NOVEMBER 1983

F - A Retail Pioneer Is Gone (Ephraim Freedman)
F - How To Be A Major Food Chain
B - Service
A - How RT Got Started
Is Integrity Dead at Corning Glassware?
Will Controllers/CFOs Kill Store Profits?
Is The Better Business Bureau Doing Its Job?
Another Way of Looking at The LIFO Indices
Do You Do Much Flying?
Words To Judge A Man By (Coach Lou Holtz)

DECEMBER 1983

F - Are Retail Prophets Like Those Experts Who Recommend Gold for Investment?
F - Reliable Stores -- A Study in Changing Market Value
B - When Selling Over-The-Counter Drugs, Do We Serve Our Customers Well?
A - Strategic Planning for 1984
Shell Oil Lies to Make A Few Pennies -- But Union Oil Is Honest
Can Retailers Operate Without Controllers?
Off-Price Stores Don't Know What Price They Are "Off" From
Another $15 Million To Try A Hypermarket in The U.S.
How To Last 135 Years (Hammacher Schlemmer)
Why Read SAVVY?
Different Economies in Different Areas
Words To Live By (Christopher Morley; Horace Mann)

* * * * *

JANUARY 1984

F - The 1984 Outlook - For Small Stores As Well As Big Stores
B - Why Nordstrom's Must Fail
A - Does Insensitivity Underlie Continuing Discrimination against Women?
The Changing Population Characteristics
Who Are The Market-Value Leaders in Retailing?
Policies on Gifts to Employees
(Two pages of SHORT SHORTS)
Words That Are Mailed (Christmas card messages)

FEBRUARY 1984

F - Strategic Planning -- To Failure
B - Do We Want All Government off Our Back?
A - The 73rd Annual NRMA Convention
Montgomery Ward Answers Back
Do You Want To Cut Turnover and Absenteeism?
How Baloney Figures Are Created
Fooling with Figures (National Coalition to Ban Handguns)
What Is The Purpose of A Trade Association?
Words Drawn from A Career of 43 Years (Charles Brower of BBD&O)
(Enclosure - subscription extension)

MARCH 1984

F - A Shopping Center Tour--February 11, 1984
F - Our Changing Demographics
B - A New Approach to Control of Shoptheft
A - Plums Is Gone
A Free Offer I Can Refuse
Watch Out for Your CPA -- The Shill!
Containing Health Insurance Costs
Macy's and The Postmark
You, Your Plastic Cards and Their Plastic Cards
Orchard Supply Hardware Proves Shortage Is Recording Error
Words about The Importance of One Person (Bert Scull/ Ted Jacobs)

APRIL 1984

F - Retailing Around The World
F - I Have Visited Desolation -- and It Is Fashion Show Mall
B - War As Public Policy
A - What The Shopper Thinks
Ben Franklin's Advice on How To Make A Decision Is Still Good
Lingan A. Warren (in memoriam)
What about The Associations of Small Stores?
Terms To Think About in Employment Letters/Agreements
How Good Are Polygraph Tests?
Bloomingdale's, The Mail-Telephone Order House
Those Wonderful New Forms of Retailing
Does Fairchild Publications Need An Adjective Book?
Nice Letters You Can Write (Eugene Field)

MAY 1984

F - A Matter of Ethics
F - SHORT SHORTS
B - A Matter of Ethics (see Feature Report)
A - How Equal Do You Pay?
The Mail Order Retailers
Does The Monetary Model Accurately Predict Inflation?
A Great Way To Celebrate A Centennial
The Magic of Automatic Teller Machines
Expansion Opportunity: China
Are Distribution Center Managers Seeking Unconscionable Profits?
There Have Been Major Population Changes Since 1980
Will Lack of Attention Limit The Russian Army?
The Ways of Presidents and The National Debt
Words That Tell Heaven from Hell

JUNE 1984	F - When Banks Are Nationalized, Will You Call Your Congressman for A Loan?	
	F - Merchandising without Media	
	B - Perhaps No One Said "Thank You"	
	A - The Retail Billion Dollar Firms 100 Largest Companies Still Headed by Founders Warehouse Concepts Do Directors Really Serve The Owners? Blind Faith in Statistics Will Spoil The World Do You Have An Open Door for Vendors? A Gap in The GAP Shareholder Information? Retailing Is The Same -- All Over The World Words To Describe Leadership (Eisenhower; Peter Drucker; Cicero; Walter Lippman; Bible)	
JULY 1984	F - The Colonel's Lady an' Judy O'Grady Are Sisters under Their Skins!	
	B - A Matter of Ethics (SafeCard)	
	A - Correcting An Omission (Food Lion) Stubbed-Toe Syndrome at U. S. Shoe Corp Being A Good Citizen Which One Is A Discount Store? Your Competitor -- at The Corner Mailbox The Bureau of Census Turns Honest in Forecasts Words about A Smile	
	Supplement - Response from readers about employee theft	
AUGUST 1984	F - Never on Sunday The Man Who Found Out How To Sell Instant Coffee	
	F - (All SHORT SHORTS)	
	B - A Matter of Ethics (FTC/advertising) Correction (Lucky Stores/half billion $ store) I Have Seen A Schnucks Market If Carrefour Has High Productivity, How Do You Class Duane Reade Corp? A Nice Story (Carroll Rosenbloom) Fire At Will How Will The Department Stores Get Back to Advertising Merchandise Instead of Price? Nickel-and-Dime Chiseling on Travelers (hotel/phone calls; retail surcharge on credit sales) No More Levitz at Levitz Words From 1596-97 ("The Merchant of Venice")	
SEPTEMBER 1984	F - How Long Is A Sale?	
	F - Have Four Years of Dramatic Defense Expenditures Brought Greater Security?	
	B - A Matter of Ethics (IRS agents)	
	A - Those Who Fear Computers Are Right "For Small Stores" How Stationers Pay Their Bills Abuse of Numbers (Chain Store Age/Better Homes & Gardens) How Sound Is Your State Unemployment Insurance Plan?	

SEPTEMBER 1984 (cont'd)

The Changing Gump's
Value Line Lists High Growth Stocks
Why I Don't Buy Sears Tires -- But Do Buy at Big O
Stages of Advertising
Words ((Richard Grand-Jean of Salomon Brothers)

OCTOBER 1984

F - Should Companies Be Allowed To Use Computers?
F - Full page of SHORT SHORTS
B - Malcolm Forbes, Pointer for Terrorists
A - Thank You for The Cards on Employee Dishonesty
On Corruption of Your Employees
Do The Deputies Shop in Your Store?
Would The Limited Allow This Kind of Promotion? (E-C credit card protection)
How To Improve The Use of Numbers (Discount Store News)
Business in Bank Cards Is OK If You Are Big
Dear Mr. Grocer: So You Think People Don't Want Shelf Prices?
The Changing Best Products Company
Words To Retailers from Over the Years (Socrates; Ralph Waldo Emerson; Elihu Root; Owen D. Young; Kenneth Dayton; John Geisse)

NOVEMBER 1984

F - Completed Staff Work
F - Some Documents Are Jokes
B - Retailer Abuse Starts New Industry!
A - Are Communications Any Better?
Is It Worth Turning A Company Around?
The Future Boom in Convenience Stores
Gillette Proves Safeway and Kroger Right
Time: A Failure of Free Enterprise but Success of Regulation
There Are No New Ideas -- Some Show Up Again and Again
Words You Were Looking For (The Man Who Sold Hot Dogs)

DECEMBER 1984

F - You -- in 1985
F - Blatant Dishonesty in Advertising
B - Are You in Touch with Your Associates?
A - Correction (Retailer Abuse)
What Position Should Retailing Take on Tax Reform?
Your Accounts Receivable Are Worth 95% of Face Value (Revisited)
Touche Ross Meet Tom Peters and Bob Waterman
Words About Competition (Carlo Bombieri, President and CEO, Italian Commercial Bank)

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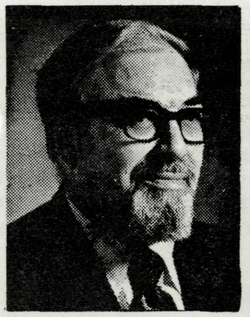

RETAILING TODAY

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DOES INSENSITIVITY UNDERLIE CONTINUING DISCRIMINATION AGAINST WOMEN

Two faculty members from Northeast Louisiana University sent questionnaires to 1200 business graduates (1966 to 1981) and got replies from more than 330 (38%), not a high percentage. Most are employed in the South.

They asked questions about the respondents' perception of relative salaries for men and women, relative promotion opportunities and hiring discrimination.

The table below summarizes their responses:

	Salary		Promotion		Hiring	
	Male	Female	Male	Female	Male	Female
Male benefit	35.4%	58.0%	38.3%	61.6%	22.3%	36.5%
Female benefit	0.6%	1.9%	8.6%	3.8%	13.1%	12.8%
No difference	64.0%	40.1%	53.1%	34.6%	64.6%	50.6%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Akron Business and Economic Review, 302 E. Buchtel Avenue, AKRON OH 44325 Summer 1983 $6/yr.)

RThought: I am not sure how valid the sample is as a basis of judging the total universe of men and women employed in business, but it certainly raises a difficult point. Males control most of the top jobs. If a substantial majority of males feel that there is no difference in these three areas, then obviously there will be little action to correct differences that do exist.

Those larger retailers who have the capability to survey their own executives might very well wish to survey on this point. To avoid having people answer the way they think management wants them to answer, it probably should be done by an outside firm and not identified with the employer firm.

RThought: The problem of salary, promotion and hiring of females may be the result of actions by people who really think there is no problem in this area. In light of the costly experience of Federated Department Stores, it might be well to include a question about discrimination on the basis of age.

THE CHANGING POPULATION CHARACTERISTICS

Current Population Reports P-23 No. 128, "America in Transition: An Aging Society" (Government Printing Office, WASHINGTON, DC 20402 $3.50) points out a number of interesting factors involved in our changing population mix.

First, the life expectancy at birth has increased greatly since 1900–for white males from the late 40s to late 60s, for white females from 50s to late 70s; but more interestingly for black females the increase was from the mid-30s to the early 70s (now expected to live longer than white males) and black males increased from the mid-30s to early 60s.

Second, there was a dramatic change in the support pattern–that is, the number of people over 65 or under 18 per 100 people from 19 to 64 (generally the active labor force).

	Number per 100 ages 19 to 64		
Year	Under 18	Over 65	Combined
1900	76.30	7.35	83.65
1940	51.94	10.90	62.84
1980	45.80	18.59	64.39
2000 projected	40.70	21.16	61.86
2050 projected	36.61	37.85	74.46

Great concern is expressed about the ratio of persons 65 and over to the working force population, but little attention is paid to the declining ratio of children. This happens because support of the children is largely provided within the family while support of those 65 and over is provided largely by society as a whole. There is less resentment of support for children than of support for the old (and if present trends continue, a growing percentage of people 65 and over will **not** be parents).

At the same time, a higher percentage of the 65 and over population could be classified as feeble or unable to care for themselves–largely a reflection of improved medical care which preserves life, often after the person is able to enjoy life

WHY NORDSTROM'S MUST FAIL

The Thursday December 8, 1983 Los Angeles TIMES was one of the heaviest weekday newspapers I have ever seen. I was fascinated by the amount of advertising by the major stores. One could study the wisdom that has made Federated, May Department Stores, Associated Dry Goods and Carter Hawley Hale so great–and also one could find a clue why Nordstrom's is bound to fail. Certainly Federated, May, Associated and CHH, when they all do the same thing, must be right. Any independent who does something different must be wrong.

The table below shows the nature of the advertising–indicating the number and percentage of items advertised in each category:

Store	Reduced Price	Special Purchase	Regular Price
Bullock's (Federated)	122 (84%)	13 (9%)	11 (7%)
May Co. (May Dept. Stores)	187 (92%)	14 (7%)	3 (1%)
Robinson's (Associated)	113 (67%)	3 (2%)	52 (31%)
Broadway (CHH)	166 (84%)	21 (11%)	11 (5%)
Nordstrom's	-0- (0%)	-0-(0%)	41 (100%)

RThought: Ohrbach is also scheduled for failure–its 11 items were all at regular price.

or be active. I see this in the bed and wheelchair residents in long-term convalescent hospitals. My Mother is one.

RThought: As the number of children supported per 100 persons in the work force declines, the parents look forward to spending that money on themselves, not in taxes to support the aged. More and more feel no obligation to provide financial support for their own parents.

WHO ARE THE MARKET-VALUE LEADERS IN RETAILING?

I am prompted to update the information that Stu Robbins (top retail analyst for Paine Webber Miller Hutchins) included in his massive compendium on retail stocks. Market value is the price per share times the number of shares outstanding. Can you guess the top 4 retail firms as of December 23, 1983? I will give you a hint. The No. 1 firm is Sears. (For answer see page 4, just above "Words"—but first fill in the lines below:

1. Sears
2. _ _ _ _ _ _ _
3. _ _ _ _ _ _ _
4. _ _ _ _ _ _ _

POLICIES ON GIFTS TO EMPLOYEES

This year RT received only 3 letters from retailers to suppliers advising them of the corporate policy on gifts to employees—from Jamesway (signed by Herb Fisher, Chairman, and Arlie Lazarus, President), from Montgomery Ward on Stephen Pistner—President letterhead (signed by Pistner and Arnold Suval, Chairman of Jefferson Ward Stores), and from Hub Distributing (Millers' Outpost—signed by Harry Greenberg, President).

We wish we had received more.

Harry Greenberg at Hub Distributing has a very simple policy:

> **"No Hub Distributing, Inc., employee is allowed to receive any gift or gratuity."**

He then makes the following point:

> **"Our employees are well paid, professional people. Please do not jeopardize their position, or yours, by violating this policy. Their decisions are influenced by your service, quality and price . . . not by gifts."**

The Pistner/Suval letter from Wards makes the following points:

> **"Some individuals and business entities believe that it is necessary to offer gifts or services to employees of companies with whom they do business to maintain a satisfactory business relationship. We believe offerings between business associates are unnecessary and counterproductive to a mutually beneficial, unencumbered and cordial relationship. In addition, such conduct raises serious legal issues.**
>
> **"We seek to continue business with firms who respect our position on business ethics."**

They attached a copy of Montgomery Ward & Co. "Conflict of Interest Policy." It goes beyond the question of Christmas gifts, but it does except from the policy "normal and reasonable business lunch and necessary dinner meetings as a guest or a resource" and "gifts of nominal value (no more than $50 cost, annual per source)." The policy sets up a Conflict of Interest Committee to which employees can take questions. Pistner/Suval in their letter invite resources to contact them directly if there are "any attempts to violate our strict policy."

In the Fisher/Lazarus letter the key paragraph includes:

> **"Nevertheless, of all good will that is brought on at Christmas, the desire to express your appreciation can sometimes lead to a practice we consider undesirable within the framework of business relationships; namely, the excessive exchange of Christmas gifts. We ar convinced that the tradition of gift giving at Christmas is misapplie when certain types of gifts are given to any member of ou organization by a representative of a company with whom we do business. In fact, we regard the acceptance of such gifts, however well intended, by someone in Jamesway to be a serious invasion of our corporate policy."**

Later in the letter token gifts are defined as having a value of less than $50.

RThought: I like the way Harry Greenberg puts it. There can be no misunderstanding.

It is like the story of the company that had to sign up every employee in order to qualify for a particularly good insurance program. One man held out. Each successive supervisor was unable to move him. Finally the boss came down to his department, gave him the form to fill out and demanded, "Sign it or else you are fired." After the employee completed and signed the form, the boss asked, "Why didn't you do this when the others brought this to you?" to which the employee replied, "Nobody explained it so clearly to me." Harry certainly explained their policy clearly.

SHORT SHORTS

If you thought variety stores were a dying (dead?) form of retailing, you had better send $4.00 (my guess at single copy price) for the October 1983 issue of **Chain Store Age Executive Edition** (425 Park Avenue, NEW YORK NY 10022). It may change your mind.

Stockholders can express displeasure with retail managemen that is so insecure they resort to 3 classes of directors, each class serving a staggered 3-year term. First National Supermarkets was afraid—and did change to 3 classes. At the 1983 annual meeting there were 2 shareholder proposals. One was to elect all directors annually, and it got 12.0% support. **RThought**: Being over 10%, the proposal can be brought up next year and every year as long as it gets 10% of the votes cast.

Retailers return to advertising in EBONY. The September issue had the following ads:

WALGREEN – 1 pg. color – hairspray with a coupon.
SEARS – 1 pg. color – big sizes, men and women; 1 pg. color – credit card, no application but telephone with special extension (may indicate EBONY response and thus probably black).
K MART – 1 pg. color – Classy Curl, mail order coupon.
RADIO SHACK – 1 pg. color – cordless phone.
FINGERHUT – 1 pg. color – Cannon towels with mail order coupon.
REVCO – 1 pg. color – hair care items with coupon.
BAKER-LEEDS – 1 pg. B & W – on shoes.

Did the airlines learn from department stores? Or was it vice versa? The announcement-program for the 73rd Annual Convention of the National Retail Merchants Association contained a bold coupon from American Airlines saying **30% DISCOUNT**. That sounded interesting. The back explained the "Special Meeting Saver Fare" which was applicable only fo January 6-13 (the convention is January 8-11). It could b 35% if the ticket was obtained prior to November 24. I called to get the price and found that is was 35% off $852.00 or

THE 1984 OUTLOOK

FOR SMALL STORES AS WELL AS BIG STORES

This is the time of year when everyone with access to the printed word makes projections for 1984. RT is no different, if for no other reason than to see that at least one sensible forecast is made.

As I read the statements of retail leaders about what will happen in 1984, I am certain that none will steal ideas from RT.

Let's start by looking back at what was said for 1983. The first paragraph could be a standing head:

> **It almost seems a waste of space to put out a forecast for 1983. It is essentially the same as the one made in 1982 and 1981 and 1980....**

Later I quoted from my 1974 forecast:

1. **Retail volume, for apparel and general merchandise stores, will be very good, thank you. In fact, the national figures will show a new record.**
2. **Profit levels may not be at record levels for all stores, but it will be for many, if not most, well-managed businesses or businesses now in a significant growth pattern.**

My friend, Professor Pete Bucklin at the University of California at Berkeley, admonishes those that forecast to forecast often. He doesn't have any rule about forecasting the same very year. I wish he would think about that one.

Retailing is a big glob that moves slowly and somewhat irregularly. Forecasters argue about whether real growth will be 5% or 5½%—a difference that means little to thee and me who are an infinitesimal part of that mass. Only firms that do more than $10 billion a year (you can count them on the fingers of one hand- K mart, Kroger, Penney's, Safeway and Sears) need worry about the impact of the national economy on their volume.

Virtually all other retailers are impacted more by the specific economies in which they operate—which may be as small as the north side of town or whether the auto or steel plant one mile away is open or closed.

But there are generalizations that can be made.

Contrary to the hope of most of the religions of the world, bodies that proclaim that virtue will bring its own reward, the dishonest retailers seem, in too many cases, to be operating more profitably than the honest retailers. I refer specifically to the standard of advertising.

Of course, those who do not have large advertising budgets because they are not large retail organizations are suffering. They don't even have a chance to find out if they could be more profitable if they were dishonest. They don't have any money to spend on advertising.

There is a salvation for the small retailers which will work in some cases. You could post the dishonest ads of your major competitors showing that only when the major competitor takes 20% or 30% off during sales do they reach your regular price. A few stores are doing that in their ads. Be specific on the item, have your facts, and clearly identify your competitor in that perfect "I-didn't-mention-your-name-but-they-can-guess" method. When a local Scandinavian furniture store mentioned "a local furniture chain," it was easy to check—there are only three groups that would be worth identifying as chains. I guessed right the first time (but checked the other two)—a subsidiary of that giant tobacco and retail firm, British American Tobacco identified in the U.S. as BATUS.

Another generalization can be made about mall vs. non-mall locations. Those who are not in malls have tremendously lower expenses (rent, common area, merchants association, etc.) and less traffic. If management is competent, then success can come either place. But if management is not competent, it becomes a question of whether you would rather go broke with low expenses or with high traffic.

My friend Bob Bearson (try 213-439-8725), who works with small retailers and helps shopping centers make better performers out of small tenants, was quoted in the Los Angeles TIMES for December 13, 1983 on the subject of small retailers trying to beat the malls.

> **"Individual retailers are trying to beat the malls by specializing in a certain type of merchandise, carrying expensive goods at competitive prices, keeping a flow of fresh merchandise, having regular sales and being personally involved in the business. The merchants who do all of those things reasonably well . . . will succeed no matter where they are located."**

I couldn't express the thought better than Bob did.

But let's look at some segments of retailing:

Home Improvement/Hardware: I think new building will pick up and sales of used homes will increase. Combined with improved consumer confidence this segment should do well. Warehouse type operations will probably do best—perhaps because they have attracted some of the top managers. The volunteer chains (ACE, Tru Value, etc.) will come in second because someone beats the independent into being a better merchant. (I always wonder about volunteer chain members who do not join the local advertising program.)

Price Club and emulators: This should be a great year—for one simple reason. I don't think any town will have stores run by two different operators. Like hypermarchés, this kind of store will thrive when there is no competition. But when there are two such stores in the same town, competition will center on non-price factors (how much business can you gain by operating on a 9½% gross margin instead of 10%) such as drop ceilings, a little decor on the walls, vinyl tile on the floor.

Off-Price Retailing: A great year for the well-managed ones. How do you tell a well-managed one? If it goes in Chapter 11 or is sold off, it was not a well-managed one. There are just three dark clouds on the horizon that could seriously impact the success of off-price stores: department stores might start advertising honest everyday prices, thus eliminating the basis of claimed savings at the 50% to 70% level; department stores might begin to provide the service that they charge for in their prices; and state laws might require the retailer to prove the claimed savings against "like merchandise sold in the same trading area in substantial quantity at the comparison price."

Men's stores: The crystal ball doesn't flash a big plus sign. Suits are not likely to come back dramatically—and in furnishings the stores compete with everyone from the department store through the off-price store to the local supermarket and superdrug store. Those that remember that you can run a PT list, keep names of customers and telephone them when new goods come in are likely to do well—but then they did well last year and the year before.

Department stores: It is harder to develop an image—establish a position in the market—when you have lots of departments than it is if you are going to open a store carrying the widest assortment of junior sweaters. Bullock's could not do it in Northern California (but Nordstrom's could and will soon do it in Bullock's old stores). Stix Baer and Fuller could not do it in St. Louis, but Dillard's probably will—working out of the same buildings. Department stores are particularly helped by the recent low number of openings of major malls. Some builders are even looking at the decline in the rate of population growth in major areas—and are delaying plans; and the smaller towns that have good population growth usually cannot support a 4-department store mall.

Furniture stores: I believe my fellow newsletter writers—Joe McNichols and Jack Brandwein (Box 584, PALOS HEIGHTS IL 60463 and 4731 El Camino, CARMICHAEL CA 95608, respectively), who write newsletters for the furniture stores. Joe concentrates on operating efficiency and budgeting; Jack on merchandise selection and promotion. Those independent stores that read both should do well. As for the furniture chains, they will be helped by the same general factors boosting the home improvement/hardware store group.

Jewelry stores: Performance should look better against 1983 sales because gold and silver prices should not decline so much. When jewelry sales were flat, we forgot that the price of gold dropping from $800 to $400 an ounce had an impact two ways: the same number of items sold totaled fewer dollars; and with the gold price not rising dramatically, people are no longer kidding themselves that they might make money on the 14K gold they buy over the counter in the local stores.

RThought: For my projection, please re-read the quotation from the January 1974 RT appearing in the fourth paragraph above. It has been right for ten years. Why change a winner?

SHORT SHORTS

Would you lay off people if you had to pay severance pay of 6 weeks' pay for the first year and 2 weeks' pay for each additional year? That level was reported as applying to some stores in the 1982 Annual Report of the New Zealand Retailers' Federation.

What happens when you buy American—buy an Arrow shirt? You have to do the trimming that Arrow used to do. I bought an Arrow Dover, made in USA, for $20 and had to trim 36 threads. Having lost weight, I am now using some Arrow Fenway Club Duro-Neat shirts from years ago, cost then $6, and have to cut zero threads. When shirts cost $6, Arrow had quality standards.

How much paper is there? Walter Kleinschrod, in his editorial in the June 1983 issue of **Office Administration and Automation** offers the following:

> Lehman Brothers Kuhn Loeb, the brokerage firm, estimates in a recent study that U.S. business generates 600-million pages of computer output every working day. That's in addition to a daily outpouring of 235-million photocopies and 76-million letters. Already in the files, from countless previous busy days, are an estimated 75-trillion pages of paper.

He suggests and **RThought** concurs: Are you distributing information or throwaways? Is there someone or some staff that reviews whether the information is needed and used? Remember when we used to test the need for a report by not distributing it and seeing if anyone complained?

Dillards is extending their P.O.S. Mark (Point-of-Sale Marking) security program to their entire central division. Specially trained clerks etch with an electric pen the customer's driver license number or a special ID number on burglar-sensitive items such as TV, stereo, small appliances, computers.

Equivocating Mercedes-style The statement that "The 300SD is $38,000* worth of automotive enlightenment" is footnoted to say "*Approximate suggested advertised delivered price at port of entry." Approximate? Suggested? Maybe? ? ?

For years Florence Glynn was the Financial Aid Officer at Harvard Business School—where, naturally, she was known as Cash Flo!

Stiff and profitable layaway rules are applied at Dimensions, an off-price retailer in Los Angeles. Must be $39 or more, 30% down, no cash refund after 7 days, maximum 30 days.

Shoptheft is a problem around the world. I think the New Zealand Retailers' Federation does a much better job of warning people about the penalities for shoptheft than do campaigns in the United States. If you want to see more of their ads, write Barry Purdy, Executive Director, Box 12086, WELLINGTON NEW ZEALAND.

Does the public use the Better Business Bureau? Yes! The number of inquiries **about firms** outnumbers the number of **complaints** roughly 4 to 1 (6 million to 1.65 million). Store retailers do not appear among the top 15 types of inquiry—but when it comes to complaints, home furnishing stores are 5th, department stores 7th and apparel and accessory stores 14th.

The S.E.C. will be shooting down golden parachutes if they adopt the recommendations of the Advisory Committee on Tender Offers. Once a takeover starts the target company could not establish "golden parachute" arrangements. Firms would have to disclose such protective arrangements annually—and submit the provisions to shareholder approval. Raiders could not acquire more than 20% on the open market before making a tender offer to all shareholders (this latter works well in other countries).

Waldenbooks is now Waldentapes, mail order at $6.95 each, on subjects such as "How to Manage Stress," "How to Delegate," "Creating Wealth" and all the other things managers and prospective managers need to know.

$553.80. I asked if I could stop in Chicago on the return and was told "No"—BUT I could use the Super Saver Fare and stop in Chicago—all for $547.50 or $6.30 less. JUST LIKE A SALE IN A DEPARTMENT STORE THESE DAYS—THE DISCOUNT IS OFF A PRICE AT WHICH LITTLE IS REGULARLY SOLD. (P.S. My wife will join me in New York and her fare (SF-NYC-SF) will be $458.00.)

Some businesses survive a long time—the back of the truck said FRESCOBALDI—Vine Growers since 1300.

We think of Marines in fatigues and battle garb, in Lebanon and Grenada—but I saw officers and non-commissioned officers in the Marriott Hotel in Santa Ana, each with an attache case. They have room for a few good men—with a wide variety of skills.

If I ever saw an ad for gold jewelry at list price instead of "Our entire stock of 14K gold ___% (enter number from 40% to 70%) off," I would know I had found an honest merchant. But I haven't seen that ad.

Dart Drug-Thrifty Corp—Arthur Andersen—Prudential/Bache's abuse of general concepts of accounting (although not formally violating Generally Accepted Accounting Principles because GAAP is silent) in reporting financial data on underwriting of Crown Books and Trak Auto has led the S.E.C. to promptly issue Staff Accounting Bulletin No. 55 to insure full information on the true cost of operating companies going public. RT considers that Arthur Andersen failed to fulfill an ethical obligation in signing off on both financials (AA also serves both parent corporations) by showing abnormal and unsustainable (on a free-standing basis) operating results resulting from charging only "incremental costs" and no imputed interest on massive interest-free loans. The four parties slipped Trak Auto past the S.E.C. but were forced to revise figures on Crown Books. THIS IS PROOF THAT THE ACCOUNTING PROFESSION IS NOT CAPABLE OF SELF-REGULATION AND THAT THE S.E.C. IS ABSOLUTELY NECESSARY FOR THE PROTECTION OF THE PUBLIC.

If K mart advertising people could spell, they would not be item-ized by San Francisco's favorite columnist, Herb Caen, who merely reprinted the following: "Attention K-Mart Shoppers! Our AM-FM digital clock radio sale priced at $14.88 may likely be unavailable due to **unpresidented** (emphasis added) demand." **RThought**: In theory all ads are checked by the advertising department and the merchandise department. I don't publish equally bad (stupid) mistakes by clients because they don't get sent to newspaper columnists.

For years I have told retailers they should thank their good charge customers as regularly as they dun their poor charge customers. A retailer finally did it—our local drug store which, because it does things like this, has grown into a $50 million chain over the past 15 years.

"THANK YOU"

You're the kind of customer Bill's Drugs is proud to have. We appreciate the fine manner in which you've handled your account.

May we have the privilege of continuing to be your personal Pharmacist.

Sincerely,

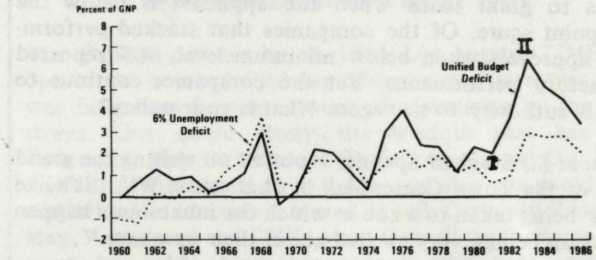
Bill Eames

Bill Eames

Let a chart save 1,000 words in putting the deficit in perspective. The chart below shows the deficit as a percentage of the Gross National Product—and the solid line shows that by 1984 it will be at a level not attained since World War II. The deficit will equal $1 for each $16 of everything produced in the United States this year. Part of the problem is that business is no longer taxed—$520 billion (85%) of the 1982 federal government total receipts of $614 million consist of personal income taxes and Social Security contributions (including the half paid by the employer). The remaining $106 million consists of corporate income taxes, windfall taxes, excise taxes, customs duties, gasoline taxes, etc., etc. **RThought**: In our local communities the United Way asks each of us (including corporations) to give our fair share; the federal government does not. Mr. Reagan has accomplished what Messrs. Truman, Eisenhower, Kennedy, Johnson, Nixon, Ford and Carter were unable to do—adopt policies that wipe out gains since WWII.

EKK
1/13
94 K

Federal Deficits as a Percent of Gross National Product



Source: Congressional Budget Office

Confusion within a conglomerate! In the Los Angeles TIMES for December 8 there was a double-truck headlined "COUNT ON LUCKY FOR A LOWER TOTAL" (Part VIII pages 30-31) and later a full page ad headlined "GEMCO WIDENS THE GAP" (Part VIII page 49) with the first copy line reading, "Week after week, Vector Consumer Shopping Guide . . . shows Gemco to be the lowest priced supermarket." Of course, Lucky Stores owns both operations. **RThought**: Both cannot be true—unless the two pages for Lucky presumes the readers will shop at Gemco to get that lower total.

On the matter of formal management education, Sterling Livingston, a former professor at Harvard Business School and historian of our class (1940), now a consultant and philosopher to the current business scene, has observed that an MBA degree, for example, can hurt management skill. It overdevelops analytical ability and fails to develop the ability to identify the real problems. When you have a chance to observe at close range an outstanding manager who has never gone to B-School, you will understand what Sterling is saying.

Remember when Xerox was going to out-Computerland Computerland? They did open 54 stores although you may not have noticed; Computerland has passed 500. Now Xerox is selling 43 stores—they do not indicate whether at a profit or a loss. Can DEC be far behind?

7-Eleven will take more business from other retailers now that they are honoring Visa and MasterCard in more than 500 Los Angeles area stores as a test covering 4 western divisions. (The Nilson Report, No. 318, Box 49936, LOS ANGELES CA 90049 $306/yr.)

Stanley Marcus has modified his writings on "Quest for the Best." In the November 20, 1983 **Dallas Life** section of the **Dallas Times** in an article about the new Bloomingdale store in Dallas, Marcus is quoted.

"First: Bloomingdale's is patronized by rich hippies, a rebellious group who buy very way-out avant-garde things regardless of cost in order to demonstrate a sense of difference. You don't see the same numbers of those people down here that you do in New York.

(Stanley—have you noticed the boots under expensive tailored suits in Dallas?) Second: I don't think Bloomingdale's will put anybody out of business. The things they have had success with in New York we've never felt were appropriate outside of New York."

I. Magnin (Stanford Shopping Center, Stanford, CA) promised a pre-reopening party in the remodeled store on November 12, 1983, so completion was rushed. In the cosmetics department the following was on a fixture, not yet painted over:

Here Lies John Burley's Glue Bottle + Rest in Peace

He forgot to take it out before putting up the panel!

Judgment spoils point scoring, according to a survey made by Fair Isaacs of finance companies that allow branch office managers to grant loans when the applicant is below the cut-off point score. Of the companies that tracked performance of approvals when below minimum level, 86% reported unsatisfactory performance. Yet the companies continue to grant this authority to managers. **What is your policy?**

British poet Sir Stephen Spender reported on visiting the grand opening of the Town Center Mall in Charleston, WV, "It's like suddenly being taken to a zoo in which the inhabitants happen to be human beings, very excited about their new cage."

Now even Best Products cannot cover the cover item, as shown below:

In view of Federated's lack of success with Gold Key (closed), Gold Triangle (closed), Gold Circle West (closed), Bullocks North (closing) and Fedway (long gone), Federated might find it wise to check the design and location of their new chain (8 to 10 stores by 1985) in Chicago with Mervyn's so that if their imitation fails they will find it easier to sell the stores than they did in the other startups.

Let's hope Beneficial Corporation checks credit references better than they check on new directors. In the Third Quarter (Sept. 1983) report they announced that Sigfried Weis, president of Weis Markets, (the highest profit margin food retailer in the country) was "a member and former director of Supermarket Institute"—SMI became part of FMI years ago.

A lifetime warranty was offered by Garden of Eden Computers in their 1st Anniversary Sale!

Things I never thought I would ever see:

1. Brass turn into gold.
2. Nunn Bush shoes sold in a Gallenkamp store.

Now where did I put that old brass tray?

How good is research at Fairchild Publications? Consider that their **Sport Style** calendar for 1983 had 31 days in November. I always did feel that newspaper people should take a course in Poetry—now all together—"Thirty days hath . . ."

Proof that offering what the customer wants pays off. Nordstrom's entered the California market at South Coast Plaza with a 120,000 sq. ft. store—at about the same time that Neiman-Marcus entered that market with a store the same size. First year sales at Nordstrom was about twice N-M. Now Nordstrom's is getting a new building in the same center—225,000 sq. ft. **RThought:** I can recall when Nordstrom's was planning to enter the California market with a series of 30-50,000 sq. ft. stores in the San Francisco area. Consider how fortuitous it was that the original plan did not go into operation—for now Nordstrom's is taking over 3 large Bullock stores in that territory to add to the one they built.

Here are the top retailers by market value:

1. Sears Roebuck	$13,201,000,000
2. Wal-Mart Stores	$ 5,231,000,000
3. Tandy Corporation	$ 4,527,000,000
4. K mart	$ 4,193,000,000

Remember when looking at prices per share that Wal-Mart has 9% more shares outstanding then K mart and 29% more than Tandy.

WORDS THAT ARE MAILED

You probably sent out Christmas cards to dozens, even hundreds of people. Some even send cards addressed to business firms! There appears to be a competition to send cards that are more elaborate, more expensive and that makes them less of a message and more of an advertisement.

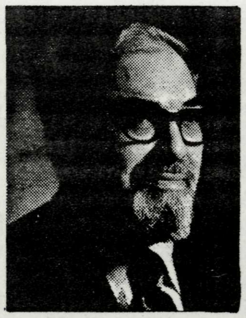
Some arrive at RT in typed envelopes and some are obviously addressed by a secretary or an assistant. A few have a single name written at the bottom of the message—Joe or Jim or Henry. Those can be signed at the rate of 30 or 40 a minute.

I send cards for a different purpose. Each is important to me and each contains a note, perhaps as long as 200 words, to the person at the other end. I always have a goal of getting them out by December 15 which becomes the 20th and then the 25th—the last one is usually sent New Year's Eve.

Many go to people who have served with me around the world in the Air Force—Abadan, Iran; Leyte; Yokota AFB, Japan; Nouasseur, Morocco. They also get the annual letter telling what has happened to our family during the past year. This is supposed to be corny, blasé, lower middle class—but I hope each enjoys reading our letter as much as Patty and I enjoy reading theirs. Some are to friends from Stanford or the B-School who are spread to the four winds.

As I write, a little of me and Patty goes to them. As I write, I think back to the days together. In recent years I have too often been writing to widows, and I try to tell them again what fine men their husbands were and a story or two they may not know that confirms my statement.

It is my way of being my brother's friend.



RETAILING TODAY

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ROUTE TO

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THE 73RD ANNUAL NRMA CONVENTION

One of the pleasures of attending the National Retail Merchants Association's 73rd Annual Meeting, beyond the fact that there was a break in the New York winter weather for those days, was being with a new CEO of a client, a smaller department store in California, who attended for the first time. I savored the stimulus he got from the sessions and the business show. Immediately on his return, and in time to apply part of his registration fee, his management committee approved joining NRMA.

But there were dozens of old-timers who attended more for a chance to see old friends (and in a few cases look for new jobs) with the idea (partially true) that there was nothing new to be learned, at least for their large firm.

I was struck by the increased number of displays professing to have the answer to internal and external theft. If a store adopted all of the ideas, it would operate with a siege mentality and utilize only those people who would agree to a monthly lie detector test (or the written equivalent). I think the security booths exceeded the ones professing dramatic productivity increases although not by much.

The Annual Retail Industry Luncheon still has one of the largest "head tables" in captivity–some 111 names listed although, as always, there were some no-shows. It was wonderful to see that Professor Malcolm McNair, now in his 90s, (not a young man when I studied under him more than 40 years ago) can still make it from Lead, New Hampshire in the middle of winter. Mac was the 1952 Gold Medalist and was seated next to Emeritus Dean of the Business School at NYU, Dr. Charles Edwards, who was the 1958 winner.

But I was disappointed in the comments of the 1984 Gold Medalist, Allan R. Johnson of Saks Fifth Avenue and BATUS, and the International Medalist, Georges Meyer of Galeries Lafayette. Neither gave credit to the people working with and for them. This was in marked contrast to the remarks of Donald Seibert of J. C. Penney and Lord Sieff of Marks & Spencer, who won medals in 1983. Both graciously gave much of the credit for their accomplishments to the people in the organizations with which they were associated for almost all of their business careers.

I remember the sign behind the desk of one of my three retail employers, Sherwood Swan, which read: "No man builds a business; first he builds an organization and the organization builds the business."

RThought: Soon the NRMA will have its first discounter/off-price retailer as chairman. Sumner Feldberg of Zayre appears next in line.

DO WE WANT ALL GOVERNMENT OFF OUR BACK?

RT has warned about potential dangers of reduced inspection of airlines during periods of extreme operating losses, a matter that should concern frequent flyers. Now comes the report that since national standards for manufactured (mobile) homes were established in 1976 the number of fire related fatalities has declined by 75%. The free enterprise approach of not buying another home from the manufacturer of the one that killed you or your family is hardly a restraint on manufacturing economies that endanger life.

RThought: There are many areas where government and bureaucracy unreasonably restrict progress and/or create unnecessary additional expenses, but the answer is not to remove all government functions. Top executives in retailing should have the intelligence not to make sweeping statements about removing all government control; should specifically identify those that should be removed; and should be able to support with facts the basis of their recommendation.

MONTGOMERY WARD ANSWERS BACK

Normally unsigned letters bother me–no reader of RT should ever feel it necessary to send something without identification. If you want the correspondence to be private, it will be. If you want your name withheld, it will be.

But this is an exception. In the October 1983 RT under the heading "Bragging in an apology" we reproduced an ad run by MW explaining that they were out of two special refrigerators included in the tabloid in the same paper because the sale pulled 250% more than any refrigerators they had sold previously.

I closed with the **RThought**: "I hope this ad is giving us the cold dope."

In a plain brown envelope without return address or signature (no pornographic material) postmarked in Chicago came an item that appears to be from a MW internal publication headed "Refrigerators sell out, Admiral pitches in." It traces the history of the joint development of the promotion with Admiral, projecting 100% over the previous best promotion. But the timing was right and the product was sold out while pre-printed tabs were beyond change. The ad reproduced by RT was the solution. But beyond that, Admiral went so far as to open the plant a week early from the vacation shutdown period to try to produce enough to cover the rain checks.

RThought: In too many cases store-vendor cooperation is not working these days. It is good to see it did at MW. Now if the anonymous writer will just identify himself, I would like to thank him for the material he sent.

DO YOU WANT TO CUT TURNOVER AND ABSENTEEISM?

I think the answer is yes.

Let's look at some facts:

1. A higher percentage of women with children under 13 are working.

2. A higher percentage of women with children under 6 are working.

3. In many cases this means both parents are working.

4. Many of these women are employed in retailing.

5. Our society is not providing adequate day care for children under 13.

6. Problems that mothers have in providing care for their children under 13 (more specially those under 6 and very specially those under 1) cause mothers to quit jobs (after you have spent considerable money training them).

7. Unavailability of day care often means absenteeism and extra cost to you.

Now let's look closer at the situation:

1. Approximately 13 million children 13 and under are in households where the parent(s) work full time.

2. There are roughly 1 million slots in child care centers.

3. Approximately 6.8 million children 13 and under are cared for in another person's home or in the parent's home by relatives or non-relatives.

4. Approximately 7 million children 13 or under care for themselves when they are not in school.

5. Subsidies for full-day care for low income families under Title XX of the Social Security Act were cut from $800 million in 1977 to $650 million in 1980 and even more since then despite inflation. This cut the number of children served from 800,000 to 650,000.

6. More parents are taking advantage of tax credits. These allow 30% of the first $2,400 ($720) in expenditures for 1 child or $4,800 ($1,440) for 2 or more if adjusted gross income is less than $10,000. This drops to 20% of the same limits as adjusted gross income rises to $20,000 or more. For many people at the $10,000 or less level, the cash benefit is much less than the amount allowed—taxes on a single person with 1 child would be $787 and with 2 children would be only $637; for a married couple with 1 child taxes are only $423 and with 2 children only $293.

7. Food stamp and free or low cost lunch programs have been cut.

8. Non-governmental child care facilities have not picked up the reduction due to the government actions.

The surveys that have been conducted confirm what you, as employers of these parents, already know—care for children 13 and under is a problem when a single parent works or when both parents work:

1. A Family Circle magazine survey showed this to be true for 30% of working mothers who had to change arrangements in the prior two years and another 30% who let children under 13 stay home alone after school.

2. A National Survey of Working Women (80,000 sample of which one-third had children 13 or under) reported a need for child care facilities in the case of 36% of those employed in professional, managerial, and technical fields and 29% of those employed in clerical, sales, service and blue collar fields.

3. An increasing number of conferences are being held on the question of child care arrangements for working women. One consultant reported that she could find a record of only 2 conferences on employer-related child care services in the 1968-78 period while she, alone, spoke at over 50 such conferences in 1981-82.

4. Hospitals have been especially active in providing day care facilities, partially because the service fits in with the kind of service they provide, partially because they employ a high percentage of women and partially because shift work creates special problems. They already have feeding facilities in place.

5. The military services operate more than 500 facilities with a total rated capacity of about 70,000. In recent years attention has been given to upgrading the quality which, in the past, was mainly custodial.

6. In 1982 only about 170 centers were known to be operated by industries, labor unions, federal agencies (for their own employees) and hospitals, a slight increase from the 105 identified in a 1978 survey.

What are the services that are needed?

1. Actual day care centers with special emphasis on those that take pre-school children or infants. Hours must match working hours.

2. Flex hours to allow employees to fit work schedule to existing day care center hours.

3. Sick leave allowed when a child is sick.

4. Direct subsidies, either through vouchers to the employee or employer operated facilities.

5. Modification of work rules so that both parents can work at the same facility.

6. Seminars on how to select and evaluate day care centers.

7. Information and referral services.

What measurable benefits have been shown?

1. The 292-capacity center operated by Intermedics in Freeport, Texas in the first two years of operation reduced turnover 23% the first year and 37% the second and reduced absenteeism by 15,000 hours for a total estimated savings of more than $2 million.

2. A Minnesota survey, where there has been more activity than in most areas to operate industrial supported centers, of 473 businesses reported that in each of the categories—improved productivity, reduced absenteeism, recruitment of new employees, reduced tardiness, and employee morale—67% to 85% reported a positive impact.

RThought: You know and I know that this is a serious problem for every major retail firm. For some reason we seem to close our eyes to it.

We provide and subsidize employee lunch rooms, employee parking and employee purchases. We provide hospital and medical benefits. We support the United Way which provides some funds for day care centers but far less than we know is needed.

STRATEGIC PLANNING–TO FAILURE

The headline said, "Liberty House Stores on Block" and the article reported that Amfac wants to sell its 10 ailing Liberty House of California stores. Myron Du Bain, president and CEO, said they could have been profitable in about five years but that was too long to wait.

I immediately thought back on the history of Amfac retailing on the mainland. Amfac always throught they were master merchants because they were successful in Hawaii, not recognizing that there were special factors that permitted them to establish their Hawaiian position against lesser competition.

My connection with their mainland efforts come on several fronts. The 375,000 sq. ft. Oakland Liberty House was originally Kahn's, opened by my granduncle and Father in 1914. At one time Amfac had RhodesWAY discount stores, which included a location from Simon Stores (then in Chapter 11 and a company on whose board I served). And I have, of course, watched the rise and fall of J. Magnin from their acquisition to their disposal (and since then).

Let's go back to the beginning–from data in a file about ten inches thick on Amfac.

JM–the November 25, 1968 article was headlined "Amfac deal for Magnin a puzzler." There was a whirlwind courtship and a price Cyril Magnin could not refuse–$31 million, half cash and half 5% debentures–for a 31-store chain doing $50 million and netting $1 million.

JM was run by Cyril, his sons Don and Jerry, his daughter Ellen Newman and her husband Walter. I can recall a talk by Don Magnin– he said, "We cater to a JM customer. We will put a branch only where there are enough JM types to support a store." But that policy waivered while still controlled by the family. They opened up an eminently unsuccessful store on the Hayward strip–the wrong town and on the wrong side of the street–because they were rumored to have been given (or sold cheaply) an interest in the building.

In 1970 Amfac acquired Rhodes Western Department Stores–probably the worst structured chain in the United States. Started by Ben Schlessinger in the mid-1920s after he had been at The Emporium and partially owned the City of Paris (both in San Francisco), Schlessinger bought Kahn's in Oakland (which he renamed Schlessinger's), Olds, Worthman and King in Portland and Rhodes in Tacoma–one store for each son. The depression was not kind and the firm went through a reorganization with control passing to the bond holders with Herbert Clayburg and John Reilly, Sr. ending up with a majority position.

After World War II, Rhodes Western undertook expansion of an unusual kind. They did not try to become a major store in any area. But they opened cold in places like Fresno and Sacramento, followed by tertiary or worse positions in Phoenix, Albuquerque and San Antonio. At the time of the acquisition by Amfac, Rhodes Western was doing about $65 million in 13 stores stretching from Tacoma, Washington to San Antonio, Texas and was not dominant or even number two in any market.

But the miracle of Liberty House Hawaii was supposed to correct everything.

In fact, the Amfac annual report for the year ending January 1971 said that the Liberty House name would be introduced in the U.S. in 1971 in the Eastridge Center in San Jose and in 1972 in Sacramento and Hayward, hardly the propitious places for what Amfac described as a name "synonymous with quality merchandising."

So the San Francisco Bay Area soon had a hodgepodge of Liberty House and Rhodes department stores operating independently.

In 1971 Amfac also wanted to prove again that they were miracle retailers and acquired four failing discount stores under the name of Baza'r–and quickly added three more stores, two of which they built.

But something was happening to JM–sales were off in 1970 "owing in part to the general decline in U.S. retail activity and in part to the fashion controversy over whether and by how much women's skirt lengths should drop" (remember the battle?). In 1971 JM opened in Hawaii and was later to open one of a scheduled 11 stores in Japan (the others did not follow).

In April 1971 Women's Wear reported that prospects for JM were good and Amfac was looking for Rhodes locations in El Paso and Corpus Christi! JM branches were to be opened in Amfac hotels.

Amfac spent $31 million for JM, $17,250,000 for Rhodes (Series B Preferred), $3 million for the Baza'r Stores and something for the Wolff & Marx store in San Antonio.

In 1972 there was more expansion and acquisition. Amfac bought the failing City of Paris in San Francisco and the Gano-Downs chain in Denver which stores were converted to JM, but 2 Gano-Downs men's stores were open. In the Bay Area 4 Rhodes stores were converted to Liberty House even though they did not cater to the middle to upper income Liberty House prospective customer.

As a result of all these acquisitions, Henry Walker, CEO of Amfac, was selected as Man of the Year by the Hawaii Business magazine–and reprints of the glowing article about him were sent out as part of the Amfac annual report for the year ending December 1973.

By 1974 things were really falling apart. The 5 RhodesWAY discount stores were sold at a loss of $3.2 million, with one converted to Liberty House (did you ever see a 100,000 sq. ft. discount store, all on one floor, convert to a better quality department store when located in a middle to lower-middle income area?) and another changed back to a Simon hardware store. They lost money on that store because of a peculiar provision of the concession agreement that Simon's had as a result of selling the master-lease to Amfac.

In 1974 there were additional losses of $1.4 million from RhodesWAY, and people from Liberty House-Hawaii were sent to the mainland to help Liberty House-California and the Rhodes Southwest division. An extra 1% shrinkage was reported for 1973.

At this time Amfac was emphasizing something called RONA–return on net assets. Everything, they said, was going to be fine.

By 1977 things were difficult although the Amfac shareholders did not know that the LibertyHouse-California and JM stores were operating at a loss and would continue to do so at least until 1979.

Rhodes stores in Arizona, Texas and New Mexico were merged into Liberty House-Mainland and bought for out of Oakland. In August 1977 the liquidation started—all for the purpose of making a stronger company. The first Liberty House store opened on the mainland, in the Eastridge Shopping Center, was sold to Emporium (Carter Hawley Hale). Agreement in principle was reached to sell the 5 stores in Oregon and Washington to Marshall Field as part of Angelo Arena's plan to spread into competition with all major retail chains that might want to acquire Fields (having been frightened by the CHH takeover attempt). Expanding the Frederick & Nelson operations into Portland would put Marshall Field in competition with May Department Stores for the first time.

The Gano-Downs stores in Denver were sold—and on the last day of the year JM was sold at a loss of $21.3 million (later to be greater when that deal fell apart).

As an aside, JM was finally taken over by Hillman family interests (the largest single venture capital investors) in partnership with a 30-year J. C. Penney man, just the formula for a successful high-style specialty store for women.

On November 22, 1977 Women's Wear Daily quoted Henry Walker as saying, "This is probably our last chance." But it took six years to finally face up to the facts—and a new CEO at Amfac (who left on short notice from his position as CEO of Fireman's Fund Insurance Company just before disclosure of losses of some $140 million).

In 1978 Amfac sold the two Phoenix and one El Paso stores to Allied Stores—now operating them under the Joske name (after converting Titche's in Dallas to Joske's). Plans were made to sell the Albuquerque and 2 San Antonio stores.

The announced loss on the northwest and southwest stores was $1 million each.

Starting with the first quarterly report of 1979, we find that LH-California showed a minor loss and was believed to be moving "into a positive earnings position." The second quarter reported it was "moving steadily closer to profitability." In the third quarter the "results were 57% better than last year (without indicating whether the loss was cut or the profit increased). The annual report disclosed the first profitable year since 1972.

In 1980 they said the success "continued into 1980."

In the 1981 report, Amfac said "in 1982 . . . (we will have) a very attractive highly competitive Northern California chain."

In the 1982 10-K they reported that in 1983 the "highly competitive chain" would be merged into LH-Hawaii and virtually all the mainland merchandising staff eliminated.

In January 1984, in time to carry back the write-off into 1983 which would have been a terrible year anyway (now a $68 million or larger loss), Amfac announced the sale of Liberty House-Mainland; and by the time you get this newsletter, many of the stores will have been acquired by Macy's for separate Home Center stores, particularly the downtown San Francisco store which is across Stockton Street from the main Macy store. Macy's California will thus move well past $1 billion in sales and be comfortably ahead of Macy's NY.

What has Amfac gotten for all this well-planned invasion of the mainland? Let's add up the known items:

$4.6 million loss of Baza'r stores

$21.3 million loss on sales of JM

$2.0 million loss on sale of NW and SW stores

$10.0 million loss on sale of Liberty House-California

This does not include the operating losses year after year and charges for interest which are not included in operating costs. Probably the entire venture cost $60 to $100 million.

RThought: I was struck by the fact that all the annual reports showed a big picture of Henry Walker smiling. I had the feeling the pictures were taken before the mainland invasion.

The entire 14 years should be made into a case study on how **not** to plan retail expansion. It is apparent they did not know their markets on the mainland. There were frequent changes of CEOs—JM had 3 different presidents in one 2-year period, and the last two remade the business in the image of what they had been running **before** they went to JM.

Rhodes/Liberty House had somewhat fewer changes.

But we must put a $60-$100 million loss in perspective. Amfac carries tremendous Hawaii acreage on their balance sheet at absurd figures. In some transactions they sold shopping center land in 4-8 acre parcels for $3-$4 million an acre. Their assets could tolerate this type of mistakes for a long time to come.

But it is a wise decision to stop the losses and reconcile one's self to being the leading retailer in Hawaii where, at the present time, Sears is the main competition, although one wonders about the purchase of an off-price chain in Pennsylvania.

At Press Deadline: As expected, Amfac is selling a little more real estate to offset retail and nursery losses. On January 25 they announced the sale of 100 acres in San Diego at a gain of $6.7 million followed by the sale of their Silverado Resort in Napa, California at a gain of $5 million.

SHORT SHORTS

Robinson's does it honestly. They sent out an "After Christmas Clearance and Sale" mailing with 10% extra discount for "JWR Charge Customers Only. December 26-31 Only." A reader of RT called and asked if he could get 10% off—but he did not have an account. The salesperson said, "NO, but if you come in, you can open an account and then you can get the discount."

Did WWD report the Abraham & Straus change correctly? Five budget departments averaging 15,000 sq. ft. (total 75,000 sq. ft.) are being closed with the remark that they "accounted for less than 5% of $650 million sales." If that means $30 million, it is $400/sq. ft.; if that means $25 million (4%), it is $330/sq. ft. I don't think operations with sales in the $300-$400 per sq. ft. range should be unprofitable.

We somehow feel that we can close our eyes to the problems of working mothers with children 13 or younger–and then we complain about the turnover, lateness and absenteeism (as well as the decline of the American family).

We know that our employees are willing to pay a substantial amount for child care, so they are not looking for a free ride, just some help.

