

JANUARY 1989

- B - The Cure for Present Dishonest Pricing
- F - I Wonder What Reports by Impact Resources Tell Us?
- F - Maintaining Stupidity of Banks
 - A - Imagine Paying a Retail CEO \$1,000,000 a Year to Do This!
Tiffany
Liars, Damned Liars and Statisticians
And They Expect to Reduce Inventory Shortage
The Correct Way to Finance Receivables
The One Thing Nancy Will Miss -- Air Force One
- W - About Giving (Maimon's "Charity's Eight Degrees")

FEBRUARY 1989

- B - The Secret of the Success of L. L. Bean
- F - Can Conventional Retailers Survive? - Part I
 - A - Days of Joy -- As a Shopper
Risk Rating Retail Revolving Accounts
Chiseling on vendors is Explained to Consumers
The Best Consumer Resource Guide
Which Ad Will Sell the Most Cars?
Good and Bad from Eddie Bauer
Competition Rears Its Ugly Head
- W - From Fran

MARCH 1989

- B - Management is Simple
- F - Can Conventional Retailers Survive? - Part II
 - A - Who Says There is Price Competition?
What Happened to the Check Less Society?
Do Retailers Do Any Research?
Which Way Did The Shoes Go?
Accounting for Postretirement Benefits Other Than Pension
- W - About Character (Luther's "Bits and Pieces")

APRIL 1989

- B - A PLAN TO END DISHONEST MATTRESS ADVERTISING
- F - Can Conventional Retailers Survive? - Part III
 - A - How Sensitive Are Consumers to Chemicals in/on Foods?
Do People Prefer Products Made in the USA?
Is There a Japanese or European Laser Card in Your Future?
Whoops! (Carson Pirie Scott)
Missouri Attorney General Charges Best Buy Co. with Bait and Switch
Watch Your American Express Card
- W - Just a Few from Nordstrom

MAY 1989

B - At Last! Macy's California Ran a Mattress Ad Without Comparative Prices!!!

F - Can Conventional Retailers Survive? Part IV

A - Los Angeles is Lucky -- It Will Get a Covenant House

W - Words - Automated Pressuring of Congress

How Can We Know So Little -- After Knowing So Much?

OCTOBER 1989

B - Some Retailer Ethics in Selling A Company

F - What Is Retailer How Much Money Should You Save on Sacks?

F - Can Independent The More We Sell, the Sooner Our World is Destroyed

A - As Christ Junk How to Prove You Hate Your Customers

W - About a Plan to End Dishonest Mattress Advertising

JUNE 1989

B - How Well Will Sears Do with Everyday Low Prices?

F - Can Conventional Retailers Survive? Part V

A - Free Enterprise: Destroy Anything to Make a Buck

Sign in a Liquor Store Health Costs -- Too High? Too Low?

W - Words -- Evolution of the "Remote" Grand Opening Sale

Can You Tell Me Where...?

The "Hiccup" in Agglomeration

After Sales Service

NOVEMBER 1989

B - I Warned You

F - The Future W - About the Younger Generation (Peter the Hermit)

A - I Found Honest '50% Off' Ads!

JULY 1989

B - The Supreme Court Has Spoken -- Now It Is Up to Us

F - Retailing as I see It Today

A - Years of Pain

Attorneys General Take New Approach (Campbell Soup)

What Can This Be Called Merchandising?

What Does A Mighty Oak has Grown -- At Cornell

Small Store The Nilson Report Brought Me The Weather

Complete I Don't Understand... (AT&T)

W - Words W - Words from Hesiod -- About 700 BC

DECEMBER 1989

AUGUST 1989

B - Is This Why We Cannot Give Service?

F - If You Tell Your Employees They Are Crooks...

F - How Who Should Be on The Board of A Major Company?

A - \$25-30 A - Where Have We Been?

Easy to Free Enterprise - North Carolina Style

A Look at Furniture Sales and Department Stores

More Sugar Did You Know You Were Saving Money?

The High Grocers Do the Darndest Things

The Better The Full Cost of Demanding Polygraph Tests

Toys "R" Why I Like Joe McNichols' Newsletter

W - Words W - Words--From Attila the Hun

- SEPTEMBER 1989
- B - The Supreme Court Has Spoken; Now It Is Up to Us -- Response
 - F - How to Lose a Dozen Customers
 - F - Eagle Food Center - From LBO to IPO
 - A - Who Does the Most Retail Business in the U.S.? Do You Know What Others Know About You? Quit Complaining - Teach A Look at the Future of Bank Cards from Spence Nilson
 - W - Words - From Henry Ford
- OCTOBER 1989
- B - Some Retailers Do Adopt Codes of Ethics
 - F - What Is Retailing?
 - F - Can Independent Stores Survive?
 - A - As Christmas Approaches, Will You Gripe About Junk Mail? A Challenge to Pen-and-Pencil Tests Did Discover Card Really Tell Cardholders of the Changes? Would You Trust a Doctor Who Changes His Diagnosis Every Year? Another Absurd IRS LIFO Ruling FTC v. SILO, Inc. Sign in a Food & Liquor Store Is Lucky Stores' Advertising Honest?
 - W - Words -- Could You Write These? (Elam Brown)
- NOVEMBER 1989
- B - I Warned You Not to Hire Stanford Graduates
 - F - The Future of Retailing
 - A - I Found Honest '50% Off' Ads! Who Sells Major Appliances? Sacramento District Attorney v. Target Stores You Judge the Standards of Conduct of Banks Who Has the Worst Telephone System? What Carcinogens Do You Use or Stock? What Does 'No New Taxes' Mean? Small Store Special: Now Everyone Can Have a Complete Personnel Manual FTC v. Heilig-Meyers
 - W - Words -- As They are Written (American Rifleman)
- DECEMBER 1989
- B - A Plan to Make Your Year
 - F - Everyone Is Worried About Retail Advertising Nobody Will Do Anything Except...
 - F - How Scanning and Data Capture Fail
 - A - \$25-\$30 Billion A Year and Cannot Sell Merchandise Easy to Tell How -- Hard to Do A Look at Japan's Largest Retailer More Suggestions for Men's Stores (Sm.Str.Special) The Highs and Lows of Bankruptcy The Better Business Bureau Reports on Complaints Toys "R" Us Magazine Insert is Properly Backed
 - W - Words -- About Strength and Weakness (Dore Schary)



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

JANUARY 1989

VOL. 24, NO. 1

IMAGINE PAYING A RETAIL CEO \$1,000,000 A YEAR TO DO THIS!

Apparel Merchandising (425 Park Avenue, New York, NY 10022; free—for now—if you fit the mold), in its October 1988 issue, has just discovered the decreasing number of teenagers entering the labor market, resulting in a shrinking supply of teen-agers. I could have told the magazine about this in the early 1970s without giving out any confidential information.

But I really wondered about the understanding of its writers and editors when I read the following:

Most stores are currently paying starting hourly wages of \$4 to \$4.50—well above the \$3.35 national minimum—and employees *have the chance* to boost their hourly rate by a minimum of 50 cents just six months after they're hired. [Emphasis added.]

The minimum wage of \$3.35 became effective January 1, 1981, just as the Reagan administration was going to end inflation. At that time, it was 43% of average hourly earnings. By October 1988, it was 35%.

By 1986, only 6% of the workers were being paid the minimum wage; today, that figure is probably under 4%. (Note: Using the minimum wage as a comparison for the current starting retail wage is about as honest as the 50% off mattress ads foisted on the public.)

But retailers can be proud of being champions. They lead all other industries in the percentage of employees receiving the minimum wage—14.1%—well ahead of second-place agriculture (11.1%) and third-place private-household employees (10.6%).

From January 1981 to September 1988, the Consumer Price Index for "Wage Earners and Clericals" increased by 46% and for "Urban Dwellers" by 48%. Using the average of 47%, the \$3.35 in January of 1981 is equal to \$4.92—and yet the writer said (and the editor did not change), "... well above the \$3.35 national minimum." Actually, \$4 and \$4.50 today represent 19% and 9% below the 1981 buying power of the \$3.35 minimum wage.

The article does mention expanded benefits for short-hour workers. More people on the sales floor are being offered commissions or quota bonuses. But guaranteed work schedules/hours are seldom part of the change. The article reports that classified ads are not pulling and especially not pulling people from around the stores where needed. (Too many ads speak glowingly but do not include a specific pay rate.)

RThought: At no point does the article point out that usually "you get what you pay for." In fact, in speaking of the proposal to increase the national minimum from \$3.35 to \$4.55, it observes there will be a ripple effect (it should be small if the present starting rate is \$4.55 or higher) and concludes, "And,

THE CURE FOR PRESENT DISHONEST PRICING

The following quotation, with some minor deletions, addresses problems of advertising today and is from a section of a merchandising plan of a major retailer, entitled "The Lessons of History":

To learn from our past, and extract lessons from it, is the surest guarantee that we can avoid repeating it. That past, that we have created, *did not* increase our share of the general merchandising market, and *did reduce* our operating profit margins as we pursued that increase in share of even higher and more intense levels of promotional activity. . . .

That past, at least according to our tracking studies, did not increase our image in the consumer's mind as the *Store for Value* . . . ironically enough, during years in which our Value Image was addressed with high-level promotional markdowns.

To attempt to afford those promotional markdowns, our regular selling prices were increased. . . .

And, therefore, it would appear that we created our own image as we pursued *promotional*, rather than *product* [identification], as the principal means of our growth.

* * * * *

We plan over the next five years to:

Substantially improve overhead expense control to realize the benefits of economy of scale. And to accept the fact that the *ratios* of advertising, markdowns, overhead, payroll, etc., can *decrease* as sales *increase*, if we plan correctly.

Lower levels of initial margin to improve the value of our goods and insure our competitiveness at everyday pricing.

Higher levels of gross profit developed by the *gradual* reduction of promotional markdowns as a percentage of sales.

Merchandising attention and resource commitment to those lines where margin improvement will result from change in the internal balance of sales.

RThought: Every store should be doing the above—for its own benefit. The period of higher and higher initial markups, in order to have higher and higher promotional markdowns, must come to an end sometime—and that time should be now.

The statement above is a clear and concise statement of what must be done now. But it was a statement by Sears of the reforms that it undertook in 1978 for the 1978-83 period—10 years ago. The source of this information? A copy of a top secret plan that was obtained by *Crain's Chicago Business* and was printed in 1978.

crazy as it may seem, that could mean that starting sales associates, in some areas of the country, would earn about \$8 an hour."

Actually, \$8 may be a great savior. If all other industries keep their present \$7 and \$8 and \$9 wages (set by union contracts or

going wages in the industries), it may be a way of saving the retailers by attracting better people.

At \$8, the industry could begin to look at much better quality people. They may be better groomed, better dressed and speak better. In other words, if you have a medium or higher quality store, your customers may feel more comfortable with them as sales associates. Most likely, the \$8 people would be able to absorb training and absorb it faster and be more likely to put the training into practice.

And guess what? In the beginning, you might find that an \$8 per hour sales associate produces 60% more sales (perhaps doing some "suggestive selling") and is less likely to find a job that will cause a switch for 50 cents an hour more. Such a person could even cause a customer s/he served to say at a club meeting, "I met such a nice sales person at FSS [Far-Sighted Store] that I am going back tomorrow."

It seems that the people who say we have to pay as close to the minimum as possible all come to work in Mercedes, BMWs, Cads—anything but a Yugo, the "minimum wage of the auto industry."

But then, since when does paying the CEO of a retail company \$500,000 or \$1,000,000 insure that you get someone who is able to stay in touch with either the mass of customers or the mass of the company's customers (when what you need for success is someone who can stay in touch with both)?

TIFFANY

Once the sedate "Queen of Fifth Avenue," she was raised to even more stature by Walter Hoving; and then, in the arms of Avon, subjected to benign neglect. Somehow, Tiffany was going to bring class and stature to Avon as the ladies wended and vended their way from door to door.

At last, back in the care of those who love her, Tiffany is approaching the world that understands her—which was not that of the Avon Lady.

With three divisions—U.S. retail, international retail and direct marketing—she will do more than \$250 million this year.

The store in the Peninsula Hotel in Hong Kong was profitable in the first month; another, twice the size of the one in "The Pen," will open in Landmark Center; and in this past quarter, a store was opened in the Bahnhofstrasse in Zurich.

RThought: No one can run all kinds of stores. It takes a special kind of love and care that the "jack of all trades" never has in his "tool kit."

For example, Paccar, a manufacturer of heavy trucks, bought Grand Auto, a chain of tire and auto supply stores; and now the shelves are empty. I suspect a controller is in charge.

And to Walter, if he is watching: Tiffany is safe. For now.

LIARS, DAMNED LIARS AND STATISTICIANS

When I studied to be a statistician, I was warned about the problems of the profession. I was also warned that figures don't lie but liars figure. Despite these problems, I decided I would be a part-time statistician who would be dedicated to debunking (or merely explaining) bad figures.

GE Capital (formerly, General Electric Credit Corporation) is a big finance company. If you looked at its total assets, it

would be up there among the top 25 or so largest banks in the United States. A lot of the "juice" many think is flowing through the "wiring" of General "Electric" as volts and amps and watts is really "interest" and "dollars and sense."

In the excellent (slick?) quarterly magazine, *FINANCIAL ENTERPRISE*, *The Magazine of GE Capital*, for Winter 1988, an article on franchising starts with this sentence:

One of every three dollars spent by U.S. consumers on retail goods and services is spent at a franchised establishment.

It then speaks of 500,000 franchise outlets and you, as a store retailer, get to thinking: "Are there that many stores?"

So let's look at some figures on franchising from a Commerce Department 1987 survey.

Type of Business	Number of Establishments (in Thousands)	Estimated 1988 Sales (\$ Billions)*	Percentage of Franchise Sales*
Automobile and Truck Dealers	27.8	\$335.4	64.4%
Gas Service Stations	91.8	75.4	14.5
Sub-total for the Big Dollars	119.6	\$410.8	78.9%
Automobile Products and Services	36.3	9.2	1.8
Automobile and Truck Rentals	8.0	3.0	.6
Sub-total for Automotive	163.9	\$423.0	81.2%
Food Retailing (except Convenience Stores)	20.2	\$ 9.1	1.7%
Convenience Stores	7.6	5.7	1.1
Restaurants	63.8	19.8	3.8
Soft Drink Bottlers	0.5	3.5	0.7
Sub-total for Your Tummy	92.1	\$ 38.1	7.3%
Construction, Home Improvement, Maintenance Cleaning Services	24.6	\$ 4.6	0.9%
Educational Products and Services	10.0	0.9	0.2
Printing and Copying	6.2	1.3	0.2
Tax Preparation	5.1	0.2	**
Employment Services	4.0	2.3	0.4
Accounting, Credit Collection Agencies, General Business Systems	2.2	0.2	**
Equipment Rental	2.7	0.5	0.1
Laundry and Dry Cleaning	2.3	0.3	**
Real Estate	16.8	6.3***	1.2
Miscellaneous Business Services	21.2	3.6	0.7
Sub-total for Services	95.1	\$ 20.2	3.9%
Hotels, Motels and Campgrounds	9.0	\$ 14.0	2.7%
Recreation, Entertainment and Travel	8.5	4.2	0.8
Sub-total for Getting Out of the House	17.5	\$ 18.2	3.5%
Non-Food Retailing	40.7	19.8	3.8
Other	7.1	1.6	0.3
GRAND TOTAL	416.4	\$520.9	100.0%

*May not add due to rounding of numbers.

**Under 0.05%.

***Sales commission only.

Just a few comments on the facts—independent of the reaction to the quotation.

The volume of 40,700 non-food retailers (Ben Franklin, Ace Hardware, Benneton's, etc.) equals the U.S. volume of a Sears or K mart.

The food retailing business (exclusive of convenience stores) does less than Safeway or Kroger did in far fewer stores. That was before they were infected by the LBO or restructuring bug.

I WONDER WHAT REPORTS BY IMPACT RESOURCES TELL US?

I have just recently become conscious of IMPACT Resources and its reports based on a large data base of interviews. I first saw mention of its work in a *New York Times* article. Based on a sample of about 25,000 interviews, it reported that among four or five reasons why a customer shopped at a particular store, service was in last place. If true, that certainly would be news. And it would mean that lots of retailers are wasting millions—or even billions—in trying to improve their service.

When I called them about their methodology, the person responding was very defensive. They maintained that their large data base gave significance to their figures. We ended up agreeing to exchange newsletters. They must do their thing—advocate their methodology; I must do my thing—comment on the retail scene as I see it. I trust we shall continue to exchange newsletters, each seeking to bring the light to the other.

But the first newsletter (*MarketTREND, Micro-Market News* for November 1988) I received had the front page devoted to analyzing “3,826 shoppers, who identify themselves as ‘regular’ Wal-Mart shoppers.” I am not a “regular Wal-Mart shopper”; but as an active director for more than eight years, I have devoted a lot of time to thinking about and studying Wal-Mart. The newsletter presented four charts and certain conclusions about the characteristics of those “regular” Wal-Mart shoppers.

The figures were compared with national averages.

The article reported that 62.9% of Wal-Mart shoppers were married against a national average of 51.6%. The source of the “national average” is not given. The most recent (March 1988) Bureau of Census Report (Series P-20, No. 32, Issued September 1988) on “Households, Families, Marital Status and Living Arrangements” reports that 56.9% of households contain a married couple (3.0% had families headed by a male; 11.6% families headed by a female; 4.4% headed by non-family people; and 24.1% headed by a single person).

If the count was of shoppers (as it seems), rather than of shopping groups, the figure may reflect the large number of husband-wife or full-families seen shopping at Wal-Mart, which carries goods appealing to all members of the family.

The next chart in the article showed the percentage of shoppers broken down by age as compared with a national average; again, presumably, a pattern that reflects the hundreds of thousands of people IMPACT Resources had interviewed. The conclusion: “. . . it is evident that Teens and Seniors are not drawn well by Wal-Mart.” I challenge that conclusion. One of the problems of working with a 100% total is that, if you are above the percentage in one part of the spectrum, you must be below the pattern in another. That is a law of numbers. However, if the study reported Wal-Mart customers as a percentage of the available customers in each age group, I think it would find that in most communities (especially the many small communities in which Wal-Mart is located) no other general merchandise store draws as high a percentage of the available population over all age groups.

The same chart could be interpreted to show that Wal-Mart draws 40% of the seniors and teens but 55% of the available 44 year olds. (Of course, the goal of Wal-Mart is to get 100% of all ages.)

Under occupation, it compares Wal-Mart with the “national average” and shows (as I read the bar chart—numbers are not

given) that about 25% are professional/managers against the national figure of 27%. There is no indication of whether this variance, being based on a sample, is statistically significant. The same question could be raised on the difference between Wal-Mart’s 14% and the “national average” of 13% for clerical/service workers, nor does it appear to be highly significant among factory workers/laborers (15% v. 11%) and homemakers (16% v. 12%). But a lot of people seem to be missing—about 25% of the Wal-Mart shoppers and 30% of the national average. The major groups not mentioned are sales and farm labor.

The fourth comparison was in education. If the missing numbers are those who completed their education below high school graduation (13.3% for Wal-Mart and 20.3% for the national average), it indicates that the median education for the national average is almost exactly a high school graduate (50.5% high school or above) while the median for Wal-Mart is also a high school graduate (47.5% above). It did conclude that the Wal-Mart shopper was more likely to have a high school education and to have attended college one to three years. If it did any interviewing in smaller towns, it would be natural to have fewer college graduates. The people in small towns do go to college; but when they graduate, many do not go back to the small towns from whence they came. Wal-Mart has done a better job of penetrating small towns than metropolitan areas, like Chicago, Cleveland, Atlanta, Miami, Denver, Phoenix, Kansas City and Indianapolis—just to mention a few of the metropolitan areas of states in which it operates.

But even with these comments, I doubt that the sample, large as it is, is statistically valid. The *Chain Store Age 1988 Directory of Discount Stores*, based on 980 Wal-Mart stores, reported, at the end of the January 1987 year, 490 in towns in which Wal-Mart was the only discount store (and practically none had a “true” department store). These towns had an average population of 7,100 (the trading area was larger), and the stores averaged 51,000 square feet. That 25 million square feet—even at 75% of the sales per square foot for the company—would be about \$4 billion in the year ending January 1987. I suspect the sample did not reflect these communities. Wal-Mart sells the same basic merchandise in all stores.

RThought: Ask your parents about the *Literary Digest*. All through the 1920s, it ran a poll—anyone could vote as many times as they wanted. It predicted Harding in 1920, Coolidge in 1924 and Hoover in 1928—and also in 1932, when Roosevelt won. Shortly after that time, the *Literary Digest* disappeared; and a professor at Harvard Business School, named Theodore “Teddy” Brown, started to develop scientifically sound samplings for *LIFE* magazine. I had the pleasure of studying under Teddy. Till my dying day, I will be conscious of sampling errors; and as I breathe my last, I will say to whoever is at my bedside, “But there was only a 90% probability that this would be the day.”

RThought: Large samples obtained are still nothing but large numbers; small samples obtained on a scientific basis, such as a random stratified sample, can be used as a basis of making decisions if one also has some measure of the probability.

The answers from a large sample used by IMPACT Resources can be rendered more useless by poor questions. I understand that the question was why a purchase was made or attempted

continued

FEATURE REPORT *continued*:

that particular day. I think most customers know what kind of service they want—and it may be different for different kinds of merchandise. When consumers are agreed that all so-called “full-price” stores have terrible service, then the decision of which store to patronize will be made on other factors, such as assortment, convenience and price.

Had IMPACT Resources asked the same 25,000 people “What is the worst problem you have when shopping?” I

think more than 50% would have said, “Poor service.” Service would be a reason for picking a store only if the customer found one that provided service in a way they liked. But that is as uncommon in New York as it is in Boston or Cleveland, so it will not be a discriminating factor when deciding where to spend one’s dollars. Now in Nordstrom Territory (NT) (Washington, Oregon, California, Utah, Virginia and soon other states), service will be mentioned more often. In NT, it is a viable choice.

MAINTAINING STUPIDITY OF BANKS

I am angry.

I have used some carefully picked words in the title of this article. The following definitions are taken from Webster’s Ninth New Collegiate Dictionary (1983), which received top reviews when published:

Maintain: 1. to keep in an existing state; 2. to sustain against opposition or danger; 3. to continue or persevere in.

Stupid: 1a. slow of mind; b. given to unintelligent decisions or acts; acting in an unintelligent or careless manner; c. lacking intelligence or reason.

Banks: 1b. an establishment for the custody, loan, exchange or issue of money, for the extension of credit and for facilitating the transmission of funds.

Banks are being badly served by Robert Morris Associates (RMA)—“The National Association of Bank Loan and Credit Officers.” RMA purports to serve those loan and credit officers through *The Journal of Commercial Bank Lending*.

Background:

It has been my experience based during 40 years of dealing with loan officers that they do not, as a group, understand the value of the three largest assets that a retailer has:

1. Accounts receivable
2. Inventory
3. Leases

More than two years ago, I submitted an article to *The Journal of Commercial Bank Lending*, dealing with these three assets in the hopes that it would bring some information to the readers of *The Journal*. As with any good journal, the submitted article was circulated for review (as I review some of the articles that appear in *The Journal of Retailing*).

Comments of Reviewers:

I pointed out the exceptional collection record on accounts receivable of closed stores. Acceptance of the finance charge provides funds above the principal that more than pays for the cost of collection. Yet one reviewer wrote in the margin, “Everybody knows that people do not pay their accounts when a store is closed.” That reviewer is, I presume, a lending officer in some bank and that bank may have retailers as customers. He was not impressed by the month-by-month figures from a recent actual case showing 95% collected.

I tried to explain (to the bank) the advantage of the retail method of inventory because the method reduces the book value of the inventory as soon as a markdown is taken. That is not true in most manufacturing businesses. Their cost or market system does not reflect the loss until sold below cost. Another reviewer wrote in the margin, “Pray tell me, why should they want to reduce the value of the inventory?” I had

to reply that if the retailer was on the retail method of inventory—and was honest—that he had no choice; he had to record his markdowns when taken.

Here is the substance of comments in the article:

Accounts Receivable: I gave month-by-month details of collecting \$3 million in receivables after the store was sold and in-house receivables were discontinued. I tried to explain the difference in motivation of a customer of a retail store and a customer of a manufacturing company. I also outlined what steps a bank should/could take to insure that (a) its knowledge of quality of receivables was maintained, and (b) some special protective terms should be in the agreement for a loan based on receivables.

Inventory: I explained how the retail inventory method worked. It produced the “stupid” marginal comment mentioned above. But I also pointed out how they could be sure that inventory was currently valued and how it could be disposed of in a manner that would net book or close to book after direct expenses of liquidation. My hardest problem with bank lending officers is making them understand that the book inventory figure is not the selling price but the cost to the store and that the selling price can be more than double the cost figure.

Leases: I don’t think most lending officers will ever understand something they presumably learned in Econ 1—that there is “location value” that a lease may control. I discussed the sale of 47 Bradlees’ leases by Stop & Shop (Stop & Shop had a book equity of about \$500 million) to Hechinger for \$118 million (roughly \$25-\$30 per square foot), as well as many other published reports of sales of retail leases. But I will never convince RMA that a store’s leases represent a very large non-balance sheet asset. In the case of Stop & Shop, I am certain that the market value of its leases for all the Bradlees’ discount stores and Stop & Shop supermarket stores, none of which is on the balance sheets, equals the reported \$500 million equity.

RThought: I made an honest effort to educate bank lending officers. Please don’t blame the lending officer that tells you that, if anything happened to your business, the bank would be lucky to collect 65% of your receivables and get 50 cents on the dollar for your inventory.

I refer you to definition “1b.” under “Stupid” stated above.

RThought: If you would like a copy of the paper, send \$5 to LENDING TO RETAILERS, Box 249, Lafayette, CA 94549. Perhaps you can get your lending officer to read it. I think his comment will be, “Gee, I didn’t know that”; to which you might reply, “Your *Journal of Commercial Bank Lending* kept it from you.”

RThought: Those who have pushed franchises (whether for a tax service or a dry-cleaning shop or a shoe store) have quoted the figures GE Credit quoted—without ever informing the listener who is led to believe that soon Sears will be replaced by a national franchise. The truth is that most of the franchise volume is done by gasoline stations or new cars. These two fields represent 25% of the franchisees who account for 79% of the franchise volume. Prospects are never told that, when Safeway and Kroger and Limited and K mart and Wal-Mart worry about competition in a town, they seldom consider a franchise store.

On the good side, a tremendous number of entrepreneurs make a fine living with assistance from and under the shelter of a franchise agreement.

I have used the same, fine, local (two units) travel agency for 15 years—and it recently started answering its phone, “Call Mr. Foster.” The owner says that, in this transient world, the brand name, “Mr. Foster,” brings new customers.

AND THEY EXPECT TO REDUCE INVENTORY SHORTAGE

If we took an inventory every month, I am certain that the biggest shrinkage in terms of both dollars and percentage of sales would be in December. It is not because of the cover for professional shoplifters, it is not because more items are marked down than during any other month and errors in recording price changes are one of the major causes, and it is not because systems are not in place.

I was reading the November employee publication for a major retailer. The article was called “Shortage Solutions.” It started with the sentence, “Believe it or not, you can have a tremendous impact on reducing shortage.”

It then listed five ways “you can have” that impact:

1. **Use the Buddy System.** [I presume this is to have a senior person, who can answer questions, working with new employees. It is great to have a buddy system, but will someone arrange that they be on the same schedule? Does the senior “buddy” really want to babysit? Does s/he have an incentive (promotion, extra days off after Christmas, a thank-you note from the store manager/district manager/even CEO for the job s/he does? The article does not say.]
2. **Point-of-sale accuracy is critical.** [True. But how is that accomplished? When I was in grammar school, Mother would say to me each morning as I left, “Be careful.” Careful of what?]
3. **Be familiar with the stock and merchandise classifications.** [Is a Christmas temporary given any training in this area? or just thrown on the selling floor?]
4. **Correctly account for markdowns and price changes.** [Who, me? What’s a “markdown”?]
5. **Monitor the fitting rooms.** [Who? How? I used to be a “hall monitor” in school; but at school they told me what to do. All point 5 says is to keep the fitting rooms clean and neat.]

RThought: I would guess that between Thanksgiving and Christmas the typical situation finds more than half of the bodies who ring sales do not know merchandise well enough to catch ticket switchers, how to handle returns properly, if returned merchandise was carried by the company in the first place, or how to mark down broken items and record price changes correctly. To quote Samuel Goldwyn: “In two words, IM POSSIBLE.”

Take a look at what we pay—as close to the minimum as is necessary to get a warm body that will come in on schedule and be reasonably dressed. And, of course, we don’t spend much money on training because they will only be there for a few weeks.

Do we give any form of special bonus to such people—like \$100 if they complete their schedule? or a gift certificate at Christmas time (better make that “23rd time” because they may well be laid off by that date)?

We get what we pay for—like people worth only \$3.35 or \$4.25 (in California). And we may be competing against McDonald’s at \$6—there, they can socialize with their peers.

RThought: Please indulge me as I reminisce. In the 1930s (when I was in high school), the department and specialty stores hired high school juniors to work regularly. Their first jobs would be the summer at the end of their junior year. Regular employees took vacations from June through September, and the “extras” would fill in. After 10 or 12 weeks of full-time employment, they were well qualified. Then they would work Saturdays. When we added one night a week, usually Thursday, they worked Saturday and Thursday night. Then Monday night was added, and they worked two nights and Saturday.

When we started opening every night (the 1950s), Macy’s California did a startling thing. It had a separate crew for nights. Department lines were eliminated. Departments were grouped into areas, and area managers operated the floor. Often the area manager was a local school teacher.

Under either format, at Christmas time we ended up with many fully trained people. As soon as school was out, usually five to ten days before Christmas, they started working full time, fully trained.

I can remember, in 1946 or 1947, when a bright 16-year-old, named Joanne Arnesen, came to work as a part-time employee in the credit office. She worked part time through college and even after she married—in fact, until her husband was transferred to Sacramento. I last saw her in the same store, still part time, in the credit department, in the mid-1980s—then a grandmother—and a fully trained extra.

We thought we were saving money when we spread summer vacations over more months to eliminate the need for summer extras.

I still think the secret to good service at Christmas starts with summer employment of high school students.

THE CORRECT WAY TO FINANCE RECEIVABLES

A merchant should not invest equity money in accounts receivables. He makes his money on his inventory.

Prior to WWII, and especially before WWI, a department store was not considered sound unless it owned its building, its inventory and its receivables.

With the opening of branches after WWII, most stores started to lease their buildings. Real estate warrants (and usually gets) a much lower return on investment than is satisfactory to an investor in a large retail business. A return of 8% or 9%, plus the benefit of being able to write off the building each year while, in most years, it is increasing in value, gives the real estate investor a good return but one which is not fully realized until the property is sold.

Receivables should not be owned by the retailer because they are the lowest risk major form of credit. This was proven in the 1930s and continues to be true. But a retailer needs to control the granting of credit and should bear any cost resulting from bad debt. Thus banks should be used to finance receivables on a no-risk basis.

Or—even better—look at what Sears has done.

Sears recently issued \$500 million of 9.05% pass-through certificates that represent an interest in a portfolio of Sears' Discover card receivables. The yield on the receivables (from the finance charge) is in the 17%-plus range. This gives Sears an 8-point spread by using money below the prime rate. The prospectus gives an insight into the type of receivables Sears has. Roughly 60% have limits between \$600 and \$2100 with 20% above \$2100 and 20% below \$600. Sixty-five percent have been open for at least five years and 40% open 10 years (with customer loyalty like that, Sears should be doing better).

The table below shows the performance of Sears' receivables over the past three years:

	1987	1986	1985
Yield on Receivables	17.40%	17.60%	17.70%
Gross Charge-offs as Percentage of Balances	2.55	2.39	1.89
Less Recoveries	(0.40)	(0.31)	(0.26)
Net Charge-offs	2.15%	2.08%	1.63%
Percentage of Accounts Delinquent*	1.13%	1.20%	1.09%
Percentage of Balances in Delinquent Accounts*	1.94%	2.01%	1.81%
Average Monthly Payment Rate**	9.78%	9.79%	9.61%

*Delinquent if missed a total of three or more payments.

**Cash received as a percentage of opening dollar balance of billing cycle.

RThought: Sears is in the position a merchant should be—reducing the amount of equity it has in receivables. But no merchant would have drained his mercantile operation of \$4.5 billion as Sears did to buy the likes of Coldwell-Banker and Dean Witter or to start Sears World Trade, Inc.

As an aside: Sears still conceals billions of dollars of difference between the fair market value of its shopping centers and its owned stores and what it tells its shareholders they are worth (perhaps \$1 billion on the Sears Tower alone). But, if Kohlberg Kravis Roberts can take over RJR Nabisco, then it should be easy to make an offer that underinformed owners of Sears would jump at. KKR could finance billions out of the understated real estate and get GE Capital to finance the accounts receivable.

THE ONE THING NANCY WILL MISS MOST—AIR FORCE ONE

Recently, Nancy Reagan was asked what she will miss most after eight years with her husband in a low-pay (20% of what some retail CEOs get), high-fringe job—and she answered, "Air Force One."

Nancy really doesn't have to worry too much. One of the Reagans' multimillionaire (billionaire?) friends is certain to make a private jet available—and perhaps charge the cost to his company. But Nancy had a deeper reason for answering, "Air Force One"—a reason that affects most *RT* readers, who probably make 10, 20, 30 or more air trips a year and are aware of airports being used beyond their designed safety limits.

We pay an 8% tax on our airline tickets for the purpose of providing funds for airport construction and air traffic control.

President Reagan entered office 7/12ths of the way through Fiscal Year 1981, so the first impact he had was on Fiscal Year 1982. The table below shows both income and expenditures for the Airport and Airway Trust Fund:

All Figures in \$ Billions

	1982	1983	1984	1985	1986	1987
Receipts	\$ 0.7	\$ 2.7	\$ 3.0	\$ 3.6	\$ 3.6	\$ 3.9
Spent	1.5	1.8	1.4	2.6	2.4	2.6
Change	-0.8	+0.9	+1.6	+1.0	+1.2	+1.3
UNSPENT BALANCE	\$ 3.9	\$ 4.8	\$ 6.4	\$ 7.4	\$ 8.6	\$10.0

\$6.1 billion has been collected that was not spent for our airways and airports.

RThought: I am surprised that Nancy's astrologer could not look far enough into the future to tell her, "Flying won't be as safe as on Air Force One because you did not get Ronnie to spend the money collected on airline tickets. The least that Ronnie could do for you is get a promise from Bush to use the \$6 billion—so you will feel safer riding in a commercial jet."

There is no record of the coach section crashing and the first-class section arriving safely.

SHORT SHORTS

The art of wrist-slapping. The California State Board of Accountancy placed KMG Main Hurdman on probation for "gross negligence" in the audit of Technical Equities, an investment company that went bankrupt in 1986. **RThought:** Does that really help the 1,000-plus investors who lost \$150 million? Did the Board of Accountancy notify the clients of KMG Main Hurdman of the probation? Will the probation bring back any money for the investors?

WORDS—ABOUT GIVING

As we look back on the holiday season, we might consider what Moses Ben Maimon (Maimonides, 1135-1204 AD), a physician and philosopher, described as "Charity's Eight Degrees":

The first seven degrees are:

1. One who gives grudgingly or with regret.
2. One who gives less than one should, but gives graciously.
3. One who gives what one should, but only after being asked.
4. One who gives before being asked.
5. One who gives without knowing to whom it goes, although the recipient knows the identity of the donor.
6. One who gives without making his identity known.
7. One who gives without knowing to whom it goes; nor does the recipient know from whom it came.

But his eighth degree is the most demanding:

8. One who anticipates charity by preventing poverty; assists the reduced fellow man, either by a considerable gift, or by teaching him a trade, or by putting him in the way of business, so that he may earn an honest livelihood, and not be forced to the dreadful alternative of holding out his hand for charity. This is the highest step and the summit of charity.

RThought: I am thankful to Sister Joanna and Sister Pat of Jubilee West, who have moved into the poorest part of Oakland (just blocks from where my father was born), working to provide decent housing for the homeless, jobs for the jobless, skills for the unskilled and activities and guidance for the drifting youth. My regret is that I have so seldom reached the eighth degree. I do not fault myself; I just know that there is more that I must do if I am to hold myself in the regard in which I would like to hold myself.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549
TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly
\$42 per year
\$54 overseas

ROUTE TO

FEBRUARY 1989

VOL. 24, NO. 2

DAYS OF JOY—AS A SHOPPER

At 35 years of age, two of our bathrooms had problems—in one the control shower would not shut off and in the other a toilet seat needed replacement. I headed to Simon's, a 90,000 square-foot home-improvement store, with a great plumbing department. I took the easily removable parts of the shower control in one hand and the toilet seat in the other!

Bob Levine took care of me—not knowing that I was an officer and director of the parent company. The toilet seat was made by American Standard, which Simon's doesn't carry. But he immediately said that the place to go was Plumbers Supply in Oakland. Nor did Simon's carry the parts of the Kohler control—but he suggested that Plumbers Supply might help there as well. Bob did have a catalog, illustrating the parts in the control; and he made a photocopy of the schematic so I could explain my problem.

I left without making a purchase (I do shop there frequently), and Bob was as cheerful as if I had ordered a custom bathroom.

At Plumbers Supply, I laid the toilet seat on the counter; and the man behind it said, "Persian Brown." I told him my recollection was "Desert Tan." Persian Brown was close—and much better than a white seat in a bathroom with wash basin, toilet and tub in Desert Tan. And it worked. Under fluorescent light (the bathroom is used mostly at night by guests), the colors seem to match; during the day under a skylight, the Desert Tan is a little pinker in color.

When I showed him the parts of the control, together with a Polaroid shot of what I could not get out of the wall (I thought it was a simple job to replace a washer!), he recognized it immediately. "They don't make that anymore. There is a special tool you need to replace the washers inside, and they don't make the tool anymore either."

Suddenly, I had thoughts of \$10,000 to remodel the bathroom just to put in a new shower control. Plaintively, I asked, "Isn't there someone who can fix it?" and he replied, "Go to Ehret Plumbing in Berkeley. I think they can overhaul it." He gave me the address.

The longer I drove along Shattuck Avenue in Berkeley, the more I was certain the address was wrong. But I finally found it—a 20-foot storefront with a beer garden next door and a delightful bakery a bit up the street—just north of University Avenue, the street that leads to the University of California at Berkeley campus.

Inside were three men, shoulder to shoulder, working with customers. There was one more ahead of me. Could they really be plumbers? But they were. One of the signs on the wall said, "If it wasn't for your plumber, you wouldn't have a

THE SECRET OF THE SUCCESS OF L. L. BEAN

The "notice" below was run by L. L. Bean when he opened his store. "Notice" is hardly the word.

NOTICE

I do not consider a sale complete until goods are worn out and customer still satisfied.

We will thank anyone to return goods that are not perfectly satisfactory.

Should the person reading this notice know of anyone who is not satisfied with our goods, I will consider it a favor to be notified.

Above all things we wish to avoid having a dissatisfied customer.

RThought: What a great line, "I do not consider a sale complete until goods are worn out and customer still satisfied."

Many retailers do provide that to a small percentage of their customers—which is why they have regular customers. And the retailer probably thinks the reason they are "regulars" is because of promotions or sales or price or "no payment for 120 days" or some other gimmick.

place to go." Hanging on other walls were parts for bathroom fixtures going back to the original Crapper model with the bowl mounted high on the wall and a pull chain to flush.

Javier helped me; he looked at the parts I brought in and the picture and immediately knew what had to be done. He assured me it could be overhauled "over the counter"—just bring it in. And he told me how to take it apart.

The next day, after my wife filled all the pots and pans with water, I turned off the water, took the valve apart and drove back to Berkeley. With the "guts" there, Javier reassured me it could be done—and would be ready in about an hour. I headed off on another errand.

I passed a Volvo dealer—and remembered that I had to get some oil filters—most service stations don't have them. My appearance interrupted the shop manager, yet he graciously directed me to the parts department. A man and a woman were in the showroom—I think both were salespeople. They greeted me and told me where the pay phone was so I could make a call.

Back to the parts department. A wonderfully cheerful person answered a question on the phone while he looked up the parts number for my filters. Then he said, "I think you are eligible for our 10% Senior Citizen discount"; and I admitted to 70 years. Everyone was certainly as friendly as the people at Lawrence Volvo (much closer to home) where I have bought

three Volvos and have most of my service done. It must be something that comes from Sweden with the cars.

I was back at Ehret Plumbing at the end of the hour—and my part was ready. Once again, three men behind the counter and all busy and one customer waiting. They gave me the overhauled control, some final instructions and home I went to install it and turn the water back on.

RThought: Four places—Simon's, Plumbers Supply, Ehret Plumbing and McKettrick Volvo—and at all those places the kind of service that makes you want to smile all day. I doubt that a single one of the people who helped me gets a commission (except the car salespeople). Each was thoroughly skilled in his job and obviously enjoyed what he was doing. I suspect that not one of the four companies is trying to hire people at minimum wage. I guarantee you that the CEO (if they have such a thing at a place like Ehrets!) appreciates the value that those men plus one woman bring to the CEO's business.

This service is not prompted by a commission plan or a bonus program but by the leadership of the several bosses, each having a clear idea of what their customers, like me, really want. I can't recall the price of anything I bought, and please don't tell me there is someplace I can get it cheaper. I WON'T GO, DON'T ASK ME!

RISK RATING RETAIL REVOLVING ACCOUNTS

Dayton-Hudson (D-H) has long said that it loses money on credit accounts, that cash customers are subsidizing credit customers and that good credit customers are subsidizing poor credit customers.

If asked why D-H doesn't eliminate charge accounts, if it is losing so much money on them, the reply would be that it would lose even more money if it didn't have them. D-H once opened a test department store without credit—but quickly learned that it made more money with money-losing charge accounts than without them.

As a result of this in-house thinking, D-H has long been a leader seeking higher finance changes.

Having gotten higher finance changes in many states, it now proposes to cut finance charges by offering a lower Average Percentage Rate (APR) to customers who make larger payments.

Assuming a balance of \$322, for example, your APR for the next month would be:

If you pay:	APR
40% or less	18%
More than 40% but less than 60%	16
More than 60% but less than 80%	14
More than 80%	12
In full	-0-

Source: The November 5, 1988, issue of *Consumer Trends*, Box 27357, St. Louis, MO 63141-1767.

RThought: If a smaller balance is assumed (say, \$100) and the same rules apply, then a person might pay enough to get a lower APR. But does that mean the account is a better credit risk? A customer that pays \$55 on a \$100 balance will have a finance charge the next month at an APR of 16%, but the same payment with a \$322 balance would result in an 18% APR. Is the former case a better risk? What happens if it is the same customer—who paid a level \$50-a-month payment of a \$500

purchase? Why should that customer not get 16% all of the time instead of only when the balance is \$100? The risk varies with the customer, not with the credit balance. The credit balance can vary with how the customer perceives the fairness of your finance charge.

RThought: If D-H wants risk-adjusted APRs, it should, by logic, be based on the credit limit which is, in theory, based on credit worthiness. But then no one ever said that credit people had to be logical.

CHISELING ON VENDORS IS EXPLAINED TO CONSUMERS

In *The New York Times* of November 29, 1988, an ex-Macy's buyer explained how large stores extort money from vendors. The example refers to a retailer named "Monolithic," and said that having the vendor pay the cost of markdowns on the prior order was a condition of any future order. She did not point out that the more digits in your annual sales (and thus the size of your orders) the more quickly the vendor will see the light. As the article accurately states, "Not only do customers pay more; but as the deal itself becomes the focus of store buyer-vendor relationships, fashion is lost in the shuffle," along with ethics.

RThought: It is amazing that stores continue to push undesirable merchandise off on their customers even though the vendor pays for the markdown. There was a day when fashion stores disposed of slow-moving goods through one of its stores used as an outlet store or sold the goods, such as shoes, to the Famous Forty Thieves.

RThought: This conduct of buyers and merchants, with the full knowledge and urging of top management, reminds me of the story we told years ago of the fancy party and a handsome young man dancing with a beautiful woman. He whispered into her ear, "Would you sleep with me for \$1,000?" to which she replied, "I would love to." A few minutes later, he asked if she would do it for \$50; and she slapped his face and said, "What do you think I am?" to which he replied, "We have already settled that—now we are only negotiating on price."

CAN B-SCHOOLS HELP RETAILING?

The answer to the question "Can B-Schools help retailing?" is clearly: Yes, no and maybe.

A B-School is a business. The cost of goods sold is the (fixed) cost of operation. The customers are those who come to "buy the goods" (students).

If the customers do not buy the goods offered, the goods get marked down. Then the reputation of the school drops. Friendly B-School competitors will point out that the goods at School A are stale or that School A's LBO/cash-flow analysts are out of style. When this happens, the best faculty members leave and new faculty members are difficult to attract.

Retailers have not been particularly pleased with the B-School products for a number of years. They find the following faults:

1. MBAs resent starting on the selling floor.
2. MBAs may understand marketing strategy, but they don't know how the receiving department is connected to the accounts payable department and how the accounts department is connected to the knee bone and the knee bone is connected to the thigh bone and the thigh bone is connected to the profits.

CAN CONVENTIONAL RETAILERS SURVIVE?

PART I

I was at the NRMA 78th Annual Convention and attended many sessions, read the papers for others and bought tapes for me. And at the end of all that, I asked myself, "Are these people really running big retail businesses?" The names on the program and on the badges were the names of big and little department stores, large and regional apparel chains and even three guys from what some call "convenience stores." I think those three "convenience store" retailers will survive—but then they operate differently than most of their competitors.

The list of what bothered me is long:

1. The nature of the stores they fear.
2. The blase acceptance of dishonest advertising.
3. The obsession with hiring salespeople at the minimum wage.
4. The failure to understand the connection between the culture, morale and ethics of the business and the profits of the business.
5. The length of time it takes to make a decision.
6. The lack of understanding of how to make a profit.
7. The rejection of new ideas and the copying of wrong ideas.
8. The impact of store hours on the profitability of service retailers.
9. Improperly financing in-house receivables.
10. The way in which GAAP restricts proper financing.
11. The idea that bringing in a new CEO or GMM will boost profit.
12. The remoteness of management from customers.
13. The inability to state the purpose of their store.

The nature of the stores they fear.

It was obvious who they feared—Nordstrom, warehouse clubs, category killers.

Let's look at Nordstrom. Most of those to whom I talked felt that if you start paying commissions to your present, unsatisfactory staff, somehow they will bring about, without your help, a "Miracle" of 34th Street or Main Street or Broadway. Thus many stores have installed aggressive commissions (now called "incentive compensation").

I was part of Mervyn's for many of its glory years, years when it was unique and when it was the *only* "junior department store chain" as far as developers were concerned. I have studied and watched Nordstrom. Mervyn's never paid a commission or had an incentive plan for buyers or merchandise managers. At Nordstrom, everyone is on an incentive. Mervyn's people were tracked, trained and promoted—and so Mervyn's attracted one kind of person; Nordstrom attracted another. Not all people want the same satisfactions out of their work. You know that there are many jobs, perhaps paying more than you get now, that you would not take. The same is true with almost everyone.

