, the 50-sheet pack of binder paper was about 20% less per sheet than the large, economy 250-sheet pack. His answer was logical, "I have too many of the small packs."

But let's look at the ad below for Aigner tabbed binder dividers.



Aigner Gold Line Insertable Indexes.
Gold reinforcing on the binding edge.
8½" x 11", premium grade manila.
5 clear or colored tabs.
AIGCI213-5C/5
Reg. $.99 **$.57**

8 clear or colored tabs.
AIGCI213-8C/8
Reg. $1.74 **$.97**

The five-pack lists at 99 cents or 19.8 cents per divider and the eight-pack lists at $1.74 or 21.75 cents per divider—or **9.9%** more! The cost must be less. Each sheet of paper with binding edge costs the same whether there are five or eight in a package. The plastic costs less per divider because 11 inches is cut into eight pieces instead of five. And there is only one wrapping that should cost the same whether it has five or eight sheets inside.

The retailer—The Office Place—in its "Pot O' Gold" tabloid (good March 11-31, 1988) offers the five-sheet package for 57 cents or 11.4 cents per sheet and the eight sheet for 97 cents or 12.13 cents per sheet—still 9% a sheet more.

RThought: Our deteriorating educational system is helping the retailers. Too many high school graduates cannot divide, let along divide in their head. The clerks don't know what the boss is doing to the customer (assuming the boss knows); and neither, in many cases, does the customer.

I often use 3-inch ring binders with lots of dividers. It keeps material in accessible order for a meeting or when workin with a client. Invariably, I find that the A-Z package of [illegible] sheets (it has "XYZ" on the same tab and a "Mc" tab) cos less per divider than the 1-31 set. It doesn't make any dif-

ARE YOUR TESTS BIASED?

There is a relatively new organization called The National Center for Fair and Open Testing, which publishes a quarterly report, **FairTest** (Box 1272, Harvard Square Station, Cambridge, MA 02238; $15/yr.). **FairTest** may help large employers eliminate bias in testing. The law establishing the New York Item Analysis Study Commission requires that the Scholastic Aptitude Test (SAT), the Graduate Management Admissions Test (GMAT), the Law School Admission Test (LSAT) and three similar tests must submit data on the correct answer rate on each question broken down by sex and ethnicity.

There is growing resistance to the idea that test designers are so omnipotent the results are to be accepted as gospel. Children in the first and second grades are being given tests that will establish school progression for them! Even if teachers find that students very obviously have capabilities different from those indicated by the test, the student may never get back on the right track.

There are two basic rules for judging tests:

1. Validity: Does the test measure what it purports to measure?
2. Reliability: Does the test produce the same results when repeated?

If a test does not measure what you think it measures (honesty, for example), then it is not valid. If given to the same person a month later at which time it does not come up with the same answer—then it is not reliable.

What does this mean to retailers?

Larger retailers use a variety of tests. The tests are usually sold to the retailers on the basis of "claims" made by the vendor. Documentation of the "claims" is seldom complete. I wrote for documentation of the "claims" on the reliability of an honesty test but did not receive an answer. At the least, that arouses my suspicions.

Let's take a few questions from the SAT:

GEARS:MESH (pick closest)

a) pulley:slower; b) numbers:divide; c) facts:correlate; d) files:smooth; e) string:entwine

("b" is correct)

How many girls have an interest in gear/meshing? How many car-crazy boys understand the working of gears? Result: 46% of the males got it right but only 27% of the females.

RUNNER:MARATHON (pick closest)

a) envoy:embassy; b) martyr:massacre; c) oarsman:regatta; d) referee:tournament; e) horse:stable

("c" is correct)

(Note: A good case could be made for "b"—since it, too, includes a participant and an event.)

If you watch a regatta on TV, you may notice that not as many blacks row as play football or basketball. The schools blacks go to seldom have rowing as a sport. Result: 53% of the whites and only 22% of the blacks got the answer right.

RThought: Laws are coming to force testing organizations to disclose the kind of information that New York State is now seeking for tests used on students.

If the tests you use are biased—and you have not taken the necessary steps to evaluate them independently (perhaps this could be done by trade associations to save the cost to individual firms), you could find yourself sued for discrimination because you neglected to determine that the tests used were valid.

When that happens, the front page in your headquarter's tow[n] newspaper—and perhaps in many or most of the towns in which you operate—will read, "(YOUR FIRM'S NAME) SUED FOR DISCRIMINATION; FAILED TO CHECK TESTS USED."

SHORT SHORTS

Do your furniture salespeople know how furniture is built? Jack Brandwein in his **Furniture Forum Fax** for November 6, 1987, advised his readers to get the November 1987 **Popular Mechanics,** which has 30 pages on the construction of wood furniture. **Popular Mechanics** is located at 224 West 57th St., New York, NY 10019; 212-262-5700 (order copies or get reprints—please don't make 50 copies in violation of the copyright). **Furniture Forum Fax** is located at 4731 El Camino Real, Carmichael, CA 95608; 916-485-8993; weekly at $199/yr.

Abuse of numbers—by the Federal Government. The New York Times reported (11/1/87) that the Federal Centers for Disease Control found that, in 1984, 315,120 deaths were blamed on cigarette smoking. That implies an accuracy of plus or minus five deaths during the year, or an accuracy of 2/1000ths of 1%! **RThought:** I gave up pipes and cigars 20 years ago (I never smoked more than a pack of cigarettes a year) and am opposed to smoking; but I am even more opposed to abuse of numbers—even (mostly?) by the Federal Government.

Language from a political leader. David Roberti, President of the California Senate: "Republicans should have no reason not to override the governor's veto." **RThought:** If you were a Republican Senator, which way would you vote? Remember, language is the way we communicate in order to get things done.

How long is "open stock" open in your store? When Patty and I got married 42 years ago, we got a beautiful set of glasses from Gump's. When we checked, we were told that it was open stock and given the name and pattern. When we wanted to replace broken pieces two or three years later, Gump's denied ever carrying it. With that background, you can understand my trepidation when my wife finally got me to face up to the fact that the self-closing hinges on the cabinet doors in our kitchen needed replacing. There are 87 identical hinges and the doors were finished after being hung, so the wood underneath is unfinished. **RThought:** You can understand my delight when I visited by local ACE Hardware store and found that the identical Amerock BP-7630-AC hinge, in the same bronze finish, was still available 20 years later. And replacement was simple—no holes to drill. I just had t[o] remove five screws, place the new hinge in place and use [the] same screws in the same five holes. *Thank you, Amerock.*

HOW OBJECTIVE IS CONSUMERS UNION?

The March 1988 issue of **CONSUMER REPORTS** has a ma-jor article on "How to save $2,500 a year in a supermarket." The subheading reads, "America's food industry has grown into a huge marketing machine designed to add 'value' to products that once were sold as homely commodities. Do you have to pay for 'value' you can't eat? Not necessarily."

The article is based on a study that is described as follows:

> "It's hard work resisting all the pleas and sleeve-pluckings they build into the shopping experience. But the effort can cut the weekly tab by nearly half, we found when we sent two CU staffers to an A&P supermarket in our area."

CONSUMER REPORTS is making a claim of a 50% saving for all of its readers—set at $2,500 a year—based on a sample of two—*just two*—shoppings. The figures used to support the claimed savings are insulting to any serious person. As I recall, the CU profile is middle and upper income with the median education close to four years in college.

The items to be shopped were, to use CU's words, "loosely picked based on what the New York City Department of Consumer Affairs uses to figure a weekly list for a family of four." I am not sure that sentence makes sense—but let's put that aside.

To bias the study completely, so as to reach the conclusion developed before the study was made, one shopper was instructed to buy "without regard to price" and the other to "buy carefully." Given that background it seems that the one who bought "without regard to price" did a lousy job. The list at $110.05 is only 85% more than the "careful" buyer who bought mainly (37 out of 47 items) A&P private labels. I could have done better than what the "without regard" buyer did.

Of the $51 difference, $17 was in three items. You judge for yourself the integrity of the study.

For a half gallon of ice cream, the frugal purchase was Ann Page (Note: A&P private label) Ice Cream ($1.59) against four one pint packages of Haagen Dazs ($8.36). In our local stores, Haagen Dazs is not the highest priced ice cream. Just think, if the impulsive buyer had been a bit more careful, the ice cream could have cost another $1.50 per half gallon and then the "typical" customer would save an additional $75 per year.

The beef items were beef loin shell steak (always recommended by the Department of Consumer Affairs) at $6.59 versus beef chuck shoulder at $2.89. However, the carefree buyer purchased 1.1 pounds while the frugal buyer bought 1 pound. **CONSUMER REPORTS** could have gone further—the carefree buyer could have bought 3 pounds—and the difference would have been $15.08 rather than $3.70 shown in the report, increasing the savings almost *$600* a year!

The third major difference was in a pound of coffee—Superior Brand Columbian Supremo Quality at $8.99 against A&P's Eight O'Clock Bean Coffee at $2.49

RThought: I find this so-called "study" dishonest.

In each issue, under "About Consumers Union," there is the statement, "We are not beholden to any commercial interest." To that, one should add a sentence saying, "But we will distort to support our biases."

I can only report that once there was a time when Consumers Union put integrity above all else. Today it has forfeited its right to criticize advertising and other conduct in the marketplace—because it has placed itself in a position where it has to look UP to see the people it criticizes. (Note: See **RT,** February 1988, "Consumers Union Says: 'Do As I Say, Not As I Do.' ") I am sad to report this; I have read **CONSUMER REPORTS** for 50 years.

SHORT SHORTS

As it must to all men, death came on January 1, 1988, to Harold M. Lane, co-founder (with Samuel Lerner) in 1919 of Lerner Stores Corporation. He was 96 years old. **RThought:** In the 1930s and early 1940s, when I was getting my first lessons in retailing, Lerner's had more shops than any other apparel retailer. And all were in traffic locations—preferably between two large downtown advertisers. Lerner's was called a "window shop." It had a deep entrance and its windows had every item in it—like the electronic/camera/gadget stores on Broadway in New York or, perhaps, like stores in your own hometown. It enticed the walk-by traffic. Bank cards had not yet been invented but Lerner's did a big business on layaway—with weekly payments—especially for downtown working women. **RThought:** Lerner's was also the "prep school" for many of today's apparel chain-store retailers. One who comes to mind is Stuart Moldaw, who, as a general partner in U.S. Venture Partners, has probably invested in more new retail chains than anyone in the United States.

Did you ever confuse a bus depot with a train depot? Or perhaps with an Army depot? Or perhaps an air depot wing? Would you confuse an Office Depot with a Home Depot? Home Depot is big and has lots of money and is frightened by an Office Depot—and has sued the Office Depot (which has less money than Home Depot), alleging that customers confuse the two companies. **RThought: NUTS! I thought the only frightened retailer was BATUS,** who was afraid that a $350,000 seasonal shop in Maine would put Gimbels in New York, Philadelphia and Pittsburgh out of business. Is this an omen of the future of Home Depot? Pick on a little kid and you fail in business? Gimbels failed.

Would you believe your son if he gave an excuse like this? Menswear Retailers of America quoted Larry Davidson of Davidson's, Roanoke, VA, on why one of its stores was closed the Saturday after Thanksgiving: "A squirrel chewed into a cable and blew the power for the entire shopping center and surrounding area." **RThought:** Like many a rookie reporter, Davidson didn't say what happened to the squirrel!

We all know that Al Capone went to jail because he did not pay his income tax—but few know the background. A CPA from Carson City, NV (the gambling state), offered the answer in a letter to the **Journal of Accountancy** (March '86). He was assessed taxes of $252,000 plus penalties of $164,000 for 1924-1929 after the Supreme Court overturned the illogic of the IRS position that income tax could not be collected on illegal income! **RThought:** We don't have that kind of an IRS today. Today some would say that the IRS illegally collects income tax on legal income.

ference to me—since I do know the alphabet.

Years ago a friend told me that at the turn of the century he arrived in the United States after 20 or so days in steerage. There were people on the dock selling oranges and their cry was "Fresh oranges, 3 cents apiece, 3 for a dime." He bought three. Times have not changed.

THE MYSTERY OF PRICING — II

The two coupons below were displayed side by side in a large (90,000 square foot) hardware/D.I.Y./garden store. This gives the customer a choice of saving either $2 or $3 on a 50-quart package of Sunshine Potting Mixes. I realize that many high school graduates have difficulty with simple arithmetic—but I suspect that they can get the right answer to this one.

RThought: This reminds me of the old story of the man in the insane asylum who stood by the fence each day. People would bring friends to see what happened when he was offered the choice between a nickel and a dime. He always took the nickel. One day he was asked, "Why do you take the nickel instead of the dime? Don't you know the dime is worth more?" The committed man replied, "I may be insane, but I'm not crazy. If I took the dime, then no one would come back!"

FOLLOW UP: COLOR TILE AND IMPROPER USE OF POLYGRAPH

In "Another Side of Polygraphs" (Special Feature in **RT**, October 1987), I reported on the agreement reached by Color Tile in a suit alleging job applicants and employees were required to take polygraph examinations in violation of California law.

The ad shown below ran on March 6, 1988. It asks people to file a claim if they were employed by or made application to Color Tile between January 25, 1979, and December 31, 1983, and who claim they were required to take a lie detector test as a condition of employment.

Damages run from $750 for those required to take tests but with no adverse job consequences (maximum of three tests) to $28,000 for those who were a store or distribution manager for three years, were required to take a test and lost their job because of failing or refusing to take the test.

Notice to applicants and employees of Color Tile who believe they were required to take a lie detector test

If you applied or were employed by Color Tile Supermart, Inc. between January 25, 1979 and December 31, 1983 and claim that you were required to take a lie detector test as a condition of employment, you are entitled to file a damage claim and get legal representation as part of a settlement of a lawsuit.

The Status of the Case
Recently the Superior Court of Santa Clara approved a settlement of a class action suit which charged that Color Tile allegedly required applicants and employees to take lie detector tests as a condition of employment. While Color Tile denies the allegations of the lawsuit, it has agreed to a compromise settlement of the matter. The settlement establishes a damage claims procedure for applicants and employees who were required to take a lie detector test as a condition of employment.

How You May Qualify
You may file a damage claim if you applied for a job or were employed by Color Tile in California any time from January 25, 1979 to December 31, 1983 and you were told that lie detector tests were required, or you were in fact required to take a lie detector test. Even if you took a lie detector test and signed a waiver or release, you may still file a claim.

What You Have to Prove
California law permits employers to ask applicants and employees to take lie detector tests voluntarily, but such tests cannot be demanded or required as a condition of employment. To make out a valid claim, you have to show that you were told, or that Color Tile management gave you reason to believe, that you were required to take a lie detector test. Color Tile can defeat your claim if it proves that: (1) You were simply requested to take a lie detector test voluntarily; (2) if you took a lie detector test, you did so voluntarily; (3) if you refused to take a lie detector test, you were not fired, or you were fired for some reason other than your refusal to take the test; or (4) if you took the test and were not hired, or lost your job, it was for some reason other than the results of the test. Your class attorney or Color Tile may have records which will help you prove your claim.

What Your Claim May Be Worth
Anyone who establishes a valid claim may recover damages. Half of the damages will be tax free; the other half will earn interest from the date of the lie detector test if you were not hired or were fired. Attorneys' fees will *not* be deducted from those sums. If you establish your claim in full, you will receive the following amounts, depending on the type of claim you have:

Damages	Type of Claim
$ 750.00	You were required to take a lie detector test but suffered no adverse job consequences. Maximum of three tests.
$4,000.00	You applied for a job and were required to take a lie detector test, but were not hired because you refused to take the test or because you failed it.
$ 7,000.00	You were a salesperson, management trainee or distribution center employee and were required to take a lie detector test, and lost your job because you refused to take the test or because you failed it.
$13,000.00	You were a store or distribution manager less than one year and were required to take a lie detector test, and lost your job because you refused to take the test or because you failed it.
$18,000.00	You were a store or distribution manager for one year but less than 2 years and were required to take a lie detector test, and lost your job because you refused to take the test or because you failed it.
$23,000.00	You were a store or distribution manager at least 2 years but less than 3 years and were required to take a lie detector test, and lost your job because you refused to take the test or because you failed it.
$28,000.00	You were a store or distribution manager for 3 years and were required to take a lie detector test, and lost your job because you refused to take the test or because you failed it. For each year after 3 years, add $3,000.

How Will The Damage Claim Procedure Work?
After you file your claim, your class attorney and Color Tile's attorney will try to agree on which claims are valid. If Color Tile's attorney disputes your claim and it cannot be settled, you may have the claim submitted to binding arbitration, at which you will be required to appear and give testimony.

What Will It Cost To File A Claim?
Nothing. The attorneys representing the class will assist and represent you without charge.

When You Must File A Claim
All claims must be filed by June 3, 1988.

How To Get A Claim Form
Either call 800-531-4446 or clip out and mail the coupon below. You must file a claim form by June 3, 1988.

Free Legal Consultation and Counsel Is Available
Farnsworth, Saperstein and Seligman has been certified by the Court as the attorneys for all claimants. They will answer questions, help you fill out claim forms and represent you free of charge. Call them at 800-531-4446 for further information.

☐ Please send me a Claim Form and further information.

Name: ____________________

Address: ____________________

____

Phone: (______) ____________________

Mail To: Farnsworth, Saperstein & Seligman
505 Fourteenth Street, Suite 1150
Oakland, CA 94612

RThought: And the money may be worth more. Half of the damages will be tax free and the other half will bear interest from the date of the test. **Attorneys' fees will not be deducted.**

This is the first measure of the fringe cost of requiring lie detector tests in violation of the law.

RT'S FRIENDLY TEST OF MODELS

For years, I have been bothered by the expression on the face of models that stare at me from catalog pages. I decided to classify the faces on all models as "smile," "perhaps" (these are often the most attractive), and "frozen face."

Talbot's "Resume—Spring Priorities" catalog was 8, 9 and 39, or roughly 14%, 16% and 70%, which is low on the "smile" side.

Lillion Vernon's 37th Anniversary issue was 53, 9 and 17, roughly 67%, 11% and 22%, which is a "happy" catalog.

More catalogs will be reported in future months.

HOW MANY CATALOGS DID YOU GET ON JANUARY 8, 1988?

My wife got: Johnny Appleseed, Gump's, The Talbots, Williams Sonoma and Museum of Fine Arts—Boston.

I got: Winter Silks, Harriet Carter and Comfortably Yours.

My daughter got: Downs' Collectors Showcase, Tapestry, Sporting Dog Specialties, The Pet Catalog, L.L. Bean, The Faith Mountain Company, Jean Grayson's Brownstone Studio, Smith & Hawken, My Favorite Pastimes, The Lighter Side, Betty Henley At Your Service, Premiere Editions, Marshall Field, Trifles From The Heart, Shopping International and The Popcorn Factory.

RThought: The 24 catalogs do not include a number of merchandise offers received in envelopes—including CBS/Columbia House and Hong Kong's Four Seasons International tailors.

ELECTRONICS IN OUR BUSINESS WORLD

The forecasts of home banking are no longer being made. Gone are the dreams of people doing their "banking" by computer. The proponents of "banking at home" forgot that one of the major facets of banking is "cashing a check." There was no way for a number of $20 bills to be transmitted over a telephone line and suddenly appearing in the customer's hand.

Then there was the interactive TV that would display the merchandise. The customer would press an identifying button which would make a selection, charge it to a credit card or account and process the order for delivery. It just didn't seem to work. A lot of time was lost in finding the product the customer wanted. Delivery was slow—the system lacked the "instant gratification" that Stanley Marcus stresses so often as a key factor in completing a retail sale.

Then there was the Visa/MasterCard debit card that could not be identified by the retailer—but the store would be charged a fee as on a credit card sale. Stores were up in arms. In a fit of pique, Nordstrom, the epitome of service, cut its service—it no longer accepts Visa cards. It brought a suit against Visa—which was later withdrawn with prejudice; thus, it cannot be filed again.

But the debit card is not dead. It is used at gasoline stations, particularly those operated by the major oil companies that want to cut services offered; the gas companies want self-service, one attendant, no car repair and not even snack food. They have been making progress with debit cards. Chase Manhattan and Mobil Oil have been developing debit card programs—called "Debit+." The electronic charges are cleared through Chase's automated clearing house to the customer's bank.

RThought: They are going to provide the service that home banking did not—at this time, up to $20 cash when buying gas. What is more, Chase and Mobil will explain this to all other companies at a seminar sponsored by the National Automated Clearing House Association.

I can remember when Sears and Penney and Federated said that they would never, Never, NEVER honor bank credit cards. Some debit card issuers are restoring the float by processing all debits at the end of the cycle rather than instantly. The future is coming much faster.

HOW DO YOU LOSE MONEY? LET ME COUNT THE WAYS

Elizabeth Barrett Browning, in *Sonnets from the Portuguese,* wrote:

How do I love thee? Let me count the ways.
I love thee to the depth and breadth and height
My soul can reach, when feeling out of sight
For the ends of Being and ideal Grace.

I thought of the first line when I read the December issue of **Credit Card & Operations Profit Outline,** a newsletter published by Larry Schwartz and Pearl Sax (Box 400, Boynton Beach, FL 33425, $159/yr.).

There are so many ways for prudent (including major) retailers to lose money. Here are some that Larry and Pearl reported.

A large mail-order firm, using a small bank, had its Visa/MasterCard merchant status cancelled for excess charge backs after the bank was acquired by a larger one. The CEO's staff had kept from him a series of warnings of what would happen if the excessive rate continued. The CEO, on his part, had not taken time to get acquainted with the new people at the bank.

Another incident concerned a company that stopped recording customer problems on two of its five "800" numbers; the complaints received on the others got into the computer and were wiped out 30 days later (the EDP manager said, "It's always been done that way.") without review or analysis.

At another company, they found that the company did not check the count on postage-due mail that was paid for each day. Larry found a clever way to check the count—saving $38,000 a year.

RThought: I read their newsletter and you should, too.

WORDS—THAT MOTHER SHOULD HAVE HEARD

I have often written that all of us, whenever we have nice thoughts about someone, should convey those thoughts—immediately.

I saved this poem from an Ann Landers' Mother's Day column. It was sent in by a daughter who felt guilty because she never had found time for her mother—who had just been buried.

THE TIME IS NOW

If you are ever going to love me,
Love me now, while I can know
The sweet and tender feelings
Which from the true affection flow.
Love me now
While I am living.
Do not wait until I'm gone
And then have it chiseled in marble.
Sweet words on ice cold stone.
If you have tender thoughts of me,
Please tell me now.
If you wait until I am sleeping
Never to awaken,
There will be death between us
And I won't hear you then.
So, If you love me, even a little bit,
Let me know it while I am living
So I can treasure it.

RThought: If you feel this is not for you, perhaps it something that should be given to your children or, perhaps, a brother or sister who is not seeing a parent enough.

THE BUYER

THE MAGAZINE FOR THE FASHION TRADE

THANKS FOR THE INSPIRATION!

DB

Ret / RT 05/88 or earlier

WITH COMPLIMENTS

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DURBAN: 4th Floor, Suncrush Building, 481 Ridge Road, Overport 4001. Telephone 28-4553.

CONSIDER CONSUMERS

Last week was National Consumer Week in America. Sponsored by the United States Office of Consumer Affairs, this year's theme was ''Consumers Buy Service''.

We are indebted to Bob Kahn, editor of *Retailing Today*, for this information. He followed the announcement in his monthly newsletter with a wry comment: ''We once bragged that we, the retailers, were the purchasing agents for our customers – and our customers are what Consumer's Week is all about. Not many retailers get involved, so it rests on the consumer groups that usually are more likely to oppose us than support us. They will make this a national event.''

Faced with the growing local support for consumer movements (expressed in the letter pages of the national press) a consumer week is an idea SA retailers should consider – provided they drop their traditional apathy and combine to make the event significant.

For consumers are retail lifeblood. And retailers who focus on a particular consumer segment are less likely to need a transfusion in today's competitive market.

Service is an essential part of that focus. Service in the broader sense than over-the-counter sales: service in providing the merchandise needed and wanted by the store's chosen target segment.

Narrowly focused merchandise assortments make it easier for the time-poor consumer to select and buy. But they presuppose an understanding of the target market and its particular lifestyle.

We see this quest for information as the possible thrust of a consumer week. Were stores to ask their customers what shoppers want – and how they perceive the store – the answers could be both illuminating and valuable in setting strategy. And the customers would feel cared for, rather than merely a source of ready cash.

The time has passed for a ''we know what they want'' retail mentality.

Take the mini: a topical example of designer arrogance. While the young are delighted by the ''newness'' of short skirts, minis have met with incredulity rather than acceptance by those facing it the second time round.

Today's woman is more discerning and self-assured than she was in the 60's. She wants the option to express her individuality: the chance to wear her skirt the length she chooses. The number of career women has increased, yet, as the *International Herald Tribune* pointed out, the industry did not stop to consider how in the world a lawyer, banker, secretary or accountant could be treated seriously ''if she sat down and her skirt was up to her crotch''.

The *Tribune* asks a pertinent question: ''Do men dress like that? They wouldn't dream of it''and goes on to quote Barbara Sigismund, mayor of Princeton, New Jersey: ''Could Lee Iacocca have bailed out Chrysler wearing short pants?''

Their advice – a blunt don't buy, and the mini will die – is a clear case of a consumer-dictated taste preference. A little preliminary research at retail would have established that preference.

Perhaps it is naive to expect local retailers – who do not even have a national body to represent them – to co-operate for a week, whatever its focus. But going it alone could also be effective. For loyalty is a waning consumer characteristic and every retailer would like a winning formula.

The last word belongs to retail guru Bob Kahn: ''The winners will, as always, be the stores that have the ability to listen to their customers, measure where they are, accept new ideas and continue to develop a relationship with their employees/associates that produces a team effort. It will not go to the autocrats, the ones who know without measuring, the ones who don't know their customers and the ones who play 'me too' without knowing why what they are copying was done.''

NEWS DIGEST

THE SA CLOTHING INDUSTRY output level is on the increase although the November 1987 level (latest available statistics) was still some 6% below the 1980 level. This increase is expected to continue, albeit at a moderate rate, throughout 1988 said Hennie van Zyl of the NCF. (graph 1)

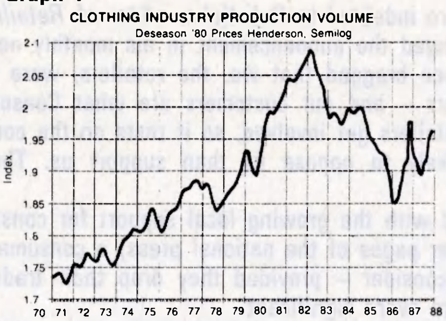
He said the increase is more pronounced in the men's and boys' clothing segment than in the women's/girl's/ infant's segment, although the latter is currently approximately 30% bigger than the former. (graph 2).

The increase and anticipated increase is supported by the course of total retail sales (graph 3) which reflects a continued increase from August 1987 up to January.

Van Zyl said in view of the clothing industry's vast potential as a creator of employment, the recent slight downturn in total and regional employment levels is somewhat disappointing. This downturn, when compared to the increase in activity levels referred to previously could perhaps point to a not too rosy first quarter of 1988 and/or to an increase in productivity and capacity levels and/or to escalating wage demands/levels.

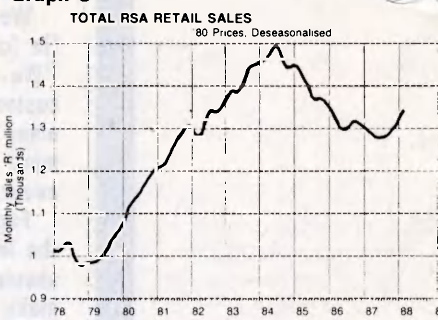
Escalating input costs remains a serious threat for the clothing industry (and also for the future well being of the total economy). Although the rate of increase in fabric prices shows a welcome sign of abating, the latest December 87 increase of 18% is still above the inflation rate, and also above the rate of increase of the clothing industry's own selling prices. Graph 4 shows that the clothing industry has for the past three years been subjected to rapidly escalating fabric costs.

Graph 1

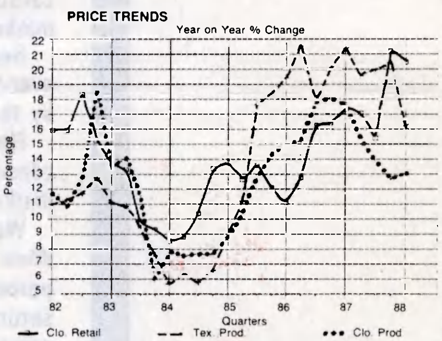


Graph 2

Graph 3



Graph 4



THE STREBEL Group have signed an agreement with Prym of West Germany to sell their products. This is a major policy change for the group as it is the first time they have switched to trading.

Prym is said to be one of the largest press stud manufacturers in the world offering a full range of Espring and Grip Fix fasteners showing numerous finishes.

REBATE DUTY applications for export purposes supported by the Board of Trade and Industry are as follows:

*woven fabrics, polyester fibres, labels and packing materials used in the manufacture of men's shirts;

*woven polyethylene or polypropylene strips used in the manufacture of bags;

*materials used in the manufacture of denim garments for export;

*woven fabrics of cotton used in the manufacture of men's shirts for export;

*yarns used in the manufacture of women's foundation garments for export;

*woven and knitted fabrics for the manufacture of men's clothing;

*fabrics of polyester and cotton for the manufacture of womens' blouses;

*woven fabrics of nylon for the manufacture of men's blazers;

*labels used in the manufacture of boys' school shirts for export;

*embroidered motifs for the manufacture of clothing.

AN AGREEMENT has been reached, retrospective to the 1 May 1987, whereby the Arontex takeover of Alida became effective. Alida will fall under the umbrella of the Arontex Group but will remain part of the CMT operation.

Trevor Aaron, chairman of the group, feels Alida will benefit from Arontex expertise enabling them to become more professional and thus offer better service to both existing and new customers.

PTX DISTRIBUTORS have signed a deal with Vanity Fair in the USA whereby PTX are now the exclusive agents for the full range of Vanity Fair foundation wear and sleep wear in South Africa.

PTX Distributors came into being after the disinvestment of Playtex Africa, a wholly-owned American company, some eighteen months ago. With disinvestment, came changes. PTX still has a licencing agreement with Playtex whereby they continue to manufacture and market [illegible] product in South Africa. The Playtex is still the core of the business, but PTX saw the opportunity for expansion into the young fashion market.

PTX have also teamed up with Bear International to launch the new She Bear range with a massive radio, television and media campaign. The range of lingerie, active underwear, sportswear and swimwear is designed to be worn inside or out following the trend of specialist products becoming everyday items.

''We knew our range would be different'', said MD Bill Quinn. ''It's bodywear, it's fashion.''

THE INDUSTRIAL Council for the Cape Clothing Industry has reported that 67 new clothing factories opened in the Western Cape last year while employment strength grew by 1 534 to 53 639.

Chairman Alex Rosenberg said in the annual review that while the increase in jobs was ''nothing to crow about'', it had given the industry more confidence and a hope of more stability.

Thirty-six factories closed or were absorbed and the total increased from 390 to a record 412 manufacturers.

Employment, however, was well b[illegible] the peak of 58 800 of 1984.

Job-hopping declined last year but labour turnover amounted tp 45% - a figure that is still too high, says Mr Rosenberg.

The
University of Texas
at
Arlington

Department of Marketing
College of Business Administration
Box 19469
Arlington, Texas 76019-0469
Metro (817) 273-2876

Put w/

Marad ~~[illegible]~~ Features

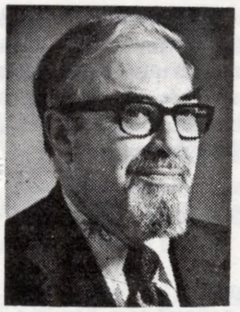
Dear Bob:

Obviously you are correct re Consumer's Report study -

But further in 1988, ~~[illegible]~~ the pricing of a market basket in most communities is highly misleading. Coupons, xtra value coupons, loss leaders greatly distort the picture.

Best

Rog



RETAILING TODAY

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OLD FASHIONED INFORMATION FOR STORE OWNERS

The Price Company is small enough to list all of its stores on the back of its quarterly report. But it adds something else—the date that each store opened.

From this information, it was possible to compute the number of store-weeks that produced the reported sales. By doing this, I learned that in the quarter ending December 1987 the average was $2,536,000 compared to $2,392,000 the prior year—6%. Since the stores tend to be the same size—averaging in the 105,000-110,000 square-foot range—this means about the same increase in sales per square foot.

Perhaps of greater interest is what $2,536,000 means on an annual basis.

The stores are running at the rate of $130 million per store or, assuming an average of 110,000 square feet, $1,200 per square foot per year!

Thought: Many other retailers could publish information like this but refuse to do so because "it will help our competitors." But does it? Now that I know that The Price Company is doing $1,200 per square foot per year, can I go out and do the same? Can you? I don't think either of us can. In fact, the evidence is clear that nobody else has been able to do as well. This information does not hurt The Price Company. We admired General Patton when, after the invasion of Europe in June 1944, he announced what the Third Army was going to do—and then went ahead and did it.

RThought: There is a lot more information that every public company could give its owners—but does not. I will never know why.

The Price Company discloses its pure Gross Margin (without buying and occupancy costs) was 8.28% and its Selling, General and Administrative Expenses were 6.68%. Now I know it. Can I do the same? Have any competitive warehouse clubs done it?

I guess we must consider Sol Price the "General Patton" of retailers.

A GOOD DEAL—FOR CIRCLE K STOCKHOLDERS

This was a good deal several ways in addition to a good deal for the shareholders.

On October 26, 1987, Circle K offered to retire 5 million shares (with the right to retire 7 1/2 million) in exchange for $12 in 13%, 10-year subordinated debentures. The offer was made when the stock was wandering between $7 and $10 after the October 19 500-point drop in the Dow Jones Industrial Average.

A GOOD CONDUCT MEDAL

The Good Conduct Medal is awarded to Televents—the company that provides my TV cable service. I quote from the "SPECIAL NOTICE TO ALL SUBSCRIBERS":

> **In order to continually assure a high quality of response to our customers' telephone calls, we will, from time to time, monitor calls.... If, for any reason, you do not wish your call to be monitored, please notify the representative at the beginning of your conversation. Thank you for your cooperation.**

RThought: I know that many retailers, particularly catalog retailers who do much of their business by telephone, monitor their calls. I understand the reason. But I think Televents is taking the correct approach and is considering the opinions of its customers.

Instead of fluctuations in price and a 28¢ dividend, there will be a sure $12 on redemption and $1.56 a year in interest income. Circle K had 49 million shares outstanding with 16 million (about a third) owned by officers, directors and principal shareholders, who will not tender their shares. If 7 1/2 million shares are retired, their position will increase to about 39%.

The $1.56 will be a substantial increase in income to those who convert—about three times the present dividend. Part will be paid by Uncle Sam, since interest is deductible to Circle K —but taxed the same as dividends to the stockholder.

RThought: Circle K has had a high of $19 in the past 12 months and could go higher as the company continues its expansion. If the stock goes to $19, those who exchange their shares for $12 of debentures would need 5 1/2 years of the extra $1.28 a share to offset the $7 gain in price (13 3/8 at April 8, 1988). But it is a choice that no other company (to my knowledge) gave its shareholders.

Late Note: 6.5 million shares were tendered and accepted.

IS IT WORTH THE SAVINGS?

NCS (National Clothier Supply, a division of Menswear Retailers of America) offers the following in plastic hangers:

Type of Hanger	Clear	Opaque
17" adult dress, blouse, coat	$25.50	$19.75
14 1/2" youth dress, blouse, coat	19.50	19.50
14" skirt	41.50	41.50
17" women's suit	56.00	49.25

Prices per 100 in 500 quantity—Spring 1988.

On some sizes, the price is cheaper for opaque; in other cases, it is the same.

But the impact of the hangers is much different.

As I walk through stores, I find that despite the flexibility of display fixtures—rounders, waterfalls, etc.—they are all set at the same height. I have seen areas of 3,000-5,000 square feet with the fixtures set like soldiers at attention. From my 5'7", I see nothing but chrome.

And when I see opaque hangers, it is even worse—chrome and white.

With clear hangers, at least you see some color—just a little bit—but any color is better than a field of white plastic.

RThought: I always thought that the object of displaying merchandise was to attract the customer to the merchandise. With self-service or self-selection in most stores, there isn't anyone to say, "We really do have blue dresses."

Somebody is going to come up with a clear plastic display fixture—even less interference with vision of the merchandise.

ARE YOU PREPARED TO HANDLE A CRISIS?

You get a phone call that someone has put rat poison in the Jello packages in your store. Someone calls and says that all the lingerie has been sprayed with a substance that will give skin cancer. Someone calls and says that bombs have been implanted in the VCRs and will explode when the VCRs are turned on.

What would you do?

The Shopper Report (June 1987; 3624 Science Center, Philadelphia, PA 19104) asked its national panel of smart shoppers to report on how some crises in business were handled. Here are the results:

Crisis	% With Opinion	Average Positive Rating (1-10 Scale)
Tylenol/Johnson & Johnson	100%	8.7
Rely Tampons/Toxic Shock/Procter & Gamble	97	6.3
Break-up of AT&T	95	5.2
Price Wars and Takeovers/Airlines	97	4.8
Insider Stock Trading/Wall Street	90	4.1
Bhopal, India, Explosion/Union Carbide	96	4.0
Irangate/Reagan Administration	92	3.6
Infant Formula/Third World/Nestle	84	3.1

RThought: None of the companies/agencies were prepared. Johnson & Johnson responded immediately, guided only by a strong moral obligation and without regard to cost; it brought them much favorable comment and reaction—and, in the long run, the consumer will return the confidence.

But the farther down the list one goes, the more the emphasis, as seen by the consumer, was on concealing the facts and minimizing the financial impact.

TWO APPROACHES TO EXPANSION

The announcement that The Limited is acquiring from Oshman 25 of the 27 Abercrombie & Fitch stores, doing $50 million, and the report on the success of the opening of the Hypermarket USA by Wal-Mart brings into sharp contrast the different methods of expansion of two of the most successful, if not THE TWO most successful, of the present retailers.

The Limited acquired Victoria's Secret (when it had a catalog and four or five stores) as well as Lane Bryant, Roaman, and Lerner, when they were mature, even dying, organizations with a limited future. The latter were quickly re-merchandised and have been used to supplement the original concept of The Limited and the various spin-offs of The Limited.

This has given The Limited many arrows in its quiver—each to be used on a very specific target.

On the other hand, Wal-Mart's expansion has been based on increased efficiency in distribution of general merchandise that might be sold by a wide variety of outlets—apparel, drug, hardware, variety, auto supply and other stores. The total operating expense of the discount stores, as a percentage of sales, has been reduced each year for more than five years and gross margin has followed the downward trend. This permits Wal-Mart to offer low, everyday prices when competitors are trying to increase gross margins to cover rising expenses.

When a happenstance (the 1983 NRMI Annual Meeting in San Diego) exposed Wal-Mart's top management to the Price Club, it saw an opportunity to add another form of efficient distribution—based on about 4,000 SKUs instead of 80,000. The concept was quickly embraced. With the efficiency of the Wal-Mart organization, Sam's Wholesale Club should pass the Price Club in volume (but still be far short of Price Club in average sales per store or per square foot) during 1988.

More recently, approaching efficiency in distribution from another angle, Wal-Mart, in cooperation with The Cullum Companies, has opened its first Hypermarket USA and will be developing more stores of this type, mainly on its own and with some stores bearing the label of "Wal-Mart Superstore."

RThought: What does this prove?

Partially, it supports Rudyard Kipling when he wrote, "There are nine and sixty ways of constructing tribal lays [laws], and every single one of them is right!" (*In the Neolithic Age*—1895.)

Because of my association with Wal-Mart, I will not comment on which approach—target marketing or efficiency in distribution—offers the greatest opportunity for the future.

HERE GOES THE PROFIT IN CREDIT CARD REGISTRATION

The Nilson Report (No. 421, Feb. 1988; Box 49936, Los Angeles, CA 90049; $595/yr.) disclosed action by New York State that bars the credit-card registration services (SafeCard, Sentinel, Credit Card Service Bureau, etc.) from renting, selling or exchanging lists of names, addresses and **account numbers** for any purpose without the prior consent of the cardholder, whether the name is obtained through its own efforts or as a result of split-fee arrangements with issuers of cards.

RThought: Spence Nilson, Editor/Publisher of **The Nilson Report,** is supporting **RT** when saying, "Laws should be passed to prohibit the sale, rental or exchange of all credit-card customers' names by owners or through brokers. . . . There should be no restriction on release of names acquired by companies as the result of selling merchandise or services to card holders **who have consented to give their names and addresses when choosing payment by credit card . . . but this, of course, excludes account numbers."**

WHAT MAKES A TAKEOVER TARGET?

If you have $10,000 that you will not need for the next 12 weeks, do you (1) keep it under the mattress, (2) put it in an interest-bearing checking account paying 5%, or (3) invest in a General Motors Acceptance Note paying 7.23% (150-180 day rate, April 6, 1988, 6.75% discount), due on the day before you need it? I think I know the answer.

All the world looks to make the most *on its money*.

In retailing, making money is not measured as a percentage of sales but as return on equity (ROE). Who wants to be in the supermarket business with profit on sales most often in the 1% range? Albertson does, which has a better ROE than Dillard or Nordstrom; or Winn-Dixie, which has a higher ROE than Macy; or Giant Food, which has a higher ROE than Toys "R" Us.

Food Lion enjoys a ROE exceeded only by The Price Company, Wal-Mart and The Limited.

Study the chart below. It is based on the following data:

1. All retailers, listed by Fairchild in its 1987 Annual Financial Report, that had sales of more than $1 billion dollars in their fiscal year ending between June 1986 and March 1987 (plus The Price Company, which, for some reason, Fairchild did not include).

2. The ROE, except for The Price Company, is as reported by Fairchild. It computes ROE by dividing the net profit after taxes for the year by the *equity at the end of the year*.

3. ROE is always understated because of one or more of the distortions introduced by the "worship" of Generally Accepted Accounting Principles (GAAP) by Certified Public Accountants (CPAs).

4. Equity is **overstated** by items, such as the liability for severance pay, unfunded payments due retired employees (the largest being continuation of health insurance) and potential loss on lease-hold improvements and some on the fixtures and equipment.

   a. Inventory is included in assets at the LIFO value, often substantially less than current market value.

   b. Buildings and equipment are stated at historic cost, less accumulated depreciation, rather than current value. For example, the last part of the 2.1 million square-foot Macy's, at 34th and Broadway in New York City, was built in 1927 and is totally written off. The land is carried at 1910-1925 prices.

   c. In the years used here, deferred taxes are reflected at substantially higher than current tax rates. The excess deferred taxes should be part of equity.

   d. Unless purchased, leases are not reflected on the balance sheet; yet many, particularly older leases, can be sold for substantial amounts of money.

   e. EDP and MIS programs developed internally have been expensed, although they continue to have substantial value.

   f. The debt assumed in capitalized leases exceeds the capitalized value but does not represent a claim against any assets except the leased equipment.

RETURN ON EQUITY AS REPORTED BY FAIRCHILD MANUAL

	1983	1984	1985	1986	Weighted Averages
Service Merchandise	17.81%	14.44%	3.27%	(16.83%)	(1.08%)
Best Products	8.96	8.77	0.54	(6.61)	1.68
Woolworth	(35.30)	11.46	14.47	14.42	3.91
[illegible]rman	(45.66)	(4.90)	16.45	16.14	5.85
Stop & Shop Cos.	17.85	14.11	7.47	0.99	7.24
Great A & P (B)	6.49	8.36	8.39	9.13	8.49
Carson Pirie Scott	8.95	13.96	8.69	8.12	9.56
Kroger	11.84	13.63	15.21	4.46	10.26
U.S. Shoes	19.28	12.49	13.59	5.21	10.59
Sears, Roebuck	13.71	13.34	11.05	10.36	11.50
Federated Dept. Stores (P)	14.50	12.95	10.59	11.34	11.75
Brown Group	17.23	13.51	10.03	11.57	12.06
J. C. Penney	13.12	11.41	9.80	11.01	12.25
Petrie Stores (B)	16.06	16.93	11.52	10.23	12.54
Ames Dept. Stores	20.12	22.88	10.97	6.88	12.63
Payless Cashways	17.58	14.43	11.44	11.45	12.66
K mart	16.74	15.43	6.73	14.78	12.69
Southland (P)	13.40	12.26	14.20	12.02	12.86
Carter Hawley Hale (PR)	10.41	11.44	13.36	14.69	13.21
Safeway (P)	13.18	12.59	12.57	14.25	13.31
Lowe's Cos. (B)	17.36	18.00	14.66	10.19	13.81
Longs Drug Stores (B)	16.23	15.37	13.01	13.29	13.92
Lucky Stores	Not included due to major reorganization— Figures not comparable				
Supermarkets General (P)	16.84	18.24	12.47	13.32	14.40
Dayton Hudson	15.94	14.93	14.56	14.22	14.64
Mercantile Stores	15.86	14.26	15.11	14.47	14.76
Rose's Stores (B)	17.64	16.58	16.58	12.64	15.11
May Dept. Stores	16.41	16.61	14.33	14.68	15.13
Cullum Cos. (B)	16.17	13.42	16.18	15.20	15.24
Zayre	15.53	17.16	15.62	14.17	15.34
Nordstrom (B)	16.93	14.98	15.94	16.17	15.94
Rite Aid	22.93	10.56	15.77	17.23	16.01
Dillard (B)	18.40	16.61	18.46	13.38	16.05
Weis Markets	17.65	17.10	16.44	16.02	16.53
Albertson (B)	17.94	17.55	16.44	16.85	16.98
Macy (P)	19.22	18.98	18.98	14.32	17.14
Winn-Dixie	19.46	19.04	16.68	16.52	17.37
Toys "R" Us (B)	20.08	19.24	16.70	16.89	17.62
Circle K (B)(C)	(24.90)	22.15	27.26	20.04	18.13
Giant Food	20.95	19.77	21.01	15.49	18.54
Melville	21.29	19.94	19.13	18.87	19.40
Walgreen	19.84	20.61	19.58	18.63	19.43
Tandy	24.85	28.51	17.78	15.13	19.57
American Stores	25.28	26.10	20.12	17.24	20.68
Circuit City (B)	20.54	24.72	19.70	23.65	22.37
Food Lion (B)	22.43	22.83	22.95	23.34	23.03
The Price Co. (A) (B)	21.30	28.20	28.51	19.57	24.15
Wal-Mart (B)	26.61	27.50	25.63	26.62	26.50
The Limited (B)	36.84	33.59	35.96	29.14	32.85

(A) Not listed in Fairchild's Financial Manual; FY 1986; ROE drop due to $74 million debentures converted to equity
(B) Major blocks of stock that can block takeover
(C) ROE drop due to $46 million debentures converted to equity
(P) Already private
(R) Reorganized
(PR) Post reorganization
Source: Except for The Price Company, figures were taken from Fairchild's Financial Manual of Retail Stores, 1987 and 1985 issues. The Price Company's figures were taken from 1987 Annual Report.
Fairchild computes ROE by dividing after-tax income for year by end-of-year equity.
Table includes all listed companies with sales in fiscal year ending June 1986-January 1987 in excess of $1 billion AND publicly held for all four years.

