

- NOVEMBER 1993 B - Teen Suicide: Can It Be Prevented?  
 F - Wal\*Mart: Selling Below Cost -- And Conway,  
 Arkansas (four-page Feature)  
 A - Rediscovering the Path of James Cash Penney  
 A Word About Retailing in South Africa  
 Change in GAF Sales for States and Metro-  
 politan Statistical Areas  
 Beware of List Prices...in Illinois  
 Consumers Still Prefer Item Pricing  
 Hasbro, Inc., Settles Charges re GI Joe Toys  
 Missouri Settles with Montgomery Ward for  
 \$150,000  
 The Prevalence of MBAs Among CEOs of the 800  
 Largest Corporations  
 Everyday Low Prices Expand to the Auto Industry  
 W - Words -- of Wisdom
- DECEMBER 1993 B - "Goodbye, Bud"  
 F - Has One of Your Insurance Policies Been Sold?  
 Is Micro-Lending a Solution to Our Unemployment?  
 A - The Myth of QVC (almost a three-page article)  
 The Question Is Not Whether Weather Should  
 be Part of Your Information Base -- But When  
 W - Words -- About Disappearing Customers
- JANUARY 1994 B - Can We Retailers be Proud of This?  
 F - Who Spends How Much on Advertising?  
 Does a Deceptive Promise Help a Retailer?  
 Affinity Program for Shareholders  
 Abuse of Numbers  
 A - Should You Have an Ombudsman?  
 Job Stealing - The American Way  
 When It Comes to Service, The Boss Is Not  
 Always Right  
 My Reaction to Published Studies  
 Did Your Customers Know If You Were Open on  
 Thanksgiving?  
 Will Retail Advertising Be Next?  
 Is There a Weakness in The Auto Industry?  
 W - No "Words" this month
- FEBRUARY 1994 B - Just Say "No" to Gang Profiles  
 F - Whither Goest the Department Store?  
 Are These Your Suppliers?  
 A - Marketing Lessons from the Clinton and Bush  
 Campaigns  
 Controlling Prices in Tabloids  
 Hash  
 Creating Wealth - Through Increased Market Value  
 'Twas the Sunday Before Christmas...  
 If You Distribute a Catalog, Do You Know What  
 You Are Doing?  
 Have You Studied the Labor Force Lately?  
 W - Words -- of Wisdom from the Villages of Africa



MARCH 1994

- B - How Hertz Cheats
- F - Has Entry Training Changes Much in Retailing?  
What Would You Do with a Stored Value Card?  
If You Want Useful Numbers, Submit Yours
- A - Random Thoughts on Mandatory Health Insurance  
Jordan Marsh Says It Won't Do It Again  
The 'Underestimate' of the Year  
There Is No Answer to the Question: How  
Much Do You Spend on Foreign Goods?  
Abuse of Numbers  
Isn't It a Shame Large Companies Don't Tell  
the Whole Truth?  
Who Will Win?  
How Old Do You Want Your Firm to Be?
- W - Words -- That Stood the Test of 2500 Years

APRIL 1994

- B - There's Nothing Like a Typo (The Bon Marche)
- F - A Look at Value Retailing  
Should Trade Association Executives Swear to  
Tell the Truth?  
Are You Prepared for 6,100 Sales Tax Rates?
- A - Time to Plan for Christmas 1994  
It's A Wonderful Life  
How "Bad Numbers" Are Circulated  
Customer Expectations  
How Long is Our Advertising Remembered?  
A Workers' Comp Case of Significance
- W - Words -- That Jack Kilmartin Keeps Handy

MAY 1994

- B - Can We Retailers be Proud of This? Part II
- F - I Love Retail! (Tom Peters)  
Are These the People Who Want Interactive TV to  
Replace Shopping in the Mall?  
Thoughts While Scanning the Front Page
- A - Is ECR Related to ESP?  
Sears Should Get Out of the Home Improvement  
Business  
My Introduction to Merchandising  
We Can Do Better Than That, Gang!  
Washington is Providing Leadership -- Will  
Business Follow?
- W - Words -- Given to My Wife, With a Request That  
She Volunteer

JUNE 1994

- B - Integrity Is Not Contagious
- F - Why Does It Take So Long for Good News to Circulate?  
Retailers in the 1994 Business Week 1000  
Few Retailers Match Charitable Gifts
- A - Who is Not Selling Tobacco Products  
Methinks That Most Retailers are Mixed Up  
Why We Need Logical, Sensible Industry Arguments  
If Two Prices are Good, Are Three Prices Better?  
Oh, What a Winter it Was  
17 Common Mistakes in Handling Mail Order
- W - Words -- For the Passing Years



JULY 1994

- B - Fretter's Promise to the Massachusetts Attorney General
- F - A Look at Outlet Centers
  - Retailing -- As it is Done in the Far East
  - Uncle Sam vs The Department of Commerce
- A - Hold Everything on Interactive Retailing
  - Bankruptcies Filed in 1993 Were Down in Every State
  - Warehouse Clubs Don't Have an Exclusive on Paid Memberships!
  - A Statement I Don't Understand (Sears)
  - Problems in Another Area of Sears
  - Only in Australia
  - Cities over 100,000 Population -- By State
  - Jack Kilmartin is an Executive -- Not an Author!
- W - Memories -- When I'm by Myself

AUGUST 1994

- B - At Last, A Prison Sentence
- F - Smoking Part III
  - Here Comes 500-Channel TV! Or Does It?
  - Academia That Bothers Me
- A - Ethical Drug Company Pays \$605,000 for Being Unethical
  - Are You Making Adequate Preparation for Tomorrow?
  - The Changing Population Mix
  - Do You Pay Attention to Letters from Customers?
  - It's a Sale! It's a Lie! It's a Felony!
- W - Words -- of Wisdom from Canada

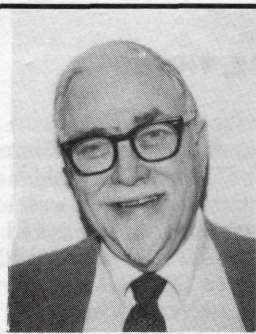
SEPTEMBER 1994

- B - Are There Any Ethics Left at Time Magazine?
- F - Do Speakers and Writers Really Understand "The Customer"?
  - Sexual Discrimination in SAT Testing
- A - Errata No. 1; Errata No. 2
  - Smoking Part IV
  - Neiman-Marcus Follows Macy's -- Sort of
  - 10 Years of Inflation
  - Who Gives What?
  - Sexual Harassment
  - Proofreading While I Read
  - Higher Education "Accuracy"
  - An Offer You Can Reject -- at the Expense of Your Business (I-Power book offer)
  - Retailing Does Change
  - U.S. Nonprofit Organizations are Unique
- W - Words -- About the Monthly Sales Report Shown Below



- OCTOBER 1994
- B - For Those Who Favor Medical Care by Private Enterprise
  - F - The Object of the Retailing Game: Creating a Cadre of Loyal Customers  
The Wheel of Financing
  - A - The 7-Day Shopping Week Comes Slowly  
If You Know You Shouldn't, Don't!  
What is Right?  
Where Goeth the Factory Outlet Discounts?  
Should Food Retailers be the Pawn of Fruit Growers?  
Could You Use a "Dead" Credit Card?  
I Have 2 Yardsticks  
Is This the End of Preapproved Credit?  
Hash (survey on the average Mexican family)
  - W - Words--For Your Next United Way Campaign
- NOVEMBER 1994
- B - An American Injured in Great Britain
  - F - Thoughts on "Ms. Joe Camel"  
Future Cutomers
  - A - Outlook for Christmas  
Relax--Interactive TV Has Been Postponed a Decade  
A Warning to Retailer Rushing to Asian Cities  
A Code of Fair Trading  
How Much is a New Account Worth?  
What Does This Coincidence Show About the U.S. Food Industry?  
"We Will Not be Undersold"--Done with Integrity
  - W - Words--On the Other Side of Downsizing
- DECEMBER 1994
- B - Sixty Reasons Why It Cannot Be Done (Charles Osgood)
  - F - Do Small Businesses Deserve to Survive?  
If We Call Cats "Spotted Owls," Then Spotted Owls Would Not Be an Endangered Species
  - A - I Cringe When The Wall Street Journal Writes about Christmas  
Can Retailers End False Price Comparisons?  
How Accurate Are Audited Reports of Retail Companies?  
In Days of Yore (Great-grandfather, Bernard Baum)  
Fiscal Year
  - W - Words--About Preseverence





# RETAILING TODAY

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JANUARY 1994

VOL. 29, NO.1

## CAN WE RETAILERS BE PROUD OF THIS?

We all know that cigarette smoking is injurious to one's health. Yet, we continue to sell cigarettes, while never speaking out against the advertising done by our vendors.

Many of us once smoked but have stopped. I never smoked as much as a package of cigarettes a year, but I stopped 35 years ago when I found myself smoking a couple of boxes of cigars and two to three pounds of pipe tobacco each month.

Many of us don't stop to read the statistics on deaths from lung cancer. Perhaps, you will take a moment to read them now.

White Women (Deaths/100,000)		
Year	Breast Cancer	Lung Cancer
1950	26.4	4.9
1990	27.4	32.1
Black Women (Deaths/100,000)		
Year	Breast Cancer	Lung Cancer
1950	21.4	3.8
1990	31.7	32.0

How important would the decrease in our profits be if we refused to sell cigarettes and, as a result, lung cancer among women (and men) declined?

At last, we have raised the rate of lung cancer among women above the rate of breast cancer. Will we all get a reward?

**RThought:** We have the legal right to sell addictive products, cigarettes and alcohol, to people over an age which is specified by state law. As one doctor put it, "Cigarettes are the only legal product we sell that, if used exactly according to the instructions, can kill you."

**RThought:** We cooperate in recalls of baby cribs, when the slats are too wide apart and a dozen or so infants are killed by strangulation; yet we resist attempts to place restrictions on the selling of cigarettes to adults.

**RThought:** Some may be annoyed because I chose this subject for a prominent position on Page 1. I figure that one of my jobs as a commentator on retailing is to hold up a mirror so that all of us can get a good look at ourselves. We well understand that Joe Camel advertising is misleading youths — perhaps our own children or grandchildren — into the tobacco habit. Yet we do nothing. We don't say, for example, "We won't carry Camel cigarettes until you, R. J. Reynolds Tobacco Company, reorient your advertising from kids to mature adults." What R. J. Reynolds does and what we do is legal. We all know it is not OK.

More and more, we have "No Smoking" signs posted within our stores and promote smoke-free work areas. We now have a majority of workers who do not smoke; we know that smokers cost us about \$1,000 a year more in medical expense and sick leave than do nonsmokers. However, we don't learn from our own statistics. If we did, we would know in our hearts and minds that we have to change the trend.

If lung cancer forces our employees into disability, we may forget about them until someone tells us "Jane died" or "Old Joe is gone." We may even take some satisfaction in thinking that their replacement does a better job and at lower pay.

**RThought:** Our retail federations would fight "another anti-business" law if the sales of cigarettes were banned. Manufacturers may file suits claiming protection under the First Amendment by arguing that smoking is as much a form of free expression as is the burning of our American flag or the painting of a man committing sodomy on a young boy.

I'm sorry. I'll put the mirror away. But it does not show us as a pretty lot, does it?

**RThought:** A mammogram will usually reveal breast cancer at an early stage; no such regular examination will reveal lung cancer.

## SHOULD YOU HAVE AN OMBUDSMAN?

The word "ombudsman" comes from the Swedish word meaning "representative." An ombudsman in Sweden is "a government official appointed to receive and investigate complaints made by an individual against abuses or capricious acts of public officials" [Webster's Ninth New Collegiate Dictionary]. Sweden is not the only country which utilizes an ombudsman. In addition, many companies retain an ombudsman — and for the same reasons — to handle complaints about "abuses or capricious acts" by individuals involved in the governance of their organizations.

Our federal Office of the Comptroller of Currency (OCC) has appointed such a person — Samuel P. Golden, a veteran OCC examiner. He has described his position thusly: "I report to the Comptroller, and, candidly, I have the authority to reverse any decision made in the agency's supervisory process." Golden continued, "However, there's probably nothing I can tell you

that will convince bankers there won't be retribution."

Golden's office will remain in Houston, where he now lives and works, just so he will not appear to be under the direct control of the Comptroller.

In any large organization (usually defined as 500 employees in one location), there are always complaints, particularly about something which has been handled by an immediate supervisor. The complainant is usually afraid to take the matter to a higher level of management because, you guessed it, he or she fears retribution.

**RThought:** The need for an ombudsman arises when discrimination exists (or is alleged) — discrimination because of age, sex, ethnic category, personality conflict, etc. An ombudsman also investigates charges of failure to follow corporate rules involving pay rates, computation of commissions, compensation for sick leave, and perhaps 25 to 50 other areas.



To establish a successful ombudsman's office, the following factors are necessary:

1. The appointee must be thoroughly familiar with federal and state laws, plus all company policies and procedures.
2. The appointee must have the backing of top management, and that backing must be clearly conveyed to everyone in the company.
3. The appointee must have a reputation within the company for calmness, fairness, intelligence, and a willingness to listen.
4. The appointee must have full authority to correct situations without fear of being overruled by management, which is precisely the reason management must have confidence in the appointee's characteristics as set forth above: calmness, fairness, intelligence, and a willingness to listen.
5. The appointee must be promptly available. There may be a need for more than one ombudsman to assure immediate response.

The U.S. Army (and the Air Force, since separation from the Army) has utilized such a procedure. The inspector general for the command immediately superior to the base commander makes regular, well-publicized visits to each base. Any person with a grievance must be released from duty for the purpose of exposing his or her grievance to the inspector general. The inspector general does not discuss the complaint with any base personnel and has sufficient resources available to conduct a complete investigation before making his decision.

There are several good books on the use of ombudsmen. Your local library or bookstores undoubtedly have, or can locate, such books for you.

## JOB STEALING — THE AMERICAN WAY

The November 15, 1993, *Research Report* of the American Institute of Economic Research (Great Barrington, MA 01230; \$59/yr.) reported the July 1993 versus July 1992 change in employment by state and region.

By regions, the change in jobs, July 1993 versus July 1992, were:

Southeast	+429,000
Southwest	+189,000
Great Lakes	+183,000
Far West	-143,000
Mid-Atlantic	- 98,000
New England	- 50,000
Net Change	+510,000

**RThought:** This net figure is larger than the projected job shifts between Mexico (90 million) and the U.S. (250 million) under NAFTA. I just thought you would like a perspective.

**RThought:** California, with its free education and high-tech industries, once conducted a brain drain on the other 47 states (before Alaska and Hawaii were granted statehood). However, the Southeast has long been claiming "We have lower wages, lower living costs, and lower everything" and thus has conducted a drain on the balance of the U.S. since the textile industry's move to the South beginning in the 1930s.

**RThought:** Measured in percentages, employment was up 4.8% in Utah and down 1.9% in Connecticut. In regard to the number of jobs, Texas was up 124,000 and California was down 190,000. But we must remember that stealing jobs from another state is why we have chambers of commerce and state governments.

## WHEN IT COMES TO SERVICE, THE BOSS IS NOT ALWAYS RIGHT

The March/April 1992 issue of *Business Ethics* (1107 Hazeltine Boulevard, Suite 530, Chaska, MN 55318; \$49/yr.) told a story about Smith & Hawken that took place soon after it was founded. A customer, who worked outside her home, asked that some garden tools be shipped to her at her next-door neighbor's address. When the neighbor accepted the tools, she thought they were a gift from her neighbor and kept them. The customer complained to the store, saying that she thought she should receive another set free, but Paul Hawken said, "No way." The employee of the store, however, did not want to lose the customer, so he sent another set.

The customer wrote a thank-you letter. Her son, a landscape gardener, was so impressed that he became a regular customer, as did many more people in that small town, as word spread.

The event was in 1979; the employee who figured Hawken was wrong rose in responsibility and in 1985 set forth a formal policy statement which read as follows:

1. Our goal as a company is to have customer service that is not just the best, but legendary.
2. You are the customer. If the customer is upset, you are upset. If the customer is satisfied, you are satisfied.
3. In relations with customers, act as if you own the company.
4. There is no such thing as taking too much time with a customer.
5. The phone is mightier than the pen.
6. If it doesn't feel right, make it right.
7. A job isn't done until it is checked over.
8. Do it once and do it yourself.
9. When in doubt, ask. When not in doubt, ask.
10. A mistake is not a mistake. It is a chance to improve the company.

**RThought:** Of course, this can be condensed into "satisfaction guaranteed," but those are two long words which most employees/associates don't really understand. Many do not understand how much they are empowered by those two words because they don't understand "empowered." Any executive who criticizes an employee/associate who breaks a rule to satisfy a customer does not belong in your organization. Perhaps the rule-breaker should be promoted!

## MY REACTION TO PUBLISHED STUDIES

No. 1: Deloitte & Touche, in its *Retail Market Analysis*, Vol. 2, No. 2, 1993, stated, "Warehouse Club Members Earn More and Spend More."

The report was based on a survey of 244,000 shoppers, but nothing was said about the distribution of those 244,000 shoppers. Was it geographically proportioned? Was it proportioned by income? Had an attempt been made to develop a random-stratified sample? Or was the sample just that which was available? Was the sample assumed to be valid just because it was large? That theory sank *The Literary Digest* in 1932 when more than 2 million "voters" predicted Herbert Hoover would be reelected. He wasn't. (Franklin Roosevelt was elected to his first of four terms.)

The distribution of shoppers is important because a breakdown was made of the 2% (roughly 5,000) in the sample who were members of warehouse clubs.



## WHO SPENDS HOW MUCH ON ADVERTISING?

*Advertising Age* (November 8, 1993) reported the "top 200 mega-brands by first half of 1993 ad spending." The spending included magazine, Sunday magazine, newspaper, outdoor, local and national network TV, spot, syndicated and cable TV, and spot and network radio advertising. The source: *Competitive Media Reporting*.

The following lists the top three advertisers, plus all retailers in the top 200:

Rank		Advertiser	Total Measured Ad Spending (in thousands)	
1993	1992		1993	1992
1	1	AT&T	\$280,333	\$221,162
2	3	Ford Motor Co.	251,961	197,643
3	2	Sears, Roebuck	239,660	220,518
10	7	J. C. Penney	114,150	133,201
13	11	Circuit City	110,789	107,313
18	15	Kmart	96,621	98,219
20	19	Macy's	94,534	93,207
34	24	Montgomery Ward	71,025	79,568
56	56	Target	50,439	49,135
		(Dayton Hudson)		
63	77	Wal-Mart	44,716	36,391
67	45	Dillard's	43,757	53,851
76	62	May/Robinson	40,053	45,539
		(May Dept.Strs.)		
80	73	Mervyn's	37,407	38,471
		(Dayton Hudson)		
81	82	Broadway	36,702	33,294
		(Carter Hawley Hale)		
98	123	Home Depot	31,872	23,688
116	102	Lucky's	26,528	28,088
		(American Strs.)		
143	131	Foley's	22,974	22,734
		(May Dept.Strs.)		

144	176	CompUSA	22,911	18,501
145	142	Wiz	22,747	21,952
146	185	Blockbuster Video	22,687	17,685
150	207	Radio Shack	21,988	15,979
		(Tandy Corp.)		
153	166	Builders Square	21,659	19,344
		(Kmart Corp.)		
160	154	Lord & Taylor	20,926	20,299
		(May Dept.Strs.)		
161	162	Walgreen	20,820	19,805
168	179	Vons	20,100	18,231
172	127	Burdines	19,857	22,861
		(Federated Dept.Strs.)		
174	177	Giant Food (Ahold)	19,808	18,369
190	116	Kroger	18,450	25,199
194	536	Avon	18,304	4,800
199	195	Hecht (May Dept.Strs.)	17,541	16,853
200	208	Filene's Basement	17,491	15,954

**RThought:** Keep in mind that these costs are costs which could be greatly reduced by cooperative advertising.

**RThought:** It is interesting to look at groups of stores.

## Department Stores

Sears, Roebuck	\$239,660	Kmart	\$96,621
J. C. Penney	114,150	Target	50,439
Macy's	94,534	Wal-Mart	44,716
Montgomery Ward	71,025		
Dillard's	43,757		
May/Robinson	40,053		

## Supermarkets

Broadway	36,702	Lucky's	\$26,528
Foley's	22,974	Vons	20,100
Lord & Taylor	20,926	Giant Food (Ahold)	19,808
Burdines	19,857	Kroger	18,450
Hecht	17,541		

## DOES A DECEPTIVE PROMISE HELP A RETAILER?

Pak'n Save Foods, a subsidiary of Safeway, Inc., ran an ad in our local paper, with the following headings:

**Our Low Price Guarantee: If our prices aren't the lowest, we pay you**

**TRIPLE THE  
DIFFERENCE  
IN CASH!**

But the small print imposes such onerous conditions that few, if any, shoppers will qualify for compensation under the guaran-

tee. The fine print told what a customer *is required to do* to benefit under the guarantee:

**Our Low Price Guarantee: Purchase at least 25 different items, totaling a minimum of \$50.00 at Pak'n Save Foods. After shopping at Pak'n Save Foods, take your cash register receipt on the same day to any other supermarket and write their shelf prices down on your receipt. (Special advertised items and coupon promotions excluded.) Be sure to compare the same brand, size, and quality. If their total is lower than ours...we'll pay you "Triple" the difference...in CASH!**

**RThought:** This appears to be a chintzy way to suggest a \$50 sale. Most readers of the ad are likely to have the same reaction I had. And, like me, they will tell their friends that Pak'n Save ran a promise of "triple the difference in cash" under conditions which are next to impossible to meet. This makes me even more suspicious about Pak'n Save's prices.

## SHORT SHORTS

When the spread between the APR and the prime rate gets high enough, proprietary cards act like bank cards. With prime rate at 6% and an APR (Annual Percentage Rate) at 23% and higher, money can be made off of even small balances on proprietary cards. Carter Hawley Hale has initiated the Gold Account, with a minimum payment of 5% instead of 10%.

CHH's announcement did not state if the limit is increased; it just stressed the smaller monthly payment (which leads, on the same purchases, to a high average balance and more finance income). **RThought:** If this is successful, will CHH go to a 2.5% or 3% minimum payment? And what happens when prime again hits 15%?



## AFFINITY PROGRAM FOR SHAREHOLDERS

Coles Myer, Ltd., Australia's largest retailer and one of the top 25 in the world, is extending to shareholders the discount on purchases it gives employees. Effective November 1, 1993, a holder of 500 ordinary shares (U.S. translation: common stock) or 100 converting preference shares (U.S. translation: convertible preferred stock) will receive a card providing the shareholder with the following discounts:

- A 10% discount at Coles Myer and Grace Brothers (department stores).
- A 5% discount on food and a 7.5% discount on general merchandise at Liquorland and Coles Supermarkets. (I wonder whether a bottle of scotch is classified as food or as general merchandise.)
- A 5% discount at Red Rooster (restaurants).
- A 3% discount at BI-LO (warehouse/discount food chain).

Cards will be renewed every six months.

(Source: *Inside Retailing* — the Australian newsletter, not the Lebar-Friedman one.)

**RThought:** Discounts for shareholders are not common in publicly held retail companies within the U.S. I suspect that many people will buy and hold some Coles Myer stock just for the discount. The ordinary shares trade at about U.S.\$3.50, so 500 shares is about U.S.\$1,750. The discount over the course of a year may provide a return much higher than any other possible investment — and it isn't taxable as a dividend would be!

Tandy Corporation issues a discount card to common shareholders good during the period just before Christmas. However, as I recall, there is some form of dollar limit.

Even if done on a part-year basis, this might be a good sales stimulus, especially for department stores and especially if good only during the Thanksgiving-to-Christmas period. It is likely that the cost of the discount may be offset by a corresponding reduction in advertising expenditures for little net cost to the company. I believe the discount is more certain to bring a response than is the advertising, which is always a gamble.

The longer response time means that sales are less likely to be negatively impacted by a two- or three-day period of weather extremes, snow, or rain, all of which can kill the response to a weekend sale.

## ABUSE OF NUMBERS

The cover of the September 1993 *Entrepreneur* magazine carried a headline "Discover the Profits — Homebased Business! Get Started in This \$383 Billion Industry Today!"

The opening paragraph of the article read:

**They are almost 24 million strong, generating \$382.5 billion in revenues and creating an estimated 8,219 jobs and entrepreneurial positions each day. Government officials and public leaders have acknowledged them as the hope of the future.**

That paragraph should stop everyone!

Both the amount of annual sales and the jobs created each day are carried out to four significant places. Perhaps the author can explain where such accurate information was obtained.

The figure of \$382.5 billion equals the total volume of all food stores (\$384 million) in 1992, or about 50% more than all general merchandise stores, including all department, discount, warehouse, and variety stores (\$247 billion), or more than 30% of all retail volume, if one excludes car dealers, service stations, and restaurants as impractical for a "homebased business."

Wondering how many jobs a year 8,219 a day would represent, I soon found out: 2,999,935! Someone apparently took a wild guess that small businesses would create 3 million new jobs a year ( $\pm 500,000$ ) and converted it to a daily figure accurate to the fourth significant number — by dividing the 3 million by 365!

**RThought:** I don't know whether manipulation like this reflects more on the writer or on the magazine's estimate of its readers' lack of sophistication.

## SHORT SHORTS

**Proof that the merchant cannot operate alone.** There has always been a consensus that Ed Finkelstein is and was a great merchant. But a merchant is only as good as his information. During the Finkelstein years at Macy's, available capital was spent on new stores and store acquisitions instead of on information systems (IS). The net result was Chapter 11. So far, Macy's has spent \$80 million on technology and schedules, and, as of 1993, another \$150 million. Now, a story about QVC reports Macy's plans to spend \$50 million on its own TV network. It described the cost as "about the cost of opening a new store." **RThought:** Had Macy's spent \$250 million less on acquiring stores (equal to five stores) and \$250 million more on IS, it might have avoided Chapter 11. There is a lesson here for every retailer who believes that something less than the best IS technology will "get by" because he or she has great skill as a merchant.

**Is Lord & Taylor as straightforward as magazines?** I say, "No." Most magazines today offer subscribers the option of not having their name sold. But not L&T. The August 23, 1993, issue of *DM News* carried an ad offering the names of up to 2.3 million of L&T's retail charge-card customers. The cost per thousand was not listed. The list is also available on a regional basis.

**RThought:** This could be a lucrative, but unethical, investment for stores such as I. Magnin, Jacobson's, and other fine retailers.

**RThought:** Ultimately, such reaching for "miscellaneous revenue" will lead to more "miscellaneous consumer litigation." Mail-order shoppers consider this a side benefit/annoyance/risk of buying by mail, but large-store buyers don't intend to expose themselves to annoyance and trouble when they open a charge account.



The survey has been cited frequently because Deloitte & Touche compared the household income of the sample with the average household income for the country.

A question immediately arises. Is it appropriate to compare the average household income of the members (\$46,000) with the average household income of the total population (\$38,000)? Most warehouse clubs are located in metropolitan areas where higher incomes are more common and not in sparsely populated areas, such as North Dakota, Kentucky, West Virginia, or even South Carolina, where average incomes are substantially below the national average.

Maybe there isn't any difference between the average household income of warehouse club members and the average household income for the population which dwells within the marketing areas of the clubs. I don't accept that the incomes of club members are higher.

No. 2: Ernst & Young's Winter 1992 *Retail News* headlined an article "Merchandise Allocation: A Key to Good Inventory Management." That struck me as an honest statement. But then the first sentence of the article read:

**To succeed in retailing today, you must do a superior job of managing your most valuable asset — your inventory.**  
[Emphasis added.]

In my early years in retailing, I was told that there were just three things needed for a successful store: *Location, Location, Location*. Then I was told that in retailing the employees were a store's most important asset; they had to make the customers want to come back *again and again and again*.

One would think that a major accounting firm could either prove which asset is the most important asset or qualify several assets as being *among* the most important assets.

No. 3: *Consumer Trends*, issued by the International Credit Association, June 5, 1993, spoke of the ratio of household debt to Gross Domestic Product as having increased 39% since 1979. But the article neglected to mention that today 20% or more of new cars (excluding fleet cars) are leased to individual consumers and that the amount owed on the leases is not included as part of household debt. Also excluded from household debt is the amount owed on equity loans against individual residences. The Federal Reserve Board knows that the published figure for household debt is misleading but is not interested in publishing an accurate figure. Under presidents Reagan and Bush, the Federal Reserve Board was restrained by a ruling which stated that it could not add a new index unless it dropped an old index — and there were none that it wanted to drop.

**RThought:** Deloitte & Touche, Ernst & Young, and the International Credit Association are all impressive, mature organizations. Yet one uses their printed information at one's own risk. If you don't fully understand that what they publish is or may be wrong, you may use the information in a manner which will make you seem silly to those who do understand it.

### **DID YOUR CUSTOMERS KNOW IF YOU WERE OPEN ON THANKSGIVING DAY?**

On Thanksgiving, I received a call from a friend, asking, "Will Sunvalley [Shopping Center] be open today?" I suggested she check the tabs in the newspaper — and then I checked them myself. Here is what I found.

**Toys "R" Us:** Page 1, upper right-hand corner, "Open Until Midnight." Back page, "Monday-Saturday — 8 A.M. to Midnight; Sunday — 9 A.M. to 10 P.M." *No mention of Thanksgiving Day.*

**Target:** Front page, one-inch from bottom, in small type, "Closed Thanksgiving Day."

**PayLess Drug Stores:** Top of extended insert, "Friday, November 26, 7 A.M. to Noon!" On front of tab, "Open 7 A.M. Friday and Saturday." *No mention of Thanksgiving Day.* (Is sloppiness like this the reason Kmart sold PayLess?)

**Ross Stores:** "Open early Friday 8 A.M." and "After Thanksgiving Shop Ross First." Back mentioned special holiday hours for November 26, 27, and 28. *No mention of Thanksgiving Day.*

**Kmart:** "2-Day After-Thanksgiving Sale. Friday, November 26, 7 A.M. to 11 P.M." *No mention of Thanksgiving Day.*

**Sportmart:** "Friday, November 26, 6 Hours Only, 7 A.M. to 1 P.M." On back, it mentioned Friday, Saturday, and Sunday hours. *No mention of Thanksgiving Day.*

**The Good Guys!** "3-Day Sale Starts Friday, 8 A.M.!" *No mention of Thanksgiving Day.*

**Big 5 Sporting Goods:** On front, "Closed Thanksgiving Day. Open Friday, 8 A.M."

**Wal-Mart:** Mentioned only Friday, Saturday, Sunday. "Open 7 A.M. Friday." *No mention of Thanksgiving Day.*

**Emporium:** "Thanksgiving Weekend Sale and Value starts Friday at 8 A.M." *No mention of Thanksgiving Day.*

**Best:** "After Thanksgiving Sale, Super 4-Hour Specials! Friday Only!" *No mention of Thanksgiving Day.*

**Home Express:** On the front page below Friday hours, "All stores closed for Thanksgiving."

**Mervyn's:** "Doors open Friday, 7 A.M.!" Back page, small print, with three lines of special hours, "Closed Thanksgiving."

**Circuit City:** Just below large heading of "Thanksgiving Weekend Sale" was *Closed Thanksgiving.*

**Montgomery Ward:** After "Thanksgiving Sale, 2 Days Only," very small print in lower left-hand corner of front page, "Closed Thanksgiving Day."

**RThought:** Come on guys, we can communicate better than that!

### **WILL RETAIL ADVERTISING BE NEXT?**

The NAACP Legal Defense and Educational Fund has won a suit against *The New York Times* alleging housing discrimination. The suit alleged that the paper violated the 1968 Fair Housing Act by consistently showing only white people in real estate ads. A study of the ads showed 99% white and 1% black models, with most of the blacks being shown as doormen, cab drivers, and janitors.

Although *The Times* signed a consent decree, it denied any fault, arguing that the ads were created, produced, and submitted by others to *The Times* which then merely published them as submitted.

In Southern California, the *Los Angeles Times* and other newspapers are cooperating with home builders to show more racial diversity among the models in their ads.

**RThought:** Many retailers are still showing only white models in their ads. It appears that the leaders in diversity among models are mainly the major chains — Kmart, Wal-Mart, Target, and J. C. Penney. As our population diversifies, it would seem to me to be good merchandising to show, as models, the diversity of the customers we seek to bring into our stores.

Can same-store sales of -1% or -2% be the result of segments of the community conducting a silent boycott of stores which place too much emphasis on "whites only" in their ads, as well as among the staff on their sales floors?



## IS THERE A WEAKNESS IN THE AUTO REPAIR INDUSTRY?

The Bureau of Automotive Repair, Department of Consumer Affairs, State of California, has levied penalties totaling \$1.4 million against the Winston Tire Company, the operator of 163 stores in California at which tires are sold and limited automotive services are provided.

Thirty-seven of the 163 stores were investigated. Only nine of the 37 stores did not overcharge the undercover agents.

The offenses were similar to those charged against Sears, Roebuck and Company, which resulted in an \$8 million fine in California and fines in several other states.

There was no mention of a compensation system which stimulated the following violations as occurred in the Sears case.

Some violations cited were:

- One hundred and seventy-eight dollars charged for brake calipers which were not needed.
- New grease seals which were charged but not installed.
- Calipers and rear coil springs unnecessarily replaced at a cost of \$303.

Winston has agreed to:

- Stop selling coil springs, except in an emergency.
- Set a new policy on sale of shock absorbers, brakes, and calipers.
- Eliminate incentive programs to sell certain products.
- Install a toll-free number for complaints.

- Conduct its own random check of shops.
- Repay \$450,000 to 20,000 customers.
- Be on probation for three years.

**RThought:** Why do rear coil springs keep showing up in overcharges? I did some work for an auto parts wholesaler about the time of the Sears fiasco, and I asked the CEO. He said that coil springs are a high unit price and a high markup item, with a low labor cost to install. It is a fast way to make a buck and to cheat customers who don't know whether or not their car's rear springs need replacing (bad front springs are much more obvious to a driver). It appears that every auto repair shop has a passion for rear coil springs (which did not happen when cars had leaf springs on which the markup was less and the installation labor required more skill).

**RThought:** It looks like California's Bureau of Automotive Repair is checking through all of the large sellers of tires and car service. If Sears and Winston are doing wrong, less reputable companies must be *really* taking advantage of the customer.

**RThought:** My family has purchased five Volvos from a local Volvo dealership. We have confidence that this dealer does not indulge in the Sears/Winston practices. (I have never replaced a rear coil spring — and I keep cars to about 150,000 miles!) We have patronized the same Shell gas station for 30 years (only two ownerships), not only for gasoline but for small automotive problems. We pay an extra 3-4 cents a gallon compared to the Beacon station across the street, but we have confidence in the Shell station and don't want to risk a change.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	SEPTEMBER		Percentage Change	Year to Date Nine Months		Percentage Change
		1993	1992		1993	1992	
52	*Bldg Matl Group	\$10,074	\$ 9,107	+ 10.6%	\$ 84,010	\$ 77,569	+ 8.3%
57	*Furniture Group	9,580	8,565	+ 11.8	82,096	74,743	+ 9.8
571	Furniture Stores	4,875	4,535	+ 7.5	42,303	39,604	+ 6.8
572	Appl, TV, Radio Stores	3,864	3,248	+ 19.0	31,997	28,469	+ 12.4
5941	*Sporting Goods Stores	1,609	1,423	+ 13.1	14,440	13,133	+ 10.0
5942	*Book Stores	909	891	+ 2.0	6,659	6,238	+ 6.7
5944	*Jewelry Stores	1,221	1,047	+ 16.6	10,138	9,264	+ 9.4
531Pt	Conventional Dept Stores	4,155	4,048	+ 3.6	33,989	33,702	+ 0.9
531Pt	Natl Chain Dept Stores	<u>2,926</u>	<u>2,742</u>	+ 6.7	<u>25,386</u>	<u>24,198</u>	+ 4.9
	Subtotal	7,081	6,790	+ 4.3	59,375	57,900	+ 2.5
531Pt	Discount Stores	<u>8,939</u>	<u>7,765</u>	+ 15.1	<u>77,024</u>	<u>69,462</u>	+ 10.9
531	*Department Stores	16,020	14,555	+ 10.1	136,399	127,362	+ 7.1
539	*Misc General Mdse Stores	4,449	4,143	+ 7.4	39,343	35,814	+ 9.9
541	*Grocery Stores	30,478	29,417	+ 3.6	273,950	268,209	+ 2.1
56	*Apparel Stores	8,744	8,491	+ 3.0	73,229	71,189	+ 2.9
561	Men's & Boys' Stores	682	676	+ 0.9	5,934	6,118	- 3.0
562,3,8	Women's Stores	3,117	3,072	+ 1.5	26,863	25,943	+ 3.5
565	Family Clothing Stores	2,749	2,644	+ 4.0	22,541	21,482	+ 4.9
566	Shoe Stores	1,517	1,496	+ 1.4	12,577	12,917	- 2.6
591	*Drug Stores	6,345	6,056	+ 4.8	58,132	56,680	+ 2.6
596	*Nonstore Retail	4,037	4,600	+ 0.9	33,227	33,617	- 1.2
5961	Mail Order	1,334	1,246	+ 7.1	17,622	19,394	- 9.1
	*Retailing Today Total Store Retailing†	93,466	88,941	+ 5.1	811,623	773,818	+ 4.9
	**GAF TOTAL	45,048	41,603	+ 8.3	385,086	359,971	+ 7.0

†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.



# Retales with Eric Craig

**When compiling our list** of Australia's top retail sales revenues (Page 16), we were unable to include the hardware groups supplied by Danks Holdings – Home Hardware, 251 stores, and Thrifty Link, 319 stores. **John Danks**, managing director of Danks, said the company had never pressed its independent retailers for sales data, but this could be helpful in the future. He said the Australian Bureau of Statistics' hardware sales figures included jewellery, believe it or not, as well as construction items such as concrete pipes.

**Family footwear stores** didn't find it easy in 1993. Athletic footwear was a section which suffered particularly badly. Even Kinney Shoes, with six or seven different retail formats across Australia, found its trade in "athletics" was being whittled away. **Barry Williams**, Kinney's managing director, said that so many major brands had flooded the market, they caused a concertina-effect on prices. But last week was the first week of Kinney's new trading year, "so we're looking forward to much better business", Mr Williams said.

**What this country needs** is a major retailer with enough guts to stop selling cigarettes, thereby forsaking an element of profit, but publicising the importance of helping to stop mass suicides from lung cancer. **Robert Kahn's** January issue of *Retailing Today* said: "One of my jobs as a retail commentator is to hold up a mirror, so we can all have a good look at ourselves. More and more retailers have No Smoking signs, and promote smoke-free work areas, yet we ignore the death statistics. Cigarettes are the only legal product we sell that, if used according to directions, can kill you. Can we retailers be proud of this?"

**The same issue of *Retailing Today*** commended Coles Myer's extension of employees' shopping discounts to shareholders. Bob Kahn said: "I suspect many people will buy some Coles Myer shares just for the discount. Over a year, it may provide a return much higher than from their investment – and it isn't taxable!"

**Kmart is pleased** with its move into own-brand groceries. Retail sales of Australia's Choice, the series it launched nationally last August, are expected to total \$20 million on their six-months' anniversary this week. At the time of introducing the new brand, **Bob Dalziel**, Kmart's managing director, said it intended to release almost 300 AC products within two years, and to attain an annual sales volume of \$250 million within three years.

**It's well known that many newspapers**, public relations handouts and even retailers frequently misspell "confectionery". But last week we spotted a notice, outside one of Sydney's most elite schools, stating that "confectionary", among other things, was barred from the tennis courts.

**More and more school lads** are wearing Akubra felt hats. It's very big business today, said **Steve Keir**, managing director of the Kempsey manufacturer. "It's not only their parents' greater concern about skin protection, but kids are still knocking the hell out of them," he said. So Akubra had another record year in 1993. Sales revenue was up 20% and at very satisfactory margins. New machinery will arrive in March to help meet an exploding export demand. With doubled-up advertising, 1994 looks like another boomer, Mr Keir said. "Queensland sales are unbelievable, despite difficult weather, with probably 15% or more going to tourists," he said.

**It wouldn't have been protocol** for Akubra to claim that Prince Charles was wearing one of its hats, and Akubra didn't actually supply HRH with the hat seen on television every night last week. But, immediately after his visit to Coonabarrabran, many headgear connoisseurs recognised the round-crown shape as that of Akubra's "Squatter".

**There's nothing in which people** are more interested than other people. So the new format of Myer Grace Bros' staff magazine, *Direct Line*, would have pleased the department stores' many staffers. Its 24 pages were packed with people-news. But may we offer two constructive comments? Too many type styles on every page make reading rather tiresome, and slabs of fine *italics* are hardest-of-all to read. In short, don't spoil the new concept by over-decorating it!

**Advice to fashion manufacturers** from New York's WSL Marketing: Instead of running amok with unwearable, incredibly ugly clothing next summer, in your attempt to stimulate sales with "something new", how about some easy-care garments which will last for more than one season? Perhaps buttons that won't fall off, button-holes that won't fray after one or two wearings? Colours that won't run in the first wash? Moderately priced fashion still fails these basic aspects of quality control far too often, thereby spoiling any desire to return.

**Co-ordinated merchandising is the key** to increasing sales in childrenswear, according to *Discount Store News*. If you can't have an everything-for-kids store under the one roof (this page, last week), consider moving the department to the front of the store, where almost everything can be viewed from the street or shopping mall. Inside the store, have outwards-facing racks for time-conscious parents, with every rack carrying "co-ordinated items which make a lifestyle statement".

**Sending a lace-edged hankie** inside your Valentine's Day card has become outdated. Mars Confectionery has made your token of remembrance for that special person so much sweeter by slipping a packet of popular Maltesers inside its range of pretty cards. Mars is confident this distinctive gift-card will prove a steady seller right through the year. ♦



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ATTN: Robert Kahn, CMC

*Please Put w/ RT*

Dear Robert,

RE: RETAILING TODAY, JANUARY 1994, VOL. 29,  
NO. 1

Thank you for your thoughtful article. We  
enjoyed reading it very much.

We would really love to have you as a STAT  
member.

Sincerely yours,

*James A Bergman*  
James A. Bergman  
Executive Director

JAB/aen

*I have been since 1989  
You probably have name under*

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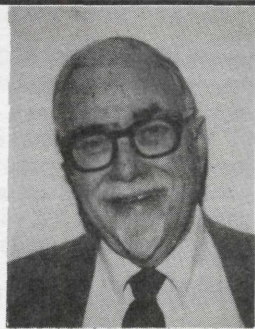
Dear Bob,

Congratulations on your lead article in the January, 1994, issue of *Retailing Today*. Keep up the good work!!

*Bert wishes -  
Kirk*

D. Kirk Davidson





# RETAILING TODAY

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ROUTE TO

FEBRUARY 1994

VOL. 29, NO.2

## MARKETING LESSONS FROM THE CLINTON AND BUSH CAMPAIGNS

The following are excerpts, with permission, from *Boardroom Reports* (333 East 42 Street, New York, NY 10036; \$49/yr.) of an article written by Jack Trout of Trout & Ries, marketing consultants (2 Pickwick Plaza, Greenwich, CT 06830).

Business executives should take a hard look at the 1992 race when President Bush, after 30 years of public service and when absolutely convinced that he would win, lost by a wide electoral vote margin. Trout saw six lessons.

### Lesson No. 1: Believe Your Research

Bush was so convinced he could win that he did not believe his research. He didn't replace Quayle, present a health care program, offer a program to improve the economy or rein in the party's right wing. The analogy in business is General Motors which, for 20 years, refused to believe that consumers did not want to buy what GM offered: poorly made gas guzzlers.

### Lesson No. 2: Play to Strength

Bush was so busy defending himself that he never presented himself as a powerful international leader. Nor did he actively support NAFTA as the route to millions of jobs. Replacing Quayle with James Baker would have signaled a major change. Many businesses fail to change existing methods when time proves them to be counter-productive. The business example: Cadillac *finally* changed its goal from high-powered engines to quality manufacturing.

### Lesson No. 3: Find the Achilles Heel

Bush failed to identify Clinton's major vulnerability. It wasn't womanizing or the draft. It was his inexperience, a point that Ross Perot frequently noted. Perot's quip: "Someone who can run a grocery store can't necessarily run Wal-Mart."

### Lesson No. 4: Keep Attacking Weakness

Clinton could have attacked every area where Bush was vulnerable, but he discovered that Bush's economic policy hit a nerve with voters and he stayed with the issue. A parallel in business was when Pepsi's research told it that Coca-Cola's stodgy reputation made it vulnerable in the lucrative youth market. In another case, Burger King gained on McDonald's with its "broiled, not fried" strategy (which it later abandoned).

### Lesson No. 5: Deflect Negative Attention

Clinton was tagged a liberal, which many consider to be "a negative." Clinton eliminated much of this problem when he confronted Jesse Jackson. The Republicans failed to confront the religious right, which was "a negative" for them. In business, BMW gained market share in the 1980s by becoming the "yuppie" vehicle; it is now trying to return to its original position as a "high-quality driving machine."

*continued*

## JUST SAY 'NO' TO GANG PROFILES

Lawsuits have been filed in Northern California against the owners of Hillsdale Shopping Center in San Mateo (south of San Francisco), Sunrise Mall in Citrus Heights (east of Sacramento), and Newpark Mall in Newark (southeast of Oakland) for using gang profiles, whereby law officials are alleged to have forced certain young people to leave the malls and, in some cases, physically abused them.

In the Hillsdale Shopping Center case, the suit includes the San Mateo Police Department because it "encouraged and assisted the shopping center management in creating and enforcing a gang profile policy, whereby *individuals were singled out based on attire, race, age, gender, appearance, and/or national origin* — not on the basis of individual wrongful conduct." Put simply, the policy being enforced was that any young male Latino who wears black, for example, must be a gang member!

At Sunrise Mall a black man was arrested because his pants were baggy! This young man was chatting with a friend who had her 2-year-old baby with her. An off-duty Sacramento County Deputy Sheriff asked him to pull up his pants "because he was violating the mall dress code." (Note: No mention was made of where, if anywhere, the dress code was posted.) The young man thought the officer was joking — baggy pants are sold in several stores in the mall — but the officer handcuffed the plaintiff, frisked him in a small room in Weinstock's department store (consider the adverse publicity), arrested him, took him to a police station, strip-searched him, and put him in a holding cell for several hours.

At Newpark Mall three young men of African-American and Polynesian descent were ejected from the mall because they were wearing brown denim jackets!

**RThought:** The gang problem in California, as elsewhere, is serious. But violation of an individual's constitutional rights, at the urging of the San Mateo Police Department or any other police department, is also a serious matter.

Retailers and shopping center owners/operators must find a solution to the problem of gangs without depriving innocent persons of their freedom. The California Supreme Court has held that "a shopping center is open to the public and invites the public to treat it as the modern analogue to the town center." People lawfully making purchases, window shopping, or talking with others in a peaceful manner may not be discriminated against on the basis of their color or appearance.

The suits are being filed by the American Civil Liberty Union's northern California branch, which is being assisted by attorneys, up to the level of partner, from leading, local law firms.



## Lesson No. 6: Listen to Young People

Clinton gained by surrounding himself with young people while Bush did not. The young people told him that the majority of Americans were concerned about health care and jobs. Bush did not get that message. Many companies continue to let their older managers make marketing decisions in a surrounding deprived of the perspective of people in their 20s and 30s.

**RThought:** I can do no better than to quote my friend, Gerald Michaelson, the former vice president of the American Marketing Association's Marketing & Sales Management Division, lecturer, and the author of such books as *Winning the Marketing War*. Michaelson writes about what marketing people can learn from reading Sun Tzu (5th century BC), Clausewitz, and Napoleon. He said, "Military strategist Edward Luttwak points out that marketers too often use a few shopworn quotations from the most easily available sources. The problem is not that marketing professionals use the military as a source but that they may not have been exposed to enough sound military history in depth."

Michaelson closed one article with this advice from Ovid (48 BC-AD c. 18): "It is right to learn, even from the enemy." How many toy chains were slow in learning from Toys "R" Us? How many home improvement chains were slow in learning from Home Depot? How many discounters were slow in learning from Wal-Mart? How many apparel chains were slow in learning from The Limited? The list of dead retailers is long. Most did not learn.

Did you? Have you? Will you?

## CONTROLLING PRICES IN TABLOIDS

I congratulated Kmart for having 176 prices ending in a double zero in one of its tabloids (October 1993 RT) but still criticized it for losing control of shoe prices advertised by Meldisco, which is jointly owned by Kmart and Melville but operated by Melville as a concession.

Now, I would like to report on the Target tab for September 26, 1993, which featured a "Dollar Sale." Though the 16-page tab grouped some items under a single price (i.e., two forms of Ultra Slim-Fast under the same \$4 pricing), Target had 121 even-dollar prices with no exceptions.