There is one way you could destroy Mervyn's—put everyone on a commission; and there is one way you could destroy Nordstrom—take everyone off commissions.

In all my talks with people who were either concerned about or admired Nordstrom (or perhaps had both feelings), none really knew how Nordstrom worked. They were amazed that Nordstrom abandoned the wonderful "economy of scale" of centralized buying; they buy by store or region. When I explained that Nordstrom had a buying group for Seattle, Alaska, Spokane, Portland, Utah, Orange County, San Diego, Los Angeles, San Francisco and now Washington, D.C., they

were amazed. But the extra cost is more than recovered by having the merchandise their customers want.

Tyson Corner, located outside Washington, D.C., was a success—because the buyers lived in that market for months before the store opened. They watched what people wore, what moved in other stores, and only then did they position Nordstrom. An exception report keeps track of the time a buyer spends on the floor. The buyers are paid commission on their sales, perhaps only a few dollars a month. The store manager gets a report each week of the commission earned by each buyer and can tell if they were on the floor. If buyers in your store did go on the floor, (1) would they sell anything and (2) if so, would they write it up in somebody else's book (perhaps causing a "favoritism" problem)?

Gift wrapping and gift boxes are in every department. In hotels near a Nordstrom, a card on the bureau of each room says, "Forget something? Call us. We take Visa, Mastercard and American Express—and we deliver to this hotel three times a day!"

Nordstrom has a simple organization chart—an upside-down triangle with the Nordstroms holding up the GMM and operating and control people who, in turn, hold up the buyers and store managers and who all support the front-line people, who are serving the customer.

Then there is the Nordstrom advertising. Regular prices, even at Christmas. A couple of clearances during the year—but mainly they don't "yell," they just "sell." Nordstrom doesn't clear swimwear in May, they carry it all year round because people go swimming all year round.

It carries double the dollars of inventory per square foot of space that its competitors do—merchandising both broader and deeper. A lot of 6' to 6'6" people I have talked to are so pleased because Nordstrom carries an assortment in their size.

Nordstrom's higher selling payroll percentage doesn't cost anything because it spends about 60% less on advertising—and with good department and store managers, the slow-moving goods can be moved out by selling them rather than marking them down.

In other words, Nordstrom knows what it wants to do, what kind of people it wants to have do it and then it trains and encourages the people to do it.

When I worked for Sherwood Swan and sat across his desk from him, I was looking at the sign on the wall: "Nobody builds a business; first you build an organization, and the organization builds the business."

And Price Club as competition? How can great big stores be concerned about an outfit that carries fewer than 4,000 SKUs, which include 5 lb. bars of American cheese and #10 cans of catsup. On top of that, it does little advertising; and when it does (the tabloid it mails to its members), it is consumer educational material or ads (without prices) by its suppliers. Sol Price, the founder, told me at a meeting last year, "I have sold billions of dollars of merchandise in my years, and I have never used a comparative price."

Acceptance of dishonest advertising.

When William Dillard received the NRMA award as the outstanding retailer of 1988, one of his points was that he could not understand how some stores (he was looking at to buy) would do \$70,000 one day and a few days later do \$700,000. He questioned how one could give proper service that way.

FEATURE REPORT *continued:*

Now that gold chain, which was 40% off, is now 50% off and soon will be 60% off—retailers are insulting the intelligence of consumers (although I did see a woman late at night on the sidewalk of New York dickering to buy some gold (?) jewelry from a peddler—I never saw that before).

I guess the catalog/showrooms started it with price comparisons generated in the boiler rooms out of thin air. The FTC once told me that the reason it did not enforce the advertising guidelines was that the catalog/showrooms, in those days, had the lowest prices; and it was not going to stop that. So much for principles among the principal supporters of truth-in-advertising.

Why don't stores stop this? The weak excuse is that everyone else is doing it. Some are paying a high price to learn they must change. Hecht's (May Department Stores) paid about \$400,000 to the State of Maryland for false comparative prices.

Ed Hinnefeld (now retired from Garr/Touche Ross) was sent to straighten out a losing Gimbel's in Pittsburgh. He didn't start the task with a feeling that he had all the answers. So every morning, he had breakfast with people from throughout the store. He asked them what they thought should be done. The strongest point that came through was that they were ashamed to work for a store that did so much dishonest advertising. He promised that for one year he would not run a comparative price.

Your people may feel that way when others, like my assistants, ask if they have ever sold the three-piece, king-size mattress set for \$1,800—the set being advertised, "Reg. \$1,800 - Now \$900"? My assistants have never brought back a "Yes."

But back to Ed and Gimbel's. He kept his word. In those days, the Federal Reserve kept statistics for the department stores and let each store know where it stood. At the end of a year, *without* phoney comparative prices, Gimbel's market share had gone up 5 percentage points.

The only reason stores today can say with truth that there is no more customer loyalty is because stores have found an infinite number of ways to break faith with their customers. Nordstrom and Price Club and Wal-Mart do not break faith; they have loyal customers.

Must you hire salespeople at minimum wage?

The gospel, as I got it, was you must. If you are a smart retailer and have a choice between someone at \$5 an hour and another at \$4, you must take the \$4 worker. Then you curse McDonald's for offering \$6. Doesn't McDonald's know it can't afford to pay \$6?

Alexander's and Jordan Marsh told the convention all the things they did to get people to work at Christmas, things like a bonus if they stayed a month; another bonus if they stayed two; employee discount on the first day; a bonus if someone brought in a person who was hired; and set up street-level employment offices outside the store (applicants can't find the employment office in the store).

Not a word was said about what this kind of dilution of quality did to the service rendered.

And nobody mentioned cutting store hours. Yes, even at Christmas! Morning business is transferable to afternoon; evening and Saturday are not. Why not open at noon? Don't throw around figures on how much volume you will lose. Won't you also avoid the no-margin sales because of "Early Morning" specials needed to bring people in when they don't want to shop? If you have a core of good people, won't shorter

hours assure you of better quality during the hours you do remain open?

The love of minimum wage is tied to the belief that salespeople will not stay with the company. The salespeople cannot stay with the company because they or their family cannot maintain themselves on the wages they contribute to the family income. This is particularly true when the store policy is regularly to schedule the lowest paid people for total hours that make them ineligible for such coverages as medical and hospital insurance, group life insurance, paid vacation, participation in profit sharing (by keeping hours below 1,000 a year), special bonuses and many more things that "regulars" receive.

These short-hour people are not dumb. They know they are second-class employees in the eyes of management. That belief is reinforced by the lack of a real career path starting with short-hour people. And it is reinforced by the lack of training given them (other than the minimum procedural training needed to close a sale). Can we realistically expect them to stay with us if someone else now offers them 30 cents an hour more to work in the same second-class status?

The annual reports I read still reserve mention of people, if mentioned at all, to the last paragraphs of the letter to shareholders. I keep the latest annual reports of retailers doing over \$1 billion in a separate file. I just pulled, at random, two of the reports. In one case, it was the last report before going private.

The Federated Department Store 1986 report has a six-page "Dear Fellow Shareholders" letter of 109 paragraphs (plus pictures and charts); the 106th paragraph reads:

Measures taken to improve the efficiency and effectiveness of our divisions, as well as the programs of executive development and "Priority on People" that are aimed at further enhancing the talents and potential of our associates at all levels, will be especially important in the coming year. During this period in which we expect the retail environment to remain competitive, with the pace of economic growth in America slowing from the brisk pace of recent years, the contributions of our associates will determine to a large extent the degree of our success.

The other was Rose's Stores. The letter is shorter and has fewer pictures and charts. But it is the 14th of 14 paragraphs that reads:

The role of every Rose's associate is important in building a better company. My gratitude goes to all of them for their dedication to the goals expressed in our Mission Statement. Together, our associates, our vendors and suppliers, and our stockholders will continue to build a future we can all be proud of.

Wouldn't it be nice to start a report to shareholders with something like:

This is a report of what our 10,000 associates have done for you, our customers, and for the communities we serve. "X" thousand have been part of our company for more than five years and "Y" thousand for more than ten years. Mary Jones is still doing a wonderful job in our "ABC" store after 53 years with us. Much of our success springs from our associates.

RThought: I do not intend this as a criticism of Lu Harvin Chairman and CEO of Rose's. His report was picked at random—but we all forget that the vast majority of those who are part of our stores take pride in what they are doing, just as do the top executives; and because we do not spend as much time with salespeople and warehousemen and truck drivers, it does not mean that we should overlook their contribution.

3. Neither faculty nor the store employer (probably someone from the personnel department, who wouldn't work in a store because of the hours) tell the MBAs that retailing is the most primitive form of combat in our free-enterprise system. If you think you are good and you prove to others that you are good, there is rapid promotion and a giant salary. All that may go to the person who can spot merchandise trends or new ideas in a competitor's store and then do it better in their own store.

Academics fault retailers for not coming to the business schools for raw material—and for not using the faculty as consultants. And retailers reply, "I never met a retailing professor that ever really worked in a store."

Retailers do not know what good research can do for their business and academicians often don't know the right questions to ask. This won't end until one side says to the other, "Here is what I want. Can you answer my question?"

RThought: Lester C. Thurow, Dean of MIT's Sloan School of Management, says:

"If our business schools are doing so well, why are our American companies doing so badly?"

As long as neither academician nor retailer will give ground, there probably will not be a solution. But that does not mean that there won't be a lot of people yelling, "It's all your fault"—sort of the pot calling the kettle black.

THE BEST CONSUMER RESOURCE GUIDE

The best guide for consumers that I have seen is the one put out jointly by the Consumer Affairs Foundation of the Better Business Bureau (BBB) of Boston and Boston University. In 350 pages, it includes complete information on Massachusetts, New Hampshire and Maine, and considerable national information (like the name and address of the attorney general of each state) and Federal government offices of interest to consumers. The back portion contains a list of BBB members in the three states.

Forty-five businesses were identified as benefactors of which 16 are retailers; and of those 16, there are eight (identified with an "*" below) that are not headquartered in Massachusetts:

F. W. Woolworth*	Sears*
Filene's	Service Merchandise*
Filene's Basement	Shaw's Supermarkets*
Firestone, Inc.*	Shreve, Crump & Low
Jordan Marsh	Stop & Shop Companies
Levitz Furniture*	Talbots
Marshall's, Inc.	Walgreen*
Neiman-Marcus*	Zayre

RThought: This is good citizenry at work—but it takes a lot of thought and planning. First, there had to be someone who had the idea of a separate "Consumer Affairs Foundation."

The guide acknowledges long-term supporters. There must be considerable satisfaction to a business to have after its listing

"Continuous Membership Support for 65 Years"

which is part of the listing of the following retailers:

Filene's	Paine Furniture
Filene's Basement	Long's Jewelers
Jordan Marsh	Shreve, Crump & Low

Of course, some firms have not been doing business in Massachusetts, New Hampshire or Maine for 65 years (i.e., Bloomingdale's) or are a type of business that did not exist 65 years ago (i.e., Micro Age Computer Store).

I am tempted to compare the membership list with the firms listed in the various *Chain Store Age* directories and give equal identification to those larger stores that DO NOT SUPPORT THE BBB.

As a matter of fact, I think I will. Some mighty big retailers are doing business in the Boston area—and do not show up as BBB members.

WHICH AD WILL SELL THE MOST CARS?

These two car ads appeared in *Working Woman* (November 1988), whose name clearly identifies its audience.

SLIP INTO SOMETHING BEAUTIFUL

Go ahead, try it on. It's stylish, you'll look great in it and it's even comfortable. Not only that, it's fashionable all year round. Sound too good to be true? It's not. It's the 1989 "XYZ." And with "XYZ's" legendary reliability and dependability, it's something beautiful you can slip into and wear every day.

A 36-month/36,000-mile basic new vehicle limited warranty with no deductible and no transfer fee applied to all components other than normal wear and maintenance items.

(The layout: A photo of the car and an illustration of a smiling woman.)

HOW TO FEEL COMFORTABLE HUGGING A ROAD

"ABC" brings with it the happy realization that a car that's big on comfort and control doesn't necessarily have to be big. For instance, it has all-wheel independent suspension for a comfortable ride plus contact with the road that enhances driver control. And a standard overhead cam, fuel-injected engine that zips you up to freeway speeds with comforting ease. "ABC" even has a driver's seat with adjustable lumbar support as standard equipment. In all, 68 standard features make you comfortable hugging a road in an "ABC," a car that seems a lot bigger than its size.

(The layout: Double-page drawing of the car.)

RThought: You may have guessed that one is an import, the other an American car. You probably have guessed that the import develops its advertising for the audience the magazine addresses and the American manufacturer does not.

You are right.

"XYZ" is for the Toyota Corolla. "ABC" is for the Mercury Tracer.

The Olds Cutlass Calais ad is even worse than the Mercury—telling how "Calais" technological array is equally attractive. Front-wheel drive. MacPherson [who's he?—can you explain in 20 words why M's is better?] strut suspension, and five on the floor, making driving a real joy. The way we've combined rack-and-pinion engineering with a stiff body design puts a high level of agility in your hands. While the world-class power of the available 16-valve, dual overhead cam engine is busy putting 150 horses under your foot."

(The layout: A photo showing a woman driving.)

One continues to wonder how General Motors and Ford can be so large and so insensitive to the many different markets that buy their cars.

Make a survey among the women you know, either in business or socially. Ask if they picked their own car. My ex-sister-in-law and my niece both drive Hondas, my senior assistant drives a Mazda, my sister drives an Audi, my daughter a Porsche 914-4. Not a valid test—but the only women who came to mind who picked their “own” car.

RThought: We can laugh all day at GM—but have you looked at your own ads lately?

GOOD AND BAD FROM EDDIE BAUER

Eddie Bauer, “Outdoor Outfitting Since 1920,” had a new format in its “Snowbreak [Winter 1989]” catalog—and in many cases, it told where the merchandise was made.

This is what I counted:

Made in USA	22
Imported	83
Sewn in USA	3
Filled in USA (comforters)	2
Constructed in USA	2
Imported and Made in USA	1
No information	73

RThought: One of the sad notes—to see Gore-Tex items that were imported. Bill Gore formed William Gore and Associates to develop products that du Pont was not interested in making. There is nothing more American than Gore-Tex—I don’t know whether the imported Gore-Tex items are from goods sent overseas, fabricated and returned or are manufactured overseas under license.

RThought: I cannot help but think that many of these items could have been made in the U.S.—with just a little effort by Eddie Bauer. And it may well have been cheaper when one factors in the payment at dockside overseas by letter of credit as opposed to terms like 2% 10 days/Net 30, or 2% EOM/Net 30 or that lower inventory investment that is possible with a shorter supply line.

But let me not forget to congratulate Eddie Bauer for the clear identification of the origin of the majority of items shown. I will watch for his next catalog to see if this is a trend.

COMPETITION REARS ITS UGLY HEAD

Credit Card Sentinel is now offering credit card protection through at least one large bank-card issuer, at \$5 for one year, \$14 for three years (I suggest that it would get far more three-year sign-ups at \$12).

RThought: I haven’t seen any reports lately from analysts plugging the miracle of SafeCard Services (SFCS) which once sold at 35 7/8 (and had a \$1 billion market value based on \$100 million in revenues). It closed at \$6 on December 31, 1988. Where has the miracle touch of the Helmos brothers gone? Where are the supporters?

OTC Review wrote, “It’s been (yawn) another good year for SFCS [then at 37 1/8—before the 3 for 2 split in 1987]. So anyone waiting for this outfit to falter—including a certain financial weekly’s editor [that would be Mr. Abelson of *Baron’s*—is, at the very least, learning the virtue of patience.”

In July 1987, *OTC Review* did mention that, at 23 3/8, it had given all of its gains back. In August 1987, *OTC* carried a “Dear Bob” letter (that would be to Robert Flaherty, Editor of *OTC Review*), from Peter Helmos, President of SafeCard with thanks for a June article, commenting “It’s nice to know someone understands what’s between the lines.”

And *The Nilson Report* said in September 1988, “Stockholders are complaining about SafeCard not publishing an annual report for the last fiscal year [ending November 1987] and not sending new proxy statements for a stockholders’ meeting since then—already delayed five times and now tentatively scheduled for this month.”

But the October 12, 1987, *NSM Report* said, “Loss of Amex [American Express], combined with questions about accounting methods, resulted in a stock nose dive of \$2.125 on 2 million shares in late September—highest one-day decline ever recorded on the National Over-the-Counter Market.”

On February 25, 1985, Michelle Y. Davis at Arnhold and S. Bleichroeder, Inc., said, “We believe SafeCard has a present value of \$30, using a discount rate of 12%. In addition, we project the company’s earnings will grow at a minimum rate of 20% after 1986” (Note: That company maintained a trading position in SafeCard shares at the time it published that position.)

Financial World, September 8, 1987, quoted Joel Hausman of Robertson, Coleman & Stephens as saying that newer services will permit SafeCard to sustain its 30% growth rate for several years.

They all appear to have been wrong.

WORDS—FROM FRAN

Fran was my Mother—Francesca Lowenthal Kahn. Born 1893 in Evansville, reared in Livermore (CA), married to Dad in 1912, bore 3 children, divorced in 1924, never remarried, reared my older sister, younger brother and me, was confined to a convalescent hospital for the last eight years of her life and died in 1988 at the age of 95.

Among her books was a small booklet of poems by Helen Steiner Rice, entitled *Everybody Needs Someone*—but I liked “We All Need Somebody”:

WE ALL NEED SOMEBODY

And SOMEBODY like YOU
can “turn the trick,”
For our lives are empty
and our world is “sick” . . .
We have lost our morals
and our principles, too,
And with no purpose in life
we are lonely and blue . . .
We need SOMEBODY very much
who has a warm and friendly touch
To make us suddenly aware
that there are those WHO REALLY CARE!

RThought: We were a close family. We all stayed close to home. Born in Oakland, my brother died 15 miles away; my sister lives 30 miles away; and I live 10 miles away. (Even Dad died 10 miles from where he was born.) Close—and yet: I look over the things that were Fran’s and think about her life. I can understand her buying the book of poems, *Everybody Needs Someone*. I hope I was that “someone” to her; and that you are that “someone” to somebody.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

MARCH 1989

VOL. 24, NO. 3

WHO SAYS THERE IS PRICE COMPETITION?

There is probably less difference between gasolines than there is between Levis and Wranglers. In Lafayette, where I live, we used to have 27 gas stations. We now have 10. In the last year, two have closed and two others have changed brands.

The official estimate of our population at May 1, 1988, was 22,550; and the taxable 1987 sales of service stations (excluding labor) was \$12,250,000. One would guess there would be competition, but I guess everybody is benefiting from the stations that closed.

Let us look at prices.

I checked three types of gasoline: regular, unleaded and super unleaded. Service can be self-service (fill-it-yourself), mini-service (they fill it but don't check under the hood or clean your windows), or full-service. Some prices can be 5 cents less for cash (or 5 cents more for credit, depending on one's point of view).

The first table shows the cash price per gallon at three levels of service.

SELF-SERVICE—CASH (cents)

	Chevron	Shell ¹	LeGas	Union	Beacon	Shell ²	New West
Gasoline							
Regular	90.9 ^c	85.9 ^c	85.9 ^c	89.5 ^c	77.9 ^c	79.9 ^c	77.9 ^c
Unleaded	97.9	88.9	87.9	99.9	84.9	89.9	83.9
Super	104.9	101.9	100.9	109.9	97.9	99.9	97.9

MINI-SERVICE—CASH (cents)

	Shell ¹	Texaco	Union	Mobil	Exxon
Gasoline					
Regular	98.9 ^c	83.9 ^c	99.9 ^c	89.9 ^c	89.9 ^c
Unleaded	104.9	96.9	109.9	96.9	92.9
Super	113.9	99.9	119.9	NA	NA

FULL-SERVICE—CASH (cents)

	Chevron	Texaco	Shell ¹	Exxon
Gasoline				
Regular	124.9 ^c	121.9 ^c	119.9 ^c	109.9 ^c
Unleaded	134.9	131.9	129.9	119.9
Super	144.9	141.9	139.9	129.9

I don't think the above shows the kind of competition that economists would have us believe takes place in our economy. The table below shows the spread (highest price as a percentage of the lowest price) for each level of service.

MANAGEMENT IS SIMPLE

Some people like symphonies and others like soccer. Some people like pasta and others like pool. Some people like baseball and others like football. Some people like blondes and others like brunettes. Some people are men and some are women. Some people are married and some are single. Some people are literate and some are not. Some people are white and some people are black. Some people come from a happy home and some people come from a brutal battlefield. Some people place their family above their job and some people put their job above their family.

RThought: I could continue for two pages about the differences of some people from some people—but I won't.

I will just wonder out loud, "How come there are so many management books that tell you just one way to handle people—when people are so different?"

Regular (Percentage) Unleaded (Percentage) Super (Percentage)

Service Level			
Self-service	117%	119%	112%
Mini-service	119	128	120
Full-service	114	113	112

All of the stations are on a three-quarter of a mile stretch of Mount Diablo Boulevard in Lafayette.

And how much do the stations think it costs for the extra service? Here we have three possible spreads: self-service to full-service; mini-service to full-service; and self-service to mini-service.

SELF-SERVICE TO FULL-SERVICE (cents)

	Chevron	Shell ²
Gasoline		
Regular	29 ^c	40 ^c
Unleaded	32	40
Super	45	40

MINI-SERVICE TO FULL-SERVICE (cents)

	Texaco	Exxon
Gasoline		
Regular	38 ^c	25 ^c
Unleaded	45	32
Super	42	---

SELF-SERVICE TO MINI-SERVICE (cents)

	Union	Exxon	Shell ¹
Gasoline			
Regular	10 ^c	30 ^c	10 ^c
Unleaded	10	32	16
Super	10	---	12

¹East end of town.

²West end of town.

Note: Only two stations had a uniform spread between the types of gasoline at different levels of service.

RThought: That is the last time I am going to believe it when someone tells me that there is price competition. It is my observation that the Shell¹ does the most business. It happens to be the one I use. It has good mechanics who do not do work that is not necessary. If my wife hears a new noise in her car, they will ride around the block to check it out—no charge. I get a lot more than a gallon of gas when I go there. When I am in the car at the pump, I look across the street at the empty Texaco station, which always has lower prices; I have never bought a gallon of gas there.

WHAT HAPPENED TO THE CHECK LESS SOCIETY?

"It never should have been predicted," said Spence Nilson (in the February 1989 issue of the *Nilson Report*, Box 49936, Los Angeles, CA 90049; \$655/yr.).

"It" all started with a 54-page issue of the *Economic Review*, published in August of 1983 by the Federal Reserve Bank of Atlanta (each Federal Reserve District publishes a monthly review—the St. Louis District report has been highly recommended, so I read it, along with the one from the San Francisco District). In her article, researcher Linda Zimmer, according to Nilson, predicted that growth in the number of checks processed would drop by 2% per year after peaking at 40 billion in 1992. Just issuing the report caused a \$100 million drop in market value of companies involved in check manufacturing, check processing equipment, etc.

In 1988, five years later, 51 billion checks (up 3.8%) were processed. Of that number, 28 billion were consumer checks.

The present forecast is a peak over 57 billion in 1992. (With banks starting to charge for using teller machines, that figure could be higher.)

RThought: Nilson said the 1983 report came from its misinterpreting the Federal Reserve's own figures and gross overestimation of the shift to automatic-teller and point-of-sale systems.

RThought: Beware of long-range projections. The Corps of Engineers did a study of growth and land use for the San Francisco Bay Area for the period 1960-2020. At 1990, the Bishop Ranch land was projected to be primarily agricultural. Instead, it is the cities of San Ramon and Dublin, plus part of Pleasanton, housing a population of about 150,000 people!

DO RETAILERS DO ANY RESEARCH?

How does one go about improving the efficiency of a retail business?

How does a store find out if it is accepted by its target audience?

How does a store find out if its services satisfy its customers?

There are several answers:

1. It doesn't.
2. Some executive with magic powers gives his answer, and the universe within the store accepts that answer as the truth (which puts the executive in the category of Moses, Christ and Mohammed).
3. Sales and profits decline, and the CEO is replaced.
4. The business doesn't know anything is happening so the question is never asked.

I am not sure today that any retailers have true research departments—ones to which complex questions can be referred for objective study or ones which read the executive committee's minutes and can initiate studies on any decision discussed or made that does not make economic sense.

Why do research? Most top retail executives tend to feel that they would not be top retail executives if they didn't have the ability to arrive at correct answers to complex problems without anything other than an introspective analysis by just one mind—theirs.

ELLY 2/29 I raise this question because recently I read about the R&D (Rescue and Development) expenditures of technology companies during 1987. They reported the expenditures three ways.

In absolute dollars, the leaders were:

Company	Dollars (millions)
IBM	\$ 5,434
Digital Equipment	1,010
Hewlett-Packard	901
Xerox	722
Unisys	597

In dollars per employee, the leaders were:

Company	Dollars
Apple Computer	\$34,206
Lotus Development	27,819
Cray Research	25,262
Amdahl	23,545
VLSI Technology	22,698

In percentage of total revenues, the leaders were:

Company	Percentage
Cullinet Software	28.5%
Advanced Micro Devices	24.9
LTX	19.2
Applied Materials	17.9
VLSI Technology	17.8

RThought: Austin Mayer of Sun Microsystems, Inc., was quoted in the September 1, 1988, *Electronic Business* as saying, "Our products typically have an 18-24-month life cycle, which means we're constantly replacing our line. We always have several generations of products under development simultaneously, which takes a lot of time and effort."

How long do your fashions last? More than 18 to 24 months? Are you working on replacements?

Do you really (be honest now) shop all your competitors?

Retailers often copy without knowing how the originator makes a profit on the idea. Look at the number of wholesale

CAN CONVENTIONAL RETAILERS SURVIVE? PART II

I attended the NRMA 78th Annual Convention. I attended many sessions, read the papers for others and bought tapes for some. And, at the end of all that, I asked myself, "Are these people really running big retail businesses?"

I had a list of 13 reasons why I was concerned. Last month I covered:

1. The nature of the stores they fear.
2. The acceptance of dishonest advertising.
3. The dedication to hiring salespeople at the minimum wage.

Let's continue.

4. The failure to understand the connection between the culture, morale and ethics of the people in the business and the profits of the business.

The press is full of the fight between the mechanics at Eastern Airlines and its President and principal owner, Frank Lorenzo. Eastern has just filed for bankruptcy under Chapter 11. Lorenzo has tried to assure creditors that they will get paid; the union says that it is a union-busting move just as Lorenzo did at Continental.

It doesn't take any knowledge of how to run an airline to conclude that it will be years, if ever, after any settlement before Eastern under Lorenzo can become a highly profitable business. It takes a long time and a lot of repairing by Lorenzo before the employees will again be a team with management.

I get to look inside a lot of businesses while I study others from outside. There are retail stores where the employees don't even talk to each other—and are even ruder to customers. You not only sense it but experience it when you go in the store. There are others where people work together, have a common cause and are supportive of each other.

Joe Harlan retired recently as Chairman of Broadway Southwest in Phoenix. I met Joe 40 years ago when he came out from an Allied store to be controller of Kahn's (my family was still the landlord) and both of us were active in the Golden Gate Retail Controllers. Joe was a "numbers man" in those days. Controllers can be like that. Then he moved to Hale Brothers in Sacramento.

I saw Joe a couple of years later and asked him how things were in Sacramento. He was much more outgoing. He told me about the CEO he worked under and the marvelous human relations they had in that store and concluded with a statement I have repeated a hundred—perhaps a thousand—times: "I learned that good human relations are worth two points on the expense rate."

I have never heard this fundamental truth expressed in a colder, more controller-like manner.

How does this "two points on the expense rate" disappear? You have seen it and may not have recognized it. A person from the men's department is on a coffee break and, when passing the women's sportswear department, sees two sweaters on the floor, picks them up, puts them back on the correct table and then goes on.

I went into a Rosauer Supermarket in Spokane and was looking around, obviously in search of something. A woman working stock noticed and asked, "Can I help you?" I explained

that I was looking for Sucret cough drops, and she replied, "Come on—let me show you," and led me to the middle of an aisle on the opposite side of the store. A few minutes later, I was in a Safeway, four or five blocks away, on the same store tour, and did the same thing. A clerk even closer looked at me and did nothing. Rosauer is the dominant food retailer in Spokane.

I was in St. Louis at a convention at the Frontenac Hotel. There was a Schnuck Supermarket across the street. I had never seen one but the President, Craig Schnuck, had been a reader of *RT* for years. In the produce department, I casually mentioned to a young man trimming produce that I thought it was an unusually nice store and he told me that it was one of the older stores and would soon be remodeled. When I said that I had never been in a Schnuck's before, he started to tell, with great pride, about how great the company was. During the entire four or five minutes of conversation, he didn't stop trimming and setting produce. Schnuck's is the dominant food retailer in St. Louis.

I could go on with the small incidents; but for a bigger one, I have to go to Wal-Mart (only because, as a director, I know of big incidents there). On a Thursday, before a Friday Annual Meeting, a tornado took off a good part of the roof of one of the larger stores. On Saturday morning at the weekly meeting, the regional VP reported that the store opened for business, fully stocked, on Saturday morning. Fifty exempt people from stores around the damaged store were brought in. They, and people from the store area, worked around the clock. Special truck loads of goods for the damaged departments were shipped within hours. And even more credit to the store—no one panicked. No customer or associate was hurt during the tornado.

Evidence of a good store culture is so easy to identify. Does the grocery clerk pushing a truck full of pet food stop to pick up the cherry pit on the floor? Does the salesperson on a break help the person obviously looking for something? Does the salesperson check the other stores for the right size skirt that a customer wants—and then call the customer?

Do fellow workers feel pride when one of their group gets promoted or happiness when one gets married? Or do they help when there is a tragedy in the family?

The savings come at the rate of 1/1000ths of a percent—but it comes day after day after day until it reaches 2%.

Even when that culture exists and morale is high, management can destroy it so easily when management imposes an ethical standard on workers that is below their own.

Today, we are watching a retail giant do something for crass greed that happens to make them "morally straight"—to quote the Boy Scout Oath.

Sears has gone to a "low everyday price" policy.

Was this done because Sears finally learned what false "regular" prices were doing to the spirit and morale of the Sears employees? (Their new name tags identify them as "associates," a term Sam Walton brought from his days at Penney's that expressed the feeling that James Cash Penney had for the people who worked in his company.) Not on your life. Unreal "regular" prices cost Sears sales.

continued

FEATURE REPORT *continued:*

When the annual reports come out and details can be studied and when one eliminates the Sears sales in Canada and treats finance charge income as an offset against the cost of operating a credit department and eliminate the 10% of Sears' U.S. revenues that come from "services" (warranty contracts on appliances, add-a-porch, put on a roof or siding, etc.), the figures will show that Wal-Mart sold more general merchandise to people in the United States than Sears.

I think most retailers that visited Sears or read newspapers or watched TV news were trying to figure out how much more merchandise Sears was selling and how the new Sears prices would affect their businesses.

But I was looking and listening for something else. Was the new policy accepted as "real" by the associates at Sears? Could they once again have pride in working at Sears? When I approach a register at which two associates are talking, would it be accepted Sears gospel that they instantly attended to my needs?

I am hearing more of that than I expected.

The true test of the new policy is not what it does for immediate sales; the test is whether the associates can regain the pride that made Sears such a magnificent retailer in the 1950s.

And other retailers should not take comfort in what appears to be Sears' high expense rate. Let's take what we know and make some assumptions. Service is 10% of sales, and I would guess that here Sears has a 30% (or lower) cost of goods sold and may show a 5% operating income. We can adjust the published 1987 U.S. figures as below:

Description	As Shown (\$ millions)	Percentage	(Services) (\$ millions)	Merchandise Sales	Percentage
Sales and services	\$22,894	100.0%	(\$2,289)	\$20,605	100.0%
Cost of goods sold, including buying and occupancy	15,374		(687)	14,687	---
Selling and administration	6,726	29.4	(1,488)	5,238	25.4

That took four percentage points off the expense rate. Take another two for good morale and another two for extra volume and we start saying to ourselves, "Gee, I don't have that protection I thought I had by looking at, but not thinking about, the expense figures Sears publishes."

5. The length of time it takes to make a decision.

We all have heard that a camel is a horse designed by a committee.

As a charter "member" of the American Express card, I expected something better than its "Baggage Delay and Loss Protection" coverage. For \$4.75 each time I buy an airline ticket on my AmEx card, I would be covered as follows:

1. If baggage is delayed six hours, up to (no explanation of how far "up to") \$200 for replacement items.
2. \$500 in excess of coverage for property stolen in a hotel that honors AmEx. (If I have coverage of \$10,000 with \$1,000 deductible and the loss is \$5,000, do I get \$500? That would be deductible coverage, not excess coverage.)

The dictionary definition of the word "committee" is:

A group of people chosen, as from the membership of a legislature or club, to consider some matter or to function in a certain capacity.

I think in many businesses today a "committee" can be defined as:

A group of people chosen to study a problem and submit a recommendation with such wording that, if the recommendation is right, each member can claim credit; and if it proves to be wrong, each member can say, "I was out-voted."

Fortune (February 13, 1989) had a major article, "How Managers Can Succeed Through **SPEED**," which contained the following statement:

An economic model developed by the McKinsey & Company management firm shows that high-tech products that come to market six months late but on budget will earn 33% less profit over five years. In contrast, coming out on time and 50% over budget cuts profits only 4%.

The same thing can be said about committees that come out with the best possible answer in a year as compared to committees that come out with a 95% answer in a week.

Compare a company that makes 52 decisions a year and can make a decision in a week with a company that takes 12 weeks. The latter has 12 committees in operation at the same time—12 sets of memos flowing back and forth. There will be 12 times (perhaps more) meetings per week. Key people will inevitably have a schedule conflict and will miss some meetings.

Little is written about the length of the decision-making cycle, but it is the underlying secret of successful entrepreneurial companies. They define the problem faster, have the key people concentrate harder on it, recognize that they can never have all the information they want (or perhaps think they need), and then watch the implementation more closely to see that it solves the problem.

Life was once much simpler. A retailer did not have to make decisions on complex Point-of-Sale Systems or on a complex data-base collection system to support a Management Information System.

But if management is not conscious of how long it takes to make a decision, it can (1) strangle itself on the decision-making process and (2) end up with no solution for months on end. The damage may be loss of customers and larger operating losses.

Part III of this series will appear next month.

—SHORT SHORTS—

3. \$500 coverage for checked baggage and \$500 for carry-on baggage (in addition?).
4. \$500 coverage on "valuables" (not defined).

RThought: I feel like I am being sold polio insurance. My guess on the loss ratio is under 15%, perhaps even under 5%.

Q. How does Bergdorf Goodman get such a high turnover on receivables?

A. It requires a 25% or larger monthly payment with a minimum of \$50.

clubs that copied Price Club and have failed, been sold, are in reorganization or are still hoping that volume will bring expected profits instead of losses. The same thing is going to happen, but perhaps not so dramatically, in the office supply warehouse operations.

Very often the first in the area can be both *inefficient* and profitable but that is seldom true when there is a competitor and never when there are two or three competitors. Volume is not a cure-all—the only long-term security for a retailer is to be the most efficient operator (i.e., lowest cost yet satisfying majority of customers). The cure to profits is never permanent when it must come from increasing gross margin—despite the great attention paid to improving gross margin according to the meeting programs of retail trade organizations.

How does one become efficient? Here are some ways:

1. Listen to your sales people, receiving clerks, truck drivers, office clericals, everyone in your organization. They know what can be done better—yet, nobody really asks them for their thoughts. Please don't tell me that you have a suggestion system for all those knowledgeable people. How many suggestions per employee do you receive each year? In Japan it can run as high as 40; 15 to 20 is not uncommon. Fifteen to 20 suggestions per employee! How many would that mean for you? Does Sears get five to seven million suggestions from its 350,000 employees—15 to 20 per employee?

All those ideas are there; you just haven't found the format for reaching them. You are looking for a forest instead of a tree.

2. Shop your competitors. Go to the "going out of business sales" of the companies that didn't make it. I am willing to bet that you will find at least one thing they are doing better than you.

3. Fire every executive who thinks that everything is accomplished through orders transmitted down from the top. Why should you pay them to prevent your business from operating better? Why should you pay people who are blocking ideas from reaching you?

RThought: I have often mentioned my apprenticeship in the Research Department at Macy's 34th Street in 1940-41. It was my post-MBA training and I was paid rather than paying tuition—if you consider \$35 a week to be pay. But I had an opportunity to work for a very wise man—Harold Wess. When a new idea was brought up, he called the five of us (title: executive researcher) into his office and, depending upon the novelty of the idea, we had to spend from two to eight hours during which all we could do was make suggestions on how to improve the idea. After two days to a week, during which time we contemplated the idea, he gathered us together and THEN we could criticize the idea. You would be surprised at how many good ideas were saved that way. You can do that—rather than concluding something won't work because of obvious defects that are not fundamental to the idea.

WHICH WAY DID THE SHOES GO?

Once upon a time there were five large shoe manufacturers and their names were:

Brown Shoe Company
General Shoe Company
International Shoe Company
Melville Shoe Company
United States Shoe Company

All were in retail in some form, but their basic business was making shoes for someone else to sell. Then came the days of

shopping centers; and because the retail shoe business then was a business of small, local companies, with a few exceptions like the various Edison Brothers' chains, there were not enough stores to carry the companies' brands into the malls. So shoe companies expanded their retail activities.

Then they learned the game of "Shopping Centers." The object of that game was to get enough leases from credit-worthy tenants to finance the building of the mall without requiring the developer to put up any money. If a retailer tried to get into the game, the first question he was asked was, "How many stores do you want?" When the great shoe manufacturer said—"Well, I do have this chain of . . ."—the developer interrupted, "Out of my way, small fry. I have to get to the people who will take four or five locations."

This happened to each of the companies—and each went into solo contemplation and each came up with the same answer: I'll buy some chains so I will have lots of goodies to offer a landlord, and then I will get a location next to the most important entrance of the largest anchor store."

And so they bought chain after chain after chain, confident that "Big Daddy" with "lots of bucks" could make all of these different types of specialty stores produce great profits. After all, this was the day of conglomeration.

Soon they were able to match the variety offered to any retailer—and just as one might expect, shoe stores (plus shoe departments) dominated the scene. But since they now ran dress stores and men's stores and drug stores and much more, the word "shoe" did not match their royal ambitions. So they called in the name specialists, and then we had:

The Brown Group
Genesco
Interco
Melville Company
U.S. Shoe Corporation

And they bought more and more—furniture factories and off-price retailers and opticians—and they even invented their own retailers because a "make or buy" calculation showed that it was cheaper.

But times were not good to most of these conglomerates even though the stock market was giving high multiples to firms in specialized retailing. It became necessary to change if the future was going to be even a bit tolerable.

What do we have today?

The Brown Group is selling its Meis department stores and Linen Center and accessory stores as it goes back to what it knows best. This was done at the same time that U.S. Shoe Corporation was selling off its shoe business and continuing in sick or losing specialty retailing. It even sold the name!

Interco is selling off non-shoe businesses, such as Londontown apparel and furniture manufacturers.

Genesco has downsized, stopped acquisitions and eliminated a variety of businesses.

Only Melville continues as a happy, broad-based specialty retailer—but even it dumped Foxmoor (women's apparel).

RThought: It is said that the grass is greener on the other side of the fence, but apparently the nutrition (profits) may not be!

ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Financial Accounting Standards Board (FASB) is now circulating an exposure draft on a proposed "Statement on Employer Accounting for Postretirement [in *postretirement*, one is either working or dead; the accurate term should be "*in-retirement*" or "*post work*"] Benefits Other Than Pensions."

If the FASB were as dedicated to properly reflecting current value of assets as it is to projecting future liabilities, life would be a little better for most businesses.

In the current articles on the exposure draft, most deal with the accounting problem. Few articles deal with the variables involved.

Three major variables are dealt with now in recording liabilities for future pensions:

1. The probability of present employees working for the employer until eligible for retirement.
2. The life expectancy after retirement of those that do retire.
3. If funded, the expected earning power of the funds during the period from the beginning of accumulation until the end of expenditure.

But for the postretirement medical and hospital cases, the fourth and fifth variables are killers:

4. The cost of medical care. The medical profession (doctors, hospitals and services) have succeeded for a decade in increasing costs faster than other parts of the Cost of Living Index and presumably that will continue.
5. Since most postretirement medical and hospital plans are integrated with Medicare, one must anticipate what Medicare will cover and how high the deductible will be. One must keep in mind that the Federal Government has a conflict of interest—the less Medicare pays out, the more there is to lend to the General Fund to conceal the deficit.

The latter two factors do not lend themselves to rational analysis as does the probability of employees staying until retirement and life expectancy after retirement or even interest rates and inflation.

For new businesses, the lesson is clear—when in doubt, duck. Duck the voluntary assumption of postretirement medical and hospital benefits—the extra taxes you will pay makes you part of a much larger universe of taxpayers who will have to pay taxes to support the elderly who have no postretirement insurance. As that approaches, the power of organizations, such as the American Association of Retired People (AARP), some 28 million strong, will force a tax on employers, an even more expensive way to satisfy the FASB's love of liability disclosure.

Future takeovers will be partially financed by the elimination of "Postretirement Benefits Other Than Pensions," while laying off to an insurance company the liability existing at the time of takeover.

RThought: You should consult an actuary before consulting your accountant in order to understand the problem clearly in computing your liability.

SHORT SHORTS

Montgomery Ward answers Sears. On the Sunday before the "Great Sears Markdown," Montgomery Ward replied with a

"0% Interest 'till June. No down Payment. No Payment for 90 Days" (on purchases of \$150 or more when you open or use your Montgomery Ward credit card). **RThought:** Perhaps the "Great Montgomery Ward Markdown" has not been working as well as expected. I particularly watch Ward's mattress advertising. The figures have not changed—only the column heading. What was formerly headed, "**Reg.,**" is now headed, "**Comp. at.**" My assistants have, in the past, asked Ward salespeople about the top-priced, three-piece, king-size set—"Have you ever sold one at the regular price?"—and the answer has always been, "No."

L. J. Hooker may be a shopping center developer but look what it is doing. B. Altman is adding personalized service in the main New York City stores. Any customer will receive professional fashion advice and be reminded of birthdays and anniversaries two weeks in advance, together with a suggested gift(s). When buying gifts, customers will be escorted through the store, with selections being gift wrapped and shipped without charge. **RThought:** Escorted buying is just like we used to do one block away at Macy's—in 1940-41. But B. Altman's probably did the same—then.

As Easter approaches, it is a delight to see Nordstrom ads that sell full-price merchandise rather than yell 30% off. **RThought:** How big does Nordstrom have to get and in how many new areas against how many giant retailers must Nordstrom make a successful entry before other retailers will notice how it does it? Nordstrom's primary tool is honest advertising.

The millenium has arrived. Unisex Beach Towels! **RThought:** And they are reversible! What WILL they think of next?

Ethnic T-shirts are different in South Africa. Valley Textiles researched the cultural history of Zulu, Ndebele and Xhosa speaking people, particularly mural art and beadwork, and came up with one story in each language. A hang ticket tells the story. The colors are magnificent, and the patterns remind one of some of the work of our Southwestern Indian artists. **RThought:** Why hasn't this been done with our Indian patterns?

WORDS—ABOUT CHARACTER

I recently ran across the following in *Bits and Pieces* attributed to John Luther:

Good character is more to be praised than outstanding talent. Most talents are, to some extent, a gift. Good character, by contrast, is not given to us. We have to build it piece by piece—by thought, choice, courage and determination.

RThought: Think of the many people who have never taken as much time to work on character as they did on talent. Ivan Boesky comes to mind among notorious businessmen. He was gifted with a great intelligence—but never used any of it to develop his character. Honesty being a key point in character, one thinks of Under Secretary of State Elliott Abrams, and Lieutenant Colonel North. Neither had any compunction about lying under oath to the Congress.

Animals do not have the intelligence to build character; man does. Yet many men do not choose to use their intelligence to build character—and too often institutions, like business schools, that could help build character do not consider character building to be part of their responsibility. Have you ever heard of a business school having an award for the member of a graduating class who demonstrated the most admirable character? I haven't.



ED BURNETT CONSULTANTS, INC.

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

April 7, 1989

TO : Bob Kahn
Retailing Today

FROM : Ed Burnett

Re Difference in Gasolines - on any given night you can find a brand X tank truck re-filling a brand Y service station. The difference is in the leading or the octane.

Ed Burnett

Robert Kahn
Retailing Today
P.O. Box 249
Lafayette, CA 94549

emh



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

APRIL 1989

VOL. 24, NO. 4

A PLAN TO END DISHONEST MATTRESS ADVERTISING

I feel that the mattress advertising in our industry is a disgrace. It is easy for me to say that I don't know how my readers, the top management in major retail firms, can consider themselves honest and ethical businessmen—and condone their mattress advertising.

Yet I do know why they can condone it. They say to themselves and would say to me, "I want to change these ads, but the other stores force me to continue this way."

What is "this way"? Let me illustrate. I have been tracking San Francisco advertisers for a number of months. Judge for yourself the following advertising done by just one store (and I don't save every ad). The most recent ad was five columns full, headlined:

**FOUR DAYS ONLY!
SAVE AN EXTRA 15% ON
SERTA NOW 40-50% OFF!**

Below the illustration, it says: "AND PERFECT SLEEPER SETS INCLUDE A BED FRAME."

The King Size SERTA Perfect Sleeper Signet is offered at:

Regular	\$1640.00
Sale	983.95
Less 15%	836.36

February 23-24, 1989, it was:

Regular	\$2080.00
Sale	1239.95
Less 15%	1053.96

January 12-16, 1989, it was:

Regular	\$2400.00
Sale	1199.00
Less 10%	1079.10

October 6-10, 1988, it was:

Regular	\$2000.00
Sale	1175.95
Less 15%	999.56

September 8-12, 1988, it was:

Regular	\$1800.00
Sale	739.95
Less 15%	629.96

I have had my assistants check these ads. They ask the salespeople, "Have you ever sold the King Size Serta Perfect Sleeper Signet at full price?" The answer has always been "NO."

Here is what the Maryland Attorney General said about Hecht's:

... since some point in time prior to May of 1984, virtually every time that Defendant sold a mattress and/or box spring, that transaction was made at a price that was represented to the consumer, either through media advertising or through point-of-sale ticketing and displays in its stores, as significantly lower than the Defendant's alleged "regular," or other former, price.

... each and every time that Defendant promoted, advertised, or otherwise represented a price as a reduction from an alleged former mattress price, the former price was a fictitious price ...

... each and every time the Defendant's buyers or other responsible officials set a so-called "regular" price ... that price was set for the purpose of establishing a high price upon which a deceptive price comparison might later be made.

At times, the claimed "sale" price was actually higher than the price charged for the identical mattress model only days earlier or later than the sales event."

You are committing hari-kari

I don't think you understand what this type of advertising is doing to your organization.