The columns show the ROE for the years indicated. The Weighted Average gives heaviest weight to the most recent years by multiplying the 1986 figure by 4, 1985 by 3, 1984 by 2 and 1983 by 1, and then dividing the result by 10 (the sum of the weights [4 + 3 + 2 + 1]).

Someone looking for a bargain will first look at the raw ROE figures shown.

Look at the weighted and the most recent ROE for the companies that have gone private:

	Latest Year	Weighted Average
Southland	12.02%	12.86%
Federated Dept. Stores	11.34	11.75
Safeway	14.25	13.31
Supermarkets General	13.32	14.80

And look at the rumored targets:

Stop & Shop Cos.	0.99%	7.34%
J.C. Penney	11.01	12.25
Ames Dept. Stores	6.88	12.63
K mart	14.78	12.69
Woolworth	14.42	3.91

The "takeover/raider/asset stripper" (TRAS) first looks at the published information to see how well management is using the money left (kept?) in their care.

The lower the ROE, the more obvious the target.

The TRAS then looks at the following, not necessarily in this order:

1. What percentage of shares is represented directly or indirectly on the Board? If more than 20%, the TRAS will have to make some form of deal with that block. Courts are now blocking "sweetheart" deals.
2. What is the real equity under non-GAAP accounting? This includes adding back the LIFO reserve, less a realistic allowance for taxes. Deferred taxes will be adjusted to current rates. Reserve for bad debt will be adjusted.
3. Since the fixed assets will be a major part of the financing, the TRAS starts looking at the *true* value. How much is Macy's 34th and Broadway building worth? How much is the land under shopping center anchors worth (it may have been given to the retailer)?
4. Leases will be valued, especially for locations thought or known to be yielding low or no profit.
5. How much are operating divisions worth? Brooks Brothers apparently is worth $770 million to Marks & Spencer, but I doubt that any allocation to Brooks Brothers by Campeau of the price paid for Allied comes up to even $500 million. Analysts, at the time Campeau acquired Brooks Brothers, valued it in the $350-$400 million range.

A TRAS operation is a matter of putting together a lot of small numbers that are carefully analyzed, and then visiting its friendly investment banker/other lender to see how much can be raised, what will be charged, and what portion of your right arm does it want from you.

The TRAS is now ready to make an offer.

The price must be substantially above the current market. The current market represents the marginal price (the point where a buyer and seller meet) for an insignificant amount of stock. The TRAS does not want just control, it wants "all of it."

If we go back to a peaceful market month, like June 1987 (the Dow Jones Industrial Average did not have a net move of more than 2% on any single day; it moved more than 2% on 13 days in October and on 7 days each in November and December), we find, for the current targets, the following percentages of outstanding shares traded:

Stop & Shop Cos.	17.96%
J.C. Penney	7.26
Ames Dept. Stores	6.42
K mart	6.98

Why didn't more shares trade? All the rest of the people were either (1) happy with the price, (2) expected it to go up, or (3) were not even paying attention to the daily price.

Typically, the initial offer is in the range of 25-60% above the market price prior to information leaks just before the offer. The other TRASs haste to finish their valuations (remember, each TRAS is looking at the same numbers that are on the table) or start a valuation immediately. The analysts and arbitrageurs make their own estimates. If the stock price immediately settles above the offer, a number of people have concluded (1) it is worth more, (2) management has the power to force a higher price and/or (3) poison pills will not be used. On the other hand, if the market says, "Ho hum," and settles at 10% below the offer, it thinks (1) major blocks of stock will not be tendered, (2) poison pills will be used, or (3) the offerer cannot finance the deal and nobody is or will be interested.

RThought: Once the rough playing starts, we begin to see which side the target's management is on. Remember the $2 million plus that Macy was going to pay to just a few top officers at Federated? Was that Macy's idea—or did the top people at Federated say, in effect, that "This is our price for cooperating with you?" You and I will never know. We also learn the size of "golden parachutes" and how far down the organization chart they go.

A stockholder doesn't have to wait for the deal to go through. He can get his money right away by selling his stock on the market, especially if it is at or above the offered price. Then let the arbitrageur do the waiting. The figure of $25 million to top management at Federated is 27¢ on the 93 million plus shares issued—the market price fluctuates that much in an hour.

RThought: The basic villain is GAAP. It is guilty every time a CPA signs off a statement containing these words.

> "In our opinion, the statements mentioned above **PRESENT FAIRLY** the consolidated financial position of 'XYZ, Inc.'. . . in conformity with Generally Accepted Accounting Principles applied on a consistent basis."

Fairly: 1. justly; equitably. 2. moderately; somewhat: as, he plays *fairly* well. 3. clearly; distinctly. 4. completely or really: as, his voice *fairly* rang. 5. (Ob) a) softly, b) courteously (**Webster's New World Dictionary**—*College Edition,* 1960).

All the time you thought the CPA was using the word "fairly" in the first sense, whereas the CPA had a *ringing* voice in mind. So did his cohorts—the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, the Securities and Exchange Commission and all the people who require audited reports, like the stock exchanges, the underwriters' credit raters and lending institutions. For example, suppose three people are bidding for your lease (not on your balance sheet) in a shopping center. The offers are $8 million, $10 million and $12 million. Try to get your banker to lend you $1 million on the lease—he will tell you, "If it was worth anything, your accountant would have put it in his 'certified' report—and he didn't." Ergo, it isn't worth anything. But the unsecured promise of your customers to pay their accounts—that *IS* worth something.

RThought: Other countries have solved the problem. For example, Australia was bothered by the conduct of the TRAS. Australia used to have the same accounting rules as the U.S. for the same reason and with the same results. It was the government that said, "You can be honest. We will qualify 'certified valuers.' You can have one of them value your property and then can reflect the current value on your books—and depreciate it [not tax deductible] over the remaining life of the write-up asset. The write-up in value is a balance sheet entry—it does not go through income nor does the depreciation."

Some of the companies decided they would be "conservative" and not use a "valuer." Then they noticed a surprising thing. The TRASs were operating against the other "conservative" companies—and it was too late, after a TRAS offer, to start telling the owners of the company how valuable their property really is.

In the United States, we are, apparently, happy letting only the management we elect (to run the company for our benefit) know the true value—and virtually telling them to take our value for their own benefit.

I welcome Spence's position. Unfortunately, it will take laws in all 50 states to end this practice. I do not see more than handful of card issuers who have any concern about the privacy of individuals using the cards and who must provide names and addresses for three—and only three—reasons:

1. In order to ascertain the credit record of the applicant.
2. In order to identify the person using credit.
3. In order to know where to send the bill when money is owed to the card issuer.

Today, most people who try to make money off their list of good customers are no better than the many merchants who put in pay toilets (first 10¢ and then 25¢) just to take advantage of their customers. Many states now prohibit having *all pay toilets*. In California, the campaign was under the slogan, "Prohibit Pay Potties in Public Places."

A CALL TO ACTION—CONVOLUTED THINKING

The National Retail Merchants Association sent out "A Call To Action" urging retailers to direct efforts (i.e., pressure) on both political parties to oppose the minimum wage legislation "if and when it reaches the House floor."

RT has documented several times that every time the minimum wage is increased, the greatest impact is on non-white youths. If one looks at the ratio of the unemployment among teenage blacks to that of teenage whites, the ratio increases each time the minimum wage is increased.

For February 1988, the unemployment picture was:

	All	Men	Women
TEENAGER (16-19)			
White	12.4%	12.7%	12.2%
Black	38.3	42.0	34.7
Ratio			
Black to white	3.1:1	3.3:1	2.8:1
ADULT (20 AND OVER)			
White	4.8%	4.1%	4.5%
Black	12.6	11.3	10.4
Ratio			
Black to white	2.6:1	2.7:1	2.3:1

The unemployment rate for teenagers is higher in metropolitan areas than in suburbs or rural areas. In many central cities, the unemployment rate among black teenagers is over 50%. And that is based solely on the ones who have tried, within the prior four weeks, to get a job. It does not include those who have given up on getting a job—or are pushing crack or cocaine.

The arguments advanced by the NRMA are:

1. The retail industry employs many first-time workers providing work experience to young people. (**Rebuttal:** The concentration on young, inexperienced people many times results in such poor service that customers are driven from the store.)
2. If the minimum wage is increased to $4.65, retailers would be forced to hire fewer workers, reduce the number of hours of those employed, lay off less productive workers and increase consumer prices. (**Rebuttal:** The $1 million plus salaries for top executives that cannot produce better than a 10-12% return on an understated equity also force prices up; so do arrangements of $25 million in termination of pay for management of an acquired company. The unproductive workers should be trained—but they are not. Retailers are laying off increasing numbers of people anyway as margins are pressured.)
3. Most economists agree that the most vulnerable segments of society, people with undeveloped skills, those with little formal education, young people and many elderly workers, are the ones that most likely will be hurt by increases in the minimum wage. (**Rebuttal:** Just what are retailers doing to assist young people to acquire skills? How many retailers are providing education to young workers? Or even encouraging those without a high school diploma to work toward a General Educational Development certificate?)

RThought: I agree that increasing the minimum wage will hurt the teenagers (and especially the black teenagers) most. But it will also do the most to steer youths into drug peddling, burglary and other counter-productive fields.

Until employers take more responsibility for the development and education of those who have left school, and now make up a part of the work force, there will not be a solution to the teenage unemployment problem—and teenagers will continue anti-social conduct.

DO YOU UNDERSTAND THE PROBLEM OF BATTERED WOMEN?

I am sure you are aware of the underlying problem. Now that it is being talked about openly, it is recognized as one of our major social problems. But I am certain that you think this is something that happens to other people—to people employed by other employers. For some reason, it does not apply to the people—or spouses of people—who work for you.

I was struck by this when I received the Summer 1987 report from Battered Women's Alternatives, the local agency that I support through both my United Way and my direct contributions. The report from the executive director, Rollie Mullins, underlined the fact that newspaper reports seldom tell what did happen/was happening in the family when a beating situation was disclosed. Let me quote from her report on a specific case:

> **Over the last five years, seven of our women have been killed; the latest, Debbie Vargas, just a month ago. You may recall that case which was written up extensively in the newspapers. Debbie was murdered by her husband, Ray, who then committed suicide, leaving three small children age 9, 6 and 5 without parents.**
>
> **. . . newspaper stories focused on Ray Vargas—the wonderful man he was, the effect his death was having on the Salesian High School staff and students where Ray taught and coached, etc. One newspaper did mention Debbie, but only to say that she had left her husband because he didn't spend enough time with her and the children. The focus then switched back to Ray, however, and the reporter went on to say that Ray, unable to live without his wife, had killed Debbie and then himself.**
>
> **Debbie remained as invisible in death as she had been in life . . . no mention was made of the fact that Debbie had been beaten by Ray for years, had been threatened with a weapon, or that the . . . police department had intervened . . . because of Ray's violent behavior. Finally, in desperation and hoping to live free from pain and fear, Debbie had left her husband . . . The abuse is portrayed as an isolated instance, an aberration—unintended and unpredictable.**
>
> **We, of course, know differently. Years of experience working with women who are battered as well as the men who batter them prove that violent episodes are very easy to predict, Battered women usually know in advance what is likely to happen and when . . . newspaper accounts also give the impression that the violence and murder are caused by the man's deep love for his partner. Again, we know from**

working with these men and women that this is not true... So we must learn that battering and its ultimate expression, murder, is not a crime of passion, springing from a laudable, if excessive, capacity for love. Rather, it is vindictive, springing from a desire for possession, power, control, and a need to win.

Lastly, newspaper stories indicate the tragedy always comes as a shock to neighbors and friends. Striking and particularly poignant, was the account in one newspaper that the Vargas children "weren't shocked about their parents' deaths. They just accepted it and cried." It seems children from violent homes are usually the only witnesses to the abuse and, therefore, the only ones who are not shocked.

RThought: You and I are more likely to read the newspaper story than the story from the local agency helping battered women. For lack of better criteria, we are inclined to accept the newspaper story and are likely to feel that this was "an aberration—unintended and unpredictable."

What can we do? We can support the local agency and read the material that it sends us. We can learn to be sensitive, particularly as employers of women, to any indication that battering is taking place in a home. This is no more than we expect of teachers when caring for their charges in our schools.

As employers, we have a special charge to be our brother's keeper. Turning our backs on battering situations is actually a form of acceptance of the conduct—and I do not believe that anyone really wants to convey that idea.

SHORT SHORTS

You must challenge everything you read. A friend sent me a statement that appeared in the **San Jose Mercury—News,** "My life changed when I found that Whistler's mother was 42 when that painting was made," and added the comment, "I didn't know that—always reminds me of my grandmother." **RThought:** It surprised me, too. But I did some checking. Whistler was born in 1834 and painted the picture in 1871 when he was 37. If his mother posed for the picture when she was 42, then she gave birth to Whistler at the age of 5! (I didn't bother to check the record on the youngest woman to give birth.)

Retailing could show it has some standards left by not carrying Masterpiece Tobacs (chewing tobacco) from Pinkerton Tobacco Company—and aimed at women. **RThought:** If you don't carry it, the habit won't develop.

Take your choice of countries. Corning (United States) puts out a line of insulated coffee containers under the name of "Thermique" (French—trying to get away from the name of "Thermos"—registered, I presume). When I looked at the packages, one said, "Finely crafted in India"; the next one said, "Thailand," and then one line said, "Japan." **RThought:** I guess they don't know how to make these things in the U.S.?

It died so young! The latest catalog from Neiman-Marcus had no ads. I thought ads in store catalogs were supposed to be the new, great "transfer of expense to vendors" idea of the decade. **RThought:** Perhaps the vendors' increases in sales did not warrant the costs. Perhaps the problem of providing the money on a comparable basis to others who carried the same merchandise was excessive.

Do you serve the needs of your customers who pitch horseshoes? Brookstone does—through its catalog. Item W-13654 is a "horseshoe scoring tool." For $7.50, in a single tool, you get a straight edge for verifying ringers, a scraper for removing dirt and mud from the shoe, and a caliper for determining which shoe is closest. **RThought:** All this—and approved by the National Horseshoe Pitching Association.

Embarrassing messages. On the same day that the Oakland newspaper headlined an article **"Nordstrom Intent to Local Store Confirmed,"** the San Francisco newspaper headlined **"Nordstrom Deal With Oakland Center Denied."** **RThought:** An absolutely positive maybe?

Brooks Brothers' strange claim to fame. The (London) Sunday Times, in discussing the prospects of Campeau selling Brooks Brothers to Marks & Spencer to help finance the purchase of Macy, noted that B-B made the coat that Abraham Lincoln was wearing when he was shot.

Metallic balloons are great BUT they cause power outages! Pacific Gas and Electric Company reported that, for 1987 through September, metallic balloons had caused 120 power outages in Northern California. **RThought:** That is probably one per 10,000 or even 50,000 balloons, but those who sell them should be aware of this.

WHAT DOES THE WORD 'FREE' MEAN?

In 1971 the American Advertising Federation, American Association of Advertising Agencies, The Association of National Advertisers and the Council of Better Business Bureaus (CBBB) established a self-regulatory system seeking to sustain high standards of truth and accuracy in national advertising. This operates as the National Advertising Division (NAD) of the CBBB. If complaints cannot be solved by the NAD, they can be appealed to the National Advertising Review Board (NARB), which has a panel of 50 people from which five are selected for a panel.

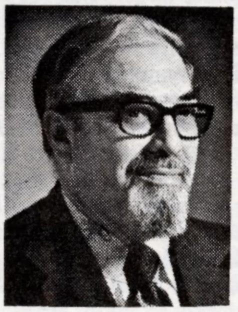
A complaint was filed against Brown & Williamson Tobacco Corporation (B&W) for the use of the phrase (on its 25-cigarette packages of Richland brand), "5 Free Per Pack! (50 Free Per Carton!)." The NAD referred the matter to the NARB panel, which held that the claim was not accurate and urged the advertiser to eliminate the use of the word "Free.".

The report commented that B&W showed advertising of competing brands making the same "Free" claim and queried those companies. The firms said that they were aware of the self-regulatory proceedings and had independently undertaken internal reviews of the use of the term "Free." They indicated that they did not think it was "deceptive."

However, while reserving the right to contest any similar challenge, all cigarette manufacturers agreed to discontinue the use of the term "Free" in advertising after depletion of present supplies and completion of prior commitments.

RThought: If a package of 25 cigarettes does not contain "5 free cigarettes"—and if major cigarette makers have agreed to stop making that claim—shouldn't department and specialty stores stop making such claims? I see it with great regularity in cosmetic, mattress, drug sundry and food advertising. Don't our customers use and understand the same language as cigarette smokers?

Why doesn't the American Retail Federation—or at least the major member organizations (NRMA, IMRA, NRHA, MRA, etc.)—form a voluntary panel to which both customers and competitors can bring complaints? It is much better than going to a state's attorney general and filing a complaint.



RETAILING TODAY

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ROUTE TO

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IF YOU ARE A RETAILER—'THINK CUSTOMER'

You say the headline above is absurd?

I don't think so.

In the February 29, 1988, **Business Week,** there was a letter from one Suzanne Sisson, who responded to an article in the January 18 issue under *"Marketing,"* headed "Where there's smoke, there's trouble."

The article told the steps Brown & Williamson Tobacco took to introduce its new Capri ultra-slim cigarettes in major Chicago supermarket chains.

For years, there have been people on busy street corners passing out sample cigarettes. If you don't like the idea of encouraging people to smoke, there is little you can do on a street corner. Boycott that intersection? Exercise your rights of free speech and out-talk the givers by warning passersby of possible death from cancer or heart disease? Exercise your right to picket—keep walking around them?

The people handing out the cigarettes are a moving target, and there isn't much time to organize.

But when you are a supermarket operator, you must be aware of the publicity of the Surgeon General of the U.S. that....... "cigarettes may [do?] cause death." Most supermarket operators know that they get little or no business (1) from dead people, or (2) extremely sick people, like ones suffering from emphysema who spend more on bottled oxygen than they do for the store's products. If you think your customers are typical of the people in the U.S., you must be aware that (1) a majority of the adults in the U.S. either never smoked, have quit or are trying to quit, and (2) the only group where more are smoking than in the past is women under 25. For once, the men got smart faster than the women.

Apparently, Jewel Food Stores, Dominick's Finer Foods (cigarettes are a finer food?) and Eagle Food Centers welcomed into its stores the models in white satin who hustled customers to smoke the new Capri.

Guess what? Within instants, there was an organized telephone campaign against the three chains, and the chains went down in the order cited above. The four-week campaign ended in one week!

Suzanne Sisson evidently worked on that campaign and was pretty proud of what it accomplished.

RThought: *Supermarkets can be excused for passing on adulterated* apple juice products when they did not know that Beecham was packing potentially dangerous products to make

DO ACCOUNTANTS COMMIT SIN?

Certified Public Accountants, upon whom the investing public relies, have a God.

Their God is "historic cost."

Their Bible is "Generally Accepted Accounting Principles," more commonly called "GAAP."

But GAAP leaves a big gap—largely in the credibility of the accounting profession.

The American Institute of Certified Public Accountants and the Financial Accounting Standards Board see themselves as protectors—but of whom? Of the management—yes; of the owners of the company—NO.

Were the prices paid (*well above any recent market value*) for Allied Stores or Associated Dry Goods because of what the CPAs said the company was worth? Or was it something else that the buyers saw? Was it the *current value* of fixed assets rather than the *depreciated value* of the historic cost of fixed assets? CPAs and the FASB continue to argue about how many angels can stand on the head of a pin—while management and raiders know what the assets are really worth.

The raiders and management then appropriate the undisclosed value to themselves. Think of the Macy-Southland-Safeway management buyouts or the Campeau takeover of Allied and Federated.

RThought: Who is going to correct this situation?

The management (which too often cuts a sweetheart deal for themselves)? Not in my lifetime!

The CPAs? Have you seen the fees that are involved in these transactions?

The investment bankers? Look again at the millions they pocket on these deals.

The FASB? Not as long as it worships the God of "historic cost"—depreciated in the face of inflation—and continue to influence those who train people in accounting.

Like all other changes brought about, whether of the state (as in our Revolutionary War) or in our markets (such as those led by Keynes in the 1930s), a leader is needed.

Soon there will come a charismatic character, a "Jesse Jackson of the financial world," and those who live by appropriating the wealth of others will be out of work.

The ultimate definition of inside information is—knowing what the assets are really worth.

a few extra bucks. But to invite the devil in to insult the majority of your customers doesn't, in this case, indicate much knowledge of the wishes, hopes and desires of your customers. To quote Tom Peters: *"Try listening to the people."* (In this case, those who want to live and want to stop their family and friends from dying because temptation was put in their way.)

READING A FOREIGN RETAILER'S ANNUAL REPORT

I read a lot of annual reports. Many, if not most, American reports start with a letter from a person who combines the position of Chairman (and/or President) with Chief Executive Officer. Often that person shares a miniscule interest with the stockholders in the price of the stock and has a maximum interest in his own compensation.

In many cases, a shareholder is warranted in wondering, "Is that officer on *my* side or on *his own* side?"

It is different when reading annual reports from a foreign company, particularly one from a country that is or was part of the British Commonwealth (these countries generally follow the British Companies Act).

Let me give you a few extracts from one such report. The expressions are on behalf of the Board of Directors of 17 people, only five of whom are employees.

From page 1:

> **"The company aims to provide increasing returns to shareholders in the form of both income and capital growth through the achievement of acceptable profit levels and sound management of the company's assets.... It seeks to provide high standards of service and quality to its customers while offering secure and rewarding careers for its staff and developing honest and mutually beneficial relationships with suppliers. The company aims to occupy a position of leadership in the retail industry and to be recognized as a caring and responsible corporate citizen."**

Because of retirements, a new team was promoted to the top; and in the descriptions of the new team, I found the following.

Of the new Chairman and Chief Executive:

> **"...has had a distinguished career with the company since commencing as a trainee in 1955...completed the Advanced Management Program at Harvard Business School in 1979...your Board is pleased that he has accepted the appointment...and [is] confident that he will provide strong and effective leadership for the management team."**

For the head of one of two major divisions:

> **"He joined the company in 1955...and this year completed the Advanced Management Program at Harvard Business School...The Board believes the appointment...will greatly strengthen the coordination and management of a range of services which provide essential support to the retail activities of the company."**

For the head of the other major division:

> **"The appointment reflects a decision to improve the coordination of retail activities...[he] joined the company in 1956...The Board believes the appointment ...will assure that the company's retail operations will remain competitive both internally and externally while improving productivity and profitability."**

I would like to point out that the retiring Chairman joined the company in 1947 as a trainee. The Board also noted that seven senior executives had retired after service of 44, 44, 42, 40, 37, 36 and 33 years.

RThought: What kind of a company is this? It is the 15th largest retailer in the world and the second largest outside the U.S.—Coles Myer Ltd. of Australia (in which K mart owns an important interest). It is the largest company in Australia in both sales ($US 8.2 billion) and employment (141,000). It operates everything from world-class department stores to two of Australia's four major discount chains and three major supermarket chains.

It does 20% of the total retail volume in Australia. To put its volume in perspective, the U.S. is 15 times larger than Australia—and 15 times $8.2 billion is $123 billion. The ten largest U.S. retailers listed in the **Fortune 50** did only $161 billion.

RThought: The amazing thing about the success of Coles Myer Ltd. is that it accomplished all of this without hiring people away from other companies. It trained its own!

Too many stores look for a fast, cheap way to success— by stealing someone from another store; they forget that if you can steal them, someone else can steal them from you.

ONCE AGAIN I ADMIRE THE MILTON PETRIE BRAND OF CHARITY

The television program, "20/20," on December 15, had a heartbreaking story about Officer McDonald of the New York Police Department—who was shot by a teenager when making a traffic check—and who now is a quadraplegic.

It told of his recovery to the point where he now can talk and can operate a computer by blowing into a tube. These are things that few people think of being accomplished by a quadraplegic.

He comes from a police family. His grandfather was and hi father and brothers are police officers.

The second miracle is that he holds no malice toward the teenager who shot him.

But you wonder what will become of his daughter who was born six months after he was shot—and of his family.

RThought: Enter Milton Petrie, who has assured the family that they, including the daughter's education, will be taken care of. For all of the people who don't give to the United Way or Red Cross or anything else—with the explanation "I prefer to do my charity work one-on-one"—take Milton Petrie as a model. I was surprised that this time Petrie's gift became known so soon and on a TV program. Too many reports that I have seen on Petrie are years after the act of kindness.

IF YOU SEND YOUR EXECUTIVE TO A BUSINESS SCHOOL SEMINAR...

Deception and dishonesty apparently are condoned at the highest level—in academia as in business.

The Wall Street Journal (3/22/88) told the story of Marketing 321: a course for MBA candidates at West Virginia University conducted by Professor Terry Wilson. The course called for groups of students to go into the field and, to quote the article, "apply marketing concepts learned in earlier courses." Wilson arranged for two groups to work with Cate pillar heavy equipment dealerships. The assignment: conduc competitive analysis on actual competitors.

CHAIN STORE AGE KILLS A MAGAZINE—WITH A CHEAP SHOT

January 1988 marked the demise of **CHAIN STORE AGE, General Mercandise Trends.**

uess there are not any more trends to report—although most ailers still see trends every day.

In a **CSA** *Exclusive Survey*, entitled "EAST vs WEST—What Americans really think about imports," the fourth and fifth paragraphs read:

> **Discount giant Wal-Mart, meanwhile, *wrapping itself in the flag and puffed with patriotic fervor,* has instituted a "Buy American" program that *attempts to give* U.S. suppliers the same financial breaks it traditionally gave only to overseas sources.**
>
> ***At the same time, Wal-Mart has quietly expanded its Far East buying office and in sheer volume now imports more goods than ever before.* The proportion of American-made goods Wal-Mart sells, however, has risen since the program began. [Emphasis added.]**

Perhaps these snide and misleading remarks would not have been published if another issue was to follow because that would have permitted a reply.

When Sam Walton announced the "Buy American" program, he was quickly criticized. I can recall quotes from Bradlee's and K mart to the effect that "WE-WE-WE are going to continue to bring the *best values* to our customers." Perhaps they were not aware that Wal-Mart converted from offshore to a U.S. supplier only if several conditions were met:

1. It must be as good or better at the same or lower landed price.
2. The manufacturer must invest in state-of-the-art equipment in order to be able to maintain low-cost production.
3. The manufacturer must institute a profit-sharing plan so that the people in the plant can share in the product of the joint endor/Wal-Mart effort. The Wal-Mart associates already share substantially in their efforts toward the profitability of Wal-Mart.

Since the last sentence of the second paragraph above reads, "The proportion of American-made goods Wal-Mart sells, however, has risen since the program began," it is obvious that neither the writer nor the editor can comprehend the size of each year's growth in sales at Wal-Mart.

The new **1988 Directory of Discount Department Stores,** published by **CSA,** lists the 20 largest discounters. The figures go through January 1987—a year during which Wal-Mart increased sales by $3,458,000,000 (the most recent year had an increase of $4,050,000,000).

The TOTAL SALES of the 16th and 20th largest discounters (ShopKo, Jamesway, Pace, Alexanders and Heck's) totals only $3,154,139,000—or $345 million *less* than Wal-Mart's INCREASE for the year.

And how does the INCREASE relate to the TOTAL SALES of Bradlee's—just under twice.

Only two discounters had annual sales greater than the ONE-YEAR INCREASE for Wal-Mart—K mart with $23,812,000,000 and Target with $4,354,900,000.

The early and unnecessary bashing of Wal-Mart would lead one to believe that customers do not care about where the goods are made as long as they are cheap. Yet, later the article says, *"What is perhaps the most startling finding of the research [is] the hands-down preference for products made in the United States!"*

RThought: The claim that Wal-Mart is "wrapping itself in the flag and puffed with patriotic fervor" is a completely dishonest statement. **CSA** knew how this program started. As Arkansas is a small state, the Governor is concerned when a small plant (employing 100 people) closes. Small plants often are the mainstay of the small community in which they are located.

The 1980 Census showed Arkansas with only one city with over 100,000 people (Little Rock at 178,000) and only three between 50,000 and 99,000 (Fort Smith, North Little Rock and Pine Bluff). Massachusetts, home of Bradlee's, however, had one over 500,000 and two in the 100,000-500,000 range. But it also has 18 in the 50,000-99,000 range. The Governor of Massachusetts doesn't have time to worry about the closing of a plant employing *only* 100 people.

But in Arkansas, the Governor called Wal-Mart to see if there was anything that could be done. A visit to the plant, which made men's shirts, indicated several things:

1. The workers were good, stable people, working in their hometown.
2. The plant owner wanted to do everything he could to avoid closing.
3. The merchandise people felt the plant could make good quality shirts.
4. The owner was willing to invest in the plant and to share profits with his workers.

That is the basis of Wal-Mart's "Buy American" program. Other manufacturers heard about it, came forward and wanted to do the same thing. As the numbers grew, it was like having a hot seller—you reorder. The reorder in this case was a letter to hundreds of Wal-Mart suppliers, saying that Wal-Mart would do the same thing with others but only if the three cardinal requirements set forth above were met.

CSA will not print this information—but a copy was sent to Mr. J. Roger Friedman in order for him to have this information in **CSA's** large (one of the largest in the world) library of retailing.

SHORT SHORTS

Imagine! The ad said, "BETTER THAN A SALE." Ross Stores used that headline in the **Los Angeles Times** on April 26, 1988 (about five columns, 20 inches). I guess it was not a sale—since all prices said, "Compare at." Savings were "only" from 33% to 60%. But this is from a store that says it aves you 20% to 60% every day. **RThought:** Must be everyday prices for Ross. And that is better than a sale? I think Ross customers are as confused as I am.

Can this be Federated? In announcing the sale of three former Block stores to Montgomery Ward, **The New York Times** article quoted a Federated spokesman as saying, "When we acquired the Block stores in Indianapolis in June, we found that three of its stores represented duplicates of others operated by our Lazarus division." **RThought:** It didn't discover that until it bought the stores!!! Hey there, Federated, I have a bridge for sale.

FEATURE REPORT

THE NEW IMPROVED DIRECTORY OF DISCOUNT STORES

What do you do when you have customers who buy hundreds of copies of a **Directory of Discount Department Stores** and there are fewer discount companies?

Lebhar-Friedman's answer is "publish more detail."

The 1988 directory now gives location, size and, when available, the name of the manager of each store listed.

Within a city, stores are grouped alphabetically by company. In Chicago, for example, there are 4 K marts, 3 Polk Bros., 4 Ventures, 14 Zayres and 3 Zemsky Bros.; Philadelphia (city only), has 1 BJ, 1 Bradlee's, 2 Caldors, 1 Carrefour, 5 Clovers, 1 Jerry's, 5 K marts, 1 Kenney's Korner, 1 Makro and 1 Marshall's.

There is more information in the front:

- ...name, address and officers of 6 retail trade groups
- ...sales of 50 largest discount chains
- ...number of stores and headquarters for 20 wholesale clubs
- ...name and headquarters of 3 companies with hypermarts
- ...8 pages of trade shows with dates and locations
- ...6 pages of industry profile using tables and charts
- ...five-year history of sales of 20 largest chains
- ...five-year history of number of stores in each chain

The section on catalog chains (in this issue, no companies were added but 17 were deleted), covers 132 firms operating 1,097 stores broken down as follows:

Number of Stores	Number of Companies
1	66
2-5	43
6-10	11
11-21	6
35	1 (Brendles)
36	1 (United Jewelers)
43	1 (L. Luria)
89	1 (Consumers Distributir
194	1 (Service Merchandising
317	1 (Best Products)

RThought: Catalog/showrooms are not a thriving business. There was a day when a catalog/showroom's expense percentage was substantially below that of discount stores. That is no longer true. Its period of dramatic growth was based on factors that were temporary.

When the industry started, there were only two major developers of catalogs and they would not let users compete. For far more years than was the case with discount stores, you could have a community with just one catalog/showroom.

Catalog/showrooms were classified by major vendors, particularly vendors in the table appliance field, as "wholesalers," so were able to buy at a lower price than the department or discount stores. A decade ago, the FTC ended this (today, the FTC might not have done so).

In days of rapid inflation, the suppliers to catalog/showrooms bought the argument that the catalog/showrooms put out only one book a year, so they had to have price protection on items in the catalog for the life of the catalog. Thus, the older the catalog, the lower the price relative to other retailers who had to buy at current prices.

When these advantages disappeared, customers decided the long time between selection and pickup of merchandise was not worth the wait.

And catalog/showrooms never had much business from th 20-25% or so of our adult population that is functionally illiterate—because the customer has to write out a slip in order to get what could be bought in a discount store by just pointing.

SHORT SHORTS

Customers fight back! RT reported (March 1988) on a totally biased story in **Consumer Reports** about how those clever supermarkets tempt customers—with end displays, impulse merchandise at eye level and many other tricks. Letter writers added their own thoughts on how to save money when shopping for food. Q.R.P. of Troy, NY, wrote, "Eat before you leave to shop. Hunger is your worst enemy in a grocery store." **RThought:** For those superstores with snack bars, how about a big sign at the entrance, "Have a snack before you shop—and save money on your food shopping!" Why not?

Warm up your computers—start on a new credit department marketing program. Joe McNichols in his **Furniture Merchandising Newsletter** (Box 584, Palos Heights, IL 60463; $40/yr.) reports that variable-rate car loans are coming. Payments will remain constant; finance charge (and thus the duration of contract) will vary. Joe challenges his furniture store readers, "Will you be the first in your trading area to offer it—or the last?" **RThought:** Furniture stores still use conditional sales contracts which makes it easier to offer variable finance charges; department stores put most large tickets on a form of revolving account which makes this difficult to do.

Is the Federal Reserve smart enough to control our money supply? The answer is probably "No." For full details, write the Federal Reserve Bank of San Francisco, Box 7702, San Francisco, CA 94120, or call 415-974-2246 for the April 22 *Weekly Letter.* The subject is "Monetary Policy in West Germany." For years, West Germany showed much greater financial stability than the U.S. Those were the days when the Fed was controlling U.S. money supply on the basis of M-1. **RT** often pointed out the weakness, even worthlessness, of M-1 as a measure during the period of changing financial instruments (money market funds, interest on checking accounts, small CDs, etc.). Faced with the same problem, West Germany developed an aggregate called "Central Bank Money" (CBM). The figure each week was a more accurate measure than M-1 so better decisions could be made. **RThought: The Fed has moved to M-2.** You no longer read each week about the stock market waiting for the latest figure on the M-1 money supply. There are far fewer false alarms or wild swings because of money supply reports. Isn't it wonderful that we can tell underdeveloped and developing countries what they should do. Or don't we?

The Evil Artist—Dali. He is reported to have said, "I want to be rich while I am alive; and on my death, I want my art to b worthless." He reportedly sought to accomplish part of this signing 35,000 *blank* sheets of paper on which his prints cou be run off.

Both groups got into competing dealerships by saying they were graduate students on a project assignment, without revealing they were doing it for a competitor. The dealers, as you and I would do, opened up and answered all the questions, including planned new products, actual sales, sales projections much more. One group promised that the name of the ...er would not be disclosed; in the other case, the dealer didn't ask, and the students didn't say anything.

The students knew that Wilson had a counsulting contract with Caterpillar and thought that if they did not get the information that Wilson asked for, Wilson might be affected; and in turn their grades might be affected.

Wilson defends his position: "They'll be facing these issues every day in their careers. They have to learn to deal with them. I tell them to think through trade-offs." He concluded that no harm was done. The dealers interviewed did not agree. And the trade-off the students made was obvious: get the information for Wilson to help his standing with Caterpillar and hope that Wilson will reciprocate with a good grade for me and perhaps a letter of recommendation for me when seeking a job in marketing.

Most of the students had qualms about what they were doing, and Wilson offered nothing to reinforce their gut feeling that this was improper conduct for an MBA.

The Dean of the College of Business and Economics, Cyril M. Logar, was of little help; he said that he planned to meet with his executive committee. And the article says nothing about Caterpillar's reaction about the worth of Wilson to them as a consultant. (I have written to Caterpillar—six weeks have passed— and no reply.)

RThought: How does this apply to you? Suppose you send ...e of your top executives to a seminar at a top school, such as ...anford or Columbia or Harvard. The presenter of the seminar probably does a lot of consulting—it may bring in more income than is received in salary. He/she will, in the normal course of events, get to know your executive and will take an interest in the executive's job—but the executive's job is your business and not that of the presenter. The intimate knowledge of your business may become the consulting advice of the faculty member.

After reading about Professor Wilson, I think that, before approving sending an executive to a seminar, I would want a notarized list of the past and present consulting clients of all faculty and others active in the seminar. It may seem to be an insulting process— but don't put yourself in the position of the Caterpillar dealers who did not ask such questions when the students came to call.

It can only cost you your customers, your sales and your profits.

BUSINESS WEEK USED TO BE THE LARGEST BUSINESS PUBLICATION

Business Week (BW) took a full page ad in **The New York Times** recently announcing that its new guaranteed circulation rate would be 850,000. But it did not say a word about being the largest circulation business magazine. It talked about "high-quality circulation" and a "remarkable 49.5% increase in newsstand sales" (it helps magazines to have a Contragate, ...unging dollar, Supreme Court justice hearings and other ...vents leading to impulse buying of magazines, even business magazines).

The reason **BW** does not stress being the largest business magazine is because it is not. **Working Woman (WW)** is larger—as is shown in the schedule of guaranteed circulation below:

BUSINESS WEEK		WORKING WOMAN	
Date	Guaranteed Circulation	Date	Guaranteed Circulation
January 1986	775,000	March 1986	770,000
January 1987	790,000	March 1987	850,000
January 1988	850,000	March 1988	900,000

RThought: Working women are a big—and growing—market. Everybody wants to be in that market—either through specialty chains or special departments in larger stores.

But why are so few national chains (or major regional chains) using **WW** to reach out to that market?

Note: Both **Forbes** and **Fortune** are smaller than **BW.**

WHAT HAPPENS WHEN AN EMPLOYEE HAS A CRISIS—AND NO LEAVE TIME?

Businesses have sick leave and vacation programs for most employees. In many cases, the employees can accumulate unused sick leave from year to year; in a few cases, they can do the same with vacation time.

But what do you do when an employee has used up all the paid time off available under your rules? Some companies have disability insurance programs (usually paid for by the employees so that the proceeds, when paid, will be free of income tax). But such programs don't help if the employee is healthy but the crisis is with a member of his or her family.

I discovered that someone had a solution—in a place one would never expect to find it. It was on page 27 of the Annual Report, 1986-87, of the California State Board of Equalization (SBE), the constitutional body that seeks to insure that assessments on property are uniformly made—but, most important, collects some $16 billion of taxes (mostly sales tax) for the state.

Let me quote:

> **A Catastrophic Time Bank Program was adopted by the Board in December 1986 based on the Department of Personnel Administration Rule 599.925. The program is designed to ease the financial burden for management employees (designated as exempt, managerial, supervisory or confidential) [NOTE: Other employees are covered by bargaining agreements] who have exhausted all available leave credits, due to a continuing catastrophic illness or injury to themselves or a family member. The program provides a unique opportunity for Board employees *to donate official compensated time off, vacation, annual leave or holiday* credits to a time bank created specifically for an affected employee.**

RThought: I am sure that such a program could work in many retail organizations—and particularly if the person affected is a long-time or very popular employee. Many people would contribute days to help the associate with the problem.

The company might even have a matching program—certainly such gifts as these are as deserving of matching as are the money contributions of employees to charitable organizations.

RThought: For those of you who have strong criticism of government and constantly talk of the inefficiency of lazy workers, please consider how constructive this program is at the California SBE—and it is conducted without cost (other than some very small administrative costs) to the government (on death or retirement, the employee gets much of this in pay). It is also a program that can make the employees of the SBE feel good and bring help and happiness to the employee in trouble. That sort of looks to me like a WIN-WIN-WIN situation—at least one WIN better than we usually can work into a deal.

THE SHORT LIFE EXPECTANCY OF DISCOUNT STATIONERS

The new kid on the block is the discount warehouse stationer. The format, at 25,000 square feet, is as rigid as the convenience stores (for many years, 40' x 60' but now larger) and the wholesale clubs (100,000 square feet because that is what Sol Price started with).

The stationery field is an easy one to invade. The products are standardized, most of the industry still uses the list prices put out by the manufacturers, and margins, especially on items bought in quantity, are high—usually 50%, often more.

The only discounting done until recently was by some mail-order outfits. By mail there is always the question of the delivered cost (delivery is charged for the total order, not by the item). That cost could be offset by picking a supplier from out of state and avoiding sales tax (most states require businesses to pay a use tax equal to the sales tax on goods bought outside the state—some states are becoming increasingly aggressive in auditing for use tax).

Another element for this new form of retailing is also now in place—an increasing number of venture capital groups who see an opportunity in retailing even if they know nothing about it (they think they can hire a qualified consultant—or can they?). Such venture funds are as unlikely to succeed as did the "me, too" investors in high technology.

RThought: What will happen? Let's start with the announcement that triggered this article. It was in **Insider**, ***The Shopping Center Industry News Weekly*** (National Mall Monitor Publications, 4/22/88; 2535 Landmark Dr., No. 207, Clearwater, FL 36421-3997; $205/yr.).

Office Max, Inc., plans two stores (20,000-25,000 square feet) in Cleveland by late summer 1988 with plans to grow into a major chain over the next five years. It has staked out its territory—Ohio, Indiana, Michigan, Illinois, Kentucky, Pennsylvania and New York. Just ordinary ambition for the modern, American young person.

And it is going to introduce printing, photocopying and FAX services.

Everything will be fine, as it was with consumer electronic superstores, until there are two discount stationers in the same territory and competition starts. This is when ability replaces novelty as the key to the discounters' future existence.

The office supply field is fortunate—it is not dependent on new gadgets, as is the case with consumer electronics. We are not likely in this century to find a sudden replacement for paper—despite talk of a "paperless" society—and paper clips and staples and file folders and envelopes to keep the papers together.

SHORT SHORTS

Citibank gets more (unfavorable) publicity—that reflects on all credit grantors. It turned down an application for a MasterCard because of a student's "field of study." The undocumented theory is that liberal arts majors will get lower paying jobs than those in "hard" fields—business, engineering, etc. Thus, they are less likely to pay or be able to pay on their credit cards. **RThought:** Some business administration graduate must have thought that one up—certainly not a liberal arts graduate who took "soft courses" like ethics and logic. And can anyone prove that Sears or Wal-Mart or Federated Department Stores is more likely to pay its bills without arbitrary deductions and within terms (if it takes the cash discount) than an equally long-established, $1 million a year apparel, shoe, hardware, drug, etc., store?

I was excited. Every parking space was full, except the three reserved for handicapped. I drove around twice. It was mid-afternoon on Saturday, April 23, 1988. The place? The main Contra Costa County Library. **RThought:** The next time somebody suggests that your community can save money by cutting down on the library, go visit your local branch on a Saturday or on a weekday afternoon or evening. You will see the young people—the future of the U.S.—and you will be happy with what you see. The future will be in good hands—only if we keep our free library system in good working order. (**Late Note:** One of my assistants put a note with this: "I know what you mean; my son and I were there last Saturday. Was it ever full!")

Have family incomes changed uniformly since 1970? That was the question Representative George Miller asked of the Congressional Budget Office. Here is the answer:

Age of Head of Household	Percentage Change 1970-86 in 1970 Dollars
Under 25	−20%
25-65	+20
Over 65	+55

RThought: Keep in mind that the family income of families headed by a person in the 25-65 bracket is higher than that in either of the other groups. But the greatest increase in the income for those over 65 (reflecting greatly increased Social Security payments, people in higher paid jobs working past 65 and the increased number receiving corporate pension/profit-sharing benefits) again underlines the growing importance of the 65-75 group—still active and with discretionary income.

Christmas almost beats Easter. Marshall Kline of Marshall Kline Buying Service in Los Angeles reported receipt of the catalog for the Gallery Collection, showing 1988 Christmas cards—on April 9, 1988!.

WORDS—A SMALL CHANGE MAKES A BIG DIFFERENCE

I talked with an old friend, Harold Larkin, who publishes a series of magazines for retailers (his **Modern Retailer** was the first periodical for the discount industry). Also, he is one of the major producers of trade shows for retailing.

Harold now has five children in the business. At 70, he is taking life easier. And he is amazed the Social Security kept track of him—he received a check at the end of the month in which he was 70—without submitting an application.

He observed that when his children were first out of school they expressed great unhappiness about "working for Dad," but now they say with great pride, "We work in a family business."

fr

COVENANT HOUSE CALIFORNIA
5333 SUNSET BOULEVARD · HOLLYWOOD, CA 90027 · (213) 461-3131 FAX (213) 461-6491

June 7, 1989

Mr. Robert Kahn
Box 249
Lafayette, CA 94549

Dear Mr. Kahn,

I'd like to take a moment to thank you for including Covenant House California in your May newsletter. We are so happy to be here in Los Angeles, and it means a great deal to us that you mentioned our work with this city's street kids.