Many of our stores are clustered, either in a downtown area or a shopping center. In a 1,000,000 sq. ft. shopping center there ought to be someone–probably the center developer–who takes the lead in building a day care center into the center. He should do this if for no other reason than pure, simple greed. If the developer can use this means to reduce the labor turnover in his tenant stores, the better sales and service that will result will pay him back in incremental rent income.

But the responsibility still rests most heavily on the employer (and his greed) to want a lower turnover rate and thus retain more experienced and better qualified people.

It is easy to start organizing your thinking on this. Read, as I did, "Employers and Child Care: Establishing Services Through the Workplace" prepared by the Women's Bureau, Department of Labor. Write the Bureau at WASHINGTON DC 20210 for your copy. It even contains the questions you can put in a questionnaire to your employees to find out the seriousness of your problem.

HOW BALONEY FIGURES ARE CREATED

The article in Chain Store Age–General Merchandise Edition for January 1984 made the following statement about a study done by Arthur Young for the National Mass Retailing Institute:

> "**Retailers attribute** 50% of shrinkage to employee theft, 30% to shoplifting and the remainder to sloppy paperwork" (emphasis added).

By the time it got into the February 1984 issue of Changing Times the statement was:

> "But store employees account for half of all pilferage losses, **concludes a study by the accounting firm of Arthur Young** " (emphasis added).

RThought: There is a great deal of difference between Arthur Young reporting that "retailers attribute" 50% of shrinkage to employee theft (retailers have absolutely no facts upon which to base this, but they have heard so many other retailers, accounting firms and security specialists report this as a fact that they accept it) and having Arthur Young "conclude" that employees account for half of all pilferage losses.

This silly survey conducted every year adds little to the knowledge of retailing and certainly doesn't assist in making any operating decisions. It is sort of like the forecasts of the economy by months or quarters for the next five years–a wasted effort.

I don't object to Arthur Young collecting this information; I just object to its being included in a study that professes to be quality research.

But then, again, Arthur Young does have services to sell based on the fear that half of the shrinkage is attributable to employee theft.

FOOLING WITH FIGURES

Recently I received a solicitation from Mike Farrell, better known as B. J. Hunnicutt of M*A*S*H fame, asking for a contribution to the National Coalition to Ban Handguns. He said, "22,000 Americans now die from handgun wounds every year, and it is getting worse."

I wondered how much worse, so I did a little delving. Between the "1982-3 Statistical Abstract of the United States" and the "Historical Statistics of the U.S. from Colonial Times to 1970" I had some numbers to work with. Information is available for homicides and suicides by means of firearms (both handguns and long guns).

My first discovery was that we did not have figures from all states until 1933. The frequency of homicides and suicides is cited in terms of the number per 100,000 population. The most recent figures available (from these sources) for homicides were for 1981 and for suicides 1979. I then compared the rates for the most recent available three years and the first three years of figures for all states. This information is set forth below:

Year	Homicides Rate/100,000 Population	
1981	5.47	
1980	6.01	Average 5.77
1979	5.82	
1935	5.11	
1934	6.09	Average 5.82
1933	6.26	

The homicide rate for 1933-35 includes firearms **and explosives**, but I feel that explosives were a very minor factor.

It appears that over the past 40-50 years the homicide rate by firearms has changed very little–the decline in average for the two periods was less than 1%.

Now let's look at suicides, again remembering that the 1933-35 figures include suicides by explosives (again, I think explosives were not significant):

Year	Suicides Rate/100,000 Population	
1979	6.95	
1978	6.95	Average 7.08
1977	7.34	
1935	5.37	
1934	5.77	Average 5.78
1933	6.21	

From these figures it is apparent that there has been a significant increase (more than 22% between the averages for the two periods). More important, the rate of suicides by firearms is now greater than the rate of homicides by firearms. It may well be the case that a lack of firearms may not deter one bent on suicide–there are other means readily available.

RThought: We are more conscious of murders by firearms because today both newspapers and TV report cases from areas further from where we live. A murder in New York City can make the front page in Palm Springs, California today–but did not 40 years ago.

The efforts of groups such as the Coalition to Ban Handguns is spotlighting this problem so we are all more conscious of it.

Those retailers that sell all kinds of guns, but particularly handguns, are under increasing pressure from groups that would make the possession of all handguns illegal.

Many call the National Rifle Association the strongest lobby in Washington and certainly they have spent much money on their position.

But the basic question of whether the rate of murders committed with firearms has increased must be answered NO; in the case of suicides the answer is YES. During the same period the death rates from many other causes under individual control (heart disease, lung cancer) have increased dramatically and are higher than deaths from firearms.

Information back to the 1933-35 period is not available for accidental deaths from firearms but recent figures show that this is moderately declining—and is minor (well under 10% of all firearm deaths).

All homicides are crimes against society and should be punished; and all suicides, in one way or another, are an indication of failure within our society to meet the problems of individuals. But the crimes (homicides) committed by firearms are not radically increasing when expressed in relation to our population. To say otherwise distorts the figures.

RThought: The purpose in discussing these emotional statistics is not to take sides but to make readers conscious of the problems of using a single number for a single period. I am reminded of the football coach who diverted a player from another school by pointing out to the prospect's mother, with appropriate emphasis, that the other school was co-educational, the boys and girls shared the same curriculum and they matriculated together.

WHAT IS THE PURPOSE OF A TRADE ASSOCIATION?

I am fortunate in receiving material from a number of retail trade associations around the world—in addition to ones like National Retail Merchants Association, National Mass Retailing Institute, Menswear Retailers of America, Association of General Merchandise Chains, National Association of Convenience Stores and others. I receive the mailings from the New Zealand Retailers' Association, Retail Council of Canada and indirectly (through publications), the New South Wales and Victoria Retailers' Federations in Australia plus various groups in South Africa.

In the United States we have a mixture between national and state associations with the national being, in most cases, the service-providing association while the state associations are primarily lobbying. Providing training on a national basis presents a problem for a country the size of the United States. Most of the national meetings are what I would call informational rather than instructional; they give a glimpse of the many facets of retailing such as advertising, promotion, EDP, control, transportation, credit, etc., without providing training.

It is for that reason that I am particularly struck by the work being done by the Retail Council of Canada; they emphasize training people within the industry. Consider these three recent mailings:

1. **Negotiating Skills for Retailers.** This 2-day seminar was aimed at negotiating with suppliers, service specialists and landlords, but also included how to make an effective management job offer and how to get support from your bank.

2. **Professional Buying Workshop** dealt with the customer in the '80s, selecting a supplier, the buyer as promoter and advertiser, key problems facing buyers, types of buying, negotiations, inventory control, merchandise plan, planning net sales, planning stocks, planning assortments, managing markdowns, open-to-buy budgets, turnover, the retail method of inventory and management of time. **I do not believe such a course is offered by a major retail trade association in the United States.**

3. **Store Management Skills** started with cases and then moved through merchandising in the '80s, staffing/motivation, managing your inventory, report-outs, selling/service skill training, management styles, handling problem employees, appraising subordinates, generating sales, effective use of time and the action plan. The only thing that I know comparable to this in the United States is the correspondence courses developed by Cornell with SMI (and now FMI) for supermarket managers and now used increasingly by discount and drug chains for their store managers.

RThought: The cost for each seminar was $380 for members, $450 for non-members (plus, of course, transportation to Toronto, hotel and meals other than lunches). To get on their mailing list write Ms. Judy Johnson, Assistant Director Member Services, Retail Council of Canada, 214 King Street W, Suite 212, Toronto, Ontario M5H 1K4 Canada or call 416-598-4684.

RThought: Although your senior management might go to your own trade association's informational meetings, I think you could make a good investment by sending your middle management to the Canadian educational meetings.

SHORT SHORTS

Once a loser, always a loser. The Jefferson Ward division has closed the 3 outlets in Knoxville that were purchased as J. B. Hunter (formerly Almart) stores in 1979 and **have never shown a profit.** These were part of Allied Stores' brave effort to show that they, too, could operate discount stores.

WORDS DRAWN FROM A CAREER OF 43 YEARS

James C. Walton of Touche Ross in Jackson, Mississippi was kind enough to send me what Charles Brower wrote as his lessons of 43 years up to the time he retired as chairman of Batten, Barton, Durstine & Osborn:

1. Honesty is not only the best policy, it is rare enough today to make you pleasantly conspicuous.

2. The expedient thing and the right thing are seldom the same thing.

3. The best way to get credit is to try to give it away.

4. You cannot sink someone else's end of the boat and still keep your end afloat.

5. If you get a kick out of your job, others will get a kick out of working for you.

6. It is not important that you come in early and work late. The important thing is why?

7. Chicken Little acted before research was complete.

8. A man of stature has no need of status.

9. Many people know how to make a good living. Few know what to do with it when they have it made.

RThought: I have nothing to add to such a complete list.

w/Feb RT

May 24, 1984

Mr. Daniel P. Opalka
Assistant Vice President
Human Resource Policy
Crocker National Bank
79 New Montgomery Street
San Francisco, CA 94105

Dear Mr. Opalka---

I am pleased to enclose a copy of my newsletter, RETAILING TODAY, for February 1984 and have marked the article that was referred to in the May 1984 issue of Executives' Digest.

I do not know whether or not you are already providing child care for your employees, but I hope that you will consider it.

Now that you have a shopping center, The Galleria, the comments that I have made about shopping centers might be applicable.

Many thanks for your inquiry.

Sincerely,

Robert Kahn, CMC

May 24, 1984

Ms. Mary Anne Chaney
Director of Marketing
HUMANA
P. O. Box 1438
Louisville, KY 40201

Dear Ms. Chaney---

Becky Bryant was kind enough to call and ask for a copy of the marked article -- which was quoted in Executives' Digest under the heading of "Child Care Pays Off."

I am so pleased to get this response because I know your organization and know that it is an area where your skills could bring great benefit.

I have some comments about the application of this service to shopping centers -- and your organization would certainly be one that could provide it on a contract basis.

Once again, thanks for asking for the full article and I would be interested in anything that you do in this area. I would be happy to report it to my readers -- who are the top management, usually the chief executive officer, of firms doing more than half the retail volume in the country if one excludes car dealers, service stations and restaurants.

Sincerely,

Robert Kahn, CMC

May, 1984

Executives' Digest

REG. U.S. PAT. OFF.

SUMMARIES OF TIMELY ARTICLES OF SPECIAL INTEREST TO BUSINESS MEN AND WOMEN

CAMBRIDGE ASSOCIATES

A DIVISION OF THE DARTNELL CORPORATION

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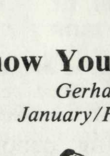
A Convention Worth Remembering

Peter A. Turia and Kathleen L. Hawkins, Success, February 1984, p. 50.

Life at a convention is often dizzying. Your purpose may be to mix business with pleasure but it's all too easy to mix confusion with diversion. With a bit of simple organization, however, you'll be able to make the most of your next convention. *Go with goals.* Familiarize yourself in advance with convention materials. Ask to be sent agendas and a list of evening events. Then, pinpoint goals. Do you want to make business contacts, become acquainted with new technologies, or buy and sell equipment? Write down your goals and refer to the list each day. This will allow you to focus on what's happening instead of trying to remember what your plan was. Bring along a generous supply of business cards. Make it a goal to establish a designated number of business contacts. On the back of each card you obtain, jot a quick note to yourself regarding the topics you discussed with that person. After the convention, a mini-presentation for those who remained behind will promote the impression that your fellow workers are part of the reason you attended. Remember the people you met at the convention. Send follow-up notes and cards on special occasions. Keep your network up to date.

Know Your Prospect's Body Signals

Gerhard Gschwandtner, Personal Selling Power, January/February 1984, p. 18. Reprinted by permission.



Unfortunately, most salespeople aren't trained in non-verbal communication, so they miss precious opportunities to make a sale. In fact, research suggests people communicate just 7 percent of their feelings and attitudes with words, 38 percent with tone of voice, and a whopping 55 percent through non-verbal signals. Salespeople who are sensitive to non-verbal cues can read those signals almost like a traffic light. Green signals tell them that the prospect is open. Yellow signals indicate the seller is losing the prospect and it's time to ask questions about his interests and needs. Red signals warn the seller to stop and redirect because the buyer has just about been lost. To identify the buyer's attitude, the seller must examine channels such as hands, body angle and eye contact.

Open, relaxed hands and a body angle directed toward the salesperson are important green signals. A buyer's closed or clasped hands are a yellow signal, as is a body angle turned away from the salesperson. The salesperson must use "open questions" to draw out the buyer's real feelings. One might ask the buyer: "I'd like to get your objective opinion on this; how do you think our product will help with your production?" The salesperson's open posture, a green signal, combined with the open question, can bring the presentation on track. Once salespeople become aware that it's their own ability to communicate green signals to the buyer which will lead to the order, they'll have a more positive attitude toward their jobs and themselves.

Cultures at Work

Training, January 1984, p. 37.

Within the last few years, four books on business culture have become nonfiction best-sellers: *In Search of Excellence, Corporate Cultures, Theory Z* and *The Art of Japanese Management.* Each hammers home the idea of strong corporate culture leading to strong financial performance.

The perception of corporate culture has two sets of roots. The first is the American Studies movement of the '60s and '70s. But there is an even older grandparent—the climate/attitude movement of the 1940s and '50s. In *Corporate Cultures,* authors Kennedy and Deal talk of the characteristics of companies with strong, clear cultures. These are companies that have cultivated their own identities by value-shaping, hero-making and the spelling out of rites and rituals.

The companies have acknowledged they are human institutions that provide practical meaning for people. People who work in groups create something that is both bigger than, and independent from, the sum of its parts.

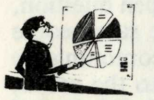
Take Care When Shifting Schedules

Karen E. Debats, Personnel Journal, February 1984, p. 6.

Much research has been conducted on the social effects of shift work, especially the alienation from family and friends. Since the problem can't be solved by eliminating shift work, the best course is to improve those aspects of shift work over which we do have some control. That's where biologist Charles F. Ehret comes in. He has studied the effects of shift rotations and feeding schedules on natural body rhythms. He says that many companies unknowingly use shift schedules that undermine employee health and performance. An example is the 1-1-1 schedule, where workers rotate to an earlier or later shift on each successive workday. When body rhythms are upset, he says, one is more likely to become ill or to make mistakes. He suggests a schedule that keeps workers on the same shift for at least five days, with one or two days off before rotation to a later shift. Ehret found that laboratory rats adjusted quickly to this sort of schedule. And changing meal times to anticipate a new schedule made adjustment even faster. Timing of meals and types of food eaten are important to help the body maintain natural rhythms. For a new Monday afternoon shift, a worker should go to sleep at 7 a.m. that Monday and then wake up to a high-protein breakfast at 3 p.m. before leaving for work that starts at 4 p.m.

Do Trend-Watchers Have the Facts?

Bryant Robey, Barron's, February 13, 1984, p. 22.



"Half of all women work." "America is growing older." As more investors follow demographics to see how America is changing, some trends are becoming familiar—so familiar that they may not even be true. And, as astute investors know, the obvious is usually misleading, if not completely wrong. Myth: "We have become a nation of elders." Americans are living longer. The number of people aged 85 and over will grow by over 50 percent between 1980 and 1990. But their numbers are small in relation to the baby-boom generation. America is still a nation of young adults, but fast on its way to becoming a nation of the middle aged.

Myth: "The family is dead." Fewer than one family in five consists of a married couple in which only the husband is employed. The family lives on; it just looks different. People marry later, have fewer children, divorce more readily, and mothers and fathers raise their children alone. Nevertheless, over 90 percent of all Americans marry. Myth: "Singles are young and swinging." In fact, more than half of the 19 million Americans who live alone are not young folks, but people 55 or older.

Myth: "Half of all women are in the labor force." In fact, almost two-thirds of women of working age are in the labor force, a much more dramatic figure.

Myth: "The SunBelt is growing at the expense of the FrostBelt." The SunBelt boom could even turn to bust as corporations look to the population-rich countries in Asia and Latin America for the cheap labor they once sought south of the Mason-Dixon Line.

Demographic trends carry so much momentum that they can alter the course of history. Careful study of their direction can provide a window into the future. It's a wise investor who makes an effort to discover the facts.

"If a man has a talent and cannot use it, he has failed. If he has a talent and uses one half of it, he has partly failed. If he has a talent and learns somehow to use the whole of it, he had gloriously succeeded and won a satisfaction and triumph few men ever know."—Thomas Wolfe

Computers: Fear Not

Larry Stessin, Miami Review, February 14, 1984, p. 5.

How does a businessman spell "fear?" C-O-M-P-U-T-E-R. A soothsayer who has been a "phobia" watcher for several years is Dr. Stanley Kaden, a consulting psychologist who has distilled the causes of managerial skittishness to basic fears, all of which can be overcome by a simple prescription called common business sense. There is the fear of making a wrong purchasing decision. There is the fear of looking dumb. The jargon part of computer technology has intimidated many businessmen. Kaden suggests that if the businessman looks upon the computer as just another machine designed to do a specific job, he will overcome the feeling that he is dealing with some planetary unknown.

The fear of confrontation, says Kaden, is the least recognized fear of all. It is the fear that computerizing will reveal serious weaknesses in the company's operations. No one likes bad news and the computer could unfold embarrassing data. But the function of a good executive, says Kaden, is to shoulder the bad news and take steps to correct the broadening seams of unprofitability. Dr. Kaden mentions another area of resistance—rationalization that the state of the art is changing so quickly that it is foolhardy for a company to purchase the current generation when in a short time another system will become the thing to buy. Obsolescence of equipment is a constant in all business activities and the time will never come when this or that technique will be the "final word."

Gentle Persuasion Works Best

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The time-tested principles for getting people to cooperate have not changed, says Luvain Bue of Dale Carnegie & Assoc. Inc. There is an effective way to change someone's ideas without arousing resentment. "Computer professionals sometimes get right to the point in an abrupt fashion that puts off management and subordinates alike," says Bue. Preliminary pleasantries are needed to get in step mentally with the person one is trying to talk to.

Note: The material summarized on these pages represents a cross section of current comment and opinion. We do not necessarily concur in the opinions herein presented.

AB copy w/ RT

Data processing managers who flaunt their computer knowledge make listeners resentful if they don't understand. It is the fastest route to failure in selling a project or an idea. In the seminars, Bue tells would-be salesmen to remember the three P's when trying to persuade someone to buy a product or a plan. Understand the *person* to whom you are trying to sell. What are his goals? Understand the *product* you are trying to sell. And understand the *payoff*. What will the product or plan do for someone who decides to accept it?

How To Set Deadlines

Supervisor's Bulletin, National Foremen's Institute and Bureau of Business Practice, February 15, 1984, p. 5.

Meeting department deadlines is all-important. You know this, and you stress the importance to your people of performing on schedule. But you probably have to do more than meet deadlines—you also have to set them. The best managers are those who leave enough time for planning. It's often hard to set that time aside. You may hardly have enough time to finish what needs to be done today, let alone schedule for tomorrow. But if you set a deadline for yourself for each of your projects, you're more likely to get them done. Without a deadline, it's easy to put off important things indefinitely.

You must define your goals. Do you know what you want to accomplish in the next six months? In the next week? With goals, you can judge progress by accomplishment. Without goals, you may confuse progress with filling up time. A project schedule needs more than just dates of beginning and completion. You need to put into writing what materials and equipment will be needed. You need to decide which employees will be involved.

Then draw up an informal timetable. Include dates when each person's task is to be completed. See that each person gets a copy. Parkinson's Law is sad but true: "Work expands so as to fill the time available." Let your people know that you don't have all the time in the world to get each job done.

Next, to meet those deadlines, budget your time. Classify what you do in order of importance. You might classify under daily essentials; essentials that occur at intervals; unpredictable essentials; duties that are important but unessential; emergencies, and things that need extra planning time. On careful analysis, you might find that some of your tasks were originally the responsibility of your employees anyway. Reassign such work back where it belongs. An assistant, too, can help you stay on schedule. And study those emergencies. Could they be eliminated by more careful planning in the future? Once the schedule is completed, it's ready to be put to the test. Make revisions as needed; more may be delegated to others later.

Child Care Pays Off

Robert Kahn, Retailing Today, February 1984, p. 2.

Do you want to cut turnover and absenteeism? I think the answer is yes. Let's look at some facts. A higher percentage of women with children under 13 are working. Problems that mothers have in providing care for their children under 13 cause mothers to quit jobs; unavailability of day care often means absenteeism and extra cost to the employer. Surveys conducted confirm what employers already know. Care for children 13 and under is a problem when a single parent works or when both parents work. A national survey of working women reported a need for childcare facilities in the case of 36 percent of those employed in professional, managerial and technical fields, and 29 percent of those in clerical, sales, service and blue-collar fields. In 1982 only about 170 centers were known to be operated by industries, labor unions, federal agencies and hospitals. Services needed include day care centers; sick leave allowed when a child is sick; subsidies; seminars on how to select day care centers; and referral services.

What are the benefits to supporting centers? In a Minnesota survey, over half the businesses reported improved productivity, reduced absenteeism, reduced tardiness and better morale. Read, as I did, "Employers and Child Care: Establishing Services Through the Workplace" by the Women's Bureau, Department of Labor.

Gem Investing Needs Careful Appraisal

The Effective Executive, March 12, 1984.

Each year, thousands of people invest in gemstones, sometimes because they are promised instant profits with little risk. There is, indeed, risk. If you are interested in gemstone investing, you must put extra effort into your research. Here are some points to consider:

Familiarize Yourself With the Gemstone Market. You must know the grade of gemstone you are getting in terms of the investment you are making. Study books that detail grade classifications. You should know how much a gem is selling for at another source. You could buy a rare and valuable gemstone at too high a price.

Count on Keeping the Gemstones Until the Value Increases. This is not a "liquid" investment. Faceted stones fluctuate on the market. You will receive only what the stone is currently worth to the buyer, usually a dealer.

Selling May Be Difficult. If the person who sells you the gem promises to buy it back or sell it for you, there is usually no guarantee of an increase in price for you.

Be Careful About Appraisals and Certificates. Find out which laboratories are well-regarded in the industry in obtaining your certificate. Reliable, reputable gemstone dealers usually sell stones (especially diamonds) *only* for investment purposes. Be familiar with the top companies and, if possible, talk to other investors who have made profits over the years.

The complete texts of articles summarized on these pages are often available from the original publishers. We'd be glad to give you the addresses of these publishers.

CONVERSATION PIECES

Humming and hopping in its 25th year, the American Association of Retired Persons continues to grow. Membership renewals pour in at the rate of 35,000 a day, says *Barron's*. And the AARP president-elect expects membership to hit 16 million.

Only one in ten TV commercials in Canada have a woman's voice-over narration. Even in health and beauty products, women only narrate 25 percent of ads, according to a study by the Alliance of Canadian Cinema, Television and Radio Artists. Men are top choice in ads for cars, furniture and banks.

Wanted: a computer to make a mathematical discovery. Reward: $100,000. The Friedkin Foundation offers the prize for the first computer that can do so. The prize is aimed to stimulate computer use in mathematical research.

Experience is what you get when you're expecting something else, Victor Rice, Massey-Ferguson Ltd. chairman and CEO, said in a Toronto speech. He added: "I've always thought experience was the hardest kind of teacher. It gives you the test first and the lesson afterward."

A foul-mouthed raven named Cheeko, says Reuter, spent three weeks in a small Canadian town greeting people with two embarrassing words. It was later seen creating bedlam in a schoolyard at nearby Barker, New York.

When a zoo is good, it resembles animals' natural habitats and permits them to roam a bit. When bad, experts call the zoos "animal slums." *Parade* Magazine reports that the Humane Society of the U.S. has suggestions for how a person can tell if a local zoo is substandard, and what can be done for improvement.

All the graham crackers and gingerbread men could not satisfy Johnny's craving for his favorite cookie: chocolate chip. *Changing Times* reports on a study of cookie preference in which chocolate chip turned out to be tops as an American favorite.

Lawyers are on a new frontier that *Behavior Today* says is "astrolaw." A course at the School of Law, University of California at Davis, deals with how people will live and get along in space.

A nation of job-hoppers? Certainly not America, shows a recent study by Robert E. Hall of Stanford University. Out of 100,000 workers, most aged 30 and over have found a job they will stay with at least ten years.

The hearing-impaired can better enjoy learning and entertainment events, thanks to today's theatres, libraries and concert halls that offer listening devices. The National Association for Hearing and Speech Action has produced a directory of public places that have such equipment.

California is tough on counterfeiters of famous-name merchandise. Culprits have been counterfeiting profitably in such items as electronic equipment and clothing, which has led to the state's stiffer legislation against counterfeiters. A plaintiff now can get a court order to seize counterfeit goods without advising the offending party in advance, says *The Christian Science Monitor.*

Fast is the pace of America's eating habits, from a two-bite donut to a five-minute meal. The popularity of the quick-cooking microwave oven comes as no surprise to marketers. *USA Today* reports that these ovens are in 30 percent of the nation's kitchens. And an estimated two out of three American kitchens will have microwave ovens by 1988.

Numbers of part-time workers have almost doubled, from 7.2 million in 1983 to 14 million in 1981. Companies save on benefits, but critics of the trend argue that part-timers may end up doing almost the same amount of work as full-timers but for too small a reward.

Best of the month . . .

Once again it is our pleasure to commend to your attention these brief glimpses of articles selected from over 400 authoritative sources because of their timely significance to executive readers – both at their desks and "after hours." If you like their flavor . . . we'd be delighted to give you the address of the publishers of any magazine listed.

CAMBRIDGE ASSOCIATES
A DIVISION OF THE DARTNELL CORPORATION
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The Crocker Bank

May 14, 1984

AB
Send now

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

Dear Mr. Kahn:

Please send me the text of your article entitled Child Care Pays Off, which was summarized in the May 1984 issue of Executives' Digest.

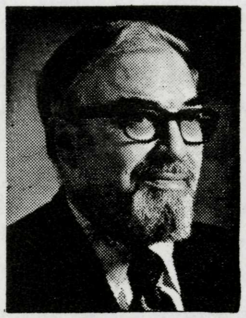
Sincerely,

Daniel P. Opalka
Assistant Vice President
and Manager

AB - Put photocopy
of item with
Feb RT, please

DP/td

Crocker National Bank
Human Resource Policy
79 New Montgomery Street
San Francisco, CA 94105



RETAILING TODAY

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PLUMS IS GONE

Plums is gone—as RT felt would happen (June 1983 RT: "Plums appears to be a disaster despite (because of?) their continued use of pornographic TV and print ads . . . ."). They sold to Ross Stores (June 1983 RT: "Ross appears to be the best run, perhaps reflecting the fact that it was founded by an outstanding entrepreneur . . . .").

The February 21 press release quoted Boake A. Sells, Dayton Hudson vice chairman extensively. "Our test has shown the Plums' concept to be a viable approach to the consumer. However, the projected size and rate of return does not equal that of other expansion opportunities already available to us through Dayton Hudson's established growth companies" (note: Mervyn's, Target and B. Dalton). "At this point, we feel that we not only have learned what we needed to know about Plums' potential, we have also learned a great deal that will help us in our continuing effort to develop other new retail strategies for the future. We remain committed to the idea of growth through new business ventures and are continuing our efforts to develop other specialty concepts that can be tested in the marketplace."

RThought: RT sees the matter in a different way. DH proved once again what was long ago demonstrated when Allied Stores started Almart Discount Stores which, collectively, never made a dollar. Allied's premise was that Allied was a great retailer and thus they could easily whip the entrepreneurs in discounting. True, many of those entrepreneurs disappeared—Arlan's, Daylin, Giant Stores, Howard-Gibco, Kenton, Korvette, Mammoth Mart, National Bellas Hess, Parkview—Gem, Unishops, Valley Fair and Vornado to name a few.

But the fact remains that not all merchandising organizations can do all things, regardless of what the crown prince of the organization thinks.

If one looks at the makeup of DH, one sees a mixture. Dayton's was started by an earlier generation. Hudson's was well established when acquired as were John A. Brown and Diamond's (although Diamond's sister store in Portland, Lipman Wolfe, was liquidated). B. Dalton, as I understand the story, reflects the creativeness of Bruce Dayton (change his "y" to "l" to get the name), who felt that the time was ripe, with the development of shopping centers based primarily on national chains, to rationalize the book business. He was right. Target was the child of John Geisse, whose entrepreneurial skills took him on to start other successful retail businesses. Mervyn's was the entrepreneurial effort of Mervin Morris. Lechmere was the baby of Maurice Cohen.

The DH jewelry stores—all started by others—are gone as is Team Central, a consumer-electronics chain that might have been considered as competition with Pacific Stereo. There was a catalog showroom which was acquired and sold in a year (at less net cost than Plums).

But there is a second point that should be recognized—and I think DH has demonstrated it for the second time. Dayton Hudson considers Target the first and leading up-scale discount chain. But when they tried it with Lechmere (whose unattractive but profitable original Cambridge store would not make the front page of any annual report—even its own if it had gone public), they had years of problems. Even now, with some turnaround (and space reduced in some stores), the group is rumored to be on the block. I visited one of the DH-added Lechmere stores, and it could almost have been used by Saks Fifth Avenue. But upgrading only produced frequent changes of management.

In the off-price field, DH tried once again to be the up-scale operator. It is sort of like Captain Queeg in "The Cain Mutiny" who tried to repeat his previous success as a detective. To be up-scale you must offer a continuity of up-scale merchandise. The very nature of off-price retailing is one of discontinuity of merchandise and thus up-scale cannot be provided.

A NEW APPROACH TO CONTROL OF SHOPTHEFT

Washington, Oregon and California now have laws that permit retailers to recover for shopstolen merchandise plus the costs of apprehension and damages through small claims court. The **Grocers Journal of California** (Jan. 84) reported that PayLess Northwest Drug Stores recovers about 30% of its security costs through making civil claims. In less than 5% of the cases has it been necessary to testify in court.

After interviewing the shopthief and determining the facts of the case, a letter is sent citing the law and indicating that a civil small claims court action will be filed for between $50 and $500 in damages plus costs. About 80% respond by making payment. Another 10% respond to a 15 days' notice (with 5 days' grace period). Only after this has been done is a court action taken.

PayLess Northwest reports that in Washington and Oregon, where this law has been in effect for 7 and 5 years respectively, they average 18 shoptheft arrests per month per store against 28 in California stores.

Ron Clark, corporate security director, advises common sense—consider the value of the item, age of the offender and ability to prove intent to steal. In 16,000 cases PayLess has not faced any false arrest or malicious prosecution suits.

RT offers two major observations as a result of studying Plums and DH:

1. Success is best assured by having an entrepreneur head the effort–with his idea and his conviction and his drive and his 26 hours a day of effort and his spiritual lifting of those around him. Don't count on the most experienced head of an operation doing hundreds of millions a year; get the guy who helps mark goods when it has to be on the floor for a sale.

2. Not everything can be up-scale. Not all markets have room for upgrade outlets. There is no way to be an upgraded Chevrolet dealer or Exxon service station. A Chev is a Chev and gasoline is gasoline.

A FREE OFFER I CAN REFUSE

Some years ago CitiBank wrote offering me a Visa Card and I accepted. I would use this only for business charges (no one else would have a card) while my Bank of America Visa would be used for family purchases. A step to simplified recordkeeping.

I recognize that CitiBank is the most aggressive of the major banks. They are rapidly becoming, through CitiCorp, their parent, a national savings and loan chain. They have opened loan-generating offices in California and elsewhere. And their credit card operation is in a subsidiary bank in friendly South Dakota.

In my latest bill they expressed great concern about the security of my credit cards–they wrote, "Frankly, we are concerned about recent statistics regarding credit card fraud. To help combat credit card crime, we have arranged for the next six months for you to automatically have–at no charge, with our compliments–CitiBank Protection Plus for every credit card you carry." They asked for me to send a list of cards with card name, city and card number–but left room for only 16 cards.

The next to the last line in the fine print says, "We'll contact you and let you know how you can continue the service if you wish." Guess what? Their concern about me is to get a few more bucks (they don't like my account now because I pay virtually no service charge–only when travel keeps me from setting out bills to be paid on time).

But I have another concern. What am I going to be deluged with if I give them information on my 3 bank cards, travel card, 5 oil company cards, 3 auto rental cards and 15 to 20 store cards? With a profile obtained from that listing, I probably would not have time for business because of opening mailings from various parts of CitiCorp.

I have carried cards for 40 years and have lost perhaps 2. If lost, I would notify that company immediately on discovery. I don't anticipate spending an average of 10 minutes a year over the next decade on this activity. And I would like to keep some information about me confidential–although much of it is available to anyone with access to the local credit bureau.

RThought: When CitiCorp/CityBank writes saying, "We are concerned," one must immediately look for the gimmick.

WATCH OUT FOR YOUR CPA–THE SHILL!

CPAs are guided (seldom governed) by their Code of Professional Ethics. Rule 503 deals with, among other things, commissions. It says that CPAs shall not accept a commission for a referral to a client of products or services of others. That is a fairly simple statement. A CPA is not to receive a commission (unbeknownst to you) for steering you to a certain bank, onto a computer, into a law firm, to a janitorial service (which might be another client of the CPA firm) or anything else.

But every time a rule is established someone wants to trim it a little closer than the way it is written, so they ask for "interpretations." Ethics, apparently, cannot be understood in the abstract.

So Interpretation 503-2 is being circulated. It would, to quote the Journal of Accountancy (November 1983) "prohibit on a commission basis a CPA's referral of **only** those products or services of others about which the CPA could reasonably be expected by clients to have professional knowledge or skill."

The interpretation deals with two categories: clients and non-clients. A CPA would be permitted to accept a commission on a referral of a tax shelter investment made to a **non**-client. For clients a CPA could get a commission for referring products such as furniture so long as the referral doesn't draw on the CPA's skill or knowledge as a CPA! In other words, he can get a commission for referring something he knows nothing about!

The proposal does add a slight constraint–if the commission is material (not defined) to the CPA's net worth, then he cannot take it because it would be considered a "material indirect financial interest (in the client)."

RThought: You now must start distrusting much of what CPAs say. For example, you play golf with a CPA friend who is the tax expert of a firm that is not your auditor. He is talking about the wonders of a tax shelter. You beg him for an introduction–having complete confidence in his professional skill–and he gets a commission.

Or he is your auditor and he keeps mentioning what a wonderful posture chair he just got or the terrific buy he got on a Mercedes. After you beg, he gives you an introduction (and the commission is quietly mailed to his firm).

RThought: The next time your CPA mentions professional ethics, cry a little–because you remember when CPAs had them.

CONTAINING HEALTH INSURANCE COSTS

Every major retailer is addressing the problem of rising health care costs for employees whether insured or self-insured.

A number of approaches have been taken such as employees paying part of the monthly cost or reducing coverage or introducing unreimbursed deductible, all designed to increase employee cooperation in keeping down the total costs. Companies are pushing the use of designated facilities, increased use of day clinics for minor surgeries, 100% reimbursement for second opinions, and just getting employees to ask about the cost before incurring the expense. This latter point is difficult to get established–the people who would never dream of buying a car without asking the price of the car and each option frequently incur medical costs equal to the cost of a car without asking the doctor about the cost and cost-reducing steps that can be taken.

But another side of the problem was addressed by John H.

A SHOPPING CENTER TOUR—FEBRUARY 11, 1984

My meeting in Dallas ended at 3 p.m. Nothing until my flight Sunday morning. The stores in Dallas are open late Saturday night but not on Sunday. Saturday is the big day, probably 25%-30% of the week in most cases. I wanted to see a new Mervyn's and the new Bloomingdale's, so off I took in a rental car.

A tour of Mervyn's in Irving showed little that was not being done in the California stores. A chat with the store manager confirmed that Mervyn's had been well received and that the adjustment of merchandise to fit the needs of the people in Irving and environs would not be great—and was already under way. I told him about the opening of three Mervyn's stores in Sacramento years earlier. It was a test to see if Mervyn's could be exported to Los Angeles. The people in Sacramento had absolutely no need for another store—but they quickly took to Mervyn's offer and we then knew we could go to Los Angeles.

After a quick tour of the Irving Mall (Dillards is yet to open, Joske's is remodeling and should have finished before Mervyn's opened), I was off to see the export version of Bloomingdale's.

My guess is that Bloomies expects the same sales per square foot as in New York City, otherwise they could not afford to staff the infinite number of cubicles.

On the second floor I thought I was walking down the hallway of a hotel with all the shops along both sides. The third floor was much more open—and lighter in color with white parquet floors. But it was on the lower level, with the children's, youth and junior departments, that there was the most activity.

Saturday night is a bad time to test the popularity of an up-price, up-scale store because most target customers can afford to shop daytimes, Monday to Friday, and avoid the rush. They are also looking for the most experienced salespeople. We learned that years ago at Macy's when we classified customers as either Monday to Friday (upper income), Thursday night (joint decision shopping big tickets) and Saturday (working people who could not shop during the week) and we advertised accordingly.

I was interested in other things in the center. There were few vacancies, but there was doubling up: two Radio Shacks (one tidy and one not tidy, perhaps to appeal to both kinds of customers); Florsheim shoes were available separately and in combination with Thayer McNeil.

I found something worse than the smell of popcorn permeating a Sears or a discount store—the smell of pizza on the upper mall level.

I saw my first Boy Scouts of America shop and was interested that (1) it was operated by BSA (BSA headquarters is in Dallas) and (2) it was located in a mall. All three uniformed youth organization, Boy Scouts, Girl Scouts and Camp Fire Girls, are having problems distributing their uniforms, equipment, badges and printed material. With declining membership, especially among teenage youths, the franchises are no longer attractive to major stores. Once upon a time (like pre-WWII) these organizations had their main strength in the 12-14 years age group. My 13 years on the local Girl Scout board convinced me that Girl Scouting had become a babysitting organization into which parents push their children as soon as they are eligible. The kids lose interest long before the real good part is available. Girl Scouts got about 1 in 3 girls at age 7 and 1 in 50 at age 12.

The Boy Scouts of America is the richest group of the three—for every father who gives $100 to Boy Scouts, his wife might be allowed to give $20 to Girl Scouts or Camp Fire Girls BSA can undertake to establish shopping center stores—but logic indicates that it should be a joint effort. Distribution would be cheaper for all. **Shopping center developers should help a joint store through reduced rent for the same reason major stores once sought the franchise.**

I was interested in the Victoria's Secret shop. There were two men shopping alone, one woman alone and two couples. Plus two salespeople.

I visited the Sanger Harris store, and it must have been a magnificent store when it opened; but it looked terribly dated now. Sears was a distress area—showing how much a store can run down when the parent reinvests the depreciation money in Coldwell Banker and Dean Witter. It will take a long time to remedy that mistake. The new prototypes look good—but by the time all stores are brought up to date the original prototypes will look "frumpy" again. I like the policy of Mervyn's and Wal-Mart better than Sears and K mart—both update every store at least once every five years.

I visited the Target store across the street and have seldom been in such a sterile selling atmosphere. Most walls and ceilings are glaring white; the bare double-rows of fluorescents put out more than 100 foot-candles (my guess) at eye level. The fixtures are too high, encouraging shopstealing. And it was difficult to keep them filled. Facing 16-foot gondolas were filled with about 40 cases each of 200-count Scottie's tissues and 175-count Kleenex although usage at the end of busy Saturday indicated that a 10-case display might be enough. My impression was that boxes of tissues were the cheapest way to fill the fixture.

But my most negative impression was the distressing quality of signing.

We call signs "silent salesmen"; we all know the importance of signs, so we go ahead and produce rotten ones.

Sears had a promotion on their larger power tools—10" table saw, combination belt and disk sander, 6" joiner, 15" floor drill press and 36" lathe. Only 2 showed any price! A 2-hp compressor had no sign at all. In Target there was a permanent display of fans. Two were from the same manufacturer and at the same price; the special feature of one was the shallow depth so that it could be mounted where there was a 7'6" ceiling. **The permanent signs were transposed!**

On the Scotties and Kleenex runs at Target there were no signs. Freshly opened Bloomingdale's was a bit better, but Sanger Harris signs had only a noun and the price.

Jim Reynolds of Reynolds Printasign has been trying to tell people how easy it is to write better signs; nobody listens. I think Jim might make more money off the preparation and sale of a videocassette on how to prepare selling signs and make them into "Silent Salesmen" than he does on his equipment. The market is almost unlimited. And virtually every major chain is already using video for training in branch stores.

OUR CHANGING DEMOGRAPHICS

Over 65

We know that the percentage of the population over 65 is increasing and will continue to increase, but we may not be aware of some of the changes in that composition.

Since 1940 the number of widowers over 65 has **decreased** by 10%, and the number of widows has increased by 80%. The fundamental factors continue–in the first marriage the wife is about 2 years younger and has a 7-year longer expectancy. But this is aggravated by the fact that children born today, if present trends continue, have a 50% chance of divorcing and 80% of divorced men remarry women 7 or 8 years younger–but still with a 7-year greater life expectancy.

Almost all men over 65 are married–which suggests one solution to the excess supply of women–polygamy (American Demographics, Dec. 83, Box 68, ITHACA NY 14851 $5/single $42/yr).

Family Structure

The trend toward unmarried couples is leveling off. There was a big increase in the number of such arrangements between 1970 and 1982 but no increase in 1983 (1,900,000 couples). During the 13 years, however, the composition of the households changed. The percentage of unmarried couples with children under 15 dropped from 37% to 28%. In 1970, 30% of the couples had one member under 45 compared with 80% in 1983.

The changing composition of unmarried couples reflects the increasing number of young people who do not get married. Among men 20-24 the "never married" has increased from 56% in 1970 to 73% and for women has increased from 36% to 56%. In the next age bracket, 25-29, the "never married" men went from 19% to 38% and women from 11% to 25%. In the age group 30-34 men went from 9% to 20% and women from 6% to 13% (Bureau of Census, Population Characteristics, Current Population Reports, Series P-20, No. 382, GPO, WASHINGTON DC 20402 $1.75).

International Interdependence

More of our production is going into international trade. The table below shows international trade as a percentage of Gross National Product for the major industrial countries:

Country	1965	1982
United States	7%	15%
Japan	18%	26%
France	20%	40%
United Kingdom	28%	42%
Germany	31%	53%
Canada	32%	47%

As a result, countries are becoming increasingly interdependent. The problems of trying to disassociate one country from another are becoming more difficult. The United States is not unique in having major interest in selling agricultural products to Russia and China; Canada also looks that way for the wheat that they produce.

Transportation to Work

We may never solve our local transportation problems. Most of our highway systems and all of our rapid transit systems are based upon radial spokes from the center of a metropolitan area. Highways go from downtown toward other cities through the suburbs. The subways in New York run into Manhattan. BART runs into downtown San Francisco, the Metro into downtown Washington and MARTA into downtown Atlanta.

But as I wander around, it is clear that industrial parks are not being developed in the core served by either the highway or the fixed-route transportation systems. They are out in the "low land cost" zones. And they do not restrict their hiring to people living near the plant; and people who realize that jobs are not for a lifetime are reluctant to go through the cost of selling a home to buy a new one near where they work. Thus they come to work from all directions–and virtually none of the warehouse and factory workers can use the transit system based on the hub of the area.

Offices **have** increased in core areas, and the employees of these businesses do benefit from the spoke system public transit. I have often observed that the people of San Francisco and Alameda counties have taxed themselves to build a rapid transit system thât brings the high income people living in Central Contra Costa into their financial center jobs in downtown San Francisco. The government workers still working in downtown District of Columbia have the same benefit. Most taxpayers get little benefit from the high cost systems.

But in more and more cases the workers keep crossing each other as they go to work in the suburbs of Boston or Cleveland or Los Angeles or Dallas or Houston. Even the offices are following the warehouses and factories to the suburbs.

The dollars available relative to the cost of building freeways are declining. It is not uncommon to see massive tie-ups of people headed **both** east and west to work, each leaving their home to go to work near the home of the person headed the other way. And in most cases there is only one passenger in a car (carpooling represents about 20% of the commuters–more than public transit but much less than drive-your-own commuters).

Building more freeways won't solve the problem. The bypassing of large areas creates new low cost land areas into which industry will move their plants.

SHORT SHORTS

Do advertisers believe that customers are so dumb that they trust pre-inventory ads that say, "We would rather sell the merchandise than count it." I think it gives the customer a good insight to the retailer–one that says to the customer "stay away."

We get all the illiterates we deserve–our advertising agencies create them for us.

Ever wonder where bankers get their funny ideas for figuring like a 360-day year for interest? They get it from the American Bankers Association. The subscription price for the Banking Journal is $20 for the first year, $18 for the second year and then $19 for the third year! A banker's idea of (1) a savings and (2) the discounted current value of $20. $20 paid 2 years early and discounted at the current 11% prime is worth $16 today.

Filer, chairman of Aetna Life and Casualty in an article that appeared in **Financier** magazine and was reprinted in the February report to Aetna investors. His key point is:

> **It may be time to consider more seriously a problem waiting beyond the solution of lower health care costs: how does society pay for the very high medical technology we are just beginning to see, and indeed how do we allocate the finite supply of non-economic resources it will require?**
>
> **Medical science is approaching the realm of miracles. And that raises the question of how do we pay and whom do we save. Do we favor young over old, children over parents, married over single? Do we apply cost-benefit analysis and limit miracles to those who can be expected to return more to society than their rescue costs? Do we let the market rule? Or do we retreat from medical frontiers, take our chances and live equally in jeopardy? It is far simpler to ask questions than to find answers, but we must start somewhere. And because refusal to choose is itself a choice, we cannot pick "none-of-the-above."**
>
> * * * * *
>
> **The trouble with approaching god-like powers is that we also approach god-like responsibilities. And the trouble with democracy is that we cannot hide from responsibility without paying a terrible price. If refusing to choose is itself a choice, it is the worst possible one.**

RThought: If it costs $100,000 to replace an organ such as a heart, should every medical plan cover that cost? Should experimental procedures of even higher cost be available to all covered parties? If equipment needed in 1% of hospital admissions costs $500,000, should every hospital be allowed to have the equipment and reflect that cost in the amount charged for their services? Mr. Filer suggests, "The answers may come from spiritual leaders and philosophers, informed by scientists and economists, and guided by the public."

Was it the intent of the employers, when providing hospital and medical insurance, to cover all **possible** treatments?

MACY'S AND THE POSTMARK

The story of Macy's and putting the date of mailing on statement envelopes is at an end. RT was critical when Macy's started using printed indicia, without a date. Truth-in-Lending says that a charge customer does not have to pay finance charges if the statement is mailed later than 14 days prior to the date on which payment can be made to avoid a finance charge. If the date of mailing is not on the envelope, the customer, when receiving a late statement, does not know whether it was mailed late or delayed in the mail.

After criticizing Macy's for depriving the customer of the date of mailing, dates started to appear again and I thought they had reconsidered and changed their position. I applauded their action.

I had checked with the Federal Reserve Board for their interpretation of this matter and learned that, though the rule is clear, there is nothing **requiring** a date of mailing on the envelope and therefore they saw no violation.

But then the printed indicia appeared again, and RT bitterly criticized Macy's. It happens that one of RT's closest readers is Lewis Gilbert, often described as a "corporate gadfly." He raised the subject at Macy's annual meeting in questioning Ed Finkelstein.

Subsequent to the annual meeting, postal meter dates once again appeared. I spoke with Mr. Donald Eugene, a senior vice president of Macy's, and was advised that meter dates would continue to appear unless there was some failure of their combination inserting and metering machine which is quite complex. I thanked him for the information and want to report—favorably—on the current status.

RThought: RT is not opposed to steps that will save money or increase efficiency—if they do not take something important away from the customer. I previously suggested, and did again by telephone, to Mr. Eugene a method of obtaining the savings.

Most major billing operations with which I am familiar know on the day the statements are printed the date that they will be delivered to the postal service. That schedule is met for more than 99% of the bills. Accordingly, it is both possible and practical to imprint on the statement the date of mailing. Those concerned about space in the body of the statement could include the date in a box. **Here is an example of having your cake and eating it, too!**

YOU, YOUR PLASTIC CARDS AND THEIR PLASTIC CARDS

I can remember when the leading credit managers of national chains/department store groups were saying they would never honor any card except their own. Gilbert was closer to the truth when he wrote in "H.M.S. Pinafore":

And I'm never, never sick at sea!
What, never?
No, never!
What, **never**?
Hardly, ever!
He's hardly ever sick at sea!

He might have written:

We'll never, never take a bank card, not us!
What, never?
No, never!
What, **never**?
Hardly, ever!
We'll hardly ever take a bank card, that's us!

Most of the leading credit managers who made those statements are gone. Ultimately their firms bowed to the wishes of their customers who like (1) a high credit limit (2) smaller payments for the same balance owed (3) a single statement and (4) thousands of places where they can charge without going through the sometimes degrading process of begging, I mean applying, for credit.

Into each life some rain must fall—said the old song—and into many lives fell Visa and MasterCard, now grown to giants. An increasing number of businesses operate profitably and grow rapidly without ever having a credit department.

Now we have two monsters, the more imaginative of which has been Visa International, largely because of its president, Dee Hock (who will retire in 1984).

At the September 1983 meeting of the American Bankers Association, Dee Hock spoke about Visa and banking, the past as he helped create it, the present as he has helped make it and the future as he sees it.

What he is talking about is plastic cards—payment systems. It goes beyond debit cards that look like credit cards. It recognizes that the bankers who say "never, never" are like the Captain of the "Pinafore" and the captains of many major credit operations some years ago. It recognizes that POS terminals are where the action will be–yours, the gas station, the ATM and the home computer. And he sees it becoming as universal as the long distance telephone system once was and the post office still is. Anyone in the United States can send a letter to anyone else–by using a common carrier called the U.S. Postal Service (an infinitesimal number of messages are carried by Federal Express and all the others).

Spence Nilson has reproduced the talk in its entirety in his Issue 319 (November 1983) of **The Nilson Report.** I have said before and I repeat now that every firm with a major position in plastic credit (50,000 or more active accounts) should be reading **The Nilson Report.**

Spence does not sell single copies of his twice-monthly newsletter ($360 per year), but he has said that he will send one with his compliments to any RT reader who writes–

Mr. Spencer Nilson
P.O. Box 49936 (Barrington Station)
LOS ANGELES CA 90049

And be sure to say "Bob Kahn sent me."

ORCHARD SUPPLY HARDWARE PROVES SHORTAGE IS RECORDING ERROR

Orchard Supply Hardware, a subsidiary of W. R. Grace operating large (50,000 sq. ft.) home improvement centers, has offered proof that much of their so-called shortage from shoptheft and internal theft is really their own errors in handling their merchandise.

In the October 24 issue of National Home Center News (425 Park Avenue, NEW YORK NY 10022 $20/yr), there was an article which announced that their Loss Prevention Awards program "cost only $2,000 to install, (and) returned roughly $38,000 in avoided losses during the first three months."

What was the program? They offered cashiers $1 for each incidence of incorrect ticketing that they discovered. And in 18 stores there were 5,721 cases of wrong marking in three months (3.5 times per store per day). The merchandise caught would have been sold for $60,000 when the price should have been $95,000.

Consider that these stores probably stock 30,000 or more SKUs and no cashier can remember all the prices. There must have been many that were not detected.

RThought: RT has constantly ridiculed (and will continue to ridicule) those who spend time arguing how much of the shortage is internal and how much is external theft–with little regard for the constantly increasing shortage due to marking and handling errors.

Any store that has converted to scanning has been shocked to find out how many shelf prices or marked prices differ from what the central records purport to show the merchandise was priced.

Thirty years ago Sam Shaffer, then controller of The May Company in Los Angeles, observed that their shrinkage increased 1/10th of 1% for each store they added–merchandise in transit when price changes were ordered or sale goods in transit that arrived after the pre-sale count and were never picked up in determining the amount sold at reduced prices.

Today the people who input purchase data (cost and sell) know far less about the retail method of inventory than did the people who worked in accounts payable years ago. More data is just processed and dumped into the system with relatively little verification by a human being. I constantly see and hear discussions of massive pressure to get the information into the system, and I know that many entries will not be accurate.

When the result of this handling procedure shows up in the catch-all of retail accounting, inventory shortage, the immediate response is "People are stealing me blind. Nobody is honest anymore." I was called in by a client who had a 4.5% shortage; knowing the setup in their outlets, I knew this could not be true–it must be in the paperwork. And instead of recommending Sensormatic, I recommended another consultant to come in and do a detailed study of their paperwork handling.

SHORT SHORTS

The Neiman-Marcus "New Shoes" Spring 1984 catalog illustrates why Nordstrom, with their emphasis on assortment, does better in side-by-side competition. Of the 21 women's styles 16 are offered only in medium and narrow and 4 in medium only. The 4 men's models are in medium only. My 1894-95 Montgomery Ward & Co. catalog offers 3 or more widths in all adult shoes. As an 8½EEE I wonder how narrow a market N-M really wants.

Service Merchandise proudly proclaims they stuck their suppliers. Their fourth quarter (12/31/83) report says, "An increase in inventory of roughly $92 million was financed by our vendors requiring no bank debt. Accounts payable as a percentage of inventory rose from 52% in 1982 to 67% in 1983." With profits for the quarter up 35% (for the year 42%), one wonders about the need to arbitrarily squeeze vendors.

When all else fails, Macy's California advertises electronics. Copying Mervyn's, Macy's committed to 52 inserts a year in the Sunday paper. On January 22, 1984 it was 15 pages of electronics, probably all co-op.

WORDS ABOUT THE IMPORTANCE OF ONE PERSON

It was more than a year ago that I visited the office of Bert Scull (now retired) of H. R. Scull & Co., New York City. Starting from a CPA background, Bert helped a great many retailers by operating "figure exchanges" for noncompeting retailers and in many cases organizing their meetings of store principals and key executives. I jotted down what was on a plaque in his reception room:

TED JACOBS
believes

that an institution may spread itself over the entire world and may employ 100,000 people, but the average person will usually form its judgment of it through contact with one individual. If this person is rude or inefficient, it will take a lot of time and energy to overcome that impression. Every member of an organization who in any capacity comes in contact with the public is a salesman and any impression that person makes is an advertisement, good or bad.

RThought: This is the truth. In retailing, top management fails in two areas: first, they fail to properly indoctrinate everyone in the organization–almost half of all calls I make to stores leave a negative impression; and second, they fail to correct people when they see customers poorly served–perhaps they are too busy to spend a moment explaining this truth to one of their soldiers on the front line.

RAYMOND E. ARMSTRONG
LOWELL C. BERNARD
LEROY R. BERGSTROM
RONALD E. McGHIE
ROBERT J. SMEATH
RICHARD L. MAPLES
DOUGLAS E. GLENN
JERRY L. DAVIS
DAVID M. EBNER
FRANK GIANOPULOS
LAWRENCE J. HELSETH
WARNER WHIPPLE
ALAN C. HORWOOD
DAVID W. TURNER
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March 27, 1984

File of March Rt

Robert Kahn, CMC
P.O. Box 249
Lafayette, CA 94549

Dear Bob:

Coming from the land of the shill, I could hardly let your contempt for the AICPA's proposed ethics interpretation 503-2 pass unnoticed.

Like you, I've seldom read such nonsense. How the spokesorganization (if there is such a thing) for a profession built upon full and fair disclosure could so miss the mark as in 503-2, baffles me.

I'm too old fashioned to believe our independence and credibility (and that's the foundation of what we sell) is much enhanced by marketing any product made by others and receiving a commission for it! But it seems to me the real issue isn't whether we receive a commission, it's whether or not we disclose that fact to the buyer (whether or not a client).