On the same day, Montgomery Ward ran an 18-page tab (a 10-page tab plus eight full pages) with more than 246 prices ending in 99 cents (some higher-priced items ended in \$99). This caused me to ponder the wallpaper sale (\$6.39-\$19.19), the aluminum window shades (50% off the "regular" price, plus "take an extra 30% off the reduced price," making it appear to be 65% off), and the .9 amp Dirt Devil Upright vacuum at \$199.97. But getting 246 prices to end in "99" must be applauded!

**Note on Montgomery Ward:** After the scolding given Montgomery Ward by the National Advertising Division (NAD) of the Better Business Bureau for advertising diamond earrings at \$399 (regularly priced at \$1,199), or 67% off, I was rather surprised to see a half page plugging "all 14K gold 60-65% off, excluding Super Buys."

**RThought:** Slowly, but surely, larger retailers are finding out how to get uniform endings on prices in ads for 200 or more items.

**RThought:** I agreed with Montgomery Ward's response to the NAD ruling against it in which Montgomery Ward protested that the rules were no longer clear, since NAD allowed a prior advertiser to run ads at 55% off without proof of one or more sales at the so-called "regular" price. On the other hand, in the Montgomery Ward case, the panel hearing the case thought that Montgomery Ward was offering a 75% discount. In NAD's decision, reference

was made to the \$1,199 "regular" price of earrings (on sale for \$399) as being "four times the sale price, when it was actually a bit more than three times. Perhaps 60-65% off has now been accepted as a believable "sale" price.

## HASH

"Hash" will be a recurring heading from hereon in RT. It will be used to discuss studies which cross my desk and which, in my opinion, don't provide useful information.

The December 1993 issue of *Chain Store Age Executive* had a supplement prepared by Coopers & Lybrand, entitled "Utilizing Inventory Information for Enhanced Supply Chain Management."

Three facts about the sample were given:

1. One hundred and sixty-two retailers participated.
2. The retailers represented seven different types: department stores, specialty softgoods stores, discount stores, specialty hardgoods stores, supermarkets, drug stores, and home centers.
3. Sales break down as follows:
  - 36% under \$100 million (58 firms)
  - 41% between \$100 million and \$500 million (66 firms)
  - 9% between \$501 million and \$1 billion (15 firms)
  - 8% between \$1 billion and \$2 billion (13 firms)
  - 6% with above \$2 billion (10 firms)

By multiplication, it was easy to determine the number of firms in each size. However, no information was provided on how many of each type of store fell into each volume group. When comments referred to types of stores, the sample may have been so small the numbers were worthless. For example, a page and a half was devoted to department stores. A percentage was cited in the text 23 times — but all were either 25%, 50%, or 75%. This led to the obvious conclusion that only four department stores were included. How significant is the fact that "25%" (one store) plan more frequent inventory counts?

In the case of specialty softgoods stores, the following percentages appeared, producing various intervals:

95%	41%	26%
87	36	25
64	33	15
54	31	13
46	28	

In four cases, the interval was two; in one case, the interval was one; and in two cases, the interval was three. If there were not intervals of one and three, one might surmise that there were 50 stores in the sample, but the smaller intervals indicated more than 50 stores in the sample. This might be a usable sample — if we knew more about the stores (i.e., large, small, chains, etc.).

In the case of discount stores, there were 18 different percentages quoted. In some cases, companies may not have provided the information. The preponderance of intervals of five or six led me to guess 16 to 18 stores.

Apparently, neither Coopers & Lybrand nor *Chain Store Age Executive* had any real inclination to make it helpful by providing a matrix with volume brackets on one axis and the type of store on the other.

**RThought:** Why do I use the word "hash"? In the service we described "hash" as "Sweep up the kitchen — twice." It didn't matter what got swept up, we cooked it and served it!



Bethlehem, PA: Orr's Dept. Str., Inc. (3) (1868)  
 Westerly, RI: McCormick's, Inc. (1926)  
 Brookings, SD: Coles Dept. Strs. (1916)  
 London, TN: Five to Five Str. (1942)  
 , TX: The Star Str. (1967)

Georgetown, TX: Gold's Dept. Str. (1911)  
 Haskell, TX: Hassen's (1933)  
 Huntsville, TX: Kerr's Dept. Str. (1963)  
 Kerrville, TX: Schreiner's (1869)  
 Nacogdoches, TX: Mize Dept. Str., Inc. (1925)

Paris, TX: Bowmen's (2) (1925)  
 Rocky Mount, VA: Cox's/Roberson, Inc. (1962)  
 Prosser, WA: The Golden Rule Str. (1904)  
 Raymond, WA: Dracoby Dept. Str. (1919)  
 Ladysmith, WI: J&J Apparel (1981)

## ARE THESE YOUR SUPPLIERS?

Listed below are the leaders in factory outlet store openings during 1992, as reported by *Value Retailing*, along with the number of factory outlet stores each retailer opened:

Famous Footwear	122	Kitchen Collection	13
Bass Outlet	34	Bernard Chaus	12
Geoffrey Beene Co.	30	Adolpho II	11
Bugle Boy	30	Maidenform	11
Jones New York	29	Socks Galore & More	11
9 West	29	Victoria Creations	11
Cape Isle Knitters	28	Barbizon Lingerie	10
Famous Brand Housewares	27	Langtry	10
Corning/Revere	25	No Nonsense	10
Carter's Childrenswear	24	Brooks Brothers	9
Florsheim Shoes	23	Duck Head	9
Westport Ltd.	23	Haband	9
Bon Worth	20	Jonathan Logan	9
London Fog	20	Libbey Glass	9
van Heusen Direct	20	Prestige Fragrances	9
Aileen	18	Totes	9
Arrow Shirts	18	Anne Klein	8
Naturalizer	18	Boston Traders	8
Westport Woman	18	Donna Karan	8
aida	16	Etienne Aigner	8
Toy Liquidators	16	Leslie Fay	8
Boston Traders	15	Mikasa	8
HeRo Group	15	Pfaltzgraff	8
The Paper Factory	14	Sunglass World	8
The Rag Shop	14	Unisa	8

**RThought:** How many of the listed brands do you carry in your store? Before long, these manufacturers will not need you. Phillips-van Heusen (PvH) is almost at that point.

Years ago, Larry Phillips, then CEO, told the story of what turned him on to factory outlet stores. He had just finished the most successful men's shirt promotion that Macy's New York had ever had when he was told that Macy's would no longer be buying from PvH as it was going to a private label being purchased offshore. Larry replied: "I have 9,000 people working for me, and I am going to see that each of them continues to have a good job."

Today, PvH has more than 500 stores, not counting its subsidiaries, Bass and van Heusen Direct.

**RThought:** More than 300 outlet retailers attended the Fall 1993 Industry Convention (retailers and developers) in New Orleans. Here are some of the names of vendors who attended but who are not listed above.

American Tourister	Converse
Amity Leather Products	Coty
Black & Decker	Crystal Brands
Botany 500	Dan River
Coach	Danskin

Farah  
 Farberware  
 Fieldcrest/Cannon  
 Fruit of the Loom  
 Hush Puppies

J. Schoeneman  
 Jockey International  
 Main Street  
 Manhattan  
 Nike

Pepperidge Farms  
 Polo/Ralph Lauren  
 Reebok  
 Regal Ware  
 Rubbermaid

Springs Industries  
 Stone Mountain Handbags  
 Stride Rite  
 Swank  
 VF Corporation  
 West Point-Pepperell

How would your store operate if you didn't carry some of the brands on these two lists because the vendors dropped you for one of the following reasons:

1. Slow pay.
2. Arbitrary fines and deductions.
3. Demand for a guaranteed gross-margin.
4. Dishonest reporting of the cost of advertising when claiming co-op.
5. Return of goods six weeks after receipt, claiming "not in accordance with sample."
6. Cancellation of order two days before authorized shipping date.
7. Refusal to accept shipment when delivered on due date, claiming "the shipment was late."
8. Return of perfect goods, claiming "defective."

I could go on with all of the problems vendors have with long-established department and specialty stores which they don't have with their own factory outlet stores.

Many of the manufacturers will net more from selling through their own stores than they will selling overruns or remainders through a department or specialty store.

**RThought:** As factory outlet shopping centers move closer and closer to major metropolitan areas, there will be less and less need for department and specialty stores. And as factory outlet shopping centers become larger and larger, as well as more attractive, more shoppers will switch from malls.

When you visit a factory outlet shopping center, compare the number of vacancies there with the number in the closest enclosed mall. The lack of vacancies reflects demand for space, which is a function of the number of customers.

## SHORT SHORT

Australia's *Inside Retailing* reported that an Osaka store "sells nothing but bullet-proof vests and other self-defense equipment...for students and businessmen planning to travel abroad, where security conditions are gradually worsening." **RThought:** Could it be the U.S., which is/was the most popular country for Australians to both visit and shop?



# WHITHER GOEST THE DEPARTMENT STORE?

I have a standing order for the Directory of Department Stores published by Business Guides, Inc., a subsidiary of Lebharr-Friedman. The 1993 directory listed all department stores (the definition was a bit loose — it listed companies as small as \$200,000 a year) in the United States and took up 209 pages, whereas the 1994 directory took up only 189 pages, or 9.6% fewer.

Each year the program for the National Retail Federation Convention conducts a session on "The Future of the Department Store." I have forecast that this subject will be on the program 10 years from now.

This year, in comparing the 1993 and 1994 directories, I found one new company added and 80 companies (144 stores) missing — and they are not Johnny-come-lately companies as the list below indicates.

Year Founded	No. of Stores Missing	Year Founded	No. of Stores Missing
1850-59	2	1920-29	14
1860-69	4	1930-39	7
1870-79	3	1940-49	6
1880-89	5	1950-59	5
1890-99	5	1960-69	4
1900-09	10	1970-79	3
1910-19	11	1980-89	1
		Total	80

Put another way: 81% were over 50 years old; 47% were over 75 years old; and 21% were over 100 years old.

The oldest was also the oldest retailer in California — the Charles Ford Company in Watsonville, California, which was founded in 1852 (California became a state in 1849, the year of the Gold Rush). The 1989 Loma Prieta earthquake contributed to its demise.

**RThought:** In the not too distant future, the listing will probably consist of:

Bealls Stores	Kohl's Stores
Belk Stores Services	The May Stores
The Bon-Ton Stores	McRae's
Boscovs	Mercantile Stores Co.
Byron's	Montgomery Ward
Carson Pirie Scott*	J. C. Penney Co.
Carter Hawley Hale Stores	Proffitt's
Dayton-Hudson Stores	Sears, Roebuck
Dillard Stores	Woodward & Lothrop**
The Elder-Beerman Stores	Younkers Stores
Federated Stores	ZCMI
Gottschalks	
G. R. Herberger's	
Hess's Stores	*Formerly A. Bergner
Joseph Horne Co.	**Including John Wanamaker (now in Chapter 11)

I hesitate to list a few of these firms because I believe some will be acquired by more aggressive competitors. A few which are not listed probably will survive, if not acquired: Stone & Watson in West Virginia; Harris in California (owned by El Cortes Ingles in Spain); Liberty House; Von Mauer (formerly Petersen-Harned-von Mauer); and Crowley-Milner (which seems to go on forever). However, the directory will probably have fewer than 100 pages. It may become just a section in the Discount Store Directory.

The following is a list of companies in the 1993 directory which were not listed in the 1994 directory, with the year each company was founded in parentheses. The number of store units, if applicable, is shown in parentheses immediately following the name of the company.

Troy, AL: Stanton's (2) (1945)  
 Batesville, AR: Van Atkins Strs. (2) (1946)  
 Beebe, AR: Powell & Co. (1919)  
 Harrison, AR: Walter's, Inc. (1867)  
 Colton, CA: Helman's for Sports (1907)  
 Hanford, CA: Iseman's (1959)  
 Lincoln, CA: Demas Dept. Strs. (1923)  
 Los Angeles, CA: Yaohan USA Corp. (1972)  
 Los Gatos, CA: Chrislow's Dept. Str. (1951)  
 Manteca, CA: Brown & Mahin (2) (1959)  
 Modesto, CA: Loeb's Dept. Store (1927)  
 Watsonville, CA: Charles Ford Co. (8) (1852)  
 Branford, CT: Horwitz, Inc. (2) (1920)  
 East Hartford, CT: Seapark's Dept. Str. (1940)  
 Calhoun, GA: Robertson Dept. Strs. (3) (1912)  
 Columbus, GA: J. A. Kirven Co. (1876)  
 Commerce, GA: Jay's Dept. Str. (1909)  
 Dalton, GA: Canon's Dept. Str. (1880)  
 Griffin, GA: Crouch Co. Inc. (1878)  
 Moultrie, GA: Louis Friedlander & Sons (1909)  
 Oskaloosa, IA: Alsop's (1932)  
 Boise, ID: The Bazaar, Inc. (1906)  
 Grace, ID: Chadwick's, Inc. (1941)  
 Chicago, IL: Crawford's Dept. Strs. (2) (1918)  
 Chicago, IL: Berny Herms Dept. Strs. (2) (1973)  
 Crystal Lake, IL: New Era (1917)  
 Monmouth, IL: Martha Brown, Ltd. (3) (1902)  
 Knox, IN: Weinberg Strs. Inc. (1930)  
 Plymouth, IN: Bosworth's (1891)  
 Winamac, IN: Frank A. Miller Strs., Inc. (1920)  
 Coffeyville, KS: Read's, Inc. (3) (1872)  
 Fort Scott, KS: Litwin's, Inc. (5) (1903)  
 Independence, KS: The C. R. Calvert Co. (1910)  
 Pittsburg, KS: Ramsay's (3) (1890)  
 Louisville, KY: Sam Shaheen's Dept. Str., Inc. (1922)  
 Hammond, LA: Rosenblum's, Inc. (1934)  
 Caribou, ME: L.S. Hall Co. (1940)  
 Ocean City, MD: Benjamin (1915)  
 Plymouth, MA: Buttner Co. (4) (1923)  
 Bay City, MI: W.R. Knepp Co. (1921)  
 Hancock, MI: Gartner's (1884)  
 Saginaw, MI: A.E. Ensminger & Co. (1923)  
 Fairmont, MN: Bob Wallace Mercantile Co. (3) (1915)  
 Hastings, MN: Schneider-Ralph, Inc. (1897)  
 New London, MN: The Big Store, Inc. (1930)  
 Belzoni, MS: Ollie Mohamed's Dept. Str. (1958)  
 Fremont, NE: Schweser's (22) (1880)  
 Omaha, NE: Richmond Gordon Dept. Strs. (3) (1905)  
 Keene, NH: W.L. Goodnow Co. (1892)  
 Egg Harbor City, NJ: Lewis's (3) (1856)  
 Woodbridge, NJ: Christensen's Dept. Str. (1895)  
 Albuquerque, NM: Kistler-Collister & Co. (1912)  
 Endicott, NY: The Burt Co. (1920)  
 Gloversville, NY: Argeringer's Dept. Str., Inc. (1968)  
 Watertown, NY: Empsall's Dept. Strs. (1920)  
 Woodstock, NY: H. Houst & Son, Inc. (1932)  
 Kinston, NC: Brody Bros. Dry Goods (1928)  
 Laurinburg, NC: Laurinburg Fashion & Sports Apparel (1953)  
 North Wilkesboro, NC: N.B. Smithy Co. (1906)  
 Bottineau, ND: J & J, Inc. (1886)  
 Ashtabula, OH: Carlisle's Retailer, Inc. (11) (1868)  
 Marysville, OH: Weiss Bros., Inc. (1934)  
 Oklahoma City, OK: Dixie Str. of Erick, Inc. (1977)  
 Grants Pass, OR: Golden Rule Str. (1905)  
 Ardmore, PA: Harrison's Dept. Str. (2) (1888)

continued



## CREATING WEALTH — THROUGH INCREASED MARKET VALUE

Stewart Stern, a New York City consulting firm, has pushed the concept of market value appreciation (MVA) as a measure of a company's performance. *Fortune* (December 27, 1993) extracted the 200 (of 1,000) leading companies with the largest market capitalization and reported the MVA for five years (1988-1993).

The retailers on the list were as follows:

Rank 1993	Rank 1988	Company	Market Value Added (\$ millions)
1	6	Wal-Mart Stores	\$ 64,061
14	222	Home Depot	20,013
41	64	Limited	7,218
58	153	Albertson's	5,049
64	146	May Department Stores	4,807
67	164	Winn-Dixie Stores	4,687
86	143	Walgreen	3,556
88	579	Dillard Department Stores	3,537
96	722	J. C. Penney	3,243
100	111	Melville	3,101
108	338	Kroger	2,952
109	190	Dayton Hudson	2,931
118	37	Food Lion	2,723
127	211	Avon Products	2,495
187	279	Kmart	1,608
271	841	Woolworth	1,011
311	233	American Stores	827
333	N/A	Safeway	742
968	924	Federated Department Stores	(680)
977	993	Sears, Roebuck	(850)

**RThought:** Although Federated and Sears are at the bottom of the list, the negative numbers do not represent a guide for the next five years. Federated will be going against a post-Chapter 11 valuation, and Sears is again becoming an effective retailer (which makes many an old-time retailer, like me, happy).

## 'TAS THE SUNDAY BEFORE CHRISTMAS...

I am not sure that newspapers in all areas of the United States carry the number of tabloids we have in California newspapers. As an example, our local paper, the *Contra Costa Times*, contained the following tabs on Sunday, December 19, 1993:

Big 5 Sporting Goods	Montgomery Ward
Emporium (Carter Hawley Hale)	PayLess Drug Stores (Kmart)
The Good Guys	J. C. Penney
Home Express	Raley's
Kmart	Safeway
Levitz	Sears, Roebuck
Lucky (American Stores)	SportMart
Macy's	Target (Dayton Hudson)
Mervyn's (Dayton Hudson)	

Not included above were the following one or more full-page ROP ads:

Circuit City	Emporium
Crown Books*	Home Depot

\*Advertising that Barnes & Noble had quietly raised prices just in time for Christmas.

**RThought:** Is it a wonder that tabs are not pulling like they used to pull? Is it a wonder that a reputation for "everyday low prices" helps attract customers who otherwise have to look through 17 tabs to check on what is sale-priced for the next two or three days and that they may be too busy to jump through a retailer's hoop?

## IF YOU DISTRIBUTE A CATALOG, DO YOU KNOW WHAT YOU ARE DOING?

Katie Muldoon of Muldoon & Baer, direct marketing consultants, writes a regular column for *DM News*. In her December 13, 1993, column, she gave some of the information being developed by Gallup Applied Systems on how people read catalogs. Gallup used Eye-Trac videotapes which recorded the eye movement of hundreds of prospective buyers when they perused catalogs. Gallup also timed the viewers, checked whether they began at the front or the back of a catalog, etc.

The final report is not yet out, but Muldoon was permitted to give some insights.

Test yourself on the following true/false statements:

- |          |          |   |
|----------|----------|---|
| <b>T</b> | <b>F</b> | The bigger the catalog, the longer the time readers will peruse it. |
| <b>T</b> | <b>F</b> | Half start from the back and half start from the front.             |
| <b>T</b> | <b>F</b> | An index helps.   |
| <b>T</b> | <b>F</b> | Longer descriptions hold readers' attention.                        |
| <b>T</b> | <b>F</b> | The right-hand page gets more attention.                            |

You receive an A if you answered F-F-T-F-F.

**RThought:** If you are now convinced that you don't know everything about catalogs and that nobody in your business has previously measured the eye movements of tens of thousands of people perusing catalogs, perhaps you will want a copy of this study when it is completed. If so, contact Sharon Polansky at Gallup Applied Systems (609-924-7772). She may convince you that \$2,100 is a bargain for this and more information. One properly designed catalog should more than pay you back.

At the same time, thank Muldoon at 212-702-4839 for including the information in her column.

## HAVE YOU STUDIED THE LABOR FORCE LATELY?

The *labor force* is a major portion of your customers. The retired tend to (a) have most of their needs already satisfied and (b) have a more limited income with which to satisfy their needs. (For some stores, those of pre-labor market age may be significant.)

We have suffered with high unemployment for a long time. We tend to think of unemployment in terms of jobs lost, but we seldom think of it in terms of jobs lost to more efficient methods. We are producing enough food to satisfy a growing population and yet increase our exports of agricultural products. And we are doing it with fewer people, as shown by the table below.

Year	Agricultural Workers (000s)
1950	7,160
1960	5,458
1970	3,463
1980	3,364
1990	3,186
1993	3,207

In 43 years, 4 million, or 55%, fewer people are employed as agricultural workers. A similar increase in efficiency is now occurring in many segments of the much larger nonagricultural work force.



The distribution of jobs has changed significantly in just 20 years (1972-1992), as shown below:

Occupation	1972 Percentage	1992 Percentage
Managers (a)	8.9%	12.8%
Professionals (a)	10.8	13.9
Subtotal (a)	19.7	26.5
Craft (b)	12.6	11.2
Operators (c)	21.2	14.4
Subtotal (d)	33.8	25.6
Technicians	2.3	3.6
Sales (e)	10.4	11.8
Clerical (f)	16.0	15.8
Service (g)	13.2	13.7
Farms	4.7	2.9
Total	100.0%	100.0%

- (a) Reengineering and flatter organizational structures hope to reduce costs by eliminating managers and professionals.  
 (b) Includes construction and factory workers.  
 (c) Mainly in factories.  
 (d) Decline in high-pay jobs, which led to more investment in factory automation.  
 (e) Includes most people in retailing as well as those who are specialized outside salespeople.  
 (f) Held even or slightly reduced as computers are more widely used.  
 (g) Essentially lower pay levels.

These statistics have led to some interesting changes in the percentage of workers participating in the labor market by age, as shown below:

Year	Women 35-44 %	Men 55-64 %
1950	39.1%	86.9%
1960	43.3	86.8
1970	51.1	83.0
1980	65.5	72.1
1990	76.5	67.7
1993	76.8	67.0

As more men in what we formerly considered the "pre-retirement" cohort become the retirees, an increased percentage of women whose children can care for themselves are now returning to or have entered the labor force — and probably at a 15-30% lower salary than the male retirees whom they replace.

**RThought:** These figures appear to indicate that there will be an increased demand for women's apparel, especially garments suitable for work, since there is a greater percentage of women in the 35-44 cohort entering the work force; and there will be a decline in the sale of men's apparel, as the men in the 55-64 cohort withdraw from the work force.

## WORDS — OF WISDOM FROM THE VILLAGES OF AFRICA

At a recent conference on solving problems in the black communities called by Reverend Jessie Jackson, an attendee from Africa said that where he came from there was an old adage:

**It takes an entire village to raise a child.**

**RThought:** In many parts of the United States, particularly in the metropolitan areas, it is hard to find two people to raise a child, let alone an entire village to assume the responsibility. Sometimes, there isn't even one person.

I was reared in the Richmond District of San Francisco, then, as it is now, one of the largest cities in the United States. I would usually walk or ride my bike to most places. And, within that radius, most people — merchants, policemen, service station attendants, and even some of the postmen — may not have known my name but they knew that I was "Mrs. Kahn's little boy." If I did something wrong, they weren't above telling my mother. Fran (even at a young age, we called her "Fran" for Francesca) was divorced; but to fill the void of being a single parent, she had a full-size hairbrush that she was not against applying to my bare behind. I was a fast learner!

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	OCTOBER		Percentage Change	Year to Date Ten Months		Percentage Change
		1993	1992		1993	1992	
52	*Bldg Matl Group	\$10,251	\$ 9,198	+ 11.4%	\$ 94,275	\$ 86,767	+ 8.6%
57	*Furniture Group	9,777	8,975	+ 8.9	91,927	83,718	+ 9.8
571	Furniture Stores	5,047	4,728	+ 6.7	47,378	44,332	+ 6.9
572	Appl, TV, Radio Stores	3,823	3,436	+ 6.7	35,826	31,905	+12.3
5941	*Sporting Goods Stores	1,479	1,339	+10.4	15,930	14,472	+10.1
5942	*Book Stores	658	672	- 2.1	7,327	6,910	+ 6.0
5944	*Jewelry Stores	1,219	1,136	+ 7.3	11,338	10,400	+ 9.0
531Pt	Conventional Dept Stores	4,402	4,423	- 0.5	38,391	38,125	+ 0.7
531Pt	Natl Chain Dept Stores	3,283	3,026	+ 8.5	28,669	27,224	+ 5.3
	Subtotal	7,685	7,449	+ 3.2	67,060	65,349	+ 2.6
531Pt	Discount Stores	9,940	8,900	+11.7	86,970	78,362	+11.0
531	*Department Stores	17,625	16,349	+ 7.8	154,030	143,711	+ 7.2
539	*Misc General Mdse Stores	4,828	4,503	+ 7.2	44,177	40,317	+ 9.6
541	*Grocery Stores	31,145	30,590	+ 1.8	305,141	298,199	+ 2.1
56	*Apparel Stores	9,056	9,114	- 0.6	82,267	80,303	+ 2.4
561	Men's & Boys' Stores	780	775	+ 0.6	6,716	6,893	- 2.6
562,3,8	Women's Stores	3,235	3,328	- 2.8	30,109	29,271	+ 2.9
565	Family Clothing Stores	3,023	2,944	+ 2.7	25,557	24,426	+ 4.6
566	Shoe Stores	1,374	1,441	- 4.6	13,939	14,358	- 2.9
591	*Drug Stores	6,512	6,405	+ 1.7	64,630	63,085	+ 2.4
596	*Nonstore Retail	4,210	4,515	- 6.8	37,403	38,132	- 1.9
5961	Mail Order	2,397	2,757	-13.1	20,014	22,151	- 9.6
	*Retailing Today Total Store Retailing†	96,760	92,796	+ 4.3	908,445	866,614	+ 4.8
	**GAF TOTAL	47,411	44,969	+ 5.4	432,602	404,940	+ 6.8

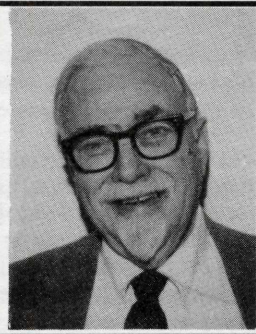
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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ROUTE TO

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## RANDOM THOUGHTS ON MANDATORY HEALTH INSURANCE

The leaders of retailing are appearing before Congress in opposition to the provisions of President Clinton's National Health Security Act. For instance, Charles Siegel, CEO of 50-Off Stores, Inc., testified that IMRA (International Mass Retailing Association) estimated that 20% of all jobs in the mass retail industry will be eliminated under President Clinton's plan, under which employers must pay 80% of the health-premium cost for all workers, regardless of the number of hours worked per week.

**Random Thought No. 1:** If the Social Security tax were eliminated (about the same cost as the proposed health premiums), would the mass retail industry hire 20% more people?

**Random Thought No. 2:** If a mass retailer did not lay off 20% of his or her people in order to maintain the present level of service, would that retailer make more money or less money than other mass retailers?

**Random Thought No. 3:** If checkout lines are too long now, how long would they be given 20% fewer employees? How much more stock would be in the backroom waiting to be put on the shelf by 20% fewer employees?

**Random Thought No. 4:** If a retailer has a difficult time processing all of his or her payments and payroll now, how many vendors/employees would be paid late if this retailer had 20% fewer employees?

**Random Thought No. 5:** If many mass retailers laid off 20% of their employees, what a wonderful opportunity there would be for the retailer who did not do so, as he or she could have service superior to that of competition and would benefit from much higher sales without a lot of advertising and markdowns.

## JORDAN MARSH SAYS IT WON'T DO IT AGAIN

Jordan Marsh (JM) was accused by the Massachusetts Attorney General of violating General Regulations, particularly 940 CMR 3.00 *et seq.*, by doing the following:

1. Inflating regular prices to facilitate the advertising of substantial discounts from regular prices;
2. Establishing artificially high regular prices when it knew that few or no sales would be made at such prices;
3. Misrepresenting sale event prices as offering substantial savings to consumers;
4. Offering merchandise on sale for more than 45% of each 180-day period;

## HOW HERTZ CHEATS

In years past a common objection to Hertz Rent A Car was its price for gasoline when a customer returned a car with the tank unfilled. Now, at airports, Hertz has a new trick for you: a sign posted at the counter informing patrons that it charges a set price for gasoline and indicates that the Hertz price is about 2 cents a gallon below the price in town (i.e., the gas station at the airport entrance).

Recently, when on a business trip to Dallas, Texas, I thought I had declined the Hertz gasoline option. Nevertheless, and unbeknownst to me, Hertz marked my ticket as having accepted it. I drove only 49 (freeway) miles — into Dallas for a meeting and back out to the airport. Hertz charged me at its "bargain gasoline rate" and came up with \$6.96 (49 x 14.2 cents) for an item marked "FL SVC MIL at .142," which I interpreted as "fuel service at 14.2 cents per mile." However, I had filled the tank for \$2.08 immediately prior to returning the car.

While professing to save me 2 cents a gallon, Hertz charged me an extra \$4.88 on a 49-mile trip! Consider how much it would have charged had I driven 200 miles or more.

**RThought:** I have expressed myself to the chairman and CEO of Hertz and am warming up my Avis card.

**Late Note:** I received a credit along with a defense of what Hertz is doing. Be careful.

5. Offering merchandise at sale prices after the advertised sale termination date;
6. Failing to provide, upon request, full substantiation of price comparisons and savings claims made; and
7. Failing to maintain records of all sales at both regular and sale prices for at least six months.

Most of these charges related to the sale of mattresses and box springs.

JM, a corporate subsidiary of Federated Department Stores, Inc., entered into an "Assurance of Discontinuance" with the State of Massachusetts, "without admitting to engaging in or liability for any of the acts and practices, and expressly denying that it had issued advertisements in violation of 940 CMR" and "in many cases dis-

*continued*



agreeing with the attorney general's interpretation of what the law requires."

Just the same, JM stated it would comply with the law and agreed to pay \$342,000 in restitution payments and a contribution of \$38,000 to the attorney general's Local Consumer Aid Fund. JM will refund 10% of the total purchase price, excluding sales tax. (Federated guaranteed the payment to customers.)

**RThought:** JM is not alone in doing this type of advertising. RT has reported in detail action by the attorney general of Colorado against May Department Stores and May/D&F in that state.

Do department stores really think that offers of 50% off (sometimes more) on mattresses and box springs are believed by their customers? More and more often I hear people say that they assume the sale price to be what the merchandise is really worth. And some tell me that they buy only at sales.

**RThought:** Do conventional store managers and owners understand the relationship between deceptive advertising, declining consumer confidence, and the growth of big-box, off-price specialty and discount stores?

## THE 'UNDERESTIMATE' OF THE YEAR

In August 1992 a federal district court found Lucky Stores guilty of sex discrimination in 188 of its Northern California stores.

A story in *The Oakland Tribune* contained the following:

**Plaintiffs in the 4-year-old class-action lawsuit are asking for nearly \$30 million in damages and back-pay for discrimination dating to 1984.**

**An expert witness for Lucky estimated back-pay liability at between \$3 million and \$6 million.**

When the trial for damages began in September 1992, plaintiffs were seeking \$150 million. *The Oakland Tribune*, as well as other local papers, reported at that time:

**Lucky attorneys said the amount should be between \$3 million and \$6 million.**

In September 1992 *The Wall Street Journal* reported that Lucky had "adopted a series of hiring and promotional policy changes to halt alleged discrimination against female workers, setting the stage for changes across the grocery industry." The same article stated that 20,000 plaintiffs claimed to be "owed" \$156 million. An attorney for Lucky called this "outrageous and inflated" and again cited \$3 million to \$6 million as the probable decision. A law firm was quoted as having said, "Using the plaintiff's method of calculation, potential damages are a maximum of \$20 million."

In the *Contra Costa Times* of March 26, 1993, Lucky was reported to be appealing to the 9th Circuit Court of Appeals, claiming 20 separate legal errors, and asking that District Judge Patel be removed from the case. Apparently, the appeal was rejected, and on December 16, 1993, Judge Patel handed down awards for damages as follows:

- \$74.25 million in damages for about 14,000 plaintiffs, averaging about \$5,000 (with some at more than \$50,000).
- \$20 million to be spent reforming Lucky's personnel policies (under process).
- \$13 million additional damages should Lucky not meet certain targets and objectives.

These awards, totaling a minimum of \$94 million and a maximum of \$107 million, are in the form of a consent decree which precludes all further appeals.

**RThought:** Lucky was so confident about the \$3 million-\$6 million range first cited by one of its "expert witnesses" that two years ago it rejected a \$30 million settlement! I recall an old rule: *When in a serious case with no clear precedent and an offer to settle is put on the table, accept it.* In addition to the higher court award in the final consent order, there is the matter of attorney fees and other expenses incurred during the past several years.

**RThought:** Newspaper reporters and others in the media often call me for an opinion on events in the retail industry. In the Lucky case, several reporters asked, "Will this bring about a change in the industry? Will the industry now take seriously the matter of discrimination against women?" I could only answer, "I hope so."

## THERE IS NO ANSWER TO THE QUESTION: HOW MUCH DO YOU SPEND ON FOREIGN GOODS?

Many times a large retailer is challenged with the question, "How much foreign goods do you buy?" When the retailer answers, "I don't know," the inquirer believes the retailer to be ducking the issue. When the retailer replies, "We buy about 5% offshore," he is aware the inquirer thinks him evasive, since more than 5% of the goods on his floor bear a foreign country of origin.

The problem with answering such a question was highlighted in a report by Margaret Gilliam of CS First Boston on Kellwood Company, one of the companies once controlled by Sears, Roebuck and Co. (22% ownership) and which mainly provided apparel for Sears. The opening phrase of Gilliam's report, labeled "Viewpoint," was:

**Kellwood's repositioning continues to pay off, and the company's balance to its business channels involving both domestic and offshore sourcing...." [Emphasis added.]**

**RThought:** I have seen identical products, some made offshore, some made domestically. The retailer does not know, in many cases, which will be shipped to fill an order.

The problem is further complicated when part of an item is made offshore and part domestically; when parts are made offshore and assembled within the U.S.; and when parts are made in the U.S. and assembled offshore.

There are advantages and economies under all three formats. I believe "I don't know" is going to be the truthful answer for years to come, especially with the Uruguay GATT Round and NAFTA both signed.

## ABUSE OF NUMBERS

The January 1994 issue of *Black Enterprise* (130 Fifth Avenue, New York, NY 10011; \$19.95/yr.) printed an item headed "Look Who's Filing for Bankruptcy?" It began with the following sentence:

**Baby boomers (those folks born between 1946 and 1964) are bullish on personal bankruptcy. Though this group makes up roughly 44% of the population, their money foibles account for 59% of personal bankruptcies (Chapter 7).**

**RThought:** If baby boomers are measured as a percentage of the population over 21 (there are few bankruptcies below that age), they represent 54% of the population. This means that baby boomers are not much more bankruptcy-prone than any other age



## HAS ENTRY TRAINING CHANGED MUCH IN RETAILING?

Frank Winfield Woolworth was one of the great U.S. merchants. He created a type of store that was copied worldwide. Today, there are retail operations bearing the Woolworth name in the United States and Canada (owned by the U.S. company) and the name Woolworth or Woolworths (owned by others) in Australia, England, Germany, New Zealand, and South Africa.

The following story is from *Five and Ten*, by John K. Winkler. As noted, it is, in turn, a quotation from a book by B. C. Forbes, founder of *Forbes* magazine. Woolworth never forgot the trials and tribulations of his first day in retailing at Augsbury and Moore. Years later he recounted them to B. C. Forbes, who recorded them thus in his meaty book, *Men Who Are Making America*.

Mr. Augsbury was the first one I encountered. "Bub, don't they wear any collars in your neighborhood?" was how he greeted me. I replied: "No." "No neckties either?" I again replied: "No." "Is this old flannel shirt the best you have to wear?" he next asked. "Yes, sir," I replied. "Well, you'd better go out and get a white shirt and a collar and a tie before you begin work."

I went and got properly rigged up, and shortly after I got back to the store Mr. Augsbury went to lunch. Nobody told me what to do. I hung around, feeling foolish, waiting for something to do. The clerks stared at me and sneered at me — I was a boob from the country accustomed to wearing nothing but old flannel shirts without collar and tie. At least, I imagined that was what they were thinking — and they afterward told me that that was exactly their sizing up of me. When most of the clerks had gone to dinner — lunch, as we call it nowadays — in came an old farmer and said to me: "Young man, I want a spool of thread." I didn't know where they kept the thread, so I went over to Mr. Moore, who was busy at his desk, and asked him. "Right in front of your nose, young man," he snapped without looking up from his writing. I pulled out a drawer directly in front of me and, sure enough, found it full of spools of thread. "I want number 40," said the farmer. I never knew till that moment that thread had a number. I fumbled all around the drawer looking for number 40, but could not find it. I appealed to Mr. Moore to

know if we kept number 40. "Certainly; right in the drawer in front of you," he said quite sharply. I had to tell him: "I can't find any." "Just as I expected," he said testily as he got down from his desk and showed me the right kind of thread. He immediately returned to his desk.

"How much is it, young man?" asked the farmer. I had to turn once more to Mr. Moore. It was 8 cents. The farmer pulled out a 10-cent shinplaster. "Mr. Moore, where do I get change?" I had to ask. "Come right up to the desk and make out a ticket," he ordered me. I picked up one of the blanks and studied it all over to see what I could do with it. But I was stumped. "Mr. Moore, I don't believe I know how to make this out," I had to confess. "Hand it to me; I will show you," he replied. Next I had to ask: "Where do I get my change?" "There's the cashier right there; can't you see him?" he said impatiently.

No sooner had the farmer gone out than another came in with the request: "I want a pair of mittens." "Mr. Moore, have we got any mittens?" I had to ask. "Hanging right up in front of your nose, young man," was his reply. And there they were, although I hadn't noticed them. The farmer, after a lot of fingering and trying on, selected an old-fashioned, homemade woolen pair. "How much?" he asked. I told him I didn't know but I called over to Mr. Moore: "How much are these mittens?" Mr. Moore by this time had had about enough of my interruptions. He replied impatiently: "Look at the ticket; can't you see the ticket on there?" The ticket said 25 cents and in payment the farmer pulled out a dollar bill.

This time I knew how to make out a check and where to get change, so that I finished the transaction without bothering Mr. Moore any more. I also learned where to find the price ticket on merchandise. I was keeping my eyes open as best I could.

**RThought:** Based on the stories I hear from friends around the United States about their experiences with far too many companies to list here, the introductory training of store staff has not much changed in more than a century.

## WHAT WOULD YOU DO WITH A STORED VALUE CARD?

Perhaps you have never heard of a "Stored Value Card." Perhaps you believe U.S. retailing is ahead of the balance of the world. Perhaps you believe we have the world's most advanced technology.

Perhaps you are wrong.

*The Retail Trader* (June 1993), the monthly publication of the Retail Traders Association of New South Wales (NSW), Australia, reported:

The NSW government will call for tenders from the private sector to implement and market the multi-service Stored Value Card scheme.

The benefits of the card to the consumer include convenience, speedier transactions, ease of use, reduced dependence on coins and anonymity.

The government says merchants involved in the scheme will benefit from a reduction of cash handling costs and theft, the ability to serve customers more quickly, and increased marketing opportunities.

The plastic Stored Value Card will be used in the same manner as coins or cash. It is not a credit card nor debit card and does not require a personal identification number.

Customers will present their card at the point of sale when purchasing certain goods and services. The card will then be placed in a Stored Value Card reader and the customer will be able to approve the purchase.

The retailer will then make a claim against the scheme operator to be reimbursed for the value of the goods. This amount will be sent electronically to the store's bank account.

Companies as varied as McDonald's and Wilson Parking have indicated support.

**RThought:** Measure the amount of time spent in a cash transaction while waiting for customers to find pennies or the right combination of paper money. Consider swiping a Stored Value Card through a reader, as is proposed in Australia, and having the money in your account a day (or more) earlier!

Similar cards are used in many countries to handle telephone calls — without coins. Insert a card at the start of a call. The cost of the completed call is then deducted from the value "stored" in the card memory. The card is then released for further use if any value remains in the card.

As in Australia, it may take government leadership to implement such a plan. But our government is not even thinking about something as technically advanced as a Stored Value Card. And our egos would prevent us from using a name selected by a state in Australia.

First, we would have to invent a new name!



## FEATURE REPORT

### IF YOU WANT USEFUL NUMBERS, SUBMIT YOURS

The 1993 editions (1992 data) of the Merchandising and Operating Results (MOR) of Retail Stores and the Financial and Operating Results (FOR) of Retail Stores are now out. They were prepared for the National Retail Federation (NRF) by DRT Systems International, L.P., an affiliate of Deloitte & Touche.

Inasmuch as the forward in each edition summarized the sample, the figures below were taken from the three most recent reports.

#### FINANCIAL AND OPERATING RESULTS

Department Stores				Specialty Stores		
Year	Number of Stores	Average Volume	Total Volume	Number of Stores	Average Volume	Total Volume
1991	65	\$616 mil.	\$40.1 bil.	46	\$108 mil.	\$5.0 bil.
1992	71	523	37.2	60*	256*	15.4*
1993	37	631	23.3	60*	256*	15.4*

\* I checked these figures in both the 1992 and 1993 editions; they are exactly the same. The only explanation is that the affiliate of Deloitte & Touche must have copied the entire paragraph from the 1992 edition into the forward of the 1993 edition, which makes one wonder about the validity of the detailed figures.

#### MERCHANDISING AND OPERATING RESULTS

Department Stores				Specialty Stores		
Year	Number of Stores	Average Volume	Total Volume	Number of Stores	Average Volume	Total Volume
1991	66	\$610 mil.	\$40.2 bil.	34	\$52 mil.	\$1.8 bil.
1992	65	519	33.8	48	193	9.3
1993	33	645	21.3	35	152	5.3

**RThought:** On my office shelves, I have copies of the FOR (originally published by the Bureau of Business Research at Harvard Business School) back to 1927 and the MOR (always published by the NRF, or its predecessors, NRMA and NRDGA) back to 1930. In those days, large numbers of stores submitted their data every year. Because of the large numbers of identical stores in successive years, figures could be compared with the preceding and succeeding years.

The 1927 FOR showed figures from 508 department stores in 47 states (only Nevada was missing), plus 10 from Canada and one

from Hawaii (then a territory). Three hundred and twenty-eight had net sales of less than \$1 million, with 180 over \$1 million. Only 67 specialty stores reported.

For 1930, 451 stores reported, and their size distribution was as follows:

65	Less than \$150,000
64	\$150,000-\$300,000
58	\$300,000-\$500,000
51	\$500,000-\$750,000
27	\$750,000-\$1,000,000
65	\$1,000,000-\$2,000,000
50	\$2,000,000-\$4,000,000
44	\$4,000,000-\$10,000,000
27	\$10,000,000 or more

For 1932, the bottom of the depression, 475 stores reported. It was possible to report 97 identical stores for 1930, 1931, and 1932, with volume in 1930 under \$500,000; 92 identical stores with 1930 volume between \$500,000 and \$2,000,000; and 128 identical stores with sales of \$2,000,000 or more in 1930.

**RThought:** If the MOR and FOR are to be useful sources of guidance, it will be necessary for the NRF to work from a larger sample as it did 60 years ago. Otherwise, the value of the MOR and FOR will be only as a source of revenue for the NRF — \$75 a copy for members and \$150 for nonmembers.

**RThought:** Looking back at the 1931 report was like visiting old friends. The Controllers Congress (now the Retail Financial Executives) listed Ernie Katz of Macy's as vice chairman. Katz was there when I worked at Macy's New York in 1940. He was one of retailing's most creative controllers. Also, at that time, everyone knew C. B. Clark of the Hudson Company and Jay Iglauer of The Halle Brothers in Cleveland. And the officers and directors of the National Dry Goods Association included many founders of great stores or members of the founding families: Lew Hahn of Hahn Department Stores; R. B. Burdine of Burdines; Leon Mandel II of Mandel Brothers; Albert D. Hutzler of Hutzler Brothers; B. H. Namm of The Namm Stores; and Walter Hoving of Montgomery Ward, who became the noted leader of Tiffany's years later.

All of us must travel down memory lane once in a while!

**RThought:** In closing, however, I ask you to remember that those who use the figures in the MOR and FOR to measure their own performance may be reserving a place on the calendar of the local bankruptcy court.

### SHORT SHORTS

A sign that is missing:

**PEOPLE IN OUR STORE ARE HERE TO HELP YOU,  
NOT TO EARN A COMMISSION**

**RThought:** An increasing number of stores, particularly those selling consumer electronics and appliances, are switching to straight salary for their employees. Unfortunately, they don't put this message in the most important places: 1) in their advertisements; and 2) on their front door.

**"NAFTA — do something!"**. *Sales & Marketing Management* (355 Park Avenue, S., New York, NY 10010; \$48/yr.) headlined in its January 1994 issue: "Beginning this month, NAFTA opens the Mexican market. Are you ready to sell south of the border?"

**RThought:** You have heard about jobs going south of the border but nothing about salesmen. If enough salesmen work hard

**RETAILING TODAY — MARCH 1994**

enough, jobs will increase in the U.S. in order to make goods destined for Mexico.

**Truth in advertising.** Marshall Kline runs a buying service in Los Angeles. At the end of each year, Kline has a sale to close out an odd collection of samples.

On a photo he recently sent me, the following sign was above a rack of men's shirts:

**TRUTH IN ADVERTISING  
AUTHENTIC JUNK — BUT CHEAP  
MEN'S SHIRTS  
\$5.00**

**RThought:** This type of sign is far more honest than an ad from a department store (also sent to me by Kline) for a women's turtle-neck shirt priced at \$21.99 (marked "originally \$30") which he tracked to the manufacturer who had sold the shirts at \$7.90 each!



group. But then, accuracy wouldn't let Elizabeth Warren, law professor at the University of Pennsylvania, hypothesize on why baby boomers are more prone to bankruptcy than other age groups.

## ISN'T IT A SHAME LARGE COMPANIES DON'T TELL THE WHOLE TRUTH?

Unocal, formerly Union Oil Company, the 13th largest U.S. oil company, has agreed with the Federal Trade Commission (FTC) not to "make claims about the attributes or performance of any gasoline without first having scientific evidence to back them up." Unocal will notify credit card customers in five states to inform them that most cars don't need high-octane gasoline and will suggest that they check their car owner's manual for the octane to be used.

Unocal, in effect, agreed with FTC's statement that Unocal "did not have a reasonable basis to substantiate these representations."

*Despite agreeing not to misrepresent*, a Unocal spokesman said Unocal has not "been accused of intentionally deceiving customers"! It did run ads; however, the ads stated only that 92-octane unleaded gasoline was "the highest level octane you can buy to help your car run better, longer." (In checking our family cars' manuals, two suggest 89 octane, except in high altitude or warm climate.) Another Unocal ad stated, "Compared to regular unleaded, our 89 octane will give your car smoother starts and stops." Octane affects stops? I thought brakes affected stops. (Our third car's manual recommends 87 octane.)

Do you agree with Unocal's statement that it has "not been accused of intentionally deceiving customers"?

**RThought:** Consider for a moment the outstanding retailers who knowingly advertise "regular prices" which they know not to be "regular prices" but are prices created for the purpose of making a sale at "30% off" look legitimate. The FTC could make a career out of chasing down these major retailers. They could then chase the medium-size retailers. And then the smaller ones.

## MINORITY POPULATIONS ARE NOT EVENLY SPREAD

The distribution of minority populations in the 50 largest U.S. metropolitan areas was recently featured in a report by the Census Bureau as follows:

### Five areas with the *highest* percentage of African Americans:

Memphis, TN	41.3%
New Orleans, LA	35.4
New York, NY	29.5
Norfolk-Virginia Beach, VA	28.8
Baltimore, MD	26.0

### Five areas with the *lowest* percentage of African Americans:

Minneapolis-St. Paul, MN	3.7%
Phoenix, AZ	3.7
Portland, OR	2.8
Orange County, CA	1.9
Salt Lake City-Ogden, UT	1.0

### Five areas with the *highest* percentage of Hispanics:

Miami, FL	51.5%
San Antonio, TX	48.9
Los Angeles-Long Beach, CA	39.4
Riverside-San Bernardino, CA	27.9
Orange County, CA	24.7

### Five areas with the *lowest* percentage of Hispanics:

Columbus, OH	.9%
Memphis, TN	.8
Greensboro-Winston-Salem, NC	.8
Pittsburgh, PA	.6
Cincinnati, OH	.5

### Five areas with the *highest* percentage of Asian/Pacific Islanders:

San Francisco, CA	22.8%
San Jose, CA	19.5
Oakland, CA	14.5
Los Angeles-Long Beach, CA	12.3
Orange County, CA	11.5

(Note: The sixth and seventh areas were also in California.)