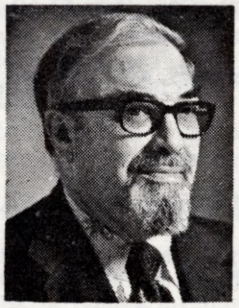
We are looking forward to opening a temporary twenty bed shelter in Hollywood at the beginning of September. The residential services will include vocational and educational counseling along with the basics such as clothes, food and a bed. We can't wait for the permanent facility to open in 1991, but until then we'll keep trying to get young people off the streets and on to more productive, fulfilling lives.

Mr. Kahn, let me extend my gratitude again for helping us get the word out about Covenant House and the kids we serve and invite you to visit our facilities when you are next in Los Angeles. Please give us a call at (213) 461-3131 so that we can schedule a tour at your convenience.

Sincerely,

Anne B. Donahue

Anne B. Donahue
Executive Director



ROUTE TO

RETAILING TODAY

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SOMETHING TO THINK ABOUT

Do you have two or five or twenty or hundreds of buyers?

Do you spend thousands or millions of dollars sending them to markets all over the United States—or the world?

Then, why is it that **they cannot find items worth advertising at regular prices?**

MACY TAKES ANOTHER STEP TO PAY OFF DEBT

Many Macy customers are aware that the management took on a great deal of debt in order to take the company private. The most recent policy change, reported by a customer, is the handling of gift returns.

This is a true story from the Monterey (CA) Macy's. A customer returned a wok received as a gift. The wok was still being sold at the regular price. To the customer's surprise, the credit was issued for 25% less than the current price. The gift item did have Macy's identification, but the tag did not indicate the price paid.

Macy assumes that returned items, which have never been on sale, were bought at a sale price—thus the 25% reduction. The store manager confirmed the policy but could not defend it.

The person that told me this story, a fellow alumnus of Macy's, asked a key question: "Would Jack Straus have approved this policy?" Not only would Jack Straus *not* have approved of it but neither would Lazarus, Isador, Nathan, Jesse or Percy Straus, or even the founder, Rowland Hussey Macy.

RThought: Another question should be asked: Isn't Macy concerned about competition from Nordstrom which would never adopt such a policy?"

HOW MUCH APPRECIATION SHOULD WE SHOW EMPLOYEES?

One of my avocations is reading annual reports.

I have written a number of times about the standard letter to shareholders; typically, the first 30 to 45 paragraphs praise management, and the last sentence thanks the employees.

Recently, I read a batch of reports.

Publix Super Markets, Inc.: This is a "public company" only because about 8,000 employees own stock, thus requiring Publix to file reports with the SEC. A footnote from the financial report is shown below:

Price Range of Common Stock:

The price of the Company's Common Stock is determined by Melbourne Shopping Centers, Inc. (Melbourne), an associated company, based upon appraisals prepared by independent appraisers. Substantially all transactions of the Company's Common Stock are with Melbourne and the Company or its employees. The market price for 1987 was $24.00 per share until the fourth quarter when it was increased to $26.00 per share. The market price for 1986 was $16.00 per share until the third quarter when it was increased to $18.00 per share and then it was increased to $24.00 per share in the fourth quarter.

RThought: (1) The book value at the end of the year was $13.14, so the valuation is twice the book value. (2) October 19, 1987, had no impact on the price at which stock of Publix

HAVE YOU LOST THE COMMON TOUCH?

Rudyard Kipling, in his poem, "If--," wrote:

If you can talk with crowds and keep your virtue,
Or walk with Kings—nor lose the common touch.

A recent survey by Johnson & Higgins, an employee-benefits consulting firm, and the International Association of Business Communicators, of a random sample of CEOs from the *Fortune 500* manufacturing and the *Fortune 500* service companies yielded 132 replies.

One question asked how frequently the CEOs had communication with various audiences. The table below shows the answers:

	Frequently
Top Management	100%
Board of Directors	86
Financial Community	63
Other CEOs	58
Community Leaders	49
Middle Management	44
Government Officials	31
Media	27
Shareholders	25
Hourly Employees	18

RThought: If I made a list of the people that do not understand CEOs, the list might start something like this:

Hourly Employees
Shareholders
Media
Government Officials
Middle Management

Of course, the fact that my list is just the inverse of the frequency of communications from the CEO *might* be an accidental correlation.

is bought and sold by employees. In fact, the price was increased from $24 per share to $26 in October. What other major retailer had a higher price on its stock on December 31, 1987, than on September 30, 1987?

Giant Food, Inc.: This is another company still being run by the founding family. Chairman/CEO Israel Cohen started his letter:

> **To Our Shareholders, Associates and Friends:**
>
> **Over the years, we've had the opportunity to read many annual reports. And, of course, we've issued a number of them ourselves. Most begin with a recitation of results for the fiscal year just ended and conclude with optimistic forecasts of how great the coming year will be.**
>
> **We have done this in the past and would be fully justified in doing so for the 1988 fiscal year. [Note: Sales up 8%; profit up 63%; and return on average equity of 23%.] It has been outstanding. But we would prefer to lead with our strength.**
>
> **As always, it is people who have caused the results, whose hard work and imagination have led us to record accomplishments. The cover of this report....**

Merry-Go-Round Enterprises, Inc.: MGRE is still being run by the founder. The message starts, "To Our Shareholders," and covers more than one and one-half pages in small type. There are 18 different items covered, and the 18th reads:

> **It has been a rewarding year for MGRE. I am confident that, with the continued enthusiasm of our management and employees, we will continue our strong performance in fiscal 1989.**

RThought: It is great to have Publix and Giant Food thinking early in their letters of the workers doing all the real work.

WHAT'S NEW IN FOOD STORE ADVERTISING?

As I travel around the country and buy newspapers, I see more and more of what is appearing in local papers—price comparisons by supermarkets.

Showing a price comparison for an item in a supermarket makes two assumptions:
Assumption 1: because of the constantly changing prices, the shopper no longer can keep in mind the prices paid regularly.
Assumption 2: that there is a regular price.

Here are a few uses of comparisons:

Folger's 18 oz. Regular Coffee, $3.99, Save 70¢
Bird's Eye Cob Corn, frozen, $1.99; Save 60¢
Zee Towels, 59¢; Save 36¢

The above may be O.K., but then I see:

Mennen Speed Stick, 2/$3; ***Save up to $1.98 on 2***

Whoops! It sells someplace else, but not at this store, for $2.49? But at this store, how much am I saving? I don't know.

Then I came to:

Bounce, $2.19; 35¢ off label; Save 70¢
Tide, 147 oz.*, $5.99; $1.50 off label; Save $2.40
Liquid Tide, 128 oz., $5.99; $1.50 off label; Save $2.70
***Looks like it formerly was 160 oz.**

Now I was lost. I have always had trouble with the "35¢ Off" and "$1.50 Off" labels. When there is a price stamped on the package and it matches the shelf price—and especially when there are identical packages without the 35¢ off or $1.50 off label, I don't know why I don't get an additional 35¢ or $1.50 off when I get to the checkout. But I don't. I am always told, "Oh, the 35¢ [or $1.50] has already been taken off." Great deal!

And then I found:

New Freedom Thin Super Max at $2.69; prepriced $2.99

I wondered—could it have shown a bigger savings by ordering the packages prepriced at $3.99? I recall that on sunglasses you had your choice of prepricing.

And then I came to:

7-Up, six 12 oz. cans, $1.79; SAVE!

The same store was selling six 12 oz. cans of Coca-Cola for $1.49 with the same "SAVE!" If I were a 7-Up drinker, I'd check for the store that reversed these prices.

And finally I saw:

Ground Chuck, Does not exceed 26% fat, $1.39 lb.

I just wondered.

RThought: Is this really progress? On packaged items, what will the shelf price read—the advertised price or the price on which the savings is based?

RThought: The store "sampled" above carries the regular offer of liquor at 10% off when buying a case. It brought to mind an ad by the Liquor Barn (recently sold by Safeway to London-based Majestic Wine Warehouse, Ltd., for $100 million—a figure no U.S. prospect would touch). To someone using pounds, this looked as cheap as the Nissan 240-Z or Mazda RX-7 did when a U.S. dollar bought 250 yen.

Recent Liquor Barn ads were pushing its bargain—if you buy 13, it will charge you for only 12!

Suppose the bottles are $2 each. At Liquor Barn, you buy 13 for $24 or $1.8462 each. At a store offering 10% off when buying a case (12), you get 12 for $21.60 or $1.80 each or 2½% less. But which sounds like the best bargain? How many people can compute 10% in their head? Be careful. Check the results of simple tests given prospective employees by your own company—and these are people who are functionally literate.

CAN GRAPHICS CONCEAL A BAD YEAR?

As an old annual report reader, I can say the answer is "Yes." Here are the rules:

1. Use very light inking on colored paper to reduce the contrast.
2. Use longer paragraphs to make it more difficult to get information by scanning.
3. Fill pages completely—avoid "outline" or "bullet" presentation of facts.
4. Use narrow margins.
5. In narrative, use lots of pictures and write out the numbers.

RThought: The manner of presenting bad news depends upon the ethical standards of the CEO. But no matter what the standards of the CEO may be, if he does not specifically state them, his staff will "protect him" by using one or more of the techniques listed above. By the time the CEO sees the proof, it is usually too late to change.

SHOULD YOU HIRE A STANFORD GRADUATE?

Stanford is a university. A university is an entity that has one or more colleges and graduate schools and can grant bachelor, master, doctor and other degrees to those who satisfactorily complete certain required studies.

The endowment funds of some universities, in an activity separate from the operation of the university, do invest money in anything from industrial parks and shopping centers to venture capital funds, to bonds and even in companies whose standard of conduct cannot bear close inspection. But that is completely separate from the function of educating students and/or doing research.

Now Stanford has come up with a new idea. It calls it *ProNet.* At the present time, it is limited to graduates of the business school, engineers and computer scientists—the people that employers pay the highest price to buy. We should never forget that a university responds to demand—when retailers did not hire students from retail programs, schools dropped retail programs. A matter, of course, of the "bottom line."

Stanford has established ProNet for its highest value products. A graduate in one of the three groups named can submit a three-page biography. Stanford will enter the information into a computer. And then Stanford sells to employers, for $4,000, the right to run 20 searches.

Most of the 5,000 names in the file are of people who now have jobs—perhaps working for you. Stanford realizes that the $4,000 price excludes small businesses and says that it is trying to think of some way to help small businesses—that seems a simple problem to solve. Sell a single search for $300. But that solution seems to have escaped the business school, as well as the engineering and computer science departments.

Stanford has no particularly strong desire to include history, art, political science, English or other "low markup" graduates.

Stanford reports that 80% of the names are people who are just "trying to keep in touch with the market." That must mean that 80% of the names provided to the $4,000 spender are not looking for a job. One might call this "shortchanging the customer."

Because Stanford is regularly rated #1 or #2 among universities in the United States, many of the lesser rated universities are reported to be interested in copying ProNet. Stanford dreams of a master file including the top 10 or 20 universities. Make more miscellaneous income. Because Stanford does it, others think it is ethically "O.K."

We have seen copycat thinking before. When Citicorp started stealing credit balances from its bankcard customers, the New York Attorney General took it to court. The Citicorp defense was: "We are just doing what the department stores do." The logic is clear here—if someone else steals, it is O.K. for you to steal. This is especially true if the model is one that society thinks has, or should have, high moral standards. This is the "Caesar's wife" criterion. Plutarch (?46-120 A.D.) wrote of Caesar, "I wish my wife to be not so much as suspected."

RThought: I have discussed ProNet with several people. **Nobody agrees with me.** I even wrote to President Donald Kennedy of Stanford (no answer as of this writing).

Let me try to make my position clear:

1. Something as important to our society as a university should remain a university. The standards of business schools have strained this. Sidelines for universities to pick up a few bucks should not be tolerated if the activity is tainted in any way.

2. This is much different from making space for recruiters to meet with members of the graduating class. The raw material being sold by the university is not yet committed to someone else. The university is not interfering with a contractual relation. The situation changes greatly when the interviewee has a job.

3. If Stanford's statement is true (that 80% of the 5,000 people listed are merely trying to "keep in touch with the market"), then Stanford is not providing what it claims to provide—people interested in changing jobs. It is not satisfactory to say that "Everyone has his/her price," and thus the "lookers" are really prospects.

4. Some or many of these people may have been placed by Stanford with firms that recruit graduates. An ethical executive recruiter will usually agree not to touch a placement for three years (sometimes more), yet Stanford appears willing to re-offer its products the next day.

5. There is no end to this money grabbing. The next step will be to charge recruiters for each interview they have with a graduate. Think how much money Stanford could make charging recruiters $100 an interview conducted. If you gasp at that, try to distinguish it from ProNet.

RThought: Am I completely wrong? Is the idea obsolete that a university has or should have higher standards than "money grabbing" just because it can be grabbed? Is business served by having a university actively seeking to interfere with an existing employer-employee agreement? If Stanford conspires to interfere with an agreement with one of your employees, do you have a damage claim against Stanford?

LET ME KNOW HOW YOU FEEL.

SHORT SHORTS

You have to do research just to be snooty. Neiman-Marcus came up with "jungle red" garbage bags in 13- and 33-gallon sizes—for those who disdain plebian green or brown. Cost: $8 for 30 bags, each in 33-gallon size (vs. 20 each 30-gallon bags for $2.62 at the local Drug Barn). But the snooty were immediately snooted by their garbage men—who wouldn't pick up the bags because to them red sacks meant infectious waste. End result: N-M gave a lot of the bags to local hospitals. Now it is selling "paradise jade" bags. **RThought:** Do your research before you buy. In this case, the supplier knew or should have known what the colors meant, if anything.

What would James Cash Penney have said? On May 19, J.C. Penney ran a 32-page tabloid on goods from India—in an attempt to upgrade its image, I guess. I don't think Neiman-Marcus has "done" India yet. **RThought:** I think Mr. Penney would have been more likely to run a promotion on "Made in Missouri," and I suspect that the majority of Penney customers would have applauded.

TEAM DEVELOPMENT

There are few successes in sports, in business or in government that are due to one individual. One individual may change an organization overnight—but when that organization has thousands of people, the miracle is getting a team to start marching in step.

Our most frequently analyzed "team development" activity is in sports—every one of the thousands of newspapers has a sports page; and every sports page has a few to a dozen experts analyzing "team development."

We all read about how Billy Martin does it (the good and bad in his methods) or how Vince Lombardi did it ("winning is everything") or Knute Rockne or Amos Alonzo Stagg or Paul "Bear" Bryant or Bud Wilkinson or Joe Paterno or Bobby Knight or Tom LaRussa did it.

There is one thing we know—there is no single way of building a team.

I thought of this when reading the editorial in the January 1988 issue of *Indian Management* (the issue was devoted to "Team Development"). Utpal K. Banerjee wrote:

> **As regards implications of leadership styles, they vary in terms of manifest behaviour and the effect they have on the tasks at hand and the organizational output. Styles do range, according to Likert, from the exploitive authoritarian, through the benevolent authoritarian to the consultative and participative management at the other end of the spectrum. The effects of team work can be examined by such factors as accountability vs. buckpassing; risk-taking vs. avoidance; autonomy vs. immature dependence; creativity vs. conformity; synergy vs. 'lone ranger.' In the Indian society, in particularly, there are feudal values which may run contrary to democratic leadership.**
>
> **Again, paternalism has a place even today for the Indian who seeks direction, nurturing and reassurance in a society marked by deprivation. [Editor's Note: Our own psychologists stress the importance of nurturing and reassurance in our own society.] Finally, organizational effectiveness and morale can be affected by a radical change in the leadership style.**

RThought: Leadership must know where it is going if it is to be leadership. Anyone can call out, "Come over here and help me." Leadership says things—from "John, do this right away" through "John, do you think you can get this done by 5 p.m. today?"—and never gets an answer, "Why me?" or "Why can't Bill do it?" or "This morning you told me to do it the other way."

RThought: To paraphrase Abraham Lincoln, "You can lead some of the people all of the time and all of the people some of the time, but you can't lead all of the people all of the time." An organization works best when those being led have the ki[nd] of leadership they want; those people can be led all of the tim[e]. You wonder how an organization with matched followers and leader can accomplish so much. But replace the leader with one from the opposite end of the leadership spectrum, and you will be surprised at how fast coordination changes to chaos. Though Tom Peters may write about *Thriving on Chaos*, he is really misusing the word "chaos" (the disorder of formless matter and infinite space, supposed to exist before the ordered universe; any great confusion or disorder); he means "change" (to cause to become different; alter; convert).

Change can appear to be chaos, when you rearrange the furniture at home or change the layout of the store, but that is not chaos. Tom says it himself when he says, "It is imperative . . . that you consider bold goals, really bold goals, in fact"; and he talks of innovation.

Team leadership is the quality of getting your organization to accomplish what your competitors think is chaos in order to reach the ultimate goal that they and you have said they want to reach—but which your competitors say is impossible. For a retailing example or two—if Sol Price explained his cash-and-carry warehouse concept to you in 1976, would you have believed that, 12 years later, he would do over $4 billion and have a dozen companies trying to copy him? Or, if Sam Walton had told you in 1962, when he opened his first discount store in Rogers (AR), that Wal-Mart would become the largest retailer in the world by 1990 or 1991 (1987: Sears, $25.9 billion worldwide; K mart, $25.6 billion including Canada)?

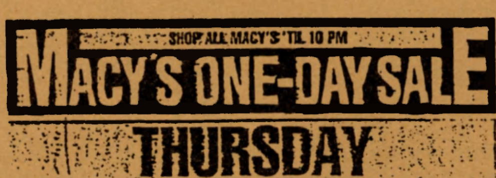
Of course, I don't think that either Sol Price or Sam Walto[n] had the specific goals set forth above—but each year they d[id] set (and reached) demanding goals in sales increase, profit an[d] return on equity. [Editor's Note: Wal-Mart's goal is a $5 billion sales increase for the current year.] Each put together a team that enjoyed the challenges of the interim goals that were set—and particularly enjoyed beating those goals.

Price and Walton are different kinds of leaders; Price and Walton have different kinds of people on their teams.

There are still "more ways of killing a cat than choking her with cream" (Charles Kingsley, *Westward Ho!*, 1855).

SHORT SHORTS

New wave advertising? Or should frequent use of a reverse-block headline be considered a competitive tool against Nordstrom's service to customers? Once the use of reverse block was considered "schlock." Can we look for the return of the full page of alternating reverse block with one item in each block?



RThought: When I bought my first pair of Levi's (the model later to be known as the "501") for 95¢ (I had to save my money for them as Mother would not buy me such "clothing"), Levi's were not accepted for wear to school. There was a day when some newspapers would accept a reverse block ad.

Why General Motors is failing. The new Buick Reatta is just being introduced. Concept studies were started in 1981, prototype construction was authorized in 1984 and pilot models were completed in 1987 using a "craft station" (the car stays at a position while a group of workers complete a portion of it) rather than on a traditional assembly line. It will be seven years from start to finish—and it is essentially a "me, too" car. During that time, Chrysler was saved and Ford passed General Motors in profits. GM lost (and continues to lose) market share. **RThought:** What does this have to do with retailing? How long does it take for you to review, approve and implement a program? Were you once going to compete with The Limited, The Gap and all the other full-servi[ce] specialty chains? Did you? Have they grown in sales and pr[o]fits? Are you a General Motors?

RThought: Certified Public Accountants are part of this cover up when they do the following:

1. Permit their reports to be subject to the treatment(s) listed above.

2. Permit a presentation with notes that are not referenced to the item to which they relate.

Here is what Coopers & Lybrand permitted in the Zayre report:

Note A explaining the impact of an FASB and Tax Code change in valuing inventory (the after-tax impact was 29% of income *before* taxes, non-recurring gains and minority interest) was referenced on the income statement (because it was separately stated) but not on the balance sheet.

The following notes were not referenced:

C. Stock Split

D. Accounting for Inventory [disclosed LIFO reserve]

F. Commitments and Litigation [which contained the following information]: During 1987, the Company was named as a defendant in two actions, subsequently certified as class actions, brought on behalf of purchasers of the Company's common stock, alleging violations of federal securities laws. The Company claims that the substantive allegations in the pending suits are without merit and continues to contest them vigorously. [Look at a precedent. Two class actions against The Gap were brought in 1976 for $12 million in actual damages, $10 million punitive damages plus recovery of expenses. The disclosure was more complete. The Gap had pre-tax profits for the year ending January 1976 of $9 million. The Gap said it would strongly contest. In 1979, The Gap settled both for $5.9 million.]

Coopers & Lybrand did not disclose as much information as I feel it should have disclosed—and which Touche Ross, another Big 8 firm, did disclose in The Gap's report:

G. Capital Stock, Stock Options and Stock Purchase Plan [1.2 million options outstanding and 2.4 million reserve, representing a potential 6% dilution]

H. Income Tax

I. Pensions

J. Accrued Expenses

RThought: There is continuing evidence that accountants think the manager who hires them is their boss—rather than the people who own the company and on whose behalf the audit is being made. One would think that a stockholder in a company with two outstanding class actions against it for violation of federal security laws would like to know just a little bit more about the allegations. Coopers & Lybrand did not even disclose the court(s) in which the cases had been filed so that a concerned stockholder—or one who is curious, as I always am—could write and get a copy of the complaint.

DO YOU KNOW WHY EFT/POS ISN'T BOOMING?

The Electronic Funds Transfer Association (EFTA) says that its task force on debit cards and EFT/POS has identified the four important variables that impinge on point-of-sale development.

They are:

1. There is no single retailer segment. Retailers really should be ashamed that they go different directions and that a supermarket is not like a department store which is not like a Rodeo Drive boutique. EFTA says that you must establish a single retail EFT/POS system.

2. There are geographical differences in how everyone—retailers, banks, networks and consumers (they do have a small place in this)—reacts to debit cards (I guess the committee is still mad about Nordstrom kicking out Visa when it found is was going to be charged a discount on Visa card debit transactions).

3. We process things in different ways—on-line, automatic clearing house and combinations of on- and off-line.

4. Finally, you don't know anything about it to begin with. You have to be educated. Then, when all of you are alike and all geographical differences are eliminated (Southern "drawls" not allowed) and someone comes up with the "one" processing system that everyone will accept, then EFT/POS will make progress. And retailers will be expected to bear all the cost.

RThought: Please note that there is nothing in those four problems that says there is enough demand for EFT/POS. There are many "pushers"—but fewer "buyers".

EFTA did say, "The task force will attempt to [this does not denote conviction that it can] identify the cost factors involved in development and will gather specific data on cost issues." One might have thought that someone would have looked at costs before identifying the "four important variables that impinge on point-of-sale development." If EFT/POS does not have a measurable economic benefit, why would anyone want it?

U.S. RETAILERS SUCCEED WHERE BANKS FAIL

Once upon a time, a majority of the ten biggest banks in the world were American—now only two or three are.

But American retailers do much better. In an article researched by Arthur Andersen for *The Journal* (the employee publication of Coles Myer Ltd. in Australia), it listed the 20 largest retailers in the world in Australian dollars.

Ranking	Company	Principal Country of Operation	1986 Annual Sales Australian $ Million	1986 Annual Sales Per Capita
1	Sears, Roebuck	USA	$38,571	$160
2	K mart Corporation	USA	34,629	144
3	Safeway Stores	USA	29,014	120
4	The Kroger Company	USA	26,271	109
5	J.C. Penney Co. Inc.	USA	21,000	87
6	American Stores Co.	USA	20,029	83
7	Wal-Mart Stores, Inc.	USA	17,014	71
8	The Southland Corp.	USA	15,831	66
9	Federated Dept. Stores	USA	15,014	62
10	The May Dept. Stores	USA	14,829	61
11	Dayton Hudson Corp.	USA	13,957	58
12	The Daiei, Inc.	Japan	13,082	108
13	Lucky Stores, Inc.	USA	12,529	52
14	Winn-Dixie Stores	USA	11,743	49
15	Vendex International	Netherlands	10,966	756
16	Coles Myer Ltd.	Australia	10,407	646
17	Great Atlantic & Pacific	USA	9,450	39
18	F.W. Woolworth	USA	9,287	39
19	Ito-Yokado	Japan	9,078	75
20	Marks & Spencer	UK	8,542	151

Based on 1986 sales, the 11 largest—and 15 of the 20 largest—are American retailers. The right-hand column—Sales Per Capita—is poorly researched. The sales have been divided by the population of the home country of the parent company.

The 1986 Annual Report for Sears showed that only 89% of the merchandise sales and service revenues were in the U.S. with the balance in Canada and Mexico.

In regard to sales, 4% of K mart's 1986 sales were in Canada; 4% of J.C. Penney's sales were in Belgium; and 20% of Safeway's sales were in Canada and Australia (Safeway sold its U.K. stores in 1985).

Except for Woolworth, the other American firms did not have significant sales outside the U.S.

Vendex has the greatest amount of its sales outside of its home country and much is outside of retailing. It has substantial activity in occupational training, property management, consumer credit rating, janitorial service, courier service, temporary help service and many other activities in Belgium. In international activities, it had, in 1981, a major holding in Dillard's, about the same percentage in H.T. Wilson catalog/showrooms, Sheplers, Berman's—The Leather Experts, and J.B. Robinson Jewelers—plus retail activities in Japan and Brazil.

RThought: Coles Myer Ltd. had no retail activity outside of Australia in 1986. Garnering Australian $646 for each person in Australia is a level of market share unknown and so far unattainable by other retailers.

SHORT SHORTS

News About SafeCard—The following item appeared in the *Miami Herald* around St. Patrick's Day 1988:

Accounting dispute prompts SafeCard's auditor to resign

By GREGG FIELDS
Herald Business Writer

A dispute over accounting matters has led Grant Thornton to resign as SafeCard Services' outside auditor.

SafeCard, whose accounting practices have long been the subject of criticism, has replaced Grant Thornton with Price Waterhouse, according to a Price Waterhouse official.

Ken Banet, a managing partner at Grant Thornton, said his company quit the SafeCard account after disagreeing with the treatment of several transactions. They included the accounting of a $2.4 million payment to President Steven Halmos, the establishment of a reserve on one of SafeCard's businesses, and the auditing of several company documents.

These disputes were later resolved, according to Banet. "Our response was that we agreed with their explanations, we resolved the differences, and issued a clean opinion" on SafeCard's 1987 audit, Banet said.

SafeCard's 1987 fiscal year ended last Oct. 31. It reported earnings of $28.5 million on revenues of $118.7 million.

Banet declined to say why Grant Thornton resigned the account, however, saying it was a "professional decision."

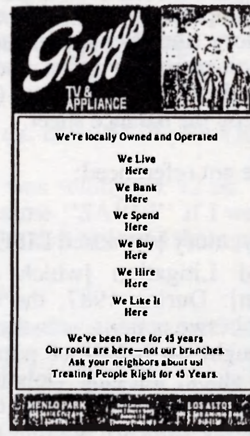
Neither Halmos nor his brother, Peter, who is chairman of Fort Lauderdale-based SafeCard, could be reached.

SafeCard's accounting practices have criticized by some analysts because expenses are amortized over a period longer than that of the actual contracts. SafeCard has said its accounting practices are designed to reflect its high rate of renewals.

RThought: See "Here Goes the Profit in Credit Card Registrations" in the April issue of *RT*.

The opposite of a trade deficit. In Hong Kong, the major banks plan on charging customers to hold their money on deposit. They politely call it a "service charge." They are considering progressively increasing the rate starting with balances between $HK 10 million and $HK 25 million to the top bracket on balances over $HK 200 million, at which time the rate would be 16 times the lowest rate. **RThought:** At least that is better than the banks in Taiwan—where they will not take any more deposits—as they have $50 billion that they cannot profitably invest.

Special for Small Stores—When the *Times Tribune* (Palo Alto, CA) ran four major sections setting forth expectations for 1988, Gregg's ran the ad below:



RThought: I think it is a great ad for any local firm to run. I particularly like the line, "Our roots are here—not our branches."

They take things less seriously in Alaska. The following is from the June 30, 1987, quarterly report for United Bancorporation Alaska, Inc., by John T. Shively, Chairman and CEO:

> **The good news is that I am able to write my second letter to the Shareholders. The bad news is we lost $83.7 million in the first six months of this year. You undoubtedly thought that things couldn't get worse and that nobody could lose that amount of money in such a short period of time. One excuse is that I am new to the banking business and, having read about the major losses being incurred by the large money center banks, I became confused. I realize that $83.7 million is a pittance compared to the billions of dollars the big boys are losing, but we all have to start somewhere.**

RThought: The closing paragraph is also of interest:

> **As I have been conveying little but bad news to you since I began this job in April, you may be pleased to hear that, as a condition of contributing $295 million, the FDIC requires senior management of both UBAI and AMB to leave at the close of the transaction. With a little luck, the new CEO of the merged company should be able to report more encouraging news to you than I have been able to.**

WORDS—ABOUT ASSERTIVENESS

Rabbi Hillel, a teacher in Jerusalem in the time of Herod and reported by some theologians as having had great influence on Christ, said:

If I am not for myself, then who will be?
But if I am only for myself, then what am I?

RThought: Since I first read this statement in *Boardroom Reports* (4/1/86), I have thought about it many times. These are the days of assertiveness training. The goal of those who take the training is, in most cases, the desire to dominate others. The literature describing courses or articles about successful assertiveness seldom get to Rabbi Hillel's second question. That is unfortunate. Too many practitioners of assertiveness must answer: "I am nothing."

RETAILING TODAY

Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434

Put w 6/88 RT

July 21, 1988

Mr. John W. Cook, Jr.
5476 North Camino del Penoso
Tucson, AZ 85715-1456

Dear John:

Many thanks for your note reacting to my item, "Should You Hire A Stanford Graduate?"

I have forwarded a copy of your letter, together with some other letters -- all supporting my position, to my brother-in-law, who is the only one who disagreed and violently. Enclosed is a photocopy of his response written over the original article.

Bud is a Stanford graduate about 1948 in Engineering and 1950 with an MBA. Most of his career he has been with Hewlett-Packard.

One of the favorable letters I received was from the Dean of the Business School of Santa Clara -- but then Santa Clara University starts from a different ethical bases than Stanford. Stanford became rich because the government gave the people who built the railroad alternate sections across the country; and with the railroad in place, it made the land valuable.

I am so pleased that your store continues -- each month I read of another hundred-year-old business that has fallen by the wayside. The stores that replace them never contribute to the community but the home-owned department store did and does.

Also, I'm glad that you are enjoying RT.

Sincerely,

Robert Kahn, CMC

5476 N. Camino del
Perioso
Tucson AZ 85715-1456
July 2 1988

Dear Bob,

Re: Pro Net by Stanford

I tend to agree with your views. The available technology (computer data base) will always be used, however I think it should not be used by Stanford for the purpose as you outlined. Let some independent non-affiliated organization do it. Hope Pres. Kennedy replies to you.

I am proud to be Stanford B.A. (Econ) 1950 + also former student of Elmer Fagin (sp?). I read the summary of the "Western Civ" controversy and am glad they made the curriculum change.

Your "Retailing Today" is always anticipated with great pleasure and read thoroughly even though I am no longer active at our store The H.L. Reed Co., Mansfield, Ohio. Ours is ~~the~~ one of those remaining family owned, 120 year old, single unit, downtown stores still hanging in there + offering good brands and customer service.

Best regards

John Cook Jr.

: I USUALLY AGREE WITH YOU. NOT THIS!
E.g. HOW DOES THE TITLE RELATE TO THE CONTENT? ARE STANFORD GRADS ETHICAL? ALL? ME? YOU?

SHOULD YOU HIRE A STANFORD GRADUATE?

ONLY IF YOU WANT THE BEST

Stanford is a university. A university is an entity that has one or more colleges and graduate schools and can grant bachelor, master, doctor and other degrees to those who satisfactorily complete certain required studies.

The endowment funds of some universities, in an activity separate from the operation of the university, do invest money in anything from industrial parks and shopping centers to venture capital funds, to bonds and even in companies whose standard of conduct cannot bear close inspection. But that is completely separate from the function of educating students and/or doing research. WHAT ABOUT FOOTBALL?

Now Stanford has come up with a new idea. It calls it *ProNet.* At the present time, it is limited to graduates of the business school, engineers and computer scientists—the people that employers pay the highest price to buy. We should never forget that a university responds to demand—when retailers did not hire students from retail programs, schools dropped retail programs. A matter, of course, of the "bottom line."

OF COURSE

Stanford has established ProNet for its highest value products. A graduate in ~~one of the three groups named can~~ submit a three-page biography. Stanford will enter the information into a computer. And then Stanford sells to employers, for $4,000, the right to run 20 searches.

Most of the 5,000 names in the file are of people who now have jobs—perhaps working for you. Stanford realizes that the $4,000 price excludes small businesses and says that it is trying to think of some way to help small businesses—that seems a simple problem to solve. Sell a single search for $300. But that solution seems to have escaped the business school, as well as the engineering and computer science departments.

Stanford has no particularly strong desire to include history, art, political science, English or other "low markup" graduates. YES THEY DO

Stanford reports that 80% of the names are people who are just "trying to keep in touch with the market." That must mean that 80% of the names provided to the $4,000 spender are not looking for a job. One might call this "shortchanging the customer."

Because Stanford is regularly rated #1 or #2 among universities in the United States, many of the lesser rated universities are reported to be interested in copying ProNet. Stanford dreams of a master file including the top 10 or 20 universities. Make more miscellaneous income. Because Stanford does it, others think it is ethically "O.K."

WHO SAID THIS?

We have seen copycat thinking before. When Citicorp started stealing credit balances from its bankcard customers, the New York Attorney General took it to court. The Citicorp defense was: "We are just doing what the department stores do." The logic is clear here—if someone else steals, it is O.K. for you to steal. This is especially true if the model is one that society thinks has, or should have, high moral standards. This is the "Caesar's wife" criterion. Plutarch (?46-120 A.D.) wrote of Caesar, "I wish my wife to be not so much as suspected."

I'M NOT "NOBODY"!

RThought: ~~I have~~ discussed ProNet with several people. **Nobody agrees with me.** I even wrote to President Donald ~~Kennedy of Stanford~~ (no answer as of this writing).

Let me try to make my position clear:

1. Something as important to our society as a university should remain a university. The standards of business schools have strained this. Sidelines for universities to pick up a few bucks should not be tolerated if the activity is tainted in any way.

2. This is much different from making space for recruiters to meet with members of the graduating class. The raw material being sold by the university is not yet committed to someone else. The university is not interfering with a contractual relation. The situation changes greatly when the interviewee has a job. WHO HAS "CONTRACTS"?

3. If Stanford's statement is true (that 80% of the 5,000 people listed are merely trying to "keep in touch with the market") then Stanford is not providing what it claims to provide—people interested in changing jobs. It is not satisfactory to say that "Everyone has his/her price," and thus the "lookers" are really prospects. SAME

4. Some or many of these people may have been placed by Stanford with firms that recruit graduates. An ethical executive recruiter will usually agree not to touch a placement for three years (sometimes more), yet Stanford appears willing to re-offer its products the next day.

5. There is no end to this money grabbing. The next step will be to charge recruiters for each interview they have with a graduate. Think how much money Stanford could make charging recruiters $100 an interview conducted. If you gasp at that, try to distinguish it from ProNet. NONSENSE

YES: YOU MISS THE POINT

RThought: Am I completely wrong? Is the idea obsolete that a university has or should have higher standards than "money grabbing" just because it can be grabbed? Is business served by having a university actively seeking to interfere with an existing employer-employee agreement? If Stanford conspires to interfere with an agreement with one of your employees, do you have a damage claim against Stanford?

LET ME KNOW HOW YOU FEEL.: VERY BAD, VERY SORRY YOU PRINTED THIS ARTICLE. —BUD ELDON

LOOK UP "ETHICS" IN YOUR DICTIONARY: IT'S NOT ABSOLUTE

SHORT SHORTS

You have to do research just to be snooty. Neiman-Marcus came up with "jungle red" garbage bags in 15- and 33-gallon sizes—for those who disdain plebian green or brown. Cost: $8 for 30 bags, each in 33-gallon size (vs. 20 each 30-gallon bags at $2.62 at the local Drug Barn). But the snooty were immediately snooted by their garbage men—who wouldn't pick up the bags because to them red sacks meant infectious waste. End result: N-M gave a lot of the bags to local hospitals. Now it is selling "paradise jade" bags. **RThought:** Do your research before you buy. In this case, the supplier knew or should have known what the colors meant, if anything.

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TEAM DEVELOPMENT

There are few successes in sports, in business or in government that are due to one individual. One individual may change an organization overnight—but when that organization has thousands of people, the miracle is getting a team to start marching in step.

Our most frequently analyzed "team development" activity is in sports—every one of the thousands of newspapers has a sports page; and every sports page has a few to a dozen experts analyzing "team development."

We all read about how Billy Martin does it (the good and bad in his methods) or how Vince Lombardi did it ("winning is everything") or Knute Rockne or Amos Alonzo Stagg or Paul "Bear" Bryant or Bud Wilkinson or Joe Paterno or Bobby Knight or Tom LaRussa did it.

There is one thing we know—there is no single way of building a team.

I thought of this when reading the editorial in the January 1988 issue of *Indian Management* (the issue was devoted to "Team Development"). Utpal K. Banerjee wrote:

> **As regards implications of leadership styles, they vary in terms of manifest behaviour and the effect they have on the tasks at hand and the organizational output. Styles do range, according to Likert, from the exploitive authoritarian, through the benevolent authoritarian to the consultative and participative management at the other end of the spectrum. The effects of team work can be examined by such factors as accountability vs. buckpassing; risk-taking vs. avoidance; autonomy vs. immature dependence; creativity vs. conformity; synergy vs. 'lone ranger.' In the Indian society, in particularly, there are feudal values which may run contrary to democratic leadership.**
>
> **Again, paternalism has a place even today for the Indian who seeks direction, nurturing and reassurance in a society marked by deprivation. [Editor's Note: Our own psychologists stress the importance of nurturing and reassurance in our own society.] Finally, organizational effectiveness and morale can be affected by a radical change in the leadership style.**

RThought: Leadership must know where it is going if it is to be leadership. Anyone can call out, "Come over here and help me." Leadership says things—from "John, do this right away" through "John, do you think you can get this done by 5 p.m. today?"—and never gets an answer, "Why me?" or "Why can't Bill do it?" or "This morning you told me to do it the other way."

RThought: To paraphrase Abraham Lincoln, "You can lead some of the people all of the time and all of the people some of the time, but you can't lead all of the people all of the time." An organization works best when those being led have the kind of leadership they want; those people can be led all of the time. You wonder how an organization with matched followers and leader can accomplish so much. But replace the leader with one from the opposite end of the leadership spectrum, and you will be surprised at how fast coordination changes to chaos. Though Tom Peters may write about *Thriving on Chaos,* he is really misusing the word "chaos" (the disorder of formless matter and infinite space, supposed to exist before the ordered universe; any great confusion or disorder); he means "change" (to cause to become different; alter; convert).

Change can appear to be chaos, when you rearrange the furniture at home or change the layout of the store, but that is not chaos. Tom says it himself when he says, "It is imperative . . . that you consider bold goals, really bold goals, in fact"; and he talks of innovation.

Team leadership is the quality of getting your organization to accomplish what your competitors think is chaos in order to reach the ultimate goal that they and you have said they want to reach—but which your competitors say is impossible. For a retailing example or two—if Sol Price explained his cash-and-carry warehouse concept to you in 1976, would you have believed that, 12 years later, he would do over $4 billion and have a dozen companies trying to copy him? Or, if Sam Walton had told you in 1962, when he opened his first discount store in Rogers (AR), that Wal-Mart would become the largest retailer in the world by 1990 or 1991 (1987: Sears, $25.9 billion worldwide; K mart, $25.6 billion including Canada)?

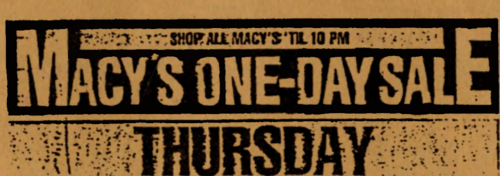
Of course, I don't think that either Sol Price or Sam Walton had the specific goals set forth above—but each year they did set (and reached) demanding goals in sales increase, profit and return on equity. [Editor's Note: Wal-Mart's goal is a $5 billion sales increase for the current year.] Each put together a team that enjoyed the challenges of the interim goals that were set—and particularly enjoyed beating those goals.

Price and Walton are different kinds of leaders; Price and Walton have different kinds of people on their teams.

There are still "more ways of killing a cat than choking her with cream" (Charles Kingsley, *Westward Ho!,* 1855).

SHORT SHORTS

New wave advertising? Or should frequent use of a reverse-block headline be considered a competitive tool against Nordstrom's service to customers? Once the use of reverse block was considered "schlock." Can we look for the return of the full page of alternating reverse block with one item in each block?



RThought: When I bought my first pair of Levi's (the model later to be known as the "501") for 95¢ (I had to save my money for them as Mother would not buy me such "clothing"), Levi's were not accepted for wear to school.

There was a day when some newspapers would accept a reverse block ad.

Why General Motors is failing. The new Buick Reatta is just being introduced. Concept studies were started in 1981, prototype construction was authorized in 1984 and pilot models were completed in 1987 using a "craft station" (the car stays at a position while a group of workers complete a portion of it) rather than on a traditional assembly line. It will be seven years from start to finish—and it is essentially a "me, too" car. During that time, Chrysler was saved and Ford passed General Motors in profits. GM lost (and continues to lose) market share. **RThought:** What does this have to do with retailing? How long does it take for you to review, approve and implement a program? Were you once going to compete with The Limited, The Gap and all the other full-service specialty chains? Did you? Have they grown in sales and profits? Are you a General Motors?

Stanford Alumni Association
Bowman Alumni House
Stanford, CA 94305
(415) 723-2021

July 14, 1988

Mr. Marshall Kline
Marshall Kline Buying Service
110 E. 9th Street-Suite B 489
Los Angeles, CA 90079-2025

Put 6/88 R

Dear Mr. Kline:

Your letter to President Kennedy (which had the date July 27) was sent over to me for a response, and I'm appreciative of your comments and interest.

Please let Stanford University off the hook on the ProNet issue; it is not an institutional activity but rather a project that our member-services organization has undertaken on behalf of our dues payers. An extensive survey of the alumni identified this service as potentially useful to members who would like to keep informed about challenging career opportunities in an inexpensive fashion. I agree with you that some people do move too often and indeed made that point earlier this week at the national assembly of people who do what I do. I happen to be an MBA, but have been at Stanford and the Association for almost 20 years and have urged others in my trade to consider the merits of sustained involvement with one organization.

Having said that, it does seem to me that this can be a most useful service for those of our graduates who might--for reasons you might or might not find sensible--want to know of what's out there, even if to satisfy themselves that they are doing fine where they are!

In any event, I'm glad to reassure you that Stanford is not in the business of raising funds in the search business. Nor are we; our employer fees will simply cover the costs of the operation and the service.

Good wishes.

Yours,

Bill Stone

William E. Stone
Executive Director

copy: President Kennedy

Office of the Director

ROBERT KAHN AND ASSOCIATES
BUSINESS COUNSELORS
P.O. BOX 249, LAFAYETTE, CALIFORNIA 94549
(415) 254-4434
FAX: (415) 284-5612

ROBERT KAHN
CERTIFIED MANAGEMENT
CONSULTANT

July 19, 1988

Put w/ 6/88 RT

Mr. Bud Eldon
1615 Shirley Avenue
Los Altos, CA 94022

Dear Bud:

I thought you might be interested in another letter responding to the article on ProNet.

Andre is the Dean of Leavey School of Business and Administration. I've gotten to know him through my work on the Retail Management Institute's Advisory Committee of Santa Clara.

Sincerely,

Robert Kahn, CMC

P.S. I just came across another letter in regard to the above.

I'm catching up on my mail following our 25th time at the Stanford Sierra Camp last week. We probably had the most beautiful weather of any time -- and I finished about 140 pages, double-spaced typing, on what might become a book on retailing.

RK

SANTA CLARA UNIVERSITY

LEAVEY SCHOOL OF
BUSINESS AND ADMINISTRATION
OFFICE OF THE DEAN

July 12, 1988

Robert Kahn
P.O. Box 249
Lafayette, CA 94549

Dear Bob:

I found your challenge to the Stanford Pronet concept an important one. There are a number of things that also bother me.

While I think it is useful for universities to alert its graduates to current business opportunities, and while it's true that people who are out four or five years appreciate their university's assistance in helping them maintain contact with the market, I'm not sure I am comfortable with the concept of a general marketing of a resume list.

I think there is already a tendency to self service and over bidding simply on the basis of market opportunity as opposed to commitment to career and position.

I think your challenge is important. I'm not sure what the answer is but I'm grateful that you raised the questions. I plan to share your reflections with our staff involved in our placement center. As always your thoughts are provocative.

Sincerely,

Andre L. Delbecq

ALD:ar

SANTA CLARA, CALIFORNIA 95053 (408) 554-4523

Marshall Kline Buying Service
213-689-1219
213-689-1285

July 27, 1988

President Donald Kennedy
Stanford University
Palo Alto, CA 94500

Dear President Kennedy:

I have learned of your Pro Net program.

I am not a graduate of Standford University, in fact, when I graduated (as an undergraduate), The Stanford "Indian" was a highly respected member of the Pacific Coast Conference.... which only confirms that all things are subject to change.

Speaking of change, time was, when an individual graduated college, applied for a job and with that company pursued that job for the rest of his life.

The MBA program (going back 30 years) showed that no longer did one have to "fight in the trenches." By moving about, one could advance much faster. Hence, the demise of corporate loyalty.

I am in the retail trade. I receive resume's daily of young, upward mobile personnel who remain with a firm, perhaps two years before "quietly" advising the world that they are ready for a great leap upward, that their employer of only two years or so has not recognized.

Pro Net, as I understand it, gives legitimacy by virtue of Stanford's respected name, to this leapfrogging of jobs.

I cannot deny that there are people out there, who, at the age of 25-30 are capable of being "Captains of Industry." The relatively conservative nature of big business today does not always recognize these individuals.

However, there are executive search organizations today who function, most effectively, at placing these individuals where their opportunities can be best appreciated.