Like you, I'm fascinated that I could be permitted to sell a service/ product I have professionally evaluated to a non-client, but not to a client (whether or not I disclose my commission arrangement). Particularly if it's all right to sell my clients furniture or glassware, about which I know very little.

On the other hand, Bob, I can get you a real deal on a Balans chair for your computer. . . . . .

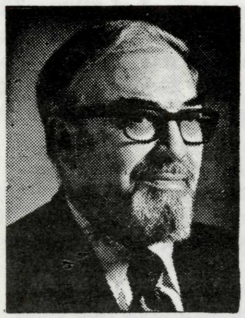
With best regards.

Very truly yours,

Leroy R. Bergstrom

/sv

No CPA?



RETAILING TODAY

ROUTE TO

Editor: Robert Kahn CMC (Certified Management Consultant)
Published by Robert Kahn and Associates, Business Counselors.
P.O. Box 249, Lafayette, California 94549 (415) 254-4434
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MARCH 1984

PLUMS IS GONE

Plums is gone—as RT felt would happen (June 1983 RT: "Plums appears to be a disaster despite (because of?) their continued use of pornographic TV and print ads . . . ."). They sold to Ross Stores (June 1983 RT: "Ross appears to be the best run, perhaps reflecting the fact that it was founded by an outstanding entrepreneur . . . .").

The February 21 press release quoted Boake A. Sells, Dayton Hudson vice chairman extensively. "Our test has shown the Plums' concept to be a viable approach to the consumer. However, the projected size and rate of return does not equal that of other expansion opportunities already available to us through Dayton Hudson's established growth companies" (note: Mervyn's, Target and B. Dalton). "At this point, we feel that we not only have learned what we needed to know about Plums' potential, we have also learned a great deal that will help us in our continuing effort to develop other new retail strategies for the future. We remain committed to the idea of growth through new business ventures and are continuing our efforts to develop other specialty concepts that can be tested in the marketplace."

Bob
See over

RThought: RT sees the matter in a different way. DH proved once again what was long ago demonstrated when Allied Stores started Almart Discount Stores which, collectively, never made a dollar. Allied's premise was that Allied was a great retailer and thus they could easily whip the entrepreneurs in discounting. True, many of those entrepreneurs disappeared—Arlan's, Daylin, Giant Stores, Howard-Gibco, Kenton, Korvette, Mammoth Mart, National Bellas Hess, Parkview—Gem, Unishops, Valley Fair and Vornado to name a few.

But the fact remains that not all merchandising organizations can do all things, regardless of what the crown prince of the organization thinks.

If one looks at the makeup of DH, one sees a mixture. Dayton's was started by an earlier generation. Hudson's was well established when acquired as were John A. Brown and Diamond's (although Diamond's sister store in Portland, Lipman Wolfe, was liquidated). B. Dalton, as I understand the story, reflects the creativeness of Bruce Dayton (change his "y" to "l" to get the name), who felt that the time was ripe, with the development of shopping centers based primarily on national chains, to rationalize the book business. He was right. Target was the child of John Geisse, whose entrepreneurial skills took him on to start other successful retail businesses. Mervyn's was the entrepreneurial effort of Mervin Morris. Lechmere was the baby of Maurice Cohen.

The DH jewelry stores—all started by others—are gone as is Team Central, a consumer-electronics chain that might have

To: Mr. Robert Kahn

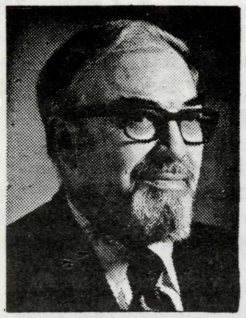
From: **Bill Power**

C Issue
3-84

the front page of any annual report—even its own if it had gone public), they had years of problems. Even now, with some turnaround (and space reduced in some stores), the group is rumored to be on the block. I visited one of the DH-added Lechmere stores, and it could almost have been used by Saks Fifth Avenue. But upgrading only produced frequent changes of management.

In the off-price field, DH tried once again to be the up-scale operator. It is sort of like Captain Queeg in "The Cain Mutiny" who tried to repeat his previous success as a detective. To be up-scale you must offer a continuity of up-scale merchandise. The very nature of off-price retailing is one of discontinuity of merchandise and thus up-scale cannot be provided.

No CPA?



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The DH jewelry stores—all started by others—are gone as is Team Central, a consumer-electronics chain that might have been considered as competition with Pacific Stereo. There was a catalog showroom which was acquired and sold in a year (at less net cost than Plums).

But there is a second point that should be recognized—and I think DH has demonstrated it for the second time. Dayton Hudson considers Target the first and leading up-scale discount chain. But when they tried it with Lechmere (whose unattractive but profitable original Cambridge store would not make the front page of any annual report—even its own if it had gone public), they had years of problems. Even now, with some turnaround (and space reduced in some stores), the group is rumored to be on the block. I visited one of the DH-added Lechmere stores, and it could almost have been used by Saks Fifth Avenue. But upgrading only produced frequent changes of management.

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A NEW APPROACH TO CONTROL OF SHOPTHEFT

Washington, Oregon and California now have laws that permit retailers to recover for shopstolen merchandise plus the costs of apprehension and damages through small claims court. The **Grocers Journal of California** (Jan. 84) reported that PayLess Northwest Drug Stores recovers about 30% of its security costs through making civil claims. In less than 5% of the cases has it been necessary to testify in court.

After interviewing the shopthief and determining the facts of the case, a letter is sent citing the law and indicating that a civil small claims court action will be filed for between $50 and $500 in damages plus costs. About 80% respond by making payment. Another 10% respond to a 15 days' notice (with 5 days' grace period). Only after this has been done is a court action taken.

PayLess Northwest reports that in Washington and Oregon, where this law has been in effect for 7 and 5 years respectively, they average 18 shoptheft arrests per month per store against 28 in California stores.

Ron Clark, corporate security director, advises common sense—consider the value of the item, age of the offender and ability to prove intent to steal. In 16,000 cases PayLess has not faced any false arrest or malicious prosecution suits.

No CPA?

RT offers two major observations as a result of studying Plums and DH:

1. Success is best assured by having an entrepreneur head the effort—with his idea and his conviction and his drive and his 26 hours a day of effort and his spiritual lifting of those around him. Don't count on the most experienced head of an operation doing hundreds of millions a year; get the guy who helps mark goods when it has to be on the floor for a sale.

2. Not everything can be up-scale. Not all markets have room for upgrade outlets. There is no way to be an upgraded Chevrolet dealer or Exxon service station. A Chev is a Chev and gasoline is gasoline.

A FREE OFFER I CAN REFUSE

Some years ago CitiBank wrote offering me a Visa Card and I accepted. I would use this only for business charges (no one else would have a card) while my Bank of America Visa would be used for family purchases. A step to simplified recordkeeping.

I recognize that CitiBank is the most aggressive of the major banks. They are rapidly becoming, through CitiCorp, their parent, a national savings and loan chain. They have opened loan-generating offices in California and elsewhere. And their credit card operation is in a subsidiary bank in friendly South Dakota.

In my latest bill they expressed great concern about the security of my credit card—they wrote, "Frankly, we are concerned about recent statistics regarding credit card fraud. To help combat credit card crime, we have arranged for the next six months for you to automatically have—at no charge, with our compliments—CitiBank Protection Plus for every credit card you carry." They asked for me to send a list of cards with card name, city and card number—but left room for only 16 cards.

Robert

Such language!

Aren't you a CPA?

Tried + true?

Bill Powers

4-4

The next to the last line in the fine print says, "We'll contact you and let you know how you can continue the service if you wish." Guess what? Their concern about me is to get a few more bucks (they don't like my account now because I pay virtually no service charge—only when travel keeps me from setting out bills to be paid on time).

But I have another concern. What am I going to be deluged with if I give them information on my 3 bank cards, travel card, 5 oil company cards, 3 auto rental cards and 15 to 20 store cards? With a profile obtained from that listing, I probably would not have time for business because of opening mailings from various parts of CitiCorp.

I have carried cards for 40 years and have lost perhaps 2. If lost, I would notify that company immediately on discovery. I don't anticipate spending an average of 10 minutes a year over the next decade on this activity. And I would like to keep some information about me confidential—although much of it is available to anyone with access to the local credit bureau.

RThought: When CitiCorp/CityBank writes saying, "We are concerned," one must immediately look for the gimmick.

WATCH OUT FOR YOUR CPA—THE SHILL!

CPAs are guided (seldom governed) by their Code of Professional Ethics. Rule 503 deals with, among other things, commissions. It says that CPAs shall not accept a commission for a referral to a client of products or services of others. That is a fairly simple statement. A CPA is not to receive a commission (unbeknownst to you) for steering you to a certain bank, onto a computer, into a law firm, to a janitorial service (which might be another client of the CPA firm) or anything else.

But every time a rule is established someone wants to trim it a little closer than the way it is written, so they ask for "interpretations." Ethics, apparently, cannot be understood in the abstract.

So Interpretation 503-2 is being circulated. It would, to quote the Journal of Accountancy (November 1983) "prohibit on a commission basis a CPA's referral of only those products or services of others about which the CPA could reasonably be expected by clients to have professional knowledge or skill."

The interpretation deals with two categories: clients and non-clients. A CPA would be permitted to accept a commission on a referral of a tax shelter investment made to a non-client. For clients a CPA could get a commission for referring products such as furniture so long as the referral doesn't draw on the CPA's skill or knowledge as a CPA! In other words, he can get a commission for referring something he knows nothing about!

The proposal does add a slight constraint—if the commission is material (not defined) to the CPA's net worth, then he cannot take it because it would be considered a "material indirect financial interest (in the client)."

RThought: You now must start distrusting much of what CPAs say. For example, you play golf with a CPA friend who is the tax expert of a firm that is not your auditor. He is talking about the wonders of a tax shelter. You beg him for an introduction—having complete confidence in his professional skill—and he gets a commission.

Or he is your auditor and he keeps mentioning what a wonderful posture chair he just got or the terrific buy he got on a Mercedes. After you beg, he gives you an introduction (and the commission is quietly mailed to his firm).

RThought: The next time your CPA mentions professional ethics, cry a little—because you remember when CPAs had them.

CONTAINING HEALTH INSURANCE COSTS

Every major retailer is addressing the problem of rising health care costs for employees whether insured or self-insured.

A number of approaches have been taken such as employees paying part of the monthly cost or reducing coverage or introducing unreimbursed deductible, all designed to increase employee cooperation in keeping down the total costs. Companies are pushing the use of designated facilities, increased use of day clinics for minor surgeries, 100% reimbursement for second opinions, and just getting employees to ask about the cost before incurring the expense. This latter point is difficult to get established—the people who would never dream of buying a car without asking the price of the car and each option frequently incur medical costs equal to the cost of a car without asking the doctor about the cost and cost-reducing steps that can be taken.

But another side of the problem was addressed by John H.

Filer, chairman of Aetna Life and Casualty in an article that appeared in **Financier** magazine and was reprinted in the February report to Aetna investors. His key point is:

> **It may be time to consider more seriously a problem waiting beyond the solution of lower health care costs: how does society pay for the very high medical technology we are just beginning to see, and indeed how do we allocate the finite supply of non-economic resources it will require?**
>
> **Medical science is approaching the realm of miracles. And that raises the question of how do we pay and whom do we save. Do we favor young over old, children over parents, married over single? Do we apply cost-benefit analysis and limit miracles to those who can be expected to return more to society than their rescue costs? Do we let the market rule? Or do we retreat from medical frontiers, take our chances and live equally in jeopardy? It is far simpler to ask questions than to find answers, but we must start somewhere. And because refusal to choose is itself a choice, we cannot pick "none-of-the-above."**
>
> * * * * *
>
> **The trouble with approaching god-like powers is that we also approach god-like responsibilities. And the trouble with democracy is that we cannot hide from responsibility without paying a terrible price. If refusing to choose is itself a choice, it is the worst possible one.**

RThought: If it costs $100,000 to replace an organ such as a heart, should every medical plan cover that cost? Should experimental procedures of even higher cost be available to all covered parties? If equipment needed in 1% of hospital admissions costs $500,000, should every hospital be allowed to have the equipment and reflect that cost in the amount charged for their services? Mr. Filer suggests, "The answers may come from spiritual leaders and philosophers, informed by scientists and economists, and guided by the public."

Was it the intent of the employers, when providing hospital and medical insurance, to cover all **possible** treatments?

MACY'S AND THE POSTMARK

The story of Macy's and putting the date of mailing on statement envelopes is at an end. RT was critical when Macy's started using printed indicia, without a date. Truth-in-Lending says that a charge customer does not have to pay finance charges if the statement is **mailed** later than 14 days prior to the date on which payment can be made to avoid a finance charge. If the date of mailing is not on the envelope, the customer, when receiving a late statement, does not know whether it was mailed late or delayed in the mail.

After criticizing Macy's for depriving the customer of the date of mailing, dates started to appear again and I thought they had reconsidered and changed their position. I applauded their action.

I had checked with the Federal Reserve Board for their interpretation of this matter and learned that, though the rule is clear, there is nothing **requiring** a date of mailing on the envelope and therefore they saw no violation.

But then the printed indicia appeared again, and RT bitterly criticized Macy's. It happens that one of RT's closest readers is Lewis Gilbert, often described as a "corporate gadfly." He raised the subject at Macy's annual meeting in questioning Ed Finkelstein.

Subsequent to the annual meeting, postal meter dates once again appeared. I spoke with Mr. Donald Eugene, a senior vice president of Macy's, and was advised that meter dates would continue to appear unless there was some failure of their combination inserting and metering machine which is quite complex. I thanked him for the information and want to report—favorably—on the current status.

RThought: RT is not opposed to steps that will save money or increase efficiency—if they do not take something important away from the customer. I previously suggested, and did again by telephone, to Mr. Eugene a method of obtaining the savings.

Most major billing operations with which I am familiar know on the day the statements are printed the date that they will be delivered to the postal service. That schedule is met for more than 99% of the bills. Accordingly, it is both possible and practical to imprint on the statement the date of mailing. Those concerned about space in the body of the statement could include the date in a box. **Here is an example of having your cake and eating it, too!**

YOU, YOUR PLASTIC CARDS AND THEIR PLASTIC CARDS

I can remember when the leading credit managers of national chains/department store groups were saying they would never honor any card except their own. Gilbert was closer to the truth when he wrote in "H.M.S. Pinafore":

> And I'm never, never sick at sea!
> What, never?
> No, never!
> What, **never**?
> Hardly, ever!
> He's hardly ever sick at sea!

He might have written:

> We'll never, never take a bank card, not us!
> What, never?
> No, never!
> What, **never**?
> Hardly, ever!
> We'll hardly ever take a bank card, that's us!

Most of the leading credit managers who made those statements are gone. Ultimately their firms bowed to the wishes of their customers who like (1) a high credit limit (2) smaller payments for the same balance owed (3) a single statement and (4) thousands of places where they can charge without going through the sometimes degrading process of begging, I mean applying, for credit.

Into each life some rain must fall—said the old song—and into many lives fell Visa and MasterCard, now grown to giants. An increasing number of businesses operate profitably and grow rapidly without ever having a credit department.

Now we have two monsters, the more imaginative of which has been Visa International, largely because of its president, Dee Hock (who will retire in 1984).

At the September 1983 meeting of the American Bankers Association, Dee Hock spoke about Visa and banking, the past as he helped create it, the present as he has helped make it and the future as he sees it.

What he is talking about is plastic cards—payment systems. It goes beyond debit cards that look like credit cards. It recognizes that the bankers who say "never, never" are like the Captain of the "Pinafore" and the captains of many major credit operations some years ago. It recognizes that POS terminals are where the action will be–yours, the gas station, the ATM and the home computer. And he sees it becoming as universal as the long distance telephone system once was and the post office still is. Anyone in the United States can send a letter to anyone else–by using a common carrier called the U.S. Postal Service (an infinitesimal number of messages are carried by Federal Express and all the others).

Spence Nilson has reproduced the talk in its entirety in his Issue 319 (November 1983) of **The Nilson Report.** I have said before and I repeat now that every firm with a major position in plastic credit (50,000 or more active accounts) should be reading **The Nilson Report.**

Spence does not sell single copies of his twice-monthly newsletter ($360 per year), but he has said that he will send one with his compliments to any RT reader who writes–

Mr. Spencer Nilson
P.O. Box 49936 (Barrington Station)
LOS ANGELES CA 90049

And be sure to say "Bob Kahn sent me."

ORCHARD SUPPLY HARDWARE PROVES SHORTAGE IS RECORDING ERROR

Orchard Supply Hardware, a subsidiary of W. R. Grace operating large (50,000 sq. ft.) home improvement centers, has offered proof that much of their so-called shortage from shoptheft and internal theft is really their own errors in handling their merchandise.

In the October 24 issue of National Home Center News (425 Park Avenue, NEW YORK NY 10022 $20/yr), there was an article which announced that their Loss Prevention Awards program "cost only $2,000 to install, (and) returned roughly $38,000 in avoided losses during the first three months."

What was the program? They offered cashiers $1 for each incidence of incorrect ticketing that they discovered. And in 18 stores there were 5,721 cases of wrong marking in three months (3.5 times per store per day). The merchandise caught would have been sold for $60,000 when the price should have been $95,000.

Consider that these stores probably stock 30,000 or more SKUs and no cashier can remember all the prices. There must have been many that were not detected.

RThought: RT has constantly ridiculed (and will continue to ridicule) those who spend time arguing how much of the shortage is internal and how much is external theft–with little regard for the constantly increasing shortage due to marking and handling errors.

Any store that has converted to scanning has been shocked to find out how many shelf prices or marked prices differ from what the central records purport to show the merchandise was priced.

Thirty years ago Sam Shaffer, then controller of The May Company in Los Angeles, observed that their shrinkage increased 1/10th of 1% for each store they added–merchandise in transit when price changes were ordered or sale goods in transit that arrived after the pre-sale count and were never picked up in determining the amount sold at reduced prices.

Today the people who input purchase data (cost and sell) know far less about the retail method of inventory than did the people who worked in accounts payable years ago. More data is just processed and dumped into the system with relatively little verification by a human being. I constantly see and hear discussions of massive pressure to get the information into the system, and I know that many entries will not be accurate.

When the result of this handling procedure shows up in the catch-all of retail accounting, inventory shortage, the immediate response is "People are stealing me blind. Nobody is honest anymore." I was called in by a client who had a 4.5% shortage; knowing the setup in their outlets, I knew this could not be true–it must be in the paperwork. And instead of recommending Sensormatic, I recommended another consultant to come in and do a detailed study of their paperwork handling.

SHORT SHORTS

The Neiman-Marcus "New Shoes" Spring 1984 catalog illustrates why Nordstrom, with their emphasis on assortment, does better in side-by-side competition. Of the 21 women's styles 16 are offered only in medium and narrow and 4 in medium only. The 4 men's models are in medium only. My 1894-95 Montgomery Ward & Co. catalog offers 3 or more widths in all adult shoes. As an 8½EEE I wonder how narrow a market N-M really wants.

Service Merchandise proudly proclaims they stuck their suppliers. Their fourth quarter (12/31/83) report says, "An increase in inventory of roughly $92 million was financed by our vendors requiring no bank debt. Accounts payable as a percentage of inventory rose from 52% in 1982 to 67% in 1983." With profits for the quarter up 35% (for the year up 42%), one wonders about the need to arbitrarily squeeze the vendors.

When all else fails, Macy's California advertises electronics. Copying Mervyn's, Macy's committed to 52 inserts a year in the Sunday paper. On January 22, 1984 it was 15 pages of electronics, probably all co-op.

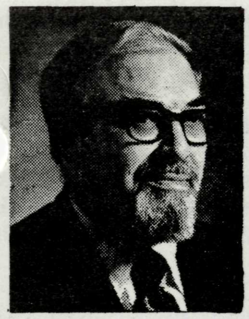
WORDS ABOUT THE IMPORTANCE OF ONE PERSON

It was more than a year ago that I visited the office of Bert Scull (now retired) of H. R. Scull & Co., New York City. Starting from a CPA background, Bert helped a great many retailers by operating "figure exchanges" for noncompeting retailers and in many cases organizing their meetings of store principals and key executives. I jotted down what was on a plaque in his reception room:

TED JACOBS
believes

that an institution may spread itself over the entire world and may employ 100,000 people, but the average person will usually form its judgment of it through contact with one individual. If this person is rude or inefficient, it will take a lot of time and energy to overcome that impression. Every member of an organization who in any capacity comes in contact with the public is a salesman and any impression that person makes is an advertisement, good or bad.

RThought: This is the truth. In retailing, top management fails in two areas: first, they fail to properly indoctrinate everyone in the organization–almost half of all calls I make to stores leave a negative impression; and second, they fail to correct people when they see customers poorly served–perhaps they are too busy to spend a moment explaining this truth to one of their soldiers on the front line.



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WHAT THE SHOPPER THINKS

I have previously recommended **The Shopper Report** (3624 Science Center, PHILADELPHIA PA 19104 $88/yr $10/issue). The January 1984 issue covered the following:

1. A majority said they understood how scanners worked.
2. An even larger number wanted to know how to read the price from the UPC code!
3. A still higher percentage wanted Express Line rules enforced.
4. An equal number "would like to find a store that has some courteous, informed salespeople and reasonable prices."
5. A quarter are ready to use debit cards.
6. More than half like ATMs, but most of those are annoyed that the always-open machines are not always open.
7. Consumers want product information in the ads as well as on the products so they don't waste their time shopping.
8. Plastic bags in grocery stores are OK for cold items but not so good for all items because they cannot be reused, they break and are too small (and the consumers do not buy the idea they are an ecological benefit because they help save trees–how stupid do advertisers think the public is?)
9. 80% of those who respond to ads feel that Procter & Gamble's ads for HiC, High Point and Pringle "are the worst ads for credibility."
10. They agree that Calvin Klein's new commercials do not make sense.
11. Two-thirds are getting fed up with coupons.

RThought: This article cannot summarize 4 full pages. I again recommend that someone in top management should read this report each month.

BEN FRANKLIN'S ADVICE ON HOW TO MAKE A DECISION IS STILL GOOD

Our country owes a lot to Ben Franklin. First thoughts run to the Franklin Stove (he did not apply for a patent because he wanted everyone to benefit–but someone patented it in England and went broke!) and "discovering" electricity by attaching a key to a kite string. Others will think of his writing–his Almanac and starting the Saturday Evening Post. A few will recall his part in creating the United States (he was the Senior Citizen among the drafters of the Declaration of Independence) and serving as the first Postmaster General and as Ambassador to France (with a few flirtations even at that age), while fewer will recall that he started the first fire insurance company.

But there was something else–and I am grateful to the Harvard Business School Bulletin (December 1983) for digging up the following from a letter that he wrote in 1772 to Joseph Priestly (my Encyclopaedia Britannica 1895 Edition devotes two full pages to Dr. Priestly, who was a clergyman, writer [History of Electricity], philosopher, researcher and author of books on chemistry, supporter of the cause of the United States and in the 1790s migrated to Pennsylvania to spend his last ten years there).

Ben Franklin offered advice that the Bulletin entitled–

Decision Making through the Ages

". . . I cannot, for want of sufficient premises, advise you *what* to determine, but if you please I will tell you *how* . . . My way is to divide half a sheet of paper by a line into two columns: writing over the one *Pro*, and over the other *Con*. Then, doing

WAR AS PUBLIC POLICY

Smedley Darlington Butler, known as "Old Gimlet Eye," was one of the Marine Corps' most picturesque officers. He joined in 1898 and retired as a major general in 1931, participating in every war and campaign from the Spanish-American War to World War I. His outspoken views often led to friction with the brass, and once he was almost court-martialed. But he is the only man to win the Congressional Medal of Honor–TWICE!–plus winning the Distinguished Service Medal, the highest non-combat award in the military service.

I am grateful to the Mt. Diablo Peace Center (Walnut Creek, CA) for bringing to my attention a 1935 quote from General Butler–published in the April 4, 1982 issue of **Sojourners Magazine:**

> "I spent 33 years and four months in active service as a member of the . . . Marine Corps . . . . And during that period I spent most of my time being a high-class muscle man for Big Business . . . . Thus I helped make Mexico and especially Tampico safe for American oil interests in 1914. I helped make Haiti and Cuba a decent place for the National City Bank (note: now CitiCorp) . . . . I helped purify Nicaragua for the international banking firm of Brown Brothers (note: now Brown Brothers Harriman & Co.) in 1909 to 1912. I brought light to the Dominican Republic for American sugar interests in 1916. I helped make Honduras 'right' for American fruit companies in 1903."

RThought: It was during Butler's career that President Calvin Coolidge said (January 17, 1925) to the Society of American Newspaper Editors, "The business of America is business."

There has been little change during the past 60 years. Our military leaders are now protesting that business wants more "war-ing" than the forces are capable of providing. The cheapest cost to those who don't have to fight is the lives of American youths.

LINGAN A. WARREN
1890-1984

Employed by Safeway Stores 1931, President 1934-1955 during which time Safeway grew to be the largest supermarket chain in the world.

During his later years as President he had no fixed salary; his compensation was based on the profits of the corporation and for his last year was $262,196.

A man of great principle, he fought coupons because he felt they were detrimental to consumers. He paid a substantial personal fine for cutting prices to offset coupons.

He is survived by his wife of 68 years, a daughter, 2 granddaughters and one great-granddaughter.

I never met him but I have always admired him.

three or four days' consideration, I put down under the different heads short hints of the different motives, that at different times occur to me *for* or *against* the measure. When I have thus got them all together in one view, I endeavor to estimate the respective weights . . . (to) find at length where the balance lies . . . And, though the weight of reasons cannot be taken with the precision of algebraic quantities, yet, when each is thus considered, separately and comparatively, and the whole matter lies before me, I think I can judge better, and am less liable to make a rash step; and in fact I have found great advantage for this kind of equation, in what may be called *moral or prudential algebra* . . ."

WHAT ABOUT THE ASSOCIATIONS OF SMALL STORES?

The big associations such as Food Marketing Institute, National Retail Merchants Association, Association of General Merchandise Stores and the National Mass Retailing Institute represent billions of dollars in retail volume and are headed by individual firms that do billions of dollars all by themselves. They do have small merchants and single store operators, but the financial and political basis is still the larger firms.

The medium size associations such as the Menswear Retailers of America, National Retail Hardware Association, National Retail Furniture Association and National Association of Convenience Stores do have many small operators, but they still have a number of firms in the $100 million plus category that give substance to the association.

But what about the associations of truly small stores, where there are hundreds of members, where a volume of over $1 million is almost unique and only 7 do over $10 million? That produces a different kind of association, and the one I know best in this area is the National Association of College Stores.

Many of their members do under $100,000 a year. The manager may be a member of the school's administrative staff called on, for lack of someone else, to be manager of the book store. How do they survive? I think the answer is by helping each other. Like other trade associations they share information, but perhaps that shared by NACS is a little more detailed, more specific. They run schools for store managers to teach them the principles of retailing. They have a weekly newsletter, prepare promotion and merchandising handbooks, prepare training video tapes, provide a clip art service, and handle the books needed by college book stores through a cooperative wholesaler.

They stress that managers should train a replacement for themselves so that the manager may be considered for opportunities in larger stores. And many of the managers make a career of just running college stores because they like the ambience of a campus, the products they are handling and the challenge of serving young people.

They have to fight hard-pressed college administrations for money to install POS terminals and Apple Computers for their operation and to remodel their stores so that they are more efficient. And then they must fight the book publishers who have an unreasonable concept of the cost of distributing textbooks while imposing impossible minimum order requirements on the smaller of the small stores.

And they must face a demanding student population with salespeople who will, in many cases, be with them only a short while.

RThought: I have watched the National Association of College Stores for a number of years and have been honored to be asked to speak to them several times at national and local conventions. I guess I feel about them the same way I do about the Special Olympics—they try so hard and do so well despite handicaps that most retailers never face.

TERMS TO THINK ABOUT IN EMPLOYMENT LETTERS/AGREEMENTS

Jim Carey of Carey Associates (1 Waters Park Drive, SAN MATEO CA 94403) in his February letter brings a changing situation to the attention of his clients and friends (the latter includes me as a fellow member of the Association of Management Consultants).

Court decisions and new laws are changing the concept that unless a person enters into a specific contract, such as athletes or CEOs with golden parachutes, a person is employed "at will" and the arrangement can be terminated at any time by either party.

Legislation has banned discrimination on the basis of race, sex, color, religion, age and other characteristics.

Court cases, however, have created a form of "right" from documents given employees such as handbooks, advertisements of job openings, statements on seniority, and even general statements about the uniqueness of the employee/employer relation at a specific firm.

Jim suggests that certain care be taken. In statements of employment policies and in employment letters, emphasize that the arrangement is "at will"; that either party can terminate. Make certain that performance appraisals are on job performance, not personal traits. Work toward a uniformity of standards. Apply discipline fairly and consistently *with an appeals process*—and keep records of all personnel action. Finally, review all written material and be sure that terms such as "permanent employee" include the concept of employment "at will." Avoid the use of annual salary rates; if you pay weekly, bi-weekly or semi-monthly, express the agreed compensation in those terms. (Remember that we express finance charges on accounts receivable at the monthly rate with a parenthetic statement of the annual rate.) Be careful that

RETAILING AROUND THE WORLD

Each month RT looks forward to receiving the **Retail News Letter** of the International Association of Department Stores. If nothing else, it indicates that retailing problems are the same around the world.

The following were excerpted from items in the December 1983 issue.

England: Can names be exported? The House of Fraser is contemplating franchising their name in other countries. They expect a good reception in Saudi Arabia (and perhaps other Middle Eastern oil countries), but elsewhere they probably will experience the same disappointments that every great retailing name has experienced. To pick a few, Marks and Spencer could never survive on the reception of their stores in Canada and on the Continent. Gimbels thought New York was waiting for them in 1914 but made their first profit in 1929 and the second in 1939. Bullock's could not be exported 400 miles to San Francisco. F&R Lazarus found that the people in Indianapolis were not waiting for them with baited breath. White Front never made the jump from Los Angeles to San Francisco, nor did Gold Circle make the jump from Ohio to California.

France: The joy of market rate finance charge. Auchan, a hypermarket chain, is introducing a credit card entered through their NCR registers from a magnetic strip. One of the options is a revolving account plan with the finance charge at 2.06% per month (24.72 APR), the current market rate. The same issue reported that the Federal Reserve Board in the United States had determined that credit did not increase total sales of goods so that the extra cost of handling credit (there is also an extra cost for handling checks over cash) with sales made at the same price resulted in cash customers paying for part of the cost of credit. (Note: RT does not accept the validity of this argument when the size of a store has already been set since the elimination of credit would reduce sales and profitability and a charge for credit or discount for cash would introduce new costs and restrict sales unless mandated simultaneously for all credit sellers.)

Great Britain: Women influence sales in DIY stores. The item starts with the statement that "The idea that women play an important role in buying decisions related to Do-It-Yourself products is spreading" could only be made by marketing people who never spent time on the floor of a DIY store. I would guess that more than half the wallpaper installed by the DIYer is done by the women in the families. And any man who has faced the nagging of a spouse to get this or that job done around the house knows intuitively that women are a primary factor in most projects.

Australia: Woolworths is restructuring. There is no connection with F. W. Woolworth (Australia put an "s" on the end of the name and adopted it when it was not protected in that country.) They operate supermarkets, Big W discount stores, variety and specialty store chains. After trying to do most of everything centrally, they are finally establishing divisions for Big W, supermarkets and "special retail opportunities."

U.S.S.R.–Opens new giant department store. For years we heard about GUM, the giant department store (total space over 900,000 sq. ft.) and the long lines to buy a limited supply of poor quality merchandise. Now the Morkowsky Univermag is open, claiming to be larger. On the November (cold) opening day the line was 1 kilometre long. The store can only hold 20,000 people at one time. (I don't know the population count at Macy's Herald Square [2 million sq. ft.], but I do recall the 1940-41 ads that said, "137,000 people a day visit Macy's".)

RThought: Around the world, retailing is the same.

SHORT SHORTS

As it does in all countries, the problem continues on how to handle language/racial differences. Barry Purdy in his Executive Diary for the members of the New Zealand Retailers' Federation notes under item 1101: "BILINGUAL SIGNS. Last year we put out some shoptheft (note the use of the word "theft") signs in English and Maori to the effect that shopthieves would be reported to the police. We have to advise, although we think it a storm in a teacup, that the Race Relations Conciliation has written to us because he has received a complaint about the fact that the signs are written in Maori. You will be kept informed about developments."

The U.S. doesn't care about our health as reported by Con$umers New$weekly (Sept. 19, 1983, Box 34418, BETHESDA MD 20817 $15/yr). The United Nations General Assembly passed a resolution calling for the UN to keep a running list of products that had been banned in any country as harmful to health or environment. The data base would show the products, brand names, generic/chemical names and manufacturers as well as the reason for the action. The vote was 146 to 1. The lone opposing vote (there is no veto in the General Assembly) was the United States.

Watch your renewal notices– SAVVY really sends early renewal notices–In January **1984** for a subscription that runs through December **1986**.

Retailing is much the same throughout the developed world– witness these items from INSIDE RETAILING, a weekly newsletter in Australia (Box 981, P.O. Darlinghurst, NSW 2010, AUSTRALIA $165 Australian/yr). When Myer Emporium sold their New South Wales stores to Grace Bros., the state Industrial Commission ruled that for people terminated they were entitled to 2 weeks' pay if employed less than 1 year, 10 weeks if 1 to 5 years, 14 weeks if 5 to 10 years and 18 weeks if more than 10 years. *AND* an extra 25% if the person was 45 or older. At the same time stores are reinstating layaway (called Lay-by) partially because "more and more people in the lower income brackets have found difficulty in getting bankcard accounts." The banks in the U.S. have done the same. Today most department stores open accounts for people with lower income than is required for MasterCard/Visa.

Advertising of Gold Circle in Columbus, Ohio takes on Victoria's Secrets in their Valentine Gift Sale–hitting at The Limited (also Columbus) who own that chain.

A FEATURE REPORT

I HAVE VISITED DESOLATION – AND IT IS FASHION SHOW MALL

It was a Friday afternoon in Las Vegas, and I had a few hours before a dinner meeting. Fashion Show Mall was just across the street, so I went visiting. I entered through Saks Fifth Avenue and completely circled the first floor, visiting the other four major stores (Goldwaters, Bullock's, Neiman-Marcus and Diamond's).

I thought the mall entrances must be closed. Most of the small stores were overstaffed with one salesperson. Then I toured the upper level, and there was even less traffic. It was 3:30 to 5:30 on Friday, March 2, 1984.

I was fascinated by the first two signs I saw in a shop called Rodeo Dr. One read, "Annual Fur Clearance Now" and the other said, "Grand Opening Special. 100% men's silk shirts. Reg $120, NOW $49. Buy 2 get 1 free!" Imagine that–the Annual Fur Clearance Sale as part of the Grand Opening Special. The furs became "out of date" while in the cartons waiting to be put on the rack for the grand opening!

Did you know there was a National Institute of Reboundology and Health which plugs trampolines? It proclaims that 20 minutes on a trampoline is equal to walking 2½ miles in 34 minutes or running 3½ miles in 32 minutes or swimming 800 yards in 16 minutes. Las Vegas has the equivalent of the pizza odor reported in Dallas in last month's newsletter–the odor of buttered popcorn.

In two stores, business was so slow that clerks were smoking behind the counter and it didn't offend the customers that were *not* there!

Waldenbook had no discounts on best sellers–it is obvious that Crown Books have not yet arrived.

Bullock's is to be congratulated on their housewares department–it didn't have Macy's naturally finished wood fixtures. Bullock's offered monotonous battleship grey squares.

You can tell the good salesmen–I guess it is instinctive reaction. I stopped to look at a watch display in Kay Jewelers and the salesman, obviously an old-time commissionman, immediately asked, "What do you think of our watch sale?" I replied that I didn't need one because mine was working fine. He instantly replied, "Why not get one for a spare?"

I was fascinated when I saw that Lillie Rubin now has 60 salons. I remember when there were only a few, and I visited one of the early ones at Stanley Whitman's Bal Harbour Shops. They listed the 60 in opening sequence, and you could observe their spread across the sun belt.

As I returned to my hotel, I looked through the dirty windows of what was once the J. Magnin store, the first quality retailer on The Strip. The store is no more. The horse race betting rooms next door benefited from better parking in the lot they formerly shared with JM.

RThought: In a weekend town, one of the night openings is *NOT* Saturday; Sunday is noon to 6. Yet my cab driver, when going to the airport, said, "They get pretty busy on weekends."

SHORT SHORTS

An old-fashioned employee–Roland Carpenter retired recently after 50 years with Ernst Home Centers (originally Ernst Hardware Co.), a part of Pay'n Save. His home training took well–his father was a buyer for Ernst for 45 years.

Degrading the election process–I quote just one message among several received: "Dear Robert–There are only 5 days until the first primary in New Hampshire. Polls show us gaining . . . People are responding to our effective media commercials. But only with your support can I get my message across. I must raise $300,000 in the next five days. I know I have asked you before . . . . Please send $25, $50, $75 or whatever you can . . . ." To be President we require a man of stature and importance to become a house-to-house beggar. And from these beggars we will find a leader of the world?

Words of wisdom from South Africa. Jos Baker, the editor of **The Buyer**, the principal magazine for department and apparel specialty stores in South Africa, recently addressed the First Congress of the United Stores, urging them to take a constructive approach toward helping independents compete with chains and a growing off-price industry. I was struck by one sentence, quoted with minor modification to convert it from South African English to American English: "I think it was Mike Stakol of Woolworths who said that inventory is not an asset but a liability until you've sold it."

The fifth largest catalog company (that would be L. L. Bean at $250 million) is moving into new fields–with a mini-winter catalog showing offering their long-time best sellers as an insert in the San Francisco Chronicle. Their regular prices are still below many department store sale prices for comparable merchandise.

I have just classified Graphics Coldtype (Concord, CA) as "the world's largest supplier of typesetting to RETAILING TODAY." I got the idea from Dun & Bradstreet's identification of Funk & Wagnalls as "the world's largest publisher of reference books marketed exclusively through supermarkets." **RThought**: I guess no one except Graphics Coldtype wants to be the best anymore, only the largest in some category.

The unemployment situation has had a direct impact on net migration. Between April 1, 1980 and July 1, 1982 there was a net migration **to** Texas of 667,000, Florida of 601,000 and California 535,000. On the other hand, there was a net migration **out** of 305,000 from Michigan, 171,000 from Illinois, 167,000 from Ohio, 107,000 from Indiana and 88,000 from Pennsylvania. This indicates that people recognize that jobs will not be returning to industries like cars, steel and coal. On the other hand, there is relatively large migration (over 1% per year) into Wyoming (1.7%), Colorado (1.4%), Alaska (2.2%), Arizona (1.4%), Oklahoma (1.6%) and Nevada (3.9%).

wording about bonus, profit-sharing and pension plans does not imply a right to employment to the end of the fiscal period.

RThought: I guess Jim is reminding us to remember "Alice's Adventure in Wonderland":

"Then you should say what you mean," the March Hare went on.

"I do," Alice hastily replied; "at least—at least I mean what I say—that's the same thing, you know."

"Not the same thing a bit!" said the Hatter. "Why you might just as well say that 'I see what I eat' is the same thing as 'I eat what I see'!"

HOW GOOD ARE POLYGRAPH TESTS?

The Office of Technology Assessment (OTA), a part of the U.S. Congress, has issued a report following a six-month review of the research done on polygraphs. As reported in the November 1983 issue of PRIVACY JOURNAL (Box 15300, WASHINGTON DC 20003 $89/yr), "While there is some evidence for the validity of polygraph testing as an adjunct to criminal investigation, there is very little research or scientific evidence to establish polygraph test validity in screening situations, whether they be pre-employment, pre-clearance, random or 'dragnet.' "

Elsewhere in the report the OTA say, "The available research evidence does not establish the scientific validity of the polygraph test for personnel security screening."

The 28 studies that met acceptable scientific standards show the range of correct guilty detections in criminal cases ranged from 17% to 100%.

"The chance of incorrect identification of innocent persons as deceptive (false positives) is probably highest when the polygraph is used for screening purposes . . . . Coercing persons to take a polygraph test could affect validity. It is generally recognized that, for the polygraph test to be accurate, the voluntary cooperation of the individual is important."

RThought: We are in love with modern technology. We don't understand it, but we are willing to accept what someone says technology and science can do. Some time ago there were "scientists" who claimed they could determine at the age of 11 or 12 whether a person would grow up to be a criminal—and were proposing that all such children be segregated at that point and kept in institutions the rest of their lives!

RThought: As a chief executive officer you are not expected to be knowledgeable about all the technology that is being used in a retail business. You don't and should not understand how the semiconductor in your new POS terminal or scanner works. You are not expected to know how the automated warehouse gets the right package to the right door for loading on a truck. You aren't even expected to know how the new electronic typewriters work.

But you are inclined to accept your security chief as an expert—and even kid yourself into thinking he knows the scientific basis of the polygraph and has read all the research background on it. So when he says that polygraphs used in pre-employment applications will save the company millions, you are inclined to accept his recommendation.

DON'T.

It isn't your responsibility to duck responsibility. You can get the current status of polygraph research by writing to the Public Affairs Director, Office of Technology Assessment, U.S. Congress, WASHINGTON DC 20510 and asking for "Scientific Validity of Polygraph Testing: A Research Review and Evaluation." No cost—you paid for it through your taxes.

BLOOMINGDALE'S, THE MAIL-TELEPHONE ORDER HOUSE

Most of the catalog business at Sears and Penney's, once called "mail order," is done over a counter in a conventional store and picked up in that store. Until 1980 Bloomingdale's used catalogs to stimulate in-store business.

When Gordon Cook, senior vice president of sales and marketing for Bloomies, talked to the Fashion Industries of Australia in February, he told the new story. In 1980 it became a separate operation. In 1981 the catalog merchandise inventory was located in a separate warehouse. Senior staff was hired from traditional mail order houses. A company in Virginia, under contract, handles order-taking and order fulfillment. In 1983, 30 million copies of 36 different catalogs were mailed.

By 1988, Cooke expects the mail/phone order divison to be the largest division of Bloomies.

Cooke also noted that when Bloomingdale's opened in Dallas they prepared 250 full-page ads, different from those in New York, for the opening (March 5, 1984 INSIDE RETAILING, Box 981, P.O. Darlinghurst, NSW 2010 AUSTRALIA $165 Australian/yr).

THOSE WONDERFUL NEW FORMS OF RETAILING

Analysts, trade papers, even retailers are proclaiming the Price Club-type operation, the Home Depot-type operation and the off-price apparel discounters as "great new concepts" that will be with us for years and years to come.

Each, in its own way, is expected to have unlimited growth.

Perhaps the most acclaim has been for the Price Club-type operation—although there is yet to be a community in which there is competition between such operations. This should happen in Seattle in August when Pay'n Save opens their unit in competition with Costco, opened in September 1983 by some ex-Sol Price associates.

It is sort of like the early days of discounting when there was only one discount store in a community.

I thought of that when I read the March 20 release from H. J. Wilson, the catalog/showroom operator with 79 stores in 12 sun belt states. Once H. J. Wilson had a monopoly in the towns in which they operated; they don't anymore. The first sentence read:

> **H. J. Wilson Co., Inc. today announced that it will add off-price apparel, on a test basis, to several Wilson's showrooms in fall, 1984. Wilson's apparel departments will occupy approximately 15,000 square feet and will be fully integrated within the showroom to make a dynamic statement.**

Elsewhere in the report they claim to have experienced apparel off-price executives in charge.

I thought of the recent announcement of Best Products that they were abandoning their bold venture into domestics in their stores with an explanation that I have now forgotten and also the expansion of Best and others into free-standing off-price jewelry stores.

I thought of the Dayton Hudson entry into and exit from off-price retailing.

But I also thought of the rush of W. R. Grace into backing a Price Club-type operation and the investment/acquisition of established retailers in/of Home Depot-type operations.

RThought: Based on history, the chances of success are slight. Wilson may be the exception—but the news release doesn't set forth anything convincing.

RT is much more impressed by retailers who stay in their own business and do it better.

I am rather inclined to look to the future in steps like those taken by Manuel Rosenberg when he took over what Chain Store Age called "a floundering Morse Shoe" chain and turned it around. He did things like introducing merchandising and expense control. He closed unprofitable units. He brought advertising under control. Far better than going into off-price apparel or a Price Club look-a-like.

DOES FAIRCHILD PUBLICATIONS NEED AN ADJECTIVE BOOK?

I am sure that Fairchild Publications has a "style book" so that the writing style is consistent within a publication and perhaps even between their publications. For example, when do you use first and last name and when do you use Mr. and last name. The New York Times, when describing the worst criminal will use first and last name at the first reference and thereafter use Mr., Mrs. or Miss as appropriate. For example, "Ignatz Jumpup murdered his wife, dismembered her, fried her limbs and was eating them when apprehended by the police. Mr. Jumpup was taken to the local jail."

But what about headlines referring to profits. We would like some relationship between the words or phrases used and the change in profits from the comparable period a year ago. The table below is arranged by the percentage change in profits with the word(s) used in the headline:

% Increase	Word(s) Used	% Increase	Word(s) Used
83.9	up	25.8	climb
52.4	peak	24.5	up
50.4	up	23.4	jump
48.5	soars	22.1	jump
47.8	rises	21.8	jumps
47.3	climb	21.3	climb
41.7	climb	13.4	peak
38.8	jumps	10.7	rises
30.6	races ahead	1.4	inch up
29.7	climbs		

If 48.5% "soars," then how come 83.9% is merely "up"? If 30.6% "races ahead," why is 50.4% merely "up"? If 38.8% "jumps," why is 47.8% only "rises"? And if 21.8% "jumps," why is 24.5% merely "up"?

RThought: The headline writer, with so many companies reporting in a short period of time, surely does have a problem. A "style book" would help greatly. "Races ahead" certainly should be saved for truly exceptional cases that warrant the time of the reader in reading the whole article.

RThought: You might want to have your own "Book of Superlatives" as a guide to your advertising department. I have seen stores have three "Greatest Sale Ever"—all within six months!

SHORT SHORTS

Does one suspect that desperation is behind the following December 1983 full-page headline for Brueners furniture chain, a subsidiary of BATUS USA?

$30,000,000 HOLIDAY IN-STOCK SALE

Huge inventory on hand and ready for holiday selection.

No payments or finance charges until April 1984.*

LAST 3 DAYS!

Consumers are pretty much the same in advanced societies —the New Zealand Retailers' Federation Executive Director's DIARY for August 6, 1983 reports on the breakdown of complaints to the Consumer Council—15.09% on appliances, 12.23% on cars and 12.45% on clothing and footwear. Interestingly, they report that the complaints were justified in only 13.29%.

NICE LETTERS YOU CAN WRITE

I have long believed that when you have kind thoughts about someone you should send those thoughts to that person. It i something we do so seldom.

How often have you read the obituary of a friend and silently said to yourself, "I never told him how good a friend he was, that I knew how much he did for others, and how much I valued knowing him"?

I recently picked up a book in which my Mother had written her name when 11 and my sister when 16—"Love-Songs of Childhood" by Eugene Field and read the dedication:

To Mrs. Belle Angier

Dearest Aunt:

Many years ago you used to rock me to sleep, cradling me in your arms and singing me pretty songs. Surely you have not forgotten that time, and I recall it with tenderness. You were very beautiful then. But you are more beautiful now; for, in the years that have come and gone since then, the joys and the sorrows of maternity have impressed their saintly grace upon the dear face I used to kiss, and have made your gentle heart gentler still.

Beloved lady, in memory of years to be recalled only in thought, and in token of my gratitude and affection, I bring you these little love-songs, and reverently I lay them at your feet.

Eugene Field

Chicago, November 1, 1894

You probably do not remember that title, but you may remember other things that Eugene Field wrote: "Little Boy Blue," "The Sugar Plum Tree," and "Wynken, Blynken and Nod."

RThought: The important thing is the date of the letter November 1, 1894. Field died the next year at a youthf 45; and if he was like you and me rather than being a writer, he might never have told his Aunt how he felt.

August 2, 1984

Put w/ RT

J. B. Johnson
SANGER HARRIS
303 N. Akard
Dallas, TX 75201

Dear Gentleperson---

If you contacted Mona Doyle thinking that there was an article "What The Shopper Thinks" -- I can understand why she was not able to provide it.

What I did in that 5-column inches was to try to summarize some points of interest from a 4-page newsletter, a photocopy of which is enclosed.

I have highlighted the points that I picked up in my summary.

To understand her report, please be sure to read the explanation of her presentation figures given at the bottom of the first page.

I repeat again that I think somebody who is in charge of Customer Relations for as large an operation as yours (and I presume that your responsibility extends to Foley's in Houston) should be reading The Shopper Report.

Sincerely,

Robert Kahn, CMC

NOTE: Returned January 1984 Shopper Report and April 1984 RT.

Sanger Harris

DALLAS,TEXAS 75201

June 28, 1984

Robert Kahn and Associates
Business Counselors
P.O. Box 249
Lafayette, CA   94549

Dear Mr. Kahn:

We are interested in acquiring a copy of an article that we saw in Retailing Today. The article was entitled "What the Shopper Thinks". We have not been able to acquire this from The Shopper Report and we were hoping that you could help us with this. Please let us know if you can help us and if so, what the charge will be. Please address any correspondence to:

J.B. Johnson
Sanger Harris
303 N. Akard
Dallas, Texas   75201

Thank you for your assistance in this matter.

Sincerely,

J.B. Johnson
Director
Customer Relations

RETAILING TODAY

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ROUTE TO

MAY 1984

VOL. 19, NO. 5

HOW EQUAL DO YOU PAY?

A lot of publicity has been given to the recent federal court case against the State of Washington which directed the state to set rates that provide equal pay for equivalent work. The basis was really the 1981 U.S. Supreme Court case of Washington County vs. Gunther which held that there was illegal sex discrimination in pay rates even when jobs held by women were not identical to those held by men.

The State of Washington, of course, had compounded the problem by enacting legislation calling for equal pay for equal worth for state employees. This type of legislation is not going to disappear; Iowa and Massachusetts are making studies of inequalities, and Minnesota has allocated $22 million to give wage equity to 6,000 women in 250 categories dominated by women.

I don't think it is necessary to document the lower pay for women doing comparable work; retailing is one of the most guilty industries. We rationalized it for years on the basis of the man being a primary wage earner (even if he was single and living at home) and that the woman was a secondary wage earner (even if the head of a family and supporting children). We rationalized it by saying that women would be trained, become experienced and then quit to have a baby when our own records probably showed less turnover and longer average employment among women than among men in comparable jobs.

I do not have figures to prove my impression, but I feel that the compensation of men and women buyers will not stand up under close analysis. Sometime take a close look. Tabulate the pay of men and women buyers based on years of experience, years with your firm, dollar volume purchased and gross margin or department contribution generated. I suspect that in every tabulation, compensation for women will average less than for men for similar productivity.

RThought: Let me pass over the argument about fairness; I find that there are too many cases when fairness has no appeal **IF THE TOP EXECUTIVE THINKS IT WILL ADVERSELY AFFECT "THE BOTTOM LINE."** Let me go to the question of "The Bottom Line" (a proof of the narrowness of executive outlook) and ask that you consider the long term.

Once retailing was one of the few fields in which a woman could earn a high income (relative to other jobs—not relative to men doing the same job). Some years ago IBM sought to attract the very best women systems engineers. This stimulated women to seek other careers in business. In the period from 1970 to 1980 the number of women earning degrees in business increased 7-fold, in law 12-fold and in engineering 15-fold. The increase in the number of women who became entrepreneurs and thus thumbed their nose at male employers was probably even greater.

Retailing is becoming more complex. In fashion merchandise you must cater to 5 to 10 different style trends for different groups of people. There is no uniform skirt length—in fact, it doesn't even get discussed. With most retailers operating multiple locations, the planning and control of inventory becomes even more important.

You need the best people, and the best women may no longer go into retailing if there is not equity in compensation. They may still be discriminated against in other fields; but MBAs, lawyers and engineers are likely to make more than buyers.

A MATTER OF ETHICS

See the Feature Report for an analysis of the Carter Hawley Hale resistance to the proposed takeover by The Limited.

THE MAIL ORDER RETAILERS

There is a constantly changing scene—and a constant development of customer relations/merchandising techniques not used by so-called conventional retailers.

Hanover House, a subsidiary of Horn & Hardart (once the famous New York Automat cafeteria) puts out more than 20 catalogs (Pennsylvania Station, New Hampton, Old Village Show, Adam York, The Chelsea Collection and Lakeland Nursuries to name a few). The 1982 volume was $140 million with an operating profit of $9.7 million.

For some years they have run a program of sending letters to customers in disaster areas offering free new clothes and shoes to those who return the letter with size information. DIRECT (60 E 42nd Street, NEW YORK NY 10165 $18/yr), which describes itself as "The Smart Consumer's Guide to Catalogue Shopping," reported that 6,200 letters were sent to customers in the Tucson area during the fall 1983 floods and 1,557 responded. Each received a fashion outfit and a pair of shoes.

The next time you throw away that Haband mailer with the personal note from Duke Habernickel, remember that the Duke has 1,800,000 customers and 90% of them are over 50! They sell 100,000 pairs of polyester slacks **a week** plus shirts, ties, socks, underwear, sport jackets and shoes. Even at 2 for $19—100,000 pair of slacks comes to a goodly figure.

Your furniture department may be interested in the growing number of discount mail-order operations developing in North

Carolina, the home of the furniture industry in the U.S.; and they offer such names as Thomasville, Drexel, Heritage and Lane. This is not the place to buy an extra coffee table–the minimum freight charges are too high–but it is the place for your customer who wants that new dining table with 8 matching chairs. Are you still selling the set at a price that is the sum of the individual pieces? If so, you are making it advantageous for your customer to buy by mail.

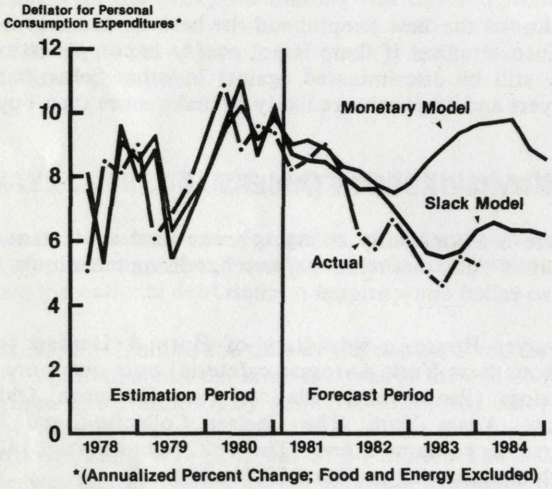
RThought: I would suggest that someone in your organization should be reading DIRECT, just to keep in touch with what's new in direct mail; and what's wrong with some of the present operations.

DOES THE MONETARY MODEL ACCURATELY PREDICT INFLATION?

The Federal Reserve Bank of San Francisco publishes the **FRB SF Weekly Letter** containing studies made by its Research Department (Free–write Public Information Section, FRB of SF, Box 7702, SAN FRANCISCO CA 94120).

The chart below was taken from a research study entitled "Comparing Inflation Forecasts" dealing with the two principal methods–one of which focuses on what is called "economic slack" (the time lag from one event to another)–and the other is based on the supply of money (the theory advocated by Milton Friedman and practiced by the Federal Reserve under Paul Volcker).