If you periodically have a qualified independent firm survey your employees, have them ask:

1. Do you believe our advertising?
2. If there is any that you believe is not honest, please list below (leave substantial space).
3. Do those ads affect your opinion of the company or cause you a problem when selling any merchandise to our customers?

You may then understand how some people justify stealing from you; they consider you to be stealing from your customers.

Your best employees may have left you—to work for a more ethical employer and perhaps at less pay. In your exit interview, do you ask whether the ethical standards of your company are a factor when an employee quits?

Here is my offer

If you want to sleep better—if you don't feel you have to do such advertising but don't know how to get out—I will try to help you.

You cannot talk to your competitors, but I am willing to talk to EVERYONE. I have just one message. It won't change. It was not reached by talking to anyone. It is simple:

**Celebrate July 4, 1989, the 213th birthday
of another "Declaration of Independence," by ending
dishonest mattress advertising.**

Here is what I ask you to do if you think others in your community are ready to get out of this trap. Send to Box 249, Lafayette, CA 94549, a plain envelope with no return address, containing a list of the stores in your community, including your own, showing for each mattress retailer:

Name of Company
Address
Name of Chief Executive Officer

I will immediately mail a copy of this issue of *Retailing Today* to each CEO with a note that will say, "At least one store would like to change on July 4, 1989." I will ask that they at least give the idea a chance and not run mattress ads until after July 30, 1989, to see if others have accepted this offer.

Please don't write to me telling what you have decided. Sometime in September I will call the newspaper in your town and tell them that I am making a survey of mattress advertising and will inquire about 50%-off ads. That will give me my answer.

You will sleep better on honest mattress advertising.

CORRECTION

I feel like the head of the advertising agency who told his employees they would have to stop drinking vodka at lunch so that, when they called on clients in the afternoon, the clients would know they were drunk and not stupid.

In the March *RT*, on page 2 the following appeared:

I raise this question because recently I read about the R&D (Rescue and Development) expenditures of technology companies

RThought: I could make a sound argument that R&D is really necessary to "rescue" U.S. industry—but instead I will plead guilty to being "drunk"—something difficult for someone whose alcoholic consumption might be two glasses of wine a month! I know R&D stands for *Research* and Development.

HOW SENSITIVE ARE CONSUMERS TO CHEMICALS IN/ON FOOD?

On March 31, 1989, I visited our regular supermarket, Diablo Foods in Lafayette, to pick up some apple juice. In the roughly half-gallon size, there were five to seven facings of:

Brand/ounces	Cents per ounce
Hansen, 64 oz.	3.98°
Apple Apple, 64 oz.	3.98
Bonnie Hubbard, 64 oz.	3.11
Treetop, 64 oz.	2.95

And there was a six-facing space with just four bottles of Martinelli (50.7 ounces at 4.43 cents per ounce).-

RThought: I doubt that it was sold out because Martinelli has the highest price or that it has the narrowest neck (easier to grab and pour). It just might be the result of a very small yellow sticker that said:

NO ALAR
All Martinelli Products
Certified
Daminozide-Free

The customers of Diablo Foods are concerned, but the FDA still takes no action.

RThought: Retailers are responding to the concern—but they tend to rely on the promise of suppliers rather than testing of the apples they receive. Local newspapers are concerned. The *Los Angeles Times* hired a private agency to check local apples.

Lucky was so confident that it posted signs in its stores stating that apples were Alar-free, based on pledges from growers not to use Alar. The testing lab found otherwise. Hughes started testing in its warehouse and found Alar residue on three different brands—and pulled those brands.

No Alar was found at Vons or Ralph's perhaps because both companies verified growers claims with independent testing.

RThought: Alar was found in amounts ranging from .95 to 9 parts per million (ppm)—well below the 20 ppm legal limit. The Environmental Protection Agency says that 1 ppm or higher probably results from current use. However, smaller amounts can appear for a year or more after usage is stopped because of persistence in the soil and root system.

Despite the high concern of the public, the apparent will-

ingness of growers to say that they do not use Alar (when, in fact, they do) and the high cost of testing to be sure they did not use Alar, the EPA has not yet (April 1, 1989) banned the use.

RThought: Once du Pont advertised "Better Living Through Chemistry."

DO PEOPLE PREFER PRODUCTS MADE IN THE USA?

I remember when Sam Walton started his "Buy America" program. All the other retailers pontificated that they were going to continue to "bring the best values to their customers." As the years passed, others pointed out that Wal-Mart was still buying goods offshore. Of course they were. American retailers had been so enthusiastic about trips to the Orient—no buyer really wants to go to Searcy, Arkansas—that they didn't know what could have been available if they had just looked and if they had invested some time with U.S. vendors.

Wal-Mart said that it would buy in the U.S. only if:

1. The product was equal to or better and at the same price or lower.
2. The manufacturer would install "state-of-the-art" equipment in order to have an efficient plant.
3. The manufacturer installed a profit-sharing plan so that the employees would share in the benefits.

Wal-Mart has switched about \$3.5 billion of purchased products back to the U.S. It figures that means more than 40,000 jobs.

I wondered how important "Made in the USA" was.

I took six catalogs that my wife received on March 18 and tabulated them—obviously not a scientific sample.

Catalog	Identified as:			
	Made in USA	USA/Imported	Imported	Unknown
Intimate Apparel (from The Old Pueblo Trader)	No. 133 % 81%	17 10%	15 9%	0 0%
Monarch	No. 51 % 47%		38 35%	20 18%
Carroll Reed	No. 62 % 43%		66 46%	15 11%
Urban Sport by Bloomingdale's	No. 47 % 43%		26 24%	37 33%
Sakowitz*	No. 41 % 41%		44 44%	15 15%
Norm Thompson	No. 33 % 31%		20 19%	53 50%

*Sakowitz had exactly 100 items—so items and percentages are the same.

Origin was not disclosed with the greatest frequency for shoes, bras and non-apparel items (I suspect that none of the electronic items are made in the USA).

RThought: I don't save catalogs from two or three years ago—it takes enough space to keep at least one of every catalog I get.

But I suspect that, if I had them, a tally would show very few of them identifying items by place of origin. I would also guess that the catalog people have had some indication from their customers that they want to know where the product was made.

Maybe they listened more closely to their customers.

CAN CONVENTIONAL RETAILERS SURVIVE? PART III

Parts I and II of my thoughts covered the following five (of 13) points (Note: Back issues can be obtained at \$5 each):

1. The nature of stores they fear.
 2. The acceptance of dishonest advertising.
 3. The obsession with hiring salespeople at the minimum wage.
 4. The failure to understand the connection between the culture, morale and ethics of the business and the profits of the business.
 5. The length of time it takes to make a decision.
6. The lack of understanding of how to make a profit.

Not a single store attending the convention ever made a profit on a transaction. Yet much of the thinking and talking was in terms of gross margins, direct profit planning (DPP), target markets (ages 30-49; up-scale; \$30,000 and above income; two-wage-earner families; 15-25 years old; etc.).

The only retailers that must make a profit on a transaction are car dealers (and especially used car dealers), mobile home and aircraft retailers, and perhaps some furniture dealers.

The SIC (Standard Industrial Classification) code breaks retailing down into the following groups:

52	Building materials, hardware, garden supply and mobile home dealers.
53	General merchandise stores (department, discount and variety stores).
54	Food stores.
57	Automotive dealers and gasoline service stations (also includes auto and home supply stores).
58	Furniture, home furnishings and equipment stores.
59	Eating and drinking places.
591	Miscellaneous retail.
591	Drug stores.
592	Liquor stores.
593	Used merchandise stores.
594	Specialty Stores.
5941	Sporting goods and bicycle shops.
5942	Book stores.
5943	Stationery stores.
5944	Jewelry stores.
5945	Hobby, toy and game shops.
5946	Camera and photographic supply stores.
5947	Gift, novelty and souvenir shops.
5948	Luggage and leather goods stores.
5949	Sewing, needlework and piece goods stores.
596	Non-store retailers.
5961	Mail order houses.
5962	Automatic merchandising machine operators.
5963	Direct selling establishments.
598	Fuel and ice dealers.
599	Retail stores not elsewhere classified.
5992	Florists.
5993	Cigar stores and stands.
5994	News dealers and newsstands.
5999	Miscellaneous retail stores not elsewhere classified.

In order to survive,

- ... a supermarket needs many customers that shop at least 50 times a year.
- ... a discount store needs many that shop 20 times a year.
- ... a department store needs many that shop 12 times a year.
- ... a women's apparel store needs many that shop 6 times a year.
- ... a men's store needs many that shop 3 or 4 times a year.

- ... a service station needs many that shop 50 times a year.
- ... a fast-food outlet or restaurant needs many customers.

There are so few exceptions to the rule that we can express it in very simple terms:

THE SURVIVAL OF A RETAILER DEPENDS ON REPEAT BUSINESS.

And this can be simplified even further:

A RETAILER MAKES A PROFIT ON A CUSTOMER, NOT ON A TRANSACTION.

I don't find that statement in textbooks on retailing. A customer is a specifically identifiable person, who comes to *your* store. Just as we recognize that each SKU is different, we must recognize that each customer is different. We all know how difficult it is to make a customer, but we forget what happens when we make a change that customers do not like. That leads to another truism:

WE MAKE CUSTOMERS ONE AT A TIME; WE LOSE CUSTOMERS A DOZEN AT A TIME

There are exceptions to my generalization of the NRMA 1989 Convention. The outstanding one that I heard was Barbara Rackes, who founded Rackes, Inc., in Columbia, South Carolina. She described her target market as: "The busy woman who requires maximum image with a minimum of effort." Her customers (perhaps clients or patients would be a better term) come in twice a year, by appointment, and bring their entire wardrobe. With the assistance of the advisors (and for a fee separate from the price of the merchandise), the wardrobe is reviewed, as much as can be used in the coming season will be supplemented with new accessories or components and then the revised wardrobe is expanded with current season items. Certainly there is no better example of making customers "one at a time."

Retailers justify their abuse of their customers (asking for five credit cards and a birth certificate to cash a check; making you take your merchandise from the first to the 19th floor for gift wrap, and then charging for the gift wrap, etc.) by saying, "There is no more customer loyalty. People only buy at sales." Yet every newspaper that surveys shoppers reports that a high percentage of the people shop a limited number of stores.

I am not aware of a single major retailer that has a "customers' spokesperson" on its executive committee. The customer is represented by someone who long ago stopped having significant contact with customers.

Management doesn't even ask the front-line employees, "What are the things we do that irritate our customers?" The uniform response by every member of the executive committee to the most frequent annoyances is likely to be, "Gee, I didn't know that!"

I am reminded of the story of a person congratulating a friend who was just elected CEO of a billion dollar company with the admonishment, "Remember, you will never again hear the truth."

Retailers laugh at Sam Walton and the other members of the Wal-Mart Executive Committee that regularly visit 300-500 stores a year.

continued

FEATURE REPORT *continued:*

I once asked the former CEO of a 50-store chain about the performance of a particular store, and he responded, "Bob, you have to remember that we had 50 stores. I couldn't keep track of each one."

Tom Peters writes about "listening to the customer" and "management by walking around." Retailers who read his material don't think it applies to retailing because so many examples are drawn from "industry"—and retailing isn't part of "industry." After all, "WE know our customers." Nonsense.

If you want to make a profit, be sure you have an open line to lots of your customers. Tap that wonderful pool of knowledge that your first-line people have—nobody has ever asked them about what your customers want.

7. The rejection of new ideas and the copying of wrong ideas.

Sam Walton became a Ben Franklin Store franchisee to get the benefit of support that a single variety store could not afford on its own. In time, he became the largest Ben Franklin franchisee. During the late 1940s and all the 1950s, he watched the development of discount stores. He became convinced that discount stores could work in smaller towns, the kind of town he knew. He approached Ben Franklin management about the idea of developing a franchise discount store. They turned the idea down; Sam did it anyway.

But there was another person who saw the same opportunity—Herbert Gibson, Sr., in Seagoville, Texas. At one time there were over 600 Gibson stores doing over \$1.5 billion (in pre-inflation dollars). Despite the good idea, Gibson never really made money in its own retail stores. By 1987 the count of Gibson stores was down to 125.

Here is an example where Ben Franklin probably could have managed a discount store franchise profitably and did not; Herbert Gibson, Sr., did but could not manage it.

Dayton Hudson felt certain that it had enough experience in women's apparel at its department, discount and junior department stores and so it sprouted "Plum—the elegant discounter." But the fundamental weakness was that it hired a professional manager rather than a dedicated entrepreneur, who (1) had a clear idea of what he thought would be successful and (2) was willing to work 23 hours a day—perhaps only 20—to make it come true. This was the right time for the right industry—but the wrong way.

Nordstrom took a somewhat different approach with the Nordstrom Rack. Much of the merchandise comes from the Nordstrom stores and is supplemented by purchases. That gives Nordstrom the opportunity to eliminate the most unwanted merchandise from its stores soon after it is obvious its department store customers have rejected the item; yet it can recoup more of the cost than by selling it to the Forty Thieves or giving it away and taking a charitable contribution. That format could work well with the Dayton Hudson department stores in Minneapolis and Detroit—but Plum started (and ended) in Los Angeles.

I don't understand the new Sears. It had a 16-page, full-color tab in the March 12, 1989 (Sunday), papers. I tabulated the items:

126 items did not show the old price—but said, "Every Single Day."

19 items showed the former price.

10 items raised the question below—they showed only one price but had a time limit.

For example, the AT&T 1300 answering machine was \$58.88,

For years the major retailers fought bank credit cards despite the fact that their customers wanted the convenience of a single credit account, *at least for those stores that they did not shop frequently*. Few saw the opportunity to make a new customer. Now the small stores and the discounters could offer credit in form that usually had a much lower payment requirement in relation to the outstanding balance than was offered on major store accounts. Instead of responding immediately—"You want it. Here it is."—many conventional stores fought bank cards.

Discount stores benefited most. I can remember in mid-1950 standing with Mo Bernstein, the founder of GET (Government Employees Together), as we watched customers at the store entrance. We heard a man say to his wife, "Honey, we are all out of money. Let's go to Sears and get some clothes for the kids." I could almost see Mo bleed. (Bank of America's card was just being tested in Fresno at the time.)

Spence Nilson, in his *Nilson Report*, No. 436 (Box 49936, Los Angeles, CA 90049; \$655/yr.), September 1988, lists the 50 largest retail card issuers—and shows what other cards each store recognizes. The following stores do not listen to their customers—the only third-party card they recognize is American Express:

Abraham & Strauss Think of all the new customers for its 33rd and Sixth Avenue store who don't have an A&S or American Express credit card but do have a Visa or Mastercard or both.

Neiman-Marcus As I watch visitors to the San Francisco Union Square store, I cannot help but think how many would buy something if N-M only took bank cards.

Macy's California Plain arrogance; if we didn't think of it first, then we won't do it. I remember how Macy's New York was saved by the initiation of its Cash-Time conditional sales contracts in 1941.

*May Company
Los Angeles

*Lord & Taylor And L&T plans to enter new city after new city. Can anyone be thinking "customer" there?

*J. W. Robinson's
Los Angeles

*L. S. Ayres
Indianapolis

*Goldwater's
Phoenix Now gone.

*Owned by May Department Stores.

One might think that May Department Stores has a policy against third-party cards. If so, how does one explain May D&F in Denver, which honors Visa and MC? May merged with Daniels & Fisher decades ago.

Is May likely to eliminate third-party cards at Foley's, Filene's and the ex-Goldwater stores? Place your bets now.

Part IV of this series will appear next month.

—SHORT SHORTS—

"Good through April 1," and the Kenmore vacuum cleaner was \$209.87, "Good through April 1." Certainly both will be carried after April 1—but at what price? It must be a high price or else there would not be a time limit. **RThought:** guess it takes time to shift into "low every day" pricing. There is no rule against having some specials. But confusing the customer? That should not be done.

IS THERE A JAPANESE OR EUROPEAN LASER CARD IN YOUR FUTURE?

For many years I have been receiving financial information and news releases from Drexler Technology Corporation on development of its optical memory card (OMC). The most recent information included an article from *Card World* (Card World Publications, Ltd., High Street, Weybridge, Surrey KT13 8BL, England; U.S. \$585/yr.), headed, "OMC Technology Posed for 90s Thrust," which reported the efforts of the Drexler European (Note: Not the American) Licensees Association (DELA) to standardize the storage arrangement and reading methods and the physical dimensions of the cards so that they can be used interchangeably.

One objective is to get the price of a reader down to about twice that of a mass produced compact disc player.

I was interested in the list of licensees or card distributors of Lasercard (tm).

From Europe:

BPCC—UK
British Telecom p.l.c.—UK
Ciba-Geigy Ilford Ltd.—Switzerland-UK
Elbit Computers—Israel
OFAC—Switzerland
Ing. C. Olivetti & Co., SPA—Italy

From the Far East:

Canon, Inc.—Japan
CSK Corporation—Japan
Fujitsu Ltd.—Japan
Gakken Ltd.—Japan
Hitachi—Japan
Logitec—Japan
Matsushita Electric Industrial Co. Ltd.—Japan
Nippon Conlux Ltd.—Japan
Olympus Optical Co. Ltd.—Japan
Omron Tateisi Electronics Co.—Japan
Sharp Corporation—Japan
Sunkyoung Group—South Korea
Toshiba Corporation—Japan

From North America:

Argenta Systems Tech Ltd.—Canada
Blue Cross of Maryland, Inc.—USA
Honeywell Information Systems—USA
NCR Corporation—USA
Pesch and Company—USA
Wang Laboratories—USA

I reread the list again and again looking for names like:

IBM	American Express
DEC	Citibank
Unisys	Mastercard International
Hewlett-Packard	Visa USA

What is the current status of OMCs?

Three types of cards are available:

Write once, read many times—WORM.
Read only memory (ROM).
A hybrid card combining both.

There are three methods of encoding:

High-speed photolithography—used when identical cards are required or identical information is required on part of the card.
High-speed laser operating at 150 kilobits per second.
Low-speed laser operating at 10 kilobits per second.

OMCs can include pictures or diagrams as well as numbers or letters.

At the present state of development, a 35mm wide optical strip can hold about 800 pages of text or a lesser amount of mixed text and diagrams or photographs. The cards can be used to store fingerprints, signatures or photographs.

A Canadian company has developed a card with 100 times the capacity of the Drexler card (200 megabytes).

RThought: Once again we have a familiar pattern. The invention is by an American; the exploitation is by companies outside the U.S. Soon the improvements that come from working with the process are made by non-Americans, and the U.S. companies become licensees of the foreign companies in order to offer state-of-the-art products.

NCR and, to an extent, Honeywell are the only licensees close to U.S. retailing. Is that going to be good enough? I think not.

WHOOOPS!

New management took over Carson Pirie Scott (CPS) some years ago and brought about a dramatic change. Gone are the:

Floor Covering Distribution Division.

Carson International, an ambitious name, covering feeding people at O'Hare airport and resort/conference centers at Indian Lakes and Nordic Hills.

Dobbs Houses, Inc., with its airline catering, airport gift and newsstand concessions, Steak 'n Egg Kitchen and Toddle House restaurants.

Concentration was to be on retailing. And this concentration has been in the form of buying retail operations from others. It bought:

County Seat (over 300 stores) from Super Valu.

Donaldson Department Stores (15 stores) from Allied Stores (via Campeau).

From the 1987 Annual Report:

Arcadia is a department in the main store offering cards, stationery, candy and gifts and separate stores in shopping centers. Arcadia is aimed at "sophisticated customers between the ages of 18 and 40 [perhaps I would not be welcomed by a salesperson] who seek merchandise that is stylish and exciting."

Arcadia and County Seat were recognition by CPS that specialty retailing is "the future of retailing" (and perhaps because the "common knowledge" that conglomerate specialty retailers—Melville, U.S. Shoes—enjoyed high price/earnings ratios).

We will tap the earnings potential of CPS Direct Marketing by concentrating on the moderate-income market and developing new catalog formats for this customer group. . . . When this operation was acquired in 1984, it was unprofitable. It has since been turned around and is now both profitable and positioned to become a major player in the direct-response field.

RThought: In reporting a loss by CPS of \$39 million for 1988 the following appeared in the *New York Times* on March 17, 1989:

The company said the loss from discontinued operations for the latest fourth quarter (\$27.3 million) included a pre-tax charge of \$29.5 million primarily to reflect disposition of the CPS Direct Market unit.

This suggests two thoughts:

1. The grass is always greener on the other side of the fence—all peddling is not the same.
2. Perhaps CPS should have bought Horchow.

Late News: After writing this item, P. A. Bergner & Company, a \$470 million a year, 31-store company operating in Wisconsin and Illinois, offered "at least" \$20 a share but only for CPS's department store division (thus excluding County Seat). Although Bergner is smaller than CPS, retail activities of the owners of Bergner, the Maus and Nordmann families in Switzerland, are much larger than CPS.

MISSOURI ATTORNEY GENERAL CHARGES BEST BUY CO. WITH BAIT AND SWITCH

The Missouri Attorney General charged that Best Buy had three levels of pricing: "Every Day Low (EDL), Lowest Price Guaranteed (LPG) and Best Buy (BB)." No commissions were paid on EDL items, some on LPG and a higher rate on BB. It was alleged that Best Buy trained sales personnel "to switch prospective customers to higher-profit merchandise," and the training included "disparagement of EDL products." The petition for injunction also stated that inventories of goods failed to meet anticipated demand, "sale" prices were really former "regular" prices and fictitious "regular" prices were placed on BB articles.

The petition also stated that Best Buy falsely represented non-availability by saying that ads were prepared months in advance; suppliers failed to deliver; a shipment was imminent, on the dock, or delayed by weather; or merchandise was sold out.

For all the above, the Attorney General asks civil penalties of \$1 million.

RThought: The price is going up as attorneys general trade information and see the success elsewhere with \$500,000 awards. (Have you been billed yet?)

There is a strange angle to this case. There were negotiations *before* the filing of this case which broke down. Best Buy filed suit in Federal court *the same day* the Attorney General filed in state court.

Best Buy alleged that the suit against it was political (the Attorney General was running for re-election) and that Best Buy was picked on because it was an out-of-state retailer with the result that the 14th Amendment—the "Equal Protection" Amendment—was violated.

I will keep you posted.

WATCH YOUR AMERICAN EXPRESS CARD

Do you think American Express is interested in protecting you from fraud? Or even helping you out?

Not according to Larry Schwartz of the Credit Card Bureau. In the February 1989 issue of *Fraud & Theft Newsletter* (Box 400, Boynton, FL 33425; \$159/yr.), he reported on an unwise female executive who was taken in by a smooth, young con-man she met on a flight to L.A. She dated him twice, they exchanged phone calls, and later he called saying that he was in a desperate situation and needed a hotel room for the night. He asked if he could use her American Express card. All she had to do was FAX her signature and her card number (like on a mail order). A few days later, the hotel called, said the man had returned and would she please repeat the FAX.

To make a long story short, she got her bill with charges of \$17,500 covering March 25 to May 5 at the Marina del Rey (L.A.), plus May 9 to June 14 at the Claremont (I presume in Oakland, CA)!

She came to Schwartz after hearing him on a radio program (after talking about the same subject on the "Oprah Winfrey Show," he received 20,000 letters! ! !).

On investigating, he found that the hotel code indicated that it had the card (a different code is used for mail order when the merchant does not have the card and a different verification would be made). The Marina del Rey hotel had not followed the required procedure.

The American Express credit manager was not sympathetic. He threatened to tell her boss and said that her credit would be ruined forever. She had already paid \$2,800 to American Express when she came to Schwartz.

Schwartz learned that American Express had reversed the charge to the two hotels at the same time it was pressuring her and kept the \$2,800 (and did not tell the hotels). When Schwartz finally went to the executive level at American Express, they agreed with Schwartz and stopped dunning. The credit manager still has not reactivated the account.

RThought: As far as I know from my readings, Larry Schwartz and Pearl Sax are the only ones doing a real job in protecting bank card merchants and are now going to do more for bank card users.

If you have open-end cards, like American Express, or even high-limit bank cards, you should be concerned personally; and if you honor bank cards, you should be concerned to protect your business from improper charge-backs to your account.

Write to Larry for more information on his services and his newsletter and say, "Bob Kahn sent me." He will send you a copy of the February issue.

SHORT SHORTS

Memories. In 1951-52, when I was Deputy Director of Supply, 80th Air Depot Wing, Nouasseur, French Morocco, the most popular book was the Sears "wish book"—and the most popular store was the catalog center in Philadelphia. It will close in mid-1990.

WORDS—JUST A FEW FROM NORDSTROM

At the 78th Annual NRMA convention in 1989 in New York, Joseph Coates, as part of a panel on "Pressures Reshaping Retailing in the 90s," responded to a question about policy at Nordstrom and read the statement given all new employees:

WELCOME TO NORDSTROM

We're glad to have you with our Company.

Our Number One goal is to provide outstanding service.

Set both your personal and professional goals high. We have great confidence in your ability to achieve them.

NORDSTROM RULES:

Rule No. 1: Use your good judgment in all situations.

There will be no additional rules.

Feel free to ask your department manager, store manager or divisional general manager any question at any time.

RThought: There is nothing I can add.

Carson Pirie Gets \$282 Million Takeover Bid

NYT 4/3/89

CHICAGO, April 2 (AP) — Carson Pirie Scott & Company, the Chicago-based retailer, said today that it had received a \$282 million takeover offer from its Milwaukee-based competitor, P. A. Bergner & Company.

Kate Walsh Leatham, a Carson spokeswoman, declined to comment on whether the \$20-a-share cash offer was welcome. But in a statement, Carson characterized the proposal as "unsolicited, highly conditional and ambiguous."

Ms. Leatham said the proposal was received late Friday afternoon.

Alternate Proposal

The statement from the company said that Bergner offered at least \$20 a share in cash, or, alternatively, to acquire only Carson's department store division for "an unspecified combination of cash, stock and notes."

Jerry Seeman, a spokesman for Bergner, said that the company had retained Shearson Lehman Hutton Inc. and Financo Inc. as its advisers and that it had been assured by its bank of financing for a possible acquisition.

Carson said its board would consider the proposal "in due course." Carson's stock, which is traded on the New York Stock Exchange, closed Friday at \$13.875, up 25 cents a share.

The offer appears to clash with several recent moves announced by Peter S. Willmott, Carson's chairman and chief executive. Last month, Mr. Willmott said the retailer planned to sell its catalogue operations and close its Corporate Level specialty store in Washington in a restructuring that began in 1987.

Looking to the Future

"We are confident that we are taking the actions necessary to address the opportunities ahead of us," he said then. "Our focus in 1989 is to capitalize on the strengths of our department and specialty stores businesses, which we believe will result in much higher profitability levels for our company this year and beyond."

Carson's department store business consists of 33 stores in the Chicago area and in Minnesota. The company also owns the County Seat, a jeans and casual-clothing specialty chain with about 400 stores.

The company's revenues totaled \$1.02 billion, with a net loss of \$38 million — much of it resulting from the catalogue operations — for fiscal 1988.

Bergner operates 31 department stores in Illinois and Wisconsin. Mr. Seeman said the company's revenues were \$470 million last year; he said a

profit or loss figure was not available immediately.

The retailer is owned by the Maus and Nordmann families of Switzerland, who operate 70 department stores there, as well as Au Printemps department store in Paris.

Put w/
Barrie
Gard 89 R

the Chicago area and in Minnesota. The company also owns the County Seat, a jeans and casual-clothing specialty chain with about 400 stores.

The century-old Bergner's, which operates 31 department stores in Illinois and Wisconsin, was bought about 50 years ago by the Maus and Nordmann retail families in Switzerland.

Proposal Called Serious

"I think that this is a serious proposal and one of substance, particularly because the people behind it, the Maus and Nordmann families, are of substance," said Robert M. Raiff, research director of C. J. Lawrence Inc.

The retailer calls the Bergner offer 'highly conditional and ambiguous.'

"So Peter Willmott must give it serious consideration and his board, too. The company's short-term and long-term prospects are mixed. What they must do now is hire an investment banker to help them develop some alternatives."

Carson, now deep into a restructuring program to concentrate once more on just its retailing businesses, had a difficult 1988. Although sales rose to \$1.02 billion, the company reported a net loss of \$38 million last year. That compared with sales of \$950 million and net income of \$9.4 million in 1987. Much of the 1988 deficit was attributed to the company's lagging catalogue operations.

Eighteen months ago, Carson sold its large airport concessions and airline catering business to the Greyhound Company. Since then, it has

also sold its Toddle House restaurant chain and its Dobbs Food Service Management Inc. subsidiary and has also signed an agreement to divest itself of its wholesale floor coverings business.

In 1987, Carson acquired the 15 Donaldson's department stores from the Allied Stores Corporation. However, despite the new emphasis on its 36 department stores, that division has had earnings problems along with those in the catalogue and Direct Marketing division.



Retailing Today, Mr. Robert Kahn
Box 249, Lafayette, CA 94549

Date 5/9/89

Permissions Editor:

I am preparing a textbook on Basic Retailing

to be published by Prentice-Hall, Inc. on or about Jan., 1991

My book will make approximately 600 pages and will be case bound ☒ paper bound ☐

Trade sale:

(est. price _____) (est. price _____)

May I please have your permission to include the following:

Short Shorts - Feature Report, Retailing Today, April 1989,
"I don't understand the new Sears." Vol. 24, No. 4.

in my book and in future revisions and editions thereof, including (check one box)

- ☐ nonexclusive distribution rights in the U.S.A. and its possessions and Canada in English
☐ nonexclusive distribution rights throughout the world in English
☒ nonexclusive world rights in all languages

May I also have your permission to include the material cited above in the following supplement(s):

- ☒ Study Guide ☒ Instructor's Manual ☒ Transparency Masters Other _____

These rights will in no way restrict republication of your material in any form by you or by others authorized by you. Should you not control these rights in their entirety, please let me know to whom else I must write.

Unless you indicate otherwise, I will use the following credit line:

Reprinted with permission, Retailing Today, Robert Kahn, CMC, vol,
April 89, Vol. 24, No. 4

I would greatly appreciate your consent to this request. Please complete, sign, and return the white form. A copy of this letter is enclosed for your files.

Thanks, Bob Nilton Shurly ACRA

Sincerely,

Nilton Shurly Ph.D.

Director, Prince School of Retailing, Simmons College (address)
300 The Fenway, Boston, MA 02115

I (we) grant permission for the use requested above.

May 25, 1989 (date)

Name/Title Robert Kahn Editor/Publisher/Owner

Company Robert Kahn & Associates

Address Box 249, Lafayette CA 94549

PLEASE FILL IN IF A FEE IS PAYABLE

Soc. Sec. No. _____
Individual
OR
Employer Ident. No. _____

RT Letter E April RT

APRIL RT

Please send copies---with notes--- to following people:

Page 1

I want to send copies to:

Bob Keiningham, Publisher, ~~Forum Furniture~~ ~~PAX~~ ~~FORUM~~
8177 E 44th St Tulsa OK 74145

Jack Brandwein 4731 El Camino Ave, Carmichael CA 95608

So
Mr. ~~Sik~~ F. Hassenbusch
R S S Furniture Digest Timonium MD 21093-4189

Mr. Joe McNichols Box 584 Palos heights IL 60463

Message:

I hope you will join me in my "Plan to end dishonest mattress advertising"
Sincerely
Bob Kahn

Also Joan Bergmann, Editor, STORES 100 West 31st St NY NY 10001

Mr. James Williams President NRMA (same as STORES)

Mr. Sam Feinberg, % Fairchild Publications, 7 East 12th ST NY NY 10003

Dear Sam---I hope you can give me some support ⁱⁿ this effort. Please feel free to repeat my offer, ~~if~~ you reach many more people than I do.

Mr Isadore Barmash, New York Times 229, west 43rd St NY NY 10036

Any
4 Dear Barm---and help you can give me on this will be very much appreciated.
same message to

Mr. A. J. Vogl, Sales & Marketing Management, 633 Third Ave NY NY 10017

Dear Mr Vogl

~~CEO Ralph's~~ xxxxxxxx

Mr. Jerome Drexler, President, Drexler Technology Corporation
2557 Charleston Road, Mountain View, CA 94043

FEATURE REPORT

*Dear. Dear - I think you would find the article
"Is this a Japanese or European laser card in your future" (page 3)*

Mr. Mo Bernstein, 1740 Broadway, San Francisco CA

Dear MO---

*narrated on the second page of the
"Feature Report"*

You have probably forgotten this event, but I tell this story a dozen times a year. Today's merchants (1) do not stand at the front door (2) are not sensitive to remarks they overhear and (3) usually don't have the authority to change things.

Mr. Roger K. Hughes, Chairman, Hughes Markets, Inc., 2716 San Fernando Road, Los Angeles, CA 90065

Mr. Byron Allumbaugh, Chairman, Ralph's Grocery Company,
1100 West Artesia Blvd, Compton CA 90220

For the above 2---

I thought you would be interested in the favorable comment on the manner in which you handled the Alar reaction.

Mr. William Dillard II, President
Dillard Department Stores, Inc., 900 West Capitol St, Little Rock AR 72201

Dear Bill---

will be
I do not see you advertising regularly although I know it is only a matter of time until you are in California. And I don't know how you advertise ~~the~~

mattresses---but I hope you will join in this effort to end dishonest mattress advertising.

Mr. David C. Farrell, Chairman, The May Department Stores, 611 Olive St
St Louis, MO 63101

Mr. John W. Burden, Chairman
Federated/Allied Department Stores
7 West Seventh Street
Cincinnati, OH 45202

Mr. Ed Finkelstein, Chairman
R. H. Macy & Co., Inc 151 W 34th St NY NY 10001

Salutation "Dear Ed"

I see advertising ^{regularly} of at least one of your clients ~~and~~ ~~I know that at least one is~~ doing the type of advertising I have outlined and for which Hecht's paid about \$400,000.

I hope you will join me in this effort.

Add above form letter

Mr. Philip M. Hawley, Chairman
Carter Hawley Hale Stores, Inc., 550 South Flower St, Los Angeles CA 9007

Salutation: Dear Phil

Mr. Alan R. Anderson, Chairman, P.A. Bergner & Co, 331 West Wisconsin Ave
Milwaukee WI 53203

Mr. Irwin Greenberg, President, ~~Heb's~~ Department Stores, Inc, Hamilton Mall
at 9th St, Allentown PA 18101

Mr. Stephen Watson, Chairman Dayton Hudson Department Store Company, 700
On The Mall, Minneapolis, MN 55402

Mr. G. Arthur Hensens, Chairman, Frederick & Nelson, 5th and Pine St,
Seattle WA 98111

Mr. Philip B. Miller, Chairman, Marshall Field, 111 N. State St, Chicago
IL 60602 60602

Mr. Henry C. Prange, Chairman, H. C. Prange Co, 2314 Kohler Memorial Drive,
Sheboygan WI 53081

Mr. Marvin J. Ashton, Chairman, Z C M I Department Store, 2200 S 900 W,
Salt Lake City UT 84137

I do not see your ads or the advertising in your community but I suspect that the example of mattress advertising for a San Francisco area store is repeated where you have stores. I hope you want to eliminate this advertising and will join me in this effort. Please a a list of stores anywhere you operate rather than just a local list. Remember---plain envelope, no return address.

Page 4

Mr. Michael Bozic, Chairman
Sears Merchandise Group, Sears Tower, Chicago IL 6-684

Dear Mr. Bozic

I applaud your move to low every day prices and I that this will continue. You know the problems with mattress (and other) advertising and that prompted your move.

I have not noted any use of comparative prices since the implementation of the program and hope that will continue.

Even more, I hope you will give personal support to my effort,

Mr. Bernard F. Brennan, Chairman
Montgomery Ward & Co., Inc, Montgomery Ward Plaza, Chicago, IL 60671

Dear Mr. Brennan---

I applaud your move to low every day prices but I not^e that in mattress ads in our area you now show your former "regular" prices as "compare at" prices.

I expect a number of stores will respond to my efforts. I hope that you will help this effort by not running any "compare at" ads during the July 4-31 period and then not return to them if other stores have not run "50% off" or similar mattress ads.



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

MAY 1989

VOL. 24, NO. 5

LOS ANGELES IS LUCKY— IT WILL GET A COVENANT HOUSE

Father Bruce Ritter founded Covenant House in New York—just off West 42nd Street—to find and help the teenage kids living on the street and selling their bodies to survive.

Today there are Covenant Houses in Houston, Fort Lauderdale, New Orleans, Anchorage and Toronto—and there will be one in Los Angeles in 1990 thanks to a \$4 million grant from the Bettingen Corporation, a major foundation in Los Angeles that had been looking for just such a program.

Although founded by a Catholic priest, it serves all kids regardless of sex, race, religion or sexual orientation: it does not turn any away. Some kids have returned several times—a good number to show appreciation after creating a productive life; others who are still on the street and once again need help.

I was a volunteer with the Community Chest/United Way for 51 years (1930-1981) with time out only for school, a year living in the East and about seven years of military service. I know the petty politics that exist in organizations that should be “doing good” rather than “doing in” another agency. I recall when, as Chairman of the Membership Committee, we were recommending admission of the first gay organization.

The head of a major company, a man who had headed the United Way of the Bay Area, told me that if a gay organization were admitted, his firm would review its support of the United Way! This—from a man who thought he was doing a service for his community!

As the time for the meeting approached, I was advised that there would be a move, for the first time, to turn down a recommended admission. The sole argument was that gays could use the existing agencies and did not need a special agency. They said they could go to the Family Service Bureau. Family Service professionals are excellent people, and the agency fills a need in our community; but they are not trained to serve the needs of gays.

In case you don't know, gays are people. Each is someone's son or daughter. They have (or should have) jobs just like other people. They have friends, just like other people.

But, even in San Francisco, they are discriminated against—they are not “like other people.”

I told the Board members who opposed that if the admission were rejected I would immediately move for the elimination of the Intertribal Friendship House that served the unique needs of American Indians in an urban setting, of the Chinese Newcomers Society that served newly arrived Chinese, of the Urban League that serves the needs of blacks (particularly in

AT LAST! MACY'S CALIFORNIA RAN A MATTRESS AD WITHOUT COMPARATIVE PRICES! !

The key copy read:

MACY'S IS THE LARGEST BEDDING RETAILER IN NORTHERN CALIFORNIA AND WE GUARANTEE YOUR SATISFACITON!

The secret of our success is simple. We listen. We give you what you want, and then we guarantee your satisfaction. If, within 30 days of your purchase date, you're not happy, for whatever reason, come talk to us. We'll exchange your purchase or give you a refund . . . because we're not satisfied until you are. It's just that simple.

WHAT CAN YOU EXPECT FROM MACY'S?

1. BRAND NAME QUALITY.
2. SELECTION, OVER 40 STYLES TO CHOOSE FROM.
3. A TOP ACCOUNT FOR MINOR PAYMENTS ON MAJOR PURCHASES.
4. LOW PRICES, EVERYDAY.
5. WE WILL MEET ANY ADVERTISED PRICE.

The ad ran in the Sunday (April 30, 1989) tab. Three times I called Harold Kahn (no relation), President and CEO, to congratulate him. On the third try, I left a message and then sent a letter.

Please Disregard The Above

Note “Low Prices, Everyday.” That policy ended five days later with a conventional, for Macy's, three-day “50% OFF MATTRESSES” sale. The above ad offered Simmons label twins, starting at \$65 for Hotel-Bilt, \$100 and \$130 for Maxipedics and \$160 and \$200 for Beautyrests. The three-day ad offered Sealy, Simmons or Stearns & Foster, ending up with twins at: Reg. \$130, Sale \$65; Reg. \$200, Sale \$100; Reg. \$260, Sale \$130; Reg. \$320, Sale \$160; and Reg. \$420, Sale \$210.

It looks like Macy's is getting \$10 more for the top line.

What Macy's is telling me is that the Simons Beautyrest Celebrity Elite twin is regularly at a low price of \$200; but five days later, it is offering me the Simmons Beautyrest Heritage Elite, regularly \$420, at \$210! Can Macy's show enough difference in construction to warrant a \$220 (110%) difference in the “regular” price?

And it tells me it will match any advertised price!

But you and I know, from reading many ads, that what is
continued

continued

Beautyrest Heritage Elite at Macy's can be Beautyrest Handdown Supreme in another store. The price guarantee admits everybody has a different name on the same mattress by expanding "advertised price" to cover "comparable name brand bedding of similar construction." Do any RT readers believe that a customer shopping for mattresses can prove to Macy's that the Handdown Supreme in another store is "similar construction" to the Heritage Elite?

RThought: Harold, please return the letter I sent you in error.

LATE NOTE: I can't stand it. On May 7, Macy's repeated the April 30 ad—the one illustrated above.

trying to overcome the prejudices of people who have jobs to fill), and on down the list. There was not one vote against admitting the gay organization.

RThought: I am sure my readers in Los Angeles avoid the streets where these young kids hang out offering their bodies for a few dollars. You know the places to avoid; therefore, you know the problem exists.

Help Father Bruce to have his Los Angeles Covenant House; he already has cancer—and continues to work.

Call 213-461-3131 and ask for Anne Donahue, a graduate of Boston College and Georgetown Law School. She already operates the Covenant House "Outreach" vans that go out on the streets searching out kids in trouble. She can use your help.

AUTOMATED PRESSURING OF CONGRESS

I quote from a newsletter serving one type of specialty retailer. In an article drawing attention to the current status of Section 89 of the Internal Revenue Code (added in the 1986 Tax Reform act), it said:

The Association Department of the U.S. Chamber of Commerce has organized a mailgram campaign. The Chamber has a toll-free Western Union hotline set up. For a charge of \$5.75, a mailgram in your name will be sent to President Bush requesting repeal of Section 89. A similar message can be sent to Representative Dan Rostenkowski and Senator Lloyd Bentsen, chairmen of the Congressional tax-writing committees.

RThought: Note that the actual message is not disclosed. It may or may not say what you want to say. I would hope that anyone sending a message to the President would want to know what he was saying. But even worse is the automated nature of it. Drop your quarter in the slot and you will have filed a protest. Soon the entire sending of the message will be eliminated. Pressure organizations will have the hotline (directly into a meter?) in the Oval Office; and each time \$5.75 is dropped in, a "vote" will be tallied. This technological advance will eliminate the cost of the paper and envelope; opening; coding the pressure group; and sending the piece of paper to the tallying unit.

Under this method, the President can come into the Oval Office on one of his periodic visits and ask—"How am I doing?"—and get a precise answer.

HOW CAN WE KNOW SO LITTLE— AFTER KNOWING SO MUCH?

The following items came from a single issue of a newspaper—*The New York Times* for April 27, 1989:

Matthew D. Serra was moved by May Department Stores from President/CEO of Sibley's in Rochester to twice-as-large G. Fox & Company in Hartford. He was quoted: "If there's one thing I learned in 23 years of retailing, it's that if you give the customers great value and good service, they will surely come back." One hundred years ago, Marshall Field was building a great store on a simple principle, "Give the lady what she wants."

United Airlines placed an order for 370 Boeing planes. Since 1984, United's market share has dropped from the leadership position with 20% of the market to 18% while American Airlines has increased from 16% to 20%. The pilots at United revolted. This, and other pressures, forced Richard Ferris out as CEO and the disposal of Hertz car rental and Westin Hotels. Concentration is now on running an airline. American never tried to do anything but run an airline. A Shearson analyst, commenting on the order for new planes, said, "This clearly sends a message to employees that United is dedicated to the airline business. . . ." **Why should it be necessary to send a message to employees about what kind of business a company is in?**

The American Newspaper Publishers Association heard from Michael J. Davies, publisher of *The Hartford Courant*, that "I don't mean to be an alarmist, but it seems to me we should periodically remind ourselves that we have no constitutional right to stay in business." He reminded the audience that only one out of three people between 18 and 29 read a newspaper everyday. The product has to be re-designed to attract these people—or there won't be any need for a newspaper.

RThought: Marshall Field said it all—"Give the lady [or the man] what she [or he] wants." If you don't do that, there is no reason why a department store, an airline or a newspaper should survive.

Those who do not survive keep crying from their death bed that they have been killed by the big stores or the small stores or the newspaper monopolies or the control of gates in major airports—anything except recognizing the truth: "I didn't give the lady what she wanted." R.I.P.

ETHICS IN SELLING A COMPANY

It is bad enough when management ends up buying a business based on knowing things about it that they just forgot to mention to the stockholders.

I share the belief of a top retailer, who built a magnificent company, that any participation of management in a buyout violates a fiduciary trust. But since I am not an attorney, that must remain just a belief. One day our courts will clarify the issue.

The February 26, 1989, release from Philip G. Barach, Chairman of United States Shoe Corporation on the sale of the Shoe Division, raises all sorts of questions in my mind.

U.S. Shoe retained Merrill Lynch to find a buyer for all of the company or parts of it. The release indicates this was not possible. It also said, "... no qualified buyer elected to pursue ... the Women's Apparel Retailing Division. ... There was strong interest ... [in] the Footwear and LensCrafters Divisions."

The release proceeds, "In light of the bids received and the impact of corporate income taxes on the values realized by shareholders if LensCrafters was sold and taking into account the high growth potential of LensCrafters . . .," the board

CAN CONVENTIONAL RETAILERS SURVIVE?

Part IV

I am writing this series because of my reaction to the subjects presented at the NRMA Convention in New York in January 1989. I attended many sessions, read the papers presented at other sessions and listened to tapes of even more sessions. I felt strongly that the most important subjects were not being discussed.

I set forth 13 points to discuss: the following seven were discussed in Parts I, II and III:

1. The nature of stores they fear.
2. The acceptance of dishonest advertising.
3. The obsession with hiring salespeople at the minimum wage.
4. The failure to understand the connection between the culture, morale and ethics of the business and the profits of the business.
5. The length of time it takes to make a decision.
6. The lack of understanding on how to make a profit.
7. The rejection of new ideas and the copying of wrong ideas.

Last month, under the sixth point, I stressed that we need repeat customers in order to make a profit and set forth a simple rule:

**A RETAILER MAKES A PROFIT ON A CUSTOMER,
NOT ON A TRANSACTION.**

The predecessor of *Retailing Today* was called *Client Memo*; and in Volume III, Number 7, for July 1968, I said:

The introduction of the computer into retailing is tending to produce the myopic merchant of the future—who, in the long run, must lose out to the fundamental merchant of the past and his progeny.

It seems to me that this is the time to restate some fundamental principles of retailing that seem to have been overlooked in the drive to "automate."

Principle: No retailers (except auto dealers and some appliance stores) ever make a profit on a *transaction*; they only make a profit on a *customer*.

I have been preaching this for 20 years—and hundreds of others went before me. But it seems that the active retailer can forget this principle faster than we enunciators can re-enunciate it.

I now have been pushing it for 41 years.

8. The impact of store hours on the profitability of service retailers.

The first question that should be asked is: "What hours should a store be open?" It does not have to be the same for all stores in a chain or group, and it does not have to be the same hours as competing stores.

Many stores have ceded control of their hours to a shopping center manager under the terms of their leases. Those stores forget that it doesn't cost the landlord anything to require a store to be open long hours. It is not likely that total sales will be less with more hours than with fewer hours—at least for most stores. But the hours may adversely impact the tenant as will be discussed later.