From a standpoint of ethics, should one of the world's foremost centers of learning be in the employment business (I don't think they should be in the real estate, industrial/shopping center business either)?

My daughter went to Vassar, they don't seem to have to journey outside academics to raise the funds needed to maintain their academic image of leadership.

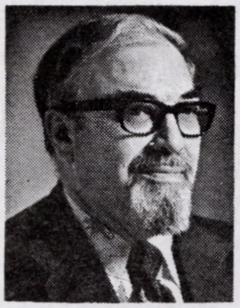
Why does Stanford?

Sincerely,

Marshall Kline

MK:pb

440 E. 9th Street Suite B-489 • Los Angeles, California 90079-2025



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
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ROUTE TO

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WILL OUR FUTURE BUSINESS LEADERS DESTROY OUR SOCIETY?

More and more top executives (many recognizing their own shortcoming), observers of our society and academics have come to realize that businesses headed by highly trained, narrowly oriented people, driven solely toward making money (like those consultants and manufacturers who produced the current Defense Department/defense industry scandal), will destroy the society created by the writers of the Declaration of Independence and our Constitution.

But the idea of hiring more people educated in social sciences (a branch of science that deals with the institutions and functioning of human society and with the interpersonal relationship of individuals as members of society; a science, as economics or political science, dealing with a particular phase or aspect of human society—defined by *Webster's Ninth New Collegiate Dictionary*) or in liberal arts has not gotten down to the People Department (I consider "Personnel" an improper description of the function, and "Human Resources" insulting, putting people in the same class as oil and trees).

Every year, *CHANGING TIMES* (Editors Park, Maryland, 20782; $10/yr.) publishes a section on "Where The Jobs Are," which contains a code for the type of college graduates each company is seeking. It is a simple code: A – Accounting; B – Business or Marketing; C – Computer Science; E – Engineering; M – Mathematics; MIS – Management Information Systems; P – Physical Sciences; L – Liberal Arts/Social Sciences; and O – Other.

It lists 130 firms, including the following retailers, and what each one is seeking.

Belk Stores, Inc.	B, L, O (home economics with emphasis on textiles)
Caldor, Inc.	A, B, C, MIS (data processing), O (commercial art, public relations and advertising)
Carter Hawley Hale	B, L
The Children's Place	A, B, C, L, P, O (fashion merchandising and buying)
Food Lion, Inc.	B, L
Jamesway Discount Stores	B, L
Jordan Marsh Co.	B, L, M, O (most majors considered)
K mart Apparel Corp.	A (3.0 or better GPA), B (finance, management, labor relations), L (home economics with textile concentration
Love's Country Stores	B (management), L
Macy's Atlanta	All Majors
Richman-Gordman Stores	B, L
Tandy Corporation	B, C (for sales), L
U.S. Army & Air Force Exchange Service*	A, B
U.S. Navy Resale & Services	A, B, C, L, O (hotel management, fashion merchandising and retailing)
Venture Stores	B, L

ANOTHER WAY TO HELP EDUCATION

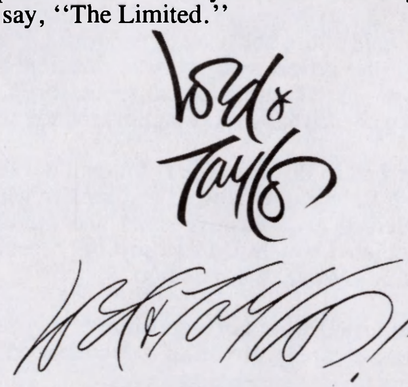
Secretary of Education William Bennett has, with increasing frequency, reminded us of the shortcomings of our education system.

No matter what level—grammar school, junior high school, high school, junior college or even college—we are not turning out people who know what they *should know* or what they and we *need to know* so that, in the years to come, we can be the great nation we once were—and would like to be in the future.

The importance to the world of education in the United States is simple. Because of our democracy, the proper education of Americans can have a greater impact on the world than can the narrow education given in countries less committed to democracy.

AND POOR EDUCATION MEANS
BAD HANDWRITING

The examples below show how Lord & Taylor has adapted to less education. Shown are the L&T sig cuts about ten years apart. A few more years and one might think the scrawls say, "The Limited."



**Note:* As a consultant to AAFES, I will discuss this with the Commander.

Retailing has a good record. Out of 15 retailers, 13 specify "L"; and I know that AAFES can be persuaded by next year.

Of the other 115 companies, only 27 (23%) will interview liberal arts students. They are:

Barnett Banks, Inc.
Connecticut National Bank
D'Arcy, Masius, Benton & Bowles
First Florida Bank
First Wachovia Corporation
GBC
GEICO

Grey Advertising, Inc.
Hallmark Cards, Inc.
Hewett Associates

Huntington National Bank
Kelly Services, Inc.
L. Knife & Son, Inc,
Liberty Mutual Insurance Group
Manufacturers Hanover Corporation

Masland Carpets
Massachusetts Mutual Life Insurance
Meridian Bancorp, Inc.
Midatlantic National Bank
New York Life Insurance Company

Old Kent Bank & Trust Company
Ortho Pharmaceuticals
Prentice Hall, Inc.
The Travelers
U.S. Bureau of Census

U.S. Department of State
U.S. Department of the Army

RThought: I won't kid myself. Many of the retailers and the 27 other companies are buying by price. They figure they save money with liberal arts graduates. They may not understand that they may be saving their businesses as well.

WHY SHOULDN'T SHE BE REPLACED?

SAVVY (July 1988) had a major story headed "Store Wars," and the subtitle read, "When Macy's took over I. Magnin in San Francisco, Barbara Bass, one of the few women CEOs in retailing, was the first casualty."

The article traces Bass's career. An economics major, fresh out of Smith College, Burdines (Federated) took a chance on her. Burdines probably lost money on her as its training converted an econ major into a merchant. But when that was finished, she jumped ship to Macy's and into women's fashion.

How loyal was she to Macy's? Apparently only until CEO Marvin Traub could "lure her back to Federated," as a VP at Bloomingdale's (the article said she was mentioned—it does not say by whom—as "Traub's logical successor"). But then she was offered a chance to turn I. Magnin around.

What she really had to do was take I. Magnin out of head-on competition with Emporium-Capwell and back to what Hector Escobosa, a talented and sensitive artist and merchant, had built before Federated bought IM as a sort of "freebie" in the Bullock's-Bullock's Wilshire acquisition.

RThought: The article does not anguish over any people that Bass replaced in her career. Nor does it comment on the loyalty, if any, of Bass to her various employers.

Now, consider some other factors. When I worked at Macy's NYC in 1940-41, the common knowledge (i.e., gossip) was that Macy's never lost an executive it really wanted to keep. I don't know if that is true today; but I suspect that if it is not "an absolute," it is a pretty good statement. In 1980, Bass left Macy's. One can make several deductions from that.

SAVVY describes Bass: "Her aggressive, hands-on management style at first unnerved the somewhat complacent SF staff, *but once they got used to her admittedly brusque approach, they responded with enthusiasm. I. Magnin had a pulse again*" [emphasis added]. *SAVVY* excuses Bass's conduct by explaining "Bass's abrupt manner is, in part, a shy person's attempt to propel herself past awkward moments." But does this kind of leadership produce the best type of managers for a $300 million, 27-store operation, stretching from California to Chicago?

SAVVY reports, "One vice president resigned herself to getting urgent calls from Bass on weekends or at midnight." *RT* readers are CEOs or top executives. Would this fit in your organization?

RThought: *Let me say the good things about Bass.* First, she is quoted as saying, "In the world of acquisitions and mergers, this is what happens. New people want to use their team." (In the case of Macy's, it will undoubtedly be easier with someone already working smoothly with Macy's top management.) Second, there are many places where Bass's skills, plus her management style, are the right prescription. The situation and Bass will find each other. They might meet sooner if more top retailers read *SAVVY* (and *Working Woman*).

COMMERCIAL BRIBERY—STOUFFER STYLE

Stouffer Hotels & Resorts ran a full-page ad in the July 1988 issue of *Frequent Flyer* offering a choice of $25 merchandise certificates good at either Brooks Brothers or The Sharper Image "every time you stay" at one of its hotels. Of course, you have to pay the "rack rate" or "corporate rate." Travelers, until recently, were not expected to know the term "rack rate." I consider that "rate" to be the sucker rate, and I doubt that commercial hotels collect the "rack rate" on 20% of their room sales. Convention, AARP, government and other rates are all much lower—probably as much as $25 lower. (I am sure Stouffer is not paying face value for the certificates.)

I suspect that the vast majority of readers of *Frequent Flyer* are, as I am, a business traveler. This is an attempt to bribe the traveler in a form much more obvious than other inducements.

Of course, the certificates don't go to whomever is paying for the hotel but to the person who was trusted by an employer to be frugal when traveling. I pass on to my clients the benefit of the rate given me as a member of AARP, but think of what I could do on all those trips with my clients not knowing that each time I stay at a Stouffer Hotel, I am pocketing $25 for myself?

RThought: Stouffer has left a bad taste in my mouth. I have only stayed at a Stouffer's a few times, but it is now getting to cities I visit. Unfortunately, I can never stay at one again; my clients might think I made $25 on the side.

RTeaser: You might consider deducting $25 from each reimbursement for a stay at a Stouffer Hotel.

HOW MANY NAMES DOES A&P HAVE?

If you answered 7, you were wrong. Even at 8 or 9 or 10, you were wrong.

The Form 10-K says that it operates "under the trade names A&P, Dominion, Food Emporium, Food Bazaar, Kohl's, Super Fresh, Waldbaum's, Family Mart, Shopwell, Food Mart, Sav-A-Center, Sun, Futurestore and Compass Foods."

And without that compass you might never find your way. Count 'em. Fourteen—to do $9.5 billion (average $700 million per name). A&P ended the year with 1,183 stores; in the days when it had 15,000, it was all under one name.

WHY CARRY MEN'S CLOTHING AND FURNISHINGS?

Each year I hear sad stories about the problems of men's stores (and men's departments). Another bad year. Nothing new. Not even leisure suits or Nehru jackets or the Ivy look. Just the same old thing.

Let's look at some figures. In 1939, men's apparel stores did 77% of the volume done by women's apparel stores. With great effort, by 1978, that figure dropped to 47%; and with one final effort, it dropped to 29% in 1987.

And that 1987 drop came despite the fact that many men's stores were carrying some women's wear but not enough to be classified as a family clothing store.

Looking at it another way, from 1978 to 1987, sales of men's stores increased to 2.07% per year compounded, compared to 7.69% for women's stores.

There is a simple reason for this. Men's clothing is stupid. Men are smart enough not to buy except from necessity. Men's clothing merchants are not smart enough to do anything to help men.

Before World War II, designer Elizabeth Hawes wrote *Men Can Take It* (she also wrote *Fashion Is Spinach*). She pointed out that on a summer day in New York City the total weight of the clothing worn by a woman would be between 1½ and 2 pounds; while that for a man would run from 6 to 7½ pounds. Stupidity Number 1.

She made some other comparisons. What does a woman have around her neck? Probably nothing—just a nice, comfortable neckline with no cinch. But a man? Six thicknesses of cloth in his shirt collar and three more in his tie. Stupidity Number 2.

What about the waist? A woman has a loose-hanging dress, panties, and perhaps a loose-hanging slip—all designed for air circulation. (The only stupid garment is her pantyhose.) And a man? Shorts, perhaps an undershirt, an outer shirt, trousers—with about six to eight thicknesses of fabric— all cinched in with a belt. Stupidity Number 3.

At least men (as well as women) have gotten rid of hats. If you were asked to design a hat, you would know that it needed a "sweat band." Would you use impervious leather? The hat-makers did. If we still wore them, that would be Stupidity Number 4.

What is the menswear industry doing to provide comfortable clothing? Nothing. It still puts buttons on each coat sleeve! Buttons were orignially put there to stop soldiers from wiping their noses on their sleeves; and when the soldiers stopped, tailors moved the buttons to the back of the sleeves.

Thorstein Veblen (1857-1929), in *Theory Of The Leisure Class* (1899), explained men's clothing. Almost everything a man wears is *designed to prove that he does not have to do manual work* for a living. Silly coats. Sometimes a vest. Once upon a time, stiff collars and stiff shirts were formal wear. You had to prove you didn't do manual work.

RThought: Recently, we have had some hot weather in San Francisco. I went to my office in the city in a shirt without a tie or coat—and was much more comfortable than all the people around me. Nobody commented. So I did it the next four days.

A year from now I expect men's stores to be doing only 25% of women's store volume. I will be wearing my own choice of comfort clothing—probably made by my wife's dressmaker. Perhaps, like the Pied Piper, others will follow. But I would guess the smart retailer will be women's stores that retail comfortable men's clothing.

The leisure suit was killed by the fabric—not the design. I would love a nice tropical-wool leisure suit for more formal events.

SHORT SHORTS

"Freebies." I have become distressed about the manner in which the American flag is treated. Some time ago, I offered the readers of The Retired Officers Association's magazine a free copy of the Flag Code if they would just send a stamped, self-addressed #10 envelope. I received 500 responses. And recently I came across a paper I wrote years ago called "How Accounting Killed A Business" that reveals the lack of reality of the CPA's work. Write for the FLAG CODE or KILLING A BUSINESS, or write "Both" on the outside of your envelope, and enclose a stamped, self-addressed envelope. Put 25 cents return postage for one; 45 cents for both. Send to Box 249, Lafayette, CA 94549.

Is this what James Cash Penney had in mind when he named his first store "The Golden Rule"? A recent ad in a J. C. Penney insert had the following:

> **Your satisfaction is our goal. To serve the public as nearly as we can to its satisfaction. That's the Penney idea. If you are not satisfied with your purchase *after a reasonable time*, let us know, and *we'll try to satisfy you completely* [emphasis added].**

Penney named his store The Golden Rule, remembering his Baptist Father's admonition from the Bible, "Therefore all things whatsoever ye would that men should do to you, do ye even so to them." **RThought:** The Golden Rule in Kemmerer, Wyoming, opened at 7 a.m. on weekdays and 8 a.m. on Sunday and stayed open as long as there was a miner or sheepherder on the street. (Details are from *The Great Merchants* by Tom Mahoney.)

The headline: "Jobless News Causes Third Straight Market Dip." That was written after a 14-year low in unemployment of 5.4% was announced. Why? Because low unemployment causes wages (and thus costs) to rise and that means inflation. **RThought:** What happened to the theory that if more people were working (1) they would buy more goods and that would help manufacturers of consumer goods; (2) with more people working, welfare costs would drop and that would help states and local governments to keep costs in line; and (3) with more people working, more income tax would be collected and that would help reduce the deficit? **RThought:** Did those ideas disappear with the introduction of supply-side economics?

Payless Drug produced a miracle! This subsidiary of K mart ran an 8-page "Dollar Sale" insert showing 160 items—*and every single price ended in "00!"* **RThought:** It has been years since I saw this. Most Dollar sales (or Dollar Day sales) end up with half the items ending in 99, 88, 77 or even 50. **RThought:** When first used, the 1¢ sales, Dollar Day sales and "2Fer" sales owed much of their success to the effort made to offer desirable merchandise within the price structure. I have not checked, but I think the last time I reported on a Dollar Day ad, even the front page had items that were not priced to end in "00."

THE DEATH OF A COOPERATIVE

Once the Consumers Cooperative of Berkeley bragged that more than 100,000 families in the San Francisco Bay Area belonged—and now it has sold off the last three stores. It hopes to have enough money to pay off its creditors. Over the past seven or eight years, it has had a loss nearly every year (sometimes offset or partially offset by selling off assets.).

It might be well to look for a moment at the failure of the consumer cooperative movement in the U.S., comparing it to the continued strength in England, the Scandanavian and some European countries.

Berkeley Co-op owners had "shares." Each shareholder had only one vote. Members were asked to invest at least $200. When making a purchase, your number (using a variety of means over the years) was recorded. My wife and I had number 11011—as the years went on it became a "low" number.

When the Co-op had a profit, part was rebated in proportion to your purchases. Decades ago, we got a 2% or even a 2½% rebate; with losses, there was nothing to rebate.

The Co-op started as the Berkeley Cooperative Union, formed in 1938 by the Finnish Brotherhood, with about 100 members and $1,099 in capital. The Finns had a long history of cooperatives, and Berkeley had one of the largest U.S. Finnish communities. Subsequently, this became the Consumers Cooperative of Berkeley. By the 1960s, the Finnish names, such as Tauno Ahonen, John Laukkanen, Laurie Laehtin, Alex Pulkkanen and Waino Soujanen, disappeared, and other Berkeley people took over. Many faculty members of the University of California at Berkeley took part. One of the most prominent was Robert Aaron Gordon, a professor in the Business School, who was on the board for seven years and served a term as president.

As Berkeley became more liberal (some would say radical), the Co-op reflected that change.

With that background, let's look at the history of cooperatives.

The earliest ones were formed in England, and almost all failed. The basic premise was that profit was unnecessary and that people, by working together without a need for profit, could get satisfactory service while paying lower prices computed without a profit. The early co-ops failed because competing merchants would selectively cut prices below cost; and the cooperative, in meeting all of them, lost money.

In 1844, 28 poor flannel weavers opened a grocery store in Rochdale, England, and established the principles on which future cooperatives would operate: (1) membership was open to all; (2) each member had only one vote, regardless of the number of shares owned; (3) there was a limit on how much interest or dividend could be paid on shares; and (4) profit would be rebated in proportion to purchases. The formula for success had been found. Within a relatively few years, Rochdale grew to 45,000 members and capital of more than £500,000 (when the pound was worth more than $5.00 U.S., and when the U.S. dollar bought about 12 times as much as today).

England had a stratified society. A son of a clerk did not expect to rise much above his father. In a society like that, consumers made a greater effort to spend their money wisely. In the United States, where any person can become a millionai[re], Stuart Chase (an economist of the 1930s) observed that w[e] would rather work harder making more money than spending wisely what we have. Thus, co-ops in the U.S. tended to center on college communities: Berkeley Co-op and the University of California; Palo Alto Co-op and Stanford University; Hyde Park Co-op and the University of Chicago.

Two things have happened over the years. First, profit became a dirty word. In working with the Palo Alto Co-op some years ago, I had to fight to make the Board realize that it needed capital (from memberships and earnings) in order to open more stores. And if it wanted to have free "Kiddie Korrals" to care for children while mother shopped, it had to reflect the cost in the price of the goods. Second, it had to abandon many of its social change ideas. One idea was not to sell cigarettes because the Board didn't think people should smoke. I explained that if the Co-op did not carry cigarettes, its customers would go to the competition, generically called "LuckSafe." And they would not come back. The Board didn't want to sell candy because it was bad for children, which would be another boost for LuckSafe.

Berkeley had more serious problems with political activists. Many members who supported co-op principles were driven away by the tables and petition circulators that they had to wade through just to get in the stores.

And, most of all, little value was placed on management. Board members were not qualified to run a $75 million business. But the Board's ambition was unbelieveable. Berkeley opened stores in central Contra Costa County, Mar[in] County (one of the wealthiest in the U.S.) and San Francisc[o]. In these counties, they were just another food store. There wasn't a large enough core of cooperative-oriented shoppers. And the retailing mix it offered was not superior to LuckSafe.

RThought: The active cooperators never recognized the largest consumer cooperative movement U.S. retailing has ever seen—the membership discount stores based on government employment, the same kind of homogeneous and stratified society that, in England, brought forward the Rochdale Co-operative. The names reflected that homogeneous group— Fedco (still running), Fed-Mart, GET (Government Employees Together), AGE (Associated Government Employees), Gemco, GEM, USE, etc. These people spend more time spending their money wisely.

But we do have signs of successful cooperatives in our society. The most successful is the Credit Union, brought to the United States by Edward Filene who got Massachusetts to pass laws allowing credit unions to operate. The original savings and loans, called "building societies," were owned by savers. Even large insurance companies (like Metropolitan Life) are owned by their policy holders, most of whom do not know this.

RThought: In union, there is strength—but only if you have good management. And no matter what one may philosophize, either here or in the USSR, you must have profit; how you dispose of the profit may be subject to differences, but operating at a profit is fundamental to survival. And to to[o] many, in the co-op movement, profit is a dirty word.

(**Credit:** Thanks to Bob Neptune, who wrote *California's Uncommon Markets,* when the co-op star was rising.)

RThought: Of course, there are reasons. Dominion, Kohl's, Waldbaum's, Shopwell and Super Fresh had well-established names when they were acquired by The Great Atlantic and Pacific Tea Company. But it seems that some of the economies of scale are lost.

The time will come for either a partial restructure—as Macy's has done lately—or a full restructuring—as Dillard's does when it takes over old, well-established names. The profit is in operating, as Dillard's.

A MOST EXPENSIVE AND WASTEFUL AD CAMPAIGN

I suppose when you distribute Porsche cars you must use extravagant waste to sell them. Who wants to buy a Porsche from a company that does not waste advertising money?

Take the experience of Marshall Kline, who runs a buying office in Los Angeles. Recently, he received a red 24-inch mailing tube; and found inside the tube was a front-on poster of a 1988 Porsche 944 with some weeds and a ratty temporary fence in the background. The fake license plate read:

Jun USA 1988
MARSHALL

The accompanying letter was addressed:

Kline Marshall
110 East 9th St. B 489
Los Angeles, CA 90079

RThought: Signed by John Cook (not Cook John), it asked Kline Marshall to imagine himself behind the wheel of a Porsche 944 (not a 449 Porsche). The letter appears to have been run on a laser printer (although it says, "Dear Sir," rather than being personalized). The picture, mailing tube and individualized letter must have cost about $2. Don't you think that a true prospect for a 944 would be unimpressed by a mailing that could not get his name right? He might fear that some of the cars had the headlights on the rear fenders!

P.S. The mail-in card for a test drive did ask, "Has your name been misspelled?"

TRENDS IN THE LARGE FINANCE COMPANIES

The American Financial Services Association has, for many years, maintained records on a constant group of larger finance companies. At the beginning in 1977, there were 33; but now, due to consolidations and mergers, there are 25.

From 1977 to 1979, the number of offices increased from 12,968 to 14,324. Then the number declined until there were only 9,695 in 1986. In 1987, there was a dramatic 14% increase to 11,051.

The number of employees has increased despite the fewer offices. There were roughly 6.0 employees per office in 1977 compared to 8.2 in 1987.

One of the biggest changes has been in the distribution of their outstanding receivables:

Type of Loan	1977	1985
Automobiles	47.0%	68.1%
Second Mortgages	6.6	12.5
Other Personal Loans	31.9	9.5
Other Consumer Receivables	14.5	9.9
TOTALS	100.0%	100.0%

RThought: They (and the credit unions) have taken over much of the auto lending, largely because of a shift of lending by banks. Second mortgages have, in many cases, replaced car and personal loans, usually with more flexibility and at a lower interest rate.

Finally, the increased use of bank credit cards, with finance charges often below that on personal loans, has led to a transfer of that business.

STUPID COMPUTER PROGRAMMING

Let's look at the programming of the Visa card at Wells Fargo Bank. A reader has had a card for years and never paid a finance charge. It gave her ease of shopping and a more convenient record of purchases.

Recently, she received a bill with a finance charge for $9.33 and almost hit the roof. When she settled down, she realized that she had left 5 cents off the check for the previous month (when she paid over $600) and that the computer, dutifully noting the balance was not paid in full, computed and charged a finance charge. I presume the same thing happens if one transposes the last two digits, such as paying 89 cents instead of 98 cents.

Have you ever done that? Of course, you have.

RThought: There is a simple program that could be added—unless credit card issuers think they make big profits from small mistakes by their customers. The logic would be: If the finance charge exceeds the unpaid balance, then the finance charge is omitted.

When it is so easy to be both smart and fair, why not be smart and fair?

And, while looking at being smart and fair, why not have different dun notices based on the number of times the account has been paid in full during the past 12 months? You might not want to dun an obviously creditworthy customer. I can remember being dunned for a $20 balance on an account with a maximum ($9,999) limit.

If you cannot do that, your computer is not as smart as the clerk who, after one day of training in the old days of manual record keeping, knew that a gold star on an account meant "approve all charges" and "only the credit manager can dun." The clerk might not recognize the name on the account; it could be the president of a bank that you use or the mother-in-law of the local district attorney.

Darn smart, these new "employees."

NON-PRICE COMPETITION IS BETTER THAN PRICE COMPETITION

Northern California has been blessed with increased competition in the off-price apparel field. First, there was Marshalls, then there was Ross, and now there is T.J. Maxx. I have omitted Loehmann's, which has been here a long time, because it insists on generating customers the "old-fashioned way—it earns them."

I have been interested in the change (and increase) in the amount of advertising done by these newer off-price retailers. The original theory was that word of mouth would do the job. And it did for the first off-price store and something less for the second and even less for the third.

Now, off-price retailers of family apparel are faced with a problem of competition in addition to finding values. To paraphrase California's motto: Bring me values to match my advertising ("Bring me men to match my mountains," Sam Walter Foss, 1858-1911).

RThought: Once again, a low-expense, low-margin (that may not be true here) retailer is faced with the challenge: Which will make me the most profit?

a. Improve my values by cutting my gross margin by 5/10ths of 1%?
b. Increase my occupancy cost by 5/10ths of 1% with a fancier store?
c. Increase advertising cost by 5/10ths of 1%?

As with all predecessors—department stores, discount stores, catalog/showrooms, furniture warehouses, etc.—the answer is: Non-price competition. Increase advertising; then increase occupancy cost; and, only in desperation, cut gross margin.

DOING RIGHT—OR WRONG?

One of my favorite publications, *The Shopper Report*, (3624 Science Center, Philadelphia, PA 19104; 215-386-5890; $195/yr.), asked its shopper panels to say whether they thought major chains were getting better or slipping. Here are their answers:

Chain	Improving	No Change	Getting Worse
Wal-Mart Stores	61%	31%	8%
J. C. Penney	42	34	24
K mart	40	37	23
McDonald's	29	45	26
Wendy's	25	54	21
Burger King	22	55	23
7-Eleven	19	50	31
Montgomery Ward	19	41	40
Sears, Roebuck	17	36	47

Voluntarily mentioned by many respondents as "good" were:

Target
Winn-Dixie
Nordstrom
Bradlees
Sizzler

RThought: The editorial comment on the result was: "Most of these stores and all of the winners in our recent study of supermarkets, offered strong combinations of *variety, value and service.*"

COMPUTER INEFFICIENCY

One reads frequently that the high cost of a computer system accounted for a drop in profits—and nobody seems surprised. Yet the common belief is that computer systems reduce cost or give you more information so you can operate smartly or both.

The head of a collection agency recently told me about a billion dollar-plus corporation (not a retailer, but it could have been a retailer). As with most larger credit granters, communication with the collection agency is computer-to-computer—both for assignment and for reporting.

But this non-retailer really wanted all the information it could get; and since computers have infinite memory(?) and transmit information at the speed of light, the system called for reporting the status of every assigned account every month. But the collection agency recognized that there came a time when further collection work was uneconomic—and so it stopped. However, every account remained in the report—and the report got longer and longer and longer.

The agency suggested that, instead of reporting every acc[ount] every month, it should only report accounts on which there was action. The credit manager thought it was a wonderful idea and said that he would take it up with the EDP department. After the passage of an appropriate period of time, the credit manager reported back to the collection agency that it could not be done. THE EDP DEPARTMENT WAS SO BUSY PROCESSING THE TAPES THAT IT DID NOT HAVE TIME TO CHANGE THE PROGRAM!!!

RThought: And so it was that one day the world came to a stop. Someone turned off the sun. And all mankind became monkeys, and all monkeys became lizards, and all lizards became insects and, thus, it continued until the entire world became amoebas—and it was time to start all over again. Perhaps the next round will produce brighter EDP people.

SHORT SHORTS

I quote a Polish proverb from a letter by A. Foster-Carter from Shipley, Yorkshire, England, in *The Economist* (2/6/88): "Only the future is certain; the past is always changing." **RThought:** I must remember that when I read reports to stockholders announcing that declines in business are "in accordance with expectations" that have never been shared in advance.

WORDS—THAT MAY DESCRIBE OUR GOVERNMENT

I am sure that you are as concerned as I am about the rece[ntly] announced investigation of dishonesty involving people in [the] Pentagon, people who have recently left the Pentagon and ou[r] munition merchants that apparently are not happy being in a competitive society in a country that is managing to bankrupt itself—buying weapons from them. Yet, I am sure that each corporate executive who is ultimately indicted and convicted will be certain that (1) he is a loyal American; (2) he is an honest businessman, at least "as honest as all the other businessmen" he knows; (3) he was just "doing what everyone else was doing"; (4) he didn't know it was dishonest; (5) they just picked him "to make an example for others"; and (6) he got a "raw deal"—he should have gotten off with 300 hours of public service while he kept his old $200,000-a-year-plus job.

And then I read a story in *Bits & Pieces* (May 1988; 12 Daniel Road, Fairfield, NJ 07006; about $17/yr.):

> **The Great Wall of China was a gigantic structure that cost an immense amount of money and labor. When it was finished, it appeared impregnable. But three times the enemy breached it—not by breaking it down or going around it. They did it by bribing the gatekeepers.**
>
> **Dr. Harry Emerson Fosdick, in referring to this historical fact, had this to say: "It was the human element that failed. What collapsed was character that proved insufficient to make the great structure men had fashioned really work."**

RThought: That is what is happening today to the United States. The human element is failing. And we continue to give unwarranted respect to the scum of our society that have reached positions of high trust—and then sell themselves [to] weaken our country to make a few bucks for themselves.

I feel particularly angry about those who say they are "just making a profit as business is supposed to do."

RETAILING TODAY

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ROUTE TO

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AN AFFINITY CARD THAT WAS TOO GOOD

Sometimes a deal is too good to believe. Members of the Sierra Club were offered an affinity bankcard with no annual fee for four years. The Chase Lincoln First Bank, which issued the cards, would only waive the fee for the first year. The promoter has to come up with the fee for the other three years.

Times have been difficult raising the money so the bank billed the Sierra Club members, forcing the promoter to send letters saying that he would take care of it. More expense.

There are a lot of people between the bank that issues the card and the cardholder, all expecting to get their cut and get rich. The original promoter hoped to get other affinity cards as a result of the promotion.

RThought: When deals are "too good to believe," don't believe them. Remember what Senator Howell T. Heflin (D-AL) said when explaining his vote against Judge Bork: "When in doubt, don't." For the story and many more, if you are involved in plastic cards, you should be reading *The Nilson Report* (Box 49936, Los Angeles, CA 90049; 24 times/yr., $595). There is information in these reports that is not available anywhere else.

ANOTHER LAW NOT APPLICABLE TO THE LIMITED

When The Limited acquired Lerners, it arbitrarily cancelled all its purchase orders (contractual obligations) with vendors. The "law of contracts" did not apply to The Limited.

More recently, The Limited decided that the planning laws of the City of Walnut Creek (CA) did not apply to it. It was opening a new store in Broadway Plaza in an existing shell. It built a new store front—but the design had been turned down by the City's Design Review Committee.

In fact, Steve Runyon, The Limited's construction manager, authorized the building of the store front one week before the scheduled hearing.

The City blocked the opening of the store for six weeks and was seriously considering making The Limited replace the store front. However, when the matter got to the City Council, it considered the $25,000 cost of replacement and allowed the store to open—on the grounds that The Limited make a contribution (amount not disclosed) to the Regional Center for the Arts.

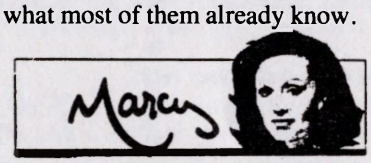
RThought: I share the comment of the spokesman for MaceRich, owners of the Broadway Plaza: "The timing was 'almost indefensible.'" Actually, it was indefensible!

HAS ANYONE EVER WRITTEN ABOUT YOU THIS WAY?

Marcy writes a popular column in the *Contra Costa Times* (circulation 100,000, reaching 300,000 people in Central Contra Costa County, about 20 miles east of San Francisco).

The column below doesn't name the store, but everyone of the 100,000 readers know that it refers to the Nordstrom store in the Walnut Creek Broadway Plaza.

Was this news to her readers? Not at all. It was just recognizing what most of them already know.



Caring for customers can really pay off

There is a lesson to be learned here. If I were planning this page I would put a dotted line around this column and hope that it was clipped, copied and sent to all of the businesses that are blind to the reason they are not doing better. This is something they should know.

A certain department store in downtown Walnut Creek treats its customers as if they were royalty. No task is too great to please a customer.

Should you select an item not in your size, a salesperson will cheerfully retire to the stock room in an attempt to find the item in a size that fits. If you know what you want but do not see it on display, a salesperson will cheerfully help you search for something similar that might serve your purpose as well.

If you want your purchase gift-wrapped, that too will be done promptly, beautifully and, whenever possible, on the spot, not in a hidden cubbyhole behind the stationery department three floors away.

If you pay for your purchase by check or credit card, there is even a chance you may receive a handwritten note from the salesperson extending a thank you for your patronage and a wish that you enjoy your newly acquired sweater, dress or cosmetic.

You know which store it is. It is the one whose parking lot is always full, whose business is always brisk. Once you have shopped there, it is the store that comes to mind when you are about to set out on a shopping trip again.

While other businesses shift, slide, change locations and close their doors, it is no accident that this department store, one of a large chain, has met with roaring success since its opening in Contra Costa County little more than three years ago.

This store is "service-oriented." Customer service is its number one priority.

Too many businesses today take customers for granted, assuming the loss of one disgruntled customer will not hurt the business. Another customer will his place.

RThought: The above article was reprinted with permission of both Marcy and the paper. Perhaps you will want to enlarge the column and post it on your bulletin boards—the boards for the people who deal with your customers.

HOW HAPPY IS YOUR CATALOG?

I have never understood the reasoning behind sour-faced models in beautiful apparel. Is it punishment to wear such garments?

RT is now scoring the many catalogs that are received, and I would like to share with you some of the scores. The facial expressions are tallied as "Smile," "Trace" and "None." The difference between a "Smile" and a "Trace" is a judgment call. The classification of "None" is much easier to make—although I do find a number that I classify as "Trace" that others might call "None." These have that little touch of impishness that, in many cases, makes a much more interesting face than either a "Smile" or "None."

	Number of Faces	% of Faces
Pot Pourri		
Smile	13	65%
Trace	3	15
None	4	20
Norm Thompson (Women)		
Smile	18	64%
Trace	3	11
None	10	25
Comfortably Yours		
Smile	22	50%
Trace	8	18
None	14	32
Charles Keith, Ltd.		
Smile	22	48%
Trace	8	17
None	16	35
Touche of Class (Fall/Winter 1988)		
Smile	16	39%
Trace	8	20
None	17	41
J. Crew (Fall 1988) (Women)		
Smile	35	38%
Trace	21	22
None	37	40
J. Crew (Fall 1988) (Men)		
Smile	20	34%
Trace	7	12
None	32	54
Fashion Galaxy		
Smile	115	34%
Trace	45	14
None	174	52
Norm Thompson (Men)		
Smile	7	33%
Trace	4	19
None	10	48
Designer Direct (Early Fall 1988)		
Smile	35	28%
Trace	27	22
None	62	40
Sakowitz		
Smile	12	18%
Trace	16	23
None	40	59
Jos. A. Banks		
Smile	4	6%
Trace	16	25
None	45	69

RThought: DON'T SHOOT ME! I know that percentages are a bad measure when there are fewer than 100 in the group for which the percentage is computed. It is for that reason that I have entered the actual number first and then the percentage. *Use the percentage with care.*

My favorite catalogs are the ones with more than 50% smiles.

It would be wonderful if one of the big catalog houses would run a test—sending out half of its catalogs with "Smiles" replacing "None"—and "None" replacing "Smiles"—and see if the item sales change. I would very much like to see the happy models win—but I have no basis of saying they would.

More ratings will be given in future months.

GUESS WHO IS LOYAL?

The common knowledge, accepted by every retailer, has been that today's charge customer is not loyal. The argument goes: Your customer has a couple of bankcards and other retail cards and buys only where the price is lowest. Thus, it follows that you only get business when you run 30% off sales.

In fact, that is so much the accepted truth that aggressive credit operations, such as Mervyn's, no longer drive for the maximum number of accounts in an area.

For awhile, when shopping at Mervyn's, I was asked, "Will that be cash or a bankcard?"! And the salesperson doesn't know that I have had a charge card for 32 years! And the limit on the card is above any bankcard that I have!

RThought: Of course, that "no longer loyal" argument was pushed by the banks when they wanted to make money off of our customers.

But now that private label cards are all the rage, GE Capital Retailer Financial Services (life was easier when one would just say, "GECC") had a study done and polled 2,000 customers nationwide, and compared store credit cards with other forms of credit. The results, as published in *Apparel Merchandising*, are just what GE thought:

> **Shoppers with a store credit card spend about $21.90 more per purchase at department stores, $32.90 more at specialty apparel stores and $89.39 more at home improvement units than those using other forms of payment.**

I will say right up front: I do not believe those figures. But I do believe the conclusion and, even if the difference were only $10, $15 or $20, it is worth going for.

IS RETAILING AN ART OR A SCIENCE?

Retailing News (Arthur Young, 277 Park Ave., New York, NY 10172; no charge) in its May 1988 issue featured a store designer firm—Walker Group, CNI—through an interview with its President/CEO, Kenneth Walker. Two points made by Walker are particularly important.

The tenth of "10 Rules/Ideas for Store Design" is: "You never get a second chance to make a first impression." Although Walker was thinking in terms of what you see when you walk through the door, the truth of that statement goes much deeper than the physical plant.

When you get within range of the first employee, does that person "see you" or "look through you?" Is there a smile or a frown? What is the tone of the voice in the first words? Is service given pleasantly, grudgingly or not at all?

Like many of you, I walk in to many stores just to look; sometimes I buy something, and sometimes I don't. And I may go into a single store, out of hundreds in a chain, but I will think of the "first impression" of that one store when I think of the chain.

An example comes to mind. I have only been in Loehmann's store in San Ramon (CA) once—and obviously I made no impulse purchase. But I can still see the uniformed guard. I didn't see him when I came in, but I saw him when I

CAN YOU COMPETE WITH A DISCOUNTER?

I talked with the head of a $100 million home-improvement/DIY/contractor retailer recently. He said he was dropping out of the DIY business and concentrating on contractor business. His explanation? You can't compete with the Home Depot/Home Clubs.

Our local newspaper had a feature story about a two-unit toy store that was going out of business. The original unit was still profitable at 30% lower volume after the opening of Toys "R" Us, but his second unit didn't establish a customer base before a discounter opened near him.

There is a tendency to think of such situations as applying only to small business. But what about Woolco? There were only a handful of retailers larger than F.W. Woolworth. And what about The Treasury, the discount division of J.C. Penney? There were only two general merchandisers larger than JCP when it closed The Treasury chain. They were discount stores that regularly lost money.

It is so easy to blame "them" for our own failure. And often there is a tendency to compete by outlawing how "they" operate. Fair trade is one approach. Zoning against discounters is another. In 1896, the Specialty Store Association of America petitioned Congress to outlaw department stores! Its argument was that a department store could cut the prices in one department while carrying the store with the other departments—and force out of business all competitors of the cut-price department.

Congress did not buy the deal nor did it buy the same argument against chain stores in the 1930s. Perhaps Congress was smarter in 1896 and in the 1930s than it is today. Or one could argue that the big money companies (department stores and chains) controlled Congress even then.

In our effort to "blame" someone, we forget the nature of retailing.

Kipling described our tools when he wrote in "The Elephant's Child":

I keep six honest serving men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.

With the help of these "six honest serving men," a retailer has to work with just six variables:

1. WHAT do I want to sell?
2. WHY will my store be different?
3. WHEN am I going to do it?
4. HOW will I combine the variables of price, service and advertising?
5. WHERE will I locate the store?
6. WHO do I want as my customer?

Let me ask a question: Do you know how much a gallon you paid for your last tank of gasoline? The chances are 50-50 that you don't. But if you do, do you pass a station every day selling gasoline for less? The chances are 50-50 that you do.

If price is so important, why don't you buy gasoline at the cheapest place? All gasoline is basically the same.

There are only a few explanations:

1. I go to a convenient station.
2. I want them to check under my hood—and will pay 20¢-40¢ a gallon ($2-$6 a tank) more to get the service.
3. I know the person who owns/runs the station.
4. They service the car—I can ask them questions if I have a problem.
5. It has a good mechanic.
6. They call me by name when I come in.

You do not act like an economic man—yet you think everyone else acts like an economic man. You are wrong. You just won't admit it.

Sam Walter Foss wrote of California in *The Coming American,* "Bring me men to match my mountains." But the signs I see today in most store windows say, "Help Wanted," which usually means a minimum wage and hiring without regard to whether they are "people to match my customers."

I observe two great disparities in stores. First, too often the salespeople are not acceptable to the target customers. Second, the people on the selling floor are unable to provide the service and product knowledge that they expected for the price charged.

Don't forget—at 75¢ a gallon, you will fill your own tank; but at $2 a gallon, you expect someone else to do it. Same car; same gasoline.

RThought: What prompted these thoughts? I received material from Menswear Retailers of America (MRA) about all-day sessions on "Selling Skills." A checker at a discount, drug or grocery store is not expected to sell; a person in a store with an area register is expected to sell.

The five sections of the course are:

1. The Basic Nature of Selling (product knowledge, applying knowledge to serve customers, communicating information and understanding the customer's viewpoint).
2. How to Approach Your Customer (visual communication, positive attitude, establish conversation to determine what the customer wants).
3. How to Present Merchandise (sell the benefits, communicate through customer's senses).
4. Developing and Diagnosing Customer Needs and Wants (difference between a looker and a buyer, be a good listener, how to make multiple sales).
5. How to Ask for Action—Closing the Sale.

I receive similar material from the Retail Council of Canada. Also, The National Retailer Hardware Association and the National Association of College Stores both have certification programs, but these concentrate on general management.

SHORT SHORTS

They laughed at Charles Lazarus when he started Kids "R" Us. That funny name may have worked with toys but who was going to sell him quality children's wear? On July 29, 1988, Lazarus opened 28 Kids "R" Us stores. In one day! That makes 112 of that model. **RThought:** He who laughs last is Lazarus.

FEATURE REPORT

TWO VIEWS ON SUDDEN INCREASE IN SHRINKAGE

The New York Times (9/17/87) headlined "Ames Battles to Curb Loss of Goods." Herbert Gilman, then Chairman and CEO, of Ames discussed the problem but not in detailed figures. He did say that Ames was trying to solve the problem (apparently shortage went well above 2.5%) and said that it had instituted many programs. He said further that experience indicates that it takes about two years to solve such a problem.

Isadore Barmash, the *Times'* top retail reporter, covered the story. He went to two people active in the shortage-control field. Here is that part of his article:

> **Stephanie Shern, chairman of the national retail group of Arthur Young [AY], said that the large accounting firm's studies of merchandise loss in the retailing industry had found "more shrinkage coming from internal than external theft." She added: "One reason is that merchants have spent more money to prevent shoplifting, with such things as hidden cameras and closed circuit TV. But controlling thieving employees is a more difficult problem." However, Peter D. Berlin, a shrinkage-control consultant in Jericho [Long Island], questioned whether internal theft was the principal problem at Ames. "When you see shrinkage in a company doubling in a short period of time," he said, "it generally means that the culprit is *more in the markdown or systems process than theft* [emphasis added]."**

RThought: I hope that the clause that AY's "studies. . .had found" that internal theft was more important than external is a mistaken summary of what Stern said. But having known Barmash for many years, I suspect that it was not. In any case, the AY studies have never "found" this as a fact. This was a long-standing difference between Errol Cook, who started this mishmash, and me. The reports that I have seen correctly state that AY asked the reporting store to make its "estimate" of the breakdown between internal and external theft and errors (recently it has added a category of driver theft, which occurs principally in food stores). No one has ever proven the figures the stores submitted. If its shortage is up, it tends to increase the amount attributed to internal theft—never to the errors made in its system (don't forget that Heck's recently discovered $4.5 million of merchandise that was received in FY '86 but not recorded until FY '87—so, in FY '87, it really reported a lot of employees putting merchandise *back in the store).*

But that is only part of the problem. The retail method of inventory is complex. Some years ago, Touche Ross gave a test on the retail method to buyers, merchandise managers and general managers. As I recall, buyers got about 30% of the answers right and general managers only about 50%. *If these people do not know how the system works, how do you expect store and department managers to know?* Have you ever given training to store and department managers on the intricacies of the retail method? I am deafened by the roar of "No."

When you have over 300 stores (Ames has 326) and your shortage takes a big jump, it cannot come from one or two or five stores—or someone would notice the empty shelves. Nor can one expect that suddenly and simultaneously 30 or 40 stores had big increases in shortage.

RThought: Berlin's response is more in line with my experience. I don't know whether Ames has made systems changes and I don't know whether it converted the G.C. Murphy stores to the Ames systems (if it didn't understand the retail method before, will it understand the new EDP system of Ames?).

Ames stores have been in smaller towns (ergo, few stores to compete with) and Murphy Marts in bigger towns (ergo, more stores). Thus, the more competitive markdowns the store manager was allowed to take, the more times, therefore, the chances of error-shortage. The manager may have failed to take a count or scratched it on the back of an envelope meaning, with the best intentions, to "write it up" just as soon as possible.

I don't know whether the "studies" made by Ames include selecting a tabloid that covered both high and low loss stores and then comparing the markdowns taken in relation to the ad. You may find some stores that never sent in a markdown. Thus, they have higher shortages.

RThought: The reply by Shern is that of a number handler/collector; the reply of Berlin is that of a man who has to go out and solve the problem. I'll take his evaluation. And I hope that now that Shern is in complete charge that she will never again print the silly numbers—which often I see attributed to AY—in any future report. AY's job, in helping the retail industry, is to provide help, not a basis for alibis.