Comparing Inflation Forecasts



*(Annualized Percent Change; Food and Energy Excluded)

Note that the price changes exclude those of food and energy, both of which respond more to fluctuations in supply than changes in demand.

The article describes the slack model as focusing "on the effects from economic slack–particularly slack in the labor market–and of expectations of future inflation. What labor market participants presumably really care about are **anticipated** real wages. Thus, money wages are adjusted by increasing faster relative to anticipated inflation when labor markets are tight than when they are loose, even though the aggregate level of money wages does not move quickly enough to clear the market for labor in any particular year. Since prices are viewed as being primarily determined by a markup over unit labor costs, the implications of these models is that realized inflation tends to be higher when labor markets are tight. When labor markets are neither particularly tight nor loose, the inflation rate tends to be equal to that anticipated."

The monetarists argue that inflation is basically a monetary phenomenon. This is not necessarily incompatible with the economic slack theory. However, when the initial money supply increases lead to increased real aggregate demand, the projections may be the same; but as inflation accelerates, the real money balances fall and the resulting reduction in real aggregate demand would then return the level of economic slack to its normal trend.

The chart above shows that for the period 1978 through 1980 both models closely predicted the changes in the "deflator of Personal Consumption Expenditures" (a somewhat more inclusive measure of price changes than that obtained from the Consumer Price Index). Thus both groups of advocates could argue that their method was best.

But by 1982 the two models widely vary from each other–and the monetary model applied to 1983 forecasts a much higher inflation rate (rising to 10%) than actually occurred. For 1984 the slack model projects inflation in the 6%-7% level, while the monetary model projects the 9%-10% range.

RThought: One of the wise things in the Federal Reserve Act of 1913 was setting up independent regional banks combined under the Federal Reserve System. Each bank does its own research–and does it independently of the research done by the central system department. The research departments can freely publish their studies even when they disagree with the "accepted" policy of the Federal Reserve Board.

RThought: This causes one to wonder whether or not we need to have the present unreasonably high interest rates with the tremendous damage done to the civilian economy and the great damage done to our balance of trade through raising the value of the dollar to unrealistic levels.

A GREAT WAY TO CELEBRATE A CENTENNIAL

Marks & Spencer of Great Britian (often called Marks and Sparks or St. Marks, taken from St. Michel, a private label) is 100 years old this year. They will have the customary merchandising events appropriate to that age, but they announced an additional program.

Normally Marks & Spencer would contribute about $3.5-$4.0 million to charitable and community projects. As their birthday gift to the communities they serve, they will contribute an additional $5 million this year to special programs including 320 projects designed to benefit the sick, the elderly, the handicapped and the young plus a major contribution for a housing project for elderly in Leeds where the firm was founded.

The **Retail News Letter** of the International Association of Department Stores notes that local stores will undertake additional fund-raising efforts in individual stores throughout the country which, in many cases, will add substantial amounts to the total company's contribution mentioned above.

The M & S philosophy, one which many U.S. stores give only lip service, is that it cannot trade in isolation from the community.

THE MAGIC OF AUTOMATIC TELLER MACHINES

The use of automatic teller machines to make withdrawals from banks has been offered as proof that we are moving into

A MATTER OF ETHICS

The theory of corporate conduct in a capitalist enterprise system is fairly simple:

1. The stockholders elect the directors to represent them in setting policy for a corporation that will maximize the return to the stockholders.
2. The directors hire officers to carry out the policies established. If the officers are ineffective, the directors replace them.

In another time, Robert Burton (1577-1640) wrote: "Women wear the breeches . . . in a word, the world turned upside downward." And so it seems in the present time (1984) at Carter Hawley Hale. The directors are selected by the officers, not the stockholders (who, of course, may sell their shares if they don't like the results). The management hires the bank and the bank (Bank of America, in this case) is being investigated for doing the bidding of management rather than perform their fiduciary duties (in handling stock owned by the employees through a profit-sharing plan).

In defense against a takeover by The Limited, Carter Hawley Hale (CHH) is going through even more maneuvers than Marshall Field –MF) did to avoid CHH. (To refresh your memory, MF fought an offer by CHH of $42 in 1978 only to accept BATUS in 1982 at $30 despite a 32% decline in the value of money.) It appears that if CHH avoids The Limited the shareholders of CHH who have not sold out in the $25-$32 range will probably not see that price again; but the officers of CHH will be secure (if control passes, their Golden Parachutes at one year's pay–$500,000 to $250,000 for the top 8–have been put in place).

Let's look at the arithmetic. CHH made $102 million before taxes for the year ending January 1984 (up from $67 million) and reported a very low (for a retailer) tax rate (34% up from 27%).

Dividends of $1.22 a share were paid out of earnings of $1.93 (a high 63%–this held up the stock prices but left little for corporate expansion).

CHH has sold 1,000,000 shares of 13% preferred for $300,000,000 requiring $39 million in dividends out of after-tax income. This money has been used, together with an additional $170 million, to buy back 18 million of 38 million common shares, leaving 20 million outstanding of which 6.5 million are owned by the employees through the Profit-Sharing Plan and "over 3 million" by the officers, directors and their families.

If we assume the additional $170 million of debt costs 13% in the present market or $22 million per year, we then get a pro forma adjustment of 1983 as follows:

	$ in Millions
Profits before taxes	$102
Less: Interest on $170 million	22
Adjusted profit before taxes	80
Taxes at 34% (same as 1983)	27
Net after taxes	53
Less: Preferred dividends	39
Less: Dividends on 20 million shares at $1.22	24
Retained earnings	(10)

It is obvious that CHH cannot continue to pay $1.22 in dividends–and with only $14 million after preferred dividends (70¢ per share). Probably dividends should not be paid to help the company meet service on close to $600 million (up from $400 million) in debt.

The elimination of dividends would react drastically on the market price (combined with the drop in earnings per share from $1.93 to 70¢). This would eliminate the $8 million income to the profit-sharing plan as well as greatly drop the value of vested benefits for thousands of CHH employees. (Despite this prospect, the Bank of America, as independent trustee with fiduciary responsibility to the employees and not management, has not sold the trust's shares.)

Even if CHH can continue the trend of improvement in the pre-tax 1982 to 1983 earnings trend of 52%, the pro forma would look like this:

	$ in Millions
Profit before taxes	$155
Less: Interest on $170 million	22
Adjusted profit before taxes	133
Taxes at 38% (move toward normal)	51
Net after taxes	82
Less: Preferred dividends	39
Net to Common	43

al Klaper 6/14/84

On the remaining 20 million shares, this would be $2.15 per share **IF** the $285 million from the sale of Waldenbook can produce the same pre-tax profit as Waldenbook (part of the $53 million increase in pre-tax profit would have to come from Waldenbook). However, with long-term debt increased from the $400 million range to the $600 million range, the after-tax dollars needed for debt service would be greatly increased (since none of the debt increase is related to investment in depreciable assets that would produce cash flow to supplement the after-tax profits).

RThought: Suppose CHH had truly worked for the benefit of the shareholders. The board could have negotiated with The Limited to make a $30 cash offer for all shares. This could have been accomplished if a deal had been worked on to sell Waldenbook for full value (perhaps $325 million instead of $285 million).

The $30 price would have been substantially higher than the market price for CHH for many years ($24.75 in 1983 but most of the past 5 years showed a high of $17-$20, less than book value). The directors and officers would have received more than $90 million for their stock. The Employees' Profit-Sharing Plan would have received $195 million. This amount invested in good bonds yielding 12% (General Electric Credit, AT&T) would have produced $23 million a year income instead of the present $8 million and increased the value of the Profit-Sharing Trust (the CHH stock portion) from about $155 million based on $24 per share to $195 million or 25%.

What negative impact could there be? There might have been new senior officers (perhaps 20 people), but is retaining those officers enough to offset the good to thousands of shareholders and employees?

RThought: I would have been less likely to be making this argument had not The Limited shown the ability to turn Lane Bryant around in a remarkably short time. The Limited's earnings per share have progressed as follows: year ended 1/80–8¢, 1/81–15¢, 1/82–40¢, 1/83–58¢ and 1/84 $1.18 despite the additional debt taken on 1/83.

Clyde Bedell's VP carried a message to Australia that should be told in the U.S. James Alexander told the Newspaper Advertising Bureau of Australia that their (note: and our) advertising offers merchandise rather than persuades customers to buy it. **"It confuses YELL with SELL, but real advertising is professional selling multiplied by the media."** To the retailer's claim (there, as here) that the customer is only interested in price, he replied, **"The result is wasted opportunities because the prospect can't get more sell out of the ad than the advertiser puts in."** All of this was reported by INSIDE RETAILING (Box 981 P.O. Darlinghurst, NSW, 2010 AUSTRALIA $165 Australian/yr).

They didn't build the traffic signals, widen the roads and add turn lanes as they promised in 1979 when the center was built, so now the New York State Supreme Court will order that the owners must close 109,000 sq. ft. in the Sangertown Mall including a Bradlee's and 5 small shops according to NMM Weekly Legal Review (National Mall Monitor, 2280 US 19 North, CLEARWATER FL 33575 $225/yr). No decision has been made on appeal, nor is it clear who will sue whom for what if and when the space is closed.

Please applaud Tom Thumb-Page (TT-P) stores (a division of Cullum Companies) for dropping men's magazines after community groups objected. TT-P recalled that their basic goal was to run a quality family store.

Electronic mail may be further away than the "puff" articles indicate. Reader Bob Morris of Merchants Collection Association sent an article that the cost of E-COM messages by the Postal Service would be doubled from 26¢ to 52¢ because "the volume projections submitted were overly optimistic and that E-COM would fail to recover its cost at a lower rate." **So much for that.**

It is hard to realize that Roger Horchow's Horchow Collection is only 13 years old. But as a precocious teenager, the catalog shows all the ways to present price comparisons. Some are common wordings such as "Reg 15.00 NOW 11.90" or "55.00 value NOW 34.90" or "31.50 value SPECIAL 25.90"—but there are some innovative ones. They ran a page of china with columns headed "Value" and "SPECIAL." Then on the next page have just one column headed "NOW." Or perhaps consider the mongrel presentation "Regularly 65.00 value—SPECIAL 48.90" and then at page 17 (of 36) switch to regular price merchandise. **RThought**: As a small P.S. to his letter to his readers about how he brings such savings, in a position likely to be overlooked, he reports that he will appear on "Lifestyles," the first week in May showing a "typical day in my life both in Dallas and on a buying trip in Hong Kong."

The upgrading at Sears appeared recently in a tabloid in our area. The fashion presentation was much better than in the past. On a scale of 1 to 10, I would rate it about even with the most recent catalog from Haband.

Alibi, Alibi. From Women's Wear Daily: "Carson Pirie Scott & Co said higher expenses to introduce new senior management helped drop earnings 42.7% in the fourth quarter ended January 28 while sales rose 10.3%" **RThought**: Mr. Carson meet Mr. Pirie; Mr. Pirie meet Mr. Scott.

Fortune reports on supply side economics. Tax cuts were supposed to boost savings from 6% when Reagan entered office to 7% for 1981-1986. They were 5% in the fourth quarter of 1983. Whoops!

Your competitor, the Navy Exchange and the Post Exchange. As a retired Air Force Reserve Officer (39 years in reserve with 22 active of which 7 were on active duty and 4½ overseas), I am authorized to shop at the exchanges. Some months ago I visited the Post Exchange at the Presidio of San Francisco and was impressed with their layout, fixturing, signing and presentation of merchandise. They issue a monthly booklet advertising their promotions. Recently I received a VIP Coupon Book covering the Oakland Region Navy Exchanges (12 exchanges) with $ OFF, % OFF or 2 for 1 offers on about 100 items. Coupons were good progressively for March 15-31, April 1-15, etc. **RThought**: I must show my identification card with a photograph to enter the facility. One time my wife was denied entry because she had failed to bring her card.

A few more stores are reporting same-store sales changes. In one day's reading of quarterly or annual reports/press releases, Carter Hawley Hale (by department stores, high fashion stores and specialty retailing), Dayton Hudson (Target, Mervyn's, department stores and specialty merchandisers), Hechinger and H. J. Wilson gave that information; but Albertson's, Perry Drug, First National Supermarkets and Heck's did not.

It may have appeared at the Stanford University Medical Center, but it could have been on your bulletin board.

NOTICE!
While on these premises speak in a low, soothing tone and do not disagree with the boss in any manner. Please be informed that when one has reached their age, noise and non-concurrence cause gastric hyperperi-astatis, hypersecretion of hydrocholic acid, and rubus of the the gasseous enzomolicus...and they become most unpleasant!!

The Association of General Merchandise Chains does a good deed for all retailers. They have published a summary on laws in the 50 states relating to shoplifting (should be called shoptheft) and issuance of worthless checks. These are available to non-members at $6 each—write to AGMC, 1625 Eye Street NW, WASHINGTON DC 20006.

The New York Times Crossword Puzzle supports RT. March 25, 1984, 73 Across "Shoplifter's crime." Answer: "Theft."

Can we learn from the Australians? They regularly come to the United States to study what we are doing; we never go there to see what they are doing. Yet they pay higher wages to their sales staff, higher rents ($30 a square foot and up) and make a profit on a lower initial markon. They must be doing something right. A recent issue of their INSIDE RETAILING (Box 981, P.O. Darlinghurst, NSW, 2010 AUSTRALIA $165 Australian/yr) reports that Grace Bros., now part of Myers Department Stores, is switching their second floor dress operation from imports to All-Australian, similar to the move by competitor David Jones (parent of Buffums in Southern California). They are inviting new designers to operate boutiques on a concession basis within Grace Bros—which produces 3 benefits: (1) fear of markdowns will not limit the presentation of new styles, (2) being offered boutiques may cause new designers to turn from starting their own retail outlets, and (3) the concession agreement will produce income as well as traffic.

the paperless society with everyone trusting the miracles of automation. From this great success in banking we are assured that interaction TV will soon replace in-store shopping.

Spence Nilson in his **The Nilson Report** (Issue 327 March 1984) gives interesting figures on worldwide and U.S. use of ATMs. The first machines were used in France! The 5 largest networks are in France (2), England (2) and Japan (1). The U.S. has 39,000 machines and Japan, with half our population, has 34,000.

The United States has 114 million cards outstanding **but only 29% were used during 1983–71% were NOT used.**

Regional networks are developing so fast that national networks may not really develop (both MasterCard and Visa have very small networks). National coverage is not that important–regionals indicate that less than 1% of transactions come from outside the region.

Nilson points out that a national organization would have to corner four key elements: technology, card base, national recognition and management policies acceptable to those they will represent.

Whom will they represent? Retailers, banks, regional computer switching centers and national credit card companies. The idea that either Visa or MasterCard will control such a network is rejected.

Nilson estimates that POS credit card transactions will cost 10¢ against an estimated 35¢-55¢ for stores to process checks. On that basis, he projects that most of the cost (and an offsetting savings) will be *paid* by retail stores.

RThought: RT once again observes that all retailers (even those cash operators who accept, and do much of their business on, bank cards) should be reading **The Nilson Report.** It talks with authority about what will be happening in the future in electronic funds transfer systems as they will impact retailers. (Box 49936 Barrington Station, LOS ANGELES CA 90049 $360/yr).

EXPANSION OPPORTUNITY: CHINA

The March 1984 **Retail News Letter** of the International Association of Department Stores reported a retail boom in Communist China. From 1978 to 1983 the number of people in private business increased from 140,000 to 7,500,000! The number of retail stores increased by 1,500,000 and now exceeds the number of state-owned stores. However, a private store must be small–not more than 3 skilled workers and 5 apprentices.

RThought: Perhaps Tandy will start opening franchise stores there?

ARE DISTRIBUTION CENTER MANAGERS SEEKING UNCONSCIONABLE PROFITS?

We talked of obscene profits by oil companies in the days when the common explanation of gasoline price increases was "our competition forced us to raise our prices." Retailers are putting more pressure on reducing costs at distribution centers; but rather than do that, some appear more interested in creating fee income through a simple process–make your instructions so complex that vendors cannot comply and then impose penalties. Macy's Midwest says, "If you ship garments on hangers, each stores' invoice should be placed in a waterproof container or package and the package hung over the lead garment hanger for each store. Each invoice should show store name and number." What happens if the receiver works from the back and all invoices are hung on the last garment?

A new record in fee charges is illustrated by those of Macy's shown below:

Authorized RTVs refused by Vendor	$100.00
Cartons not marked with store name, department number, P.O. number	$ 40.00
Minimum charge each RTV	$ 25.00

RThought: We will give a free subscription for 1 year for any proof of a higher service (above $100.00) charge dated February 14, 1984 or earlier. Macy's does tell Gimbels; will Gimbels go for the first $200 service charge?

THERE HAVE BEEN MAJOR POPULATION CHANGES SINCE 1980

The population by states and regions as of July 1, 1983, when compared with the census at April 1, 1980, shows how dramatically the sun belt is gaining. The overall resident population growth was 3.3%, but the top 10 states by percentage growth were:

Alaska	19.2%
Nevada	11.3
Utah	10.8
Texas	10.5
Florida	9.6
Wyoming	9.5
Arizona	9.0
Oklahoma	9.0
Colorado	8.6
New Mexico	7.4

I don't intend to put Alaska in the sun belt; but certainly Nevada, Texas, Florida, Arizona, New Mexico and even Colorado, Utah and Oklahoma can be considered the sun belt or next to it.

When one looks at the number of people added to states, the sun belt look becomes much more obvious:

California*	1,506,000
Texas*	1,494,000
Florida*	933,000
Oklahoma	273,000
Georgia	269,000
Colorado	249,000
Arizona*	245,000
Louisiana	232,000
Virginia	203,000
North Carolina	200,000
Total	5,604,000

*Sun Belt - 4,178,000 or 75% of top 10 state increase

The growth of California or Texas separately since 1980 exceeds the 1980 population in 15 of the 50 states: Maine, New Hampshire, Vermont, Rhode Island, North Dakota, South Dakota, Delaware, Montana, Idaho, Wyoming, New Mexico, Utah, Nevada, Alaska and Hawaii.

If their growth is combined, it exceeds the population of these 15 states plus another 9 states: Iowa, Nebraska, Kansas, West Virginia, Mississippi, Arkansas, Colorado, Arizona and Oregon.

RThought: Population growth of some of the sun belt or western states certainly covers up much overbuilding of shopping centers and does it much faster than in states like Ohio, Indiana, Michigan and Iowa where the population actually decreased.

WILL LACK OF ATTENTION LIMIT THE RUSSIAN ARMY?

RT has written about the importance to retailers of day care centers for children of employees. Little is being done by retailers, but there are others in the community who are doing something.

Red Star, the official paper of the Russian military forces, surveyed junior officers and their families. Russia needs a minimum of 3 children per family to maintain their population (only 2.1 in the U.S. because we did not have the tremendous loss of men that Russia had in World War II). And that is not happening.

The reasons given? Inadequate housing and lack of child care facilities. And, most important, senior officers are unconcerned about the problem.

RThought: Once just being in the Russian military forces was a desired position; as it becomes less desirable, the quality of personnel (and thus the effectiveness) will drop. But before we pat ourselves on the back, our military has suffered from the same problem. It took a serious depression to permit all our services to meet the educational quality level desired for newly enlisted personnel.

THE WAYS OF PRESIDENTS AND THE NATIONAL DEBT

Franklin D. Roosevelt ran for office on a campaign not to forget "the Common Man," and at the same time he promised to reduce the national debt.

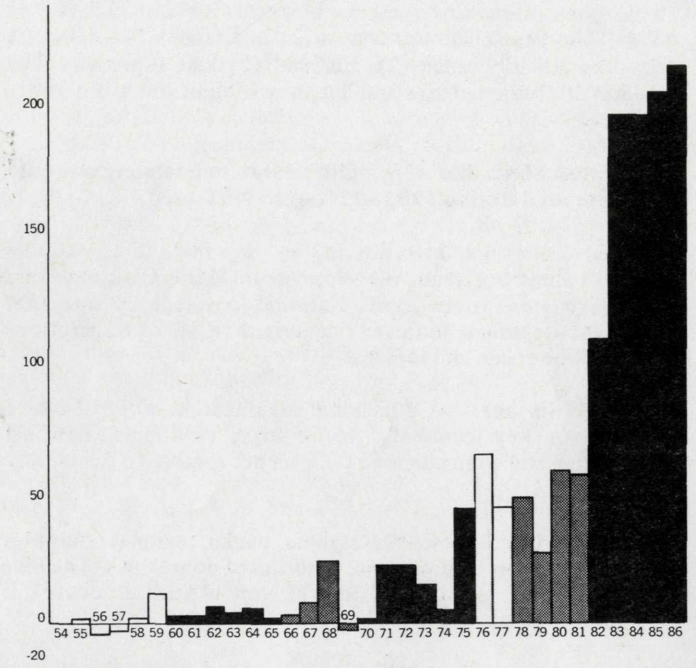
At June 30, 1932, about the time of the conventions, the debt was $31.3 billion, about the same as it was at the end of World War I (then $31.1 billion). By June 30, 1939, just before the outbreak of war, the debt was $42.6 billion and just before our entry in World War II, it was $72.4 billion. The 1939-41 increase was largely related to our financial assistance to our Allies.

Ronald Reagan ran for office on a promise to balance the budget by the year ending September 1983. At October 1980, just before the elections, the national debt stood at $914 billion. The deficit for that year was $60 billion, breaking the record increase of $57 billion during World War II for the year ending June 30, 1944.

As of September 1983, the debt stood at $1,382 billion—an increase of 51% with almost $200 million coming in the 1983 fiscal year. The projections for the fiscal years ending in 1984 through 1986 show an increase of more than $600 million bringing the total to over $2,000 billion or an increase of more than 100% from when Mr. Reagan took office.

Of course, if one accepts the statements of Messrs. Reagan and Regan, this has had no impact on interest rates.

RThought: A picture (inflation in this case) is worth a million words—so here is a chart showing the deficit (or surplus—look closely at 1956, 1957 and 1969) by years from 1954 through projected 1986.



The graph was developed by Congressman George Miller (California) for his report to his constituency.

RThought: The strong dollar resulting from the present fiscal policies which in turn reflect the problem of financing the national debt is compounding our problem by impacting the trade balance of the country. The 1981 deficit was $24 billion increasing to $58 billion for 1983 and, at the rate, projecting $118 billion for 1984.

WORDS THAT TELL HEAVEN FROM HELL

One of the unique newsletters in this land is **Creative Think** (Box 7354 MENLO PARK CA 94025), the work of Roger van Oech. In Issue 8 for Spring 1984 Roger E. Smith submitted the following item—a story I have read before but which should be read again:

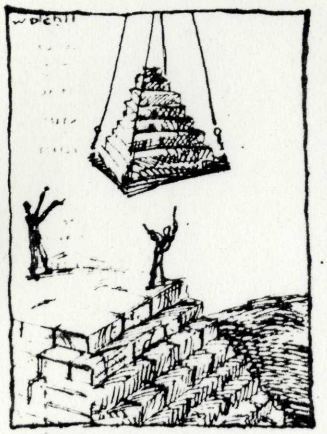
> LIFE IN HELL
>
> It seems that St. Peter was illustrating for some of the flock the difference betwen Heaven and Hell. He took the group down to Hell, and there, in a large banquet hall were hundreds of people seated at long tables heaped with food. However, the people seated at the tables were emaciated, with drawn, saddened faces and shriveled bodies. The reason for this was that the left arm of each person was tied behind him and a long fork was strapped to the right arm so that it couldn't be bent. St. Peter than took the flock up to Heaven to a similar banquet hall, again with tables laden with food, but the people were happy and well-fed. Their left arms were also tied behind them and also strapped to their right arms was a long fork which prevented them from bending it. The difference in Heaven was that they were feeding each other.

THE MONEY TREE / MILTON MOSKOWITZ

Finding the Winner in Battle for Carter

Are all takeovers bad? It depends, of course, on which side of the fence you are sitting. Consider the recent abortive attempt by Limited Inc. to take over Carter Hawley Hale stores. Carter Hawley Hale (CHH) repelled the invader but at a crippling cost. Who really won — and who really lost?

Limited operates fashion-conscious women's clothing stores. It's based in Columbus, Ohio, and under the guiding hand of Chairman Leslie Wexner, it has grown from one store 20 years ago to more than 520 today. Wexner thought he could infuse some spirit and direction into CHH, a slumbering company three times as big as his own. He's not inexperienced in such facelifts. In 1982, he bought the not-too-prosperous Lane Bryant chain, whose sales were greater than Limited's. He has since doubled Lane Bryant's return on sales.



CHH, whose California roots go back to 1876, ranks as the nation's sixth largest department store operator. Based in Los Angeles, it knows all about acquiring othes, having brought into its tent Neiman-Marcus, Bergdorf Goodman, John Wanamaker, Thalhimer's — and Holt, Renfrew in Canada. Its California stores include the Broadway, the Emporium and Weinstock's. It owns Waldenbooks, the nation's largest bookstore chain.

Here's the telling contrast between these two retailing outfits: Limited earned $71 million after taxes last year on sales of $1.1 billion; CHH netted $67 million on sales of $3.6 billion. R.H. Macy, with sales of $3.4 billion, earned nearly three times as much as CHH.

So what would you do if you were a CHH shareholder, the stock was selling for $22 — and someone offered you $30? Wexner made that offer — and was promptly rebuffed by CHH's management. He raised it to $35 — and the answer was still a firm no. Not only that, CHH went to unusual lengths to foil Wexner's bid. It bought up nearly half its shares. It sold preferred stock to another company, General Cinema, which may now have as much as one-third control over CHH. In addition, it gave General Cinema an option to buy Waldenbooks at the bargain price of $285 million.

It went through all those manipulations just to block the offer from Limited — and they worked. Wexner withdrew his offer.

While the fight was raging this Spring, CHH's stock rose to a high of $32, well above what it sold for during the past decade. As soon as Wexner retired from the field, CHH's stock skidded to the $20-to-$22 level. Will it ever reach the $35 price offered by Wexner? Very unlikely. And who should know that better than the CHH managers?

In 1978, they did what Limited was trying to do this year. CHH tried to buy the venerable Chicago department store, Marshall Field, offering $42 a share. Marshall Field fought it off, just the way CHH fought off Limited. Two years later Marshall Field sold out to Batus, owner of Gimbel-Bros.-Saks Fifth Avenue, for $30 a share. The Marshall Field shareholders would have been better off accepting the CHH bid.

So who gained from the "successful" CHH defense of its turf? First of all, the management people — they get to keep their jobs. Then General Cinema — it came away with a big slice of CHH. And who lost the most? Probably the shareholders. And the employees, who own 6.5 million shares through their profit-sharing trust. They lose because stock they could have sold for $35 is now worth about $20, thanks to Carter Hawley's Hale's victory.

Management consultant Robert Kahn, noting Wexner's successful track record, asked what negative impact would have resulted from accepting the Limited offer. His answer:

"There might have been new senior officers (perhaps 20 people), but is retaining those officers enough to offset the good to thousands of shareholders and employees?"

Put w/ May 1984 Rt

RETAILING TODAY

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THE RETAIL BILLION DOLLAR FIRMS

Everyone looks at annual sales to measure a retailer—but that really is not as important as what bidders for the stock think of a company. Here is the "Billion Dollar Club" taken from the **BusinessWeek** Corporate Score Card (May 14, 1984) for the end of the first quarter. The market price and P/E ratio are as of April 19, 1984.

Store	Market Value (Millions)	P/E Ratio
Sears Roebuck	$11.613*	9x
Wal-Mart Stores	4.608	24
Penney's	3.709	8
K mart	3.598	8
Tandy	3.636	12
Dayton Hudson	2.839	12
Federated Dept Stores	2.270	7
Macy's	2.135	10
Toys "R" Us	1.978	23
Melville	1.797	10
Southland	1.640	6
Kroger	1.443	12
May Dept Stores	1.384	7
Safeway	1.374	7
The Limited	1.228	18
Winn Dixie	1.209	11
Walgreen	1.035	13

*Some argue that Sears should be classified as a financial corporation.

There is also a "Half Billion Dollar Club":

F. W. Woolworth	$944	8x
Carter Hawley Hale	909	13
American Stores	861	8
Jack Eckerd	858	11
Albertson's	829	12
Revco D. S.	828	11
Allied Stores	820	6
Rite Aid	791	11
Associated Dry Goods	725	8
Lowe's Companies	689	14
Weis Markets	671	13
Mercantile Stores	637	8
Petrie's	620	13
Zayre's	608	10
Great A&P	576	18
Nordstrom's	561	14
Jewel Companies	540	7

RThought: Think for a moment about the many "big" firms not listed. Stop & Shop has been publishing separate figures on Bradlee's sales—but despite **all** their chains, the market value is only $349 million. Supermarkets General has done a great job

PERHAPS NO ONE SAID "THANK YOU"

A number of great services to broad groups of people seem to disappear because those who receive the service never seem to find the time to say "Thank You." Perhaps they don't even think that they should say "Thank You."

For many years duPont did a series of studies for the National Mass Retailing Institute. It told the members a great many things about the customers they shared with many other kinds of stores—supermarkets, department, specialty and convenience stores plus mail order firms.

One of the continuing disappointments to the people at duPont was that no one seemed to appreciate the information produced. Procter & Gamble has started a new series of market studies which, though currently centered largely on the P&G products, will be expanded to cover all categories of discount store merchandise. The question is: Will anyone say "Thank You" to P&G. I don't mean the President of NMRI who always expresses his appreciation, but the members. I hope they will.

In another area, J. C. Penney is discontinuing their publication "Forum" which, for years, has been an aid to teachers. It was published 5 times a year with associated Instant Lessons. As of the May 1984 issue, it ended.

The "Au revoir . . ." from Satenig St. Marie, Divisional Vice President and Director of Public Issues and Consumer Programs, says nothing but that you won't get it anymore. No reason is given; no new area of support is indicated. There is no other interpretation than complete abandonment when she writes, "Throughout the years our goal has been to provide a service to educators, with information on issues and trends that could have an impact on families, because, after all, people are central to your work and ours." Since I know that people will continue to be central to the work of teachers, I can only conclude that they will no longer be central to the work of Penney's.

There is always an underlying explanation—and in the failure of Ms. St. Marie to provide a reason, there is the implication that they want to avoid the time and cost although there is a subscription price.

Perhaps the teachers did not bow toward Penney's 5 times a day; perhaps the teachers even failed to bow once—and say "Thank You."

RThought: Maybe Zayre will pick up "Forum" to supplement their excellent consumer program. Zayre would be more comfortable guiding teachers of students who may want the savings of discount stores. Zayre is in discounting; JCP has withdrawn. Value may no longer be the key word at JCP; markup dollars may have taken its place.

with their super stores—but the market value is only $392 million. Fortunately, more stores are now looking at return on equity as the desired end result—rather than bragging about the number of stores or the number of states in which they have stores.

100 LARGEST COMPANIES STILL HEADED BY FOUNDERS

Venture (May 1984) published such a list and retailers came out very well. The list below shows the position, firm and founder:

3	Wal-Mart Stores	Sam Walton
5	Albertson's	Joseph Albertson
8	Supermarkets General	Alex Aidekman
11	Publix Super Markets	George Jenkins
13	Carlson Companies	Curtis Carlson
18	Best Products	Sydney Lewis
21	Revco D.S.	Sidney Dworkin
26	Toys "R" Us	Charles Lazarus
30	The Limited	L. H. Wexner
48	Circle K Corp	Fred Hervey
53	Price Co	Sol Price
54	Cole National Corp	Joseph Cole
69	The Gap	Don Fisher
76	Jamesway	Herbert Fisher
86	Mayfair Super Markets	Stanley Kaufelt
89	Randall's Supermarkets	Robert Ansteau
98	Fay's Drug Co	Henry A. Panasci Jr.

Eighteen out of 100 for retailers is pretty good.

As always with a first listing, a few names are inadvertently omitted. For example Petrie Stores was founded in 1927 by Milton Petrie, still the active head, and should be ranked about #35. Service Merchandise started by Harry Zimmerman in 1960 should be about #25. H. J. Wilson started by Huey Wilson should be about #75. The founder of Zales may not be listed in active management, but the office row for "Emeritus Presidents & Chairmen" is an active area.

RThought: I am sure I have missed some and will think of them just as soon as this article is in print.

WAREHOUSE CONCEPTS

Today analysts and retail writers proclaim that warehouse-type operations are truly unique and the future of retailing.

Home Depot, Price Club, deep discount drug stores, Cub and other food outlets—all are essentially warehouse-type operations. To open a Price Club-type operation in an ex-Woolco the drop ceiling is taken out, the vinyl tile is scraped off the floors and a moderately nice store box is converted into a building that a shopper will believe is truly a warehouse.

A warehouse conveys an impression of savings. Customers must go through some physical abuse to believe that they are saving money.

But warehouses do not stay warehouses.

Let's look at another era of warehouse operations. I quote from a 1969 prospectus for Levitz Furniture Corporation:

> **"With the exception of one outlet, which is a conventional furniture store utilizing a separate warehouse facility, each of the Company's facilities is operated as a single unit combination of warehouse-showroom. The Company generally sells well-known brands of furniture and household goods at discount prices."**

From another part of the prospectus:

> **"The warehouse-showrooms are arranged in such a manner that the customer** *passes through a portion of the warehouse* **in order to reach the Showroom .... A small delivery and set-up charge is added to the price of the merchandise if the customer elects to have the item delivered and assembled .... Outlets are generally open daily from 10:00 a.m. to 10:00 p.m. and Sundays from 12:00 noon to 6:00 p.m."**

Levitz hit a top price of $60 a share in the 1960s when earning 60¢ a share—strictly on being a "concept retailer." Imagine selling at a 100 P/E ratio!

Imagine what the price must be today. They had made one 2:1 split which means that the high was $120 when earning $1.20 on the present shares outstanding. So let's look. The high for 1983-4 was $48—just 40% of the 1960s. And what did Levitz earn compared to $1.20? $3.37 for the year ending January 1984.

Not only is the stock much below $120, but the concept is gone. Read below—taken from the1984 Annual Report:

> **"We have maintained our gross profit margin at 44% of sales (vs. 34% in 1967).**
>
> **"We expanded our merchandise mix and upgraded our presentation format** *to draw new customers and increase market share"* **(emphasis added).**

They now offer decorator service. Delivery is commonplace—trailers and hitches are no longer available at the stores. Store hours are shorter. Satellite stores are operated without warehouses. But the letter to shareholders concludes with ". . . we continue to refine our **warehouse**-showroom merchandising. . ." (emphasis added).

RThought: If you want to see the Price Clubs, the Home Depots and Cubs of the 1990s, visit your upgraded local Levitz today. Competition forced them to do it.

(Note: Since writing this article, an offer has been made by a private company to buy Levitz at $35.50 a share or 30% of the all-time high. Prior to the offer the stock was selling at about $27.00 or 23% of the all-time high.)

DO DIRECTORS REALLY SERVE THE OWNERS?

The proxy statement of Pacific Gas and Electric Company illustrates how one safeguard in corporate structure has become distorted. Originally the Board of Directors was conceived of as the policy-setting part of the structure with the corporate officers being responsible for executing the policy. There is somewhat of a parallel between the Board of Directors and the Congress in setting policies and a parallel between the corporate officers and the Executive Branch of government in executing policies.

The Board is supposed to review the performance of the officers and, if necessary, remove those who are not performing properly. The Chairman of the Board, through his control of the agenda, controls what the directors look at and get know about the corporation.

At PG&E, the largest electric and gas utility in the country, Frederick W. Mielke Jr. is the Chairman of the Board. As

WHEN BANKS ARE NATIONALIZED, WILL YOU CALL YOUR CONGRESSMAN FOR A LOAN?

The collapse or almost-collapse of larger and larger banks raises again the problem of how we will operate when irresponsible banks through financial failure force the federal government to bail out the system or nationalize banks.

Continental Bank of Chicago is not the only—and perhaps not even the largest—commercial bank that is in trouble. One must ask the question: If Citibank or Bank of America gets in trouble, where will the money come from to stop the run?

Can we have a depression caused by bank failures when the country is otherwise sound? Perhaps. Let's look at what RT has written over the years. (For copies of the cited articles send a postage-paid #10 envelope to BANKS, Box 249, LAFAYETTE CA 94549).

In April 1972 the Feature Report was "Financing the 1970's." I used the Bank of America as an example—mainly because their annual report carried 50 years of figures. The table below showed "Capital Funds As A % of Total Resources" at the end of each decade:

Year Ending	%
12/31/21	7.73
12/31/31	11.46
12/31/41	7.63
12/31/51	5.47
12/31/61	6.16
12/31/71	3.98

We can now add:

12/31/81	3.54
12/31/83	4.06

In the 1972 article I pointed out how strong the Bank of America would have been if they had not paid any dividends (they would require a retailer, as a condition of a loan, to pay no dividends if the bank felt that the capital structure was weak). The figures are shown below:

	Capital Funds As A % Total Resources	
Year Ending	As Reported	If No Dividends*
12/31/62	5.99	6.35
12/31/63	5.53	6.15
12/31/64	5.43	6.31
12/31/65	5.24	6.34
12/31/66	4.92	6.14
12/31/67	4.80	6.16
12/31/68	5.11	6.01
12/31/69	4.47	6.16
12/31/70	4.19	5.90
12/31/71	3.98	5.69

*Disregards earnings on increased funds

The B of A continued to pay out high dividends to maintain the market value of their stock. It never did what rapidly growing companies like Levitz, Best Products and Mervyn's or high dividend public utilities did—go to the market frequently for additional capital.

What can banks do?

It does little good for RT to say that what has been done was wrong—unless there is an alternative that might solve the problem.

RT feels that the alternative is to eliminate the **cash** dividend. If some form of return to the shareholders is necessary, it could be accomplished through **stock** dividends. The sale of the small stock dividend would produce capital gains income (lower tax cost) for shareholders.

In the November 1974 RT, under the heading "Bank of America Adopts Policy of Restraint on Loans," I reported that the B of A had finally realized that their race for size—without commensurate profits—had reached a crisis level. The rate of equity-to-total assets at September 30, 1974 had declined to 3.0%. The Bank announced that it would be more difficult for customers to obtain loans.

But dividends were continued (even increased) since then. Much of the gambling was done on foreign loans, as shown in RT for April 1983 ("Why Medium and Smaller Businesses Get No Loans"). The B of A reported for the 5 years 1978-1982 that it got more than twice the return on equity from "Retail" loans compared with "World" loans; yet it increased the World loans from 62.5% of total loans to 66.7%—a shift of billions of dollars.

The article closed with an analysis of bad debt write-offs and concluded they had been inadequate. RT said, "Watch out for foreign loan losses next year!"—which proved to be a correct forecast.

In July 1975, under the heading "Are Banks Undercapitalized?" I showed the ratio of total capital (including capital notes as equity) to total assets using the 100 largest bank holding companies as reported by **Forbes**. Averaging the figures by deciles, we see:

Decile	Average Ratio
1	5.0%
2	6.1
3	6.7
4	8.3*
5	7.0
6	7.0
7	7.7
8	8.3
9	8.7
10	8.1
100 Banks	5.9

*If Walter E. Heller International is excluded as nontypical, the composite for the remaining 9 banks is 7.1%.

The Bank of America had the lowest ratio of all banks—3.7%.

The last two paragraphs of that article read:

> **The government has already said we cannot afford to have Lockheed, Chrysler, W. T. Grant, and several other major firms go broke. Obviously we cannot let Bank of America, Citicorp, Chase Manhattan, J. P. Morgan and Manufacturers Hanover, the 5 largest bank holding companies, go broke even though these banks could improve their combined 4.7% capital ratio by eliminating dividends and raising new equity capital just as they advise their retail clients to do.**
>
> **RThought: Our banking system is becoming the largest advocate of "do as I say, not as I do." In fact, the banks soon may have to be exceptionally tough on retailers—particularly smaller ones—because of their own imprudent financial planning.**

RThought: We are on the brink of a bank disaster. Games are being played to keep banks from having to write off bad loans.

Accountants, who are supposed to be both independent and professional, go along with actions that meet a narrow interpretation, but not the intent, of Generally Accepted Accounting Principles—and hope they will not be sued. An Administration that professes to admire how the market handles economic problems is frantically trying to contain this problem, at least until after the election.

Dear Adam Smith: Is this the way you expected it to end?

P.S.: As we go to press, the Federal Deposit Insurance Corporation, as conditions for a $2 billion emergency loan, has required Continental Illinois National Bank (1) not to resume dividends, (2) not to give officers "golden parachutes" and (3) asked for resignation of all directors.

MERCHANDISING WITHOUT MEDIA

I am sure you have the same thoughts as I do—when wandering around a concentrated downtown area like Wall Street or State Street or Montgomery Street: how do these small operations, often a single store, manage to generate increased sales to cover rising expenses.

Of course, some (perhaps many) of the stores do not succeed; but then there are the exceptions that do a booming business.

Recently I visited several in the financial district in San Francisco. The reason for each success was pretty obvious.

Fox Hardware: This is an old store in the financial district although they have to change location every decade or so because the building in which they are located is taken down in order to build a larger one. I have some feel for hardware having long been on the board of a firm that operates two hardware home centers of 90,000 and 45,000 square feet respectively. Fox might be 3,000 square feet.

Fox carries a lot of SKUs. In screws and bolts it may be only 1 to 3 boxes of each size, but they **were in stock**. The same is true of many other items. Being in stock means (for them) ordering almost daily; they are a member of ACE so they have good support from their supplier.

Tools are top quality—few promotional items—Stanley, Miller Falls, Black and Decker. Prices are probably full list or more. The store is neat and the salespeople knowledgeable—I listened to one talking with a customer about what seemed like a weekend project. And they do run regular 2 column 4 inch ads on single items in the San Francisco Chronicle.

They also cater to office managers and building superintendents in towering buildings that surround them.

Shell Building Pharmacy: I drive past their store almost every time I am in San Francisco; but until a friend went in to pick up a prescription, I had never been in it. I was surprised to see so many specials—all tagged with the regular and sale price. It was like being in a Longs or a Jack Eckerd or a Revco drug store. And the pharmacist and the helpers were all hustling.

The whole store was about 600 square feet.

I asked how they did their promotion and was told they used a tabloid. How did they distribute it? By paying a street person to pass it out within 3 or 4 blocks of the store. The current tab was 4 pages with green and black on the front and back. There was no need to apologize for their prices—6-pack of 7-UP for $1.69, Kleenex 175s for 79¢, TEK tootbrushes at 3/$1—about 75 items in all.

The tab did not have a date so it could be run as long as wished. But it did carry the symbol of the Northern California Independent Pharmacy Drug Centers on the front page.

So it is possible to advertise in a downtown area.

City Sweets: In 389 square feet (according to the salesperson), they had over 250 different kinds of bulk candies, each in its own candy jar: an updated candy store from my youth. And they carried more novelty chocolate items than I dreamed existed—matchbooks, band-aids, golf balls, tennis rackets, phonograph records—something in chocolate for any hobby.

The salesman was in his mid- to late-60s and confided that he had spent years as a floor covering salesman, then a warehouseman in a furniture store. But he seemed happiest trying to get me to try one sample after another. ("We have a liberal sampling policy.")

He knew his merchandise well. I would mention something like nonpareils—and he said, "We have them in dark and milk chocolate" (when was the last time you had that choice?) And it was obvious that he loved what he was doing. He did not sample any himself, but I know from my first job (when 11 or 12) in a candy factory that the rule is you can eat all you want. After the first few days you don't want anymore. (That first job was sitting in front of a machine with a treadle like a sewing machine. I would put down a piece of paper and place a hard coffee candy on top, rock the treadle to wrap both ends of the paper, push the wrapped "Small Black" into a carton and do the next one. I have been replaced by a low technology machine and a ¼ horsepower electric motor.)

While I was visiting, the owner came in—in his 30s at the oldest. I already knew that his mother ran the store in Oakland and that he had another in San Francisco. I asked when he would open the fourth and without a moment's hesitation the answer was "November."

RThought: Most consultants would advise against opening a hardware store in a financial district, trying to run a promotional pharmacy in a downtown office building or selling only top quality candy (with none of the Hershey or Mars type candies) in 389 square feet.

Yet all are successful—each for a different reason.

1. Full assortment of national brand merchandise and small parts plus an unusual in-stock condition and knowledgeable salespersons.

2. A promotional pharmacy run by two guys who know what hustling is—and who can respond to 2 or even 3 customers at once without missing a beat.

3. Offering top quality with unusually wide assortment at a premium price, and served by a salesman who loves the product he sells.

such, he sits on review of his own performance. He controls what goes on the agenda for the outside directors to become familiar with. For decisions necessary between meetings, he, again, is in control as Chairman of the Executive Committee. And just to insure that only directors friendly to him get on the Board of Directors, he sits as Chairman of the Nominating Committee.

Is this a company he started and owns a substantial part of? No. His cash compensation for the year was $384,048. He owns 28,000 shares with a market value of $13 a share (March 16) or roughly $364,000. His predecessors on the Board own 18,000 (John Bonner) and 12,000 (Alfred W. Eames Jr.) shares. Based on 303,000,000 shares outstanding, his ownership represents something under 1/100th of 1%; and he is in control.

RThought: Would you give the President this kind of control over Congress?

BLIND FAITH IN STATISTICS WILL SPOIL THE WORLD

We were told that the recovery was coming to an end and terrible things were going to happen because retail sales dropped 1.1% in February and a disastrous 2.0% in March. But suddenly everything is wonderful because retail sales "rebounded" in April by +2.9%.

Just imagine that! Retail sales (and consumer attitudes) go up and down like a yo-yo. One day everyone in the world is buying—and the next day they are drowning in despair.

That isn't what happened at all.

The retail sales figures published by the government are "**seasonably adjusted**" figures. What that means is that a statistical adjustment of the actual sales has been made to correct for the fact that December sales, for example, are a lot larger than those in February (beyond the fact that there are 2 or 3 days more in December) and the extra day in February 1984 (3.6 more days) is properly adjusted for.

The correction method used assumes that snow storms come on the same date each year, just as does the Fourth of July, and that these can be corrected for. The varying Easter date is adjusted for—statistically.

Even the most sophisticated retailers are unable to correct for the seasonal value of March and April when Easter shifts by 20 days. We all resort to "you have to take March and April together" just as we have to take August and September together to measure the true change in Back-to-School sales.

RThought: What we should be using is something like a 3- or 6-month moving average instead of individual monthly figures.

If we don't do something about the simplistic reaction to changes in the seasonally adjusted monthly retail (which include automobile, gasoline and restaurant) sales, we may destroy ourselves just as we have done with the weekly report of the money supply—another statistical aberration that does not stand the test of usefulness on a weekly basis.

DO YOU HAVE AN OPEN DOOR FOR VENDORS?

Most of RT readers try to maintain a way for employees to bring to the attention of top management situations that an employee feels are unfair or dishonest. This might cover a problem of discrimination by the immediate supervisor, a feeling that promotion was unfairly denied, a complaint by a female employee of unwanted advances by a male employee, unfair treatment on salary problems such as errors of computation or denial of sick or other paid leave, unfair allocation of overtime—the list could go on and on.

As I wander around conventions such as NRMA and NMRI, or have contact with vendors, I am often (in fact, frequently) told stories by vendors of merchandise or equipment that they feel they cannot even **show** to the appropriate buyer/purchasing agent/responsible executive. They feel their product will do a job better or save money (equipment) or provide better quality merchandise at an equal or lower price and will increase sales and/or dollar gross margins (merchandise).

The story often includes the line "I know the guy is getting paid off."

Of course, they are never willing to give me the proof on a payoff (if such exists) and will not let me use their names in a story.

At the same time, I have known a number of these people for years and believe there is merit to their grievance, at least enough merit, that retail top management should want to provide the same type of appeal channel for vendors and suppliers that they provide to employees.

RThought: A very large company should have an **ombudsman.** A dictionary definition of this word, which comes through the French language from a word literally meaning "representative," is:

> **1. A government official (as in Sweden or New Zealand) appointed to receive and investigate complaints made by individuals against abuses or capricious acts of public officials; 2. One that investigates reported complaints (as from students or consumers), reports findings and helps to achieve equitable settlements.**

A number of newspapers maintain an "ombudsman" to handle complaints of unfair treatment of an individual, company, organization or governmental body.

There is a place within large retail organizations for a person or office that will hear these complaints, assuring the grievant that he will not be identified (most are fearful of retribution by the buyer/purchasing agent). The cost should not be significant. The benefit to the company should easily outweigh the cost. And the reputation of the company should be greatly enhanced.

That enhancement alone might bring many unexpected benefits. Many manufacturers first offer overstocks or closeouts to firms that pay as they promised to pay and do not make excessive demands. They would also be attracted to retailers who listened carefully to the grievances even if the vendor does not, in the end, get that which it asked for.

A GAP IN THE GAP SHAREHOLDER INFORMATION?

The letter to shareholders in The Gap's 1983 Annual Report is one of the more strikingly optimistic reports I have read. Here are extracts to give the tone:

> **"... the fourth consecutive year of record sales and earnings.... Our stringent cost-cutting programs together with improved merchandise mix ... take full advantage of the economic upswing .... comparable store sales increased steadily.... now located in 49 of the 50 largest metropolitan statistical areas... increased our**

dividend in 1983 and again in February 1984 ... the eighth consecutive year of increased dividends ... demonstrates how The Gap has been able to grow and thrive in a rapidly changing retail environment ... ability to identify and capitalize on opportunities .... Our objective was to increase sales by focusing our product base to include the kinds of merchandise which would appeal to a maturing customer.... make room for a broad selection of high quality, higher margin activewear.... has demanded that we continue to fine-tune our merchandise strategy.... Future growth will require that we continue to focus our image and identity as a major specialty retailer of casual wear to 18-34 year olds while maintaining our student customer.

All of the above was signed by Donald G. Fisher as of April 12, 1984.

Just 18 days later–April 30, 1984, a news release quoted Fisher as telling a group of investors in New York:

> **"A refinement of the merchandise direction of our Gap Stores Division called for extensive markdowns of existing inventories** *during February and early March* **and will result in lower earnings for the first quarter compared to the year ago period.** *We are hopeful, however, that the new merchandise direction will produce higher returns for the year as a whole.* **Our long-term strategy is to refine merchandising concepts to better address changed demographic trends" (emphasis added).**

RThought: The "extensive markdowns" of February and March were known at the time the letter to shareholders was signed off. The February markdowns probably represent known loss of value as of the prior year end but were not reflected. The annual report went to every stockholder; the extended remarks of April 30 went to "a group of investors" in New York City and the news release went to a limited number of people. The whole body of shareholders will not learn the news until they receive the quarterly report (not released as of this writing).

This hardly seems like full-faith disclosure to the thousands of shareholders; it is more like selective disclosure to those who profit from buying and selling on information not generally available. The April 30 news release complied with the requirements of the SEC/New York Stock Exchange, but **The Gap's stock certificates** do not contain a warning:

> **"Failure to read the Wall Street Journal daily may be injurious to your financial health."**

RETAILING IS THE SAME–ALL OVER THE WORLD

From the Executive Digest's Diary put out by Barry Purdy for the members of the New Zealand Retailers' Federation:

> Item 1062 **Manufacturers sell direct**: A member has re-raised the matter of whether or not the Federation should supply the names of manufacturers who are supplying direct to the public in order that retail buyers can give them a "bump" and remind them where their best interests lie. Yes! if we are absolutely certain we have the right names. I certainly have none on file at the moment but would be happy to comment if they are **accurately** supplied.

SHORT SHORTS

The new discount! More car dealers are advertising on radio, and this one was talking about discounts of substantial amounts. The commercial closed with a quickly read line to the effect that discount is from the dealer's retail price; discounts from the manufacturer's suggested price *are less!*

I wish Ed Finkelstein success in his plan to build Macy's sales from the present $3.9 billion to $8 billion in 1990–all with department stores. We need a national department store chain–rather than the hidden relationship between divisions of Allied, Federated, May Department Stores and Associated Dry Goods. Why shouldn't the former Joske customer from Texas know that The Bon Marche in the Northwest is at least a first cousin?

Marshall Field is in mail order! Under the name "Direct to You" they sent a 24-page Spring/Summer 1984 catalog to my wife (I didn't give it to her–she is all set for spring/summer–I think!).

The FTC staff was right. In 1980 it estimated that if Japanese car imports were reduced by 700,000 units a year the price of small cars–both domestic and foreign–would be increased by 7% to 12% a year. They were right. Consumer Alert, a conservative (anti-Consumer Union) consumer organization, reminded their members of this (1024 J Street, MODESTO CA 95354 $20/yr membership).

WORDS TO DESCRIBE LEADERSHIP

Sometimes there is confusion between leadership, command and good fellowship. There is confusion between being liked and being effective. Even more, there is confusion between telling people what to do and knowing where you want to go.

Dwight D. Eisenhower said:

> **Leadership is the art of getting someone else to do something you want done because HE wants to do it.**

Peter Drucker, the professor/business philosopher/management consultant, takes a few more words:

> **Leadership is not magnetic personality–that can just as well be demagoguery. It is not "making friends and influencing people"–that is salesmanship. Leadership is the lifting of a man's vision to higher sights, the raising of a man's performance to a higher standard, the building of a man's personality beyond its normal limitations.**

Cicero emphasized the importance of knowing where you wanted to go and why:

> **O philosophy, you leader of life.**

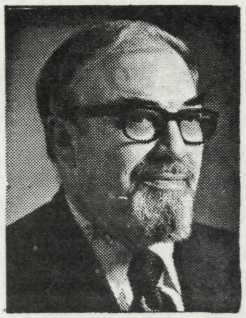
Walter Lippman, for many years our leading and most respected newspaper columnist, wrote at the time of Franklin D. Roosevelt's death:

> **The final test of a leader is that he leaves behind him in other men the conviction and the will to carry on ....**
> **... the genius of a good leader is to leave behind him a situation which common sense, without the grace of genius, can deal with successfully.**

And in the **Bible** in Matthew there is the final admonishment that the leader must know where he wants to go:

> **And if the blind lead the blind, both shall fall into the ditch.**

RThought: There are far too many retailers–as there are far too many businesses of every kind–that suffer from a lack of leadership, a lack of goal. This is not solved by technology or computer programs or copying bits and pieces from other businesses. There must be a goal. There must be a vision of the necessary steps to take. There must be a building, as Drucker described. And there is always the time when the leader is gone and the final test is applied as expressed by Walter Lippman.



RETAILING TODAY

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CORRECTING AN OMISSION

The June RT contained a list of retailers from a **Venture** magazine list of the largest firms still headed by the founder. **Venture** failed to list—and I did not know—that Food Lion, Inc. (originally Food Town Stores, Inc.) was still headed by founder Ralph Ketner, who started the business in 1957 after his family's chain of 25 stores was sold. The sales for 1983 were $1.2 billion which would rank the company 28th.

Those citizens of Salisbury, NC who were annoyed when a young grocer called and tried to sell them a share for $10 in a food chain he was going to start and hung up on Ralph Ketner must still be kicking themselves. The stock has been split once at 5 to 1, once at 4 to 1, 3 times at 3 to 1 and twice at 2 to 1. Today each original share is 2,160 shares with a basis of less than ½¢ per share and a market value at June 29, 1984 of $19,440—a compounded rate of more than 32% per year.

STUBBED-TOE SYNDROME AT U.S. SHOE CORP

The 1982 report for U. S. Shoe made some strong statements projecting a bright future for their off-price chains. But by May of 1984 there were some changes. I have compared the 1982 statements and 1984 situations below.