### Five areas with the *lowest* percentage of Asian/Pacific Islanders:

Memphis, TN	.9%
Indianapolis, IN	.8
Cincinnati, OH	.8
Pittsburgh, PA	.8
Greensboro-Winston-Salem, NC	.7

**RThought:** When we talk of minority populations, the concept has a different meaning in different cities. Minority populations are larger in California, a state which is practicing diversity of employment because the population is diversified. Other large cities and states need to learn from California because, during the next ten years, the African Americans, Hispanics, and Asian/Pacific Islanders will migrate to more of the 50 largest metropolitan areas.

## WHO WILL WIN?

I read and read and read — or assign to be read and clipped for me — about 120 magazines and 35 newsletters a month, plus I listen to perhaps 100 cassettes a year from conferences and conventions I am unable to attend. There is so much to learn. There is so much change. There are also so many adaptations of the work of one group by another. In other words, what works in one group may be changed a bit, renamed, and peddled to another group.

Sometimes I am amazed at how long an idea takes to get from one type of retailer to another. Do we live in little boxes?

Only a few executives from supermarket chains attend the National Retail Federation convention; even fewer executives from department or women's specialty stores attend the International Mass Retailers Association's convention; and only a few of the three aforementioned formats attend the Apparel Retailers of America convention and hear Peter Glen talk about how to beat Wal-Mart if it comes to town.

**RThought:** From all of the reading and listening I have described to you, I have distilled one important thought which is generic to retailing:

The "information age" is splitting the retail world into two parts. On the winning side are the companies which have and use information. At every turn they are increasing their use of information, which gives them a command of their business and a clear plan for the future. Information is becoming cheaper and more complete. On the losing side are the firms which are slow to gather and utilize information. They will never catch up. They are staffed by people who feel uncomfortable with and threatened by information. They will complain loudly that the world is unfair to them. Many will disappear. Some will be absorbed by the information users who will bring profits to locations which formerly lost money.



*A wise man is strong; yea, a man of knowledge increaseth strength.*

Proverbs 24:5

A business, like the man of knowledge, increaseth strength. It is not a new concept.

## HOW OLD DO YOU WANT YOUR FIRM TO BE?

When going through Federated Department Stores' annual report, I paused when I read that the Lazarus stores were founded in 1830. In checking my library, I found three different books relating how the founding Lazarus moved to Columbus, Ohio, in 1850 and founded the company in 1851. Thinking someone at Federated had misread the "5" as a "3," I wrote to CEO Allen Questrom, who referred my inquiry to Carol Sanger, vice president of corporate affairs. In due course, I was informed that Shillito's in Cincinnati was founded in 1830. When Shillito's and Rike-Kumler (in Dayton) assumed the name of Lazarus, Lazarus assumed the founding date of 1830!

**RThought:** That got me thinking. I looked through the 1994 Directory of Department Stores which records the date stores were founded.

Suppose you are unhappy with your company being less than 50 years old. Suppose you want to add a little pizzazz to your advertising because you are tired of saying something like "Great Values Since 1949."

If 1860 sounds great — back before the Civil War — you might contemplate buying Niblick & Co., Inc., in Decatur, Indiana. It does about \$250,000 a year, so the price should be right.

Perhaps you want something older. How about 1839? The J. E. Neilson Company in Oxford, Mississippi, with a reported volume of \$2.75 million, may be available.

Want something even older? Perhaps 1830? How about Kerrison's Department Store in Charleston, South Carolina? However, with a current volume of \$7.5 million, it might be a bit pricey.

Who could pass up Ley's Century [an understatement] Store in Newport, Rhode Island, doing \$1.96 million. It was founded in 1796, when the "good, old U.S. of A." was only 20 years old. Wouldn't you put Federated to shame!

## WORDS — THAT STOOD THE TEST OF 2500 YEARS

I cite the following by book and chapter:

Book 7, Chapter 10: **Haste in every business brings failure.**

Book 7, Chapter 49: **Circumstances rule men, men do not rule circumstances.**

Book 7, Chapter 50: **Great deeds are usually wrought at great expense.**

**BRThought:** Herodotus, who is quoted above from his seven-volume *History of the World*, lived from approximately 485 B.C. to approximately 425 B.C. Called by Cicero "The Father of History," Herodotus traveled widely in Greece, the Middle East, and North Africa before undertaking to write his history. He did a good job of observing people and their conduct.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	NOVEMBER		Percentage Change	Year to Date Eleven Months		Percentage Change
		1993	1992		1993	1992	
52	*Bldg Matl Group	\$ 9,536	\$ 7,982	+19.5%	\$ 103,848	\$ 94,749	+ 9.6%
57	*Furniture Group	10,968	9,472	+15.8	103,026	93,190	+10.6
571	Furniture Stores	5,441	4,869	+11.7	52,843	49,201	+ 7.4
572	Appl, TV, Radio Stores	4,531	3,723	+21.7	40,450	35,628	+13.5
5941	*Sporting Goods Stores	1,673	1,417	+18.1	17,606	15,889	+10.8
5942	*Book Stores	707	675	+ 4.7	8,052	7,585	+ 6.2
5944	*Jewelry Stores	1,589	1,371	+15.9	12,931	11,771	+ 9.9
531Pt	Conventional Dept Stores	5,554	5,478	+ 1.4	43,949	43,603	+ 0.8
531Pt	Natl Chain Dept Stores	4,059	3,935	+ 3.2	32,733	31,159	+ 5.1
	Subtotal	9,613	9,413	+ 2.1	76,682	74,762	+ 2.6
531Pt	Discount Stores	11,428	10,319	+10.7	98,400	88,681	+11.0
531	*Department Stores	21,041	19,732	+ 6.6	175,082	163,443	+ 7.1
539	*Misc General Mdse Stores	5,689	5,278	+ 7.8	49,857	45,595	+ 9.3
541	*Grocery Stores	30,585	29,617	+ 3.3	335,673	328,416	+ 2.2
56	*Apparel Stores	10,033	9,815	+12.4	92,267	90,118	+ 2.4
561	Men's & Boys' Stores	849	838	+ 1.3	7,555	7,731	- 2.3
562,3,8	Women's Stores	3,503	3,561	- 1.6	33,624	32,832	+ 2.4
565	Family Clothing Stores	3,601	3,352	+ 7.4	29,137	27,778	+ 4.9
566	Shoe Stores	1,435	1,416	+ 1.3	15,378	15,774	- 2.5
591	*Drug Stores	6,557	6,134	+ 6.9	71,179	69,219	+ 2.8
596	*Nonstore Retail	4,950	4,852	+ 2.0	42,410	42,984	- 1.3
5961	Mail Order	3,129	3,149	- 0.6	23,209	25,300	- 8.3
	*Retailing Today Total						
	Store Retailing†	103,328	96,345	+ 7.2	1,011,931	962,959	+ 5.1
	**GAF TOTAL	55,301	51,319	+ 7.8	488,045	456,259	+ 7.0

†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.



# The Distributor's & Wholesaler's Advisor

*Reports for Management in a Competitive Era*

Vol. 6, No. 6  
March 15, 1994

## Mending relations with distributors

Are manufacturers and suppliers changing their "we don't need them" sentiment toward wholesalers? In what could be a sign of things to come, a producer announced it is trying an old tactic to regain its lost market share — mending fences with its distributors.

G. Heileman Brewing Co., under President Richard F. Gaccione, is looking to repair its badly damaged relationships with distributors, reports *The Wall Street Journal*. The brewer was just bought by the investment firm of Hicks, Muse & Co., which seeks to bring Heileman back to its glory days of the '70s and '80s through "the commitment and manpower of its wholesalers."

Russell Cleary, president of the brewing company in the late '80s, used to spend half his time in the field, visiting with and talking to distributors. But when the new heads of Heileman met with distributors in 10 cities, they discovered that "no one from the brewery had visited the wholesalers for three years."

Gaccione's quote indicates a different attitude by manufacturers and suppliers: "We need more open communication. Rather than pushing things down their [the distributors'] throats, we need to work with them."

### Inside this issue . . .

Eliminating redundancies through partnering .....	3
Are your salespeople top performers? .....	5
Getting customers to pay on time .....	6
Estate planning pitfalls .....	8

## A close look at how distributors manage their inventories

Tight control of inventory is a major problem for many wholesalers. Last issue, a spotcheck of *D&WA* readers showed that while distributors are relying on computer programs to make purchasing decisions, it's still difficult to keep inventories "lean and mean." Following are profiles of two wholesalers and how they cope.

### **Instrument Sales & Services: reacting to "overages and shortages"**

"We would like to know our suppliers' market focus and more about our customer base so that we can better control our inventories and service our customers," says Rick Kinnear, president of Instrument Sales & Service. Headquartered in Portland, OR, with two other branches in Seattle and Denver, Instrument Sales & Service is a specialty auto and truck parts distribution and service company. The wholesaler carries over 44 lines, and eight of these — called "corporate lines" — generate over 60% of the business.

Purchasing responsibility is described by Kinnear as "both centralized and decentralized." A corporate materials manager coordinates purchasing of the "corporate lines" with the branch purchasing managers. But, the three branch purchasing managers have the autonomy to deal with their individual local market demands and are responsible for filling inventory for the remaining lines.

"Our inventory turns over about 10 times a year," Kinnear explains. Instrument Sales & Service hits its peak business cycle from May to August. Working with a computer system that is not very sophisticated, Kinnear says that his inventory is over the level it should be and the warehouses are very crowded. The computer program doesn't always do an adequate job forecasting purchasing because it depends on the company's purchasing history. "We're continually reacting to overages and shortages." The company does not have EDI because "very few of our vendors offer it and our customers don't expect it."

### **Aggressively dealing with supplier quantity discounts**

Purchasing is driven by quantity discounts and pre-paid freight minimums. "Our corporate materials manager is very aggressive in working out discounts with our suppliers," Kinnear adds. The problem with quantity discounts is that they vary from supplier to supplier and it's sometimes hard to judge who is offering the best deal. That's why it's important for this distributor to work closely with suppliers of their corporate lines — those products generating a large part of the revenue.

*(continued on page 2)*



(Purchasing – continued from page 1)

Kinnear has eased some of the purchasing/inventory problems by holding quarterly meetings with the heads of sales, marketing and accounting, branch managers and the corporate materials manager. Because many of these people are located near headquarters, these quarterly sessions have turned into weekly meetings.

If Kinnear could ask the supplier for one thing to ease the difficulty of forecasting inventory needs it would be to provide more market demographics about their customers.

### **Price Brothers: making inventory levels match service levels**

Price Brothers Co., in Dayton, OH, is a regional distributor that buys and resells pipe, valves and fittings used in the water, sewer and drainage markets. "Our manufacturers never have shortages and do a good job supplying us with materials, mostly within the next day," says Randy Fox, manager of finance and administration. "Three weeks is a long lead time in our industry."

While forecasting how much inventory the company's 12 yards (branches) need to purchase isn't a major problem, Fox believes that there's more opportunity for distributors to function with less than what they are currently carrying.

Although Price Brothers has a good software package that tracks inventory, "it doesn't provide us with helpful reports to make better purchasing decisions," he adds. "And to take advantage of a good system, we have to teach our people how to use it correctly."

For most of the yards, purchasing decisions are made by a designated purchasing manager at each. In some instances, buying decisions are made by regional purchasing manager who is in charge of a "mother yard" and two "satellite yards." Whoever is in charge of purchasing in turn reports to a regional manager who has total business responsibility for his area — from sales to operations to marketing.

Purchasing decisions at Price Brothers are driven by quantity discounts, which vary by commodity line. Fox explains: "We have one line we call 'iron products.' There are four suppliers who sell us 'iron products' but they have similar price breaks. A different commodity line, carried by other suppliers, may have a radically different

pricing structure from those 'iron products,' but the suppliers' price breaks will be similar."

### **Warn distributors about changes in pricing structure**

There are three pieces of information Fox believes manufacturers should supply distributors so they could better control inventory levels. They include: how long they project their lead times will be, if they are changing their pricing structure, and if they are introducing new products or changing old ones.

Fox describes his company's inventory as over the level it should be with "more slow movers and fewer high movers" than it should have. With an average inventory of \$5 million, the distributor's slow movers account for \$200,000. With some creativity in the past two years, the company has managed to knock that down. "We call a product a slow mover if there's no activity in a year's time," Fox explains. "Every month we print out a list of those items and send it to all our salepeople. If they sell something on the list, we give them 10% of the selling price. In the last two years, we've eliminated \$100,000 worth of slow movers from our inventory." D&WA

### **When implementing a warehouse program goes wrong**

A management consultant designs a new program for a distributor's warehouse. Everything goes great ... until the consultant leaves and the distributor starts to use the program.

What makes implementing a new warehouse system "go sour?" According to Ken Ackerman, in *Warehousing Forum*, there are several things:

- Failure to question the claims of vendors and be absolutely sure that the equipment or services will be what was originally contracted.
- Poor training or no training of employees.
- No flexibility in the program to allow for changes that could occur to the business or in the marketplace.

"Failures need not take place if management recognizes that implementation is just as important as planning when you change your warehouse system," Ackerman advises. D&WA



## Eliminating redundancies through partnering

Mention redundancy and distributors automatically assume it means cutting the middle tier out of the distribution channel. But, according to Charles S. Trefrey, former president/CEO of the National Wholesale Druggists' Association, wholesalers are important to the economic infrastructure and provide vital services. He believes that by "partnering" with suppliers and customers, distributors can take out the redundancies in the system which will strengthen their own positions so they won't be passed over.

Arthur Andersen's study for the National Association of Wholesaler-Distributors, *Facing the Forces of Change 2000*, says that there is roughly a 25-30% redundancy of processes in the distribution channel. Yet, as Trefrey points out, distributors are squeezing every penny internally to reduce operating costs. The gains have been minimal.

At the NAW Washington meeting, he presented three distributors who have reshaped their roles in the channel and have become indispensable to their partners. By re-evaluating their traditional relationships with suppliers and customers, they have reduced costs and increased profits for their partners as well as themselves.

### Forming strategic alliances with core customers

FoxMeyer Corporation, in Dallas, TX, is a pharmaceutical wholesaler whose mission is to "enhance the efficiency of the health care system." "That's facilitated by eliminating redundancies," says Tom Anderson, president/CEO. For FoxMeyer it meant examining the inventory, sales and marketing, logistics and purchasing processes for itself and its core customers by forming strategic alliances.

"We looked at the total inventory pipeline and identified customer and supplier requirements and addressed strategies relating to outsourcing, delivery, support and operating strategies," Anderson explains. The distributor set several goals: increase customer service levels, reduce capital investment for the supplier and the wholesaler, and lower handling costs. Within two years time, this is what FoxMeyer accomplished:

- Used auto-replenishment to reduce their suppliers' production cycles. The goal? To

forecast inventory need against availability, reduce the number of days suppliers had to keep inventory on hand, and reduce the receiving/processing time.

- Consolidated the delivery network and outsourced transportation so that FoxMeyer delivers only 25% of its products with its own vehicles instead of 75%.

- Automated product handling to eliminate duplicate product check in. FoxMeyer achieved greater accuracy and fewer returns.

Among the programs FoxMeyer has initiated with its "partners":

- In '93 the launch of Pharmasure to encourage market penetration of generic products, reduce the costs of these products, reduce working capital investment and increase gross margins for customers and FoxMeyer. The distributor took over the marketing program of generic drugs for its retail pharmacy customers. It encouraged 900 retail pharmacies to form a buying alliance and used that to leverage down manufacturers' costs. The results: improved margins for FoxMeyer and its customers.

- Working with Grady Memorial Hospital in the Southwest, FoxMeyer looked to reduce Grady's operating costs while building profit margins. "We took some of our employees and put them on-site at Grady," explains Anderson. "We took over their pharmaceutical operations and developed a PC-based inventory management system. Also, we checked product before shipping to them." Because of these efficiencies, Grady closed its hospital warehouse facility handling pharmaceuticals and cut its overhead.

- Snyder's Drug Stores, in Minnesota, which services 200 independents, wanted to eliminate its warehouses and concentrate on acquisitions. FoxMeyer wanted access to their retail information systems and marketing programs. FoxMeyer signed a multi-year agreement with Snyder's and runs their warehouses at lower cost. In turn, FoxMeyer got access to Snyder's point-of-sale information and is using the chain's retail marketing program to develop similar ones for their customers outside the Minneapolis market.

(continued on page 4)



(Redundancies — continued from page 3)

### **An intense relationship with the manufacturer**

Spartan Stores, Grand Rapids, MI, with \$2.8 billion in sales, is a growing wholesaler. It began its “partnership” with manufacturer Procter & Gamble in 1992, according to Steve Biondo, director of organizational development. Captains were assigned to head “teams” from both companies. Among the results achieved:

- On-going inventories of P&G’s products were reduced from \$6.5MM to \$4.5MM and turns have been increased from 12 to 18 times.
- Perfect orders to Spartan (delivered on time, delivered complete, damage free, and billed accurately) improved from 65% to 81.6%.
- Execution of a total quality start up on EDI purchase orders. Spartan is currently live in all the manufacturer’s categories.
- Using activity-based costing and several cost models, Spartan increased shipments of manufacturer’s products by 5% of their total volume and reduced distribution expenses by \$138,000.

Biondo said that Spartan learned a number of strategic lessons from this cross-team effort:

- Redundancy and cost are best attacked through “channel partnerships.”
- Teamwork is critical. That means the wholesaler has to place a high value on selecting the right partner who shares the same vision, has the appropriate skills and knowledge, has the same commitment and business strategies to drive both companies forward.
- The focus must be on reducing total systems redundancies and not just shifting costs. Partners should attack the processes common to both so efforts aren’t duplicated and view the entire channel — from raw materials to ultimate consumer usage.
- Both companies must be willing to invest the time and resources for even quick fixes.
- For both companies, establish the same system of measures that focuses on the end-user (consumer) and measure themselves from that perspective.
- Get the technology to gather superior information and to support decision-making.

The results have been so successful that Biondo reports Spartan will be partnering with

other key manufacturers and has begun kick-off requirements sessions.


### **“Integrated supply” among customers and suppliers**

Industrial distributor Fairmont Supply Company, Washington, PA, started its Quality Process in 1989. According to William T. Todd II, president, the program was customer-focused, designed to eliminate waste and reduce costs.

Two years ago, the company designed a special program to work with DuPont, its largest customer. The goals of DuPont were to minimize its costs in acquisition, possession and application of materials. The DuPont-Fairmont “partnering” relationship included implementation of EDI and bar coding, and streamlining the material procurement cycle. Purchase order processing costs for DuPont Fibers went from \$105 (manual) to \$16 (EDI and bar coding).


Possession costs — investment costs, storage space, taxes, obsolescence/pilferage control — for DuPont were also reduced from 40% to 24%.

By involving the manufacturer in training the distributor’s sales force on how to use certain products and by upgrading products for more efficient operation, Fairmont was also able to reduce DuPont’s application costs.

“We have committed ourselves to continuous improvement,” says Todd, and now the company is developing similar relations with other major customers. 

## **Small business handbook available from D.O.L.**

The *1993 Small Business Handbook* on laws, regulations and technical assistance services is now available from the U.S. Department of Labor. Besides providing a general overview of DOL requirements, it contains valuable info on employee benefit plans, lie detector tests, wage garnishment, and family and medical leave, along with addresses and phone numbers for DOL assistance.

For a copy, write: U.S. Government Printing Office, Superintendent of Documents, Public Documents Distribution Center, Pueblo, CO 81009, or call: (202) 219-6197. 



### What it takes to be a top sales performer

Do your salespeople have what it takes to be top performers? According to a study by Learning International, top salespeople consistently fulfill three roles for their customers: long-term ally, business consultant and strategic orchestrator. The following checklist of value-added practices associated with each of these roles has been prepared by Learning International. Use it as a guide for your sales personnel.

#### Salesperson as long-term ally...

- ☐ Identifies opportunities to make (and keep) personal commitments.
- ☐ Seizes opportunities to convey pride and confidence in the wholesaler's products and services and the way the company operates.
- ☐ Fully educates prospective users about product and service capabilities, applications and benefits.
- ☐ Responds thoroughly and honestly to customer concerns and objections.
- ☐ Positions products and services realistically, highlighting their benefits instead of the draw-backs of competitors' products or services.
- ☐ Makes recommendations based on customers' long-term needs, not on what has to be sold.
- ☐ Negotiates contracts where the customer, the distributor and the salesperson "win."
- ☐ Identifies ways to make customers look good in the eyes of their colleagues and superiors.
- ☐ Helps customers carry out fact-finding or "selling" strategies within their own companies.
- ☐ Elicits information from customers that helps business relationships.
- ☐ Maintains contact with customers even when there's no prospect of an instant sale.


#### Salesperson as business consultant...

- ☐ Uses contacts to acquire information about customers' businesses.
- ☐ Seeks customers' and colleagues' perceptions of market trends, company direction, and potential product or service needs.
- ☐ Finds out what customers must do to succeed.

- ☐ Finds or develops databases containing information on customers, their industries and their customers.
- ☐ Confirms understanding of each customer's mission, markets, products or services, business functions and competitors.
- ☐ Focuses on the "big picture," not on details, especially at the beginning of a new selling relationship.
- ☐ Articulates the desire to learn from customers.
- ☐ Shares useful business information with customers even when it doesn't directly further their sales effort.
- ☐ Considers and speaks at listeners' levels of knowledge and sophistication.
- ☐ Develops the ability to use stories and analogies effectively.
- ☐ Seeks feedback from customers on the clarity of their communication.
- ☐ Acknowledges gaps in their own knowledge.

#### Salesperson as strategic orchestrator...

- ☐ Involves the distributor's decision makers in their customers' businesses.
- ☐ Knows the responsibilities, strengths and short-comings of colleagues who are not salespeople.
- ☐ Maintains rapport with the sales manager.
- ☐ Seeks assistance or guidance from others in the company.
- ☐ Facilitates communication between customers and the distributor's sales management and customer support personnel.
- ☐ Asks to be informed of any problems associated with product deliveries and adopts a problem-solving approach.
- ☐ Works to improve communication and cooperation within the wholesale operation.
- ☐ Anticipates customer needs and coordinates colleagues' efforts to meet them.
- ☐ Weighs the costs and benefits associated with various value-adding activities and knows the value of their own time and effort.

For more information on added-value selling, contact: Learning International, (203) 965-8400. 



## Getting customers to pay their bills on time

If you're finding it increasingly difficult to get customers to pay their bills on time, you're not alone. Facing financial problems, even bankruptcy, companies which were once good customers and never late, may be trying every excuse in the book to delay payment. "The problem is that when customers do this, it eats into your profits," says Lloyd W. Purser, president of Industrial Transmission Inc., Greensboro, NC.

An industrial supplies distributor, covering three states, Purser has been in business 32 years. His company has 24 sales people; each handles over 75 customers, some nearly 125. With so many accounts, getting paid on time can be a hassle, and he has seen it all — every trick a company will use to defer payment. "Even large companies are not above using ploys like claiming they need 'proof of delivery' or they 'never received an invoice' to buy extra time. But a distributor isn't in business to supply operating capital to his customers; that's what banks are for."

There are two ways distributors can minimize the likelihood of delinquent accounts, according to Purser: 1) Carefully checking the credit standards of potential customers before doing business with them, and 2) Keeping the pressure on all customers to pay on time.

### **Credit checks on new customers**

"A good businessman knows when to turn down an order," Purser says. If a customer doesn't measure up to your credit standards, don't be afraid to turn away his business. One sign that there may be a problem is if a customer does not want to give credit information, or references, regarding his business.

The most common source, or the first line, before checking the customer's references, is Dun & Bradstreet. But the problem is that D&B doesn't list every company, especially the small ones.

Purser requires that new customers who want to buy on credit supply three business references and one bank reference. To have more access to information when checking bank references, he advises that the distributor's bank contact the customer's bank. He doesn't hesitate in talking to distributors, other than those given as references, who the customer did business with before. Also, he has his sales people provide input on the customer's

operation. "A sloppy business could indicate that the customer is just as sloppy about paying bills."

Of course, there are times when the distributor has to rely on his instinct, says Purser. A company that is too small to be listed in Dun & Bradstreet could have the potential to bloom fast, and "by not relying on that gut feeling you may be missing out on a good thing. A distributor who 'invests' in a small company can remain a favored supplier as the company grows.

"When some of Industrial Transmission's long-time customers are late in meeting their bills, after finding out why, we will sometimes try to work something out, such as rescheduling payment," Purser explains. "We look to see if the customer offers partial payment as a sign of 'good faith.' If they're willing to come up with partial payment, it may be a good idea to continue to work with them."

### **Tracking accounts and applying pressure**

Underscoring the importance of on-time payment and to keep pressure on slow-paying customers, Industrial Transmission has a tracking procedure to keep tabs on accounts due. On the 10th and 25th of each month, branch managers run computerized reports on customers who are delinquent in paying their bills, with an explanation of why they are late and when payment should be expected. "Our services aren't free," says Purser who also gets his sales people involved. "If our company doesn't get paid, the sales person will be charged a percent of his salary when the customer is continually late over 60 days."

If the distributor has tried everything reasonable to get paid but isn't, it may be time for other steps, like taking the customer to Small Claims Court, or having the company's lawyer contact the customer demanding payment, or using a collection agency. He advises to do this early — 46 to 50 days beyond the due payment date, not beyond.

Purser's company tries to work with customers who anticipate problems. "If it becomes a practice, we look closer at the relationship."

However, by carefully tracking payments, enforcing procedures and maintaining constant customer contact, delinquent accounts can be minimized. D&WA



## The distribution work force in 2005

What will the distribution workforce look like in the year 2005? Projections released by the Bureau of Labor Statistics, U.S. Department of Labor, show where future job growth is expected and what the demographic makeup of people filling those jobs will be. The projections, provided below, will help distributors to anticipate potential labor shortages and to plan their education and training programs.

### Labor force to increase, but demographics shift

According to BLS, the future labor force is projected to increase by about 24 million over the 1992-2005 period, from 127 million to 151 million. This represents an 18.5% increase, slightly less than the 21% increase in the 1979 to 1992 period. Within these numbers:

- 51.2 million are expected to enter the labor force from 1992 to 2005.
- 27.7 million will replace workers who leave because of death, retirement and other reasons.

There will be a shift in the demographic composition of the labor force due to immigration, changing birth rates and work force participation. BLS says this will happen:

- White non-Hispanics are projected to account for two out of three entrants, but their

share of the work force will fall because other labor force groups will grow faster.

- By 2005, the number of Hispanics in the labor force will nearly equal black, non-Hispanics.

- Labor force growth of women will be faster than men, although their participation increases at a slower rate.

- Baby boomers (born 1946 to 1964) will continue to have a significant impact on the age distribution of the labor force. The 45-55 age group will increase three times faster than the labor force as a whole by the year 2005.

- The declining birth rate of the late-1960s and 1970s will mean fewer 25-34 year olds in the labor force over the 1992-2005 period.

### Occupational employment trends

Projections by BLS indicate that jobs will be available across the entire educational spectrum. Job growth, however, will be dominated by professional and service workers. Computer engineers and systems analysts will be among the 10 fastest growing occupations. Among the 10 occupations adding the most jobs from 1992 to 2005 are: truck drivers (up 648,000 workers); janitors and cleaners (up 548,000), and systems analysts (up 501,000).

For more details, see *Monthly Labor Review*, November 1993. D&WA

### Wholesale employment projections [Numbers in thousands]

Editor's Note: The BLS has provided projections for low, moderate and high growth.

Industry	Employment Level					Change			
	1979	1992	2005			1979-92	1992-2005		
			Low	Moderate	High		Low	Moderate	High
Wholesale trade	5,221	6,045	6,641	7,191	7,761	824	596	1,146	1,716
Manufacturing	21,040	18,040	15,981	17,523	18,866	-3,000	-2,059	-517	826
Retail trade	14,972	19,346	22,254	23,777	24,336	4,374	2,908	4,431	4,990

	Share of Total Employment by Industry (%)					Annual rate of change (%)			
	1979	1992	2005			1979-92	1992-2005		
			Low	Moderate	High		Low	Moderate	High
Wholesale trade	5.8	5.6	5.3	5.4	5.6	1.1	0.7	1.3	1.9
Manufacturing	23.5	16.7	12.8	13.2	13.6	-1.2	-0.9	-0.2	0.3
Retail trade	16.7	17.9	17.8	17.9	17.5	2.0	1.1	1.6	1.8


Source: Bureau of Labor Statistics



## Estate planning: paving the way for a smooth transition

Procrastinating in planning an estate can be risky for owners of wholesale companies, for the company itself ... and the families. "Although nobody likes to think about their own death, the fact is that reviewing your estate plan can yield substantial benefits," says Steve G. Schwartz, CPA, Cortland L. Brovitz & Co.

What can happen if you don't? Federal and state death taxes and administrative expenses can eat up most of your estate. The estate can be distributed according to the state law where you reside which may not reflect either your wishes or the needs of your beneficiaries. In addition, heirs may be forced to sell business assets at sacrifice prices to meet unplanned liquidity needs.

Schwartz has prepared the following questionnaire to help distributors identify some estate planning pitfalls. For information contact: Steven Schwartz, (716) 454-6996. 

### Estate Planning Questionnaire

A "no" to any question indicates it's time to consult with someone and review your estate.

- | YES                      | NO                       |  |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Do you have a will?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Has it been updated in the last five years?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Do you and your spouse have net assets less than \$600,000, including life insurance proceeds and retirement plan benefits? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Are all of your assets held separately or as tenants of common rather than joint tenancy?                                   |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Will the value of your assets remain constant?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Are the beneficiaries of your life insurance policies current?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Is the appropriate person named as executor in your will?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Has your will be updated to reflect:  |
|                          |                          | a. births, adoptions or the death of children or grandchildren?  |
|                          |                          | b. changes in marital status?  |
|                          |                          | c. move to a different state?  |
|                          |                          | d. the most current tax laws?  |
|                          |                          | e. recent changes in your financial situation?   |
|                          |                          | f. the needs or circumstances of you or your beneficiaries?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Does your will list beneficiaries other than your spouse?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. Will assets be distributed to beneficiaries at an appropriate time in their lives and in a suitable manner?                |
| <input type="checkbox"/> | <input type="checkbox"/> | 11. Will your business' value be stable if key personnel die or are disabled?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 12. Are your important records accessible?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 13. Do you have a plan for meeting your financial security needs?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 14. Does your will have a durable power of attorney to permit others to act on your behalf if you become incapacitated?        |
| <input type="checkbox"/> | <input type="checkbox"/> | 15. Was your will drafted by an attorney familiar with the laws in your state of residence?                                    |
| <input type="checkbox"/> | <input type="checkbox"/> | 16. Is all the real property you own located in your state of residence?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 17. Are all of your assets easy to sell and free of transfer limitations?  |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. Does your estate plan fulfill your wishes for distribution to charities?   |
| <input type="checkbox"/> | <input type="checkbox"/> | 19. If you have minor children, does your will appoint their guardians if you and your spouse were to die simultaneously?      |

### The Distributor's & Wholesaler's Advisor *Reports for Management in a Competitive Era*

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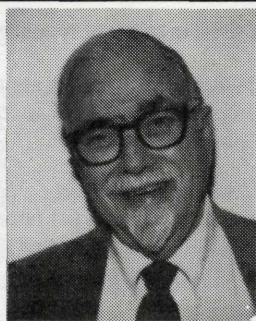
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APRIL 1994

VOL. 29, NO.4

## TIME TO PLAN FOR CHRISTMAS 1994

Christmas will shift from Saturday in 1993 to Sunday in 1994, resulting in 30 days between Thanksgiving and Christmas, against 29 days in 1993.

In planning for 1994, use your pattern of sales in 1983 (adjusted for any unusual weather) because 1983 is the most recent year with a Saturday-to-Sunday change. You might also check 1977 but give it less weight because your hours may have been shorter.

**RThought:** If your sales for the weeks ending December 3/4, 10/11, and 17/18 run about the same as the corresponding weeks in 1993, you can project an increase for the month. Most of your increase will come in the week ending December 24 due to the extra selling day.

It will be during the weekend of December 17/18 when many people will belatedly realize that "Christmas is next Sunday" and begin their shopping. Of course, you can panic and cut prices the week-end of December 17/18, but you will be giving away profits.

## IT'S A WONDERFUL LIFE

Writers and editors at the *National Home Center News* apparently don't watch TV during the days before Christmas and thus haven't seen Jimmy Stewart and Donna Reed in a film called "It's a Wonderful Life." I say this because an article in this publication's January 24, 1994, issue was headed "Community Rescues Local Yard."

Substitute the name of Jim Hays, owner of Alpine Lumber in the town of Alpine, California, about 25 miles east of San Diego, for Jimmy Stewart.

Prior to 1986, Hays worked for the now defunct Handyman chain. However, in 1986 he was able to buy Alpine Lumber (and a home) with a Small Business Administration loan. He did \$400,000 the first year and had built the business up to \$1.6 million (with 17 employees) by 1989. Then the recession hit. By July 1993 Hays realized that he owed too much to his bank and creditors and that he wanted to quit while there was still a chance to pay them off. He told his 17 employees that their jobs would end in two weeks and that he was starting a liquidation sale. Pat Caster, one of his employees, found that customers kept asking what they could do. So Caster, along with two other employees, called all of Alpine Lumber's credit card customers, asking if they would be interested in buying \$1,000 shares in the company.

The cover was blown when a customer came in and asked Hays, "Where are those ladies who are selling shares? I want to buy in, too." Caster put the \$250,000 from 150 investors in a holding account at a local bank. The investors would receive 20% of the

## THERE'S NOTHING LIKE A TYPO

The above words were featured by *The New York Times* on February 8, 1994, in the headline of a story about The Bon Marche (a subsidiary of Federated Department Stores, Inc.) in Seattle. In a 72-page sales catalog, an error was made on the price of a Sony five-disk carousel player, regularly \$199. The player was to have been advertised at \$179, but the ad read \$99.

Subsequently, there was a lineup of customers in front of every Bon Marche store, a lineup lengthened because employees at Microsoft Corporation spread the word about the price via e-mail messages.

What would you do under these circumstances? Run a small ad the next day, professing a mistake had been made? Tell customers that common sense would indicate that the price was wrong?

Here's what The Bon did: It sold all of the players in stock for \$99; in addition, it took orders for another 4,000 units at \$99!

And what did The Bon's competitors in the consumer electronic field (Silo and Magnolia Hi-Fi/Video) do? They refused to meet The Bon's price, explaining that the price at The Bon had been a mistake. These were the competitors who had advertised "We will not be undersold!"

The Bon's decision to sell the players at \$99 was made by John Buller, senior vice president for marketing and sales promotion. Hoorah for John! The Bon sold 5,000 units; the trade estimated that \$99 was about \$40 below cost.

Could any other expenditure of \$200,000 (5,000 x \$40) have done as much to establish The Bon's integrity? I think not.

The Bon's conduct "bought" a feature story in *The New York Times*, a newspaper with a reader circulation of 2 million-plus and with distribution in every state, not to mention the editors of hundreds of other papers who receive *The Times's* news service and decided to run the article in their own papers.

business. Attorneys were busy drafting a limited partnership agreement when the SEC stepped in and explained that a limited partnership could not have more than 35 investors. The investors-to-be then began a telephone campaign to local legislators, the SBA, the SEC, and even Ross Perot's office!

It was the California Department of Corporations which stepped in

*continued*



and made the 150-investor partnership possible. A week after the deal was struck, 48 truckloads of merchandise arrived. Hays had just 17 employees to unload them, to put the merchandise on display, and to take care of the customers! Hays' supplier, California Hardware, put together a 12-page, four-color circular in just three days so that Alpine Lumber could draw some Christmas business.

There are 10 Home Depots in the San Diego area, but the publicity given this "Wonderful Life" story brought extra customers to Alpine Lumber, resulting in a sales increase of 30% for the Christmas season.

**RThought:** Miracles can happen in a town of 17,000 where almost everyone knows each other's first name. I wanted to be sure that this story was known by those of you who might not read the *National Home Center News*, which I would like to thank for reporting what truly is a "Wonderful Life" story. But this story would not have happened if Hays had not treated both his customers and his employees the way in which they deserved to be treated.

## HOW 'BAD NUMBERS' ARE CIRCULATED

The following item appeared in the February 1994 issue of *Military Market*, a publication serving military exchanges and commissaries:

...someone ought to be watching.

**Employee theft accounted for an estimated \$11 billion of the \$27 billion shortage reported by U.S. retailers in 1992, says the National Retail Federation, a trade group.**

The National Retail Federation (NRF) is still publishing, as fact, wild guesses by unwise retail executives who let themselves be used. This pattern first began many years ago when Arthur Young (AY) asked retail executives to "guess" what percentage of shortage is due to employee theft, to shoplifting, or to errors in recordkeeping. Then AY, using its most powerful computer (probably a \$29.95 hand calculator!), arrived at an unweighted average. The NRF continued this practice because the "results" made for great press. Note in the quote above how *Military Market* summarized the press release: "...says the National Retail Federation, a trade group."

I ask you: As a retailer, can you accurately determine the extent to which shoplifting, employee theft, or recordkeeping errors contribute to your shortage? The honest answer must be that you can't. However, perhaps you remember what was published in the same survey last year, so you "guess" the same, plus or minus, as your "estimate" for this year.

Let's look at some 1992 FBI figures to help put \$11 billion in perspective.

- 1,662,000 cars stolen with an average value of \$4,983 = \$8.3 billion
- 3,157,000 burglaries with an average loss of \$1,246 = \$3.9 billion
- 8,142,000 larceny/theft crimes at \$476 average = \$3.9 billion
- 688,000 robberies at \$817 average value = \$556 million
- 1,343,000 reported shopliftings at \$104 average = \$140 million

Now, let's look at \$11 billion in employee theft in terms of retailing.

Average retail employment in 1993 was 19.7 million, so, if we are to believe the employee-theft figure, each employee must have stolen \$558. If you believe that, I have some swampland to sell you!

Based on average weekly hours, the number of hours worked per year was roughly 1,500, so theft would have to be 37 cents per hour. The average hourly pay was \$7.28, so the stolen 37 cents represents 5% of payroll.

**RThought:** Are you willing to stake your reputation on the NRF's claim that in 1992 \$11 billion was stolen from employers by retail employees? If your answer is still yes, I have a lovely Brooklyn bridge to sell you!

**RThought:** What kind of leadership do we provide if we go around believing that our employees stole \$11 billion from us?

**RThought:** Considering how little employee theft is detected and prosecuted, shouldn't we ponder our incompetence if each of our employees can be stealing an average of \$558 a year and we cannot detect it?

**RThought:** If I were to accept that the shortage was, indeed, \$27 billion and I had to guess, I would feel comfortable guessing that 50-60% of the loss was due to errors in our procedures — failing to record markdowns, errors in extending invoices (smaller stores), goods marked lower than the price taken into inventory, damaged goods thrown out or given away without markdowns, and on and on.

## CUSTOMER EXPECTATIONS

According to the South African publication *The Buyer*, surveys in that country ask questions we don't ask in the U.S.

Here are some answers to a recent survey by Ogilvy Mather Direct:

- Only 12% expect to get the help they need when making a purchase.
- Only 43% expect to get value for their money.
- Over 80% spread word of their dissatisfaction.
- Of those dissatisfied, 49% will tell seven to 10 people.

In the same article as this survey, my friend, Michael O'Connor, one of the most learned of consultants to the food industry, was quoted:

**The successful company will treat employees as assets. It will involve them in decisions that affect their work (in plain terms, listen up, don't talk down). Mindless work will be replaced by accomplishment and, in the process, productivity will increase. We will all become sensitive to the customer's needs — or we won't be in business anymore.**

**RThought:** As at American conventions, many will note these recommendations; few will do anything about them. Most of us attending retail conventions know we are giving poor service and know that the worst is passed from friend to friend as a warning against doing business with us. Yet, it continues to be possible to enter retail stores — even big ones with outstanding reputations — and leave with horror stories.

**RThought:** Why? Why do we fail to do what we know should be done — give good service?



## A LOOK AT VALUE RETAILING

The term "value retailing" has been stolen by factory outlet stores. A recent press release by Carleton Meyers, the president of Factory Outlet Consultants (telephone 703-250-5166; fax 703-239-0288), based its conclusion on long (relative to the age of the industry) experience.

Since no one else has claimed all of the following as an "industry," value retailing consists of:

- Manufacturers' retail outlets
- Off-price retailers
- Department store clearance centers
- Close-out specialists

Meyers reported that 300 factory outlet shopping centers are in operation, used by 500 manufacturers operating 9,000 stores (500 by Phillip-van Heusen alone). Thirty-five centers opened in 1992 and 30 more were expected in 1993.

Meyers sees future factory outlet centers in revitalized downtown locations and converted, older shopping centers, especially if they are close to major highways.

Manufacturers find the following features of value retailing attractive as an efficient means of:

- Maintaining brand name awareness, especially now that many stores are using more private labels;
- Controlling distribution; and
- Offering a full assortment, whereas their regular outlets cherry-pick the line.

Manufacturers have also found the factory outlet to be a good profit center. As retailers have become less loyal to brands, factory outlets are located ever closer to the major outlets for branded goods.

In February's *RT*, there was mention of a statement made some years ago by Larry Phillips, then CEO of Phillips-van Heusen, which bears repeating. Shortly after Phillips-van Heusen structured one of the most successful men's shirt promotions ever for Macy's New York, Phillips was told that Macy's was switching to a private label. Phillips' statement: "I have 9,000 people working for me, and I am going to see that each of them continues to have a good job."

Of course, the normal pressures which drive up the cost of retailing apply to value retailing.

For more than 30 years, I have been pointing out that by increasing expenses by 1% (for advertising, more attractive and better located stores, better quality salespeople, etc.) a greater response will be reaped than by reducing gross margin by 1%.

Value retailers are:

- Doing more advertising;
- Spending more on store fixtures and design;
- Providing better salespeople; and
- Establishing "satisfaction guaranteed" return policies.

Centers are:

- Providing larger and better parking lots; and
- Adding restaurants and restrooms (including diaper-changing stations).

**RThought:** My experience with factory outlets confirms all of these moves. One benefit I appreciate is that where as many full-price stores do not carry 17 1/2- 32/33-inch men's shirts, even though they are "regular" sizes, the factory outlet stores do. The factory stores of luggage manufacturers carry a full presentation of their lines. The factory stores of better quality china and glassware carry in stock far more patterns than do the department stores carrying the same brands. The same is true of national brand shoes.

Word-of-mouth is still the best advertising for factory outlets — excuse me, I mean value retailers. As the time and/or distance to the newer centers becomes less, there is less need to organize a day's outing for a group of four or five shoppers. One or two can indulge in a day of adventure.

Space which once was available at \$4 per square foot in a dimly lighted factory building with low common-area maintenance charges has become \$14 per square foot, plus mall-level CAM expenses. This has forced manufacturers to provide more attractive, better-furnished, better-staffed stores.

## SHORT SHORTS

**Can magazine circulation offer a clue to merchandising?** *DM* [Direct Marketing] *News*, January 24, 1994, listed 1993's 10 top magazines based on their increase in circulation, as reported by Capell's Circulation Report which, in turn, is based on Audit Bureau of Circulation figures. They were:

- Men's Health*
- The New Yorker*
- Utne Reader*
- YM*
- Allure*
- Details*
- National Review*
- Kiplinger's Personal Finance*
- The Atlantic*
- Barron's*

**RThought:** I must confess that I know only half of these publications, so I cannot comment on the trend, if any. If consistency is a factor, only *Utne Reader* and *YM* are repeats from last year. However, there must be significance to the fact that *Men's Health* reported the largest increase in circulation.

**The pains of competition.** We talk glowingly of the benefits to customers under the free-enterprise system; yet print media reports the havoc which competition can impose. *Inside Retailing* of Australia reported in January 1993 what has happened in the toy business. When Toys "R" Us announced it was coming to Australia, Coles Myer Ltd., Australia's largest retailer (U.S.\$12 billion sales), founded World 4 Kids, offering roughly the same assortment. Since then, a series of toy stores have closed, the latest including three of five Frank's Toy Shops which included the original shop opened 45 years ago. **RThought:** The press seldom attempts to estimate the benefit brought to consumers by a greater assortment at lower prices as competition increases.

**There won't be electronic retailing of women's apparel until this situation disappears.** My wife recently purchased two sweaters from Nordstrom which fit her perfectly — one was an extra small and the other was a large. **RThought:** This type of sizing could bring the sari into popularity amongst American women. A favorite garment of southern Asian women, the sari consists of several yards of light-weight cloth draped so that one end forms a skirt or pajama, and the other end forms a head or shoulder covering. Best of all, one size fits all!



## FEATURE REPORT

### SHOULD TRADE ASSOCIATION EXECUTIVES SWEAR TO TELL THE TRUTH?

It appears that trade association executives use their imagination to create arguments they believe favor their members when trying to support or oppose governmental action.

We sort of chuckle when we read of the National Rifle Association arguing that increasing the fee for a license to sell handguns will force thousands of small businesses (ones which do not have a business address) out of business. The NRF also uses this argument because "putting small businesses out of business" arouses an emotional feeling among legislators.

But we don't laugh at ourselves when we read of a trade executive, hoping to block restrictions on imports from China, making the following statement:

**Let's hope that this action is a negotiating tactic because if it is not and China's trade is cut by these significant numbers, then the American consumer, particularly the low-income consumer, will be severely impacted. [Emphasis added.]**

The comment was followed by a protest from The Gap, which, according to the article, buys about 2% of its apparel from China. Should we presume The Gap does so to satisfy the 2% of its customers who, according to the trade executive, are "low-income consumers"? At The Gap? Not from my observations.

In fact, most of those low-income consumers whom the trade executive appears to be so concerned about never get into locations having a Gap store. The Gap did state, however, that the cutback on imports from China will *strain the capacity at apparel factories elsewhere in East Asia* and will lead to higher prices. (It seems that almost anything can lead to higher prices — such as multimillion-dollar salaries for executives.)

Mickey Kantor, the U.S. trade representative, estimated that the restriction will amount to about \$1.1 billion to \$1.2 billion a year in lost business. Normally, this volume at wholesale might translate

into something less than \$3 billion at retail; but most of the people buying in China, directly or indirectly, are doing so in order to gain a long markup — not to provide goods for the low-income consumer. So, let's say this is \$4 billion at retail and a billion or so of profit for the retailers involved.

I would suspect that far more than half of the imports, probably more than 75%, goes to stores which do not count low-income consumers among their largest segment of clientele.

The next question: How important is \$4 billion at retail?

Listed below is the 1993 volume of retail categories which are most likely to sell this \$4 billion:

Department and discount stores	\$191 billion
Apparel stores	103 billion
Mail order	26 billion
Sporting goods stores	16 billion

One is hard-pressed to claim more than a 1.0-1.5% decrease in sales.

**RThought:** How easily we forget that the U.S. is trying to get China to adopt a policy on human rights that is somewhat closer to ours than China has practiced in the past. Our resistance to many legislative acts on the false basis of harm, particularly to the low-income consumer in the U.S., is specious at best, dishonest at worst.

However, we seem to promote persons among our trade associations who are adept at developing specious arguments. Shouldn't the boards of our trade associations say to their executive directors, "When representing us, be meticulously honest in the arguments you raise. Please take care not to embarrass us before all thinking Americans."

### ARE YOU PREPARED FOR 6,100 SALES TAX RATES?

In 1992 the U.S. Supreme Court stated, in *North Dakota v. Quill*, that North Dakota had no right to collect sales tax on sales made by Quill from outside the state, no matter how many tons of catalogs Quill sent in to the state which required the state to incur expenses disposing of them as waste. BUT, the court also said something which had not been said before: *Congress has the power to permit states to collect sales tax on merchandise ordered by mail/phone/fax from outside the state, even if the seller does not have a "nexus" (connection, link) to the state to which the goods are shipped in the form of an office, resident salesperson, store, warehouse, etc., in the destination state.*

Soon the U.S. Congress will have a chance to allow sales to be charged on merchandise ordered by mail/phone/fax. Senator Dale Bumpers (D-AR), chairman of the Senate's Committee on Small Business, has introduced such a bill. Since most mail-order companies are "small businesses," one might wonder whose side Bumpers is on. His statement: "The intent of this bill is not to injure the mail-order industry. It is designed to ensure that mail-order companies and Main Street retailers compete on an equal basis, with neither side receiving an undue advantage." One might then argue that the bill should also require Main Street retailers to charge for delivery as they hand the merchandise to the customer.

The Direct Marketing Association (DMA) is, of course, objecting to the bill. The DMA's president claimed: "The enormous cost of collection would result in service cutbacks, employee layoffs [is there anything that Congress does which will not cause 'employee layoffs'?] and possible bankruptcy [horrors! just like Federated and Macy's!!]. An undue bur-

den would be placed on business because collection costs would be six to seven times greater [source of this multiple is not disclosed] for the direct marketers than for Main Street retailers."

They even differ about how much sales tax would be collected: DMA stated "only" \$1.4 billion [small change]; Bumpers stated more than \$3.3 billion [medium change]. The article did not quote the source of their estimates.