What were correct hours two or five or ten years ago are not necessarily the best hours now. But they seldom get reviewed.

There is no person named "Manager—Store Hours," as there is "Manager—Accounts Payable" or "Manager—Receiving and Marking." Nobody has the job. If a person thinks that the hours should be different, that person may feel it is not proper to push the boss on the subject.

Sometimes stores just go along with the gang. In San Francisco in the 1960s, there were four department stores: Emporium, The White House, City of Paris and a newcomer, Macy's. Abutting the downtown shopping area was the financial district with 30,000 office workers. The White House was four blocks away from the financial district; City of Paris was seven, Macy's was eight and Emporium was ten. In the spirit of uniformity, the other three got The White House to go along with a 5:30 p.m. closing—and that left no opportunity to get the business from the workers in the financial district that it could have gotten with a 6:30 p.m. closing. This went on for years—right up to the day The White House was liquidated—and the building became a garage.

It is not pertinent to general merchandise, but the situation has changed between supermarkets and convenience stores. 7-Eleven was great hours—when supermarkets opened at 8 a.m. and closed at 8 p.m. Then supermarkets started stretching their hours and now many are open 24 hours a day. Now, many convenience stores stay open 24 hours a day even in the face of the supermarkets being open 24 hours. At 3 a.m., I can get just about as fast service in the local Safeway or Lucky as I can in the 7-Eleven and with greater assortment at a lower price.

But 7-Eleven does not seem to look at hours. Habit is habit. The hours are painted on the door. Food & Liquor, which calls itself a mini-mass merchandiser, has reduced hours, not as a blanket policy but after considering each site.

Once upon a time, Neiman-Marcus (when founder Herbert Marcus headed the store) set out to make the working women in Dallas "the best dressed working women in the world."

There still are many working women in downtown Dallas. To get downtown, they fight a California-like freeway situation and few want to stay downtown late to shop. But going downtown before work is another matter. There are two things that Neiman-Marcus could do that I believe would greatly improve the appeal, and thus the profits, of the main store.

First, I would have a program going every weekday morning at 7:30 a.m.: fashion shows; how to do your hair; how to use a perfume; authors (including Stanley Marcus) signing books; and/or courses on how to present yourself at your best. (My assistant mentioned that some Nordstrom stores have classes on scraves and turbans for women taking radiation who have lost their hair.)

Second, I would have special promotions for women working downtown. A person could spend a year going from office to office in the downtown area asking each office manager, "If N-M sent a nice letter-size poster of 'Downtown Specials of the Week,' would you put it on the office bulletin board?"

The other area of impact of store hours on the profits of service retailers is the quality of the service that is offered. So often service retailers have a core of good people supplemented by short-hour people with high turnover.

continued

FEATURE REPORT *continued*:

I remember when Macy's California kept all the regulars on the Monday-Saturday shift (in the days before Sunday openings) and then had a separate Monday-Friday evening crew. It had its own evening superintendent and area managers. Teamwork developed. Five nights at four hours provided fringe benefits. Service improved. Employee turnover dropped.

Establishing hours to maximize profitability is a skill that has, as yet, few practitioners.

9. Improperly financing in-house receivables.

Once upon a time a retailer was not considered to be a sound credit risk unless she or he owned the building, inventory and receivables. That changed after World War II when stores started opening suburban branches. Then shopping centers came along. Major stores got sweetheart rents to serve as anchors, so there was less incentive to own the real estate.

Today most full-service retailers have only two large assets: inventory and receivables. But they make their money off of inventory.

The only reason for owning the receivables is to control the granting of credit. A bank card or a third-party provider must make money off the finance charge plus the discount when the paper is purchased (perhaps 1.5% to 4%). But the retailer can look at a 30-45% gross margin *plus* the finance charge—and can accept higher risk credit than bank cards and still make money.

Unsecured accounts receivable of legitimate larger service stores are the best quality lending in American business. The 1932 Harvard Report ("Operating Results of Department and Specialty Stores"), the predecessor of the NRMA Financial and Operating Report (FOR), showed that the largest size department stores (over \$20 million) had bad debts of 1.5% of credit sales. By comparison, the most recent (1988) FOR for Department Stores over \$100 million showed a median of .84% and a middle range of 0.59% to 1.02%.

A store should control the granting of credit and bear the bad debt losses *but not put its own dollars into receivables*. The finance charge, or most of it, should go to the entity that finances and processes the receivables. Under those circumstances, bad debt should be greatly increased in order to maximize earnings. Too many stores think the best credit operation is the one with the lowest loss rate; and thus the credit department hurts the store by restricting sales.

With computers and continuous scoring of active accounts, it is possible to control credit granting. If a store that has a 1% loss ratio divided its accounts into deciles based on losses, the lowest three or four deciles (30% to 40%) would show close to zero. The top decile (above 90%) would be on the order of 3-4%. Yet if the contribution-to-overhead rate (gross margin less direct expenses) is 15%, then a lot of credit that could be granted is not being granted.

I have used the word "control" several times. This must be "continuing control"—not intermittent, not just when opening an account, not just when working the collections.

I have a strong feeling that until we get a new generation of

credit managers that we are not going to get away from the idea that the lowest credit loss produces the most profit. How does a credit manager brag if he knows he has optimized store profit with a 4% or 5% loss rate? Another credit manager will immediately claim that *his* loss of 1% is a "better" performance.

In 1953-56, I was vice president and treasurer of an unusual business—a low-end department store, supermarket and public market (individual stands)—all rolled into 90,000 square feet in a warehouse-type building.

But first, let me explain "low end." When I joined the company, one of my first moves was to convince everyone that we could not make money selling women's panties—*thirds*—at nine for \$1! I insisted that we *trade up to seconds*.

I wanted to put in credit. Our point-of-sale was a Sweda register with eight department totals. The system had to be simple—so we decided on coupons in \$25 and \$50 books consisting of \$1 and \$5 coupons. We could handle the coupons the same as we handled cash. I called dozens of stores, and the highest percentage of sales any store did on coupons was 5%. We set our goal at 10%. When credit was introduced, the department store was doing \$1.5 million. We set up to handle \$150,000 a year. We started in late October and put out \$150,000 worth of coupons by Christmas time! We were out of control; we did not collect 25% of that first \$150,000. We ended up with the *best* profit year since World War II!

How could that happen? There were several reasons. When those coupons hit the departments, merchandise flew out. This boosted the morale and self-confidence of the buyer/department managers beyond imagination. We filled in a lot of merchandise in December at very good margins. We figured we got an additional \$60,000 gross margin on the \$150,000 of sales, plus another \$40,000 on the \$100,000 of sales over the previous year's sales plus the \$150,000 in credit sales.

I wasn't proud of being out of control. But I was proud of reading the need correctly.

The stimulus from credit took us from \$1.5 million to \$3 million in two years while Hale's and J. C. Penney were losing volume. The volume let us do more advertising. I wanted a fixed position in the local newspaper. So we asked for the *inside* of the back page of the first section—then filled with patent medicines, herbs, etc. For six months, our ads read, "You will find our ad here every Friday." And when we passed \$2 million, we added a Wednesday ad in the same spot. And we said, "You will find our ad here every Wednesday and Friday."

After I left, the store started to economize. Sales stopped growing. Then the merchandise manager thought he could boost gross margin by two points. That felt good—until the customers caught on and took their trade away.

The department store division never hit the \$5 million or even the \$4 million that it could have done. Credit alone wouldn't do it; but it gave that company a chance and a glorious ride—a 100% increase in two years in a dying location!

Part V of this series will appear next month.

SHORT SHORTS

In these days of raiding and plunder, is there any reason why the amount of golden parachutes should not (1) be disclosed in proxy statements and (2) be approved by the stockholders? **RThought:** With the size of some parachutes,

the loyal employees of the stockholders might have a stronger selfish interest in selling the company at any price just to get the parachute to open than to operate it profitably for the shareholders.

accepted a bid for just the shoes. (Note: By March 2, there was a shareholders' class action suit against U.S. Shoe on the announced sale).

Without quoting the entire release, let us see what might be involved:

1. Merrill Lynch was retained to find a buyer or buyers.
2. When it could not, it had seen all of the bids.
3. When it knew what was rejected, it knew what price would take the Shoe Division.
4. No one, except the Board, knew how much effort was made to improve the bids after Merrill Lynch made its bid.
5. Merrill Lynch Capital Corporation is providing financing which will bring another big fee.

After all of the above, there is one sentence worth quoting:

The Board has directed management to focus on improving the profitability of the Women's Apparel Retailing Division. . . .

Just what did management think its job was? Why did the Board have to give it instructions that this should be in its job description?

RThought: The balance of the release states or indicates that the retained part of the business showed a loss for the year ending January 1989 and that shoes made a profit.

There were other things that could have been done. Zayre showed the way. At \$800 million sales, the Shoe Division is a viable operation. Why didn't the Board form a shoe subsidiary (if there wasn't one already) and then sell 20-35% of the stock to gain money to continue to play with loss operations? It then could have distributed the remaining 65-80% to the present U.S. Shoe owners—which would come to them tax free!

RThought: Now that Mr. Barach has shown how he runs a company and the Board has sold off a third of it, will he reduce his salary by a third?

(Late Note: The sale was abandoned, but the points made above are worth noting.)

HOW MUCH MONEY SHOULD YOU SAVE ON SACKS?

The following is based on an article in the October 1988 *Grocers Journal of California*, which interviewed Alvin Berke, VP-Marketing, of Hilex Poly Company (a manufacturer of grocery sacks) and Sid Marantz of Certified Grocers (a cooperative wholesaler in California).

There are three kinds of plastic sacks available today:

	Characteristics		
	Standard	Biodegradable	Photodegradable
Time to Degrade	200-500 years	3-7 years	120 days in sun (same as Standard out of sun)
Cost Index	100	110-115	115-125

Manufacturers are working on other kinds of plastic sacks that will shorten time required to decompose.

What are the economics of plastic sacks?

- Plastic sacks require one-fifth the space required for paper bags.
- Plastic sacks cost less to transport.
- Plastic sacks reduce labor costs (for handling).

Most stores that use plastic sacks use the standard (200-500 years to degrade) type. I do not recall any store that publicized using the degradable sack despite the growing interest of the public (most of the public patronizes food stores) in protecting what remains of our environment.

RThought: Just because a retailer can save money does not mean he or she should.

My thinking goes as follows: Plastic sacks are used because they are cheaper. Biodegradable bags, only 10-15% more than standard sacks, also save money. They will decompose in a garbage dump in two to seven years. Is the extra savings worth the penalty of spreading standard sacks around our environment? It appears to be to supermarket chains.

One reason this happens is that the "knee bone is not connected to the leg bone" in these companies. The supply buyer is measured by how much he saves on supplies—and not much more. Does anyone say to the supply buyer:

Do you think we could bring in 100 new customers per store if we paid 10% more for biodegradable plastic sacks and advertised that our sacks will decompose in two to seven years instead of 200 to 500 years?

How much would the new customers spend in a year?

How much would we make on those sales?

Will the extra profit exceed the extra expense?

Why do we have a situation where the supply buyer, appearing to do a better job, loses a chance to make some real money for us?

RThought: In Econ 1, we learned that the maximum profit was NOT at the point of lowest average cost but when the incremental revenue equals the incremental cost. Incremental revenue is hard to identify and even harder to convert to sales.

THE MORE WE SELL, THE SOONER OUR WORLD IS DESTROYED

I thought of the above statement when I read the Form 10-K for The Southland Corporation. Here is the breakdown of just three categories of merchandise:

	Years Ended December 31				
	1988	1987	1986	1985	1984
Gasoline (1)	19.7%	22.7%	22.1%	25.5%	24.8%
Tobacco Products (2)	17.4	16.3	15.8	14.8	14.4
Beer/Wine (3)	11.1	11.2	11.7	11.0	11.4
TOTAL	48.2%	50.2%	49.6%	51.3%	50.6%

(1) Gasoline fumes and engine exhaust are polluting our air. In Los Angeles and Denver and hundreds of cities, it spews out of the tailpipe of our car and we take it in through the air vents from the car ahead—and then breathe it. We just don't think it will really kill us.

(2) Every package says that they are bad for our health. They may kill you. If a pregnant woman smokes, it may cause her child to be deformed at birth. The Federal government depends on a tax on cigarettes so that it can subsidize the tobacco grower. Or is it the other way around? I never get it straight.

(3) Alcohol is our most serious drug problem. But not only is it legal but many public entities depend on the tax on alcohol (as well as on tobacco) to support many programs.

RThought: On September 18, 1973, at the Diplomat Hotel in Hollywood, Florida, I gave a talk to the National Association of Convenience Stores on "What's Wrong with The Convenience Store Industry," and my notes show:

On Beer and Alcohol (then the largest category): "Recognize alcohol as the major drug problem in the U.S."

On Cigarettes: "Increasing pressure to ban cigarettes as injurious to health. Surgeon General attacking."

On Gasoline: "Environmental Protection Agency now proposing 50-80% cuts in gasoline usage in many metro areas."

RThought: The convenience stores have taken over the gas stations or vice versa. Imagine the complaint if hundreds of thousands of convenience store employees were thrown out of work because something was done for the benefit of all people hurt by alcohol, tobacco and gasoline? Legislators wouldn't have a chance.

RThought: We think the people making money selling drugs are terrible, but they are driven by the same desires as retailers—with just one small difference: Their health or environmental damage is illegal. Otherwise, they just sell what people want without ever asking themselves, "Can I, in good conscience, sell this product?" After all, the non-illegal drug retailers have the same choices as other retailers. They can misrepresent what they sell; they can overcharge; they can use false comparative prices.

They are, after all, just our brother retailers. Think about it for a moment and think about the products you sell.

HOW TO PROVE YOU HATE YOUR CUSTOMERS

It is very simple. You are probably doing it in your own business. Someone in the Controller's Department sold you on it to save money. As you spend an evening with your peers, who always have someone else dial their calls, you will explain how your telephone system is now "state of the art."

Let me give you a few examples from which I draw a conclusion that management does not care one iota about me as a customer.

I called the California State Automobile Association to inquire about its accident insurance. Since I can read, I went down 32 San Francisco phone numbers (it also had three Sacramento numbers listed) and decided that the best one was "Information and Other Departments." A recording told me, "You have reached the San Francisco office of the California State Automobile Association," and then gave me a series of numbers I could "punch in" if I had a touch-tone phone. The eighth number given seemed the one most likely—and I got through to someone who sold insurance for the company! We finally reached agreement on what I wanted—it is called "high-limit" accident insurance—and was told that it was in another department. She told me that she would transfer me, and then she disappeared.

I found myself back at the starting point, so I went through the numbers and again picked one. This time I told my problem to the human who answered, and she gave me a direct-dial number. It was much easier to pay for a second call than have her try again to transfer my call. I dialed direct. After six or seven rings, someone answered and told me that the person I wanted left at 4 p.m., although the announced hours were to 5 p.m.

Then take the problem of reaching my attorney, who is in a firm that occupies three floors in a building. When I call and ask for him, one of two things happens. I get a recorded message or nothing happens and I'm back to the operator. I am told he is "away from his desk." I ask if he has a secretary, and the person says, "Do you want to talk to her?" Put that question near the top of the list of stupid questions born of the telephone age. Of course I want to talk to her if my attorney is

not available. When I do get through to the secretary, she will either tell me the attorney is "somewhere around the building" or "he's in conference" or "he's out."

If he is "around the building," she will ask, "Do you want me to page him?" That also goes on the stupid question list. I didn't call just to run up my dues to Pacific Telesis (our local telephone company). So far, no one has discerned that the reason I am causing everyone so much inconvenience is that I want to talk to my attorney about a case in which he represents me (\$25,000 that I would like to have and the other guy is trying to keep from me!).

RThought: I doubt that there is a single business that has already succumbed to the salesperson's claim, "You will save money," that thought for one moment, "Will this serve my customers better?" If it did, the answer to many "state of the art" phone systems would be "No." And so it appears that the only reason for installing a system is to get a little satisfaction out of that great American tragedy: "customer abuse."

With the problems we have today with child abuse and woman abuse, I will be dead before anyone, except Nordstrom, is concerned about customer abuse. So be it.

SHORT SHORTS

Do copywriters think? On the menu of the nicely remodeled Biltmore Hotel in Los Angeles, "Another Natural Treat. Delicious Fruit Salad. *Fresh Every Day.*" **RThought:** Would anyone ever expect fruit salad to be made twice a week?

WORDS—ABOUT A PLAN TO END DISHONEST MATTRESS ADVERTISING

Bill Dillard, President of Dillard Department Stores, called to say that three years ago his company got so uncomfortable with the mattress advertising that it stopped "% Off" ads. Sales were down about 6% the next year but have been up since. I can understand its move. Dillard is a family store and personal standards are involved; it does not agree with professional management that the sole obligation is to make more money for the shareholders.

Jack Brandwein, founder of *Furniture Forum*, called to say he would do a column in support.

Bob Keiningham, publisher of *Furniture Forum Fax*, mentioned it in the April 28 issue and suggested that readers write for a copy of the April RT.

Joe McNichols wrote, "Your theory is 100% on target. I will support you and will write an article."

Peter Gundell, former head of research for Associated Dry Goods and a long-time friend, wrote, "Good for you. Too many talk about ills of the world or of their industry without doing anything about it. I'm glad to see that you are taking a positive step."

An independent furniture retailer in North Dakota, responding to the *Furniture Forum Fax*, wrote, "Our store is as guilty as everyone else, but I want to change that. It has been bothering me that this 50% off, 60% off, etc., is all that we use because of the pre-ticket on bedding. This must be changed so our credibility can be restored."

RThought: There is momentum. I think everyone would like to be able to look their bedding customers in the eye during the day and sleep well at night on the mattress of their choice.

Put w/ May 1989 RJ

THE NAME OF THAT TUNE, MR. KAHN, IS "FRUSTRATION"

(and brother, it's getting old!)

In the May issue of *The Furniture Forum*, we reported a program put together by ROBERT KAHN, of the management consulting firm ROBERT KAHN AND ASSOCIATES, that is aimed at putting an end to dishonest mattress advertising. Outlined in the April issue of *Retailing Today* (Kahn's newsletter), the plan calls for a "declaration of independence" from dishonest mattress advertising beginning July 4th.

May's issue of *Retailing Today* had good news regarding this effort. According to Kahn; MACY'S of California ran an ad on April 30th that contained not a single price comparison. Instead, the ad told consumers about guaranteed satisfaction, brand name quality, selection, and, yes—everyday low prices.

Next, some bad news: Kahn described Macy's May 5th ad boasting a 50%-off mattress sale (suggesting to the smart shopper that there is a 110% difference in the "regular" price of a certain item—depending on which day one shops). And finally, on May 7th—as if to demonstrate that Macy's believes nobody has a memory span longer than forty-eight hours—they ran their April 30th ad again (when children behave this way, we have them sit in a corner).

Despite Macy's aberration, Kahn's movement is gaining momentum as more and more retailers report they have kicked the deceptive ad habit. To these merchants, we extend our sincerest congratulations.

Retailers who wish to contribute to a policy of honesty in advertising, can get more information by writing to Robert Kahn, P.O. Box 249, Lafayette, CA 94549, phone (415)254-4434, fax (415) 284-5612. Do it today!

EDITOR'S NOTE

In response to a growing number of requests, the page layout of *The Furniture Forum* will feature a slightly wider margin at the center fold. This will allow sufficient space for hole-punching to facilitate the filing of issues in a ring binder. This format change is effective with this issue.

READER RESPONSE

The following letter is in response to Publisher Bob Keiningham's column in last month's *Furniture Forum*. Alan Feuerwerker—at one time a furniture retailer—is now a regional sales manager for Guardsman Products, Inc.

Recently, I bought a new Jeep. In response to calls to several toll-free numbers, I received "invoices" and delivery plans, etc., concerning how to buy the vehicle, select my options, arrange delivery through a local dealer (or to my door), and so forth.

What's so different about the auto industry? I went to my local dealer and offered him \$500 over the best telephone quote (which was considerably lower than the figure my dealer and I arrived at earlier—after a lot of bargaining). I felt it was worth \$500 to be able to see and test drive the Jeep—and have a salesman answer questions—before buying it.

I believe our industry will be largely manufacturer-driven. The big new players will put in their own retail outlets. Didn't Masco announce super-store plans? Franchising à la Ethan Allen will accomplish the same. Huge manufacturers will stifle competition because of their size—and that's already happened (they had to become large in order to effectively modernize plant and equipment and to be competitive).

I believe retailer's efforts have been geared toward selling cheaper. Mine have been to provide services and product. But efforts to be outstanding in what one chooses to do in life should come second to educating the consumer in creating a warm, loving home that reflects pride in one's worth; personal goals should not take priority over setting an example for one's children by means of a beautiful home which strengthens the family unit.

Both types of retailing [conventional outlets and manufacturer-owned outlets] are tough. But both avenues need to be available. If manufacturers need to open retail outlets to accomplish their goals, they will. Therefore, we do not need more legislation that stifles competition in any way—intrabrand or interbrand. But we will see more vertically integrated giants such as K Mart and Nordstrom's.

I want to emphasize that I am against legislation. However, I believe competition will be stifled anyway when the manufacturing giants begin to control retailing through their own stores.

[Signed], Alan Feuerwerker

CAN WE MAINTAIN THIS BALANCING ACT?

by Joanna Maitland

The discount-selling controversy was born in 1955–56 when Dexter Stuckey began selling furniture in Hemingway, South Carolina, at cost plus 10%. Stuckey was so successful, he achieved an annual volume of some \$5 million. Discount sales eventually spread, and retailers, such as Blackwelders in Statesville, North Carolina, advertised widely—even in *The Wall Street Journal*. At that time, a New York Times article labeled Blackwelder "the Robin Hood" of the furniture industry.

During the past ten years, manufacturers and retailers—in their struggle to increase sales, make a profit, and, in some cases, simply survive—began to re-evaluate manufacturer/retailer relationships. Because 20% of all stores were providing 80% of the business, many manufacturers began focusing on that top 20% of their retail accounts. By limiting the number of accounts, those manufacturers felt they could provide better delivery and service.

Retailers, during this time, took a long look at their manufacturer/supplier relationships, and came to the realization that if they bought more product from fewer sources, they would become more valued customers. To industry analysts, it appeared these source relationships were finally becoming cooperative and constructive—even friendly—and that the furniture industry at long last was achieving a sense of unity and maturity.

The current legislative action will have far-reaching effects on the industry's financial future. Broken or damaged relationships may destroy this recent working cooperation, and slow the industry effort to make furniture competitive with other big-ticket items. The gallery concept, born in response to this need to stimulate furniture sales by building company image and product identity, demands smooth source relationships in order to function.

The current problem in the North Carolina legislature is not between the majority of manufacturers and retailers. The manufacturers involved are those making high-end products: Baker, Henredon, Drexel Heritage,

(continued on page 4, column 3)

WALTER MATHEWS ASSOCIATES, INC.

By Fax

Our fax number is 212/719-9382

TO: Robert Kahn, Retailing Today - FAX 415/284 5612

FROM: Walter Mathews

DATE: 14 September 1989

Total Pages including this one: 1

Dear Mr. Kahn:

I was impressed with your comments about repeat customers in the May issue of Retailing Today.

May we have your permission to print the following excerpt in Retail Briefing, the newsletter we publish and which is sent to some 125,000 retailers who welcome the American Express Card?

'A RETAILER MAKES A PROFIT FROM A CUSTOMER, NOT A TRANSACTION'

A department store needs many customers that shop 12 times a year ... a men's store needs many that shop 3 or 4 times a year ... a discount store needs many that shop 20 times a year.

Point is that your survival as a retailer depends on repeat business," says Robert Kahn, Retailing Today. "If you want to make a profit, make sure you have an open line to lots of your customers," writes Kahn. "Tap that wonderful pool of knowledge that your first-line people have - nobody has ever asked them about what your customers want."

Thanking you in advance,

Walter Mathews

14 September 1989

I would appreciate it if you at some point put "Lafayette CA" in case any of your readers might wish to contact us/

Permission granted

Thank you for picking up this point. With computers too many people concentrate on the transaction rather than the customer/

ROBERT KAHN CMC



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

JUNE 1989

VOL. 24, NO. 6

FREE ENTERPRISE: DESTROY ANYTHING TO MAKE A BUCK

free enterprise: 1. an economic and political doctrine holding that a capitalist economy can regulate itself in a freely competitive market through the relationship of supply and demand with a minimum of governmental intervention and regulation. 2. the practice of free enterprise in an economy, or the right to practice it.

(Random House Dictionary, Second Edition [1987], Unabridged.)

We live with theoretical proofs and empirical proofs. Fifty years ago, the engineers talked of proving that a hummingbird could not fly and that mathematicians used equations to prove that $1 = 0$.

Is there an empirical proof that free enterprise has worked for us?

In the 1860s, there was a native meat animal that could have served the country as we now use the cow. We killed all the buffalo for the hides and left the meat to rot.

We discovered that rivers had a miraculous power. All sorts of sewage could be dumped into them; and by the time the water got down to the next community, it was clean again. It was a scientific miracle.

And we found the same was true of the oceans which are infinitely larger than rivers.

And then we found that our air could "absorb" an infinite amount of pollutants and remain "clean air."

Once we had an infinite amount of labor and didn't have to care how laborers were treated or whether they were paid enough to survive. We believed those who worked in mines could breathe in an infinite amount of coal dust. And those that worked with radium could absorb an infinite amount of radiation. And those who worked with asbestos could sniff an infinite amount of asbestos. And those who smoked could inhale an infinite amount of tobacco smoke.

And following the hypothesis of the capacity to absorb and, somehow, purify, we destroyed our buffalo, contaminated our rivers and oceans and air, and destroyed the bodies of many of our workers with coal dust and radiation and asbestos and tobacco smoke.

Surely the simple laws of supply and demand that govern the free enterprise system would lead to a solution other than to contaminate rivers and oceans and air and the bodies of healthy workers.

HOW WELL WILL SEARS DO WITH EVERYDAY LOW PRICES?

Sears has taken the big step—to "Everyday Low Prices." Regardless of what the results may be, it has taken a step that virtually every large retailer will have to take if it wants acceptance by its customers.

Only people who believe in a retailer become regular customers. Sears was losing many of its regular customers.

RThought: The first quarter sales were encouraging, but the first quarter results were not necessarily an indication of what really happened.

Even Sears cannot afford \$100 million (trade reports) in advertising every month nor will Sears get the free publicity each month that it received when the change was made. But there are other facts the outside observer—and especially those who compete with Sears at any level—should keep in mind.

The Sears 1988 Annual Report shows a non-recurring charge of \$751 million to the Merchandising Division. A footnote says that it included, among other things, the anticipated change in pricing policy. As the *Journal of Accountancy* said in reference to accounting for losses on a contract to build a building, "Provision should be made for expected losses in accordance with the well-established practice of making provision for foreseeable losses." As a result, markdowns reflected in the first quarter report should have been abnormally low.

In the advertising that I have seen, it appeared that, at the end of March, Sears took an abnormal number of "register markdowns" on "specials" run without reference to either a former price or to the "everyday low price." This would indicate an abnormal push for volume. This practice, like the \$100 million worth of advertising, cannot be repeated month after month.

My regular readers know that I grew up and entered retailing during the days when Sears was the most respected retailer. I have been saddened to see it fall to the point where such drastic steps are necessary.

On April 22, the headline of the Sears ad in three local papers (*San Francisco Chronicle*, *Contra Costa Times* and *The [Oakland] Tribune*) read:

1 WEEK ONLY — APRIL 22-30

0% FINANCE CHARGE

No Payments or Billings until July

No Down Payments

No Annual Fees

The ad applied only to purchases over \$200 and only on a Sears account.

And we did even better with the upbringing of our most precious assets—the people who do the work. In 1850, the British, studying why the United States was so successful, learned that 90% of the Yankees were literate—and in the Northeast, where the industrial power was concentrated, it was 95%. The law of “supply and demand” managed to reduce the functional literacy rate so that it now is 80% (*Business Week*, September 19, 1988).

The law of “supply and demand” led to the destruction of the dignity and the reduction in pay of our teachers—and now nobody wants to teach. Classes get bigger and children learn less.

Even when free enterprise is warned, it does not listen. When Rachel Carson, having been applauded for her book, “The Sea Around Us,” was challenged by experts and free enterprisers, she wrote “Silent Spring” and warned us of the dangers of continued high use of insecticides.

Our free enterprise operates under a republican form of government that responds only when a substantial number of people call for action. Their voice, the voice of those who represent supply of labor, is weak and unorganized. The voice of those who are in demand for labor has vast resources; and it uses its experts, first to silence the other voices and then to out-shout the truth. This allows the tobacco companies to claim year after year (and to argue in courts) that there is no proof that smoking causes cancer, even when the Surgeon General of the United States has found that cigarette smoking may be injurious to one’s health and that it is addictive and can kill.

Suddenly we realize that the rivers and air and oceans and human bodies are contaminated. The employers say, “We cannot pay the cost of changing what we did many years so we could make more money”; the laborers say, “We have no money, and we are being killed”; and the government says, “We cannot help because it will cost billions, and we must cut the deficit and spend more on arms and munitions and never, ever, raise taxes. Read my lips.”

Even if we set aside an insufficient amount of money to clean the rivers and the oceans and the air and protect the health of the people and develop the education of the people, we won’t spend it.

Congress may allocate, but the executive branch has to spend; and often the preferences of the Congress are not the preferences of the President. You can no more push a rope down the street than can Congress force the President to spend money as allocated by Congress.

RThought: Man is the smartest creature put on this earth and yet will not survive as a species for as long a time as the whale or the cricket or the alligator or the monkey—but a little longer than a mule.

HEALTH COSTS TOO HIGH? TOO LOW?

As businesses face up to rising medical costs, many employers feel that we have raised our medical standards far above the rest of the world. One of the traits of Americans is that they vociferously claim, even though they know little or nothing about the rest of the world, that everything in America must be better than that in any other country.

In the health field, the United Nations collects uniformly

defined “numbers” that make countries directly comparable. One number is the “infant mortality rate,” the number of babies per 1,000 live births that do not survive the first year.

The numbers used below are for 1986 and have been rounded to the closest whole number. The United States made a great improvement—from 25.5 in 1960 to 10.0 in 1986 or 61%. Among the countries in the list below, all but four (Finland, Israel, Australia and New Zealand) showed less improvement.

1986 INFANT MORTALITY RATE

(per thousand live births)

Country	Rate
Sweden	6
Finland	6
Japan	7
Denmark	7
Norway	7
Switzerland	7
Netherlands	8
France	8
Canada	8
United Kingdom	9
Ireland	9
Belgium	9
Germany, West	9
Germany, East	9
Spain	9
UNITED STATES	10
Italy	10
Australia	10
New Zealand	11
Israel	14
Portugal	18

There is wide variation just between our states:

Five Lowest

State	Rate
Wyoming	6.9
Idaho	7.0
New Hampshire	7.2
Maine	7.7
Massachusetts	7.9

Five Highest

State	Rate
District of Columbia (wants to be a state)	19.6
Alabama	13.9
South Carolina	13.1
Georgia	12.3
Louisiana	12.1

RThought: The figures indicate that health care is not uniformly available throughout the country. It is below the level attained in all of countries of Europe, except Italy and Portugal, the latter still suffering from years of dictatorship.

The mortality rate is only part of the story; many who survive the first year are in ill health and often have a shortened life expectancy.

Our challenge is a compounded one; it is not just to reduce the cost of medical care but to do it in a manner that will result in

This is the last of a series prompted by my reaction to the topics presented at the NRMA Convention in New York in January 1989. I attended many sessions, read the papers presented at other sessions and listened to tapes of even more sessions. I felt strongly that the most important subjects were not being discussed.

I set forth 13 points to discuss; the following nine were discussed in Parts I to IV:

1. The nature of stores they fear.
2. The acceptance of dishonest advertising.
3. The obsession with hiring salespeople at the minimum wage.
4. The failure to understand the connection between the culture, morale and ethics of the business and the profits of the business.
5. The length of time it takes to make a decision.
6. The lack of understanding on how to make a profit.
7. The rejection of new ideas and the copying of wrong ideas.
8. The impact of store hours on the profitability of service retailers.
9. Improperly financing in-house receivables.

10. The way in which GAAP restricts proper financing.

Generally Accepted Accounting Principles once had an ethical base. The goal was to prevent financial deception that would be injurious to the owners of a company. The major thrust, which led to establishment of the Accounting Principles Board, came from the "facts" that emerged after the 1929 crash. Owners (stockholders) were startled to find that land and buildings were over-valued, liabilities were understated and some were not even recorded. The Securities and Exchange Commission was formed. One had to register and get approval before a stock could be sold. Stock exchanges were regulated. Insider trading was subjected to rules and reporting.

Some startling frauds led to immediate changes in accounting practices. The president of McKesson-Robbins had a little game going in which he created phantom Canadian and European operations with profits reported by McKesson-Robbins. All earnings were reinvested overseas so there was no cash exchanged. The bonus to the president was paid from funds in the U.S.

In the 1938-40 period, Harvard Business School used the organization chart of McKesson-Robbins as an example of how a good executive developed a special organization chart to serve a special purpose—the foreign activities reported directly to the president! The great HBS case never hinted that it could be nothing but a fraud. After all, the annual report was audited by Price Waterhouse. But PW accepted the certificate of the president that the inventory existed and did not confirm it. The word at the bars in Boston when the case broke was "What Price Waterhouse?"

In those days, the SEC did take action to protect owners; and accountants started to develop auditing guides. Each new rule produced a new loophole. The loopholes developed faster than the various commissions, each subject to great pressure from special interest groups, could close them. Some of the great "truths" set forth are still used today; and are still untrue. One was that God had said that cost was the only "fact" even though great profits were made by selling depreciated assets at above original cost. Inflation was not unknown when the rules were set; it was just totally disregarded. "Principles" permitted dishonest presentation of some facts and required complete disclosure of others.

In due course, marketable securities came to be shown at "market not to exceed cost." Fixed assets must be presented at cost less depreciation—and depreciation was taken, in many cases, over unrealistic "lives." The first-floor fixtures in Capwell (Oakland, California) were installed in the mid-1920s, written off over 10 years (or perhaps 15 years), and were still in use in the 1950s. Or take Macy's 34th and Broadway building in New York. The Broadway part was built in 1902, the middle part about 1912 and the Seventh Street part in 1931. When the company was grabbed by the management, that 2,150,000-square-foot building, worth perhaps \$400 million, was shown on the balance sheet only to the extent of depreciated free-hold improvements.

Take the valuation of inventory. Statement 6 on inventory valuation says, "The committee considers, for example, that the retail method of inventory, if adequate markdowns are currently taken, accomplished the objectives (of cost or market)." **This statement is not true.** But then cost CPAs, when faced with a problem involving the retail method of inventory, have to pull out their intermediate accounting textbook to jog their memory. Most don't know it is impossible to have "adequate markdowns" that are "currently taken." You and I know the assumption is not true—because we work so closely with the retail inventory method.

And then there is the problem of varying rates of turnover. The retail method is, according to law, applicable only to groups of merchandise with a uniform initial markon. There is no such department in a retail store. Almost every retailer is aware that lower markon goods are likely to turn faster and thus are not represented in the ending inventory in the same proportion as they are in the purchases upon which the cost complement is computed.

Take a tobacco department. Cigarettes at a 6% markon might turn 52 times a year, and pipe tobacco at a 35% margin might turn six times a year. Thus the cost of cigarettes (94%) has far more weight in determining the cost complement than is warranted by the dollar amount of cigarettes in the ending inventory. Ergo, the department's inventory is always valued far above the cost of the items on hand.

The same thing is true with grocers' retail method under which the cost complement is determined from the warehouse shipments. For example, milk turns faster than canned Queen Anne cherries. Milk has a much higher cost complement—but only a two-day supply is on hand. I can recall when Safeway discovered how much it was over-valuing its inventory in the days when California taxed inventory. For years, I had tried to tell that to food merchants. When I said 10%, they laughed at me. Later they wished they had tested their inventories sooner. Ultimately they developed adjustment factors that let them report closer to actual cost. And then California stopped taxing inventory.

It took many years for me to convince my old professor, Malcolm McNair. In all his writing, he had assumed that under and over variances offset each other. He really assumed that everything turned at the same rate. And he was the all-time greatest student of the retail method.

Just one more "principle" that abuses retailers—you cannot put an appraised value on a balance sheet. For example, Stop & Shop sold 47 Bradlees' leases to Hechinger for \$118 million. Was that \$118 million shown on the Stop & Shop balance sheet? Absolutely NOT. Would it be shown on the Hechinger balance sheet: Absolutely YES.

This is a "miracle." A lease for an 80,000-square-foot discount store is not disclosed in the hands of the original

FEATURE REPORT *continued*:

lessee but is worth \$2.5 million in the hands of the subsequent acquirer. It goes back to that god-given order that only historic cost can be recorded. Initiating the lease cost the original tenant nothing; it cost the purchaser \$2.5 million. This is the most direct, positive proof that I can give that "value" is not a factor on a balance sheet. If Stop & Shop was off a few million in the net worth required under its bank agreement, what do you think the bank would say if Stop & Shop had the gall to say, "We have leases worth \$600 million—and can sell them any time. Have you counted them in?" I don't think you need two chances on that question. And most bankers I have met, including those from multi-billion dollar banks, do not know that leases can be hypothecated.

The interesting thing is that the LBO specialists know all about undisclosed value. When they make an offer, they have no obligation to tell the owners, "We are buying your company for \$400 million less than its value and plan to split that with the wonderful management that you hired." The managers are too intent on working out what percentage of the deal they will get or what kind of "golden parachute" they will have, all of which is taken out of what was then offered to the true owners.

There is a simple solution to this problem—but no management will support it—a very short law that says:

Within six months, the Financial Accounting Standards Board shall develop Generally Accepted Accounting Principles that set forth the reasonable current value of all assets and thus of the equity.

Once that is done, no more companies, particularly retail companies with valuable leases and/or fully depreciated property, will be targets of an LBO.

One would expect management to support such a move; but it will not. If the "reasonable current value...of the equity" were shown to the whole world, it would expose the lousy job most entrenched managements are doing with the assets entrusted to them. I think all of the companies now showing a 10%-15% net profit on book equity would begin to show 4%-5%. Most stockholders would not stand for that—and we might find competing slates of candidates for directors in more and more cases and more legal action against self-dealing on "golden parachutes." I use the term "self-dealing" in the sense that most board members are selected by either the chairman or the president. When those "outside people" are authorized to set pay, bonuses and golden parachutes, a man from Mars would have difficulty understanding our term "independent directors."

Many retailers won't have much left in the way of book equity after recording so-called "post-retirement benefits." If the dollars truly applied to "post-retirement benefits," there would be no impact because the only way for a retired person to go "post retirement" is to die or go back to work; and under either case, the original employer is, in most cases, relieved of all obligations.

11. The idea that bringing in a new CEO or GMM will boost profits.

I carefully used the word "new." Promoting from within the division (not from the parent company) reinforces the commitment of the parent company to the mass of employees.

The person who has run store A for four or five years and now is hired by or transferred to store B usually thinks, "They want me to do at store B just what I have been doing at store A." Too often the customers at store B are different from those at store A; and the store A tricks may not work. It can be

a terrible shock that a year after the change, store B has absorbed tremendous markdowns on the merchandise it owned when the "new person" came in and is now absorbing tremendous markdowns on the merchandise that the "new person" bought that would have been just perfect for the customers of store A but which drove customers from store B faster than it attracted new ones.

Most of today's retailers cannot build people. But the ones with outstanding success—Dillard, Home Depot, The Limited, Macy's, Nordstrom, Price Club, Tandy, Toys "R" Us, Walgreen, Wal-Mart—seldom bring someone in to "fix" things. They may bring people in at the top to start something new or to supplement but not replace existing management. Those successful ones know they have a culture that takes time to absorb. The only people admitted at the top are ones who will develop, not contaminate, the culture.

12. The remoteness of management from customers.

Once top management moves from the main store to the distribution center to "improve efficiency," much is lost. And with the separation of buying from distribution, even buyers don't have to see customers. I am afraid that some buyers, if brought in touch with customers, would immediately tell the customers how dumb they are for not buying what the buyer bought.

I go to extremes—but just to make a point. Systems are OK; but there is no substitute for looking at and talking to and understanding customers.

The greatest systems in the world can tell you what was bought that was wrong and should be marked down; and what was correct and should be reordered—but none tell what you should have bought and did not (and probably your competitor did buy).

When Tom Peters talks about "Management by Walking Around," he means that retailers should get out and visit stores; don't just walk around the corporate headquarters where people bow and scrape.

13. The inability to state the purpose of their store.

Send professional interviewers out to interview your customers and ask them what they think of you and of your competitors; and then interview people leaving your competitors' stores and ask them what they think of the store they just left and what they think of the competing stores (including yours.)

In 80% to 90% of the cases, what the interviewers will tell you will shock you. You didn't know you were out of stock so often. You didn't know how annoying it is to go to the fifth floor for gift wrap; you didn't know they didn't believe your 50% off mattress ads or 40% off gold jewelry ads. And if you are someone who avoids a markdown by raising the regular price to show better savings, don't be surprised how many people know it.

Look at all the stores that are claiming "low everyday prices"—and chiselling. Catch a store on a price, and it will refund the difference to you while selling the same item at a higher price to the next sucker.

Conclusion.

Unless you have developed a retail business that many customers believe in, your future in retailing may not be in retailing.

healthier lives. It means changing habits of people. It means education.

It is too late to teach pre-natal care after the child is born.

EVOLUTION OF THE 'REMOTE' GRAND OPENING SALE

My earliest recollection of "remote" GRAND OPENING SALES was in the 1950s when discount store chains were expanding rapidly in the same market. It was not practical to have a sale restricted to the new store, so all the stores in the market area were included. This proved to be a great success.

The greatest western practitioner was White Front Stores, a subsidiary of Interstate Department Stores (its corporate shell is now Toys "R" Us, the only subsidiary that did not go through a Chapter XI). I can remember getting 12- to 24-page sections (not tabloids). First the sale was for a new store in the San Francisco area; soon I saw openings in cities like Chula Vista, California, some 400 miles away.

Many retailers copied the idea. One copier was Mervyn's. As time passed, a new Mervyn's could be advertised in California for a store in Garland, Texas. In time, I, and I think many other consumers, took these sales with larger and larger grains of salt. Perhaps I understate—a quarter pound of salt might be more appropriate.

But today one needs a pound of salt when reading an ad for Ross Stores, headlined, "OUR GRAND OPENING CELEBRATION IS SO SENSIBLE, IT'S INSANE."

RThought: The ad doesn't say where the new store is opening! The copy starts, "WARNING: Today Ross is opening new locations nationwide, and every store is joining in the celebration." It could have added the names of the cities as part of the remaining 86 words of institutional copy. In small type, it does say, "And, at 20%-60% off department store prices...." The ad is less accurate in the larger, bold-face type, which merely says, in five-eighths inch figures, "20%-60% off in every store." A person fluent in English would assume that the "20%-60%" is off Ross Stores' prices. If challenged, Ross would plead carelessness in the advertising department!

CAN YOU TELL ME WHERE...?

In Paris, Galleries Lafayette is working on an interactive information system to be operated by customers that will tell them how to locate any merchandise. To assist in giving instructions, each escalator and elevator will be given a name and painted with a distinctive color.

Selfridges, in London, is taking a different approach. Starting with 26, it plans by summer to have 200 TV monitors throughout the store, which can be queried by customers. When not being used for that purpose, they will show a 30-minute cycle of commercials, some of which will be sold to vendors. Initial tests indicate that customers are less irritated by this system than they are by announcements over the loud-speaker system.

RThought: Is the object to be "less irritated" or to be pleased? A large store always has a problem bringing its customers together with the merchandise each one wants; and until that is accomplished, there cannot be a sale.

Each customer has a tolerance level; and when promotion

intrudes too far, the customer ends up further away (in another store) rather than near the merchandise being promoted.

(The information about Galleries Lafayette and Selfridges came from the *Retail News Letter* of the International Association of Department Stores.)

THE 'HICCUP' IN AGGLOMERATION

It always sounds so wonderful when a collector of retail stores, usually chains, acquires another established retail store or chain.

The selling retailer may not yet be large enough to go public—or the principal(s) may not want the pressures of a public company or the cost of being public or the disclosures that are required.

Sometimes the appeal is cash; more often, it is a tax-free exchange of stock with an earnout. The seller sees the profits that can be made in the next three to five years with the new capital available.

But from the agglomerator's side, there is the question of what happens at the end of the five years. The seller is inclined to economize on almost everything, including bringing on top management to run the stores after the founder leaves. Such people can be expensive. If the earnout is 25% of pre-tax profits, then 25% of that cost would come directly from the pocket of the seller.

I thought of the above when I read a recent report on CML Group, Inc.

With the departure of Rick Hinden, co-founder, the Company (Britches of Georgetowne) is going through a management transition, following the completion of the earnout period in fiscal 1988.

Information generally available to the stockholders does not disclose the terms and conditions of buyouts. Therefore, the owners of the company don't know when the bomb is going to fall—when the great acquisition is going to be without either the mentor or replacement management.

There is a way to handle this situation, but I have never heard of a company that has done it—bring the replacement management in to overlap the founder but don't charge it to the subsidiary/division when computing the earnout. This eliminates the conflict of interest between the acquirer and acquiree. It may even increase the profit of which most goes to the acquirer.

RThought: This does not apply in all cases. When Les Wexler of The Limited acquired chains, like Lerner's Shops, Victoria's Secret and Pic-a-Dilly, he knew exactly what he wanted to do with them. In his cases, the end of earnout periods, if any, will not have a significant impact on company earnings.

AFTER SALES SERVICE

I was reading an article, titled "After Sales Service—A Potent Tool," and the following caught my attention:

Today we are witnessing a 'consumer revolution'—a revolution that has brought a large array of consumer durables into the market place. Marked improvements in the level of consumers' incomes and a raise in the

standard of living have been quoted as the prime reason for this phenomenon.

A large number of goods now need after-sales service. . . .

Customer service is the set of activities performed in a company to ensure the customer's satisfaction with the company's products and services.

Unfortunately, the concept of customer service has not found favor with many organizations.

To consider service as an after-sale activity or an activity to be undertaken only at the instance of a complaint from a customer is tantamount to taking a myopic view.

As an industry matures, it becomes very difficult to offer price or product differentiation.

The increasing complexity of the technology involved in the consumer durables also contributes to the growing importance of service.

A good service system can become an asset for the organization.

RThought: I can hear you saying, "So what's new, Doc?"

There isn't anything new. To prove that, the sentences above were taken from the December 1988 issue of *Indian Management*, published by the All India Management Association's Management House, 14 Institutional Area, Lodi Road, New Delhi-3, India (\$18/yr. by seamount; \$30 by air).

The authors are V. Shekhar and U. Balaji, both members of the faculty of the Department of Business Management, Osmania University, Hyderabad, India.

RThought: Here is more proof there is no difference.