T. D. Mandy 1982: "Medium-to-better grade misses apparel retailer, appeals to value-conscious brand-oriented customers . . . first entry in off-price . . . prices 20% to 50% below general market place . . . size enables the store to offer impressive merchandise presentations and selection . . . founded only 9 years ago . . . ." MAY 1984: New management team charged with expanding the store's mix.

Front Row 1982: "A corporate 'Brands-For-Less' retail venture undertaken in mid-1982 . . . 40,000 sq. ft. store . . . off-price women's, men's and children's apparel as well as . . . 20% to 50% off . . . . Because of the successful experiment . . . plan . . . to open 5 units in 1983 . . . to include linens and housewares." MAY 1984: Only 2 to open in 1984. "This was done to give the parent time to 'regroup' after initial expansions."

Outletters/Greystone LTD. 1982: "As part of long-range plan . . . opened . . . 4 off-price men's apparel. . . carry branded merchandise at reduced prices . . . average 4,000 sq. ft. . . . expanded to include 60,000 sq. ft. super store adjacent to distribution center . . . ." MAY 1984: Outletters off-price men's stores converted to Greystone LTD. That "LTD" apparently brings in "The Elegant Discounter" touch of the late Plum's.

"The losses in the strong-value divisions were attributed to lower than expected margins in both T. H. Mandy and in Front Row. . . . The appearance of more off-pricers and more aggressive promotions from department stores were the main factors that hurt margins."

RThought: If an off-pricer is affected by new off-price competition and increased department store promotion at this stage of off-price development, is the off-pricer (U. S. Shoe) capable of becoming a factor in the off-price field?

A MATTER OF ETHICS

More and more stores are selling their charge customers into a position of abuse through deceptive offerings of SafeCard Services.

For a few cents additional income to the store, the trusting charge customers will become abused by the guarantor of their credit cards who, for practical purposes, assumes no risk. How many firms receiving RT have ever had a policy of collecting the maximum $50 from customers whose cards are stolen or lost and who fail to report the theft or loss promptly? I suspect none.

For the best proof, let's look at it from the other side—why people should invest in SafeCard Services, an OTC public company. In the March 1984 OTC REVIEW, in an article on the holdings of Westergaard Fund, national financial columnist William A. Boyle and OTC REVIEW owner and former Forbes writer Robert J. Flaherty said in part:

> "SafeCard Services . . . offers lost credit card protection and is one of Westergaard's most controversial picks. Each time the stock rises, Barron's seems to issue a new blast which flattens it again, as gadfly Professor Abraham Briloff attacks their accounting. (Note: RT has also attacked the accounting and pointed out that the company has a no tangible net worth.) Earnings also have been disappointing recently.
>
> "On the plus side, SafeCard's entrepreneurial managers really know how to make a buck from access to 100 million credit card holders. Currently they are pushing discount telephone service and can arrange for phone bills to be charged directly to credit cards."

RThought: When you sold the privacy of your credit customers, did you think about delivering them into the hands of "entrepreneurial managers (who) really know how to make a buck from access" to your customers? If you did, then the pennies you got overcame any concern you had about your customers.

Your advertising material never disclosed what your customer would be subjected to when you distributed deceptive material in your name, not SafeCard's. Most would not have responded without your endorsement.

Despite the claims of many that off-price is the whole game of the future, it would appear that many off-pricers, perhaps even those with deep pockets like U. S. Shoe, will be disappearing.

Information Sources: Original descriptions from U. S. Shoe 1982 Annual Report; May 1984 from report in Discount Store News, May 14, 1984.

BEING A GOOD CITIZEN

RT has long urged retailers to take an active role in local government. If qualified people do not participate, then government will be conducted by unqualified people.

If one has such beliefs, then one should participate in government. In 1959 when Lafayette (my home town since 1947) made the first attempt to incorporate, I helped in the campaign–and ran for city council. Incorporation failed.

In 1974 I ran for a seat on the board of the East Bay Municipal Utility District, one of the country's largest public water supply systems (serving 1.1 million people). There was a 50-year history of an incumbent never being defeated. That continued until another election although I did get the highest percentage of the vote–about 47%–of any challenger during the 50 years.

This June I ran for a seat on our city council. Out of more than 7,000 votes, I lost by 89. I know 10 ways I could have gotten 45 more votes and won by 1 vote and so say many of my supporters. A few have not talked to me because they blame themselves for not doing more.

I think I will end up like Norman Thomas–never being elected but getting most of my platform adopted. Already a number of changes have been made which I wanted to make in the conduct of city affairs.

RThought: Try it, you'll like it.

WHICH ONE IS A DISCOUNT STORE?

The first quarter reports for K mart and Wal-Mart arrived a few days apart. Generally classified as the largest and second largest discount stores, their operating figures show a great difference as a tabulation of first quarter figures illustrates.

		K mart	Wal-Mart
Gross margin *after* buying and occupancy	1983	27.5%	
	1984	28.8	
	Change	+1.3	
Gross margin *before* buying and occupancy	1983		27.3%
	1984		26.8
	Change		- 0.5

Comment: The K mart comment reads, "Gross margins . . . improved . . . due primarily to improved merchandising programs and the strong contribution from K mart Apparel Corp." Wal-Mart made no comment on the drop in gross margin although the goal announced at the annual meeting was to reduce gross margin but reduce expenses even more–both measured as a percentage of sales.

		K mart	Wal Mart
Pretax profit on sales	1983	1.97%*	5.85
	1984	2.50 *	6.55
	Change	+0.53	+0.70
Net profit as % of equity**	1983	1.74%	5.38%
	1984	1.95	5.64
	Change	+0.21	+0.26***

*Excluding equity in income from insurance operations.

**As reported for total company at end of quarter.

***After conversion of $60 million debt to equity since 1983 quarter.

Comment: Despite the increase in gross margin at K mart as opposed to the drop at Wal-Mart, Wal-Mart showed a greater improvement in the rate of profit on sales and on equity.

RThought: Each year the National Mass Retailing Institute publishes "Operating Results of Self-Service Discount Department Stores" (prepared by Cornell University–available from NRMI, 570 Seventh Avenue, NEW YORK NY 10018 $75 non-members). The 1982-3 report (most recent years ending December 1982 or January 1983) reports on 30 firms with 3,426 stores doing $15.1 billion in sales. (Obviously K mart is not included.)

For those firms doing in excess of $200 million the median cost for occupancy and buying was 6.0%. If one assumes that K mart, because of size and older leases on many stores, has combined occupancy and buying expense of 5%, then they are operating on a true gross margin of about 33%.

The 1982-3 reported gross margin for larger firms (in this case over $300 million sales) was 27.98% with 7 of the 14 firms falling between 26.18% and 29.54%. Thus it appears that K mart is operating on a substantially higher gross margin than their competitors.

K mart, of course, has far greater buying power and has a significant portion of their sales in private label which may work to improve gross margins–but the question is–"Can K mart buy 5% better than the industry?"

Wal-Mart, on the other hand, has sufficient buying power to obtain almost equivalent prices. As between the two firms, the buying power cannot represent the 7 percentage point difference.

Ellen 7/28 should slant other way

I think back to the days when Mervyn's was a separate company–the last was for the year ending January 1978–when their gross margin, reported on the same basis as K mart, was 30.5% (true–it was on sales of only $360 million). It makes one wonder whether K mart should be classified as a promotional department store, á la Mervyn's (which, on some lists, is classified as the largest off-price retailer).

In looking at this comparison there are a few points of difference between K mart and Mervyn's that must be recognized:

1. K mart is a checkout operation and Mervyn's has area registers.

2. Mervyn's has an in-house credit operation (one of the largest in the United States according to Spencer Nilson's Reports) plus honoring all bank cards; whereas K mart honors only bank cards.

3. Mervyn's has salespeople in all departments, while K mart has clerks only in a few departments–jewelry, cameras appliances, etc.).

4. K mart has a substantial (but declining) percentage of

THE COLONEL'S LADY AN' JUDY O'GRADY ARE SISTERS UNDER THEIR SKINS!

What Rudyard Kipling wrote in his poem "The Ladies" can also be applied to retailers whether in Kuwait, Brazil or the United States. This was very evident in reading the June 1984 **Retail News Letter** of the International Association of Department Stores (and once again I thank them for their kindness in sharing this information with me).

It consisted mainly of comments about and extracts from annual reports. So let's take a trip around the world and learn what retailers are doing—and how similar our businesses are. It is unfortunate that retailers from most other countries travel outside their country—to the United States, Great Britain, Japan and elsewhere to see and learn; and yet the head of a then $300 million U.S. department store group once told me that when he came aboard his buyers were not regularly visiting their $500 million competitor a block or so away!

International

The Statistical Office of the European Economic Community estimates that the change in real sales (adjusted for inflation) from 1982 to 1983 was as follows:

Belgium	-7.2%
Ireland	-5.9
Luxemburg	-4.8
France	-2.6
Netherlands	-2.0
Greece	-1.5
Japan	-1.4
Germany	+0.9
Denmark	+1.4
Italy	+1.5
United Kingdom	+5.7
United States	+5.8

Part of the explanation of the poor showing of other countries is the impact on their economy of the strong U.S. dollar; while the impact on us from a strong dollar is high interest rates, loss of millions of jobs through the growing trade deficit and the movement of jobs in multinational companies (for goods that would have been exported from the United States) into foreign countries.

The same office compared the growth of mail order and store retailing and the percent of non-food sales done by mail.

Country	Current Dollar Changes: Store	Current Dollar Changes: Mail Order	Share of Non-Food Sales
France	+ 7.3%	+ 9.6%	4.9%
Great Britain	+ 9.2	+ 5.0	6.1
Italy	+12.4	+14.6	1.1
Netherlands	+ 2.0	+ 3.0	3.0
Germany	+ 2.9	- 2.0	6.8
Finland	N.A.	+25-30	2.6

In the U.S. we are just beginning to recognize the impact of mail buying. But we must distinguish between commodity mail order (á la Sears, Penney and Wards) and specialty mail order (á la Horn & Hardart's stable of 20-plus catalogs and Neiman-Marcus, Bloomingdale's and Marshall Field—the latter two now hitting the West Coast).

Austria

The Hurler group from Germany opened in March 1983 a "very large" (a modest description for 500,000 sq. ft.) hypermarket with 40 scanners to process the sales. In May 1983 they added 50,000 sq. ft. for a cash & carry wholesale market, somewhat comparable to a Price Club.

Brazil

If you think you have problems with inflation, consider the problems of Mesbla. Would you be happy with a 133% increase in sales? They were not because the price index for their products was up 156% and the overall inflation rate including food was over 200%.

Canada

When we think of BATUS, we think of Saks, Gimbels, Marshall Fields, etc. But BAT Industries, the British parent, owns 40% of Imasco, a US$ 2.2 billion retailer (multiply by 10 to compare with the U.S. for proportional size) that shows a 6.7% after-tax profit—and which will expand by 30% just from the acquisition of People's Drugstores in Washington, D.C.

France

Euromarché, operator of hypermarches, had sales up 20% and profits down 26%. Sales totaled US$ 1.5 billion. This is the firm that will open a modified 130,000 sq. ft. hypermarket in Cincinnati in October under the name of Biggs. **RT continues to believe that hypermarches cannot work unless government agencies restrict other similar units within 10-12 miles and this does not happen in the U.S. or Canada—Canada had one failure of an Oshawa 250,000 sq. ft. unit.**

Germany

Hussel Group is expanding rapidly with specialized retail operations (note: á la Melville) with rapid expansion of perfumery and drug sales while getting out of food sales.

Karstadt, operator of 153 department stores in 112 towns, is using video cassettes of new merchandise items to spread information to stores where selection of items appropriate to that store is made by the department managers with the assistance of senior salespeople instead of having managers come to the central office. It takes about two weeks from the start of film production to distribution to all stores.

Great Britain

Habitat-Mothercare had a profit increase of 33% on a sales increase of 21%. The 10 Conran stores in the U.S. produced a profit of US$ 1.1 million, while the Mothercare stores cut their loss from US$ 1.8 million to US$ 300,000.

Sears Holdings (Selfridge department stores down to footwear and jewelry chains and betting shops) is reducing the amount of space devoted to food in the Lewis chain and increasing high markup merchandise. Their specialty chains, Wallis and Miss Selfridge, had sales increases of 22% to US$ 110 million and profits up 68% to US$ 12.5 million for a pretax of over 11%—good.

National Westminster Bank has launched a Retail Inventory Management Service for retailers—all the store needs is POS terminals that can be dialed up. Reports are delivered to the printer at the closest branch bank or to the store if it has a computer.

J. Sainsbury with sales of US$ 3.7 billion (including Value Added Tax—VAT), an increase of 16.1%, showed a 4.91% pretax profit, high for any food chain (except Weis Markets in

A FEATURE REPORT *continued*

Pennsylvania which shows 5% after taxes partially based on a fantastic 55% of equity invested in marketable securities). Sainsbury accomplishes their results with sales per square foot exceeding $900 a year compared with typical British figures of $450. High sales per square foot is always a key factor in high profitability.

Boots The Chemist is trying to increase the average transaction from their high prescription traffic by concentrating on higher priced items such as home computers.

Debenhams, a $1 billion department store group, is one of the leaders in "shops within shops," including leasing out about a quarter of their space to concessions. But now they are reorganizing to change departments to subsidiary corporations responsible for buying and selling of merchandise, even to the extent that the new subsidiaries are taking concessions in other department stores.

Japan

Seibu group has introduced an automated 13,000 sq. ft. supermarket that has:

1. a completely automated system for goods receiving, goods storage and transportation of goods within the store
2. an energy control system that also sterilizes fixtures used for handling, storage and display of produce
3. an automatic slicing and packaging machine for sausages operated by customers
4. a robot for sorting eggs
5. shopping carts equipped with a writing pad and a calculator.

So far labor cost savings have been slight but Seibu expects the store to show a profit.

Kuwait

The 45,000 sq. ft. Al Khaleejia operated by the Kuwait Department Store Company is claimed to be the finest department store in the Middle East. It was designed and planned by Retail Plan Ltd. of London with assistance from Chaix and Johnson in Los Angeles. **The unique feature is that prices are fixed instead of negotiated, the common practice in that part of the world.**

Sweden

Hennes & Mauritz (US$ 250 million) is concentrating growth outside of Sweden, presently in Great Britain, and hopes to develop 50% of sales outside Sweden. They are increasingly aiming at more quality-conscious customers and developing specialty shops for children's wear and for cosmetics and perfumery.

The Swedish Consumer Cooperative Societies (US$ 3.2 billion) is suffering from stores that are too large and poor merchandise presentation which reflected in the 1983 decline in profits of 52%.

Switzerland

Globus, a retail conglomerate, with sales of US$ 475 million, had moderate growth in their department stores and variety stores but good growth (33%) in the home furnishings division of which 12% was due to increased space. Their first computer and software store, Globudata, produced sales of US$ 800,000 in the first 8 months.

RThought: In our isolation we think of our retailing as being unique. We think of retailing in most of the balance of the world as being like the general store in an old western movie. Certainly we don't think in terms of forming departments into independent subsidiaries, bringing buying and selling closer together, or taking concessions in other stores.

We think we are alone in dropping low margin departments and adding high margin departments, while other retailers here and in the rest of the world are developing better-operating low-margin departments in order to improve their profits. Both roads can be successful.

And did you think that trading up was unique to the United States?

At a recent commencement exercise at John F. Kennedy University here in Contra Costa County, an outstanding school providing under-graduate and graduate education to thousands of well-educated working people, Robert Waterman, co-author of "In Search of Excellence," talked about "Ghosts," the dead values we carry with us because we don't listen to what our customers and our employees have to say. The days of the top executive who can know enough to make all of the decisions are past. In 1983 Procter & Gamble attributed $900 million of their profit to 25,000 employee suggestions. As Waterman put it, "The whole idea about being in charge of everything, controlling everything, is obsolete. Management by edict simply doesn't work these days, if it ever did."

He approvingly quotes one of his examples who said, "If my people aren't having fun, they are probably not productive."

But he is careful to distinguish his ideas from democratic management when he says, "Leadership involves guided autonomy rather than control . . . . Guided autonomy is a real model for effective leadership."

SHORT SHORTS

What looks good on a financial statement is what appears on Canadian and British balance–this one taken from the March 17, 1984 fiscal year of Dominion Stores in Canada:

Signed on behalf of the Board
G. MONTEGU BLACK, Director
JOHN C. TOMA, Director

Mr. Black is an outside director and the chairman of the board. Mr. Toma is president and chief executive officer. **RThought**: Although it usually is not necessary, this certainly breeds greater responsibility on the part of directors for the accuracy of the figures.

On a 30¢ Nestle candy bar– "QUALITY GUARANTEE. If not completely satisfied with this chocolate bar, simply return the unused portion stating when and where purchased, and we will gladly replace it." Just imagine a letter wrapped around the remains of a melted chocolate bar.

Mistresses, anyone? One of the 7 advantages listed on a Saks Fifth Avenue Charge Account application is "5. We will be glad to bill your personal account to your office if you prefer." The other 6 are pretty mundane.

sales in departments other than apparel; whereas Mervyn's is virtually all apparel (some watches, jewelry, toys and now fashion housewares).

On balance it appears that K mart is opting for the solution to profitability that so many others have sought—but then found it to be only a temporary solution. They are seeking a solution through higher gross margins, which can be accomplished with slight effort and just a pen or a pencil, rather than the much harder methods of improving profits by substantial increases in sales per square foot and lowering of operating costs through greater efficiency.

YOUR COMPETITOR—AT THE CORNER MAILBOX

The ad below appeared in the January 16 New Yorker magazine.

Probably in-stock by size and color much more than you are.

Probably gives more useful description of the merchandise than you do.

Never annoys the customer with clerks talking to each other about their date last night.

No lines at the cash register.

Absolute satisfaction guaranteed or money back with no questions asked.

BUT . . . the customer
. . . must be literate.
. . . cannot buy and wear that night.
. . . cannot try on.
. . . cannot receive a smile and a personal "Thank You" (Do you?).
. . . only hears from them every month or two.

THE BUREAU OF CENSUS TURNS HONEST IN FORECASTS

The last time RT visited the Bureau of Census was in October 1980. At that time I reviewed a study made by the Bureau of the accuracy of their forecasts.

For years I have criticized their assumptions of the completed fertility rate for women. That figure is expressed in the average number of children born per woman. To maintain a zero population growth, 2.1 children are necessary—the 2 children replacing the parents and the addition of .1 or roughly 5% which represent those who die before reaching childbearing age or who are sterile.

In 1980 the Bureau reviewed forecasts in 1976 made for July 1, 1979. The projections were on the nose (off 0.3%) on immigration and off less than 4% for deaths. But they used a wild range for births—from 2.7 at the high end to 1.7 at the low end with 2.1 as the middle range. Although most newspapers reported only the high birth rate population forecast as though it was the only forecast, the births came in close to the 2.1 rate (0.9% higher).

However, this was just the beginning of confirmation that their forecasts were wrong—the 2.1 mid-point rate was used for the first time in 1976.

The Bureau has recently published a new forecast. It can be obtained from the Government Printing Office, WASHINGTON DC 20402. The title is Current Population Reports Series P-25 No. 952 "Projections of the Population of the United States, by Age, Sex and Race: 1983 to 2080."

The Bureau has finally given up on their projection of a 2.1 ultimate fertility rate—remember the dozens of times the Bureau has reported that births were just being deferred? They now admit, "The birth expectations of women aged 18 to 24 have been well below 2.1 births since the mid-1970s. As there are no signs of a rise in these expectations, 2.1 births would seem to be too high for the foreseeable future. In addition, because single women and childless married women have consistently **not** attained their birth expectations, these young women are very unlikely to reach their stated birth expectations."

What happened was that the Bureau surveyed women and asked how many children they have had and how many more they expect to have. They then assumed that women would have the number indicated—and on that basis made forecasts of the population for periods of 30 and more years into the future.

There were a few voices like RT saying, "Don't believe them. Women are still under pressure to conform by indicating they will have children." RT looked at what was happening. The two-wage-earner family enjoyed spending all their income themselves. They disliked the nuisance and high cost of children. They rejected the limitations on personal freedom connected with having children.

As a result the Bureau now forecasts the mid-range figure at 1.9 births, with 1.6 births at the low rate. But they are unable to break their silly habits. After saying "very little of the demographic literature suggests that future fertility will reach 2.1" they project the high growth rate based on 2.3!

You might ask, "What is a few tenths among friends?" The table below suggests that it might be 140 to 230 million people by 2080:

Fertility Rate	2080 Population
1.6 (Low)	223,913,000
1.9 (Middle)	310,762,000
2.3 (High)	453,412,000

At a fertility rate of 1.6 our peak population would be reached in 2020 at 276,000,000 compared with approximately 235,000,000 at the present time.

Let's look at what the differences in projections mean in the makeup of the population in 2080:

Factor	Low	Middle	High
Median Age (Note: The present median is about 31 years.)	50.8 yrs	45.1 yrs	38.5 yrs
0-14 years	30,203,000	52,420,000	96,596,000
% 0-14 yrs	13.49%	16.87%	21.30%
65 and older	63,285,000	73,089,000	83,842,000
% 65 and older	28.26%	23.52%	18.49%
Ratio children-old people to workers 20-64 yrs	.90	.87	.90

RThought: In many communities we have too many stores. In some areas population is declining already. The future population growth is not going to cure very much over-capacity.

If the low fertility rate (1.6) proves accurate, then we have good and bad news. The good news is that the percentage of people under 14 remains low and demands on the income of couples in their high income period (after kids are out of the house) will be low; BUT who is going to take care of the 28% over 65? Not their children. They are ducking that responsibility more and more. Yet because of the voting power of the older people, the young people will pay–through taxes.

The middle forecast is, I believe, the highest fertility rate that can be considered realistic. The higher percentage of young people will keep more of the consumer income directed toward housing, food, transportation and education and less toward discretionary goods. The middle income families with children will consider themselves to be the working poor–that is likely to discourage their children from having children, making the arrival of a declining population much sooner than 2020.

With declining total population, who will succeed as a merchant? We may never reach 276 million–unless we open the immigration doors.

SHORT SHORTS

Time lag–the article in the New Zealand Retailers' Federation RETAIL NEWS starts, "Local toy retailers are about to be hit by one of the cleverest merchandising schemes seen for a long time. It is the New Zealand launching of the Cabbage Patch Kids next month (July)." But it looks like the licensor will try to milk the success at the beginning–prices will be NZ$75 vs. US$30 and in neighboring Australia A$45. (All in US $ that would be $39 in Australia and $47 in New Zealand.)

FORTUNE can make something out of nothing; is this truly creative journalism? The June 11, 1984 issue contained the 500 Service Companies listing. Editor William Rukeyser in his editorial chided "a magazine that publishes lists imitative of FORTUNE's" and then bragged about the 6,100 **figures** (emphasis added) in the list. Like the darned fool that I am I checked and found out 5,600 figures plus some "NAs" and "dashes." A formal reply "for the Editors" advised me that "NAs" and dashes . . . do represent real figures"! So much for the logic at FORTUNE.

The retailing future may not be too bright said Albert Sindlinger, a consumer market researcher, in an interview with Boardroom Reports (500 Fifth Avenue, NEW YORK NY 10110 $94/yr). Workers, especially union workers, are realizing that there will not be major wage gains in 1984 and are less confident about the future. Intentions to buy cars and major appliances are down. Housing is leveling off and may drop if interest rates increase as expected. Manufacturers are investing in labor saving devices rather than building plants to employ more people.

A guide for free enterprise from the White House–the Reagan-Bush '84 committee had to form their own ad agency when no agency would take their work at 11% instead of the customary 15%.

Did you miss this new item? From the Letters to the Editor in the London Times: "One only has to look upon the shelves of one's local stationers for evidence of the transitory nature of marriage in the mid-1980s. Yesterday I observed a sumptuously bound volume described as "Wedding Album–refillable.' "

WORDS ABOUT A SMILE

What follows is from the United Nations Secretariat News of September 16, 1983 sent to me by my sister:

A SMILE costs nothing, but gives much. It enriches those who receive, without making poorer those who give. It takes but a moment, but the memory of it sometimes lasts forever. None is so rich or mighty that he can get along without it, and none is so poor but that he can be made rich by it. A smile creates happiness in the home, fosters good will in business, and is the countersign of friendship. It brings rest to the weary, cheer to the discouraged, sunshine to the sad, and it is nature's best antidote for trouble. Yet it cannot be bought, begged, borrowed, or stolen, for it is something that is of no value to anyone until it is given away. Some people are too tired to give you a smile. Give them one of yours, as none needs a smile so much as he who has no more to give. *F.N. Webber*

Published by the Staff Activities and Housing Unit, OPS. Acting Editor: Ann Nyburg, room S-0544B, X7074
Volume xxxviii No.18. Deadline for submissions for the next issue: 21 November.

RThought: I do not know who F. N. Webber is but I thank her–or him– for these thoughts.

THE RETAIL STORES SERVICE

FURNITURE DIGEST

PUBLISHED MONTHLY FOR THE HOME FURNISHINGS INDUSTRY

SEPTEMBER 1984

"Every successful and enduring business relationship must be satisfactorily profitable to all parties involved."

Author Unknown

Business Conditions

Generally, this year has been very good for most furniture dealers; in fact, it has been record-breaking for many. Looking ahead toward the post-election period, the gurus of Wall Street foresee a relatively bright scene. There is the prospect of not only a lame duck President, but a lame duck Congress; and for this reason, action will be taken to reduce the deficit. The Treasury Department is currently working on a flat tax to broaden the tax base and a value-added tax. Either one will help and we should see a nice growth period through 1985. In addition, there are certain solid reasons why inflation will not cripple our economy. (1) Labor is more concerned about job security than big wage increases. (2) Oil prices are down and there is likely to be a further decline in oil once the Iran/Iraq war winds down. (3) Medical costs are rising more slowly due to government no longer reimbursing hospitals on a cost-plus basis for Medicare. None of these factors is etched in stone; however, these are the trends as we see them. Look for an active and prosperous period for at least the next six to nine months.

A Man To Watch

The recent acquisition of Burlington Furniture by Webb Turner, President of Turner Furniture Industries, makes a total of 7 companies recently acquired...boosting combined volume of business of these 7 entities to approximately $200 million. Companies recently acquired by Turner include...Williams, Stone Hill, Jamestown Sterling, DeVille, and most recent...Burlington...just to name the core of his acquisitions. It will be interesting to see what future moves will be made by this relative newcomer to the home furnishings industry. To quote a forthright statement made by Mr. Turner, "The furniture industry has a number of structural difficulties. It has very backward management practices. There is a need for professionalism in the industry. It has pricing difficulties; it faces challenges from imports. It needs to be more competitive for the consumer dollar. It has a low return on its investment. It is a cyclical industry. We need to deal with these problems and overcome them." Keep your eye on this mover within our industry.

Additional Telephone Charges

In May, A.T.&T. began charging 50¢ for each directory assistance call. Check your last couple of telephone bills. You will probably be surprised to find the extra dollars charged for this assistance. Advise your employees to research a telephone number before asking for "Information." According to Wall Street Journal, annual revenues could top $300 million for this ONE ADDITIONAL SERVICE.

1946-P Greenspring Dr. Timonium, MD 21093-4189 (301)561-5300 PRICE: 12 Issues, $30.00 a Year

Institutional Advertising

We like the ad below run by our good member in Galeton and State College, Pennsylvania. Your customers will respond to this kind of message, and when you're tired of shouting "SALE! SALE! SALE!"...why not try a small institutional ad such as this.

The same, fair price For everybody.

We've kept that promise for 92 years.

You won't find any phoney prices here. We don't inflate the price tags to make it seem "your" price is a discount price. Ourselves, we're always suspicious when somebody in a store tells us, "... but for you, it's only $239!" Baloney. Makes us wonder if the last person (or the next one) got a lower price. At Lush Brothers, everybody pays the same fair price; everybody pays the same fair price during a sale event. Everybody.

And everybody's price includes the same outstanding services. Free delivery and set-up in your home by our skilled service personnel. Guaranteed satisfaction. Free expert decorating advice and room planning. And a reputation for quality, service, and fair prices that's 92 years old, and still growing.

You are most cordially invited to visit Lush Brothers at historic Klinger Farms in State College. Fine furniture from Drexel Heritage, Kling, Leathercraft, and Harden are all tastefully displayed in room settings. Our Home Decorating Center boasts a generous selection of carpet, draperies and wallpaper to assist you in turning your decorating dreams into a reality. Store hours: 9-6, Fridays until 9.

Lush Brothers INC

Established 1893

137 Elmwood St., State College, PA
814-238-9681

VISA-MASTERCARD-LUSH CHARGE

Must Reading

If you are a member of the National Home Furnishings Association, we urge you to read carefully their August issue of <u>CompetitivEdge</u> magazine. It includes the 1984 Summary Report of Member Stores' 1983 Operating Experiences. This report is "must" reading for every retailer, large or small. Use it to compare your results to the national averages. See how you stack up in such areas as

Return on Net Worth, Gross Margin, Inventory Turnover, GMROI, Sales per Square Foot, Sales per Employee, etc. If you are not a member of NHFA, a copy of the summary report is available for $25 and the complete report for $100. Write to NHFA's Information Center, 405 Merchandise Mart, Chicago, Illinois 60654. It will be money well spent, and we urge you to retain this issue for future reference.

Independent Contractors... A Payroll Tax-Saving Device

Many companies could save thousands of dollars each year per worker by hiring independent contractors to perform jobs that would otherwise be done by regular employees. When a company engages a contractor, it is relieved of liability for social security taxes and federal unemployment taxes which are high now and will continue to escalate. It is also relieved of local taxes, as well as retirement and fringe benefits including profit-sharing and insurance programs. This also eliminates the need for a bookkeeping staff to handle these programs. A contractor must perform a job according to specifications but has more independence as to how the job gets done. An employee follows company orders as to what to do and how to do it. Some candidates for contractor status pertaining to the furniture industry include: salespersons, consultants, workers paid on a commission basis, truck drivers, writers, computer programmers, designers and artists.

Some determinations must be made to qualify a worker as a contractor. There is generally support for contractor status if the worker is trusted to perform without constant supervision, is paid on a per-job or commission basis instead of on the basis of hours worked, is free to do similar jobs for other companies, is able to perform away from company premises and set his own hours, and provides his own tools and supplies. No single factor determines the worker's status. For example, a person required to work on company premises during set hours may still qualify as a contractor if he is paid on a per-job basis and is free to do similar work for other firms. In situations where the company can assign jobs on a results-oriented basis, it can come out ahead through an independent contractor relationship. Have your company tax expert examine the possibilities.

Direct Mail Advertising... Dead or Alive?

This type of advertising is not only alive but growing and should be a part of every furniture retailer's advertising program. Some facts...Last year newspapers distributed 36 billion pre-prints, those glossy four-color advertising supplements stuffed in newspapers. This is up from 28 billion in 1980 and accounted for 14% of advertisers' expenditures in newspapers. The volume of Advo-Systems, Inc., the dominant distributor of "shared mail", grew to an estimated 2.3 billion pieces this year, up from 39 million in 1980, and expects to increase its mail-processing plants to 28 from 19 by the end of this year. More than 16,000 companies, 2/3 of them small businesses, use Advo's shared mail. A shared-mailing company can target in on special zip codes; and even though your mailing piece will ride with additional ads and mailers, it can, in many cases, be more effective than using a shotgun type of mailing system. An attractive, well-merchandised and properly distributed pre-print could substantially increase your volume also. Don't ignore this type of advertising. If it is not in your present program, we urge you to check it out.

Inventory Levels

Companies that let inventory levels creep up today are playing a dangerous game. The facts: Including

warehousing, handling, electricity, insurance and damages; the cost of carrying inventory today is about twice the prime rate. That's more, not less, than it was during the last recession. There are two reasons why businesses can't pull the reins in on inventories...they don't have enough control over their suppliers, and they fear not having enough merchandise on hand to meet customer demand. The recession taught manufacturers the bitter lesson of living in a buyers' market. Don't let your resources forget it now. Make clear that their performance will determine future relationships with them. Let your suppliers know that your company hopes to increase orders to individual manufacturers as it cuts back on its total number of resources. In addition, continually review your open orders and project your needs. Don't operate in a haphazard way. It could prove to be expensive.
P.S. Whatever happened to the Rapid Delivery Programs?

Fabric Protection . . . An Alert

It has come to our attention that some upholstery factories and fabric manufacturers are notifying their customers that they will not honor any warranties if a chemical protector is applied to their products at the store level. Some of these factories feel that certain products will break down the backing on some of their fabrics, and, for this reason, they will not accept responsibility for damage. First of all, the instances of this happening are extremely minimal compared to the vast number of applications of a fabric protector. Secondly, the position being taken by the upholstery and fabric manufacturers has shifted the responsibility for warranties completely over to the fabric protection manufacturers, which some are willing to accept. The most important point for you as a furniture retailer to remember is that you must be very careful in selecting the company from whom you buy your fabric protection. There are companies in this business who have been selling their products for less than two years...yet, they guarantee them for two or three years. Also, many companies in this field are using toxic chemicals (trichloroethane) simply because they dry faster; however, there is a definite hazard involved. Select your supplier carefully... but don't allow the upholstery and fabric manufacturers to frighten you out of the fabric protection business.

Sales Training

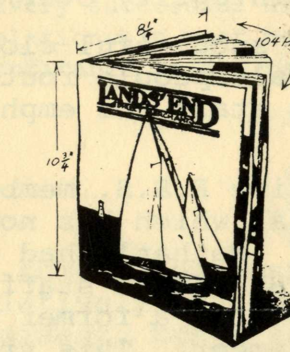
Do you have an ongoing sales training program? You should. It should be a written program, hopefully including either audio or video cassettes. You should have a sales meeting at least once a week utilizing this material. A salesperson cannot be over-trained. The basic elements may be dormant in even your best salesperson's personality, and constant review and updating are necessary. At the present time, R.S.S. is investigating several programs which are available to Furniture Retailers. When our research is completed, we will give you the results.

Personnel Profiles and Testing

Target Systems, Inc. of Dallas, TX is offering a new program to furniture retailers to simplify the task of hiring qualified store personnel. This program utilizes a psychological profile developed specifically for the furniture industry. The following information can be gained through the use of this testing program. (1) Performance appraisals of current staff; (2) Management Strategies for current staff; (3) Any needs for improvement in intra-staff relations; (4) Current staff's potential and job placement; (5) Pre-employment selection. This testing service takes the guess work out of hiring new people and can provide you with an efficient test which you administer in your store to selected applicants. Target Systems will advise you by phone within 24 hours with preliminary results, and will follow this with a written evaluation and recommendation on each person tested. This is an affordable program, and if you are interested, either write THE DIGEST or Dr. Linda Rosene, Target Systems, Inc., Post Office Box 581005, Dallas, Texas 75258.

YOUR COMPETITOR—AT THE CORNER MAILBOX

The ad below appeared in the January 16 New Yorker magazine.



The Store We Mind

Our store is 10¾ inches tall, 8¼ inches wide, and 104 pages deep. It has no crowded parking lots, clogged elevators, or hidden rest rooms.**

It displays over 600 pieces of merchandise. And by the time you count colors and sizes and shapes and variations, you are up to 8,300 items you can shop from – assembled under one "roof" from the four corners of the earth, wherever quality calls.

Most of these items are shown on or with models so much like you they could live in your neighborhood. Every item is unconditionally guaranteed by the world's shortest guarantee. In two words: **GUARANTEED. PERIOD.**

We mind our store 24 hours a day, 7 days a week. You can buy from us in the comfort of your own home.

But first, remember, we're only a phone call away – wherever you live. The toll-free telephone number: 800-356-4444. Or fill in the coupon below.

Oh, yes – we accept AX, MC, or VISA. And we deliver by United Parcel Service or U.S. Mail. You name it.

LANDS' END DIRECT MERCHANTS of fine wool and cotton sweaters, Oxford button-down shirts, traditional dress clothing, snow wear, deck wear, original Lands' End soft luggage and a multitude of other quality goods from around the world.

***This describes our "store" for the Spring of '84. The dimensions may vary by season, but you can always count on the quality, price, and service.*

☐ **Please send free catalog.**
Lands' End Dept G-24
Dodgeville, WI 53595

Name
Address
City
State Zip

Or call Toll-free:
800-356-4444
(Except Alaska and Hawaii call 608-935-2788)

Probably in-stock by size and color much more than you are.

Probably gives more useful description of the merchandise than you do.

Never annoys the customer with clerks talking to each other about their date last night.

No lines at the cash register.

Absolute satisfaction guaranteed or money back with no questions asked.

BUT . . . the customer
. . . must be literate.
. . . cannot buy and wear that night.
. . . cannot try on.
. . . cannot receive a smile and a personal "Thank You" (Do you?).
. . . only hears from them every month or two.

Reprinted with permission of RETAILING TODAY, Box 249, Lafayette, CA.

QUICK THOUGHTS

■ You can't determine the size of your slice if you don't know the size of the pie. Are you getting your share of the Retail Furniture Business in your area? Are you increasing your place in the market, or are you losing or just maintaining it? Make sure you're getting a bigger slice of the pie rather than just maintaining the same size portion you were getting before. It can't be a profitable business unless you keep on getting a larger or bigger slice of the pie.

■ Commitment is what transforms a promise into reality. It is the words that speak boldly of your intentions...and the actions which speak louder than words. It is making the time when there is none. Coming through time after time after time, year after year after year. Commitment is the stuff character is made of; the power to change the face of things. It is the daily triumph of integrity over skepticism.

■ Closing the Sale...60% of all successful closings are made on the fifth attempt. Only a fraction of salespeople routinely persist to that point. Discuss this with your sales staff and emphasize repeated closing attempts.

■ Congratulations to two long-time R.S.S. member stores...Nathan's Furniture or Pottsville, Pennsylvania, which has now opened a brand new operation in Hazleton, Pennsylvania. Nathan's had a tremendously successful opening last month attended by THE DIGEST staff. Kuluva's Furniture of Kansas City, Kansas has just renovated a former supermarket, with a Grand Opening scheduled for mid-September. This store has been professionally designed and the new store will continue the fine reputation of this family-owned business. Hats off to these enterprising merchants!

■ On your next plane trip, you probably will be able to call home. Air-to-ground phones are now being installed on most of the major airlines which fly wide-body jets. One-third of all travelers are expected to use the phones which will cost $7.50 for the first three minutes and $1.25 for each additional minute, payable by credit card only.

■ Your customer will be increasingly concerned with value and needs rather than with wants. Buyers will no longer be attracted by something just because it's new or different. They will pay more to save time, and the market will be more and more segmented with more products to choose from. Market research is more important now than ever.

■ One-shot communications of important information rarely do the job. People absorb information the way they eat from a buffet...they choose what they like and ignore the rest. If something significant must be transmitted to employees, present the message in a variety of ways... memos, posters, and meetings. Give the information a different slant each time.

■ If you have a safety problem with your delivery trucks, you may want to have a sign lettered on the back as follows: "If I'm not driving safely, you can call my boss." The sign should then give the phone number.

THE RETAIL STORES SERVICE
FURNITURE DIGEST
PUBLISHED MONTHLY FOR THE HOME FURNISHINGS INDUSTRY

1946-P Greenspring Dr. Timonium, MD 21093-4189 (301) 561-5300

August 22, 1984

Mr. Robert Kahn
Post Office Box 249
LaFayette, CA 94549

Dear Mr. Kahn:

1984

We request permission to reproduce your article on page 3, of the July issue of RETAILING TODAY. This is entitled "Your Competitor - At The Corner Mailbox".

If permission is granted, naturally we will quote RETAILING TODAY, and give you full credit.

Sincerely,

FURNITURE DIGEST

Sol F. Hassenbusch

Sol F. Hassenbusch

SFH:bdl

August 28, 1984

I am delighted to grant permission to use the article above.
I would appreciate it if the credit line could read:

Reprinted with permission of RETAILING TODAY Box 249 Lafayette CA.

Sicnerely,

Robert Kahn

Robert Kahn
Photocopy retained

RETAILING TODAY

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

July 1984

DEAR RT READER

I am in the process of reviewing a number of studies on theft in retail stores.

I am surprised at the acts considered to be "theft."

Before publishing the report I would appreciate it if you would tell me what you consider to be "theft" on the part of retail employees.

I have enclosed a postage paid return postcard.

Your assistance in this will help clarify what the trade considers to be theft.

Many thanks,

Bob Kahn

Robert Kahn

RETAILING TODAY

Bob,

These are the acts that I consider to be theft when committed by a retail employee:

I am a ☐ Retailer ☐ Academic ☐ CPA or Consultant ☐ Other

RETAILING TODAY

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ROUTE TO

AUGUST 1984

VOL. 19, NO. 8

CORRECTION

Even retired CEOs watch after their company. Former CEO of Lucky Stores, Bud Fisher, wrote: "I wonder what you have against Lucky these days." Lucky was not listed on the "Half Billion Dollar Club" of retailers–and should have been. As of April 19, 1984 the market value was $786 million–and Lucky should have been listed between Rite Aid and Associated Dry Goods.

I HAVE SEEN A SCHNUCKS MARKET

I attended a convention at Frontenac, a suburb of St. Louis. There was a Schnucks across the street. Since they are subscribers, I dropped over to see what kind of a supermarket they ran. I will give you my conclusion first: I wish there were one in Lafayette, California! I picked up a 16-page tabloid as I entered–and found it far better quality than what I see locally. Good photography and clean presentation of items.

Attention is paid to copy–a page headed "Celebrate Mayfest with freshly sliced Deli treats" and then photos and copy for 25 items. One of their highlighted sections read: "It's Mayfest time in our Deli. Observe the rites of Spring with a bounty of delicious meats and cheeses, all freshly sliced to your order. Enjoy sampling from an array of mouth-watering German cold cuts and cheeses. At Schnucks, we are Bringing you the Best with a Mayfest Feast of Savings."

The cover pushes "NO GAMES. NO GIMMICKS. JUST GOOD HONEST SAVINGS on brands you use everyday"; the back had a plug for the Girl Scouts "Operation Cookie Jar-Weekend May 4-5-6, 1984."

In the store I was fascinated by the "Variety produce from Around the World" section with items like tomatillos, sunchokes, anise, ugli fruit and more. There was a good natural food department. I saw small size packages (1½ oz. of Kraft grated cheese) which I have never seen before.

The salad bar had an attendant (when I visited the newly opened Safeway SuperStore in San Ramon–their new layout–there was no attendant and kids were playing with the salads). You could buy cut cantaloupe and honeydew melons.

Their slogan "The Friendliest Stores in Town" seemed truer than most slogans. I talked to a number of people in the store. My longest and most informative chat was with Mike Benigno, who talked while he trimmed produce, never missing a thing on his trimming or on answering my questions.

RThought: After all the good things I saw at the Frontenac store, I was startled to learn that it is considered to be one of the older and out-of-date stores and was scheduled for a complete remodeling in two weeks.

A MATTER OF ETHICS

Top retail management is suddenly being put to a test, one that I hope they will pass but which I suspect they will fail.

The "new" Federal Trade Commission has changed the long-standing rules on enforcement of deceptive trade practices, particularly those in the area of advertising. They argue that using fictitious "regular" or "reference" prices doesn't injure the consumer. Catalog showrooms brag about that method in the front of their books. More recently an increasing number of major department stores, large furniture stores and others have built their entire promotion program on false comparative prices.

A former FTC executive is quoted as saying, "It is very difficult to see why consumers would pay more for the product even if the "regular" price claim was true." This is indicative of either his blatant dishonesty or naivete that should have precluded him for a top position in the FTC.

The argument proceeds that as long as consumers are accurately informed about the selling price they can make sound buying decisions. The fact that the "regular" price may not be the price that either the retailer regularly sells it or a price at which other retailers currently sell it for is of no concern.

Perhaps the FTC will ban the teaching that honesty is a desirable personal trait because with complete honesty the economic process would become clogged, revenues would decline and the federal government would collect less money.

RThought: There could be a bright side to this change. It is sort of like a school changing from the proctor system to the honor system. Under the proctor system many people feel they are **supposed** to get away with as much as they can without getting caught; but under the honor system, the enforcement is suddenly put on the student. A study in the 1960s of colleges on each system found that there was less cheating on tests, by far, at schools on the honor system; and the longer the honor system had been in place, the less the cheating.

I went through Stanford on the honor system and the cheating was infrequent. Most who cheated eventually got caught and, after processing by the student council, an announcement would be posted: "A certain student X (the name was never used), having been found guilty of violating the Honor Code, is suspended for one quarter during which he must do work showing good intentions and must complete an additional 15 units in order to graduate."

I hope that retailers will respond to the honor system; I have my fingers crossed.

IF CARREFOUR HAS HIGH PRODUCTIVITY, HOW DO YOU CLASS DUANE READE CORP?

Many U.S. retailers have been fascinated by the performance of Carrefour stores in France—averaging about $800 per square foot per year, depending on the value of the franc.

Yet many a retailer has dropped into a Duane Reade drug store on Manhattan Island and wondered about the confusion, the narrow aisles, the clerks blocking aisles as they stock items and finally the problem of getting to the one or two registers to pay for what was bought.

Do you need broad aisles and warehouse type racks full of palleted merchandise in order to do more than $1100 a square foot? Not at Duane Reade. For the year ending October 31, 1983 they did $102,000,000 in 90,000 square feet! They had $4.5 to $5.0 million sales in a typical 4,300 sq. ft. store.

And they do this without Sunday openings.

The balance sheet is something to admire. At October 31, 1983 the equity was $15 million and all liabilities $17 million, including $6 million of dividends payable as an "S" corporation (no corporate taxes). Paying the dividend will not be difficult with $11 million in cash.

RThought: Who is Duane Reade? He certainly isn't one of the 7 Cohens, who are officers and directors. The name comes from the location of the first store, opened in 1920—on Broadway between Duane and Reade streets.

A NICE STORY

Perhaps the name Gino Marchetti brings to mind the days of 1954-64 when the Baltimore Colts were a football power. Perhaps you recall his selection as the best defensive end in the National Football League's first 50 years. But the nice story, as reported by Art Rosenbaum in the San Francisco Chronicle, relates to the concern of Colt's owner Carroll Rosenbloom for his players—that they build some financial security for themselves. At one time he gave them a tip on a Florida real estate company guaranteeing they would not lose money buying the stock at $5 a share. Those who took his advice sold out at $82; Gino was not one of them.

In 1958 Rosenbloom called Gino and said, "You dumb Okie, why don't you do something with your life? You're popular in Baltimore. Bring your wife and children here. Get started."

A group debated whether to start a bowling establishment or a restaurant. Johnny Unitas took the bowling alley route and failed; Gino and some others took the restaurant route. They decided to start Gino's, a high class McDonald's. But the building would cost $150,000 which they did not have—but could get if the note was co-signed—which Carroll Rosenbloom did.

Now there are 390 Gino's plus 100 Rustlers steak houses. Gino bought out his partner and then later sold out to Marriott Hotels for millions.

RThought: Good guys like Carroll Rosenbloom so seldom get recognized.

FIRE AT WILL

When I was a teenager, I fired competitive pistol as a member of the San Francisco Traffic Police Civilian Pistol Team (what a long name). When we were practicing, there would be 10 minutes of firing after which the rangemaster ordered "Cease Fire" and we would check our targets, paste patches over bullet holes and return to the firing line. The rangemaster would then order "Fire at will." We all felt sorry for Will.

But "fire at will" was, for many years, a prerogative of the employer. This is all changing. The Banking Journal of the American Banking Association recently summarized the changing court decisions.

Tameny v. Atlantic Richfield Co. (California State Supreme Court) held that firing an employee because he refused to participate in an illegal price-fixing scheme gave the employee a right to bring action.

Peterman v. International Brotherhood of Teamsters ruled that Peterman could challenge his discharge for refusing to commit perjury.

Novosel v. Nationwide Insurance Co. (Federal Court) found the employee had a right of action when discharged for refusing to campaign for legislation which the employer considered in the company's best interest.

Toussaint v. Blue Cross and Blue Shield of Michigan (Michigan Supreme Court) found the employee had a right of action when the employer had said he would have a job as long as he did a good job; and the company handbook said employees would only be discharged for just cause.

Pugh v. See's Candies, Inc. (California) found an implied contract based on the length of employment, commendations, promotions, lack of criticism and various assurances of continued employment.

Cleary v. American Airlines, Inc. (California Court of Appeals) found an implied promise of good faith and dealing that was violated after 18 years of employment. A key factor was the provision of an employee grievance procedure in the employee handbook confirming that the employer recognized a responsibility to deal in good faith with all employees.

Fortune v. National Cash Register (Massachusetts) found the employee had a cause of action when claiming he was fired solely to avoid payment of huge bonuses and commissions due on his sale of a large quantity of cash registers to a major retail chain.

RThought: The ABA Banking Journal article (JUL 84 - 345 Hudson Street, NEW YORK NY 10014 $3) said, "It is a firmly established principle of contract law that each party to a contract implicitly promises the other to act in good faith."

HOW WILL THE DEPARTMENT STORES GET BACK TO ADVERTISING MERCHANDISE INSTEAD OF PRICE?

In every city the major department and specialty stores are putting the major emphasis on "SALE SALE SALE." More often than not, the largest type in an ad is devoted to the "percentage off" rather than the "merchandise on."

Stores become addicted to this just like humans become addicted to a drug. Some stores have died from the disease, such as the Roos/Atkins chain in the San Francisco area (they continued to downgrade the quality of their merchandise in order to maintain a normal markup while claiming to save 25%-35%. Eventually their customers did not believe them.)

NEVER ON SUNDAY

For years I have been an advocate of serving the customer when the customer wants to be served. And that, of course, led me to support and advocate night and Sunday shopping. That is a defensible position. During the 50 years I have been part of the retail scene, I have watched the laws against activities on Sunday disappear or be greatly modified. When I was at Harvard Business School (1938-40), it was against the law to play tennis on Sunday morning; when I was at Stanford (1935-38), it was against the wishes of Mrs. Stanford that we play pool on Sunday (Ping Pong, not having been invented during her life, was okay on Sunday).

I recently received a letter from a long-time subscriber who did not renew. When that happens, I am concerned that in some way we have failed him. I wanted to know why. His answer in a letter included the following:

> **In 1981 we were operating five warehouse type food stores. During that year God performed a miracle concerning a friend who had cancer. I made a vow to God that if He would not just heal my friend but would remove any trace of cancer so that when the doctors operated they would not find any diseased tissue I would in turn close our stores on Sunday. This I said I would do as testimony to God as a God who is still concerned about the needs of His children today. God answered that prayer and the doctors did not find any trace of cancer that was believed to be throughout his body.**

He did close his stores. But against new competition in his town, he was unable to maintain a profitable business. Today he is out of retailing and thus the reason for the non-renewal (however, he will receive RETAILING TODAY as long as he finds it of interest).

Is this unique? I would not call it unique but uncommon.

Recently I have been representing a small department store in an attempt to sell it to a somewhat larger store in a nearby community. Although both are in a major metropolitan area, the buyer does not open on Sundays. In evaluating my client they have to eliminate Sunday sales when determining the value of the store.

They do not sell on Sunday as a matter of principle. In fact, the corporation is the successor to one of the early discount chains. As Sunday selling became accepted in the 1960s, the management felt more and more distressed that not selling on Sunday failed to serve their stockholders properly so they sold the discount stores and retired most of the stock.

In a third case I was called by a very small but long-established department store in the northern Rockies area. A major shopping center had opened in their community drawing Sears and Penneys out of downtown and bringing in a new department store and an upscale discounter. The shopping center would have been the ideal place for my client, but the center required all tenants to be open on Sunday.

I think we have worked out a solution whereby the store will move to a smaller but more efficient location downtown and will cater to the downtown workers and the established residential areas surrounding downtown. Fall 1984 will determine the success of this program.

RThought: It is so good to work with people who are able to maintain principles in which they strongly believe. But sometimes, as in the first case, the price paid is high.

But there may be a solution that, in the long run, will work for the person in the first example. After contacting the writer to get his permission, I have written to one of the retailers who operates in his state saying, "There must be a place in your organization for a man who is this faithful to his beliefs. His skill as a retailer should not be lost." I know the person to whom I wrote and I feel certain that he will respond just as I did.

Even if you do not believe that you are your brother's keeper, you should be able to accept that you are your brother's helper.

THE MAN WHO FOUND OUT HOW TO SELL INSTANT COFFEE

I was saddened recently to read of the death of Mason Haire, internationally known for applying psychology to industrial management problems. While at the Institute of Industrial Relations at the University of California at Berkeley in the 1940s, he was asked to find out why so few people used G. Washington Instant Coffee. The manufacturer thought they had the perfect product—it was cheaper to make just one cup when you only needed one and it was faster—just heat the water.

Haire used a technique called "subjective projection." He gave two panels of 100 women a shopping list and asked them to describe a person who would have such a list. On one list the 6th item was G. Washington Instant Coffee; on the other list the 6th item was MJB coffee. Otherwise the lists were identical.

Every member of the panel with the G. Washington list offered one or both of the following comments: "This person doesn't care for her husband" and/or "This person is not a frugal wife." Neither observation came from the MJB panel.

On further investigation Mason found that women felt that they were being a poor wife if they did not take the time to brew a pot of coffee, even if only one cup would be used. As to economy, the higher price for a smaller, concentrated jar could not/had not been converted to the cost per cup.

Both problems were addressed in advertising. The "good wife" image was tackled with ads saying, "Now my husband can have coffee whenever he wants it"; the "frugal wife" image was tackled with pictures of women for The 400 of New York saying, "I save money by using instant coffee."

RThought: Too often retailers and consumer goods manufacturers fail to appreciate the help they can get from academics. Sometimes they don't ask the right questions. Sometimes they ask the wrong person. Who would think of going to the Institute of **Industrial** Relations to find out why people did not buy instant coffee?

Integrity is dead at Fairchild Books. The ad below ran April 6, 1984.

JUST PUBLISHED!

FAIRCHILD'S FINANCIAL MANUAL OF RETAIL STORES

Comprehensive 56th annual edition with in-depth financial data for more than 310 of the nation's largest, publicly-owned corporations. One-volume reference gives you all the important facts. Over 240 pages.

Price: $60.00

Fairchild Books, Dept. FD, 7 East 12th St.
New York, New York 10003

I received my copy last October and the 57th issue is due next October. No wonder the Better Business Bureau has problems with honesty in advertising—with Fairchild setting this example. Note: Watch out for their mailing on books—they do not put the date of publication in the description—I have gotten ones 5 or 6 years old and completely out of date.

If you want to find millionaires, go to Idaho. According to **American Demographics** 1 in 38 people there are millionaires. The next best state is far behind—North Dakota at 1 in 110. Unfortunately, there are not a lot of Idahoans.

From the Menswear Retailers of America's Business Newsletter of April 30, 1984: "'**Fashion builds volume. Volume kills fashion.**' This industry paradox is seen as a major factor in some men's store decisions to shy away from best-selling items in the market . . . and the fact that the discounters and mass merchandisers tend to feature the most popular brands or their knock-offs has exacerbated the problem."

A thought about numbers. Between now and 2000, according to forecasts of the Population Reference Bureau, Western Europe will add fewer than 1,000,000. The U. S. will add about 34 million to a base of 234 million. Far smaller Bangladesh will add 52 million (about the population of France) to a base of 97 million. **RThought**: Kenya is growing even faster.