SHORT SHORTS

Congratulations to supermarkets on eliminating price marking most products. Now, let's hear what your customer has to say. *The Shopper Report* (3624 Science Center, Philadelphia, PA 19104; Tel.: 215-386-5890) asked the question, "Do you *HATE* not knowing how much an item costs until it is rung up?" Of its consumer panel, 100% answered the question; and on a scale of 10 for "absolutely, totally agree" to 1 for "absolutely, totally disagree," they came up with an average score of 9.7. **RThought:** For the many independent stores owners who have better contact with customers: Have you ever thought of letting your customers vote on what items they want you to continue marking? Make up a card explaining that, with scanners, the need for marking is eliminated and cost savings are passed on. Then ask your customers to list specific items that they think you should continue to price mark.

The current trends. The Wetterau Incorporated 1988 Annual Report contains the following interesting statistic on the increased capacity of its Data Center Disc Storage over just ten years:

Date	Capacity (Billions of Characters)
1978	.7
1983	7.6
1988	73.0

RThought: A ten-fold increase in five years from 1978 to 1983 and another ten-fold increase from 1983 to 1988.

The wheel turns in Australia. When McEwans, a major hardware chain in Australia was purchased in 1984, one of the first things the new owners did was to eliminate its credit card (too expensive; bankcards would support). Now it is pushing its own card again—of necessity (strengthen customer loyalty, as a marketing tool to boost sales). **RThought:** Don't bet against another elimination as an economy.

left. He was at the door (to my right) as I went out. I passed within two or three feet of him. He had no expression on his face. If he saw me, he did not reveal it. He was just "doing nothing."

...t experience was three or four years ago. And it is the first image that comes to mind when I read something about Loehmann's—even before I recall the neat row of racks and the "Halston" label cut so that part of the "H" and the "n" remain to give the customer a clue.

He could have smiled, but he didn't. If I were a woman, he could have said, "Thank you for visiting us" or "Come back again," but I am sure he did not. After all, he had been told he was a guard—and never told he was part of an "impression" that could bring a customer back again.

The other point made by Walker was "I'm amazed at how many retailers *don't* regularly ask their customers what they think." This is part of the "retailing is an art and I am an artist" theory.

I go back to the late 1940s when I was with Smiths, then "The Largest Men's and Boys' Store West of Chicago"—the "Satisfaction Guaranteed" store that, for many years, was called "Moneyback" Smiths.

Half of the people in Oakland (CA) would tell you that they got their first pair of long pants at "Moneyback" Smiths; but when they had a chance to do their "own shopping," they went to Grodin's or Rogers because both carried clothes that appealed to young people. We then started a Varsity Shop and, every two years, we had a market survey made comparing us with Grodin's and Rogers among young people—and with those two, plus Roos Bros., Hastings and Moore's, for all people. We made changes. Then we were able to see if they were ...ht. We did that in 1946, 1948 and 1950 and watched our "image" move up with both groups—our image for fashion value and service.

And then we were so good that we eliminated the surveys. In 1986, the final reading was taken. Smiths filed for bankruptcy; in 1988, it was liquidated. And, to my knowledge, Smiths never went back and asked its customers what they thought. But with all the changes Smiths made, it confirmed that you can lose customers by the dozens but you make them one at a time.

RThought: Customers are happy to tell retailers what they want—but retailers are too busy to listen—let alone ask. They will tell you little things—easy to do things—that will bring them back more often than 30% off sales—and will cost you less.

AND RETAILERS THINK EMPLOYEES AND CUSTOMERS ARE CROOKS?

A suit has just been filed in San Francisco against Crazy Shirts, a 17-unit chain in California reported to employ more than 600 people.

California law says, in regard to the use of polygraphs, that "No employer shall demand or require any applicant or employee to take a polygraph, lie detector or similar test" (*...eter Berlin Report on Shrinkage Control,* Executive Edition, ...pril 1988; 330 N. Broadway, Jericho, NY 11753; $135/yr.).

Crazy Shirts knew that—so did Elaine Halavas, human(?) relations manager, who put out a memo that said:

> **When discussing with an applicant the polygraph test, reference check and police report, you are advised to word this very carefully. Please do not tell them that, if they don't pass, they will not have a job.**
>
> **I cannot stress this strongly enough because according to the law, we cannot deny employment based upon the results of these tests.... Please do not even hint that this is a pre-employment check.**

Recently, the national chain, Color Tile, paid a major fine for requiring polygraph tests. I think it felt California law did not apply to a Texas corporation.

Then there was the report that the children's pool that Sears describes as 8' x 18' was only 7'3" x 17'. I can understand the feeling of Sears' customer Eugene Hunt of Pittsburgh (PA) after digging a hole for an 8' x 18' pool. Sears defense was that it had been selling it for three years and this was the first complaint! The manufacturer, General Foam Plastics Corporation of Norfolk (VA), apparently is incensed. It says that Mr. Hunt mismeasured—that the pool is actually 7'6" x 17'¾". **(Do you buy from General Foam? If so, I suggest you check the measurements.)**

Sears, as always, has an explanation/alibi, as it did when vacuum cleaner and sewing machine salesmen "nailed the specials to the floor" or when, during rain in California (oh, how we would like to have it now), Sears Add-A-Room went broke leaving some customers, who had paid in advance, under water for many days while the Sears attorneys tried to save some money for Sears.

The Administrative VP for General Foam claims, "There was never an attempt to commit fraud on anybody...2 by 4s are not really 2 by 4s." (You can measure a 2 by 4 when you buy it; try measuring a plastic pool in a carton.)

Sears gave back Mr. Hunt's $39.99 (I presume it also refunded any taxes), and Mr. Hunt bought an 8-foot pool, that was at least 7'9", from a toy store.

I noted in the local supermarket a coffee company pushing its "new" coffee. As far as I could see, the only thing "new" was that the 1 lb. can now comfortably holds 13 oz., and the 2 lb. can holds 26 oz.

RThought: And many of the retailers scream today for not only the right to "fire at will" but the right to "polygraph at will" to protect the business from all its crooked employees.

If I had to guess, a higher percentage of retailers are breaking one or more laws, usually intentionally, than the percentage of their employees who are stealing.

Perhaps it takes a crook to worry about a crook?

My father told me that in retailing I should "trust everyone and challenge everything." I challenge often. But I do have a comfortable feeling that the employees in the businesses with which I work are honest, and I treat them with the respect they deserve for being honest.

If I had pressed Dad, he probably would have said the same thing about customers and suppliers. That does not excuse not checking on private-label goods. Only the owner of the private label is interested in the accuracy of information given on that product.

Perhaps Sears is no worse than the Armed Forces that apparently bought millions of bolts and fasteners made out of steel that did not meet specifications—thus endangering people in submarines (few second chances) and tanks (not much better on second chances)—because the bolts were not tested upon receipt.

THE DAY JORDAN MARSH LAUNCHED THE POLAROID CAMERA

The story, taken from the book *Land's Polaroid,* by Peter C. Wensberg, appeared in the November 1987 issue of *Sales and Marketing Management* (633 Third Ave., New York, NY 10017; $3/issue). It was the day after Thanksgiving 1948. It was the Model 95, named for the price of $95. Jordan Marsh provided space behind a counter; two men were there to demonstrate it. Jordan Marsh's clerks and customers were curious. A picture was taken. The curious gathered around. The demonstrators got on the counter so people could see. They waited for the picture to develop.

One minute is a long time.

The plan was to give a demonstration every five minutes; the crowd would not wait. The demonstrators needed someone to sell the cameras. During the first day, the demonstrators ran out of cameras—a supply it thought would last until Christmas. The manager of the jewelry department complained about the "medicine show" in the camera department; people could not get to jewelry.

It had to stop—no more cameras until the next day. The factory had been told to increase production. Polaroid was promised more space in Jordan Marsh the next day—a Saturday.

RThought: In its fears before it opened, Polaroid cut the price from the $95 list to $89.75 and gave away $5.25 a camera that it did not have to give. But then who would have known?

THE GREATEST STORE CATALOG I HAVE EVER SEEN

"A Season to Remember," the Autumn 1987 catalog for Nordstrom, had on its inside cover a picture of a family gathering for a picnic. The right-hand page read:

It was a wonderful fall,
with much to celebrate...
35 years of marriage for
Mom and Dad, the birth
of our niece, Katja, in
early September. The
move away from the city
to our new home on the
coast. Best of all, we
were able to share another
season with our family
and friends.

It is followed by 48 pages of family pictures, then four pages of reproductions of some of the pictures, together with a description of the merchandise.

RThought: The epilogue reads, "When we entered the home of Lars and Annie Wanberg to create a family album, everything seemed somehow familiar: the many heirlooms that graced each room, the family dog, Jenny, curled up near the fire. But most familiar of all were the sounds that filled the house—the laughter and music, the voices rich and hearty, young and curious. It was a concert unique in its makeup, but one we had all heard before. It was the unmistakable sound of a family, together.

"As they welcomed us into their lives and their home, they revealed a traditional family spirit. They told us of stories passed from one generation to another, and of proud regard for their heritage. Most of all, they showed us that in a world of constant change, the American family remains firmly rooted in the fabric of life."

RThought: The order form has a few additional items: It will inform the customer of any delay beyond ten days—not the 30 days required by law. Provision is made for a gift box or rush delivery. And "If for any reason you are not satisfied with your purchase, please feel free to return it."

SHORT SHORTS

If you think department store advertised sales are misleading, consider the publication date on an issue of *Business Week.* Below is shown a regular section. Although the issue is dated July 11, 1988, it says that on Tuesday, July 5, the National Association of Purchasing Agents *will* release the June index on purchasing "which *will probably* climb higher to 56%." BUT THAT WAS SIX DAYS BEFORE PUBLISHING. On Friday, the unemployment index "*probably* dropped to 5.5%." It didn't; it dropped to 5.2%.

THE WEEK AHEAD

NAPM COMPOSITE INDEX

Tuesday, July 5
The National Association of Purchasing Management's index of business activity probably climbed higher in June to about 56%, from 55.1% in May. The Federal Reserve Bank of Philadelphia already released its survey of business conditions, which registered modest improvement in June. Both the Philadelphia Fed and NAPM surveys are geared toward the manufacturing sector. Like the Fed, the NAPM questions companies on their hiring plans, new orders, production, inventories, delivery times, and prices. A reading higher than 50% in the NAPM index means the economy is still expanding. So far this year the results of the NAPM index have been consistent with growth in real gross national product of 3.4% for all of 1988.

PAYROLL EMPLOYMENT

Friday, July 8, 8:30 a.m.
Most economists expect that employment on nonfarm payrolls increased by 200,000 to 225,000 in June. Employment rose 208,000 in May and 249,000 in April. This would put second-quarter job gains below the 340,000 monthly average of the first quarter. But the rise is still healthy for this stage of the expansion.

UNEMPLOYMENT RATE

Friday, July 8, 8:30 a.m.
Given moderate job gains, the civilian unemployment rate probably dropped to 5.5% in June from 5.6% in May. Unemployment insurance claims fell in mid-June from mid-May. The financial markets would probably view a jobless rate below 5.5% as inflationary.

INSTALLMENT CREDIT

Friday, July 8
The consensus is that May consumer credit increased by $3.5 billion to $4 billion. That's about the same as April's $3.7 billion rise. New-car and department store sales were flat in May, but consumer spending on goods rose 0.4% for the month. Gas stations increased business by 0.6%, after dropping by 0.7% in April. Personal loans at banks—an increasingly important source of consumer credit—were up by $1.6 billion in May.

88 BUSINESS WEEK/JULY 11, 1988

RThought: An honest issue would be dated July 4 so *BW would not have to forecast the past.* There is an old Polish saying: "The future is certain; the past is subject to change."

WORDS THAT FIT ME

My "warranty" just ran out, and I have been thinking about age. Psalm 90:10 says:

The days of our years
are threescore years and ten;
they be fourscore years,
yet is their strength
labour and sorrow;
for it is soon cut off,
and we fly away.

I wouldn't change a single one of the threescore and ten. I have no regrets, no great unhappiness nor do I "wish" that something had been different.

One of my joys each month is reading *Soundings* (The Economic Press, 12 Daniel Rd., Fairfield, NJ 07006; $27/yr.); and, in the current issue, I found:

Age is a quality of mind.
If you have left your dreams behind,
If hope is cold,
If you no longer look ahead,
If your innermost fires are dead—
Then you are old.

But if from life you take the best,
And if in life you keep the jest,
If love you hold;
No matter how the years go by,
No matter how the birthdays fly—
You are not old.

RThought: As I have said for years, when I get up in the morning, I know that I am 35—and if I feel no older than 36 when I go to bed, it has been a good day.

Put Usa 11th August 1988 RT

Sep 29, 1988

Gave Marshall Kline permission to reproduce FEATURE REPORT--CAN YOU COMPETE WITH A DISCOUNTER to send to his clients.

Ask him to tell that they can subscribe for $42 a year

Sep 29, 1988

Bob - Thanks - copy for your info. Marshall

213-689-1259
213-689-1285

CAN YOU COMPETE WITH A DISCOUNTER?

...lked with the head of a $100 million home-improvement/ DIY/contractor retailer recently. He said he was dropping out of the DIY business and concentrating on contractor business. His explanation? You can't compete with the Home Depot/Home Clubs.

Our local newspaper had a feature story about a two-unit toy store that was going out of business. The original unit was still profitable at 30% lower volume after the opening of Toys "R" Us, but his second unit didn't establish a customer base before a discounter opened near him.

There is a tendency to think of such situations as applying only to small business. But what about Woolco? There were only a handful of retailers larger than F.W. Woolworth. And what about The Treasury, the discount division of J.C. Penney? There were only two general merchandisers larger than JCP when it closed The Treasury chain. They were discount stores that regularly lost money.

It is so easy to blame "them" for our own failure. And often there is a tendency to compete by outlawing how "they" operate. Fair trade is one approach. Zoning against discounters is another. In 1896, the Specialty Store Association of America petitioned Congress to outlaw department stores! Its argument was that a department store could cut the prices in one department while carrying the store with the other departments—and force out of business all competitors of the cut-price department.

Congress did not buy the deal nor did it buy the same argument ...inst chain stores in the 1930s. Perhaps Congress was ...arter in 1896 and in the 1930s than it is today. Or one could argue that the big money companies (department stores and chains) controlled Congress even then.

In our effort to "blame" someone, we forget the nature of retailing.

Kipling described our tools when he wrote in "The Elephant's Child":

> *I keep six honest serving men*
> *(They taught me all I knew);*
> *Their names are What and Why and When*
> *And How and Where and Who.*

With the help of these "six honest serving men," a retailer has to work with just six variables:

1. WHAT do I want to sell?
2. WHY will my store be different?
3. WHEN am I going to do it?
4. HOW will I combine the variables of price, service and advertising?
5. WHERE will I locate the store?
6. WHO do I want as my customer?

Let me ask a question: Do you know how much a gallon you paid for your last tank of gasoline? The chances are 50-50 that you don't. But if you do, do you pass a station every day sell-...g gasoline for less? The chances are 50-50 that you do.

If price is so important, why don't you buy gasoline at the cheapest place? All gasoline is basically the same.

There are only a few explanations:

1. I go to a convenient station.
2. I want them to check under my hood—and will pay 20¢-40¢ a gallon ($2-$6 a tank) more to get the service.
3. I know the person who owns/runs the station.
4. They service the car—I can ask them questions if I have a problem.
5. It has a good mechanic.
6. They call me by name when I come in.

You do not act like an economic man—yet you think everyone else acts like an economic man. You are wrong. You just won't admit it.

Sam Walter Foss wrote of California in *The Coming American,* "Bring me men to match my mountains." But the signs I see today in most store windows say, "Help Wanted," which usually means a minimum wage and hiring without regard to whether they are "people to match my customers."

I observe two great disparities in stores. First, too often the salespeople are not acceptable to the target customers. Second, the people on the selling floor are unable to provide the service and product knowledge that they expected for the price charged.

Don't forget—at 75¢ a gallon, you will fill your own tank; but at $2 a gallon, you expect someone else to do it. Same car; same gasoline.

RThought: What prompted these thoughts? I received material from Menswear Retailers of America (MRA) about all-day sessions on "Selling Skills." A checker at a discount, drug or grocery store is not expected to sell; a person in a store with an area register is expected to sell.

The five sections of the course are:

1. The Basic Nature of Selling (product knowledge, applying knowledge to serve customers, communicating information and understanding the customer's viewpoint).
2. How to Approach Your Customer (visual communication, positive attitude, establish conversation to determine what the customer wants).
3. How to Present Merchandise (sell the benefits, communicate through customer's senses).
4. Developing and Diagnosing Customer Needs and Wants (difference between a looker and a buyer, be a good listener, how to make multiple sales).
5. How to Ask for Action—Closing the Sale.

I receive similar material from the Retail Council of Canada. Also, The National Retailer Hardware Association and the National Association of College Stores both have certification programs, but these concentrate on general management.

Courtesy of: RETAILING TODAY
PO Box 249, Lafayette Cal. 94549 (Subscriptions: $42/yr)

Dale Achabal – give permission to use next year – it was a hit)

FEATURE REPORT

'MANAGING IN AN INCREASINGLY CHALLENGING RETAIL ENVIRONMENT'

The Retail Managment Institute (RMI) at Santa Clara University chose the above title for its 4th Annual Conference for CEOs and other senior retail executives. The program is the finest I have ever attended (although I am a member of the Advisory Committee to RMI, I contributed little to that success). Let me make you feel sad because you were not there.

The first session was "Fostering Innovative and Entrepreneurial Thinking in an Established Company." William Howell, Chairman of J. C. Penney, told how Penney was doing it, why Penney had changed, and where Penney was headed. In the Q&A period, he answered all questions.

Next was "How Wall Street Looks at Mainstreet—The Impact of Acquisitions, Mergers and LBOs on the Retail Industry." Tully Friedman is a partner in Hellman & Friedman. This firm masterminded the LBO by Levi Strauss, and Friedman now serves on its board. H&F were key advisers to Federated in its defense against and ultimate acceptance of the Campeau offer. He told how that developed—on a day-by-day basis.

Walter Loeb, a principal at and the senior retail analyst for Morgan Stanley, reviewed the growth of takeovers in recent years. His most frightening slide was the last—naming a dozen companies that now have available a combined total of $350 billion to finance takeovers. It is an extremely rare firm that today can say, "We can't be taken over." The Q&A session went deeply into the question of the ethics and legality of takeovers (management using inside information, for example).

Sol Price, founder of FedMart and, more recently, Price Club, who was trained as an attorney before he became a retailer, took the position that it is a breach of fiduciary duty under trust law for any member of management to take part in a buyout in which he will participate and from which he stands to profit. Some day that may be tested in court.

Session III was "Specialty Success Stores—The answer to Market Segmentation?" The moderator was Harry Newman, a shopping center developer (and a published poet). His panel was better than any such panel I have ever heard. It consisted of:

Kenneth Leonard, recently Vice President of Real Estate for Montgomery Ward, who has been active in specialty store development since 1960, starting with Walgreen's (remember Globe discount?), Federated Department Stores and Cole National.

Stuart Moldaw, General Partner in US Venture Partners and founder of Pic-a-Dilly and The Athletic Shoe Factory (off-price chains), and who, through US Venture Partners, is probably the leading provider of capital to new retailers (the largest being Home Club and Ross Stores). He learned about specialty stores at Lerners and then, as Vice President, at Lucky Stores and again at Melville.

Allan Pennington, Vice President of New Business Development at Sears, who has also been part of the development of specialty stores at Dayton Hudson and Woolworth.

Martin Sherman, Chairman, Retail Development at U.S. Shoe, who has been part of its specialty store development since 1962.

There were lots of questions—and frequent disagreement between panel members.

Session IV was titled "Big? Bigger? Biggest!—Superstores as superstars of the 80's."

This session started with Richard Harrison, Chairman, Fleming Companies, which is now the country's largest food wholesaler ($12 billion this year). He outlined what his firm was doing for the food operations that are part of the many superstore formats.

The highlight of this session was the talk by Joe Nusim, President of Makro. Joe started as a buyer at Robert Hall Clothes in 1952 and was a vice president at Jamesway, and then at Gaylord's, before becoming CEO at Makro. He outlined what Makro is doing and the margins on which Makro operates. Every retailer present hoped that Makro would never come into its territory. Nusim stressed that the European companies take a long-term view on entering the U.S. They are not looking for quarter-to-quarter gains. Makro operated at a substantial loss for six years while it changed its concept to meet the desires of the U.S. customers. Now that K mart has acquired 51%, it wants him to double his planned rate of expansion. These are 250,000-300,000 square-foot stores needing special management and large parcels of land. You don't find either very easily.

At the banquet Thursday evening, Sol Price spoke, openly and frankly, on "Managing the Challenge of Changing Organizations." Price Club went from scratch to $3.8 billion in ten years. His opening remarks gave me a line I will use for years (with credit to Sol—Senator Biden, please note). "When I was asked to talk, I asked myself, 'What can I tell a group like this that they don't already know?' And after thinking about that for awhile, I asked myself, 'If there is something that I know that they don't know, why should I tell them?' " But he relented and told us.

Session V was "Power Retailers and Category Killers."

It started with Mark Begelman who founded Office Club two years ago and now has ten 20,000 square-foot stores from San Diego to Oregon. He raised initial venture financing of $6 million and then a second round of $8 million. The only limit to his growth is being able to build his management team. He uses a state-of-the-art MIS system—40% of his reorders go electronically from the POS register to the supplier. One can do that with pencils, paper clips, copy paper and more.

Then Frank Denny, whose background in building materials started in 1956 at Handy Dan and then with W. R. Grace and now as CEO of Builders Square, part of K mart. He told of Builders Square's development plus a word or two about Office Square and Sports Giant. Denny stressed the advanced POS-based MIS system. K mart is looking at more retail specialties to which it can apply this proven system.

Bo Cheadle, a general partner at Montgomery Securities, who for the past three years has been rated "No. 1 Building Material Analyst," looked to the future.

The final session was "Where Are We Now and Where Are We Going?" Michael Reidelbach, President of Retailing Planning Associates, took us on a picture tour of what is being done by stores of all types, both in the U.S. and elsewhere. RPA has worked with many of the firms mentioned, as well as others represented on the panels or in the audience.

RThought: If you want to know about the September 1989 conference, write to Dr. Dale Achabal, Director, Retail Management Institute, Santa Clara University, Santa Clara, CA 95053, or call 415-554-4960, and say, "Bob Kahn told me."

COOPERATION

Most of us follow some sport—football, baseball, basketball, hockey—and we know the importance of teamwork. We also understand what can happen when one or two players are disgruntled or are trying to get all the attention. The team does not do well.

Isn't it strange that we do not understand the importance of teamwork in running our business even though we recognize the outstanding results that are obtained by retailers who have been successful in establishing a sense of teamwork?

I am always impressed when I stay at the Marriott Hotel. I look for someone wearing a pin—I often find someone with two or three pins—and I always ask what the pins mean. That is like turning on the faucet. They tell me that it indicates that they have been an employee for so many years or how long they have been a member of the profit-sharing plan. One time, when there was a vast difference in the number of years for each pin, the person told me he had been foolsih when he was hired and did not enter the profit-sharing plan until several years later.

Recently, I stayed at the downtown Los Angeles Hilton. I remember when it first opened and later when it was run down. Now it has been remodeled. I asked two employees what the meaning was of the pin with four stars. Both answered with pride that "we" got a four-star rating from Mobil.

I know the United Way pin for fair-share givers—but I always ask. Their faces gleam when they explain it to me.

I recall asking a stewardess on PSA what the pin was that she was wearing, one which I recognized. She took pride in explaining that it was her Phi Beta Kappa key.

I was in a Longs Drug Store recently where the cashier wore a name tag—that went two steps further. Above her name, it said, "Our 50th Year," and below her name, it said, "Serving you with pride for 10 years."

The military uses ribbons and badges. Almost every recruit leaving basic training has something to wear—even if it is just a marksman's award; generals often have 20 or more (the Russians have removed the outside left breast pocket on their uniforms to make room for more ribbons).

I was present when General Long, Commander of the Army and Air Force Exchange Service, now reassigned, received the Air Force Distinguished Service Medal (only the Congressional Medal of Honor and Air Force Cross, both granted only for bravery in the face of the enemy, rank higher). His accomplishments, during three years as deputy commander and three years as commander, have taken the exchanges into scanning, automated distribution centers, expanded training for personnel and more. Mervin Morris (founder of Mervyn's) and I served as consultants to him, and we agree that he earned it.

The Customer Company, operating more than 100 Food & Liquor stores (they look like convenience stores from the outside, but each does four to eight times the volume of an average 7-11), puts the manager's name on the marquee (for example, "Bob's Food & Liquor") when he has proven himself as a store manager.

RThought: For such recognitions to be successful, top management must wear their pins showing their service. But there is a catch. So many top executives will change companies for 15-20% more pay or perhaps just a better title. When all the other people in the store proudly wear pins showing 5, 10 and 25 years of service, too many in top management can only wear a miniature "Golden Parachute" or a "$" sign, showing the number of thousands of options they have—as an incentive to keep them with the store.

When a store plans to change its layout, does it talk with the people who will work in it? The people might convey ideas or complaints that they, at the front line, hear from customers. Do you have a suggestion system? Perhaps you get 20 or 30 suggestions per 100 employees per year; many Japanese firms get 4,000 to 5,000 suggestions (that is correct: four thousand to five thousand) per year per 100 employees. Many are small ideas; the employee may get only $5 or $10. But they are working on your team. And they are thinking all the time.

This item was prompted by a letter in *Business Week* (7/25/88) from an employee of Weirton Steel, who objected to a claim in an article that employee-ownership at McLouth Steel represented a "truly extraordinary" display of cooperation between numerous groups. McLouth became employee-owned in 1987; Weirton in 1983 became employee-owned with cooperation between union members, management, spouses, local merchants, customers, local government, state government, banks, schools, churches and neighboring cities. All had one battle cry, "We can do it!" The letter concluded, "More than 8,000 jobs were saved and a division of National Steel—thought to be worthless—is now highly profitable." Pride prompted that letter.

RThought: I can guarantee that not one in 100 retailers is enjoying as much as 50% of what his employees are capable of doing because he is not smart enough to understand (1) that the contribution is there, (2) that the employees want to give, and (3) that he lacks both the skill and the desire to bring forth the contribution. Perhaps management will be embarrassed by what it doesn't know—and employees do know.

SHORT SHORTS

This changing world. A "Name Brand Sale Bonanza" from Sears! Stratolounger, Stratford, Avon in stuffed furniture, plus Sony, RCA and Magnavox in consumer electronics, plus Michelin tires. **RThought:** It also had room for its own "Name Brands"—DieHard, Kenmore and Coldspot.

Why? Why do signs in store windows say, "Sorry! We're Closed," and the other side never says, "Glad! We're Open"?

Buy your own anchors. There was a day when Genesco, Interco, U.S. Shoe and Melville fought for position in shopping centers, leveraging the number of different names they could bring to the center. Those names were specialty stores. But now L. J. Hooker is going to bring its own anchors. Hooker has announced the Willows Oak Mall, 10 miles outside Charolotte (NC). Three of the five anchors will be Bonwit Teller, B. Altman and The Parisian—all owned by Hooker. How vigorous can the competition be between these three? Can Hooker really want to bring in an aggressive anchor? We don't know yet.

COMMUNITY CASH STORES

A CHAIN OF 45 RETAIL SUPERMARKETS
SOUTH AND NORTH CAROLINA AND GEORGIA

BROADUS R. LITTLEJOHN, JR., CHAIRMAN OF BOARD
BROADUS R. LITTLEJOHN, III, PRESIDENT
WILLIAM L. JEFFORDS, JR., EXECUTIVE VICE PRESIDENT
HORACE B. ARTHUR, VICE PRESIDENT/OPERATIONS
WILLIAM L. JEFFORDS, DIRECTOR
JERRY I. PRUITT, SECRETARY & TREASURER
BRYAN C. SEAY, JR., FOOD BUYER
JAMES N. KEY, NON-FOOD/DIRECT STORE BUYER
L. B. SENN, SUPERINTENDENT MARKET DEPARTMENT
STACY R. CLARK, PRODUCE DEPARTMENT

OFFICES AND WAREHOUSE: CAMP WADSWORTH
P. O. BOX 5688
SPARTANBURG, S. C. 29304
TELEPHONE: 803-576-0260
TELECOPIER NO.: 803-574-1612

October 7, 1988

Mr. Robert Kahn
P. O. Box 249
Lafayette, CA 94549

Dear Sir:

I just always look for your mailing. You have the ability to put your finger on just about everything wrong in the grocery business and you have helped me so many times.

On page 3 of **September 1988** I believe Germany attacked Poland on September 1, England went to war on September 3 and France followed 5 hours later on the 3rd being 5 o'clock in the afternoon.

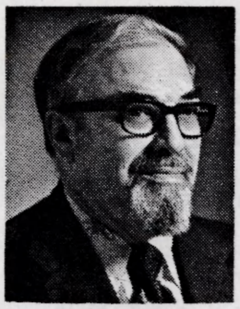
Thanking you. You have an enjoyable educational letter.

Sincerely,

Broadus R. Littlejohn Jr/a

Broadus R. Littlejohn, Jr.

BRL,JR/bla



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ROUTE TO

SEPTEMBER 1988 VOL. 23, NO. 9

YOU CAN GET BY GIVING

Do you know about the National Association for the Exchange of Industrial Resources? (I don't blame them for using the initials, "NAEIR.")

It operates on a very simple procedure. You contribute excess or slow-moving merchandise to NAEIR. It redistributes the merchandise to 8,000 schools and charities—at no cost to you.

Under Section 170(e)(3) of the Tax Reform Act of 1976, you can deduct the cost of the inventory on your books PLUS 50% OF THE DIFFERENCE BETWEEN YOUR BOOK COST AND FAIR MARKET SELLING PRICE.

For complete information, write:

Cruz A. Ramos
Director of Donor Relations
NAEIR
Dept. RT-1
Box 8076
Galesburg, IL 61402

or phone:
309-343-0704

RThought: This should be better than forcing it out on your customers—and in some cases, paying a commission to do so. Please don't say that *you* don't have any excess, slow-moving inventory.

Consult your CPA on how you determine your basis and the fair market value. With a favorable deal like this one, please be honest. I know that some would prefer to use the book basis under the retail method (after several markdowns) and then claim that the "fair market value" is the original selling price. That will discourage me from bringing you other savings.

HOW FAST IS YOUR DECISION-MAKING CYCLE?

I am not talking about how long does it take you to decide on a new car or where to go for vacation.

I am talking about how long it takes to make a decision in your business. I have touched on this subject before, and I state it in a simple manner:

Assume you have to make 52 decisions a year. If you can make a decision in one week, you only are working on one decision at a time. But if it takes you 12 weeks, then you are working on 12 decisions at any given time; and top management is involved in 12 series of meetings and reading 12 series of memos and counter-memos and counter-counter memos.

Recently, I came across my file on a special committee I worked on for a year. All subsidiaries had similar committees. Here is the calendar length of one decision involving that committee:

May 2	**Headquarters sent the division a draft of a corporate policy. (Distribution to 22 people)**
May 20	**Comment by chairman of division's committee returned without having been reviewed by his committee.**
May 20	**First draft of reply. (Distribution to 9 people)**
May 31	**Second draft. (Distribution to 9 people)**
June 6	**Third draft. (Distribution to 9 people)**
July ?	**Corporate headquarters distributed approved plan. (22 people)**
Aug. 6	**Division distributed plan. (10 people)**
(Sept. 6	**I sent comments on points that were factually wrong or not clear.)**

Elapsed documented time, excluding preparing the original draft and not including correcting errors in final plan: 3 months and 4 days!

RThought: There are solutions. Eliminate or reduce the func-

THE WRONG WAY TO PROVE SAVINGS

Albertson's opened a Grocery Warehouse about a mile east of a Vons' Tianguis in Los Angeles. I visited it during its fifth week and after I visited Tianguis.

In the front area, there were two full carts placed on a platform. The object was to support a claim that Grocery Warehouse saved money—$123.68 for the Tianguis cart and only $108.77 for the Grocery Warehouse cart.

I found several problems with this:

1. The bottom was torn off the Tianguis register tape so there was no register total.
2. The tapes did not show detailed item descriptions, so there was no proof that the item lists were the same.
3. There was no indication of how many of the items in the Grocery Warehouse cart were on opening special—the handout for the fifth week had 84 specials plus all "Green Tag Specials."

RThought: Let us grant that a market basket of items might be cheaper at the Grocery Warehouse. Albertson's must know how to prove that difference with fewer questions than this display had. It may well have been the idea of the store manager; in that case, I think Albertson's should instruct managers on how to show a price comparison without raising so many questions in a customer's mind.

A poor display reflects unfavorably on the store that does it. In the case of the Grocery Warehouse, Albertson's is not identified with it.

tion of regional offices. Get people around a table rather than writing. Written documents seldom have real value *except* as a basis for discussion or to protect the writer. Use audio-visual conferencing. Have your own audio-visual conferencing capability. Bring lower-level people into audio-visual conferences.

For those who have audio-visual capability in stores and branch locations, have someone connected with the task do a tape (10 minutes maximum) setting forth the task force missions and the steps that will be taken to make a decision.

ATTORNEY GENERAL CLEANS UP LEVOLOR ADVERTISING

Recently, the California Attorney General's Office publicized a warning sent to retailers selling Levolor and similar blinds that action would be taken against those who continue to advertise 50% to 60% or even 70% off list. Wells Interiors was one whose ads I saw regularly and that offered 60% and 70% off of list.

Wells new ad is shown below. The basic theme is that the blind that the Emporium (Carter Hawley Hale) sells at $57 on sale can be purchased everyday at Wells for $37:

RThought: I suspect that the ad above will pull more business than the old one. If so, it will prove that *honesty* pays.

RETAILING HAS THE SAME PROBLEMS EVERYWHERE

From Australia: *Inside Retailing,* March 18, 1988 (Box 981, Darlinghurst, NSE 2010, Australia; A$ 295/yr.), headlines "TENANT STRIKE" and reports that up to 90 tenants in a new regional center have gone on strike and will pay only 50% of their rent. The 90 tenants include some leading stores. The tenants complain the center opened too soon (70% of the customers who came to the opening never returned); promotions have been ineffective, and there has been a lack of consultation between merchants and center management.

Inside Retailing, on August 1, 1988, reported on the reaction of the Shopping Centre Tenants' Association of Australia to the report of 65% higher profits for the Westfield organization, owner of 16 major centers. The association complained of demands for 50% increases in rent, unreasonably high outgoings (common area maintenance) and no control over such expenditures. Pressure is being placed on government to carry out campaign promises to pass legislation to address "the harsh and unconscionable provision in commercial leases." And in Australia, the smaller tenants complain as here about the low rates (rent) and unreasonably low common area charges paid by the larger stores.

In the *Canadian Retailer,* published for the members of the Retail Council of Canada (June 1988), the association's President/Publisher, Alasdair McKichan, devotes the "President's page" to "the occupancy conundrum." His opening paragraph reads, "Canada's retail leasing scene currently presents more paradoxes than usual. Retailers complain that rentals for new or renovated space in prime centres have risen to unrealistic levels. As leases on existing occupied space mature and are replaced by ones at current market levels, chains' occupancy costs move inexorably towards hitherto unimaginable levels."

And in the United States, rents on or near Union Square in San Francisco approach U.S.$12 to U.S.$15 *per month.* Fifth Avenue and Rodeo Drive are in the same range.

RThought: The rents per square foot are approaching the level that we hoped, not too many years ago, to reach in sales.

GUESS WHICH RETAILER DOES THIS?

When some visiting friends showed me their room in the only hotel in Lafayette (CA), I spotted an item on the bureau. I recognized the name of retailer "X" on a folder saying:

> "X"
> At Your Service
> For your on-the-go business trips, "X" has a special service that puts our entire store just a phone call away. Whether you've forgotten to pack your shampoo or want to bring home a gift, simply call us at 123-4567 between 8:30 a.m. and 9:00 p.m. daily. Or, look through our "Essentials" list, fill out the enclosed order form and leave it with your hotel concierge. "X" At Your Service picks up and delivers orders (right to your room) three items a day. All you need is an "X," Visa, Mastercard or American Express card.

RThought: Look for the answer below "Words" on the last page.

IRS IS STILL LOST IN LIFO

When retailers finally won the right to use an index, to apply the principle of LIFO to their inventory, the IRS set out to punish those who elected to use what many other businesses have used for years. Code Section 472(c) requires that any firm using LIFO can only use LIFO "for the purpose of a report or statement of such tax year to shareholders, partners or other proprietors, or to beneficiaries, or for credit purposes."

'MANAGING IN AN INCREASINGLY CHALLENGING RETAIL ENVIRONMENT'

e Retail Managment Institute (RMI) at Santa Clara Univer- y chose the above title for its 4th Annual Conference for CEOs and other senior retail executives. The program is the finest I have ever attended (although I am a member of the Advisory Committee to RMI, I contributed little to that success). Let me make you feel sad because you were not there.

The first session was "Fostering Innovative and Entrepreneurial Thinking in an Established Company." William Howell, Chairman of J. C. Penney, told how Penney was doing it, why Penney had changed, and where Penney was headed. In the Q&A period, he answered all questions.

Next was "How Wall Street Looks at Mainstreet—The Impact of Acquisitions, Mergers and LBOs on the Retail Industry." Tully Friedman is a partner in Hellman & Friedman. This firm masterminded the LBO by Levi Strauss, and Friedman now serves on its board. H&F were key advisers to Federated in its defense against and ultimate acceptance of the Campeau offer. He told how that developed—on a day-by-day basis.

Walter Loeb, a principal at and the senior retail analyst for Morgan Stanley, reviewed the growth of takeovers in recent years. His most frightening slide was the last—naming a dozen companies that now have available a combined total of $350 billion to finance takeovers. It is an extremely rare firm that today can say, "We can't be taken over." The Q&A session went deeply into the question of the ethics and legality of takeovers (management using inside information, for example).

Sol Price, founder of FedMart and, more recently, Price Club, ho was trained as an attorney before he became a retailer, ook the position that it is a breach of fiduciary duty under trust law for any member of management to take part in a buyout in which he will participate and from which he stands to profit. Some day that may be tested in court.

Session III was "Specialty Success Stores—The answer to Market Segmentation?" The moderator was Harry Newman, a shopping center developer (and a published poet). His panel was better than any such panel I have ever heard. It consisted of:

Kenneth Leonard, recently Vice President of Real Estate for Montgomery Ward, who has been active in specialty store development since 1960, starting with Walgreen's (remember Globe discount?), Federated Department Stores and Cole National.

Stuart Moldaw, General Partner in US Venture Partners and founder of Pic-a-Dilly and The Athletic Shoe Factory (off-price chains), and who, through US Venture Partners, is probably the leading provider of capital to new retailers (the largest being Home Club and Ross Stores). He learned about specialty stores at Lerners and then, as Vice President, at Lucky Stores and again at Melville.

Allan Pennington, Vice President of New Business Development at Sears, who has also been part of the development of specialty stores at Dayton Hudson and Woolworth.

Martin Sherman, Chairman, Retail Development at U.S. Shoe, who has been part of its specialty store development since 1962.

There were lots of questions—and frequent disagreement between panel members.

Session IV was titled "Big? Bigger? Biggest!—Superstores as superstars of the 80's."

This session started with Richard Harrison, Chairman, Fleming Companies, which is now the country's largest food wholesaler ($12 billion this year). He outlined what his firm was doing for the food operations that are part of the many superstore formats.

The highlight of this session was the talk by Joe Nusim, President of Makro. Joe started as a buyer at Robert Hall Clothes in 1952 and was a vice president at Jamesway, and then at Gaylord's, before becoming CEO at Makro. He outlined what Makro is doing and the margins on which Makro operates. Every retailer present hoped that Makro would never come into its territory. Nusim stressed that the European companies take a long-term view on entering the U.S. They are not looking for quarter-to-quarter gains. Makro operated at a substantial loss for six years while it changed its concept to meet the desires of the U.S. customers. Now that K mart has acquired 51%, it wants him to double his planned rate of expansion. These are 250,000-300,000 square-foot stores needing special management and large parcels of land. You don't find either very easily.

At the banquet Thursday evening, Sol Price spoke, openly and frankly, on "Managing the Challenge of Changing Organizations." Price Club went from scratch to $3.8 billion in ten years. His opening remarks gave me a line I will use for years (with credit to Sol—Senator Biden, please note). "When I was asked to talk, I asked myself, 'What can I tell a group like this that they don't already know?' And after thinking about that for awhile, I asked myself, 'If there is something that I know that they don't know, why should I tell them?' " But he relented and told us.

Session V was "Power Retailers and Category Killers."

It started with Mark Begelman who founded Office Club two years ago and now has ten 20,000 square-foot stores from San Diego to Oregon. He raised initial venture financing of $6 million and then a second round of $8 million. The only limit to his growth is being able to build his management team. He uses a state-of-the-art MIS system—40% of his reorders go electronically from the POS register to the supplier. One can do that with pencils, paper clips, copy paper and more.

Then Frank Denny, whose background in building materials started in 1956 at Handy Dan and then with W. R. Grace and now as CEO of Builders Square, part of K mart. He told of Builders Square's development plus a word or two about Office Square and Sports Giant. Denny stressed the advanced POS-based MIS system. K mart is looking at more retail specialties to which it can apply this proven system.

Bo Cheadle, a general partner at Montgomery Securities, who for the past three years has been rated "No. 1 Building Material Analyst," looked to the future.

The final session was "Where Are We Now and Where Are We Going?" Michael Reidelbach, President of Retailing Planning Associates, took us on a picture tour of what is being done by stores of all types, both in the U.S. and elsewhere. RPA has worked with many of the firms mentioned, as well as others represented on the panels or in the audience.

RThought: If you want to know about the September 1989 conference, write to Dr. Dale Achabal, Director, Retail Management Institute, Santa Clara University, Santa Clara, CA 95053, or call 415-554-4960, and say, "Bob Kahn told me."

COOPERATION

Most of us follow some sport—football, baseball, basketball, hockey—and we know the importance of teamwork. We also understand what can happen when one or two players are disgruntled or are trying to get all the attention. The team does not do well.

Isn't it strange that we do not understand the importance of teamwork in running our business even though we recognize the outstanding results that are obtained by retailers who have been successful in establishing a sense of teamwork?

I am always impressed when I stay at the Marriott Hotel. I look for someone wearing a pin—I often find someone with two or three pins—and I always ask what the pins mean. That is like turning on the faucet. They tell me that it indicates that they have been an employee for so many years or how long they have been a member of the profit-sharing plan. One time, when there was a vast difference in the number of years for each pin, the person told me he had been foolsih when he was hired and did not enter the profit-sharing plan until several years later.

Recently, I stayed at the downtown Los Angeles Hilton. I remember when it first opened and later when it was run down. Now it has been remodeled. I asked two employees what the meaning was of the pin with four stars. Both answered with pride that "we" got a four-star rating from Mobil.

I know the United Way pin for fair-share givers—but I always ask. Their faces gleam when they explain it to me.

I recall asking a stewardess on PSA what the pin was that she was wearing, one which I recognized. She took pride in explaining that it was her Phi Beta Kappa key.

I was in a Longs Drug Store recently where the cashier wore a name tag—that went two steps further. Above her name, it said, "Our 50th Year," and below her name, it said, "Serving you with pride for 10 years."

The military uses ribbons and badges. Almost every recruit leaving basic training has something to wear—even if it is just a marksman's award; generals often have 20 or more (the Russians have removed the outside left breast pocket on their uniforms to make room for more ribbons).

I was present when General Long, Commander of the Army and Air Force Exchange Service, now reassigned, received the Air Force Distinguished Service Medal (only the Congressional Medal of Honor and Air Force Cross, both granted only for bravery in the face of the enemy, rank higher). His accomplishments, during three years as deputy commander and three years as commander, have taken the exchanges into scanning, automated distribution centers, expanded training for personnel and more. Mervin Morris (founder of Mervyn's) and I served as consultants to him, and we agree that he earned it.

The Customer Company, operating more than 100 Food & Liquor stores (they look like convenience stores from the outside, but each does four to eight times the volume of an average 7-11), puts the manager's name on the marquee (for example, "Bob's Food & Liquor") when he has proven himself as a store manager.

RThought: For such recognitions to be successful, top management must wear their pins showing their service. But there is a catch. So many top executives will change companies for 15-20% more pay or perhaps just a better title. When all the other people in the store proudly wear pins showing 5, 10 and 25 years of service, too many in top management can only wear a miniature "Golden Parachute" or a "$" sign, showing the number of thousands of options they have—as an incentive to keep them with the store.

When a store plans to change its layout, does it talk with the people who will work in it? The people might convey ideas or complaints that they, at the front line, hear from customers. Do you have a suggestion system? Perhaps you get 20 or 30 suggestions per 100 employees per year; many Japanese firms get 4,000 to 5,000 suggestions (that is correct: four thousand to five thousand) per year per 100 employees. Many are small ideas; the employee may get only $5 or $10. But they are working on your team. And they are thinking all the time.

This item was prompted by a letter in *Business Week* (7/25/88) from an employee of Weirton Steel, who objected to a claim in an article that employee-ownership at McLouth Steel represented a "truly extraordinary" display of cooperation between numerous groups. McLouth became employee-owned in 1987; Weirton in 1983 became employee-owned with cooperation between union members, management, spouses, local merchants, customers, local government, state government, banks, schools, churches and neighboring cities. All had one battle cry, "We can do it!" The letter concluded, "More than 8,000 jobs were saved and a division of National Steel—thought to be worthless—is now highly profitable." Pride prompted that letter.

RThought: I can guarantee that not one in 100 retailers is enjoying as much as 50% of what his employees are capable of doing because he is not smart enough to understand (1) that the contribution is there, (2) that the employees want to give, and (3) that he lacks both the skill and the desire to bring forth the contribution. Perhaps management will be embarrassed by what it doesn't know—and employees do know.

SHORT SHORTS

This changing world. A "Name Brand Sale Bonanza" from Sears! Stratolounger, Stratford, Avon in stuffed furniture, plus Sony, RCA and Magnavox in consumer electronics, plus Michelin tires. **RThought:** It also had room for its own "Name Brands"—DieHard, Kenmore and Coldspot.

Why? Why do signs in store windows say, "Sorry! We're Closed," and the other side never says, "Glad! We're Open"?