John K. Gailbraith gave the 13th Vikram Sarebhai Memorial Lecture—his subject, "World Economy and a Time of Change,"—and one point stressed was the "need for reducing the heavy diversion of capital and trained manpower to military purposes."

A seminar was offered on "Self Management of Executive Tension."

One of the new Associate Members is N.M. Sangani, Chairman, Goodluck Financial Management and Computer Consultants P. Ltd.

The Second National Workshop on "Women in Management—Career Growth Opportunities" was held in January.

And a cartoon shows a salesman offering a jigsaw puzzle to distraught parents. The caption reads: "This is designed to prepare your child for today's world—no matter how he puts it together, it's wrong."

SHORT SHORTS

You can be too cute! Pykettes® was "too cute" with the ad for its Pykettes Plus (sportswear for large-size women). It said:

*Great American Sportswear
Imported from Utah (tm)*

RThought: And now from a letter by Marshall Kline, who has a buying office in Los Angeles:

On sample sale day (Friday) at The California Mart, I showed the ad to a number of people and asked their opinion on "imported" merchandise. Many said that they would not buy it. I then showed them the ad, and they said that they would not buy it.

I showed it to a potential customer and asked her if she knew where Utah was. She thought it was somewhere in Europe.

RThought: Utah Beach, yes; the State of Utah, no.

Think about products we don't have. Example 1: A composition material for ladies high-heel shoes that would not click like a ballpeen hammer on a chime when walking across marble. Example 2: Consider the money the hosiery business could make if it could just persuade men to wear hose that ran or snagged!

I spent extra time looking at art supplies so I could hear the assistant manager explain that the bonus had been changed from a percentage of sales to a percentage of profit. The punch line was "Now they want to make money." (Ed. Note: A regional chain in the 50-store range.)

Is it true small business cannot be international? The March 10, 1989, issue of *Dealmakers Weekly* (Box 1001, Kendall Park, NJ 08824; \$225/yr.) reported that the 100-year-old German firm, Jacques Scheisser, entered U.S. retailing three years ago with 1,000-square-foot outlets in Manhasset (NY) and Stamford (CT), carrying European ladies' RTW and family leisure and sleepwear, all made from natural fibers. **RThought:** We all complain about foreign businesses/investors taking over the U.S., but we leave to the multi-billion dollar companies the expansion into other countries.

How useful is your credit card? In Switzerland, the J-Card for the Jelmoli department stores is honored by all its specialty stores, plus 300 Shell gas stations, 40 restaurants and for concert and theater tickets. The Takashimaya department store card (Japan) is honored in London by Simpson of Piccadilly—a point that Simpson promotes to tours of Japanese. **RThought:** In the U.S., Carter Hawley Hale honors a single card in all its department stores—Broadway, Broadway Southwest, Emporium-Capwell, Weinstock's and Thalheimer's. Other department store groups might have recognized cards from sister stores—after a visit to the credit office to open a new account. Of course, Federated and Allied department stores ended up with a less than permanent relationship.

WORDS—ABOUT THE YOUNGER GENERATION

Who said:

The world is passing through troubled times. The young people of today think of nothing but themselves. They have no reverence for parents or old age; they are impatient of all restraint; they talk as if they knew everything and what passes for wisdom with us is foolishness with them. As for the girls, they are foolish and immodest and unwomanly in speech, behaviour and dress.

Peter the Hermit, a preacher in the First Crusade—1274.

RThought: Considering where the western world was in 1274 and where it is now, the younger generation could not have been all wrong!

RETAILING TODAY
Robert Kahn & Associates
P. O. Box 249
Lafayette, California 94549
Tel: 415-254-4434
FAX: 415-284-5612

Dear Mr. Moore---

I am pleased to give permission to run the portions of
of the item "I DON'T UNDERSTAND....." from the June 1989
issue of RETAILING TODAY provided that the quotations
are direct and any comment (which I presume you will
make) are separated.

Someone has to show hold the mirror up to managements
that think they are "improving" service when all they
are trying to do is save money.

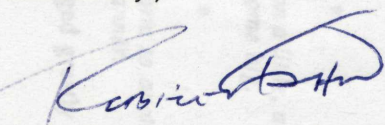
I would hate to tell you the number of times that I
punch "Oper", get a human who then directs my call to
another extension after which I get 2 ior 3 rings and a
disconnect.

Since the first minutes are the most expensive in a
phone call, all this does is increase my telephone bill.
It is not quite so bad when it is an 800- number and I
am thankful for the re-dial button on my phone. But I
still place some value on my time.

I would appreciate a copy of your October issue.

I would also like to know how you found this article.

Sincerely,



Robert Kahn
Editor/Publisher

communication briefings

ED MOORE—MANAGING EDITOR

September 15, 1989

Robert Kahn, Editor
Retailing Today
Box 249
Lafayette, CA 94549
FAX: 415-284-5612

Dear Mr. Kahn:

I'm writing to request permission to reprint
much of the story told under the headline
"I Don't Understand..." (page 4) in the July
1989 issue of Retailing Today.

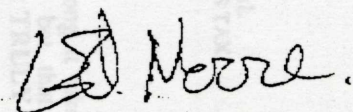
The reprint would be sourced, of course,
with your publication name and address.

We'd like to try to run the reprint in the
October issue of communication briefings.
Unfortunately, our deadline is today so I'd
need to hear from you right away.

You can call me at 800-888-4402 or fax
back at 609-582-6572.

Thanks for your time. And I apologize for
the short notice.

Regards,



140 South Broadway, Pitman, NJ 08071
(609) 589-3503 • FAX (609) 582-6572

RCV BY: Robert Kahn & Assoc. : 9-15-89 6:38AM :
SEP-15-89 FRI 9:37 COMM. BRIEFING 6095826572

4152845612: # 2
P. 02

I called 415 and got the current forecast as well as the forecast for the following three days in San Francisco. I then dialed the first three letters of Oakland—OAK—and got Oakland weather. If I had wanted another city, all I had to do was punch "*" and another area code and go through the same process without having another initial charge for a 900 call.

RThought: This is going to be a lot easier than finding the weather section of a newspaper—and then finding the city you want is not on the list. Thanks, Spence.

I DON'T UNDERSTAND...

My example will remain nameless—but:

I DON'T UNDERSTAND stores that finally are concentrating on customer service—and yet have automated telephone answering systems.

I recently called long distance to the headquarters of a major department store group. There was an answer after about 15 rings (I was just ready to re-dial, thinking I had made a mistake).

I heard a recorded message. First, there were 20 or 25 words praising the store and thanking me for calling. I think most people (perhaps 98%) know the stores they call so what I was told was not news. Second, there is nothing less heart-warming than a pre-recorded "Thank you." I will admit, however, it took me months to train myself not to say, "You're welcome," after the recorded voice that interrupts the efficiency of a direct-dial credit card call to say, "Thank you for using AT&T."

I had to listen through a series of "If you want" to be sure that my guess at punching "0" was the thing to do. In the meantime, I learned that the store hours were just what I thought the store hours were. Finally, I punched "Oper."

After a few seconds, another voice came on—followed by a disconnect. I re-dialed and punched "0" very quickly and got to the second stage of heaven—and glory be, no disconnect! Then I was connected with the secretary to the secretary of the person I wanted to speak to. I explained my mission and was passed on to the secretary and explained my mission all over again. Then I got my information.

RThought: Who benefited from this "new efficiency"?

First, the telephone company. It got two long-distance calls instead of one (and that initial charge is much more than an extra minute).

Second, the manufacturer of the equipment. This was headquarters of a big store, so I guess it has a big system.

Third, the manufacturer again. I am sure it uses this store in all of its promotional material to persuade other stores that this is the way to provide service.

Fourth, the systems expert within the company that showed how much money could be saved by eliminating human operators.

Fifth, the personnel department as it reports a decline in total payroll (amortization or depreciation is never included in the payroll figure).

With all those wonderful benefits, who could be the loser? I can find just one—YOUR CUSTOMER. But why worry

about that—your ads will remind the customer that you are doing everything to bring him or her great, new services.

And after all, there are a lot more customers out there. Or are there?

SHORT SHORTS

Ames Department Stores, Inc., reports May sales: "...sales for the four weeks...ended May 27, 1989, increased 120.3%.... Same-store sales in Ames' discount department stores increased 0.4% bringing the year-to-date increase to 0.5%." RThought: What a difference buying 300-plus Zayre stores makes!

The miracle of descriptive billing. My wife recently made a purchase at one of our leading department stores with one of the latest MIS/EDP/POS systems. The tag read as follows:

6/16/89	256692	11 CHARGE TAKE	
7523 33			
10641659			
	2@	SKU	
		45.00	90.00
		SUBTOTAL	90.00
		7% SALES TAX	6.30
220750121005/11/03631			
130372 57130 TOTAL			96.30

RThought: I asked my wife how long it takes to breed a couple of SKUs. I am willing to bet that the head of MIS/EDP/POS at this major retailer TRULY THINKS the firm is providing descriptive tags.

WORDS FROM HESIOD—ABOUT 700 BC

Marshall Kline, knowing that I shared many thoughts with his father, Sam Kline (for many years, the "Kline" of the Kline-Kinsler buying office in Los Angeles), sent me some of Sam's clippings. Among them was this one attributed to Hesiod:

I see no hope for the future of our people if they are dependent on the frivolous youth of today.... When I was a boy, we were taught to be discreet, and respectful of elders, but the present youth [think they] are exceedingly wise and [are] impatient of restraint.

I wondered what else Hesiod, a Greek Poet, might have said. Bartlett's offered these from "The Theogony":

Badness you can get easily, in quantity: the road is smooth, and it lies close by. But in front of excellence the immortal gods have put sweat, and long and steep is the way to it, and rough at first. But when you come to the top, then it is easy, even though it is hard.

If you should put even a little on a little, and should do this often, soon this too would become big.

He harms himself who does harm to another, and the evil plan is most harmful to the planner.

RThought: Have we really changed greatly in 2700 years?

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

FACSIMILE COVER SHEET

Date 15 SEP 1989 Time 0740 PDT PROX

Total number of pages 3 (including cover sheet)

TO: ED MOORE

Company COMMUNICATIONS BRIEFING City/State PITMAN NJ

From BOB KAHN

Transmission by Xerox Telecopier 7010
If problem, CALL 415254-4434

COMMENT/INSTRUCTIONS

BOB KAHN

June issue of Retailing Today simply
GREAT!!!

FREE ENTERPRISE: DESTROY ANYTHING
TO MAKE A BUCK

How sad, but how brutally true

Gene Englund

July 4 '89



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

JULY 1989

VOL. 24, NO. 7

YEARS OF PAIN

The "Editor's Note" in the March 1989 *American Demographics* (108 North Cayuga Street, Ithaca, NY 14850; \$58/yr.) reminds us that a long life is not necessarily a better life. The increased longevity is a result of not dying when you are young rather than living longer.

	1900	Today
Percentage who live to 65	41%	79%
Die before 20	1 in 4	1 in 50
20-year-olds who live to 65	50%	80%

Although life expectancy of a person born in 1989 is 26 years longer than it was in 1900, it is only 13 years longer at 20, five years longer at 65 and one year longer at 85.

A Canadian study showed that when life expectancy increased by six years that people averaged being disabled during 4.7 of those years.

RThought: Medicine and science perform miracles. We see it in the ratio of dead to the total casualties (dead and wounded) in our wars:

War	Deaths	Total Casualties	Percent Dead
Revolutionary	27,300	33,890	81%
War of 1812	2,300	6,800	34
Mexican	13,300	17,400	72
Civil	365,000	646,400	56
Spanish-American	2,400	4,100	59
World War I	116,700	320,700	36
World War II	407,300	1,078,200	38
Korean	54,200	1,575,000	34
Vietnam	58,000	211,300	27

The bad side is the number of "casualties" who live in wheel-chairs (for which we now provide, over the objection of many people, cuts in the curb and lifts on public buses to give them mobility). But we also have a much larger Veterans Administration—and the number who require help from the VA will grow with every passing year.

Children will have to worry, as I did, about what happened with my mother—eight years in a convalescent hospital and for most of that time confined to bed and being fed by an attendant. In the end, she did not recognize me or my wife when we visited. But she was never in discomfort. At 85, she proved to have a life expectancy of 10 years, exactly 10 years too long. Until an injury at 85, she lived alone, cared for herself, went to the symphony, read, phoned people and had friends who visited her.

Unfortunately, this form of existence is now offered as statistical proof that people "live" longer.

THE SUPREME COURT HAS SPOKEN NOW IT IS UP TO US

When we had laws granting Equal Employment Opportunity, allowing set-asides of business for minority-owned firms, giving reasonable preferences for job-seeking minorities and many others, we retailers could say to ourselves, "We are good citizens," as long as we did not violate the law.

We could do this even under an administration that we knew did not enforce the law; thus, we may not have observed them so closely. But now we have, as a legacy of that administration, a Supreme Court that is in the process of nullifying all the laws that set forth what reasonable, moral and ethical conduct should demand of us without laws. We no longer have simple guidelines.

But we remain THE RETAILERS—the business that has contact with almost every American. In 1987, one out of six (16.7%) of all employed people worked in retailing, up from 15.7% in 1970. Women accounted for 52.2% of our workforce compared with 44.8% in the total workforce; 8.5% blacks compared with 10.1% in the total workforce; and 7.2% Hispanic compared to 6.9% in the total workforce.

Over the past decade, there has been little improvement in the ratio of average pay for women and/or minorities (blacks and Hispanics) to that for their counterparts.

Since 1979, the rich have gotten richer and the poor have gotten poorer. The table below shows the distribution of total personal income by each quintile (one-fifth) of the families:

Distribution of Total Income by Quintiles of Families

Quintile	1960	1970	1979	1987
First	4.8%	5.2%	5.3%	4.6%
Second	12.2	12.2	11.6	10.8
Third	17.8	17.6	17.5	16.9
Fourth	24.0	23.8	24.1	24.0
Fifth	41.3	40.9	41.6	43.7
Highest 5%	15.9%	15.6%	15.7%	16.9%

The families in the lower four quintiles share a smaller percentage of the total income than they did in 1960 (56.3% v 58.7%). The ratio of pay for chief executives, as a multiple of the average pay of all non-executive employees, is absurd—and rising—whether compared with our own past or with that in other industrial nations. In 1987, the top 5% get 10% more than the total for the lower 40%.

continued

We complain about the schools because graduates are not qualified. We complain about the lack of efficiency of government and, with the next breath, complain because it interferes too much; yet most of us have never been involved in national or local government, even as a volunteer.

RThought: With the laws overturned, we have nothing to hide behind. If we want happy, prosperous people as customers, we are going to have to train and stimulate people who are unqualified by their education. That means hiring blacks, Hispanics and Asians and training them—in our jobs, in our ways, in our stores.

The blacks were freed more than a century ago. Mainly through the effort, or lack of effort, by white male senior executives, they have not become equal.

Today, five people in black robes feel that assurance of equal rights should not be accomplished by laws. Those in white robes feel vindicated. Today, tens of thousands of retail executives have a chance to provide equal opportunity—for one simple reason: **it is right.**

LATE NOTE: On July 3, the day before the 213th anniversary of the Declaration of Independence (for white Americans), two of San Francisco's largest law firms and among the largest in the country (Pillsbury, Madison & Sutro and Orrick, Herrington & Sutcliffe) have adopted the affirmative action goals set by the Bar Association of San Francisco. The goal for minority staffing is: by 1995, 15% of all associates and 5% of all partners; by the year 2000, 25% and 10%, respectively.

Which of our retail trade associations—National Retail Merchants Association, Food Marketing Institute, International Mass Retailing Association, National Association of Convenience Stores, National Retail Hardware Association, National Association of College Stores, National Furniture Association, American Retail Federation (I could go on)—has the intestinal fortitude to urge compliance with the principles upon which we profess to be founded: "...that all Men are created equal, that among these are Life, Liberty and the Pursuit of Happiness...."

ATTORNEYS GENERAL TAKE NEW APPROACH

Nine attorneys general (California, Illinois, Iowa, Massachusetts, Minnesota, Missouri, New York, Texas and Wisconsin) brought a combined complaint against Campbell Soup Company over advertising for certain soups.

Campbell settled for \$315,000 (\$35,000 payable to each state to cover the expenses of investigation) without admitting any wrong.

In reading the "Assurance of Discontinuance," Campbell claims all statements were honest and the attorneys general claimed the combination of claims was misleading. Campbell claimed that certain soups were high in fiber content and, in the same ad, said that *diets* high in fiber content and low in fat may help to reduce some forms of cancer. The attorneys general felt this was misleading because a bowl of soup did not constitute a *diet*.

Campbell claimed some soups provided 10% of the daily requirement of calcium when that was true only if milk was added; without adding milk, the soup provided only 2%.

Campbell advertised Bean with Bacon soup stressing the fiber content and mentioning, as noted above, the results of fiber *diets*, without mentioning that bacon contained a high level of saturated fat which can increase the risk of heart disease.

RThought: This was an action between the states and the manufacturer—but food retailers can be pulled into the process because (a) they are the ones that sell the product to the consumer, and (b) retailers often use displays prepared by the manufacturer that include the type of claims made in TV, radio, newspaper or magazine advertising.

In the case of a large company, such as Campbell Soup, any consumer action would probably be taken against the manufacturer. However, in the case of a small manufacturer with limited resources, consumer action might well be taken against the retailer (if the retailer has more money).

There is no doubt that people are responding to articles and other information about the benefits, in certain cases, of *diets* that are low in fat or salt or high in fiber. As retailers, we must be careful that we do not further spread unsupported claims or condone a mixture of true statements that, in the manner presented, may mislead customers (i.e., thus being deceptive).

CAN THIS BE CALLED MERCHANDISING?

No wonder businesses fail. Does the ad below indicate a single iota of merchandising skill? Does a business that operates in this manner deserve the support of shoppers?

SATURDAY & SUNDAY ONLY!
TAKE AN ADDITIONAL

30% OFF
ALREADY REDUCED PRICES!

EXAMPLE:
COMPARE AT \$40.00
OUR PRICE 19.97
First Markdown 14.88 (25% off of 50% off)
Second Markdown 9.77 (34% off 75% of 50% off)

Now 30% Off \$ 6.84 (30% off 66% of 75% of 50% off)

Stein Mart
THE LOOK - THE NAME - THE PRICE

The original price is supposed to be 50% off some "compare at" price. Here is the chronology shown on the price tag:

Compare at	\$40.00
OUR PRICE	19.97
First Markdown	14.88 (25% off of 50% off)
Second Markdown	9.77 (34% off 75% of 50% off)
Now 30% Off	\$ 6.84 (30% off 66% of 75% of 50% off)

RThought: This is now 85% off the "Compare at" price—and Stein Mart is apparently proud of what it is saving its customers—at least, proud enough to show what happened to an "imaginary" \$40 value!

SHORT SHORTS

Guarantees. Blair, the mail order house out of Warren, PA, makes a different offer. It has a "7 DAY FREE TRIAL." The customer pays the price plus handling and shipping. If returned, the customer pays the return expense and gets a refund of the purchase price and sales tax. **RThought:** This is in addition to "SATISFACTION GUARANTEED ABSOLUTELY. If your [item] ever fails to perform to your satisfaction, return it for full refund or replacement." Note that the "refund" appears *before* the word "replacement." There's not the slightest indication that the customer may have to argue.

RETAILING AS I SEE IT TODAY

I have been concerned with the trends I see in retailing. Recently I attended a board meeting at which it is customary to go around the table and have directors make any observations that are pertinent to the company or about the economy. I made these:

General background.

1. Sales are softening—over a broad area. Big tickets sales, led by auto sales, are dropping.
2. Confidence level appears to be declining.
3. Outstanding credit for cars is leveling but balances are increasing on revolving accounts. Combined with slow sales, this indicates people are making smaller payments.
4. Inflation (led by gasoline and food prices) is greater than income increases, indicating a drop in real income.
5. Many areas are overstored. There are many empty stores in malls and in non-mall areas, and they stay empty longer.

Retailers are pushing for ultra-short-term gains.

1. It is no longer a case of making the quarterly sales—stores are trying to make the week.
2. I see Wednesday ads for Thursday-Friday sales that look like they were put together Monday—nothing but a hundred or so “30%, 40%, or 50% off” classifications.
3. Sears ran some end-of-quarter ads (March 1989), offering “0.0%” finance charge on purchases over \$200 (\$100 on diamonds). These had to be on the Sears account—not the Discover card. To me, that meant it got the sales and gross margin dollars in for the month but the lost finance charge income was spread over the next 24 months.
4. After all this push for sales, many stores proudly report a small sales increase for the quarter (however, some did not report same-store sales) and then used a lot of fancy words about unusual promotion expense, competition, etc., to explain lower or no profit.
5. This is the year of “take an extra 10%-20%-30% off.” To me, that means register markdowns; the only markdown the store reflected in its quarter was on the bad stuff that was sold; they hold the markdowns until later while the inventory is overvalued.

Fewer and fewer retailers know how to sell.

1. Most ads have no SELL—only YELL. (I can't remember who said that first, but it was not me.) On page after page, they do not contain one single reason why I should buy—except “40% off.” And I know that in many cases the original or “compare at” price was phony.
2. I would like to see the CEO of department stores that sell mattresses explain to St. Peter why he or she should get into heaven—which only admits honest people. At the alternate place, the fire consumes the mattresses!
3. The very last technique we should borrow from new car salesmen is the “0.0% finance charge” and “no payment for 19 months.” Next, we will have \$100 rebates on \$300 TVs.
4. It is such a pleasure to read a Nordstrom ad—usually one item to a page. The art work makes a garment look beautiful. The copy makes it sound delicious. And I have to get out my magnifying glass to read the price.
5. There are so many stores yelling, “WE WILL NOT BE UNDERSOLD,” that they barely notice how little toy business, for example, they are doing as the customers go first to Toys “R” Us, which never uses a comparative price. When one reads a store's “guarantee,” it only applies against advertised prices. Thus, the “guarantor” never has to meet the price of Toys “R” Us on its unadvertised items.

Montgomery Ward (MW) was embarrassed by the National Advertising Division of the Better Business Bureau in answering a complaint by Sears. MW admitted it never checked prices before claiming not to be undersold. And MW admitted that it had special model numbers on many items which had permitted MW not to recognize identical items with another model number. Its ad now reads in part:

Montgomery Ward is the exclusive distributor for some national name items. Many of these items are similar to name brands sold by our competitors, but they carry different model names or numbers. We will match the advertised prices for these similar national name brand items.

Do MW mattress salespeople really know all the names used on identical quality/construction Sealy mattresses? If they do, will they be honest with the customer who thinks they are alike?

Fewer and fewer retailers are competitive.

1. Top management does not know what is happening in its stores and may not have talked to any of its customers from the middle of its clientele range. Tom Peters yells, “MBWA,” and retailers don't think that means getting out into the stores.
2. Where the CEO is not the founder/principal owner, management cannot act promptly even if it knows what should be done. There is a process that can best be described as “spread the blame”: always have two other people to whom you can point and say, “I relied on their opinion on that part of the decision.”

3. Generally Accepted Accounting Principles (GAAP) have so badly distorted representation of the value of retail assets that retail businesses have become lures for LBO experts. And when the value is known by the management, paid \$1 million a year (plus or minus) to work for the owners, we get an MBO—and management gets rich. Off-the-balance leases have tremendous values—the buyers of Stop & Shop knew that when they made the deal. And then they sold leases on empty 80,000-square-foot stores to Hechinger for \$2.5 million each. Anybody can check the Chain Store Guide of Discount Stores and find, as I did, that Wal-Mart has over 500 stores in towns with no other discount or department store (excepting a few Anthony's or Beall's). Average store size is 51,000 square feet; average 1980 population is 7,000. Two million dollars each? One billion dollars total? If all the assets were properly valued (GAAP concentrates only on valuing liabilities), all the big retailers who now show 10% to 12% return on equity would be showing 3% to 6%; and the outside directors would be compelled, for their own protection, to replace management. But will the new management be any better? It is drawn from the same floating labor pool of professional retailers.

LBOs are cutting competition and raising prices.

1. Take the Los Angeles-Long Beach (CA), Primary Metropolitan Statistical Area (PMSA) with the largest food sales in the United States. According to the 1989 *Supermarket News*’ “Distribution Study of Grocery Store Sales,” the leaders are:

Lucky	14%	} 26%
Alpha Beta	12	
Vons	13	} 22%
Safeway	9	
Ralph's	7	} 55%
	55%	

* Merger contested by California attorney general.

And the Los Angeles-Long Beach PMSA does not include Anaheim-Santa Ana (Orange County) PMSA where Ralph's, Alpha Beta and Vons are number 1, 2 and 3; or Riverside-San Bernardino (San Bernardino County) PMSA where the top five run 2, 3, 4, 5 and 7; or San Diego County PMSA where the top five run 1, 2, 3, 4 and 5. Vons bought Safeway and took on heavy debt. American Stores (parent of Alpha Beta) bought Lucky Stores* and took on heavy debt. Ralph's is in an LBO from Campeau and took on heavy debt. I think the combined debt is just short of what Brazil owes U.S. banks. If sixth place Albertson's, with total debt less than equity, decided to move aggressively in the Southern California market in a battle of “equity and sound financing” versus “cash flow and interest,” we might see the demise of one or two LBOs.

*Contested by California attorney general.

Who are the powerful retailers?

1. I discovered years ago that only entrepreneurs get high returns on equity. With very rare exceptions, professional management gets average or lower results. The “Forbes 41st [1989] Report on American Industries” reported the following retailers had five-year average return on equity of 20% or more:

Company	Return on Equity	Company	Return on Equity
Best Buy Co.	60.2%	Price Co.	42.4
Highland Superstores	57.7	Wal-Mart Stores	35.8
Consolidated Stores	51.9	Circuit City Stores	34.3
The Limited	45.6	Charming Shoppes	31.2
Mayfair Super Stores	42.6	Food Lion	29.7

continued

FEATURE REPORT *continued*:

Company	Return on Equity	Company	Return on Equity
Family Dollar	27.4	Burlington Coat Factory	23.2
Home Depot	27.4	Giant Food	22.8
The Gap	26.4	Melville	22.7
Bruno's	26.0	Toys "R" Us	22.0
Big Bear	25.4	Walgreen	22.0
CVN Cos.	24.6	Dillard Department Stores	21.3
Rite Aid	23.8	Fred Meyer	21.2
Circle K	23.5	Albertson's	20.0
Tandy	23.3		
American Stores	23.2		

As you read the list, I think you were instantly thinking of the entrepreneur behind each company. Were you surprised not to find Sears, K mart, May Department Stores, Dayton Hudson, Woolworth? You should not have been.

2. Power stores have clear, strong concepts that are understood throughout the company. People copy them; they don't copy the others. Sol Price once told me that with all the billions of dollars of merchandise he sold in Fed-Mart and Price Club, he had never used a comparative price. Think of the strong concepts that come to mind: Food Lion, Giant Food, The Limited, Burlington Coat, Dillard, Wal-Mart, Family Dollar, Best Buy, Highland Superstores, Price Co., Circuit City, Home Depot, CVN, Tandy, and Toys "R" Us. The entrepreneur is still active or was until recently. Management doesn't have to copy from others (but it does when someone has a better idea); it creates a format for others to copy.

3. Being an entrepreneur is no guarantee of success. The problems with many entrepreneurs, some of whom have good initial success, can be clearly identified:

a. As the business grows, they cannot let go. They cannot delegate. I started working with Merv Morris when Mervyn's had just finished a year doing \$1.4 million and continued until the merger with Dayton Hudson when Mervyn's did \$360 million. Merv knew when to stop opening all the incoming mail—his time was not being used productively.

b. Ego interferes with hiring a person who is better qualified than the entrepreneur is. I see two major sides of retailing: merchandising/promotion and operations/finance. I really don't know anyone who is fully qualified on both sides. Operations/finance people are sort of like a quarterback without a coach. They can be creative in many ways—but not the most important way: the concept that grabs the customer. Sometimes the concept is simple: Merv Morris wanted to have a store like J.C. Penney but with credit and national brands, when Penney was cash and private label; and he wanted to put his stores in growing areas with shopping centers anchored by major department stores—that had left the basement store behind. Sol Price wondered if he could sell directly from a warehouse. Charles Tandy thought he could sell more than parts from the bankrupt Radio Shack stores he bought. Leslie Wexner thought he could do high volume on a limited range of women's apparel. On the other hand, catalog/showrooms were based on an economic benefit that could not survive. They were classified as wholesalers; and because they put out a catalog only once a year, the suppliers, at a time of high inflation, guaranteed the cost for 12 months. As the months passed, the values

became greater—and the price appeal overcame the inconvenience imposed on customers. When the Federal Trade Commission eliminated the cost advantage, it was Strike 1. When inflation leveled off, it was Strike 2. And when an annual catalog, in a time when many new consumer items were coming on the market, proved to be a handicap rather than a help, that was Strike 3. Catalog/showrooms were copied only in Canada; the rest of the world was smarter. Today, Best Products and Service Merchandise are selling more and more dollars in non-catalog items.

Conclusion.

1. Just because a company invests money in inventory and fixtures, leases a store and offers charge accounts, it does not mean that the community owes the company a profit.

2. Retailing is the most primitive form of combat that we have in our free enterprise system. There is nothing that one retailer has that another cannot get—or get the equivalent.

3. There is little that a retailer can hide from a competitor. If it is not on display in the store, it is fully described in the vendor's ads. If it is back-room electronics, the vendors will show the system to all the competitors. And there are no patents, like 3M had on Scotch tape for 54 years.

4. A retailer must differentiate his business in a number of ways: lines of merchandise, price level, service level, location, size of store, nature of advertising, training given to staff, compensation system, organizational structure and many more. If we assume that in just these nine facets there are 10 levels, the possible combinations are 10⁹ (10 to the ninth power)—or roughly one billion combinations. But we don't have that many stores—so each could be different. We have only about 190 million potential customers (over 14). My granduncle, Albert Elkus, had a slogan for his men's store in Sacramento: "Every man is odd—but we can fit him." Many different formats can be successful, but not all one billion—and not all "copycats."

5. The fundamental of retailing is simple—yet not in any textbook. A retailer, with few exceptions, does not make a profit on a transaction (despite the food industry's concentration of Direct Product Profit [DPP]). A retailer makes a profit on a customer. For a supermarket to survive, that customer must come back 50 times a year. A discount or drug store needs each customer to come back 20 to 30 times a year.

6. Customers are scarce. You make them one at a time; you lose them a dozen at a time. Make it more difficult to cash checks because the controller wants to reduce bad checks and a dozen customers switch stores. Change back, because of complaints, and those who have left never know about it. I started buying tires at Sears in 1930, when tires were guaranteed for 12, 18 or 24 months against wear, road hazard or any other condition. For years, my son wanted me to change from Sears (10 miles away) to Big O Tires, a local dealer. I would not. Then one day I ran over a nail. When I went in for a replacement, I learned that years earlier Sears had stopped guaranteeing against road hazard. That didn't force me away. I shrugged my shoulders and said, "Can I make an appointment for tomorrow?" I was told Sears didn't make appointments anymore; but if I got there at 8 a.m., they *should* be able to get to me within an hour or so. That was the day I went to Big O, and I have never returned to Sears. But we only have three cars—with 15 tires—so we were never missed. But Don at Big O Tires sure takes good care of me. To him, I AM A CUSTOMER.

SHORT SHORTS

A word on management buyouts. In a *Business Week* (1/30/89) interview with Jack F. Bennett, retiring CEO of Exxon, the following question and answer was reported:

Should the head of a corporation propose an LBO?

I find it very strange, if somebody has an idea and it will automatically improve the company, why wouldn't he be obligated to propose that to the existing board. If they turned him down, that's another matter. But to come to the board with an LBO proposal without first proposing it to the board for internal implementation seems strange.

RThought: It doesn't seem strange to the heads of retail companies. Unfortunately.

Most unusual—a frank, honest statement from a CEO. In the First Quarter FY 1990 report by Dylex Limited, a Canadian retailer with stores in the U.S., Chairman and CEO Wilfred Poslums wrote:

While sales were up in most of our businesses, many were forced to mark down merchandise in order to generate these sales and keep inventories current.

RThought: The more typical statement that I read is: "The loss was in line with our plans [which never are revealed in advance to the owners] but puts us in position [to return to profitability ____ for future growth ____ CHECK ONE]." *te*

A MIGHTY OAK HAS GROWN—AT CORNELL

In 1963, Clarence Adamy, then president of the National Association of Food Chains, and the Cornell University Home Study Program had an idea. Together they thought they could upgrade the level of education and training within the food industry to prepare employees to meet the rapidly changing conditions of the industry."

Think back to those days. A supermarket was defined as a self-service food store doing over \$500,000 a year. It might have been 8,000-10,000 square feet and carried 7,000 SKUs (although term "SKU" did not exist in those days). Only a few companies, like Schwegmann's in New Orleans, were experimenting with really large stores. Alpha Beta in Southern California was testing pre-wrap produce and pre-cut meats. The Great Atlantic and Pacific had hundreds of 5,000-square-foot stores with a red brick front and white colonial trim. Safeway was introducing its stores with the red brick tower. Lucky was starting to add non-foods to take advantage of its 1% rent in shopping centers over the objection of variety stores (remember them?) that paid 2%. A supermarket and department store might have been the two anchors of a "regional" shopping center with the department store complaining that the supermarket traffic did not help it—customers came, used the parking space, shopped for food and then went home.

NCR registers with a "gear shift" were "modern," and Sweda was trying to break into the market. IBM sold lots of key punches, sorters and tabulators. An "automated" warehouse might have had gravity rollers, a few power belts and a 12-foot ceiling.

Weingarten's was building stores with a supermarket on the ground level and a equal-size variety store in the basement. Stores were fighting with food manufacturers to get them to put the cans in the cartons to match the print on the outside so the stores could "slash and stack."

For years ending in 1962 or January 1963, there were only 19 retailers doing more than \$500 million. A&P was 15% larger than Sears.

Here are the food chains:

Rank and Name	Sales (000,000)
1 Great Atlantic and Pacific	\$ 5,311
3 Safeway	2,510
4 Kroger	1,948
8 Acme Markets	1,081
9 National Tea	979
10 Food Fair Stores	923
12 Winn-Dixie	772
16 Grand Union	631
17 Jewel Tea Company	618

There were 16 food chains with profits over \$20 million. Here are the food chains:

Rank and Name	Profits (000)
2 Great Atlantic and Pacific	\$126,606
4 Safeway	83,326
8 Kroger	44,219
10 Winn-Dixie	35,983
11 Acme Markets	27,091
14 Food Fair Stores	21,484
15 Jewel Tea Company	21,285

Only 21 stores had a net worth of \$100 million or more. Here are the food chains:

Rank and Name	Net Worth (000,000)
3 Great Atlantic and Pacific	\$ 536
6 Safeway	346
10 Kroger	194
13 Acme Markets	140
17 National Tea	114

The two largest discount stores were Korvette (\$235 million) and Interstate (\$223 million). The other two discounters over \$100 million were Vornado (\$115 million) and Arlan's (\$103 million). S.S. Kresge (now K mart), at \$450 million, was the fourth largest variety store after Woolworth (\$1.1 billion), W.T. Grant (\$686 million) and McCrory (\$554 million).

At S.S. Kresge, Sebastian S. Kresge was chairman and a man named Harry Cunningham was president and general manager.

The first advisory board meeting was November 10, 1966 (it took three years to get to that stage), and the list of members brings back some old names. Charles Adamy and Wendell Earle, then the director of the Cornell Food Distribution Program, conducted it; and the following were there:

Burl C. Burnham	A&P
W.C. Ferguson	Acme Markets
Larry C. Gee	Dominion Stores
H.L. Martin	National Tea
Freeman Morgan Jr.	Kroger
Lloyd W. Moseley	Grand Union
Peter Quinn	First National
Everett L. Stiles	P&C Food Markets
John V. Wright	Wegman's Markets

Gene German, Director, Cornell Home Study Program

Today, the many courses offered are being used in Food Management Certificate Programs in Canada, Australia and England, as well as in the United States.

RThought: A mighty oak grew from a little acorn. Charles Adamy cast his shadow many years into the future.

I read the reports of the top users of the 1988 program. There are more and more discount chains, drug chains and other retailers who found that what food managers needed to know was also what their managers needed to know.

If you don't know about this program, write to:

Cornell University Home Study Program
247 Warren Hall
Ithaca, New York 14853-7801

It may be the best 25-cent investment you will make this year.

THE NILSON REPORT BROUGHT ME THE WEATHER

I read Spence Nilson's report because it is the best report on what is happening in the credit card field (Box 49936, Los Angeles, CA 90049; 24 issues, \$655/yr.). In reporting on a credit card enhancement—insurance that partially reimburses card holders for vacations spoiled by rain—he told of the World Wide Weather Service provided by American Express based on information from Telesphere. Just dial 900-321-1212 (calls will be billed—I will find out what it costs when I get my next bill). An artificial voice gives weather for the key city (Area Code 415 gets San Francisco, 312 gets Chicago, etc.).

I called 415 and got the current forecast as well as the forecast for the following three days in San Francisco. I then dialed the first three letters of Oakland—OAK—and got Oakland weather. If I had wanted another city, all I had to do was punch “*” and another area code and go through the same process without having another initial charge for a 900 call.

RThought: This is going to be a lot easier than finding the weather section of a newspaper—and then finding the city you want is not on the list. Thanks, Spence.

I DON'T UNDERSTAND...

My example will remain nameless—but:

I DON'T UNDERSTAND stores that finally are concentrating on customer service—and yet have automated telephone answering systems.

I recently called long distance to the headquarters of a major department store group. There was an answer after about 15 rings (I was just ready to re-dial, thinking I had made a mistake).

I heard a recorded message. First, there were 20 or 25 words praising the store and thanking me for calling. I think most people (perhaps 98%) know the stores they call so what I was told was not news. Second, there is nothing *less* heart-warming than a pre-recorded “Thank you.” I will admit, however, it took me months to train myself *not* to say, “You’re welcome,” after the recorded voice that interrupts the efficiency of a direct-dial credit card call to say, “Thank you for using AT&T.”

I had to listen through a series of “If you wants” to be sure that my guess at punching “0” was the thing to do. In the meantime, I learned that the store hours were just what I thought the store hours were. Finally, I punched “Oper.”

After a few seconds, another voice came on—followed by a disconnect. I re-dialed and punched “0” very quickly and got to the second stage of heaven—and glory be, no disconnect! Then I was connected with the secretary to the secretary of the person I wanted to speak to. I explained my mission and was passed on to the secretary and explained my mission all over again. Then I got my information.

RThought: Who benefited from this “new efficiency”?

First, the telephone company. It got two long-distance calls instead of one (and that initial charge is much more than an extra minute).

Second, the manufacturer of the equipment. This was headquarters of a big store, so I guess it has a big system.

Third, the manufacturer again. I am sure it uses this store in all of its promotional material to persuade other stores that this is the way to provide service.

Fourth, the systems expert within the company that showed how much money could be saved by eliminating human operators.

Fifth, the personnel department as it reports a decline in total payroll (amortization or depreciation is never included in the payroll figure).

With all those wonderful benefits, who could be the loser? I can find just one—**YOUR CUSTOMER**. But why worry

about that—your ads will remind the customer that you are doing everything to bring him or her great, new services.

And after all, there are a lot more customers out there. **Or are there?**

SHORT SHORTS

Ames Department Stores, Inc., reports May sales: “...sales for the four weeks...ended May 27, 1989, increased 120.3%.... Same-store sales in Ames’ discount department stores increased 0.4% bringing the year-to-date increase to 0.5%.” **RThought:** What a difference buying 300-plus Zayre stores makes!

The miracle of descriptive billing. My wife recently made a purchase at one of our leading department stores with one of the latest MIS/EDP/POS systems. The tag read as follows:

6/16/89	256692	11 CHARGE TAKE	
7523 33			
10641659		SKU	
	2@	45.00	90.00
		SUBTOTAL	90.00
		7% SALES TAX	6.30
220750121005///03631			
130372 57130 TOTAL			96.30

RThought: I asked my wife how long it takes to breed a couple of SKUs. I am willing to bet that the head of MIS/EDP/POS at this major retailer **TRULY THINKS** the firm is providing descriptive tags.

WORDS FROM HESIOD—ABOUT 700 BC

Marshall Kline, knowing that I shared many thoughts with his father, Sam Kline (for many years, the “Kline” of the Kline-Kinsler buying office in Los Angeles), sent me some of Sam’s clippings. Among them was this one attributed to Hesiod:

I see no hope for the future of our people if they are dependent on the frivolous youth of today.... When I was a boy, we were taught to be discreet, and respectful of elders, but the present youth [think they] are exceedingly wise and [are] impatient of restraint.

I wondered what else Hesiod, a Greek Poet, might have said. Bartlett’s offered these from “The Theogony”:

Badness you can get easily, in quantity: the road is smooth, and it lies close by. But in front of excellence the immortal gods have put sweat, and long and steep is the way to it, and rough at first. But when you come to the top, then it is easy, even though it is hard.

If you should put even a little on a little, and should do this often, soon this too would become big.

He harms himself who does harm to another, and the e plan is most harmful to the planner.

RThought: Have we really changed greatly in 2700 years?



NATIONAL ASSOCIATION OF COLLEGE STORES, INC.

528 EAST LORAIN STREET, OBERLIN, OHIO 44074-1298 • 216/775-7777 • FAX: 216/775-4769

Tue Sep 5, 1989

Mr. Robert Kahn
Editor
Retailing Today
P.O. Box 249
Lafayette CA 94549

Dear Mr. Kahn:

Your challenge to NACS and other associations (in your July 1989 editorial) did not go unnoticed. Your term "intestinal fortitude" has a way of catching the eye, so I wanted to write to you quickly--before that kind of challenge could fester.

Our response is indicated in the attached draft of an article slated to appear in the November/December issue of The College Store Journal. As you will see, NACS Executive Director Garis Distelhorst clearly urges compliance with the concepts and practices of equal opportunity and affirmative action. There can be no doubt of our association's stance on these issues.

I hope that your article fosters similar response nationwide. I suspect that like us, many associations (particularly in higher education) have been complying all along, though without an official policy statement. The law was always enough. Now it's up to each forward-looking organization to speak for itself.

Thank you for bringing this issue to our attention.

Sincerely,
THE NATIONAL ASSOCIATION OF COLLEGE STORES

Hans Stechow
Director of Public Affairs

cc: Garis F. Distelhorst CAE

Wed Aug 16, 1989

Time to Emphasize the ACTION in Affirmative Action?

The July 1989 issue of Retailing Today included an article entitled, "The Supreme Court Has Spoken; Now It Is Up to Us." It dealt with the progress--or more specifically the lack of it--in affirmative action during the past two decades, and with a Supreme Court "that is in the process of nullifying all the laws that set forth what reasonable, moral, and ethical conduct (sic) should demand of us without laws." A quote from the article is appropriate here:

"With the laws (providing for equal opportunity) overturned, we have nothing to hide behind. If we want happy, prosperous people as customers, we are going to have to train and stimulate people who are unqualified by their education. That means hiring blacks, Hispanics, and Asians and training them--in our jobs, in our ways, in our stores.

The blacks were freed more than a century ago. Mainly through the effort, or lack of effort, by white male senior executives, they have not become equal.

Today, five people in black robes feel that assurance of equal rights should not be accomplished by laws. Those in white robes feel vindicated. Today, tens of thousands of retail executives have a chance to provide equal opportunity--for one simple reason: it is right."

Why do we bring this up? Why did this article catch our eye--when we're secure in the belief that the college store industry is unusually enlightened where equal opportunity is concerned?

Because the same article issued a challenge:

"Which of our retail trade associations (and it specifically mentions NACS along with the NRMA and several others) has the intestinal fortitude to urge compliance (the underlines are ours) with the principles upon which we profess to be founded: "...that all Men are created equal...that among these (principles) are Life, Liberty, and the Pursuit of Happiness...."

As your trade association, NACS has always advocated equal opportunity, law or no law. We do and have urged compliance, just as we urge ethical business practices in Article II paragraph b of our constitution.

Should NACS policy specifically embrace equal opportunity? While it shouldn't have to, we intend to make it official at the next meeting of our Board.

In the meantime, we urge each member store--and each state and regional college store association--to make equal opportunity an official policy, and to comply voluntarily with the concepts and practices of Affirmative Action.

Here's a policy statement to consider:

It is the policy of _____ not to discriminate against minorities, women, nor the physically or mentally handicapped with respect to recruitment, hiring, training, promotion, and all other terms and conditions of employment, provided the individual is qualified for the work available.

We hope you will treat this matter with the urgency it deserves.

Garis F. Distelhorst CAE
NACS Executive Director



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549
 TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly
 \$42 per year
 \$54 overseas

ROUTE TO

AUGUST 1989

VOL.24, NO.8

WHERE HAVE WE BEEN?

It was almost a century ago that Marshall Field (the first) said, "Give the lady what she wants." That is still the best one-line summary of retailing. But have we practiced it? Let's look at the May Department Store's Annual Report for the year ending January 1989.

* * * * *

General Comment

I have not picked on May Department Store company because it is better or worse. May, today, is one of the premier department store companies. Yet, it is admitting that it has really gotten away from the contact with customers that built the very first May Company store—and, perhaps, without realizing it. Many other department store companies have not yet recognized that they are not serving the many needs or desires of their customers and that their associates, who contact customers daily, have known about those needs and desires for years.

* * * * *

Under Customer Service, one finds:

We recognize that excellence in retailing requires excellence in customer service. Our associates understand their important role in providing excellent service.

During 1988, we expanded the May Friendliness Program—a concept that makes clear to all of our associates that each individual has responsibility for service.

Comment: May Department Store has adopted the term "associate," which J.C. Penney started—and started with sincerity—and which others have copied. But when one comes to the **Human Resources** part of the report, there is proof that people are still considered "natural resources," like coal and iron and oil. I quote, "In 1988, more than 500 new hires from leading colleges and universities participated in our executive training program." New hires? Like so many dozen shirts? New hires? When do they become "associates"? Never—until management sincerely feels that every person on the team is an "associate."

A personal view: I am pleased that two of the larger retailers with which I work closely—Wal-Mart and the Army and Air Force Exchange Service (with sales of \$20.6 billion and \$5.8 billion and associates totaling 225,900 and 80,000, respectively)—now have PEOPLE DEPARTMENTS to work with "people"; not "human resource" departments to work with resources.

Under Customer Surveys, one finds:

Featuring new, attractive designs, we are ensuring that gift boxes are available at every point of sale for every customer wanting one.

IS THIS WHY WE CANNOT GIVE SERVICE?

The figures below are the average weekly wage for non-supervisory workers during March 1989 as reported by the Department of Labor:

Mining	\$550
Construction	496
Manufacturing	425
Transportation and public utilities	387
Wholesale trade	386
Finance, insurance and real estate	339
Services	299
Retail trade	183

RTought: We could never do the volume we do if we depended upon the purchases of retail employees. I realize the Department of Commerce has a problem with the number of part-time employees in retailing; but even if the figure were 50% higher, retail trade would still be 8% lower than the average for people employed in services and 35% below the average for people employed in manufacturing.