The bill would exempt mail-order firms doing less than \$3 million from the odious task of collecting state and local sales or use taxes. I believe most mail-order firms will be exempt.

**RThought:** It is safe to assume that companies doing more than \$1 million use some form of a computer. I am certain that before the law becomes effective someone will have created a computer program giving the sales/use tax rate for every ZIP code in the 45 states with a sales tax. The number of different sales tax entities is large — 6,100 at last count. An operator, in entering an order, would have to enter the ZIP code (required on parcel post), and then the computer would (a) enter the correct sales tax rate, and (b) accumulate the amount of the sale and the sales tax charged, thus accumulating the tax liability. Perhaps it will even print a check to each state/county/city for the correct amount to be remitted. That is, of course, unless the employee layoff projected by the president of DMA includes all of the data-entry operators. That could happen, you know.



## HOW LONG IS OUR ADVERTISING REMEMBERED?

Something called the Progressive Policy Institute, an arm of something called the Democratic Leadership Council, has come up with what it believes is a wonderful idea. As a way of reducing the deficit, it wants to increase the reported profits of retailers and all other advertisers by allowing companies to deduct *only* 80% of the cost of an ad in the year the ad runs and 5% in each of the next four years. Soon, we will have an organized group claiming that advertising is uneconomical and that expenditures for advertising should be disallowed.

The 80-20% suggestion was made in a report written by Robert Shapiro, the principal advisor to President Clinton in his campaign for presidency. The report of this proposal in the January 31, 1994, issue to *Advertising Age* stated that H. Jeff Hammond of the institute speaks of the deductibility of advertising expense as an "industry subsidy." Perhaps we should speak of the Federal government as an "industry penalty." And perhaps Hammond should make an estimate of the impact on employment in manufacturing and service industries if a significant reduction in retail advertising is brought about.

I agree with the statement made more than 100 years ago and attributed to John Wanamaker: "I know that half of my advertising is wasted, but, unfortunately, I don't know in advance which half." But there is a good argument for full deductibility if we are seeking economic recovery.

**RThought:** I first learned of spreading the deductibility of the cost of advertising in 1972 when C&R Clothiers went public. Handled by the Los Angeles firm of Morgenstern, Levine & Weissman, the C&R offering consisted of 175,000 shares at \$10, with 150,000 shares for the company and 25,000 shares for the selling shareholders, named Mr. C. and Mr. R.

Footnote 4 to the audit by Seidman & Seidman read:

### Deferred Advertising Costs:

Commencing in July 1971, under the Company's new sales promotion program, the Company has greatly increased its advertising through the television and newspaper media. These advertising costs are deferred and amortized over two years from the date the costs are incurred. The goal of the Company's present advertising efforts is primarily to provide for future rather than current sales. These advertising efforts, which are concentrated in Southern California, cover areas in which existing stores operate and are intended to include areas in which future stores will be opened.

Note 5 similarly spread the preopening expenses (although spreading these expenses over five years was not uncommon at that time).

**RThought:** There may be other attempts to gain revenue by eliminating so-called "subsidies." I recall the overly enthusiastic IRS auditor at one client who wanted to make us capitalize all of the expenses related to opening new charge accounts and to amortize the expenses over the life of the account! As I recall, he also wanted us to capitalize and amortize the cost of recruiting and training new personnel.

**RThought:** Think for a moment about politicians wanting to avoid tax increases by eliminating subsidies. How about deferring the deductibility of employer-paid Social Security and unemployment taxes until someone begins to draw Social Security or is paid unemployment compensation? Try to keep books on that!

## A WORKERS' COMP CASE OF SIGNIFICANCE

The decision in the case of Tom A. Mitchell v. Ideal Cement rendered by the Oklahoma Supreme Court was reported in the November 15, 1993, issue of *Boardroom Reports* (P. O. Box 58415, Boulder, CO 80322; \$49/yr.) as follows:

**A worker's smoking can be a company's defense against a workers' compensation claim. Case:** An employee developed respiratory problems that his physician said resulted from exposure to dust and contaminants on the job. The company's physician did not examine the worker but testified that air quality levels in the company plant were normal for the industry — and NOT harmful. The company also pointed out that the worker had smoked cigarettes for 20 years. The company won at the trial level and the worker appealed. **Decision:** For the company. The worker's smoking, and the known long-term impact of cigarettes, was evidence substantial enough to support the verdict.

**RThought:** The front-page box in the January 1994 *RT* reported that the death rate among women from lung cancer had increased seven-fold in the 40 years between 1950 and 1990 and that it now exceeds deaths from breast cancer.

Lung cancer has always been high among men who smoke.

There is no logic in transferring to the employer through workers' compensation the cost of an injury or illness which is self-imposed by smoking. As responsible employers, we should be doing everything possible to encourage our associates to "break the habit."

**RThought:** Those employers who provide a retirement plan (supplementing Social Security) may find that the savings on workers' compensation insurance cost will fund the increased cost of pensions resulting from greater longevity.

## SHORT SHORTS

**Do you believe this?** From *Sales & Marketing Management* (October 1993): "If we believed for one minute that Camel ads [in reference to Joe Camel] caused children to start smoking, we wouldn't wait for the FTC or anyone else to tell us to take some sort of action," says Peggy Carter, a spokeswoman for R. J. Reynolds. "We would immediately change the campaign." Of course, RJR says that all critical studies are flawed; but it has made none of its own. **RThought:** The RJR spokeswoman failed to explain why Camel's share of the under-18 market has grown from .5% in 1987, when Joe Camel was first introduced, to 33% in 1992. Just a coincidence?

**Databased management is here.** A Direct Marketing Association survey, according to *DM News* (19 West 21 Street, New York, NY 10010; \$75/yr.) stated more than 90% of business-to-business marketers use their database for customer retention and acquisition. Of the 65 companies out of 353 which responded, 85% (55 companies) developed their own system internally (as *Spiegels* reported at the 1993 Inventory Pipeline Conference — no fancy system gave better results than its in-house system). **RThought:** One of the advantages of proprietary credit cards is the ability to develop a database, if someone knows how.

**What will direct marketers (i.e., catalog companies) do if the bill introduced by Senator Barbara Boxer (D-CA) and Representative James Moran (D-VA) passes.** The bill would (a) restrict access to state motor vehicle and driver-license records and (b) have an opt-out provision for lists available to direct marketers, such as that which the Direct Marketing Association offers the public. **RThought:** Who knows? A lot of records may



be closed and an entire industry — the industry which creates mailing lists — may be put out of business. I get tired of companies/organizations that I buy from/deal with/contribute to are making money from selling my good name.

## WORDS — THAT JACK KILMARTIN KEEPS HANDY

I first knew Jack Kilmartin when he became the general manager of Kahn's department store in Oakland. Our family was landlord for Western Department Stores, which then consisted of Olds, Worthman, and King in Portland and Rhodes in Tacoma, as well as Kahn's in Oakland. Dad told me about "a fine young man" who was taking over and thought the store would do much better.

Skipping a dozen years, when Jack told me that he was planning on leaving Kahn's, I suggested that he meet Merv Morris of Mervyn's, one of my clients. They liked each other. Jack stayed on after the merger of Mervyn's with Dayton Hudson Corporation and ultimately became chairman and CEO of Mervyn's.

Here are Jack's "WORDS."

### MY FATHER WHEN I WAS:

4 years old: My daddy can do anything.

5 years old: My daddy knows a whole lot.

6 years old: My dad is smarter than your dad.

10 years old: In the olden days when my dad grew up, things were sure different.

12 years old: Oh, well, naturally, Father doesn't know anything about that. He is too old to remember his childhood.

14 years old: Don't pay any attention to my father. He is so old-fashioned.

21 years old: Him? My Lord, he's hopelessly out-of-date.

25 years old: Dad knows a little bit about it, but then he should because he has been around so long.

30 years old: Maybe we should ask Dad what he thinks. After all, he's had a lot of experience.

35 years old: I'm not doing a single thing until I talk to Dad.

40 years old: I wonder how Dad would have handled it. He was so wise and had a world of experience.

50 years old: I'd give anything if Dad were here now so I could talk this over with him. Too bad I didn't appreciate how smart he was. I could have learned a lot from him.

RThought: Funny, my dad went through the same growth as Jack's. No doubt my son's dad did, too!

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	DECEMBER		Percentage Change	Year to Date Eleven Months		Percentage Change
		1993	1992		1993	1992	
52	*Bldg Matl Group	\$ 9,723	\$ 8,282	+ 17.4%	\$ 113,595	\$ 103,031	+10.3%
57	*Furniture Group	14,254	12,654	+ 12.6	117,337	105,844	+10.9
571	Furniture Stores	5,964	5,523	+ 8.0	58,875	54,726	+ 7.6
572	Appl, TV, Radio Stores	6,417	5,400	+ 18.8	46,843	41,028	+14.2
5941	*Sporting Goods Stores	3,092	2,547	+21.4	20,726	18,436	+12.4
5942	*Book Stores	1,272	1,211	+ 5.0	9,316	8,796	+ 5.9
5944	*Jewelry Stores	3,852	3,422	+12.6	16,766	15,193	+10.4
531Pt	Conventional Dept Stores	8,985	8,826	+ 1.8	52,936	52,429	+ 1.0
531Pt	Natl Chain Dept Stores	6,099	5,675	+ 7.3	38,829	36,834	+ 5.4
	Subtotal	15,084	14,501	+ 4.0	91,765	89,263	+ 2.8
531Pt	Discount Stores	16,618	15,120	+ 9.9	115,026	103,801	+10.8
531	*Department Stores	31,702	29,621	+ 7.0	206,791	193,064	+ 7.1
539	*Misc General Mdse Stores	7,896	7,380	+ 7.0	57,726	52,975	+ 9.0
541	*Grocery Stores	33,852	32,399	+ 4.5	369,547	360,815	+ 2.4
56	*Apparel Stores	14,749	14,876	- 0.9	107,038	104,994	+ 1.9
561	Men's & Boys' Stores	1,398	1,412	- 1.0	8,953	9,143	- 2.1
562,3,8	Women's Stores	5,093	5,336	- 4.6	38,724	38,168	+ 1.5
565	Family Clothing Stores	5,414	5,307	+ 2.0	34,553	33,085	+ 4.4
566	Shoe Stores	1,970	1,898	+ 3.8	17,363	17,672	- 1.7
591	*Drug Stores	8,734	8,066	+ 8.3	79,916	77,285	+ 3.4
596	*Nonstore Retail	5,337	5,272	+ 1.2	47,840	48,256	- 0.9
5961	Mail Order	3,701	3,585	+ 3.2	27,017	28,885	- 6.5
	*Retailing Today Total Store Retailing†						
	**GAF TOTAL	83,442	78,523	+ 6.3	571,499	534,782	+ 6.9

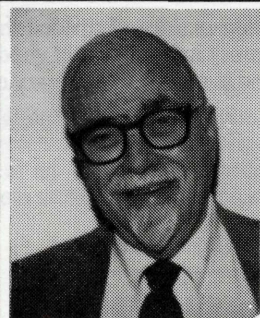
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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ROUTE TO

MAY 1994

VOL. 29, NO. 5

## CAN WE RETAILERS BE PROUD OF THIS? Part II

You may recall that the above title is the same as that used for an article in the January 1994 *RT* box, an article which pointed out that more women now die from lung cancer than from breast cancer and that we retailers apparently want even more people to die since we are doing little, or nothing, other than making money on cigarettes.

I bring this subject to your attention again because I received a letter from a longtime reader who is a retired retailer. We all need to think about what he has to say.

Dear Bob:

Boy, did you touch a nerve! Your lead story in January was just such a nerve toucher. Just a little over 32 months ago, my wife, who was 16 years younger than her husband, died of lung cancer. Could I stop her from smoking? Not on your life, or more accurately, not on her's. Did I buy those cigarettes for her? Yes, I did albeit under protest. If I didn't, she knew how to get them without my help.

Now to go back to when I was running my little retail empire. Did I allow our stores to sell cigarettes? Not really, although I did succumb to pressure from our many tearoom customers and installed a machine in the restaurant entrance. Funny little thing, I got hot under the collar when the tobacco wholesaler who installed the machine didn't want to share his profits with the store. In retrospect, it is a shame that we didn't require him to donate such profits to a local hospital serving lung cancer patients.

But, Bob, I guess like almost everything else, such things as selling cigarettes must be looked at with respect to the knowledge that was commonly held at the time. Today, even as a convenience to food-service customers, selling or permitting them to be sold even mechanically on our premises would be unthinkable.

**RThought:** Perhaps my friend has an idea for all of us who must make decisions. Many of you have declared your store to be a smoke-free enclave. If you still sell cigarettes, how about contributing the profit from those sales to a lung cancer clinic at a local hospital or to an organization which helps people stop smoking or discourages the young from starting!

On the same subject, *The New York Times Magazine* for March 20, 1994, had a feature article entitled "How Do They Live with Themselves?" A "Doonesbury" (Trudeau) cartoon, featuring Capitol Hill as the backdrop, was on the cover of the magazine. Its captions:

**Mr. [Cigarette] Butts:** Hey Folks! Mr. Butts here! Ever wonder what it takes to be a top tobacco executive?

Well, to begin with, you gotta be absolutely NUTS about freedom! I mean, CERTIFI-ABLE! And you have to love CHOICE!

**Politician:** MURDERER!

**Mr. Butts:** Are there ever dark trials of the soul? Well, of course there are!

But they pass! Oh, Senator! A word, if I may...

Steven C. Parrish, senior vice president of Philip Morris U.S.A., was quoted in the article as saying, "Anybody would feel hurt if somebody says you are a merchant of death and you shouldn't be able to look yourself in the mirror in the morning. I wish they wouldn't say things like that."

Of course, Parrish could leave Philip Morris — people would not call him "a merchant of death" if he were with Coca-Cola — but he might make less money.

**RThought:** The last time I heard William I. Campbell, the president and CEO of Philip Morris U.S.A., speak, he was introduced as a nonsmoker who came up on the food side of the company. However, he hasn't made any change in the company's position on cigarettes.

**RThought:** We deplore the drive-by shootings and the drug- and gang-related killings, but then *we don't handle drugs* or sell assault weapons.

We deplore the incidence of lung cancer among women (and men), but we continue to sell cigarettes and put up Joe Camel ads in our stores. Somehow, "deploring" by retailers is not helping our society.

## IS ECR RELATED TO ESP?

ECR, efficient consumer response, and ESP, extra-sensory perception, must have been conceived by the same public relations' firm! Neither set of initials really conveys anything beneficial to the human race. But it will take ESP to foresee broad success for ECR.

One thing is for certain, ECR is providing a lot of articles relating to the supermarket industry.

Although I don't recall consumers demanding anything special from the supermarket industry, they have shifted some of their shopping

to warehouse clubs because clubs are now offering a wider variety of food. And in towns which don't have a Fred Meyer or a Meijer (or the memory of a Doc Webb's drug store, long gone), consumers, when given the opportunity, have shifted some of their food buying to a SuperKmart or a Wal-Mart SuperCenter; in the future, they will have Target stores to shift to when food is added.

In listening to cassette tapes from the Food Marketing Institute 1983 convention, as well as other conventions, I learned that the industry has been exposed to a lot of misinformation on which it apparently thrives.

*continued*



I recall one tape of an expert telling the supermarket industry that the warehouse clubs had already taken 10% of its business. There was only one problem with this statement: it wasn't true. The statement was made after a year when everything which was sold through clubs came to about \$30 billion and the grocery business sold about \$365 billion. On my visits to Price Club (premerger), Pace, or Sam's, I would swear that I saw items other than food on display and being checked out.

Shortly after, Coca-Cola Research issued a report which said there was more than \$30 billion of unnecessary expense in the food-distribution system.

This is where the PR firm came in. It couldn't use a phrase like RIN, as in Rin-Tin-Tin, to stand for "remove inefficiency now"—not after the many years during which the supermarket industry had patted itself on the back for its wonderful "efficiency." The most frequent measure of efficiency claimed by the industry was that for the many years Americans spent a decreasing percentage of their income on food. No credit was given to the far more important impact of increased efficiency of agricultural production and the much improved efficiency of the trucking industry which used the highway network built largely with our tax dollars on gasoline.

During the 1993 FMI convention, an argument was raised against the BTU (energy) tax. It came after the release of the report that there was \$30 billion in expenses which could be eliminated. It was based on the claim that supermarkets were so efficient that they could not absorb any additional expenses but would have to pass the full cost on to the consumer.

The essence of ECR is that retailers must develop greater trust and partnership with the manufacturers who supply them. Trust involves providing the manufacturer with movement information by SKU on a current basis and *not* on a basis deduced from orders. With current information, the manufacturer may learn who is diverting what and how much. Diverting is the system by which supermarkets buy merchandise in Zone A, when it is offered at a special price, and then sell it at a profit to someone in Zone B, where the special price is not being offered.

Diverting and advance buying (buying extra during special promotions in order to sell at a high markup after the special offer ends) both require a major investment in inventory and warehouses. However, this factor is usually overlooked when advance buying and diverting are defended as "good cash management" (sometimes when the "cash" is obtained by late payment for other goods).

This is an industry in which more than 90% of new products are a failure. Yet almost any product can get on a shelf if a "slotting" payment is made. If the product doesn't sell, the manufacturer is expected to take it back at full credit.

This is an industry in which 300 billion coupons are distributed annually in order for approximately 7 billion to be redeemed. If we average each coupon at two inches wide, 300 billion would total about 10 million miles, or about a ninth of the way to the sun (where coupons, to my knowledge, are not redeemable). And how many trees were wasted to print over 290 billion unused coupons?

Coupon redemption has always been subject to fraud. Handling them is expensive. And most people don't like them, even though financial conditions may force many consumers to use them.

But in the basic operation of their stores, supermarket companies have become *less* efficient over the past 30 years.

The following is a rough calculation of inventory turnover for publicly held supermarkets doing more than \$200 million in sales and listed in the 1965 Fairchild Financial Manual and those listed in the

1994 manual as doing more than \$1 billion in sales. I divided the average of the opening and closing inventory into the cost of goods sold (recognizing the fact that this method is not a "precise" way of computing turnover).

TABLE 1  
1965

Company	Sales (Millions)	Turnover
Acme Markets	\$ 1,118	11x
Allied Supermarkets	431	13
Arden-Mayfair	667	11
H. C. Bohack	207	12
Colonial Stores	480	11
Cook Coffee	237	12
First National	723	12
Food Fair	1,105	10
Jewel Tea	782	10
Kroger	2,328	11
Lucky Stores	310	13
Reed Owl Stores	304	10
Safeway	2,818	11
ThriftMart	233	10

TABLE 2  
1994

Company	Sales (Millions)	Turnover
Albertson's	\$10,174	11x
American Stores	19,051	9
Bruno's	2,658	9
Eagle Food Centers	1,082	8
Food Lion	7,196	7
Giant Foods	3,473	11
Grand Union Holding	2,834	9
Ingle Markets	1,066	8
Great A&P	10,499	8
Kroger	22,145	11
Marsh	1,131	12
Penn Traffic	2,788	9
Safeway	15,152	9
Smith's Food & Drug Centers	2,650	6
Stop & Shop	5,010	8
Supermarkets General	4,340	9
Von's Companies	5,596	11
Weis Markets	1,289	10

The unweighted average turnover has dropped from 11-plus to 9-plus, despite all of the information available from scanning and a big, high-tech computer system in the back office.

When I was in the supermarket business in the 1950s, our goal was 12 turns a year — and we usually attained that goal. The real measure of our operation was that accounts payable for food be paid currently and yet exceed the value of the inventory. Thus we planned no capital investment in food inventory.

ECR, despite using the word "efficient," doesn't talk — at least, not directly — about little efficiencies such as turnover. Turnover is being approached in the supermarket industry through a process called "category management," a term which cannot be sold to the supermarket's customers in the same manner as is the term "efficient consumer response."



I LOVE RETAIL!

Tom Peters presented an inspiring keynote address at the 1994 National Retail Federation convention in New York City. Tom's presentation prompted him to write the following column, which he sent me and which I reproduce here with his permission. In fact, Tom said he would be "proud" to have it in *RT*.

I Love Retail!

Few readers of this column are software designers or purchasing officers for Fortune 500 companies. Most are in retail. They work in dress shops, record shops, auto body shops, and restaurants. Or they're nurses, doctors, teachers, or, like me most of the time, seminar presenters — retailers of another sort.

If one of these activities is yours, consider yourself lucky. I do.

Retail, as practiced by Wal☆Mart and Nordstrom, calls for sophisticated information systems, skill at finding the right location at the right price, and, of course, artful selection of merchandise. But given all that (no small things), the essence of retail is theater. Retail, in the classroom or showroom, is a performing art.

Have you ever walked onto the field of a Big 10 football stadium in July? It's eerie in its stillness. And yet, especially if you're an alum or former player, you can feel the emotion of 80,000 fans who will gather 60 days hence.

A shop, or especially a big retail store, feels the same way at 6 A.M. Still. Dark, except for the glow of night lights. The merchandise casts long shadows on the empty floors.

But, as with that football arena, you can sense the tension building. The coats or toys (or pens and pencils, if it's a classroom) are stirring, awaiting the performance.

If I'm scheduled to speak to 17 or 1,700 people in Miami or Timbuktu, I like to sneak down to the slumbering meeting room at 1 A.M. or so the night before. I can sense the spirit of the group that will assemble eight hours later. It invariably primes me to go back and do a few last preparations. In fact, such stealthy visits to deserted spaces frequently have led to total revision of my remarks.

That's why I love retail!

Sure, I count on the seminar organizer to bring in a good crowd, select an adequate facility and get a hundred logistical details just so. Likewise, the store clerk counts on the powers above to choose a location that attracts customers and to provide merchandise that sings.

Still, it's *my* show, or *your* show. The auditorium opens, the auto body shop's garage door clanks upward, the class bell rings. And we are absolutely, positively in charge.

It's our stage. Literally, not figuratively. That classroom or showroom is as much a stage as the main platform at Carnegie Hall.

It's up to us to invest the script (a play by Ibsen, food by Chef Whomever, chapter seven of the U.S. history textbook) with life. To perform. To create emotion.

Retail is a connection business. Relationships are forged, one at a time, with an audience of 2,000 or a single auto-repair customer who suffered a fender-bender yesterday afternoon.

The best bosses understand. They're collaborators and retailers themselves. They're out and about, nudging and cajoling, chatting and listening and cheering. The worst are wholesalers. They hide behind secretaries and assistants, memos and videotaped speeches to the masses. They fail to connect, to emote. Then they fail, period. (This is especially true in chaotic times like these, where retail connection alone can ease the pain of inexorable change and dislocation.)

Retail also allows — no, requires — you to reinvent. Actors and actresses will tell you that every audience is different. So is every day in the classroom or restaurant or surgical suite.

For great actors and actresses, each day is a golden opportunity to experiment with a new approach — in fact, with nothing less than a new persona. What are you going to be today? How are you going to connect? Today is a clean slate, a sparkling new moment. So what's your new twist?

I said great actors and actresses because there are, obviously, average and lousy actors and actresses, just as there are average and lousy bellhops and teachers. The definition of great is, mostly, the imagination and zeal to re-create yourself daily.

Best of all, retail for you or me is management-proof. Sure, managers make you abide by thinner or thicker rule books. Some bosses hover, some give you space. But the point is that at 10 A.M. sharp, it's your store (or at least your 75 square feet). You are absolute master, ruler, czar. You alone bring that 75 square feet, or those five restaurant tables, to life. Ninnies or saints, fearful or fearless, management can't hold you back.

If I sound like a revivalist preacher on this topic, it's because I am. And I'm in love with the boundless, albeit often squandered, potential of retail.

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SHORT SHORT

Women's earnings as a percentage of men's by age and education break down as follows:

Age	High School Diploma	Bachelor's Degree	Master's Degree
25-34	78%	78%	79%
35-44	66	72	71
45-54	62	69	70

Source: Census Bureau, as reported in *Money*, December 1993.

Conclusions:

1. Discrimination begins early regardless of education.
2. With passage of time, opportunities lessen for women with only a high school diploma and discrimination worsens.
3. Compensation for women with a college degree drops less with the passage of time than for women with a high school diploma.



## FEATURE REPORT

### ARE THESE THE PEOPLE WHO WANT INTERACTIVE TV TO REPLACE SHOPPING IN THE MALL?

*American Demographics* (127 West State Street, Ithaca, NY 14850; \$69/yr.), February 1994, featured a story entitled "Technophiles and Technophobes." Anyone who has been mesmerized by the silly prognostications of massive interactive-television retailing by the end of this century (whether that be the year 1999 or 2000) may do well to purchase this issue.

According to statistics provided by Roper Starch Worldwide, the percentage (rounded) of people, by education level, who have heard of interactive TV or high-definition TV are as follows:

	High School Dropout	High School Graduate	Some College	College Graduate
High-definition TV	12%	18%	36%	48%
Interactive TV	5	9	16	23

These percentages apply to "heard of," *not* to those who "want."

In relation to video disc players, one-fourth of American adults have never used a computer or programmed a VCR. However, from 1987 to 1992 the percentage of those who own a VCR has increased from 5% to 11%. Great penetration!

The article then delves into more surveys. Mediamark Research, Inc., found that nearly a quarter of consumers can be classed as

"Electronic Consumer Innovators" who live in hope of 500-channel cable TV — but keep in mind that the other 75% are in homes which have limited cable or just old-fashioned antennas.

Backer Spielvogel Bates, Inc., found that Electronic Consumer Innovators are *not* heavy cable TV viewers.

Until such time as interactive TV permits the viewer to call up the specific type of merchandise desired, interactive TV is going to need people who like to spend a lot of time watching the little screen.

The first interactive TV may be the power to select a movie you want from a choice of 1,000 to 1,500. But can you offer a satisfactory selection of women's apparel with only 1,500 SKUs?

**RThought:** There are not many Electronic Consumer Innovators among older citizens, the ones who have the money.

Perhaps interactive TV is going to have to wait until the kids who use computers in the 3rd grade are a significant part of the retail market — but we then may be wearing "virtual garments"!

**RThought:** Consider this information the next time you read some enthusiastic "expert" who is forecasting that within 10 years interactive-TV transactions will account for 10% of retailing. By definition, this includes the supermarket and the new car industries. Will new cars be sold by interactive TV?

### THOUGHTS WHILE SCANNING THE FRONT PAGE

It was the front page of the March 10, 1994, *Oakland Tribune*.

The top heading was "McGuire's Back Causes a Rift," which related to an article in the sports section about first baseman Mark McGuire of the Oakland A's, who was paid more than a million dollars last year to play in only 27 games.

The top article on the front page also related to baseball and was headlined "Pena Throws a Curve by Pitching Money Back to Pirates." This was the story of Pittsburgh Pirates pitcher Alejandro Pena, who had his agent return \$500,000 in pay for 1993, plus extend his contract another year at "only \$175,000," because, as Pena said, "I could live with myself better. I didn't feel right taking the money and not doing anything for the team."

**RThought:** I then reflected on the many retail CEOs, especially those with pay in excess of a million dollars a year, who had seen their companies suffer big losses or go into bankruptcy. I could not recall one who said what Pena had said, "I could live with myself better," when he returned part of his pay.

**RThought:** Perhaps the oversized salaries paid to some retail executives should be contingent upon the audited statement for the year. They could have a reasonable draw against the contingent salary during the year.

The investors in Toys "R" Us have received good value from such an incentive arrangement with Charles Lazarus, whose compensation formula has remained relatively unchanged for many years: \$315,000, plus 1% of the pretax profit in excess of \$18 million. For the year ending January 30, 1993, the pretax profit for Toys "R" Us was \$689 million, up about \$150 million from the previous year. The return on equity was up from 14.0% to 15.1%.

**RThought:** Little would be gained by listing the highly paid retail executives who did *not* produce the profits expected by the directors, the representatives of the owners (i.e., the shareholders) when the compensation was approved.

### SHORT SHORTS

**Who says it can't be done?** Listed among gifts in the December 14, 1993, issue of *The Journal of Philanthropy*:

**U. of Hawaii Foundation:** Property valued at \$850,000 given as a charitable remainder trust from Charles Tanaka, of Honolulu, a *retired carpenter*, and his wife, Elizabeth, a *retired seamstress*, to endow the Gallaudet University Regional Center and programs for the deaf and hard-of-hearing students at the university system's Kapiolani Community College.

**RThought:** Have you done enough lately? Could you do more? Should you do more? We applaud what is being done by Walter Annenberg; but many of us know we are not doing our share of contributing, in both time and money. Now is the time we should be giving more thought to this important task.

**An item in the Hello catalog** stated "crafted of European cowhide." Do European cows produce better cowhide than American cows?



**RThought:** I read the trade press, I listen to the talks from conventions, and I think a great deal about the supermarket industry, but I don't see the following factors present — factors which are necessary for ECR to work:

1. Necessary trust.
2. Clear thinking when saying that there are better ways to make a profit than from diverting and advance buying.
3. Vendors working with supermarkets that don't nickel-and-dime them to death.
4. Mention of manufacturers committing to a 90% decrease in new products (or even talking to store operators before bringing out new items).
5. Real movement toward reducing the litter of coupons.

**RThought:** Perhaps the industry has a smoker's disease. Some smokers know that unless they stop smoking they will die of lung cancer or emphysema, but they are like an old friend of mine who knew he was dying but kept begging the nurses for just one more cigarette.

**RThought:** Unless I have read human nature wrong, the supermarket industry has less than one chance in 10 of removing \$30 billion of expense from the food-distribution channel.

But that does not mean that the SuperKmart, Wal☆Mart SuperCenter, Target, Fred Meyer, and Meijer stores won't learn from the Coca-Cola study. They may very well take the necessary steps to distribute food at a lower expense and get the vendors to pass on part of their savings in lower prices.

As to the clubs, they have a lot of thinking to do. One of the economies of the club comes from the average ring which keeps the labor cost low at the checkouts. If they double the number of rings they have to make in order to check out a million dollars, their expenses will no longer be contained at the 8% level (which were recently 7%).

## SEARS SHOULD GET OUT OF THE HOME IMPROVEMENT BUSINESS

In March of 1973 *RT* carried a story under the heading "Can You Guarantee Satisfaction on a Home Improvement Job?" I reported on the failure of the Sears Add-a-Room offering done by a Sears' authorized installer. A sizable number of homeowners on the West Coast signed contracts which were financed (in California) by the Bank of America. The contractor was paid the full amount in advance — and the contractor went broke! When the homeowners sought help from the bonding company, it pointed to the words "Sears is your guarantee of satisfaction" above the customer's signature on the contract, and said, "When Sears cannot guarantee satisfaction, we will. However, you must first contact Sears." I was made aware of this problem by a homeowner who had no roof on part of his house when the workmen walked off and the rains came.

I tried to get the regional corporate counsel to use some common sense, but he thought he was saving Sears money. The newspapers up and down the West Coast were having a field day featuring front-page stories about the miseries of Sears' customers.

Once again there are headlines. The February 21, 1994, *National Home Center News* carried an article entitled "Homeowners Sue Sears for Unauthorized Liens." This time, it was the case of Sears' customers signing contracts with blank sections. Afterwards, the installer, mortgage broker, and lender would fill in the mortgage information.

Many Sears customers found out about this tactic when they tried to refinance their homes during the recent low-interest period. Apparently, the homeowners, whose contracts had been for siding and other improvements, were current on their payments, so this situation had not been discovered earlier.

The suit was filed by four Maryland couples as a class action and asks for damages of \$200 million, plus removal of the mortgages.

**RThought:** I won't go back into the history of suits against retailers who get into the home-improvement business (starting with Korvette), but I will repeat the question raised 21 years ago: Can you guarantee satisfaction on a home improvement?

## MY INTRODUCTION TO MERCHANDISING

During 1937, I spent part of the summer selling popcorn on Treasure Island at the San Francisco International Exposition. It was not a World's Fair since there can be only one of those at any given time and, at that time, the title was held by New York City.

There are two factors in selling popcorn: the aroma of melted butter and lung power. Treasure Island is blessed with a prevailing wind from the west. Unfortunately, all of the popcorn stands, except one, were located on the east side of the walkways. As to lung power, I was hired to yell, "Hot, butte-r-r-ry popcorn," each time someone came down a walkway. I could have sold three or four times as much popcorn had the stands I worked been on the west side. That was where the corn-on-the-cob concession had its stands — and for corn-on-the-cob the smell of melted butter was not critical.

I suggested to my employer that we should trade stands, but it was never arranged.

I mentioned that all except one popcorn stand were located on the east side. The lone exception was at the west end of the GayWay section with all of the evening entertainment, including Sally Rand and her fans, fresh from the Chicago Fair. In the evening, as people walked up to 300 yards to the ferryboat which would take them back to San Francisco (the bridge ramp to Treasure Island not having been completed), they would walk the entire distance into the aroma of melted butter. It took two, and sometimes three, to staff that booth, which was the only really profitable stand the concessionaire had.

**RThought:** Such a small difference as the prevailing wind can mean a big difference between a profit and a loss!

## WE CAN DO BETTER THAN THAT, GANG!

In reading the results of the California Special Olympics 1993 Summer Games, which have been chaired for years by Olympic champion Rafer Johnson, 126 firms were listed as sponsors, but only *four* were retailers. Von's was the Gold Medal Sponsor, with its CEO, Roger Strangeland, listed as a member of the Council of Champions, along with such athletes as Bob Mathias, Bruce Jenner, Nadia Comaneci, and Milt Campbell, to name a few. The other three retailers were Radio Shack, Smart & Final, and Trader Joe's.

**RThought:** Once again: We can do better than that, gang! Every retailer of size should be closely allied with at least two or three important community efforts in each town in which it operates.



## WASHINGTON IS PROVIDING LEADERSHIP — WILL BUSINESS FOLLOW?

President Clinton has ordered that by the end of 1994 most of government, including the military, must purchase paper supplies containing at least 20% recycled paper (20% post-consumer recycled paper was not specified) and with an increase to 30% by 1999.

**RThought:** The question of paper containing recycled content is much like the question: Which comes first, the chicken or the egg? The problem: Which comes first, the demand or the supply? Join Washington; add your demand for recycled paper.

**RThought:** Just imagine! Business and Washington working together so that our grandchildren can see trees other than in paintings such as the cavemen left for us a few millenia ago.

**Keeping in touch effectively.** An assistant passed on to me a card which read:

In honor of your birthday  
we have enclosed a \$25  
gift certificate valid at  
our Walnut Creek store

HAPPY BIRTHDAY  
RODIER

1233 Broadway Plaza  
510-937-3160

**RThought:** Being a very practical person, she enclosed a photocopy of the gift certificate. I presume she used the original!

## WORDS — GIVEN TO MY WIFE, WITH A REQUEST THAT SHE VOLUNTEER

### A Special Place

*Many will be shocked to find  
When the day of judgment nears  
That there's a special place in heaven  
Set aside for volunteers.*

*Furnished with big recliners  
Satin couches and footstools  
Where there's no committee chairperson  
No group leaders or car pools  
No eager team that needs a coach  
No bazaar and no bake sale  
There will be nothing to staple  
Not a thing to fold or mail.*

*Telephones will be outlawed  
But a finger-snap will bring  
Cool drinks and gourmet dinners  
And rare treats for a king.\**

*Who'll serve these privileged few  
and work for all they're worth?  
Why, all those who reaped the benefits  
And not once volunteered on earth.*

*\*or queen.*

**RThought:** My good wife, as usual, replied, "Yes, I will." (An assistant observed, "Your volunteers would be bored in such a Heaven!")

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	JANUARY		Percentage Change
		1994	1993	
52	*Bldg Matl Group	\$ 7,566	\$ 6,933	+ 9.1%
57	*Furniture Group	8,812	8,393	+ 5.0
571	Furniture Stores	4,178	4,264	- 2.0
572	Appl, TV, Radio Stores	3,788	3,243	+ 16.8
5941	*Sporting Goods Stores	1,346	1,164	+ 15.6
5942	*Book Stores	994	995	- 0.1
5944	*Jewelry Stores	841	787	+ 6.9
531Pt	Conventional Dept Stores	2,767	2,764	+ 0.1
531Pt	Natl Chain Dept Stores	<u>2,510</u>	<u>2,459</u>	<u>+ 2.0</u>
	Subtotal	5,277	5,223	+ 1.0
531Pt	Discount Stores	<u>7,836</u>	<u>7,041</u>	<u>+11.3</u>
531	*Department Stores	13,113	12,264	+ 6.9
539	*Misc General Mdse Stores	4,009	3,851	+ 4.1
541	*Grocery Stores	30,362	29,761	+ 2.0
56	*Apparel Stores	6,159	6,598	- 6.7
561	Men's & Boys' Stores	614	572	+ 7.3
562,3,8	Women's Stores	2,231	2,629	- 15.1
565	Family Clothing Stores	1,828	1,806	+ 1.2
566	Shoe Stores	1,061	1,113	- 4.7
591	*Drug Stores	6,619	6,241	+ 6.1
596	*Nonstore Retail	3,756	3,655	+ 2.8
5961	Mail Order	2,434	2,498	+ 2.6
	*Retailing Today Total			
	Store Retailing†	83,577	80,642	+ 3.6
	**GAF TOTAL	37,111	36,023	+ 2.9

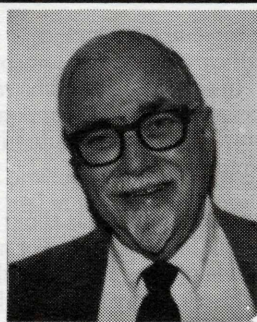
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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JUNE 1994

VOL. 29, NO. 6

## WHO IS NOT SELLING TOBACCO PRODUCTS

A very nice note from Warren White, executive vice president and general manager of the Clover Division of Strawbridge & Clothier and past president of IRMA, reported that the Clover discount stores discontinued the sale of all tobacco products in 1990, with the following impact:

**While it did hurt in terms of sales and profits, the pain lasted only one year, and we soon found other means to offset at least the gross margin loss.**

White urged me to continue to "turn up the heat" by establishing an honor roll for retailers who have decided that they want to prevent potential smokers from starting, particularly the young and women who are most frequently the target of advertising.

I have another retailer to praise: Petrini Markets in Northern California, a subsidiary of Univa, Inc., of Montreal, Quebec, Canada. The move was made by its new CEO, Joe Columbe, who created the Trader Joe's chain of specialty food stores.

**RThought:** I hereby establish an honor roll for retailers who discontinue the sale of cigarettes. Please send me press releases announcing the elimination of cigarettes. I will print them and hope that others will follow. Although I read a lot, I may miss such an announcement because much of the press will not publish such a story, as cigarette advertising is a big part of its revenue. (I hope nobody believes that the press bars the business side from controlling the editorial content.)

## METHINKS THAT MOST RETAILERS ARE MIXED UP

Some days I spend from four to six hours reading business magazines and articles which have been pulled from periodicals for me by my excellent staff. We receive over 100 periodicals and approximately 40 newsletters. I read about a lot of different kinds and facets of retailing.

Many writers say they have the magic cure for a major segment, if not all, of retailing. Some deal with the magic of EPOS/EDI/QR/ASR (electronic point of sale captured data available through electronic data interchange so that the manufacturer, through quick response, can provide automatic stock replenishment).

Other writers offer the magic cure of ECR (efficient consumer response) which somehow will protect the supermarkets from assault by the supercenters. At the present time it looks as if the general merchandise/food combinations of Fred Meyer, Meijer's, SuperKmart, Wal-Mart Supercenter, and whatever Target selects as the name of its new format, as well as others entering the race, could, in 10 years, place their food volume as equal to or more than the largest supermarket chain, which, today, is Kroger at \$22 billion.

## INTEGRITY IS NOT CONTAGIOUS

The front-page box of the April 1994 *RT* was headed "There Is Nothing Like A Typo" and reported on a mistake made in an ad by The Bon Marche, headquartered in Seattle. To recap, a Sony five-disk carousel player, regularly \$199, was inadvertently advertised on sale at \$99 rather than \$179. John Buller, senior vice president for marketing and sales promotion, decided to stand behind the ad, even though the trade estimated that \$99 was at least \$40 below cost. The Bon sold every player in every stock — and when the stock was depleted, it took customer orders for an additional 4,000 units!

Now we switch to the East Coast and a mistake in an ad by The Bon's sister group, Jordan Marsh. Both are subsidiaries of Federated Department Stores, Inc.

A mistake was made in a bedding advertisement on page 13 of Jordan Marsh's catalog in the March 28, 1994, paper for a one-day sale. The "Courtesy Sale" was March 29, followed by the "Public Sale" beginning March 30. In view of the error on March 28, there was an ad in the March 29 *Boston Globe* which read, in part:

## CORRECTION

Unfortunately, there was an error in the bedding advertisement on page 13 of the Jordan Marsh One-Day Sale catalog. The bedding advertisement stated "50% Off regular prices" which was incorrect. The sale and prices are correct as shown below.

The prices listed in the correction were "\$40 off" on twin and full sets (\$20 off each piece) and \$80 off on queen and king sets.

**RThought:** Perhaps the difference in reaction to an error in an ad explains why The Bon is more profitable than Jordan Marsh. In fact, I understand that The Bon is the most profitable division of Federated — with good reason.

I have previously expressed my views on the claim of QVC, et al, that within 10 years interactive electronic retailing will transact 10% of the retail business, which, in 1993, was reported to be \$1.291 billion, excluding automobiles, gasoline, and eating and drinking places. This projection was first made by Professor Malcolm McNair of the Harvard Business School — 10 years, 10% of retailing — in 1974!

continued



There is talk of cross-dock receiving at distribution centers, radio or infrared control of shelf-edge price marking, scanning of grocery merchandise without an intervening checker, and the wonders of outsourcing and further electronic data interchange — the vendor to the manufacturer of the components and, finally, to the designer — based on an accuracy of forecasting not yet attained.

However, something is missing: There is little discussion of the customer. In fact, the problem in retailing is that so few retailers have customers anymore.

I can hear you saying that there are lots of people who come into your store and that 195 tabloids a year are all that you need to attract them.

Don't confuse a "buyer" with a "customer." A customer, by the very word, means "one who customarily purchases from the *same* tradesman," a definition since about 1750, according to the Oxford Unabridged English Dictionary.

Let me repeat: A customer is one who *customarily purchases* from the *same* tradesman.

Stop all of your advertisements — direct mail, print, and electronic — and see how many "customers" you have. You are sure to be disappointed. All of these years of false comparative pricing, denying people satisfaction, and only meeting a lower price when a shopper brings in a competitor's ad take their toll. What if no one comes in?

Can you list the names of stores, except, perhaps, your local independent supermarket, which would have approximately the same number of people showing up on a "normal day" even if all advertising were stopped? My list is short.

Nordstrom  
Dillard's  
Wal☆Mart

Why? Because Nordstrom has fabulous service, assortment and quality, and low turnover; Dillard's has satisfactory service, assortment, and fair everyday prices; and Wal☆Mart has assortment, community participation, and low everyday prices.

If the number of tabloids is a true stimulus to sales, Kmart should be doing three to four times the volume of Wal☆Mart. Even Target should be doing more volume than Wal☆Mart.

Advertising developed in the late 19th century; however, many stores had customers before they began advertising. One way department and large specialty stores developed customers was by offering charge accounts. Even in 1932, department stores larger than \$750,000 a year did more than half of their volume on charge and installment accounts (Harvard FOR, 1932). By the mid-1960s, this figure was above 60%.

In the years before World War II, people had charge accounts at only a few stores. They seldom included *all* of the department stores. A charge account was a reason for "customary" shopping.

However, this all changed in 1958 with the introduction of the BankAmeriCard in Fresno, California. Today, a store which accepts Visa, MasterCard, and Discover can match any proprietary credit facility offered by a department store and usually with a lower monthly payment than is required on a store card.

In addition, there were other services during the first half of the 20th century which created customers but which have now been abandoned. Fewer salespeople have a personal trade. As an example, Mother always bought our boys' clothes from Mr. Barber at Roos Bros.' San Francisco store. When he moved to The City of Paris, Mother, along with hundreds of others, moved with him!

There were always chairs in stores for people like my mother to sit in. Chairs have since disappeared, the theory being that someone who is sitting in a chair is not shopping. In actuality, those who rest will shop longer. Other common services which have all but disappeared are clean restrooms, polite, knowledgeable, and attentive salespeople, free delivery, and free gift wrapping.

I don't believe Mother ever looked at an ad when she was about to buy me a blue camel-hair coat. We just went to Roos Bros. For her own clothes, she went to I. Magnin or Livingston's. Following the end of Prohibition in 1933, she would even buy wine at the Emporium department store by telephone, because she had confidence in the department manager's choice of wines.

**RThought:** Today, we are so involved with "following the crowd" and economizing, regardless of the number of shoppers affected, that we do not concentrate on developing courteous and attentive staff and the fairness of our everyday prices. These facets force shoppers to read our competitors' ads before coming to our store or, perhaps, *not* coming to our store. Result: We have few, if any, CUSTOMERS.

## WHY WE NEED LOGICAL, SENSIBLE INDUSTRY ARGUMENTS

As quickly as top retail executives and heads of retail trade associations make foolish statements before Congressional committees, I intend to report them in *RT* and explain why I believe the statements are foolish. There are a lot of such foolish statements, but I don't intend to devote all of *RT* to this effort!

But this time I want to be sure that *RT* readers realize that despite all of the pompous trade association statements, whether made by a trade association executive or read by some billionaire retailer, the other side (i.e., the members of Congress) is not as stupid as one may think.

An article in *Women's Wear Daily*, headed "Health Care: A PR Nightmare," supports my position.

Written by Joyce Barrett, a *Women's Wear Daily* Washington reporter, the first three paragraphs of the article were:

**While retailers turn their lobbyists loose to kill the idea that they must provide all their workers with health insurance, some are finding that their stance can be politically sensitive, especially with their uninsured employees.**

**A few have been ducking the spotlight when they lobby Congress.**

**"As long as they can keep their employees ignorant, they are better off," said Rep. Jim McDermott (D-WA). "I'm sure some of them actually believe the arguments they are making, but for the most part, they are foolish arguments."**

I didn't know of McDermott or that he was sponsoring a health care reform package. Nor did I know that he had to listen to foolish retail trade arguments.

From what Barrett reported, I am convinced that the many retailers appearing before Congress don't want publicity about the advice they are giving. Perhaps it is because the advice is detrimental to their employees, when loyal employees are their greatest asset. If they knew what the boss had said, it would be hard for them to be loyal.

Cicilia Adams of the International Mass Retailing Association arranged for some 50 members of the House and Senate to meet with representatives of 11 major retail firms. Barrett quoted Adams as noting she "...always encourages the IMRA members to be open



## WHY DOES IT TAKE SO LONG FOR GOOD NEWS TO CIRCULATE?

Do you know about the Green Lights? I could get rich betting 3-1 with the many retailers I meet and talk to, betting that they don't know what Green Lights stands for or who is spreading the word.

Green Lights is a program of the United States Environmental Protection Agency (EPA). No, it is not about special lights which induce plants to grow indoors!

Green Lights is a program designed to promote better lighting by being smarter and using less electricity. And no, it does not mean selling merchandise in the dark!

Its premises are as follows:

- Premise 1. Generating electricity involves burning fossil fuels — coal, oil, or natural gas — or running a nuclear reactor or a hydroelectric plant.
- Premise 2. Lighting accounts for 20-25% of all electricity used in the U.S.; lighting for business and industry represents 80-90% of all lighting.
- Premise 3. Every kilowatt hour of electricity NOT used avoids the emissions of 1.5 pounds of carbon dioxide, 5.8 grams of sulfur dioxide, and 2.5 grams of nitrogen oxides.

If we all used energy-efficient lighting, the amount of electricity used would be cut by more than 10%, or, to put it another way, it would reduce the pollution in our air by as much as could be accomplished by taking 44 million cars off the roads!

Do you want to learn more about Green Lights?

First, find out how many millions of kilowatt hours your business uses in any typical month.

Efficient lighting consists of doing a few smart things.

1. Use *electronic* ballasts instead of *magnetic* ballasts on your fluorescent lamps. An electronic ballast is 10-15% more efficient.
2. Use T-8 "cool white" bulbs instead of the conventional T-12 bulbs. The smaller T-8 bulbs produce more lumens (one lumen roughly equals the light of one candle); the T-12 40-watt bulb produces 2,400 lumens against 4,000 from the T-8.
3. Wherever possible, install motion detectors to turn the lights on only when there is motion in a room and off when there is no motion.

Green Lights illustrated the kind of saving that is possible by being a Green Light partner.

Shearson Lehman Brothers (a subsidiary of American Express) reworked its 1,500,000-square-foot headquarters in New York City by installing:

- 31,000 T-8 lamps, replacing 31,000 T-12 lamps
- 17,000 electronic ballasts, replacing 17,000 magnetic ballasts

- 158 compact *fluorescent* lamps, replacing 158 incandescent bulbs
- Motion detectors, replacing manual switches

It cost \$710,000 to rework the lighting system. The annual savings were \$280,000 on top of \$472,000 in grants/rebates from the power company for the generation plant capacity it would *not* need. Shearson Lehman reduced its usage of electricity by 37%.