Buy your own anchors. There was a day when Genesco, Interco, U.S. Shoe and Melville fought for position in shopping centers, leveraging the number of different names they could bring to the center. Those names were specialty stores. But now L. J. Hooker is going to bring its own anchors. Hooker has announced the Willows Oak Mall, 10 miles outside Charolotte (NC). Three of the five anchors will be Bonwit Teller, B. Altman and The Parisian—all owned by Hooker. How vigorous can the competition be between these three? Can Hooker really want to bring in an aggressive anchor? We don't know yet.

U.S. Steel (now USX), for example, loved that provision. During inflationary periods, it showed higher cost of goods—and thus less profit—at a time when labor unions would be trying to get wage increases. The fact is that it concealed some $250 million to $500 million in both assets and net worth during the 1950-60 period.

The SEC became concerned, during the inflation in the 1970s, about the deception being practiced on the stockholders that the SEC is supposed to protect.

Sears' 1987 reports showed inventories of $4,115 million; but with the LIFO reserve of $617 million, the true current value was really $4,732 million or 15% more.

IRS and SEC reached an unholy compromise—publicly held companies could follow the SEC order to disclose the amount of their LIFO reserve for any purpose but private companies could not. That meant private companies could not show their bank, which may have loaned on the inventory, how much their inventories were really worth. Eventually private companies were allowed to show the amount of the reserve in a footnote—but the balance sheet could not be adjusted (add half of the reserve to equity and half to deferred taxes). I can recall pointing out the LIFO reserve to one of the several "dumb" loan officers I found at the Bank of America. First, she did not know what LIFO was; second, she said that if the inventory was really worth that much, the CPA would have shown it on the balance sheet! No wonder the B of A had problems.

But IRS is still having problems writing sensible things about LIFO. It has just released Revenue Rule 88-69, which says that if you have a subsidiary that does not use LIFO and a parent that does, you can still consolidate the companies for a tax return and the subsidiary is not forced to adopt LIFO.

RThought: No wonder the IRS needs more people in Washington. Long ago it was settled that a retailer did not have to use LIFO in all departments; after all, the index for TV and radio keeps going down and LIFO would increase the profit rather than hold it down. So, if a store did not have to use LIFO in all departments, why is it necessary to rule that not all subsidiaries have to use LIFO?

Someday, one of the "Correction" acts will eliminate all of the special rules on disclosing LIFO, and 100 attorneys will be released for other duties.

WHO ADVERTISES 'WE WON'T BE UNDERSOLD!'?

The tabloids fell out of the Sunday, August 28, paper. Target and Montgomery Ward were making the same claim. Montgomery Ward put details in the tab; in 24 pages, Target did not find room. It even forgot to mention that a customer can get details of the guarantee at the store. At last report, that was required by law; but perhaps California law does not apply to a retailer protected by the Minnesota legislature.

I have reported in the past that Montgomery Ward in Nevada (presumably under pressure) added the words, "Some products are exclusive with Montgomery Ward." In California, it now has added, "Montgomery Ward may be the exclusive distributor of some National Brand products. But we will match the advertised price for *similar* products sold by any local retail store." A step in the right direction—but what is "similar"?

RThought: Both claims are dishonest. Both stores are regularly undersold. If one of their customers catches them, they will make good *to that customer.* But they will not change the price on the floor. At the very minute a customer of Montgomery Ward or Target starts to get a refund because the price the customer paid was above that advertised by a competitor, the salespeople on the floor will be trying to sell the identical product at a now-known-to-be-higher price, hoping the new customer will not find out. Integrity is not connected with the names of Montgomery Ward and Target. But then, no Ward or Dayton heads those companies today.

THE OFT FORGOTTEN PART OF RETAIL SUCCESS

Ross Stores (now "Ross for Less") was a client of mine when owned by Bill Isaackson, as was Stuart Moldaw even earlier—before he took Ross Stores to its present position. But I never met—nor had I ever heard much about—Morrie Ross who founded the company in 1950.

You can understand my surprise when our local paper carried a profile on him. I was impressed by his wisdom.

On opening his store in 1950, when he was a rep for an eastern manufacturer, he felt that there was a need for a store that emphasized service (doesn't that have a familiar ring today—after all the years of growing self-service and self-selection?) and a wide selection of choices (the means by which specialty stores take business from general merchandisers).

He was amazed at the risk he took, using his life's savings plus borrowed money to test the idea of "service and selection."

As to starting his own business, he observed, "When I was young, most people wanted to be their own boss. Today, youngsters are attracted by big salaries and fringe benefits offered by corporations."

Asked of why he did not start branches, he observed, "You must recognize what your goal is and what you can do or not do. I realized I was good at doing things myself and did not want to delegate."

RThought: "Service and selection;" "be [your] own boss;" know "what you can do or not do"—pretty fundamental values. So many retailers think they can become big by copying while at the same time lacking the wisdom of Morrie Ross, who sold his business 30 years ago and lived happily ever after.

BROADUS R. Littlejohn JR "CASH COMMUNITY STORES" CIR 9/1

FROM TIME PAST

Somehow, sometime, for some reason, I kept the March 13, 1939, issue of *TIME,* "The Weekly Magazine," (15 cents). On the cover, there is a picture of William Randolph Hearst Sr. (the feature article says that he is almost broke but still has Marion Davies and that Harry Chandler, owner of the *Los Angeles Times,* had a $460,000 mortgage on San Simeon).

The stories were fascinating. This was just before the outbreak of World War II (Germany attacked Poland on September 5, 1939). But my interest now is in the advertising.

Eight pages of cars did not seem unusual—but no imports.

There was about the same number of pages for liquor—also not unusual—Black & White, Dewars White Label, Old Angus, Kentucky Tavern, Hennessy, Martell Cognac.

Full pages for AT&T long-distance calls and also for Ethyl Gasoline Corporation ("Ethyl" was added to gasoline to cut engine knocks).

The pipe tobacco pages—Heine's Blend, Bond's Street and Edgewood—would not be there today.

Nor would there be pages for Eagle Pencils, Havoline Oil, Whitman's Sampler, Campbell Soup, Allied Van Lines and Webster-Marrian's International Dictionary, Second Edition (my favorite until the Random House's Second Edition Unabridged came out).

The hotels were fun: 2,500 rooms at the New Yorker for $3.50, 1,000 at the Prince George (Brooklyn) for $3.50; a suite at the Hotel Park Chambers for $7; and only $3 at the Hotel Cleveland. (As I learned two years later, the military per diem was $6.00—to cover room, meals and miscellaneous items.)

Two cyclone fence ads; two pages for a steel company; and one page for Pittsburgh Plate Glass.

But then there were some ads one really would not expect—from one-column ads as small as one and one-half inches to ads as large as one-third page: A-1 Sauce, Carter's Little Liver Pills, hand-woven ties for $1, Mother Sills seasick pills, Carter's Mucilage (10¢/pkg.) and Bovril instant soup.

A surprise was a Steinway upright piano to be ordered by mail ($550, FOB, NYC, with 10% down, "balance over a convenient period").

There were two-thirds pages for Milk of Magnesia, Rem Rand, L. C. Smith typewriters, Thermos products, women's hosiery, Hammermill mimeograph paper, Dictaphone, Moody's Investor Service and Vitamin Plus ($2.75 for a 24-day supply—recall the cost of a hotel room).

And, finally, "For the 1 man in 7 who shaves every day," there was an ad for the "miraculous" Williams Glider shaving cream.

RThought: Life was simpler; wants were simpler.

K MART IS REALLY TRYING EVERYTHING TO BOOST SALES

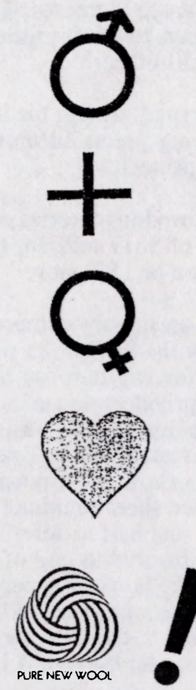
July 24 to July 30 started K mart's Christmas-in-July Sale—with "Lay-a-way"! The ads had no ground rules on lay away—individual pieces of glass and chinaware ran as low as $1.47 and sets ran as high as $24.97.

RThought: Is the extra cost of lay away on small items—storage, accounting for payments, returns to stock, time in writing up the sale and cancellations—consistent with low-cost distribution? THE CONSTANT DILEMMA: On an incremental analysis, the assumed *additional* gross margin (which is less than the total gross margin in lay away) is greater than the assumed additional expenses (which are more than the items mentioned above). Then one can argue that this increases profit (and I have argued this way). But when the plan involves a permanent increase of expenses, which takes attention away from reducing expenses, is it wise? Perhaps there is an offsetting income factor: sometimes goods are not received until November and may be paid for in December and January, thus avoiding the interest cost on carrying inventory in the form of lay-away balances.

RThought: On further investigation, I found K mart's ad misleading. Goods must be paid for in a maximum of ten weeks—paying 10% per week. Ten weeks from July 24-30 is in October! Has the date of Christmas changed? Vice President Bush tried to move Pearl Harbor Day to September 7.

THE BEST AD I HAVE EVER SEEN

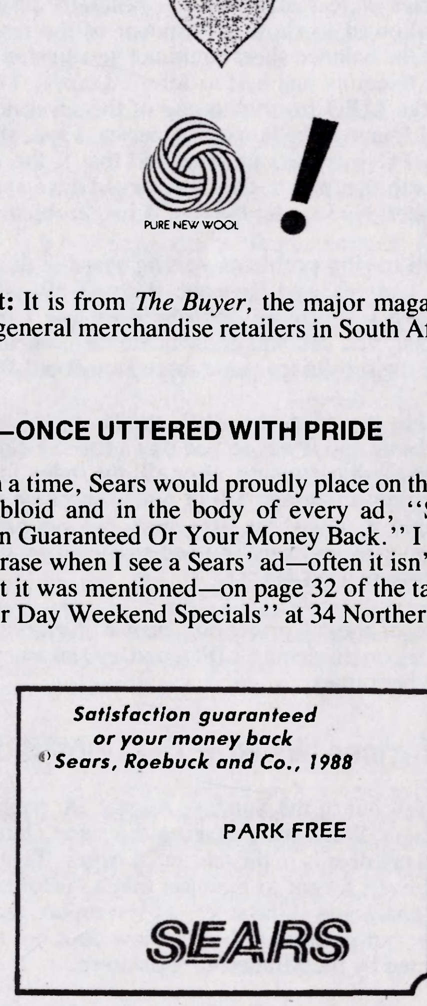
The ad is simple and direct. It ran as a full page.



RThought: It is from *The Buyer,* the major magazine for apparel and general merchandise retailers in South Africa.

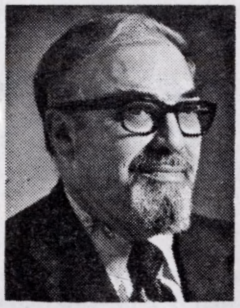
WORDS—ONCE UTTERED WITH PRIDE

Once upon a time, Sears would proudly place on the front page of each tabloid and in the body of every ad, "Since 1886, Satisfaction Guaranteed Or Your Money Back." I always look for that phrase when I see a Sears' ad—often it isn't even mentioned. But it was mentioned—on page 32 of the tabloid offering "Labor Day Weekend Specials" at 34 Northern California stores.



RThought: It is shown above in the exact size—it was in the lower right-hand corner of the back page. But how many people do you think noticed it—or the mention of "Park Free"? Probably the advertising manual says that these two items must be in every tab. But the words are no more important than the notice that the 32 pages have been copyrighted.

Answer to "Guess Which Retailer Does This?": Nordstrom. Every little $10,000 counts to this billion-dollar retailer. And note that it has quietly forgiven Visa—once again stubbornness has given away to serving the customer.



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ROUTE TO

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MORE FREE ADVICE TO MEN'S STORES

I have a special interest in the following suggestions—although I do not think that bias is involved. It is a fact, not a bias, that I wear a 17½-inch collar, have a 50-inch chest and a 46-inch waist. And so I cannot shop in most men's stores. My shirts come by mail and my suits are tailor-made.

But I talk to people who say that they are amazed at the larger sizes carried by Nordstrom. What is often described as "service" is, in this case, expanded assortments.

I thought the Arrow Tournament shirt only came in S through XL—until I saw XXLs in a Lamont store in Spokane (WA) and bought four of them. And then I wondered why more stores do not carry XXL in sportshirts. I figure that Lamont isn't getting special treatment. The fully computerized men's stores, perhaps, will say, "We don't sell any XXLs," which is true. You cannot sell what you don't have. This has long been one of the fundamentals of retailing.

I often wonder if people running men's stores or departments wander around their own store to see what size people visit them. But, alas, menswear retailers are not noted for making observations. In 1946-51, when with a large store, it did not take me long to realize that we were stupid—when twice a year we held a "small size" sale of men's woven and knit sportshirts. It took little investigation to find that there was a standard assortment that ran something like 2-S, 5-M, 4-L and 1-XL, but the people who came in the store ran 1-S, 4-M, 5-L and 2-XL. When we adjusted the mix on our orders, rather than thinking that the manufacturer knew best, we reduced markdowns and increased our sales because we were in stock more often.

Once men's departments carried sizes 13 and 13½ men's shirts. But no more. But when those sizes were eliminated, not enough were added at the other end of the range.

RThought: It is well to remember, in this day of "complete computerization" and SKU codes on everything, that a properly designed and run system can only tell you whether or not what you bought was sold; not what you did not buy but should have bought.

'THE SKELETON IN RETAILING'S CLOSET'

The title above is the one picked by Stanley Goodman, retired CEO of The May Department Stores Company and now a consultant, to introduce a panel on service. The date: January 12, 1983. The place: NRMA Annual Convention.

I came upon it again—and it is timely today. Only a little progress has been made.

But there is sound advice in his words, many written with a flair.

PLEASE HELP—A KID

Many years ago, Father Bruce picked his parish—the runaway kids on the streets of New York. He made a "covenant with God," as he puts it, and is dedicated to his Covenant Houses, also operating in Houston, Fort Lauderdale, Toronto and New Orleans. They provide crisis care—food, shelter, clothing, medical treatment, job placement and counseling without regard to race, creed, color, sex or national origin.

But now Father Bruce has reached into *your* town—and you can help him. In September 1987, he established his NINELINE—a national 800 line operated—largely by volunteers—24 hours a day, seven days a week. That is where you can help. You can use your hundreds of ads in thousands of cities so that

In no city in the United States will there be a person who does not know that a call to 1-800-999-9999 is a call for help for any runaway, homeless or lost youth.

A youth, destitute, perhaps selling his or her body to survive, can talk to someone who cares. A wonderful four-letter word—CARE. So many people need CARE and fortunately so many people have a surplus supply of CARE. You can help work those miracles. Your ads might encourage a youth in one of your towns to call. And the volunteer, talking to someone the volunteer will never see or meet, can provide CARE that may never have been offered before.

When Father Bruce told about NINELINE one night on Ted Koppel's TV program, 600 calls came in during the first hour; 1,500 calls in the first 24 hours. A total of 400,000 calls came in during the first six months.

You have done a wonderful job helping the Missing Children's program—in your mailings and in your stores. A few of you have enjoyed that wonderful warmth that comes from helping a missing child and a worried family come together. You can do even more by sharing 1-800-999-9999 with all of your communities. In every community, there are youths who need help and do not know where to turn.

RThought: Please call Father Bruce at Covenant House in New York at 212-613-0300. Ask for more information about NINELINE. Tell him you want to help in your way to spread the word. Explain how you are going to do it—regularly through your ads to one or 10 or 500 or 5,000 communities.

Father Bruce cannot do the whole job by himself. What I have asked you to do is what a merchant should do for the communities that support and have supported the merchant for so many years. I know you will do it. **Thanks.**

He quoted an open letter to a store president—published in the local paper—which said, "The result is one of the economic ironies of the Eighties: beautiful stores, dazzling displays, and abundance of merchandise, willing customers—and not enough clerks to serve them. Cumulative evidence suggests that in some stores the old motto 'Service with a Smile' has been updated to read 'Service in a While.' "

RThought: For a copy of his talk, send a postage paid, self-addressed envelope to Goodman Is Right, P.O. Box 249, Lafayette, CA 94549.

FRAUD—A $100,000 LOSS BECAUSE NO ONE CARED

The September 1988 issue of *Fraud & Theft Newsletter* (Box 400, Boynton Beach, Fl 33425; $159/yr.) reported the case of a man and wife who, over a two-year period, ordered merchandise from 84 different companies using 450 different names. Both UPS and USPS drivers were aware that they were delivering to hundreds of names at the same address. When invoices and statements arrived, they were returned marked "Moved—No Forwarding Address." The couple sold the merchandise at flea markets, in original containers, at about a third of the cost.

The case was broken because of the suspicions of a postal carrier and a company.

When the house was raided, the postal investigators found 750 items unsold and 600 unmailed orders.

RThought: Larry Schwartz and Pearl Sax, who publish the newsletter, pointed out that a "fraud-blocker" program at any of the 84 companies would have tripped the couple up long ago. When the postal service sent questions to 82 firms, *only 13 responded!* The biggest losers were *Playboy* magazine ($13,000) and Prentice-Hall ($11,000).

Doesn't Prentice-Hall publish books on how to run a company?

RThought: Someone in your company really ought to read Larry and Pearl's newsletters. If you write, please tell them "Bob Kahn sent me."

NON-TV ELECTRONIC RETAILING

All electronic retailing is not by TV.

I was cleaning out some papers from a trip that Sam Walton and I made to Australia in March of 1987 to address retailers at **RetCon '87**, as well as having meetings with the Retail Traders' Associations of Victoria and of New South Wales. I came across the order form for cassettes of the various sessions. I had intended to order tapes but somehow did not.

I direct dialed the number on the form. A pleasant woman, with a nice Australian accent, answered and said that she thought they still had the master. I told her what I wanted and gave her my name and address. The question arose about what the final price would be, would I send a check, etc. I asked her if they took Visa; and when the answer was "Yes," I gave her my card number and that problem was solved.

She then asked for my telephone number to let me know if there was any problem. I asked if they had FAX; and when she said, "Yes," I gave her my FAX number—easier and cheaper.

RThought: Eight thousand miles by direct dial (probably under $3); a knowledgeable voice at the other end who recalled tapes made at a conference 18 months ago and felt certain they were still available; payment by VISA on a bank in New York City; and any future contact by FAX.

Direct dial, VISA settlement, FAX communications—and I think back to the 1920s and the hours between midnight (when local radio stations went off the air) and 3 a.m. (the latest Mother would let my brother and me stay up) that my brother and I DX'ed on the regular radio band (now called AM) trying to receive stations in foreign countries. If we could hear enough of the program to correctly describe it, we received a QSL card to put on our wall. An Australian station was one of our dreams. It seemed too far away.

I HAD A WARM GLOW

Roger Stangeland, Chairman of the Vons Companies, recently sent me a copy of Vons' publication, *The Vons Visions,* a booklet specially prepared for the 12,000 former Safeway employees who recently became part of Vons in what he calls "the nation of Southern California," stretching from the Pacific Ocean to Las Vegas and from Fresno to San Diego. The designation is correct—the State of California's official estimate places the population of that "nation" at 17,500,000 or about the same as the State of New York's population in 1980.

The warm glow came from the following section:

Integrity: The Basis of Good Business

Vons intends to operate a scrupulously honest business. Our customers, employees and vendors should expect to be treated fairly and with respect in all business relationships. A marginally honest company will not survive in the competitive world. Vons will continue to uphold its reputation for honesty, fairness and integrity.

The booklet outlines a dedication to what management knows best—food and drug retailing. And a dedication to innovative formats, such as Pavilion and Tianguis, tailored to the needs of customers. And it acknowledges its responsibilities as a good citizen as well as to customers, employees and shareholders.

RThought: I would suggest that you write to Mr. Roger Stangeland, Chairman, The Vons Companies, Box 3338-Terminal Annex, Los Angeles, CA 90051, and ask him for both *The Vons Visions* and the "1987 Annual Review" for The Vons Companies. Say that Bob Kahn sent you.

SHORT SHORTS

Is "English Only" a good retail policy? Recently, the manager of the St. Vincent de Paul store in Hayward (CA) instructed the staff not to speak anything but English to customers *"unless the customer cannot speak English."* Much of the patronage of the St. Paul's store in Hayward is of Portuguese, Mexican or Central American background. Some are first generation, and many live in homes where English is not the first language. The community was up in arms about this decision, and the Board of St. Vincent issued an apology to the community. The store's manager, who had an Hispanic surname, felt that she was right in what she did. Although not expressed, I must presume she was hoping to encourage both employees and customers to use English more often so as to become more comfortable with the language. **RThought:** What would you do?

BETTER SHOPPING CENTER ADVERTISING

Most joint advertising efforts by stores in a shopping center are a disgrace—both to the stores and the center. The stores are attractive and the centers are attractive—but the one or two pages of ads would drive more people away from the center than they attract.

Each little store is fighting for attention. Each uses a different type face, puts rules around "its" space, puts in a large sig cut—and, in the end, has no room in which to talk to the reader and say, "Here is why your life would be better with our product."

I have argued many times, before both retailers and newspaper people, that the smaller stores in shopping centers should be treated like departments in a big store. Identification of the center should be first and merchandise second, with the store name third. The layout should be done as a department store would do it. Rules and boxes should be eliminated. Type face should be uniform. Individual store identification should be in small letters (like department identifications), following the "make your mouth water" copy and an illustration. Only then will space be properly used.

RThought: Imagine my surprise when I found that there is a small agency doing just the above—and beautifully. The illustration below (which does not do justice to the full-color final product) shows how the left-hand page plus one inch of the right-hand page is used by Crate & Barrel, and the balance of the right-hand page is shared by Scandia Down Shops and Williams-Sonoma. For a sample of its work, send a note to me, addressed CENTER ADVERTISING, P.O. Box 249, Lafayette, CA 94549, and let me send you a beautiful booklet.

SHORT SHORTS

Duplicate - see other side   Bob Ashman - Purdue 11/7/88

Do your people read? *Consumer Reports* (10/88) carried a letter from a reader, who, on receiving an offer from First National Bank of Omaha of a "Platinum Edition" bankcard at the same time she received the July *Consumer Reports*, wrote across the invitation, "My reaction to your new fee combined with the *CR* article has convinced me I do not want one of your cards." So she received two "Platinum Edition" cards. **RThought:** This is not an unfamiliar situation. The form letters I get back from retailers prove many never read incoming letters. When I write something on a form or form letter and send it back, I usually remove my name. Defensive action.

Ed Burnett 11/22/88

WILL EFT + POS + MIS + GOOD JUDGEMENT EVER = NIP?

I am sure you know what EFT is. And POS. And MIS. But what does NIP mean? NIP means "Now In Place." It appears today that we—meaning retailers, third-party credit companies and financial institutions—cannot get there from here.

What is behind this? A little bit of everything. Let me list a few reasons:

1. Vanity
2. Ignorance
3. Turf-protecting
4. Internecine warfare
5. Need for improved quarterly performance
6. Installed base with limited capabilities
7. Inertia—a body at rest tends to stay at rest
8. Reluctance to make capital investments
9. Disbelief in synergy
10. Myopia

Those 10 reasons are enough to "sink a battleship" and enough to insure we will never have a single EFT network. Or that we make maximum use of what our inventors have invented.

Yet, I read about what is being accomplished in Australia and New Zealand and sometimes in Great Britain and South Africa. But then those countries may have a different type of leadership. Perhaps reasons 1, 2, 3, 5, 7—really all 10—do not exist everywhere.

RThought: Would you like to read a simple 12-page summary on most of the problems causing NIP? Write Charles F. Brown, Jr., Editor/Publisher of the *Retail Forum on Payment Systems* for the May/June issue of the newsletter. His address is 681 Faircastle Avenue, Severna Park, MD 21146. Enclose a check for $20 and mention "Bob Kahn sent me."

After you have read it—and cried—put it two years ahead in your tickler file and read it again. Nothing significant will have happened, and you will save $20 by not having to buy the May/June 1990 issue.

SHORT SHORTS

Maybe Sears is on the way back! In its 35-page "Sears Kenmore Birthday Sale" booklet, certain phrases appeared prominently in the 3/4 inch across the bottom of the page. "Our Policy. . . Satisfaction Guaranteed or your money back" appeared six times instead of being in very small type in the lower right-hand corner on the back page—as reported, with illustration, in the September 1988 *RT.* The other phrases—and the number of times used—were:

No Monthly Payments Until Next Year (16)
Nation-wide Service Available (2)
Nation-wide Delivery (2)
Just for You: Removal of Your Old Appliance (2)
Emergency Delivery (1)
Professional Installation (1)
We Will Deliver on Saturday (1)
Come to Sears for Name Brand Buys (1)
Name Brands Also Available (1)

There were only three pages without slogans across the bottom. **RThought:** This may be the Sears that I knew 60 and 50 and 40 years ago. If it has persuaded its 300,000-plus retail employees (who, with other employees of Sears, own about 25% of Sears), then Sears will be a different market force in the future.

What will California's $4.25 minimum wage do to department stores?The Federal Reserve Bank of San Francisco's Research Department issued a study, "California's Minimum Wage" (for a copy, write Box 7702, San Francisco, CA 94120, or telephone 415-974-2246), in which it pointed out that only 11.6% of California workers are paid $5 an hour or less (nationally, 15.3%). However, in areas where low wages abound, apparel manufacturing and retail trade, the study projects a 3.8% increase in wage rates in the apparel industry and 3.0% in retail (one must remember that restaurants are part of retailing and fast-food chains, for many years, hired in at $3.35). The study projects reduction of jobs in retailing between 0.6% and 1.2% and in apparel manufacturing of 0.8% and 1.5%. The heaviest hit on job losses would be teenagers, young adults (20-24), minorities, female and adult-minority women. **RThought:** Offsetting cost maneuvers might be cutting fringe benefits (health plans, paid vacations, employee discounts) as well as introducing more labor-saving equipment. But most retailers are likely to use a simplistic approach—and cut payroll, especially selling payroll, just when many have realized their future depends upon providing more service.

More about Sears—from a reader: "I wonder if Sears' merchants will ever get their act together? The 'Stratum' tall men's catalog sells clothing for extra tall men, including shirts and suits. Ties are pictured but NOT listed. They are listed in the regular 'Spring/Summer 1988' catalog (page 457) *including extra long ties!* Ties are an easy profit-builder. Does Sears know this? *RT.* is great." **RThought:** Because I like to quote readers accurately, I could not bring myself to delete the last three words. As the newspapers used to write in obits, "Sears please copy."

Why didn't Barneys announce it planned 1,000 stores nationally? A recent *New York Times* article was headlined "Barneys to Build a Chain of 100 Stores Nationally." Originally a men's store in an "off" location, it now handles women's apparel and much more. The reason for expansion: "Not enough retailers offering 'quality women's clothes at a good value.' " The 6,5000 square-foot stores will be 75% women's apparel and 25% men's apparel. **RThought:** Barneys opened a satellite store this year and plans the first three new stores in 1989 and then five stores a year—which takes us to 2009. Another 900 stores will only go to 2189. Why plan big? Because announcing ten stores over the next three years would not get a big article.

Do your people read? *Consumer Reports* (10/88) carried a letter from a reader, who, on receiving an offer from First National Bank of Omaha of a "Platinum Edition" bankcard at the same time she received the July *Consumer Reports,* wrote across the invitation, "My reaction to your new fee combined with the *CR* article has convinced me I do not want one of your cards." So she received two "Platinum Edition" cards. **RThought:** This is not an unfamiliar situation. The form letters I get back from retailers prove many never read incoming letters. When I write something on a form or form letter and send it back, I usually remove my name. Defensive action.

Duplicate see other side

STOCK DATA

—by ***RETAILING TODAY***

Published Monthly by Robert Kahn and Associates
P.O. Box 249, Lafayette, Ca 94549

$30.00 per year

STOCK DATA is published as a service to retailers and others interested in retail stocks.

We are trying to make this list as complete as possible. If we have missed a stock that has a significant retail activity, we would appreciate it if you would call it to our attention.

Data for the New York, American and other stock exchanges is for the last trading day of the month.

For the Over-the-Counter stocks on the National List, the prices are for the last Thursday of the month.

Each issue will include all prior months so that previous issues can be thrown out when the following issue is received. If you keep the December issue, you will have a record of prices at the end of each month for the entire year.

EXCH	STOCK	DEC '87 PE	$	JAN '88 PE	$	FEB '88 PE	$	MAR '88 PE	$	APR '88 PE	$	MAY '88 PE	$	JUN '88 PE	$	JUL '88 PE	$	AUG '88 PE	$	SEP '88 PE	$	OCT '88 PE	$	NOV '88 PE	$	DEC '88 PE	$
A	Lionel Corp	7	4	7	3 3/4	9	5	8	4 1/4	9	4 5/8	14	4	16	4 3/8	15	4 1/4	42	4 1/4								
N	Longs Drug Strs	14	30 3/8	15	33 1/8	15	34 7/8	15	35 1/4	15	35 3/4	14	35 7/8	14	36 1/2	14	36 1/4	13	35 1/2								
N	Louisiana Pacific	9	26 3/4	9	28 1/4	9	29 1/4	9	31	10	31 3/8	9	29 7/8	10	33 1/2	10	33 7/8	9	31 1/8								
N	Lowe's Cos	10	16 1/8	12	19 1/4	12	20 1/8	14	19 3/8	14	20	18	19 7/6	11	21 1/2	11	21 3/4	10	19 7/8								
N	Lucky Strs	11	26 3/8	10	27 3/4	8	29 1/4	13**	47 1/2	16	61 3/8	21	64 3/4	See American Strs													
N	Luria (L) & Son	10	8 7/8	11	9 5/8	13	10 3/4	9	10 1/2	9	10 3/8	9	10 1/8	9	10 3/4	10	11 3/4	9	10 7/8								
O	Luskin's Inc	—	2 1/4	—	2 1/2	—	2 1/4	—	2 5/8	—	2 5/8	—	2 3/8	—	2 3/4	—	2 5/8	—	2 1/2								
N	Manhattan Ind	6	9 5/8	7	11 1/4	12	18 1/2	12	18 1/4	Acquired by Salant Corp. at $18.50																	
O	Marci Int'l Imports	NA	1	NA	1	NA	11/16	NA	7/8	NA	1 1/16	NA	3/8	NA	7/16	NA	9/16	NA	9/16								
O	Mars Strs	—	1 5/16	—	1 5/16	--	1 3/4	—	1 3/8	—	1 3/8	—	1	—	1	—	!	—	!								
O	Marsh Supermkts	11	18 3/4	10	16	10	15 3/4	12	18 1/4	12	19 3/8	12	19 1/4	13	20 1/2	14	19 3/4	13	19 1/4								
O	Martin Lawrence	13	5 1/8	11	48	12	4 5/8	11	5 3/8	11	6 1/8	11	6 1/2	13	7 3/4	13	8 7/8	13	8 3/8								
N	May Dept Strs	10	29 1/8	11	33 5/8	13	38 7/8	12	34 7/8	12	33 7/8	10	31 3/4	11	33 7/8	12	36	11	34 7/8								
O	Mayfair Supermkts	12	14 3/4	12	16 1/2	12	16 1/2	14	19	14	20 3/4	16	23	16	23 1/4	13	20 3/4	12	18 3/4								
U	MDS Textbook Exch	9	7	9	6 1/2	10	7 1/2	10	7 3/4	9	6 1/4	8	5 1/2	8	6 3/8	8	6 1/4	8	6								
N	MCA Inc	16	34 1/2	18	38 5/8	26	46 3/4	24	43 3/4	25	43 3/8	20	40 1/2	21	42 1/4	24	41 5/8	23	41 5/8								
O	[illegible]ntertainment	38	11 1/2	46	13 3/4	43	15	40	14	41	14 3/8	41	16 1/8	44	17 1/8	41	16 1/8	39	15 1/8								
O	[illegible]-Glaser	11	2 1/8	21	2 1/2	19	2 1/4	18	2 1/8	19	2 1/4	19	2 1/4	—	2	—	2 1/4	—	2 5/8								
O	Medicine Shoppe	23	19	27	22 1/4	26	23 1/2	29	26 1/4	27	26	27	25 1/2	28	26 1/4	27	25 1/4	22	23 1/4								
N	Melville Corp	10	53	12	60 3/4	13	67	12	64 7/8	12	67 1/4	10	63 1/2	11	68 3/8	11	68 1/2	11	67 3/4								
N	Mercantile Strs	10	37	11	41 5/8	11	43 1/8	12	42 3/4	11	39 7/8	9	37 3/4	10	41 7/8	10	41 1/4	10	39 1/4								
O	Merry-Go-Round	8	8	9	9 3/8	12	12	10	10 1/8	9	9 3/4	8	8 3/4	11	10 5/8	11	10 3/4	10	8 7/8								
O	Meyer (Fred)	9	10 5/8	10	11 5/8	11	11 3/8	10	13 1/4	10	13 5/8	10	13 1/4	10	13 3/4	10	13 7/8	10	13 5/8								
O	Michael Ant'y Jewlrs	7	4 1/4	8	5	8	4	10	4 3/4	8	4	8	3 3/4	9	3 7/8	10	4 1/2	9	4 1/4								
A	Michaels Strs	12	4 3/4	10	4	14	5 5/8	12	5 7/8	11	5 5/8	10	5	12	5 7/8	11	5 1/2	13	6								
N	Mobil Corp	12	39 1/8	14	44 1/8	14	44	14	44 1/4	13	46 3/4	12	44 7/8	12	43 1/2	11	44 3/4	10	43 3/8								
O	Moore-Handley Inc	15	4	14	3 3/4	57	4	57	4	—	4	—	4	—	4	—	4	—	4 1/4								
N	Mott's Super Mkts	—	9	—	10 5/8	—	11 1/4	—	10 5/8	—	10 1/2	—	10 1/4	—	9 5/8	—	9 3/4	—	9								
N	Munford Inc	—	19 3/8	—	19 1/8	—	19 3/4	—	16 1/4	—	17 1/2	--	17 1/4	—	16 7/8	—	14 5/8	52*	15 3/4								
N	Musicland Grp	11	21 1/8	11	22 7/8	16	32 7/8	16	32 3/4	16	34 5/8	17	35	17	34 7/8	15**	35										
O	Nash Finch Co	12	18 1/2	12	19	12	20 3/4	13	23	14	25 1/4	13	23 1/2	14	25 1/4	13	25 1/2	13	25 1/4								
O	Nature's Bounty	—	—	—	1 5/8	—	1 7/8	NA		NA		—	1 13/16	—	1 9-16	—	5 3/8	NA									

**American Stores Offer $45 to 4/22/88

**Mgm't grp. plans acq. $36

*Investor grp. plans acq. $17

WHAT DO OTHER COUNTRIES DO ABOUT PREGNANCY LEAVES?

Does the United States have a "national family policy"? The answer: NO.

Let's look at the other industrialized countries in the world and see how many do *NOT* have a policy: There is South Africa and...and...and no one else. I feel uncomfortable being in that "group."

Take the matter of paid leave for pregnancies among our closest economic allies, several of which are taking our markets away:

Country	Number of Weeks	Percentage of Normal Pay*
Japan	12	60%
Canada	15	60
Italy	22	80
France	16	90
Sweden	38	90
West Germany	14-19	100

*Paid by government or employer

A point about Japan: It may soon pass the United States as the major industrial power.

The recently passed Welfare Reform Act, which is praised for requiring some form of work if one is able-bodied, contains an even more important reform: Low income families will not have to quit work in order to get medical assistance.

The philosophical problem on this issue is clear:

1. One side wants the government to supply child care and other services to ease the burden of working women.
2. The other contends that families would be best served by enforcing traditonal values and helping mothers to stay at home.

There is a basic flaw in the second point of view. From 1984 to 1988, the index of average weekly earnings, in *constant* 1977 dollars, has dropped from 173 to 169 (and for many in the $20,000-a-year range—$10 per hour—the increase in Social Security over that period has exceeded any reduction in income tax withholding).

RThought: If the second philosophy won and mothers stayed home, we would, in this day of 5% unemployment, go through the following cycle:

1. We would have a shortage of labor that could not be offset by increased efficiency (partly because we have become a labor-intensive, fast-food, eat-out, entertainment, service-intensive society) to offset the departure of mothers.
2. Wage rates would go up.
3. Prices would rise.
4. Inflation would force mothers back to work in order to maintain the family.

RThought: Now that polls show 70% of the people are in favor of a national policy on parental leave, Mr. Bush is changing. He may tell us that he supported this policy back when he was the head of the CIA, but security laws prevented him from speaking out. Senator Orin Hatch opposes this policy, but the Senator forgets that campaign promises are no more binding than the promise of "WE WILL NOT BE UNDERSOLD" made by retailers.

(**Note:** This item was stimulated by an article in *Black Enterprise*, October 1988, and contains some quotations worked into the copy.)

HAVE ANY RETAIL STOCKS GONE UP 50% THIS YEAR?

Yes—a good number of retail stocks are up 50% or more between January 1 and August 31, 1988.

The criteria to be on the list below is:

1. Be listed in the August *Stock Data* (sample page enclosed), P.O. Box 249, Lafayette, CA 94549; $30/yr.

2. Be $2 or more at the start of the year.

Company	Percentage of Change
Aaron Rents	+55%
Ames Department Stores	73
Arden Group, Class "A"	64
Barry's Jewelers	149
Best Buy	50
C&R Clothiers	117
Carson Pirie Scott	55
Cherokee Group	59
Circuit City	86
Costco Wholesale	80
Diamond Shamrock	73
Dillard Department Stores	63
Direct Action Marketing	50
Dollar General	58
Evans, Inc.	59
General Nutrition	64
Good Guys	85
GRI Group	87
Handleman	52
Interco	127
Oshman	63
Pace Membership	122
Payless Cashways	130
Pier 1 Imports	66
QVC Network	95
RB Industries	108
Rhodes, Inc.	58
Ross Stores	130
Service Merchandise	226
Shopsmith	78
Sound Advice	127
Stride Rite	79
Sunbelt Nursery Group	50
Tiffany & Co.	64
Weiman Co.	58
Wetterau	56
Wholesale Club	85
Wisconsin Toy	115
WNS, Inc.	66
Zayre	56
Zondervan	54

And those that *lost over 40%*:

Cache	-42%
Pay'N Save	48

One sees some interesting things in these figures. A few cases are obvious. Interco, Payless Cashway and Zondevan were "in play" for a takeover.

Some glamour companies are coming back: Best Products, Dollar General, General Nutrition and Service Merchandise.

The consumer electronic field is surprising, considering the increased direct competiton: Circuit City (the only billion-dollar company in the field), Good Guys (in the face of Circuit City entering its teritory) and Sound Advice.

Dillard continues on its way, making a silk purse of a sow's ear that other department store companies find too unattractive to keep.

Tiffany is once again in tender, loving hands and responding. And a number of others—Barry's Jewelers, C&R Clothiers, Handleman and Wisconsin Toy—are still controlled by entrepreneurs—with a short-decision cycle and high percentage of correct decisions.

RThought: A lot of thoughts come to mind. The most appropriate one is that, among the retailers listed above, their future prosperity is less related to "business conditions" than their ability to out-perform competition and increase market share. Perhaps Sears *has* to relate to the general economy—but when I look at the vast areas of the United States that would buy more Sears' merchandise if Sears just brought it to them, I wonder if Sears might not be ahead if it eliminated its economist and appointed an opportunist instead.

SHORT SHORTS

Levi Strauss' policy on Levi's. I became intimately familiar with the Levi policy—and practice—some years ago when I was an expert witness in a case against Levi Strauss by a company that was bankrupted when Levi cut them off. Although I have long known Walter and Peter Haas (I sat next to Peter in high school classes) and our parents and grandparents were friends, I could not take the chance that Levi would win the case on the rationale set forth by two nationally known academics. I only took the case after telling Peter that I had been asked and that I thought the evidence given me by the plaintiff's attorney didn't give them much chance. I did not want Peter and Wally to learn of my participation from anyone except me and know before I took the assignment. After my statement of intended testimony, the case was settled very favorably. In those days, Levi Strauss' research department was saying it could make more money by selling to discounters. **RThought:** I recently received a copy of a purchase order issued to a nationally known retailer for hundreds of 501s at about 10% above Levi's list. I guess the national name needed all the profit it could make—and ordering some extra 501s would not be detected in a business its size. Because my information was obtained in confidence, I cannot reveal the name; but I would hope that the CEO of the parent company, whom I know, is not party to such conduct.

When you don't want it, don't mumble. Doris Stokes applied for a Visa card from Citicorp; and when asked if she wanted a second card, she said, "Maybe later." Sure enough, she received a second card, which was made out to "Maube Later." **RThought:** It may not be polite but always get the date of birth!

George Steinbrenner does no better than retailers. Steinbrenner now has brought in his 17th manager (some duplicates) in 16 years of owning the Yankees baseball team. And it does no good. **RThought:**Bringing in a CEO does nothing except reduce the degree of teamwork in an organization. There is no miracle retail CEO or baseball manager. I collect books about retailers and recently found a lovely little book of fewer than 100 pages written for the 100th anniversary of the Jordan Marsh Company in 1951. It is written from the position of "The Observer," a quaintly dressed character of infinite life who is the "spirit of Jordan Marsh." "The Observer" was reminded by Eben Dyer Jordan, then lying on his death bed, *"It isn't essential to Jordan Marsh that any one man be its leader—whether it's Eben Marsh or someone else. But it is essential that the company go on to finer things, wi[th] always a good leader as its guide and with other leaders [to] guide him. I mean that the spirit of the organization is what counts—and that spirit will outlive me and those who come after me."* Just as power corrupts and absolute power corrupts absolutely, changing leaders destroys spirit and frequent changes absolutely destroy spirit.

From the impossible excuse department: I have a card sent to an *RT* reader some time ago—probably two years—from Bloomingdale's by Mail. It explained why his merchandise would be late: "Our printer mailed the catalogue three weeks *earlier* than we had instructed!" **RThought:** Can anyone top this one?

WORDS—A CODE OFT NOT UNDERSTOOD

I was browsing through *The Poetry of Robert Frost*— all 11 of his books complete in one— and "The Code" caught my eye. For 60 years, I have read and re-read "A Code of Morals" by Kipling, and I thought I would try Frost's poem. The first part has something for all of us—we who manage people.

The Code

There were three in the meadow by the brook
Gathering up windrows, piling cocks of hay,
With an eye always lifted toward the west
Where an irregular sun-bordered cloud
Darkly advanced with a perpetual dagger
Flickering across its bosom. Suddenly
One helper, thrusting pitchfork in the ground,
Marched himself off the field and home. One stayed.
The town-bred farmer failed to understand.
"What is there wrong?"
"Something you just said now."
"What did I say?"
"About our taking pains."

"To cock the hay?—because it's going to
Shower? I said that more than half an hour
Ago. I said it to myself as much as you."

"You didn't know. But James is one big fool.
He thought you meant to find fault with his work.
That's what the average farmer would have meant.
James would take time, of course, to chew it over
Before he acted: he's just got around to act."

"He is a fool if that's the way he takes me."

"Don't let it bother you. You've found out something.
The hand that knows his business won't be told
To do work better or faster—those two things.
I'm as particular as anyone:
Most likely I'd have served you just the same.
But I know you don't understand our ways.
You were just talking what was in your mind.
What was in all our minds, and you weren't hinting."

RThought: We all forget that so many who work in our lar[ge] organizations know so well what has to be done—both wh[at] and how. And we belittle them—when we tell them "to do work better and faster—those two things."

Bob - Shame - Shame! / No decisions on how to treat employees?

WHAT IS RETAILING?

Retailing is the most competitive form of combat in our free enterprise system.

There is nothing that one store can carry that another store cannot get—or get its equivalent.

There is nothing done by one retailer that another retailer cannot do. If it relates to anything done in the selling area, all another retailer has to do is walk through the store to see and study it. If it relates to anything done off the selling floor, it will be fully described to the industry by the manufacturer or consultant that suggested the improvement—or the management of the store will describe it at a trade convention.

Retailers do not have patents that give them a monopoly, such as the one that 3M had on Scotch® tape for 54 years.

An entrepreneurial retailer must make certain decisions in defining the business he or she will build:

. . . the type of merchandise that will be carried.

. . . the price level of the merchandise.

. . . the quality level of the merchandise.

. . . the size of the store.

. . . the location of the store.

. . . the hours of operation.

. . . the level of service to be offered.

. . . the quality and knowledgeability of the staff.

. . . the type and intensity of advertising.

. . . the type and limits of credit to offer.

Thus we have 10 major characteristics. Let us assume that there are 10 levels within each characteristic that the retailer can pick. We have a large number of possible combinations—10 to the tenth power or 100 billion combinations or roughly 20 different combinations for each of the 5 billion people on earth.

A retailer must be sensitive to the public.

A retailer must be knowledgeable about the 10 characteristics that must be selected for a store.

What are the rewards? Almost beyond belief.

The 1989 Forbes list of the 400 richest Americans included:

Rank	Name	Company	Net Worth
16	Lesilie H. Wexner	The Limited	$2.0 billion
20	Sam Walton	Wal-Mart Stores	1.8 billion
27	Charles F. Feeney	Duty Free Shoppers	1.7 billion
45	Roger Milliken	Mercantile Stores & Milliken Mills	1.4 billion
68	Milton J. Petrie	Petrie Stores	975 million
133	Joseph A. Albertson	Albertson's	600 million
180	Sigfried Weis	Weis Markets	490 million
181	Robert F. Weis	Weis Markets	420 million
218	Bella Wexner	The Limited	440 million
222	L.S. Skaggs, Jr.	American Stores	430 million
231	Jim "Bud" Walton	Wal-Mart Stores	415 million
272	Joseph A. Hardy	84 Lumber Co.	370 million
275	Anthony M. Pilaro	Duty Free Shopping	360 million
280	Gary C. Comer	Lands' End	360 million
303	Frank Pasquerilla	Crown-America (Hess)	350 million
340	Richard M. DeVos	Amway Corp.	315 million
341	Jay Van Andel	Amway Corp.	315 million
375	Charles C. Butt	H.E. Butt Grocery Co.	300 million

And the following retail family fortunes were listed:

Name	Company	Net Worth
Bean	L.L. Bean, Inc.	$600 million
Belk	Belk Stores Services	360 million
Davis	Winn-Dixie Stores	945 million
Dayton	Dayton Hudson	1,300 million
Haft	Trak Auto/Crown Book	400 million
Jordan	origin, Jordan Marsh Store	865 million
Meijer	Meijer, Inc.	400 million
Nordstrom	Nordstrom Inc.	1,400 million
Rosenwald	Sears, Roebuck & Co.	400 million

SHORT SHORTS

NOTE!!! A choice for "believe it or not." In the September 4, 1989, issue of *Dealmaker Weekly* (Box 1001, Kendall Park, NJ 08824; $225/yr.), an article started: "Operating three units in IN, Klinger Products Corporation, dba Maple & Oak Street, is planning to open 200 furniture stores over the next 10 years . . . . The firm has exceeded its sales projection of $300 per square foot by as much as $200 in some areas since the first unit was opened on June 9, 1989." **RThought:** Let's see. From June 9 to September 4 is two months and 25 days at most (assuming sales through publication date, which is impossible); and it knows that it is doing $500 per square foot? Of course, it has discounted the impact of the heavy advertising and specials that probably ran during the opening week(s). My concern is not that Klinger Products puts out claims like that but that a newsletter, dedicated to the shopping center industry, reprinted the claim—with a straight face.