I think a comparison of the labor turnover rates would show just the opposite—the lowest in mining and transportation/public utilities (most construction workers do not have "permanent" jobs) and highest in retail trade. Not all of the blame can be placed on the fast food/service station segment of retailing—not with McDonald's offering \$6 an hour and more in some areas where general merchandise retailers looks for people who will work for pay closer to the minimum wage.

RTought: Providing commissions for people hired at low wages will not produce good service. When Bloomingdale's signed a union contract providing for commissions, it was the union that undertook to train the salespeople on how to sell as well as coaching them on how to act (not to steal customers, how to rotate call, etc.).

Additional three-panel mirrors and seating have been added throughout the stores, as well as more, better-equipped fitting rooms.

Comment: Was it necessary for May to survey 300,000 customers each month to find out what the people on the floor have known for years?

RTought: The photos of merchandise in the May Annual Report were beautiful. They made one want to buy right now. And not a single item said, "30% off all our [enter garment]." The pictures sell the sizzle. Why can't that be done in the newspaper ads?

FREE ENTERPRISE—NORTH CAROLINA STYLE

North Carolina is the heart of the furniture industry. And it has become the headquarters of the discount mail/phone order furniture business.

Ambitious entrepreneurs started selling major national lines by 800-telephone and national advertising. You can visit the local Broyhill or Thomasville or other major brand dealer to get the style number—and then order by telephone at big savings. Often delivery is faster than that from your local store.

Furniture House of North Carolina offers “savings [Note: Before delivery] of 40-50% on 250 major lines.” Thornton’s offers “savings to 50% on 300 lines.” Turner-Tolson, Inc., offers “nationwide in-home delivery of all major brands.”

One result of this discount retailing is House Bill 520 in the North Carolina legislature which would bar retailers from:

1. Selling to certain specified customers.
2. Selling to customers who have never visited the store.
3. Advertising within or without North Carolina.
4. Making sales to consumers by toll-free lines.
5. Advertising toll-free lines.

A number of manufacturers have already terminated or said that they will terminate retailers who practice the above. Others have declared North Carolina an “open trading area”—thus removing restrictions on pricing.

Local retailers were in the middle. House Bill 520 was the answer. Jack Brandwein, founder and long-time editor of *The Furniture Forum*, would go the opposite direction. He would require manufacturers to sell to all retailers with an acceptable credit rating. (Note: I am both sad and joyful to report that Jack Brandwein—with Ty, of course—has retired from the furniture industry. His frank views will be missed. Unfortunately, there is no replacement on the horizon.)

RThought: It may seem strange, but my thoughts went back to a recent California court case. In the mid-1970s, East Bay Municipal Water District (which serves 1.1 million people on the east side of San Francisco Bay) purchased rights to 150,000 acre feet of water a year to be taken from Folsom Dam above Sacramento. Immediately, suits were filed. The City of Sacramento felt that the quality of the remaining water would be reduced. The environmentalists wanted to protect the salmon spawning beds below the dam. Three groups, each with a fixed position, but not a single party working for a compromise. Fifteen years later, a judge structured a decision that could have been worked out more than a decade earlier. EBMUD got its water where it wanted to get it; BUT (the “BUT” that could have been reached without millions of dollars of legal fees) in years when water is scarce, Sacramento and the spawning beds would get what water is needed to protect each.

Fortunately, Governor Jim Martin of North Carolina took a strong position. He said that this was a business matter, not a matter for legislation. Under his urging, both retailers and manufacturers will work toward a solution while further action on the bill is deferred for a year.

RThought: Our society is being torn apart by rigid positions held by organizations composed of good citizens. But rigid positions do not serve us well. Pro-Life versus Right to Life; NRA against those who want guns controlled; those who would have a Christian nation against those who happen to be Jews, Muslims, Hindus, Buddhists, Shinto, agnostics or atheists.

Our world consists of water AND land, plains AND mountains. We have hundreds of kinds of living things: cold blooded AND warm blooded; two legs AND four legs; wings AND fins; insects AND snakes.

The world around us is a compromise, and each of us has our own belief about how that came about. Most of this happened long before we had a democratic republic, a Declaration of Independence, a Constitution, or any Founding Fathers. We will not make our world better by forgetting that it is the biggest compromise in our life; we must learn how to find compromises rather than seeking to force our view on those who live around us. In many of our homes, we have seen our cat and dog lie down together in peace—perhaps, I should say, “tolerate each other.” We could learn a great deal from those “dumb” animals.

Note: Perhaps what bothers me most is when readers write offering me the *ABSOLUTE* truth and denigrating me for thinking another way. Such an approach can never change my views because it does not involve the open discussion that is necessary for me to change my views. I try to formulate my views in a rational way, using the best information I have available. I have changed my views on many things during the past 70 years—and expect to continue to do so during the next 10 to 30 years.

(Note: The information on HB 520 was from *The Furniture Forum*, 8177 East 44 Street, Tulsa, OK 74145; \$120/yr.)

FURNITURE SALES AND DEPARTMENT STORES

The following appeared in the August 1989 *Furniture Merchandising Newsletter*, written by Joe McNichols (Box 584, Palos Heights, IL 60463; \$49/yr.):

If your store is located in a city with a major department store, this department store has opened a “home” store in the past year or will do so by the end of 1990. This “home” store will range in size from 40,000 square feet of display to 80,000 and will appeal to customers who never bought furniture in a department store. In recent meetings, they have revealed that their emphasis will be in the better style and price ranges. In fact, they will abdicate the popular selling price ranges to the independent furniture stores. Don’t allow a department store in your trading area to “skim” the upper style and price ranges. Study their lineup and promote easily identifiable big ticket items as features in your multiple selection promotions.

Early test results of these “home” stores indicate that net sales per square foot of display exceed \$300 compared to \$200 for regular line goods. Affluent customers are buying more readily and in larger quantities.

Elsewhere one reads of declining car sales, changing purchasing habits of the yuppies (who are not being replaced in either number or early job income) and the growing affluence of the retired and/or over 65. Joe pointed out that people between 61 and 64 who receive Social Security can earn \$6,480 without a reduction in Social Security; those who are 65 to 69 can earn \$8,880; and those 70 and over can earn any amount. He wrote in reference to the labor pool available to stores—but it also applies to the buying power of people who are more home oriented.

The above stimulated a lot of thinking.

What has happened to sales in different types of stores? Here are the figures from the Monthly Retail Trade report from the Department of Commerce. This report is based on final figures—which often differ from the preliminary figures that

continued

IF YOU TELL YOUR EMPLOYEES THEY ARE CROOKS...

I am always amazed at what retailers say about employee theft—without thinking of the impact of their statements. Recently I was reading the employee publication of a fine retailer and found an article entitled "Employee Theft—Details And Deterrence."

This subject is perfectly legitimate to discuss. But management gains nothing by reminding all its employees that there is proof that they are a bunch of crooks.

There is only one illustration in the article—a pie chart—showing the cause of retail industry shortage as follows:

Internal (employee theft)	42%
External (shoplifting, etc.)	35%
Paperwork error	23%

The source given for this chart is *The Wall Street Journal*. But management of a company knows, despite an advanced MIS and POS installation, it cannot tell what accounts for its own shortage; yet it is willing to accept that a newspaper knows. What the newspaper appears to be doing is reciting the "junk" figures published for years by Arthur Young. Arthur Young asked each company to "guess" at the breakdown between the three causes and then averaged the answers. In days of yore, that is how people determined how many angels could dance on a head of a pin!

It has been my observation that most often, when a store has significantly cut inventory shortage, it has not been accompanied by a corresponding increase in detection of internal or external theft. That certainly makes *The Wall Street Journal* figures suspect. The shortage may mostly be due to paperwork.

The article then proceeds to quote a "national study" by the University of Minnesota. It told its employees:

1. Close to one-third of all employees confidentially admitted to some form of work-place theft.
2. Generally...employees who steal have a low sense of commitment in the company and are often dissatisfied with their job or working situation. Lastly, prior to an actual theft, they have already established a history of performance problems.

My question: Do you have a third of your employees who match this description? If you do, you apparently are unable to run a retail business, have no skill in screening employees and are completely out of touch with the employees you have.

Remember that the report said "one-third of all retail employees." If true, can any store say that it never had an unhappy person?

But let's look at the report. I doubt that the person who wrote the article ever read all 275 pages of the report completed in 1981 by Dr. John P. Clark, University of Minnesota, and Dr. Richard C. Hollinger of Purdue. Both are sociologists. There is nothing in their background to indicate a knowledge of retail companies. Their study was funded by the Community Crime Prevention Division, National Institute of Justice, of the U.S. Department of Justice. Presumably, the object was to define criminals.

Was it national? You judge. They first questioned retail stores in Minneapolis-St. Paul and then added Dallas-Fort Worth and Cleveland. Answers to the same question varied by city, so I have difficulty calling that a "national study."

The authors apparently were disappointed with the answers in

Minneapolis-St. Paul to any question that showed the honesty of retail employees.

Employees were asked how often they did an act—daily, weekly, monthly, yearly, once, never, not applicable. Let's compare the answers to the first two questions: Question 1: "Take unauthorized long lunch or coffee breaks?"; Question 2: "Give up lunch or coffee breaks in order to work?"

	Take	Give up
Daily	12.5%	16.9%
Weekly	21.6	28.1
Monthly	18.7	19.9
Yearly	5.2	5.3
Once	9.4	8.9
Never	26.9	18.7
Not applicable	5.7	2.2

My reaction was: Isn't it wonderful that 64.9% reported that daily, weekly or monthly they "gave up lunch or coffee breaks in order to work"? I think I am safe in saying that few were ever thanked. But this showed honesty—and the study was of dishonesty. This question was eliminated when the survey was made of Dallas-Fort Worth and Cleveland. Just a teeny, weeny bit of bias.

Then there were two more questions: Question 11, "Get paid for more hours than worked?" and Question 13, "Work extra hours without overtime pay or other rewards?"

	Overpaid	Work free
Daily	0.1%	5.0%
Weekly	0.5	11.0
Monthly	1.5	14.1
Yearly	2.3	7.6
Once	4.7	7.3
Never	85.0	48.7
Not applicable	5.9	6.3

I'll bet that you have 30.1% of your employees work extra hours without pay or other rewards—and that you don't even know who they are.

The "work free" question was not asked in the other two cities.

Finally, there was Question 20: "Do work above and beyond the call of duty?"

	Yes
Daily	21.4%
Weekly	28.0
Monthly	24.6
Yearly	7.6
Once	3.7
Never	11.8
Not applicable	2.9

A company that tells its employees that they are the primary cause of inventory shortage (42% according to *The New York Times*) certainly cannot have 74% who daily, weekly or monthly "Do work above and beyond the call of duty." Why? Because the "all of you are crooks" attitude forced the honest ones out.

RThought: My father told me that the way to run a retail store was to "trust everyone and challenge everything." I have always trusted every employee. And I have challenged every

continued

FEATURE REPORT *continued:*

cash register report that showed too many "no sale" drawer openings. On employee discount, I have allowed it only on charge accounts. It eliminates all discussion of discounts in front of customers; but more important, it lets me see how much each person is charging and judge whether the amount is appropriate for that employee. I have never recommended a travel per diem, but I have kept records of average daily expenditures for meals, taxis, etc.—a figure that may vary widely between buyers but remains remarkably constant for

each buyer.

I have been fortunate, I guess. I have only worked at companies where people give up their lunch or coffee breaks in order to work, work extra hours without pay and work above and beyond the call of duty. My only fault is that I have not thanked them often enough. *I will try to do better.* (My sister says that this last sentence is redundant.)

WHO SHOULD BE ON THE BOARD OF A MAJOR COMPANY?

I read the 1989 proxy statement of Sherwin-Williams Company and had the following reactions to the 11 candidates for director.

"James A. Attwood has been Chairman and CEO of The Mutual Life Insurance Company of New York....."—that sounded good.

"James M. Biggar has been Chairman and CEO of Nestle Enterprises, Inc....."—not too directly related to the paint business but....

"John G. Breen was elected Chairman and CEO of the Company in....."—entirely appropriate.

"D. Wayne Calloway has been Chairman and CEO of PepsiCo, Inc., since....."—another top executive from a company with some of the same distribution problems.

"Leigh Carter has been President and COO of B.F. Goodrich Company....."—another major company... OK.

"Thomas A. Commes was elected President and COO of the Company in....."—OK to have the two top inside executives; but I am only up to "C," and will there be more?

"Dr. Robert C. Doban, prior to his *retirement* in December 1988....."—???

"Allen C. Holmes, prior to his *retirement*, in July 1986....."—Whoa, there!

"J. Robert Killpack, prior to his *retirement* in September 1987....."—What's happening?

"William G. Mitchell, prior to his *retirement* in May 1987....."—Four in a row!!!

"Ralph E. Schey has been Chairman and CEO of The Scott Fetzer Company since....."—another who can be helpful.

RThought: This brings to mind the various rules boards have established limiting the length of time a director may serve. *None that I have seen are directly related to the contribution being made by the director—they all try to establish "objective" guidelines. Yet none adopt the simple guideline of "will we be better off with this person on the board than with a replacement?"*

Holmes is 68 years old, Killpack is 66, Doban is 65 and Mitchell is 58. Many entrepreneurs, holding controlling blocks of stock, are still running their companies when past 65 years of age (there may be more who are running companies but should not be—but that is a different question).

Let's look at some limits.

1. Absolute age (usually in the 65-70 range). This is entirely arbitrary. Irving Shapiro, now 72 and active, former CEO of du Pont, is a director of Continental American Insurance, Hospital Corporation of America and Boeing Company. George Schultz, Secretary of State under Reagan, is 67 and active—and is deluged with invitations to serve. Milton Petrie, 86, is reported to be considering taking Petrie Stores private (so he can do some long-range planning without worrying about the price of the stock???)

2. Absolute age but not effective until served a minimum time on the board. Same comments as above.

3. Required resignation if change of job even if in same industry. This, to me, is the most absurd. It negates the idea that the individual is the one making the contribution to the board and substitutes the presumption that somehow the office he or she holds is the contributor.

4. I don't know that anyone has suggested what they say would be best for Congress—a limited number of years?

Let's see if it makes sense to have such limits.

Would you stop carrying Levi's because you have carried them for 50 years? What a silly idea. Should Macy's close the 34th and Broadway store because the east end of the building is 88 years old? And just when Toys "R" Us is going to put its largest store right across the street? And A&S is opening a major store on 33rd? What a silly idea. Brahms and Beethoven are dead so should we stop playing their music? Or stop selling Gorham silver because it continues to manufacture all those old patterns?

RThought: The criteria for being a member of a board of directors should be the ability of the director to contribute to the success of the company. I think that each director should show confidence in a company he or she agrees to serve as a director by owning a number of shares appropriate to his or her income and wealth and not a token number. If the board's decisions are wrong or the execution is wrong, then the price of the stock will drop and the director will lose money—as the director should.

come out the middle of the following month. The table below shows how the seasonally adjusted figure changes from the "advance" report, which gets all the publicity.

Report	February	January
Advance	+7.7%	+6.0%
Preliminary	+5.6	+7.8
Final	+5.6	+7.5
Net Point Change	- 2.1%	+1.5%

(A side note: Some years ago, a major executive of a multibillion dollar chain objected to all the work involved in reporting its sales each month broken down by state and certain major metropolitan areas. I asked him a simple question: "Do you pay attention to the monthly report on retail trade—especially when analysts interpret it as weakness and all retail stocks go down, including yours?" As expected, his reply was, "Of course." What he didn't say was, "Don't you think I stay current on the economy?" He was so annoyed by my apparent insult that he never did answer my follow-on question: "Where do you think they get the information?"

All the conventional department stores that have dropped or reduced furniture and/or major appliances and/or consumer electronics departments might look at these figures:

Type of retailer	All of 1988 v. 1987	Five months 1989 v. 1988
Franchise car dealers*	+ 5.2%	+ 1.0%
Furniture stores	+11.5	+ 3.0
Floor covering	+ 6.6	+ 7.8
Household appliances	+ 5.6	- 0.6
Radio and television	+13.2	+17.0
Conventional department stores	+ 6.4	+ 5.4
Discount department stores	+10.7	+ 6.4
National department stores**	+ 0.1	+ 2.8

* If all car dealers are included, the figures would be +5.9% and +2.0%, respectively. Most non-franchise dealers are used car dealers (although most used cars are sold by franchise dealers). The higher figures indicate a greater increase in used car business.

** The definition basically covers Sears, Montgomery Ward, J.C. Penney and K mart. One must remember that Ward closed down its mail order and Penney dropped some hardline departments. For Sears, this figure excludes its greatest growth area—home improvement contractors (roofs, paint, decks, etc.)—which has grown from 3% to more than 10% of the figure Sears reports as "merchandise sales." It also covers three months of "everyday low prices."

Should one consider furniture stores or radio/television stores as "small potatoes"? Look at the sales for the first five months of 1989:

Type of retailer	Sales - five months - 1989 (\$ billions)
Discount stores	\$27,600
Conventional department stores	17,495
Radio and television	12,959
National chain department stores	12,718
Furniture stores	11,445

And finally I was driven to some old issues (mid-1950s) of the Merchandising and Operating Results (MOR), published by the National Retail Merchants Association. Sam Flanel had just replaced Ray Copes as General Manager of the Controllers' Congress (now Financial Executives). Apparently my rat-pack instincts were not fully developed, and the 1953 and 1954 issues of the MOR are missing. I believe it was in the

1953 MOR that a study was made of furniture departments in \$10 million to \$20 million stores (in those days, the largest brackets were \$20 million to \$50 million with 40 stores and \$50 million and over with 18 stores). Using the "net profit" measurement, it showed that, during the prior 10 years, furniture departments, in total, had lost money in all years except one!

The net profit plan requires the assignment to each selling department of its full quota of all store expenses...direct and indirect...in accord with traditional management thinking. [1955 MOR]

When I asked Sam why, if the furniture departments lost so much money, he had not recommended closing them, the following dialog took place:

Sam: Because they absorb so much overhead.

Kahn: Does that mean that, without their furniture departments, the stores would have shown smaller profits?

Sam: Yes.

Kahn: Then how can you say the furniture departments lost money?

It is 35 years later and conventional department store thinking has not changed. And Sam has not yet come up with a good answer. In the meantime, furniture, appliance and consumer electronics stores thrive.

DID YOU KNOW YOU WERE SAVING MONEY?

We have often heard the argument that there is no connection between deficits and inflation. At last I have found the economic statement that supports that claim:

On a theoretical level, some economists maintain that even if the Federal Reserve acts to smooth interest rates, deficits will not automatically lead to faster money growth because, they believe, deficits do not push up interest rates. They argue that the public [Note: That is you!] knows higher government expenditures relative to revenue today will require an increase in taxes in the future. As a result, the public will increase savings and set aside funds today in order to meet the expected higher future taxes. Consequently, an increase in fiscal deficits will be met by a corresponding increase in saving, and there will be no upward pressure on interest rates that could induce the Fed to pursue an inflationary monetary policy.

RThought: Do you have such an account? Have you even thought of saving money for the future tax increase?

This is **not** a quote from *Mad* magazine.

This is from the Research Department of the Federal Reserve Bank of San Francisco in its July 21, 1989, *FRBSF Weekly Letter* (Box 7702, San Francisco, CA 94120; no charge)—titled "Do Deficits Cause Inflation?"—and prepared by Carl Walsh, Visiting Scholar, FRBSF, and Associate Professor, University of California at Santa Cruz, with Bharat Trehan, FRBSF Senior Economist.

After considering several alternative theories, they concluded, "Thus, in the U.S., there is little evidence to suggest that large fiscal deficits have led to higher inflation."

Of course, like true researchers, they have not found out what does cause inflation.

GROCERS DO THE DARNDDEST THINGS

Two grocers, Aven J. Hanford and Oscar Klatt, formed the American Toll-Bridge Company; and on May 21, 1927, the day Charles Lindberg flew the Atlantic, they opened the Carquinez Bridge across the mouth of the combined Sacramento and San Joaquin Rivers where they enter San Francisco Bay.

Calvin Coolidge pressed a wireless signal, and Mrs. Hanford smashed a bottle of champagne against the structure.

One of the forgotten stories about these two grocers is that the south end of the bridge was aimed at a steep hill. This forced traffic to go around the hill and then make a 90-degree turn to access the bridge. But Hanford recorded that, at some time in the future, the road would come through the hill directly to the bridge—even though, in 1927, there was no earth-moving equipment capable of moving that much earth.

Today, Interstate Highway 80 comes exactly where Hanford predicted—a direct approach to the bridge.

RThought: This is proof that being an entrepreneur is an attitude—whether one is a grocer or a bridge builder. The side of every Kaiser Sand and Gravel truck says, “Find a need and fill it.”

THE FULL COST OF DEMANDING POLYGRAPH TESTS

Once upon a time, as the fairy tale goes, Federated Group was a major retailer of consumer electronics in Southern California. It expanded, got into trouble and, in 1987, was acquired by Atari Corporation which sought a captive retail chain to move its computers.

There was little improvement in Federated Group under Atari, but Atari got a chance to look at everything. So, in August 1988, after having paid \$64 million for Federated, Atari sued the former officers of Federated for \$43 million, alleging they, together with their accountant (Ernst & Whinney) and their financial advisor (Goldman, Sachs) had misrepresented the value of the assets.

And in June 1989, one of the parties was faced with a \$12 million out-of-court settlement by Federated Group to terminate a class action suit for violating California law making it illegal to require lie detector tests.

RThought: It is hard to understand how a California employer of hundreds of people could be ignorant of the California law banning such tests. Certainly, the polygraph examiner must have known but did not warn them.

WHY I LIKE JOE McNICHOLS NEWSLETTER

For years, I have enjoyed exchanging newsletters with Joe McNichols, who is both a consultant and newsletter publisher/editor. He combines these skills in his “Ask Joe McNichols” column that appears in the National Home Furnishings Association’s *CompetivEdge* magazine. I read about 25 retail periodicals, plus 20 or so retail newsletters—plus many general business magazines and newsletters—and there is nothing like “Ask Joe McNichols.”

Here are samples from the July 1989 column:

Question: You refer to part-time salespeople. How and where do I hire them?

Answer: Two years ago, I was having breakfast with a consulting client in Chicago. He dared me to hire good part-time salespeople. The waitress who was serving us was forty years old and very personable. I suggested he meet her later in the store. The next day he offered her \$5 an hour or 5% to work part time. She took the job and works three nights a week and Saturday on 5% commission.

Question: We have six salespeople and four decorators. Do we need a sales manager?

Answer: No—the owner should supervise this sales force.

Question: Our store ships \$5,000,000 in a city of 500,000 population with five salespeople and three decorators. Our decorators claim that a good volume for a decorator is \$250,000 to \$300,000. What do you think?

Answer: A decorator who delivers \$250,000 to \$300,000 is a clerk and should be released.

RThought: You can read Joe’s newsletter for \$49 a year. Write P.O. Box 584, Palos Heights, IL 60463.

WORDS—FROM ATTILA THE HUN

Wess Roberts, Ph.D., a psychologist and Vice President for Human Resource Development of Fireman’s Fund Insurance Companies, wrote *Leadership Secrets of Attila The Hun*. After being turned down by 17 publishers, he published it himself. Ross Perot found out about it and wanted to distribute 500 copies at General Motors. (Was this one of the things that got Chairman Roger Smith mad at him?) Now it is a runaway success.

Here are some of Attila’s bits of wisdom:

If you thirst for leadership you must, above all, possess a desire to achieve substantial personal recognition and earn it fairly and have the wisdom not to be threatened by capable subordinates.

On dealing with your enemies: Don’t lose your temper without advantageous reason; do not make enemies who are not worthy of your efforts to render them completely ineffective.

On responsibility: Experience teaches wise chieftains when to act and when to contemplate further; and the importance of knowing when to make a decision is knowing when to forgo making one prematurely.

On delegation: Never delegate responsibilities that require your direct attention.

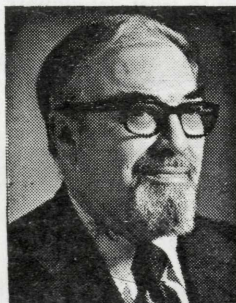
On rewarding your Huns: Never give a Hun a reward that holds no value for you.

On negotiating with the enemy: Never arbitrate, unless you want a third party to determine your fate; and never intimidate your foe.

RThought: Much of what Attila the Hun wrote 15 centuries ago is not too different than Machiavelli wrote four centuries ago in *The Prince*.

Attila made other observations. A leader lives in the field with his troops. Treat other people the way you would like to be treated. Get rid of people between those who do the work and those who make the decisions. Listen, listen, listen [like Tom Peters, “the Hun,” keeps saying].

(These excerpts are from the March 1989 issue of *Success*, 342 Madison Avenue, New York, NY 10173.)



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
 Publisher: Robert Kahn and Associates
 Box 249, Lafayette, CA 94549
 TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly
 \$42 per year
 \$54 overseas

ROUTE TO

SEPTEMBER 1989

VOL. 24, NO. 9

WHO DOES THE MOST RETAIL BUSINESS IN THE U.S.?

Place your bets.

Now read this analysis.

The *Woman's Wear Daily* list shows Sears at \$30,256 (Note: All figures are in millions of dollars), but that is not a "sales" figure; it's a "revenue" figure. The following is in the Sears 1988 annual report.

	1988
Merchandise sales and services	\$27,755
Credit revenues	2,501
TOTAL REVENUES	\$30,256

Whoops! Usually "credit revenues" are offset against credit cost—but not at Sears. By listing the finance charge income as "revenue," Sears overstates both revenue and expenses.

When U.S. sales are reported, the total is for "merchandise sales and services"; it does not include "credit revenues."

Let's decide what constitutes "retail business." Webster's New World College Edition has the traditional definition: "the sale of goods or articles individually or in small quantities directly to the consumer; opposed to wholesale."

We can break down the sales and services reported by Sears as follows:

	1988	1987	% Change
Merchandise sales and service/U.S.	\$24,252	\$22,894	+ 5.6%
Merchandise sales and service/foreign	3,503	2,981	+17.5
Total merchandise sales and service	\$27,755	\$25,875	+ 7.3%
Credit revenues	2,501	2,211	+13.1
TOTAL REVENUES	\$30,256	\$27,086	+11.7%

We have a little more information on the U.S. sales. The increase was \$1,358 of which \$809 came from the acquisition of Western Auto Supply in April 1988. The remaining \$549 represents an increase of 2.4%.

Now look at the following table, which shows a breakdown of U.S. merchandise sales and services for 1978-87.

	1988	1987	1986	1985	1984	1983	1982	1981	1980*	1980**	1979	1978
Retail store sales (1)	N	72.3%	71.7%	71.8%	71.9%	72.4%	72.3%	71.7%	71.3%	74.1%	74.6%	74.0%
Catalog (2)	O	15.5	16.8	17.2	17.9	18.1	18.7	19.9	20.4	20.2	20.0	21.1
Total Retail	R	87.8	88.5	89.0	89.8	90.5	91.0	91.6	91.7	94.3	94.6	95.1
Service	E	10.0	9.2	8.7	7.9	7.1	6.9	6.2	6.1	(3)	(3)	(3)
Repairs	P	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	3.5	3.2	3.0
Industrial	O	2.2	2.3	2.3	2.3	2.4	2.1	2.2	2.2	2.2	3.2	3.0
TOTAL SALES AND SERVICES	R	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	T											
	E											
	D											

* As restated in 1982.
 ** As reported in 1980.

(1) Excludes catalog sales through stores.
 (2) Includes catalog sales in stores and by mail and phone.

(3) Service total not reported separately.
 (4) Repair total not reported separately.

continued

THE SUPREME COURT HAS SPOKEN; NOW IT IS UP TO US—RESPONSE

In July, I wrote that the job of providing equal opportunity was up to us.

Which of our retail trade associations—National Retail Merchants Association, Food Marketing Institute, International Mass Retailing Association, National Association of Convenience Stores, National Retail Hardware Association, National Association of College Stores, National Furniture Association, American Retail Federation (I could go on)—has the intestinal fortitude to urge compliance with the principles upon which we profess to have been founded: "...that all Men are created equal...that among these [rights] are Life, Liberty and the Pursuit of Happiness...."

I have had one answer—from the National Association of College Stores.

Hans Stechow, Director of NACS's Public Affairs, wrote:

I hope your article fosters similar response nationwide. I suspect that like us, many associations (particularly in higher education) have been complying all along, though without an official policy.

What follows is a draft of what will appear in its November/December issue of *The College Store Journal*.

Time to Emphasize the ACTION in Affirmative Action?

The July 1989 issue of *Retailing Today* included an article entitled, "The Supreme Court Has Spoken; Now It Is Up to Us." It dealt with the progress—or more specifically the lack of it—in affirmative action during the past two decades, and with a Supreme Court "that is in the process of nullifying all the laws that set forth what reasonable, moral, and ethical conduct (sic) should demand of us without laws." A quote from the article is appropriate here:

"With the laws (providing for equal opportunity) overturned, we have nothing to hide behind. If we want happy, prosperous

continued

people as customers, we are going to have to train and stimulate people who are *unqualified* by their education. That means hiring blacks, Hispanics, and Asians and training them—in our jobs, in our ways, in our stores.

The blacks were freed more than a century ago. Mainly through the effort, or lack of effort, by white male senior executives, they have not become equal.

Today, five people in black robes feel that assurance of equal rights should not be accomplished by laws. Those in white robes feel vindicated. Today, tens of thousands of retail executives have a chance to provide equal opportunity—for one simple reason: it is right."

Why do we bring this up? Why did this article catch our eye—when we're secure in the belief that the college store industry is unusually enlightened where equal opportunity is concerned?

Because the same article issued a challenge:

"Which of our retail trade associations (and it specifically mentions NACS along with the NRMA and several others) has the intestinal fortitude to urge compliance (the underlines are ours) with the principles upon which we profess to be founded: "...that all Men are created equal...that among these (principles) are Life, Liberty, and the Pursuit of Happiness...."

As your trade association, NACS has always advocated equal opportunity, law or no law. We *do* and *have* urged compliance, just as we urge ethical business practices in Article II paragraph b of our constitution.

Should NACS policy specifically embrace equal opportunity? While it shouldn't have to, we intend to make it official at the next meeting of our Board.

In the meantime, we urge each member store—and each state and regional college store association—to make equal opportunity an official policy, and to comply voluntarily with the concepts and practices of Affirmative Action.

Here's a policy statement to consider:

It is the policy of _____ not to discriminate against minorities, women, nor the physically or mentally handicapped with respect to recruitment, hiring, training, promotion, and all other terms and conditions of employment, provided the individual is qualified for the work available.

We hope you will treat this matter with the urgency it deserves.

Garis F. Distelhorst CAE
NACS Executive Director

RThought: I hope that other associations follow. I will be happy to reprint their action in *RT*'s first page box.

Sears discontinued this breakdown in 1988 after years of including it. It may have been because *RT* kept commenting on the fact that Sears' growth was coming from its activities as a home remodeler rather than as a retailer. Many of the remodeling activities are done by licensees. Sears gets only a licensing fee for use of its name, plus the finance charge revenue on some of the transactions. The handling of license income can distort traditional gross margin and expense figures.

Sears' 1982 Annual Report restated the 1980 figure of 3.5% for "repairs" to 6.1% for "service." Since then, service has grown to 10.0% in 1987—and was probably 10.5% or more in 1988. In 1989, Sears is using full-page ads for various services. It calls itself "the largest remodeler" in the country. I am sure it is.

The industrial sales, at 2%, are also interesting. I understand

this is largely for major appliances sold to tract developers.

It now appears that at least 12.5% of Sears' revenues (excluding finance charges) do not meet the definition of "retail."

Thus, true retail sales in the U.S. may be 87.5% of \$24,252 million or about \$21,000 million.

Now let's look at K mart.

By putting some sections of the report together, we find the following:

	1988	1987	% Change
General merchandise sales/U.S.	\$22,177	\$21,228	+ 4.5%
Specialty retail group/U.S.	4,114	3,487	+18.0
Total/U.S.	\$26,291	\$24,715	+ 6.4%
General merchandise sales/Canada	1,010	912	+10.8
TOTAL REVENUES	\$27,301	\$25,627	+ 6.5%

It looks like K mart is ahead.

But there are some other factors. Its accounting principles say that K mart's consolidated figures include all *majority-owned* subsidiaries. K mart owns only 49% of Meldisco (the other 51% is owned by Melville), which operates all K mart shoe departments, so this \$1,063 figure is not included. In 1988, K mart received \$166 in fees and income under the license agreement plus 49% of the \$89 profit.

K mart owns 22.0% of Coles Myer Ltd., a US\$9,442 company doing over 20% of all retail sales in Australia. None of this shows as revenue or sales by K mart. On the other hand, in March 1988, K mart bought a 51% interest in Makro, Inc., then operating six warehouse clubs (ranging in size from 150,000 to 200,000 square feet) offering both groceries and general merchandise.

No data is given but, at \$65 per store, this could have added \$380 or about 40% of the reported K mart general merchandise increase. Makro sales will increase rapidly under the present expansion program of four stores in 1989 and 10 each year starting in 1990. When included in general merchandise, it may cause readers to think the increase is in K mart's stores.

K mart also has a 51% interest (Bruno's has 49%) in the 244,000-square-foot American Fare, which opened four days after the end of the 1988 year. During 1989-90, American Fare will be reflected in K mart's general merchandise sales.

RThought: Here is a comparison of retail merchandise sales for 1988 and 1987 for Sears and K mart:

	Sears*	K mart	% Difference
1987: Retail sales in U.S.	\$20,000	\$24,715	K mart by 24%
1988: Retail sales in U.S.	21,000	26,291	K mart by 25%
1987: World sales	23,000	25,627	K mart by 11%
1988: World sales	24,700	27,301	K mart by 11%

*Estimates

K mart wins! But this may be the beginning of a spree by Sears to acquire other large, well-established businesses in order to regain Number 1. In the battle of—"Who's the largest?"—does anybody ever ask—"Did the customer benefit?"

The Initial Public Offering (IPO) of Eagle Food Center brought back a lot of memories. I remember Lucky Stores went bankrupt after World War II when it had a dozen or fewer stores in the San Francisco Bay Area—perhaps the year ending December 31, 1947, when it made \$312,000 on \$26.1 million sales. It had a couple of stores without front walls—just a gate that was pulled closed at night.

For the next few years, Lucky's growth was moderate—by 1955, it had 44 stores; but the volume was only \$45 million. Its board contained several well-known local names: R. Stanley Dollar (of the Dollar Steamship Lines), Fred Ferroggiaro (a long-time associate of A.P. Gianinni at the Bank of America) and several others.

Its start did not show a lot of movement of its stock. In 1956, the high was 15 5/8 and the low 13 1/2; in 1956, A&P had a high of \$189 and a low of \$160.

By 1965, through acquisition and expansion, Lucky had 157 stores, all in California, Arizona and Washington. And it had eight Gemco discount stores, each with a 22,000 square-foot supermarket. Lucky acquired Gemco and, about the same time, acquired Bud Fisher from Owl Drug Stores. Fred Ferroggiaro was chairman and Gerry Awes was president and CEO.

By 1975, Bud Fisher was chairman and CEO and Gerry Awes and Fred Ferroggiaro were on the board as was former president William Dyer. Lucky had acquired Food Basket stores in San Diego; Eagle Discount Supermarkets in the Midwest; Hancock Fabrics, primarily in the South; May's Drugs; Kraken Auto Supply and Dorman tires; LeGrain Jewelry, a Gemco concessionaire; L&G Sporting Goods in Los Angeles; and Gemco had added Memco in Washington, D.C.

In total, Lucky had 395 food stores, 57 discount stores, 22 drug stores, 71 piece-goods stores, 120 restaurants, 44 automotive stores, 41 apparel stores and 21 fabric stores, for a total of 771. Sales were \$3.1 billion and profit was \$48 million.

By 1985, Fred Ferroggiaro had died, and Bud Fisher had retired from the board. But Gerry Awes and Bill Dyer were still on the board; and together with the new CEO, Don Ritchey, made up the executive committee. (Note: Continuity of management does not necessarily mean having the same CEO all the time.)

During those 10 years, Lucky had acquired the Kash 'N Karry supermarkets in Florida; Checker Auto Parts in California; and Minnesota Fabrics in the Midwest and the East. Food stores were up to 582, discount department stores to 80 and specialty stores to 803. The restaurants were gone. Sales were \$9.4 billion and net was \$86 million.

The stock started in 1984 at 18 7/8 and ended at 17 7/8. In 1985, the stock went from 17 7/8 to 25, because the P/E went from 9 to 12.

In 1986, the price went from 25 to 26 5/6 with the P/E rising from 12 to 20. In 1987, the price went from 26 5/8 to 26 3/8, but the P/E dropped from 20 to 12. The peak end-of-month figure was 33 7/8 (P/E of 16) in July 1987.

In 1986, faced with a possible takeover, Lucky went on the defense. Gone were the discount stores (most taken by Target to go with the FedMart stores Dayton-Hudson previously acquired), the auto and fabric stores and even a net drop of food stores. But that still included Eagle and Kash 'N Karry. The profit jumped to \$226 million and most was used to buy back about 25% of the shares. Equity dropped from \$636 million to \$272 million and working capital dropped

from \$171 million to a negative of \$194 million. As a result, the ratio of total debt to equity had jumped from 2.0:1 to 4.7:1. That ended any likelihood of takeover—but it still left the Eagle stores and Kash 'N Karry to sell. This would reduce Lucky to a West Coast operation.

In November 1987, a limited partnership, consisting of Odyssey Partners (Oppenheimer & Co.), three venture capital groups and the management of Eagle, acquired the assets from Lucky. As a partnership, any income tax was owed by the partners. Lucky retained a "preferred equity interest," reported on the balance sheet at \$29.2 million but with a redemption price of \$32.9 million.

The partnership operated Eagle for about two and a half months, ending January 1988. On a combined pro-forma basis, Eagle showed a pre-tax profit of \$1.9 million. For the year ending January 1989, Eagle showed a pre-tax profit of \$5.7 million (before a \$1.3 million extraordinary charge). During FY 1989, 37 of the 105 stores were remodeled. Eleven stores, classified as major remodelings, showed a sales increase of more than 20%. Comparable stores (which appear to include major and minor remodels) increased 6.6%. A rough calculation indicates that non-remodeled stores were up about 4%—not an exceptional performance. For the first quarter of FY 1990, same-store sales were up 4.9%. Again, this figure must be adjusted for remodeled stores.

The total debt-to-equity ratio will still be very high—at 3.4:1.

The major change in operation was increasing gross margin to 24.6% compared with 24.0%, 23.5% and 22.7%, respectively, in the prior three fiscal years. Much, however, may have come from adding higher markup departments.

The stockholders who purchased Eagle from Lucky paid \$1.33 per share, and the new investors paid \$20 with an immediate book dilution of \$15.28. The shares came out in July at \$20 and have stayed within a \$21-\$18.50 range. However, the remaining 7.8 million shares of the original shareholders can not be traded until December 1989. That may affect the price as venture capital investors sell their position and go on to the next opportunity.

At \$20 per share (before selling expenses), the 8.3 million shares held by the original investors equals \$166 million on an investment of \$11 million. The later investors have a market value approximating what they paid for it.

RThought: Eagle says that it is continuing to undersell "targeted" competition but is devoting more space to higher margin merchandise. Management reports that relations with its union employees is improving now that Eagle is not asking for wage reductions and has started a program of employee participation in operating decisions and a scholarship program for children of employees. In the "people" field, it appears to be making all the right moves. Four senior managers have been with the company from 27 to 36 years, and all are from 50 to 59 years old. Perhaps all that was needed in the past was to let the management be more entrepreneurial and to make money available for upgrading the stores.

Almost regardless of what the price of the stock is in December, the original investors will come out very well. But to maintain the price of a moderately growing supermarket chain at \$20 per share, it must earn about \$1.50 per share or \$17 million on 11.5 million shares. Rapid growth, starting with a 3.4:1 total debt to equity, is not very likely.

We can only wait and see. It will be interesting to see how many of the 1987 investors keep their shares.

HOW TO LOSE A DOZEN CUSTOMERS

For more than 20 years, I have been writing that retailers make customers one at a time—and lose them a dozen at a time.

Let me tell you how the Safeway store in Lafayette lost dozens of customers because of an act by Ms. Terry Chenault, manager of the Lafayette store.

On Saturday, July 22, 1989, Lafayette's BIRTHDAY BASH celebrated 21 years as a city, with an Arts and Crafts Fair. Both sides of our main street were lined for a half mile with display booths or craft goods. A lot of people put a lot of time and effort into the event. The turnout was gratifying. And, as one would expect, all store parking lots were full.

Terry Chenault was not part of the enthusiastic group backing the project, although the Chamber of Commerce had been careful to see that food and drinks were not sold in any booths. Two or three days prior to the event, Ms. Chenault was asked what she was going to do about non-customers parking in the Safeway lot; and her brisk reply was, "I am going to tow." All the local off-street lots have signs restricting parking under City Ordinance 8-801 to one hour and, after that, being subject to citation or towing.

True to her word, Ms. Chenault hired two uniformed guards; and after four cars (the lot has space for about 175 vehicles) had been identified as over two hours, they were towed. How that would set an example, I don't know. The owners of the cars parked "over two hours" were up and down the main street, not watching the cars.

One towed car belonged to Rosa Segre, widow of Emilio Segre, internationally distinguished physicist and Nobel laureate. Here is part of the letter Mrs. Segre wrote to the editor of our local weekly paper:

July 22 was supposed to be a day of fun in Lafayette. (Birthday Bash.) I had fasted for 12 hours; and by 9:15, I was at the John Muir Hospital stand...to have my cholesterol checked. I was told to return in two hours.... I was very pleased to find out my level was much lower than I had anticipated. ...I walked to my car and SURPRISE! It was not where I left it. Instead, a security guard hired by Safeway told me that I had parked over two hours and therefore they towed the car to AAA somewhere in Concord [Note: 10 miles away], but he did not know the address or phone number.

Mrs. Segre then talked to Ms. Chenault, the manager. Her letter continues:

Unhelpful is the mildest word I can use to describe her [Ms. Chenault]. All she could do was to repeat 'I don't know' and 'can't help you.'

A young lady, who overheard the conversation with the guard, offered to drive her to AAA; Mrs. Segre's letter continues:

After several phone calls (and recordings), we found that the car was at Lamorinda Towing...in Lafayette.

It cost her \$60 to get her car back.

That column apparently got to Peter Magowan, CEO of Safeway, and a letter went out over his signature, saying in part:

I regret to hear of your unpleasant experience at our Lafayette store.... Believe me we take no joy in towing unauthorized cars... shoppers get upset because they can't find a parking place on a busy Saturday morning.... [Note: I checked the Safeway lot several times on two Saturdays, August 26 and September 2, and each time there was at least 70 spaces.] Because your description of the store manager's response sounded out of character for the Terry Chenault I know, I asked a member of my staff to contact her. Evidently she was under the impression you had already spoken with the towing company and knew their garage was just a short walk from the store. [Note: Mr. Magowan never talked to the Chamber of Commerce or he would have learned that Ms. Chenault was committed to towing; otherwise, how else could she explain the cost of two guards? And what may be a short walk for Mr. Magowan is not for an elderly person.] Unfortunately, the guard...unaccountably had not been

informed of the correct location by his fellow guards. [Note: There were only two guards.] We sincerely regret the inconvenience.... I hope you will accept the enclosed gift certificate as a 'peace offering.'

The following week's column in our paper quoted Mrs. Segre

"...I don't consider it a peace offering, as he calls it, but as a partial restitution.... I was impressed that he wrote to me [Note: Many a letter signed by a CEO of a multibillion dollar company is not written by the CEO. For years, the railroads had a standard "bed bug" letter sent to complaining customers, always signed by the president]. I am still out \$35.

RThought: The story does not end there. Avon Wilson, our Mayor, has quit shopping at Safeway and is telling all her friends. Many others who work hard to make Lafayette a better community have switched stores as well.

And what a wonderful break for Lucky, about 100 yards away. It is in the midst of a major remodel and enlargement and will have a bakery, service deli, enlarged produce and frozen food sections and more. In every comparison I have seen, Lucky's prices are below Safeway's. Now that Lucky can match the offerings of Safeway, think how much Ms. Chenault helped her competitor.

My wife shops only at the independent store, Diablo Foods; but sometimes I have gone to Safeway. I now find Lucky a little messed up during construction but offering almost all the items I am looking for—usually at a lower price than at Safeway.

Lafayette is a stable community. Turnover of people is low. For example, in our cluster of four homes, the most recent family bought their home 20 years ago.

A year, two years, five years from now, when Safeway's name is mentioned at a gathering or dinner, someone is likely to relate the story I have told.

FAR MORE THAN A DOZEN CUSTOMERS WERE LOST.

Note: Because this is a true, well-documented story of how a large and sophisticated retailer, who certainly should be able to teach store managers that Safeway never makes a profit on a sale or even on a Saturday—but only when thousands of people come back 50 or more times a year—I give any author or professor or training department permission to use this example. In a store manager's program, the initial facts (knowing the event would be held) could be outlined and managers asked what they would do if faced with the same facts. And let them critique the various actions taken by the guard, the store manager and even Mr. Magowan. And perhaps ask them, "What would you do three weeks later to convince a community of 20,000 people that you were sorry and had made a mistake.

Late Note: Several years ago, the California Motor Vehicle Code was amended to provide a uniform procedure for towing cars from private property. Lafayette repealed Section 8-801, as required by the Motor Vehicle Code change. The information was provided to the Chamber of Commerce which included it in its newsletter, a copy of which went to Safeway. But apparently the significance of the change did not register on the local Safeway management, the signs were not changed, and the procedure followed in this case appears to be in violation of the present law which requires contacting the local police or sheriff's department first before towing.

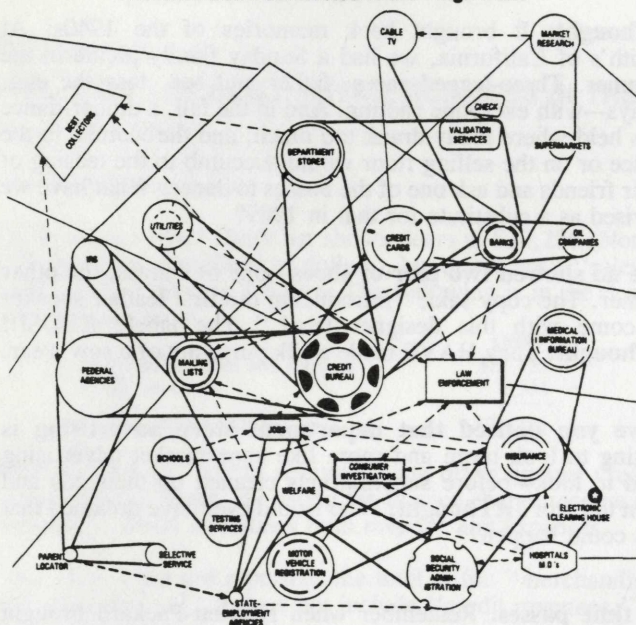
I spoke to Mrs. Segre, and the \$25 money order on Safeway of no value because she will not go into the store again. If Mr. Magowan truly has regrets, he will send her a check for \$60. And he might just as well find the other three people whose cars were towed and send each of them a check for \$60.