I looked at the list of participants in Green Lights as of March 14, 1994, and found the following retailers:

Albertson's, Inc.  
Charming Shoppes, Inc.  
Cracker Barrel Corporation  
Fred Meyer, Inc.  
Genovese Drug Stores, Inc.

The Home Depot\*  
J. C. Penney Company, Inc.  
L. L. Bean, Inc.  
Larry's Market Incorporated  
Longs Drug Stores

Lowe's Companies, Inc.\*  
The Melville Corporation  
Minerva True Value Hardware  
Perry Drug Stores  
Service Merchandise Company, Inc.

Seventh Generation, Inc.  
Shaws Supermarkets, Inc.  
SuperValu Stores, Inc.  
Supermarkets General Corp.  
Wal-Mart Stores, Inc.

\*Perhaps this company sells T-8 bulbs and electronic ballasts.

There must be more smart people in retailing than this list of 20. If you are a Green Light partner and are not on this list, please write to me.

**Secrets of RT:** I found out about Green Lights because I read *Hotlines*, the newsletter of the Newsletter Publishers Association, which reported that Whitaker Newsletters, with five employees and a 1,600-square-foot office, has become a Green Lights partner. It agreed to upgrade its lights over the next five years.

The Green Lights hotline number is 202-775-6650, and its fax number is 202-775-6680. Green Lights will send you the complete kit it sent to me.

**RThought:** Some retailers will complain about the income taxes they will have to pay on the millions of dollars that the Federal government has shown them how to save. However, some of these may be the same folks who objected to the draft in 1940-41 because we weren't at war — until December 7, 1941 — and then they criticized anyone in uniform for not having a stronger military.

**RThought:** I believe that Miguel Cervantes (1547-1616) had my readers in mind, when he wrote in *Don Quixote*, "Good wits jump; a word to the wise is enough."



## FEATURE REPORT

### RETAILERS IN THE 1994 BUSINESS WEEK 1000

The ranking of retailers by market value as of February 28, 1994, was as follows:

Rank	Company	Value \$ Millions	Percentage Change 1993
4	Wal-Mart Stores	\$ 65,221	- 13%
36	Home Depot	18,651	- 12
46	Sears, Roebuck	16,005	- 12
64	J. C. Penney	12,913	+ 36
76	May Dept. Stores	10,865	+ 22
79	Toys "R" Us	10,601	- 7
115	Kmart	7,764	- 18
122	Albertson's	7,314	+ 7
126	The Limited	7,079	- 23
142	The Gap	6,564	+ 41
143	Blockbuster Entertainment	6,556	+ 88
181	Dayton Hudson	5,113	- 7
190	Walgreen	5,000	+ 4
229	Lowe's	4,886	+ 135
239	PriceCostco	4,172	NA
240	Avon Products	4,172	- 3
245	Melville	4,082	- 20
248	AutoZone	4,075	+ 53
251	Dillard Dept. Stores	4,022	- 19
266	Winn-Dixie	3,803	- 27
291	Office Depot	3,474	+ 96
297	American Stores	3,401	+ 27
315	Nordstrom	3,199	+ 18
325	Sherwin-Williams	3,120	+ 8
346	Woolworth	2,902	- 24
354	Food Lion	2,842	- 19
373	SuperValu	2,663	+ 16
384	Tandy	2,619	+ 65
391	Kroger	2,585	+ 74
404	Safeway	2,470	+ 115
428	Spiegel	2,263	+ 147
457	Southland	2,050	+ 60
476	TJX	1,973	- 5
793	Kohl's	1,867	+ 45
496	QVC Network	1,833	+ 9

498	Circuit City Stores	1,824	- 19
527	Gateway 2000	1,718	NA
536	Rite Aid	1,685	- 3
555	Heilig-Meyers	1,586	+ 81
560	Cracker Barrel	1,565	- 9
564	Giant Food	1,551	+ 23
605	Mercantile Stores	1,414	+ 10
627	Charming Shoppes	1,335	- 14
637	Fingerhut	1,309	+ 67
647	Petrie Stores	1,274	+ 8
658	Home Shopping Network	1,237	+ 73
665	Electronic Arts	1,232	NA
672	Stop and Shop	1,227	+ 25
706	Weis Markets	1,155	+ 4
708	Best Buy	1,152	+ 147
728	Dollar General	1,129	+ 53
731	Burlington Coat Factory	1,122	+ 176
737	General Nutrition	1,103	+ 198
740	CML Group	1,092	+ 5
745	Staples	1,084	+ 42
759	Talbot's	1,060	NA
774	Fred Meyer	1,031	+ 30
792	Great A&P	1,008	+ 13
799	Bombay	999	+ 86
829	Family Dollar Stores	938	- 15
832	Dell Computer	938	- 21
836	Viking Office Products	933	+ 84
837	Philips-van Huesen	933	+ 24
846	Bed Bath & Beyond	921	+ 80
853	Consolidated Stores	906	+ 13
871	Lands' End	882	+ 92
886	Stride Rite	861	- 12
913	PetsMart	826	NA
923	Longs Drug Stores	824	+ 13
947	Revco Drug Stores	774	+ 109
956	Von's	764	- 27
959	Payless Cashways	760	NA
971	Interco	744	+ 14

NA: Not available because the company was not public or not the same corporation in 1993.

### FEW RETAILERS MATCH CHARITABLE GIFTS

The National Clearinghouse for Corporate Matching Gift Information (11 Dupont Circle, Suite 400, Washington, D.C. 20036-1261) published a list of 1,021 companies which matched employee and director gifts for educational institutions. As of July 1993, 22 were retailers.

Albertson's  
Amfac  
Andersons Management Corp.  
Avon Products  
Brown Group\*

Circuit City Stores  
Jack Eckerd  
Federated Department Stores  
Fingerhut  
Fleming Cos.

Kmart  
Lucky Stores  
May Department Stores  
Montgomery Ward  
Morse Shoe

J.C. Penney  
Sherwin-Williams  
Spiegel  
Stop & Shop  
SuperValu

Tandy  
Winn-Dixie

\*More than a 1:1 match in certain categories.

**RThought:** Roughly 2% is an underrepresentation of retail firms by any criteria.



with the press, [yet] some of the retailers did not want any publicity during the Capitol Hill blitz."

**RThought:** The retailing industry would be better off when offering advice to Congress to document a statement such as "If we have to provide health insurance, 700,000 people [3.5% of 20 million workers] in retailing will lose jobs." Congress may well say, "All I want are the facts, Ma'am," but perhaps that sounds too much like the old "Dagnet" series on TV.

## IF TWO PRICES ARE GOOD, ARE THREE PRICES BETTER?

For years I have criticized comparative pricing done by Best Products Co., Inc., and other catalog showrooms. The comparative price would, as now, be followed by a dagger. Somewhere, in the front or the back of the catalog, there would be an explanation such as the one Best Products uses:

An item's reference retail price, indicated by the † symbol, is your guide to its regular selling price at department stores and similar retailers. *It is not our present or former selling price. It is either the retail price suggested by the manufacturer in this publication's distribution area or our own determination of full retail price based on customary retailer markups for similar merchandise.*

The above statement was the custom when there were many catalog showrooms. Unfortunately, many of these showrooms have disappeared, and Best Products itself has just come out of Chapter 11.

The Best Products catalog has now introduced a third price: Best's *regular* price. For example, a 12-piece set of Revere stainless pots and pans is listed as:

Sale \$79.97  
Reg. \$99.99, \$119.95†

At last, Best Products admits it has a regular price which is not the reference price. Progress comes slowly.

However, I am concerned about its credit card called BestCard<sup>sm</sup>. Financing is provided by Bank One, Dayton, N.A., Dayton, Ohio. The minimum payment of 3% of the balance, or \$10, is certainly liberal when compared to a department store's terms, but the APR (average percentage rate) is 21.96%, substantially above the present bankcard middle range of 16-18%. A bit of this percentage is offset by the lack of an annual fee.

**RThought:** Best Products is batting .500. It has better price presentation but, at the same time, has a poorer credit offering than many of the other credit cards (Visa, MasterCard, Discover) it honors.

## OH, WHAT A WINTER IT WAS

*Newsweek* (March 28, 1994) collected some figures on items sold during the 1993-94 winter and reported:

Cotter & Co.'s 7,000 True Value hardware stores sold a half million shovels, up 75%.

True Value doubled its sales of rock salt.

Kmart doubled its sales of bird seed in January. (However, not all went to the birds; some was used in lieu of road salt.) Kmart and True Value each sold 1 million gallons of windshield fluid in January.

ServiStar's 4,000 hardware stores sold more winter products in January 1994 than in the five previous Januarys combined.

Akzo, maker of road de-icer, shipped 7 million tons against a normal of 2 million tons.

Lands' End doubled its sales of winter underwear — and it still ran out.

L. L. Bean sold approximately 350,000 pair of boots.

**RThought:** The stock market may have dropped significantly the week before Easter due to the rise in interest rates, but few Wall Street analysts observed that 500,000 jobs were added in March or that depleted inventories in many stores may spell good factory sales for some time to come.

## 17 COMMON MISTAKES IN HANDLING MAIL ORDER

Stan Fenvessey, CMC, a fellow consultant who, with me and a handful of others (most now retired or passed away), founded the Institute of Management Consultants, writes a column in *DM* [Direct Marketing] *News*.

In a recent column, headed "How to Avoid Seventeen All-Too-Common Mistakes," Stan listed the following from which I have eliminated the verifying examples:

1. Relying on the U.S. Postal Service's two-day Priority Mail service.
2. Overlooking seemingly minor opportunities to reduce expenses.
3. Presuming that it costs more to process an order the day it is received or the next day than four or five days later.
4. Believing that outsourcing all or part of the fulfillment functions is costly and that outsourcing prevents a company from controlling an essential customer-relations element.
5. Being reluctant to upgrade computer-systems software because of high cost and complacency with current systems.
6. Assuming that it's an unnecessary expense to install a visual-signal device on the wall or on telephone instruments to indicate when calls are backing up.
7. Accepting the notion that customer service reps resent order-taking monitoring and that the practice is a privacy invasion and is unnecessary if personnel have been properly trained.
8. Underestimating the importance of how the telephone is answered.
9. Taking for granted that to upsell or cross-sell during order placement is difficult to accomplish, does not produce results and downgrades the company's image.
10. Forgetting to review your 800-number bills.



11. Trusting that drug testing is unnecessary and is not widely employed.
12. Regarding the preparation of a daily personal "to do" list — by all executives — as useless.
13. Failing to set and publish service and productivity standards.
14. Keeping problem employees too long.
15. Thinking your customers are satisfied with your service.
16. Failing to acknowledge a complimentary letter from a customer.
17. Neglecting new customers.

**RThought:** Now that you have read the list, don't at least half of these mistakes apply to your business, even if you don't have a catalog? If you do have a catalog and these 17 mistakes hit a hot point, you can contact Stan at telephone 212-755-5093 or fax 212-755-5093, or write to him at 110 East 59th Street, 23rd Floor, New York, NY 10022.

Please tell Stan that "Bob Kahn sent me."

## WORDS — FOR THE PASSING YEARS

The following words have probably been spoken by many people, particularly ultraconservatives and religious right:

**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 at all restraint; they talk as if they alone 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, behavior, and dress.**

**RThought:** These words are not from any of the possible sources indicated above. Rather, they are credited to Peter the Hermit ("the Hermit" being added to his name because of his later life), c. 1050-1115. His origin is not clear, but he is thought to have been a French army officer who was supposed to have recommended the Crusades to Pope Urban II and to have led 30,000 undisciplined men in the 1st Crusade, of whom only a few apparently reached the Holy City. He took part in the capture of Jerusalem in July 1099. Upon returning to Neufmoutier, he founded an abbey of which he was the prior until his death.

This quotation first appeared in *RT* in August 1973 — more than 20 years ago. Few present subscribers will recall it.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	FEBRUARY		Percentage Change	Year to Date Two Months		Percentage Change
		1994	1993		1994	1993	
52	*Bldg Matl Group	\$ 7,332	\$ 6,943	+ 5.6%	\$ 14,879	\$ 13,876	+ 7.2%
57	*Furniture Group	8,707	7,834	+ 11.1	17,592	16,227	+ 8.4
571	Furniture Stores	4,248	4,044	+ 5.0	8,435	8,308	+ 1.5
572	Appl, TV, Radio Stores	3,614	2,967	+ 21.8	7,459	6,210	+20.1
5941	*Sporting Goods Stores	1,383	1,114	+ 24.1	2,734	2,278	+20.0
5942	*Book Stores	615	564	+ 9.0	1,634	1,559	+ 4.8
5944	*Jewelry Stores	1,077	984	+ 9.5	1,921	1,771	+ 8.5
531Pt	Conventional Dept Stores	3,277	3,151	+ 4.0	6,042	5,915	+ 2.1
531Pt	Natl Chain Dept Stores	2,437	2,279	+ 6.9	4,947	4,738	+ 4.4
	Subtotal	5,714	5,430	+ 5.3	10,989	10,653	+ 3.2
531Pt	Discount Stores	8,031	7,027	+14.3	15,868	14,068	+12.8
531	*Department Stores	13,745	12,457	+10.3	26,857	24,721	+ 8.6
539	*Misc General Mdse Stores	4,061	3,905	+ 3.5	8,045	7,756	+ 3.7
541	*Grocery Stores	28,467	27,848	+ 2.2	58,802	57,609	+ 2.1
56	*Apparel Stores	6,541	6,423	+ 1.8	12,748	13,021	- 2.1
561	Men's & Boys' Stores	599	508	+17.9	1,239	1,080	+14.7
562,3,8	Women's Stores	2,414	2,484	- 2.8	4,613	5,113	- 9.8
565	Family Clothing Stores	1,944	1,851	+ 5.0	3,772	3,657	+ 3.1
566	Shoe Stores	1,075	1,096	- 1.9	2,168	2,209	- 1.9
591	*Drug Stores	6,290	6,281	+ 0.1	12,888	12,522	+ 2.9
596	*Nonstore Retail	3,619	3,655	- 1.0	7,406	7,447	- 0.6
5961	Mail Order	2,160	2,089	+ 3.4	4,616	4,494	+ 2.7
	*Retailing Today Total Store Retailing†	81,837	78,008	+ 4.9	68,240	158,787	+ 6.0
	**GAF TOTAL	38,141	35,291	+ 8.1	75,355	71,364	+ 5.6

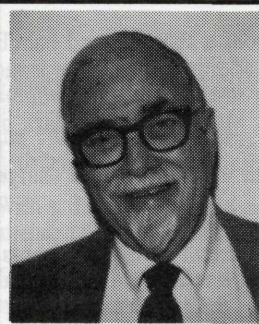
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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ROUTE TO

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## HOLD EVERYTHING ON INTERACTIVE RETAILING

Public relations agencies describe five hundred cable channels and boxes on top of TV sets which permit interactive shopping. PR talk is cheap when working models are not available.

At the National Retail Federation convention in January, Spiegel held a special session at which it described Catalog 1 as the retailing of the future. The TV program will use Spiegel and Neiman-Marcus as anchors, with other quality catalog retailers, such as Eddie Bauer and Williams-Sonoma, in between. The proposed experience was described as "interactive."

After the session I asked one of the Spiegel "gurus" just what he meant by "interactive." He replied, "An 800 telephone number." When I asked him about the system needed for two-way communications through a TV set, he explained the situation very simply: "Someone else will have to invent that."

The first day of February 1994 found Time Warner announcing that its intended 4,000-customer interactive test in Orlando, Florida, which was scheduled to begin April 1, was deferred to that "positive indefinite time in the future...the fourth quarter." The explanation: Silicon Graphics was encountering difficulty in the development of a chip to include all of the operating systems. Further, Scientific-Atlanta was having manufacturing delays. The explanation appeared to be reasonable: without the chip, Scientific-Atlanta had nothing to put in the box.

**RThought:** Now we are hearing talk about something other than "pie in the sky." *The New York Times* (March 3, 1994) quoted Joshua Harris, president of Jupiter Communications, as saying that all of the talk about interactive TV is an attempt "to put a round peg in a square hole" and that the "interactive set-top box is nothing more than a marginal market"; the "real" market will be from personal computers connected by modems.

U.S. West was quoted in *The Times's* article as saying that its test in Omaha, Nebraska, is scheduled to begin in the third quarter and that its trial was still on track.

Aren't all tests which are set two quarters in the future always on schedule?

**RThought:** I wouldn't want readers to believe that I have *no confidence* in the future of interactive retailing. Before World War II, when most of the public outside of New York City didn't even know what television was, I followed its development closely by reading *Popular Science* and *Popular Mechanics*. I had confidence that it was coming. But when it came, it was not in the form of the DuMont TV, which had a 30-inch rotating wheel, but in the form of the present electronic set. The same sources were the first to tell me about the advantages of three-point seat belts in automobiles; and then they told me that air bags were on the way. Even in the early 1930s, I understood from reading these magazines the advan-

## FRETTER'S PROMISE TO THE MASSACHUSETTS ATTORNEY GENERAL

Fretter recently agreed with Massachusetts Attorney General Scott Harshbarger's office to pull its television ad campaign, although Fretter probably thought its campaign a great idea.

This agreement appears to be a prudent action; Fretter had saturated the Boston area with 30-second commercials featuring customers either making derogatory comments about its competitor, Circuit City, or extolling Fretter as having the lowest of prices, even though Fretter knew its prices often were not the lowest. We were asked to believe that Fretter just "forgot" to include in the commercials the fact that each customer was promised a \$700 appearance fee. (A side issue worth mentioning is that Yaffe and Company, Fretter's advertising agency, tried to get away with paying only \$494 rather than the promised \$700 to each of the customers.)

**RThought:** The Consumer Protection Report (CPR) of the National Association of Attorneys General did not indicate whether a fine was imposed. You may subscribe to the CPR from the National Association of Attorneys General, 444 North Capitol Street, N.W., Suite 339, Washington, D.C. 20001; \$145/yr. Know what attorneys general are doing with retailers, especially their advertising.

tage of Studebaker's all-steel roof. (What was a Studebaker? Son, it was a car. Studebaker also manufactured an inexpensive version named for Knute Rockne. Who was Knute Rockne? Ask Ronald Reagan.)

But keep watching the two "Populars" for progress in the development of interactive retailing.

## BANKRUPTCIES FILED IN 1993 WERE DOWN IN EVERY STATE

It wasn't long ago that retailers were deploring the increase in personal bankruptcies. It was popular to decry the lack of personal integrity amongst our retail customers and even to allege that many of them had abandoned their personal ethics. These were customers who overloaded credit accounts and credit cards, declared bankruptcy, and then did the same thing all over again.

It appears that such a theory had little basis in fact. More likely, those customers who declared bankruptcy did so in the process of trying to reestablish themselves financially.

*continued*



In 1993 the percentage of filings for personal bankruptcy dropped in every state!

Check the states in which your company is or may be operating:

State	Decline	State	Decline
Alabama	- 8.86%	Montana	- 5.71%
Alaska	-10.32	Nebraska	-10.80
Arizona	-12.08	Nevada	- 5.63
Arkansas	-14.59	New Hampshire	-15.87
California	- 4.13	New Jersey	- 5.71
Colorado	-14.55	New Mexico	-14.87
Connecticut	- 3.65	New York	- 3.40
Delaware	- 2.49	North Carolina	-12.55
District of Columbia	-11.14	North Dakota	-13.17
Florida	-18.17	Ohio	-16.08
Georgia	-10.28	Oklahoma	- 7.79
Hawaii	- 3.08	Oregon	- 6.77
Idaho	- 9.39	Pennsylvania	-14.64
Illinois	- 7.13	Rhode Island	- 9.53
Indiana	-15.32	South Carolina	-11.18
Iowa	-12.03	South Dakota	- 1.95
Kansas	-12.75	Tennessee	- 5.74
Kentucky	-15.58	Texas	-11.77
Louisiana	-10.68	Utah	-12.04
Maine	-14.50	Vermont	-11.44
Maryland	- 6.16	Virginia	-11.44
Massachusetts	- 9.48	Washington	- 7.85
Michigan	-11.27	West Virginia	-17.88
Minnesota	-17.07	Wisconsin	-10.74
Mississippi	-14.22	Wyoming	- 8.83
Missouri	-18.35		

The smallest drop was 1.95% in South Dakota; the largest drop was 18.35% in Missouri.

The above listing was extracted from the May 5, 1994, *Consumer Trends*, offered by the International Credit Association, P. O. Box 19057, St. Louis, MO 83141-1757, and is published monthly by the Credit Research Center, Purdue University (\$100/yr.).

## WAREHOUSE CLUBS DON'T HAVE AN EXCLUSIVE ON PAID MEMBERSHIPS!

PriceCostco, Sam's, and BJ's are for "members only." A warehouse membership fee is \$25 or less, depending on the cost of additional cards. That revenue, which is not part of the prices, is a factor that puts catalog businesses at a disadvantage.

For the year ending August 29, 1993, PriceCostco showed a gross margin of 9.2%, plus membership income of 2.0%, for a total of 11.2%. Membership income was 17% of the combined margin out of which to earn a profit. For a comparison, in the first part of the 1984 year, membership income was only 12% of operating income.

Damark, a major catalog company in the consumer electronic field, now has a "Preferred Buyers' Club." Its fee is more than a warehouse membership fee (\$49.99 per year), but members can be sure, if they buy enough, that they will get it back, because they can take 10% off of any price in the catalog. For example, the Packard Bell Multimedia 486SX2-50Mhz local bus computer, with a 4MB RAM 420MB hard drive and a 14-inch Super VGA monitor, lists at \$1,899.99. A member of the Preferred Buyers' Club deducts \$190!

Further, this computer is offered without a shipping and handling charge (reported to be worth \$49). In addition, if an order is more than \$99.99, a member can use a four-installment plan, *without a carrying charge*, on Visa, Discover, or MasterCard. Damark bills the member's credit card each month for 25% of the amount of the order. If the member pays each month in full, a finance charge is avoided.

**RThought:** The practice of charging a credit card in segments to provide a form of interest-free financing has always been available to companies which are set up to do so. *But few retailers are set up to take advantage of this process.*

I know of no retailer of higher-priced goods who pushes this method of providing time to pay without being stuck with an APR (annual percentage rate) ranging from 12% to 25%.

## A STATEMENT I DON'T UNDERSTAND

*Financial World*, April 26, 1994, had an excellent article on the changes at Sears, Roebuck and its prospects for the future. However, in regard to apparel, the article included the following statement:

**Most of Sears' longtime critics are happy with the change both because the profit margins are higher in apparel and because it shows that Sears is focused on its most likely customers, the women shoppers who dominate in regional malls.**

Who has proven that *profit* margins are higher in apparel?

I agree that the initial gross margin tends to be higher on apparel. An example cited by Ed Wellner of Robertson Stephens & Co.: "If you are in the mall, you can't focus on antifreeze." But you can focus on better jewelry, cosmetics, and a few other items.

However, gross margin doesn't have very much to do with "profit."

I hope we can agree that gross margin is not profit. In fact, I doubt that anyone in Sears, Montgomery Ward, Target, Kmart, or Wal-Mart can objectively compute the "profit" derived from any department or classification of merchandise. Allocation of indirect expenses in proportion to sales usually leads to faulty decisions.

Measures other than net profit are easier to compute and facilitate sound decisions. One should look at gross margin dollars per square foot or dollars of contribution to overhead per square foot.

Gross margin per square foot is a fairly simple computation. Contribution to overhead per square foot is somewhat more difficult. It is comprised of the dollars left after deducting the net cost of merchandise and any *direct* costs (a cost you would not have if you did not sell a particular item.)

## PROBLEMS IN ANOTHER AREA OF SEARS

In view of the recent changes at Sears, I don't understand what is happening to the company which once had the greatest reputation in America for "Satisfaction Guaranteed Since 1886." In addition to what Sears did in its stores, I remember when Allstate was the first of the auto insurance companies to establish drive-in appraisals for auto damage and direct referrals to auto repair shops, thus saving customers the trouble of obtaining the three appraisals required by all other auto insurers.

However, when 3,000 homes were destroyed in the Oakland fire in 1990, Allstate was at the top of the list of companies subject to complaints to the California Insurance Commissioner for slow settlement, particularly on policies covering replacement value.



## A LOOK AT OUTLET CENTERS

*Value Retail News* (15950 Bay Vista Drive, Suite 250, Clearwater, FL 34620-3131; \$144/yr.) sponsors a spring and a fall convention. Actually, the Value Retailing Convention includes much time spent negotiating with center developers for space in existing and planned centers.

With a desire to become more knowledgeable on "value retailing," I attended the spring convention in Tampa, courtesy of *Value Retail News*.

First, I was impressed with the fact that these retailers were able to appropriate the name of "value retailing" from discount stores, warehouse clubs, department stores, off-price retailing chains, etc. Included under this umbrella is, of course, not only the original category of factory outlet centers but also the retail clearance stores, such as those for Saks Fifth Avenue, Nordstrom, etc.; the off-price retailers, such as Marshalls, T J Maxx, Ross, etc.; and a few other groups.

Secondly, I was impressed with the estimate that value retail centers are now a \$10 billion industry. Let me put that in perspective by listing the 1993 sales volume of some types of retailers.

Category	\$ Millions
Men's and boys' stores	\$ 9,143
Jewelry stores	15,193
Mail order	28,885
Book stores	8,796
Sporting goods stores	18,436
Shoe stores	16,672

Source: Department of Commerce

As might be expected, this industry lays claim to being the fastest growing field in retailing!

You may be aware that there are many outlet centers under 70,000 square feet, but there are also centers larger than 1,200,000 square feet. In fact, many worry about centers so large that people are not able to visit all of the stores in one day of shopping; many speakers expressed the theory that it should be possible for a customer to visit every store in a center in one visit to the center. But the centers will need more amenities: adequate restrooms, benches, and food courts in adequate numbers and locations. Attention must also be paid to security and adequate lights at night.

The centers above 550,000 square feet are treated as a different category from those under 550,000 square feet. In tracking 194 centers in the under 550,000-square-foot category, their distribution is as follows:

Square Footage	Number of Centers	Percentage
Under 25,000	28	10%
25,000-49,999	27	9
50,000-74,999	28	10
75,000-99,999	42	14
100,000-124,999	34	12
125,000-149,999	36	12
150,000-199,999	36	12
200,000-249,999	31	10
250,000-299,999	12	4
300,000-550,000	20	7

The above centers opened during the following years:

Year	Number Centers Opened
1982	7
1983	11
1984	19
1985	16
1986	18
1987	32
1988	34
1989	40
1990	37
1991	25
1992	26
1993	32

The centers are grouped into three classifications:

**Drive-by centers.** Centers which are located at an off-ramp of an interstate highway and appeal to travelers, many of whom are first-time visitors to outlet centers.

**Destination centers.** The very large centers which pull traffic from many miles away and attract many repeat customers.

**Local shopping centers.** Centers which are often within a town, offering values not offered elsewhere in that town.

As with conventional strip and mall centers, outlet centers are seeing a rise in the cost of both basic rent and the common-area maintenance charge. Both are impacted by the higher cost of just being fancier. Some of the drive-by centers along highways feature facilities for children to have some fun and play, under the supervision of attendants, while their parents shop without concern. And some feature kennels in which animals can stay while their owners shop.

The industry foresees a great future as a result of new capital available through the publicly owned REITs (real estate investment trusts). In addition to building new centers, large developers are buying existing centers which they often enlarge.

As with any type of center, operators don't like to see vacancies. Value centers partially control this problem by expanding in increments as small as 30,000 to 50,000 square feet.

Welcomed newcomers to the centers are clearance stores, such as Nordstrom's Rack, because they bring high-quality store names into a center.

The older centers have few eating places and inadequate restrooms. The new ones are being built larger and with more services. They provide food courts, a la regional shopping centers.

Here are a few miscellaneous facts. The largest number of centers (but none being the largest in size) is in New England, while the second largest group is in the Southwest. In addition, as of the end of 1993, the largest developer owned centers totaling 3.6 million square feet, while the tenth largest developer owned centers totaling 1 million square feet. These are substantial developers!

At the convention I witnessed a remarkable amount of give-and-take between developers and tenants. One point made several times was that retailers should build relationships with good developers. A "good developer" was defined as one who delivered well-built stores according to specifications and on time. Tenants were advised not to spread their units all around the country because management would be difficult. Such guidelines as these were offered when a tenant had to make a decision between two centers, each of which could be a good choice. Such decision making is not unlike the problem many people face when offered two desserts but must take only one.

Silver Sands Factory Stores in Destin, Florida, is typical of the way centers grow. Phase I of 85,000 square feet opened in 1992; Phase II of 50,000 square feet is opening late this summer; Phase III of 72,000 square feet will open this fall; and Phase IV of 140,000 square feet, which may be the last, is now being planned. With this type of expansion, it is possible to have tenants sign before the addition has been completed.

Here are some of the names in or to be in the Silver Sands Center: Donna Karan, Adrienne Vittadini, Dansk, J. Crew, He-Ro Group, Jones New York (a company which offers four different formats), Brooks Brothers, Coach Leather, Carole Little, Ann Taylor, Calvin Klein, Cole-Haan, Clifford & Wills, Arrow Shirts, London Fog, Barbizon, Laura Ashley, Chaus, Reebok, Rodier, Maidenform, Oshkosh, Royal Doulton, and Ellen Tracy. This is only a partial list! I couldn't help but ask myself, if my wife spotted this center from the freeway, would we stop? Even if it were 35 miles out of town, would she want to shop there?

*continued*



## FEATURE REPORT

**RThought:** The chances of the industry growing 15-20% a year appear reasonable. At 20%, it would be \$15 billion in sales in two years, \$21 billion in four years, and \$30 billion in six years!

**RThought:** The rush is just starting. Best to get your place in line. It makes sense to move markdowns, after a certain point, *outside of your store*. If you really want to sell your customers a \$200 dress,

why let a customer get sidetracked by a dress marked down from \$200 to \$100. If the customer wants a less expensive dress, let her visit your outlet shop, while you make your \$200 dress so appealing and your service so good that she can't wait to buy the new style and, therefore, doesn't go to your outlet store. *You must sell an aura of elegance for your full-price store to be successful.*

### RETAILING — AS IT IS DONE IN THE FAR EAST

Giordano began in 1981, wholesaling T-shirts and jeans in Hong Kong and Singapore. Today, it is a retailer with 38 stores in Hong Kong, 16 in Singapore, 19 in Taiwan, 9 in the Philippines, and 7 in Malaysia, operating under the slogan, "Giordano Means Service."

When Peter Lau, the owner, says "service," this is what he means:

1. All stores are on-line to a distribution center so that they maintain a high percentage in-stock by size, color, and pattern (each day's sales are replaced the following day).
2. Salesgirls are put through training which is much like army boot camp, with 23 sessions, each lasting from one-half to two days, covering self confidence, emotion, handling complaints, and handling difficult situations.
3. Coaching continues in the stores.
4. It is company policy that the customer is always right — even when wrong.
5. Unlimited try-ons are permitted (without concern about possible cosmetic stains, stretched garments, etc.).
6. Refunds are available at any store in any country without requiring a receipt.
7. Quality is controlled because Giordano has its own factories in Guandong, China, now expanded far beyond T-shirts and jeans.

Since the salesgirls are never criticized for doing what the customer asks, it is possible to have a happy sales force, which usually means happy customers.

Lau has a company philosophy:

1. The few who abuse our privileges are far outnumbered by those who spread our praise.
2. We hire the best possible people. For example, when trained salesgirls go into a store, they are paid as much as a college graduate (which assures them that they are respected, not looked down upon because they are salesgirls).
3. All advertising is created in Hong Kong and is straightforward, usually thematic, and free of gimmicks. Offered as proof of the importance of price are two ads which are almost identical: one which is a full page without price; the other is a half page with price. The smaller ad with a price sold 50% more pieces.

A recent ad in Singapore offered a free Giordano T-shirt for each criticism submitted. Lau expected 2,000 complaints; he received 9,000. When tabulated, the most frequent complaint was that service was too good! Secondly, the music was too loud in the stores. Lau reacted by training the salespeople not to "hound" the customers and by reducing the volume of the music.

Hong Kong is subject to frequent rain showers. For H.K.\$15 (U.S.\$2), Lau rents umbrellas which carry the Giordano logo. Two thousand umbrellas are now being carried by customers who advertise his store and remind other customers of his service every time they use his umbrella.

According to Danny Tan, general manager of Giordano, the company is now seeking locations in Indonesia and China, with Thailand and Vietnam to come.

**Source:** *Retail Asia*, 60 Martin Road, No. 077-33 TradeMart, Singapore 9023. I recommend this magazine for good information on Southeast Asia. To subscribe, send a banker's draft in Singapore dollars (S.\$160; U.S.\$102); six issues per year.

### UNCLE SAM vs THE DEPARTMENT OF COMMERCE

"Street" wisdom is that there is a great future for department stores; the same wisdom is that warehouse clubs have "hit the wall" and are soon to disappear from the retail scene.

However, here are the percentages of sales that the Department of Commerce predicts will take place among the stores which make up the retail summary called GAF (general merchandise, apparel, and furniture/furnishings/TV/consumer electronics).

Types of Retailers	1980	1992	2010
Warehouse clubs	0%	5%	8%
Direct marketing	8	8	19
Miscellaneous hard goods	16	19	15
Furniture group stores	16	17	14
Apparel and specialty	18	17	11
Department stores	17	11	7
Chain stores	12	6	7
Discount stores	13	17	19

**Note:** Direct marketing likely reflects confidence in the PR releases about interactive retailing.

It is impossible to forecast inflation. Thus, it is impossible to say how much, if any, *dollar volume of department stores will have as they drop from 17% of GAF to 7%*. Certainly, department stores will not have much growth. It appears as if discount stores and direct marketing (interactive plus catalog) will be the largest segments. Even warehouse clubs will be a larger segment of GAF than department stores.

**RThought:** My thanks to *DM* (Discount Merchandising) for publishing these figures in the May issue. At least I have Uncle Sam on my side — but then, both of us have been known to make mistakes.

I am more confident about the 2010 position of the discount stores than I am about the direct marketing figure. If the figures were projected to 2020, I would have more confidence that interactive retailing could be a significant part of GAF.



Just recently, I received from a friend another such report of a delayed settlement by Allstate.

A tree on a neighbor's property fell and destroyed an \$11,000 pool-side lanai on my friend's property. The neighbor was insured by Allstate. First, Allstate denied responsibility for the claim and then failed to return calls. It took several months and three letters from an attorney before my friend received a check.

**RThought:** When my friend told me of the problem, I also learned that she had told most of her friends about Allstate's delaying tactics. Once Sears and Allstate benefited from "how wonderful they are" tales told by customers. This positive advertising was virtually cost-free. Negative advertising is also cost-free — except for the business it diverts.

## ONLY IN AUSTRALIA

The lead article in Australia's *Inside Retailing*, April 25, 1994, read:

### Gloves Off in Toyland — TRU Head-to-Head with W4K

TRU stands for Toys "R" Us and W4K stands for World 4 Kids, a division of Coles Myer, Australia's largest retailer, which started up shortly after Toys "R" Us announced its plan to "invade" Australia.

Coles Myer operates 11 World 4 Kids stores while Toys "R" Us operates 10. However, Toys "R" Us has now announced its plan to open a store "almost across the street" from the World 4 Kids store in Chatsworth on Sydney's north shore.

Toys "R" Us claims that it not only has had greater success than expected and thus is accelerating the rate at which it will open stores but that its in-stock position has never dropped below 99% and it continues to match or remain below any competitive price.

**RThought:** Most people would say that it is foolish to go head-on against Toys "R" Us. There have been many Chapter 11s in the U.S. to commemorate the demise of those who felt they could.

On the other hand, no competitor has had the muscle and the reputation of Coles Myer, although it is already being pushed by the No. 2 retailer in Australia, Woolworths (no relation to the Woolworth Corporation in the U.S.), which is growing faster than Coles Myer in both sales and profit.

**Late Note:** Coles Myer is cutting back on its expansion plans for World 4 Kids.

## CITIES OVER 100,000 POPULATION — BY STATE

ALABAMA  
Birmingham  
Huntsville  
Mobile  
Montgomery

ALASKA  
Anchorage

ARIZONA  
Glendale  
Mesa  
Phoenix  
Scottsdale  
Tempe  
Tucson

ARKANSAS  
Little Rock

CALIFORNIA  
Anaheim

Bakersfield  
Berkeley  
Chula Vista  
Citrus Heights  
Concord  
East Los Angeles  
El Monte  
Escondido  
Fremont  
Fresno  
Garden Grove  
Glendale  
Hayward  
Huntington Beach  
Inglewood  
Irvine  
Long Beach  
Los Angeles  
Modesto  
Moreno Valley  
Oakland  
Oceanside

Ontario  
Orange  
Oxnard  
Pasadena  
Pomona  
Rancho Cucamonga  
Riverside  
Sacramento  
Salinas  
San Bernardino  
San Diego  
San Francisco  
San Jose  
Santa Ana  
Santa Clarita  
Santa Rosa  
Simi Valley  
Stockton  
Sunnyvale  
Thousand Oaks  
Torrance  
Vallejo

COLORADO  
Aurora  
Colorado Springs  
Denver  
Lakewood

CONNECTICUT  
Bridgeport  
Hartford  
New Haven  
Stamford  
Waterbury

DISTRICT OF COLUMBIA  
Washington

FLORIDA  
Fort Lauderdale  
Hialeah  
Hollywood  
Jacksonville  
Miami  
Orlando  
St. Petersburg  
Tallahassee  
Tampa

GEORGIA  
Atlanta  
Columbus  
Macon  
Savannah

HAWAII  
Honolulu

IDAHO  
Boise City

ILLINOIS  
Chicago  
Peoria

INDIANA  
Evansville  
Fort Wayne  
Gary  
Indianapolis  
South Bend

IOWA  
Cedar Rapids  
Des Moines

KANSAS  
Kansas City  
Overland Park  
Topeka  
Wichita

KENTUCKY  
Lexington-Lafayette  
Louisville

LOUISIANA  
Baton Rouge  
Metairie  
New Orleans  
Shreveport

MARYLAND  
Baltimore

MASSACHUSETTS  
Boston  
Lowell  
Springfield  
Worcester

MICHIGAN  
Ann Arbor  
Detroit  
Flint  
Grand Rapids

MINNESOTA  
Minneapolis  
St. Paul

MISSISSIPPI  
Jackson

MISSOURI  
Independence  
Kansas City  
St. Louis

NEBRASKA  
Lincoln  
Omaha

NEVADA  
Las Vegas  
Paradise  
Reno

NEW JERSEY  
Elizabeth  
Jersey City  
Newark  
Patterson

NEW MEXICO  
Albuquerque

NEW YORK  
Albany  
Bronx  
Brooklyn  
Buffalo  
Manhattan  
Queens  
Staten Island  
Rochester  
Syracuse  
Yonkers

NORTH CAROLINA  
Charlotte  
Durham  
Greensboro  
Raleigh  
Winston-Salem

OHIO  
Akron  
Cincinnati  
Cleveland  
Columbus  
Dayton  
Toledo

OKLAHOMA  
Oklahoma City  
Tulsa

OREGON  
Eugene  
Portland  
Salem

PENNSYLVANIA  
Allentown  
Erie  
Philadelphia  
Pittsburgh

RHODE ISLAND  
Providence

SOUTH DAKOTA  
Sioux Falls

TENNESSEE  
Chattanooga  
Knoxville  
Memphis  
Nashville-Davidson

TEXAS  
Abilene  
Amarillo  
Arlington  
Austin  
Beaumont  
Corpus Christi  
Dallas  
El Paso  
Fort Worth  
Garland  
Houston  
Irving  
Laredo  
Lubbock  
Mesquite  
Pasadena  
Plano  
San Antonio  
Waco

UTAH  
Salt Lake City

VIRGINIA  
Alexandria  
Arlington  
Chesapeake  
Hampton  
Newport News  
Portsmouth  
Richmond  
Virginia Beach

WASHINGTON  
Seattle  
Spokane  
Tacoma

WISCONSIN  
Madison  
Milwaukee

**Source:** Bureau of Census 1992 estimates, in 1993 Statistical Abstract.

**RThought:** Many of these cities do not have wholesale clubs. Some are suburbs of larger cities; i.e., Plano is a suburb of Dallas and Scottsdale of Phoenix. After expanding into these cities, the clubs will then come into even smaller cities with a population of 75,000 to 100,000 (including suburbs).



## JACK KILMARTIN IS AN EXECUTIVE, NOT AN AUTHOR!

The March 1994 *RT* "Words — That Jack Kilmartin Keeps Handy" are, indeed, words that Jack keeps handy, but at least one reader, Barney Sofro, chairman of House of Fabrics, thought I attributed the writing to Jack. Barney quoted the same words from a book entitled *One Minute Wisdoms, Gathered by June*, which attributed the words to a column by Ann Landers in the *San Jose Mercury News*. (I would bet that someone sent it to Ann Landers.) "My Father When I Was..." must have been around for a long time because Jack sent it to me several years ago.

**RThought:** Thanks, Barney, for bringing your source to my attention.

## MEMORIES — WHEN I'M BY MYSELF

I am the guardian of so many memories. Once, when I was unsure, I could turn to those who shared those memories with me.

Granny died in 1948, at the age of 88, after six years in bed. Breast cancer — inoperable at her age. Even though bedridden, she always had something to live for: first, Tom, my brother, returning from the Pacific where he had earned a Silver Star at Leyte; next, my return from Japan and, later, from San Antonio with my bride, Patty; and then, her first great-grandchild, Cesca. She was looking forward to much more when death called her.

Dad died in 1969. At 79, he was the oldest male Kahn of which we have a record. A heart attack. A week in the hospital. One morning he did not awaken. I still have impulses to tell Dad about something in Oakland; but I cannot. At least, not yet.

Brother Tom was 21 months younger but we grew up together. As Tom grew up, he was liked by everyone, boy or girl. Smart — a Termanite (part of a study started in the 1920s of gifted children) —

but he never found a place in his world. One night in 1978 he ended his search, leaving behind a note apologizing for the trouble he was causing me.

Frannie, my mother, who died in 1988, lived to 95. The last seven or eight years she, too, was bedridden. Most of the last five years she did not recognize me.

Elly, my sister, was three years older than I. Dementia was advancing. Another Termanite — brilliant — she scored 180 on the Stanford Binet scale! And on the way home from her first test, she asked Frannie, "Did I pass?" In Elly's later years, I moved her to a home near me. Just two years ago, she gently slid off her chair. Her attendant called 911; when they reached the hospital two blocks and only 10 minutes away, Elly was gone.

**RThought:** This July, for the thirtieth time, Patty and I will attend the Stanford Sierra Family Camp at Fallen Leaf Lake just south of Lake Tahoe. But, as always, my thoughts will drift back to the summer of 1932, the bottom of The Depression, when Granny, Frannie, Elly, Tom, and I climbed into our 1929 LaSalle in San Francisco and drove to board a ferryboat to Richmond; today, we would take the San Francisco-Oakland Bay Bridge. Fifteen minutes of driving and we boarded another ferry to cross the Carquinez Straits; today, there is the Carquinez Bridge. Then we were on our way to the Nut Tree, a roadside stand, where we would stop for orange juice over shaved ice. We hoped to make Placerville and the Blue Bell Cafe, 60 miles away, for lunch about 1:30 P.M. We hoped to reach Fallen Leaf Lake by 6 P.M., 12 hours after we had left the house.

Today, the drive is about four hours! But, always, this drive brings back memories of Granny, Frannie, Elly, and Tom. And it will be thus this year.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	MARCH		Percentage Change	Year to Date Three Months		Percentage Change
		1994	1993		1994	1993	
52	*Bldg Matl Group	\$ 10,0051	\$ 8,592	+ 17.0%	\$ 25,012	\$ 22,468	+11.3%
57	*Furniture Group	10,003	8,757	+16.5	27,658	24,984	+10.7
571	Furniture Stores	4,954	4,513	+ 9.8	13,437	12,821	+ 4.8
572	Appl, TV, Radio Stores	4,088	3,366	+21.5	11,553	9,576	+20.6
5941	*Sporting Goods Stores	1,716	1,379	+24.4	4,449	3,657	+21.7
5942	*Book Stores	590	597	- 1.2	2,216	2,156	+ 2.8
5944	*Jewelry Stores	978	887	+10.3	2,932	2,658	+10.2
531Pt	Conventional Dept Stores	4,206	3,804	+10.6	10,249	9,719	+ 5.5
531Pt	Natl Chain Dept Stores	3,174	2,845	+11.6	8,121	7,583	+ 7.1
	Subtotal	7,380	6,649	+11.0	18,370	17,302	+ 6.2
531Pt	Discount Stores	9,639	8,087	+19.2	25,428	22,155	+14.8
531	*Department Stores	17,019	14,736	+15.5	43,798	39,457	+11.0
539	*Misc General Mdse Stores	4,614	4,345	+ 6.2	12,601	12,101	+ 4.1
541	*Grocery Stores	31,768	30,224	+ 5.1	90,576	87,833	+ 3.1
56	*Apparel Stores	8,561	7,762	+10.3	21,325	20,783	+ 2.6
561	Men's & Boys' Stores	723	582	+24.2	1,960	1,662	+17.9
562,3,8	Women's Stores	3,071	2,971	+ 3.4	7,685	8,084	- 4.9
565	Family Clothing Stores	2,625	2,241	+17.1	6,397	5,898	+ 8.5
566	Shoe Stores	1,537	1,355	+13.4	3,725	3,564	+ 4.5
591	*Drug Stores	7,044	6,734	+ 4.6	19,935	19,256	+ 3.5
596	*Nonstore Retail	4,401	4,306	+ 2.2	11,848	11,753	+ 0.8
5961	Mail Order	2,709	2,498	+ 8.4	7,344	6,992	+ 5.0
	*Retailing Today Total Store Retailing†	96,745	88,319	+ 9.5	262,350	247,106	+ 6.2
	**GAF TOTAL	45,610	40,626	+12.3	120,920	111,990	+ 7.9

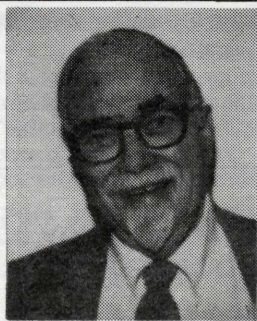
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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AUGUST 1994

VOL. 29, NO. 8

## A COMPARISON WORTH SAVING

### CLUB SECTOR REACHES MATURITY

Mass Market Retailer May 16, 1994

"...warehouse clubs will grow from 5% to 8% of GAF sales."

*Retailing Today*

July 1994

**RThought:** Keep this comparison on the wall of your office and read it every March when the prior year's sales are available to see which is correct.

I believe you will find the most usable forecasts are in *RT*.

### ETHICAL DRUG COMPANY PAYS \$605,000 FOR BEING UNETHICAL

Miles Pharmaceutical, Inc., produced a prescription drug called Adalat CC. To help with the marketing of this drug, "Cognitive Consulting Services" was created, a service for which pharmacies were paid \$35 for the name of each customer who had a prescription filled with the competitor's drug. By the time Miles was caught, it had paid out \$358,000 to 11,258 pharmacies in 11 states! It has since settled with the attorneys general of Arizona, Connecticut, Illinois, Massachusetts, Missouri, New Mexico, New York, North Carolina, Texas, and Wisconsin. The leadership was provided by Attorney General Hubert H. Humphrey III of Minnesota.

This payment was in direct violation of the federal antikickback law. Miles agreed not to do this in the future, although one might place little value on its word since it knew it was breaking the law when it paid the kickbacks.

**RThought:** I would guess that Miles sufficiently profited from its mischief to pay both the \$358,000 in bribes and the \$605,000 fine and still make money.

**RThought:** Shouldn't the fine be greater than the profit?

**RThought:** Do you want to deal with a crook? If not, whenever there is an alternative to a drug produced by Miles, why don't you buy the alternative?

### ARE YOU MAKING ADEQUATE PREPARATION FOR TOMORROW?

If one goes back to the third quarter of the 19th century, virtually all transactions in retail stores were settled in cash, except in areas where "crop-year credit" was available.

## AT LAST, A PRISON SENTENCE

The meat manager of a Pak 'N Save store (owned by Safeway) in Stockton, California, was sentenced to 90 days in jail and three years' probation for selling adulterated meat. He pleaded no contest.

The manager was terminated by Safeway for violating company policy when it was learned that he had instructed employees in his store on how to adulterate meat by including trimmings from pork, turkey, lamb, unsalable beef, non-beef products, and deli meats in the processing of "30% ground beef."