Here is proof that front-end scanners cut shrinkage. In New Jersey they do it dishonestly. The Consumer Affairs Division made 1652 item purchases in 8 ShopRites, 6 Pathmarks, 3 Grand Unions, 2 A&Ps and 1 Kings during 51 shopping trips and found an error rate of 0.9% undercharges and 1.45% overcharges for a net dollar benefit to the stores of 0.27%. From this they estimated that New Jersey consumers were being overcharged by $13 million (and stores reduced their shrinkage by $13 million). **Some of the stores feel that it isn't an error because the scanner is right but the shelf price was wrong!** But arguing that way merely says that you intended to deceive your customer (often called fraud) by permitting the wrong shelf price to appear.

How do you get out of "double the value of manufacturer's coupons" promotions? Perhaps Supermarket General, Waldbaum's and King Kullen used the wrong method. A federal grand jury has returned an indictment charging antitrust violations—that they got together and agreed to terminate at the same time.

Bullock's get it backwards. Perhaps the reason so many major stores get in trouble for violating the Truth-in-Lending Law is they are functionally illiterate. The ONE CENT refund check from Bullock's had an insert that read, "The Fair Credit Billing requires that credit balances of $1.00 or **LESS** (emphasis added) may either be refunded immediately, or after mailing three statements to the customer." Section 226.21 of T-in-L says, "When a credit balance in EXCESS OF $1 (emphasis added) is created . . . the creditor shall . . . ." **RThought:** So much for the difference between $1.00 and less"—and "In excess of $1." This may explain the inability of Bullock's to enter the Northern California market.

As retail earnings trend up, retail prices trend down—but not as much as with other stocks. The table below shows the change in the median price/earnings ratio for stocks as reported in STOCK DATA (Box 249, LAFAYETTE CA 94549 $30/yr):

Exchange	P/E 12/30/83	P/E 5/31/84	% Earnings Increase Needed to Maintain Price
New York	12x	10x	20%
American	10x	10x	None.
Over the Counter	10x	9x	11%
Dow Jones Industrial	22.4*	12.9	74%*

*DJIA was still being impacted by pricing based on liquidation value rather than earnings for poor performers such as International Harvester, Bethlehem and U.S. Steel. This was demonstrated a year ago when the DJIA P/E ratio was 127.7!

Southland claims to be the "nation's largest independent gasoline distributor." How can Southland be "independent" when they own their own refinery?

Which do you prefer—male or female furniture salespeople?" J. D., Michigan. That question was posed to Joe McNichols (**Furniture Merchandising Newsletter**, Box 584, Palos Heights, IL 60463 $39/yr), and I liked his answer: "Who takes sides? Many salesmen are super pros and deliver $500,000 and up. The leading salesperson I have met recently is a sixty year old saleslady on the West Coast who sold $1,250,000 in retail residential sales in 1982."

Four Maryland Rite Aid employees were awarded $5 million in damages when the jury found they lost their jobs because they refused to submit to polygraph tests routinely administered to employees when there was an inventory shortage. Rite Aid is appealing. According to Privacy Journal (Box 15300, WASHINGTON DC 20003 $89/yr) the Maryland law not only prohibits polygraphing but also requires public and private employers to advise all applicants of this fact. **RThought:** Once again a retailer thought that laws did not apply to their firm. It was expensive for Federated to fire long-time employees because of their age. Honesty is a frame of mind that is absent in too many businesses, retailing and others.

More and more department and specialty store customers are reaching this point.

The same is true in Australia but a few stores have attempted to break the cycle—the cycle of one store announcing a major percentage price cut to draw people and others matching it. Waltons, the fourth largest department store group, has adopted the policy of eliminating prices from ads but guaranteeing to meet prices the day you are in the store. The major theme is "Don't worry about the price."

Recently they put out a 12-page full-color tabloid covering branded appliances, home entertainment lines, furniture, bedding and floor coverings, and said their individual stores had authority to "beat any genuine competitors' lower prices." A refund is offered if the item is available for less than the customer paid.

A furniture and appliance chain is advertising "as good as the best prices"—again without quoting individual prices.

RThought: This accomplishes a number of things. First, the emphasis in the advertising is changed from price alone to the qualities of the product and the service offered.

It represents a way to get back to merchandise, one which many United States stores badly need.

(This information was obtained from INSIDE RETAILING, \$195/yr, Box 981 Darlinghurst NSW 2010 Australia. U. S. retailers probably will get more ideas per year for their own business here than anywhere else. If you want an older sample—not from our active files—send a 37¢ self-addressed No. 10 envelope to AUSTRALIA, Box 249, LAFAYETTE CA 94549).

NICKEL-AND-DIME CHISELING ON TRAVELERS

You and I travel a lot and stay in many different hotels. You and I make a lot of phone calls from hotels. You and I never really know what will be on our bill the next morning when we check out.

U. S. hotels are not as bad as reports on European hotels where the surcharge on a single call to the U. S. sometimes exceeds the room rate! But it is just a matter of time until it happens here.

I was in a hotel where the card in the room said local calls were charged at 50¢ for 2 minutes or a fraction thereof—compared to unlimited time for 25¢ at a pay phone (and less from a business phone). I have had calls charged to me that were not completed—in many cases the timing equipment in the hotel (not being telephone company equipment) cannot detect whether or not the call was completed. (On that point, a client in Las Vegas who does telemarketing recently got a totally unexpected rebate of \$135,000 for a two-year period during which the Nevada Bell equipment was erroneously timing the use of the out-WATS lines!)

Even if there is a rate card in your room, can you (do you?) time your calls?

The hotels have an explanation for the surcharges.

A recent New York Times article reported on some of the methods of charging. On direct dial, charge-to-room calls, they charge daytime operator-assisted rate regardless of the time of the call and whether or not you dialed direct. They profit on (1) any time of day differential and (2) the difference between the direct dial rate they are actually charged. At times they may even add a service charge!

The hotels have an explanation. The article attributed to hotel executives the statement that "surcharges are a way to break even, not make a profit, on the cost of providing telephone service."

Do you buy that? Didn't you think that when you paid room rent it included, in addition to a bed and bathroom and some chairs, a telephone and TV set? Only Motel 6 and like hotels have a 25¢-in-the-slot pay TV sets.

But if this theory is correct—that one must break even on providing telephone service—why should I pay the cost of a TV set when I don't watch TV? Perhaps a charge of 25¢ if I turn on the water in the shower-tub? And what about the high cost of installing, operating and maintaining an elevator? Will we see coin-in-the-slot elevator doors?

Of course, there is the expense of providing soap and towels, which might be recovered through coin-in-the-slot dispenser units.

RThought: Why do I belabor this point? Because there is a substantial part of the retail industry that is pushing for the right to surcharge credit beyond the present spread between their Annual Percentage Rate (APR) and the cost of money. The only ones really interested in this are the stores that call themselves "service" stores. People think charge accounts are a form of service. The clerks have already disappeared.

What is it that a "full service" department or specialty store offers?

Let's look for a moment:

Expected 1954	Get 1984
Free credit up to 90 days.	Free credit for 25 or fewer days with retroactive charge under average daily balance in some cases.
Free delivery.	Charge for delivery.
Free parking.	Still free in most shopping centers, but an increasing number have charges or controlled access and fee unless a purchase is made or a validation obtained.
Experienced salespeople.	Widely spaced POS terminals.
High in-stock condition on key categories.	Increasingly out of basics, particularly in the middle sizes.
Recognition by name when a charge card is presented.	Transaction completed without ever being recognized as a person.

Now the price differential charged by "full service" [I feel it is almost dishonest journalism to use that term] stores over discount stores, off-price, factory outlet, or catalog/showroom is substantial.

Let's look at what we expected from those outlets from their startup dates:

Expected when concept founded	Get in 1984
Credit limited to bank cards.	Credit limited to bank cards.
Free parking.	Free parking.
No salespeople.	No salespeople.
Limited selection.	Growing breadth of selection.
Nobody cares about your name, only your money.	Nobody cares about your name, only your money.

If the department stores put a surcharge on credit sales on the theory espoused by the hotel people ["surcharges are a way to break even, not make a profit, on the cost of providing . . . check one: Telephone ____ credit ____ service"], the spread between full-service (I hate that term) stores and the competitors will increase.

When I am faced with a surcharge for credit, I will switch stores. And I will darn well see that my wife starts writing checks or using bank cards (assuming they are smart enough not to put in a surcharge). [Note: I must be honest–there are some stores I will continue to shop–primarily my client stores that give me an employee discount.]

NO MORE LEVITZ AT LEVITZ

Levitz once was a magic word–a key to a totally different concept of retailing furniture. It grew dramatically and got in trouble; it found the doctor in Bob Elliott, then head of Montgomery Ward operations out of Oakland (where I was born).

Elliott's name first appeared in the 1974 annual report (the year ended in December), with Ralph Levitz as chairman and Ralph's brother Leon and son Phillip on the board. Ralph's other son Gary left the board that year. At year ending January 1983 the board still showed Ralph Levitz as chairman, Gary as president of an aviation services company and Phillip as a private investor.

A year later only Phillip was on the board. Now the report of the annual meeting held in May of this year shows 8 directors elected, none of them named Levitz.

I guess the closest Levitz you can find in furniture is with Cousins Furniture, now operating old RB Furniture locations in California–I think you now understand the name of that chain. There you will find Sidney (chairman and CEO), William (EVP and director), David (VP merchandising) and Sam Levitz (VP advertising), all "cousins" of Ralph and Leon.

Cousins is off-price; Levitz is getting closer to a traditional furniture store–perhaps you would call it a highly promotional furniture chain.

(Later note: Now that Elliott has complete control, he has sold the company with excellent job protection for himself.)

SHORT SHORTS

Can management brag about how good they are (read the annual reports) and then expect to get antimerger protection as Zayre and many others have done? It is a good sign that the shareholders at Jamesway turned down such a proposal. Management should stand OR FALL by its own record; G. C. Murphy got away with a by-law change requiring an 80% shareholder vote for removal of a director.

Is the world ready for a full-value law firm? HRT is small by comparison to major chains but fees requested in the Chapter 11 proceedings approach $6 million. After a protest by the judge, fees were cut by $600,000, perhaps including the $30,000 one firm claimed it cost to prepare their bill! Expenses of more than $700,000 will be reviewed next, with particular attention to whether cocktails and movies (R-rated?) at hotels are truly part of the expenses of a Chapter 11 proceeding; and whether first class air travel was really appropriate in a bankruptcy case, when the creditors were not getting 100%. BRAVO FOR JUDGE BURTON LIFLAND.

Carrying "Official" to an absurdity. Did you wonder about M & M candies being the "Official Snack Candy" for the 1984 Olympics? Then you won't be surprised to find that Silver Reed typewriters are the "Official Typewriter for the Women Tennis Association"; and the ad shows Martina Navratilova with the quote: "Trying to run my business affairs without Silver-Reed would be like trying to win Wimbledon without my tennis racket." **RThought:** Does she mean she makes more money on the endorsement than on the Wimbledon?

WORDS FROM 1596-97

Shakespeare wrote "The Merchant of Venice" in 1596-97. In Act III, Scene I (On a street in Venice), Shylock talks of the bankruptcy of Antonio to whom he had loaned money. Salarino asks, "Why, I am sure, if he forfeit, thou wilt not take his flesh: what's that good for?"

Shylock responds:

> **"To bait fish withal: if it will feed nothing else, it will feed my revenge. He hath disgraced me, and hindered me half a million; laughed at my losses, mocked at my gains, scorned my nation, thwarted my bargains, cooled my friends, heated mine enemies; and what's his reason? I am a Jew. Hath not a Jew eyes? hath not a Jew hands, organs, dimensions, senses, affections, passions? fed with the same food, hurt with the same weapons, subject to the same diseases, healed by the same means, warmed and cooled by the same winter and summer, as a Christian is? If you prick us, do we not bleed? if you tickle us, do we not laugh? if you poison us, do we not die? and if you wrong us, shall we not revenge? if we are like you in the rest, we will resemble you in that. If a Jew wrong a Christian, what is his humility? Revenge. If a Christian wrong a Jew, what should his sufferance be by Christian example? Why, revenge. The villany you teach me, I will execute; and it shall go hard but I will better the instruction."**

RThought: I came across a transcription of a soliloquy by Orson Welles in which he combined a number of statements of Shylock, the Jew. I couldn't help but think of the discrimination that continues almost 400 years after Shakespeare put those words in the mouth of Shylock. There is little that distinguishes one person from another that cannot be used as a basis of discrimination. It is not just the discimination against Jews or blacks or Hispanics. It is the corporate discrimination. "Hath not a fat man eyes? hath not a short man hands, organs, dimensions, . . .?" How does the gunman tell a Catholic Irishman from a Protestant Irishman? Don't both bleed? Aren't a light colored black and a dark colored black "subject to the same diseases, healed by the same means"?

Are not Jews of German and of Polish extraction both "warmed and cooled by the same winter and summer"?

It took us 139 years to nominate the first Catholic for President; and another 32 years to elect a Catholic President. It took us 195 years to nominate a woman for Vice President; and there are many who will vote their discrimination against women. Yet every person who discriminates had a mother. And most were succored by a woman.

Shanty Irish and Lace Irish. Northern and Southern Italian. North and South Vietnamese. Northern and Southern Koreans. East and West Germans. We cannot tell the difference from the outside.

If we just concentrated as much on the brotherhood of man as we do on inventory shortage and on wearing the newest fashions and buying a fancier car, we might be saying today–"Things sure were different when old Bill Shakespeare was covering the news front."

EDITORIAL

We were going to write one like this ourselves. But Bob Kahn, noted retail consultant and editor of the highly-regarded newsletter, *Retailing Today*, did it so well that he saved us the trouble. With his permission we reprint his editorial from a recent issue of his newsletter.

A Matter of Ethics

Top retail management is suddenly being put to a test, one that I hope they will pass but which I suspect they will fail.

The "new" Federal Trade Commission has changed the long-standing rules on enforcement of deceptive trade practices, particularly those in the area of advertising. They argue that using fictitious "regular" or "reference" prices doesn't injure the consumer. Catalog showrooms brag about that method in the front of their books. More recently an increasing number of major department stores, large furniture stores and others have built their entire promotion program on false comparative prices.

A former FTC executive is quoted as saying, "It is very difficult to see why consumers would pay more for the product even if the 'regular' price claim was true." This is indicative of either his blatant dishonesty or naivete that should have precluded him for a top position in the FTC.

The argument proceeds that as long as consumers are accurately informed about the selling price they can make sound buying decisions. The fact that the "regular" price may not be the price that either the retailer regularly sells it or a price at which other retailers currently sell it for is of no concern.

Perhaps the FTC will ban the teaching that honesty is a desirable personal trait because with complete honesty the economic process would become clogged, revenues would decline and the federal government would collect less money.

RThought: There could be a bright side to this change. It is sort of like a school changing from the proctor system to the honor system. Under the proctor system many people feel they are **supposed** to get away with as much as they can without getting caught; but under the honor system, the enforcement is suddenly put on the student. A study in the 1960s of colleges on each system found that there was less cheating on tests, by far, at schools on the honor system; and the longer the honor system had been in place, the less the cheating.

I went through Stanford on the honor system and the cheating was infrequent. Most who cheated eventually got caught and, after processing by the student council, an announcement would be posted: "A certain student X (the name was never used), having been found guilty of violating the Honor Code, is suspended for one quarter during which he must do work showing good intentions and must complete an additional 15 units in order to graduate."

I hope that retailers will respond to the honor system; I have my fingers crossed.

From the RAC

33rd annual RAC

The final program is completed for the 33rd annual Retail Advertising Conference, February 7-10, 1985 at Chicago's Drake Hotel.

Advance registration is 293% ahead of this time last year for the Conference, now considered the largest and most prestigious event in the industry today.

The 1984 Conference was a complete sell-out at 562 paid registrants and we can handle no more than that in 1985. So, RAC members, if you intend to join us in Chicago in February, please enroll early. We especially do not want to turn away RAC members. An advance registration form is enclosed for your convenience.

Profit from Xpo

If you attend the 33rd annual Retail Advertising Conference, don't forget to plan to spend an adequate amount of time in the RAC Xpo, a unique exhibit of advertising products and services, which runs concurrently with the Conference.

It's your opportunity to shop in one place for the newest, the best, the most creative in art, photography, camera and typesetting equipment, color separations, marketing/advertising books and publications, tv and radio production and a matchless variety of printers. It's your chance to interview top flight ad agencies, direct mail and marketing specialists, catalog houses. Moreover, you have far more to choose from this year, with 42.22% more space devoted to Xpo '85 than ever before!

RAC Digest is published as a member service every other month by the Retail Advertising Conference, 67 E. Oak St., Chicago, Illinois, 60611, (312) 280-9344. Layout and design, production and printing courtesy of Montgomery Ward, Chicago.

PRC D·I·G·E·S·T

Vol. II No. V November 1984

Washington Report

By John Jay Daly, APR, President, Daly Associates, Inc., Washington

When will postal prices pop up to higher levels? That's an unknown, although the US Postal Service board of governors reaffirmed at its September 11 meeting that it won't be in 1984.

Given the feisty nature of the current board, it is unlikely they will unanimously agree on anything, much less risk delay by sending the case back to the Postal Rate Commission, so the board will probably reluctantly OK the 1000 page "recommendations."

My guess is that the new rates will take effect precisely at a minute past midnight 2 weeks either side of Sunday, February 3, 1985.

Whenever it happens, it is clear that the rate commission, in reducing USPS' 23¢ stamp request to 22¢, has recognized the value of presorting by mailers, while at the same time criticizing USPS for overestimating its labor costs and underestimating its mail volume.

PRC has given mail users encouragement to keep using those presort discounts, especially on carrier routes where the savings can be considerable.

If you'd like a summary of the pending rate changes, send me a 37¢ stamped self-addressed business envelope: Daly Associates, Inc., 702 World Center Building, DC 20006.

Overall view of Commission proposals:

In brief, the Commission's recommendations are good news indeed for bulk mailers, especially those who can presort, and with the added incentives to do so, this will probably increase presorting markedly.

Postal rate recommendations of the Postal Rate Commission are analyzed in a free report available from the Alliance of Nonprofit Mailers, 2001 S. St. NW, #510, DC 20009. The analysis focuses on bulk rates. Send self-addressed 20¢ stamped envelope.

(John Jay Daly is a noted Washington-based direct mail expert. This article first appeared in a recent issue of **Association Trends.**)

Copywriting is 'forced communication'

The most important basis for good catalog copywriting is realizing that all catalog copy is "forced communication," according to direct-response writer Herschell Gordon Lewis.

"We're all in the business of forcing people to read what we write in order to sell something," said Lewis, in a CATALOG AGE seminar. "If you can't accept this, you can't write truly professional catalog copy."

Too many copywriters, he contends, hold back in their writing because they are trying to hold on to illusions about the work. "Showing off your vocabulary in an attempt to demonstrate your intelligence may help your ego, but it produces bad copy," he said. "When emotion and intellect come into conflict in the human mind, emotion always wins." It follows that emotional, "power" words are what's needed in catalog copy—not passive, intellectual words. It's better to use the word "buy" than "purchase" for instance, he noted.

"If we hang on to our dignity at the expense of putting power in our writing, we are doing our employers a disservice," he asserted.

Lewis offered several additional basic "rules" of catalog copywriting:

- Your writing must generate an image consistent with the position you want your company to have in the marketplace. "This is true for both trade and consumer catalogs," he said. "The image doesn't have to be the top image in the market, or the bottom image—but it has to be a *consistent* image."
- Use descriptions consistent with the experiential background of your catalog recipient. "We must project ourselves into the experiential background of the reader. We must remove ourselves from our mass of prejudices, and guard against writing copy consistent with our own experience."

(Continued on page 6)

Consumer Confidence

According to a new University of Michigan survey, consumer confidence is "more favorable than in any prior year during the last decade." Bullish attitudes "point toward continued high sales levels through 1984 and into early 1985."

Consumers say their finances are in the best shape in 12 years, but they fear that rising interest rates will hurt the economy sometime next year.

In its survey of 2,075 households, the University's Institute for Social Research found that:

45% of respondents said their household finances improved in the past year, with 35% reporting higher incomes.

48% expect prices to rise within a year, averaging 5.3% increases. The number complaining about inflation affecting living standards was the lowest since the early '70s.

31% said business conditions should improve in the next year, down from the high of 52% a year ago. Only 14% said the economy will worsen.

72% said the time is right to purchase household durable goods, such as appliances; 61% indicated conditions are good for auto purchases; and 59% said the time is right for home buying.

66% predict higher interest rates in the next year.

According to a **USA Today** article, these survey results correspond with other reports. The Conference Board recently reported that its consumer confidence index was down slightly but still near record levels, and the National Association of Purchasing Management said businesses foresee a slower but still bullish economy.

memo memo memo memo

11/13

To: Rob Kahn

Thanks again for permission to pick up your excellent editorial.

Hope it helps!

Sincerely,

Doug Raymond

Retail Advertising Conference
67 East Oak Street
Chicago IL 60611 312/280-9344

Oct 2, 1984

AB put with August RT

Gave Doug Raymond, Retailing Advertising
Cnference, permission to run
A MATTER OF ETHCIS in their bulletin
wtih appropriate credit.

He will send a copy of the
publication.

RK

JO-ANN PAGANETTI
EDITO ERTISING SERVICES

FYI

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101 FIFTH AVENUE • NEW YORK, N.Y. 10003

can we talk?

JoAn Paganetti

THANK YOU, ROBERT KAHN

Kahn's Retailing Today newsletter, August 1984, says what Retail Ad Week has been saying for years — but it is refreshing to hear it from a retail management expert. Under the heading: "How will the department stores get back to advertising merchandise instead of price?", RK says: "In every city the major department and specialty stores are putting the major emphasis on 'SALE SALE SALE.' More often than not, the largest type in an ad is devoted to the 'percentage off' rather than the 'merchandise on.'

"Stores become addicted to this just like humans become addicted to a drug. Some stores have died from the disease, such as the Roos/Atkins chain in the San Francisco area (they continued to downgrade the quality of their merchandise in order to maintain a normal markup while claiming to save 25%-35%. Eventually their customers did not believe them.)

"More and more department and specialty store customers are reaching this point.

"The same is true in Australia but a few stores have attempted to break the cycle — the cycle of one store announcing a major percentage price cut to draw people and others matching it. Waltons, the fourth largest department store group, has adopted the policy of eliminating prices from ads but guaranteeing to meet prices the day you are in the store. The major theme is 'Don't worry about the price.'

"Recently they put out a 12-page full-color tabloid covering branded appliances, home entertainment lines, furniture, bedding and floor coverings, and said their individual stores had authority to 'beat any genuine competitors' lower prices.' A refund is offered if the item is available for less than the customer paid.

"A furniture and appliance chain is advertising 'as good as the best prices' again without quoting individual prices.

"RThought: This accomplishes a number of things. First, the emphasis in the advertising is changed from price alone to the qualities of the product and the service offered.

"It represents a way to get back to merchandise, one which many United States stores badly need."

ONE OF THE HAPPIEST FASHION EXHIBITS AROUND. The Galleries at the Fashion Institute of Technology, New York, had "Snoopy: Putting on the Dog" all summer — and now it moves on to San Francisco. Co-sponsored by Determined Productions, the show has already toured Florence, Milan, London, Paris and Berlin. More than 75 designers from all over the world produced clothing for Snoopy and his girlfriend Belle. Here, they're shown in their formal outfits from Balmain. They also have wedding fashions by Emanuel of England who did Princess Di's gown — plus daywear, evening wear, playwear, you-name-it-wear, each outfit done with loving care, down to the tiniest zipper, button and accessory.

THE NEW GAME IS CALLED BYPASS

The August 27 issue of Businessweek carries a detailed story listing three of the ways businesses are getting around local phone networks. Carrier bypass: Using their own local lines, AT&T and other long-distance carriers link up directly to main customers from long distance switching carriers. Private bypass: Methods like microwave radio signals from rooftop antennas link big companies up to direct hookups. Teleports: Private fiber-optic hookups feed voice and data traffic from major companies to groups of satellite dishes located outside major cities.

As we speak, a crew of workmen is laying fiber-optic cables inside a train tunnel under the Hudson River which will connect downtown Manhattan and the New York Teleport, a planned satellite communiations center a few miles away on Staten Island. The teleport is being built by Merrill Lynch, Western Union and the Port of Authority of New York & New Jersey and none of the millions of dollars worth of traffic will flow through New York Telephone Co. lines.

Newsweek analyses that if bypass becomes commonplace, residential phone rates could skyrocket as customers bear more of the costs of the existing plants. In New York, for instance, residential customers pay $7 to $8 a month in fixed fees, about one-third of what it costs New York Telephone Co. to provide them with service.

Why do big users want their own communications systems? Most say that local phone companies are often unable to fill their specialized needs, such as high-speed computer data links. But the low cost of new technologies such as microwave radio, combined with the tax advantages companies can derive from depreciating their own equipment, make it irresistible to bypass the local service.

DID THE TRAFFIC JUSTIFY THE SPACE?

Manhattan Eyeland, billed as New York's first department store for eyecare and eyewear closed its doors after seven months of operation. The company was headed by adman Jack Byrne and Lawrence Darrow, a 20-year veteran in the retail eyewear business. Byrne told an Advertising Age reporter that the project was "underfinanced."

One has to wonder, despite the delightful store theme and the promotion, how 20,000-square-feet of space on two floors near Bloomingdale's would be needed to sell eyewear. With most completed glasses running slightly under $100 in the industry, wearers of glasses don't tend to buy them like popcorn. Byrne's goal was to market eyeglasses as wardrobe accessories,— which is still an excellent idea. And Manhattan Eyeland is still a great idea for a shop — perhaps within a larger store.

RETAILING TODAY

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ROUTE TO

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THOSE WHO FEAR COMPUTERS ARE RIGHT

We talk a great deal about the danger of computers gathering information about everyone and some say it cannot happen. Then, as retailers, we sell the names of all of our customers for a few bucks a thousand. And if we have a catalog operation, we sell the lists of people who buy from us.

We are so eager to make a few bucks, we buy lists from the other guy. (If not free enterprise, it is at least low cost enterprise.)

But never worry; no one will ever put all this information together.

Metromail Corporation says it has put it together. The description in their prospectus (they went public April 5, 1984 at $10 a share and are trading at about 11½ at September 11) says:

THE COMPANY

Metromail Corporation is a leading provider of marketing services to organizations engaged in direct mail and telephone marketing. The Company maintains a proprietary computerized data base containing geographic, demographic, individual and other marketing information on approximately 150,000,000 individuals and 74,000,000 of the approximately 85,000,000 U.S. households. Metromail believes its direct marketing data base is one of the most complete and up-to-date in the United States. The Company uses this data base and its computer resources to identify and select the best prospects in a client's target market. The Company also publishes directories of households and businesses arranged in street address and telephone number sequence in 200 markets in the U.S. and Canada and is one of the nation's largest suppliers of mail production services to direct marketing organizations.

RThought: In 1980 we had only 154 million people over 19, so 150,000,000 must cover just about everyone.

Note the words "demographic," "other marketing information," "directories ... arranged in street address ... sequence." Now you know who is giving your name to all the firms trying to sell you.

I have had it up-to-my-whatever-that-town-was-that-got-President-Reagan-into-trouble with stockbrokers who buy a list of names on better income streets and then call and leave a call-back message. As a consultant I always call back—some of my most interesting assignments have come from such call-backs to an unknown someone referred to me by a friend or client.

But when I make a credit card call to someone who wants to sell me stock, I get mad. My answer is to file a complaint with the National Association of Security Dealers protesting the lack of standards, with a copy to the SEC, the CEO of the brokerage company and to the person who called me. I have found that most brokers dislike having their name placed in the SEC file (perhaps even that list is sold!).

A MATTER OF ETHICS

As retailers we should be concerned about ethics in our government as well as in our own business. I believe that an increasing number of top retailers are rejecting the proposals of aggressive, ambitious management people (some with MBAs from Harvard who were not discouraged from dishonesty in the "games" that the faculty *thought* emulated real life in the business world).

I can name many major retail companies in which senior executives stopped the stealing of credit balances before the Federal Trade Commission made it a matter of law or who eliminated pornography from their advertising or who opted not to join with the Encyclopaedia Britannica or SafeCard Services to distribute dishonest and/or misleading bait advertising. I can name others who respect their customers' privacy by not selling their mailing list or who refuse to use dishonest price comparisons.

This is progress—real progress toward becoming a moral and ethical business society and perhaps a more moral and ethical total society.

A jury of 12 people who sat through the De Lorean trial and heard all the evidence concluded the wrongdoing was greater by our government than by De Lorean; many newspaper readers agreed.

Now comes the Internal Revenue Service which issued IR Manual Supplement 5G-289 dated August 7, 1984 telling agents how to handle the 2 million names purchased from a commercial list company that purports to know the family income of those individuals. In each of 4 districts (Brooklyn, Milwaukee, Indianapolis and Reno), 1400 names will be drawn. **THE AGENTS WILL NOW BE REQUIRED AS A CONDITION OF THEIR JOB TO LIE TO THOSE PERSONS WHEN CONTACTING THEM.** (Note: *Tameny vs. Atlantic Richfield Co.* [Cal Sup Ct] held an employee could bring suit when discharged for refusing to take part in an illegal scheme; *Peterman vs. International Brotherhood of Teamsters* held you could not discharge for refusing to commit perjury.)

The regular agents will say the person is being asked to help the IRS update its records! Yet by law, *a criminal investigator agent* for the IRS must disclose that he is a criminal investigator; by this devious method, the IRS gets around that restraint.

RThought: Does our government take this step by following the lead of the FBI (De Lorean case) or the Army (concealing the danger of Agent Orange) or the Atomic Energy Commission (concealing the fact that radiation from Nevada tests killed sheep in Utah)? Or does our government follow the practices of free enterprise private business set by Manville (concealing health risks of working with asbestos) or Ford Motor Company (concealing the danger of Pinto gas tanks) or Richardson-Merrill (concealing the dangers of Thalidomide)? **DOES IT MAKE YOU FEEL BETTER THAT OUR GOVERNMENT IS FOLLOWING EITHER EXAMPLE?**

I am thinking of organizing a group called STONE–Stop Treating Our Name Electronically–and with the firmness of granite we will throw ourselves at the enemy until we crush their computer.

• FOR SMALL STORES •

HOW STATIONERS PAY THEIR BILLS

Geyer's Office Dealer (August 84, 51 Madison Avenue NEW YORK NY 10010 $3.50/copy) asked 10 Boston stationers how they pay their bills. Here is their payment procedure; they also reported their review procedure.

Barclay Business Products, Bingham: Discount bills are paid on the 10th; net bills are put in an alphabetic file and paid letter by letter "as cash reserves permit."

Business Products Unlimited, Boston ($4 million volume): Those offering 2% or more are paid on the 10th; all others are usually paid within 60 days from date of invoice.

South Shore Systems, Hanover: We try to take the 2% always the 5%, by the 10th; others are paid during the balance of the month or whenever possible.

Roberts Stationers, Lynn: We pay all discounted bills on the 10th (they get 5% from United Stationers, their largest supplier) and net bill over the next 30-45 days.

Almeida Office Supply, Brockton: If any discrepancy, holds bill until credit received. Discount as well as net bills go out the 10th.

D. A. MacIssac, Inc., Boston (a multimillion dollar stationer): All discount and net bills are paid within their terms. If needed, money is borrowed to make payments.

Bob Slate Stationers, Cambridge: All discount bills are paid on the 7th and 8th and net bills by the end of the month.

Ockers Co., Plymouth: Most discount bills paid on the 10th with the balance and nets paid when money is in the till over the balance of the month.

Broadway Stationers, East Boston: Takes discounts on two largest suppliers and pays when he can, usually within 30 days EOM. Refuses to borrow money.

One stationer did not answer this part of the question.

RThought: I thought this would make some smaller retailers feel more comfortable. The practice of largest retailers is to delay payment even when they have the money. The controller of one client, when called by a supplier because payment was not received within 5 or 6 days of the discount date, draws on his former job and asks, "Has (major department store chain) paid theirs yet?" This sort of sets the background for implying discriminatory practices that are not cost justified.

ABUSE OF NUMBERS

In the August 1984 issue of CHAIN STORE AGE–General Merchandise Edition there was an extensive article (more than 10 pages) under the heading "Upbeat consumers eagerly pursue purchases."

The article was based on two studies–a study conducted by Leo J. Shapiro and Associates for Chain Store Age (CSA) on polling more than 8,500 households and a study by Better Homes & Gardens (BHG) who surveyed 422 families as to their general shopping patterns compared to a year ago.

Unfortunately, the article overworks the statistics. Based on the 422-family BHG survey the article reported that in the total sample 54.8% of the families reported they felt better off than a year ago. But the article reported that 63.7% for those with an income of $25,000 or more and 66.2% for those families with incomes of $50,000 or more felt better off. By the time the sample is cut into such small groups (those over $50,000 income), the standard deviation is undoubtedly more than 4 percentage points and there certainly is no statistical difference between the two numbers (63.7% and 66.2%) and neither number should be carried to 1 decimal place. Both samples could have been drawn from the same universe.

The CSA study measured brand loyalty among the 8,500-family universe. I suspect that a high percentage of the families reported buying a "paperback romance novel" or "facial moisturizer" so that just a few percentage points difference from year to year might be significant. But that is not likely to be true with a video tape recorder or a phone answering machine or a home computer with the result that small changes in percentage points may not be significant.

A table covering two-thirds of a page is headed "Satisfaction scores big gains for Big 3, dept. stores and mail order hard lines." The ratings columns seem to indicate that the families were asked to rate satisfaction with price/discount, selection, quality, satisfaction (guaranteed?–I don't know), location/convenience, credit access, service/repair guarantee, other and not answering. By testing I found that all lines totaled 100.0% across, so the figures represent alternative answers (although there have been cases where customers indicated satisfaction in more than one field and the totals were reduced to 100% for comparison). There were separate ratings for 1982, 1983 and 1984.

However, I am **not** certain that all 8,500 families shopped K mart, other discount stores (which ones?), Sears, Ward, Penney, department store (which ones?–all are not the same), catalog/showroom, specialty store (how can they all be grouped together?) mail order and factory outlets (not available in most communities).

Take the rating of factory outlets, for example. Not even 1/10th of 1% answered "satisfaction" in 1983 or 1984; none answered "credit access" in any of the 3 years and none gave an answer classified as "other" or "not answering" in 1984. These are all indications of a very small number of answers, consistent with the limited geographic distribution of factory outlets. The figure is suspect because most of the catalogs and monthly publications that I receive on factory outlet and other off-price outlets indicate a ready acceptance of bank credit cards, making the lack of answers on this item suspect.

RThought: There may be more excuse for such shortcomings in presentation by a publication than by an accounting firm (I have criticized several accounting firms on their technical presentation of figures–most have improved their presentation in response to the comments); but Lebhar-Friedman, publisher of CSA, pride themselves on their research department. I suspect that their research department is capable of presenting a measure of significant differences; but the editorial department may not want to use space for the presentation.

HOW LONG IS A SALE?

This question reminds me of the old riddle—how far can you go into a forest? Half way—then you are coming out.

On Sunday, August 5, while watching the Olympic Games for more hours than I want to admit, I worked my way through a stack of tabloids. We receive 4 papers at our house: New York Times, San Francisco Chronicle-Examiner, Oakland Tribune and Contra Costa Times. (My wife weighed them once—total: 11 pounds.)

Penney's—24 pages: I knew when the SALE started but not when it ended. On page 18 I found one mention of "to August 18th" and on pages 21-22-23 "to September 1." But I didn't know when the other items ended until I got to the back page and then in the smallest type in the tabloid I found out. I have reproduced a portion of the section below to show how small the type is:

MERCHANDISE ON PAGES 1, 3-16, 18-20 AND 24 EVENT END DATE IS SATURDAY, AUGUST 11, 1984. MERCHANDISE ON PAGES 2, 17, JEANS, TOPS AND JR. HIGH APPAREL ON PAGE 15, AND SKIRTS AND HANDBAGS ON PAGE 18 EVENT END DATE IS SATURDAY, AUGUST 18, 1984. BOYS SOCKS ON PAGE 14 EVENT END DATE IS FRIDAY, AUGUST 24, 1984. MERCHANDISE ON PAGES 21-23 EVENT END DATE IS SATURDAY, SEPTEMBER 1, 1984.

Penney's explained the difference between regular and originally. On several pages they said, "Intermediate markdowns may have been taken."

Miller's Outpost—8 pages: Clearly marked August 5-13.

Emporium-Capwell—28 pages: Plenty of space for mentioning a 24-hour 800-phone and American Express cards but little space for the end of the sale—which said September 4 (30 days) unless otherwise noted.

Handyman—8 pages: Clearly, on page 1 indicated August 5 to 18 except where stated that quantities are limited.

K mart—12 pages: Clearly at upper left of front pages "Sale Begins Sunday August 5; Sale ends Tuesday August 7." Savings quoted against "Our price" which I presume is K mart's regular price although the wording does not guarantee that sales have been made in substantial quantity at the "Our price."

Montgomery Ward—24 pages: Advertising policy set forth in body. Clear statement at bottom of first cover "Advertised prices good in retail stores through Saturday August 11, 1984." There were exceptions on certain pages—fall coats and jackets for juniors, misses, petites and half size ran to September 5; notions and small items ran to September 1. All price comparisons were to "Regular."

Payless Drug N.W.—4 pages: Clearly stated on first page "Prices effective through Aug 11, 1984." Page devoted to shoe "Sale" had 2 items compared to Regular and 6 without basis of determining if "Sale" was really a special price. In supplemental 8-page tab, clearly stated prices good to August 11.

Radio Shack—8 pages: No date at all except newspaper's insert date. Perhaps these are new prices—good forever.

Sears—2 sections—8-page section on tools and hardware: Clearly marked at upper left-hand corner, page 1 "Sale ends August 11." Advertising policy was printed. Some items had a small asterisk after the price and no matter how hard I searched, I could not find out what the asterisk meant. **6-page apparel section:** Again clearly sets forth "Effective until Saturday August 11." In both sections "Satisfaction Guaranteed or Your Money Back" was printed but as part of the sig cut.

Macy's—72 pages: The dates to which prices applied were buried in a description of the item, usually the last item on a page. I did not know whether this applied to the item in which it was incorporated or to the entire page. Assuming it applied to the entire page, the number of pages bearing the closing dates are shown below:

Ending Date	No. Page	Ending Date	No. Page
August 8	1	August 27	1
11	2	28	1
12	19		
13	6		
16	1		
		Sept. 1	1
18	2	3	1
19	5	4	1
20	4	10	2
21	2	16	2
26	4	23	1

The numbers do not add to 72—because some pages had no date—perhaps the facing page governed. Two were marked "While supplies last." Macy's certainly doesn't give the customer any break in finding out how long the sale will last.

RThought: Monday Mervyn's 36-page Dollar Days tab arrived in a morning paper all by itself—as it has for about 20 of its 35 years (before that it was on Wednesday, then Tuesday) and clearly marked was "Prices effective Monday August 6 through Sunday August 12."

I checked the comparative prices. 259 showed "Reg," 11 showed "Special Purchase," 5 just said "SALE," 3 said "If perfect" and 2 each said "Slightly irregular" and "original."

Even though this was advertised as a DOLLAR DAY, only 13 prices ended in even dollars and 99 ended in 99¢!

Note: Mervyn's has very strict rules on comparative prices. "Regular" is applied to items only if significant amounts have been sold in the previous 30 days and may only be used when the reduction is temporary. "Originally" may be used only on permanent markdowns and then for no more than 30 days after the markdown is taken, except in final clearance sales when the intermediate ("was") price is shown. A **legitimate** current comparative **cannot** be used with Special Purchase.

There have been complaints to the California Attorney General against Mervyn's advertising, and in all cases Mervyn's has been able to document compliance with their written policy (A note of pride: I set forth the original statements on these policies when an officer and director of Mervyn's in the late 1950s. Continued compliance with these rigid policies is one of the "secrets" of Mervyn's strength with their customers.)

A FEATURE REPORT

HAVE FOUR YEARS OF DRAMATIC DEFENSE EXPENDITURES BROUGHT GREATER SECURITY?

There are facets of defense that impact all business—and some impact retailing more than others.

In the argument for increased defense dollars, most of us lose sight of what we are buying and what it means. Dollars do not defend the United States. Research on future weapons does not defend the country. People and weapons **in place** defend the country.

Draw a parallel with a retail organization.

Montgomery Ward, before Steve Pistner, had lots of stores and a big volume; but it was unable to defend itself against most of the retail industry. The plant was wrong. The strategy was wrong. The execution was bad. If they had a future plans division, those unimplemented future plans did not help it keep customers or market share or avoid major losses.

Perhaps I watch defense from a peculiar viewpoint. When in high school in 1932, I knew that I would serve in a war some time in my life (perhaps my view was similar to that of some youth today who feel that life is useless because an atomic war will end their life before they are as old as I am). In preparation, I took ROTC in high school and college, graduating with a commission as Second Lietuenant in the Field Artillery Reserve. In 1940-41, while working at Macy's in New York, I attended evening training sessions at 90 Church Street. The war was here—the one I had anticipated 8 years earlier—and in May 1941 I felt uncomfortable as a civilian and volunteered for active duty.

I served from 1941 to 1946, remained in the reserve, headed a reserve unit that was recalled in 1951 and served to 1953, remained in the active reserve until 1963 and am still in the reserve—retired.

I read the publications of The Retired Officers Association, The Air Force Association and Reserve Officers Association. And I see useful defense in a different light than star war weapons and $240 claw hammers.

The editor of THE RETIRED OFFICER recently pointed out that by the end of 1984 50% of the Army's combat forces will consist of Army National Guard and Army Reserve Units as will 70% of support forces. That means that half the Army defense of the United States consists of people working in **your** business today.

What is mobilization time? 30 days? Perhaps 25 days? In an atomic age? Will the war be over?

Colonel Lien, editor of THE RETIRED OFFICER, wrote: "This transfer of missions . . . to reduce military personnel costs requires radical changes in past practices . . . early deploying reserve units are not equipped, trained or mentally prepared to deploy with little or no notice . . . the concept of a ready, integrated 'total' Army is 'an unattainable dream.' "

AIR FORCE magazine recently reported the comments of the air commander in Europe on why he is against giving up the right of first nuclear strike—his forces cannot last 15 days; if a decision is not reached within their on-hand supplies and parts, he has no choice except to use nuclear weapons.

As a retailer, if extra hot weather at the start of the summer depletes your supply of air conditioners, you lose some sales but you don't lose the company.

Recently I attended a meeting of the Business Executives for National Security (BENS) and had a chance to talk to Admiral Fine, a retired Navy Supply Corp expert, who advises BENS. I told him that as a retailer I could not understand the position of the Air Force in Europe and that I thought that my retail clients had better computer support systems than the Air Force. His response was that the consumption of supplies, parts and materials of existing military weapons under war conditions is so great at the start of war (he cited the experience of Israel in the 6-Day War) that **it is impossible to provide support for any length of time**! (emphasis added).

Perhaps you think the answer is to increase the size of the active military forces. Colonel Lien answers that question simply—"by 1990, the number of 18 year olds in the U.S. will drop by 25% . . . Short of reviving the draft, the services will be hard pressed in the future to meet their manpower needs."

As businessmen, will you in 1990 want to give up your input of 18 year olds so that all 18 year olds can be in service? Today the military has a much higher percentage of minorities than the general population because the military gives opportunities for education, training and advancement not available elsewhere. But this is not a permanent solution.

RThought: Too many businessmen with whom I work think the solution to national defense is more dollars—that just as soon as we cut all social benefits to the bone and put the money in defense the problem will be solved.

Defense will take a lot of people—your son and mine and probably your daughter and mine.

Those who will have to do the fighting sincerely believe that the only way they can defend us is by use of atomic weapons. And those of us who are here accept no responsibility for being part of the defense force we want to see created.

How many of your bright young buyers and store managers feel they have a duty as a citizen to prepare themselves as a citizen-soldier for the time when their country might need them? Would they give up weekends and nights as so many of us did for so many years (sometimes without the support of our employer; if you want to go to summer camp for 2 weeks, that will be your vacation) to be at least partially prepared in case of an emergency? (The AGMC 1984 Survey of Personnel Policies shows 7 of 61 firms require the 2-week training to be taken as vacation.)

I have no regrets with my choice of being a citizen-soldier which took 7 years of my life plus evenings and weekends for another 15 more years; I think it made me a better man and a better citizen.

SHORT SHORTS

Munford of Georgia expands in Australia. Jim Town, who started the addition of Majik Markets to Caltex service stations, has returned to Australia to start World Bazaar imported goods stores (Munford has 250 in the U.S.).

THE APARTMENT STORE is here! So says the ad in a San Francisco paper. With the first branch coming soon, someone (not the major furniture and department stores) is offering "ORGANIZATION PLUS—Use your space more efficiently."

Political surveys always include in their press release a measure of accuracy (such as, sampling error can vary by 3 percentage points); but since it is usually the last line in the press release, many papers fail to convey this important difference to their readers.

HOW SOUND IS YOUR STATE UNEMPLOYMENT INSURANCE PLAN?

The table below shows for each state the ratio of the funds available for unemployment insurance benefits as of December 31, 1982 as a percentage of the funds paid out in 1982, arranged by declining strength:

Florida	251%	Rhode Island	23%
Alaska	184	South Carolina	21
Mississippi	184	Indiana	15
New Hampshire	158	Montana	14
Hawaii	147	New Jersey	12
New Mexico	145	Vermont	9
Arizona	128	Utah	8
Georgia	126	Missouri	8
California	118	Connecticut	6
Nevada	110	Virginia	5
Nebraska	107	Alabama	4
North Carolina	87	Tennessee	4
Massachusetts	86	Colorado	0+
Wyoming	73	Arkansas	0
New York	70	Illinois	0
Kansas	67	Iowa	0
Maryland	66	Kentucky	0
Oklahoma	58	Louisiana	0
Delaware	46	Michigan	0
Oregon	46	Minnesota	0
South Dakota	42	Ohio	0
Idaho	30	Pennsylvania	0
Washington	27	Texas	0
Maine	24	West Virginia	0
North Dakota	23	Wisconsin	0

THE CHANGING GUMP'S

The world recognizes Union Square in San Francisco as the hottest retail area in the United States today. Recently, I took a National Public Radio reporter on a tour of Union Square retailing as background for a story. I had to explain that Macy's and Neiman-Marcus and Saks came to Union Square—they did not create it. If I had to identify one major anchor for that area, I would say "Gump's," known throughout the world for oriental art goods and jade in all forms.

More recently I took Texas friends on a tour of the store.

Gump's is changing—as McMillan permits it to spread with branches now open in Dallas and Houston (aimed for oil wealth). But branches are not totally new. In the 1930s and up to shortly after the end of World War II, there was a branch in Honolulu. There was a short-lived small branch in Carmel-by-the-Sea, one of California's key destination cities—probably the greatest destination city with a population of less than 5,000.

And I recall, but cannot confirm, that in the 1930s or 1940s there was a Gump's in New York—one that traded on the California name but was not connected with Gump's.

There was both disappointment and pleasure in the two recent visits. The store looked great. There was good traffic. BUT - - - the number of true oriental art goods and jade was limited.

The Jade Room was not what it once was—but perhaps even a lesser Jade Room offered for the first time to Dallas and Houston is something to exclaim about.

Gump's is coming down to the popular level—perhaps bringing good taste to people who formerly were not exposed to good design. I found some attractive modern acrylic glasses (acrylic glasses in Gump's? Never!) that will replace the ugly ones used for safety at pool side.

RThought: There are many who join Gaius Valerius Catullus, who in the first century B.C. said in his poem "Carmina": "Oh this age! How tasteless and ill-bred it is!"

VALUE LINE LISTS HIGH GROWTH STOCKS

Value Line defines the list as averaging 17% or more sales growth over the last 10 years and an estimated 17% or more growth in the next 5 years. The list has 100 firms—including the following retail firms:

	GROWTH			
Firm	Past 10 Yrs.	Next 5 Yrs.	Timeliness*	Safety**
American Stores	37%	24%	2	3
Ames Dept. Stores	30	22	1	3
Brooks Fashion	31	33	-	3
Bruno's Inc.	25	19	2	3
Charming Shoppes	27	22	2	3
Coleco	18	20	4	5
Dollar General	18	22	1	3
Family Dollar	20	25	1	3
Fay's Drug	24	19	3	3
Food Lion	32	25	2	3
Hechinger	22	23	3	3
National Convenience	21	18	2	3
Nordstrom	17	17	3	3
Payless Cashways	23	21	4	3
Payless Drug NW	18	17	2	3
Pic'n Save	34	22	2	3
Wal-Mart Stores	37	29	1	3

*Timeliness: 1 means much above average price performance next 12 months; 5 means much below.

**Safety: 1 means highest safety; 5 lowest.

RThought: 17 out of 100 are retailers, yet technology was supposed to be the high growth area. The list does include 10 firms classified as electronics, 2 telecommunications and 6 computers and peripherals. Too bad so many people, including some within retailing, feel that there is no place for innovation and creativeness within retailing.

WHY I DON'T BUY SEARS TIRES—BUT DO BUY AT BIG O

I bought tires from Sears for the first time in 1930 at their Mission Street store in San Francisco to put on a 1929 LaSalle 4-door sedan which was to carry our family through the Depression (until 1936) and on which 3 kids learned to drive.

We drove more miles than normal and Sears had an unconditional guarantee for a fixed number of months up to 24. We wore them out before the 24 months, took the car in, paid the proportional amount and had a new set put on.

When I returned to California after WW II, I bought Sears tires—of course. We went from a 1-car family to a 2-car to a 3-car to a 4-car and finally to a 5-car family—and we bought Sears tires. My son, who is the car expert in the family, explained that Michelin tires were better (Michelin also made Sears steel-belted radials), and I explained the value of the Sears guarantee and the number of places we could go if we had a problem. I didn't trust independent Michelin dealers to fulfill the guarantee.

The warranty changed from a fixed number of months to a fixed number of miles, and still was supported without exception. Then I had a flat due to a nail and took the car in expecting the warranty to be honored—and found that the wording had been changed. NO MORE ROAD HAZARD COVERAGE!

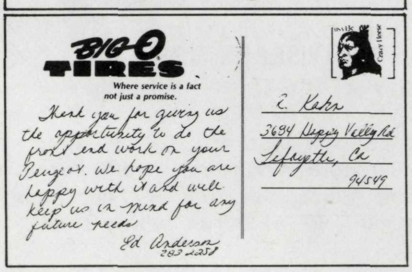
I figured I had to get tires anyway, so I asked how long it would take—and was told they didn't know. I would just have to wait. I asked if I could make an appointment for a weekday morning and was told they did not make appointments anymore.

I left in disgust—I had driven 10 miles to get to a Sears. When I got home, my son talked me into going to the local Big O dealer, about half a mile away.

I dropped in and asked if I could make an appointment and the response was "Would you like us to do it now?" I said yes, and bought my Michelins. When I got the bill, I asked if they had balanced the tires because there was no charge for balancing as I had experienced at Sears, and they said that was included in the mounting and I could also return for free tire rotation—done while I waited. Their warranty covered road hazards.

When I checked with my last purchase of Sears tires, Big O was cheaper and the service was better. But even more, Don, the owner, knows me and calls me by name. He will do almost anything reasonable that I ask. When I needed a new tire for a 1968 Ford wagon which we use as a truck and spare car, he found a used tire that was good and saved me about $30—his idea; I did not ask.

Then there is the nice card they sent me recently—the front and back are shown below:



RThought: Do you think I will ever buy another Sears tire—drive 10 miles to sit and wait and not get a road hazard guarantee—and pay more?

STAGES OF ADVERTISING

We forget how new display advertising is. The ad below appeared in the first issue of THE SAN DIEGO UNION, October 10, 1868—only 116 years ago.

REOPENING

OF THE GENERAL STORE.

Established at Old Town, San Diego, 1851.

—o—

FOR SALE CHEAP FOR CASH,

Dry Goods, Clothing &c.

Received direct from the East.

By THOMAS WHALEY,

WEST SIDE PLAZA.

Old Town, San Diego, Oct. 10, 1868. 1tf

And markdowns have moved to a new area—the first I have seen advertised at $1,200,000 initial markdown and then $500,000 on the second markdown—just like many department stores!

RThought: There is the old story of the shoe department with a display of a single pair of shoes on a pedestal. Each time the buyer took a markdown on anything, he offset it by marking up that pair of shoes. One day the CEO was in his department talking to him and the CEO accidentally knocked over the pedestal. The buyer turned white—he almost fainted. The CEO asked, "What's wrong?" The buyer replied, "Do you realize that that pair of shoes is worth over $800,000?!"

WORDS

In the days when "double digit" has taken on significance when measuring corporate growth or inflation, it is amusing that when Richard Grand-Jean, managing director of Salomon Brothers, was asked what if Congress failed to eliminate 30% withholding on foreign holders of U.S. bonds (which has greatly reduced the foreign purchase of such bonds), he replied:

"You have to assume that people are operating with three-figure IQs."

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ROBERT KAHN, CMC

October 23, 1984

AB
File with Sept 1984 RT

Mr. Don Collins
Big O Tires
3328-A ~~3608~~ Mt. Diablo Boulevard
Lafayette, CA 94549

Dear Don:

I meant to bring you some extra copies of the September issue of RETAILING TODAY for you and Jim Cunningham.

This is probably a faster way to get them to you.

I enjoyed chatting with Jim and had not realized that he was one of the founders of the OK Tire Welders which was the start of Big O -- nor did I realize that he had as many as 48 associated firms in Northern California.

Sometime if you have a little booklet or brochure or annual report on Big O, I would really like to have it and know the facts about it much better.

I see that Standard & Poors Register of Corporations lists it as doing over $60 million a year.

Incidentally, if you have a publication that goes out to all of your dealers, please feel free to reprint this article with appropriate credit to RETAILING TODAY.

As you know, every word of it is true.

Sincerely,

Robert Kahn, CMC

RETAILING TODAY

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ROUTE TO

OCTOBER 1984 VOL. 19, NO. 10

THANK YOU FOR THE CARDS ON EMPLOYEE DISHONESTY

We had a greater response than any previous effort–more than 150 cards plus more than a dozen long and thoughtful letters. One error we made–we sent too small a card and some people did not put down all the conduct they considered dishonest.

I am in the process of analyzing and tabulating the information and also analyzing recent publications on retail employee dishonesty. I am concerned about statements such as the one in **Theft by Employees** by Professors Richard C. Hollinger and John P. Clark (page 99): "For retail firms, the percentage of persons involved in employee theft ranged from 19.2% at one end of the continuum to 76.9% at the other." Table 8-1 indicates that the mean is 41.8% for retailing.

I have been working in and around retail stores for more than 50 years, and I cannot buy those figures. I don't believe the best store has 19% thieves or that any store can have 76% thieves. I am documenting the mirrors with which authors Hollinger and Clark as well as others have undertaken to blacken the reputations of millions of your employees.

This study probably will come out as a special report, substantially longer than a regular issue.

ON CORRUPTION OF YOUR EMPLOYEES

This is the time of year to emphasize your policies–if you have them–on the acceptance of gifts (which often reach the size of being bribes) by your employees.

In recent years I have received fewer of these notices even though payment for subscriptions for RT does place our name in a retailer's accounts payable file (we do get the requests for our company identification number).

Running your statement in the appropriate trade press might encourage other retailers to join the fight against corrupting your employees by vendors or vendor representatives who may not be able to gain access to your shelves on the basis of merit alone.