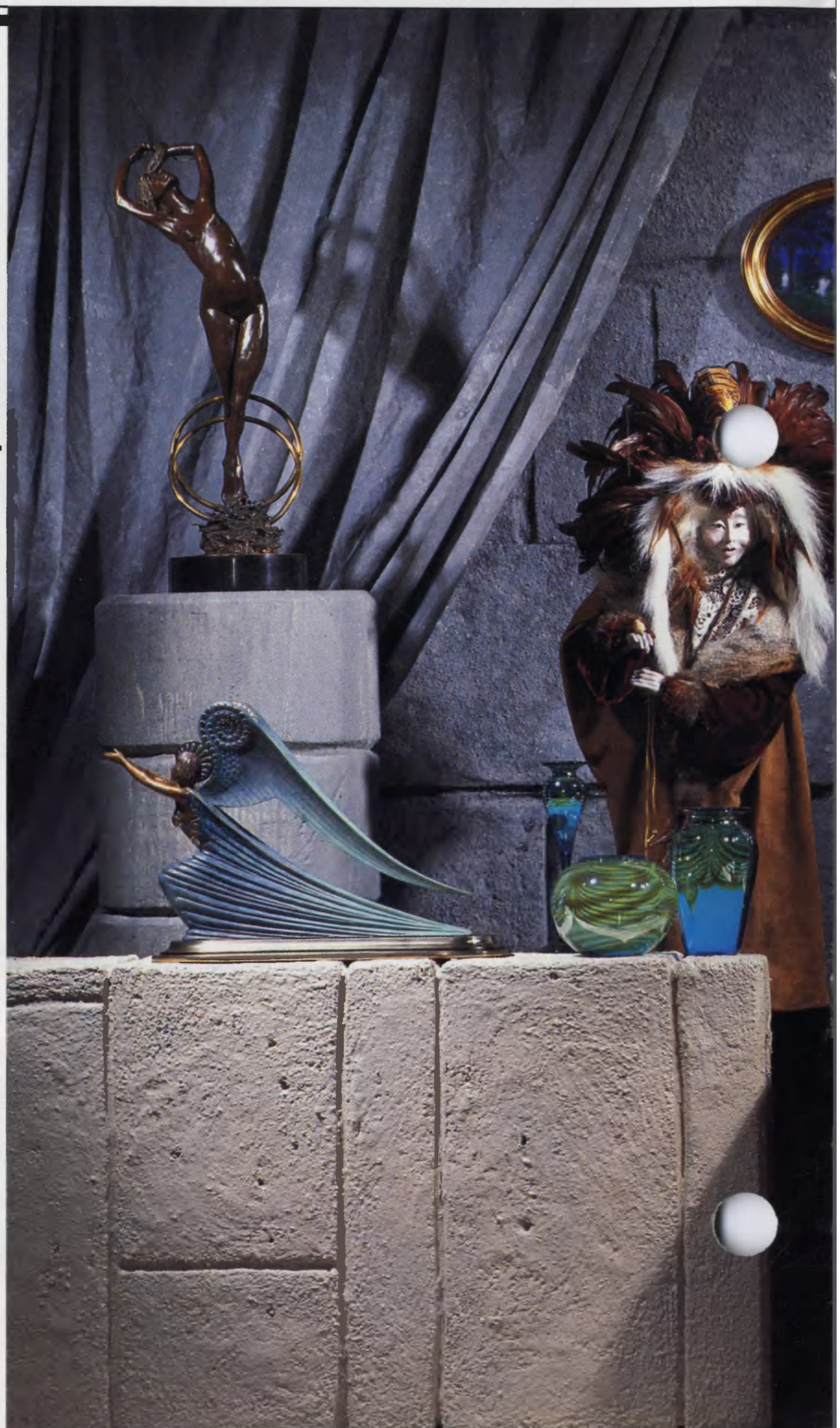
The non-panacea panacea. Putting hourly pay people on commission might increase their income. For example, *Business Week* (July 31, 1989) showed a comparison for a person at Bloomingdale's selling $500,000 a year. Under the old plan of $7 per hour, plus a half of 1% commission, the pay was $16,150. Under the new 5% commission, it would be $25,000. **RThought:** Will that person continue to give service or will a customer be neglected in a rush to get to the next customer. If a clerk suspects someone of not being a serious buyer just because he or she wants to make several comparisons and the clerk deserts the customer, will that customer come back to Bloomies? I have seen very few cases where a good non- or low-commission salesperson becomes a good straight-commission salesperson. By "good," I mean building repeat business for the company.


FALL 1987
THE VILLAGE
AT CORTE MADERA

D isplay these treasures with pride and enjoy them for a lifetime.

ART GALLERIES

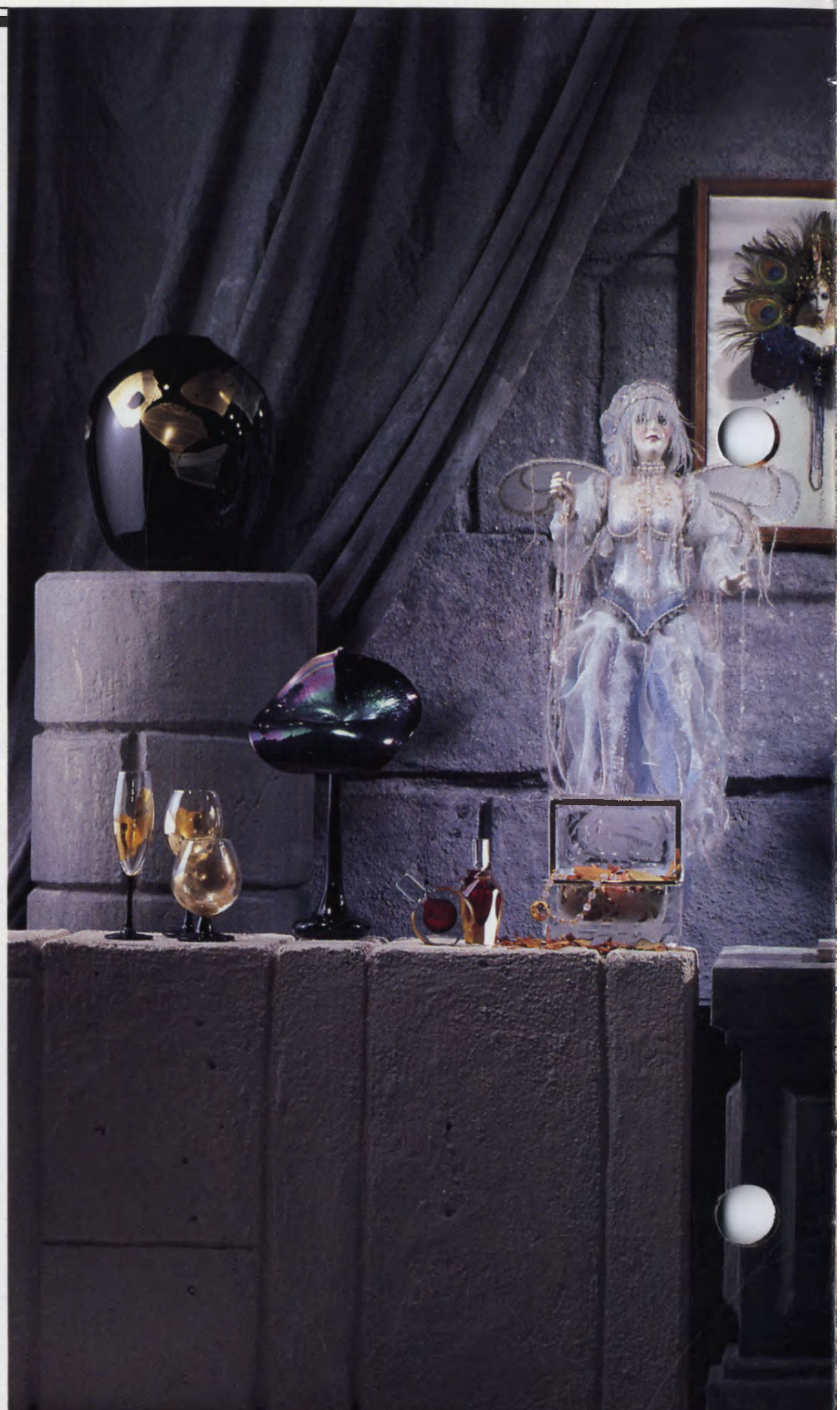
Illuminarium-Isis Unlimited
*Martin Lawrence Galleries
Village Gallery



Spectacular art from Illuminarium-Isis Unlimited. Painting by Gilbert Williams, sculpture by Erté and Rodelle Karpman, glass by Correia and Willsea, necklace by Jewels of Ancient Lands, doll by Marilyn Radzat, and Ukiyo-E.

ILLUMINARIUM

ISIS UNLIMITED



Spring into action with footwear for all your activities.

ATHLETIC SHOES/FOOTWEAR
Foot Locker
Lady Foot Locker
Track 'n Trail

Go back to school in style with famous maker footwear from Track 'n Trail. Choose from names like Converse, L.A. Gear, Vans, Clarks and many more. Stop by Track 'n Trail and experience the BEST!

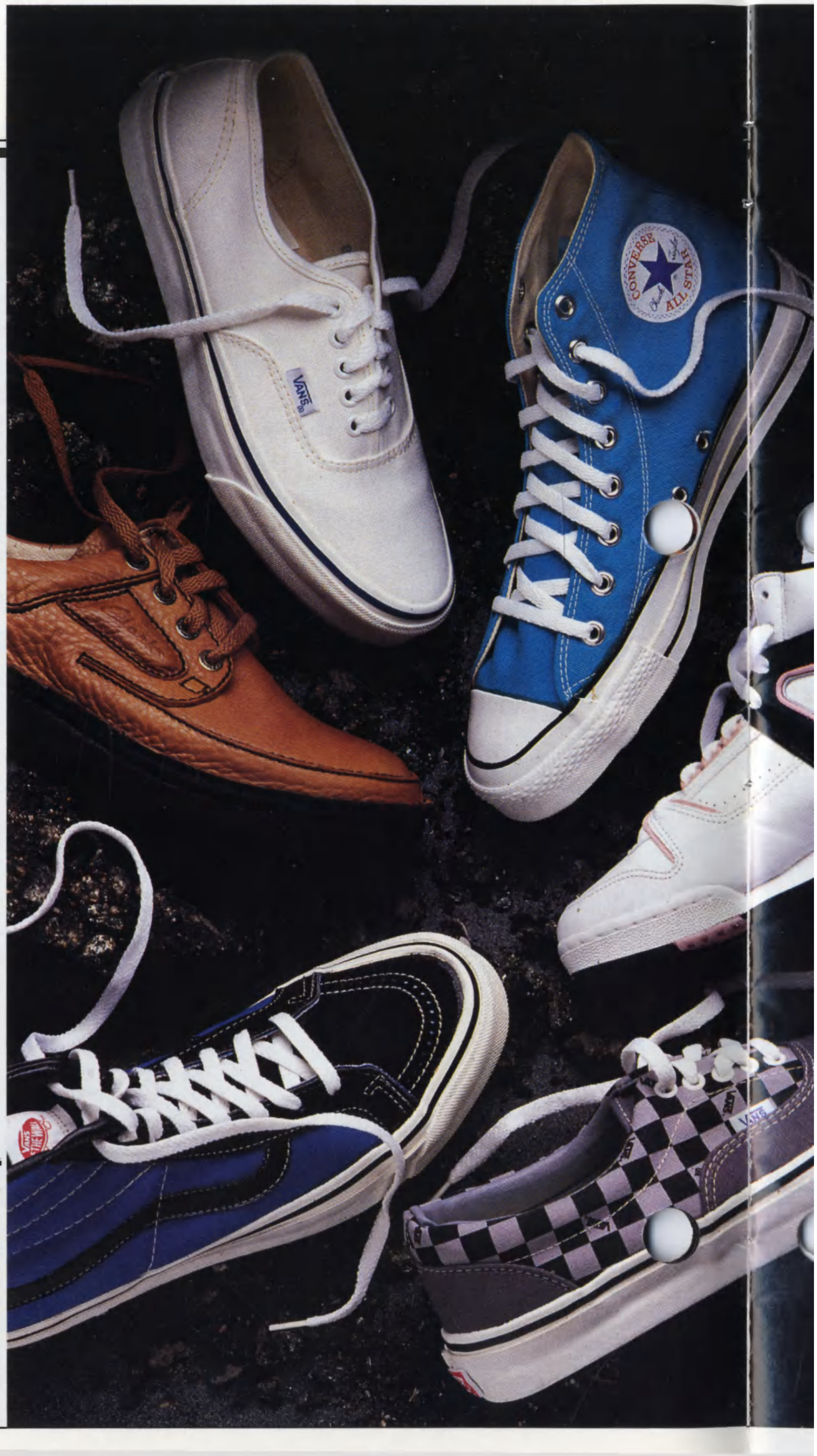
Track 'n Trail

VANS "OFF THE WALL"

Clarks

L.A. Gear

CONVERSE



For the woman in motion…

Lady Foot Locker.

Fila—What more do you need to know… the price $59.99.

ADIDAS—A classic warm-up suit. Reg. $89.99 NOW 79.99.

REEBOK—The Stormy. Reg. $27.99 NOW $22.98.

All on sale from Aug. 28-Sept. 20.

Foot Locker.

Attire for the entire family. Comfort and style is the watchword.

FAMILY APPAREL
ACA Joe
Benetton
Canterbury of New Zealand
Hastings
Stefanel

BUSINESS SERVICES
American Savings
*Dean Witter Reynolds, Inc.
Management Office
*Micro Resources, Inc.

CARDS & GIFTS
Richter's Music Box
Sandpiper Hallmark
Sweet Zoo

DEPARTMENT STORES
Macy's
Macy's Executive Offices
Macy's Jrs.
Nordstrom

Take good care of yourself, you deserve it.

HEALTH & BEAUTY
Heidi's Hair Salon
*Jean Cosmetics
Optical World/Village Vision
Sunglass Hut

HOME ENTERTAINMENT
Musicland

Fill every nook and cranny with won-[illegible]s wares that turn a [illegible] into a home.

HOME FURNISHINGS
Crate & Barrel
Hold Everything
Pablo's Ceramic Designs
Scandia Down
Sonoma Cutlery
Touch of Gold
Williams Sonoma

JEWELRY
Ben Bridge Jewelers
Granat Bros.
Julianna's Jewels
Merksamer Jewelers
Shreve & Company

We're an entire store dedicated to making your life easier by helping to organize it. Visit Hold Everything soon and discover how to organize everything from your closets to your mind.

Hold Everything

Over the past 24 years, the name Crate & Barrel has come to represent a unique shopping experience in the area of contemporary home furnishings. Crate & Barrel sets the standard with dinnerware like Bauhaus in white or black. Twenty-piece set for $64.95. Serving pieces available.

Crate&Barrel

Come feel the Scandia difference…

Scandia Down Shops™

Your headquarters for all things culinary, from whisks to stock pots, from cookbooks to table settings.

WILLIAMS-SONOMA GRANDE CUISINE

Setting style comes naturally for him.

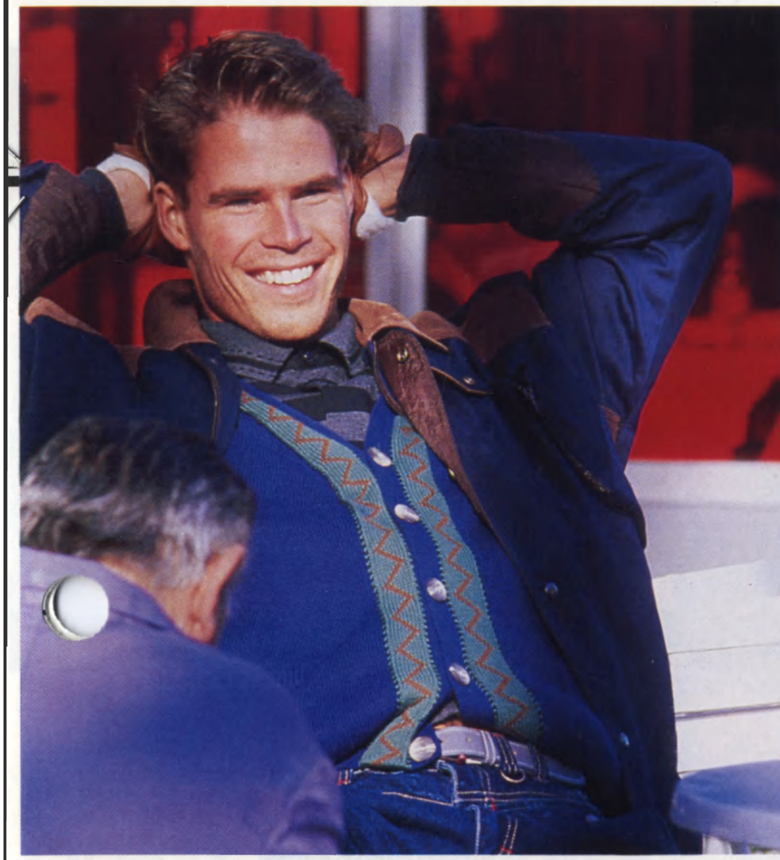
MEN'S APPAREL
In-Wear/Matinique
John Kramon & Company
My European Closet
Politix
Rochester Special Man

MEN'S SHOES
Florsheim Shoes

My European Closet's sharp double-breasted Prince of Wales plaid is a sophisticated addition to any wardrobe. Come see our new Fall arrivals.

Fine European clothing at affordable prices.

MY EUROPEAN Closet



Matinique brings you the latest Fall European fashions for your modern American lifestyle. From sportswear to accessories, let Matinique create just the right look for you.

IN·WEAR

matinique

At Politix...clothing goes where curiosity might take you. Loose fitting trousers and round shoulder jackets. The look is relaxed sophistication. Politix style... leaves the crowd far behind.

POLITIX

Special treats for the most discriminating palate.

PACKAGED FOODS
Cocolat
Godiva Chocolatier
House of Almonds
J.M. Rosens

The Call of Fall. In a potpourri of autumn colors, Godiva answers the call of Fall with an abundant harvest of gifts. Choose from the ½ lb. or 1 lb. of milk and dark chocolates. Or our impressive Fall Seasonal offers the famous assortment of Godiva's Signature Collection.

GODIVA
Chocolatier
BRUXELLES · NEW YORK · PARIS

Expressions of good taste from House of Almonds. Create your own custom gift basket from our wide variety of nuts and confections. Or choose a delicious prepackaged gourmet gift.

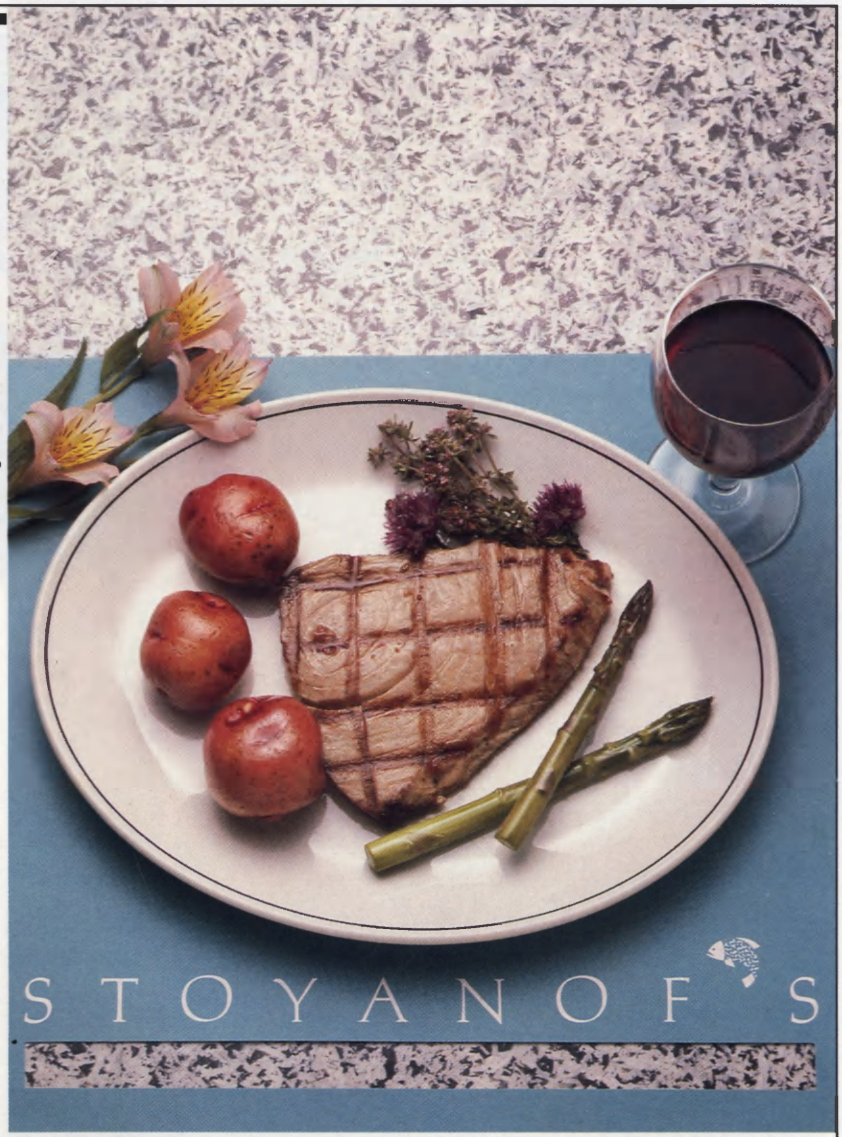
HOUSE OF ALMONDS

Bon Appetit!

Need we say more about these old favorites and new discoveries?

RESTAURANTS

Stoyanof's
Sushi Maru
Vin de France



Stoyanof's combines the traditional cooking of Greece and the Mediterranean with the freshest, finest ingredients on the market. Dine inside or al fresco, banquets and catering every day 11:30 a.m. to 11:00 p.m.

A ttire for every occasion and for every person in the family.

SPECIALTY APPAREL

Esprit for Kids
Gymboree
Victoria's Secret
Wilson's House of Suede

Kids come alive in Gymboree clothes...an exclusive line of active-wear only available at Gymboree. Select from an assortment of accessories, lifestyle gear, musical products and Gymboree's own at-home play equipment. Gymboree... we're making the most of growing up.

GYMBOREE.

A

diverting array of options. So let the adventure begin.

SPECIALTY STORES

Any Mountain
Brookstone
C.S. Brod's
Crabtree & Evelyn
Malm Luggage
Marin Mountain Bikes
Nature Company
Paradise Flowers
Ritz Camera Center
Waldenbooks

Paradise Flowers, a full service florist, was chosen "Best in Marin" by the P[illegible] Sun. Specializing [illegible] flowers and plants, we offer delivery service in Marin County and San Francisco.

PARADISE
FLOWERS

The store that makes a difference. Define Fall as definitely dramatic. Clothing unique as your lifestyle such as these knit separates by Marc D'Alcy. Let us bring drama to your life.

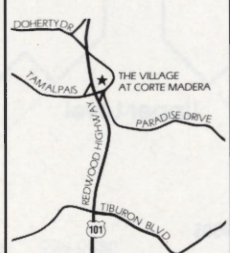
LE BEAU MONDE

You are about to embark on a journey... Discover ti[illegible] clothing for a n[illegible]ge. Laise Adzer

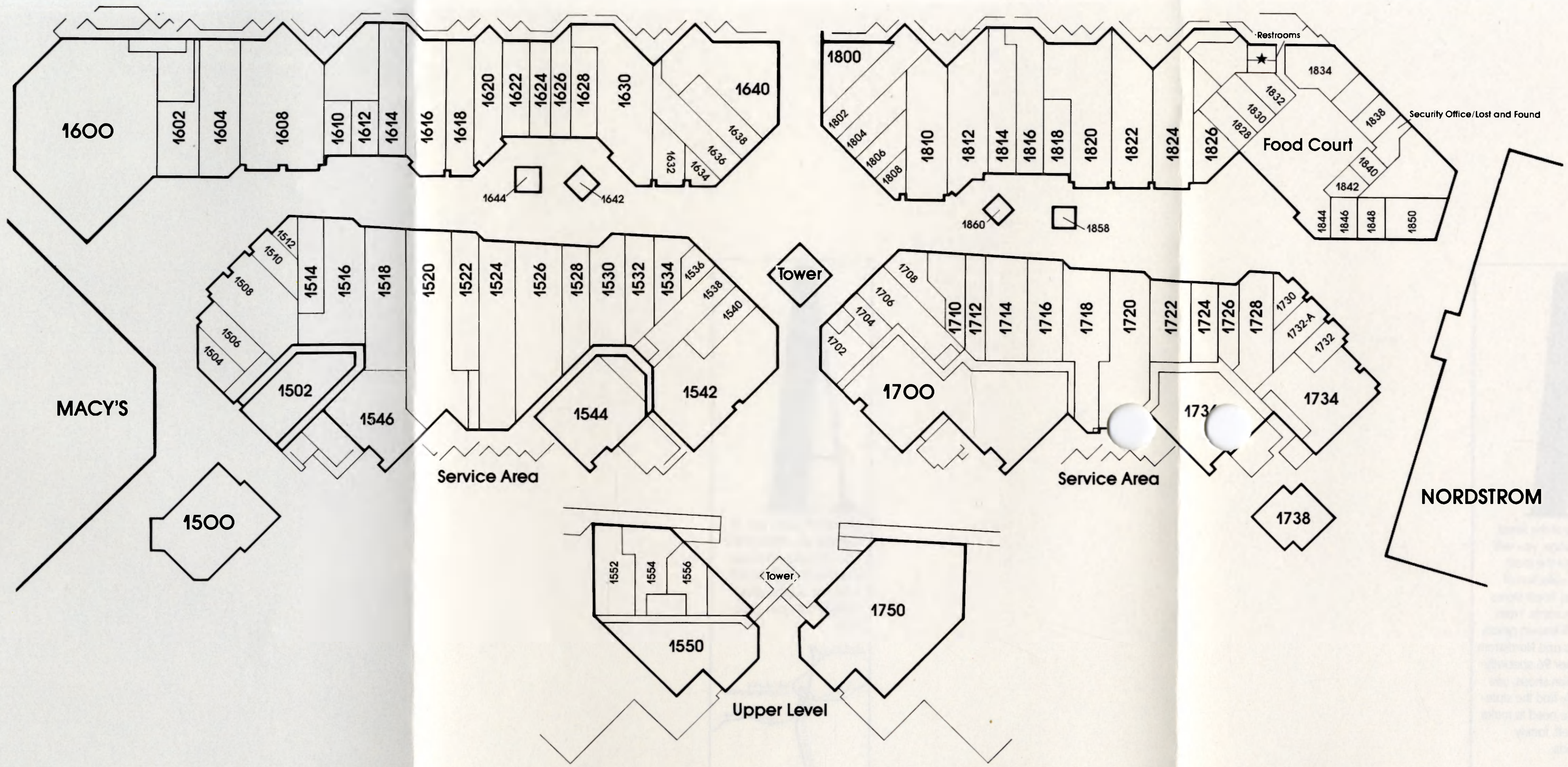
Laise Adzer

Country Club Specials–
Young casual sports
appeal. The traditional
club look turns trendy,
with a touch of cavalier
romance.

A statement about you. In the way you dress, in the food you eat, in the way you live; the Village is a reflection of you, your lifestyle and your good taste.



Village Hours:
Monday-Friday 10am-9pm
Saturday 10am-6pm
Sunday 12 noon-6pm
Restaurants open nightly until 11pm



Good service is important. You demand it and we deliver.

ART GALLERIES		
Illuminarium Isis	1640	927-0288
*Martin Lawrence Galleries	1848	
Village Gallery	1730	927-7208
ATHLETIC SHOES/FOOTWEAR		
Foot Locker	1814	924-5877
Lady Foot Locker	1532	924-5829
Track 'n Trail	1522	924-0893
BUSINESS SERVICES		
American Savings	1502	927-3700
*Dean Witter Reynolds, Inc.	1750	
Management Office	1554	924-8557
*Micro Resources, Inc.	1552	
CARDS & GIFTS		
Richter's Music Box	1704	924-7719
Sandpiper Hallmark	1812	927-1036
Sweet Zoo	1506	924-1045
DEPARTMENT STORES		
Macy's	1400	927-3333
Macy's Executive Offices	1550	927-3333
Macy's Jrs.	1600	927-3333
Nordstrom	1900	927-1690
[illegible] APPAREL		
[illegible]e	1816	927-0778
Benetton	1626	924-2665
Canterbury of New Zealand	1702	924-4554
Hastings	1542	927-0552
Stefanel	1536	924-2033
FAMILY SHOES		
Classco Presents	1710	924-7333
G. H. Bass	1724	924-1839
FAST FOOD		
Blue Chip Cookies	1846	924-6773
Boudin Sourdough	1844	924-5146
FOOD PAVILION		
Burger Express	1842	924-9886
Chili's Mesquite Grill	1830	924-8908
Emperor Court	1840	924-7833
La Petite	1838	927-1922
Sbarro	1832	924-9851
Sushi Maru	1834	924-7874
HEALTH & BEAUTY		
Heidi's Hair Salon	1620	924-3823
*Jean Cosmetics	1512	
Optical World/Village Vision	1800	927-1660
Sunglass Hut	1644	927-7120
HOME ENTERTAINMENT		
Musicland	1516	924-2980
HOME FURNISHINGS		
Crate & Barrel	1608	924-5412
Hold Everything	1520	924-9550
Pablo's Ceramic Designs	1858	924-2191
Scandia Down	1712	924-5811
Sonoma Cutlery	1504	927-0603
Touch of Gold	1508	924-6500
Williams Sonoma	1802	924-2940
JEWELRY		
Ben Bridge Jewelers	1708	924-1341
Granat Bros.	1728	924-0494
Jewelry Jewelry	1860	
Julianna's Jewels	1632	924-9711
Merksamer Jewelers	1602	924-2880
Shreve & Company	1810	927-1344
MEN'S APPAREL		
In Wear/Matinique	1518	927-1247
John Kramon & Company	1714	924-1782
My European Closet	1614	924-1134
Politix	1624	927-2428
Rochester Special Man	1500	927-0911
MEN'S SHOES		
Florsheim Shoes	1534	927-0630
PACKAGED FOODS		
Cocolat	1612	924-2353
Godiva Chocolatier	1634	924-0306
House of Almonds	1826	924-3499
J. M. Rosen's	1726	927-3711
PROFESSIONAL OFFICES		
Natalie K. O'Bryne, M.D.	1556	
William O'Bryne, Esq.	1556	
RESTAURANTS		
Stoyanof's	1736	924-8981
Sushi Maru	1834	924-7874
Vin de France	1544	924-1315
SPECIALTY APPAREL		
Esprit for Kids	1738	927-0888
Gymboree	1732	924-1165
Victoria's Secret	1528	924-9007
Wilson's House of Suede	1628	927-1025
SPECIALTY STORES		
Any Mountain	1700	927-0170
Brookstone	1718	924-9170
C. S. Brod's	1546	927-1312
Crabtree & Evelyn	1806	924-2544
Malm Luggage	1716	927-0830
Marin Mountain Bikes	1732-A	927-2444
Nature Company	1530	924-9470
Paradise Flowers	1642	927-1577
Ritz Camera Center	1510	927-1737
Waldenbooks	1824	924-6278
WOMEN'S APPAREL		
Ann Taylor	1616	927-0577
Casual Corner	1820	924-8710
Contempo Casuals	[illegible]0	92[illegible]
Courreges	[illegible]8	92[illegible]
In Wear/Matinique	1518	927-1247
Itokin Minna	1850	924-1060
Jaeger	1638	924-7512
Karen Austin Petites	1630	924-6566
*Laise Adzer	1622	
Lanz of California	1538	924-2624
Laura Ashley	1636	924-5770
Le Beau Monde	1734	924-9580
Lillie Rubin	1604	924-0406
Limited	1524	924-7732
Limited Express	1526	924-7759
MGA	1706	924-8715
Mondi	1610	924-5067
Peck and Peck	1722	924-7704
T Edwards	1822	927-0400
WOMEN'S SHOES		
Ansonia	1618	924-8566
Connie Shoes	1514	924-7464
Joyce Selby Shoes	1818	924-7340
Pappagallo	1540	924-0555
Sacha London	1804	924-3870

Restrooms ★

*Opening Soon

THE VILLAGE
AT CORTE MADERA

For more information write or call:
The Village at Corte Madera
1554 Redwood Highway
Corte Madera, CA 94925 415/924-8557

MERCHANDISING BITS & TIPS

Sales Opportunities Plentiful In Men's Wear XXL Sizes

By Brent Garner
Senior Buyer
Men's Wear

Statistics show that the human race is getting bigger, and all you have to do is look around to see that it's true.

I was at my son's high school football game a couple of weeks ago and saw for myself -- a football team of "High School Boys" that averaged 6'2" tall and weighed 220 pounds! The coach told me that 10 years ago their team averaged less than 6'0" tall and 190 pounds.

Spring 1989 Men's Wear XXL Categories:

Subclass	Category
00	Woven Shirts (except Young Men's)
01	Knit Shirts
09	Swimwear
10	Shorts (all categories except Young Men's)
11	Active Tops (all categories except Athletic Tops)
12	Jerzees Knit Coordinates
14	Western Shirts
27	Casual Coordinates
30	Spring Outerwear

I did not know this when

This fall for the first time, we added XXL (extra, extra large) to our size selection in most men's categories. Sales have been unbelievably strong on the XXL sizes so far. For example, in flannel shirts, we purchased 172,000 units of XXL for this fall through November. We have sold 155,000 units, or 90 percent of what we purchased. XXL has accounted for 13 percent of our total sales in men's flannel shirts.

I wrote 10/88 RT article

Based on our fantastic sell through on XXL this fall, we are purchasing more quantities in XXL and more categories will have XXL sizing for spring. For 1989, our goal is to have from 10 to 15 percent of all items in XXL sizes.

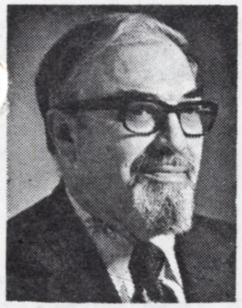
"Tell your customers the great XXL news" by displaying new XXL presentation signing prominantly in front of Men's Wear.

Make sure that you feature the new XXL presentation signing in front of your Men's Department announcing that we have XXL sizes and use the XXL size inserts in the apparel signs when you do not use namebrand sign inserts. In addition, use the XXL size rings on your H-racks and sized circle racks. DON'T use the Ladies' Wear 2XL Size Rings in Men's Wear.

Our competition is carrying XXL sizes as well, but at a much higher price. Wal-Mart will have the same low prices on smalls through extra, extra large sizes. Kmart, for example, has their S-XL flannel shirts for $7.97 and their XXL/XXXL sizes at $9.97--a 25 percent increase for the larger sizes. Wal-Mart's Everyday Low Price on Men's flannel shirts is $6.42 for sizes S-M-L-XL-XXL.

We believe that sales on larger sizes will continue to increase in the future and our Buyers are dedicated to insuring we buy the proper merchandise at the right price and in the correct sizes to sell to all our customers.

"The times, they are a chang'in," and so is Wal-Mart!



RETAILING TODAY

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ROUTE TO

NOVEMBER 1988

VOL. 23, NO. 11

LET'S LOOK AT SEARS

Sears, Roebuck and Company has announced the most drastic reorganization in retail history. Sears did so after being on almost every list for a Leveraged Buy Out (LBO).

Who would try to take over a company that reported sales (retail, insurance, real estate commissions, etc.) of more than $48 billion, that had total disclosed assets (some subsidiaries and investments are not consolidated) of $75 billion and stockholders equity of $13.6 billion?

Just about everybody in the takeover business. And it might not take too much "junk-bond" money and very little equity.

I can hear you say that all you "want are the facts" to back up such a statement.

Let's look at the 1978-88 period and see what happened during that decade and what Sears did.

As my long-time readers know, I am writing this as a person who grew up thinking that Sears and J. C. Penney were models for other retailers to follow. I worked with Sears executives in the 1971-73 period, when annual highs for the stock were at $52, $62 and $58 and P/E ratios were at 29, 31 and 27. A number of them took early retirement with $500,000 to $750,000 as their share of the famous Sears Profit-Sharing Plan.

Between 1978 and 1988, the population of the U.S. increased from 221 million to 246 million or more than 10%. The gross area in Sears' stores increased from 114 million square feet to 116 million square feet or under 2%. Sears is still operating stores in downtown areas from which all other major retailers have fled (for example, Joplin, MO), or where its stores were never in the central retail area (San Francisco and Oakland, CA). This happened although a part of Sears (Homart) was in the shopping center development business.

Personal income for the U.S increased from $1,717 billion to $3,922 billion or 128%. Retail sales, exclusive of car dealers, service stations and restaurants, increased from $500 billion to $1,122 billion or 124%.

And Sears sales in the U.S.? The total sales (retail, mail order, service and institutional) increased from $16.0 billion to $22.9 billion or 43%. But I have to be careful about the word "sales" because included in that is repair and other services (remember those contracts sold on white-and-brown goods?). The "service" increased from 3% to 10%—in dollars that meant from $800 million to $2,289 million. The growth comes from such activities as Add-A-Room, Add-A-Porch, etc. That is growth— but is it retailing?

WHO CARES ABOUT THE SAFETY OF YOUR CUSTOMERS?

It is odd to start an article by observing that very few dead, maimed or comatose people buy much of our merchandise. But I think we can agree on that premise.

The Consumer Product Safety Commission (CPSC) was established in 1972. It also administers the Flamable Fabrics Act, the Poison Prevention Packaging Act and the Federal Hazardous Substances Act. It has test facilities greater than those of the largest retailers and authority to enforce its findings.

When President Reagan twice took an oath, with his hand on a Bible, that he would, "to the best of my ability, preserve, protect and defend the Constitution of the United States," many of us assumed that included executing the laws of the United States.

But it did not. He appointed Terrence Scanlan as Chairman of the CPSC and then left two seats vacant. The Chairman is dedicated to eliminating CPSC. He needs only the other Reagan appointee to prevent any such nonsense as banning dangerous products. If he banned any, business might make less money. (And then business might contribute less to Republican politicians.)

Recently, "60 Minutes" disclosed the danger of a lawn dart game, a cause pushed by a father who lost his daughter when a dart struck her in the brain. A CPSC report said only 22 reports of injury had been received over a period of years when the actual number was over 6,000. This is called "Truth à la Reagan."

RThought: Creating the CPSC did not, in any way, reduce the obligation of an ethical and moral retailer to be sure that the products he sold will not injure people. This is an obligation one assumes when one takes unto himself the selling of products to individuals. Stores pay millions of dollars to buyers and merchandise managers—but most do not clearly establish a policy that says, "This company will *NEVER* sell a product that can hurt someone when used as expected. You must enforce this action by (1) subscribing to literature that reports on product tests; (2) include instructions about your policy as part of your executive training programs; (3) clearly post the policy where employees will see it; (4) provide a means of notifying you, the CEO, if any person thinks any product carried is unsafe; (5) provide for prompt follow-through on any reports; and (6) establish one or more senior executives who will be responsible for approving or disapproving any product that is questioned by any employee or customer.

The 1978 annual reports for Sears (income statement, balance sheet, changes in financial position) were not broken out separately for Merchandising—but they were starting in 1979. Sears used the Merchandising Group as a "cash cow" as evidenced by the figures below, showing "net transfers to corporate" plus "dividends to corporate" (dividends started in 1983).

TABLE 1

Year	Net Transfers $ Millions	Cumulative $ Millions
1979	$ 404	$ 404
1980	473	877
1981	500	1,377
1982	370	1,747
1983	929	2,676
1984	(365)*	2,311
1985	400	2,711
1986	670	3,381
1987	1,130	4,511

*Net advance to Merchandising.

One begins to see a "cash-cow" pattern. Sears opened a limited number of new stores and did limited remodeling. The dollars went to corporate headquarters to buy Coldwell Banker, Dean Witter and expand Allstate. Of course, Sears' management did not have a great background in residential real estate or in buying and selling stocks and bonds. But it was going to be a major "Supermarket of Financial Services" at a series of counters set up between the apparel and the hardware departments.

Some of the "cash-cow" money helped finance the start up of Sears' Discover card.

Why has Sears gone this way? There are a number of factors.

I think Sears fooled itself about the profitability of credit accounts within the Merchandising Group. Let's look at some of the figures Sears may have considered:

TABLE II

Year	Merchandise Income ($ Millions)	Credit Account Income ($ Millions)	Average Account Balance
1987	$488	$263	$515
1986	458	253	497
1985	447	294	495
1984	656	243	472
1983	654	144	423
1982	456	18	NA
1981	352	(83)	NA
1980	209	(34)	320
1979	367	14	306

What would you conclude from these numbers? You might feel that in another 10 years the income from Credit Accounts will exceed that from Merchandise. That would be a strange situation, especially in the face of Touche Ross's two studies proving how much retailers lose on credit accounts. (In honesty, the retailers Touche Ross studied had much lower average balances.)

There is nothing in any of Sears' annual reports that sets out just what is charged to the credit operation—extra clerk time on the floor for a charge transaction against a cash transaction (different form, requires signature, swipe or entering a credit-card number, etc.). I think the charges made against credit accounts are those incurred within the credit department (which may not include a charge for space, lights, heat, etc.) plus interest on the outstanding receivables.

If Sears looked at the figures above and mentally added in the discount that it would earn when buying transactions as a national credit card, I think I understand how it "discovered" its Discover card.

I don't know how Sears measures the impact of Discover card on its own credit sales, which increased gradually from 54.2% (1979) to 62.0% (1985) and went back down to 58.6% (1987). Why use a Sears card when you get a bonus on all purchases made on your Discover card when shopping at Sears? (Sears had a good reason to switch volume—unless many people have the Discover card, other stores, restaurants, hotels, etc., won't honor it.)

Sears had (1987) total property and equipment with a book value of $4.8 billion of which $3.5 billion was in the Merchandise Group. One wonders about land with an original cost of $248 million. How much was given to Sears to get them to anchor a center—or sold to Sears at bargain price—or purchased 30 or 40 or 50 years ago? The Group had buildings and improvements of $3.1 billion. What would it cost to replace them today? What would they sell for? How many shopping centers would like to buy back the Sears building and cut it up for smaller tenants?

Once upon a time the SEC wanted to keep corporate owners informed about the worth of their company. The 1979 Sears annual report states:

> **The Securities and Exchange Commission requires management to estimate the replacement cost of inventories and productive capacity. In its rules, the SEC cautions that such information cannot be used simplistically to adjust reported net income because of the substantial unresolved theoretical problems and subjective judgments involved in calculating replacement cost.**

And what did Sears find in 1979? Plant and equipment figures (which exclude land but include fixtures and equipment) on the books at $2.6 billion had a replacement value of $6.1 billion. Probably the easiest $3.5 billon any takeover artist ever found! In 1987, it was much larger.

Articles are already coming out on what the Sears Tower would bring. The 3.7 million square-foot building cost about $150 million to build. A part has been written off. It might bring $1 billion. That gain would not be hard to take even if you have a book value of $13.6 billion.

Everybody says that "book value doesn't mean anything," but it does when you study Table III below. It shows, for the years 1979-87, the price range, closing price, P/E ratio range, year-end book value per share and book value as a percentage of the year-end share price. At the closing price, on November 1, 1988 (Table IV), it was $44 5/8 or 124% of the December 31, 1987, book value—far below current asset value even before adding $360 million (60% of pre-taxed $617 million LIFO Reserve and earnings since January 1, 1988).

A LETTER YOU MIGHT USE

Major General Hooker:

General: I have placed you at the head of the Army of the Potomac. Of course, I have done this upon what appears to me to be sufficient reasons, and yet I think it best for you to know that there are some things in regard to which I am not quite satisfied with you.

I believe you to be a brave and skillful soldier, which, of course, I like.

I also believe you do not mix politics with your profession, in which you are right.

You have confidence in yourself, which is a valuable if not an indispensible quality.

You are ambitious, which, within reasonable bounds, does good rather than harm; but I think that during General Burnside's command of the army you have taken counsel of your ambition and thwarted him as much as you could, in which you did a great wrong to the country and to a most meritorious and honorable brother officer.

I have heard, in such a way as to believe it, of your recently saying that both the army and the government needed a dictator. Of course, it was not for this, but in spite of it, that I have given you the command. Only those generals who gain successes can set up dictators. What I now ask of you is military success, and I will risk the dictatorship. The government will support you to the utmost of its ability, which is neither more nor less than it has done and will do for all commanders. I much fear that the spirit you have aided to infuse into the army, of criticizing their commander and withholding confidence with him, will now turn on you. I shall assist you as far as I can to put it down. Neither you nor Napoleon, if he were alive today, could get any good out of an army while such a spirit prevails in it. And now beware of rashness; beware of rashness, but with energy and sleepless vigilance go forward and give us victories.