**RThought:** This is the first time I have read of a jail sentence for this type of an offense. But we need more jail/prison sentences for people in the retail industry who violate consumer law, whether it is for misrepresenting the product or using false comparative prices (example: buyers at May D&F in Denver, Colorado, who testified as to exactly what they did; neither they, their supervisors, nor the CEO were sentenced to jail).

It is time that the retail industry recognizes that consumer law is *law which applies to the industry*.

If a credit card offer is preapproved and yet the advertiser fails to open the account, someone should go to jail.

If an ad states "regularly \$9.99" and the regular price is \$8.99, someone should go to jail.

If a retailer who advertises "we will not be undersold" is advised by a consumer of a lower price but does not lower his or her price *on all of the identical items in stock* (most do not lower prices, although they do refund the difference), someone should go to jail.

If a credit reporting agency does not correct a report when the person evaluated provides proof of an error, someone should go to jail.

When an employer discriminates in employment, training, or promotion because of sex, age, or race, someone should go to jail.

When management knows of sexual harassment and yet does nothing, someone should go to jail.

Then, and only then, will the entire retail industry begin to comply with the law and not treat a violation as though it were for parking overtime.

The jail sentence need not be long, but it should be accompanied by a front-page story in the local newspaper.



The pneumatic tube system (in operation well into the 1940s) and the basket-on-a-wire system were used to send the money and sales check to a central cashier who would check the addition on the sales check, put the sales check aside for the sales-audit tally the next day, and send the proper change back to the waiting salesperson and customer.

During the first quarter of the 20th century, personal checking accounts became more commonplace, as did proprietary credit accounts in larger stores. Both could be handled through either the pneumatic tube system or the carrier system. Fewer transactions were settled in cash; thus, the importance of security for cash decreased.

During this period, the cash register was invented by Captain Patterson, founder of National Cash Register, thus making it possible to record transactions at the point of sale. The original "recording" cash register had a broad tape — much like that used to operate a player piano — concealed in its innards. With this type of machine, it was necessary to depress a combination of numbers in order to record a sale. Each time a key was depressed and the drawer opened, a hole would be punched in the correct column of the paper roll. The next day, someone in the cashier's office would count the number of holes in the 1-cent, 2-cent, 3-cent, 5-cent, 10-cent, 25-cent, 50-cent, \$1, etc., columns, multiply the value times the number of holes, and determine the amount of cash (or checks) which should have been in the register.

Moving on to the 1930s, registers were developed which kept totals by department, clerk, and even type of sale. This machine also printed transactions on separate tags with a copy for the customer.

In the mid-1950s, the Bank of America introduced the first all-purpose bankcard under the name BankAmericard (now Visa). Within a relatively few years, retailers had to be in a position to handle bankcard transactions.

Today, we have computer-based, point-of-sale registers which allow retailers to record sales by SKU by scanning an item's uniform product code in the form of a bar code on its package or label.

The first changes in handling transactions were difficult; today, they have become easier.

### But what is in the future?

My friend, Spence Nilson, who publishes *The Nilson Report* (300 Esplanade Drive, Suite 1790, Oxnard, CA 93030; \$695/yr. for 24 issues) granted me permission to reproduce his 10-year estimates. Spence has made many such estimates which have proven to be accurate enough to be used for planning.

Type of Transaction	Percentage of Dollar Volume by Type of Transaction						
	1990 %	2000 %	2010 %	2020 %	2030 %	2040 %	2050 %
Cash	47.0%	46.0%	45.0%	42.0%	39.0%	38.0%	37.0%
Checks	38.0	35.0	33.0	30.0	26.0	23.0	20.0
Credit cards	11.0	13.0	15.0	16.0	17.0	17.0	18.0
Debit cards	.3	2.0	3.6	5.0	10.0	13.0	16.0
Other	3.7	4.0	3.4	7.0	8.0	9.0	9.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Type of Transaction	Percentage of Volume by Type of Transaction						
	1990 %	2000 %	2010 %	2020 %	2030 %	2040 %	2050 %
Cash	69.0%	66.0%	63.0%	58.0%	53.0%	50.0%	49.0%
Checks	20.0	19.0	18.0	17.0	13.0	11.0	8.0
Credit cards	8.0	10.0	13.0	15.0	17.0	18.0	18.0
Debit cards	.5	2.2	3.5	6.0	13.0	17.0	21.0
Other	2.5	2.8	2.5	4.0	4.0	4.0	4.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

**RThought:** Are you prepared to have more transactions paid by debit cards than by checks?

Are you prepared for the day when cash and check transactions will comprise only 57% of the total compared to 89% today?

Are you prepared to wage a major battle or lose the fight against banks which apply a transaction charge for handling a debit card but not for a check? Regardless, are you going to lose customers who want to use their debit card and are fully prepared to go to your competitors who are willing to accept debit cards?

California has been the leader in handling debit cards because Lucky and Safeway, the state's two largest supermarket chains, have taken the lead. Many competing supermarket chains have had to accept debit cards in order to remain competitive.

I repeat: Is your information services department thinking ahead to the day when cash transactions will be fewer than half your transactions and checks will be the least common type of transaction?

### THE CHANGING POPULATION MIX

The U.S. Census Bureau has made a new forecast of population by age distribution through 2050. A point to keep in mind is that in 2050 people in the 65 and over group — the largest group — are already alive (although some immigrants in this age bracket have yet to arrive in the U.S.).

With only 9% of the population in the 18-24 age bracket, college graduates are going to find it relatively easy to secure a job, similar to the period after World War II when there was a small group of "Depression babies."

The Census Bureau, Current Population Reports, 1993, reported:

Age Group	1995	2000	2005	2010	2030	2040	2050
Under 5	7.6%	7.4%	6.9%	6.6%	6.4%	6.4%	6.4%
5 to 13	12.8	13.1	13.1	12.5	11.7	11.5	11.6
14 to 17	5.3	5.6	5.7	5.9	5.3	5.3	5.2
18 to 24	10.8	9.5	9.5	9.8	9.1	9.2	9.0
25 to 34	17.3	15.5	13.6	12.7	12.4	12.4	12.5
35 to 44	15.1	16.2	16.3	14.8	12.9	12.9	12.2
45 to 64	18.6	19.9	22.2	24.9	22.1	22.1	22.5
65 and over	12.5	12.8	12.7	12.7	20.1	20.2	20.6
85 and over	1.2	1.4	1.6	1.7	2.4	3.6	4.6
100 and over	0.0	0.0	0.0	0.0	0.1	0.2	0.3



## ACADEMIA THAT BOTHERS ME

The foolish thoughts of academics that get into print bother me no end. What also bothers me is that the retail press often prints all of the thoughts of academics as if they were gospel. And I am equally concerned about retailers (including the speakers at retail events) accepting as fact the utterings and mutterings of academics.

In the April 1994 *Stores* magazine, the official publication of the National Retail Federation, a supplement provided a "summary" of a 1993 *Journal of Retailing* article by Professor Scott Dawson of the School of Business Administration at Portland State University, Portland, Oregon.

The article began with the following statement:

**In 1990, shoplifting in America accounted for \$50 billion in estimated annual losses. Seventy-five percent of all retailers participating in a large survey reported that shoplifting was a significant problem, accounting for an average loss of 6.6% of sales per year.**

As a starting point, are you one of the 75% who experienced a 6.6% shoplifting shrinkage loss?

Remember, Professor Dawson is talking about shoplifting, while inventory shortage also includes errors in recordkeeping, ship-short by vendors, wrong pricing or price lookup on a product, etc.

Let's apply some common sense. In 1990, our population was approximately 245 million. Subtract the 20 million in the 0-5 age range as probably not being old enough to shoplift more than a candy bar, and we get about 225 million people. Fifty billion dollars means an average shoplifting of \$220 a year for each of those people. Do you believe that?

The Department of Commerce reported retail sales in 1990 of \$488 billion. But I doubt that the following "retailers" suffered much "shoplifting":

Motor vehicle dealers .....	\$334 billion
Furniture group, excluding 50% .....	47 billion (1)
Meat, fish, seafood and markets .....	6 billion (2)
Eating and drinking places .....	188 billion (3)
Nonstore retailers .....	44 billion (4)

- (1) Have you heard reports of shoplifted sofas or beds?
- (2) A clerk has to hand all these items to a customer, usually over a counter.

- (3) When was the last martini or steak shoplifted?
- (4) How do you shoplift from a mail-order catalog?

This leaves about \$1,229 billion on which shoplifting may occur. But \$50 billion represents a 4% shortage, not 6.6%. What happened to the other 2.6%? Perhaps it doesn't exist except in the mind of an academic who appears to have had little experience with real-life stores.

**RThought:** I suspect that Professor Dawson believed a report by some firm that was selling security devices and/or security services. Such firms have an ulterior motive for documenting (can nonfactual information be considered "documenting"?) such horrendous costs which only they, through their skillful consulting efforts, can greatly reduce.

**RThought:** I know operators of many billions of dollars of retailing who consistently have well-documented shrinkage (of which only a part is shoplifting) of 2% or less. We must conclude that some of the other retailers with which Professor Dawson is familiar must be having shoplifting on the order of 8-10%!

**RThought:** What bothers me the most is that the editor of *Stores*, who may be an excellent editor, may know so little about retailing that he accepts the statements in the *Journal of Retailing* as "facts" which are worth passing on to his many thousands of readers.

**RThought:** At the same time in which I was reading the *Stores* information mentioned above, *Inside Retailing* (the Australian version, not the U.S. version) carried a report on "leakage and shrinkage," to use the Australian phrase. In this case, the study was done by a senior criminologist at the Australian Institute of Criminology rather than by a professor of business administration.

John Walker, the criminologist (who was not trying to sell a service), stated that attributing all of "the 'leakage and shrinkage' to crime was questionable" as it described losses unexplainable in many other ways. According to Walker, this might include stock deterioration and poor stock control. He noted that some may be surprised at the extent to which the vague notions of "indirect losses" and "leakage and shrinkage" increase the estimated direct loss to crime.

**RThought:** Our academics should know the retail field as well as Walker of Australia, a non-retailer, knows it; if they did, perhaps more of our academics' "publish or perish" efforts might be of help to retailers.

## SHORT SHORTS

**Indecisions** according to the June 3, 1994, issue of *Dealmakers*, a publication for landlords and tenants (P. O. Box 2630, Mercerville, NJ 08690; \$197/yr.): "Murphy's Pizza also trades as Papa Aldo's." **RThought:** This company has apparently succeeded in introducing pizza to the Irish while competing with the Italians!

**A reliable subscriber of RT** reported an unusual incident at The Broadway's Beverly Center store in Los Angeles. He wanted to apply a \$6.50 merchandise return slip to a purchase of walking shorts but was informed that he had to pay the balance by check or cash and not by credit card — even The Broadway's own card. **RThought:** This rule must have been taken from the list of "How to Drive Regular Customers Away." The new CEO, David Dworkin, did not announce such a program. In fact, his talk in January 1994 at the NRF convention told of the opposite goal!

**We make problems for teachers.** As soon as students can read the word "white," they see it on a tab for a "White Sale," but the color "white" does not appear any place in the tab!

**While driving one Saturday afternoon**, my car's radio blared out an invitation to the "Levitz floor sample sale — the sale everyone is talking about." **RThought:** Not a single person with whom I spoke Saturday or Sunday mentioned the "Levitz floor sample sale." When I made it a point to ask, they had never heard of it. **RThought:** The radio commercial didn't even say how long the sale, which "no one was talking about," would run, which leads me to believe that there is no limit to the amount of fabrication major retailers allow in their advertising. Are there no standards at all? Younger shoppers are growing up to believe that many stores have never sold *anything* at the "regular" prices shown in their ads.



## SMOKING Part III

In the February 1992 issue of the *Journal of the American Medical Association*, there was mention of an age-adjusted change in the death rate of whites from various forms of cancer during the period 1950 to 1989. The study was based on whites because data on deaths for nonwhites in 1950 is believed to be incomplete. The age adjustment is made so that the rate does not reflect the older average age of the U.S. population in 1989.

I rearranged the published table to show by percentage the change in death rate of whites from 1950 to 1989 and the total deaths of all races in 1989 from each form of cancer.

Cancer Type	Deaths of Whites Percentage Change 1950-89	Deaths All Races 1989
Lung	+245.2%	137,013
Skin	+152.4	6,161
Non-Hodgkin's lymphoma	+108.7	18,064
Kidney	+ 28.0	9,638
Prostate	+ 28.0	30,519
Breast (female)	+ 4.7	42,836
Ovaries	- 0.2	12,256
Leukemia	- 2.1	18,406
Larynx	- 10.1	3,727
Colon/rectum	- 25.6	57,023
Bladder	- 35.6	10,121
Childhood cancers	- 61.1	1,768
Hodgkin's	- 65.5	1,721
Testicles	- 66.4	392
Cervix	- 73.9	4,487
Stomach	- 76.0	14,185
All types, excluding lung	- 19.4	359,117
All types	+ 3.2	496,130

Source: *Rachel's Hazardous Waste News*, No. 385, April 14, 1994.

## HERE COMES 500-CHANNEL TV! OR DOES IT?

*The Shopper Report*, published by The Consumer Network, Inc. (3624 Market Street, Philadelphia, PA 19104; subscription information available by telephone at 215-561-6921 or by fax at 215-557-7592), is based each month on a survey of a 300- to 500-person panel drawn from its national network of 5,000 informed shoppers (not a random sample).

In the June 1994 issue, the answers were published to the question: "Do you like cable TV very much and think it is a good value?"

Eighty-three percent of the panel answered the question. Of those, only 30% agreed strongly or agreed; few were excited about 500 channels; and most (53%) agreed that "cable TV is becoming a major rip off."

Respondents over age 50 were more satisfied with cable, more likely to think it is a good value, and less likely to agree that it is a rip off. The perception of "rip off" is rooted in being forced to pay for poor quality or unwanted programs and channels.

Younger consumers expressed especially strong agreement that cable is becoming a major rip off.

The report closed with this observation: "Advertisers should take special note: shoppers are especially unhappy about paying for cable channels they don't use and getting heavy doses of advertising on channels they watch."

**RThought:** As I understand the talk of 500-channel cable, movies on request, Channel One, etc., the effort is to sell merchandise. The TV owner is going to have to pay to be able to buy merchandise. I wonder how many people would continue their subscription to a

**RThought:** The aforementioned is more than you wanted to know, but it is important that you know it.

**RThought:** If someone told you that the death rate from all forms of cancer had increased only 3.2% between 1950 and 1989, you probably would say, "Pretty good." And if someone told you that the death rate from all forms of cancer excluding lung cancer had dropped between 1950 and 1989 by 19.4%, you probably would say, "Pretty darned good." But if you were told that the death rate from lung cancer had increased by 245%, you would say, "Someone—not I—has to do something." And you would want to know what has caused the increase.

We all know that cancer can attack almost any part of the body, yet in 1989, more than 1 in 4 deaths from cancer was from lung cancer!

**RThought:** The *Journal of the American Medical Association* provided the incidence rate of reported new cases of lung cancer which was up 264% between 1950 and 1989 and the overall incidence rate excluding lung cancer which was up 29.9%. We can predict that in the future an increasing proportion of cancer deaths will be from lung cancer.

**RThought:** For the past 30 or so years, the percentage of adults who smoke has declined from about 42% in 1965 to about 25% in 1994. However, this fact will not reflect in a significant drop in lung cancer cases for many years to come.

**RThought:** Your "in-stock" percentage for cigarettes is probably one of the highest in your store—you don't want to miss any sales, do you? Have you forgotten the question, "Am I my brother's keeper"? We are expected to say, "Yes."

daily newspaper if the price were quadrupled so that the cost of advertising space could be reduced, with the newspaper getting a larger total revenue at the readers' expense.

I have read a great deal about interactive TV selling but very little has been said about how the cost will be covered. Most of the experiments are taking place without cost to the TV owner; none have indicated (nor are they able to at this time) how much interactive retailing will cost the TV owner as a regular service.

There are increasing complaints from shoppers at warehouse clubs because it is foreign for them to have to pay to enter a store. Membership fees in the early days of Gemco and some other discounters were insignificant. I paid \$1 each to Gemco and to AGE, but that was for them to get my name and address so that they could target their advertising.

I hope that future stories in the trade press will include answers to questions like "What will the consumer have to pay for 500 channels? to get Channel One? to get the Macy's or the Nordstrom channel?"

What is the maximum amount you believe a TV owner will pay for more TV channels?

My wife and I usually watch only one channel on one set at any one time. We watch—but not all in one day—ABC, CBS, NBC, PBC, CNN, and C-SPAN. And it costs us \$25 a month!

**Late Note:** Our local cable company has just dropped C-SPAN (Cable-Satellite Public Affairs Network), a child of the cable company.



**RThought:** How will this age distribution impact our economy?

It is easy to see that retirement at 65, current Social Security commitments, and Medicare, as now financed, are all in trouble. The "65 and over" group will not have the financial security (and buying power) they have today. However, they may have enough voting power to block changes in their benefits.

## DO YOU PAY ATTENTION TO LETTERS FROM CUSTOMERS?

One of my favorite publications is *Bits & Pieces*, which arrives every four weeks (Economics Press, 12 Daniel Road, Fairfield, NJ 07004; \$17.55/yr.).

The following was reported in *Bits & Pieces* as a favorite story at General Motors. The letter of complaint was written to the president of the Pontiac Division (a letter, I am sure, as odd as any you may have received — and perhaps disregarded).

**This is the second time I have written you, and I don't blame you for not answering me, because what I have to say sounds kind of crazy.**

**But it is a fact that we have a tradition in our family of ice cream for dessert after dinner each night. But the kind of ice cream varies. So every night, after we've eaten, the whole family votes on which kind of ice cream we should have and I drive down to the store to get it.**

**It's also a fact that I recently purchased a new Pontiac, and since then my trips to the store have created a problem.**

**You see, every time I buy vanilla ice cream, when I start back from the store, my car won't start. If I get any other kind of ice cream, the car starts fine. I want you to know I'm serious about this question, no matter how silly it sounds: "What is there about a Pontiac that makes it not start when I get vanilla ice cream, and easy to start whenever I get any other kind?"**

The Pontiac president was understandably skeptical about the letter but sent an engineer to check it out anyway. The latter was surprised to be greeted by a successful, obviously well-educated man in a fine neighborhood. He had arranged to meet the man just after dinnertime, so the two hopped into the car and drove to the ice cream store. It was vanilla ice cream that night and sure enough after they came back to the car it wouldn't start.

The engineer returned for three more nights. The first night the man got chocolate. The car started. The second night he got strawberry. The car started. The third night he ordered vanilla. Again the car failed to start.

Now the engineer, being a logical man, refused to believe that this man's car was allergic to vanilla ice cream. He arranged, therefore, to continue his visits for as long as it took to solve the problem. And toward this end he began to take notes: he jotted down all sorts of data, time of day, type of gas used, time to drive back and forth, etc.

In a short time he had a clue: the man took more time to buy any other flavor than vanilla. Why? The answer was in the layout of the store. Vanilla, being the most popular flavor, was in a separate case at the front of the store for quick pickup. All the other flavors were kept in the back of the store at a different counter where it took considerably longer to find the flavor and get checked out.

**Now the question for the engineer was why the car wouldn't start when it took less time. Once time became the problem — not the vanilla ice cream — the engineer quickly came up with the answer: vapor lock. It was happening every night but the extra time taken to get the other flavors allowed the engine to cool down sufficiently to start. When the man got vanilla, the engine was still too hot for the vapor lock to dissipate.**

**RThought:** You must assume that any customer who writes, particularly a letter that is not abusive, is sincerely passing something on to you. If the letter sets forth an event or situation, treat the event or situation as one which really happened. It may appear silly or impossible, but accept it, and learn from it.

After all, the writer is writing as much to help you as to help himself or herself.

**RThought:** Many of us who receive such letters don't treat them as we should. Recently, at the Wal\*Mart annual meeting, a shareholder in the question-and-answer segment after the formal portion of the meeting (is there a "formal" portion of a Wal\*Mart annual meeting?) complained that he had twice written to the company president and had not received a reply either time. This should not happen in any company. But one must accept as fact that it did. To make the matter worse, the shareholder may have driven several hundred miles to attend the meeting.

## COMPARISON OF REENGINEERING AND COST REDUCTION

The following comparison, which is reproduced with permission, is from *The Neo-Brief*, Critical Executive Issues, Vol. IX, Issue 1. For further information on this publication, write to Jim Guguet, Neo, Inc., 2 Corporate Drive, Suite 5545, Shelton, CT 06484-9804.

Reengineering	Cost Reduction
...do more with less	...do less with less
...work is changed	...work is not changed
...processes are redesigned	...processes are not redesigned
...employees are empowered	...employees are constrained
...work smarter	...work harder
...long-term savings	...short-term savings
...level of service improves	...level of service declines
...company increases speed	...company slows down

**RThought:** For a practical example regarding the truth of this information, consider all of the retailers who have reduced costs by reducing sales help and/or cutting advertising. Better yet, check your local Chapter 11 list.

## IT'S A SALE! IT'S A LIE! IT'S A FELONY!

The Canadian Bureau of Competition Policy, the bureau which enforces the Competition Act, has charged Bob Peter, president of the Hudson's Bay Company, Canada's largest retailer and oldest corporation, with 17 counts of misrepresenting the purported regular price of goods. In addition, vice president Rob Norris is included in 11 of the charges. They have been charged under two sections of the Competition Act: one is a *general prohibition against misrepresentation* and the other *specifically prohibits misrepresentation of a regular price*. The maximum jail sentence is five years on each offense, and there is no limit on the amount of the fine.

It is alleged that prices were misrepresented in ads which ran from 1989 to 1991 for pillows and mattresses, crystal and glassware, and bicycles. (The article in the *Montreal Gazette* did not explain the time lag between the offenses and the charges.)



An attorney for The Bay said that the Bureau's interpretation is one wherein a retailer must have sold a majority of an item at its regular price in order to make a sale price comparison, although the Act is not specific on this point.

The chairman and chief executive officer of The Bay is reported to have said that the company "is outraged that its president has been personally charged." However, search warrants have been issued, so there probably will be more news on this front.

**RThought:** If the two officers are sent to jail and fined, this step may end, at least in Canada, the practice of misrepresenting the regular price.

**RThought:** In the United States, district attorneys and attorneys general are usually satisfied when they collect a few thousand dollars from a corporation, while the officers of the corporation get off with nothing more serious than embarrassment. Charge a few of them with felonies, then convict them, and the person who sponsored/encouraged/ordered/allowed the dishonest comparative pricing will be a convicted felon, denied the right to vote or to hold public office.

**RThought:** Sometimes, I believe there are more *dishonest* regular prices than *honest* regular prices. If I confronted the heads of any major company, their defense would be "everybody does it." Most likely, the same executives would not accept that excuse from their kids on drug use, teenage sex, or other offenses against which they have strong feelings.

**RThought:** In my family, it was always a matter of pride that Kahn's Department Store ads were always squeaky honest. But then Kahn's was a private, family-owned business, "sales" were not

common, and the CEO did not receive a salary of \$1 million or more a year, even adjusting to the 1900-24 value of the dollar.

**RThought:** I always think of dishonest ads when retailers talk about dishonest politicians, because I think I know where the dishonest politicians have found their role models.

## WORDS — OF WISDOM FROM CANADA

David Williams, president of Loblaw's Supermarkets, when addressing the Ontario Dairy Council, observed that no matter how well the major supermarket chains are financed, Loeb's (IGA), Sobeys, Oshawa Group, A&P, and Loblaw cannot all survive. There are more stores than needed. Competition will force one of the majors out of the market. Williams commented, "I don't care if A&P is owned by the second-richest man in Germany, he didn't reach that point by continuing to invest in something that doesn't perform." The low-cost operators will survive. Lower costs will come from rethinking all operations. "I think it's time for you to realize that we can't continue to take the margins we're taking," said Williams.

**RThought:** I agree that the low-cost operators are most likely to survive — but only if they have the information systems and structure which will permit them to make a profit at a low cost. But they also need associates who make customers want to return to their store again.

**Late Note:** I discovered a 1979 article in an Australian newspaper quoting me exactly as I have just written. I hadn't realized how consistent I have been!

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	APRIL		Percentage Change	Year to Date Four Months		Percentage Change
		1994	1993		1994	1993	
52	*Bldg Matl Group	\$ 11,379	\$ 10,031	+ 134%	\$ 36,440	\$ 32,499	+12.1%
57	*Furniture Group	9,637	8,589	+ 12.2	37,323	33,573	+11.2
571	Furniture Stores	4,907	4,533	+ 8.3	18,376	17,354	+ 5.9
572	Appl, TV, Radio Stores	3,790	3,216	+ 17.8	15,351	12,792	+20.0
5941	*Sporting Goods Stores	1,773	1,557	+ 13.9	6,229	5,214	+19.5
5942	*Book Stores	579	577	+ 0.3	2,809	2,733	+ 2.8
5944	*Jewelry Stores	1,077	989	+ 8.9	4,014	3,647	+10.1
531Pt	Conventional Dept Stores	3,957	3,913	+ 1.1	14,207	13,632	+ 4.2
531Pt	Natl Chain Dept Stores	<u>3,026</u>	<u>2,885</u>	<u>+ 4.9</u>	<u>11,152</u>	<u>10,468</u>	<u>+ 6.5</u>
	Subtotal	6,983	6,798	+ 2.7	25,359	24,100	+ 5.2
531Pt	Discount Stores	<u>9,770</u>	<u>8,890</u>	<u>+ 9.9</u>	<u>35,198</u>	<u>31,045</u>	<u>+13.4</u>
531	*Department Stores	16,753	15,688	+ 6.8	60,557	55,145	+ 9.8
539	*Misc General Mdse Stores	4,609	4,448	+ 3.6	17,203	16,549	+ 4.0
541	*Grocery Stores	31,124	30,487	+ 2.1	121,763	118,320	+ 2.9
56	*Apparel Stores	8,428	8,740	- 3.6	29,840	29,523	+ 1.1
561	Men's & Boys' Stores	753	657	+ 14.6	2,716	2,319	+17.1
562,3,8	Women's Stores	3,058	3,352	- 8.8	10,763	11,436	- 5.9
565	Family Clothing Stores	2,555	2,492	+ 2.5	1,954	8,390	+ 6.7
566	Shoe Stores	1,434	1,568	- 8.4	5,154	5,132	+ 0.4
591	*Drug Stores	6,735	6,749	- 0.2	26,649	26,005	+ 2.5
596	*Nonstore Retail	4,153	4,030	+ 3.1	16,060	15,783	+ 1.8
5961	Mail Order	2,499	2,185	+ 14.4	9,852	9,177	+ 7.4
	*Retailing Today Total Store Retailing†	62,117	91,885	+ 4.7	361,887	338,991	+ 6.8
	**GAF TOTAL	45,041	42,966	+ 4.8	166,276	154,596	+ 7.6

†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.

## 4 - RETAILING TODAY - AUGUST 1994



package which was first mailed in 1958 and continued as control for more than 25 years — one of the most famous packages in direct-mail history.

Current publisher Austin Kiplinger accepted the award for his father, who died in 1967. Kiplinger noted that his son Knight Kiplinger has assumed the role as co-editor of The Washington Letter, is signing some issues and will continue the family tradition.

Kiplinger Washington Editors, Inc., 1729 H St., N.W., Washington, DC (202)887-6639.

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✓ **Believable Ads Can Pay Off.** "Robert Kahn, in his publication *Retailing Today*, railed against ads that just aren't believable. And he's right," reports *Communications Briefings* in its October issue. *RT Aug*

An example he cited: a "Levitz floor sample sale — the sale everyone is talking about." As Kahn pointed out, no one he spoke with over a two-day period ever mentioned the sale. In fact, no one had ever heard of it. If you want people to believe the offers or claims you're making, make sure the rest of the ad is believable too.

Retailing Today, Box 249, Lafayette, CA 94549.

\*\*\*

**Mark Your Calendar!** The Newsletter Marketing Conference and Newsletter Launch Workshop are right around the corner — December 7-9, 1994.

The conference will be at the Holiday Inn Crowne Plaza in New York City at 49th and Broadway. Hotel rooms are being reserved at special group rates, but the room block expires on November 15. If you plan to attend the meeting, call the hotel today to assure you'll have a room (212)977-4000. Be sure to mention you are with the Newsletter Publishers Association.

December in New York is a very popular time to visit, and hotels fill up quickly. Don't forget to call before November 15!

**Clever Marketing or A Dirty Trick?** (Hotline, October 11). The saga continues over the "Express Mail" lookalike.

Hotline heard from Jeffrey Denning, Practice Performance Publishing, with his reaction to the controversial direct-mail piece. "Mr. Wood is concerned that lying on the envelope damages the good name of direct marketing. Perhaps, if it is recognized as a lie by the recipient. But if the envelope is recognizable as a lie, leading to lowered credibility of the rest of the piece, it will depress response and Tag Powell will pay the price for his deception. If the USPS doesn't care that a mailer rips them off by simulating their Express Mail service at bulk-mail rates, why should any of the rest of us?"

Jeffrey Denning, Practice Performance Publishing, Inc., 2508 E. Willow, Suite 302, Long Beach, CA 90806 (310)595-1728, fax, (310)595-0023.

## Publishers In The News

**W.W. "Chip" Wood**, publisher, Soundview Publications, announces the launch of At-Home Remedies (12x, \$39), for health-conscious people who want to treat and maintain their well-being with safe, effective, do-it-yourself remedies that work.

"At-Home Remedies is our version of effective health-care reform," says Wood. "By showing people how to heal themselves using everyday items, we hope At-Home Remedies will help people take the bite out of costly prescription drugs...doctor's visits...and over-the-counter medicines."

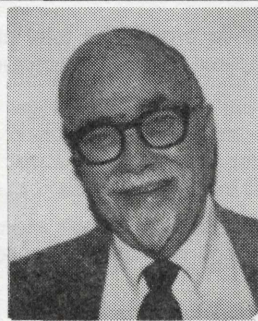
"Our grandmothers used these remedies," said Editor-In-Chief Steve Kroening, "and so do today's most innovative doctors and health-care practitioners. Now, with the publication of At-Home Remedies, everybody can."

Soundview Publications, Dunwoody Center, Suite 100, 1350 Center Drive, Dunwoody, GA 30338 (404)668-0432, fax, (404)668-0692.

\*\*\*

**John Cummuta**, president, Financial Indepen-





# RETAILING TODAY

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ROUTE TO

SEPTEMBER 1994

VOL. 29, NO. 9

## ERRATA No. 1

In the July 1994 issue of *RT*, the last feature article on the back page of the "Feature," entitled "Uncle Sam vs The Department of Commerce," I showed the distribution of general, apparel, and furniture (GAF) sales by type of retail outlet for the years 1980, 1992, and 2010. I attributed the figures to the Department of Commerce.

The 1980 and 1992 percentages were actually calculated from the Department of Commerce's Current Business Reports — Monthly Retail Trade; the 2010 figure was prepared by a research organization identified as "KAS" and was computed for *DM* (Discount Merchandising). *DM* published these figures in its May 1994 issue.

KAS was a misprint: the research organization should have read "KSA" for Kurt Salmon Associates.

## ERRATA No. 2

Also in the July issue, in the article entitled "Cities With a Population Over 100,000," Norfolk, Virginia — population 275,000 and Virginia's second most populous city — was accidentally omitted. Sorry.

Thanks to Blount Hunter of The Rouse Company for drawing the omission to my attention.

**RThought:** I didn't know whether to be embarrassed by two errors in one issue or to be proud that I have such sharp readers. I chose the latter!

## SMOKING Part IV

I submit as another argument against smoking the following obituary which appeared in *The New York Times* on July 13, 1994:

*R. J. Reynolds 3d,  
Tobacco Heir, 60*

Richard J. Reynolds 3d, a grandson and namesake of the founder of the R. J. Reynolds Tobacco Company, died on June 28 at his home in Pinehurst, N.C. He was 60.

The cause of death was emphysema and congestive heart failure caused by smoking cigarettes, his half-brother, Patrick Reynolds, an anti-tobacco crusader in Los Angeles, said on Tuesday.

Dr. Roy Duke, who treated Richard J. Reynolds 3d earlier this year in West Palm Beach, Fla., said: "I saw Mr. Reynolds in January, and he was suffering from very severe emphysema. The cause of death was end-stage emphysema as a result of smoking." [Emphasis added.]

Patrick Reynolds said that his brother gave up cigarettes in 1986 after years of heavy smoking. Their father, Richard J. Reynolds 2d, also died of emphysema in 1964, at the age of 58.

## ARE THERE ANY ETHICS LEFT AT TIME MAGAZINE?

Recently, I received a manila envelope with a large glassine window purporting to give the results of one of *Time* magazine's sweepstakes. Through the window, I could read:

**THE RESULTS ARE NOW IN: ROBERT KAHN  
HAS WON ONE OF OUR TWO \$1,666,675.00 PRIZES!**

Also visible through the window were boxes indicating a Jack Sears as the other winner. It stated that the decision on Sears was final and payment had begun, while mine was under review and payment was ready. All I had to do to claim my prize was return the coupon to the right after affixing a "Grand Prize Validation Seal" and a "Great Savings/Time Order Seal."

Despite telling me that I am a winner, the statement on the "Grand Prize" coupon stated: "Notify me at once **IF** I am a millionaire." [Emphasis added.] Also, by affixing the "Great Savings" seal, I would be able to receive *Time* at its "Special Low Rate of 99 Cents an Issue," or about \$52 a year, a "SAVINGS OF 66%." However, I already subscribe to *Time* at its "professional rate" of \$31.20 a year!

**RThought:** *Time*, like all major magazines, makes its money from pages of advertising, not from paid circulation. Magazines try anything that will pass the Audit Bureau of Circulation's definition of "paid" circulation. Advertisers pay more per page if circulation is greater.

I receive such mailings from *Time* regularly, but I have two problems as a result of receiving them:

1. Can I trust the contents of *Time* magazine when it tries to "con" me into subscribing by telling me that "ROBERT KAHN HAS WON ONE OF OUR TWO \$1,666,675.00 PRIZES!" but the small print tells me I have *not*?
2. *Time* is a major magazine; Time Warner is a major corporation. Is this the way major corporations should behave?

**RThought:** Believing this type of advertising to be deceptive, I sent the mailer to the Federal Trade Commission, asking the FTC if it considers such methodology an honest trade practice. If so, why does it levy fines on retailers for failing to identify the country of origin on merchandise within our stores, a practice less dishonest than *Time* telling me that I am a millionaire? Or does dishonesty exist only in cases of a violation of a specific paragraph or subparagraph of a law and not when I am "notified" that I have won a million dollars?

I will let you know about the FTC's response.



Patrick Reynolds said of his brother: "His interests ranged from writing to poetry to raising thoroughbred horses. He gave generously to a variety of charities."

Mr. Reynolds's wife, Marie, died earlier this year. They had no children.

[RT Note: One must wonder what caused the death of Mrs. Reynolds.]

**RThought:** As I recall, the CEO of R. J. Reynolds Tobacco Company has stated that cigarettes, to his knowledge, are not addictive and, in any case, there is no proof that cigarettes are injurious to one's health. Perhaps the Bureau of Census has made a mistake reporting that the life expectancy of white male Americans has been increasing from the high-60 years to the low 70 years (the increase has been concurrent with the decline in smoking).

## NEIMAN-MARCUS FOLLOWS MACY'S AND SEARS — SORT OF

A short news item reported that Solar Electric Engineering, now of Sebastapol, California, is in the process of moving to Gardena, California, because it expects Southern California to become the "Detroit of electric car making" within the next decade.

The article further stated that Solar Electric had been involved in a project to build an electric sports car offered in last year's Neiman-Marcus Christmas catalog.

**RThought:** I can remember the early 1940s when Macy's sold the small Crosley car on the ninth floor of its store in New York City. Macy's even ran newspaper ads showing one of New York's "Society 400" driving the car around its ninth floor. We joked about it being appropriate on the third floor of a mansion!

In the 1950s there was the Allstate that was sold by Sears (perhaps "displayed" is the better word). The car was really the Henry J with a private label, perhaps the only private-label car in automotive history.

You don't remember the Henry J or the Allstate? I would not be surprised. After World War II, Henry Kaiser changed from assembling cargo ships in five days to building cars. He joined with an experienced car builder named Fraser to form Kaiser-Fraser. The cars were named Kaiser (the first sedan with a back that opened; today, it is called a five-door sedan), which was at the top of the line; Fraser, which was in the middle; and Henry J, which was the small economy model.

**RThought:** I hope that Neiman-Marcus handled only special orders!

## 10 YEARS OF INFLATION

We seem to be pleased that the Consumer Price Index increased only 2.7% during 1993. We need to understand that even 2.7%, when compounded, becomes a significant number.

The figures below reflect the effect of compounding increases in the major components of the CPI from 1984 to 1993.

All items	+44%
Food	+36
Energy*	+1
All items, less food and energy	+46
Shelter	+61
Medical care	+77
Apparel and upkeep	+19
Tobacco products	+98

\*Oil prices were extremely high in 1984.

**RThought:** The "rag merchants" can be proud of a total price increase of only 19% over 10 years compared to the 44% increase in the total index.

## WHO GIVES WHAT?

I am always interested in learning of gifts made to schools and universities, along with the amount and the abbreviated background of those who contribute.

You may find of interest these quotes from a recent issue of *The Journal of Philanthropy*.

Catawba College (NC): Bequest valued at \$700,000 from the estate of Leona Fleming Herman, who was an employee of the Georgia Military Academy.

Catawba College (NC): \$500,000 gift annuity from Frances D. Wentz, former assistant librarian at the college.

Emporia State University (KS): \$1 million trust from John Richel, retired school administrator and his wife.

Nazareth College (NY): \$300,000 bequest from the estate of Loretta Ford, longtime employee of the *Batavia Daily News*.

**RThought:** Will I do as much good with what I have accumulated over the years as these individuals have done? Let us hope that we are all asking ourselves the same question.

## SEXUAL HARASSMENT

Sexual harassment is a worldwide problem. A case in point, the Retailers Association of Queensland, Australia, recently held sessions for members (A\$40) and nonmembers (A\$50) to cover:

- What constitutes sexual harassment
- What steps should be taken to prevent/deter sexual harassment in the workplace

**RThought:** From the West Coast of the United States, it is about 14 hours by air to Australia, yet the subject for retailers does not change.

## PROOFREADING WHILE I READ

I am especially conscious of what I read because two of my fine assistants constantly harass me about word choice and punctuation. Just recently, when I used the phrase "in a country," one wrote that "something is in a jar, but within a country." Another assistant is now my final authority on the use of commas, applying rules I forgot to learn.

In proofreading the May 23, 1994, issue of *Supermarket News*, I was struck by the statement: "[Kroger Co.] will increase its food-store square footage by 4.5% to 5% each year between 1994 and 1996," Pichler [its chairman and CEO] said."

**RThought:** There is only one year between 1994 and 1996; I believe Pichler, who has an academic background, meant "each year from 1994 through 1996."

## HIGHER EDUCATION 'ACCURACY'

In 1993 the University of Florida conducted a National Retail Security Survey. It then reported results for 21 different types of retailers.



# DO SPEAKERS AND WRITERS REALLY UNDERSTAND 'THE CUSTOMER'?

Besides reading a lot, as I travel in my car, I listen to many cassette tapes. I have just finished listening to 40 tapes from the 1994 National Retail Federation Convention held in January — sessions that I was unable to attend or ones that I want to hear for a second or perhaps even a third time.

Many talked about "the customer" as though all customers were alike, similar to goose-stepping Nazi stormtroopers!

One speaker said, "The customer is worried about his job." That was his explanation of weaker sales. If you took a survey today of the 110 million people in the nonfarm labor force, I don't believe the change in the percentage of customers who are now worried about their jobs, compared to those who were worried 6, 12, or 24 months ago, is enough to support the speaker's claim that this is the cause of wide swings in segments of the retail market. Further, what is true in California is probably not true in Minnesota or Florida.

Several writers wrote of "the customer's" shortage of time as the sole reason for weakness in sales, particularly general-apparel-furniture (GAF) sales. In 1982, "customers spent an average of 92 minutes on shopping, which took them into 3.6 stores. Today [1994], customers spend fewer than 50 minutes per trip and visit only 2.6 stores," according to a survey conducted for the International Mass Retailing Association.

Nothing in either study reported the number of shopping trips taken per week or per month or the difference in the pattern of working women versus nonworking women. Writers are implying that customers are shopping less. I disagree.

Let me assume, for purposes of discussion, that "the customers" make the same number of trips in 1994 as in 1982. (There could have been more or fewer.)

Below are the GAF sales reported for the years since 1987 (I will soon get to the reason for starting with 1987) as a measure of whether people bought more or less. Note the increase every year despite shorter trips to fewer stores. Since 1987, GAF sales have grown faster than the combined impact of inflation and population growth.

Year	Annual GAF Sales (\$ millions)	Percentage Change
1987	\$393,142	
1988	424,086	+7.9%
1989	458,057	+8.0
1990	475,502	+3.8
1991	491,190	+3.2
1992	526,633	+7.2
1993	562,347	+6.8

Source: Department of Commerce, Current Business Reports — Retail Trade

During this period of increased sales, many major retailers thought the world was waiting for them. Therefore, they built more and more stores, as evidenced by various figures I have seen on the disproportionate increase in retail square footage per capita. Many individual retailers have had lower sales because of competition rather than because of shorter trips to fewer stores.

Had a survey been made of customers, I believe stores would have learned that the customers wanted stores to:

- be in stock of the items advertised.
- be in stock in sizes and colors of the staple items they expect a store to have.
- quit making the customers check all of our ads to find items at a fair price instead of at dishonest "regular" prices.

I could go on.

There was another change taking place within the department store category.

Let's look at discount store sales as a percentage of total department store sales. The reason I started with the 1987 figure is because that was the year the Department of Commerce, Economics and Statistics Administration split department stores into three groups:

1. Conventional department stores (Macy's, A&S, The May Company, etc.)
2. National chain department stores (Sears, J. C. Penney, and Montgomery Ward)
3. Discount department stores (Kmart, Target, Wal-Mart, etc.)

Before 1987, most retailers did not consider discount stores to be a form of department stores.

Classifying discount stores as department stores became final when Associated Dry Goods acquired L. S. Ayres of Indianapolis, Indiana, an acquisition which included the Ayr-Way Discount Stores. The problem arose over stores in Louisville, Kentucky, because Associated already owned The Stewart Dry Goods Company and L. S. Ayres had a couple of Ayr-Way Discount stores in Louisville. It was ruled that a discount store was nothing but a department store with less service than a conventional department store (in retrospect, this may have been an error) and no charge accounts. It was ruled that Associated would have to rid itself of either its discount stores or its department stores in Louisville. If I remember correctly, this action prompted the sale of the Ayr-Way stores to Target.

Let's look at the importance of the discount store as a form of department store.

Year	Discount Stores (\$ millions)	All Department Stores (\$ millions)	Discount Store Percentage
1987	\$ 64,367	\$148,690	43.3%
1988	71,690	156,620	45.8
1989	77,690	165,753	47.0
1990	84,881	171,955	49.4
1991	92,943	179,117	51.9
1992	104,529	193,187	54.1
1993	115,855	207,024	56.0

Source: Department of Commerce, Current Business Reports — Retail Trade

An increasing percentage of department store sales are being made by discount stores.

People who talk about the future of the department stores must remember that it will mainly be in the form of discount department stores. I suspect these same people have never looked at the "facts" set forth in the table above.

The same pattern appears when a comparison is made of discount stores sales as a percentage of total GAF sales.

Year	Discount Stores (\$ millions)	All Department Stores (\$ millions)	Discount Store Percentage
1987	\$ 64,367	\$393,142	16.4%
1988	71,690	424,086	16.9
1989	77,964	458,057	17.0
1990	84,881	475,502	17.9
1991	92,943	491,190	18.9
1992	104,529	526,633	19.8
1993	115,855	562,347	20.6

Source: Department of Commerce, Current Business Reports — Retail Trade



## FEATURE REPORT

Discount stores will continue to transact a higher and higher percentage of the GAF sales for some years just as they will continue to transact a higher and higher percentage of the total department store sales.

A reason for shopping in fewer stores is that many types of stores are getting larger. When I mentioned to my wife that I was working on this article and read her the change in shopping time and number of stores shopped, she immediately replied, "Stores are getting larger. I don't have to go to as many stores as I formerly had to." This, from the mouth of a woman who majored in Latin, minored in Greek, and then received an MS in Library Science! She didn't need to do a survey to observe the obvious.

Please permit me to use Wal☆Mart to illustrate the increase in store size (because its annual report is handy). Its average store size grew from 1974 to 1993 as follows:

Year	Average Size (Square Feet)	Year	Average Size (Square Feet)
1974	41,300	1984	55,000
1975	40,800	1985	57,000
1976	41,800	1986	59,000
1977	43,100	1987	61,500
1978	44,100	1988	63,500
1979	45,300	1989	66,400
1980	47,000	1990	70,700
1981	48,700	1991	74,700
1982	50,300	1992	79,800
1983	53,000	1993	83,900

For those who don't remember (or never knew), Macy's has not added to the 2.1 million square feet in its 34th Street store in New York City since before The Great Depression. The average size of a Macy's department store has declined over the years while the average size of a Wal☆Mart store has increased.

I can remember when, 40 years ago, the controller of The May Company in Los Angeles told the Western Regional Controllers Group that The May Company had to open stores of *at least 300,000 square feet* in order to properly present all of its departments. Today, most of its newer branches are half that size. The average size of a May Company store in Southern California has decreased.

### SEXUAL DISCRIMINATION IN SAT TESTING

For years, *RT* has reported the bias in the Scholastic Aptitude Test (SAT) prepared by the Educational Testing Service (ETS) and in the College Board Tests prepared by the College Entrance Examination Board. There is no objective proof that men are smarter than women; females score slightly higher than males in verbal skills and males score slightly higher than females in math skills.

Now, the American Civil Liberties Union has entered into the case of Sharif v. New York State Education Department to bar the use of these tests.

The presence of bias is particularly unfortunate because the test for National Merit Scholarships is taken by one million high school graduates each year. Although 55% of those taking the test are women, only 40% of the semifinalists are women and only 40% of scholarships go to women.

The ETS has admitted that the SAT overpredicts the performance of males in college and underpredicts the performance of females. Further, the ETS *admits that high school grades are a better predictor of college performance whether the person evaluated is male or female.*

**RThought:** While admitting its test is biased, the ETS *does not intend to change it!* Neither do users intend to abandon the test in favor of high

Since 1982, many specialty superstores have opened, bearing such names as PetsMart, Sportmart, Sports Authority, Home Depot, Home Base, Office Depot, Circuit City, Best Buy, CompUSA, Incredible Universe, Pak 'n Save, SuperKmart, Lowe's, Barnes & Noble Super Stores, Borders, Drug Emporium, and more. These large stores tend to make superior use of systems so that they can maintain a good in-stock position, and "the customers" are loving it.

Most mass-market brands are available in many large outlets, and these stores are in stock more often because of better computer systems.

The exclusive brands are sought by a small percentage of the market. Today, the stores carrying exclusive labels are often, because of vendor assistance, better at being in stock than they were before.

**RThought:** Based on the above analysis, I conclude that customers are not buying less because of the reduced duration of shopping trips and the reduced number of stores visited. Despite shorter trips to fewer stores, the GAF sales have increased every year from 3.2% to 8.0%, a rate, as I have pointed out, higher than can be accounted for by inflation and population growth combined.

**RThought:** Better MIS systems found in larger stores and discount prices explain how shorter trips to fewer stores can still produce higher GAF sales.

**RThought:** All customers are not alike. Some may still be taking 92 minutes and visiting 3.6 stores, while others are more efficient shoppers than they formerly were. Customers have proven themselves to be informed shoppers who know where items are located in larger stores which maintain a good in-stock condition and which carry a wide range of merchandise, thus satisfying their wants in less shopping time while visiting fewer stores.

**RThought:** I did not do an analysis of the national chain department stores. For the past two years, Sears and J. C. Penney have been doing better than conventional department stores.

**RThought:** I can still rest assured that the 1995 National Retail Federation Convention will feature a session on the wonderful future of conventional department stores. Ah, me! Some folks never learn.

school grades. The National Merit Scholarship Board has not indicated any desire to or intention to develop or have developed a test which is not sexually biased toward men. I can only conclude that a majority of the ETS board are men.

We can only await the outcome of the case of Sharif v. New York State Education Department to see whether (1) the court orders the elimination of sexual bias; (2) whether the New York State Education Department will require a sex-neutral test; (3) whether other states and the National Merit Scholarship Board will follow this ruling; or (4) *if each state and college university must be sued separately.*

**RThought:** I have brought this case of discrimination to your attention for several reasons: (1) many of your tests contain bias, whether intended or accidental; (2) most creators of tests are unconcerned when there is a male-female, racial, physical, or cultural bias; and (3) you may be making unsound or morally wrong decisions on hiring, promoting, or training people for which you may pay as high a price as does the victim of discrimination.