DO YOU KNOW WHAT OTHERS KNOW ABOUT YOU?

Isn't it wonderful that people will pay you money to use your list of active accounts and that your collection department can skip-trace through credit bureaus? Sometimes you can trace someone through his driver's license. And sometimes the police department will check job applicants through the FBI file. It goes on and on.

Robert Ellis Smith, who publishes the *Privacy Journal* (Box 15300, Washington, D.C. 20003; \$98/yr.), put together the chart below which is reproduced here with his permission.

'The Knee Bone Connected to the Thigh Bone'



RThought: Please study this chart. Note that the center of the diagram is the credit bureau. That is the power position. And who gives the credit bureau most of its information? Retailers do.

And where does it go?—to federal agencies. Is that what your customers expected when they gave you information in order to open an account?

How about selling names as pre-approved accounts? Perhaps to your competitors? Did you tell your customers that was going to happen? Insurance companies and welfare and investigators all get a bit of information.

How often do you complain about “government” getting too far into your business? What would your customers think if they knew what you were doing to their privacy?

We forget that, in the early days, credit bureaus were for the purpose of exchanging information *among retailers*. Most of the extension has come from the desire to make money—a desire exercised by people who have no sense of responsibility toward people who typically provide you with more than half of your sales.

Suppose I am in your store some day and I walk up to one of your customers who is just about to close a \$100 charge sale and say, “Do you know where this store sends monthly information about you?”

The customer will likely say, “What do you mean?”—and I will reply, “Each month the store’s computer ‘dumps’ the

record of every account into the credit bureau’s computer.” The customer is likely to reply, “I didn’t know that.” And then I will say, “And the credit bureau will sell that information about you to almost anyone who will pay the cost.” The customer will reply, “How can it do that?”

At that point, I will have to reply, “Go ask the president of this company. I don’t understand his total disregard for your privacy. After all, you were required to give him your name and address in order to open an account only so he would know where to send the bill.”

QUIT COMPLAINING—TEACH

One of the most frequent complaints heard in business is against education. Just a list of the articles and letters to the editor that blame the problems of the world on the failure of our education system (especially the K-12 portion) would be as bulky as the combined white pages in the New York City and Los Angeles telephone books.

Last year, *Chief Executive* (205 Lexington Avenue, New York, NY 10016; \$95/yr.) had a good article on “Can CEOs Help Educators Educate?”—and the introduction provided the following information about the product of our present system:

40% could not place the bombing of Pearl Harbor between 1939 and 1943.

When New York Telephone made a large-scale recruiting effort, it found that 84% of the 21,000 applicants failed entry level [“entry level” to what was not indicated] in English and problem solving.

A steel mill ordered \$1 million in wrong parts because an employee could not understand written instructions.

An insurance clerk authorized \$2,200 to pay a claim instead of \$22 because of not understanding decimals.

My answer to the complaint is: “So what?”

When the Air Force found that 95% of its applicants for flying school during World War II could not fly, it trained them. And an even higher percentage of volunteers could not disassemble, reassemble and fire a machine gun.

The article noted that we spend more on education than we do on defense but did not point out that we have only about 2 million people in the military service plus 1 million civilians and roughly 59 million people enrolled in public and private schools from K through post graduate. The comparison of the gross expenditures without some qualification is typical of the abuse of numbers that has become common in our society—and especially in our *business* society.

Our buyers may have passed the “entry level” requirement in English and in problem solving, but we still had to invest a lot of money in teaching them how to be a buyer (plus the cost of “closing out” their mistakes).

RThought: I have the following problem in logic:

1. If I want to open a new store, I expect to buy or lease it; I don’t (perhaps some do) expect the government to hand it to me without cost.
2. If I want to buy some merchandise, I expect to shop the market and pay for what I buy; I don’t expect the government to hand it to me without cost.
3. If I want a larger computer and a data-base MIS tied to EPOS, I expect to pay for it (including correcting the mistakes) and train my people to use it; I don’t expect the government to hand it to me without cost.

4. When I want to tell people about my store or my products by advertising, I expect to pay for it; I don't expect the government to hand it to me without cost.

Why is the training of people to do the job I want done the way I want it done at the time and place I want it done any different?

If I can find someone totally (seldom available) or partially qualified, I have saved money—so I should rejoice.

I can hear someone saying, "I paid my taxes to support the schools. If I have to educate people, then I was cheated." Just remember that you paid your taxes to maintain roads, and there are still ruts. *Maybe you didn't pay enough taxes to get what you wanted.*

RThought: At this point, each retailer must make a decision.

1. He or she can remain with the complainers, limit the store to the quality of people available in the market and retaliate by paying minimum wages because "you can't get good people today."

2. He or she can say, "I live and grow by recognizing facts. One fact is that I need the right kind of people to execute my plan and serve my customers"—so let's all go to work finding the best people we can *and then train them to be the even better people we need.*

And that leads to the final question:

Which choice will ensure that tomorrow you will still be in business, still profitable and still growing?

A LOOK AT THE FUTURE OF BANK CARDS FROM SPENCE NILSON

The Nilson Report, Issue 458, August 1989 (Box 49936, Los Angeles, CA 90049; \$655/yr.), gave Spence Nilson's look into the future. Today, 108 million people have 879 million credit cards. He estimates the market is 90% saturated. That means slower growth. (Note: I would guess that young people starting to use cards charge more than the disappearing older generation, not all of whom feel comfortable with bank cards.) Since 1980, credit card sales have increased from 10% of consumer spending (\$200 billion out of \$2 trillion) to over 15% (\$414 billion out of \$2.66 trillion). (Note: Credit cards do not have significant penetration of the food store section—\$246 billion [23% of consumer spending]—or car dealers—\$163 billion [15% of consumer spending].)

RThought: Restaurant usage, especially with the increasing share of sales in fast-food outlets, is not likely to increase dramatically. The sit-down type of restaurant—for which the travel and entertainment card (Diners Club, Carte Blanche and American Express) was developed—has been virtually saturated for many years.

With credit lines for premium cards advertised at \$15,000-\$25,000 and with cards tied into brokerage accounts being virtually unlimited, more auto sales may go through credit cards as a convenience at the time of purchase and then being converted to a more conventional contract.

The above figures do not reflect the continuing trend away from proprietary store cards to third-party, private-label cards.

SHORT SHORTS

An old-fashioned billion dollar-plus retailer. For the year ending February 1989, Circuit City did \$1.7 billion. On August 29, 1989, it ran one of its most aggressive promotional ads:

**WE WILL BE
CLOSED
WEDNESDAY
AUGUST 30TH**

**To Honor Our Employees
And Their Families
At Our Company Picnic**

RThought: It brought back memories of the 1940s. At Smith's of California, we had a Sunday family picnic in the summer. Three-legged races, father and son, toss the egg, relays—with everyone rooting. And in the fall, a dinner-dance was held where many drank too much; and the women in the office or on the selling floor would succumb to the teasing of their friends and ask one of the bosses to dance. What have we devised as a substitute for that in 1989?

The ad showed two pair of shoes—one of canvas, the other leather. The copy said, "Introducing the first leather sneaker to come with this designer label." The label? KEDS!!!

RThought: They HAVE made a silk purse out of a sow's ear.

Have you noticed that department store advertising is getting to look more and more like supermarket advertising used to look—before supermarkets cleaned up their ads and went to color? **RThought:** Who would ever have dreamed that this could happen?

As time passes. Remember when Hewlett-Packard brought out the miracle of the wrist watch age—a combination digital watch and five-function calculator? I think the original price was about \$200. On August 12, 1989, Pay Less Drug NW ran an ad for the same watch—at \$4.99. **RThought:** I really don't think Pay Less will ever have a computer with a full keyboard incorporated in a wrist watch!

WORDS—FROM HENRY FORD

Henry Ford is famous for introducing mass production and, by 1927, lowering the price of a car (\$295) to the level where almost everyone could own one—even though Ford paid the highest wage (\$6 a day) in the industry. He said:

It is not good management to take profits out of the workers or the buyers; make management produce the profits. Don't cheapen the product; don't cheapen the wage; don't overcharge the public. Put brains into the method, and more brains, and still more brains—do things better than ever before; and by this means all parties to business are served and benefited.

RThought: What do most retailers do? Too many buy from the cheapest while kidding themselves into thinking the quality is "just as good"; they hire the person who will take the lowest pay while thinking the quality of the people is just the same; and in the rush for unearned profits, they increase prices to increase the gross margin while thinking their customers do not notice.

And all the while, they think they are putting "brains into the method, and more brains, and still more brains"—not having the brains to realize that they are losing instead of winning.

ECONOMIC OVERVIEW

WHOLESALE INVENTORIES dropped 0.3% in September to \$182.98 billion, while manufacturers inventories declined slightly to \$371.16 billion. Retail inventories increased to \$237.68 billion from \$235.35 billion. Overall, business inventories increased 0.2% in September. • **BUSINESS SALES** slipped 0.3% in September to \$524.58 billion. According to economists, if inventories growth is significantly greater than growth in sales, production could be cut back which might trigger a recession. Currently, however, inventories are not unmanageably high. • **RETAIL SALES** dropped 1% in October, the steepest decline since January, 1987. However, apart from a 5.1% plunge in auto sales, retailers turned in a 0.2% gain. • **INDUSTRIAL OUTPUT** tumbled 0.7% in October, due mainly to the California earthquake which disrupted production at a number of major producers. • **PRODUCER PRICES** increased 0.4% in October, less than half of September's 0.9% gain. Apart from the volatile categories of food and energy, prices increased only 0.1%. Analysts see this as an indication that inflation is moderating. For the past 12 months, producer prices have risen 4.9%. • **UNEMPLOYMENT** in October was 5.2%—even with September. Excluding the military, unemployment for October stood at 5.3%—also steady from the previous month. The total number of jobs in the country increased by 233,000. •



THE FURNITURE FORUM is published monthly by COSEC International, Inc. 8177 East 44th Street, Tulsa, Oklahoma 74145.

Phone: (918) 622-3903
Fax: (918) 622-8189

Forum's policy is to accept no advertising or editorial payment of any kind to ensure unbiased reporting.

Publisher: Bob Keiningham
Editor: Dane Ronnow
Circulation: Kathy Ronnow

Correspondents: Scott Hood
Dave Abrams
Jim Klein

Founded in April, 1974 by Jack and Ty Brandwein, now retired.

BDO SEIDMAN

SHIPMENTS of wood and upholstered household furniture for the month of **September** increased 10% over August, but fell 4% from September '88. For the first nine months, shipments are about even with the same period last year.

NEW ORDERS climbed 7% from August, but were 8% down from September '88. For the year to date, new orders are down 1% from the same period last year.

BACKLOG of unfilled orders declined 5% from August and 7% from September '88.

INVENTORIES dropped 5% from August and 4% from September '88.

EMPLOYMENT remained steady compared to August levels, but declined 2% from September '88.

PAYROLLS were 2% above August, but 4% down from September '88. For the year to date, payrolls are steady with the same period last year.

ACCOUNTS RECEIVABLE were 9% above August and 2% above September '88.

Demand for domestically produced goods continues to weaken. For the sixth month in a row, the index of factory production fell below 50%, indicating a decline in manufacturing. While consumer spending increased 5.8% during the third quarter, imports accounted for much of the demand.

Sales of single-family homes fell 14% in September, the largest decline since January, '82. Moreover, for the first nine months of '89, sales have dropped 10.2% compared to the same period last year. New housing construction is also off significantly, with year-to-date starts running 5% behind the same period last year.

Adding the general economic climate to the declining residential housing picture, continued weakness in demand for residential furniture can be expected for the remainder of the year, as well as for the first half of 1990. Expect total shipments of household furniture at year-end to be about \$16.3 billion—approximately the same as last year's figure.

MORE TIPS FOR SUCCESS

LAST CHANCE for *Forum* subscribers to take advantage of exclusive pre-publication discount on Bob Keiningham's new monthly personal motivation program. It's a monthly quick-scan newsletter and one-hour audio cassette tape for private listening in your car, office, or home, that focuses on sheer personal motivation for people in any walk of life. Starts January 1st. One year subscription: \$180... *Forum* subscribers can order at half-price: \$90. Offer expires December 31st, when national advertising breaks in airline publications.

RETAILING TODAY's **ROBERT KAHN** presses a point that smart retailers have known for years: "Your survival as a retailer depends on repeat business." Kahn suggests that the retailer's most profitable means of determining what customers want, is to ask those who already shop his store.

ACCORDING TO THE WALL STREET JOURNAL's "American Way of Buying" survey, consumers are most irritated by waiting in line when other registers are closed; paying a higher price than that which was quoted; and learning that sale items aren't in stock. Chief complaints regarding service: staying home for delivery people who fail to show up; poorly informed salespeople; and salespeople that talk down to customers.

COUNT ON IT! There will be dozens of "end-of-the-decade" advertising themes for the next thirty days. If you're going to use one, be sure your sub theme (storewide sale; maximum effort; etc.) separates your event from the others!

NEWSWEEK ESTIMATES that retailers are losing \$35 million every day to shoplifters and sticky-fingered employees. Companies spent an estimated \$200 million on prevention, including such remedies as beepers, one-way mirrors, dye-release tags, and subliminal messages on store audio systems. A new high-tech device called Ann Droid, is a mannequin with a microphone in the nose, and a TV camera in the eyes. The article observes that despite these expensive methods, a watchful salesperson still may be the best deterrent to theft.

(continued on page 3)



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)
Publisher: Robert Kahn and Associates
Box 249, Lafayette, CA 94549
TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly
\$42 per year
\$54 overseas

ROUTE TO

OCTOBER 1989

AS CHRISTMAS APPROACHES, WILL YOU GRIPE ABOUT JUNK MAIL?

Much of my time is spent with retailers. Surprisingly, they gripe as much as the general public about junk mail, which will double and triple as we approach Christmas. It reminds me of the census taken every year in a rural county. One family, way back in the woods, had one more child each year until the tenth year when there were only nine. The census taker said, "Well, I see you learned how to control it," to which the father replied, "Heck, no. We found out what was causing it."

We do it to ourselves.

I just went through the September 1, 1989, issue of *DM* [Direct Marketing] *News*. Many of its ads offer mailing lists. After the name of the service, there is a number indicating the number of names offered for sale and, in some cases, a dollar amount indicating the cost per thousand to buy that list.

Let's start with the affinity bank cards. You could buy a couple—perhaps Sierra Club or American Airlines—which could be a product of Lomas Bank (1,700,000).

How about magazines? Do you subscribe to *Smithsonian* (1,850,000), *Playboy* (2,650,000 of whom 350,000 are women), *Better Homes and Gardens* (7,000,000-plus), *Ladies Home Journal* (3,500,000), *Metropolitan Home* (550,000), *Successful Farming* (500,000-plus), *Newsweek*, *National Lampoon*, or *Runner's World*?

Do you like Time-Life Books? You can get *Home Improvement* (131,141; \$80), *Fix It Yourself* (96,428; \$80), or *Gardener's Guide* (12,230; \$80).

Perhaps you or someone in your family bought from a catalog. That could be Renovator's Supply (20,267; \$90), Family Handiman (1,323,769; \$65), Yield House (160,345; \$75), Brookstone (253,831; \$70), Micro Marketing International (69,374; \$95), MacWarehouse (64,243; \$95), Computer Shopper (118,810; \$100), Computer Discount Warehouse (110,120; \$90), Eddie Bauer, Honeybee, Spiegel, Markline or Omaha Steaks.

And then there's Ann Taylor (over 30,000), Bloomingdale's by Mail (nearly half a million), Bullock & Jones (over 35,000), Chadwick's of Boston (nearly 1 million), Gymboree (nearly 150,000), J. Crew (nearly 1 million), Mothercare (nearly 60,000) or Victoria's Secret (nearly 1 million).

Did you make a contribution? How about Active Senior Citizens, Doris Day Animal League or Californians for Justice?

RThought: You hate to get so much junk mail, but you love getting the money for renting your mailing lists.

Sometimes it is not all profit when you rent the list. Rodale (publisher of the magazine *Prevention*) rented 10,000 names to Phillip Condella and Linda Saia, operating as National Safety Associates and Magazine Subscription Service, who offered a

VOL. 24, NO. 10

SOME RETAILERS DO ADOPT CODES OF ETHICS

The Retail Traders Association of Victoria (the Australian state in which Melbourne is located) adopted the following Code of Ethics. Members may be suspended or expelled from the Association at the discretion of the Council (board) if they knowingly breach the code.

The only enforcement is by the fellow members of the Association. No economic penalty can be imposed, although there are certain activities (such as an insurance program) that are less costly through the Association.

1. To provide customers with merchandise and services of good quality at a fair price.
2. To ensure that all merchandise and services sold will equal or better standards prescribed by law.
3. To promote fair competition.
4. To provide a clean, safe shopping environment.
5. To provide a high standard of services.
6. To avoid false or misleading statements in promoting their merchandise and services.
7. To extend courtesy without discrimination to all their customers.
8. To provide training to staff and management to improve service, provide career opportunities and improve the quality of work.
9. To inform and educate customers on aspects of changes in the shopping environment.
10. To have good relations with suppliers.
11. To participate in discussion on matters affecting the industry and its customers and play a responsible role in community affairs.

RThought: Item 6—to avoid false or misleading statements about merchandise—is more easily discerned by other retailers than by the majority of customers. It is done in Australia to a lesser extent than it is done in the United States. Pressure is applied by other retailers through complaints.

Item 10 is just now being accepted by some U.S. retailers. The adversary relations with suppliers is common in the practices of the larger retailers (but far less so by smaller retailers). In the long run, failure to work together is against the good of both parties.

free water purifier with a \$34.90 renewal to *Prevention*. You guessed it—the check was cashed, the water purifier never arrived and someone is going to show a cancelled check as proof that they renewed!!! Rodale, following a standard practice, seeded the list with names to be sure it learned how it was being used. In this case, it learned after the damage was done.

A CHALLENGE TO PEN-AND-PENCIL TESTS

California laws preclude most uses of a polygraph. As a result, many companies are pushing pen-and-pencil tests which are claimed to be as accurate as the polygraph tests (although prospectuses of some of the tests claim only a 70% validity which can mean that 30% of the people hired are dishonest and 30% of the rejects are honest).

A class action suit has been filed in California against Target Stores. The suit says that Target is using a three-hour pre-employment test involving 704 true/false questions (Note: The applicant must read, understand and answer about four questions per minute). The test is called the Rodgers Condensed CPI-MMPI. The CPI is the California Psychological Inventory test developed in 1957, and the MMPI is the Minnesota Multiphasic Personality Inventory test in use since 1943.

The test is required of new employees and members of management.

I wonder if Ken Macke, Chairman of the Dayton Hudson board, had to answer the following sample questions that were listed in our local paper:

I have been in trouble one or more times because of my sex behavior.

I have strong political opinions.

I have had no difficulty starting or holding my urine.

My sex life is satisfactory.

I am very strongly attracted by members of my own sex.

I believe in the second coming of Christ.

I have never indulged in unusual sex practices.

I believe my sins are unpardonable.

Many of my dreams are about sex matters.

I would like to be a florist.

Women should not be allowed to drink in cocktail bars.

Maybe some minority groups do get rough treatment, but it's no business of mine.

I feel sure that there is only one true religion.

I like tall women.

I assume that the leader of a large company would willingly take any test required to be taken by a large number of his (or her) employees. And to have it graded. And perhaps discussed.

Target spokesman George Hite saw nothing wrong. It was a way to evaluate the emotional stability of applicants. In his own defense, he said that it was used by many police departments. He explained that Target *only* used it for *management people* and security people.

RThought: Somewhere the management of Target has let some specialist or pseudo-specialist convince them that tests can settle everything—and that the tests selected do not affect the dignity of individuals.

Would you take a test like this if you were a top-quality applicant for a job? Or would you apply at a competitor's store that had more respect for your dignity?

DID DISCOVER CARD REALLY TELL CARDHOLDERS OF THE CHANGES?

General Comment

Frequently I get notices of changes in terms of bank, department store or oil company credit cards. All card issuers are aware of the increasing response to good service and have set service goals for themselves.

But they let their lawyers draft the notices—and their lawyers are totally ignorant of why a store tries to provide better service. In fact, counsels seem to feel that whenever they are required to notify customers of changes that they are expected to obfuscate (good word—look it up).

Someone in senior management should be responsible for reviewing every notice with one question in mind: Would a customer or employee who is a high school grad be able to understand quickly the change(s) being made?

* * * * *

Here's a story of my Discover card. Sears made several significant changes recently. The notice was printed on a 3½" by 5½" sheet of paper with margins of 1/8" on the top and 3/16" on the bottom, 3/8" on the left and 1/4" on the right. In between were 985 words grouped into sentences. There were sentences of 73, 61, 47, 46, 38, 35 and 33 words.

The key paragraph had five sentences (46, 28, 61, 11 and 38 words, respectively), and all were in bold face making it harder to read.

RThought: If you are interested in service, tell your attorney you want changes explained in simple, declarative sentences. Then tell whoever is responsible for preparing the announcement that you want *at least one* person from each of the following categories of workers in your store to read it: salesperson, receiving clerk, truck driver, adjustment clerk, and assistant store manager. Approve it only if *all* of the above employees can understand it without having to ask questions.

[*Obfuscate.* 1. to darken, obscure; hence, 2. to confuse; stupefy; bewilder.]

WOULD YOU TRUST A DOCTOR WHO CHANGES HIS DIAGNOSIS EVERY YEAR?

Suppose you went to a doctor with a complaint which resulted in his taking a series of tests and X-rays. Based on these, he said that you had the flu. A year later, you had the same symptoms and went to the same doctor, who had you take the same tests and X-rays, and the results were exactly the same. But now he tells you that you have cirrhosis of the liver and gives you a different medicine. A year later, you have the same symptoms and go to the same doctor, who runs the same tests and X-rays; and this time he tells you that you have cancer and may live three to ten weeks.

Something has happened in accounting for leveraged buyouts (LBOs). The Financial Accounting Standards Board (FASB) is supposed to insure that users of financial statements get a full disclosure of the condition of a company. However, it apparently thinks its job is to disclose conditional liabilities and conceal marketable assets.

An example of concealment was revealed by Sears. Sears built the Sears Tower for about \$150 million. I estimate that the depreciated book value is now under \$100 million, and it is talking about selling the building for \$1.2 billion. But FASB

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	Leslie 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

See letter to the editor

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 Bloomingdale's? 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.

CAN INDEPENDENT STORES SURVIVE?

Reporters on about 20 newspapers across the country use me as a resource—and I am glad they do. They want to write accurate stories about retailing; and many times, they do not get accurate information from local retailers. Just think back about what some retailers say in the mandatory, week-before-Christmas roundup—and ask yourself if the comments were true.

Probably the most frequently asked question, when doing a story about Nordstrom or Home Depot or Price Club or Wal-Mart moving into their territory is: "Can the independent stores survive?"

My answer is always the same. Of the millions of retail firms founded in the United States, most are gone. There is nothing that says that a community has to support a retailer just because that retailer leased a store, bought some fixtures and inventory and started to sell goods. To survive, a retailer has to satisfy a large number of people every day—or else the customers will go to someone who does a better job.

Let me tell you the story of a successful, independent, local retailer that is about to make *Stores* magazine's list of 100 largest department stores.

Russ Bruzzone built the first real shopping center in my town, Lafayette (CA). It was next to a Safeway, Lucky's was at the other end of the center, and there were about 15 specialty stores. I can remember a sign announcing, "COMING—Red Ball Variety." However, Russ talked Dave McCaulou into opening a junior department store instead of a variety store. It was a great decision for both of them. At that time, Dave did not know a lot about family clothing, domestics, yardage and patterns and other items he would carry. For example, he knew about a camera named "Canon" and was certain the sheet company spelled it the same way; at least, all the signs read "Canon Sheets" when he opened!

But Dave knew the retailing fundamental passed down from Marshall Field: "Give the lady what she wants."

Dave carried the major brands—in depth. Being out of sizes was rare in his store. With hundreds of swimming pools in the area—and many people, like me, swimming all-year round—he always had swimwear. He offered credit. He didn't (and still doesn't) use a computer to send out a past-due notice dated the date of the deadline for payment.

Gradually he added stores. In a high-income triangle

(Lafayette, 23,000 people; Moraga, 16,000 people; and Orinda, 18,000 people), he has three stores. They serve the customer. And it was easy to send goods between stores. Today (30 years later), he has 11 stores.

His biggest gamble was opening a 50,000-square-foot store in an old J. C. Penney location in the Broadway Plaza in Walnut Creek. He felt he would have no problem competing with the closest anchor at that time, Bullock's (about 100 yards away), nor the other anchor, Emporium-Capwell. But when Nordstrom took over Bullock's, it was a different game. And it called for a different strategy.

I would guess his thought process went like this: I have a lease for "x" number of years. There are not too many companies that want this size space. What can I do to make money?

His decision: There isn't a top-quality gift shop here or in Sunvalley Mall (about five miles away; anchors there are Sears, J. C. Penney, Emporium-Capwell and Macy's), or any other place in this trading area.

Now there is—under the name of "David M. Brian" (Dave's other stores are under the name of "McCoulou's").

RThought: That is how independents stay in business.

But I hear someone saying, "He must be doing \$25 million to \$35 million a year. That doesn't apply to me."

My answer is: I remember when he had just one store and was trying to learn the merchandise. When Dave opened the 50,000 footer to compete with Bullock's, I visited the store. I found Dave there with a screwdriver fixing one of his old slant-front, eight-total Sweda cash registers.

My next answer is: I started working with Merv Morris of Mervyn's when he had just finished a year in which he did \$1.4 million. So, today, Mervyn's does \$3 billion. It got there store by store.

My answer is: Look at how "limited" The Limited was when Leslie Wexner started. He did it with a short line of merchandise so that, with his limited money, he could carry a depth of stock.

My answer is: Look at Sam Walton. He opened his first discount store in Rogers (AR), 10 miles from Bentonville. Rogers had about 9,000 people; Bentonville, with about 4,000 people, was considered to be too small!

SHORT SHORTS

Wouldn't you love to see the license frame on a car that says, "I'd rather be shopping at [enter your store's name]"? I have seen two—one each for Nordstrom and Macy's.

Whoops! Woolworth Corporation has made a wonderful transition since the day when it startled retailing by closing more than 200 Woolcos and proceeded on a new track. And anyone who opens or acquires 1,154 stores in a single year has accomplished a great feat. But it should not be described as opening "... more stores than any retailer in any country

anywhere in the world has ever opened in a single year."

RThought: I think that record belongs to the Great Atlantic and Pacific Tea Company. It had a *net* increase in stores (certainly some were closed) for 1922 to 1925 as follows:

Year	Number of Stores Opened
1925	2,613
1922	2,133
1924	2,118
1923	1,953

would not let Sears tell you that; in fact, Sears may not want its owners to know. If \$1 billion were added to the Sears equity, the reported return on equity would be even lower.

Within FASB there is something called the Emerging Issues Task Force, popularly called EITF.

Here is how it handles the issue of current owners who, in an LBO, sell their stock in Oldco and buy stock in Newco.

In July 1986, there was a consensus in EITF allowing revaluation of assets and liabilities of Oldco if new investors had controlling interest and 80% or more of the purchase price was paid in cash. If these conditions were not met, the old basis was retained; and Newco's payment, in excess of the basis, was carried over. This usually resulted in a large negative equity in Newco.

In July 1987, the EITF studied the same problem and reached a different conclusion. A complete change in accounting basis was appropriate if (1) Newco represented a new control, (2) if the LBO was a single, highly leveraged transaction that acquired all of Oldco's stock, and (3) if 80% of the cost were paid in cash. A partial change was appropriate if Oldco shareholders had a voting interest in Newco and former shareholders of Oldco were part of the Newco control group.

The same group met in July 1988 and reached "two tentative consensuses." First, a change of control exists only if the new investor group has control without Oldco shareholders. The second "tentative consensus" was that there was a rebuttable presumption that Oldco is part of the control group.

RThought: I have not yet seen the results of the July 1989 meeting and await with trepidation of what the EITF will decide on this issue in July of 1990 and 1991.

ANOTHER ABSURD IRS LIFO RULING

Internal Revenue Code 472(c) permits an accrual taxpayer to use LIFO if "taxpayer establishes . . . that taxpayer has used no procedure other than [LIFO] . . . [to value] such goods for the purpose of ascertaining the income, profit or loss . . . for the purpose of a report or statement covering such taxable year (1) to shareholders, partners or other proprietors, or to beneficiaries, or (2) for credit purposes."

Under Revenue Rule 88-84 (1988-2 CB 124), a LIFO taxpayer can now use FIFO for projecting operating results and changes in financial position for the next five years. Since the forecasts are speculative, IRS does not consider them to be financial reports even if used "for credit purposes."

RThought: It is obvious that a FIFO opening balance sheet would have to be used and the date of that balance sheet would be the date of the prior year end; and thus, it would disclose to the bank, stockholders and others the conversion of the most recent official LIFO balance sheet to FIFO. This would probably show a much greater equity.

This ruling is consistent, of course, with that of 472(c), which precludes a proprietor or sole owner of a corporation from knowing what his or her FIFO income balance sheet showed. Just how does a sole proprietor keep that information from oneself?

RThought: I can hardly wait for the next ruling.

FTC v. SILO, INC.

SILO, Inc., is a major appliance and consumer electronics retailer, now a wholly owned subsidiary of the Dixon Group plc. of England. It was founded in 1946 and incorporated in 1955. It went public in the 1960s. By 1972, it had 39 stores doing about \$50 million. In 1985, as part of Cyclops, SILO netted \$31 million on sales of \$510 million. By 1989, SILO had 230 stores and planned to add 50 in an 18-month period.

SILO became the first company to be charged with illegally removing the Energy Guides required to be posted on all appliances. The guides are intended to provide information consumers can use in comparison shopping for an energy-efficient appliance. SILO agreed to pay a \$45,000 civil penalty.

RThought: It is hard to understand how SILO expected to get away with something as obvious as removing the Energy Guides.

SIGN IN A FOOD & LIQUOR STORE

Below the sig cut and the words, "\$5 GUARANTEE," appeared:

TO GIVE YOU: REGULARLY A FRIENDLY GREETING,
A CHEERFUL SMILE AND A REGISTER RECEIPT.

TO CHECK: YOUR I.D. WHEN YOU PURCHASE ALCOHOLIC
BEVERAGES IF YOU ARE BETWEEN THE AGES OF 21 AND 25.

TO CHARGE YOU: THE PRICE MARKED ON THE ITEM
OR LOWER.

IF WE FAIL AT ONE OF THESE, WE WILL SEND YOU A
\$5 GIFT CERTIFICATE.

PLEASE ASK THE CLERK FOR A POSTAGE-PAID CARD.

IF YOU HAVE ANY QUESTIONS, CALL OUR 24-HOUR HOTLINE:
(800) 328-9966.

RThought: John Roscoe owns THE CUSTOMER COMPANY, which operates 110 mini-mass merchandise stores. Chain Store Age's 1989 Supermarket Directory reports estimated 1988 volume at \$240 million.

I consider him one of the most creative food retailers in the country even though we have serious differences on many issues.

SHORT SHORTS

A lesson to be learned from a government-owned airline. Austrian Airlines is owned by the Austrian government; and until recently, it operated from Vienna as a hub to western and eastern Europe. It has just started to fly twin-engine, long-range A310 aircraft on the 11-hour, 4,232-mile route to the U.S. And unlike most "flag" (government-owned) airlines, it operates at a profit. The A310—consisting of 12 sleeperettes, 37 business class and 123 coach seats—can carry 172 passengers. It could configure the plane for more passengers but does not. Says EVP Herbert Bammer, "We could put more passengers on our A310s, but why? Our policy is that you can't get a profit by not spending on service." **RThought:** This should be in every retail textbook. But it is not. Service levels are different at Tiffany than they are for the cashier at the self-service gas station. **The challenge is to offer even better quality service than the customer expects at your business.**

IS LUCKY STORES' ADVERTISING HONEST?

A recent ad was headed:

"TOTAL PROOF"

Lucky is still the
Low Price Leader!

It then claimed that the price of competitors are higher:

Fry's by 11.4%
Albertson's by 10.2%
Raley's by 10.1%
Safeway by 9.1%
Nob Hill by 7.8%

The ad, in an attempt to validate the comparison, said that prices were checked for the week ending July 8, 1989, and listed the individual stores that were checked. And then it said:

For complete price comparison detail,
send written request to:

Lucky Stores, Inc.
1701 Marina Boulevard
San Leandro, CA 94577

I did.

Very promptly, I received from Alan Stec, Vice President-Advertising Manager for the Northern California Division, 11 sheets (18"x 24") on which were photocopies of cash register tapes or labels from packages. At last I had the proof—and I eagerly studied the material.

The top sheet was headed "Lucky Food Center," but there was nothing to indicate that it was any particular store, although the ad said that it used the store at 3443 Castro Valley Boulevard in Castro Valley (CA).

The word "Void" appeared on every item between the description and the price. Using a ruler instead of counting, I estimated it listed about 540 items.

On most competitive tapes, no size or brand was indicated—so I assumed that letters like "S," "L," "M" or "T/ S" identified the brand for someone at Lucky's, but no one identified them for me.

In some cases, the bottom of the sheet came in the middle of a line, so I did not know whether or not there was something missing. I think it was from Lucky because the letters "VO" appeared to the right of the description, but the remainder of the word, "ID," and all of the price were missing. What has been proven by the following?

CAT FOOD VO
CAT FOOD VO
CAT FOOD VO
CAT FOOD VO
CAT FOOD VO

or:

DETERGENT VO
DETERGENT VO

RThought: Not only is this *not* "Total Proof," but Lucky Stores should be thoroughly embarrassed by the fact that such a document was sent out by a vice president. Here is the entire text of the letter from Mr. Stec:

Enclosed in the Total Proof Comparison details you requested in your letter.

I hope these reports will answer any questions you may have regarding our Total Proof program.

I will send a copy of this issue of *RT* to Mr. Stec and to Larry Del Santo who is the CEO of Lucky Stores.

Since I could not really determine each item and could not include a clear photocopy of the tape, I will reproduce the first 10 items:

LUCKY FOOD CENTER

APPLESAUCE	VOID	1.09F
APPLESAUCE	VOID	1.33F
GROCERY	VOID	1.65F
APPLE SAUCE	VOID	1.65F
APPLESAUCE	VOID	1.12F
MNDEN ORNGE	VOID	.67F
CLING PEACH	VOID	.93F
DEL MONTE	VOID	1.33F
PEAR HALVES	VOID	1.25F
PIE FILLING	VOID	1.99F

Putting aside the question of whether the proper noun is "apple sauce" or "applesauce," the greater question is "What brand?"—and, after that, "What size?" And I don't have the slightest idea of something rung as "Grocery 1.65."

One of the things that was quickly apparent was that stores are terribly sloppy when it comes to replacing the ink ribbons in the registers. In this case, Raley's and Albertson's came out at the bottom of the legibility list. I know most people don't like to change ribbons, but what is worse is that most store managers have not established a standard of legibility. And when the manager has no standard, the checkers don't care. I have watched hundreds of times as a checker tears off the tape and puts it in a customer's bag. I am not sure that the customer would even be aware if there were no legible printing on the tape.

I had a problem with a tape headed:

**BUY AN A&W ROOT BEER FLOAT
FOR EASTER SEALS JULY 1 & 2**

I suppose that is more important than the store name???

WORDS—COULD YOU WRITE THESE?

In 1847, Elam Brown paid \$900 (about \$13,000 in 1989 dollars) for the 4,000-acre Rancho Acalanes that today is my hometown—Lafayette (and where, today, some one-acre lots sell for more than \$300,000). That was before the Gold Rush and before California was a state. When he was 85, he told his biographers:

I have never struck or been struck; run for or from man or boy. I have had but few lawsuits of contentions. I have never bet a cent on a race or cards, and never dealt in stocks.

I was never intoxicated by liquor, although I was raised in a tavern . . . I have never cheated a man, knowingly, out of a dollar; but the reverse has occasionally occurred.

I do not intend this as a boast, but as an acknowledgement of the blessing bestowed on me through a long life by my good and benevolent Creator.

RThought: Not a single word about how rich he was, but he was very rich—because the people around him knew that he accurately described himself and he had their respect. He was a man who helped write the California Constitution and served as a representative of his area in the first two terms of the California Assembly. His neighbors wanted him to run for the State Senate, but he thought "all was safe" and had to tend to his farm. (Source: Special section of the *Contra Costa Sun*, July 19, 1989, celebrating Lafayette's 21st Birthday.)

DPN Enterprises Inc.

• Box 1001 • Kendall Park, NJ • 08824-1001 •
• 800-733-3326 • 609-683-0030 • FAX# 609-683-8830 •

A Real Estate Publishing, Information and Consulting
Company; Publishers of: **Retail Leasing Reporter •**
Dealmakers Weekly • The LeadSheet and **The**
Leading Edge. Affiliated with **TKC Consulting**.


November 1, 1989

Robert Kahn
Robert Kahn & Assoc
Po Box 249
Lafayette, CA 94549

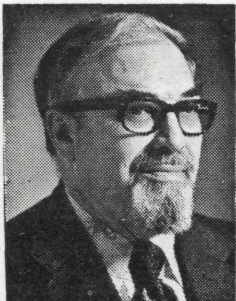
Dear Bob:

I was reading **RT** and saw your "editorial" on **DealMakers Weekly**, unfortunately when I "checked it out", I discovered it wasn't a typo but a blunder on our part. You're right, we "blew it". Sorry about that.

Best Regards,
TKC CONSULTING



Ted Kraus



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

NOVEMBER 1989

VOL. 24, NO. 11

I FOUND HONEST '50% OFF' ADS!

I was startled when Safeway started advertising "Half Price" and "Save 50%" off regular prices. It ran a 12-page, full-color section on August 23 with prices good through August 29. I had one of my assistants check the prices on September 8, 1989, with the following results:

① Kahn error in 1st copy

Item	Claimed Saving or Regular Price	Price in Ad 8/23-8/29	Price on 9/8/89
Coke, assorted, 2 liter	\$1.29	\$.89	\$1.29
Sara Lee Snack Desserts	Save 50%	2.29	2.79
Seven Seas Dressing	Reg. \$2.35	1.17	2.35
Safeway Cat Food, 18oz.	Reg. 99¢	.49	.99
Oscar Mayer Bacon	Reg. \$2.29	1.39	1.99*
Mt. Castle Wines, 4 liter	Save \$1 on 2	2/7.00	2/8.00
Holsten Beer, 6 pack	Save \$1.00	3.88	4.88
Knoof German Beer, 6 pack	Save \$1.10	9.88	10.98
Jiffy Peanut Butter	Save 87¢ on 3	3/6.00	2.39
MD Bath Tissue	Save 40%	1.19	1.65
Beef Backribs	Reg. \$1.50/lb.	.79	1.59
Heinz Barbecue Sauce	Reg. \$1.69	.84	1.64
Cooked Shrimpmeat	Reg. \$6.99/lb.	2.99	6.99
Pert Plus	Save 50%	3.49	3.99
Aqua Net	Save 40%	.99	1.39

② Item

① 1.69

*Marked on shelf, "This store only," which may be meeting local competition.

RThought: Safeway runs honest comparisons. In all the department and specialty store ads we have checked, none have been as honest as this one.

But it raises some questions. Could cooked shrimpmeat be cut 57% and still be selling at 6% above cost? Did Safeway sell below cost, allowed in California only, to meet competition? Is it taking excessive margins?

WHO SELLS MAJOR APPLIANCES?

Home Furnishings Daily listed the 100 largest major appliance retailers with the following three leaders:

Company	Number of Stores	Sales (\$ Millions)	Sales per Store (\$000)
Sears, Roebuck	824	\$ 5,600	\$ 680
Montgomery Ward	324	650	201
Circuit City	122	344	282

RThought: The figure for Sears explains a large part of the problem that Sears has faced in trying to increase sales. Looking at the 1988 Annual Report, 824 is the number of department stores reported in the United States (an increase of only 11—1.4%—from 1987, which was an increase of only seven—0.9%—from 1986).

Merchandise sales and services, exclusive of credit (finance charge) revenues were \$24.25 billion. As noted in the Annual Report, this increase of 5.9% over 1987 was "due to the

I WARNED YOU NOT TO HIRE STANFORD GRADUATES

When I first heard of the Stanford ProNet, I considered it to be unethical and improper. ProNet is a computer setup that makes money for Stanford by selling information on Stanford graduates. Companies wanting specially educated employees submit the job specification to the Stanford Alumni Association (SAA), which does a file search. SAA submits information on individuals—in return for a substantial fee. Any Stanford graduate can submit his or her name and biography even if the graduate is not looking for a new job.

In the September 1989 issue of the *Stanford Magazine*, the following appeared as a handwritten note:

Three months after I registered with ProNet, I had five interviews and two job offers. ProNet worked for me when other methods didn't. It connected me with the right people right away. Without ProNet I never would have considered moving to the Southwest—and now I love it! What more can you ask?

John Scoggins '86
Senior Software Engineer
Motorola, Inc.
Austin, Texas

Note: There is no mention of being unemployed. It sounds like John Scoggins was working for someone when SAA brought him interviews.

RThought: If you were the employer of John Scoggins, three years out of Stanford, would you be happy with him? Would you think very much of the Stanford Alumni Association? Perhaps Stanford made a special effort to get you to interview its graduates?

I think this stinks—and I can say this with disgust, as Bob Kahn, A.B. with Distinction, Stanford 1938. There will be no more contributions to Stanford. I cannot support a school that encourages employers to hire its graduates and then makes money stealing the same people from those employers.

combined effect of the acquisition of Western Auto Supply Company in April 1988 and stronger sales of **installed home improvements** and appliances." (But the increase also reflects 24 more Paint & Hardware stores, 49 more Eye Care Centers of America and the first 29 Pinstripe Petites.)

Of the \$1,358 million increase, \$809 million—60%—was the sales of Western Auto Supply.

Sears reports only 79.0%—\$19.2 billion—as retail sales or services, the balance being specialty stores and catalogs (catalogs include some major appliances).

continued

A *Home Furnishings Daily* article attributes the \$5.6 billion in appliance sales to the 824 stores—which would be 29% of sales but would, I feel, be high.

RThought: Why did I spend so much time on this analysis?

Major appliances are essentially a *replacement* business. When a major appliance fails, it is replaced. Net additions come mainly from new houses. The number of new housing starts is not growing—and will not grow as the “baby bust” moves through our population. Average new housing starts have been as follows:

Period	Average New Starts
1970-74	1,845,000
1975-79	1,690,000
1980-84	1,378,000
1985-88	1,697,000

There has not been a major new appliance since the microwave oven. The table below shows the percentage of homes having one or more of the named appliances:

Television:	Color	88.0%
	Black and white	43.2
Refrigerator:	Frost free	62.4
	Non-frost free	37.3
Range:	Electric	53.9
	Gas	45.2
Clothes Washer		73.1
Clothes Dryer		61.5
Oven:	Electric	49.1
	Gas	41.5
Water Heater:	Gas	47.8
	Electric	32.3
	Other fuel	3.2
Dishwasher		37.6
Freezer		36.7
Microwave Oven		34.3
Cooling Group:	Air conditioner, room	31.0
	Air conditioner, central	28.5
	Evaporative cooler	3.8
	Whole house cooling fan	7.8
	Window or ceiling fan	35.5

The demand for major appliances tends to be inelastic—a reduction in price will not bring a more than proportionate increase in sales. If you don't have a problem with your refrigerator or air conditioner, 20% off will not entice you to buy a new one—nor will a low everyday price.

J.C. Penney is trying very hard to get the world to forget the period when it tried to copy Sears. It wants to be identified as a department store—just when department stores are falling victim to the onslaught of discount stores, power specialists and the high cost of 200,000-square-foot retail castles.

But Penney may be at the front end of the wave of national department stores, which Penney and Dillard can lead (especially if Dillard fills in more holes on the map with acquisitions from the dissolving Campeau/Hooker/BATUS department/specialty store ventures).

Macy's has brought all the pre-1988 stores under the Macy name, and it seems logical that Bullock's will be changed to Macy's (Bullock's Wilshire will probably become I. Magnin—they are already doing joint advertising).

Crown-America is reported to be looking at parts of Ivey's, which would make Hess a regional department store chain.

In due course, May Company, as it concentrates on department stores and shoes, will bring more stores under the May name, probably starting with whatever it acquires in the next round of auctions.

The new alignment will leave the following majors:

National Chains:	Sear, Roebuck Montgomery Ward
National Department Store Chains:	J.C. Penney Macy's May Company Dillard
National Discount Chains:	K mart Wal-Mart Target

SACRAMENTO DISTRICT ATTORNEY V. TARGET STORES

A suit was brought when investigators went to four Sacramento (CA) stores and could not find items offered on sale or at a discount price for one week. Target agreed to pay \$40,000 in penalties.

RThought: *Editor & Publisher* printed the story on October 7, 1989.

RT Comments

1. More and more California district attorneys are using actions, such as this one, to provide funds for an expanded Consumer Protection program. The charge was that Target was in violation of the California Business and Professional Code, as well as engaging in unfair competition. The provisions are very broad. Not being in stock without a very specific reason comes under the definition of unfair competition.

2. I regularly have my assistants check chain store ads that appear in magazines and are to be honored nationwide. They found that the advertised item is not available in about one-third of the cases and, if available, is often not at the advertised price.

3. I find the attitude of many retailers doing over \$1 billion to be very cavalier about the accuracy of their ads; and this is true of many of the specialty chains that customers have rewarded with more than a half billion dollars in sales each year. Yet such firms tend to get mad when their integrity is challenged. Just because someone else its size or larger regularly runs ads that are not backed does not make the practice either honest advertising or fair competition.

RThought: *I think district attorneys get re-elected by bringing suits against major retailers.*

YOU JUDGE THE STANDARDS OF CONDUCT OF BANKS

The Fair Credit Reporting Act (FCRA) restricted the use of credit information. But banks—and perhaps your own firm—want to use pre-screened lists for credit card solicitation. A credit bureau, of course, wants to make money any way it can and has little regard for the privacy of the information in its files.

FCRA is administered by the Federal Trade Commission (FTC); and bank regulators have generally followed the FTC. In August 1988, FTC released a newly proposed commentary

continued

It was George Santayana who said, "Those who do not know their history are bound to repeat the same mistakes." So let us look quickly at the history of retailing.

Retailing started with the Industrial Revolution. Prior to that time, we had craftsmen who made what they sold; merchants who bought locally produced goods (vegetables, eggs, meat) or imported light-weight, high-value items, such as spices, and resold them. The first manufactured retail products were items, like nails, because size and/or shape was not critical. Apparel was rather late getting into factory manufacturing because someone had to develop sizes for garments and shoes. Montgomery Ward catalogs in the late 1800s showed shoe sizes by length but not by width.

Until there was some agreement on the specifications of the product, separate selling or retailing developed slowly.