DO THE DEPUTIES SHOP IN YOUR STORE?

Breuner's is a very old (founded in California in 1856–just 7 years after the Gold Rush) quality furniture store, now part of BATUS. Bill Breuner, the last family president, just recently retired.

But this Breuner's problem started when they attracted the attention of a deputy sheriff–and now they are getting attention from a deputy district attorney. It seems from the article in the Fresno Bee of May 22 that the deputy sheriff was shopping in the store in late February and the clerk suggested that he wait for the early March sale when "everything in the store would be on sale." That seemed like a nice suggestion, so he waited–but when he responded to the "everything in the store is on sale-SALE," he found the merchandise he wanted was still the same price!

Then his friends told him that they had observed the same

MALCOLM FORBES, POINTER FOR TERRORISTS

Again in 1984 Malcolm Forbes, using a magazine which he alone controls subject only to restraints imposed by law, has published his "Guide for Terrorists"–who has the money, where they live, the number of children and how much they are worth (to help determine a reasonable ransom demand).

I always have the feeling that Forbes is jealous that the Symbionese Liberation Army picked an innocent Hearst daughter rather than one of his own children and that the Hearst family got all of the publicity instead of his family.

Forbes recognized the danger in which he was placing his targets–before publishing the first list of "The 400 Richest People in America" he warned the top-named people. His reason? So they could provide additional protection for themselves.

It may be just the difference between the East Coast and the West Coast. Long ago I got used to barricaded doors in New York office buildings, armed guards (some with rifles) behind the doors, TV cameras, small lookout windows, plastic card controls to get off elevators at certain floors. This was rare in the West–until Patty Hearst was kidnapped.

To top everything off, Forbes is afraid to turn his own reporters loose to track down his own wealth even though he feels he is entitled to track down anyone else's. Not only does he say in response to the question "How much are you worth?"–"I don't know"–he makes an otherwise competent staff compromise their professional standards and either accept his answer or lose their job.

RThought: The newspapers told us how Alfred Bloomingdale got his jollies. Malcolm Forbes brags about how he gets his. At the end of the 1984 listing in a section headed "Press Clippings"–there are 23 quotations, almost all favorable (one which was not was from the Daily World–had they not criticized the list, they would not be doing their job for their readers).

thing–the sale price was the same as the regular price before the sale. So he got some fellow deputies (sheriffs, that is) to help monitor prices before and after advertising a sale. In many cases they found prices being changed almost daily.

So here comes the other kind of deputy, a deputy district attorney, who asked why a bedroom set was $2,690 on March 9; $2,900 on March 13; $2,700 on April 25; $2,900 on May 4 and later the same day $2,700. The director of advertising said, "We rotate the merchandise that is on sale." He then pleaded the problem of keeping track of 8,500 items. The report by the original deputy to the DA said in part, "Due to the amount of advertising through the mails and the newspaper, the number of sales in a given period of time and the volume done by the Breuners stores, (the district attorney) may want to investigate the charge of grand theft by fraud."

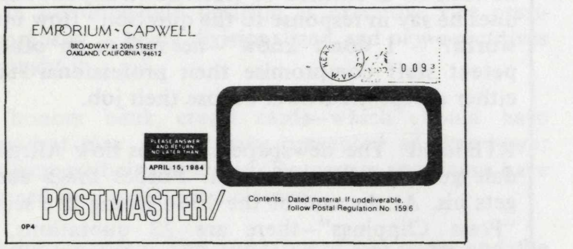
I welcome the complete exposure by Jack Brandwein (Furniture Forum, 4731 El Camino Avenue, CARMICHAEL CA 95608 June 1984 $66/yr) and his observation which parallels my own that he, along with me and the public, finds it hard to swallow the Breuner claims–and in my case, the protestations of the advertising director.

Jack is "disturbed by what appear to be two sets of 'established or regular retail' prices. One set is being used by department stores who sometimes go as high as 300% above cost and then make reductions during the sale periods that frequently result in about the same regular retail as the normal price of legitimate, conventional retailers."

RThought: There have been reports that Breuner's is not doing too well and even that BATUS has the division on the block. This may be a case of black ink at any price, even the price of integrity. RT must hold BATUS and the top management of that company responsible for the conduct of Breuner's over the past year or two.

WOULD THE LIMITED ALLOW THIS KIND OF PROMOTION?

A reader of RT received the material below–sent out by Emporium-Capwell, a major division of Carter Hawley Hale. Note that it was mailed from Kearneysville, West Virginia.



I strongly suspect that Philip Hawley would not have approved of a mailing of this kind to customers of his company–but it was mailed. Perhaps you can guess already what the "Dated material" was that demanded, "Please answer and return not later than April 15, 1984."

If you did not say "a phony mailing from Credit Card Service Bureau (there is no such bureau in Carter Hawley Hale)" for a high-cost "insurance policy" against credit card loss, you don't have an active department store account.

The return envelope is to CARDHOLDER PROTECTION DIV, which Emporium-Capwell doesn't have.

The person who received it is a credit manager, and he properly asked the questions below:

1. Why doesn't Emporium-Capwell inform their customers on what to do if they lose their cards?
2. What would one be liable for? Why don't they say $50?
3. Is E-C concerned?
4. What does leading credit card protection agency mean?
5. Does this service really **guard** against fraudulent use better than an individual's own telephone call?

Our reader then expressed the view (with which I agree) that this promotion is both misleading and dishonest and asks, "Why do I get the distinct impression that E-C is offering this service only to increase profits?"

RThought: One wonders whether The Limited would use such an approach if they had succeeded in acquiring Carter Hawley Hale. Or perhaps each would let a $600 million plus division operate autonomously as long as it brought in the necessary profit: CHH to help raise the market price of their stock; and The Limited to pay off the debt incurred if they had acquired CHH.

HOW TO IMPROVE THE USE OF NUMBERS

Each year Discount Store News (DSN) does a massive job of analyzing discount stores by department producing figures covering a 10-year period (last 6 by year) on a number of key figures.

I don't want to discuss the accuracy of figures but th interpretation. DSN could convey more and better infor tion to the reader.

For illustration I selected the Housewares Department from the April 16, 1984 issue of Discount Store News.

First, use the LIFO index to adjust sales to constant dollars.

1973	1978	1979	1980	1981	1982	1983
a.) Introduce the LIFO Index, LIFO 1941 = 100						
351	537	590	647	700	729	775
b.) Adjust the LIFO to 1973 = 100						
100	153	168	184	199	205	221

Second, present sales in current dollars and LIFO adjusted dollars (all sales in $ billions).

1973	1978	1979	1980	1981	1982	1983
Sales (actual):						
$1.2	$3.1	$3.4	$4.2	$4.8	$5.3	$5.9
Sales (LIFO adjusted):						
1.2	2.0	2.0	2.3	2.4	2.6	2.7

Third, on sales per store, retroactively round to closest $1,000 as was done in recent years and add LIFO adjustment.

1973	1978	1979	1980	1981	1982	1983
Sales/store (as shown):						
$245,538	$444,975	$467,933	$542,916	$588,000	$639,000	$739,000
Rounded:						
246,000	445,000	468,000	543,000	588,000	639,000	739
Sales/store (LIFO adjusted):						
246,000	291,000	279,000	295,000	295,000	312,000	330,000

SHOULD COMPANIES BE ALLOWED TO USE COMPUTERS?

Recently I received a telephone call and the human voice asked if I was the person who had a real estate loan with the Bank of America. One of my firms does have a mortgage loan on a condominium which we rent, so I said I was. The human voice then asked me to listen to the following recorded message. Because it was a recording, I turned on my dictating machine and here is the message:

Hello - This is the Bank of America calling to advise you that we have not yet received this month's payment on your mortgage account which is now past due. Your payments are due on the first of every month and a late charge is assessed if paid after the 16th. If you have already made your payment, please accept our thanks and at the tone advise us of the date your payment was made. If you have not made your payment, briefly explain why or give us a daytime telephone number where we may reach you. Should you wish to call us, our toll free number is 800 362-7030 and please have your account number ready. Remember, please respond at the tone. The Bank of America thanks you for your cooperation. TONE . . .

I looked up the loan and found that we had deposited a check at our branch on May 11 against a May 16 deadline, so wondered why I was being called. Remember, the human voice did not give the name under which the loan was made or the loan number.

I called the 800- number and gave the firm name, loan number and date mailed. The human at the other end was able quickly to pull up the file (a point in favor of Bank of America's computer setup—so often a call back to an 800- number brings a blank from the human at the other end).

She replied, "You got that call in error. I don't even know how they got hold of your name in this case because your payment appeared on your account on May 15."

I then remembered that I was on a loan with my daughter when she purchased her condominium, and she has handled all the payments. I didn't have the loan number but when I gave the human voice her name and mine, she was able to pull up the information on that loan (score a second favorable point for the Bank of America computer setup—it took less than 2 minutes).

The human voice replied that this was the loan that triggered the Great Master Computer in the Basement of the Bank of America. Her May payment had been posted on May 21—and the call to me was May 24.

I suggested to the human voice that she might get an award for a suggestion (assuming that the Bank of America, in its present strained position, still pays employees for suggestions) that the human targets for the computer at least be given the name or names on the loan. (I hope she gets her $5 or whatever they pay.)

I asked if my daughter's late due date was the 16th and was told yes.

By this time the human voice had gotten more information on the screen and told me that she was not charged with a late charge, so apparently it was the Bank of America's error in posting the payment late.

I asked if the payment was made the 21st why was I being called on the 24th. That seemed a reasonable question.

Then I received one of the wonderful explanations of all time.

The Bank of America prepares a tape—usually on the Friday night after the due date. (In May 1984 that would be May 18, against a late date of May 16—and from my own prior experience I know that the Bank of America is generally unable to post a mail payment within two days of receipt; to avoid problems on our firm's loan we normally drop the payment off at the local branch, trusting neither the U. S. Postal Service or the Bank of America.) The tape information is then sent back to Illinois and a company in Illinois makes the phone calls!

When I expressed the view that all of this was unbelievable, the human voice agreed. I closed by pointing out that the Bank of America advertised to small businesses that "We want to be your personal banker."

RThought: Why describe in detail a bad dunning experience with the second largest bank in the United States?

The method used—human voice for initial contact (required by some regulatory agencies) and before anything more than "Yes" can be said, switching on the Big Computer in the Basement—is being used in other credit operations.

The scheduling used by Bank of America did not allow for the continuing inability of the bank to process payments promptly. Just the call could worry many people who use prompt payment on their mortgage as an indication of creditworthiness.

The fact that it can be corrected by a call to the 800- number (and even if they are handled by the very bright, outgoing human voice that I reached) doesn't eliminate the doubt that an entry has been made to mar their credit record.

All of this is to the point that internal audit should (1) spot check the tapes "sent to Illinois" to determine the number of erroneous calls listed and (2) probably set the date of preparing the automatic call list to a minimum of 5 days after the late payment deadline rather than "Friday night after" which could be just 1 day!

SHORT SHORTS

Whatever became of Unity Buying Service? As a publicly traded company it enjoyed year after year of losses. (Perhaps this was due to the most complicated method of determining the selling price ever used by a retailer.) It finally adopted a plan of liquidation and dissolution on September 13, 1983 which had to be completed within a year. But within Unity there was a profitable subsidiary, Mail Marketing & Fulfillment Corp., which handled mail promotions carried out by oil companies and others who issued credit cards. This had been growing in both sales and profits—so they changed the name to Direct Action Marketing, Inc., and on September 11 sold all of the shares through Bear, Stearns at $8.50 per share (7x trailing earnings) plus 450,000 additional shares to bring in working capital.

SHORT SHORTS

What a difference a man makes. I have written several times in the past about the poor service rendered by Payless Drug of California based upon visiting their California stores in Pleasant Hill and in South Lake Tahoe. One forms an opinion based on service in one store, and it becomes a fact when it is confirmed by bad service in another store. The chain did poorly—as I felt it should—and ultimately was acquired by Payless Drug Northwest. Recently I again visited the South Lake Tahoe store. Every checkout was backed up and then I heard a male voice say, "I can check you out over here at the camera department." So I went there. I was rather surprised to see that the name tag read "Larry Cobb - Receiving." This wasn't even a regular clerk but apparently someone filling in at the camera counter! He was observant enough to assist customers in checking out. That one act changed my opinion of the kind of service I am likely to get in the future now that that store is under Payless Drug Northwest. Payless Drug Northwest is fortunate in having Larry Cobb.

The danger of computer-output without "human involvement" was illustrated by a story on how the Air Force disposes of spare parts ($700 million in 1983). There is automatic disposal of all items if there have been no requests for them during the 12 months prior. Buyers frequently sell the parts back a few months later when the Air Force needs them—like the $8,500 winder for electric coils that sold, in the unopened original package, for $65. **RThought:** The silliness of this criterion is clear when it is realized that many pieces of equipment or vehicles are ordered with initial spare parts—yet spare part usage should be low in the first year. Thus many parts intended for use in the second or third year are disposed of automatically! ! !

How to forget your regular customers—Grodin's fashion. I have an account at Grodin's, a chain of men's stores in California, but it is not too active. So I received an offer—open a new account within a month and get a $25 discount on the first purchase of $50 or more. Chain Store Age estimates Grodin's volume at $32 million (1982). Let us assume that receivables at year-end equal 15% of sales or $4.8 million with an average balance of $125. Thus there are about 40,000 active accounts indicating a deck of perhaps 80,000 accounts. **Those people, including me, don't get anything for being a customer. RThought:** I don't know any merchant that really gets ahead by discrimating **against** his loyal customers by paying $25 to a new one.

Watch out for another trade-up. Someone selling 5,000,000 pair of slacks a year is a competitor of yours, so watch out for Duke Habernickel of Haband, one of the largest mail order retailers ($75 plus million). The family started with neckties (I seem to recall 6 for $5). He expanded to a full men's line (jeans, pants, shirts, underwear, pajamas, socks, shoes, belts, jackets and hats) and then to women's. Next came their own designer line. Now they have an Executive Division. Like most retailers, Habernickel wears what he sells and he says he wants to look better! They offer 3 polyester and cotton shirts for $27.95 (do you offer sizes 14½"-30" to 33" sleeve through 20"-33" to 36" sleeve?); 3 polyester ties to match the shirts for $9.95 (do you offer any color-matched ties with your shirts?); and deluxe polyester gabardine slacks at 2 for $27.95 (waists 30 through 54 and pre-cuffed in four lengths). **RThought:** The ivory stationery Haband uses is in good taste, the product brochures are just like the non-executive lines and the free 14 piece mini-ratchet screwdriver set seems out of place.

Your credit statement envelope should be overprinted "Caution: Allergenic material enclosed" whenever you send out samples of perfume or other cosmetics. *Newsweek,* in their August 23, 1983 issue, did a cover story on allergies and said that 35 million Americans suffer from them. The number is growing as physicians become more aware of the impact of allergies on general health and as tests for allergies both improve and come down in cost. **RThought:** I know you don't really want to hurt your customers—but in many cases you may. You should have a method by which allergic people can identify when perfume or certain other substances are mailed so as to avoid discomfort or even injury.

Anything for a buck! Farrell's Ice Cream shops used to have a promotion—fill out a card with name, address and birth date and on your birthday you get a free ice cream cone. The cost of the cone was to be recovered by the sale of the name list. Two brothers entered a phony name at their own address in order to get a cone. Farrell's sold the list to or through Consumers Advertising and Marketing Associates. The Selective Service for $5,687 bought the list of 167,000 contestants in 23 states born in 1965 and 1966 to track down persons who did not register. The Selective Service is now looking for Johnny Klomberg, the phony name, at the home of Paul Hentzel, father of Eric and Greg, who wanted the extra ice cream cone 10 years ago. NOTE: The government will not seek any arrests. The present owners of Farrell's have asked for the return of the list.

What's new in catalogs? From the July 1984 issue of DIRECT (60 East 42nd Street, NEW YORK NY 10165 $14.95/yr) one can pick the following. **Item: Bloomingdale's** is putting out a quarterly housewares catalog at $3/yr subscription. Example: Terence Conran sheets are $2 to $4 less than in the Conran catalog. **Item:** Pressure is growing to ban automatic dialers that dial at random—some are calling unlisted numbers at the Strategic Air Command headquarters in Omaha. **Item: Lillian Vernon** expects to do $130 million in 1984, averaging 40,000 packages a day. **Item:** You will see **Catalogs USA** in more magazines—and listing more catalogs. This is one of the fastest growing trends. Pull the card, check the catalogs you want, and enclose your check (most are charging, usually refunded on the first purchase). **Item:** You can get a book—"Games to Play in the Car"—for $8.95 from **Congdon & Weed,** 928 Fifth Avenue, NEW YORK NY 10001. **Item: Best Products** (which runs a catalog as well as catalog/showrooms) has the Cabbage Patch kid for $23.86 plus shipping.

Stanford Business School may be the best in the United States, but no one there ever learned anything about price-lining and price points. Stanford recently raised the annual tuition from $9,027 to $9,705 which they called 7.5%. Why not to $9,700? **RThought:** If you are from Columbia or Chicago, don't smirk; their tuition rates are $8,942 and $8,043 respectively.

Worried about college tuition now above $9,000 at Stanford, Harvard, etc.? According to 60 MINUTES, it is $13,500 at the CIA—Culinary Institute of America—in Hyde Park, NY. **RThought:** Is the extra cost because the meals are so much better than Saga's?

The dentists are now using "Marriage Mail." The 5 x 8 card had a Back-to-School "WE CARE" special offer of cleaning, examination, necessary X-rays and consultation. Regular value of $74 for only $30.

Fourth, round sales/square foot and adjust for LIFO.

Sales/sq. ft. (as shown):						
$59.00	$87.25	$91.75	$95.00	$102.00	$111.00	$127.00
Corrected:						
59.00	87.00	92.00	95.00	102.00	111.00	127.00
LIFO adjusted:						
59.00	57.00	55.00	52.00	51.00	54.00	57.00

The summary of the Housewares Department started with this statement:

"Despite a near doubling in housewares volume by discount stores during the past five years to $5.9 billion, turns have fallen steeply and gross margins have slipped since 1978."

The reference to gross margin reflects the drop from 34.0% in 1978 to 31.5% in 1983. That should be a good sign since the objective of discounters is to save money for customers. Unfortunately, it appears that discounters tried to get higher gross margins and failed since the initial markup increased from 36% in 1973 (when gross margin was 31.0%) to 38% in 1978 (when gross margin was 34.0%) to an initial of 40% in 1983 (when gross margin was 31.5%).

But DSN could also have observed that real sales per square foot, though trending up the last three years in real terms, were just back to the 1978 level and still 3% below 1973.

The DSN analysis further stated, "The department's tremendous sales growth has its roots in greater productivity per square foot and enlarged sales areas." With the additional figures above, DSN might have concluded that the productivity had not kept up with price increases and growth was entirely due to larger departments (up from an average size of 4,162–make that 4,160 square feet–in 1973 to 5,760 in 1983).

RThought: It is a shame to do so much work and then not present the best possible information to the readers.

Associations such as Menswear Retailers of America, National Retail Hardware Association, National Retail Merchants Association, Cornell (for the National Mass Retailers Institute) and others should consider this type of improvement in the presentation of their figures.

BUSINESS IN BANK CARDS IS OK IF YOU ARE BIG

The Nilson Report (Box 49936 Barrington Station, LOS ANGELES CA 90049 $360/yr) recently reported the 5-year history of VISA/MASTERCARD combined. The table below (in order to stress the change) gives only 1979 and 1983 figures and the change.

	1979	1983	% Change
No. of institutions issuing cards	1,900	1,650	-13.2%
No. of merchants honoring cards	2,107,000	2,338,000	+11.0
No. of accounts billed monthly	50,586,000	55,580,000	+ 9.9
Total accounts	75,478,000	75,426,000	- 0.1
Outstanding balances	$24,552,764,000	$38,061,000,000	+55%
Average balance per active account	$722.00	$806.00	+11.6%

RThought: Smaller banks are finding it unprofitable to issue cards and are selling their accounts to larger banks. Though the number of accounts has remained constant, the usage (active balances) has increased indicating continued customer preference for these accounts. But it also reflects the fact that small stores can no longer get financing for receivables (GECC will no longer provide financing of store accounts involving less than $4 million).

RThought: Considering the inflation from 1979 to 1983, the growth in average balance is really a drop in real dollars.

	1979	1983	% Change
Total merchant volume	$48,323,764,000	$75,210,000,000	+55.6%
Average transaction	$ 34.01	$ 47.20	+38.8%

Comment: Again remember inflation.

	1979	1983	% Change
Delinquencies	3.8%	2.8%	-26.3%

Comment: The accounts are being brought under control which contributes to profitability, and times are better–unemployment lower.

DEAR MR. GROCER: SO YOU THINK PEOPLE DON'T WANT SHELF PRICES?

The clamor for laws mandating pricing each package in a supermarket or drug store has quieted–but the resentment is still there. **The Shopper Report** (recommended for all retail stores: 3624 Science Center, PHILADELPHIA PA 19104, Tel: 215-386-5890 $88/yr) recently asked their consumer panel to respond to the statement: "The store should be legally required to have prices clearly visible on the shelves in the right place when they aren't on the items."

You will understand the scoring now that we have all watched gymnastics and diving at the Olympic Games. A large consumer panel is asked to respond to that question by using the numbers from the scale below:

10 - Absolutely, totally agree
9 - Strongly and definitely agree
8 - Definitely agree
7 - Generally agree
6 - Somewhat agree
5 - Somewhat disagree
4 - Generally disagree
3 - Definitely disagree
2 - Strongly and definitely disagree
1 Absolutely, totally disagree

The responses are averaged, as in gymnastics and diving (without eliminating the high and low) and in this case the strength of agreement/disagreement is 9.5 Think about that. Virtually all your customers "absolutely and totally" or "strongly and definitely" agree with that statement. Perhaps their strength of agreement is because stores are doing such a bad job–as though thumbing their nose at the customer.

But you may feel that this is just the nutty fringe of consumerists and that most people really don't care. **The Shopper Report** answers that by indicating the percentage of the panel expressing an opinion on each statement. On this statement, 98% participated. The combined score reads 9.5/98%.

In my years of reading **The Shopper Report** I don't recall a single situation that got such a unanimous strength of agreement from such a high percentage of the panelists.

RThought: I see the problem all the time. Where I shop, the Johnson & Johnson talcum powder is on the bottom shelf, next to the private label; and both are in multiple sizes. I have yet to find the shelf markers correctly lined up with the brand and size. I only conclude that the store help doesn't care because the store manager doesn't care because the district supervisor doesn't care because the corporate management doesn't care.

Most times when I challenge a price on an unmarked item, the price is right—the price I saw on the shelf was for something else. I didn't stoop over to read the lightly printed detailed description—I just looked at the price.

It seems kind of silly to me to tell multi-billion dollar retailers that their casual sloppiness is interpreted as dishonesty by their customers. Or to report that customers change stores when they think the one they are patronizing is dishonest. But I have. Here. And Now.

LATE REPORT: I recently checked the shelf price labels for ice cream. I really could not read them easily from the far side of the tub freezer, but the ones I could read were nowhere near to the products named.

THE CHANGING BEST PRODUCTS COMPANY

Now that Best Products is the largest catalog/showroom company with sales above $2 billion, the "new" will mean more than the past.

Catalog/showrooms had the same unique growth now being enjoyed by warehouse clubs and super home centers—fabulous sales increases with great profitability as long as there was only one such outlet to a town. But with catalog/showrooms now going head-on with each other, things are not quite so great. Return on equity has declined.

Sales increases greater than the rate of annual retained earnings to equity has brought balance sheet pressures from financing increases in fixed assets and inventory. With a P/E ratio of 11 instead of 25 to 30 and a 20% dividend payout, additional common shares do not automatically mean an increased earnings per share from interest savings.

Best Products is completing a generational change from Sidney (the father) to Andy (the son) with Frances (the mother) continuing in her long-held position as executive vice president. The company is being divisionalized and new executives are being brought in.

Best now honors bank credit cards—which should have boosted sales but may merely have prevented an even lower rate of sales increase being reported. Domestics and linens have been introduced into stores—and cleared.

The catalog has changed. The 1982/3 was 494 pages and the 1984/5 was 440 pages. The index, instead of being hidden in the middle, was put up in front (customer convenience) and the order forms were also moved forward. The pages were reduced in what had been the backbone departments—jewelry (from 90 to 72) and watches (from 24 to 18). But there were other decreases in flatware and china and in the infants furniture/games toys sections.

Increases were smaller but widespread—phones (3 to 7), computers and accessories (4 to 6), exercise and athletic goods (16 to 18), small leather and luggage (17 to 18), sewing and vacuum (3 to 4), camping (6 to 7), fans (1 to 2), clocks (8 to 12) and furniture (6 to 12).

Service is still slow. Many stores require separate waiting if you buy at sporting goods, consumer electronics, jewelry and general catalog departments. The cost of savings to the customer may come high.

RThought: For years I have worn an analog/digital qua[rtz] watch with 3 time-zone capability, alarm and stop watch. [It] has cost $60 each time it had to be repaired. When it went out recently, I bought such a Casio watch at Bests for $29.96 (catalog—comparison $39.95). I showed up at a client's office recently, and he was wearing the same watch—bought the same day at Macy's for $24.95!

RThought: For Best, Service, Ellman's, Carlson, Bell, Consumer Distributing, Jewelcor, and Luria, the future rewards will go to those with the best merchandising and operational skills. Being first in a market is no longer possible. Attention will have to be given to the time required to complete a transaction—as the savings available through a catalog/showroom delivery method become smaller and smaller. More customers will not want to spend that time.

SHORT SHORTS

The lights go on again at Maison Blanche. On May 2 Goudchaux/Maison Blanche on Canal Street in New Orleans opened again with a preview and benefit. Built in 1909 and closed by City Stores in 1982, the building described as "the most extensive use of architectural terra cotta in New Orleans" has been completely restored to its original appearance.

WORDS TO RETAILERS FROM OVER THE YEARS

From Socrates (469-399 BC):

> Wealth does not bring goodness but goodness brings wealth and every other blessing, both to the individual and to the state.

From Ralph Waldo Emerson (1803-1882):

> It is one of the most beautiful compensations of this life that no man can sincerely try to help another without helping himself.

From Elihu Root (1845-1937) American lawyer and statesman:

> Men do not fail; they just give up trying.

From Owen D. Young (1874-1962), long-time head of General Electric:

> The man who can put himself in the place of other men, who can understand the workings of their minds, need never worry about what the future has in store for him.

From Kenneth Dayton in 1975, restating Socrates:

> We are not in business to make maximum profit for our shareholders. We are in business for only one reason—to serve society. Profit is our reward for doing it well. If business does not serve society, society will not long tolerate our profits or even our existence.

From John Geisse, founder of Target and Venture Stores and now in a wholesale club:

> For all those people at drawing boards who are thinking going into a (Price Club type) business, give it another thought. It is not as easy as rolling off a log.

RETAILING TODAY

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ROUTE TO

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ARE COMMUNICATIONS ANY BETTER?

I think there is confusion between the technology of the wires that connect places and the exchange of thoughts and information.

I can direct dial any place in the United States and many places throughout the world and have an operator at the other end respond in seconds. Frequently I have occasion to call Australia or Great Britain or France.

But much like the "last 36 inches" in retailing–across the counter–the last 100 feet from the switchboard to the person I want to speak to may take a matter of days or weeks.

Once upon a time someone within 20 or 30 feet of the person being called would take the message. There would be a chance that the target person would come by that desk as he returns to the office or when the inevitable meeting that "Mr.-X-is-in-a-meeting-right-now" ends and then he will get my message.

But this is no longer true. When Mr. X does not answer his phone, the miracles of communications automatically switch the call to a message-taking center. This is particularly true at some "advanced" law firms and technology companies. When I ask if they will see that the message gets to Mr. X because it is urgent, they will explain, "Oh, he is in a building two miles away" or "Mr. X is located 47 floors above me." I may get a call back three or four days later–or never.

That brings up the matter of meetings. Try reaching someone in a bank. No wonder banks need a wider spread between the interest they pay and what they charge–someone has to pay for the time everyone is in a meeting. And in a retail store, one can see the need for higher gross margins to cover the meeting time of top executives.

Of course, as soon as the 9:30 meeting is over, it is time for a 1½- or 2-hour business lunch. And on return there are just too many calls to make. (Often, after saying I will be at a number for the next two hours, I am chastized because four hours later I was no longer there.)

RThought: But I labor this point.

After one of those frustrating telephone days, I often wonder how they built the first railroad across the United States. Did they hold meetings? Did they have to check everything with someone else? Did they not return messages? Did they get any messages?

Every large organization should really study how the last 20 feet of communcations is covered. Time-stamp the pink message forms and study the elapsed time from the time written to delivery to the addressee to the first attempted return of the call. Is this what you want to happen?

RETAILER ABUSE STARTS NEW INDUSTRY!

The article starts:

The airline executive had a problem. A computer error at her local department store repeatedly showed her account past due. Despite her letters and pleas, the store turned her account over to a collection agency which proceeded to make her life miserable with harassing phone calls.

She fought back with a phone call of her own. As a member of a low-cost, prepaid legal benefits plan, she called a "telephone attorney" who listened to the problem and promptly fired off a letter to the legal department of the department store.

The next day the seemingly intractable error was fixed and she received a politely worded apology.

RThought: Your store? It could be. Most stores put the least qualified people on the phone to take complaints. Most complaint clerks don't know how to correct the errors, don't know whom to talk to to get the error corrected and, in too many cases, don't really care if it is corrected. And you, as an executive–how do you feel about the attorneys? Just more people trying to make money by filing suits. McKesson Corporation, the old McKesson-Robbins, saw it differently. They bought the firm, renamed it Lawphone, and plan to expand it from its present 13-state market area.

RThought: One would think that stores would compete to provide better service to customers. When all stores abuse customers, I can only conclude that the top executives must have gotten together and agreed not to compete in this area. (I get one or two calls a month from friends and readers relating to this sad–but true–tale.)

IS IT WORTH TURNING A COMPANY AROUND?

The stock market gives no points for good effort just as they give no points for underlying values.

If a company has stumbled in the past or has had just a nominal performance, new management is not believed until after the performance is in place and the results published.

Generally accepted accounting principles work against reflecting to the ordinary shareholder what is actually happening below the surface.

As the new management clears inventory, brings on new personnel with heavy front expenses (recruiting, moving), etc., all that happens is that the company looks worse.

But there are a number of pools of money that do watch these companies closely and do understand what is happening.

The name of the game today is to steal the fruits of the good efforts from the shareholders who have stayed with the company during the first part of the turnaround. Just when the results are in sight, make a takeover offer.

Philip Hawley of Carter Hawley Hale made that point in resisting the takeover effort of The Limited, and there was much merit to what he said. Whether or not it was wise to give up a substantial part of the future gain as the price paid to resist The Limited remains to be seen.

Now Irwin L. Jacobs and his group have acquired a 19.4% interest in G. C. Murphy which has been undergoing a major repositioning from a variety chain plus an undistinguished discount chain to a more tightly operated discount chain. And Jacobs has announced that he could be expected to use their shares in favor of a takeover attempt.

Most of this year G. C. Murphy has been selling at or slightly below book value. Some of the assets, such as leases, do not show on the balance sheet; and it is to be expected that many of their leases are worth substantial amounts, perhaps more than the value of the contribution to overhead being received from the store operation.

RThought: In Australia and New Zealand such an operation is called asset stripping, and those who do it are called asset strippers.

Big money pools are constantly looking for undervalued situations. Some truly want to take over the operations; others are interested in greenmail.

The stock market is supposed to be the perfect example of competition, but the growing trade in asset stripping or early acquisition so as to steal benefits of past investments proves that the market is not perfect.

We forget the definition of competition—a market with a large number of buyers and a large number of sellers, both with perfect knowledge of all the factors in the market.

The operation of takeover pools demonstrates that they can easily develop or obtain superior information to that available generally in the market, and they use it to take advantage of those who have less information.

There was a day when a 20% block of stock could control a company, but those days are gone. Families or goups in that ownership position are busy imposing barriers to unfriendly takeovers, most often to protect their own salaried position rather than to work for the benefit of all shareholders.

Certainty exists only when one or a group holds majority control.

A problem may arise even then if one of the control group is unhappy, as in the case of Robert E. Strawbridge III, who owns 12% of Strawbridge & Clothier and wants more than market price for his stock or a chance to take the company private. But other family members controlling 54% of the stock are happy with the present market price at about book value.

In the meantime, Ronald Baron is accumulating stock as he did in his attempt to take over Woodward & Lothrop (eventually taken private by A. Alfred Taubmann), and Robert Strawbridge has gone to Dillon Read to try to find a buyer for his stock. Both parties will, of course, gradually, and most likely legally, accumulate information on the company that is not generally available to the market but which will be used to their own advantage.

THE FUTURE BOOM IN CONVENIENCE STORES

Have you ever really thought about the future of convenience stores in the retail pattern? I think mostly convenience store operators think about this—and more recently gasoline distributors and oil companies have studied the prospects.

Most major retailers (conglomerates like Melville, U.S. Shoe and Lucky Stores) apparently feel that convenience stores are below their dignity. Dayton Hudson is un-comglomerating (gone are the jewelry stores, the Plum, and now some of the department stores).

But think for a moment about other recognized trends. Supermarkets are getting larger—going into combination stores, and super stores and depot stores. These are located farther and farther apart. Who will sell the bread, beer and butter? Probably a growing number of convenience stores will fill in the gap.

Convenience stores are already absorbing the service station industry either by converting service bays at stations into food stores or adding pumps outside the traditional store.

Many convenience stores are moving into the snack business—made simple by a "wall of food" concept, with drinks (hot and cold), microwave ovens to heat frozen pizza and other dishes, an assortment of sandwiches and even table areas. A few have service counters.

"Dipper" ice cream operations are being tested. Many stores are in the carpet cleaner rental business.

Southland is testing automatic teller machines located in well-lighted stores open 24 hours a day—1,000 stores in Texas that are connected to almost all the significant banks. And Southland will make money on the space used for the machine. The customer will feel safer inside a 7-Eleven at midnight then in a small, lighted area outside the closed branch of a bank.

Lotteries are forming a new source of revenue. At the present time, 22 states have lotteries that pay significant commissions —from 4% to 6%. Pennsylvania paid out $62 million in commissions and an estimated $26 million went to convenience store operators.

Conlee Country Store in Clio, Michigan (of course, you know where Clio is) has added 250 square feet to accommodate a Montgomery Ward catalog store. In the first year they picked up as much as $5,400 in one month (December) on commissions.

With hundreds of units, convenience store operators can experiment. The smaller companies are owned by some of the most entrepreneurial people in retailing. And the information gets passed around through a trade association and a couple of trade publications. For a bird's-eye view of the industry, I would suggest Convenience Store News, 254 West 31st Street, NEW YORK NY 10001 $24/yr. Ask them to start with the 264-page Sept. 24-Oct. 21 issue covering the National Association of Convenience Store annual convention.

RThought: A consolidation is going on within the industry. Aggressive and often well-financed public companies are

Most management experts have never read one of the classics of management that has been published in 40 or 50 languages and perhaps 10 to 20 million copies. The story? Elbert Hubbard's "The Message to Garcia." This is the story of young Lt. Rowan, who, when asked to deliver a message to General Garcia in the middle of Cuba during the Spanish American War, took the packet, saluted, left, delivered the message and returned months later. He didn't ask how to get there, why he was selected, could someone else go with him or many of the other responses expected in management today.

The military has a lot to offer management—one-subject letters, well-organized regulations (clearer than the IRS Regs), chronological files of outgoing correspondence for all unit officers to read and initial, and a theory of completed staff work.

To the right, you will find HQ. Office Instruction No. 80-19 issued by the Headquarters Army Air Forces on September 17, 1942. You will note from the last line that it was reproduced by the 384th Service Group (Special) 16 October 1944, an outfit in which I was a Squadron Commander and which was then in training to go on to Leyte and later the occupation of Japan.

I think it has a place in most business today—reissued, unchanged, after 42 years.

HQ. OFFICE INSTRUCTION)
NO. 80-19)

WAR DEPARTMENT
HEADQUARTERS ARMY AIR FORCES
WASHINGTON, SEPTEMBER 17, 1942

ADMINSTRATIVE PRACTICES

COMPLETED STAFF WORK

1. The following exposition of "Completed Staff Work" is published for the information of all members of this Staff.

2. This matter is not published as a directive. However, it has a great merit and it is believed then an occasional reading of this treatise and a continual effort to practice this doctrine will be of immense value in building up really good staff work.

COMPLETED STAFF WORK

3. "Completed Staff Work" is the study of a problem, and the presentation of a solution, by a staff officer, in such form that all that remains to be done on the part of the head of the staff division, or the commander is to indicate his approval or disapproval of the completed action. The words "Completed Action" are emphasized because the more difficult the problem is, the more tendency is to present the problem to the chief in picemeal fashion. It is your duty as a staff officer to work out the details. You should not consult your chief in the determination of thos details, no matter how perplexing they may be. You may and should consult other staff officers. The product, whether it involves the proncuncement of a new policy or affects an established one, should, when presented to the chief for approval or disapproval be worked out in finished form.

4. The impulse which often comes to the inexperienced staff officer to ask the chief what to do, recurs more often when the problem is difficult. It is accompanied by a feeling of mental frustration. It is so easy to ask the chief what to do, and it appears so easy for him to answer. Resist that impulse. You will succumb to it only if you do not know your job. It is your job to advise your chief what he ought to do, not to ask him what you ought to do. He needs answers, not questions. Your job is to study, write, restudy, and rewrite until you have evolved a single proposed action the best one of all you have considered. Your chief merely approves or disapproves.

5. Do not worry your chief with long explanations and memoranda. Writing a memorandum to your chief does not constitute completed staff work, but writing a memorandum for your chief to send to someone else does. Your views should be placed before him in finished form so that he can make them his views simply by signing his name. In most instances, completed staff work results in a single document prepared for the signature of the chief, without accompanying comment. If the proper result is reached the chief will usually recognize it at once. If he wants comment or explanation, he will ask for it.

6. The theory of completed staff work does not preclude a "rough draft" but the rough draft must not be a half-baked idea. It must be complete in every respect except that it lacks the requisite number of copies and need not be neat. But a rough draft must not be used as an excuse for shifting to the chief the burden of formulating the action. Avoid submittal of hastily prepared inaccurate material lacking concise, specific, workable recommendations.

7. The "completed staff work" theory may result in more work for the staff officer, but it results in more freedom for the chief. This is as it should be. Further, it accomplishes two things:

a. The chief is protected from half-baked ideas, voluminous memoranda, and immature oral presentments.

b. The staff officer who has a real idea to sell is enabled more readily to find a market.

8. When you have finished your "completed staff work" the final test is this: If you were the chief would you be willing to sign the paper you have prepared, and stake your professional reputation on its being right?

By command of Lieutenant General ARNOLD:

/s/George E. Stratemeyer
GEORGE E. STRATEMEYER
Major General, U.S. Army
Chief of the Air Staff

OFFICIAL

WILLIAM W. DICK,
Colonel, A.G.D.,
Air Adjutant General.

Reproduced by 384 Sv Gp (Sp), LJM/jwp, 16 Oct 44.

SHORT SHORTS

Pick up a special birthday cake while filling your gas tank and get cash from your bank account. Where? SuperAmerica "land" around Minneapolis. SuperAmerica, a subsidiary of Ashland Oil, tries to be "super" in every way. You get cash from their SuperBank ATM and the special birthday cake ordered before noon yesterday. It was baked at SuperMom's Kitchen and delivered by late night truck to your truly "convenience store."

First class mail costs have inflated more than medical costs. Consumer Newsweekly (Box 34418, BETHESDA MD 20817-0418 $30/yr) traced the rise: 1885-1917—2¢; 1917-1919—3¢ (during WWI); 1919-1932—2¢; and then increased to 3¢ in 1932; 4¢ in 1958; 5¢ in 1963; 6¢ in 1968; 8¢ in 1971; 10¢ in 1974; 13¢ in 1975; 15¢ in 1978; 18¢ in 1981; 20¢ later in 1981; and will be 22¢ in 1985.

Carson Pirie Scott is moving further toward a conglomerate. They have announced they intend to pass Marshall Field in Chicago area department store volume and CPS is already in the lodging, food service and resort as well as the wholesale floorcovering business. They recently acquired County Seat, a major pants chain, from Super Valu, and now the MacDonald group of mail order catalogs (Ambassador, Chris-Craft, others) doing $100 million.

France adopts a simple method to establish a nationwide electronics payment system. The government ordered all financial institutions to begin issuing a uniform credit card that will be honored at 300,000 sales points in France plus all points in the world that honor the Visa card. And that takes care of that!

If you think the Hallmark stores with someone's name in front, such as Sackett's Hallmark Card and Gift Shops, as a momma-poppa operation—DON'T. Herbert Sackett just opened his 40th store in a chain that covers New England and upstate New York.

SHORT SHORTS

The complete Izod-Collection—is at Eddie Bauer's and by mail only. This line lends itself perfectly to the superior inventory availability in centralized mail order. The Izod Lacoste shirt is available in 5 colors in girls', 7 in women's, 5 in men's long sleeves, 13 in men's short sleeves and 5 in boys' and is stocked in 7, 8, 9, 10, 12, 14 in girls', S M L in women's, S M L XL in men's long sleeves, S M L XL XXL in men's short sleeves and 8 to 18 in boys'. Eddie Bauer's should be able to maintain an instock position of more than 98%. And that only covers 2 pages out of 32 pages of Izod.

RThought: All sales do not go to off-pricers and discounters; there is great happiness in knowing you can get the Izod you want in your size—by mail—on your bank or travel credit card—just by mailing an order to them.

Recently I had a weekend to read and study some items put aside "until I have time."

One was the "Technique for Cost Cutting" and I will quote just a few parts.

It has come to our staff's attention that the Honolulu Symphony is undergoing some financial difficulties at the present time. In order to alleviate this situation we have made a study of your operations. Here are our staff's recommendations.

1. Our first observation during your last concert was that, for long periods, the four oboe players had nothing to do. The number of oboe players should be reduced and the work spread more evenly over the whole concert thus eliminating peak activity.

2. All 12 violins were playing identical notes. This seems unnecessary duplication. The staff of this section should be drastically cut. If a larger volume of sound is required, it could be obtained with electronic apparatus.

* * * * *

6. It was noted that excessive effort was being used occasionally by the players of wind instruments, a condition that made them red in the face and probably taxed their hearts. It would be a simple matter to install one portable air compressor which could supply adequate air for all instruments under more accurately controlled conditions.

I trust that you are chuckling about the report and accept it as a parody on my own profession, management consulting, which so often can miss the key factor of the business being studied.

But sometimes such parodies are surrounded by enough "official" imprimaturs that we accept them as fact.

Do you remember the newspaper article that set forth the horrors of the regulation of ground beef? It reported that ground beef was the subject of over 200 statutes and 41,000 regulations. It didn't mention the 111,000 court cases plus the Constitution of the United States and 50 individual states, but that was also in the summary.

How did they get this huge number? They queried a key-word legal index covering federal, state and local law on anything related to the 8 stages of meat production, the 5 functional areas of regulation (health, industry, consumer, environment and labor) and laws impacting the final product (livestock, cattle, meat, beef, ground beef).

What became part of that mass of regulations and laws that were reported to apply **specifically** to ground beef were: all of OSHA, all regulations for trucks on the highway (including headlight requirements), honesty in advertising, sanitary requirements, building codes, zoning laws, EPA, wage and hour laws, and probably speed limits—the researchers don't get that specific.

The funny thing is that this was all paid for by a National Science Foundation Grant (APR 76-18743) under the title "Benefits and Costs of Public Regulation of the Production, Processing and Distribution of Ground Beef" and was apparently done in all seriousness by the Department of Management, Colorado State University, with Ted Roselius, Professor and Chairman of the Department of Management, College of Business, as the Project Director. He had the assistance of six other Professors and three Assistant Professors. It took one year, and, as might be expected from academia, the executive summary closed with a section that starts: "It is recommended that additional analysis be made of the industry-wide perturbation that began in 1973, and the wide and erratic variation that continues."

Lost in all of the reports that hit the press were the obvious errors in one of the five conclusions (page 17) and the statement on page 10 (the only estimate of cost) which said:

> The processing stage of production incurs the highest compliance cost, estimated to be 2.12 cents per pound, and the distribution stage the lowest, estimated to be .51 cents per pound. Across all stages, compliance cost is highest in the production areas of product quality, estimated to be 1.25 cents per pound, and is lowest (.01 cent) for weights and scales.

Of course, we know that even with these costs unsanitary ground beef gets on the market periodically and vendors still short-weigh.

RThought: All of this was great fun. But the parody on the problems of the Honolulu Symphony Orchestra took a bit of imagination, and all reproduction and distribution costs were paid by the private sector (for a copy send a self-addressed, stamped envelope to HONOLULU SYMPHONY, Box 249, LAFAYETTE CA 94549) while the cost of the Beef Study was paid with tax dollars. Where is Bill Proxmire when we need him?

SHORT SHORTS

SGF gives extended terms on your bank card! SGF (Savings on Gifts and Furnishings) catalog out of Dallas offers extended terms on orders over $200 when charged to a bank card or American Express by the simple device of billing your card in 5 equal installments. Their catalog carries items with unit prices up to $600. Each item ordered on a multiple item order will be split into 5 installments starting with the date of shipment. **RThought:** I have not been able to check their claimed savings. And they do not offer 800-telephone ordering.

Robert O. Aders has it right—food retailers cannot have it both ways. They cannot cry for government to get out of business and at the same time ask the government to investigate predatory pricing by Kroger and Cub (Super Valu) in Indianapolis. Too many retailers have been consistent for years—wanting government out of their business and into the other guy's business.

How banks provide "service." At the Bank of America main branch in San Francisco, at the night deposit drop, there is a sign that says, "Deposits made after 8:30 a.m. will be processed the **following** business day." The branch does not open until 9:00 a.m. Is there any earthly reason why the two times could not be coordinated? Or does B of A expect people to stand around for a half hour until the branch office opens—when B of A is trying desperately to reduce the number of transactions handled by cashiers.

Off-price retailers learned deceptive pricing from catalog/showrooms who manufacture their own comparisons and then proclaim, "We believe that our 'reference retail' prices **do not appreciably exceed the highest retail prices** at which sales are made in this catalog's distribution area" (emphasis added). To which Sir William Gilbert wrote in "H.M.S. Pinafore"— "What, never? No. Never! What, **never**? Hardly ever!"—and the honest small retailers do "get sick at sea."

acquiring the smaller regional companies. Although Southland is several times larger than the number two chain, Circle K, the aggressive new CEO at Circle K is on his way.

The operators are breaking away from the standard 60' x 40' store with 8 or 10 parking spaces. They are recognizing that this is big business with many units running well above $1 million a year. The quality of managers is going up. They are being trained and then paid on a sound incentive basis. In many cases there is a career path into top management. POS terminals are being installed and more data is being collected to guide management.

But, like mail order catalogs, the acquisitions of convenience chains will probably be made most often by people not in what we so vainly call "conventional retailing."

GILLETTE PROVES SAFEWAY AND KROGER RIGHT

Gillette recently announced they would discontinue sales of Cricket disposable lighters but stay in the disposable pen and shaver market. Why? Because in the lighter market they are number three and, according to the Boston Consulting Group theory, that means you cannot make a proper return on money.

In the disposable lighter field, Bic has 53%, Scripto has 24% and Gillette only 16% (all others are 7%).

Safeway and Kroger have recently closed or announced the closing of a number of stores where they are third or worse in the market.

The results will be the same in both situations–disposable lighters and supermarkets. With a significant number three competition eliminated, the competition between number one and number two will trend away from price competition and toward non-price competition such as premiums, continuities, short-time special offers and the like.

TIME: A FAILURE OF FREE ENTERPRISE BUT SUCCESS OF REGULATION

Did it ever occur to you how life was before the United States and the rest of the world were divided into time zones?

Suppose you lived in Kansas City and said you would meet someone at the train station to take the 11:45 train to St. Louis. Today that is simple. You and your friend wear wristwatches that, in this day of quartz watches, are going to be within a few minutes of each other. In the 1870s each jeweler in Kansas City had his own standard time, and they varied by as much as 20 minutes. Each of the railroads ran on its own time, based on the headquarter city–which might be Omaha, Chicago, St. Louis, or some mid-line city. Between the standards of four major jewelry stores and three railroads, there could be seven different "11:45" times varying by as much as an hour! Kipling wrote: "There are 9 and 60 ways of writing tribal lays and every single one of them is right."

This was a perfect example of "free enterprise time." Western Union offered a service in New York City of sending a time signal at exactly noon each day. Now you understand why older city halls had bell towers to announce the time. If the city was large enough or remote enough, it set its own time according to the local sundial–noon was when the sun was directly overhead.

And then there was Charles Ferdinand Dowd, principal of a girl's seminary in Saratoga Springs, New York, who thought the United States should be divided into four hourly time zones. He presented this idea to a meeting of railroad people in New York in October 1969. The railroads needed this desperately even though most of the local population cared little about it; in those days as few people had traveled by railroad as had traveled by airplane before World War II. Out of this grew the General Time Convention, backed by the railroads and ultimately resulted in our standard time zones.

The idea was approved in Chicago in 1883 by a vote based on mileage of railroads–78,000 miles to 7,000 miles.

Cities fought it. The mayor of Bangor, Maine vetoed a city ordinance because it was "an attempt to change the immutable laws of God Almighty." Columbus, Ohio and Fort Wayne, Indiana objected that it was deleterious to the health of the working population. Detroit, Michigan kept local time for another 17 years. Congress did not establish the time zones until World War I–and I can hear the objections that there is nothing more properly delegated to the states than to establish their own time!

RThought: What does this story illustrate? First, free enterprise does not solve all problems automatically. Certainly the people of Kansas City were not happy with four different standard times, each set by a different jeweler. Perhaps each time an appointment was set, people asked, "Who's your jeweler?"

Second, *in the 1700s it* probably did not make much difference because people didn't have watches and generally judged time by looking at the sun.

Third, it shows the power of an idea; and an idea, of course, first germinates in the mind of one man. A germinated idea only flourishes if that person has a commitment to the idea. Norman Thomas got most of his social ideas adopted in the United States through years as the Socialist candidate for President, although never getting a significant number of votes. He expressed them in the idea market of the world–political campaigns.

Fourth, the reason for this new idea was a changing society. Where once "time" was a matter solely between the people of a city and their own sundial, it became a matter between people of many cities as they first traveled and then communicated easily and instantly with people in other cities. Today as I make phone calls to England or France or Australia, I just punch "0" on my phone, and the operator tells me immediately the local time at my destination.

Finally, is the United States' adoption of standard time proof that all great ideas originate here? Hardly. Starting with the suggestions of standard time in England in 1840, by 1855 98% of the public clocks were on Greenwich time. After all, Greenwich mean time had been used by navigators since the late 1600s–Greenwich becoming the common base because it was one of the earliest observatories and it did good research.

(Note: How do I know so much about time? I have found a wonderful young publication–THE VOLUNTARYIST. The masthead says, "If one takes care of the means, the end will take care of itself." Ask them to start you with the October 1984 issue–Box 5836, BALTIMORE MD 21208 $10/yr.)

THERE ARE NO NEW IDEAS– SOME SHOW UP AGAIN AND AGAIN

A newspaper reporter for the San Jose Mercury News called me recently for background information (I get such calls from 8 to 10 papers from Washington, D.C. to California) on charge accounts for teenagers.

Buffum's in Long Beach, a subsidiary of David Jones & Co. Ltd. of Sydney, Australia, has established the **Premier** Card for young people under 18 (18 is the age of majority in California) with limits of $200 or less. Some 75% of the 1800 applicants are 15 to 17 although some parents are considering early establishment of credit, at age 1 in one case. The parent or guardian is the guarantor and the guarantor's credit rating is the basis of granting the credit.

I explained that this was a good idea–but not new. In 1947 I helped establish the **Under 21 Account** (21 was then the age of majority) in Smiths of California, then the largest men's and boys' store west of Chicago, doing $4 million plus.

These accounts were NOT GUARANTEED but were granted on an investigation of the student. Payments were weekly and the maximum, until one full year of history was established, was $50 (more than the $200 limit today). When the person became 21, the account converted to a regular account if payment had been properly handled.

"Under 21" was a registered name and I think we paid about $300 a year to the franchisor someplace in New England. It worked well. It taught young people to be responsible. And it helped us reach high school students (colleges in those years had a high percentage of ex-GIs over 21).

RThought: The parent(s) or guardian had to sign the application but solely to grant their permission for the young person to have the account and not as a guarantee.

I suppose that now, when the number of teenagers is declining rapidly, is as good a time as any to revive this means of introducing young people in the business world; you can do it while they are still at home and getting some parental guidance.

SHORT SHORTS

Silly newspaper articles/press releases assume readers are stupid. I quote one: "Melville Corp. said net earnings . . . slipped 3.2 percent in the third quarter but rose 10 percent in the nine months ending September 29." I am sure that the same writer would report "Mr. X has not been breathing for the past hour but he was breathing satisfactorily for the prior 82 years."

Do you buy paper towels by the sheet or the square foot? I recently purchased paper towels at The Price Club and at Safeway. The Price Club had a prewrap of 3 rolls, each roll having 94 sheets, 2 ply, 11" x 14" for a total of 301.5 sq. ft. Safeway had Gala, 120 sheets, 2 ply, 11" x 9.2" for a total of 84 sq. ft. On a price per square foot basis, Price Club won easily with .56¢ per square foot vs. .83¢ for Safeway. But if you use them mainly by the sheet, then Safeway won at .58¢ per sheet vs. .70¢ per sheet.

Fairchild Publications is so desperate for reader attention that they run misleading headlines. In the October 19, 1984 issue of Women's Wear Daily the headline read "1985 retail sales drop seen." The article said that Sears' chief financial officer predicted a sales increase of 8% against the anticipated sales increase of 12% for 1984. There was a time when (1) headline writers were presumed able to understand what they read and (2) one of the key jobs of editors was to see that headlines honestly–and I repeat honestly–reflect the content of th article.

Success in retailing is selling furniture. You are an emigrant from Russia. You start your own furniture store when you are 43–and are a woman. Your town has a population of about 220,000 which grows to 345,000 and has now declined to 310,000. You add display space until it reaches 300,000 square feet and add warehouse space of 500,000 square feet. You do $120 million a year ($400/sq. ft. selling area, $150/sq. ft. gross area). You sell your business to one of the smartest investors in the United States for $60 million without an audit or an inventory. And even though you are 90, the new owner asks you to stay on with your son and three grandsons. The wise investor. Warren Buffett of Berkshire-Hathaway. The store? Nebraska Furniture Company in Omaha. The proprietress? Rose Blumkin.

What makes an innovative mind? Interaction, 9/16/83 (as summarized by Executives' Digest-Cambridge Associates, 312 Stuart Street, BOSTON MA 02116 March 1984) had an article "Four Steps to an Innovative Mind." First is patience with a problem–a willingness to continue to give attention to the facts while working for a solution. Second is fondness for change, constantly seeking a better way. Third is awareness to relationships to see that pushing one place is likely to bulge someplace else. Finally, is an ability to be comfortable with things that may appear offbeat and think through ideas that come from sources not expected to have sound ideas.

Integrity at Melville–Francis Rooney, in his letter to shareholders with the June 30 second quarter report, reminded them that the sales (+25%) and earnings (+40%) were favorably affected by Palm Week and Easter Week which we in the first quarter last year.