Yours very truly,

RThought: This letter was signed A. Lincoln in the Executive Mansion in Washington on January 26, 1863.

The problem Lincoln faced is not more nor less than is faced today in many large retail institutions. Too often top executives speak to me of splits within the top management; groups are organized more to work against each other than for the success of the enterprise. Carried on long enough and strong enough no prize remains if one side does win.

The worst case, in which I had personal experience, was when establishing an Air Force Depot in French Morocco. My supply group was rejecting requisitions from other units in the wing because the requisitions were not properly prepared—as clearly set forth in Air Force Manual 67-1. The feeling was bitter. I went to the CO of the headquarters' group, told him it was all my fault (I could *prove* that only improper requisitions were being rejected) and listened for two hours while he told me why it was my (our group's) fault. I felt anger—but I knew we were not performing our mission. I then went back to my group and told the officers that from that time on, if a requisition was improperly prepared, we would prepare it properly; if they did not have proper authority, we would try our best to find authority for what they wanted; and if the people in the other groups would accept it, we would help train their people. My officers didn't want to do it. THEY KNEW THE OTHERS WERE WRONG—I KNEW WE WERE NOT FULFILLING OUR MISSION. In the end, everybody learned; but perhaps I was the only one who knew why and how it happened.

And General Hooker? He was defeated at Chancellorville and was relieved of command at his own request and transferred to command a corp in the Chattanooga and Atlanta campaigns.

We will never know if General Hooker defeated himself—as we will never know how many retail businesses fail because members of management have their own agenda—which does not include the mission of the enterprise.

THE COLLAPSE OF TIME

I save almost everything. More than 30 years ago, I set aside a talk given by Mr. J. Lewis Powell, then in the Office of the Assistant Secretary of Defense (Supply and Logistics), entitled "The Collapse of Time."

It is, without doubt, the most remarkable paper I have ever read. It sets forth the remarkable change in our world, starting about 1945.

Let me give you just a paragraph at the beginning:

> We think [time] is a measure instead of a dimension! So let's take "time." There has been 50,000 years of mankind's history. No one can visualize 50,000 years. Even those people who went to school with me, who aged much faster and are now middle aged, can't visualize 50,000 years. If the whole history of mankind had happened in 50 years, what would have happened and when would it have happened? If all mankind's history had happened in your lifetime, what would have happened and when? Well, this is it.
>
> **1. Ten years ago you would have stopped being a cave man.**
>
> **2. Five years ago the smartest man here might have invented some kind of pictorial writing.**
>
> **3. Two years ago Christianity would have appeared on the scene.**
>
> **4. Fifteen months ago you would have had the printing press.**
>
> **5. Twenty days ago, electricity.**
>
> **6. Eighteen days ago, the airplane.**
>
> **7. Ten days ago, radio.**
>
> **8. Four days ago, TV.**

RThought: In my estimation, this talk by J. Lewis Powell, entitled "The Collapse of Time," is one of the most provocative explanations of the era in which we now live.

You can read it in its entirety. Send a 9 inch x 12 inch self-addressed envelope with 85 cents postage to "The Collapse of Time," Box 249, Lafayette, CA 94549.

SO LONG, JIM

Every once in a while you open an envelope and get a shock.

The envelope had strong graphics—and the name LETERON. I didn't recognize it. But I opened it, and out came a great picture of Jim Reynolds in a pensive pose with his chin on his hand. I'm referring to James M. Reynolds of the Reynolds Printasign Company—a man known to so many retailers.

Jim died September 30, 1988, from leukemia.

Jim and I talked many hours about retailing and particularly how year after year in store after store they don't do business as well as they know how to do it. We were both amazed at the lousy signs we saw in so many stores—and the inability to get any selling points on the signs. I told him of watching a Printasign for the first time—in the sign shop at Macy's 34th Street store in 1940-41; and of the one we bought at Swan's in 1953 after I proved that we sold more merchandise with signs handwritten by the department manager using a red or black wax pencil (remember them?). But the owner wanted to have neat signs like Hale's and Penney up the street.

RThought: Jim spanned the gap from his father, who invented the ball-point pen (and set a record for flying around the world), to the days of computer-controlled sign machines. But Jim was also the model of a good citizen—something we sometimes forget to be. Here are a few of his outside activities: A founder of the Los Angeles Music Center; trustee of U.S. Air Force Academy, Harvey Mudd College and McMurray College; member of the Stanford University Athletic Board (Jim and his wife were both Stanford graduates); the Los Angeles and the U.S. Chambers of Commerce, YPO, Kiwanis, Pasadena Historical Society, Republican State and County Central Committees; and an active supporter in the campaigns of Eisenhower, Nixon, Reagan and Bush.

We cannot have good communities, nor can we have good societies, without citizens like Jim Reynolds—who earned the title of "Good Citizen."

SHORT SHORTS

Twin-pack catalogs—Norm Thompson plus Solutions. Two companies, one catalog, one 800 number, one shipment—and Fed Ex for just $4.95 extra per package. The split looks like 65 front pages for Norm Thompson (NT) and 35 back pages for Solutions—although NT has, in recent years, added some "Solutions-type" items. A bit of history—NT, now thought of largely for outdoorspeople (?) started in 1949 with hand-tied fishing flies. With Fed Ex, orders entered between December 16 and 20 should be received by Christmas. **RThought:** The concept is great. I will try it late in December for two items to see if they arrive in one shipment. The product lines compliment each other.

The Navy has supply problems again. The Navy Exchange's holiday gift catalog offers One-A-Day socks by Bonnie Doon—six pairs. **RThought:** Which day don't Navy people wear socks?

Where is it? In many stores, management had reduced that to a game—with nary a clue. Jerry Michaelson, whose delightful and helpful column appears in *Sales & Marketing Management*, wrote to me: "Your comments on department stores reminded me of my continuing struggle to find the darn directory in the department store. Take a look, department stores don't put their directories where anyone can find them. If you are a stranger, it takes forever to find out where you can find what your are trying to find." Jerry—there is a reason for that. Department stores feel they only have old-established customers who know where every department is (even if those departments move every couple of weeks). **RThought:** It won't do any good surveying your customers to see if they have a problem finding merchandise; your sample is biased; it excludes those who gave up and shop elsewhere. And, after all, those missing shoppers might represent a potential increase of volume of only 50%.

P.S. My assistant attached the following note: Referring to the article above, Bob, this happened to us yesterday at Sunvalley. The "Cellar" is now on the third floor of Macy's. Just for the fun of it, today I called Macy's in Sunvalley and asked for the "Cellar." They put me through to the third-floor housewares without mentioning it had been moved.

A few words about color. Herb Caen, who recently celebrated 50 years of writing a column about and for San Francisco, said that Dr. Thomas K. Hunt found this grafitto in Chicago:

> "When ai'se born, ai'se black. When ai'se big, ai'se black. When ai'se sick, ai'se black. When ai'se dead, ai'se black. When you'se born you'se pink. When you'se big, you'se white. When you'se sick, you'se green. When you'se dead you'se blue. And you have the nerve to say ai'se colored?"

Johnny Appleseed was reaping $40 million (75% catalog) and attracted the eye of Jelmoli, the Swiss department and mail-order company. **RThought:** The dollar may also appear cheap in Switzerland.

You read about Marks & Spencer buying Brooks Bros., but did you hear about it buying the 16-unit, $100 million-plus King's Super Market chain in New Jersey? It did. **RThought:** It did it just to find out about U.S. food retailing before it goes further. Don't forget—today the U.S. dollar looks cheap to someone in Great Britain. (But there is tit-for-tat—Dunnes, Ireland's largest retailer, now has two stores in Great Britain and plans two or three more within a year. Did Marks & Spencer think there was no more room?)

Once upon a time retailers worked actively to see that they had good schools in their towns. Not any more. After all, ownership is someplace else and the CEOs of subsidiaries or divisions feel little loyalty to the town or towns in which they operate stores. (And I must admit that some state laws create problems.) More and more, the feeling among retailers is that good schools are someone else's problem. **RThought:** Fortunately, one retailer does want to help in our schools—as well as those in its hometown. Tandy Corporation, in 1982 established its Educational Grant Program and an independent Grant Review Board to make grants to schools for "Innovative Uses of Video Techology in the Classroom." More than $1.5 million of computers and video products have been awarded on a nation-wide basis.

TABLE III

Year	Market Price: Range	Market Price: Year-End Close	P/E Ratio	Year-End Book Value Per Share	Year-End Book Value Per Share as % of Year-End Closing Price
1970	$41-$26	$40	27x-17x	$12.08	30%
1971	52- 50	50	29 -21	13.48	27
1972	62- 49	57	31 -25	15.16	27
1973	58- 39	44	27 -18	15.66	36
1974	45- 21	30	28 -13	15.00	50
1975	37- 25	35	22 -17	16.67	48
1976	40- 31	31	18 -14	18.56	60
1977	33- 24	25	13 - 9	20.27	81
1978	27- 20	21	9 - 7	21.98	105
1979	21- 17	18	8 - 7	23.53	131
1980	19- 14	15	10 - 8	24.32	162
1981	21- 15	16	10 - 7	23.77	149
1982	32- 16	30	13 - 6	25.08	84
1983	45- 27	37	12 - 7	27.60	75
1984	40- 29	32	10 - 7	29.48	92
1985	41- 31	39	12 - 9	31.71	81
1986	50- 36	40	14 -10	33.98	85
1987	59- 30	33	14 - 7	35.89	109

An important question is who knew about the restructuring and how long before the announcement by Sears. Table IV shows the trading in Sears stock starting October 14, 1988. For the 21-trading days in September, Sears averaged 570,000 shares. For the 16 days in Table IV, the average was 2,228,000. Someone made a lot of money—I think much of it on inside information.

TABLE IV

TRADING IN SEARS STOCK BEFORE ANNOUNCEMENT

Day	Date	Shares (000)	Closing	Change
Fri.	Oct. 14	1,414	40 1/8	− 1 3/8
Mon.	Oct. 17	672	40 1/8	n/c
Tue.	Oct. 18	881	40 1/4	+ 1/8
Wed.	Oct. 19	791	40	− 1/4
Thu.	Oct. 20	795	40 3/8	+ 3/8
Fri.	Oct. 21	2,935	42 5/8	+ 2 1/4
Mon.	Oct. 24	1,396	42 5/8	n/c
Tue.	Oct. 25	1,075	43 3/4	+ 1 1/8
Wed.	Oct. 26	5,390	44 3/4	+ 1
Thu.	Oct. 27	2,278	43 1/4	− 1 1/2
Fri.	Oct. 28	1,715	43 5/8	+ 3/8
Mon.	Oct. 31	2,423	41 3/4	− 1 7/8
Tue.	Nov. 1	1,858	41 3/4	n/c
Wed.	Nov. 2	1,424	43	+ 1 1/4
Thu.	Nov. 3	8,199	46	+ 3
Fri.	Nov. 4	3,204	44 5/8	− 1 3/8

Sears has not had an outstanding return on equity. It publishes a figure based on the average of the start- and end-of-year equity. Those figures are shown in Table V. In addition, I have shown the return on average equity assuming that current market value is 125%, 150% and 175% of book value. I believe 175% is a good number to use—this would mean $10 billion in assets *not* disclosed. Consider:

1. $3.5 billion below current value *in 1977*
2. Bargain leases that can be sold
3. $360 million after taxes in LIFO Reserve
4. Current value in excess of book of minority holdings in publicly held corporations (De Soto, Inc., Roper, Inc., etc.)

TABLE V

Year	Published Return Average Equity	Assume True Value Is: 125% of Book	150% of Book	175% of Book
1987	12.4%	10.0%	8.3%	7.1%
1986	10.9	8.7	7.3	6.2
1985	11.5	9.2	7.7	6.6
1984	14.1	11.3	9.4	8.1
1983	14.4	11.5	9.6	8.2
1982	10.1	8.1	6.7	5.8
1981	8.2	6.6	5.5	4.7
1980	8.1	6.5	5.4	4.6
1979	11.4	9.1	7.5	6.5
1978	13.4	10.7	8.9	7.7
1977	13.5	10.8	9.0	7.7
1976	13.4	10.7	8.9	7.7
1975	12.1	9.7	8.1	6.9
1974	9.8	7.8	6.5	6.4
14-Year Average:	11.7	9.3	7.8	6.7

With the value of 175% as of December 31, 1987, the book value per share of $35.89 becomes $62.81 or far more than the highest closing price through November 4, 1988, or $46.00. If the stock can be acquired for $55, it appears that it can be financed entirely on Sears' assets.

Merchandising Policy

Sears intentionally restricted the portion of the U.S. consumers it reached—by disregarding smaller communities.

The 1985 report said, "Sears has launched a program to increase its presence in markets with populations of fewer than 100,000." It further said, "More than 350 communities . . . could qualify . . . ." It continues talking about markets with populations of between 50,000 and 100,000. Unfortunately, the 1987 report doesn't say a word about the 50 stores announced in 1985.

Today, Sears is off on a binge of specialty stores—with paint and hardware stores (up in two years from 11 to 77) and Eye Care Centers of America (an acquisition) at 41. But Business System Centers are down from 105 at the end of 1985 to 60 at the end of 1987—when Businessland is booming and Computerland progressing.

K mart has 2,100 stores where Sears found 813 (at December 31, 1987) sufficient.

In the meantime, Wal-Mart, according to the *Chain Store Age 1988 Discount Store Directory,* was the only discount store in 490 communities (half its stores) with an average size of 51,000 square feet in an average community (based on the 1980 Census) of 7,100 (the trading areas are, of course, larger and some are in suburbs of metropolitan areas).

Conclusions

1. Sears has milked the merchandise division to finance acquisition of financial entities.

2. As a result, the Sears stores have not been maintained. There are new population centers without a Sears. Sears could make money in smaller towns. In fact, it must—because so many people are living in those areas.

3. Sears' financial acquisitions have not worked out as expected.

4. Discover card has tied up a lot of money and has yet to prove it will show a satisfactory return.

5. Employees do not have the "Sears spirit" that was present during the 1960s and early 1970s (when the stock hit a high of $62).

6. The distribution system from a vendor's factory dock to the Sears customer's home is probably twice what it costs competitors.

7. Fundamentals have been forgotten—such as emphasis on "Since 1886, Satisfaction or Your Money Back" and the quality of guarantees and the convenience of service.

RThought: Many of these points are being addressed by both Chairman Edward A. Brennan and the Chairman of the Merchandising Group, Michael Bozic. That is a good move. But the "law of inertia" cannot be circumvented: A body at rest tends to stay at rest.

Attitudes cannot be changed by giving orders—as exemplified by the sullen salesperson (not Sears), who chased a customer across the floor saying, "Hey, you!" When she caught up with the customer, she said, "Thank you. I was told I had to say 'thank you' to every customer." And then the salesperson turned around and walked back to her department.

The unfortunate thing is the amount of money LBO firms have available. Kohlberg Kravis Roberts is reported to have $40 billion available, enough to buy Sears without a partner. If it did, it probably would sell off a number of units, sell and lease back some real estate and leave much of the management in place to carry out what has already been started.

But Sears will never again be the Sears that I knew—where satisfying the customer came first and Sears did it so well that it made a lot of money. The goal of the future is to make a lot of money—with the hope Sears can satisfy a new generation/breed of customers.

SHORT SHORTS

They told me competition would keep finance charges down. And so California eliminated the limit. The rate was 1.5% per month (18% APR). In October, I received a notice from Macy's that on purchases made on or after January 1, 1989 (the effective date of the law), the finance charge will be 1.65% per month (19.8% APR). **RThought:** I am sure that this move will quickly force Emporium-Capwell to increase its finance charges; and since competition tries to outdo the other guy, it may just select 1.75% per month (21% APR). But then Macy's will be forced to go higher. This will go on just as long as major accounting firms are willing to prepare (for a substantial fee) studies that show that retailers lose money on credit. But if you ask Macy's or others why, if they lose so much money on credit, they don't eliminate credit, they will blanch and say, "If we did, we would go broke!" Now I am an innocent soul but am I to understand that if you eliminate something in which you are losing money you naturally will lose even more money? I might mention that one of my favorite sandwiches is baloney, well packaged and sold by executives whose salaries are a half million or more. P.S. Breuners (subsidiary of BATAS) met the competition on November 8, 1988, at 1.65%).

A great victory for our merchandising skills—especially those running supermarkets. Until 1985 breast cancer was women's most common cancer killer. But, by golly, we merchants, in cooperation with a federal government that simultaneously subsidizes growing tobacco, uses it as a "sin" tax to raise gobs of money and research on cancer, have been able to sell enough cigarettes to enough women that today more women die of lung cancer than of breast cancer. **RThought:** Did we merchants all make enough money to reward ourselves for this success? Have we noticed that, as a result of our efforts, more and more young women are smoking (and fewer young men)? I understand that the morticians are going to dedicate their next annual convention to the retailers of tobacco.

Is this honest retailing? A reader sent me the evidence. He ordered an item from Victoria's Secret and took up its offer of "gift wrapping" for $3.75. What he got was a two-piece, cream-colored collapsible box, 8½ inches x 11½ inches, and a piece of cheap wrapping paper not large enough to go around the box (perhaps to go inside?) for his $3.75. **RThought:** Have you noticed what has happened to The Limited's sales and profits lately? In a profile in *Fortune* (8/19/85), the headline read, "Leslie Wexner Knows What Women Want," But just three years later, has something gone wrong with his sensing skills? He certainly didn't anticipate what a Victoria's Secret customer expected as a "gift wrap."

For plain vanilla in annual reports, there is the wholesale club industry—Price Company, Costco Wholesale Corporation and Pace Membership Warehouse, Inc. All have plain white covers and no pictures. **RThought:** That may be changing. Competition in fanciness has arrived. Pace used blue ink this year!

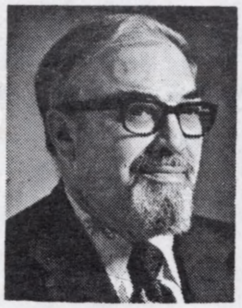
WORDS THAT DESCRIBE RESISTANCE TO CHANGE

> ***"The greatest danger to Christianity is pseudo Christianity whose marks are easy to recognize. It always prefers stability to change, order to freedom, law to justice and realism to love."***
>
> — Alan Paton

RThought: The above also describes the conservative—who feels that the present, if properly conserved, can prevent change, preserve freedom, be considered justice and include love. But it does not recognize that Robert Fulton didn't stop trying to build a steamboat nor were the Wright Brothers discouraged from their attempts to prove that man can fly, while laws often provide no justice and realism produces far less than does love.

RThought: To counter the conservatism, you might consider that "America might never have been discoverd if Columbus HAD BEEN married. 'You're going where? With whom? To find what? And I suppose she's giving you those ships for nothing.' "

(The two quotations above were brought together by Jerry Bay, Editor of the *Prairie Rambler,* 7/88 issue.)



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ROUTE TO

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WHAT IS A HOME?

The Advance Report by the Bureau of Census on "Households, Families, Marital Status and Living Arrangements: March 1988" (Series P-20, No. 32, issued September 1988, and available from the Government Printing Office) gives interesting information on some long-term trends. One reads some "generalizations" from it in the public press—but not a full story.

First, a few definitions that will help.

The words "family" and "household" are frequently used interchangeably, but they mean different things to the Census Bureau.

A "household" comprises the person or persons who occupy a dwelling unit. This is broken down into two categories:

1. A family or family household which requires two or more persons of which at least two are related by blood, adoption or marriage.
2. A non-family household has no such relationship.

Within families, there are three types:

1. Married couples.
2. Those *headed* by a female even though there may be a non-spouse male over 18 in the household.
3. Those *headed* by a male even though there may be a non-spouse female over 18 in the household.

Non-family households are similarly identified as to whether headed by a male or female.

The Bureau is sensitive. Here is how it describes unmarried-couple households: "An unknown, presumably large share of unmarried-couple households involve close personal relationships, but others may involve householders with a tenant or employees living in the household."

Finally, one must remember that these figures are based on a monthly sample of 59,500 households (57,000 were reached) in 1,973 counties, cities and minor civil divisions. The sample is projected for the United States with a 90% probability that the true numbers are plus or minus 1.6% from the published figures.

And now for the information.

TABLE I

Year	Average Number in Household (persons)	Average Number in Family (persons)
1988	2.64	3.17
1987	2.66	3.19
1986	2.67	3.21
1985	2.69	3.23
1984	2.71	3.24
1979	2.78	3.31
1974	2.97	3.44
1969	3.16	3.60
1964	3.33	3.70
1960	3.33	3.70
1955	3.33	3.59
1950	3.37	3.54
1940	3.67	3.76

A CHALLENGING PLAN FOR 1989

You have set your plan for your business in 1989. Have you set one for yourself? May I suggest a few resolutions that will make you a better and a happier person and the world a better place to share with 5 billion people.

1. "To thine own self be true, and it must follow, as the night the day, thou canst not then be false to any man." (Shakespeare, *Hamlet,* Act 1, Scene iii.) Too many justify what they know is wrong by saying, "Everybody does it." If each of us would say, "Everybody . . . but me," it would be a great step forward. It could mean fewer bright young men in jail for insider trading, fewer people addicted to narcotics, fewer employees who become thieves, and many more good things.

2. Remember that marriage is a 60-60 proposition—the only way you can be sure of coming to agreement. And never go to bed mad. It is terribly hard to get up the next morning and put your anger back in place.

3. Listen to the other person. It is amazing how much you can learn. And when you do learn, remember what Alex Haley said, "Seek out good and praise it."

4. Look for the forest instead of the trees.

5. Remember that when you fail in something it does not prove the idea is wrong; it only proves the first way didn't work. Try at least three times. Remember—it took 606 tries for Dr. Paul Ehrlich to discover a cure for syphilis.

6. Forget hatred. It consumes you and has absolutely no effect on the person or object you hate.

7. Remember a few words you learned as a youth—that were meant for a lifetime. Boy Scouts: A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean and reverent. And Girl Scouts: A Scout is trustworthy, loyal, useful, friendly, kind to animals, courteous, obedient, cheerful, thrifty, and clean in thought, word and deed. More than a half century later, I find mine a good guide.

RThought: Dream the impossible. Live 1989 as you know you should. Happy New Year!

TABLE II

TOTAL CHANGE OVER FIVE-YEAR PERIOD

Years	Change in the Number of Persons in Household	Family
1984-88 (4 years)	−0.07	−0.07
1979-84	−0.07	−0.07
1974-79	−0.19	−0.13
1969-74	−0.19	−0.16
1964-69	−0.17	−0.10
1960-64	-0-	+0.03
1955-60	-0-	+0.08
1950-55	−0.04	+0.05
1940-50 (10 years)	−0.30	−0.06

There are a number of things we can learn from these figures.

First, the decline in the average size of both the household and the family, in the face of a population increase, resulted in a greater demand for housing than would have been the case if the household/family size had remained constant. As Table II shows, the impact was greater in the 1964-79 period than in the most recent 9 years. This has a direct impact on furniture and DIY retailing which is heavily impacted by the number of families/households created.

Second, with median family income rising (most recently at a rate slower than inflation), the lower new home sales leads to the reduction of demand for furniture and DIY items related to new housing. This permits diversion of spendable dollars to other categories.

When we look at the different types of families and non-family units, we see other trends that have an impact on retailing.

TABLE III

CHANGES IN FAMILY/HOUSEHOLD STRUCTURE

1970-1988

Type of Family/ Household	1970 Percentage	1988 Percentage	Change in Percentage Points
Married Couples			
No own children under 18	30.3%	29.9%	− 0.4
With own children under 18	40.3	27.0	− 13.3
1 child	12.9	10.9	− 2.0
2 children	12.7	10.5	− 2.2
3 or more children	14.7	5.6	− 9.1
Family Headed by Male	1.9	3.0	+ 1.1
No own children under 18	1.4	1.8	+ 0.4
With own children under 18	0.5	1.1	+ 0.6
1 child	0.3	0.7	+ 0.4
2 children	0.1	0.3	+ 0.2
3 or more children	0.1	0.1	0.0
Family Headed by Female	8.7	11.6	+ 2.9
No own children under 18	4.2	4.8	+ 0.6
With own children under 18	4.5	6.9	+ 2.4
1 child	1.6	3.3	+ 1.7
2 children	1.3	2.2	+ 0.9
3 or more children	1.6	1.3	− 0.3
Non-Family Households (unrelated individuals)			
Male head, more than 1 person	0.8	2.7	+ 1.9
Male head, alone	5.6	9.7	+ 4.1
Female head, more than 1 person	0.9	1.7	+ 0.8
Female head, alone	11.5	14.4	+ 2.9

The change can be summarized as follows:

TABLE IV

SUMMARY OF FAMILY/HOUSEHOLD CHANGES

1970-1988

Type of Family/Household	Change in Percentage Points: Decrease	Increase
Married Couples	− 13.7	
Family Headed by Male		+ 1.1
Family Headed by Female		+ 2.9
Non-Family Household Headed by Male		+ 6.0
Non-Family Household Headed by Female		+ 3.7
TOTALS	− 13.7	+ 13.7

What does this mean to retailers?

The increasing number of families headed by a single parent causes serious problems in our society including, for many, inadequate income, inadequate day-care facilities and a growing number of situations where the children are in an environment conducive to the development of anti-social conduct. A substantially higher percentage of income goes into housing, food and transportation and less into general merchandise.

The dramatic increase in the number of households with just one person is a serious problem to the community and, in many cases, a loss to the retailers. We were concerned in 1970 when 17.1% of the households had just one person; and now it is 24.1%. There are many more widows and widowers living alone, and not all of them in comfortable conditions. This problem will continue to grow as life expectancy increases. Table V below shows the changes in life expectancy between 1977 and 1985.

TABLE V

LIFE EXPECTANCY AT AGE 65

Group	1977 (years)	1985 (years)	Change (years)
White Male	13.9	14.6	+0.7
White Female	18.4	18.7	+0.3
Other Male	14.0	13.1*	Not Comparable
Other Female	17.8	17.0*	Not Comparable

*Black only.

Although retailing is paying more attention to the increasing number of citizens ages 65 to 75 and see a large market, that potential does not extend to those 75 and older. In fact, with fewer children accepting their filial responsibility, the care for this growing group represents a challenge to society—if we want to be the kind of people we say we are. Also, we should look at and understand more about the unmarried-couple household. The table below shows the number of such households and the percentage with children under the age of 15.

TABLE VI

Year	Number of Households (000)	Percentage with Children Under the Age of 15
1988	2,588	31.0%
1987	2,334	30.8
1986	2,220	29.8
1985	1,983	30.4
1984	1,988	30.9
1983	1,891	27.8
1982	1,863	25.5
1981	1,808	27.8
1980	1,589	27.5
1979	1,346	26.7
1978	1,137	23.9
1977	957	21.5
1970	523	37.5

HOW WOULD YOU FEEL WITH A NEGATIVE NET WORTH OF $230 MILLION?

Consider the position of Philip Hawley, Chairman and CEO of Carter Hawley Hale (CHH). At its year ending July 30, 1988, CHH reported sales of $2.6 billion and a profit of $17 million. That brought the **negative net worth** of CHH to $230 million! And that figure was certified by Price Waterhouse (PW). CHH should be bankrupt based on liabilities exceeding its assets, but PW did not tell the entire story.

This is a wonderful example of how Generally Accepted Accounting Principles (GAAP) cheat stockholders. GAAP conceals the truth. Let's analyze some information from CHH's Form 10K and apply some conservative estimates.

The 10K reports the square feet of owned buildings in three categories. In the table below, I have used a multiplier to estimate the square feet of land.

	Building (square feet)	Multiplied By	Estimated Total Land (square feet)
Owned—Downtown Stores—No Parking	1,560,000	0.16	249,600
Owned—Shopping Center Building Stores	4,039,500	4.0	16,158,000
Distribution Centers	2,501,200	2.0	5,002,400
TOTALS	8,100,700		21,410,000

I assumed downtown stores averaged six floors and that owned stores in shopping centers will have at least three square feet of parking for every square foot of store space. In the case of distribution centers, I have assumed one square foot of space for employee and truck/trailer parking for each square foot of the distribution center.

The 10K tells us that all this land is valued on the books at $36,313,000 or $1.69 per square foot!

The San Francisco Market Street Emporium-Capwell is on land bought before 1900! And the Oakland store is on land bought in the early 1920s. Nordstrom just opened a 300,000 square-foot store in a 600,000 square-foot vertical (six-story) shopping center—right next door to the San Francisco Emporium-Capwell. On three levels, the stores are joined! Will that increase the Emporium-Capwell land value? I think so. I assumed the San Francisco and Oakland stores, along with Thalhimer's 433,000 square-foot downtown Richmond (VA) store, have no parking.

The Rouse Company has just announced the commitment of J.C. Penney for a 160,000 square-foot store, along with a commitment for a 200,000 square-foot Nordstrom to go with the present 516,000 square-foot Emporium-Capwell for a major downtown Oakland redevelopment. Will this increase the value of CHH's land? I think so.

How much is the land worth?

I have assumed $10 per square foot for shopping center and distribution center land—and $100 per square foot for downtown land.

Type of Land	Square Feet	Value per Square Foot	Total Value
Downtown Land	249,600	$100.00	$ 24,916,000
Shopping Center Land	16,158,000	10.00	161,580,000
Distribution Centers	5,002,400	10.00	50,024,000
TOTALS	21,410,000	$ 11.04*	$236,520,000

*The composite value of $11.04 per square foot makes much more sense than $1.69.

What about the value of the buildings?

There were 5,600,000 square feet of owned store buildings and 2,501,000 square feet of distribution centers on the books at $205,767,000 or $25.39 per square foot. Have you recently built a department store in a shopping center for $25.39 per square foot?

Now let's assume that shopping center stores today cost $100 per square foot and distribution centers cost $30.

Type of Land	Square Feet	Value per Square Foot	Total Value
Retail Stores	5,600,000	$100.00	$560,000,000
Distribution Centers	2,501,000	30.00	75,030,000
TOTALS	8,101,000	$ 78.38	$635,030,000

I would call the difference between $25.39 on the books and $78.38 market value "substantial."

Is there any other hidden value not disclosed?

Yes. The leases.

CHH has the following leases:

Division	Number of Stores	Total Square Feet	Average Size
Broadway—California	22	3,804,000	173,000
Broadway—Southwest	5	849,000	170,000
Emporium-Capwell	12	2,386,000	198,000
Thalhimer	18	1,603,000	89,000
Weinstock	8	1,287,000	161,000
TOTALS	65	9,929,000	153,000

Is there a clue to the value of the leases? Hechinger recently purchased from Stop & Shop 47 of Bradlee's leases for $118 million. These stores were 60,000-80,000 square-foot stores in the mid-Atlantic area. That works out to $2,500,000 per lease. Using the larger store size of 80,000 square feet, that comes to $30 per square foot. Some stores were anchors in major centers, but many were not. Let's assume that the CHH leases are worth only $20 per square foot or $3 million each. Sixty-five would be worth $195 million—but no value shows on the CHH balance sheet.

What do we have now?

Asset	Book Value ($ Millions)	Estimated Current Value ($ Millions)	Undisclosed Value ($ Millions)
Land	$ 36	$ 236	$200
Buildings	206	635	429
Leases	none	195	195
TOTALS	$242	$1,066	824

RThought: Now you see why Phil Hawley is not worried. His insiders and lenders know that, on a current value basis, the equity is closer to $594 million-*plus* rather than to $230 million-*minus*. But shouldn't CHH be worried about a takeover play as The Limited tried or the Hafts do? Not with a majority of the shares of CHH owned by the employees, through the Profit Sharing Plan, or by the executives. No one gets a majority vote unless the officers (who happen to be trustees of the Plan as well as major beneficiaries) want it to happen.

continued

If you meet someone from Price Waterhouse, you might ask why PW didn't tell everyone about this. At $594 million equity with 22.6 million shares outstanding, the book value is $26 per share against the market price of $8 on December 1, 1988.

RThought: Accountants are so wedded to "historic cost less depreciation" that they don't care who they hurt with their "audited" reports. They do not tell "the truth, the whole truth, and nothing but the truth." So **help *US*, God.**

OFF-PRICE SHOPPING CENTERS IN FRANCE

The August/September *Retail News Letter* of the International Association of Department Stores reports the following status:

...21 centers totaling 1.7 million square feet (average 81,000 square feet).

...1,200 stores (average 1,400 square feet).

...56% clothing stores, 25% home goods, 6% leisure goods, and 13% other.

The rate of growth has slowed, and the following reasons are offered:

1. Bad locations [Note: Probably part of seeking low occupancy costs].
2. Poor mix—too many women's stores.
3. Well-known labels do not participate.
4. Known labels that participate using a different name.
5. Prices charged may be 20% to 30% lower than department stores but not 20% to 30% below other outlets, like hypermarkets, as they were at first.

RThought: These reasons generally apply in the U.S. Perhaps more major labels in the U.S. have been willing to take locations. Phillips-Van Heusen opened so many under its own name that it now is a vertically integrated, private-label, off-price retailer.

And stores that claim 20% to 60% savings from department store prices on **out-of-season** merchandise now have competition from fancier, larger and more convenient 20% to 40% off retailers, offering **current season** merchandise. They are called DEPARTMENT STORES.

Department stores are following the pattern of the old retailer, who, year after year, stayed in business with signs screaming "MUST LIQUIDATE," "BELOW COST," "BUY IT NOW," and "LAST CHANCE." When asked how he stays in business selling at cost, he replied, "I buy below cost!"

'INTRAPRENEURING'

Gifford Pinchot III is credited with coining the word "intrapreneuring"—a form of entrepreneurship within a large corporate structure (firms of 10,000 or more employees).

Prior to the term "intrapreneur," such people were known as "hair shirts" or "guys who won't go along" and many just as "troublemakers." They were people understood by Raymond Loewy, who called his biography, *Never Leave Well Enough Alone.* Loewy's designs changed much of what we see in our society from a locomotive to the Studebaker that looked like it could go either direction and led to the present use of glass in car designs.

After studying "intrapreneurs," Pinchot came up with 12 questions to ask yourself to find out if you are one:

1. Does your desire to make things work better occupy as much of your time as fulfilling your duty to maintain them the way they are?
2. Do you get excited about what you are doing at work?
3. Do you think about new business ideas while driving to work or taking a shower?
4. Can you visualize concrete steps when you consider ways to make a new idea happen?
5. Do you get in trouble from time to time for doing things that exceed your authority?
6. Are you able to keep your ideas under cover, suppressing your urge to tell everyone about them until you have tested them and developed a plan for implementation?
7. Have you successfully pushed through bleak times when something you were working on looked like it might fail?
8. Do you have more than your share of both fans and critics?
9. Do you have a network of friends at work whom you can count on for help?
10. Are you easily annoyed by others' incompetent attempts to execute your ideas?
11. Can you consider trying to overcome a natural perfectionist tendency to do all the work yourself and share responsibility for your ideas with a team?
12. Would you be willing to give up some salary in exchange for the chance to try out your business ideas if the rewards for success were adequate?

If you answered "Yes" more than "No," chances are you are already behaving like an "intrapreneur."

RThought: Elsewhere, Pinchot asks, "Do you come to work every day prepared to be fired?"

In case "Gifford Pinchot" is a familiar name, the original one (1865-1946) was a member of the National Forest Commission (1896), then Chief of the Division of Forestry (1898) out of which he created the present U.S. Forest Service. He headed that service until 1910 when he became President of the National Conservation Committee that led the fight for conservation (in the days when almost everyone thought we would never run out of oil and coal and clean water and clean air). He twice (1923-27 and 1931-35) served as Governor of Pennsylvania. He was a model of a perfect "intrapreneur."

(Note: This item was prompted by an article in *The Tarrytown Letter* of June 1980—unfortunately, *The Letter* is no longer published.)

In 1970 unmarried couples largely represented those who "lived in sin," but the percentage with children under *15* (not *18* as on Tables III and IV) really matched the family percentage. At the time "trial marriages" gained public acceptance, influenced by the many movie stars who cohabitated, the households did not have children. This changed with time. When there is a child, the unit is classified as "a family headed by a male or by a female," as the case may be.

RThought: There is very little reliable information available today on the difference in consumption patterns between married and unmarried couples. Many observers have said that the "temporariness" of the arrangement, which assumption may now be suspect, greatly reduces the purchase of furniture, ownership of homes and the attendant purchases, and even such things as life insurance. But little has been substantiated. In the meantime, unmarried couples are 2.85% of the households, up from 0.82% in 1970.

THE WORLD IS THE SAME ALL OVER

I took the following item from *The Notes* (No. 14/88, October 1988) put out by Barry Purdy, Executive Director, Retail and Wholesale Merchants Association of New Zealand, Inc.

> Item 225—Fair Trading Act—Farmers and $26,000 Fine
>
> You will have read reports about FTC (Farmers Trading Co.)—NZ's largest department store group—being fined a total of NZ$26,000 for selling clothes as "Made in NZ" when they were made in China. You may have missed the report that FTC's appeal against the sentence was dismissed. The Judge said fines could not be read to be manifestly excessive. There has to be a warning here about taking the Fair Trading Act seriously.

RThought: Apparently, all over the world, retailers are inclined to run dishonest ads (I suspect "Made in NZ" has more importance to FTC's customers than "Made in China").

LIQUOR BARN—EMPTY STORES TO EMPTY SHELVES

About 10 years ago, Safeway found itself with some small supermarkets with great leases. In the post-World War II period, it built many stores and sold them on a lease-back that provided rent for 20 years that would recover the cost with a reasonable profit. Then Safeway had a series of five-year options at 50% of the original rent. Why give up such locations?

It tried two formats—Food Barn, a warehouse-food store, and Liquor Barn, a large liquor store. This came just at the time when controlled retail prices on liquor were declared illegal in California.

Food Barn failed; Liquor Barn, under Steve Boone, succeeded.

When Safeway went private, one of the things it sold was Liquor Barn. Many were interested. Nobody had heard of Giles Clarke and Esme Johnstone of Majestic Wine PLC (21 discount stores with $20 million sales) in England, but Majestic put together $105 million to buy Liquor Barn. Help came from Transamerica's London investment bankers. Majestic had no experience with U.S. liquor retailing and none with running what was then a $300 million-a-year chain.

Majestic was going to change everything. For example, it was going to change the name and offered $10,000 to the person who came up with a new logo. A local paper reported such possibilities as "Barn de Liquere" or "Liquor Quikker." It seems Majestic kept the old name, and Clarke and Johnstone may have given themselves the $10,000. They were going to introduce their English check-out system (but didn't, at least, in our local store) and were going to open smaller stores.

The purchase was in 1987, and Giles Clarke became Chairman and CEO. He introduced such bargains as 13 bottles for the price of 12, a 7.7% discount—when most U.S. stores give a 10% discount on a case. With the mathematical skill of many of our citizens, it may have fooled some.

To strengthen its Board, it elected Edward Elson—you have seen his name on newspaper stands in hotels; Ron Beale—the ex-Macy's-California Senior Vice President and developer of an "upper-Fifth Avenue level" shopping center yet to prove itself; and Frank Herringer—then President of Transamerica and former head of the U.S. Urban Mass Transportation Administration. Herringer set the tone of the entire affair when he was quoted as saying in July 1988, "It [his board seat] won't take a lot of my time. My interest is that I get the opportunity to participate in the equity investment and the chance to see an LBO from the inside." I have not read of his resignation, but I suspect it has taken place or is upcoming.

We now come to November 1988. John Thompson, formerly with a specialty retailer in Atlanta (but does he "know" the California retail liquor market?), who bears the unique title of COO and Co-CEO(!), admits they have "some problems." Like some empty shelves and being on COD from some suppliers. Thompson is going to switch Liquor Barn from a Nordstrom level (poor comparison) to a K mart level. In addition, he will downsize. He closed or sold 18 stores in Arizona and 7 in California. But never say that "bad number" (11, as in Chapter). Thompson says that it plans to open 30 new stores in the next three to five years (a new type—with empty shelves?).

RThought: (1) All the other bidders were right—Majestic paid too much; (2) British success does not transfer directly to California; (3) Frank Herringer is seeing more of the inside of an LBO than he expected; and (4) I doubt that Herringer lists his "equity" in Liquor Barn on his financial statement.

RThought: And what happened to Steve Boone? He was backed by Bechtel Investments in buying Cost Plus, the original "import store" (the people who started Pier 1 got their start at Cost Plus; Munford's World Bazaar stores are similar). As I visit Cost Plus stores, I think Steve Boone is singing, "Doing What Comes Naturally," as he enlarges the wine business.

ACCORDING TO GOSPEL

The "Gospel of Retailing" says, in the first paragraph of the book:

> Christmas season starts with your Thanksgiving Day ad. To be successful, you shoot the works—nothing less than 20% off and lots at 30% and 40% off. On mattresses, even if you are in the middle of a sale, pretend you are really making it better by raising the 50% off to, of all things, 50% off just for Friday (customers don't remember your ad from last Sunday).

Take Circuit City, for example. It makes a living selling consumer electronics and, worse than that, appliances (like refrigerators and washing machines) into a dull replacement market. And what did it do? It ran a full page, headlined "GIFTS FOR LESS THAN $99." Now you know that means lots of $98.95 and $98.97 items. But someone did not understand the boss. Circuit City had nine lines of nine items each with each line labeled: "Gifts Under $10," "Gifts under

$20," up to "Gifts Under $99." On the $99 line, seven of the nine items were under $90 and could have been on the line above. **And it committed the worst sin—no comparative prices.**

Now take Toys "R" Us. It had a 16-page, full-color insert with 254 items with 14, repeat 14, at over $100 and not a single price comparison. Doesn't it know what happens to retailers who don't have 30% and 40% and 50% off all over their ads?

And then take that "crazy" Nordstrom. It ran a full-page ad showing a sketch of a model and of Jill Fitzsimon. The copy said, "Meet Jill Fitzsimon. Join us as we welcome Australia's foremost fashion designer to Nordstrom San Francisco Centre." (It even misspelled "center.") But no price, no 40% discount to introduce the line. It didn't even mention whether Jill's fashions would mix-or-match with acid-washed Levis. It also took two-thirds of a page, with a single sketch, headlined "Linda Richards perfects the pure wool city coat." In the smallest type in the last line, you find "$298.00 in Town Square." Doesn't it know it now has seven large stores in the Bay Area and someone has to bring in the customers? That $1.8 million opening day of the 300,000 square-foot San Francisco store must have been a fluke. The customers were people headed next door for the Emporium and just "happened" to drop in.

RThought: And the Price Club and Costco didn't even advertise!

They sure have Wall Street fooled. Imagine, paying 16 times earnings for Circuit City, or 21 times for Toys "R" Us, or 33 times for Costco, or 21 times for Nordstrom, or 20 times for Price Club.

Lincoln was right when he (not Barnum) said, "It is true that you may fool all of the people some of the time. . . ." But this may have been just a way for Alexander K. McClure to fill space in his book, *Lincoln's Yarns and Stories* (1904, page 124).

WHAT DOES A SQUARE FOOT COST?

The article, "Big Builders 1988: Spending Slows," from *Chain Store Age Executive Edition* (November 1988; 415 Park Avenue, New York, NY 10022), gave information on the top 25 retail builders in terms of capital expenditures and gross square footage added. But it did not do the obvious and show the cost per square foot. So *RT* did the calculations:

Company	Cost Per Square Foot
Sears	$333
May Department Stores	287
J.C. Penney	281
Dillard	256
Albertson's	217
The Limited	205
A&P	182
Woolworth	158
Dayton Hudson	155
Kroger	111
Toys "R" Us	110
K mart	99
Lowe's	90
Melville	88
Ames	62
Wal-Mart	43

RThought: One has to think through all the possible ways to determine cost per foot. But I would suspect that, although the computation was easy, the costs included in the expenditure figures reported by the companies vary widely.

Although the article listed the 25 largest firms by their do[illegible] investment and the 25 by largest square footage added, this list only has 16 names; nine names were not on both lists. But, regardless of what it does or does not include, the retailer must provide a reasonable return per square foot.

SHORT SHORTS

Which stores like to print half of the tabloid pages upside down? Answer: Best Products and Montgomery Ward—each three times or more. **RThought:** I have gotten used to Canadian quarterly reports in French on one side and English on the other and the Spiegal catalog that is apparel from one end and home goods from the other—but not upside down!

WORDS—TO BE REMINDED

Most people in retailing today won't recall the name of Jack Moss; but in the days before computers—over 40 years ago—I knew Jack Moss, the man who left Allied Stores to peddle a one-write system (you have forms gathered so that you create an individual document at the same time as you do a journal of the transaction) called Key-Rec. He believed the "key" document in the merchandise control system was the document created when the merchandise was received. He later adapted this simple hand-written system to many applications, such as returns to vendors, claims for co-op advertising and many more. Key-Rec was acquired by Allied-Egry, the printer doing Jack's work. And Allied-Egry, in turn, was acquired by SCM.

I have a client who has several hundred stores and has a pr[illegible]blem with bad check control. I wondered if, 35 years later, (1) SCM/Allied-Egry still existed and (2) if it still had a bad check control system. With trepidation, I called the number on the "newest" material in my file—perhaps 25 years old—and it still has the same name, same telephone number and same address. **Yes, Virginia, there is something permanent in this world.**

And the cycle from entrepreneurship is now complete—on November 7, 1988, the management bought out the company.

Jack was a very thoughtful man. He wrote interesting things to his customers, he was active in his synagogue and proud that his son became a rabbi. And in his periodical "applications letter," *Key-Rec Ideas,* he added words of wisdom at the bottom of some pages; they might be called "fillers."

In Issue 34, he brought all of us the wisdom of the German poet and dramatist, Johann Wolfgang von Goethe (1749-1832):

> ***"One ought at least to hear a little melody every day, read a fine poem, see a good picture, and if possible, make a few sensible remarks."***

RThought: Too often we forget this. It is easier today to hear a good melody (I am engulfed by the classics as I drive). I often see a good picture (sometimes a painting but now often a photograph) as I study the walls of the offices I visit. And I think I make a few sensible remarks. But I have been missing a fine poem. However, I have solved that problem. As I sit in the kitchen, as Patty is finishing preparation of dinner, I read a poem aloud so both of us will fill that gap.