The earliest retailers were what we would call specialty stores. They carried a narrow assortment of merchandise often supplementing their craft items. Department stores were developed, largely in the 1880-1920 period, mainly by specialty stores adding other types of merchandise. Wanamaker's and J.L. Hudson started as men's stores. Frederick & Nelson in Seattle started as a furniture store. By the 1920s, department stores called themselves "purchasing agents for the public." Their merchandise range covered most of their customers' needs. Stores had hardware and grocery departments. Some sold cars and gasoline. Others handled farm equipment and farm seed.

Department stores carried a wider assortment of merchandise than specialty stores but a more limited selection within each department. The early ones did not offer credit; specialty stores did. Emil Zola wrote about department stores in France in the 1880s. They typically had a gross margin of 20% with payroll at 10%, other expenses at 5% and profit at 5%. This is very similar to the figures for discount stores in the 1950s.

Chain stores developed in the 1860s, led by The Great Atlantic and Pacific Tea Company (we know it as A&P today) and, in the 1870s and 1880s, by variety stores, starting with Frank W. Woolworth and including S.H. Kress, Sebastian S. Kresge and others.

Discount stores started after World War II with companies such as Korvette and Masters.

There was resistance to each new type of store. In 1895, the Specialty Store Association of America petitioned Congress to outlaw department stores because (1) they required so much capital that American youth was denied an opportunity to go into business; and (2) they could cut prices in one department and force competing specialty stores out of business while being supported by other departments. In the 1930s, laws were introduced to outlaw chains, usually based on a tax formula (such as an increasing tax per store then multiplied by the number of states in which the chain operated). Fortunately, all these attempts failed. Discounters were countered by Fair Trade Acts, which permitted manufacturers to set retail prices, often by entering into a contract with a single retailer in a state.

By the 1950s, department store expenses and gross margins were about as high as those for specialty stores—and so both supported Fair Trade laws. Margins and expenses in discount stores often were as little as half the rates of department stores, reflecting such economies as simpler buildings, less expensive locations, less service, no free credit, limited assortments and low advertising costs.

Although most writers on retailing stress price competition, that often is not the major factor in the purchase decision. Think for a moment about your own actions regarding the purchase of gas-

oline, a commodity item regardless of brand advertising. Do you know the price per gallon you paid for your last tankful? Normally, 50% of any group of people do not. Of the 50% who do, half of them pass stations every day that sell gasoline for less than they paid. The vast majority of people buy gasoline for factors more important to them than price—convenience, service or the credit card carried.

Ask any merchant which way he or she could increase profits the most—by cutting gross margin by 1% or increasing advertising by 1%? The answer will be to increase advertising. Ask the same question comparing occupancy costs (location, decor, fanciness of building, parking) or gross margin. Occupancy costs will win.

With this understanding of the past, let us look at the future.

The most obvious change over the past 10 years, and one which will continue for at least a decade into the future, is the amount of money available to retail companies, whether from venture capitalists backing new concepts (Staples, Office Depot, Ross Stores, Home Express) or from MBO/LBO specialists (Safeway, Stop & Shop, Hills, Federated Department Store, Allied Stores).

Most of this money is looking for a short-term (three to seven years) profit and is from people/groups who once saw their biggest gains in high technology and who, in a few years, may no longer see great opportunities in retailing. Both types of money go into ventures that depend upon management competency and often on continued growth of the economy.

Venture capital enters retailing one of two ways: a person with a concept goes to the venture capitalist seeking money; or the venture capitalists see so many copies of a Price Club or a Staples that they feel all they have to do is find a manager, find a territory not yet invaded and then open quickly, expand rapidly and prevent competitors from entering the selected market. Only the first method is likely to produce the expected return.

A number of entries of the latter type are undertaken by established retailers as a form of diversification; the success rate has not been too good (Gold Triangle, Woolco, J.B. Hunter, Plum—the elegant discounter, Helen's Arts & Crafts, Rhodesway). They are frequently either sold off or liquidated.

The availability of money is leading to giantism in retailing which, with available management, often means "excessive costs of scale" rather than "economies of scale."

Once Federated Department Stores operated Foley's in Houston, Sanger and Harris in Dallas and Levy's in Tucson. Now all are under the name of Foley's. The economies are apparent as soon as duplications are eliminated, but the penalty of lower response to the customer comes later. Customers do not switch stores in response to the announcement of "economies of scale" but to the impact of that "economy" on them that may come months later. Retailers are rarely successful in recovering dissatisfied customers by saying, "Things are different now."

Among the larger store operations, whether discounter (K mart) or fashion specialist (Saks Fifth Avenue), the economic success will depend most on the success in reducing expenses *without reducing service and preferably with an increase in service*. The second most important factor will be the ability to collect, analyze and act on information available through systems that start with the scanning input. The third factor is the one that has, until recently, been the most important factor and that is the selection and presentation of merchandise. It isn't only Stanley Marcus who is commenting on his inability to tell which store he is in; today, the customers of those stores are saying the same thing. Even management that is listening to customers (and Stanley) is at a loss about what to do. Actually, they may well know what to

continued

FEATURE REPORT *continued:*

do—but if it involves a temporary loss of sales while establishing a sounder program, it won't be done.

Retailers tend to be myopic; all they can see is today, yesterday and the same day last year.

God must have loved the specialty stores; he created so many of them. New ones will continue to sprout up and existing ones will disappear. General Nutrition developed a 1,000-store chain of health food stores. The format called for heavy advertising and high-gross margins. After it had established the market and educated the customers, supermarkets realized that they could exploit what General Nutrition had done by just exposing the fast-moving health food items on their shelves at a lower price and *without advertising*.

Catalog sales will continue to grow, but profitability per catalog mailed for traditional products (as distinguished from products that cannot be obtained in every town) will drop. Don't believe all the fantastic figures you read on mail order business; it includes book clubs, insurance and many other non-merchandise items sold by mail.

And don't be too impressed by the figures on franchise sales. When conventional retailers think of franchises, they think of Benetton or Western Auto Supply. They may even think in terms of McDonald's or Domino Pizza. Practically none will recall that virtually every car dealer and most service stations are franchises, which account for the bulk of the reported franchise sales.

Direct response advertising (JS&A's Joe Sugarman created this form of retailing) will grow as long as there are good wordsmiths who are allowed to sell the sizzle—and as long as most of the conventional retailers think that "All summer blouses now 30% off marked prices" is an advertisement rather than an announcement.

Despite the experts who regularly project vast increases in sales via TV, it won't come. Store operators need not roll over and die. The last projection I saw (I think five years out) was \$5 billion. That is about 20% of K mart's U.S. sales. As money-rich, publicly held TV sales' companies post their annual sales increase, be sure to deduct the revenues of their TV stations and other investments to arrive at sales comparable to store retailing. TV selling will not mature until three things happen: (1) there are no color controls on TV sets so that the viewer has confidence in the color of the item shown; (2) sizes are standardized for all items of apparel (especially women's); and (3) a method is developed to deliver the merchandise to the not-at-home, two-earner family (UPS does not deliver on Saturday, and the Postal Service would like to close even more offices on Saturday).

There will be continued growth in extend-assortment-selling from information displayed on a terminal screen integrated with a store's basic MIS/computer, but the dollar volume will not be great. The best present application is by Florsheim. Every Florsheim store can offer access to every style/size available within the company whether or not carried in the local store. The weakness to be cured is the excessive time (about seven days) between placing the order and the delivery to the customer. As the assortment already available from vendors to the store exceeds the display space available, there will be more merchandise offered in this manner. The problems of standardized apparel size and of delivery (described under TV selling) also apply in this type of selling. If these machines are applied to the major Sears/Penney printed catalogs and the customer inputs the SKU, labor costs would be reduced; but most important, an adequate number of terminals could eliminate customer waiting. Sears/Penney, and even Spiegel, might vie to place terminals in 7-Eleven and similar well-staffed, safe locations, with the added advantage of longer opening hours.

As off-price retailers grow larger (Marshalls has passed \$1

billion), they will find fewer opportunistic purchases and make more regular purchases, including national brands bought at or near regular prices and offered at a short markup.

Catalog/showrooms have no way to go except to increase the percentage of sales from non-catalog items and to increase concentration in jewelry items.

The sales of furniture, hardware and D.I.Y. stores depend upon the continued increase in the number of households and the increased percentage of time spent in the home as a result of low-cost video rentals and less discretionary income. The present trend in creating new households in the face of the declining fertility rate can continue for perhaps another 10 years. Then the additional homes will heavily reflect the decline in the size of the average household. The probability of an increased fertility rate is slight in the face of equal employment laws and the economic pressures on two-wage earner families. Even the lowest population projections by the Bureau of Census will prove to be high. Increased immigration in the face of a labor shortage will bring in people at the lower level of discretionary income.

As supermarkets get larger and larger, they will also be further and further apart, creating more opportunities for convenience stores. And as more supermarkets are open 24 hours a day, more convenience stores will be open less than 24 hours a day unless they develop large gasoline and fast-food sales.

While all of this is happening, most retailers will be trying to increase gross margins. This will permit another turn of "The Wheel of Retailing" first described by Professor Malcolm McNair of Harvard Business School.

The "wheel" in general merchandise turned as follows:

1. Specialty stores dominated.
2. Department stores undersold specialty stores.
3. Non-price competition forced department store margins and expenses up to about the level of specialty stores.
4. Discount stores undercut department and specialty stores.
5. Discount store margins and expenses grew.
6. Warehouse clubs, which do not generate enough volume on 3,000-4,000 SKUs, increase the number of SKUs carried and become competitive discount stores.

The final major change over the next 10 years will be increasing action by state attorneys general to enforce state business codes on advertising and general practices. They will extract very large fines with the money being dedicated either to further enforcement of consumer protection laws or consumer education. Like most changes in direction at the state level, the attorneys general, being elected officials, are responding to public pressure. Since the Federal Trade Commissioners are appointed and not elected, they can keep their heads buried in the sand.

There are some important generalizations that are applicable to all new types of retailing:

1. Success in one unique retailing concept does little to improve the odds when starting another unique retailing venture. The founder of Home Club failed with Sports Club; the founder of Victoria's Secret failed with a children's store.
2. Being first in an area with a new concept does not assure either short-term or long-term success. Many of the early discounters grew until there was competition—and then disappeared (Arlans, Giant Stores). The same happened with catalog/showrooms and warehouse clubs. It will happen with office supply warehouse stores.
3. Professional managers can rarely be successful running innovative stores for two reasons: first, they do not have that "deep gut feeling" about what they are building (a feeling that cannot be put down on paper); and second, few of them, after years of high-pay jobs, can bring themselves back to opening cartons, stocking shelves, working 25 hours a day or, most important, listening to customers.

There will be other changes—but these are the ones that I have a high degree of confidence will come about.

that would replace the 1973 interpretation and supersede all staff opinion letters based on the 1973 interpretation.

The staff issued a letter in 1978 saying that banks and other creditors could use pre-screened lists to whom credit is offered and, if an application was returned, to do further evaluation. That accounts for all of the "pre-approved" offers that result in declines.

The staff letter said that the screening/offer, followed by rejection, to quote the *ABA Banking Journal*, "was permissible so long as the creditor otherwise intended to do business with the consumer."

This letter went beyond formal FTC interpretations and said it was not binding on the FTC.

The FTC is now saying that pre-screening is permitted only if a firm offer is made to those who accept. The only grounds for rejection are "a change in status since the screening was done or if the person accepting is not the person whose credit data was screened."

RThought: To hear the banking side, you would think it had been stabbed. Ms. Collin G. McKenny, senior vice president of Star Banc Corporation in Cincinnati, is being freely quoted. She points out that shotgun mailings are more costly to send, process and evaluate. Granting credit under the new rules would mean more losses. All these costs would be passed on to consumers. And she points out that, in her experience, 10% to 30% of consumers accepting a pre-screening offer may be rejected (so much for the pre-screening—I doubt that very many more would be rejected from an unscreened list). And if banks had to offer a credit card to everyone that was pre-screened, it would only make problems worse for those poor souls who would get into worse credit problems.

I hope your heart is bleeding for the poor banks.

But remember who puts most of the information into credit files that can be pre-screened? You! Retailers! They are your customers!

But who makes the money (so much per 100 pre-screened)? The credit bureau. Once retailers owned credit bureaus, so they made money off your customers and rationalized that it was OK.

Now that purchasers of lists are abusing your customers, what can you do? Give your new accounts the choice of not being included in any pre-screening? If you do that, the credit bureau will increase its charge to you. And you, just like the banks, will cry that you have to pass that cost on to your customers.

WHO HAS THE WORST TELEPHONE SYSTEM?

Nominee No. 1: HARVARD UNIVERSITY. In trying to call Harvard Law School, I tried once or twice a minute for 15 or 20 minutes but got nothing but a busy signal. Thank goodness for the automatic re-dial button on the new phones! When I did get through, I learned the problem. The step-by-step recorded answer takes up so much time (about 20 seconds) that all the lines are tied up. I finally did get in, and the operator gave me the professor's number whom I then called (the board could not connect me). I dialed that number and learned that it was part of the Law School but that no one had ever heard of the professor I was calling. My call was then transferred back to University information, which again confirmed the number I had used. The fact that its directory was wrong did not bother

the operator at all. After all, Harvard stresses liberal arts; thus, why worry about what Alexander Graham Bell invented? I would guess that someone, devoting three hours, might be able to make 10 phone calls to Harvard (if the direct-dial number was not known).

Nominee No. 2: FIRST INTERSTATE BANK's Credit Card Office. Fortunately, the bank has an 800 number; the cost is on it. I listened to the instructions, including having my card number ready, and the applicable instruction was "5"—so I punched "5," and it rang! And it rang! And it rang! I turned on my stopwatch; and at three and a half minutes, my doorbell rang, so I hung up. I returned in a few minutes, went through the same process, and, after four minutes-plus, a human finally answered. I don't know the cost of a minute on its 800 number, but apparently it feels this is a good money-saving idea.

Comment about First Interstate

I learned about its wonderful "service to its customers." I asked why a charge was rejected just after the cycle closing date, which I had missed; and I was told that the day after the cycle closing with no payment the computer cuts off credit. I asked, if I made a \$1,000 payment one month and missed a \$50 minimum the next month, would the computer do the same thing? The answer was, "Yes." If First Interstate Bank wants to make money on its bank cards, it will have to do it without me—after more than 15 years. The account is paid and closed.

WHAT CARCINOGENS DO YOU USE OR STOCK?

Do your office people use Liquid Paper made by Gillette? Does your stationery department sell Liquid Paper made by Gillette? Did Gillette tell you that Liquid Paper contains cancer-causing chemicals? I thought not.

California recently passed an initiative, Proposition 65, which requires that products known to contain cancer-causing chemicals be identified—just to give the customer an even break. The California attorney general and three citizen groups brought action against Gillette.

Gillette had three choices: fight the case, put the required label on the packages or reformulate. Gillette did not say whether it used Liquid Paper in its own offices, but it did say that it is "convinced" it is safe. Based on that conviction, it agreed to do the following:

1. Pay a \$275,000 fine to the State of California.
2. Pay \$25,000 to the private attorneys for the consumer groups.
3. Run newspaper ads offering to exchange Liquid Paper for a water-based substitute product.
4. Reformulate by February 1 (it is reported that other correction fluids have been reformulated); and, if not completed by that time, pay a penalty of \$50,000 per month to a maximum of \$750,000.

RThought: The above only applies to California. Might it be wise, if you do business with Gillette in the other 49 states or the District of Columbia, to ask, "Hey! What about us?"

As in many matters, California—now 55% larger than New York, the second most populous state—is a pacesetter in many areas. But businesses do care about California where the Gross State Product (a measure similar to the Gross National Product) is 45% larger than New York and only 17% less than the combined Gross State Product of New York and Texas (second and third largest states) combined (1986 figures). At the present growth rate of the three states, California, by the end of the century, should have a larger Gross State Product than New York and Texas combined.

WHAT DOES 'NO NEW TAXES' MEAN?

Byrle Abbin of Arthur Andersen & Co., in an article, "Tax Legislation Predictions," in *Boardroom Reports* (330 West 42 Street, New York, NY 10036; \$49/yr.), predicted the following:

- ...further limits on deduction of business meals and entertainment.
- ...increase the rate on Alternative Minimum Tax.
- ...capitalize advertising expense and write-off over a period of years.
- ...slow write-off of purchased intangibles.
- ...tax income from junk bonds owned by non-profit organizations, including pension funds.
- ...tax income of plants in tax-haven countries.
- ...tax fringe benefits—either by an excise tax on the cost or disallow deductibility.
- ...increase estate tax rates.
- ...capital gains tax on appreciated assets [like your home] in an estate.

RThought: It's sure good to learn what George was thinking when he asked America to "read my lips"!

Small Store Special

NOW EVERYONE CAN HAVE A COMPLETE PERSONNEL MANUAL

Menswear Retailers of America (MRA), like other retail associations, has prepared a manual to assist its members in (1) developing a personnel manual and (2) being sure that what the manual says is within the law.

As a small store grows from five to 10 to 20 to 50 employees and perhaps from one to two to five locations, it becomes increasingly important that a lot of things affecting its people are clearly put down in writing. Unfortunately, it has to be put down in two ways:

1. In concise form and simple language so that all employees understand it.
2. In detailed form so that the supervisor has an answer to the "once in a lifetime" situations that "regularly" arise.

But writing a manual is complicated even further by a court decision some years ago. An employee was given an employee manual that contained a "concise" summary of the pension plan. Later he got caught in one of the technicalities that affected his pension. He claimed the summary was binding; the employer claimed the detailed plan was binding, especially because the "concise" statement said the plan was available at the office if anyone wanted to read it. The court said that the "concise" plan was binding, because (1) the employer did not expect every employee to come to the office and read the plan, and (2) the employer prepared the "concise" description.

So what do you do? Put the entire plan in the back of the booklet with a "concise" summary in the front; and a judge may hold that the summary (in, perhaps, 3% of the words in the plan) will control.

But MRA has gone even further. Its how-to manual costs \$25; and for \$5, you can get a diskette with suggested "texts." If your computer is IBM compatible or a MacIntosh, you can just insert the diskette and print out your manual—perhaps without

really thinking about the suggested content.

RThought: There is a lot of good and a lot of bad in all that is set forth above. It is good that employers do want to have clear policies (and pension or profit-sharing plans). Employees are entitled to know the ground rules. Managers need a manual in order to ensure some consistency in decisions by various managers in various parts of the business.

Much of the problem arises because of the increasing turnover in retail stores—partly due to mobility of people, partly due to the low wages in many retail stores and partly due to poor relationships between boss and employee or between employees. Before World War II, a five-year employee hardly warranted a gold pin; today, they are rare animals.

Given the problem facing retailers and the good work of MRA, if you don't have a manual in your store, you should have one. You might start with the MRA manual at \$25 (with diskette, \$30).

(Note: Menswear Retailers of America is located at 2011 Eye Street, N.W., Suite 600, Washington, D.C. 20006; Telephone: 202-347-1932—a depressing number!—or FAX: 202-457-0386.)

FTC v. HEILIG-MEYERS

The FTC approved (3 to 2 vote) a consent order with Heilig-Meyers (H-M), open for comment until September 25, calling for correction of finance charges imposed that were more than one-eighth of 1% "below or above the annual percentage rate determined in accordance with Regulation Z [emphasis added]," and H-M "agreed to calculate and disclose accurately the APRs in connection with future extensions of consumer credit." (Note: Would such an FTC order be entered if H-M was charging less than it advertised? When classmate Senator Bill Proxmire finally succeeded in getting passage of his Truth in Lending Bill, he didn't envision competition on finance charge rates by advertising rates below competitors—and not below what was actually charged.)

H-M, with more than 250 stores and sales of about \$300 million, is the second largest furniture chain behind Levitz (except for those who classify \$350 million-plus Pier 1 as a furniture store). The order allows H-M to collect one-fourth of 1% from refunds (reasoning not explained) and keep amounts overcharged when the customer cannot be located.

RThought: Commissioner Strenio voted against the consent, objecting to H-M keeping anything. One truly must wonder how much of an effort will be made to find customers to whom a refund is due on paid-up contracts when the choice is to spend more money to find them or keep the refund for H-M. Now, if those accounts still owed money to H-M and skipped, that would call for serious effort to locate them.

WORDS—AS THEY ARE WRITTEN

Letter to the Editor, *American Rifleman*, September 1989:

On June 21 I received a .32-20 Colt Lightning rifle made from my cousin in England.

RThought: I didn't think one could make rifle out of a cousin!



RETAILING TODAY

Editor: Robert Kahn (Certified Management Consultant)

Publisher: Robert Kahn and Associates

Box 249, Lafayette, CA 94549

TEL: (415) 254-4434 • FAX: (415) 284-5612

ISSN 0360-606X

Copyright 1989 by Robert Kahn. Quotation or reproduction in whole or in part, only by written permission.

Published Monthly

\$42 per year

\$54 overseas

ROUTE TO

DECEMBER 1989

VOL. 24, NO. 12

\$25-\$30 BILLION A YEAR AND CANNOT SELL MERCHANDISE

The November retail sales were disappointing. Sears' total sales were off 1.6%. K mart's same-store sales (including Canada, where "low everyday pricing" was not adopted) were +3.9%.

Kurt Barnard, publisher of the trade newsletter *Retail Marketing Report*, was quoted as saying, "A lot of people prefer to go to a department or specialty store that offers reductions of 20%, 30%, 40% or even 50% instead of to an off-price or discount store."

Price Club and Toys "R" Us continue showing growth without ever showing a comparative price. Their customers know their price is fair and, therefore, go there first. Wal-Mart shows few comparative prices, and its customers shop there first.

Many of the "% off" prices are false and many are illegal under state law. But so-called "merchants" say, "People won't come in unless you give them 30% off."

With rare exception, most retailers today do not know how to advertise. Their newspaper space is nothing but announcements. Advertising should be:

to call public attention to, especially by emphasizing desirable qualities, so as to arouse a desire to buy or patronize.

RThought: Look through any major newspaper. Try to find an ad that makes you *want* to buy an item for any reason other than a claimed discount, which may not be a discount.

Look at your own ad book. You know how many of your "discounts" are false and/or in violation of state laws. You may justify it "because everybody else is doing it." You may justify it "because consultants advise that you do it." That does not make it right.

But the worst problem is that you are admitting your own, total incompetence.

You cannot tell me *why I should buy it*.

You think price is the *only thing I care about*.

You know there are thousands of items that I am totally unaware of and you think that cutting the price will somehow tell me what the item is.

Then you tell me that business is lousy.

I think it is a case of "merchants" and advertising managers being lousy.

A PLAN TO MAKE YOUR YEAR

The plans for the store for 1990 are pretty well set; now it is the time for you to make plans for you—and those around you. You and I have seen too many broken families and too many kids not getting from their parents what you and I got from our parents. Let me share with you some of my resolutions—and let's start with the family.

Family Rule 1. Marriage is a 60-60 proposition. Anyone who thinks it is 50-50 is bound to fail because no two people can agree where the mid-point is.

Family Rule 2. Never go to bed mad. One person must say, "I'm sorry." It isn't that hard and, sincerely done, it is second only to Rule 1 above in preserving marriages.

Family Rule 3. Money and promotion are not everything—if you want a family. Have time. Understand your children. Support them. Help them grow. Watch what they do in school. And bring some flowers home to your wife.

The other rules are general.

4. Live by the Scout laws: A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean and reverent. The laws are as important between 40 and 43 or 50 and 53 as between 11 and 13 years of age.

5. Look for the forest instead of the trees. Too many good ideas are killed by people who start saying that it won't work.

6. Listen to the other person. It is amazing what you can learn. And then do as Alex Haley suggested: "Seek out good and praise it."

7. Forget hatred—it consumes you and has no effect on the hated person.

8. Every major religion discovered the Golden Rule. Some said, "Do unto others as you would have them do unto you"; others said, "Do not do unto others as you would not have them do unto you." But, if all the religions of the world have found it, it must be right.

9. Let your personal ethical standard shine through. Tom Paine said, "A long habit of not thinking a thing wrong gives the superficial appearance of being right." Never accept the argument that "everybody does it" when you know it is wrong.

10. Remember that when you fail in a new idea that this does not prove your idea wrong—just that specific way of doing it is wrong. Try at least three times before thinking the idea wrong. Dr. Paul Ehrlich discovered a cure for syphilis—on his 606th try!

RThought: Cut this out. Slip it in your wallet. Look at it right after you go over the business's monthly statement—and then figure out your personal statement. Have a wonderful 1990!

EASY TO TELL HOW—HARD TO DO

I am always struck by "experts" on retailing; experts who are not retailers, explaining how to succeed in retailing.

In a "Letter to The Editor," an "expert" from the consulting arm of a Big 8 (or is it Big 6?) accounting firm asked that a statement attributed to him be corrected.

The subject had been the retailing of sporting goods, which the consultant had explained was a "saturated" field. Despite the saturation, this consultant wanted to be quoted as saying, "I believe the category-intensive concept *can be successful* [original emphasis] but that two critical factors must be present: highly qualified and experienced personnel and state-of-the-art merchandising and financial systems." By the writer's omission, adequate capital, location and other factors can be overlooked.

RThought: The source and the writer are not relevant to the issue raised.

"Highly qualified and experienced personnel" will not do the job. Few new retail businesses have been successful when started by people with these, and only these, qualifications, regardless of capitalization or location. The key person must be so convinced that "his concept" will work that he will give up a good job and mortgage his house to bet on that concept. Don Fisher certainly was not "highly qualified and experienced" when he started The Gap with the idea of selling only Levi's and records (the records disappeared with the third store) nor was Leslie Wexner when he started The Limited. Both had a vision that they saw clearly; neither was encumbered by "the way everybody else does it," as would have been a "highly qualified and experienced" executive. (I won't name the failures started by "highly qualified and experienced" executives!) Neither Fisher nor Wexner considered whether there were too many men's or women's stores.

The needed quality is **entrepreneurial drive**.

In 1940, some of the most "highly qualified and experienced" retail executives, the Executive Committee of R.H. Macy & Co., Inc., headed by Jack Strauss, created the Macy's Red Star Store in Syracuse, New York. I believe it is the only retail venture where the loss exceeded the total sales (\$275,000 loss on \$225,000 sales). Almost every decision made was *wrong*.

The idea was to take the best selling item (singular) from each category in each of the 165 departments at Macy's and sell them at a 20% gross margin, claiming the items had been pre-selected in the "Largest Store in The World." Almost without exception the top selling item, in units, was the lowest priced item (i.e., the then 94-cent man's shirt). At the grand opening, the Social 400, who walked through and saw nothing but junk, never returned.

And the merchants in Syracuse were not dumb. They asked people why Macy's would take its \$19.94 Herald Square suit and sell it for \$17.95 in Syracuse? It was soon identified as a Macy's outlet store.

When the problem was finally turned over to the Research Department, an executive researcher, Perry Meyers (who is still in research) was sent to investigate. He got the explanation from the cab driver on the way from the train station to the store—the driver said that it was an outlet store and that *he* would never shop in it.

The key to a successful entry into a saturated "category-intensive" retail field today is, as always, an entrepreneur. An entrepreneur is a man with a dream and a conviction his dream can work. And he will do it with less money and fewer people than the "highly qualified and experienced" executive. When something doesn't work, he will figure out how to fix it—putting in 25 hours a day when necessary. He marks merchandise, sets displays, repairs the registers and trains people for every job in the store.

Often he will fail. But if he sees failure ahead and calls on the consulting arm of a Big 6 firm and gets the letter writer as a consultant, it is doubtful that the consultant will be of help. Somehow, it is the nature of consultants, including this one, that we can best help the good businesses do better and least help the retailer within sight of a Chapter 11.

SHORT SHORTS

Timing differences at I. Magnin. Magnin's "More Wind-falls" catalog arrived on Saturday, October 21, containing a bright red announcement saying, "Fall Apparel Clearance Courtesy Day is Wednesday, October 4," and that Patty would have an opportunity before the newspaper ads for new and further reductions of 30% to 50% off original prices.

RThought: The Earthquake was October 17. I. Magnin may find it a convenient excuse even though 13 days *after* "Courtesy Day."

A LOOK AT JAPAN'S LARGEST RETAILER

Ito Yokado (IY) consists of the following:

Type of Business	Number of Outlets
Superstores (combo food and drug)	134
7-Eleven stores	3,470
Denny restaurants	300
Discount stores (joint venture)	51

Figures for the first half of 1988 (ending August 31, 1988) were:

	U.S.\$ (millions) (130 yen equal \$1)	
Sales	\$5,707	
Operating profit	542	
Net income	197	
	1988	1987
Gross margin	32.9%	32.7%
Operating margin	9.5	8.8
Net income	3.5	3.1

IY carries 800,000 SKUs in its POS system. Local managers are being given more control over what is carried while headquarters is increasing its ability to merchandise each store individually.

Denny's has introduced a wireless electronic order-entry system that will eliminate waitresses going to the kitchen with each order, thus giving waitresses more time to spend with customers (Note: unless IY reduces the number of waitresses to pay for the cost of the system).

IY's stock sells at a 20x P/E, and the market value of the company is \$12 billion. For comparison, the *Business Week* 1,000, at March 14, 1989, showed the following market value for top retailers—as figures in billions of dollars: Wal-Mart, \$16.8; Sears, \$14.4; K mart, \$7.3; J.C. Penney, \$6.8; May Department Stores, \$5.8; and seven between \$3.0 and \$5.0.

EVERYONE IS WORRIED ABOUT RETAIL ADVERTISING NOBODY WILL DO ANYTHING EXCEPT...

If every dishonest ad were removed from the newspapers, the papers would go broke.

Among the many retail ads I see, the following is a list of the ones I think are meticulously honest in price comparison advertising:

Price Club
Toys "R" Us
Nordstrom
Army and Air Force Exchange Service

The ones that I see regularly and feel are not honest are:

Emporium
Macy's
Breuners
Montgomery Ward

Best Products
Ross
T.J. Maxx
Marshalls

There are others than me who are interested in this problem.

The December 1989 issue of *Advertising Topics* (issued by the Council of Better Business Bureaus [CBBB], 4200 Wilson Boulevard, No. 800, Arlington, VA 22203) reported on what's happening in this area.

There are many players beside the stores and the CBBB. For example, the Federal Trade Commission (FTC)—castrated as it was by Mr. Reagan, the National Association of Attorneys General (NAAG), the American Advertising Federation (AAF), the American Newspaper Association (ANA) and a few others.

Let's consider the dedication of each party to protection of the consumer.

1. **The retailer:** stop those others who lie and leave me alone.
2. **FTC:** don't interfere with the "invisible hand"; Adam Smith proved all we need is to let self-interest guide us.
3. **AAF:** anything is OK as long as it does not cut the amount of advertising.
4. **ANA:** see AAF.
5. **NAAG:** most of us are elected; and we know that promises to consumers, even if they are not followed by action, will get us elected.
6. **Local district attorneys:** we can make money enforcing the laws and get lots of good publicity; and we must not forget we have to be re-elected periodically.

Most recently, the AAF, ANA and FTC, following the lead of Mr. Reagan, have treated consumers with benign neglect.

At the AAF's National Advertising Law and Business

Conference, non-Reagan appointee FTC Commissioner Andrew Strenio said, "If there is no change in the current FTC metabolism [implying it is alive], then the states will continue to take on more responsibility and become more deeply entrenched." I can hear the retailers screaming that "we can't have different laws in every state" and "bring back the FTC—it doesn't charge us \$500,000 for our Adam Smithian conduct." So the FTC, in order to keep the major political donors happy, is going to have to develop a rigid policy of inaction that will keep the campaign money rolling in.

Just to show how much the FTC is helping the consumer, it has criticized more restrictive regulations set up in Massachusetts. It told the Massachusetts Attorney General, "The specificity of these regulations may have the practical effect of chilling the dissemination of advertising that is permitted in other states and under the federal law." What about the chilling effect on parents who try to raise children to be honest when they are asked to explain why, locally, Macy's and Emporium (as well as, for examples, Hecht's in Maryland and May Company in Los Angeles) always have mattresses at 50% off to go with the 14kt. gold that was 40% off before being 50% off but is now 60% off?

The ANA president, DeWitt Helm (an association executive, not a publisher) said that the Massachusetts regulations are "...bad for consumers, business and the public interest." (Other than that, is it OK?)

Helm dislikes things like the minimum type-size restrictions for all forms of printed advertisements! Can he also be against motherhood? Or don't his members carry type larger than that size? There is no report of ANA's offer to cooperate with Massachusetts to write a better law.

CBBB announced that the goals of retailers, in conjunction with the CBBB, were to:

1. Begin a process leading to industry-wide implementation of voluntary guidelines for price advertising. (**RThought:** This will lie dormant until there is a threat of legislation and then everyone will say, "Hey! We have a committee for that. We are just about finished." Remember that for more than 25 years the auto industry had a committee working on uniform bumper height.)
2. Promote guidelines for truthful and helpful advertising that are productive for retailers, acceptable to consumer protection officials and informative to consumers. (**RThought:** But we already have pages of such guidelines written decades ago by the FTC and never vigorously enforced.)
3. Assure the public of truthful advertising while allowing retailers to compete on a level playing field. (**RThought:** Unfortunately, I cannot find a retailer who wants to compete on a level field; they all want a little advantage, like dishonest price comparisons, a little collusion on prices, and manufacturer's control of selling prices.)

Late Bulletin: Macy's has abandoned 50% off mattress sales and Emporium will follow. Both firms are to be commended.

FEATURE REPORT

HOW SCANNING AND DATA CAPTURE FAIL

All of the great thinkers in retailing say that the future belongs to retailers who capture data at the point of sale and then analyze the information through their computers in order to ensure that the right merchandise is at the right place with a minimum of inventory for a maximum of sales.

That is the theory.

Now, let's look at a real-life situation.

Many people, as they get older, cannot digest milk, usually because they are unable to digest lactose (the sugar complex found in all milk). Yet they want to benefit from the calcium in the milk. When unable to digest the lactose, they generate extra gas—both uncomfortable and embarrassing. But now there is a solution—Lactaid Lactose Reduced Milk, which has reduced 70% of the lactose into a simpler, more digestible form. It comes in non-fat and 2% fat milk.

All three of the supermarkets in Lafayette carry this product. It is premium priced—the 2% milk is about \$1.25 a quart against about 60 cents, and the non-fat milk is about \$1.20 against about 55 cents. Presumably, the unit gross margin, if not the percentage gross margin, is higher.

Our three supermarkets are Safeway, Lucky and Diablo Foods. The first two stores scan. But it certainly has done nothing to ensure that sales of Lactaid are maximized. My wife or I are constantly trying to find three or four packages of 2% Lactaid. Sometimes we have to go to all three stores to find it. And sometimes we have to do back to each store again the next day. Sounds silly, doesn't it? But we have been doing this for months.

When we do find it, fortunately, we can load up because the pull date is usually 30 days from the day the package shows up in the store.

If Safeway and Lucky are looking at this product, and I doubt

they are, they are seeing that everything is perfect. Turnover is good and sales are in line with space allocated to the products.

What is really happening is that someone has decided that each of these two products should have two facings. And most of the time those facings are empty—out of stock. The computers do not recognize the store is out of stock because the allocated space is appropriate to the volume scanned. What could be more perfect?

Not one of the stores knows how much Lactaid milk it could sell because it never has allocated enough space to be in stock every day, all day.

RThought: Scanning and computers can tell you when you have the wrong thing or too much of the right thing—but they cannot tell you when you don't have something many people want. Then we have to trust the people in the store.

The people who set up the milk know they are always out of Lactaid, but apparently there is no way for them to say, "Hey! We could sell more of this." Perhaps they are told the computer system is perfect, probably by the manufacturer of the system.

My wife is trying to find out how to get the liquid Lactaid so that she can just add it to regular 2% milk. Some supermarket will make \$4 or \$5 less off her each month, and the drug store will get a \$15 sale every month or so.

That is modern retailing.

Late Note: We got the liquid. Add five drops per quart, let sit in the refrigerator for 24 hours, and we have Lactaid. Enough for 75 quarts costs \$15 or 20 cents per quart, but a savings of 45 cents per quart to us. We found the liquid at a drug store only because the food stores were not in stock.

SHORT SHORTS

Copy cat. Hisashi Hirano heard of K mart in the mid-1960's, came, saw, took pictures, had his film confiscated and was kicked out. So he went home to Fukuoka, Japan, founded Mr. Max Corporation and built "huge" stores (28,000 to 30,000 square feet) stocked with 30,000 SKUs, sells 30% below independents and providing parking for 500 cars (three times the U.S. standard of five cars per 1,000 square feet). In 1988, he did \$170 million with profits of \$5.2 million. **RThought:** In spite of success, each year he sends his store managers to the U.S. to get new ideas. How long has it been since you sent someone to see what Mr. Max is doing in Japan (doing \$400 per square foot) or Maxi Mart in New Zealand (doing even more per square foot)?

I'll take Peter Berlin's word. In his May 1989 editorial (*The Peter Berlin Report*, Executive Edition, 380 North Broadway, Jericho, NY 11753; \$135/yr.), "Honesty and Ethical Behavior Given Top Priority by Workers and Management," Berlin quotes a Harris survey that revealed "how workers and management are out of touch." The poll showed that management thought employee theft accounted for 50% of shrinkage while employees thought it only 5%. Some difference; some "out of touch." **RThought:** Any person active in retailing knows why managers think employee theft accounts for 50%—for years, Arthur Young (now Ernst & Young) asked

management to guess how much of its shrinkage was caused by shoplifting, by internal theft and by errors. As one might guess, those people running the paperwork thought very little was error (although most major reductions in shortage that I know about have come from better systems and paperwork with no increase in apprehension of either shoplifters or employees). But the report kept saying that it was 50% inside theft. Anyone who read the AY report would consider himself an unobserving or incompetent executive if he or she did not indicate 50% on the questionnaire submitted by their firms. It may only take another 15 to 20 years to erase this stain on our retail employees created by AY's desire for national publicity. Although the report always said that the figures were the estimate of the reporting stores, the national press always reported it as "Arthur Young says that 50% of shortage in retail stores was caused by internal theft." And RT always criticized such allegations. *I think Stephanie Shern of Ernst & Young is to be complimented on ending this gratuitous and undocumented slander of the people who serve us so well.*

The most frequent remark I hear about Target (the stores taken over from Lucky) is "I liked Gemco better." **RThought:** They then add, "Target never has anything on its shelves."

IY's financial ratios are far different from those found in U.S. companies. For the February years, ending in 1981 through 1986, the current ratio was .8:1; and only in the last two years has it risen above 1:1. But one must remember that much of its business is fast-turning food and that most of its stores do not offer credit.

Equity to total assets has run in the 43-46% range. Long-term debt runs another 12-17%, with a typical total capital structure in the range of 58-60%.

RThought: IY has followed the pattern of retailers in many countries. When the retailer has the skills and available capital, it expands into multiple forms of retailing.

Coles Myer Ltd. (CM), in Australia, does about U.S.\$10 billion. Adjusted for population difference, this is the equivalent of U.S.\$135-\$150 billion. Sears, our largest company, does about 18-20% of that volume.

But CM, for the year ending July 1988 (the 1989 report is not yet available), consisted of the following:

Type of Business	Number of Outlets
Coles variety stores (like the old Woolworth stores)	106
Myer's department stores in all states except New South Wales	31
Grace Bros. department stores in New South Wales	45
K mart discount stores (originally half owned by K mart U.S., which now owns about 20% of CM)	96
K mart Superstores (approaching hyper-mart in size and format)	28
Target discount stores (never connected with Target U.S.)	73
Coles New World supermarkets	358
Bi-Lo supermarkets	25
Liquorland stores	124
Holly's restaurants	61
Red Rooster restaurants (chicken and fast food)	121
Fossey's variety stores	142
Ezywalking shoe stores	95
Easy's shoe stores	86
Katie's ladies' fashion stores	152

In a country of about 15 million people, CM has managed to do 20% of the retail business. (Australia does not count car dealers and service stations as retailers, so the 20% would be less under the U.S. definition of retailing.)

As of October 27, 1988, CM had a market value of U.S.\$3 billion.

Small Store Special

MORE SUGGESTIONS FOR MEN'S STORES

Previously, I dealt with the failure of menswear stores to take leadership in establishing apparel other than pinstripe suits as acceptable office wear. Thorsten Veblin, dead these many years, is still explaining that the only way you can pass the message to the world that you do not have to get your hands dirty to earn a living is to wear a silly suit and a light-color shirt that will instantly display to the world that you do not have to get your hands dirty.

In one article, I suggested that menswear stores should review their size ranges. It seems that they don't notice the size of men around them. Today, one may be too *small* to play pro-

fessional football if 6'5" and 240 pounds—but still too large to buy clothing any place except in a large-size store.

But now menswear stores must challenge the enemy—those like Robert Half, who sent the following message to thousands of employers in one of its recent mailings:

Looking the Part

Despite the fact that Americans on the whole are dressing more casually, senior managers in most companies continue to take a traditional and conservative approach to their wardrobes. That's why most fashion consultants continue to recommend to advancement-conscious middle managers that they follow the fashion lead of the more senior managers in their company, even if it means spending more money on clothing. The rationale: While job performance is certainly the major factor in advancement, it's equally important that senior management perceive a middle manager as someone who can assume the senior management role. And, because looking the part is a good first step in that direction, extra money spent on appropriate clothing should be viewed as an investment.

RThought: Who decided senior managers must be fashion leaders? Having suits made to order may merely mean your measurements are outside the normal range. If everyone follows senior managers in order to become senior managers, then why don't we have to wear hats any more? When I worked at Macy's in 1940-41, all employees had to *have* a hat to get into the store. Note that I said "have" and not "wear." The men carried hats with rolled up brims that would have made Teddy Roosevelt happy. And for women, any hat, on a piece of string and carried over their arm, would meet the test.

Something is wrong. There are more white-collar jobs and fewer suits sold per adult male than ever before.

THE HIGHS AND LOWS OF BANKRUPTCY

The tables below show personal bankruptcy petitions filed during 1988 per 1,000 households.

The five highest states were:

	Per 1,000 Households
Tennessee	14.48
Nevada	13.52
Utah	12.43
Alabama	12.35
Colorado	10.95

The five lowest states were:

	Per 1,000 Households
Vermont	1.28
Massachusetts	1.29
New Hampshire	1.65
Maine	1.72
Connecticut	1.96

The other states (including Washington, D.C.) fall in the following brackets:

2.00 - 2.99	6
3.00 - 3.99	5
4.00 - 4.99	8
5.00 - 5.99	4
6.00 - 6.99	5
7.00 - 7.99	4
8.00 - 8.99	4
9.00 - 9.99	4
10.00 - 10.99	1

RThought: There is an unusually wide range. The pattern of low states confirms the concept of a frugal New England. The

sixth New England state, Rhode Island, had a rate of 2.23.

There is no area pattern for the high rates. The other state with a rate above 10.00 was Georgia at 10.94.

The greatest fear of consumers is that they won't be able to pay their mortgage, according to the International Association of Financial Planners. Of the total households, 21% with incomes above \$50,000 had this fear. (It is lower overall but probably reflects the fact that people in lower brackets are more likely to rent.)

When you hear credit people discussing the problem of bankruptcies, keep in mind that there is a lot of difference in the magnitude of the problem depending on where they do business.

(Note: This item was prompted by the July 5, 1989, issue of *Consumer Trends*, published by the International Credit Association, Box 27357, St. Louis, MO 63141; 314-991-3030; \$75/yr.)

THE BETTER BUSINESS BUREAU REPORTS ON COMPLAINTS

The 1988 report is now out on complaints. It is based on reports from 90 Bureaus, covering more than 60% of the total population served by the Better Business Bureau System. It reports on 138 different kinds of businesses.

In looking at the rankings, keep in mind that in some categories there are few stores while in other categories there are many stores. Some stores have only one or two transactions per year with a customer whereas a supermarket or discount store may have 50 or more.

Rank by Number of Complaints	Type of Retailer
3	Mail order
6	Home furnishings
13	Other retail stores
16	Traditional department stores
17	Appliance stores
19	Floor coverings
23	Apparel and accessories
25	TV/radio/electronics
31	Jewelry
71	Computer sales and service
78	Office equipment
81	Camera stores
83	Building materials and supplies
89	Discount stores
96	Pet stores
103	Chain food stores
104	Buying clubs or groups
105	Florists
108	Sporting goods
114	Drug stores
116	Telephone equipment
122	Catalog showrooms
127	Independent food stores

RThought: I would say the winner is: Independent food stores. There are many of these stores. And customers must shop 50 to 75 times a year.

TOYS "R" US MAGAZINE INSERT IS PROPERLY BACKED

Toys "R" Us had a 16-page insert in the December issue of *Popular Mechanics*, which was delivered to subscribers about November 1, 1989.

I had an assistant check one item on each page—the type of check made previously on K mart inserts (now apparently discontinued as it revises its advertising program with more emphasis on TV).

The test was run November 9, 1989, and Toys "R" Us scored 15 out of 16. But the one missing item was the "Back to the Future II" battery-powered car at \$159.99, which was on the first page.

RThought: It is difficult to coordinate magazine advertising with store coverage; but the problem is less with Toys "R" Us, because it does not use comparative prices or promotional markdowns. K mart had the compound problem of 1) having the item in stock and 2) having it at the right promotional price.

SHORT SHORTS

Sometimes life is disappointing. I don't get into Belk Lindsey territory very often; but recently I was in Orlando, Florida; and, as usual, I bought all the newspapers. This is Belk Lindsey territory. It was celebrating its 54th Anniversary; and on Saturday, May 13, it had a center spread with 28 items. One item was a special, one was at regular price and 26 used a "compare at" price from which it claimed 20% to 48% savings—exactly like Marshalls, T.J. Maxx or Ross Stores.

RThought: An image was smashed, and it will be difficult to repair it.

WORDS—ABOUT STRENGTH AND WEAKNESS

The following quotation from Dore Schary that appeared in the December 1989 issue of *Bits & Pieces* (12 Daniel Road, Fairfield, NJ 07006; \$16.50/yr.) reminds us how easily things can change:

A person who calls himself frank and candid can very easily find himself becoming tactless and cruel. A person who prides himself on being tactful can find eventually that he has become evasive and deceitful.

A person with firm convictions can become pigheaded. A person who is inclined to be temperate and judicious can sometimes turn into a man with weak convictions and banked fires of resolution.... Loyalty can lead to fanaticism. Caution can become timidity. Freedom can become license. Confidence can become arrogance. Humility can become servility.

All these are ways in which strength can become weakness.

RThought: You and I, like every other executive, have an image of the kind of person we are. But Dore Schary reminds us how easily we can go to an extreme and become someone we do not want to be. I try to be open-minded, and yet I am startled when I think back on some discussions I have had and have said to myself, "Bob, you are just as close-minded and biased as the worst bigot could be." I try to contact the other party and apologize for not conducting myself as I long ago decided I should act. I want that person to know that I was close-minded by carelessness and not by intent.

And, perhaps, a point to mention is that you do not degrade or weaken yourself by apologizing; you degrade yourself and weaken yourself by not apologizing when you know you are wrong. Remember—the other person already knows you are wrong.