**RThought:** Many firms creating honesty, aptitude, or skill tests are unconcerned with bias or may not be aware of bias in the tests.



The reported shortage, of which much was based on estimates, was carried out to three significant places. For example, the shortage in drug stores was reported at 1.77% of sales, while in convenience stores, it was reported to be *only* 1.76% of sales.

The survey also asked respondents to "estimate" the percentage that could be attributed to each of the following causes:

1. Employee theft
2. Shoplifting
3. Vendor fraud
4. Errors

The university thought so highly of its sample that it averaged the "estimates" and again published the results to three significant places!

Of all of the types of retailers listed, a prize should be awarded to the convenience store industry — errors accounted for only an estimated 4.1% of the shortage. The next lowest amount attributed to errors was the 8.3% for the liquor/wine/beer stores, followed by 10.9% for the auto parts stores.

The sample was not a randomly selected sample; it was comprised of figures from whomever decided to respond.

**RThought:** How silly. Somewhere in the vastness of the University of Florida there must be a professor of statistics. I wish the university had asked that good person, before it published its survey, whether the methodology warranted publishing results to three significant figures. Surely, no qualified statistician would have given approval.

Is it good for universities to publish data which presents results beyond the accuracy of its methodology? I don't think so.

We, in retailing, need a lot of help from universities and other sources, but we don't need worthless figures or phony representations of accuracy — which will now be quoted endlessly, no doubt.

**RThought:** The publication that printed the figures from the survey can be excused. The reporters who write the articles are trained in grammar and English; but, as far as I know, none of the schools of journalism require a course in statistics in order to graduate. It might not be a bad idea, the way numbers are flung around today.

## AN OFFER YOU CAN REJECT — AT THE EXPENSE OF YOUR BUSINESS

Is your suggestion system really working?

Are you getting at least 10 suggestions per associate per year?

Are you like most businesses? Let me guess: You have an inferior suggestion system because you believe management knows all about running the business; otherwise, these people wouldn't be in management? Right?

Are all of your associates peons because they have no ideas for improving your business? Even in bad times? Even in terrible times?

Well, you need exposure to a book called *I-POWER*.

What is *I-POWER*?

Ideas	Inquisitive
Ingenuity	Innovation
Invention	Inspiration
Incentive	Intelligence
Individual	Imagination
Invigorate	Improvement

Do you have a surplus of any of these forms of *I-POWER* in your business? Or have you a shortage?

HERE IS THE MOST UNUSUAL OF OFFERS, and it's open only to *RT* subscribers: I will send you a copy of the book *I-POWER* at no charge if you will send me the following message on your company letterhead:

**I could use more *I-POWER* in my business.**

**I promise to spend an hour reading *I-POWER* within a week of receiving it.**

**If I don't, I will return it, postage paid.**

I believe in the honor system. It worked at Stanford; it works in life.

## RETAILING DOES CHANGE

The press has reported many stories about interactive TV for many types of merchandise and about efficient consumer response (ECR) in the supermarket field. However, our family is facing another kind of technology change. Howard Olson retired and has moved to Fort Worth, Texas, where he has family.

Who is Howard Olson?

For 35 years, Howard delivered milk to our home twice a week. He used a simple system. He called it a truck. The cost to deliver was included in the product price. The monthly bill was prepared with a pencil. He tried to sell the route but there were no buyers.

Perhaps the "Wheel of Retailing," described by Professor Malcolm McNair at Harvard Business School, is turning: more supermarkets are talking about home delivery — at shelf price plus a delivery charge. Many such plans have been started but none have become permanent. No supermarket in our area is delivering milk.

**RThought:** We held a family election to see whether my wife or I would be responsible for putting the milk on the table. I lost.

**Late Note:** A company called The Milkman has appeared, but it offers only one delivery a week.

## U.S. NONPROFIT ORGANIZATIONS ARE UNIQUE

Johns Hopkins recently completed a study of the source of income for nonprofit organizations in seven countries.

The table below shows the percentage of income obtained from private giving, from government, and from that which is earned by the organization.

Country	Private Giving	Government	Earned Income
United States	19%	29%	52%
United Kingdom	12	40	48
France	7	59	34
Germany	4	68	28
Hungary	20	23	57
Italy	4	43	53
Japan	1	38	60
Average	10%	43%	47%

**RThought:** If Hungary is not considered a major country (I don't know how the countries were selected), the United States is unique among major countries in the amount of support for nonprofit organizations obtained from private gift giving.



## WORDS — ABOUT THE MONTHLY SALES REPORT SHOWN BELOW

Let's go down the year-to-date sales comparison for five months 1994 versus five months 1993.

The big increase (12.4%) for the building materials group reflects two major factors: purchases made after natural disasters (i.e., the January earthquake in Southern California and the mid-America spring floods) plus the higher rate of home sales as a result of low mortgage interest rates. Whenever a new home is purchased, the local hardware stores receive a lot of business.

The furniture group (+9.8%) also reflects new home purchases plus the greatly increased sale of computers (reflected in the appliance, TV, and radio stores group, which is ahead 19.9%).

The increase in sporting goods stores (+18.0%) is partially due to the growth of super stores (Sportmart, Sports Authority, etc.) which are taking volume from the discount stores (reported under department stores).

Jewelry stores (+8.4%) follow a year of little or no growth and may reflect improved consumer confidence.

Among the department stores, the 3.1% increase of conventional stores (Macy's, Lazarus, The May Company, etc.) continues to trail retail sales generally, while the national chain department stores (Sears, J. C. Penney, and Montgomery Ward) reflect a dramatic improvement in sales produced by Sears and Penney (less public information is available on Montgomery Ward, but it had record sales and profits last year).

However, the real department store growth is with discounters (+12.1%) which have increased from 56.6% of the department store total in 1993 to 58.4% in 1994, continuing their dominance.

The miscellaneous general merchandise stores (+3.1%) are largely the warehouse clubs. There has been no same-store growth reported by PriceCostco or Sam's, although new stores have been added; BJ's is dropping in volume; Meijer has withdrawn from the field; and all of the Pace clubs not sold to Wal-Mart have been closed.

The year-to-date increase for grocery stores of 2.5% (1.2% for May) reflects a general price decline (no inflation). Many supermarket chains using LIFO to value their inventory are reporting LIFO credits instead of LIFO changes to income.

Apparel stores (+0.2%) are showing little growth, although men's stores (+16.4%) are surprising after many years of decline. I suspect that there has been some reclassification of chains. Part of the recent growth in the family clothing stores group is a result of men's stores adding women's apparel and/or children's apparel.

Drug stores (+2.1%) are slowing, probably as a result of the growth of discount stores, most of which have pharmacies and OTC drugs, as well as other merchandise normally bought in drug stores.

Nonstore retailing (+2.1%) is not showing anywhere near the volume or growth claimed by backers of interactive TV. The mail-order component (+10.1%) reflects four major operators (Spiegel, J. C. Penney, Hanover Direct, and Fingerhut) that are doing well. This category also includes vending-machine operators, door-to-door selling (e.g., home delivery of milk), magazine subscriptions, mobile lunch wagons, book and record clubs, direct computer sales, etc.

There is nothing in the published data on actual retail sales to support the various claims of an annual volume of \$60 billion-\$80 billion, unless, perhaps, mail-order sales of life and casualty insurance are included in such inflated figures.

### RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	MAY		Percentage Change	Year to Date Five Months		Percentage Change
		1994	1993		1994	1993	
52	*Bldg Matl Group	\$ 12,645	\$ 11,179	+ 13.1%	\$ 49,112	\$ 43,678	+12.4%
57	*Furniture Group	9,855	8,796	+ 12.0	47,168	42,369	+11.3
571	Furniture Stores	5,053	4,712	+ 7.2	23,422	22,066	+ 6.1
572	Appl, TV, Radio Stores	3,897	3,263	+ 19.4	19,256	16,055	+19.9
5941	*Sporting Goods Stores	1,776	1,588	+ 11.8	8,029	6,802	+18.0
5942	*Book Stores	646	605	+ 6.8	3,453	3,338	+ 3.4
5944	*Jewelry Stores	1,256	1,224	+ 2.6	5,279	4,871	+ 8.4
531Pt	Conventional Dept Stores	4,102	4,121	- 0.5	18,308	17,753	+ 3.1
531Pt	Natl Chain Dept Stores	3,009	2,942	+ 2.3	14,160	13,410	+ 5.6
	Subtotal	7,111	7,063	+ 0.7	32,468	31,163	+ 4.2
531Pt	Discount Stores	10,352	9,599	+ 7.8	45,551	40,644	+12.1
531	*Department Stores	17,463	16,662	+ 4.8	28,019	21,807	+ 8.7
539	*Misc General Mdse Stores	4,890	4,853	+ 0.8	22,067	21,402	+ 3.1
541	*Grocery Stores	31,959	31,588	+ 1.2	153,646	149,908	+ 2.5
56	*Apparel Stores	8,413	8,699	- 3.3	38,314	38,222	+ 0.2
561	Men's & Boys' Stores	771	671	+14.9	3,479	2,990	+16.4
562,3,8	Women's Stores	3,099	3,481	- 11.0	13,887	14,917	- 6.9
565	Family Clothing Stores	2,518	2,458	+ 2.4	14,479	10,848	+33.5
566	Shoe Stores	1,444	1,509	- 4.3	6,620	6,641	- 0.3
591	*Drug Stores	6,815	6,690	+ 1.9	33,441	32,695	+ 2.3
596	*Nonstore Retail	4,158	4,072	+ 2.1	20,270	19,855	+ 2.1
5961	Mail Order	2,450	2,028	+ 20.8	12,336	11,205	+11.0
	*Retailing Today Total Store Retailing†	99,876	95,956	+ 4.1	458,798	434,947	+ 5.5
	**GAF TOTAL	46,618	44,777	+ 4.1	212,944	199,733	+ 6.6

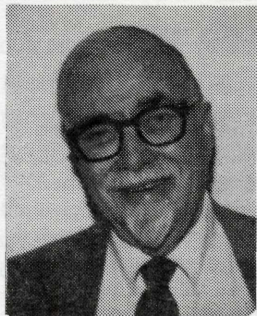
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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OCTOBER 1994

VOL. 29, NO. 10

## THE 7-DAY SHOPPING WEEK COMES SLOWLY

When first I visited Australia 15 years ago, most stores were closed, by law, on Saturday afternoon and all of Sunday. Then came "all-day" Saturday shopping followed by some Sunday shopping. This year, Queensland's (the state in Australia from whence comes the "Q" in "Qantas"\*) Industrial Relations Commission announced lower penalty (overtime) rates for Sunday work.

The table below shows the new and the old Sunday penalty rates.

Store Classification	Rate* Prior to 2/28/94	Rate* Effective 2/28/94	Rate* Effective 12/2/94
Exempt and independent retails shops:			
Weekly and part-time	200%	175%	150%
Casuals	244	197	150
Nonexempt shops:			
Weekly and part-time	200	200	200
Casuals	244	222	200

\*Percentage of regular pay rate.

As you might guess, the lower rate is for the small and independent shops while the nonexempt shops are the larger stores and chain stores.

**RThought:** When stores were closed weekends and evenings, little time was available during which those employed could shop. If people spent their money on Saturday afternoon and Sunday, it was at places other than retail stores. Family shopping was once handled by nonworking wives; but Australian wives, like American wives, have entered the work force. Gradually, the inability of workers to shop is being recognized in countries around the world.

\*The original Qantas name was Queensland and Northern Territory Air Service. The "Northern Territory" state is the north central area between Queensland and West Australia with lots of space but few people — largely Aborigines.

**Late Note:** England is beginning to relax its rules against Sunday retailing.

## IF YOU KNOW YOU SHOULDN'T, DON'T!

The Federal Trade Commission filed a complaint against Marshall Field & Company, a subsidiary of Dayton Hudson Corporation, for using information from consumer (credit) reports in making decisions on whether or not to employ an applicant. Marshall Field failed to advise potential employees that a credit check was being made. This practice has been a "no-no" under the Fair Credit Reporting Act for a long while because it is considered unfair and deceptive.

## FOR THOSE WHO FAVOR MEDICAL CARE BY PRIVATE ENTERPRISE

I almost cried when I received a letter from Ed Stern, who for many years has owned and operated Straus, a group of men's and women's stores founded in 1879 and headquartered in Fargo, North Dakota.

Ed's letter related the story of how, over the years, he had become acquainted with an Englishman who has visited him in both Arizona (Ed's winter home) and North Dakota.

On a visit alone to Arizona, the Englishman had severe chest pains while on a nature walk. The Picture Rocks Fire Department transported him to Northwest Hospital in Tucson. The hospital misunderstood or perhaps did not read the \$3,500,000, three-week travel policy that Ed's friend from England had purchased to cover health, accident, luggage loss, etc. Despite his apparent heart attack, the hospital would not admit him until he, or someone, came up with \$5,000 cash. He turned to Ed, miles away in Fargo. After several telephone calls, Ed had one of his Tucson friends deliver \$5,000 to the hospital.

After a TWO-HOUR DELAY, the man was admitted.

Tests showed a 99% blockage of one valve and a 95% blockage of another. Doctors performed one operation and immediately scheduled a second. However, the second operation was delayed until the hospital received definite word of coverage from the insurance company. Only then were the doctors allowed to perform the second operation.

Even with the visitor's mishaps, he praised the hospital, the food, and the staff, saying that all were better than he would have received had he been in England.

**RThought:** In England, Americans are immediately admitted and cared for. This being the case, I would prefer the ready availability of care under the British public health plan over the better hospital food and the unavailable medical staff in the free-enterprise U.S. Anytime!

This may have been a case where the consumer credit people, who often deal with the Fair Credit Reporting Act, know that there are limitations on the use of credit reports but failed to convey that information to the personnel/human resources/recruiting department. Ignorance of the law, however, is no excuse. It is the store's responsibility to keep its management abreast of all pertinent laws.

Continued



The FTC required that Marshall Field do the following:

Forthwith cease and desist from...

1. Failing, whenever employment is denied either wholly or partly because of information contained in a consumer report from a consumer reporting agency, to communicate that such action was based wholly or in part on such a report and to provide the name and address of the agency making the report.
2. Failing, within 90 days of the order, to mail two copies of a letter (known as Appendix A in the FTC Decision and Order) to each applicant who has been denied employment by Marshall Field between August 1, 1990, and the date of the order, mailing it to the applicant's last known address as shown in the files, plus a copy of an FTC brochure.

Marshall Field was further ordered to:

1. Make available for five years documents showing compliance [with the above].
2. Distribute for at least five years a copy of the order to *every present or future officer and future employee or agent responsible for compliance with the Fair Credit Reporting Act.* [Emphasis added.]
3. Notify for at least the next five years the FTC at least 30 days prior to any proposed change in the corporation. [Emphasis added.]
4. File with the FTC within 120 days a report on how it complied with the order.

**RThought:** Before the five years are up, the FTC's order likely will be forgotten by Marshall Field due to changes in personnel. But the FTC has the capability to remember.

**RThought:** If we retailers accept the premise that we will operate within the law, people being put into a job must be informed of all of the laws with which they must comply. Checklists are easy to prepare. Surely, Marshall Field, or its parent, Dayton Hudson, must have a legal department that can create such a checklist to be reviewed annually for any changes/additions.

**RThought:** To paraphrase an old saying: We never have time to do it right; but we always find the money to pay the fines when we have done it wrong and the gumption to bear the humiliation of a front-page story.

## WHAT IS RIGHT?

There is a young (4-year-old) magazine entitled *Insights on Global Ethics*, published by The Institute of Global Ethics. One receives the former by joining the latter: Member, \$35 (student/educator/clergy, \$17.50); Donor, \$75 to \$500; and Corporation, \$1,500.

Among its major contributors are the W. K. Kellogg Foundation; the Arvin Foundation; the J. M. Smucker Company; and Mr. and Mrs. James K. Baker (he is the CEO of Arvin Industries). On its Advisory Council, I recognized the following names in addition to Baker's: Sissela Bok (wife of the former president of Harvard; she is an expert on lying); Harlan Cleveland (a leading futurist); John Gardner (a founder of People for the American Way and now at Stanford Business School); and Daniel Yankelovich.

In one of its recent issues, I was struck by a letter from John Gardner. It contained the following:

...I want to pass one thought along: it seems to me we can pursue any of three paths with respect to values — take them on faith, reject them in the deconstructionist fashion, or accept the idea of covenanted (or pledged) values. I think well of the religious approach (which the deconstructionists don't take seriously because they reject faith), but it doesn't provide an answer to what you do in a society of many diverse faiths. I reject the deconstructionist approach because it totally undermines the accomplishment of group purpose — and, in fact, was developed by people who never in their entire lives devoted thought or action to the accomplishments of group purpose. The latter depends, of course, on shared values.

Pledged or covenanted values are those which a group of people have chosen to live by — putting them into writing (as in our Bill of Rights) or embedding them in group customs or tradition. There is no need to assert that they are "absolute," no need to prove them scientifically. Obviously, they will be more powerful if they have roots in the great world religions or moral traditions....

**RThought:** The concept of "pledged or covenanted values" is a powerful one. It is why we are polite to each other, respect the privacy of others, and protect their freedom of speech and their right to worship in their own way. It is also why we say "thank you" so often and why we rush to support a person whom we may know only casually when that person is going through a period of personal trauma.

As Gardner says, there is "no need to prove them scientifically. They are just group customs or traditions."

But life is becoming increasingly unpleasant as we fail to pass on, generation to generation, those values that a group of wise individuals before us chose to live by and have passed on to us. We must do what we can, each in our own way, to be the culture-bearer of our treasured society — lest it vanish.

## WHERE GOETH THE FACTORY OUTLET DISCOUNTS?

The Prime Group, a developer that specializes in factory outlet centers, became disturbed after the 1993 Thanksgiving weekend when a survey of factory outlet centers uncovered some disturbing facts. Shoppers were complaining that prices were too high, and newspapers were running articles about outlet centers, with headlines such as "Is it Worth the Trip?" You may have seen such articles.

The Prime Group decided to compare the prices of its tenants with those of conventional retailers.

In too many cases, it found the prices at outlet centers to be the same as or above the prices for identical items in traditional stores. Tenants are being reminded that *the two underlying appeals* of a factory outlet center are recognized brands at a price *below* regular price of local stores and available in all sizes and colors. Of course, for some vendors, such expectations are more easily gratified; for example, Phillips-van Heusen (a billion dollar company) has about 500 outlet stores. The factory outlet stores represent their largest channel of distribution.

The Prime Group has announced that it will now begin to *enforce the discount clause* in its lease agreement with tenants.

**RThought:** I can remember when outlet centers first appeared in abandoned factories in small towns in Tennessee and Kentucky, with stalls available at \$2 to \$4 per square foot gross rent. Now, I hear of



## THE OBJECT OF THE RETAILING GAME: CREATING A CADRE OF LOYAL CUSTOMERS

Most retail trade organizations and large retailers have fought all proposed health packages (although, more than likely, the spokespeople who appeared before Congress enjoy more than adequate employer-paid health insurance for themselves and their families) with threats of massive unemployment. In the case of individual companies, I have read that layoffs in the hundreds of thousands will follow.

Most retailers will tell you that they already operate their off-the-selling-floor functions with *the absolute minimum number of people*. Therefore, they *must* cut selling service. It is this logic which has led the department stores to abandon their franchise with the shopping public. There is no need for me to repeat the stories of people shopping department stores who have abandoned merchandise because they could not find anyone to ring up their sale.

**RThought:** If a health bill is passed, I shall counsel my clients to maintain or even increase their sales force and to advertise what they have done, mentioning competitors that have *reduced their level of service*.

I have yet to meet the retailer who owns up to the fact that he or she gives deplorable service. It is so easy to say, "We give great service," but so hard to perform.

But such silliness is not restricted to U.S. retailers.

I was shocked to read in a publication of a state association in Australia that it was offering to its members, without charge, signs which read:

**PLEASE CHOOSE CAREFULLY!  
WE DO NOT REFUND  
IF YOU CHANGE YOUR MIND**

**RThought:** If I had clients in Australia and, particularly, if the use of such signs became common, I would urge them to emphasize their "SATISFACTION GUARANTEED" policy and to add the words: "NO QUESTIONS ASKED — NO SALES CHECK REQUIRED."

Some years ago, some venture investors, upon my recommendation, purchased a moderate-sized department store. The store was, however, the largest in a community of about 100,000 people. The store's former policy was best expressed, I believe, as "Resist all returns; for the slightest reason say 'No.' That way, we will make money."

A job early in my career was with a firm that, from 1886 to about 1940, was known as Moneyback Smith. The name was changed to Smith's of California when it acquired the Kuppenheimer line of suits. Kuppy, as it was called, placed inside the coats an individualized, woven label carrying the store's name. Kuppy management believed that purchasers of a No. 7-make suit would not want to own one carrying a label that read "Moneyback Smith." The store's name may have changed — but not the policy.

Returning to the newly acquired department store, a "satisfaction guaranteed" policy was implemented by me at a storewide meeting. I explained our new policy in simple terms:

**If a customer returns merchandise and you believe the reason is one which sounds fair to you, make the exchange or refund as requested. BUT YOU MAY NOT SAY "NO." If you believe the request to be unfair, turn the customer over to your department manager.**

**The department manager can say "Yes" but may not say "No." If the department manager has any concern, a call should be made to the store manager or assistant store manager, the only two people who may say "No."**

At that time, I was running the store. Each week, I spent Friday evening and Saturday at the store. After the third week, the policy was in place. Not one customer complaint reached the store manager.

The former head of the department store had been the state director of the National Retail Merchants Association (now the National Retail Federation). He kept the company's books in strict accordance with the NRMA Retail Accounting Manual.

Gross Sales	\$ XXXX
Less Returns	XX
Net Sales	\$ XXXX

At the end of the year (with 10 months on the new "Satisfaction Guaranteed" policy), *the return percentage was exactly the same as for the prior year to the closest one-tenth of 1%*. I believe the same would be true today.

All of the arguments the department store had formerly had with customers didn't represent a significant part of its sales.

There was a *major sales increase*, which, I believe, was in part due to the fact that customers were now happy with the store and came to us as "first choice," rather than going to our competition: J. C. Penney, Sears, or Montgomery Ward. The customers even told their friends about how nice it was to shop with us.

**RThought:** I am reminded of an old saying, "It is amazing what you can think when you think too long alone." Perhaps you are an executive who is convinced that the \$500 handbag which was returned the next day, with the explanation that it did not go well with a dress, was in reality carried by the customer to the opening of the opera season. If so, I suggest you check your customer's account and see how much *net* business you have done with her for each of the past 3-4 years. Would you like more customers like the one who angered you? I believe so.

**RThought:** Let's not forget the nature of the retail game: Your success will depend upon that proportion of your community which thinks of YOU FIRST when he or she wants merchandise you (and others) carry. A trophy should be awarded to the store which most frequently comes to mind amongst shoppers in each community — stores such as Nordstrom, The Parisian, Men's Wearhouse, and Home Depot. Unfortunately, there are many communities — some with a large population — where *no* store immediately comes to mind. Isn't that a sorry situation?



## FEATURE REPORT

### THE WHEEL OF FINANCING

Professor Malcolm McNair first used the term "Wheel of Retailing" to describe what happens in retailing: history repeats itself. To explain: As each form of mass merchandising finds its cost rising (due to the competitive pressures to carry a wider selection and to offer more services), that form of mass merchandising will be replaced by a new form which offers limited assortment and simpler services and which, in turn, will be replaced by some new format which will offer a more limited assortment and simpler service.

This scenario is proven by the supermarkets replacing the grocery stores; in turn, the superstores are replacing the supermarkets. In the general merchandise field, the large specialty stores were displaced by the department stores, which, in turn, were displaced by the discount stores and by the specialty stores with limited assortments and simpler services.

The same is true in financing. Many companies, as a result of a takeover or leveraged buyout, have *publicly* held debt but *privately* held equity.

I just reached for the Walker's Manual of Pacific Coast Securities, 1928.

The first entry I noted was Kahn Brothers, Inc., the company founded as a proprietorship by my great grandfather, Israel Kahn, in Oakland, California, in 1879. After Israel, it was headed by my grandfather, Solomon, followed by my granduncle, Fred, and finally my father, Irving. At the end, the 375,000-square-foot department store was sold in the mid-1920s to B. F. Schlessinger; Kahn Brothers remained as landlord.

Walker's showed that the public or institutions held \$430,000 of the first mortgage leasehold, 6% sinking-fund gold bonds. Kahn Brothers also paid an additional 2% for the income tax payable by the holder. The bonds were redeemable starting at \$10,000 per year (1929-33), \$15,000 (1934-37), \$20,000 (1938-41), \$25,000 (1942-46), and the final \$125,000 in 1947. A major depression, World War II, wide fluctuations in the value of the dollar, and many changes in the income tax laws took place between the issuance and the redemption of the final bonds in 1947. No income statement or balance sheet for Kahn Brothers was published or *required* to be published in these pre-SEC days.

Information on other Pacific Coast retail companies and how they were financed makes interesting reading.

Babbitt Brothers Land, Inc., was owned by Babbitt Brothers Trading Company, Flagstaff, Arizona (a company which also provided a governor for the state and the current Secretary of the Interior). Its sales were estimated at \$13 million per year, and it had \$851,500 in bonds remaining on the original leasehold of \$1,500,000.

Barker Brothers Corporation, formed to acquire Barker Brothers Incorporated, was a furniture chain now gone (Chapter 11) headquartered in Los Angeles, California. It had \$3,000,000 par value conventional 6.5% cumulative preferred shares, which were convertible into 60,000 shares of common, at one share of preferred for one share of common.

B. F. Schlessinger & Sons, Inc., the tenant for Kahn Brothers, had also acquired the Olds, Worthman and King store in Portland, Oregon, and Rhodes in Tacoma, Washington (one store for each son). It was one of the early multistate department store groups. It later became, in order, Western Department Store, Rhodes Western Department Store, and, finally, part of Amfac (Liberty House's parent). The Oakland store was successively Kahn & Sons, Kahn Brothers, Schlessinger's, Kahn's, Rhodes, and, finally, Liberty House. B. F. Schlessinger & Sons owned no real estate; therefore, the bulk of the money was raised through 7% cumulative preferred par \$100 and Class A common (with \$25 per share preference over Class B stock

on liquidation). Neither the preferred or Class A common had voting rights. The Schlessinger family owned the Class B common.

Broadway Department Store, Inc., was organized to acquire The Broadway Department Store. It was financed through \$3,000,000, 15-year 6% sinking-fund debentures (plus 2% income tax paid by company); \$2,900,000, 7% par \$100 cumulative first preferred and \$1,500,000 7% par \$100 *noncumulative* preferred, leaving complete control in the 100,387 shares of common. For the year ending October 31, 1927, it reported an after-tax profit of \$955,075 on sales of \$19,486,891, or 4.9%.

Hale Brothers Stores, Inc., operated two Hale stores in San Francisco; one each in Sacramento and San Jose; Weinstock-Lubin in Sacramento; and Whithorne & Swan in Oakland. Although the voting stock was privately held, the public held 6% sinking-fund gold bonds on the leasehold interest in the building at Fifth and Market streets, San Francisco, a building which was owned by Hale Brothers Realty and leased to the store company. The building was ultimately sold to Louie Lurie and leased back, with the Hale brothers still operating the company. However, after World War II, the brothers let the option date on the lease pass, thinking no one else wanted the building — until Lurie told them they had to get out because he had leased the building to J. C. Penney Company!

Another company in existence in San Francisco in 1928 was the Emporium-Capwell Company, a company which must be brought into the story because it also figures in the Hale history.

However, let me continue with Hale Brothers Stores.

Every time there was a death in the Hale family, the stock was distributed to the heirs and a new combination of family members gained control. These changes in management philosophy did little to further the success of the Hale stores which, at one time, ranged from the top quality stores in Sacramento (Weinstock-Lubin) and San Jose (Hale's) to the bottom store in Oakland (Whithorne & Swan, which operated as a cash-only store).

Finally, the Hale heirs realized that they had a problem and needed a true chief executive officer. They approached Prentis Hale Jr., who accepted the job on the condition that he had the proxies of all of the family members so that he could truly run the company.

Prentis Hale Jr. had his eye on Edward Carter and The Broadway. Carter could not be persuaded to leave The Broadway because he held some valuable options. Thus, the answer was to merge the companies. At the time, Carter had a protege named Phillip Hawley. They, together with Prentis Hale Jr., became the key management of what became Broadway-Hale.

Next, Broadway-Hale acquired Emporium-Capwell and operated the stores under both names. It then went on to acquire a number of other stores (Neiman-Marcus, Thalhimers, John Wanamaker, Bergdorf Goodman, Holt-Renfrew, Waldenbooks, Sunset House mail order, and Contempo Casuals, the latter three being specialty stores.) Along the way, the corporate name was changed to Carter Hawley Hale.

Subsequently, Neiman-Marcus, Bergdorf Goodman, and Contempo Casuals were sold and now operate as the Neiman-Marcus Group; John Wanamaker was sold to Al Taubman's Woodward & Lothrop (which is now in Chapter 11); and both Thalhimers and Holt-Renfrew were sold. Carter Hawley Hale has just come out of Chapter 11 and has changed its name to Broadway Stores.

**RThought:** The wheel turns. Names appear and disappear. But most of the buildings live on and on, even after their days as department stores have ended.



rents in the range of \$12 to \$14 per square foot. I also hear reports of sales per square foot below expectations.

Too many centers?

Too many "full price" outlet stores?

If prices are allowed to rise, the change will kill the goose that laid the golden egg.

## SHOULD FOOD RETAILERS BE THE PAWN OF FRUIT GROWERS?

Something is going wrong. It is going wrong in California and perhaps in other states, although California is most affected, because it is the source of roughly 25% of the U.S. fresh produce and fruit supply.

It is the duty of the governor of California to appoint boards such as the Plum Marketing Board, the board which sets standards of overall quality (including cosmetic standards) for plums destined for sale in California. When the supply is large and the price is low, the board makes a "gift" to the growers by raising the cosmetic standards so as to reduce the supply and raise the market price. This is price fixing worthy of the oil cartel!

Cosmetic flaws do not affect the edibility of plums — just the contrived marketability. In California, this contrived standard-fixing by the various marketing boards can lead to the destruction of millions of pounds of fruits and vegetables which should be made available to soup kitchens, for food grants to the poor and homeless, etc.

This practice was temporarily changed on August 4, 1994, according to the San Francisco area's evening TV news.

A grower delivered some "below cosmetic standard" plums (but with great flavor) to Reverend Cecil Williams at Glide Memorial Church in San Francisco, a church which operates a large soup kitchen every day of the year.

The grower also delivered some of these plums to a local supermarket chain which, in turn, sold them to its customers at a rock bottom low price. The customers not only enjoyed the plums' good taste but were pleased at paying such a low price.

I have been advised that the practical, kindly grower faces a \$1,600,000 fine for his actions!

**RThought:** How often do we have to read that every night a quarter of our children go to bed hungry before we band together to stop plowing under nutritious food? During the Great Depression (1930-38), we enacted the AAA (Agricultural Adjustment Act) and spoke of "plowing under every third pig!"

Which supermarket chain will provide the leadership? Will the Food Marketing Institute speak against this "legal" price-fixing? Or is waste a part of the plan for ECR (Efficient Consumer Response) that the supermarket industry advocates? What is more "efficient" than feeding hungry people rather than the "plowing under" of large amounts of nourishing food? Has our free-enterprise system failed us? Have we no creativity? We can do better — and we must.

## COULD YOU USE A 'DEAD' CREDIT CARD?

*Consumer Trends* (International Credit Association, P. O. Box 419057, St. Louis, MO 63141; \$100/yr.) has reported that both NationsBank and AT&T Universal Card have reduced by more than 90% the fraud loss on cards stolen out of mailboxes by sending out

"dead" plastic. To activate the "dead" card, the customer must call a special number and provide information known only to the cardholder. The cost of providing the telephone service is small compared to the reduction in fraud loss.

Within the past year, most of my replacement credit cards (banks and oil companies) have required this type of activation.

**RThought:** There is no reason why this method could not be used by issuers of proprietary cards, many of whom have a large number of cards outstanding. Only a few issuers replace such cards regularly. Even if used only on new accounts or with changes of address, the "dead" card appears to be a cost-effective way of restricting fraud.

## I HAVE 2 YARDSTICKS

One yardstick is made of hardwood. The numbers are bright and clear. On one side, I can measure inches to one-eighth of an inch; on the other side, I can measure yards to the closest one thirty-second of a yard (and can easily guess to the closest one sixty-fourth). The other yardstick is made of aluminum. On both edges of both sides, I can measure to the closest one-sixteenth of an inch.

On the wooden yardstick, the marks are slightly indented; on the other yardstick, the marks are painted on the surface. I don't know who made the wooden yardstick, but the aluminum one was made by Tubular Micrometer Co., St. James, Minnesota.

I bought the aluminum one about 25 years ago; I can remember my grandmother using the wooden one at least 65 years ago, but I don't know how old it is.

Whoever made the wooden yardstick found the hardest wood, dried it until there was no moisture left to cause the wood to warp and split, and gave it several coats of lacquer. At more than 65 years of age, it could be put back into stock and sold again as new.

**RThought:** Why am I describing yardsticks? The markings and numbers are rubbing off of my aluminum yardstick. I can still use it to measure to a sixteenth of an inch, but it could not be put back into stock.

The aluminum one was cheap to make; if made today, the wooden one would probably sell for \$20.

Did I save money by buying the aluminum one?

Have we really made progress?

Have we benefited the consumer?

## IS THIS THE END OF PREAPPROVED CREDIT?

According to *Privacy Journal*, January 1994 (P. O. Box 28577, Providence, RI 02908; \$109/yr.), the State of Rhode Island now requires that "anybody requesting a credit report must first notify the consumer [before] a credit report may be requested." Vermont has prohibited providing a report without the consent of the individual (credit agencies "assume" consent has been granted when a request is made by a credit grantor). Colorado requires that a person be notified before adding negative information to a file. California law states a consumer must be notified before submitting negative information to a credit bureau. (I wonder how the latter is accomplished when information is often "dumped" from computer to computer, showing as many as three payments as being late.)

**RThought:** These laws are certainly beneficial to the consumer, but only IF they are observed.



There should not be anything negative in my credit file, but I will have to pull reports to find out. The last time I checked, my report contained (current) accounts for my daughter, Roberta. One contained two account numbers at Macy's California, accounts Macy's could not find! Fortunately, they showed no activity, so nothing was negative.

**RThought:** Perhaps these laws will mean the end of one-a-month or more offers of a preapproved credit card. My credit must be slipping: the last "offer" was for a "secured" credit card which would enable me to have the convenience of a credit card and avoid carrying large quantities of cash and the debilitating labor of writing a bank check!

## HASH

*Supermarket News* (January 17, 1994) reported in its Global supplement from Cancun, Mexico, that a survey based on 800 interviews disclosed that the average Mexican family spent \$87 per week compared with \$80 for the average U.S. family. The reporter did not point out, however, what I have gathered from observations and reading: the average Mexican family is *much larger* than the average U.S. family.

It was further reported that those shopping in self-service supermarkets spent \$92; those at outdoor markets spent \$70; and those at corner stores spent \$69.50. Once again, how silly. A difference between

outdoor markets and corner stores of 50 cents, or less than 1%, cannot be supported by a sample of 800.

**RThought:** Probably the reporter does not understand statistics — but the editor reviewing the article should.

## WORDS — FOR YOUR NEXT UNITED WAY CAMPAIGN

In an article about Microsoft Corporation (*Newsweek*, July 11, 1994), there was a picture of a person wearing a T-shirt with these words printed on the back:

**What You Share Is What You Gain  
What You Share Is When You Grow  
Who You Save Is Why You Give  
Will You Share In What You've Got?**

### Microsoft United Way Campaign 1991

**RThought:** I am certain that Bill Gates would be pleased if he knew you were helping more people because of what you learned from his company. If you use this slogan to stimulate your associates, send a thank-you note to: Bill Gates, Microsoft Corporation, One Microsoft Way, Redmond, WA 98052. And don't forget to attribute the slogan to Microsoft.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	JUNE		Percentage Change	Year to Date Six Months		Percentage Change
		1994	1993		1994	1993	
52	*Bldg Matl Group	\$ 12,303	\$ 11,019	+ 11.1%	\$ 61,463	\$ 54,697	+12.4%
57	*Furniture Group	10,320	9,132	+ 13.0	57,522	51,501	+11.7
571	Furniture Stores	5,140	4,751	+ 8.2	28,581	26,817	+ 6.6
572	Appl, TV, Radio Stores	4,196	3,495	+ 19.9	23,447	11,550	+19.9
5941	*Sporting Goods Stores	1,952	1,677	+ 16.4	10,002	8,473	+18.0
5942	*Book Stores	678	610	+ 11.1	4,129	3,948	+ 4.6
5944	*Jewelry Stores	1,177	1,248	- 5.7	6,466	6,119	+ 5.7
531Pt	Conventional Dept Stores	4,011	3,836	+ 4.6	22,320	21,589	+ 3.4
531Pt	Natl Chain Dept Stores	3,099	2,839	+ 9.2	17,259	16,249	+ 6.2
	Subtotal	7,110	6,675	+ 6.5	39,579	37,838	+ 4.6
531Pt	Discount Stores	10,500	9,153	+14.7	56,056	49,797	+12.6
531	*Department Stores	17,610	15,828	+11.3	95,630	87,635	+ 9.1
539	*Misc General Mdse Stores	4,888	4,705	+ 3.9	26,951	26,107	+ 3.2
541	*Grocery Stores	32,365	31,062	+ 4.2	186,062	180,970	+ 2.8
56	*Apparel Stores	8,425	8,212	+ 2.6	46,753	46,434	+ 0.7
561	Men's & Boys' Stores	801	658	+21.7	4,277	3,648	+17.2
562,3,8	Women's Stores	2,950	3,126	- 5.6	16,823	18,043	- 6.8
565	Family Clothing Stores	2,632	2,425	+ 8.5	14,131	13,273	+ 6.5
566	Shoe Stores	1,449	1,456	- 0.5	8,087	8,097	- 0.1
591	*Drug Stores	6,723	6,615	+ 1.6	40,227	39,310	+ 2.3
596	*Nonstore Retail	8,960	3,597	+ 10.1	24,176	23,452	+ 3.1
5961	Mail Order	2,288	1,878	+ 21.8	14,605	13,083	+11.6
	*Retailing Today Total Store Retailing†	100,401	93,705	+ 7.1	559,381	528,646	+ 3.8
	**GAF TOTAL	47,303	43,779	+ 8.0	260,372	243,512	+ 6.9

†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.



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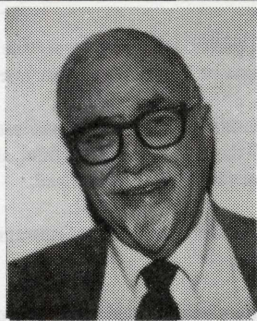
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ROUTE TO

NOVEMBER 1994

VOL. 29, NO. 11

## OMISSION

In the October *RT* under the heading "What Is Right?" I discussed the publication *Insights on Global Ethics* and the outstanding people supporting it. However, I failed to include its address, which is Box 563, 21 Elm Street, Camden, ME 04843 (telephone: 800-729-2615; fax: 207-236-4014; Internet: ige@world.std.com; and Compuserve: 70670,2336). The suggested subscription rates are Member, \$35 (Student/ Educator/Clergy, \$17.50); Donor, \$75 to \$500; and Corporation, \$1,500.

## OUTLOOK FOR CHRISTMAS

In the spring of this year, I suggested that you compute the percent of sales done each day between Thanksgiving and Christmas in 1983, the most recent year in which Christmas changed to Sunday from Saturday the previous year.

This year, there will be 30 days between Thanksgiving and Christmas, against 29 days last year, which should be of benefit. However, people will not realize that "Christmas is next week" until Sunday, December 18.

When comparing sales against the (closest) comparable week in 1993, the following pattern should be expected:

**Week ending December 3, 1994...**should break even with week ending December 4, 1993.

**Week ending December 10, 1994...**should break even with week ending December 11, 1993.

**Week ending December 17, 1994...**slightly ahead of week ending December 18, 1993.

**Week ending December 24, 1994...**should show a 10-20% increase against the week ending December 25, 1993.

Those retailers and observers who are frequently quoted in the local press will again be saying things like "We broke even with last year" or "We made plan" (whatever that means).

**RThought:** If sales follow the above pattern, we will have good to strong Christmas sales, with an overall increase in the calendar month, or the five-week month, of 5-10%.

## RELAX — INTERACTIVE TV HAS BEEN POSTPONED A DECADE

Beginning several months ago, it has appeared that there were not enough PR "flacks" to handle all of the fast-breaking news about interactive electronic retailing which is supposed to spell the end of downtown stores and malls.

*RT*, as is its wont, took a contrarian position. Now, *RT* is being joined by some of the previously irresponsible press who are trying to get back their good name.

## AN AMERICAN INJURED IN GREAT BRITAIN

This box in the October *RT* ("For Those Who Favor Medical Care by Private Enterprise") brought a fax from Joan Bergmann, who is known to many retailers as the longtime editor of *Stores* magazine.

**In early August, while staying at the Glasgow (Scotland) Marriott, I was in a rush to shower and dress for a dinner engagement. I slipped getting out of the shower and wrenched my back, painfully so. I managed to crawl to a telephone, and here starts my story of the British Health Service.**

**The hotel sent a private doctor to my room at about 9 P.M.— on a Saturday night, no less. He examined me briefly and called an ambulance which had a two-man team who carried me on a stretcher and carted me to the Royal Glasgow Infirmary.**

**There I was admitted immediately — no question about my address or whether I had insurance or any of the other typical American hospital questions. I was attended by a bevy of nurses and a young and harried doctor. All were very kind, concerned people.**

**When I was released in the middle of the night, the infirmary had called the Marriott, which sent a van and two people to fetch me. As I left the hospital, I inquired about billing. I was told that it was taken care of by the British Health. I was given medication, at no cost — just the right amount for me to take through my stay in Scotland — along with a report on my condition and the advice to see my own doctor as soon as I returned home. Incidentally, I never received a bill from the private doctor, either.**

**If that is National Health Care, I'll be happy to take it.**

**RThought:** My comment in the October *RT* bears repeating: "In England, Americans are immediately admitted and cared for. This being the case, I would prefer the ready availability of care under the British public health plan over the better hospital food and the unavailable medical staff in the free-enterprise U.S. Anytime!"

**RThought:** Two examples do not make a scientific sampling of health care, but both examples are actual cases reported to me by persons whom I know well and whose veracity is above question.

*Women's Wear Daily* (August 24, 1994) under the headline "Electronic Retailing Hits Some Speed Bumps" reported on the realities of life.

**Quote No. 1:** "While some firms underestimated the startup costs of launching a home shopping network and overestimated Silicon Valley's ability to develop interactive technology, perhaps the

*Continued*



biggest obstacle to launching a shopping network is the lack of available cable channels."

**RThought No. 1:** What happened to the promised 500-channel systems?

**Quote No. 2:** Asked whether Fingerhut would go through with the launch of "S: The Shopping Channel" if it doesn't find a partner, Greg Lerman, the chief executive officer of "S," said, "That's what we're struggling with. Our intention is to move ahead, but it may affect the timing."

**RThought No. 2:** In the battle for PR releases, technology seemed so easy and inexpensive that developers assumed "it" was available — except, in reality, *there was nothing to do "it" with!*

Home Shopping Network has postponed its Television Shopping Mall from the summer of 1994 to the spring of 1995. And a further delay should not surprise anyone.

Anybody can "project," especially a breakthrough, but few can accomplish technological miracles.

Some form of interactive TV retailing should arrive before my 100th birthday (2018), but don't bet on it.

It is reported that Homer (c.700 B.C.) advised, "There is many a slip 'twixt the cup and the lip." Bob Kahn (1918-) advises, "There is many a slip 'twixt the PR release and the profitable interactive sale."

## A WARNING TO RETAILERS RUSHING TO ASIAN CITIES

Department store sales in Tokyo have been down almost every month this year.

If you are hankering to locate in an Asian shopping center, the Taman Anggrek Mall will soon open in Jakarta, Indonesia, with a gross leasable area of 1.3 million square feet spread over six floors but with only 4,000 parking spaces. However, rents are reasonable — about \$2.60 per month per square foot.

Be careful of Singapore, which is seriously overstored. C. K. Tang, one of the successful, old-line department stores on Orchard Road, now operates two additional department stores plus a series of specialty stores. Tang is closing some of its specialty stores and is cutting back on the size of its newer department stores after reporting a loss of S\$13.7 million (S\$ indicates a Singapore dollar, worth about US\$ .67) on a volume of S\$180 million. And best/worst of all, it will break a long-standing tradition and open Sundays, a move which is expected to add S\$50 million a year to its sales. As the managing director of Tang said, "What is important here is that we are a business, first and foremost. And, as a business, we have to meet the needs of our customers vis-a-vis our competitors."

My source of information? *Retail Asia*, which is published bimonthly (12 issues for S\$80; 24 issues for S\$160). It is best and cheapest to buy a payment instrument (such as an international money order) in Singapore dollars if you care to subscribe. Send payment to 60 Martin Road, 07-33/34 TradeMart, Singapore 0923, Republic of Singapore. Let *Retail Asia* know what kind of store you have, as well as your volume, and say, "Bob Kahn sent me."

## A CODE OF FAIR TRADING

The following code was recently adopted by the Retail Traders' Association of New South Wales, Australia. The code obliges its members to adhere to its tenets both in letter and spirit.

1. Members shall give equal, courteous, polite, and attentive service to all customers without regard to volume or frequency of purchases.
2. Members shall ensure that advertisements, signs, and promotional literature prepared by them or on their behalf are truthful and informative, and without any tendency to deceive or mislead.
3. Members shall describe products accurately and without misrepresentation, both verbally and in writing.
4. Members shall not illustrate or display articles which differ from those actually on sale.
5. Members shall promptly investigate complaints and take necessary or appropriate steps to redress any wrong.
6. Members shall not use unfair or misleading comparisons in order to induce purchase of one brand or product rather than another.
7. Members shall not knowingly make available for sale any item likely to endanger the safety of its user.
8. Members shall inform manufacturers or distributors and relevant authorities if they have reason to believe that a product will endanger the health or safety of a user.
9. Members shall take immediate steps to withdraw from sale any item recalled by a manufacturer or proclaimed unsafe.
10. Members shall take all possible steps to inform and educate employees dealing with the public on the application of this Code.

**RThought:** Such codes are taken seriously in other countries. Unfortunately, too many U.S. retailers would be ineligible for membership in an association such as the Retail Traders' Association of New South Wales.

## HOW MUCH IS A NEW ACCOUNT WORTH?

I came across an article which I wrote in 1953 for *Stores* magazine (then the publication of the National Retail Dry Goods Association, which later became the National Retail Merchants Association, and is now the National Retail Federation). It was a novel concept then, and I have read nothing on the subject in the 41 intervening years. Rather than do new research, I am using its 1953 figures.

The article was based on a deck of receivables maintained on ledger cards and posted, using a modified Burroughs adding machine. (I'm sure most of my readers have never seen such a machine!)

To maintain an account, a ledger card would be inserted into the machine. The old balance was then picked up and printed immediately below the previously printed balance (accuracy checked by eyeballing the two entries), and a sale transaction was added to the balance or a payment was subtracted from the balance. The new balance was then printed out on the card.

The company was the largest men's and boys' store west of Chicago. As a result, I had a large number of accounts to sample. The store system assigned account numbers sequentially as opened. The sample consisted of all account numbers ending in zero, or a sample of 10%. Utilizing the numbering system, it was possible to determine the number of accounts opened but not used and also the activity of an account until it became dormant. The resulting study (see chart on page 3) tracked all accounts opened in 1942. Many used their account for large purchases (suits or overcoats) but paid cash for smaller purchases.



## THOUGHTS ON 'MS. JOE CAMEL'

In the January 1994 *RT* under the heading "Can We Retailers be Proud of This?" I pointed out that in a 40-year span (1950-90) *the rate of lung cancer among women had gone from less than 20% of the death rate from breast cancer* (although recent studies indicate this may be transferred genetically) *to more than 100% of the death rate from breast cancer* (which increased only 3% among white women but 48% among black women).

Although RJR Tobacco Company has stated that Joe Camel advertising has no affect on young men's smoking habits, during the time that the Joe Camel ads have been run, Camel cigarettes has increased its share of the under-18 male market *from less than 1% to over 30%*. More recently, an RJR spokesperson was quoted as saying that if there was any evidence that Joe Camel caused increased smoking among young people RJR would not wait for the Food and Drug Administration or the Federal Trade Commission to order the ad's discontinuance; RJR would discontinue the advertising on its own.