WORDS YOU WERE LOOKING FOR

We all know this story and even try to tell it, but most of us don't tell it very well.

Some years ago, Jack Lane, who runs an executive recruiting operation in Southern California, sent me the story of:

THE MAN WHO SOLD HOT DOGS

There was a man who lived by the side of the road and sold hot dogs.
He was hard of hearing, so he had no radio.
He had trouble with his eyes, so he read no newspapers.
But he sold good hot dogs.
He put up signs on the highway telling how good they were.
He stood by the side of the road and cried "Buy a hot dog, Mister." People bought.
He increased his meat and roll orders. He bought a bigger stove to take care of his trade.
He finally got his son home from college to help him out.
But then something happened.
His son said: "Father, haven't you been listening to the radio? There's a big depression coming on. The European situation is terrible. The domestic situation is worst."
That made his father think: "Well, my son's been to college, he reads the papers, and he listens to the radio, and he ought to know." So the father cut down on his meat and roll orders, took down his advertising signs, and no longer bothered to stand on the highway to sell his good hot dogs.
Sales fell fast almost overnight.
"You're right son," the father said to the boy. "We certainly a the middle of a great depression. There just isn't any business."

(Need we point out the moral?)

RETAILING TODAY

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ROUTE TO

DECEMBER 1984 VOL. 19, NO. 12

CORRECTION

In the Front Page Box in the November 1984 issue I discussed the failure of many stores to provide service within the reasonable expectations of customers and that it became abusive when incompetent staff fail to correct such things as errors in charge accounts that have been mistakenly assigned for collection.

In the second **RThought**: I included the sentence "When **all** stores abuse customers, I can only conclude that the top executives must have gotten together and agreed not to compete in this area." John Campbell, the president and CEO of Miller & Paine, a fine 3-unit department store in Lincoln, Nebraska promptly, and correctly, challenged that statement. He correctly stated, "Our store, for one, spends a great deal of money and time to improve our service to customers, not to abuse them . . . I am saying that we are much better than we were twenty years ago and I think the same thing can be said of a number of other retailers."

RThought: The correction is entirely appropriate. In fact, I would like very much to start collecting the names of stores that are aggressively improving and maintaining service. Too often heads of such companies, when visiting other areas, visit only the larger (nationally known) stores which, in many cases, have completely abandoned service. They should be happy to know the names of other stores that should be visited. Tell RT and the list will be published.

ARE YOU IN TOUCH WITH YOUR ASSOCIATES?

Every CEO or top executive thinks he knows what his associates and subordinates think. And he acts accordingly—which, too often, produces a bad decision.

Unfortunately, no surveys have been made (to my knowledge) comparing what the **top executives** think the people in their organization think—and what **the people** actually think.

However, Bobrow Consulting Group, for the *Rep Report,* edited by Bob Vereen of the National Retail Hardware Association, did make a study of what motivates manufacturers' reps (in the hardware field) and what the sales managers thought motivated them. The tabulation below shows that communications must be bad.

	"Motivates Considerably"	
	Reps Say	Sales Managers Say
Product quality and reliability	84%	73%
Reputation and image of wholesaler	81	57
Backup and support	65	46
Product training	55	44
Promotion and advertising	62	31
Sales contests	8	24
Recognition	28	34

RThought: Do you think that all your associates at the "meet-the-public" level don't care about your company and don't care about your customers? Are you convinced that most of them loaf on the job or steal from you or both? Perhaps you ought to have the same study made in your firm. I know that many firms have periodic surveys of employee attitudes—but I know of none who ask the supervisors what they think the attitude is of front-line employees so you can see if the supervisors are in tune.

WHAT POSITION SHOULD RETAILING TAKE ON TAX REFORM?

During the campaign Mr. Mondale accused President Reagan of having a secret tax increase agenda which Mr. Reagan successfully brushed off with an "Oh, shucks! I wouldn't do that."

But now it is coming out—that secret tax agenda (presented as reform with no revenue increase) did not appear inspirationally to Secretary of the Treasury Regan in just one evening. Mr. Reagan has been firmly against tax increases although he does favor tax enhancements. It seems inappropriate that someone else was given the award for Doublespeak, because his first term tax enhancement represented the largest increase in taxes in our history—which makes it the largest in the history of the world.

What is being proposed?

Among the possibilities are the elimination of both the investment tax credit and accelerated depreciation. These, combined with buying and selling tax credits, have been a lucrative field for corporations—but not particularly helpful for retailers.

Yet most retailers, because they do get a few crumbs from the ITC and accelerated depreciation, seem to feel that they must be "good guys" and join the cry that these two subsidies, representing some $50 billion, absolutely must be continued or the world will fall apart.

Dr. Manuel F. Ayau, president of the Universidad Francisco Marroquin in Guatemala City and former member of the Guatemala Legislative Assembly, director of the Central Bank and vice president of the Chamber of Commerce, as well as the head of an industrial firm, recently spoke at Hillsdale College at the Center for Constructive Alternatives. In criticizing the misunderstanding of the damage being done in Central and South America by those who feel that government control can make economies effective, he said, "Economic illiteracy is the biggest obstacle to freedom . . . And among the illiterates, I am referring to successful bankers, university professors, newspapermen, religious leaders, and so forth—not simply the masses." He observed that we had the same "economic illiteracy" in the United States which, of course, penalizes us and, with our belief that everything we do is best, means we try to force our mistaken practices on other countries.

But back to the ITC and accelerated depreciation.

Citizens for Justice (2020 K Street NW #200, WASHINGTON DC 20006) recently published a study "Corporate Income Taxes in the Reagan Years."

They asked the top 300 of the Fortune 500 companies plus all of the top 50 in utilities, service industries, commercial banks, life insurance and transportation to submit their 1983 annual report and form 10-K. Most provided the information which was supplemented with information on companies that had been studied by the Congressional Joint Committee on Taxation during 1983. From this they calculated the actual taxes paid in dollars and as a percentage of pre-tax income (adjusted to eliminate foreign income). Adjustments were made so that sales and purchases of leases for tax benefit were eliminated.

Some companies were eliminated because they (1) lost money over the three years, (2) lost so much in one year that it would distort the results, or (3) did not provide sufficient information in published reports to make an analysis.

The resulting report lists 250 companies.

In 1981, 57 companies reported profits of $15 billion and got refunds of $1.8 billion. In 1982, 82 companies had profits of $28 billion with refunds of $2.8 billion; and in 1983, 67 companies with profits of $15 billion had refunds of $1.1 billion.

For the period 1981-1983 the refunds or taxes paid were as follows, expressed as a percentage of profits:

Group	Profit (Billions)	Taxes (Refund) (Billions)
10 largest benefits	$ 17.2	($1.7)
25 largest benefits	25.2	(2.6)
65 largest benefits	49.5	(3.2)
133 largest benefits	130.9	(0.4)
all 250	291.4	41.1

The composite tax rate for these 250 companies was 14.1%!

And who were the retailers on this list? They are shown below with the actual taxes paid in dollars and as a percentage of pre-tax income, for the combined 3-year period:

	Profits	Taxes	Tax Rate
	(Figures in Millions)		
Sears	$3,445	$144.1	4.2%*
Kroger	728	100.9	13.9
Dillard Dept. Stores	130	23.1	17.7
Avon Products	693	253.5	36.6
K mart	1,341	554.9	41.4
Super Valu	323	134.2	41.5
Interco	572	238.6	41.7

*Reflects tax subsidies to insurance companies and banks owned by Sears

The bulk of the retail companies are paying close to the 46% rate.

Did all of these subsidies stimulate the economy?

It doesn't look that way. The table below, taken from the report, shows the business investment in plant and equipment, adjusted to billions of constant 1972 dollars:

Year	Amount	% Change
1980	$159.1	+0.6%
1981	158.9	-0.1
1982	150.3	-5.4
1983	144.9	-3.6
1984	164.7	+13.7

For the four years 1980-1984 the annual growth was 0.9% a year compared to an annual growth for 1976-1980 of 6.5% a year.

As the report says, "Once again, it has been made clear that businesses increase investment when they see a market for their products."

Little of the benefit has gone to retailing.

And retailing has been penalized in other areas by limitations on or elimination of the use of Industrial Revenue Bonds to finance new buildings. Somehow "they" conclude that retailing (despite employing 17% of the workforce) doesn't provide new employment.

What is happening now?

The largest lobby/special interest groups are working hard to keep the special subsidies now provided. The state and local governments don't want the top tax rate lower because there will be less incentive to buy tax-free bonds and those governments will have to pay a higher interest rate.

The construction interests want to be sure that residential mortgage interest remains an itemized deduction so that housing can still command a high price.

Startup firms and venture capitalists want to insure the continuance of capital gains at a low rate to assure the availability of venture money.

Natural resource companies want a continuance of the depletion allowance which often permits them to deduct several times the cost of an investment in a mine or well.

Top management does not want excessive fringe benefits made taxable because they feel they have a right to the benefits they grant to themselves.

But most of all, capital intensive industries (utilities, transportation, natural resources and many others) want to preserve the ITC and the accelerated depreciation.

What should retailers be doing?

It is time for the retailers to break step with the groups that work against them—the National Association of Manufacturers, American Gas Association, American Petroleum Institute, Electronic Industries Association, American Electronic Association, Air Transportation Association, National Association of Realtors and Chemical Manufacturers Association to name a few.

The question in many cases is: Do I have to pay 46% of my income as taxes so that large manufacturers, oil companies and financial institutions only have to pay 15% or 5% or nothing—or get big refunds?

YOU – IN 1985

You – will remember the slogan of The Christophers: "It is better to light one candle than curse the darkness." It was ather Keller who wrote, "You Can Change The World." And was talking to me—and to you and it can be your candle, your vote, your honest tax return, your willingness to stand up for what is fair and honorable and right.

You – can remember with me the Scout Laws: "A Scout is trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean and reverent." We pledged ourselves to obey these laws—not from age 11 or 12 to 13 or 14, but from that time forward. That is what Lord Baden-Powell was trying to tell us and we once understood.

You – will pay particular attention to the first law: "A Scout is trustworthy"; and, if a woman, to the first Girl Scout Law: "A Girl Scout's honor is to be trusted."

You – will see that your advertising is honest, not like the many examples being put before the public today (See following Feature Report) of totally dishonest price comparisons which may temporarily fill your pot with gold but which violates the admonition to be "Not greedy for filthy lucre."

You – will make resolution Number 1: I will be honest in all my activities; I will not condone dishonesty among my subordinates, and I will speak out against dishonesty on the part of my peers and superiors. If my company is not honest, I will seek employment elsewhere.

You – will remember that there are 20 ways to do any job and that 5 of them are perfect, 10 are good and only 5 are really wrong. You will listen when people say how they are going to do what you want done and will recognize when their perfect ay of doing your command is equal to your perfect way—and perhaps even better. Thus all the time wasted arguing which way is best will go the way of the time spent arguing how many angels can stand on the head of a pin.

You – will remember in your family relations that a marriage is for better or for worse and that when there are differences there can seldom be proof of who is right. Thus you will make your marriage a 60-60 proposition, always being willing to go 60 percent of the distance to reach your mate's position and then, perhaps, most differences will end up in agreement.

You – will remember that playing host to anger hurts you far more than it hurts the object of your anger. The sacred scriptures of the Therevada Buddhists (500-250 BC) say, "Hatreds never cease by hatred; they cease by non-hatred; this is the primeval law." In your home you will agree with your spouse and family never to go to bed mad. Before bedtime one member must say, "I am sorry"—just three words but often hard to speak.

You – will remember that a citizen has obligations as well as privileges. And you will resolve to be a good citizen. A good citizen is informed on governmental issues. A good citizen votes. A good citizen obeys the law. A good citizen does not tolerate illegality among fellow citizens.

You – will remember that The Golden Rule is incorporated into every religion as part of the guides laid down on how people can live together in a society of many people. Some say, "Do unto others as you would have them do unto you"; while other religions say, "Do not do unto others what you would not have them do unto you." If this thought has been so evident to all mankind in all parts of the world and has become part of the scripture of so many religions, there must be merit in the thought.

You – will do as Alex Haley, the author of "Roots," suggests in the motto on his stationery: "Seek out good—and praise it." Do not let a good job go by without commending the person who did it. When you see good acts among society, tell that person that you approve and support his good deed. When you think fondly or happily of those you have not seen or talked to for a long time, "Reach out and touch someone"—to adopt AT&T's slogan, or just send a note. Especially among friends, do not wait until the only one who will know how you feel and have felt is the surviving spouse. You can do it in so many ways.

You – can be a more wonderful person than you are, and you can bring help and hope and happiness to hundreds around you.

I – will be trying to follow the same rules in my life for I cannot ask you to try to do more than I am trying to do myself.

And each of us, at the end of the day, as we put our head down on the pillow at night can, just before sleep overtakes, look back over the day we have just spent and ask ourselves: "Did I spend this day the way I know I should have spent it?" I hope that both of us will be able to answer that question "Yes."

A FEATURE REPORT

BLATANT DISHONESTY IN ADVERTISING

San Francisco stores, perhaps more than any other area in the country, are making dishonest comparative price representations.

The New York Times West Coast Edition doesn't carry much of the daily New York advertising, but it does have a good amount in the Sunday issue. Although Macy's is in both towns, I do not see the blatant dishonesty that exists in San Francisco. The day before writing this I was in Los Angeles d picked up and studied the Los Angeles Times for Sunday, ecember 2, 1984; and although Carter Hawley Hale is in both Los Angeles and San Francisco, I did not see the blatant dishonesty that exists in San Francisco.

Perhaps San Francisco got off the track in the days of Roos/Atkins (R/A). R/A thought they could always boost sales by selling regular merchandise at major discounts. Eventually they had to cut the quality and falsify the comparative in an attempt to fool the public. But R/A, then owned by Genesco, learned what Abe Lincoln had so clearly told a visitor to the White House: "It is true that you may fool all the people some of the time; you can even fool some of the people all of the time; but you can't fool all of the people all of the time."

There will come a time when Macy's and Emporium-Capwell (E-C) will pay a price for what they are getting away with today just because so many people (1) don't know prices in this market; and (2) trust these two companies as honest merchants.

Let us look at some examples. Both Macy's and E-C recently ran sales on Chicago Cutlery, E-C claiming 25% off and Macy's 50% off. Below is a sample showing for each store (1) the claimed regular price, (2) the sale price, (3) the list price to most stores (Macy's and E-C may be buying at prices below the list) and (4) the normal selling price of dozens of stores within the San Francisco area selling at twice list.

	Macy's		E-C		Other Stores	
Item	Reg.	Sale	Reg.	Sale	Reg. Retail	Cost
3" parer	$ 9.50	$ 4.75	$ 9.50	$ 7.00	$ 8.50	$ 4.50
8" chef	28.00	14.00	28.00	21.00	24.50	12.25
bread knife	26.50	13.25	26.50	19.75	21.00	10.50

In this case there is a uniformity of "regular price" between the two stores—but substantially above the price other stores are putting on Chicago Cutlery items. In the 3 examples above (from a list of 13 items in the ads), the inflated retail is up by 12%, 14% and 26% respectively.

A vendor does not have the right to set a retailer's price; and even trade practices, such as doubling the cost, do not prove a "regular price." To the extent, however, that Chicago Cutlery is offered regularly at either 25% or 50% off by the two stores, one would probably find that more than half of their sales are against a comparison price at which they sell very little.

The smaller stores in the area know their everyday price is below Macy's and E-C but do not have the money to advertise.

Another source of comparison to determine a reasonable "regular" price is to see what Best Products claims as the reference price in their catalog. Best, as do all catalog/showrooms, has permission of the FTC (documented by lack of action) to create their own comparisons which they disclose by saying, "We believe that our Reference Retail Prices do not **appreciably exceed the highest retail price** at which sales are made in this catalog's distribution area."

Let us compare some "Regular" and sale prices of E-C on Wear-Ever open stock with Best's Retail Reference Price and regular selling price.

	E-C Sale		Best's	
Item	Reg.	Sale	Ref.	Reg.
square griddle	$22.00	$11.00	$14.99	$10.96
12" chef's pan	26.00	13.00	17.99	11.78
1-qt. covered saucepan	24.00	12.00	14.99	10.96

Why would Best be using such a low "reference" price if there was any basis of claiming a regular price as high as that claimed by E-C? Is there some magic that permits Best's to sell goods regularly at a price below that claimed by E-C to be 50% of regular price?

E-C has had trouble with the price on the Royal 8100 Electronic typewriter. On October 21 they advertised it at $399. Will be $499" and the footnote says, " 'Will be' prices effective 11/3."

I had the item shopped on November 12 to see if it was $499 and it was not. When queried, the clerk said it had been put on sale again for the Veteran's Day promotion and that the price was good only through 9:00 p.m. closing that night.

I had the item shopped again on November 13 and the price was still $399. A different clerk explained that the typewriter would be "on sale" for the Christmas promotions—and sure enough it will be.

How would you classify the integrity of Emporium-Capwell, a division of Carter Hawley Hale, at this point? What do you think a statement of "will be" prices effective 11/3 means? I realize they did not put a year in the date but most would expect it to be the nearest 11/3, not 1990.

RThought: Perhaps I bore you. I could go on, item after item, showing the concept of "Reg" price at Macy's and E-C is an internally created fantasy, perhaps on the order of Macy's Thanksgiving Day Parade. But in the parade, fantasy is not only permitted but desired.

I think Isador and Nathan, Percy and Jesse Straus must be writhing in their graves as they see what has happened to the company they built on integrity.

And as for E-C, I can only quote from the booklet, "A Message" written July 10, 1897 by F. W. Dohrmann, founder of The Emporium, and republished January 1932 by his son, A. B. C. Dohrmann. The Emporium was failing and F. W. Dohrmann came in as a stockholder, without salary, to turn the business around. Under "Advertise" he said, "The best and most effective advertising which a concern can get is that which costs nothing. It is the formulation of the character and good name of the establishment, that by which people know and judge it, as they would judge an individual's character by his actions, words, and the impression he makes.

"It is therefore of the greatest importance that the right character shall be established by precept and example by the leaders of the house, and that it is insisted upon that all connected with the company, as well as with other departments, follow correct lines of morality, decency, and usefulness; . . . ."

E-C has failed these tests and just as "the former Emporium (in 1897) was lacking in many ways" so is today's.

RThought: Will Macy's and E-C destroy themselves in San Francisco or will they be able to withdraw from their misrepresentations of value? We can only wait and see—but certainly the excessive short-term pressures in both companies suggest that destruction is more likely than reform. I am reminded of the man who was in a rush to a distant city and took a wrong turn—but was making such good time he didn't want to turn back and get on the right road.

SHORT SHORTS

Relief at last. My wife has felt that we were going to go to jail each time I removed a tag from a mattress that read, "Do not remove under penalty of law." She was relieved when she found a new one that reads, "Under penalty of law this tag is not to be removed except by consumer." Her note attached to it said, "NOW they tell me! ! !"

"Penney's to accept American Express" said the headline; not too many years ago Sears and Penney's were going to defeat bank cards by not accepting them and now Penney's will take a travel card. So much for the soundness of credit thinking among the giants.

On the question of personal benefits, what is really wrong with a uniform employee discount? Or a uniform medical plan? At least the present bills being considered still allow these as business deductions and you won't have the work of keeping track of them for purposes of computing taxable income at the end of the year.

And what about the impact on employees in retailing?

If the top tax rates are lowered, will retailing still have to pay astronomical salaries for top executives?

Over the past 40 years there has been a constant shift of taxes from corporations to individuals.

Year	Individual Taxes (Billions)	Corporate Taxes (Billions)	Corp as % of Individual
1940	1.0	1.1	110%
1960	44.9	22.2	49
1970	103.7	35.0	34
1982	352.6	66.0	19

In 22 years the taxes paid by individuals have increased by 685%; while corporations, who employ these people and make a profit selling to them, have seen their taxes increase by only 197%.

YOUR ACCOUNTS RECEIVABLE ARE WORTH 95% OF FACE VALUE (Revisited)

In the September 1983 RT we set forth the manner in which an actual deck of retail receivables was collected after the store was sold and the new owner eliminated charge accounts (accepting only cash and bank cards).

Shown below is the table of actual collections (which had paid off a maximum 80% loan at 13% interest by the middle of the eleventh month), updated to the end of July 1984:

Collections on accounts (000s omitted)

Month		Opening Balance	Net Write-Offs	Finance Charge	Payments	Ending Balance
August	'82	$2803	-$ 10	+$ 41	-$ 375	= $2459
September		2459	- 16	+ 55	436	= 2062
October		2062	- 11	+ 34	235	= 1850
November		1850	- 7	+ 30	- 252	= 1621
December		1621	- 17	+ 26	- 207	= 1423
January	'83	1423	- 11	+ 23	- 238	= 1197
February		1197	- 14	+ 19	- 166	= 1036
March		1036	- 10	+ 16	- 180	= 862
April		862	- 10	+ 14	- 155	= 711
May		711	- 8	+ 11	- 110	= 604
June		604	- 9	+ 9	- 101	= 503
July		503	- 5	+ 8	- 98	= 408
TOTALS			-$128	+$286	-$2553	
Second Year		$ 408	$ 38(1)	$ 28	$ 380	= $ 8
			$166	$314	$2943	

(1)Includes $5 in response to offer in June and July 1984 of 20% discount to pay in full.

The above figures show:

Original balance	2,803,000	
Finance charges added	314,000	3,117,000
Collections	2,943,000	
Net Write-offs	166,000	3,109,000
Remaining balance		8,000

The net write-offs were 5.9%.

The finance charges totalled $314,000 of which $120,000 was paid in interest on the assumed maximum 80% loan at 13% interest, leaving $194,000 to cover expenses and add to the net amount collected. Expenses ran substantially below this amount. If we assume the expenses ran $150,000 (they were less in this case), then the net collected was as follows:

Original balance		2,803,000
Collected	2,943,000	
Interest cost on loan	- 120,000	
Cost of collection	- 150,000	
Net collection		2,673,000

Collections ran 95.4% of original face value of the receivables.

This disregards the $8,000 still outstanding.

Looking at it another way, the write-offs total $166,000 (including $5,000 in discount given in response to an offer in June and July 1984 of 20% off the total balance if paid in full) or 5.9%. If you wrote off the remaining total and disregarded any future write-off recoveries which will be coming in for some time, the total would be $174,000 or 6.2%.

RThought: I am surprised at how ignorant most banking officers are about retail accounts receivable. When one talks to many bankers about financing receivables, one gets the reaction that if the bank ever had to collect the pledged receivables most of them would evaporate.

TOUCHE ROSS MEET TOM PETERS AND BOB WATERMAN

Touche Ross is starting a tour of the country with their program of presentations on "The Future of Retailing" and "The Coming Revolution in Retail Marketing."

Sam Feinberg previewed their talks in a series of articles in Women's Wear Daily.

Irwin Cohen, Bob Bartlett, Bill Power, Randy Allen and Joshua Polan must really enjoy themselves as they indulge in Sci-Fi such as NCR did about 25 years ago when they sent a show around the country explaining that everything by this date would be national brands (everyone wanted a Thunderbird) and L-shaped checkouts. Consumers would be pre-sold and retailing would consist of self-service delivery of a limited number of national brands.

What happened on the way to 1984? How come Macy's is doing so well and Nordstrom is growing so fast and Mervyn's is spreading across the country with stores doing about 40% on private labels and Radio Shack has a market valuation about equal to K mart with a fraction of the volume and all private label merchandise? Did NCR change from a cash-register/hospital/bank equipment company to a computer company on the theory that retailers would not be a significant part of our economy by 1984?

Perhaps Touche Ross saw a void with the retirement of Malcolm McNair and his prediction of electronic selling; and the semi-retirement of Bill Davidson, the other annual forecaster of electronic selling. Someone would have to fill their shoes.

Sam Feinberg described a lot of voice-interface with computers within 20 years (heuristics is one of the real problems in technology and does not lend itself to easy solution, especially on the basis of being able to recognize all voices without "training") combined with desk-availability of what is called "artificial intelligence" or the power to analyze and reason. Both are being talked about on the theoretical level just as clear telephone connections are still being promised—as they have been for the past 40 years.

But 20 years will not provide what Sam describes when he writes: "A customer will walk up to an apparel shopping service terminal and identify himself or herself by voice. The terminal will ask what assistance is required. Upon the response, the computer will display several outfits in three dimension on a mannequin. The customer will make a selection and the computer will tell where to find the items and suggest matching items. In a high-service store, the customer will be met by a salesperson with the merchandise."

Let's analyze that transaction. It implies (since the customer could be a woman) that we have standardized women's sizes. For 35 years the car manufacturers have had a committee to standardize the height of car bumpers without success; what makes Touche Ross think that women's sizes will be standardized?

It next assumes that in some way the hundreds or thousands of fabric textures can be conveyed to the customer electronically—without feeling the fabric, testing the weight, etc.

Then it assumes that the color on the screen is the actual color of the garment. We may get screens that do not have a color adjustment; but to assume that a pink displayed on a glass surface of a screen is exactly the pink of the garment takes electronics past the simple tasks of heuristics and artificial intelligence. Have you ever tried to match a fabric color to a ceramic color? I doubt that 1 in 10 people will agree on any match.

Finally, what makes Touche Ross feel that salespersons will be available in high-service stores in 2004 anymore than they are in high-service stores in 1984? It isn't a matter of scheduling so much as a matter of commitment to service; Nordstrom's can do it while Macy's cannot or doesn't want to.

Touche Ross validates their prophesy by pointing to "successes" at Comp-U-Card and others. Videotex will bring shopping into the home. But so far most of the items handled are non-ego items and the future of retailing is based on even more ego-satisfying goods.

Kaufmann's in Pittsburgh has been using mechanized inventory control for more than 60 years (starting with punch cards and a sorter), and they still have not perfected inventory control. One must recognize that systems can apply limited intelligence to what is already in stock; they don't have the input to decide whether or not Pet Rocks will sell.

But most of all, what is called for here is to make the customer into an interface with a machine, and a high percentage of people prefer not to be a part of a machine. Sure—many people are using bank teller machines; but two-thirds of the people with cards have never used their card.

Sure, people will interface in some situations (such as inserting a charge card into a telephone instead of dialing in their card number, or inserting a charge card into a self-service gasoline pump); but the same people won't buy their lipsticks or neckties this way.

But the real danger is what Powers and Waterman are talking about. Their book "In Search of Excellence" was on the best-selling list for a year and a half; I doubt that the Touche Ross programs will get to that level.

Tom Powers is going around explaining that the futur[e] management is treating people like people. For retailers, [he] says that any firm that will concentrate hard on listening to their customers will be successful. Touche is saying listen to the computer.

Management today has already gotten too far away from the customer. Touche Ross says let them get a bit further away by interposing a computer. As a parallel, remember when you could call the head of a company and talk to him instead of his secretary. An honest secretary will tell you that most of the time he is in a meeting and will be able to call back just when you are in your meeting.

RThought: When will the managers under the Touche Ross "Utopia" ever listen to the customers? I forecast—NEVER.

There will be enough other people who will listen to the customers and just that simple act will destroy the machine-operated companies.

SHORT SHORTS

At last a supplier is bringing a major retailer into court charging it with the type of abuses the trade has long known and been forced to accept. Sasson Jeans LS., Inc. has filed a suit against Bamberger's (R. H. Macy & Co., Inc.) charging that they deducted $139,000 for advertising, markdown allowances and price adjustments that were not agreed to as part of the sale. **RThought**: Don't hold your breath for a court decision in which the details will be set forth; if there is merit to this claim, it probably will be settled the day before tri[al]. Bamberger's can be expected to delay the trial as much [as] possible. If there is no merit, the delay will increase costs to Sasson; if there is merit, delays will defer the time that payment will have to be made.

RETAIL FORUM ON PAYMENT SYSTEMS should be required reading by someone in your organization if you want to stay in touch with what is happening throughout retailing on Electronic Funds Transfer (EFT) within stores or at the Point of Sale (POS) terminal. Editor Richard Sprague looks at and reports on the progress being made from the retailers' viewpoint, something banks and equipment manufacturers often fail to understand. The subscription price is reasonable—$100 per year ($110 overseas) and you can buy the back issues (No. 1 to No. 6) for $100 and have your subscription start with the No. 7 issue (Nov-Dec 1984). Write to Personal Data Services Corp., 193 Pinewood Road, HARTSDALE NY 10530 and say "Bob Kahn sent me."

WORDS ABOUT COMPETITION

Carlo Bombieri, president and CEO of Banca Commerciale Italiana, in a New York Times article (8/19/84) on the new role of the World Bank, observed:

> "Competition can sometimes be the enemy of logic."

RThought: All retailers who have been devoted to lowering price and expenses to bring better values to consumers are aware that so often competition takes them into higher c[ost] methods and requires higher gross margins. Thus they cre[ate] their own demise when a new format develops that will deliver merchandise at a lower gross and lower expense rate.

STRAWBRIDGE & CLOTHIER
801 MARKET STREET
PHILADELPHIA, PENNSYLVANIA 19105

PETER S. STRAWBRIDGE
PRESIDENT

December 19, 1983

Mr. Robert Kahn
Robert Kahn and Associates
P.O. Box 249
Lafayette, CA 94549

Dear Mr. Kahn:

Put with

I can't remember when I last wrote to an editor, but I am doing so now, stimulated by December 1983's Retailing Today.

As is typically the case, several pieces were right on target: I always enjoy rereading the thoughts which appear under this year's title, "Strategic Planning for 1984", and I greatly enjoyed "Another $15 Million to Try a Hypermarket in the U.S.", "How to Last 135 Years", "Why Read Savvy?", "Words to Live By" (always a favorite) and the feature report on "Retail Prophets". It is because of little "gems" such as the above-mentioned that, despite my once-a-year temptation to not renew my subscription, thus reducing my already too heavy trade-related reading load, I find myself hooked once again for another year.

Your approach to writing about our industry is refreshing and unique. What you have to say is both stimulating and important. Keep it coming!

My best to you for a happy holiday season and a healthy, successful 1984.

Sincerely,

Peter Strawbridge

PSS:jh

consumer trends®

AN INDEPENDENT NEWSLETTER ON CONSUMER CREDIT AND FINANCIAL AFFAIRS

FORECASTS AND STATISTICS

Broad-based decline in consumer confidence. The Conference Board Consumer Confidence Index plunged 11 points to 85.6 in December, registering its lowest reading since September 1983. The sag in consumer confidence was unexpected according to Fabian Linden, executive director of the Board's Consumer Research Center.

The Consumer Sentiment Index developed by the University of Michigan Institute for Social Research also fell in December to 92.1, its lowest reading of the year. The index peaked at 100.9 in September 1984.

The last Gallup poll of consumer attitudes taken in December showed that 43 percent of the population felt better off--the highest percentage since 1976. Consumers were encouraged by the dip in interest rates and improvements in their real take-home pay.

The downturn in consumer confidence is leading some forecasters to predict that consumer spending will remain flat in 1985. A report prepared by the Conference Board said that a slowing growth in earned income has altered public perceptions about household debt. That, accompanied with lowered income expectation, reduces the possibility of a "retail trade explosion in 1985."

Stephen Roach, senior economist for Morgan Stanley & Company, believes real consumer spending will increase by about four percent next year, a healthy increase for the third year of this recovery. Roach also estimated for *Business Week* that consumers were in a good position to pay off debts and keep spending because they held liquid net worth equal to 47 percent of income.

Business executives are also less optimistic about the future. Only 24 percent of executives polled by Dun and Bradstreet Corporation expected to increase employment and only 40 percent expected to increase inventories.

Data Resources cites rising imports and declining consumer and business confidence and puts a ten percent probability on chances that a recession has already begun.

Consumer instalment credit outstanding increased at an annual rate of 21 percent in November, up from 16.8 percent and 11.6 percent growth rates in October and September.

"Other" credit outstanding was the fastest growing category, showing a 24.7 percent annual growth rate in November. Revolving credit outstanding grew at an annual rate of 22.5 percent,

EXECUTIVE SUMMARY

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February 5, 1985

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while auto credit increased by a 19.8 percent annual rate.

The ratio of consumer credit outstanding to disposable personal income grew again in November to 17.42, up from 17.23 in October. The growth of the debt burden index accompanied by a broad-based decline in consumer sentiment registered in December may signal some cause for alarm.

The decline in consumer confidence along with the continued increase in consumer debt burden led us to wondering how the two indicators usually move together. The accompanying chart shows the Consumer Sentiment Index (bottom line) and the ratio of consumer debt outstanding relative to disposable personal income (top line). Since 1975 the chart shows that generally consumer confidence and consumer debt burden move in opposite directions. Or, perhaps the better interpretation is that the Consumer Sentiment Index is a leading indicator of changes in the debt-burden measure. The Consumer Sentiment Index is a reasonably good leading indicator of changes in the Gross National Product.

Consumer prices rose a slim four percent in 1984, up slightly from the 3.8 percent increase in 1983 and a 3.9 percent increase in 1982. Forecasters are expecting consumer inflation in the first half of 1985 to be even more subdued.

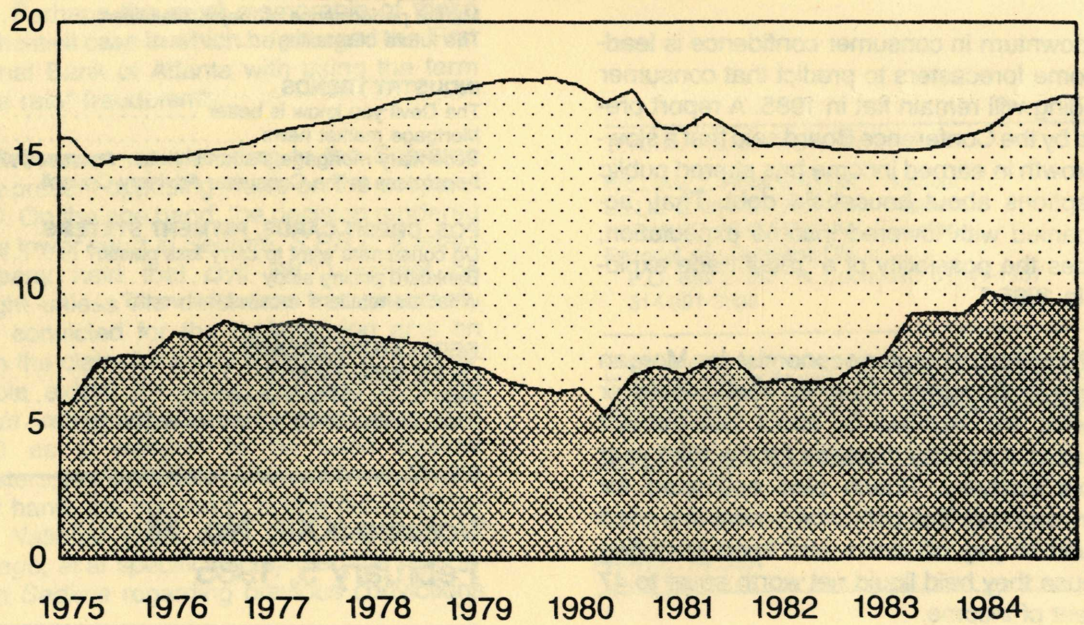
The metropolitan areas that recorded the highest increase in consumer price indexes for 1984 were San Francisco (six percent) and Buffalo, New York (5.3 percent).

Sign of the future? The chief domestic economist for the First National Bank of Chicago predicts the number of corporate bankruptcies will be very high in 1985 if interest rates rise over the first couple of months of 1985. A specific corporate weakness cited was excess reliance on short-term credit.

Members of Congress expect a decrease in the number of failures of small businesses according to a survey of Congress by Touche Ross & Company. Forty-six percent of Congressional respondents expected a major recession to occur soon, however.

The auto credit market. The latest "hot" trends in auto financing include 60-month loans, adjustable-rate loans and leasing cars to individuals. About 25 percent of GMAC business in 1984 was 60-month loans. Officials of Ford Motor Credit expected one-third of their loans for 1985 to have 60 - month terms. GMAC anticipates 60 - month loans to make up 50 percent of its business in 1985. According to experts in the auto financing companies, consumers

DEBT BURDEN AND CONSUMER SENTIMENT



should expect auto loan rates to increase slightly in 1985.

Chevrolet offered buyers an opportunity to buy a car between December 26 and January 21, but to defer monthly payments until March 20. A similar program was offered successfully last year by Chevrolet.

Mortgage payments past due by 30 days or more increased to 5.86 percent of residential mortgages, up from 5.34 percent last year. Disinflation in housing prices was one cause cited for high delinquencies. The other was lenders' leniency. Instead of holding monthly mortgage payments to 25 percent of family earnings, some lenders have allowed payments of 28 to 30 percent of income.

The recent drop in mortgage rates has had a surprising effect on new-home sales. In November, new-home sales declined 10.6 percent. That drop has been attributed to consumer expectations that rates will drop still further.

The drop in rates has caused a shift in consumer demand from adjustable-rate to fixed-rate loans. Adjustable-rate loans represented 50 percent of loans closed in early December, down from 60 percent in the previous month.

A related issue... In a recent survey conducted by the Survey Research Center at the University of Michigan, the percentage of consumers who believed that it was a good time to buy cars because interest rates were low and credit easy declined to 15 percent in December from 18 percent in November. When the same form of question was asked regarding the purchase of homes, corresponding figures were 38 percent for December and 44 percent for November. In December, 30 percent of consumers expected interest rates to decline, a sharp increase from the 23 percent reported for November. That consumers are no better forecasters of interest rates than the experts is indicated by the fact that in July, when rates neared their peak, only 11 percent of consumers expected an interest-rate decline.

Collection trends. Of the accounts referred to collection agencies, the average percentage of accounts paid in full fell from 38.8 percent in 1982 to 32.7 percent in 1984. The average new account balance placed with the agencies rose from $153 in 1982 to $205 in 1984. The data are compiled by the American Collectors Association, Inc. from 190 members using the ACA's data processing services.

More on nonpayment. Doctors, dentists and others in the health care profession are often the last to be paid by consumers, according to David Peterson, spokesperson for the American Collectors Association. Mr. Peterson attributed this treatment of medical debts to the fact that doctors have nothing to repossess from nonpaying patients. And, "there are so many doctors now, competing for patients, that there is less loyalty."

Market performance of major retail lines. With the new year, it is time to review the percentage change of retailers' stock prices by various lines of business. Equity Research (Shearson Lehman/American Express) reports the percentage change in stock prices as of January 4, 1985 from a year ago. Over this same period the Standard & Poor's 40 stock average fell 3.1 percent, while all retail stocks fell only 0.9 percent.

The five lines of trade with the best percentage gains in stock prices were:

Supermarkets	16.7%
Fabric stores	10.3%
Discount department stores	7.3%
Drug stores	5.9%
Department stores	0.3%

The largest percentage losses in market price were experienced by stores in the following lines of trade:

Catalog showrooms	30.0%
Private label general merchants	17.4%
Jewelry chains	16.6%
Shoes	15.9%
Home improvement centers	7.2%

The future of retailing. A study of retailing prospects through 1990, which is being published by the Marketing Science Institute, Cambridge, Massachusetts, concludes:

--annual growth in general merchandise sales will be in the range of 2.3 percent compared to about eight percent for the first couple of years in the 1980s.

--there will be a general consumer tendency toward shopping for discount prices.
--there will be a decline in demand for major household durables.
--consumers want "lower prices," reduced transaction time and less hassle over return of merchandise.

What does this mean for the type of payment systems they want?

INDUSTRY TRENDS

The Devil that you know is better.... A recent article in the *Economic Review* published by the Federal Reserve Bank of Atlanta examined whether and how savings and loan associations (S&Ls) had used their new powers to expand into consumer lending. The article reviewed lending activities of S&Ls in Texas, Maine, Florida and for the U.S. as a whole. The study showed that S&Ls in Texas and Maine did not enlarge consumer loan holdings until after 1980, although state laws in those states had made such investments possible before 1975. Associations in Florida did not grow in their consumer loan portfolios in 1980-1981 because of healthy real estate market in that state. In other words, S&Ls will not diversify out of mortgages until that market suffers considerable decline.

On a national basis, consumer loans as a percent of assets ranged between 2.5 and 3.1 percent for three size categories of savings associations on June 30, 1981, one year after the passage of the DIDMCA. However, since 1981, consumer loans have not grown as a percent of association assets. The author suggested that the results indicate that S&Ls cannot yet be considered as full competitors of commercial banks in the consumer loan market.

Mortgage market news. The Administration's plan to raise fees for housing-related credit guarantees has some mortgage bankers worried. The Administration proposes to charge a 0.5 percent fee on new debt issued by federally-chartered agencies that finance loans for homeowners, students and farmers. The Administration argues that putting agencies like Fannie Mae and Freddie Mac on equal footing with private lenders would attract new funds to housing from sources such as GECC, Sears and Citicorp. The housing industry contends that the move would simply raise fees for home buyers and hurt housing sales.

Consumers will also pay higher insurance premiums on their FHA mortgages if the Office of Management and Budget (OMB) has its way. According to a report in "Real Estate Finance Today," OMB has proposed increasing the FHA mortgage premium to five percent from 3.5 percent and the funding fee for VA-guaranteed loans to five percent from one percent. The increase in the FHA premium could be accomplished by administrative order.

Secondary mortgage market shrinks--temporarily? During the first ten months of 1984, the volume of new mortgage-backed securities dropped 38 percent. Yet the mortgage markets were thriving, and many savings institutions doubled their mortgage origination volumes. The divergent trends are largely explained by adjustable-rate mortgage loans, or ARMS. The growth of ARMS in relation to fixed-rate mortgages sharply reduced the supply of mortgages for resale in the secondary markets via mortgage-backed securities. Further, savings institutions that were happy to avoid the interest rate risk of fixed-rate mortgages by selling them in the secondary market now seized the opportunity to become portfolio lenders in their local markets by creating ARMS.

Will the secondary market for residential mortgages continue to shrink? Not so, according to a comprehensive "1985 Secondary Mortgage Market Supplement" published in conjunction with "Savings Institutions," the monthly publication of the U.S. League of Savings Institutions.

First, ARMs may not continue to be as popular among lenders or consumers. The relatively brief experience with ARMs from 1981 through the first half of 1984 indicates that ARMs account for a majority of mortgage originations when the yield curve is steeply sloped; that is when long-term interest rates are significantly higher than short-term rates. Since the shape of the yield curve suggest the market's expectations that interest rates will rise, lenders prefer ARMs to fixed-rate mortgage loans. But when yield curve is flat or downward sloping (as in the early part of 1983), the proportion of ARMs declines. The shift in the yield curve over the past few months has made fixed-rate loans more attractive.

Second, it is not clear that ARMs are always preferable to fixed-rate loans. If the ARMs are not properly priced when issued, lenders may be worse off than if they had issued fixed-rate loans. For example, a study by the U.S. League found that many ARMs performed worse than fixed-rate mortgages over periods of time ranging up to 80 months.

Third, if ARMs do continue to be popular, the market will develop securities that are backed by pools of ARMs. Just recently, Standard & Poor's Corporation increased this probability by issuing an ARM offering guideline. In the meantime, private conduits, such as Sears Mortgage Securities, MGIC Mortgage Marketing Corporation, and Residential Funding Corporation, have designed ARM securities to provide a secondary market. MGIC Marketing has, for example, issued securities backed by three-year ARMs. In short, if there is a need, the competitive marketplace will find a way, and the secondary market in mortgage-backed securities will continue to perform an important function, whether ARMs or fixed-rate securities predominate.

Wither home banking? According to an estimate by the *American Banker* about 44,000 consumers are using remote terminals to conduct their banking business. Almost half of these are customers of the Pronto system offered by Chemical Bank. Another 16,000 use the home banking system of Bank of America. In total, 22 financial institutions are in full operation, with another 25 in the pilot stage. A survey of Pronto customers by Chemical has shown that 53 percent had incomes of more than $50,000. About 44 percent of the users were aged between 35 and 49, and 45 percent had college degrees. One can only hope that the yuppies don't drop their brie into their terminals.

Appointees to the Consumer Advisory Council. The Federal Reserve Board named 12 new members to the Consumer Advisory Council, the body that advises the Board in the field of consumer financial protection laws and other consumer-related matters. Appointees from the credit industry were:

Ted L. Spurlock, CCCE, Vice President and Director of Credit and Consumer Banking Services for the J.C. Penney Company, Inc. (member of ICCA's Executive Committee).

Christopher J. Sumner, President and Chief Executive Officer of Western Savings and Loan Company, with offices in Utah, Washington, Oregon and California.

Michael Zoroya, Senior Vice President of Credit for The May Department Stores.

Discount stores in financial services. K Mart has signed agreements with five companies to provide financial services in 31 stores. K Mart will lease space to have mortgage and home equity loan centers in stores in Las Vegas; limited banking service centers in Richmond, Virginia stores; full service banking centers in South Bend, Indiana stores; real estate brokerage centers in some Michigan and Wisconsin stores; and consumer loan centers in five Chicago stores.

And finance companies in banking. Taking one more step toward becoming a national consumer bank, Household International acquired a savings and loan association in Ohio. Household opened two consumer banks in California in January 1984. Household said it plans to use the charter of the acquired savings and loan association to open more consumer banks.

POS, CREDIT CARDS, PAYMENT SYSTEMS

Do consumers want to carry less plastic? Banks that think their customers are looking for ways to reduce the number of plastic cards they carry are testing the concept of combining debit and credit functions into one card. Bank of America is doing limited testing of this concept. Commerce Bancshares Inc. of Kansas City, Missouri is marketing a card called Special Connections (SC) that combines debit and credit functions into one card. The credit feature

Put w/ Dec Rt

of the Special Connections card is cheaper than Commerce's credit card. The APR on the Special Connections card is 18 percent on balances under $1,000 compared to 22 percent on the regular credit card. In addition the SC card offers a 30-day interest-free grace period which is not available on Commerce's regular credit card. While debit/credit cards are still rare in the United States, the Bank of New Zealand began issuing them in 1979.

More uses for debit cards. The consolidation of some of the leading retail funds transfer networks is being discussed. Such a consolidation would allow consumers to use their debit cards to buy merchandise at stores with special terminals. Do consumers want a new payment mechanism? Mobil, which has the largest point-of-sale operation in the country offers debit card purchasers the same four-cents-a gallon discount given for cash. Even with the inducement, the volume of debit transactions is well below Mobil's projections.

Bankcard pricing study. A survey of 269 U.S. member banks by MasterCard revealed that 82 percent of the respondents were imposing annual cardholder fees in 1984, up from 67 percent in 1983. The average fee was $16.25, with most falling in between $15 and $20. Those banks that had first imposed a fee at least a year ago reported losing 12.8 percent of their cardholder base.

In general, banks made little change from the previous year in their finance charge, with the average of rates at 18.8 percent. Nine-tenths of the banks charged a flat rate, regardless of the size of the outstanding balance. Seventy-nine percent of the respondents reported that they had eliminated the grace period on rollover accounts; i.e., those accounts that do not pay in full each month. However, in many instances the grace period is eliminated conditionally. For example, if a customer makes a purchase in February, but does not pay in full in March, no finance charge is assessed at that time on the February purchase. However, if the customer also fails to pay the account in full in April, finance charges are assessed retroactively to the date of posting. Only ten percent of the respondents had eliminated the grace period on nonrevolving accounts.

According to the January issue of *Consumer Reports,* 112 of 133 (84 percent) of the banks surveyed charged an annual fee on bank credit cards with fees ranging from $15 to $55. Banks in the survey not charging an annual fee were located in states that outlaw annual fees. The highest interest rates found in the survey were charged by banks in a state that does not allow annual fees (22 percent).

Fraud goes international. Credit cards came to China in 1981. In the first half of 1984, credit card transactions in China totaled $25 million, mostly in cash withdrawals by foreigners. In fact, fraudulent cash withdrawal has become a large problem. Restrictions on check-cashing privileges for its cardholders visiting in China have been imposed by American Express. And credit-card outlets operated by the Bank of China in hotels, stores and restaurants have been closed at the request of American Express, Visa, MasterCard and Diners Club.

Benefits of merging? When Trust Company of Georgia and Sun Bank Inc., of Orlando merge (planned for July 1, 1985) management anticipates cost savings in credit card and trust operations. Both banks use outside vendors for card processing and anticipate a combined volume that will justify in-house processing. A spokesman for Sun Trust said the bank will consider moving its card business to another state to find less restrictive usury laws. In Georgia, banks may not charge more than 18 percent on credit card balances or charge more than $12 for an annual fee.

American Express profits. Profits from the travel-related service unit of American Express increased 23 percent in the fourth quarter, 1984. During 1984, American Express cards outstanding grew 17 percent to $20 million, and total purchases charged on cards grew 24 percent while travelers-check sales increased nine percent.

What are retailers' receivables worth? Bankers and other lenders are understandably concerned about the realizable value of retailers' receivables should they ever have to collect pledged accounts. To test the validity of a lending standard of an 80 percent loan to book value, Bob Kahn has provided (in "Retailing Today") the actual payoff pattern of $2.8 million of accounts that were collected after a new store owner decided to eliminate credit. Had there been a loan outstanding equal to 80 percent of the receivables, it would have been paid off by the end of the eleventh month.

More detail data from his "Retailing Today" (December 1984) show (000s omitted):

Original balance	$2,803
Finance charges added	314
Total debt	3,117
Less collections	2,943
Amount uncollected	174
Amount written off	166
Remaining balance	8

Thus, collections amounted to 94.4 percent of the sum of the original face value of the receivables and the added finance charges. Since collection costs amounted to no more than $150,000, the net amount collected was 89.6 percent of the balances owed.

ATM networks. A network of ATMs, called the New York Cash Exchange, is being formed in the New York City area. Chase Manhattan has signed a letter of intent to join, raising the number of machines pledged to the system to 1,000. Citicorp has not yet joined the system although it has been signing agreements to get into networks outside of New York City.

Citicorp recently announced that it has been admitted to the Cirrus System, a network in which banks around the country give each other access to their teller machines. Citicorp now has the ability to offer its "Citibank financial account" across most of the country. Citicorp will not be sharing its ATMs in New York City with other banks, however.

REGULATORY TRENDS

On the legislative front... Interstate banking is the hot topic on the legislative front at the state level this year. Seven state legislatures will consider bills concerning consumer loan pricing. Connecticut has a sunset rule that will lower the maximum rate for credit cards from 18 percent to 15 percent on October 1, 1985, if other action is not taken. Alaskan bankers want to repeal a rate ceiling which sets interest rates on loans of $25,000 or less at five percent over the federal discount rate. Massachusetts is expected to consider a bill that would deregulate rates banks may charge on all forms of consumer credit. Michigan's governor has proposed passage of a bill that would include floating rate ceilings on consumer loans. New Jersey legislature is close to passing a market-rate consumer loan act. North Carolina legislators have been asked to deregulate interest rates for credit cards and change the rate ceiling affecting adjustable-rate instalment and contract loans under $25,000. Currently, the maximum rate on instalment contracts is set monthly by the banking commissioner, and the limit in effect when a loan is originally made becomes the cap on adjustable-rate contracts. The legislature in North Dakota is expected to consider legislation that would establish rate ceilings for consumer credit. The Pennsylvania legislature is considering a bill which seeks deregulation of consumer credit lending rates. Finally, Utah legislators will consider establishing guidelines for "credit repair clinics" that claim to help consumers eliminate bank credit ratings and qualify for credit cards.

Surcharges again. Frank Annunzio introduced a bill to impose a permanent ban on surcharges for the use of credit cards. The bill, numbered H.R. 24, is an attempt to bring closure to the surcharge issue that died in the 98th Congress. Merchants currently are permitted to impose surcharges but few do so because of uncertainty regarding whether the charge must be incorporated in the calculation of the annual percentage rate.

Near banks still face uncertainties. Within the past month the Federal Reserve Board has backed off from its previous restrictive approach to near banks (or "nonbank banks"). It has dropped the controversial restriction that banned any limited-service bank from sharing its parent's back office facilities. Further, it amended its previous requirement that would have required nonbanking firms that bought banks after December 10, 1982, either to divest their banking units or to accept classification as regulated bank holding companies. That deadline has been indefinitely postponed.

The effect of the two changes in policy is to put additional pressure on Congress to resolve the pressing issue of the status of near banks, as well as a number of other unresolved concerns, such as restrictions on commercial banks' abilities to offer other consumer financial services. Representative Fernand St Germain has vowed before a closed meeting of the heads of the 12 regional Federal Reserve banks that Congress will enact a banking bill before "mid-year 1985." On the opening day of Congress seven different banking bills were introduced. The bill introduced by St Germain would redefine banks to include FDIC-insured banks and Federal-or State-chartered institutions that accept checking accounts (transaction accounts) or make commercial loans. His bill would require divestiture of all near banks established since July 1, 1984. A bill introduced by Representative Chalmers Wylie would set that date as January 2, 1985.

RICO conflicts head toward resolution. Two sharply conflicting views of the scope of the Rackteteer-Influenced and Corrupt Organizations Act (RICO) are headed for settlement by the Supreme Court. Passed by Congress in 1970, RICO was intended to strike at organized crime in part by reaching its loan-sharking activities. Patterns of racketeering were defined as bribery, counterfeiting, embezzlement, extortion, mail or wire fraud, and various other crimes. Any two incidents of such activity could bring a lender under the Act. An injured party could sue for triple damages charging a RICO violation.

The law was seldom used to attack organized crime, but in recent years RICO has served as a basis for suits against many respected business firms. One attorney, Jack Kleiner, is reported to have brought 28 RICO suits since 1982. Perhaps the most memorable of these was the civil case in which he charged the First National Bank of Atlanta with using the term "prime rate" fraudulently.

The two cases now heading to the Supreme Court present opposing views on the scope of RICO. On the one hand, the decision rendered by the lower court in *Sedima, S.P.R.L. v. Imrex Company* held that civil RICO cannot be brought unless the defendant has previously been convicted for the racketeering acts on which the claim for injury is based. To a considerable extent the ruling followed from the judge's reasoning that Congress intended RICO as a weapon to be used against mobsters, not legitimate business firms. On the other hand, the opinion in *Harco Inc. V. American National Bank and Trust Company of Chicago, et al* specifically rejected the reasoning in *Sedima* regarding previous convictions and stated that the plaintiffs need only charge that the alleged crimes had directly or indirectly "injured the plaintiff's business or property." The ruling also suggested that if Congress wished to limit the scope of RICO, it should take action, rather than leave that task to the courts. The Supreme Court is not expected to render a decision regarding these two diametrically opposed cases for several months. The outcome could have a significant effect upon credit grantors.

Motion for stay of credit practice rule denied. The U.S. Court of Appeals for the D. C. Circuit has denied the motion by the American Financial Services Association to stay the March 1, 1985 effective date of the FTC's Credit Practices Rule. While arguments on the merits of the motion are to begin on February 22, 1985, it is unlikely that a decision will be made before March 1.

Sears' efforts to provide consumers with financial services attacked. Just at the end of last year the Connecticut Banking Commissioner, Brian J. Woolf, ordered Sears, Roebuck and Company to stop taking deposits at its financial centers in Waterford and West Hartford. The deposits challenged were "sweep accounts" through Sears' Dean Witter brokerage that swept funds into an account at Sears Savings. The commissioner acted under a provision of Connecticut law that limits a holding company deemed to being in the banking business to establishing no more than two nondepository offices in Connecticut during a year. Sears has challenged that section of the statue in a lawsuit filed in the U.S. District Court in Hartford.

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