Now RJR has introduced "Ms. Joe Camel" advertising, female cartoon camels holding lighted Camels. These ads are aimed at the teenage female market, a market which was once larger than the teenage male market.

I can think of a number of reasons why retailers should be concerned about the 4.8% per year compounded increase in the U.S. death rate from lung cancer among white women and the 5.8% per year compounded increase in the death rate from lung cancer among black women.

First, observe the sex of the customers in your store and note how many are women. Do you really want fewer customers in the future? I think not.

Note that one of the U. S. Surgeon General's required warnings on all cigarette packages states: "Smoking by pregnant women may result in fetal injury, premature birth, and low birth weight." Now, think of the cost to retailers (as well as all employees) for health insurance (either now or under any proposed national coverage). Remember, representatives of virtually all forms of retailing appeared before Congress to oppose national health insurance because of the cost and purported subsequent reduction in retail employment.

It appears foolish to allow any retailer who sells cigarettes to continue to increase the cost for everyone else's health insurance. The overall cost of doing business is further impacted by reduced productivity and increased absenteeism due to the illness of a worker or a worker's child (many children have health problems as a result of parental smoking habits). Virtually every retailer offers some form of sick leave; many do not permit unused sick leave to be used for other purposes. In either form, sick leave is a cost passed on to the customer.

Although lung cancer has surpassed breast cancer as the major cause of women's cancer death, it is now at a rate about equal to the total death rate among men from cancer of the prostate, colon and rectum, pancreas, stomach, and liver combined!

**RThought:** Few people are aware of what the U.S. Centers for Disease Control and Prevention lists as "Some Benefits of Quitting Smoking":

Within 20 minutes

- + Blood pressure drops to normal
- + Pulse rate drops to normal
- + Body temperature of hands and feet increases to normal

Within 8 hours

- + Carbon monoxide level in blood drops to normal
- + Oxygen level in blood increases to normal

Within 24 hours

- + Chance of heart attack decreases

Within 48 hours

- + Nerve endings start regrowing
- + Ability to smell and taste is enhanced

Within 2 Weeks to 3 Months

- + Circulation of blood improves
- + Walking becomes easier
- + Lung function increases up to 30%

Within 1 to 9 Months

- + Coughing, sinus congestion, fatigue, shortness of breath decrease
- + Cilia regrows in lungs, increasing the ability to handle mucus, clean the lungs, reduce infection
- + Body's overall energy increases

Within 1 year

- + Excess risk of coronary heart disease is half that of a smoker

Within 5 years

- + Lung cancer death rate for average former smoker (1 pack a day) decreases by almost half
- + Stroke risk is reduced to that of a nonsmoker 5-15 years after quitting
- + Risk of cancer of the mouth, throat, and esophagus is half that of a smoker's

Within 10 years

- + Lung cancer death rate similar to that of nonsmokers
- + Precancerous cells are replaced
- + Risk of cancer of the mouth, throat, esophagus, bladder, kidney, and pancreas decreases

Within 15 years

- + Risk of coronary heart disease is that of a non-smoker

**RThought:** I am sure that the U.S. Centers for Disease Control and Prevention would be happy if you reproduced its list in your employee publication or handed it out with paychecks.

PLEASE BE SURE THAT YOU GIVE THE CENTERS CREDIT — not *RT* — I am only the messenger.

**Late Note:** When Congress recently asked the prestigious Institute of Medicine (Washington, D.C.) for recommendations instead of a ban on cigarettes, it recommended raising the cigarette tax from 24 cents per pack to \$2. If you are concerned about the cost of health care, you should offer support by writing your congressman. Of course, sales and profits from selling cigarettes may drop, but the overall benefit from lowered health care costs should be worth the sacrifice.



## FEATURE REPORT

### FUTURE CUSTOMERS

Recently, there was a United Nations Conference in Cairo on population. Perhaps it is appropriate to comment on population because, beneath all of the classes in sex education, abortion rights, and family planning, what is really being talked about is our customers. And as more and more American retailers become international retailers, we must be concerned about the world population, not just that small portion (4%) which lives within the United States.

Too many of us are inclined to remember well-worded conclusions that time has proven to be wrong. In this case, you may recall the warning issued by Thomas Robert Malthus (1766-1834) in his *Essay on the Principles of Population* (1798). The core of the essay was "Population, when unchecked, increases in a geometrical ratio. Subsistence increases only in an arithmetic ratio." Actually, Malthus rejected his theory before his death. (When I studied Malthus in college, his rejection of this theory was not mentioned.) Time has proven he was right in his rejection. The world population has increased from about two billion in 1930 to three billion in 1960 and to six billion today. Yet, the amount and quality of food per capita has increased as a result of new techniques and new crops.

If we had fewer wars, fewer internal fights which cut off the supply of food to all or part of the population, and fewer political actions such as those by Stalin in the 1930s, when he attempted to starve the Ukraine, we would have an even larger food supply. Many countries, including the U.S., are paying farmers to produce less food so that prices will rise.

The basic truth, which is seldom mentioned, is that the fertility rate (births per woman during her lifetime) tends to drop as economic conditions improve.

Students of population use a fertility rate of 2.1 children per woman as the number needed to maintain a level population, the extra .1 to allow for those who are born but who do not live to reproduce themselves (perhaps .2 should be allowed today since many young teenagers are killed by other teenagers carrying guns and there is an increased number who are killed in auto accidents). The loophole in the theory of a stable population, when we have a 2.1 fertility rate, is the increased expected life as medical care improves, plagues are controlled quicker, and crop failures are met by food moved worldwide to countries in need.

The statistics from the early years of our country are not accurate, yet information available indicates that in 1800 the annual number of births per 1,000 white women between the ages of 15 and 44 was about 280. By 1970, it had dropped to 88; and, by 1990, to 71.

On the wall in my office is a Kahn family tree. My great-grandfather, Israel, was one of six children; my grandfather, Solomon, was one of nine; and my father, Irving, was one of two! Once, the wealth

of a family was in its number of children who helped to run a farm or operate a store, but no more.

Below is the life expectancy table for the total population, a table which combines sexes and races.

1900	47.3	1950	68.2
1910	50.0	1960	69.7
1920	54.1	1970	70.9
1930	56.7	1980	73.7
1940	62.9	1990	75.4

The following are the projected life expectancies:

2000	76.6	2010	77.6
------	------	------	------

Had Malthus lived until today, he would not have written his essay.

Perhaps we should be saying to the medical profession, "You have done too much for us."

A good part of the increased life expectancy can be attributed to the availability of food. That availability is largely related to science and to investment in farming. The result is greater production of food (and at lower prices). The better the economic conditions, the greater the supply of food.

Virtually every country that experiences an improvement in its economic condition also experiences two other factors: a decline in the fertility rate and a lengthening of life expectancy.

**RThought:** I look forward to the control of population which comes through improved conditions leading to a reduced fertility rate. Part of this reduction has been due to birth control, family planning, and abortion. Science, invention, and investment will continue to increase the production of food per capita. At the same time, science and investment in medical care are likely to defer the arrival of stable life expectancy.

The increase in life expectancy will be at a slower rate. During the first nine decades of the 20th century, the increase was 3.1 years per decade; the expectation for the next two decades is only .6 years per decade.

**RThought:** As retailers, are you planning for more and older customers? How do you expect to serve the increasing number of older people in need of special foods, clothing, wheelchairs, walkers, more parking spaces close to store entrances, etc.?

**Note:** This item was inspired by the *Research Report* of September 19, 1994, issued by the American Institute for Economic Research, Great Barrington, MA 01230.

### SHORT SHORTS

**The latest news on sex bias in the SAT** (Scholastic Assessment Test) is that the test is still biased in favor of males. The test is better than before but still does not approach equality. Bias continues to be greatest in the math section, although it did decline from 4.1% in the 1988 graduating class to 3.8% in the 1995 class. The bias of the verbal test declined from 1.3% to .2%, almost without bias. **RThought:** These improvements indicate that the College Board could eliminate bias if it wanted to. The methodology is available, but the spirit is weak. In the meantime, women continue to earn higher grades than men in both high school and college.

**The antismoking goal has spread around the world.** The *Natal* (South Africa) *Mercury* (September 9, 1994) reported from Cape Town that South African health groups asked Australian golfers to withdraw from an international challenge match in South Africa because the match was sponsored by the Alfred Dunhill [tobacco]

Company. The groups argued that golf would be tainted by association with a tobacco company.

**If we use magazine tactics, we may find some way to get men and women to buy their next year's outfits and pay for them now — and we will deliver in 12 to 24 months!** I received a letter from *Forbes*, which began, "What with low interest rates and a stock market that apparently can't make up its mind where to go, it's hard to know where to put your money for the best return. We have an answer — *Forbes*." The letter then informed me about all of the reasons that its price would be going up and that I should spend \$114 for three more years of *Forbes* at its current price — only \$1.41 per copy. **RThought:** *Forbes* was honest enough to remind me that my current subscription expires with the issue of **16 June 1997** — more than two and a half years from the date it was soliciting me. At 76, I passed up the offer, but I am still pondering a way to do this type of marketing in retailing!



### 10-Year Data on Accounts Opened in 1942

(1) Years After Opening	(2) Percentage of Accounts Used	(3) Average Purchases per Account Used	(4) Average Dollar Purchases per Account Opened	(5) Cumulative of Average Purchases per Account Opened
Opening	90%	\$50.00	\$45.00	\$ 45.00
1st	45	50.00	22.50	67.50
2nd	36	55.00	19.80	87.30
3rd	29	65.00	18.85	106.15
4th	23	70.00	16.10	122.25
5th	18	70.00	12.60	134.85
6th	15	65.00	9.75	144.60
7th	12	70.00	8.40	153.00
8th	10	65.00	6.50	159.50
9th	8	65.00	5.20	164.70
10th	7	70.00	4.90	169.60

The 10% of accounts not used in the first year can be primarily attributed to the new arrivals in town who visited or phoned the local credit bureau in order to have their files transferred from their former hometowns and asked the bureau to open accounts at selected stores but never used some of the accounts.

The figures in Column 3 must be viewed with an understanding of the degree of inflation which followed World War II. It explains the higher average purchase in later years.

The figures in Column 4 were obtained by multiplying the Percentage of Accounts Used (Column 2) by the Average Purchases per Account Used (Column 3).

**RThought:** This study was done because the store was paying a PM of 25 cents for each account opened through the efforts of an employee. I wondered how much an account was worth to us. When I saw that every account opened in 1942 represented \$170 (\$700 in 1993 dollars) over a 10-year period, I was then able to convince the other members of senior management that we should up our reward to \$1 per account — and the number of employee-developed accounts increased.

I suspect that most modern-day retailers, equipped with today's computers, have never calculated the sale volume produced by an account over the first 10 years from its opening. An account's value may be more than you had thought. With inflation of greater than 400% during the past 40 years and in a store with as limited an offering as a men's and boys' store, such an account's value may be \$700 (or perhaps \$2,000 in the case of a department store), even though 93% of the accounts become inactive.

Were you to read a report showing that 200 accounts were opened in your store(s) last week, you could enjoy the good feeling that \$140,000 (\$400,000 in the case of a department store) had been put into place for the next 10 years.

**RThought:** The question I pondered 40 years ago remains unanswered: How much is a new account worth? If you know, please let me know the amount and how it was computed.

### WHAT DOES THIS COINCIDENCE SHOW ABOUT THE U.S. FOOD INDUSTRY?

In the car recently, I was listening to the tape of Session 19 of the Food Marketing Institute's 1994 Convention on the subject of "ECR — the Vision — the Reality." The speaker, who represented Kroger

Company, reported that a survey was made in the early part of 1994 which showed that 56% of the industry's executives surveyed did not know what the initials "ECR" stood for.

For my readers who are not in the food industry, ECR stands for "Efficient Consumer Response," the industry's plan to reduce the cost of distributing food through supermarkets by \$30 billion a year (out of grocery store sales of about \$360 billion). This amount of expense can be shown to have been wasted; prices could be cut by 8% without affecting profits.

Shortly after I listened to the tape, I received the following article from my international clipping service about a move made by the largest retailer in Japan:

#### Daiei Streamlines Distribution with Just-In-Time Groceries

**Daiei has a tall order: It is urging wholesalers to deliver goods within four hours after receiving the orders.**

**Because Daiei is Japan's largest supermarket chain, many of its suppliers are scurrying to adjust their operations to meet its demand. Some even have opened new warehouses just to supply Daiei's distribution centers.**

**The new timetable is part of Daiei's program aimed at restructuring its distribution system to slice inventories to a minimum.**

**Under Daiei's vision, the head office collects orders for food from each supermarket by 11 A.M. and places the orders with the wholesalers by 1 P.M. Wholesalers are then asked to ship the food to Daiei's regional distribution centers by 6 P.M. That's the shortest turnaround time demanded by any [Japanese] supermarket chain, suppliers say.**

**...With the orders, it also forwards a computerized printout of invoices and adhesive labels with the product names and delivery location.**

**After reviewing the orders, wholesalers can start collecting the ordered products and labeling them. This process should take about 90 minutes because of the computerized listings and pre-printed labels, Daiei officials say. Product inspection and loading onto trucks will take another 30 minutes or so, they suspect.**

**Although Daiei says one hour should suffice for transportation, wholesalers have to take evening rush-hour traffic into account. Suppliers have only a maximum of two hours for transportation to make the 6 P.M. deadline.**

**RThought:** The article does not describe the present delivery schedule. I would guess that it is the next morning. Some suppliers grumble that it takes another 24 hours for their product to show up on supermarket shelves.

Someday, U.S. retailers will take a careful look at retail operations in Japan, in Hong Kong, and in other places where land is scarce and thus selling space expensive. The 7-Eleven stores in Hong Kong are about 1,000 to 1,200 square feet. Deliveries are made twice a day, resupplying what is reported as sold by point-of-sale registers which are connected to the central computer.

Someday, U.S. retailers will have to compete against firms which think and operate like Daiei and 7-Eleven (Hong Kong) — against firms which *demand* high service standards.



## 'WE WILL NOT BE UNDERSOLD' — DONE WITH INTEGRITY

Audio Centre is one of the major audio-video chains in Canada. Like many U.S. audio-video chains, it offers to refund the difference if a lower price on an item is advertised by a competitor within 30 days of one's purchase.

Audio Centre, however, is much more diligent about matching lower prices than any of the many U.S. companies which loudly proclaim, "WE WILL NOT BE UNDERSOLD."

Audio Centre watches the ads of its competitors: If a lower price appears in an ad within 30 days of a purchase, **it sends a check to the customers who are entitled to a refund** without their having to ask.

**RThought:** Can you imagine what a customer tells his or her friends if a check is received out of the blue?

Here is what a lawyer wrote to Audio Centre: "Please be assured that the next time I am in the market for sound or video equipment, I will not shop around."

And a technical consultant wrote: "It takes all the guesswork out of shopping."

The company states that rebates are amounting to about one-half of 1% of sales. It could cut its advertising by that amount, yet receive an even greater response, as more and more shoppers pass the word that the Audio Centre *truly will not be undersold*.

## WORDS — ON THE OTHER SIDE OF DOWNSIZING

The following letter appeared in Ann Landers' column on September 15, 1994:

**Dear Ann Landers:** I never thought I'd be writing to you, but I feel you are the person who can do the most good in this situation. I work for a Fortune 500 company and have a terrific job. Through downsizing, we are now working 60-plus-hour weeks. I do the job four other people used to do. When I get home, I'm exhausted.

Of course, I am thankful for my job and am not a whiner. But the pace and the hours we work are absurd. This is not only a burden on our families, but what corporate America does not see is that this is not good for the company.

When you are working constantly, your mind doesn't function as well. I am not as productive on the job as I should be. I bring a ton of work home and spend several hours on the phone or checking automated mail on my home computer.

It is not only my opinion. I hear this from friends and relatives, too. It seems that if the work can't be handled during a normal work week, then we need more people to do the job.

Ann, what you say really affects public opinion. Can you help?  
—**Burnt Out**

**RThought:** I am trying to help Ann spread the word. If four people represent what formerly was 160 hours of work a week, there may have been some wasted time. Perhaps two people (80 hours) could be condensed into one 40-hour week, with some *thought* on what could be *eliminated*. However, 160 hours shrunk to 40 has to cause damage. This is like trying to squeeze a balloon: you push in one place and it bulges out in another.

It is amazing that a Fortune 500 company can have management which makes decisions such as the one implied. But then, the company obviously is not among the Fortune 500 in profits or it would not have made such a move.

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	JULY		Percentage Change	Year to Date Seven Months		Percentage Change
		1994	1993		1994	1994	
52	*Bldg Matl Group	\$ 11,487	\$ 10,528	+ 9.1%	\$ 72,990	\$ 65,225	+ 11.9%
57	*Furniture Group	10,321	9,386	+ 10.0	67,890	60,887	+ 11.5
571	Furniture Stores	5,227	4,916	+ 6.3	33,838	31,733	+ 6.6
572	Appl, TV, Radio Stores	4,103	3,734	+ 9.9	27,585	23,284	+ 18.5
5941	*Sporting Goods Stores	1,827	1,677	+ 8.9	11,821	10,150	+ 6.5
5942	*Book Stores	622	598	+ 4.0	4,753	4,546	+ 4.6
5944	*Jewelry Stores	1,139	1,256	- 9.3	7,590	7,375	+ 2.9
531Pt	Conventional Dept Stores	3,753	3,668	+ 2.3	26,071	25,257	+ 3.2
531Pt	Natl Chain Dept Stores	3,030	2,903	+ 4.4	20,289	19,152	+ 5.9
	Subtotal	6,783	6,571	+ 3.2	46,360	44,409	+ 4.2
531Pt	Discount Stores	10,201	9,265	+ 8.9	66,245	59,062	+ 12.2
531	*Department Stores	16,984	15,836	+ 7.3	112,605	103,471	+ 8.9
539	*Misc General Mdse Stores	4,734	4,707	+ 0.6	31,718	30,814	+ 2.9
541	*Grocery Stores	33,171	30,989	+ 7.0	219,236	213,670	+ 2.6
56	*Apparel Stores	8,232	8,379	- 1.7	54,959	54,813	+ 0.3
561	Men's & Boys' Stores	723	605	+ 19.5	5,003	4,253	+ 17.6
562,3,8	Women's Stores	2,725	3,149	- 13.5	19,543	21,192	- 7.8
565	Family Clothing Stores	2,701	2,567	+ 5.2	16,820	15,840	+ 6.2
566	Shoe Stores	1,456	1,432	+ 1.7	9,539	9,529	+ 0.1
591	*Drug Stores	6,640	6,636	+ 0.1	46,898	45,946	+ 2.1
596	*Nonstore Retail	3,709	3,533	+ 5.0	27,925	26,985	+ 3.5
5961	Mail Order	2,167	1,834	+ 18.2	16,778	14,917	+ 12.5
	*Retailing Today Total Store Retailing†	98,866	93,525	+ 5.7	658,385	623,882	+ 5.5
	**GAF TOTAL	46,282	44,267	+ 4.6	306,715	287,779	+ 6.9

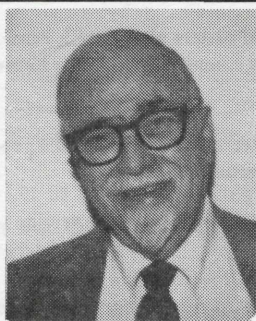
†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in Retailing Today Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.





# RETAILING TODAY

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ROUTE TO

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## I CRINGE WHEN THE WALL STREET JOURNAL WRITES ABOUT CHRISTMAS

On September 26, *The Wall Street Journal* carried an article by two writers who reported that the 1994 Christmas season looks like a good one. But they also included the statement:

**Holiday-season spending, in turn, accounts for nearly 40% of retailers' sales and half of their profit.**

I don't know who the reporters had in mind. They quoted no source for their two numbers. It is my belief that they can't, since the numbers are nonsense.

The reporters' statement is one which has been repeated for years. Whenever I have seen it, I have written to the "host" newspaper documenting its inaccuracy; but papers persist. This time around, I wrote to *The Journal*, but I suspect one or more of the following will happen:

1. It won't print my letter;
2. It won't write to me admitting its mistake; and/or
3. It won't correct the copy of the article placed in its file to be used by another couple of young reporters next year as the lead for *their* article.

[Late Note: I was correct on assumptions 1 and 2 and probably correct on No. 3.]

I provided *The Journal* with the following information on the combined November-December 1993 sales as a percentage of total sales in 1993, as reported by the Department of Commerce. The table below shows that *The Journal* overstated November-December (holiday season) sales by 25% to 90%.

	1993 November-December Sales as a Percentage of Year	40% is an Overstatement by...
Furniture, appliance, and consumer electronics	22%	82%
Sporting goods	23	74
Bookstores	21	90
Jewelry stores	32	25
Department stores	26	54
Discount stores	24	67
Apparel stores	23	74

**RThought:** How many times have you seen these figures — 40% and 50% — in newspapers? I suspect that many papers in small- to medium-sized towns have printed these figures only because *The Journal* printed them first.

Continued

## SIXTY REASONS WHY IT CANNOT BE DONE

*We've tried that before is the first on the list  
Of reasons why ideas are quickly dismissed.  
Our place is different is grouse number two;  
Three is, it costs too much money to do.  
It isn't our (number four) responsibility.  
Take it to Harry, to Gina, or Bob;  
I'd try it, of course, but it isn't my job.  
That's excuse number five why somebody will say  
To take your proposal and please go away.  
Number six, we're too busy; seven, too strange,  
Your idea is a too radical sort of a change.  
We don't have enough research, enough time or men  
Are the reasons we're numbering eight, nine, and ten.  
It would make our equipment become obsolete;  
Our office is too small, we'd need a whole suite.  
If it weren't impractical, then I would try it,  
But I'm sure that the staff here would just never buy it.  
Your timing is wrong and we can't do it now,  
Company policy will not allow.  
It would run up our overhead too, furthermore,  
And we've never done anything that way before.  
Ideas aren't welcome, as well you have seen,  
For those reasons, eleven through number nineteen.  
It is too ivory tower, it's pie in the sky,  
I don't like your idea and I'm telling you why.  
We don't have the authority, don't have the clout  
(Two more of the reasons your idea is out).  
You're right in your feeling, we should make a move,  
But let's do something else; no, they'll never approve.  
The planning committee will want other names,  
Your proposal is sure to be shot down in flames.  
I don't see the connection, let's shelve it for now;  
I'd do it, but really I just can't see how.  
Has anyone tried that? There must be a reason;  
It's the wrong time and place, the wrong day, the wrong season.  
I know someone who tried that one time in one place,  
And what did he do? He fell flat on his face.*

*Reasons thirty through thirty-nine all seemed to state  
That you're too young or old, too early or late.  
It just might have worked if we'd tried that before,  
But we're well past that point, it won't work anymore.  
We should study it further, it cannot be done  
Is reasoning forty up through fifty-one.  
We would, but you can't teach an old dog new tricks  
Is excuse numbers fifty-three (four, five, and six).  
It would be too upsetting and far too much trouble;  
It would cause our expenses and taxes to double.  
Your thought is clever, it does sound like fun,  
But around here that isn't the way things are done.  
Excuse number sixty, I am sorry to say,  
Is, we always or never have done it that way.*

Charles Osgood (CBS News)



One would expect *The Wall Street Journal* to care enough about an industry as large as retailing (which employs about 20 million out of a working labor force of about 120 million) to accurately report our sales. Retailing is a significant part of the U.S. economy, and we can be proud of our importance.

**RThought:** As evidence of how widespread this disturbing inaccuracy is, an Associated Press article by Joyce M. Rosenberg, recently published in our local daily, contained the following:

**Christmas is the most critical time for retailers, who hope to make half their annual sales and profits during the holiday season.**

If I were to ask Rosenberg for her source of this statement, she would surely reply, "*The Wall Street Journal*. Why? Isn't it a good source of information?"

## CAN RETAILERS END FALSE PRICE COMPARISONS?

Major retailers — department stores, large specialty stores, furniture stores, jewelry stores, even some discount stores and catalog showrooms — have destroyed their credibility with their customers. There was a day when an advertised 25-30% off on popular items would have produced a waiting line at the front door the next morning. And an offer of 20% off on most or all items in a single department would have produced a traffic jam for blocks around the store!

But not today.

Why not? Because our customers have become jaded —not because the customers have changed but because *we* have changed.

Today, customers know many of us for what we are: prevaricators. I hate to put our problem that bluntly, but unless we are direct with ourselves, it cannot be solved. We are very much like the alcoholic who believes himself to be a social drinker, while family and friends try to help him see that he has a serious problem. With bravado, he says, "I can quit anytime I want to quit."

He cannot. And we cannot. Our buyers no longer know how to operate a department that will produce volume without the stimulus of shady, or to put it purely and simply, dishonest price comparisons.

For that reason, I have always been especially appreciative of a letter from Edwin Hinnefeld, sent to me in 1986. Ed then headed The Garr Consulting Group in Georgia (now a subsidiary of Deloitte & Touche). Rather than send a consultant's advice, he sent the prescription he used when he took over as chairman and chief executive officer of Gimbel's Pittsburgh in the early 1970s.

Let's pick up his story from there.

**When I was appointed by Bruce Gimbel, the division was struggling with a declining sales volume, declining minimal profits, and a demoralized organization. A meeting was held with all supervisors and managers at which time they were asked to form groups of six, each group with a chairman. They were asked to write down: "What would you do as the head of this company to improve performance?"**

He also wrote to the spouse of every married supervisor and manager, asking the same question; 74% replied. With ease, he was able to consolidate the ideas into a short list:

1. **Our company lacks credibility with the customers and employees.**

2. **We have thousands of dollars of orders placed with vendors, but the paperwork has not been submitted internally because of budgets.**
3. **We have thousands of unrecorded markdowns and the paperwork has not been submitted because of budgets.**
4. **We have hundreds of price comparisons that are not legitimate.** [Emphasis added.]
5. **How can our employees believe in management when they see management allowing or approving gross dishonesty?** [Emphasis added.]
6. **We want to know what is expected of us, and we would like to be recognized when we achieve what is expected.**

Ed then took a very bold position:

1. **We announced, "No price comparisons for one year."**
2. **We recorded every order and markdown in the company.**
3. **We adopted a mission and policy statement that began with: "Each and every decision made in this company by each and every employee must first meet the test of total and unquestionable integrity. If this test cannot be met, we will not proceed."** [Editor's Note: This is James Cash Penney's Fifth Doctrine, which was set forth in 1914.]

With the above in place, Ed reported:

**The results were phenomenal. The sales volume abruptly began to increase. The morale of the employees showed a dramatic improvement. Our share of market showed consistent improvement; in fact, we had a 6% gain in share of market as reported by the University of Pittsburgh. It was a very impressionable period of our lives.**

**RThought:** You can be honest. You may need just a little help in changing. You may not know how to do it. Ed's letter reports one successful application of integrity. I can offer none better than his observation:

**No matter how sweet the taste of huge sales and sale days may be, there is also a sweetness to know that all of us, customers and employees, respect integrity and our personal lives are much more fulfilled when we practice the rules of the Good Book.**

Amen.

## HOW ACCURATE ARE AUDITED REPORTS OF RETAIL COMPANIES?

In the good old days, before electronic point-of-sale (EPOS) devices and price lookup (PLU), we had to re-mark merchandise if we wanted to sell it at a lower price.

Here is an example under the old system.

We have 1,000 gadgets marked at \$29.95 each and have sold merely a handful in the past week. We want to rid ourselves of them and decide on a sale price of \$8.88. This decision would have necessitated changing the price tickets on all of the gadgets or sticking a new price ticket over the old ones. We also would have had to count all 1,000 of the gadgets before the sale and record a markdown of 1,000 times \$21.07, or \$21,070.00.



## DO SMALL BUSINESSES DESERVE TO SURVIVE?

The Illinois Retail Merchants Association, with a grant from the Illinois Departments of Commerce and Community Affairs and Employment Security, funded a study by Arthur Andersen & Company, entitled "Small Store Survival: Success Strategies for Illinois Retailers." This 325-page report is available for \$90 (\$60 for members) from the Illinois Retail Merchants Association, 36 South Wabash Avenue, Suite 1226, Chicago, IL 60603 (telephone 312-726-4600). It is worth reading; be sure to read all 325 pages.

More than 1,500 Illinois retailers were surveyed, and the financial statements of 150 companies were analyzed.

The profile of the retailers is:

Net sales	Average \$1.8 million (50% under \$950,000)
Pretax income	\$39,000
Sales (square foot)	\$209
Number of stores	Average 2 (68% only 1)
Years in business	Average 43 (range 1 to 150)
Full-time employees	11 (46% have 5 or fewer)
Automated POS systems	39%
Principal's years in business	24

The stores included apparel, appliances, books, department, drug, electronics, florists, hardware, and other specialty.

These are some of their self-described characteristics:

54%	...only reorder when out of stock
Half	...don't budget money for open to buy.
63%	...claim they "just know" what their customers want, even though half don't track customer purchases.
Only 1 in 4	...track effectiveness of their ads.
10%	...have documented, measurable strategic plans.
23%	...use formal internal training programs.
51%	...don't have formal budgets.
36%	...have not even considered a computer.
Half or fewer	...involve managers and employees in cost cutting.
30%	...had buyers work with managers to coordinate displays with promotions.
80%	...lack labor scheduling.
Half	...said sales associates assist only in own department.
92%	...rated their service as good or excellent.
	[Note: This response is inconsistent with their other replies. It shows that principals don't have enough contact with their customers.]
57%	...will open their store during nonstore hours.
42%	...offered incentives for superior service.
Nearly half	...rated cost-reduction skills as only fair or poor.
93%	...read ads of competitors.
56%	...talk with other retailers.
53%	...ask customers where they shop.

Stores have *not* considered the following:

36%	POS systems
51%	Scanning
69%	EDI
89%	Signature capture
75%	Bar-code shipping
85%	Quick Response
90%	Wireless technologies

The following is what stores are *not* using:

46%	Labeling equipment
50%	Printers
62%	POS systems
72%	Corporate systems
77%	Hand-held scanners
83%	Warehouse systems
88%	Store controllers

Key factors *used* in decision making are as follows:

92%	Daily sales
80%	Annual income and balance-sheet statements
59%	Monthly income and balance-sheet statements
59%	Inventory level
53%	Inventory aging
49%	Monthly operating expenses by line item
48%	Weekly payroll
44%	Aging receivables
34%	Item movement

30%	Monthly open to buy
27%	Stockouts
25%	Monthly markdowns
25%	Daily gross margin
16%	Monthly budget-to-actual reports

**RThought:** The bulk of the 325 pages is devoted to *good, sound advice on how to efficiently operate a store*. Emphasis is placed on niching, training, service standards, data-base marketing, and use of advertising media.

**RThought:** Small stores often assist customers (especially the elderly, widows, and widowers) who live alone to "connect" with the world. These customers and others who value the personal touch form the patronage core of a successful small store. Even with such a core, the store must be an efficient one in order to survive. Otherwise, the core of its steady customers will be lured away.

**RThought:** The 54% of the stores that do not reorder until they run out are probably the same merchants who jam a meeting of the local planning commission, the city council, or the board of supervisors whenever an efficient retailer — who seldom runs out of stock, operates at a lower expense, offers a wider range of merchandise, and often provides better service — seeks approval for a new store. Retailers may cry that a "monster company," such as Home Depot, PriceCostco, Wal-Mart, Sam's, etc., will, by virtue of its economic power, drive the "little guy" out of business. In fact, the "little guy" often is driving himself/herself out of business by giving poor service, carrying inappropriate merchandise, being out of stock, being open inadequate hours, etc.

Several times the report repeated the famous advice of Marshall Field (an old-time Illinois retailer): "Give the lady what she wants." Marshall Field's store grew to be large and successful. However, by not giving the lady (gent) what is wanted, many of today's stores ensure their own demise. Some customers want and need the personal relationship that is often missing in large stores, yet they often find that it is also missing in small stores.

Many of these marginal stores retain longtime employees who may have forgotten how to give service, who seldom smile, dress out of keeping with the merchandise carried by store, don't know the merchandise, or resent customers interfering with their reverie. It can be emotionally traumatic to terminate these people. Such an employee may not have been given adequate training or been corrected for mistakes. These people have every right to think their performance was satisfactory.

**RThought:** Small retailers often believe that the community *owes them* rather than that *they owe* the community. It is apparent from the Arthur Andersen report that many of them, perhaps as many as 60% of the small retailers surveyed in Illinois, believe they have no more obligation than to open their doors each business day so that they can provide *less than that to which their customers are entitled*.

Marshall Field started in a small shop and built the largest store in Chicago on the basis of sound policies and helpful salespeople. Aaron Montgomery Ward started selling watches by mail order. Rowland H. Macy went broke twice before he could establish selling at a fixed price. Sam Walton started with a Ben Franklin franchise doing under \$200,000. Mervin Morris of Mervyn's started in a 2,500-square-foot store with three employees!

When a merchant provides what his or her customers want, the reward is beyond the merchant's wildest dreams. However, when the merchant doesn't provide what his or her customers want — but the customers continue to patronize the store mostly because it is the only one in town — they owe the merchant nothing.

Small merchants who try to prevent the arrival of a store which can offer customers better assortment, better prices, and sometimes better service don't merit the support of a local planning commission, a city council, or a board of supervisors.

Our free-enterprise system is based upon rewards to those who provide what customers want — and failure or bankruptcy for those who don't.



## FEATURE REPORT

### IF WE WERE TO CALL CATS 'SPOTTED OWLS,' THEN SPOTTED OWLS WOULD NOT BE AN ENDANGERED SPECIES

At last I know why some people say that department stores are coming back: they have changed the definition of a department store!

Department stores are defined, as is almost every other kind of business, in the Standard Industrial Classification (SIC) Manual, prepared by the Statistical Policy Division, Office of Management and Budget, Executive Office of the President.

The purpose of the SIC is to bring order to statistics maintained by the government.

Major retail groups are:

52	Building materials, hardware, garden supply, and mobile home dealers
53	General merchandise stores
54	Food stores
55	Automotive dealers and gasoline service stations
56	Apparel and accessory stores
57	Furniture, home furnishings, and equipment stores
58	Eating and drinking places
59	Miscellaneous retail

General merchandise stores are broken out into:

531	Department stores
533	Variety stores
539	Miscellaneous general merchandise stores

Department stores are described as follows:

Retail stores generally carrying a general line of apparel, such as suits, coats, dresses, and furnishings; home furnishings, such as *furniture, floor coverings, curtains, draperies, linens, and major household appliances; and housewares, such as table and kitchen appliances, dishes, and utensils*. These stores must carry men's and women's apparel and either major household appliances or other home furnishings. These and other merchandise lines are normally arranged in separate sections or departments with the accounting on a departmentalized basis. The departments and functions are integrated under a single management. The stores usually provide their own charge accounts, deliver merchandise, and maintain open stocks. These stores normally have 50 employees or more. Establishments which sell a similar range of merchandise with less than 50 employees are classified in Industry 5399. Establishments which do not carry these general lines of merchandise are classified according to their primary activity. [Emphasis added.]

THE ABOVE DEFINITION is what I have always considered a department store to be.

The Bureau of Census, Economics and Statistics Administration, Department of Commerce, in its Monthly Retail Trade Report, does break down SIC 531 as follows:

531 pt	Conventional department stores [Macy's, etc.]
531 pt	Discount department stores [Kmart, Wal-Mart, etc.]
531 pt	National chain department stores [Sears, J.C. Penney, Montgomery Ward]

When "experts" talk of the "future of department stores," particularly around the National Retail Federation, they are referring to the conventional department stores, many of which are now in Chapter 11 or have gone through Chapter 11.

With the SIC definition of a department store well in mind, here are some quotes from an article in the October 1994 *Shopping Center World*.

Stephanie Shern, partner and national director of retail industry services for Ernst & Young, was quoted thus: "I am from the school that believes the department store definitely has a future and will survive for the long term. ...the concept will be with us certainly for the remainder of my life [Editor's Note: she is relatively young] and probably a lot longer." I wonder, is Shern referring to discount department stores, which now account for far more than half of the department store sales? Their share of department store sales continues to grow.

Deborah Kops, partner in charge of real estate for Arthur Andersen & Company's Dallas office stated: "Lines will narrow, and they're going to restrict themselves *more and more to fashion items*, taking out home items." *Will they still be department stores?*

Kops also sees "companies like The Gap and The Limited, Inc., evolving into department stores over the next decade!" *Ask Don Fisher and Leslie Wexner what they think of that projection.* I am sure they will say, "We will continue to be specialty stores."

Kops further sees "department stores' future primarily as fashion specialty retailers such as Nordstrom." *How can a specialty store be a department store?*

"One of the options," recommends the well-known retail consultant Walter K. Levy, "should take the form of proprietary labels for the department store." Private labels in furniture? dishes? appliances? draperies?

And then the author of the article, John McCloud, took a few liberties: "Emeryville-based Whole Earth Access, begun as a small storefront operation in downtown Berkeley in the late 1970s, now has seven full-service department stores in Northern California." John, *I shop Whole Earth Access*. Where's the full service? Why does it have checkouts? Does it fit the SIC definition? And it was never in "downtown" Berkeley. (Its headquarters is located on Seventh Street in Berkeley — not "downtown" — but its service center is located in Emeryville.)

McCloud further stated: "And there are even emerging department stores...Fresno-based Gottschalks...is very gradually expanding its presence." Gottschalks does not meet the SIC definition of a department store.

**RThought:** Today, there is an inclination to call any large store a department store. I remember this happening with Mervyn's in the 1970s. Mervyn's never has been anything but a family clothing store, a classification which includes accessories such as cosmetics, jewelry, and other items. Because its stores (at 80,000 to 90,000 square feet) were anchors in some shopping centers and most anchors are department stores, many referred to Mervyn's as a department store. Does that make it a department store? No.

**RThought:** All in favor of calling cats "spotted owls" so that spotted owls will no longer be an endangered species, say, "Aye."

**RThought:** All in favor of calling The Gap, The Limited, Whole Earth Access, and Nordstrom "department stores," say, "Aye."

If enough say, "Aye," there is a great future for department stores. But what are we going to do with the disappearing variety stores and men's stores? Shall we call them "department stores" so they won't

## SHORT SHORTS

**The price of interactive retailing:** The price of Fingerhut Companies' stock dropped 22% (down from \$23.75 to \$18.50) when the third-quarter earnings were reported (down from \$13,759,000 to \$7,087,000) and the announcement was made that the cost of its television shopping programs could hurt its fourth-quarter earnings (its largest profit quarter ending with December). **RThought:** Fingerhut's second-quarter report to

shareholders, showing a 25% increase in earnings, closed with: "We continue to be optimistic about business growth in the financial services sector which leverage our proprietary database capabilities. In addition, we are *monitoring developments in electronic and interactive retailing and selectively pursuing opportunities in these sectors*." [Emphasis added.] It looks as if Fingerhut did more than "monitor."



Things are different today. We change the price on the shelves or racks, enter the new price in the PLU, and, when the gadget is scanned, the PLU prints out the description and the price of \$8.88.

Let us assume this attempted sale of gadgets occurred during the January "End-of-Year Clearance Sale." And let us assume further that we sold just 10. At the end of the sale, the procedure with our new systems is for the PLU to be changed back to \$29.95. In the old days, we could not have restored the old \$29.95 price without having to re-mark each item. To avoid that procedure, we would leave the price at \$8.88.

How does this action affect our valuation of the gadgets in our end-of-January inventory? Formerly, we would have counted 990 at \$8.88, or \$8,791.20. But today, having changed the PLU back to \$29.95, we have a value of 990 times \$29.95, or \$29,650.50. Our profit has increased by \$20,859.30 by improperly valuing 990 gadgets.

The buyer/department manager/store manager and, perhaps, another three or four managers will receive a bigger bonus!

The auditors will check the count and the price in the PLU and find both are correct. The audited figures (done the same way on many items in many stores in many departments) thrills the bank, while management states that the increased income taxes were worth the good feeling everyone had.

**RThought:** Now that we have EPOS and PLU, we raise the value at the end of a sale. However, this practice is dishonest. One might call it "abuse by the system."

## IN DAYS OF YORE

In the diary of my maternal great-grandfather, Bernard Baum, who was born in Simmern, Germany, November 7, 1822, I came across the following extracts, set forth with *his* charming spelling, capitalization, and punctuation, all of which provides a delightful flavor.

...about my 25th year...my parents urged me to get married.

When I got acquainted with mama, though her parents were not rich, but the girl suited me and I suite to here. My parents at first were not well pleased, for they wanted money, but eventually were satisfied. We were...married in my birthplace...may 15, 1850.

...through a fight in which i were as inocent as a babe had to emigrate, in order not to imprissond on the charge of manslaughter or even murder if the man died.

I bought steerage passage on a mail vessel to New York...it carried 700 emigrants each "doing their cooking"... and were 49 days crossing to New York.

Bernard ended up with some of his family in Louisville, Kentucky, where he established himself as a backpack peddler through the Kentucky hills. It was there that he bought a horse from one Jacob Kuhn. You may recall Kuhn's great-grandsons, Jack and Gus, who once ran Kuhn's Big K. No need to ponder why Jacob Kuhn was more successful than Bernard Baum: Bernard bought the horse for \$36 and sold it three months later for \$25!

This was his first day as a peddler:

**The first day I went towards Bardstown Road, applied to many houses trying to sel some of my load but were shown the door, and in some houses were introduced to a big dog. So i tramped till i were out of the city and succeeded to sell a pair of hose for 30 cents. Was so fatigued could not proceed either way, so i sad by the roadside to rest. When about 5 PM a teamster hawling a load of cordwood into the city and i applied for a lift, and paying him my 30 cents hawled me back to city on top of the wood.**

In 1853, after he bought his horse, he "had no choice but to take what [he] could get in trade, such as feathers, jeans and woolen homespun socks."

In 1854, mama, in his absence, bought a small confectionary (18 feet wide by 39 feet deep). This space was converted to a dry goods store. And in 1858, he went to Henderson, Kentucky, with mama, 3-year-old Philip, and 14-month-old Morris.

People had no money. Tobacco was the main crop and farmers were paid for their crop in March. The balance of the year, everything was on credit. A cousin, S. Rothchild, on a buying trip to New York, bought some millinery for Bernard, which he described as "30 silk and satin bonnets, which must have been the accumulation of years."

**In 1860 to 61 when the rebellion broke out it became very difficult among a people whose sympathies were with south, wheras mine were with the government to whom I had sworn allegiance.**

**The candidates for president were A. Lincoln, I. C. Breckinridge and Bell. Everyone who voted was marked. I voted for Lincoln but was not molested, in fact the better class gave me credid for the courage to do so in the midst of so many southern sympathisers.**

His bank would not receive any deposits because there was danger from guerillas. He noted, "...so all the cash i received gave it to mama during the day when she kept it hidden about her person, at night we buried it at various places, and once a week i took it to Evansville and deposited it in bank."

He further observed:

**One morning the guerillas came in to town. They must have been informed that Mr. James Rankin a merchant whose store was opposite ours, that Mr. R had a considerable sum of money in his safe. He had just come to his bussiness when they attact him with the request to open his safe, which he refused to do. They tried to prie it open but did not succeed. The result was, they shot Mr. Rankin, and left town without the money but Mr. R. died of his wound about ten days there-after. The money in his safe was intrusted to him by some of his friends and customers, for whom, he had to give his life; one of his sons served in the Confederate Army and the other in the Union Army.**

**RThought:** Bernard was no different from many another responsible retailer during the 1850s, '60s, and '70s. He reared a good family, ultimately built a respectable business, and lived to an old age (writing his story in 1903).

**RThought:** How would you or I have fared under similar circumstances?



## FISCAL YEAR

"Fiscal" is one of the most misused words in our business world, particularly in the field of retailing.

The word was used in Roman times when "fiscus," in Latin, originally meant a rush basket; then, a purse; and finally, a treasury, being the public treasury of Rome and, under the Empire, the privy purse of the Emperor (essentially, the public treasury).

A "fiscal year" was comprised of the 12 months for which the public treasury kept its accounts.

Later, "fiscal year" was incorporated into accounting terminology, usually with the date marking the year end, if other than the calendar year. The full expression would be the fiscal year ending with the month, date (if other than December 31), and year.

The U.S. fiscal year ends September 30.

Many retailers' fiscal year ends on or near January 31. Such companies have 11 of their 12 months of business in the previous calendar year. For example, a fiscal year ending January 31, 1994, is often erroneously called the "1993 fiscal year."

**RThought:** Please keep the following in mind when preparing your annual report:

1. The short definition of a fiscal year is the year of the last day in the reporting year (except when using a 52- or 53-week year);
2. Whenever a column of figures contains information for the fiscal year, the abbreviated title of the column *should* be the year in which the fiscal year *ends*.

**RThought:** I shall watch for the fiscal year 1995 reports to see if this item helps to produce clearer identification. I have many readers who are partners in one of the Big Six accounting firms. I would appreciate their spreading the news, which is based upon the Oxford Unabridged Dictionary of the English Language, Compact Edition.

## WORDS — ABOUT PERSEVERENCE

Several years ago, *Success* magazine ran a page of quotes under the heading "Bleed, Sweat and Persevere." These are a few.

**No problem can stand the assault of sustained thinking.**

—Voltaire

**There is a time when integrity should take the rudder from team loyalty.**

—Thomas J. Watson Jr.

**Impulse manages all affairs badly.** —Portuguese proverb

**You cannot shake hands with a clenched fist.**

—Golda Meir

**Great works are performed not by strength but by perseverance.**

—Samuel Johnson

**There is no indispensable man.**

—Woodrow Wilson

[Nor is there a dispensable woman. —My assistant, Lynn Hiden]

**Things may come to those who wait, but only the things left by those who hustle.**

—Abraham Lincoln

**Hold yourself to a higher standard than anybody else expects of you.**

—Henry Ward Beecher

**RThought:**

**When I disappoint myself, I feel ashamed, even if others are not aware of my failure.**

—Robert Kahn

## RETAIL MONTHLY/YEAR-TO-DATE SALES COMPARISON (Unadjusted \$ millions)

SIC Code	Category	AUGUST		Percentage Change	Year to Date Eight Months		Percentage Change
		1994	1993		1994	1994	
52	*Bldg Matl Group	\$ 12,184	\$ 10,422	+16.9%	\$ 85,199	\$ 75,647	+12.6%
57	*Furniture Group	10,910	9,380	+ 16.3	78,804	70,267	+12.1
571	Furniture Stores	5,516	4,903	+12.5	39,331	36,636	+ 7.4
572	Appl, TV, Radio Stores	4,405	3,675	+19.9	32,027	26,959	+18.8
5941	*Sporting Goods Stores	1,994	1,766	+12.9	13,826	11,916	+16.0
5942	*Book Stores	1,070	967	+11.3	5,833	5,513	+ 5.8
5944	*Jewelry Stores	1,215	1,247	- 2.6	8,797	8,622	+ 2.0
531Pt	Conventional Dept Stores	4,480	4,297	+ 4.2	30,554	29,554	+ 3.4
531Pt	Natl Chain Dept Stores	3,443	3,236	+ 6.4	23,730	22,388	+ 6.0
	Subtotal	7,923	7,533	+ 5.2	54,284	51,942	+ 4.5
531Pt	Discount Stores	10,581	9,512	+11.2	76,828	68,574	+12.0
531	*Department Stores	18,504	17,045	+ 8.6	131,112	120,516	+ 8.8
539	*Misc General Mdse Stores	4,908	4,686	+ 4.7	36,615	35,500	+ 3.1
541	*Grocery Stores	32,475	30,989	+ 4.8	251,603	244,659	+ 2.8
56	*Apparel Stores	9,512	9,186	+ 3.5	64,498	63,999	+ 0.8
561	Men's & Boys' Stores	742	616	+20.4	5,735	4,869	+17.8
562,3,8	Women's Stores	3,097	3,206	- 3.4	22,669	24,398	- 8.1
565	Family Clothing Stores	3,067	2,825	+ 8.6	19,888	18,665	+ 6.6
566	Shoe Stores	1,751	1,753	- 0.1	11,274	11,282	- 0.1
591	*Drug Stores	6,905	6,510	+ 6.1	53,816	52,451	+ 2.6
596	*Nonstore Retail	4,254	3,715	+14.5	32,172	30,700	+ 4.8
5961	Mail Order	2,497	2,004	-24.6	19,257	16,921	+13.9
	*Retailing Today Total Store Retailing†	103,931	95,913	+ 8.4	762,275	719,790	+ 5.9
	**GAF TOTAL	50,581	46,636	+ 8.4	357,295	334,415	+ 6.8

†Excludes car dealers, auto supply stores, eating and drinking places, service stations and some specialty stores.

\*Included in *Retailing Today* Total Store Retailing.

\*\*General, Apparel, and Furniture.

For further information on these figures, contact Irving True, Business Division, Bureau of Census, Washington, D.C. 20233, or call 301-763-7128/7129. Irving has been very helpful to me over the years.